



Queensland
Government

State Budget 2002-03
Budget Statement
Budget Paper No. 2



2.0

1.5

1.0

0.6

Mar-97

Mar-98

Mar-99

Mar-00

Mar-01

Mar-02



STATE BUDGET

2002-03

BUDGET STATEMENT

Budget Paper No. 2

TABLE OF CONTENTS

1. Budget Strategy and Outlook	1
Introduction	1
Economic Performance and Outlook	1
The Queensland Economy in 2001-02	1
2002-03 Economic Outlook.....	2
Fiscal Strategy	4
Summary of Key Financial Aggregates.....	5
Net Operating Result	6
2001-02 Estimated Result.....	6
2002-03 Budget and Outyear Projections	7
Reconciliation of Forward Estimates.....	8
Balance Sheet	8
2001-02 Estimated Result.....	8
2002-03 Budget and Outyear Projections	9
Cashflow	9
Appendix – General Government GFS Financial Statements.....	11
 2. Budget Priorities	 15
Introduction	15
Government's Policy Priorities	15
Service Delivery Highlights.....	16
Aligning Services and Priorities.....	24
Priorities in Progress	25
 3. Expenses	 29
Introduction	29
Expenses by Operating Statement Category.....	30
Employee Entitlements	31
Supplies and Services	31
Depreciation.....	32
Current Transfers.....	32
Capital Transfers	33
Interest.....	33
Operating Expenses by Purpose	34
Trends in Recurrent Expenditure	35
Efficiency in Service Delivery	37

4. Revenue	39
Introduction	39
Revenue by Operating Statement Category.....	40
Taxation.....	42
Current Grants and Subsidies.....	42
Sales of Goods and Services.....	43
Interest Income	43
Other Income	44
Trends in State Government Revenue	45
Taxation Revenue.....	45
Funding from the Commonwealth	46
Interest Revenue.....	47
 5. Statement of Financial Position	 49
Introduction	49
Net Worth.....	49
Net Debt	51
Non-Financial Assets	52
Financial Assets and Liabilities	52
Assets	53
Liabilities	54
Net Financial Assets	55
 6. Statement of Cash Flows	 57
Introduction	57
Background.....	57
Budgeted Statement of Cash Flow Summary	58
Cash Flows from Operating Activities	60
Cash Flows from Investments.....	60
Cash Flows from Financing Activities	62
Outlook Beyond 2002-03	62
Reconciliation of Operating Cash Flows to the Operating Statement	63
 7. Capital Program	 65
Introduction	65
Definitions	65
Coverage	66
Fiscal Strategy and Capital Policy	66
Capital Outlays	67
Funding.....	69
Employment Generation	69
Service Priorities.....	69
Trends in Capital Expenditure.....	74

Appendix A – Demographic Trends.....77

Demographic Trends.....	77
Ageing Population.....	77
Indigenous Demographics	79
Regional Differentiation	80
Temporary Populations.....	80
Composition of Families and Households	81
Implications of Demographic Trends.....	81

Appendix B – Statement of Risks83

Introduction	83
Economic Risks and Opportunities	83
Operating Statement Risks	84
Expenditure.....	84
Revenue	85
Balance Sheet Risks	87
Net Worth.....	87
Contingent Assets and Liabilities	87

Appendix C – Government Finance Statistics89

Introduction	89
General Government Sector	89
Public Trading Enterprise Sector	89
Operating Position.....	90
Balance Sheet Position	93
Statement of Cash Flows	96
Other GFS Data	99
Loan Council Allocation	101
Background and Interpretation of Government Finance Statistics	102
Background.....	102
Recent Developments in GFS Reporting	102
Interpretation of GFS	103
Main GFS Aggregates	104
Glossary of GFS Terms	107
GFS Operating Statement.....	107
Revenue	107
Expenses	108
Reporting Entities.....	111
General Government	111
Public Trading Enterprises.....	113

Appendix D – A Readers’ Guide to the Queensland State Budget.....115

Purpose.....	115
Reporting Format	115
Financial Statements.....	116
Glossary of Key Terms.....	119
The Appropriation Process.....	126

1. BUDGET STRATEGY AND OUTLOOK

KEY POINTS

- Cash surpluses are forecast for 2001-02, 2002-03 and the outyears in the General Government sector.
- For 2002-03, there is a budgeted net operating surplus of \$23 million, with a sustained and improving surplus position throughout the outyears.
- In 2001-02, the General Government sector is forecast to have an accrual deficit of \$486 million. This is due to the poor performance of investment markets in 2001-02, in particular international equities, which has impacted on the returns the State receives on funds set aside to meet future employee entitlements.
- The State's net worth is forecast to increase in 2001-02, 2002-03 and the outyears to in excess of \$60 billion.
- The capital program in 2002-03 is budgeted to be \$4.837 billion, a 1.4% increase on the estimated 2001-02 outlays. 55.8% of the capital program will be spent outside the Brisbane region.
- Economic growth in 2002-03 is expected to exceed national growth, driven by private investment in particular. Unemployment is expected to fall to 7½% in year average terms.

INTRODUCTION

This chapter discusses:

- the economic and financial background to the Budget, including the performance of the Queensland economy in 2001-02 and the outlook for 2002-03;
- the Government's Fiscal Strategy as outlined under the *Charter of Social and Fiscal Responsibility*; and
- the summary financial aggregates of the 2002-03 Budget including the outyears.

ECONOMIC PERFORMANCE AND OUTLOOK

The Queensland Economy in 2001-02

The Queensland economy is estimated to grow by 3¾% in 2001-02, slightly stronger than expected at the time the *Mid Year Fiscal and Economic Review* was prepared. Household consumption and private investment supported economic growth over the year. In particular, dwelling investment staged a strong rebound. Net exports are estimated to detract from overall growth, reflecting the subdued economic conditions of Queensland's major trading partners.

Key Components of Growth

Private investment provided a major impetus for growth in the State economy in 2001-02. Dwelling investment surged in 2001-02, following the post-GST slump in 2000-01, rising an estimated 26%, the highest yearly growth in more than a decade. Historically low mortgage rates and extensions to the First Home Owner Grant (FHOG) scheme were responsible for the strong turnaround in dwelling investment during the year.

Improved business confidence led to strong growth in investment in machinery and equipment (up an estimated 21¾%) in 2001-02. In contrast, investment in other buildings and structures continued its downward trend (down an estimated 9½%). In total, business investment is estimated to rise 10½% in 2001-02.

Growth in household consumption is expected to ease slightly in 2001-02, growing by an estimated 4%, following growth of 4.5% in 2000-01. However, household consumption expenditure continues to account for a large proportion of overall economic growth, and is estimated to contribute another 2¼ percentage points to growth in Gross State Product (GSP) in 2001-02.

The number of people employed in Queensland is estimated to rise in year average terms by around 31,000 in 2001-02. However, with a similar number of new entrants into the State's labour force over the year, Queensland's year-average unemployment rate is estimated to remain unchanged at 8%. The rate of labour force participation in Queensland is expected to be quite stable in year-average terms at 65%, although substantially higher than for Australia as a whole.

Headline inflation is estimated to be 3% in 2001-02. The rate of inflation both in Queensland and nationally remains at the upper end of the Reserve Bank of Australia's inflation target band of 2-3%. Average earnings in Queensland are expected to increase by 3½% in 2001-02.

2002-03 Economic Outlook

The Economic Framework for the 2002-03 State Budget

The growth outlook for the Queensland economy is positive, with GSP forecast to rise by 4¼% in 2002-03. Domestic economic activity, private investment in particular, is expected to continue to support overall growth in the State through the year, with growth in household consumption also forecast to remain strong. While demand for Queensland exports is expected to increase in line with the recovery in the global economy, increased domestic activity is expected to sustain demand for imports. On balance, net exports are forecast to detract slightly from overall economic growth.

Key Components of the Forecasts

Table 1.1 shows the key economic parameters that underpin the 2002-03 State Budget, incorporating estimated actuals for 2001-02, forecasts for 2002-03 and the projected average annual change over the medium term to 2005-06.

Table 1.1 Economic Parameters/Projections ¹ (annual % change)				
	Outcome 2000-2001	Est. Actual 2001-02	Forecast 2002-03	Projections ² 2003-04 to 2005-06
Queensland				
Gross State Product ³	3.7	3¾	4¼	4½
Employment	1.8	1¾	2½	2½
Inflation ⁴	3	3	2¾	2½
Average Earnings ⁵	6.4	3½	3¾	3½
Population	1.7	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, 1999-2000 reference year. 4. Inflation figure for 2000-01 is net of GST effects. 5. Average earnings are on a State Accounts Basis. Source: <i>Queensland Treasury</i>				

Household consumption is forecast to rise by 4¼% in 2002-03, supported by improved labour market conditions and a forecast rise in real wages. Private investment is once again expected to be a key contributor to growth in the Queensland economy, growing by a forecast 8% over the year. Despite higher interest rates and the phased reduction of the Commonwealth Government's FHOG scheme leading to a moderation in dwelling investment in the second half of the year, business investment is expected to be bolstered by improved business conditions and the commencement of a number of major investment projects in the State. Net exports are forecast to detract slightly from overall growth in 2002-03, with a pick-up in exports offset by the forecast level of domestic activity leading to strong growth in imports.

Labour market conditions are forecast to improve in 2002-03, with solid growth in private investment, household consumption and a broad-based recovery in exports, in particular tourism and other services, expected to result in employment growth of 2½% in year-average terms. This represents the creation of an additional 43,000 jobs and is forecast to yield an improved average unemployment rate of 7½%.

In 2002-03, inflation is expected to moderate slightly to around 2¾%, with continued productivity gains containing price inflation in the State. Steady growth in average earnings of 3¾% is forecast over the year.

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 among Queensland's major trading partners, in particular the United States, is expected to recover, while inflationary pressures are expected to remain contained;
- an unwinding of the current expansionary stance of monetary policy settings over the forecast horizon; and
- a modest appreciation in the \$US/\$A exchange rate.

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. 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 of the State 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, enables lower borrowing costs and is an indication of the soundness of the financial position and policies of the Government, rather than a goal in itself.

Improving the efficiency and effectiveness of Government services is an essential element of delivering on the Government's key priorities and achieving the Government's fiscal objectives. In this context all Government departments have requirements to achieve cost effectiveness improvements and are pursuing a range of strategies to achieve efficiencies including the better alignment of workforce skills and staffing requirements with operational needs.

In terms of public infrastructure efficiency and effectiveness, the Government has recently released its Public Private Partnerships initiative which will provide a robust framework for private sector involvement in the provision of public infrastructure where better value for money outcomes can be achieved.

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 (GG) operating surplus, as measured in Government Finance Statistics (GFS) 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.

SUMMARY OF KEY FINANCIAL AGGREGATES

Table 1.2 provides aggregate outcome information for 2001-02 and projections for 2002-03 and the outyears. The Appendix to this chapter provides the detailed GFS financial statements for the General Government sector.

Table 1.2 Key Financial Aggregates (GFS Basis)					
	2001-02 Est. Act. \$ million	2002-03 Budget \$ million	2003-04 Projected \$ million	2004-05 Projected \$ million	2005-06 Projected \$ million
General Government sector:					
Revenue	19,342	20,181	20,803	21,624	22,432
Expenses	19,828	20,157	20,755	21,542	22,335
Net operating balance	(486)	23	48	82	96
Cash surplus/deficit	382	354	672	719	890
Gross fixed capital formation	2,092	1,712	1,966	1,720	1,566
Net worth	57,801	58,498	59,601	60,940	62,663
Note: 1. Numbers may not add due to rounding					

NET OPERATING RESULT

2001-02 Estimated Result

The 2001-02 estimated operating result is the result of a downward revision to investment earnings, partly offset by stronger revenue growth, particularly increases in conveyance duty associated with the strength of the property market.

In the absence of poor investment returns, the result for 2001-02 would have been a strong surplus.

The lower investment returns in 2001-02 primarily reflects the poor performance of equity markets, in particular international equities.

The Queensland Government operates a fully funded superannuation scheme, with investment funds set aside to meet all accruing employee entitlements. These funds are invested in a diversified portfolio of growth assets, including domestic and international equities and property.

With investment balances approaching \$13 billion, the General Government operating result will be impacted by the year to year performance of investment markets.

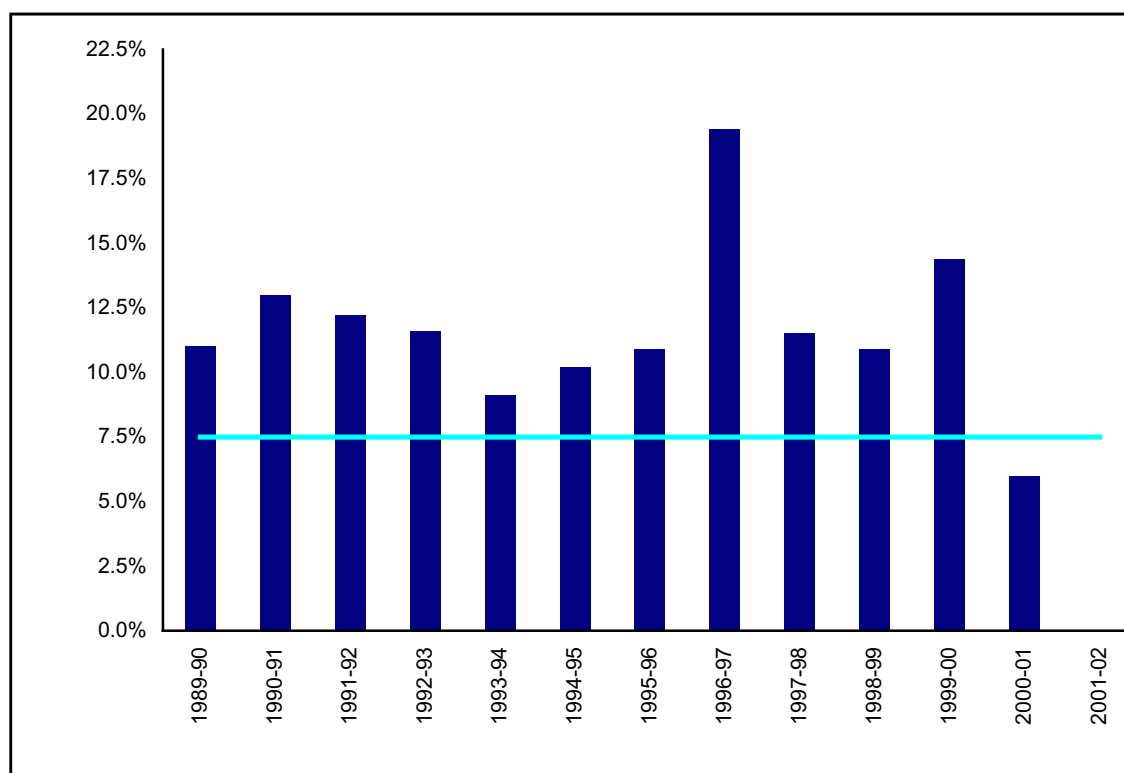
Budget estimates for investment returns are based on the expected long term average return for the portfolio of 7.5%. These estimates are then revised upwards or downwards during the year based on actual experience.

2001-02 has been a challenging year for investment markets. International equities have performed particularly badly. As a consequence, the estimated actual earnings rate in 2001-02 has been revised downwards to 0%.

As illustrated in Chart 1.1, investment markets performed well throughout the 1990s. Above average performance in those years, and the prudent reinvestment of those funds, has ensured that the Government has the capacity to absorb periods of under performance, such as that experienced in 2001-02.

Despite the volatility of investment returns, the Government's policy of setting aside and investing funds for future employee entitlements remains sound and one of the key features of the State's strong balance sheet.

Chart 1.1
Investment Returns
1989-90 to 2001-02⁽¹⁾ (% per annum)



Note:

1. 2001-02 estimated actual is a Queensland Treasury forecast.

Source: 1989-90 to 2000-01: Queensland Investment Corporation Annual Report 2000-01.

2002-03 Budget and Outyear Projections

The budgeted position for the General Government sector is for an operating surplus of \$23 million in 2002-03, growing steadily in the outyears.

The surpluses, while modest, are consistent with the Government's fiscal commitment to a competitive tax regime, and the already strong balance sheet position of the State. Queensland is unique in having sufficient financial assets to cover future employee liabilities. Jurisdictions seeking to move towards a similar fully funded position will need to achieve significant operating surpluses to meet these targets.

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.

The increase in expenditure relative to 2001-02 levels primarily relates to employee entitlements, service enhancements and parameter based adjustments, offset in part by lower grants and subsidy expenditure (eg. reduction in expenditure under FHOG scheme).

Taxation revenue growth is expected to moderate in 2002-03, while investment returns will again be based on the assumption of long run average levels.

Further detail regarding expenditure and revenue projections is contained in Chapters 3 and 4 respectively.

Reconciliation of Forward Estimates

Table 1.3 provides a reconciliation of the General Government sector forward estimates for 2002-03 (as published in the 2001-02 Budget) with the 2002-03 Budget estimates.

Table 1.3 Reconciliation of 2002-03 Operating Result to Previous Estimate	
	2002-03 \$ million
General Government sector	
Forward Estimate published in 2001-02 Budget	39
Parameter adjustments	246
Policy decision adjustments	(241)
Other ¹	(21)
2002-03 Budget	23
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 funding committed to agencies to account for movements in underlying social and/or economic parameters, for example, the number of school age children, changes in population data and the outcomes of enterprise bargaining negotiations. Movement in economic parameters, such as the 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. These outcomes included additional funding for child protection and the Education and Training Reforms for the Future package.

BALANCE SHEET

2001-02 Estimated Result

On a GFS basis, General Government Total Gross Fixed Capital Formation (GFCF) in 2001-02 is estimated to be \$2.092 billion.

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. The net worth of the General Government sector at 30 June 2002 is estimated at \$57.801 billion.

A key feature of the State's balance sheet is a strong net financial asset position. 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 be \$31.486 billion in 2001-02, while liabilities are forecast to be \$18.531 billion. After excluding the value of equity investments of public enterprises, financial assets 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*.

2002-03 Budget and Outyear Projections

State net worth is projected to increase from the 2001-02 estimated actual by \$697 million to \$58.498 billion at 30 June 2003. Net worth is also expected to increase in all forward estimate years. 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.

Capital Program

The State's capital program 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 2002-03, \$4.837 billion is budgeted for capital works, an increase of \$68 million over the 2001-02 estimated actual expenditure of \$4.769 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 5, and more detail on the capital program is at Chapter 7 and in Budget Paper No. 4.

CASH FLOW

On a GFS basis, the General Government sector is estimated to achieve a cash surplus in 2001-02 of \$382 million. The impact of stronger than expected revenues, mostly conveyance duty, has provided a stronger than budgeted cash position in 2001-02. On a GFS basis, a cash surplus of \$354 million is expected in 2002-03 for the General Government sector. The cash surplus is forecast to grow strongly in the outyears.

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

APPENDIX – GENERAL GOVERNMENT GFS FINANCIAL STATEMENTS

Table a.1
General Government GFS Net Operating Result

	2001-02 Est. Act. \$ million	2002-03 Budget \$ million	2003-04 Projection \$ million	2004-05 Projection \$ million	2005-06 Projection \$ million
OPERATING RESULT					
GFS Revenue					
Taxation revenue	4,800	4,909	5,141	5,403	5,510
Current grants and subsidies	9,313	9,477	9,930	10,302	10,760
Capital grants	618	462	400	389	307
Sales of goods and services	1,797	1,814	1,839	1,863	1,917
Interest income	167	1,116	1,228	1,327	1,429
Other	2,646	2,402	2,265	2,340	2,509
Total Revenue	19,342	20,181	20,803	21,624	22,432
<i>Less</i> GFS Expenses					
Gross operating expenses	13,633	14,051	14,633	15,148	15,600
Superannuation interest expense	625	715	802	884	960
Other interest expense	246	250	301	354	399
Current transfers	4,806	4,670	4,685	4,852	5,075
Capital transfers	519	471	334	303	301
Total Expenses	19,828	20,157	20,755	21,542	22,335
<i>Equals</i> GFS net operating balance	(486)	23	48	82	96
<i>Less</i> Net acquisition of non-financial assets					
Gross fixed capital formation	2,092	1,712	1,966	1,720	1,566
<i>Less</i> Depreciation	1,504	1,544	1,565	1,591	1,606
<i>Plus</i> Change in inventories	(2)	22	(13)	(2)	(7)
<i>Equals</i> Total net acquisition of non-financial assets	585	190	387	126	(46)
<i>Equals</i> GFS Net lending/borrowing (Fiscal Balance)	(1,071)	(167)	(340)	(44)	143
Note:					
1. Numbers may not add due to rounding.					

Table a.2
General Government GFS Balance Sheet

	2001-02 Est. Act. \$ million	2002-03 Budget \$ million	2003-04 Projection \$ million	2004-05 Projection \$ million	2005-06 Projection \$ million
ASSETS					
Financial Assets					
Cash and deposits	366	402	371	390	407
Advances paid	155	174	192	206	219
Investments, loans and placements	14,146	15,047	16,488	17,775	19,129
Other non-equity assets	4,400	4,865	5,135	5,447	5,809
Equity	12,417	12,579	12,863	13,299	14,069
Total	31,486	33,068	35,049	37,117	39,632
Non-Financial Assets	44,847	45,763	46,906	47,828	48,618
Total Assets	76,332	78,831	81,955	84,945	88,250
LIABILITIES					
Borrowing	3,602	4,353	5,089	5,669	6,140
Superannuation liability	9,946	11,187	12,511	13,615	14,769
Other employee entitlements and provisions	3,054	2,911	2,868	2,838	2,802
Other non-equity liabilities	1,930	1,882	1,886	1,883	1,876
Total Liabilities	18,531	20,333	22,354	24,005	25,587
Net Worth	57,801	58,498	59,601	60,940	62,663
Net Financial Worth	12,954	12,735	12,695	13,112	14,045
Net Debt	(11,066)	(11,270)	(11,962)	(12,702)	(13,615)
Note: 1. Numbers may not add due to rounding.					

Table a.3
General Government GFS Statement of Cash Flows

	2001-02 Est. Act. \$ million	2002-03 Budget \$ million	2003-04 Projection \$ million	2004-05 Projection \$ million	2005-06 Projection \$ million
Receipts from operating activities					
Taxes received	4,910	4,909	5,141	5,403	5,510
Grants and subsidies received	9,933	9,939	10,330	10,692	11,067
Sales of goods and services	1,735	1,840	1,856	1,876	1,934
Other receipts	3,230	2,876	3,233	3,314	3,489
Total	19,808	19,565	20,561	21,284	22,000
Payments for operating activities					
Payments for goods and services	(11,552)	(11,987)	(12,488)	(13,221)	(13,646)
Interest	(254)	(253)	(308)	(360)	(404)
Grants and Subsidies	(4,751)	(4,727)	(4,575)	(4,709)	(4,932)
Other payments	(774)	(532)	(551)	(555)	(563)
Total	(17,331)	(17,499)	(17,923)	(18,845)	(19,544)
Net cash inflows from operating activities					
Payments for investments	2,477	2,066	2,638	2,439	2,456
In non-financial assets					
Purchases of non-financial assets	(2,412)	(2,350)	(2,203)	(1,950)	(1,777)
Sales of non-financial assets	321	638	237	230	211
Total	(2,092)	(1,712)	(1,966)	(1,720)	(1,566)
Payments for investments in financial assets for policy purposes	505	(199)	(46)	..	..
Payments for investments in financial assets for liquidity purposes	(817)	(751)	(1,379)	(1,258)	(1,337)
Receipts From Financing Activities					
Advances received (net)	(10)	(4)	(4)	(4)	(4)
Borrowing (net)	237	635	726	562	468
Deposits received (net)	..	..	..	..	..
Total	227	631	722	558	464
Net Increase (Decrease) In Cash Held	301	36	(31)	19	17
GFS Surplus (Deficit)	382	354	672	719	890
Note: 1. Numbers may not add due to rounding.					

2. BUDGET PRIORITIES

KEY POINTS

- **Key areas for service enhancements in the 2002-03 Budget include families, most notably for increased child protection, implementation of the Queensland the Smart State – Education and Training Reforms for the Future package, improvements to health services across the State and a range of law and order measures.**
- **The Government is also providing additional funding across a range of portfolios to meet expenditure priorities around the State consistent with its five key policy priorities.**

INTRODUCTION

This chapter details:

- the Government's policy priorities which underpin the 2002-03 Budget; and
- service delivery highlights for each of the Government's five key policy priorities.

GOVERNMENT'S POLICY PRIORITIES

The Government has identified five key policy priorities that it seeks to achieve for Queenslanders, regardless of where they live in the State. These priorities have been revised since the 2001-02 Budget in order to provide a sharper focus to secure Queensland as a dynamic, tolerant and mature community. The priorities complement one another and the services provided by agencies generally contribute to more than one priority.

The five key policy priorities are:

- More jobs for Queensland - Skills and Innovation – the Smart State.
- Safer and more supportive communities.
- Community engagement and a better quality of life.
- Valuing the environment.
- Building Queensland's regions.

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

In the context of these key policy priorities, the Government has recently articulated its strategic policy direction in the two largest service delivery areas of education and training and health. These statements set the planning and direction of the State's education, training and health systems and set priorities for action over the next 10 to 20 years. A summary of these strategies is provided in Box 2.1 and Box 2.2 at the end of this chapter.

Appendix A to this document outlines some of the key demographic trends and issues shaping service delivery in Queensland.

SERVICE DELIVERY HIGHLIGHTS

The 2002-03 Budget provides for a range of specific initiatives that will assist in achieving these key policy priorities. Below is a summary of these initiatives. It does not represent an exhaustive list of all initiatives to be implemented by the Government in 2002-03. The Ministerial Portfolio Statements provide details of all new Government initiatives on a portfolio basis.

Spending to achieve these priorities falls into two categories: operating and capital. Operating expenses are costs incurred in providing services and the cost of running and maintaining assets. Operating expenses are addressed in detail in Chapter 3.

Capital expenditure relates almost exclusively to the purchase and construction of assets that are used to support the delivery of services. Examples of these assets include hospitals, schools, courthouses, police stations, fire and ambulance stations and roads. Capital outlays are discussed in Chapter 7 of this Budget Paper and in greater detail in Budget Paper No. 4.

More Jobs for Queensland - Skills and Innovation – the Smart State

The Government has maintained a strong emphasis on meeting the demands of an information economy and ensuring that Queensland has a highly educated, skilled and flexible workforce.

To contribute to this priority, a number of initiatives will be introduced during 2002-03.

- \$158 million over four years is allocated to Queensland the Smart State – Education and Training Reforms for the Future, a package of initiatives and proposed reforms to the educational sector that involves:
 - \$23 million in new funding in addition to \$36.4 million in existing funding in 2002-03 and a further \$35 million in new funding in 2003-04, is made to improve information and communication technology (ICT) access and ICT skills of students and teachers.
 - 59 Preparing for School trials of a full time preparatory year, beginning with 39 schools in 2003 and a further 20 schools in 2004. The trials will evaluate the benefit of a universally available full time preparatory year.
 - Community consultation on a package of proposals that aims to make senior schooling fit better with vocational education, training and work and including an option to raise the school leaving age to 16 or 17.

- \$45 million in 2002-03 (\$134 million over four years) in additional capital works funding is provided to Education Queensland, bringing the total capital works program to \$240 million in 2002-03. Major capital works program initiatives include:
 - \$116.5 million to fund the construction of two new schools, further staged works at 13 schools, additional toilets and land acquisitions, and more than 105 additional classrooms at existing schools in growth areas throughout the State;
 - \$60.5 million to replace and enhance learning facilities at existing schools and continue the Secondary Schools Renewal program;
 - \$24.3 million for the Cooler Schools initiative to air-condition more State schools in Central and Northern Queensland; and
 - \$7 million to extend employee accommodation through the acquisition of new houses and the refurbishment of existing houses.
- \$6 million in 2002-03 (\$60 million over four years) is provided for additional teachers and teacher aides for students with disabilities.
- \$1.7 million in 2002-03 (\$10.6 million over four years) has been provided for the escalation of non-State school grants for the Capital Assistance Program, External Infrastructure Subsidy, Bus Fare Assistance and Transport for Students with Disabilities.
- \$1.6 million in 2002-03 and each year thereafter will be provided to assist in meeting the additional costs arising from the increase in the superannuation guarantee charge payable to the non-State school workforce.
- \$100 million is provided over five years for the Smart State Research Facilities Fund which will facilitate further investment in world-class science and technology research and development infrastructure. \$64 million of the Fund has been committed to date, including up to \$20 million for the establishment of an Australian Institute of Bioengineering and Nanotechnology and up to \$22.5 million for an Institute of Health and Biomedical Innovation at the Queensland University of Technology.
- \$4.4 million is provided to the Department of Innovation and Information Economy, Sport and Recreation Queensland over four years for the Community Skills Development program, the Information Communication Technology Skills Training and Role Models (I-STAR) program, the Innovation Start Up Scheme (ISUS) and Cooperative Research Centres (CRCs) Coordination and Development.
- \$8 million over four years (\$2 million in 2002-03) is provided to support the operation of 10 overseas Queensland Government Trade and Investment Offices and to pursue priority elements of the Queensland Government's Trade Strategy - Export Solutions.
- \$1.5 million over three years (\$0.5 million in 2002-03) is provided to enhance the Department of State Development's capacity to undertake Public Private Partnership (PPP) assessments and to provide training and skills development on PPP assessment within agencies.

- \$5 million per annum in additional funding is provided in 2002-03 and in 2003-04 for the Breaking the Unemployment Cycle initiative.

Safer and More Supportive Communities

The Government is committed to providing all Queenslanders with communities where they are protected from harm, where the differences between people are respected, and where everyone is treated with fairness and dignity.

To contribute to this priority, a number of initiatives will be introduced during 2002-03.

- An additional \$188 million over four years will be provided to the Department of Families for a range of initiatives aimed at delivering better outcomes for children, young people and families. This comprises new funding of \$148 million over four years, in addition to the final instalment of funding (\$40 million over four years) committed in response to the Forde Inquiry. The Premier and the Minister for Families will launch the Queensland Families: Future Directions policy statement on 20 June 2002. This statement will outline the Government's vision for the Department into the future and provide detail on the range of initiatives to be funded as part of this package. The Government has now met its fiscal commitments flowing from the Forde Inquiry (ie exceeded the Forde recommendation of an extra \$103 million per annum).
- \$4 million over four years (\$1 million in 2002-03) is provided to support the continuation of the Domestic Violence Fund which currently provides 14 court support services and allows for the delivery of five Indigenous family violence support services across the State.
- \$1.5 million is provided in 2002-03 to increase the capacity of the Government and non-Government sector to identify and address issues of child sexual abuse through a range of strategies including the development of training resources and provision of training courses.
- \$1 million in 2002-03 and each year thereafter is provided for the Working with Children Check which seeks to ascertain the suitability of people wishing to work in child related employment on a paid or volunteer capacity. The Working with Children Check is funded by a \$40 charge on paid applicants and supplemented by grants from the Government.
- \$2.8 million is provided in 2002-03 (\$11.6 million over four years) for the introduction of a regulatory framework and support services for the residential services industry to improve the safety and well-being of residents of boarding houses, supported accommodation and aged rental accommodation including ensuring adequate consumer protection for these residents.
- \$4.6 million is allocated in 2002-03 to School Transport Safety – a new scheme for enhancing the safety of the school bus fleet and a comprehensive public education campaign aimed at improving the safety of children travelling to school.
- \$21 million over three years is provided for the expansion of the Drug Court trial to Townsville and Cairns and to continue the trial in Ipswich, Southport and Beenleigh.

- \$17.9 million is provided over four years to Queensland Courts to ensure justice services continue to be provided at levels which are expected by the community. This additional funding will be used to provide more training for staff, introduce a range of new technologies to streamline work processes and to upgrade facilities at the Townsville and Southport courthouses.
- \$13.7 million over four years is provided to the Department of Justice and Attorney-General and to Queensland Health to improve the effectiveness of the Coronial system through better coordination, more resources and enhanced reporting including participation in the National Coronial Information System.
- \$5.5 million over four years to the Office of the Director of Public Prosecutions to employ more prosecutors throughout the State plus \$2.1 million over four years to improve confiscation laws and to enable tougher action to be taken to seize the assets of those involved in serious criminal activities including drug trafficking.
- \$15 million is provided to the Queensland Police Service in 2002-03 to ensure that it can progress priority information management projects identified in its Information Management Strategic Plan 2001-2010. These projects include an Incident Recording, Management and Investigation system for recording incidents, a forensic support system to assist in processing DNA evidence, and a State-wide computer-aided dispatch system that includes command and control services.
- \$12 million in additional capital works funding is provided in 2002-03 for the Queensland Police Service, bringing the total capital works budget allocation to \$30.5 million. This will provide for the continuation of critical infrastructure and support projects, including Loganholme police station, Mackay North police station and Toowoomba police station, district headquarters and regional office.
- \$0.3 million is provided in 2002-03 to enhance services of the Diversion from Custody Centre Program which was established in 1992-93 as a State Government response to the recommendations of the Royal Commission into Aboriginal Deaths in Custody.
- \$8 million in capital funding over two years, and \$1.4 million in operational funding over three years is provided to replace the Queensland Rescue Service Squirrel helicopter. \$6.2 million is provided over four years for increased grants to community helicopter providers and to fund the increased operating cost of the Government's emergency helicopter services.
- \$4 million over four years, will contribute to an \$18.9 million Volunteer Support Package for emergency services volunteers including the Rural Fire Service, the State Emergency Service and the Queensland Ambulance Service.
- \$1 million in 2002-03 is provided to the Department of Aboriginal and Torres Strait Islander Policy to strengthen the roles and responsibilities of Community Justice Groups, especially in the area of alcohol management.
- \$2.1 million is provided over four years to improve workplace health and safety investigations and prosecution activities.

Community Engagement and a Better Quality of Life

The Government aims to deliver services that enable people to maintain and improve the quality of their lives. In 2002-03 the Government's focus will be on ensuring equality of opportunity and equitable access to high standards of education, health, housing and family services.

To contribute to this priority, a number of initiatives are provided for during 2002-03.

- \$50 million over four years is provided to meet health capital and technology needs and to improve operational efficiency in the health sector.
- Approximately \$13.3 million is provided in 2002-03 to address access to, and demand for, a range of acute inpatient services across Queensland.
- Approximately \$10.6 million is provided in 2002-03 to enhance mental health acute inpatient and community health services.
- Up to \$7.3 million is allocated in 2002-03 to bring the total funding for services provided under the Home and Community Care program to approximately \$202 million to improve access to a range of community based services such as domestic assistance, social support, home maintenance and community transport.
- \$4.8 million is provided in 2002-03 for blood transfusion services provided by the Australian Red Cross Blood Service (Qld) to ensure Queensland patients continue to have access to safe and sufficient supplies of blood and blood products.
- \$2 million in recurrent funding is provided in 2002-03 to employ additional medical staff in emergency departments of hospitals to increase the proportion of patients seen on time.
- \$1 million, in a full year, is provided to enable Queensland Health to undertake primary health care initiatives for Aboriginal and Torres Strait Islander people with a special focus on nutrition and child health.
- \$12 million is provided over four years (\$2 million in 2002-03) for supply of water, sewerage and health related infrastructure in Indigenous Communities.
- \$4.6 million is provided in 2002-03 (\$15.1 million over four years) to implement the Government's response to the Cape York Justice Study. Funding is provided to establish Community Canteen Alcohol Boards and the expansion of the Local Justice Initiatives Program, to support Indigenous economic development activities, to target improvements in Indigenous child and public health, for illicit drug compliance activities, for Indigenous Justices of the Peace and financial aid to community councils.
- \$10.4 million is provided in 2002-03 to address service and demand pressures being experienced in some areas of the disability sector, including extra assistance for non-government service providers.

- \$10 million per annum is provided from 2002-03 to deliver Government election commitments in the area of disability services including additional family support, respite services and more support for school leavers and adults.
- \$6 million in capital funding is provided to Disability Services Queensland in 2002-03 to fund capital and equipment upgrades, innovative accommodation options for people with high support needs and new respite services.
- \$15 million is provided to upgrade the Brisbane Cultural Centre bus station to enhance traffic flow and improve pedestrian access and safety.
- A fully integrated ticketing framework will be introduced in south-east Queensland in mid-2004. The new integrated system will speed up boarding times and offer greater convenience to public transport users. The first stage of the project will introduce a consistent paper-based range of tickets across urban bus, train and ferry services.
- \$15 million is provided for the continued implementation of the Government's integrated service delivery initiative - Access Queensland and the establishment of Smart Service Queensland as the Government's vehicle to provide integrated Government services to the community in real time, with online services available 24 hours a day and seven days per week.
- \$7.7 million in recurrent funds is provided in 2002-03 for the Millennium Arts Project which will go towards new staff, systems and equipment in preparation for the opening of new facilities.
- \$6 million over two years (\$2.2 million in 2002-03) is allocated to the redevelopment of the Yungaba property at Kangaroo Point, Brisbane. The property will be used as a multicultural centre through the provision of conference facilities, an auditorium and reception centre.
- \$1.3 million is provided over three years to facilitate SEQ 2021 – A Sustainable Future, providing an overarching, long-term planning strategy to help guide future settlement patterns, public policy programs, infrastructure expenditure and service delivery activities for the sustainable management of future growth and development of the south-east Queensland region.
- \$12.5 million in funding and property is allocated to establish the Brisbane Housing Company. By the end of 2005-06, a total of \$50 million will have been allocated over four years by the Queensland Government, in partnership with the Brisbane City Council, to provide housing for low income households in Brisbane.
- \$152.7 million is provided for public rental housing allowing for the commencement of 300 dwellings and completion of 260 dwellings and for upgrades to existing dwellings.
- \$50.3 million in capital grants will be provided to Aboriginal and Torres Strait Islander Councils for constructing new houses and upgrading existing dwellings.

- \$2.7 million is provided over four years to enhance general inspection programs to improve compliance with industrial relations legislation. A particular focus will be on employer compliance with wages and conditions.

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.

To contribute to this priority, a number of initiatives will be introduced and continued during 2002-03.

- \$9.5 million is allocated over four years for the continuation of water reform policy and water reform implementation, including the establishment of tradeable water allocations. This additional allocation also includes funding for enhanced monitoring and research of river health indicators and the monitoring, auditing and compliance with implementing resource operations plans.
- \$9 million is provided over two years as the State's contribution to the joint State/Commonwealth/landowner Great Artesian Basin Sustainability Initiative. This initiative funds programs such as bore rehabilitation, bore drain replacement, and complementary extension, education and scientific programs. The initiative will halt the decline in, and where possible, restore pressures within the Great Artesian Basin.
- \$6.4 million is allocated over four years to maintain and improve the State-wide Landcover and Trees Study (SLATS) satellite monitoring program. SLATS provides accurate scientific information to underpin decision making related to vegetation management, salinity risk and greenhouse gas emissions from land usage change.
- \$3.3 million per annum is provided to continue the regulation of timber harvesting and associated forest practices on public lands.
- \$1.6 million is allocated for acquisition of land for conservation purposes on Cape York to ensure continued management of high value conservation areas on the Peninsula.
- \$1.2 million per annum is provided to continue mining industry environmental compliance auditing, to ensure minimisation of the impacts of mining and rehabilitation of disturbed areas.
- \$1.4 million is provided for acquisition of Coastal Land as part of the Government's overall strategy to manage current and future pressures on our sensitive coastal zone. The objective of the funding is to acquire, under voluntary agreement, coastal land considered too environmentally sensitive for development.
- \$2 million is allocated to the Great Walks of Queensland initiative, the second year of a five year \$10 million initiative that will create a world class network of walking tracks and other low impact facilities for visitors to prominent parks and forests across Queensland.

- An annual ongoing allocation of \$10 million is provided for improved National Park maintenance, with up to 60 ranger positions to be filled in 2002-03 in addition to 80 positions filled in 2001-02.

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 2002-03.

- \$209.2 million (\$35.3 million in 2002-03) is allocated to continue work on the Burnett Water Infrastructure Development, comprising the Burnett River Dam, together with the Eidsvold, Barlil and Jones Weir Developments.
- Up to \$38 million over three years (\$10 million in 2002-03) is allocated for the development of a multipurpose centre in Mackay.
- \$20 million will be made available to provide low interest loans to cane producers to cover the cost of planting and fertilising their 2003 cane crop.
- \$4.2 million is provided in 2002-03 (total funding of \$8 million) to upgrade facilities for the Rockhampton Beef Expo 2003. The Commonwealth Government and Rockhampton City Council are also providing funding for the Beef Expo 2003.
- \$18 million is allocated to the redevelopment of the Tallebudgera Outdoor Recreation Centre over the next two years to enable it to become an aquatic centre of excellence.
- \$1.9 million per annum is provided over four years for continued marketing of Queensland's six Convention Bureaux.
- Assistance is provided over three years to Australian Airlines for co-operative marketing activities.
- \$6 million is provided to maintain an appropriate level of air and long distance bus services to communities located in remote and rural Queensland.
- \$9 million is provided in 2002-03 for the completion of the \$138 million project to build two diesel tilt trains which will operate between Cairns and Brisbane. The new trains are expected to come into service in mid-2003, further reducing travelling time by rail between the two cities.
- \$120 million (increased from \$55 million) is provided as part of the State Government's current contribution to complete planning and enable a construction start on the Tugun Bypass, subject to necessary New South Wales, Federal and Queensland planning and environmental approvals and resolution of the Commonwealth Government's commitment to fund 50% of the project.

- \$11.4 million is provided for the completion of duplication and bridge upgrading works on the Schneider Road-Fletcher Street section of Brisbane-Beenleigh Road.
- \$9.9 million is provided for the construction of joint Commonwealth/State funded Douglas arterial road between University Road and Upper Ross River Road at Condon (Townsville).
- \$5.9 million is provided for the construction of a new Gladstone Port access road, with funding to be made available by the Commonwealth, State (including the Gladstone Port Authority) and Calliope Shire Council.
- \$3.7 million is provided to commence construction of 24.6 kilometres of road to sealed standard of the Hervey's Range developmental road between Townsville and Battery, Devils Marbles.
- \$3.6 million is provided for the completion of duplication and upgrade of a section of the Nerang Broadbeach Road at Goodings Corner.
- Additional funding is provided to enhance Queensland's foot and mouth disease preparedness through increased surveillance, feral animal management and improved livestock tracing systems, bringing total funding to \$20.3 million over four years.
- \$9.7 million in State funding is provided over four years to continue the eradication of the Red Imported Fire Ant, bringing total funding to \$145 million over five years, including contributions from the Commonwealth and the other States.
- \$2.5 million over three years is provided to support improved RSPCA infrastructure development. This investment will contribute to RSPCA's capital works program which involves the upgrade of all eight existing animal refuges across Queensland and the establishment of a new refuge in Gympie.
- \$1 million per annum in 2002-03 and 2003-04 is provided for the implementation of e-Democracy initiatives, including the broadcasting of Parliamentary proceedings over the internet, a mechanism to allow petitions to be signed and lodged electronically and the inaugural regional Parliament in Townsville in September 2002.

ALIGNING SERVICES AND PRIORITIES

As part of the initial work for preparation of the 2002-03 Budget, the Government established a program to review its operations and to ensure that services provided by agencies are aligned with the priorities that the Government seeks to achieve for the community. This process is known as Aligning Services and Priorities (ASAP).

The objectives of ASAP are to:

- align the corporate objectives and directions of departments with the strategic outcomes sought by Government;
- identify opportunities to realign activities and resources to achieve the Government's outcomes and to improve efficiency; and

- review departments' current and planned activities that involve cross agency responsibility to ensure that Government outcomes are effectively achieved.

The overriding aim of this process is to ensure that Queensland Government service delivery continues to provide value and to meet the needs of the community, and to provide greater flexibility in the allocation of resources to meet emerging priorities.

One of the whole-of-Government reviews being undertaken is the ASAP Corporate Services Review, which is looking at how corporate services are delivered across the Queensland Government and identifying how the quality and cost effectiveness of corporate services delivery can be optimised.

A review of strategic information management is also under way. The objective of this review is to establish processes for improving the Government's management of its strategic information, improve the investment in information resources, increase the value of information to Government for decision-making and planning and support the Government's service delivery objectives.

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. These objectives are outlined in the *Charter of Social and Fiscal Responsibility*. The Charter also establishes a framework for assessing the Government's overall performance in achieving progress towards its objectives, and ensures that performance is not assessed purely against economic and financial criteria, but that the social and environmental consequences are considered as well.

As a result, the Government has released the *Priorities in Progress* report to inform the community about the efficiency and effectiveness of its activities in meeting its objectives for the community.

The *Priorities in Progress* report, released in December 2001, informs the community about the impact of the Government's policies and initiatives in the 2000-01 financial year. The report highlights areas where Queensland is performing well, and identifies opportunities for improvement. It is the second report of this kind to be released by the Government and contains significantly improved information regarding social outcomes for Queenslanders and provides greater detail on how the Government is moving forward.

Future *Priorities in Progress* reports will benefit from an ongoing process of refinement, as input from key stakeholders is used to help improve the measurement and reporting of Government activities.

The *Priorities in Progress* report 2000-01 can be viewed online at www.treasury.qld.gov.au.

Box 2.1 Queensland Education Reforms – A Stronger Economic Future

A strong education system is vital for higher economic growth and productivity, and to increase the quality of life of all Queenslanders. Future generations will be able to trace the economic and social success of the State to the quality of education provided to today's youth.

Queensland State Education 2010 (QSE-2010), the strategic direction for State schools, has captured the impact of various complex socio-economic issues and identified key policy platforms to improve student learning outcomes. There has been an increase in the expectations communities have of schools, particularly in relation to providing children with the foundations for lifelong learning, viable future pathways and new skills in communication and technology. The Government has made a substantial investment to accelerate reforms in communication and information technologies (ICT), the early years of schooling and in preparing students for future pathways through the *Queensland the Smart State – Education and Training Reforms for the Future* package.

Both *Queensland the Smart State – Education and Training Reforms for the Future* and *QSE-2010* set the agenda to address the challenges of the increasingly globalised knowledge-based economy. The new economy is characterised by greater levels of competition and new skill requirements of the labour market. It is now more critical to complete Year 12 or an equivalent qualification than ever before. The proportion of the working age population who have upper secondary qualifications is much higher in OECD countries (40%) than in Australia (32%) (OECD, *Education at a Glance*, 1998). Education Queensland has set the goal of increasing Year 12 completion rates from 68% in 1998 to 88% by 2010. Already, the apparent Year 12 retention rate has increased from 71.8% in July 1999 to 73.6% in July 2001. Key reforms which will bring Education Queensland closer to its goal include strengthening the early foundation years to ensure young people progress through schooling, enhancing the range of curriculum options and enhancing the pathways from school to further education, training and/or work. A trial of full-time preparatory year will be undertaken in some 59 schools.

Central to the new economy is the development and diffusion of information and communication technologies. To adequately prepare students for the world of work, Education Queensland is embedding computer and general technological literacy in teaching and student learning practices.

It is vital that changes in educational service delivery and provision are supported by a flexible, motivated and technologically skilled teaching workforce. Education Queensland is implementing a comprehensive package of workforce renewal initiatives and other strategies to ensure the teaching workforce has the necessary skills to accommodate new learning styles, new technology and the diverse needs of children in a complex society.

The number of children of school-age is increasing in line with Queensland's relatively high population growth. This has placed additional pressures on service delivery particularly in the south-east corner of the State. The rapid establishment of new suburbs and the expansion of existing outer metropolitan areas have hastened demand for new school facilities.

In contrast, the population in some rural and remote regions of Queensland continues to decline. Providing quality educational services to these areas has required exploring new and innovative solutions, such as harnessing the opportunities provided by new information and communication technologies to establish a virtual schooling service.

Three out of four of Queensland's Indigenous peoples live in regional and remote areas. A higher proportion of these (36%) are of school age compared to 22% of the non-Indigenous population. Greater understanding of the challenges facing Indigenous students has revealed the need for tailored education services. Culturally relevant community-based educational programs, such as *Partners for Success*, have been developed in partnership with Indigenous communities in Queensland to enhance equality of opportunity.

The *Queensland the Smart State – Education and Training Reforms for the Future* and *QSE-2010* initiatives represent the most significant education reforms in Queensland since the lifting of the compulsory school age in 1965 from 12 to 15 years. They will ensure that Queensland has an exceptional system of education and training that equips the next generation to meet the challenges of the future.

Box 2.2

Health 2020: A Vision for the Future

The delivery of health care services in Queensland will face many challenges over the next 20 years including an ageing population, increasing incidence of chronic diseases, maintaining an appropriately skilled workforce and increasing health costs. The Smart State: Health 2020 Project is a unique opportunity for the Queensland Government, stakeholders and the people of Queensland to develop a strategic policy framework to guide planning and investment in health services over the medium to long term. The Health 2020 Project will assist Government to address emerging trends in health care, predict the environment for health care in the future, plan for the development of appropriate health systems, set priorities for action and determine where to appropriately invest resources.

The process so far has identified several major factors that will influence the health of Queenslanders and their health care over the next two decades. It has also identified a number of major challenges which will impact on how services are delivered, including:

Population Growth

The geographic decentralisation of Queensland presents specific challenges for service delivery. Queensland is continuing to experience a high rate of population growth in metropolitan areas, resulting in escalating demand for health services in the south-east corner. Conversely, population growth in regional, rural and remote areas is slow. However an appropriate range of quality health services must be provided.

An Ageing Population

Demand for health care services increases after the age of 65 years. As a general rule, people over the age of 65 use four times as many health services as people under 65, rising to five times the level for people over the age of 75.

Increasing Demand for Services

Advances in medical technologies, diagnostics and new drugs which extend boundaries of treatment have contributed to an increasing demand for services. This in conjunction with increasing consumer expectations and improved access to services are key drivers for demand.

Innovation and Technical Change

The provision of health care services both within Australia and overseas is constantly changing due to the advent of new technologies and procedures, the results of innovative research and changing trends in health service delivery. The availability of increasingly high cost technologies means that an extensive range of treatment options are available to patients. The desire to provide access to new medical technologies whilst working within available resources presents a considerable challenge to health service providers both nationally and internationally.

Workforce

The ageing of the workforce and competitive global market will impact on Queensland Health's ability to maintain a sustainable health workforce.

Financing

Investment in health and health care needs to recognise the value of health as a resource for living, rather than simply the cost of providing services. Health financing is complex, with the involvement of Commonwealth and State Governments, the private and non-Government sectors, insurers and individuals all making contributions. One of the challenges over the next two decades will be to build a sustainable and equitable funding model centred on population needs. It is essential that the interplay of the Commonwealth and the States is reviewed to ensure policy and funding arrangements are consistent with long-term improvements in population health outcomes.

Change is a Certainty, but the Future is Unknown

The imperative is that the Queensland health care system must remain flexible and responsive to change and that health care planning takes into account community risk assessment and strategies to manage the unexpected.

3. EXPENSES

KEY POINTS

- **Total General Government expenses are budgeted to increase by 4.8% over the 2001-02 Budget, to \$20.157 billion in 2002-03.**
- **Growth in expenses includes a range of new service initiatives including in the area of families, education and health.**
- **Over the last decade, expenditure effort has grown towards Australian average levels reflecting growth and enhancement of services.**
- **The major areas of expenditure are education and health which together constitute some 47% of General Government expenses.**

INTRODUCTION

This chapter provides an overview of the Government Finance Statistics (GFS) Operating Statement Expenses for the General Government sector for the estimated actual outcome for 2001-02, the forecast for the 2002-03 Budget year and projections for 2003-04 to 2005-06.

The forward estimates are based on the economic projections outlined in Chapter 1 and are formulated on a “no policy change” basis.

The Ministerial Portfolio Statements provide details on outlays for each portfolio.

Table 3.1
General Government GFS Expenses

	2001-02 Budget \$ million	2001-02 Est. Act. \$ million	2002-03 Budget \$ million	2003-04 Projected \$ million	2004-05 Projected \$ million	2005-06 Projected \$ million
Expenses						
Gross Operating Expenses						
Employee Entitlements	8,495	8,685	9,085	9,554	9,957	10,289
Supplies and Services	3,477	3,444	3,422	3,514	3,600	3,705
Depreciation	1,519	1,504	1,544	1,565	1,591	1,606
Current Transfers	4,402	4,806	4,670	4,685	4,852	5,075
Capital Transfers	450	519	471	334	303	301
Nominal Superannuation	604	625	715	802	884	960
Interest						
Other Interest	291	246	250	301	354	399
Total Expenses	19,237	19,828	20,157	20,755	21,542	22,335

Note:

1. Numbers may not add due to rounding.

Table 3.1 indicates the General Government expenses in 2001-02 are estimated to be \$19,828 million. Factors influencing expenses in 2001-02 included parameter and policy changes implemented during the course of the year. A significant area of variation was current transfers where substantially increased payments under the FHOG scheme were made.

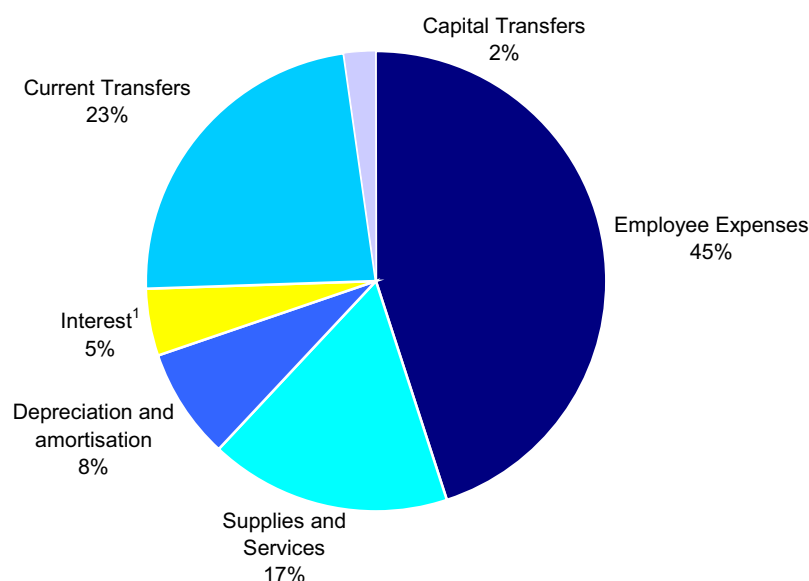
The General Government Operating Statement provides for \$20,157 million to be expended on services for Queenslanders in 2002-03. This represents an increase of \$920 million (or 4.8%) over the 2001-02 Budget. Factors influencing growth include increased employee entitlements in line with recent enterprise bargaining agreements and a provision for future agreements and additional staffing for implementation of expanded and enhanced services.

EXPENSES BY OPERATING STATEMENT CATEGORY

This section provides a breakdown of the General Government Operating Statement in 2002-03 by category and discusses the significant variances between 2001-02 estimated actual and 2002-03 Budget by these expense categories.

Chart 3.1 indicates that the single largest expense category in the General Government sector is employee expenses, followed by current transfers.

Chart 3.1
Expenses by Operating Statement Category for 2002-03 (GFS Basis)

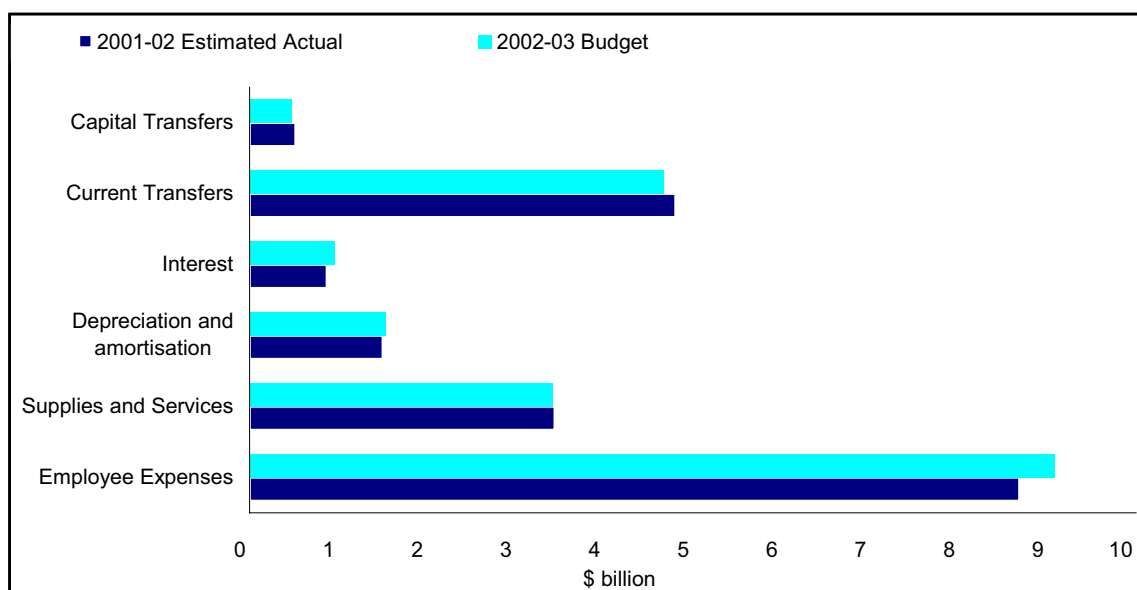


Note:

1. Includes Nominal Superannuation Interest Expense.

Chart 3.2 compares the 2001-02 estimated actual expenses for each operating statement category with the 2002-03 Budget. The explanations for the major variances are discussed in the following sections.

Chart 3.2
Expenses by Operating Statement Category
for 2001-02 and 2002-03 (GFS Basis)



Note

1. Interest includes Nominal Superannuation Interest Expense.

Employee Entitlements

Employee entitlements include salaries and wages, annual leave, long service leave and superannuation contributions and payments. Superannuation expense represents the employer's contribution to the superannuation of Government employees in the General Government sector.

The growth in employee expenses is related to recent enterprise bargaining agreements and a provision for future agreements and additional staffing for implementation of expanded and enhanced services.

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.

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

The moderate increases in the forward years reflects projected increases in service delivery costs and a range of new initiatives.

Depreciation

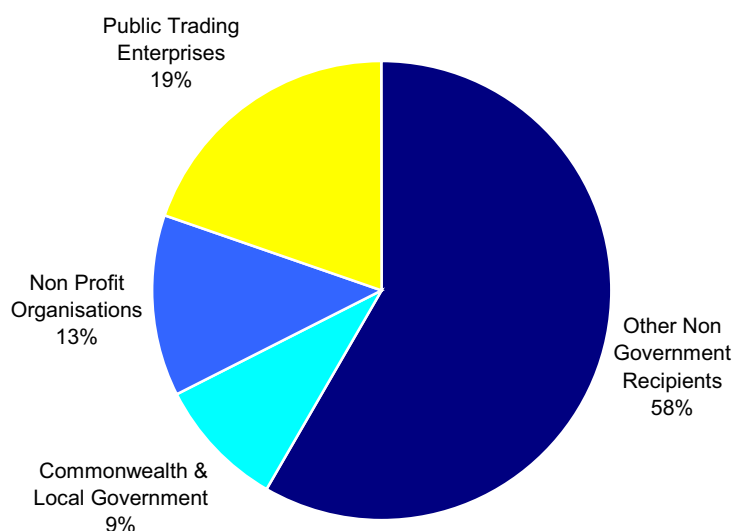
The budgeted depreciation expense is an estimate of the progressive consumption of the State's assets through normal usage, wear and tear and obsolescence. Queensland's depreciation expense as a percentage of fixed assets is generally higher than that of other States, reflecting a more conservative provision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

Current Transfers

Current transfers include grants to the community, such as to schools, hospitals and benevolent institutions, local governments, personal benefit payments and Commonwealth taxes. They also include the FHOG scheme, community service obligation payments to the Public Trading Enterprises sector and payments made under the State's fuel subsidy scheme. The major recipient of current grants is non-government individuals and organisations with 58% of total State grants being provided to this group.

Chart 3.3 indicates the composition of current transfers by recipient.

Chart 3.3
Current Transfers 2002-03 Recipients



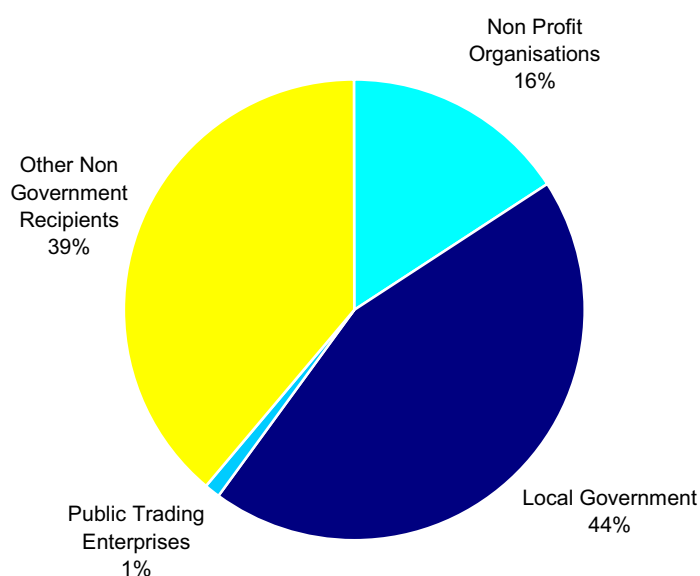
Current grants are forecast to decline relative to the 2001-02 estimated actual. The decrease is primarily the result of an expected reduction in the FHOG scheme from \$400 million in 2001-02 to approximately \$180 million in 2002-03.

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 3.4 provides a breakdown of capital transfers by recipient. The major recipient of capital transfers by the Government is local government (44%), with Queensland businesses and individuals also receiving a significant share (39%).

Chart 3.4
Capital Transfers 2002-03 Recipients



Movements from year to year in capital transfers are influenced by the timing of capital projects and the progressive completion of approved projects.

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.

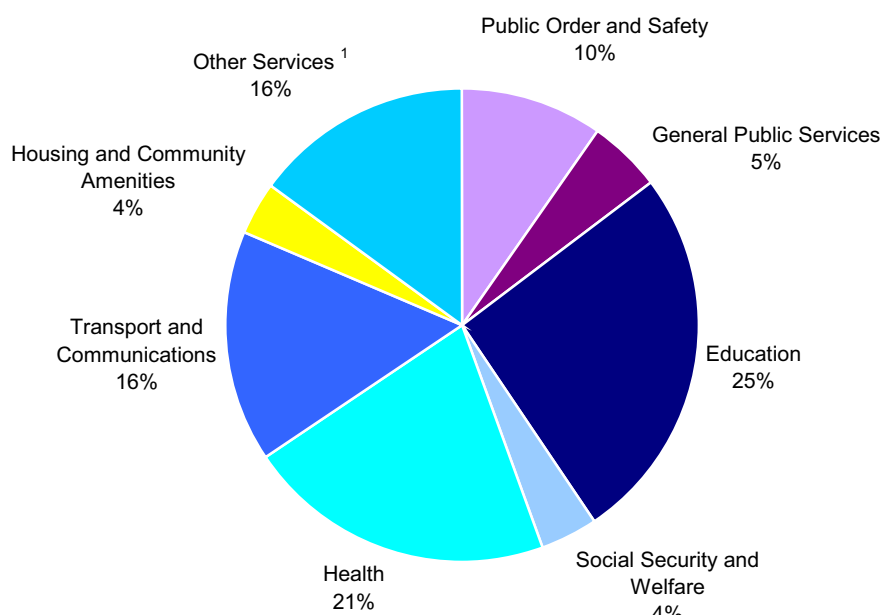
Nominal superannuation interest expense is estimated to grow consistently in 2002-03 and the forward years, relative to the 2001-02 amount, due to factors including actuarial estimates of the liabilities, enterprise bargaining agreements and increases in the number of public sector employees associated with planned growth in services.

For discussion of the State's net interest position, refer to the Interest Income section of Chapter 4.

OPERATING EXPENSES BY PURPOSE

Chart 3.5 indicates the proportion of expenditure by major purpose classification for the 2002-03 Budget. Education accounts for the largest share of expenses (26%), followed by Health (21%) and Transport and Communications (16%).

Chart 3.5
General Government Expenses By Purpose 2002-03 (GFS Basis)



Note:

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

Table 3.2 indicates how expenditure by major purpose classification has changed relative to the 2001-02 estimated actual. Generally, growth in expenditure from the 2001-02 estimated actual can be attributed to additional funding for the implementation of expanded and enhanced services and the movement in economic parameters such as the consumer price index and for social parameters such as changes in population data and the number of school aged children, etc. Major variations are due to increased expenditure for the Queensland the Smart State – Education and Training Reforms for the Future initiative, increased funding for child protection in Queensland, funding for improved health services and increased expenditure to improve outcomes for Indigenous Queenslanders.

Table 3.2
General Government GFS Expenses by Function

	2001-02 Est. Act. \$ million	2002-03 Budget \$ million	% Change
General public services ¹	1,370	976	(28.8)
Public order and safety	1,901	1,976	3.9
Education	4,959	5,198	4.8
Health	4,021	4,250	5.7
Social security and welfare	762	835	9.6
Housing and community amenities	625	726	16.2
Transport and communications	3,111	3,198	2.8
Other ²	3,079	2,998	(2.6)
Total Expenses³	19,828	20,157	
Notes: 1. The decline relative to 2001-02 reflects factors such as a significant reduction in expenses associated with the FHOG scheme. 2. Other includes Agriculture, Forestry, Fishing, Recreation and Culture, Fuel and Energy, Mining, Manufacturing and Construction, Other Economic Affairs, Other Purposes and Government Superannuation Benefits. 3. Numbers may not add due to rounding.			

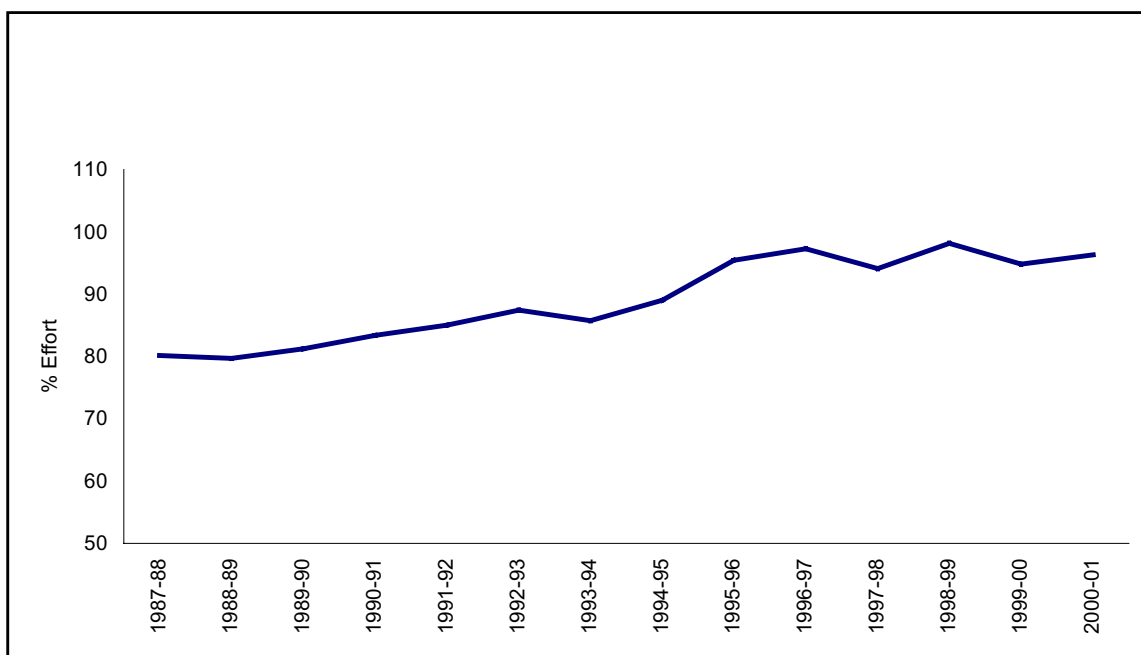
TRENDS IN RECURRENT EXPENDITURE

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 (see Chart 3.6 and Box 3.1 for discussion of Australian average). However, it should be noted that Queensland's expenditure effort does not include the expenditure under the State's Fuel Subsidy Scheme, which is expected to cost more than \$450 million in 2002-03.

Chart 3.6
Level of Service Provision Ratios



Note:

1. The 2002 Commonwealth Grants Commission Update Report focuses on the level of service provision ratios using Financial Assistance Grant relativities in preference to the use of Goods and Services Tax relativities which were used in the 2001 Update Report.

Source: Commonwealth Grants Commission

Expenditure effort, as shown throughout this chapter, and revenue raising effort, as discussed in Chapter 4, are measures calculated by the Commonwealth Grants Commission (CGC). More detail on how these measures are derived is provided in Box 3.1.

Box 3.1 **Commonwealth Grants Commission's Revenue Raising Effort and Level of Service Provision Ratios**

The 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 policy effort being made by a State in terms of raising revenue, 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

Measures relating to the level of service provision should be viewed in conjunction with measures which indicate the efficiency of 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 Commission¹ 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 separation². Based on this indicator, Queensland provides equivalent hospital services at a cost below the Australian average and the second lowest in the country.

1. *Productivity Commission Report on Government Services 2002.*

2. 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*).

4. REVENUE

KEY POINTS

- **Total General Government revenue is expected to increase by \$0.839 billion (or 4.3%) over estimated actual for 2001-02, to \$20.181 billion in 2002-03.**
- **Queensland's payroll tax rate will reduce to 4.75% from 1 July 2002, in conjunction with the removal of payroll tax concessions on termination payments and grossed up fringe benefits.**
- **From 1 July 2002 the 15% general land tax rebate for companies, trustees and absentees will be abolished. To assist small business the land tax exemption threshold will be increased for these taxpayers from \$100,000 to \$150,000. This will remove 27% of existing company, trustee and absentee land taxpayers from the tax base in 2002-03. Individual landholders will not be affected by these changes and will continue to receive the current 15% general land tax rebate.**
- **Per capita tax collections (on a GFS Basis) are estimated at \$1,321 in 2002-03 compared with an estimated \$1,757 for the average of the other States.**

INTRODUCTION

This chapter provides an overview of the Government Finance Statistics (GFS) Revenues for the General Government sector for the estimated actual outcome for 2001-02, forecasts for the Budget year and projections for 2003-04 to 2005-06.

The forward estimates are based on the economic projections outlined in Chapter 1 and are formulated on a "no policy change" basis.

Table 4.1
General Government GFS Revenue

	2001-02 Budget \$ million	2001-02 Est. Act. \$ million	2002-03 Budget \$ million	2003-04 Projected \$ million	2004-05 Projected \$ million	2005-06 Projected \$ million
Revenue						
Taxation Revenue	4,429	4,800	4,909	5,141	5,403	5,510
Current Grants and Subsidies	8,948	9,313	9,477	9,930	10,302	10,760
Capital Grants	508	618	462	400	389	307
Sales of Goods and Services	1,689	1,797	1,814	1,839	1,863	1,917
Interest Income	1,260	167	1,116	1,228	1,327	1,429
Other	2,425	2,646	2,402	2,265	2,340	2,509
Total Revenue	19,261	19,342	20,181	20,803	21,624	22,432

Note:

1. Numbers may not add due to rounding.

Table 4.1 indicates that General Government revenue in 2001-02 is estimated to exceed the Budget estimate by \$81 million (or 0.4%). Significant variations include:

- taxation revenue exceeded the Budget forecast in 2001-02 by \$371 million, primarily due to revenue from stamp duty on property conveyancing transactions resulting from significant growth within the housing and non-residential property sector;
- investment earnings in 2001-02 are expected to be down \$1.093 billion, and were adversely impacted by the volatility and poor performance of domestic and international equity markets; and
- current grants and subsidies revenue exceeded 2001-02 Budget forecasts by \$365 million, largely reflecting payments to Queensland to fund the extension of the FHOG scheme.

General Government revenue in 2002-03 is estimated to be \$20.181 billion, an increase of \$839 million (or 4.3%) over the 2001-02 estimated actual of \$19.342 billion. This is largely due to:

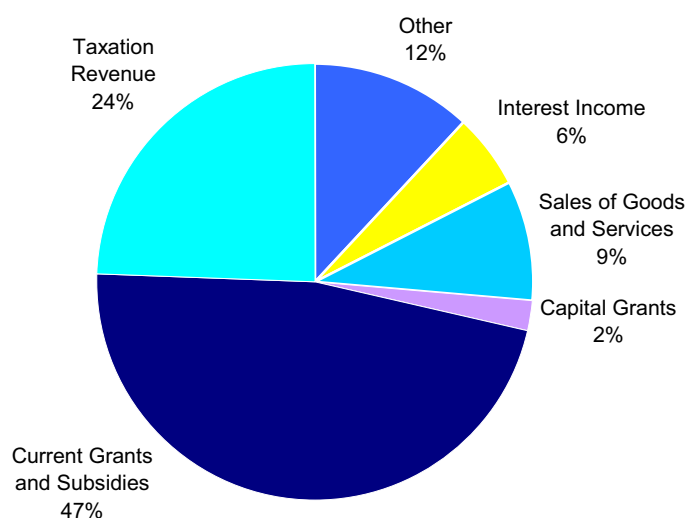
- moderate taxation revenue growth, reflecting a forecast reduction in stamp duty revenues associated with a projected slowdown in property market activity;
- low growth in current grants and subsidies, mainly due to reductions in Commonwealth Budget Balancing Assistance and specific purpose payments arising from the wind down in the FHOG scheme; and
- increased interest income, following the poor performance of investment markets in 2001-02.

These factors are discussed further in Chapter 3 of Budget Paper No. 3.

REVENUE BY OPERATING STATEMENT CATEGORY

The General Government Operating Statement provides for \$20.181 billion in revenue to be raised in 2002-03. The composition of this revenue is detailed in Chart 4.1.

Chart 4.1
Revenue by Operating Statement Category 2002-03



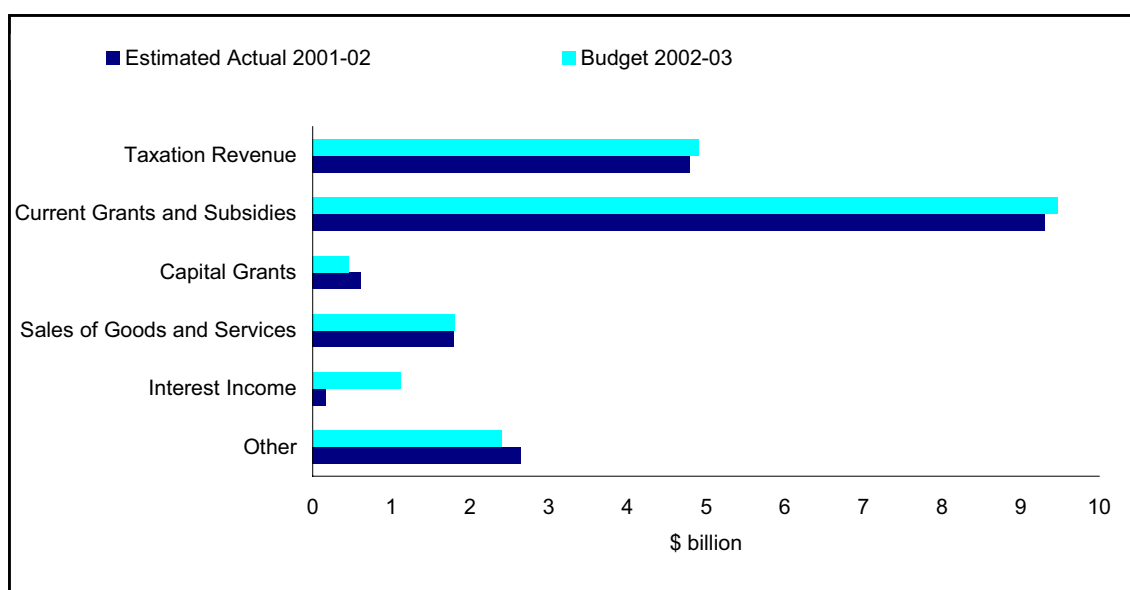
Note:

1. The major components of 'Other Revenue' are dividends (4.0%), royalties (4.2%) and tax equivalent payments from PTEs (1.4%).

Chart 4.2 compares the composition of General Government revenue, based on 2001-02 estimated actuals and 2002-03 estimates.

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

Chart 4.2
Revenue by Operating Statement Category for 2001-02 and 2002-03



Taxation

Total revenue from taxation is expected to increase by 2.3% in 2002-03.

Strong economic and employment outcomes are expected to lead to solid growth across a range of taxes in 2002-03. However, stamp duty on conveyancing transactions is estimated to decrease by 10.8%, reflecting an anticipated slowdown in the property market.

Consistent with changes foreshadowed in the 2001-02 Budget the payroll tax rate will reduce from 4.8% to 4.75% from 1 July 2002.

Land tax revenue is estimated to grow by 21.8% in 2002-03, due to an increase in land valuations and changes to land tax arrangements for companies, trusts and absentees. From 1 July 2002 the 15% general land tax rebate for companies, trustees and absentees will be abolished. To assist small business the land tax exemption threshold will be increased from \$100,000 to \$150,000. Under the changes, all company, trust and absentee landholders with taxable land values between \$100,000 and \$191,000 will either no longer pay tax at all or pay less tax. This equates to 41.5% of existing company, trustee and absentee land taxpayers. Of these, 27% of existing company, trustee and absentee land taxpayers will be removed from the land tax base.

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 is forecast to be 33% higher than Queensland's tax burden in 2002-03.

Current Grants and Subsidies

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

Commonwealth payments received by the State in 2002-03 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.

Grants and subsidies in total are expected to increase by only 1.8% in 2002-03. This moderate increase largely reflects reductions in the State's receipts of Commonwealth Budget Balancing Assistance and Specific Purpose Payments from the wind down in the FHOG scheme and a reduction in Commonwealth roads funding.

Total general purpose payments in 2002-03 comprise GST revenue of \$5.6 billion, Budget Balancing Assistance of \$67.5 million and National Competition Policy Payments of \$139.6 million.

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 (CGC) in accordance with the application of horizontal fiscal equalisation principles.

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 public housing.

Sales of Goods and Services

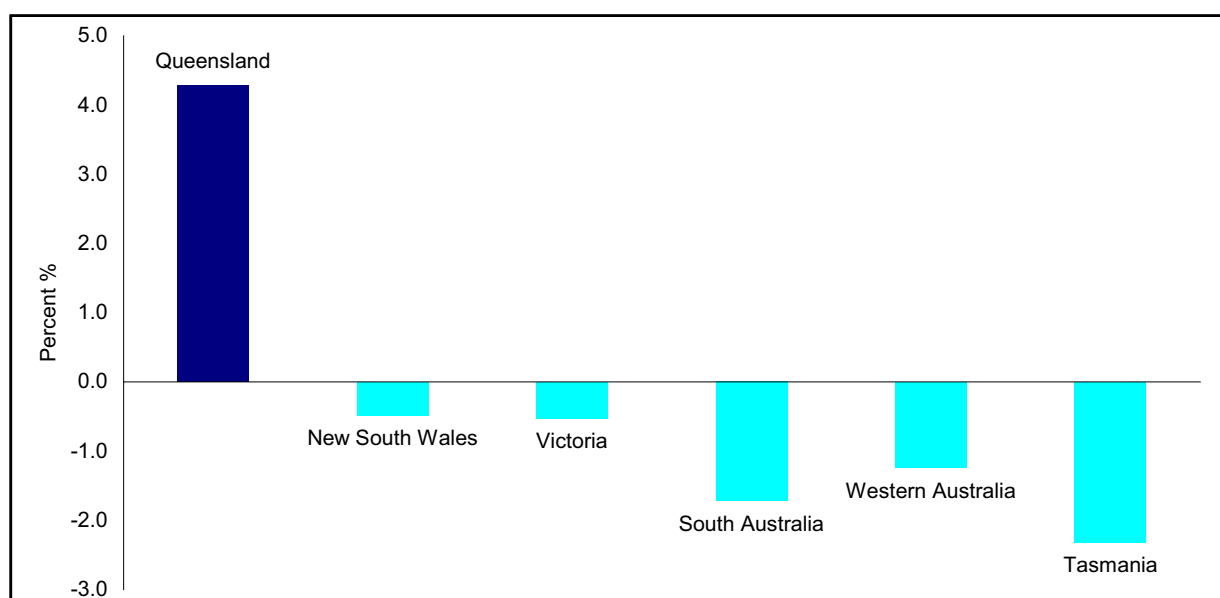
Sales of goods and services revenue comprises cost recoveries from the provision of goods or services. Revenue from this source is expected to increase by 0.9% in 2002-03.

Interest Income

Investment earnings are expected to be higher in 2002-03, following poor investment market returns in 2001-02.

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 4.3 illustrates that New South Wales, Victoria, South Australia, Western Australia and Tasmania incur net interest payments which reduce the funds available for service delivery. Conversely, Queensland receives net investment income from financial assets which allows the State to focus expenditure on service delivery rather than on servicing debt.

Chart 4.3
Excess of Interest Income over Budgeted Borrowing Costs as a Percentage of General Government Revenue - 2002-03



Note:

1. Data excludes nominal superannuation expense.

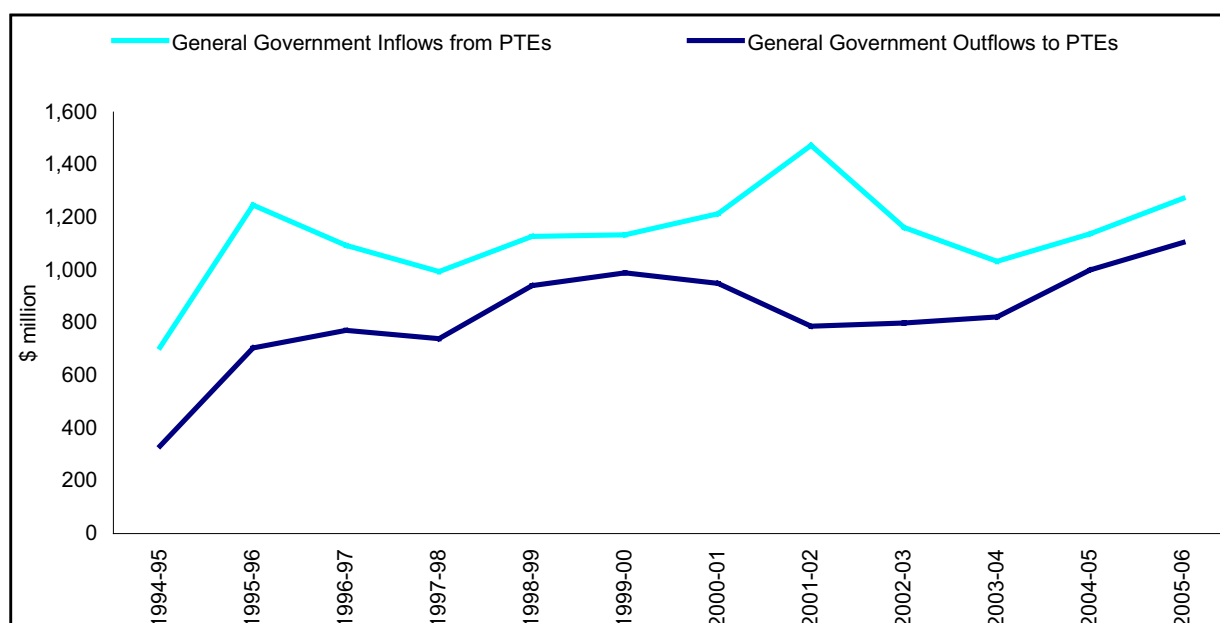
Source: State budget papers for QLD, NSW, VIC, WA and TAS. Mid-Year Review papers for SA.

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 decrease in 2002-03, despite expected increases in royalty revenues. The decrease reflects lower dividends and tax equivalent payments from the Queensland Electricity Supply Industry (QESI) as a result of forecast reductions in wholesale electricity market prices.

The reduction in revenue from the QESI has reduced the net revenue received from financial enterprises in 2002-03 relative to 2001-02. Chart 4.4 illustrates that the General Government sector is forecast to receive a small net return above the Community Service Obligations paid to the Public Trading Enterprises (PTE) and Public Financial Enterprises (PFE) sectors over the forward estimates.

Chart 4.4
Net Revenues from Public Enterprises



Expected total payments for the PTE and PFE sectors in absolute terms in 2002-03 are \$799 million, whilst the total revenue from dividends, tax equivalents and competitive neutrality fees is expected to be in the order of \$1.162 billion.

Community Service Obligations (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. They allow 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.

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

TRENDS IN STATE GOVERNMENT REVENUE

Trends in the size and composition of State revenue have been significant in shaping the evolution of Queensland's fiscal position over recent decades. The State's ability to raise revenue is fundamental to the delivery of quality services to the people of Queensland.

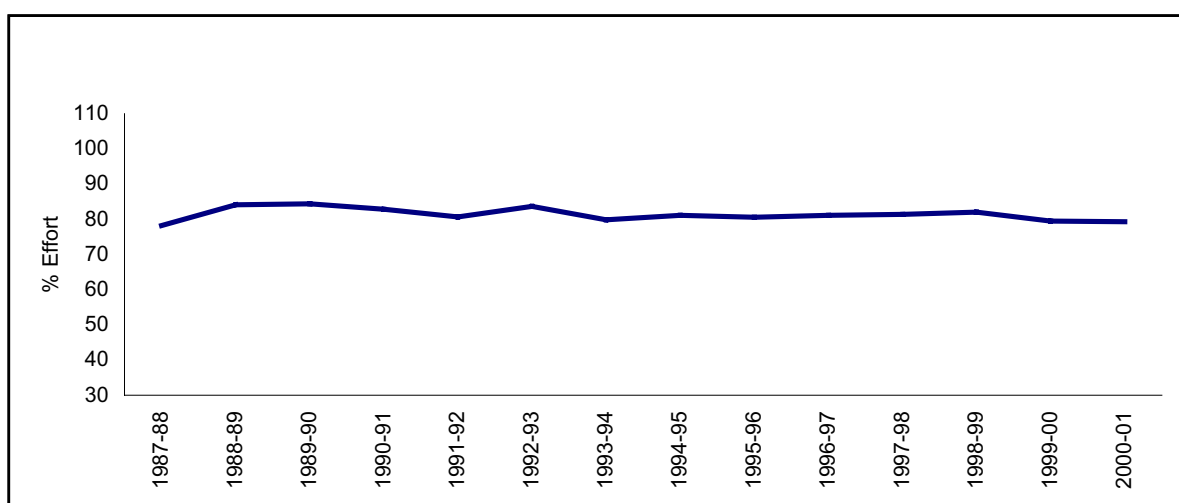
Taxation Revenue

Although total taxation revenue has increased due to factors such as economic and population growth, the State continues to maintain competitive tax levels in relation to other States. This reflects the Government's Charter commitment to ensure that State taxes and charges remain competitive with the other States and Territories, whilst raising sufficient revenue to meet the infrastructure and Government service delivery needs of the people of Queensland.

As shown in Chart 4.5, Queensland's taxation revenue raising effort, as assessed by the CGC, has remained below the Australian average (refer to Box 3.1 in Chapter 3). Queensland's tax status is due to the Government's favourable 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 4.5
Taxation Revenue Raising Effort Ratios for Queensland



Note:

- Given that all States will require Budget Balancing Assistance in 2002-03, Financial Assistance Grant relativities are used to reflect States' pre national tax reform revenue capacities.

Source: Commonwealth Grants Commission.

The ability to maintain a competitive tax status has added considerably to Queensland's fiscal flexibility. However, Commonwealth tax reform has reduced the fiscal flexibility of all States by limiting the options for raising additional own source revenue. One outcome of tax reform is the reduction in State's own source revenues and a reduction in the capacity to alter the mix or rates of State taxes in response to changing economic circumstances. Further, as a result of historically low State taxes, Queensland will be the first State to cease receiving Budget Balancing Assistance payments, in 2003-04.

The risks to Queensland's taxation revenue are outlined further in Appendix B.

Funding from the Commonwealth

Funding from the Commonwealth comprises general revenue, which can be used for any purpose, 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 total GST revenues as grants. These grants are largely at the expense of the abolition of a number of State taxes, the Commonwealth's financial assistance grants and revenue replacement payments.

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 has comprised GST revenues, Budget Balancing Assistance and National Competition Payments. The disbursement of GST revenues to the States is determined by the Commonwealth Government following recommendations from the CGC, based on the principles of horizontal fiscal equalisation.

Table 4.2 outlines Queensland's Commonwealth funding shares for 1992-93 and 2002-03 and compares them with Queensland's population shares.

Table 4.2 Queensland's Relative Shares of Commonwealth Funding				
	Queensland	Australia	Share %	Share Relative to Population %
1992-93				
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	
2002-03				
General Revenue ² (\$m)	5,850.7	31,875.7	18.4	97.3
SPPs to the State (\$m)	3,931.6	21,318.5	18.4	97.8
Total (\$m)	9,782.3	53,194.2	18.4	97.5
Population ('000)	3,715.4	19,698.1	18.9	
Notes:				
1. Comprises financial assistance grants, identified road grants and capital grants.				
2. Comprises GST, budget balancing assistance, special revenue assistance and national competition payments.				
3. For the purpose of comparability, all figures quoted in this table are sourced from Commonwealth Budget Papers.				
4. Numbers may not add due to rounding.				

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 an equal per capita share. For 2002-03, Queensland's expected share of general revenue at 18.4% is 2.7% less than an equal per capita share.

Specific Purpose Payments to Queensland have grown as a proportion of Commonwealth funding since 1992-93. However, the growth in Queensland's share of SPPs (from 17.3% to 18.4% share) has been less than the growth in the State's population share (from 17.5% to 18.9% share). The risks associated with SPPs are discussed in Appendix B.

Total Commonwealth funding to Queensland was 6.3% above its population share in 1992-93 but is expected to be 2.5% or \$251 million lower than its population share in 2002-03. This data is commensurate with a general decline in Queensland's relative share of funding from the Commonwealth since 1992-93. 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 169% in 2000-01. This is significantly above the Australian average (being 100% effort), reflecting the substantial returns generated from the State's large financial asset base.

However, interest revenue can be a volatile revenue source. Due to the scale of the General Government sector's investable funds, the returns generated on investment earnings can have a significant impact on the budgeted operating result. The lower than expected returns in both 2000-01 and 2001-02 have had a major adverse impact on the General Government operating position.

5. STATEMENT OF FINANCIAL POSITION

KEY POINTS

- The Queensland Government's already strong financial position is expected to strengthen further in 2002-03. State net worth is projected to rise by \$697 million through the year to \$58.498 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 \$12.735 billion in the General Government sector at 30 June 2003, 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 2003. 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.

NET WORTH

The net worth, or equity, of the State is the amount by which the State's assets exceed its liabilities. This is the value of the investment held on behalf of the people of Queensland by public sector instrumentalities. Changes in the State's net worth occur for a number of reasons including:

- operating surpluses (deficits) that increase (decrease) the Government's equity;
- revaluation of assets 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;
- movements in the net worth of the State's investments in the Public Trading Enterprise and Public Financial Enterprise sectors; and

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

The *Charter of Social and Fiscal Responsibility* specifically requires the Government to maintain and seek to increase Total State net worth (which is equivalent to General Government net worth). Table 5.1 shows the projected annual balances in the Government's equity (net worth) in the General Government sector as at 30 June, for the years from 2002 through to 2006.

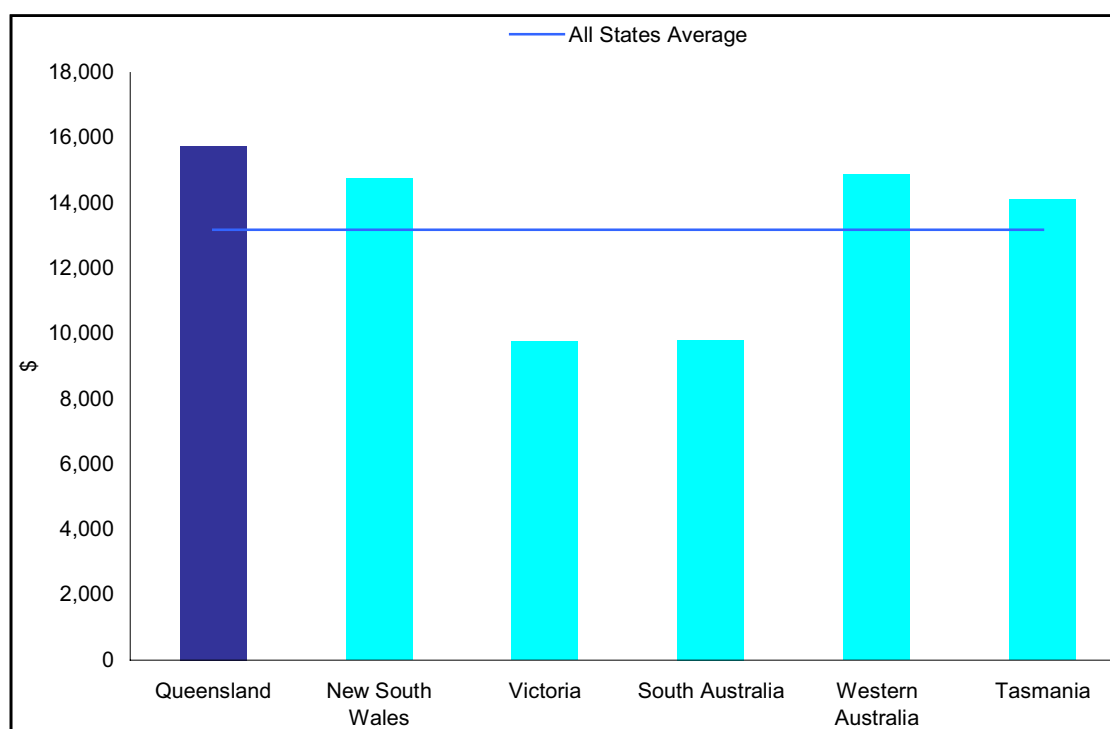
Table 5.1 General Government Sector: Summary of Budgeted Statement of Financial Position (GFS Basis)					
	2001-02 Est. Act. \$ million	2002-03 Budget \$ million	2003-04 Projected \$ million	2004-05 Projected \$ million	2005-06 Projected \$ million
Non-financial assets	44,847	45,763	46,906	47,828	48,618
Financial assets	31,486	33,068	35,049	37,117	39,632
Assets	76,332	78,831	81,955	84,945	88,250
Liabilities	18,531	20,333	22,354	24,005	25,587
Net Worth	57,801	58,498	59,601	60,940	62,663
Net Debt	(11,066)	(11,270)	(11,962)	(12,702)	(13,615)
Notes: 1. For GFS purposes, the State's assets are classed as either financial or non-financial assets. 2. Numbers may not add due to rounding.					

In the year ending 30 June 2002, the financial position of the General Government sector has been impacted by a number of events, in particular low returns on investments.

Despite these events, the net worth of the General Government sector is expected to grow by \$178 million over the 2000-01 actual net worth. This is due to increases in assets as a result of revaluations of major assets as part of the State's asset revaluation cycle. During the year, the Departments of Education, Main Roads, and Health carried out major revaluations.

Chart 5.1 illustrates the State's strong net worth when compared against the other States. Queensland's per capita net worth is 19% greater than the average per capita net worth of all the States.

Chart 5.1
Interstate Comparison of Per Capita Net Worth as at 30 June 2003



Note:

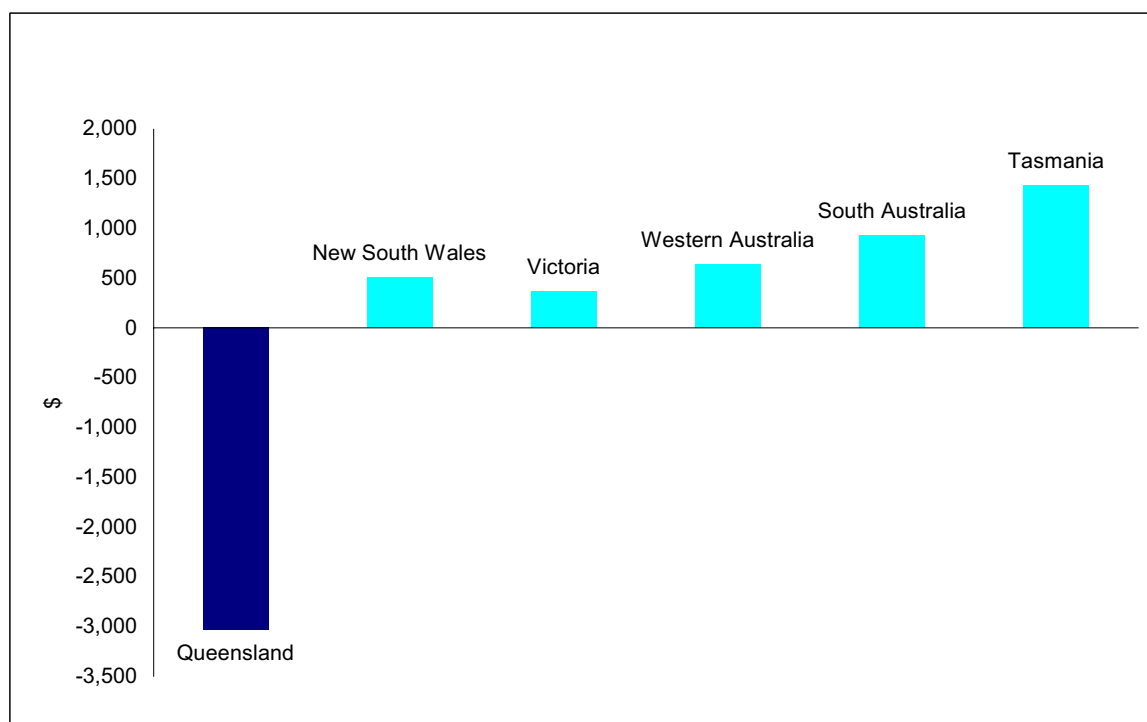
1. Western Australia values land under roads as part of its overall asset base. This has been adjusted to allow comparison with other jurisdictions which do not value land under roads.

Source: *State Budget Papers for QLD, NSW, VIC, WA and TAS. SA Mid Year Budget Review. Population data from Commonwealth Budget Paper 3.*

NET DEBT

Net debt is the difference between gross debt and financial assets (less equity and non-equity assets). The extent of accumulated net debt is currently the most common measure used to judge the overall strength of a jurisdiction's fiscal position. High levels of net debt impose a call on future revenue flows to service that debt and meeting these payments can limit government flexibility to adjust outlays. Excessive net debt can call into question the ability of government to service that debt. As seen in Chart 5.2, Queensland has a negative net debt in comparison to other States.

Chart 5.2
Net Debt Per Capita as at 30 June 2003



Source: Estimated actual net debt from State Budget Papers for NSW, VIC, WA and TAS. SA Mid Year Budget Review. Population Data from Commonwealth Budget Paper 3

NON-FINANCIAL ASSETS

General Government non-financial assets are projected to total \$45.763 billion at 30 June 2003. The majority of these non-financial assets are schools, hospitals, police, fire and ambulance stations, and similar such 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.

After allowing for the purchase and/or construction of replacement or new assets, asset revaluations, depreciation and disposals, physical assets in the year ending 30 June 2003 are expected to grow by \$916 million during 2002-03.

FINANCIAL ASSETS AND LIABILITIES

Table 5.2 shows financial assets available to meet the accruing and expected liabilities of the General Government sector.

Table 5.2
General Government Sector: Summary of Budgeted Net Financial Assets
(GFS Basis)

	2001-02 Est. Act. \$ million	2002-03 Budget \$ million	2003-04 Projected \$ million	2004-05 Projected \$ million	2005-06 Projected \$ million
Equity in public enterprises	12,417	12,579	12,863	13,299	14,069
Other financial assets	19,067	20,488	22,186	23,818	25,564
Financial assets	31,486	33,068	35,049	37,117	39,632
Borrowing	3,602	4,353	5,089	5,669	6,140
Provisions	13,000	14,098	15,379	16,453	17,571
Other Liabilities	1,930	1,882	1,886	1,883	1,876
Liabilities	18,531	20,333	22,354	24,005	25,587
Net financial assets	12,954	12,735	12,695	13,112	14,045
Note: 1. Numbers may not add due to rounding.					

Assets

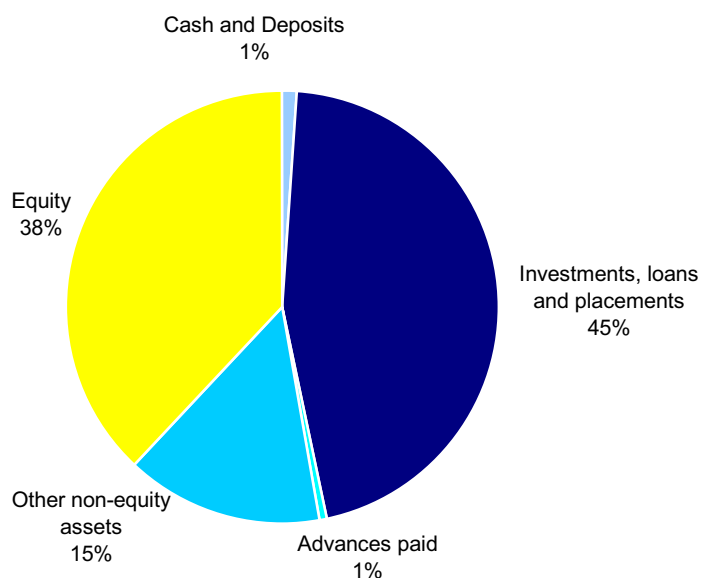
The General Government sector holds the full equity in the State's public enterprises, principally its shareholding in Government Owned Corporations, in much the same manner as the parent or holding company in a group of companies. The estimated net investment in Public Enterprises (\$12.579 billion at 30 June 2003) is included in the General Government sector's financial assets¹.

In the year to 30 June 2003, financial assets are projected to increase by \$1.582 billion, attributable principally to increased investment in superannuation assets. The modest growth in financial assets in 2002-03 as compared to the outyears is a flow-on effect of the lower interest return in 2001-02.

Chart 5.3 shows projected General Government sector financial assets by category at 30 June 2003. Investments held to meet future liabilities for superannuation and long service leave comprise the major part of the State's financial assets.

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.

Chart 5.3
General Government Financial Assets by Category as at 30 June 2003



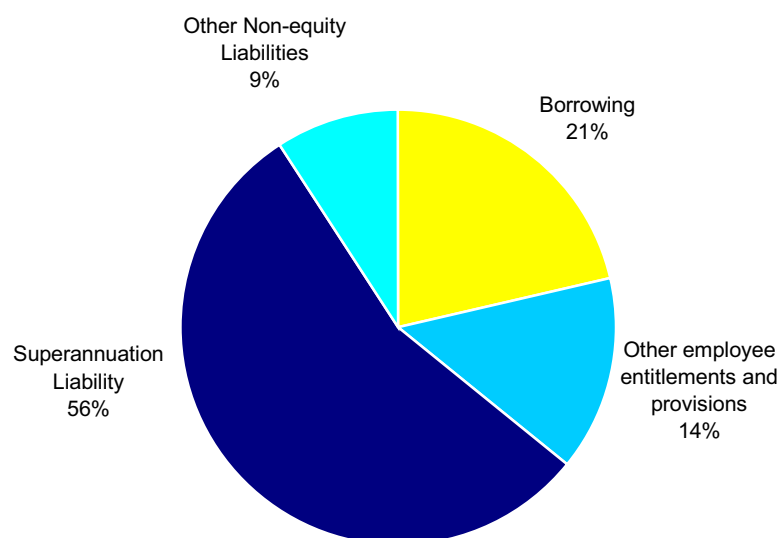
Liabilities

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 2003, is projected to total \$13.242 billion. Other liabilities include borrowings and advances received.

Liabilities are budgeted to increase by \$1.802 billion in 2002-03, largely on account of increased superannuation liability and borrowings.

The composition of the General Government sector's liabilities is illustrated in Chart 5.4. The major components of these liabilities are the State's provisions for future employee entitlements, particularly superannuation, long service and recreation leave.

Chart 5.4
General Government Liabilities by Category as at 30 June 2003



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 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 means the State is fully capable of meeting all its current and recognised future obligations, without recourse to material adjustments in fiscal policy settings.

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

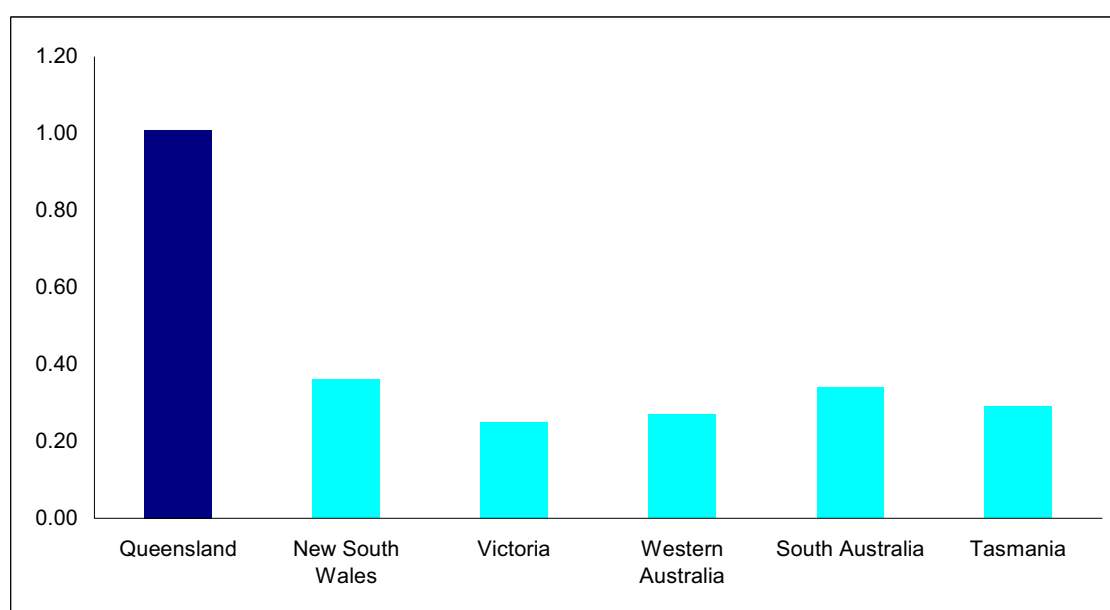
The Government will ensure that the State's financial assets cover all accruing and expected future liabilities of the General Government sector.

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 2006.

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's financial assets equates to its financial liabilities.

Queensland's level of liquidity is also well in excess of that of other States as illustrated in Chart 5.5.

Chart 5.5
Ratio of Financial Assets to Liabilities Excluding Investments
in Public Enterprises as at 30 June 2003
General Government Sector



Source: State budget papers for QLD, NSW, VIC, WA and TAS. SA Mid-Year Review.

6. STATEMENT OF CASH FLOWS

KEY POINTS

- The General Government sector is estimated to record a cash surplus of \$354 million in 2002-03, following an estimated cash surplus of \$382 million in 2001-02.
- The General Government sector is estimated to record a surplus of \$2.066 billion from operating activities, more than sufficient to fund an estimated \$1.712 billion investment in non-financial assets.
- The General Government sector investment in financial assets of \$950 million in 2002-03 reflects the investment of employee entitlement contributions and earnings, and net injections of equity into the Public Trading Enterprise sector.
- The General Government sector is budgeted to achieve strong 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 Government Finance Statistics (GFS) basis are included in Appendix C.

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.

Despite the move to accrual accounting, the cash surplus (deficit) measure is still used by a number of financial and economic commentators and analysts. The measure is also used to derive the Loan Council Allocation nomination, provided in Appendix C.

In 2002-03, the General Government sector is estimated to record a cash surplus of \$354 million, following an estimated actual cash surplus of \$382 million in 2001-02. Growing cash surpluses are forecast for the outyears.

BUDGETED STATEMENT OF CASH FLOW SUMMARY

Table 6.1 provides summary cash flow information for the General Government sector for 2001-02, 2002-03 and the outyears.

Table 6.1
General Government Sector: Summary of Budgeted Cash Flows

	2001-02 Est. Act. \$ million	2002-03 Budget \$ million	2003-04 Projected \$ million	2004-05 Projected \$ million	2005-06 Projected \$ million
Cash receipts from operating activities	19,808	19,565	20,561	21,284	22,000
Cash payments for operating activities	(17,331)	(17,499)	(17,923)	(18,845)	(19,544)
Net cash flow from operating activities	2,477	2,066	2,638	2,439	2,456
Net cash flows from investing activities	(2,404)	(2,662)	(3,391)	(2,978)	(2,903)
Net cash flows from financing activities	227	631	722	558	464
Net increase/(decrease) in cash held	301	36	(31)	19	17
Derivation of GFS cash surplus (deficit)					
Net cash flow from operating activities	2,477	2,066	2,638	2,439	2,456
Less net cash flow from investments in non-financial assets	2,092	1,712	1,966	1,720	1,566
Less Finance leases and similar arrangements	3	..	..	..	..
Equals GFS cash surplus (deficit)	382	354	672	719	890
Note: 1. Numbers may not add due to rounding.					

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 at \$4.909 billion in 2002-03, down marginally on the 2001-02 estimated actual of \$4.910 billion. In 2002-03, taxation revenue is expected to moderate as a result of a projected fall in stamp duty on property conveyancing transactions of some \$100 million relative to 2001-02 levels, in line with expectations of the property market slow down.

Grants and subsidies receipts are expected to increase modestly in 2002-03 to \$9.939 billion, of which Commonwealth grants are expected to account for \$9.813 billion.

Other receipts include investment earnings, dividends and tax equivalents received from Government Owned Corporations (GOCs) and royalties. Other receipts are expected to decrease in 2002-03 by 11% to \$2.876 billion. This primarily reflects forecast poor returns on investments relating to 2001-02, which has an impact on cash flows in 2002-03.

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. In 2002-03 the largest cash disbursement is employee expenses, at \$8.522 billion or 48.7% of total cash payments from operating activities.

The 2002-03 estimate for payments for goods and services, which includes wages and salaries, is expected to increase 3.8% to \$11.987 billion. This reflects the estimated payments on Compulsory Third Party (CTP) insurance claims to be borne by the State as a result of assuming HIH Insurance CTP liabilities, payments pertaining to employer superannuation (accumulation scheme) contributions, increased employee entitlements in line with enterprise bargaining agreements and growth related to new and enhanced services.

Cash payments for grants and subsidies are expected to decrease to \$4.727 billion in 2002-03. This item includes recurrent grants paid by the Commonwealth through the State to non-State 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.

Other payments mainly comprise personal benefit payments and other transfer payments. This item is estimated to decline 31.3% in 2002-03 to \$532 million. This is primarily attributable to the lower expected FHOG scheme expenditure.

Cash Flows from Investments

Cash flows from investments include both financial and non-financial assets. Table 6.2 provides a disaggregation of investment cash flows into the different types.

Table 6.2
General Government Sector: Cash Flows from Investing Activities
(GFS Basis)

	2001-02 Est. Act. \$ million	2002-03 Budget \$ million
Net cash flows from investing activities in non-financial assets	(2,092)	(1,712)
Net cash flows from investing activities in financial assets for policy purposes	505	(199)
Net cash flows from investing activities in financial assets for liquidity purposes	(817)	(751)
Net increase/(decrease) in cash held from investing activities	(2,404)	(2,662)

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 (for example 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 represents net investment in financial assets such as to cover superannuation and other employee entitlements, as well as other relatively liquid assets.

Cash outflows from investing in non-financial assets are expected to decline to \$1.712 billion in 2002-03 from \$2.092 billion in 2001-02 reflecting movements in the capital 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 outflows from investments for policy purposes for 2002-03 of \$199 million reflects equity transactions with Government Owned Corporations, such as an equity injection to the Public Trading Enterprise entity, Enertrade.

Cash outflows from investments in financial assets for liquidity purposes is estimated to be \$751 million in 2002-03, a net purchase of investments. This primarily reflects the re-investment of interest earnings and investment of contributions set aside for the Government's superannuation scheme. The reduction in 2002-03 reflects the impact of poor investment returns in 2001-02, partially offset by changed timing of distributions.

Cash Flows from Financing Activities

Cash flows generated from financing activities are outlined in Table 6.3 below.

Table 6.3 General Government Sector: Cash Flows from Financing Activities (GFS Basis)		
	2001-02 Est. Act. \$ million	2002-03 Budget \$ million
Net cash flows from advances received (net)	(10)	(4)
Net cash flows from borrowing (net)	237	635
Net cash flows from other financing	..	..
Net increase/(decrease) in cash held from financing activities	227	631

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 in 2002-03 to \$635 million, reflecting borrowings to fund capital projects, the recapitalisation of Enertrade, payment of HIH CTP liability claims, and working capital requirements in the General Government sector.

OUTLOOK BEYOND 2002-03

Table 6.1 summarises the projected GFS cash flows for 2001-02, 2002-03 and 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;
- there is a progressive movement over the forward estimates period towards a long-term sustainable capital works program following the completion of major capital projects; and
- the return to long term average return rates for investments set aside for the Government's accruing employee entitlements.

RECONCILIATION OF OPERATING CASH FLOWS TO THE OPERATING STATEMENT

Table 6.4 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 6.4 General Government Sector: Reconciliation of Cash Flows from Operating Activities to Accrual Operating Activities (GFS Basis)		
	2001-02 Est. Act. \$ million	2002-03 Budget \$ million
GFS accrual revenue	19,342	20,181
Add/(Less) movement in dividend and taxation receivable	(232)	(103)
Add/(Less) movement in interest receivable	667	(497)
Add/(Less) movement in other receivables	31	(16)
Equals GFS cash receipts	19,808	19,565
 GFS accrual expense	 19,828	 20,157
<i>Less Non-cash items</i>		
- depreciation and amortisation expense	1,504	1,544
- accrued superannuation expense	1,211	1,261
- accrued employee entitlements	435	459
- other accrued costs	75	115
Add/(Less) movement in employee entitlement provisions	430	453
Add/(Less) movement in provision for claims	142	144
Add/(Less) movement in other payables	156	124
Equals GFS cash expenditure	17,331	17,499

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.

7. CAPITAL PROGRAM

KEY POINTS

- **\$4.837 billion is budgeted for capital works in 2002-03 and includes the first year of a \$400 million four year Priority Infrastructure Package.**
- **The 2002-03 capital program will have a significant effect on employment, supporting some 45,100 full time jobs.**
- **Spending on capital reflects the Government's commitment to building Queensland's regions, with 55.8% of capital expenditure allocated outside the Brisbane Statistical Division.**
- **\$1.566 billion is provided for capital funding of transport and main roads, \$273.9 million for education, \$254.1 million for health and \$226.6 million for law, order and public safety.**
- **In addition to direct provision of public infrastructure, the Government will continue to foster an increasing involvement of the private sector in the provision of public infrastructure.**

INTRODUCTION

This chapter provides an overview of the 2002-03 Capital Expenditure program. Detailed agency and regional information is provided in Budget Paper No. 4.

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

In 2002-03, Queensland's capital outlays are estimated to be \$4.837 billion, after allowing for anticipated capital contingencies of \$140 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. The 2002-03 capital outlays budget represents an increase of \$68 million compared to the 2001-02 estimated actual expenditure of \$4.769 billion.

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 for reasons 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 five key policy priorities.

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

The Government's strategy is for capital investment to be driven by the service delivery requirements of the community. The ability of Government to continue to deliver services is critically linked to its asset base. As such, capital expenditure will vary with the State's service delivery requirements. For example, the Government has recently completed a number of major capital works projects such as the State-wide Health Building program, the Pacific Motorway upgrade and a number of new correctional centres. These large projects have a significant impact on the overall size of the capital program, but are driven by demand, service delivery issues and the life cycle of various assets. For this reason, it is unlikely the capital works program will exhibit a smooth pattern over time.

Prudent management of the State's finances requires capital expenditure to vary along with the availability of funding. Many recent capital works projects were funded from non-recurring funding sources such as the sale of the State's interest in Suncorp-Metway. While these non-recurring funding sources allow the Government to increase expenditure on priority infrastructure for a period, their temporary nature means the continuation of spending at very high or record levels is not possible over the long run.

The Government's policy of improving service delivery and the State's infrastructure is reflected in its commitment to the State's capital program over the last decade. This commitment has resulted in extensive capital programs, both in historical terms and in comparison to other States. However, the capital program will return to a more long-term trend level as major projects are completed. Nevertheless, significant expenditure on capital works will still occur in 2002-03.

The Government's recently released Public Private Partnerships initiative will provide flexibility to respond to changing needs in our community by increasing private sector involvement in public sector infrastructure delivery. This will occur either through joint ventures or as stand-alone projects. Private sector involvement in the provision of a public infrastructure will be encouraged where it can be clearly demonstrated that the State will achieve a better value for money outcome for taxpayers, without compromising quality or the greater public interest.

CAPITAL OUTLAYS

Chart 7.1 and Table 7.1 summarise capital outlays by type. The majority of expenditure is recorded in the Property, Plant and Equipment category, which accounts for an estimated 74% of total capital outlays.

Chart 7.1
Capital Outlays by Type 2002-03

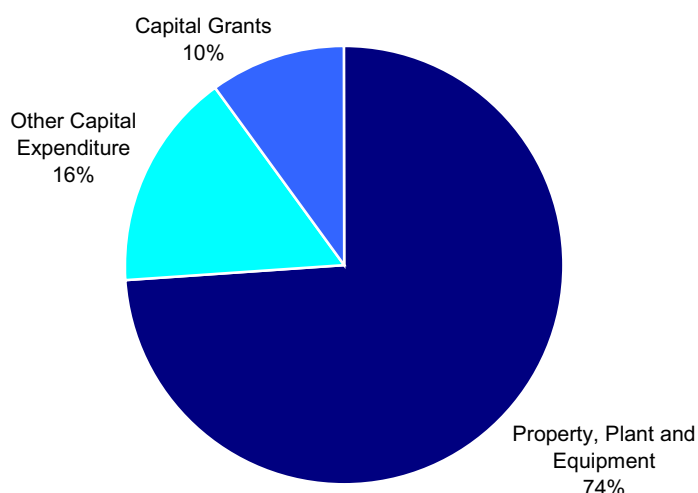


Table 7.1
Capital Outlays by Type 2002-03¹

	2001-02 Est. Act. \$ million	2002-03 Budget \$ million	Change %
Property, Plant and Equipment	3,666	3,675	0.2
Other Capital Expenditure	582	804	38.1
Capital Grants	521	497	(4.6)
Capital Contingency Reserve ²		(140)	na
Total Capital Outlays³	4,769	4,837	1.4

Notes:

- Numbers may not add due to rounding.
- 2002-03 reflects end-of-year deferrals not able to be included in individual agency data for documentation purposes.
- The total State capital works program differs from Gross Fixed Capital Formation (refer table 1.2) due to asset sales, movements in inventories and capital grants being included in the capital works program.

Capital outlays by purpose in 2002-03 are detailed in Table 7.2 below.

Table 7.2 Capital Outlays by Purpose for 2002-03	
Purpose	Outlays \$ million
Education	274
Health	254
Law, order and public safety	227
Electricity infrastructure	1,261
Transport infrastructure	1,566
Other economic infrastructure	1,396
Capital contingency reserve	(140)
Total	4,837
Note: 1. Numbers may not add due to rounding.	

Capital outlays by region are estimated in Table 7.3 below and are illustrated in greater detail in Budget Paper No. 4. Around 55.8% of capital expenditure will occur outside the Brisbane Statistical Division.

Table 7.3 Capital Outlays by Statistical Division for 2002-03	
Purpose	Outlays \$ millions
Brisbane	2,201
Moreton	551
Wide Bay-Burnett	410
Darling Downs and South West	242
Fitzroy and Central West	550
Mackay and Northern	484
Far North and North West	538
Capital Contingency Reserve	(140)
Total	4,837
Note: 1. Numbers may not add due to rounding.	

Funding

Under Queensland's accrual output budget model, there is no specific appropriation for capital. Instead, the responsibility for capital management is devolved to agencies. To assist with this, agencies develop Capital Investment Plans on an annual basis. These plans are approved by Government and outline major projects to be undertaken in future years. The plans also detail sources of funding for capital projects and other asset purchases. 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 source revenue.

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 the asset's value. Therefore, depreciation can be used as a source of capital funding to acquire or replace assets in accordance with an agency's approved Capital Investment Plan.

Table 7.4 details the composition of capital outlays for Property, Plant and Equipment and Other Capital Expenditure by source of funding.

Table 7.4 Sources of Funding for Property, Plant and Equipment and Other Capital¹			
Funding Source	2001-02 Est. Act. \$ million	2002-03 Budget \$ million	% Change
Depreciation and Amortisation	2,570	2,684	4.5
Equity Injections, Borrowings and Other Sources ²	2,200	2,293	4.2
Capital Contingency Reserve	...	(140)	n.a.
Total Property, Plant and Equipment and Other Capital Expenditure	4,769	4,837	1.4
Notes: 1. Numbers may not add due to rounding. 2. Other funding sources include Public Trading Enterprise own sources, asset sales, operating surpluses etc.			

EMPLOYMENT GENERATION

The 2002-03 capital program will have a significant effect on employment, supporting some 45,100 full-time jobs, directly and indirectly. Estimated employment generation from budgeted capital expenditure in 2002-03 is less than that forecast in the 2001-02 Capital Statement. This decrease is due to reduced expenditure on employment generating capital. 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.

SERVICE PRIORITIES

The 2002-03 Budget provides for a \$400 million four year Priority Infrastructure Package which will be funded from higher stamp duty cash inflows achieved in 2001-02. The following priority capital initiatives will be funded through this package.

Health Technology Priorities

Funding of \$12.5 million per annum for four years is provided for:

- the replacement or enhancement of current information and communications technology;
- the replacement of medical equipment that has reached the end of its life cycle; and
- major engineering service replacements.

Police Capital Works and Information Management

Funding of \$12 million in 2002-03 and \$13 million in 2003-04 is provided for new and replacement buildings. In addition, \$15 million is provided in 2002-03 to progress a number of information management projects including an Incident Recording, Management and Investigation System for recording incidents, a forensic support system to assist in processing DNA evidence, and a State-wide computer-aided dispatch system.

Education Capital Works

\$50 million in 2002-03 (\$150 million over four years) in additional capital works funding is provided to Education Queensland, bringing the total capital works program to \$240 million in 2002-03. Major initiatives of the 2002-03 capital works program include:

- \$116.5 million to fund the construction of two new schools, further staged works at 13 schools, additional toilets and land acquisitions, and more than 105 additional classrooms at existing schools in growth areas throughout the State.
- \$60.5 million to replace and enhance learning facilities at existing schools and continue the Secondary Schools Renewal program.
- \$24.3 million for the Cooler Schools initiative to air-condition more State schools in Central and Northern Queensland.
- \$7 million to extend employee accommodation through the acquisition of new houses and the refurbishment of existing houses.

Burnett Water Infrastructure

Equity funding of \$30 million in each of 2002-03 and 2003-04 is provided for the development of Burnett Water infrastructure to bring total funding to \$35.3 million in 2002-03. Remaining funds for the project will be sourced from borrowings.

Tugun Bypass

Additional funding of \$65 million is provided in 2003-04 as part of the State Government's current contribution to complete planning and enable a construction start on the Tugun Bypass, bringing the total State contribution to \$120 million.

Mackay Multipurpose Centre

\$10 million is provided in 2002-03 as part of a funding allocation of up to \$38 million over three years for the development of a multipurpose centre in Mackay.

In addition to the Priority Infrastructure Package a range of new and ongoing capital projects is being undertaken in 2002-03 for each of the Government's five key policy priorities as outlined below.

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

More Jobs for Queensland – Skills and Innovation – the Smart State

Breaking the Unemployment Cycle remains one of the Government's key initiatives. The Government will continue to provide 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.

The Government will continue 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:

- \$26 million for Technical and Further Education (TAFE) institutes, to enhance the delivery of vocational training, across Queensland. Additional support of \$10.6 million is provided for information technology infrastructure.
- \$13.7 million for technology and research, including \$3.9 million for the Institute of Molecular Bio-Science and \$2 million for the Queensland Parallel Supercomputing Foundation at the University of Queensland, and \$6.8 million investment in CITEC's computer technology and infrastructure, providing jobs for the Queensland information technology industry. (CITEC is a fully commercialised business unit of the Queensland Government that delivers information and communication infrastructure and information management services to its clients).
- \$ 84.1 million will be spent in 2002-03 on integrated transport, including \$52 million on the Inner Northern Busway (total project value \$135 million), \$17 million on the Springwood Interchange and Busway Connection and \$15 million for the Cultural Centre Busway Station.
- \$15.7 million for the Synergy Industrial Park (SIP) at Carole Park. SIP is a centralised site for the manufacture, processing and packaging of food products. \$13.9 million is provided for a Creative Industries Precinct at Kelvin Grove, which will provide state-of-the-art facilities for teaching and development of technology programs, and a dedicated business enterprise centre.

Safer and More Supportive Communities

In 2002-03, 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 in 2002-03 include:

- Major projects to be completed in 2002-03 for the Queensland Police Service include \$4.6 million for a new watchhouse and district headquarters at Mt Isa, \$1.5 million for a new police station at Calamvale, \$1.1 million for a new police station and residence on Fraser Island, and \$5.9 million to finalise Stage 1 replacement police station, district headquarters and watchhouse at Toowoomba.
- \$50.9 million will be invested in the Department of Emergency Services, with work on 18 new ambulance stations and seven fire stations across the State to be commenced or completed in 2002-03. This allocation includes \$23.6 million for new and replacement vehicles for the Queensland Ambulance Service and the Queensland Fire and Rescue Service.
- \$31.7 million in 2002-03 for work on courthouses, including \$3.9 million to complete a new courthouse at Richlands, \$4.1 million to continue extensions at Mackay Courthouse and \$16.1 million to continue work on the new Magistrates Courthouse in Brisbane.
- \$16.1 million for the completion of the \$97 million Maryborough Correctional Centre, and \$9.4 million to complete the \$89.5 million Capricornia Correctional Centre.

Community Engagement and a 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 2002-03, 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.

- \$62.4 million to build 300 new dwellings and complete projects currently under construction. \$90.3 million will also be invested in the upgrade of existing housing under the Department of Housing's Urban Renewal and Portfolio Renewal projects.
- \$21.3 million for Aboriginal and Torres Strait Islander Housing. Projects include the commencement of 71 dwellings, upgrading of 150 homes and estate redevelopment and improvements on Thursday Island.
- \$248 million is provided for a number of community health, primary health, multipurpose health, hospitals, mental health and residential care projects, and state-of-the-art information and health technology.

- Ongoing implementation of the \$120 million initiative to rebuild State Government nursing homes over five years to meet Commonwealth accreditation standards for the aged care sector. \$2.5 million is provided in 2002-03 to commence design and construction at Maryborough, Redcliffe, Townsville and minor works at other centres at Hervey Bay and Zillmere.
- \$38.8 million to redevelop the Queensland Cultural Centre site, along with 16 regional projects to enhance the local cultural infrastructure, as part of the \$260 million Millennium Arts program. An additional \$21.2 million is provided for the Queensland Heritage Trails Network to establish cultural tourism infrastructure and develop a network of facilities and attractions.
- \$33.9 million is provided as capital grants to sport and recreation organisations and local governments to assist them to build and improve sport and recreation infrastructure to promote equitable access and participation in physical activity by Queenslanders.

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 2002-03 capital program. Its focus is on gradually increasing the National Park estate, conserving, rehabilitating and managing ecologically sensitive regions, efficient energy sources and managing Queensland's water resources.

Capital investment highlights that contribute to this priority include.

- \$2 million to continue the five year, \$10 million, Great Walks of Queensland initiative. This project is enabling 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.
- \$3 million to acquire areas of high conservation value, such as key resources along the extensive Queensland coastline and properties in Cape York with high biodiversity value.
- \$2.8 million to complete the Turtle Interpretive Centre in Bundaberg. The Centre will build on the potential of the Mon Repos Conservation Park and extend turtle linked ecotourism to an all year activity.

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 2002-03, the Government will maintain its commitment to providing Queensland's regions with quality infrastructure.

Capital investments that contribute to this priority include:

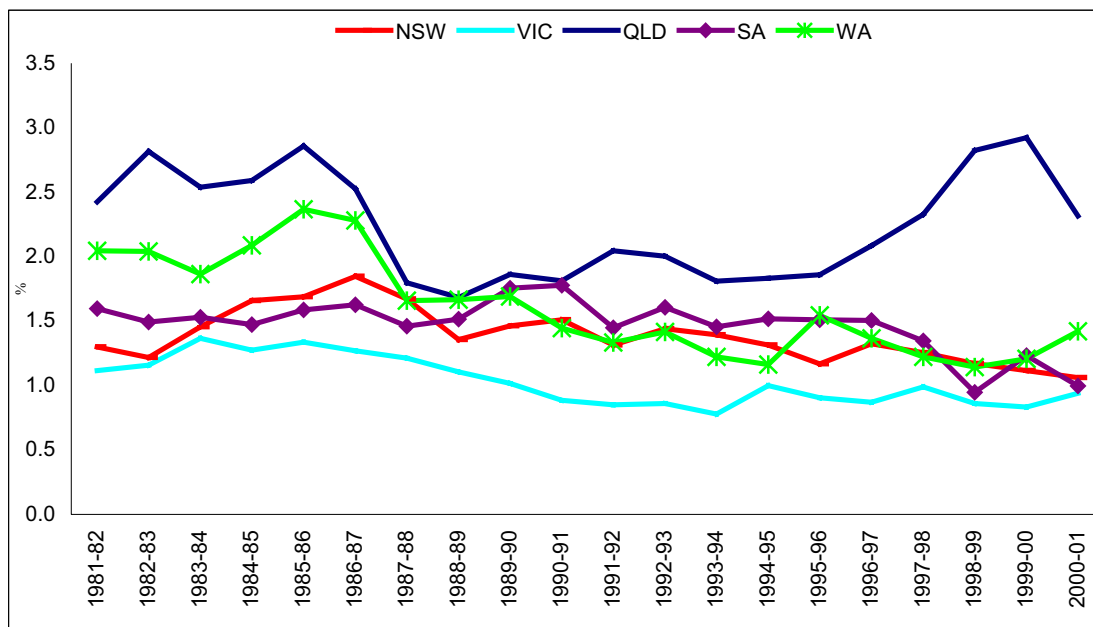
- \$617 million in 2002-03 in roads capital funding, including \$32.5 million for the duplication of the Bruce Highway between Yandina and Cooroy, \$18.4 million for bridge upgrades and widening works on the Barkly Highway, and \$3.8 million for shoulder sealing and pavement widening on the Carnarvon Development Road between Roma and Injune.

- \$170.8 million for regional port facilities, including \$42 million for continuation of the \$55 million Cityport project in Cairns and \$44.1 million to complete the \$80 million Gladstone Berth 3 Development.
- \$100.2 million in 2002-03 to upgrade rail track between Rockhampton and Cairns. Total project cost is \$369.2 million. \$12.7 million is also provided for the new Townsville Station.
- \$54.9 million for common-user infrastructure associated with the Comalco Alumina Refinery project and \$38.7 million to continue work on the Gold Coast Convention and Exhibition Centre.

TRENDS IN CAPITAL EXPENDITURE

The Queensland Government has traditionally funded new infrastructure at levels well beyond that of the other States. From as far back as the early 1980s, Queensland purchases of new non-financial assets as a percentage of Gross State Product have exceeded that of all other major States (see Chart 7.2). The General Government capital program will return to a more long term trend level in 2002-03 and the outyears, as major projects are completed. Nevertheless, significant spending on capital works will still occur during this period.

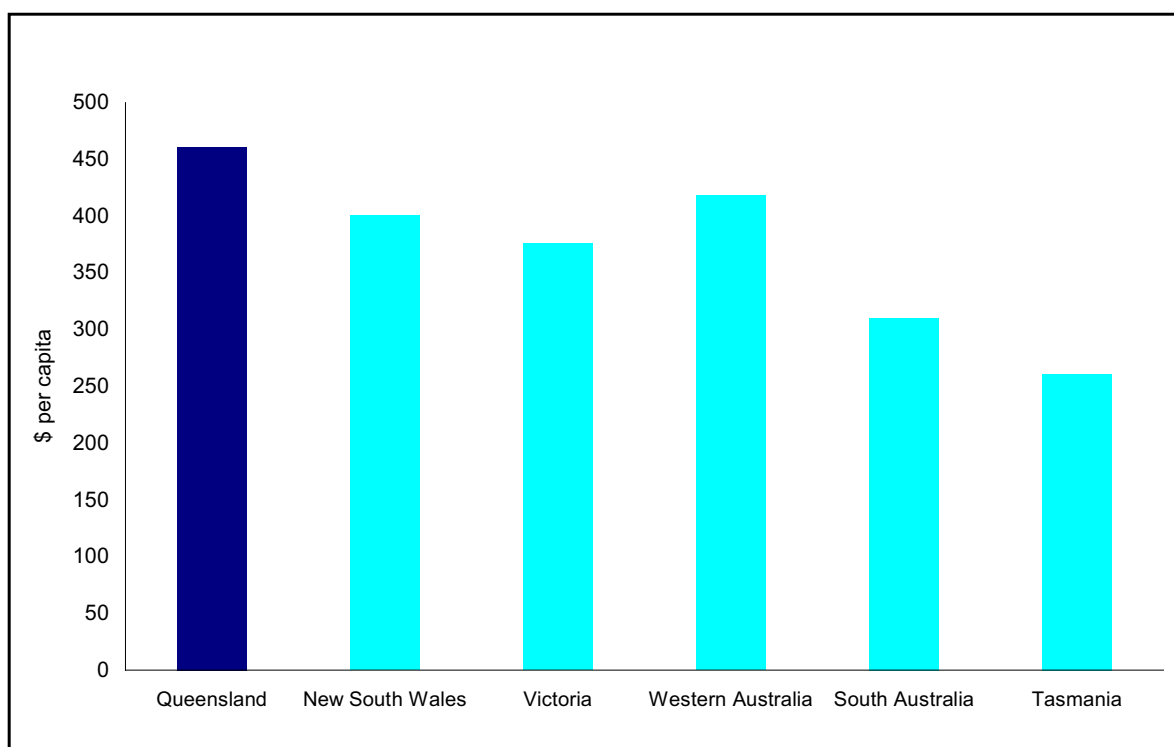
Chart 7.2
General Government Purchases of New Non-Financial Assets
as a Percentage of Gross State Product



Source: Office of Economic and Statistical Research

General Government capital expenditure in Queensland in 2002-03 is expected to account for more than 22% of all capital expenditure by Australian State Governments¹. On a per capita basis, Queensland has the largest capital program of any State (see Chart 7.3).

Chart 7.3
General Government Capital Expenditure Per Capita 2002-03



Source: Estimated actual Gross Fixed Capital Formation from State budget papers for NSW, VIC, WA and TAS. SA Mid Year Budget Review. Population data from Commonwealth Budget Paper 3.

Total State Gross Fixed Capital Formation on a Government Financial Statistics basis is budgeted to be \$461 per capita in 2002-03. This is high relative to an average of \$353 per capita for the other States.

¹ Source: Estimated actuals from state budget papers for NSW, VIC, WA and TAS. SA Mid Year Budget Review.

APPENDIX A – DEMOGRAPHIC TRENDS

DEMOGRAPHIC TRENDS

Trends in Government service delivery reflect the general social and economic trends affecting the State and the fiscal strategies adopted by the Government. One of the main factors that affects the delivery of services in the State, and hence has a substantial impact on the State Budget, is changes in the size and nature of our population.

Since the early 1970s, Queensland has consistently grown at a faster rate than either New South Wales or Victoria. Over the past five years, Queensland has recorded the fastest growth rate of any State. At 30 June 2001, Queensland's share of the national population reached 18.7%, but the State's share of the nation's growth for the same 12 months was 26.9% (Table A.1).

Table A.1 Proportion of National Population and Share of Growth 5 Years Ending 30 June 2001			
State	Share of Population (%)	Share of Growth (%)	Growth Rates 5 years (%)
NSW	33.70	30.46	1.03
VIC	24.91	24.98	1.15
QLD	18.71	26.87	1.67
WA	9.85	13.43	1.59
SA	7.75	2.62	0.38
TAS	2.43	(0.39)	(0.18)
ACT	1.62	0.55	0.38
NT	1.02	1.46	1.67

Source: ABS, Australian Demographic Statistics, Cat No 3101.0

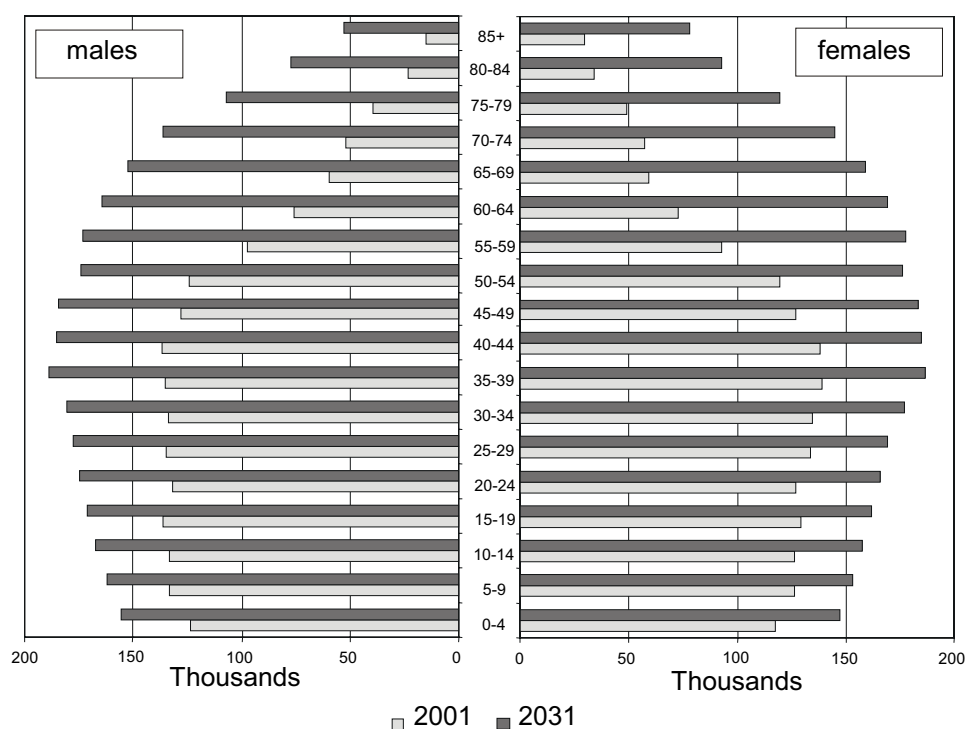
Much of Queensland's relatively rapid population growth has been the result of robust interstate and overseas migration. In Queensland, net migration has accounted for 57% of the State's population growth over the past five years, with the remaining 43% accounted for by natural increase (births over deaths)¹.

Ageing Population

The main demographic change affecting all Australian States is the ageing of the population. The following diagram, Chart A.1, indicates that the traditional age pattern will change substantially in coming decades as a large part of the population ages and the proportion of young people declines.

¹ Ward, G (2002) *Queensland Population Trends and Prospects*, Office of Economic and Statistical Research, Queensland Treasury, Brisbane

Chart A.1
Queensland's Projected Age and Sex
Distribution, 2001 and 2031



In 25 years there will be as many Queenslanders aged over 65 as under 15 years of age, about 17.5% and 16.8% respectively. Over the next 50 years, older people living in Queensland are projected to more than double in number and share of population (from 11.5% in 2001 to 23.1% in 2051).² Despite this, Queensland's future age profile overall is slightly more youthful than that of Australia as a whole due mainly to migration, both interstate and overseas.

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 current and past service levels. By 2031, the ratio of the dependent population 0-14 years and 65 years and over per person of the working age (dependency ratio) will be very similar to that of the early 1970s, with the majority dependent group being aged people rather than younger people (Table A.2).

² *Premier's policyscan – Issue 1, November 2001*, Department of the Premier and Cabinet, Brisbane.

Table A.2
Queensland's population: Past (1971), Present (2001) and Future (2031)
Proportion by Age Group and Dependency Ratios

Age	1971	2001	2031
0-14	29.8	20.9	16.0
15 to 65	61.5	67.7	63.1
65 plus	8.8	11.4	20.8
Dependency Ratio	62.7	47.7	58.5

Source: Ward, G (2002) Queensland Population Trends and Prospects, Office of Economic and Statistical Research, Queensland Treasury, Brisbane.

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.

Indigenous Demographics

Indigenous Australians comprise 3% of the Queensland population (Queensland's Indigenous population comprises 27% of the national total)³. 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 old⁴ and have a life expectancy some 15-20 years less than that for non-Indigenous peoples. The proportion older than working age (65 and over) is 3% for Indigenous people and 12% for the entire population.⁵

Queensland Indigenous women have higher rates of fertility than all Queensland women (2.2 and 1.8 babies per woman respectively) with fertility rates of young Indigenous women (aged 20-24 years) more than twice that of all women in the same age group.⁶ The health status of Indigenous babies tend to be poorer as indicated by low birth weight.

³ ABS Cat. No. 4704.0 2001.

⁴ ABS, *1996 Census of Population and Housing* (unpublished data).

⁵ ABS, *1996 Census of Population and Housing* (unpublished data).

⁶ *Premier's policyscan – Issue 1, November 2001*, Department of the Premier and Cabinet, Brisbane.

REGIONAL DIFFERENTIATION

Queensland is the least centralised of the Australian mainland States. At June 2001, 54% of the State's population lived outside the Brisbane metropolitan area whereas in the other States combined, only 32% of the population live outside the capital.⁷ Between 1996 and 2001, Queensland was the only State where population growth outside the capital exceeded growth in the capital city.⁸

For many decades Queensland's rural, western areas have recorded population declines, with many people moving interstate, to the south-east corner of the State or to one of the many regional, coastal centres. Declining populations across many rural and remote regions of Queensland have resulted in waning private sector provision of many services. The result is a greater demand for Government-provided services and increasing demand for Government financial support (through Community Service Obligations) to retain private sector provision. This growing demand for Government services and Government financial support further compounds the higher than average cost of providing services to this State's rural and remote communities.

In addition, one of the effects of young people and persons of working age leaving rural parts of the State, is the change in the mix of age cohorts who choose to remain, one obvious effect being an increase in the proportion of older people in rural local government areas. Changes such as this have implications for a number of service providers, not the least of which are those associated with health care.

While population growth and associated urban development demand attention in terms of infrastructure and service provision, so does the spatial distribution of particular population characteristics, such as increasing proportions of aged, unemployed and low income people in many communities which are not experiencing rapid population growth. Certain areas of the State experience high proportions of low education status, which has implications for the economic development of these regions. This education status is then mirrored by the distribution of persons earning relatively low incomes. In turn, this has implications for a number of service providers but especially those associated with income support, community safety, training and health.

Temporary Populations

Available evidence suggests that temporary movements of population from the southern States generate a substantial redistribution of population in favour of Queensland. Temporary movers are people who are seasonal or fly-in/fly-out workers, those on extended holidays or students.

These movements have significant implications for the cities and regions that attract temporary migrants. An influx of temporary migrants can radically alter the size and composition of the population and hence the demand for a whole range of services and facilities.

⁷ Ward, G (2002) *Queensland Population Trends and Prospects*, Office of Economic and Statistical Research, Queensland Treasury, Brisbane.

⁸ ABS Cat. No. 3218, 2000-01.

Temporary movers contribute to the economies of their destinations through their demand for goods and services and, in the case of production-related moves, through provision of their labour. However, temporary movements also have other implications. Visitors place pressure on the local environment and have social impacts on the communities with which they interact. Equally important is the demand exerted on local infrastructure, services and facilities.

COMPOSITION OF FAMILIES AND HOUSEHOLDS

Average family size is declining as a result of declining fertility rates, increasing divorce numbers and lone parent families and the general ageing of the population. The Australian Bureau of Statistics household projections indicate that couple-only families will become the dominant family type in Queensland in the next five years. These factors will contribute to the growth in the number of households significantly exceeding forecast population growth.

IMPLICATIONS OF DEMOGRAPHIC TRENDS

Demographic changes will have a range of social, economic and environmental implications including:

- growing demand for services from all three tiers of government, particularly in areas such as health and aged care;
- additional demands for a range of infrastructure including transport, water, sewerage, energy, community centres and recreational facilities;
- changes in the mix of service demands including an increased demand for lifelong education and training;
- changing production and consumption patterns linked to an ageing population; and
- environmental impacts from increased resource use and urbanisation.

APPENDIX B – STATEMENT OF RISKS

INTRODUCTION

The Queensland State Budget, like those of other States is based in part on assumptions made about future elements of uncertainty which are both internal and external to the State, but which can impact directly, 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 outlook for the Queensland economy in 2002-03 and beyond is largely tied to national economic conditions and those of its major trading partners. The key risks to State economic growth in 2002-03 include the strength of trading partner growth, the extent of appreciation in the Australian dollar, the timing of major investment projects, inflation expectations and the outlook for agricultural production in light of recent weather patterns.

- Export growth may be below that forecast for 2002-03, if the exchange rate appreciates to levels above those assumed over the forecasting horizon, or trading partner growth is less than expected. The Australian dollar has rapidly appreciated against several currencies in recent months, while the Federal Reserve's "wait and see" approach to monetary policy indicates that there remains some uncertainty over the pace of the US recovery. Economic growth in the State's Asian trading partners is also reliant on a sustained US recovery.
- Several downside risks to private investment exist. Despite the current strength of building approvals, there is some risk of a greater than forecast easing in dwelling investment, as interest rate rises coincide with the reduction in the First Home Owner Grant. Similarly, forecast growth in business investment is based on current capital expenditure expectations. Any delay in the commencement of a number of major projects will cause business investment to grow below the rate presented in the economic forecasts.

- Many one-off or seasonal effects have driven inflation to the top end of the Reserve Bank of Australia's (RBA) target range, both nationally and in Queensland. However, a strengthening in both domestic and economic activity and the labour market may cause inflationary pressures to become more entrenched. This may result in higher than forecast inflation outcome for 2002-03 and a greater than expected tightening of interest rates by the RBA.
- The potential for widespread drought in Queensland represents another negative risk to the 2002-03 economic forecasts. Recently, weather analysts have suggested that dry conditions throughout the State are likely to continue, coinciding with the winter crop sowing season. Production levels in Queensland's agricultural industry, including wheat, sugar and barley, largely depend on the extent and timing of required rainfall, suggesting that in the absence of sufficient rainfall, production levels are likely to be significantly lower. Queensland's beef industry also typically suffers during times of drought. Should dry conditions persist, the value of agricultural production, and consequently exports, would be lower than currently expected resulting in a significant impact on the forecast rate of economic growth.

The international and domestic outlook may also contain some opportunities for greater than forecast State economic growth in 2002-03. The current expansionary interest rate settings in the US may lead to a swift economic recovery, stimulating similar growth among our Asian trading partners and stronger Queensland exports. Consumption may also grow above that forecast, if households realise the increase in wealth associated with rapidly increasing house prices. The rise in house prices may in turn fuel a housing boom, which could encourage speculative building activity and result in stronger than forecast dwelling investment.

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

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

State Government expenditure is often more closely associated with socio-demographic factors, such as the number of school age children or the number of elderly residents, than with economic activity. For this reason, the composition, size and location of the State's population is critical in projecting the State's operating position across the forward estimate period.

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 duties.

Key economic variables in the context of the Budget position are the rate of inflation, the rate of growth in Gross State Product (GSP), and the rate of growth in Gross State Expenditure (which abstracts external trade flows from Gross State Product).

Public Sector Wage Costs

The 2002-03 Budget and forward estimates include a contingency provision to allow for the likelihood of further wage increases, consistent with recent general wage movements. The inclusion of a contingency provision in the Budget estimates serves to mitigate the potential impact of expenditure risks on the overall Budget position.

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.

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 GSP 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. Lower than expected economic growth would also negatively impact upon stamp duty receipts through reduced levels of business transactions and lower activity levels in the housing market.

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 portfolio comprising property, domestic and offshore equities and fixed interest.

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 which is likely to be closely correlated with the general level of economic activity. The Commonwealth Government has provided estimates of GST collections in its Budget Papers. From 2003-04, 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).

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 it has guaranteed it will not reduce SPPs as a result of national tax reform. However, 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 a material 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.

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 C – 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.

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

General Government Sector

For detailed analysis of the General Government sector readers should refer to Chapter 3 – Expenses, Chapter 4 – Revenue, Chapter 5 – Statement of Financial Position and Chapter 6 – Statement of Cash Flows.

Public Trading Enterprise Sector

The PTE sector is projected to have a GFS net operating deficit in 2002-03 of \$307 million (\$397 million deficit in 2001-02).

This deficit partly reflects the inclusion in the sector of some entities which, in the course of their normal operations, do not operate in surplus.

Deficits also reflect special dividend payments resulting from prior year surpluses, capital restructuring and gains on the sale of assets. Under GFS conventions, proceeds from these sources are not included in revenues, hence dividend payments arising from these sources produce negative operating results.

The PTE sector net operating balance is expected to improve in 2003-04 with a return to surpluses in 2004-05 and 2005-06.

Gross fixed capital formation, which represents capital expenditure net of physical asset sales, is projected to increase by \$367 million over estimated actual to \$1.831 billion in 2002-03.

The PTE net worth was \$12.235 billion in 2000-01, and is expected to reduce to \$11.655 billion in 2001-02, mainly due to the transfer of the Home Purchase Assistance Account net assets to the General Government sector and the adoption of Australian Accounting Standard "AAS3 Income Taxes" which significantly increased income tax liabilities within the PTE sector. This increase is offset within the General Government sector by increased taxation assets, resulting in a neutral position for the State.

These downward revisions in 2001-02 are partially offset by upward revisions to asset valuations.

Net worth is projected to increase in 2002-03 and the outyears.

OPERATING POSITION

The following tables provide operating statement data on an accrual GFS basis.

Table C.1 General Government GFS Net Operating Result						
	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million	Projection 2005-06 \$ million
OPERATING RESULT						
GFS Revenue						
Taxation revenue	4,255	4,800	4,909	5,141	5,403	5,510
Current grants and subsidies	8,539	9,313	9,477	9,930	10,302	10,760
Capital grants	483	618	462	400	389	307
Sales of goods and services	1,747	1,797	1,814	1,839	1,863	1,917
Interest income	852	167	1,116	1,228	1,327	1,429
Other	2,382	2,646	2,402	2,265	2,340	2,509
Total Revenue	18,258	19,342	20,181	20,803	21,624	22,432
<i>Less</i> GFS Expenses						
Gross operating expenses	12,844	13,633	14,051	14,633	15,148	15,600
Superannuation interest expense	467	625	715	802	884	960
Other interest expense	339	246	250	301	354	399
Current transfers	4,413	4,806	4,670	4,685	4,852	5,075
Capital transfers	1,052	519	471	334	303	301
Total Expenses	19,116	19,828	20,157	20,755	21,542	22,335
<i>Equals</i> GFS net operating balance	(858)	(486)	23	48	82	96
<i>Less</i> Net acquisition of non-financial assets						
Gross fixed capital formation	2,225	2,092	1,712	1,966	1,720	1,566
<i>Less</i> Depreciation	1,395	1,504	1,544	1,565	1,591	1,606
<i>Plus</i> Change in inventories	(17)	(2)	22	(13)	(2)	(7)
<i>Equals</i> Total net acquisition of non-financial assets	813	585	190	387	126	(46)
<i>Equals</i> GFS Net lending/borrowing (Fiscal Balance)	(1,671)	(1,071)	(167)	(340)	(44)	143
Note: 1. Numbers may not add due to rounding.						

Table C.2
Public Trading Enterprise GFS Net Operating Result

	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million	Projection 2005-06 \$ million
OPERATING RESULT						
GFS Revenue						
Current grants and subsidies	1,025	905	905	916	1,095	1,201
Capital grants	18	..	3	..	..	..
Sales of goods and services	5,953	5,555	5,414	5,719	6,018	6,329
Interest income	74	58	60	60	52	51
Other	303	218	208	216	318	357
Total Revenue	7,373	6,737	6,591	6,911	7,484	7,939
<i>Less</i> GFS Expenses						
Gross operating expenses	5,529	5,096	5,062	5,307	5,585	5,654
Other interest expense	742	699	774	855	855	847
Other property expenses	969	1,323	1,048	902	1,013	1,132
Current transfers	42	11	11	..	..	..
Capital transfers	9	5	3	3	3	3
Total Expenses	7,291	7,134	6,898	7,067	7,456	7,636
<i>Equals</i> GFS net operating balance	81	(397)	(307)	(155)	28	303
<i>Less</i> Net acquisition of non-financial assets						
Gross fixed capital formation	1,849	1,464	1,831	1,740	1,564	1,344
<i>Less</i> Depreciation	1,006	1,065	1,140	1,255	1,324	1,380
<i>Plus</i> Change in inventories	15	(11)	(12)	(8)	(4)	(8)
<i>Equals</i> Total net acquisition of non-financial assets	858	387	679	478	236	(44)
<i>Equals</i> GFS Net lending/borrowing (Fiscal Balance)	(777)	(784)	(986)	(633)	(209)	347
Note: 1. Numbers may not add due to rounding.						

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

	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million	Projection 2005-06 \$ million
OPERATING RESULT						
GFS Revenue						
Taxation revenue	3,979	4,511	4,613	4,841	5,099	5,203
Current grants and subsidies	8,508	9,313	9,477	9,930	10,302	10,760
Capital grants	484	619	462	400	389	307
Sales of goods and services	7,587	7,191	7,064	7,394	7,715	8,080
Interest income	918	212	1,163	1,275	1,366	1,467
Other	1,713	1,560	1,582	1,598	1,645	1,734
Total Revenue	23,188	23,406	24,362	25,438	26,516	27,551
<i>Less</i> GFS Expenses						
Gross operating expenses	18,258	18,294	18,665	19,485	20,253	20,772
Superannuation interest expense	467	625	715	802	884	960
Other interest expense	1,072	932	1,011	1,143	1,197	1,233
Current transfers	3,107	3,922	3,791	3,786	3,773	3,889
Capital transfers	1,061	516	465	331	300	298
Total Expenses	23,965	24,289	24,646	25,546	26,406	27,151
<i>Equals</i> GFS net operating balance	(777)	(883)	(284)	(108)	110	399
<i>Less</i> Net acquisition of non-financial assets						
Gross fixed capital formation	4,075	3,555	3,543	3,706	3,284	2,911
<i>Less</i> Depreciation	2,401	2,570	2,684	2,820	2,914	2,986
<i>Plus</i> Change in inventories	(2)	(13)	10	(21)	(7)	(14)
<i>Equals</i> Total net acquisition of non-financial assets	1,671	972	869	865	363	(90)
<i>Equals</i> GFS Net lending/borrowing (Fiscal Balance)	(2,448)	(1,855)	(1,153)	(973)	(253)	489
Note: 1. Numbers may not add due to rounding.						

BALANCE SHEET POSITION

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

Table C.4 General Government GFS Balance Sheet						
	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million	Projection 2005-06 \$ million
ASSETS						
Financial Assets						
Cash and deposits	66	366	402	371	390	407
Advances paid	158	155	174	192	206	219
Investments, loans and placements	12,976	14,146	15,047	16,488	17,775	19,129
Other non-equity assets	4,639	4,400	4,865	5,135	5,447	5,809
Equity	14,007	12,417	12,579	12,863	13,299	14,069
Total	31,846	31,486	33,068	35,049	37,117	39,632
Non-Financial Assets	43,599	44,847	45,763	46,906	47,828	48,618
Total Assets	75,445	76,332	78,831	81,955	84,945	88,250
LIABILITIES						
Borrowing	3,118	3,602	4,353	5,089	5,669	6,140
Superannuation liability	8,637	9,946	11,187	12,511	13,615	14,769
Other employee entitlements and provisions	3,106	3,054	2,911	2,868	2,838	2,802
Other non-equity liabilities	2,960	1,930	1,882	1,886	1,883	1,876
Total Liabilities	17,821	18,531	20,333	22,354	24,005	25,587
Net Worth	57,623	57,801	58,498	59,601	60,940	62,663
Net Financial Worth	14,025	12,954	12,735	12,695	13,112	14,045
Net Debt	(10,082)	(11,066)	(11,270)	(11,962)	(12,702)	(13,615)
Note: 1. Numbers may not add due to rounding						

Table C.5
Public Trading Enterprise GFS Balance Sheet

	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million	Projection 2005-06 \$ million
ASSETS						
Financial Assets						
Cash and deposits	964	744	785	570	514	694
Advances paid	13	..	..	..	..	..
Investments, loans and placements	808	975	660	675	706	701
Other non-equity assets	1,438	1,422	1,398	1,379	1,417	1,423
Equity	47	76	72	73	77	83
Total	3,271	3,218	2,914	2,697	2,713	2,901
Non-Financial Assets	24,093	24,891	25,854	26,691	27,304	27,696
Total Assets	27,364	28,109	28,768	29,388	30,017	30,597
LIABILITIES						
Deposits held	73	73	73	73	73	73
Borrowing	11,359	12,338	12,640	12,814	12,680	12,110
Other employee entitlements and provisions	2,739	3,262	3,435	3,577	3,853	4,196
Other non-equity liabilities	957	782	805	825	876	913
Total Liabilities	15,128	16,454	16,952	17,288	17,481	17,291
Net Worth	12,235	11,655	11,816	12,100	12,536	13,305
Net Financial Worth	(11,857)	(13,236)	(14,038)	(14,591)	(14,768)	(14,391)
Net Debt	9,647	10,692	11,268	11,642	11,533	10,787
Note: 1. Numbers may not add due to rounding.						

Table C.6
State Non-PFE GFS Balance Sheet

	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million	Projection 2005-06 \$ million
ASSETS						
Financial Assets						
Cash and deposits	1,030	1,110	1,187	941	904	1,101
Advances paid	152	137	155	173	187	200
Investments, loans and placements	13,675	15,012	15,598	17,054	18,372	19,721
Other non-equity assets	3,394	2,585	3,029	2,995	2,997	2,984
Equity	1,818	835	831	832	836	842
Total	20,070	19,680	20,800	21,996	23,295	24,847
Non-Financial Assets	67,692	69,738	71,617	73,597	75,132	76,314
Total Assets	87,762	89,418	92,417	95,593	98,427	101,161
LIABILITIES						
Deposits held	73	73	73	73	73	73
Borrowing	14,350	15,812	16,865	17,775	18,221	18,122
Superannuation liability	8,637	9,946	11,187	12,511	13,615	14,769
Other employee entitlements and provisions	3,306	3,191	3,267	3,179	3,190	3,262
Other non-equity liabilities	3,773	2,596	2,526	2,453	2,388	2,273
Total Liabilities	30,139	31,617	33,919	35,992	37,487	38,499
Net Worth	57,623	57,801	58,498	59,601	60,940	62,663
Net Financial Worth	(10,068)	(11,937)	(13,119)	(13,996)	(14,192)	(13,651)
Net Debt	(435)	(375)	(2)	(320)	(1,169)	(2,827)
Note:						
1. Numbers may not add due to rounding.						

STATEMENT OF CASH FLOWS

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

Table C.7 General Government GFS Statement of Cash Flows						
	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million	Projection 2005-06 \$ million
Receipts from operating activities						
Taxes received	4,141	4,910	4,909	5,141	5,403	5,510
Grants and subsidies received	9,025	9,933	9,939	10,330	10,692	11,067
Sales of goods and services	1,552	1,735	1,840	1,856	1,876	1,934
Other receipts	3,238	3,230	2,876	3,233	3,314	3,489
Total	17,956	19,808	19,565	20,561	21,284	22,000
Payments for operating activities						
Payments for goods and services	(9,784)	(11,552)	(11,987)	(12,488)	(13,221)	(13,646)
Grants and subsidies	(4,498)	(4,751)	(4,727)	(4,575)	(4,709)	(4,932)
Interest	(295)	(254)	(253)	(308)	(360)	(404)
Other payments	(589)	(774)	(532)	(551)	(555)	(563)
Total	(15,166)	(17,331)	(17,499)	(17,923)	(18,845)	(19,544)
Net cash inflows from operating activities	2,790	2,477	2,066	2,638	2,439	2,456
Payments for investments						
In non-financial assets						
Purchases of non-financial assets	(2,520)	(2,412)	(2,350)	(2,203)	(1,950)	(1,777)
Sales of non-financial assets	263	321	638	237	230	211
Total	(2,257)	(2,092)	(1,712)	(1,966)	(1,720)	(1,566)
Payments for investments in financial assets for policy purposes	489	505	(199)	(46)	..	..
Payments for investments in financial assets for liquidity purposes	(1,122)	(817)	(751)	(1,379)	(1,258)	(1,337)
Receipts From Financing Activities						
Advances received (net)	5	(10)	(4)	(4)	(4)	(4)
Borrowing (net)	(593)	237	635	726	562	468
Deposits received (net)	(1)	..	..	..	..	..
Total	(589)	227	631	722	558	464
Net Increase (Decrease) In Cash Held	(689)	301	36	(31)	19	17
Net cash from operating activities and investments in non-financial assets	534	385	354	672	719	890
Finance leases and similar arrangements	..	3	..	..	..	..
GFS Surplus (Deficit)	534	382	354	672	719	890
Note: 1. Numbers may not add due to rounding.						

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

	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million	Projection 2005-06 \$ million
Receipts from operating activities						
Grants and subsidies received	1,018	940	909	915	1,095	1,201
Sales of goods and services	6,151	6,071	5,779	6,192	6,424	6,754
Other receipts	219	549	515	509	603	646
Total	7,388	7,560	7,204	7,616	8,122	8,602
Payments for operating activities						
Payments for goods and services	(4,360)	(4,198)	(3,979)	(4,118)	(4,256)	(4,244)
Grants and subsidies	(15)	(11)	(11)	..	..	..
Interest	(746)	(759)	(806)	(904)	(903)	(894)
Other payments	(545)	(651)	(537)	(550)	(554)	(599)
Total	(5,666)	(5,619)	(5,333)	(5,571)	(5,714)	(5,737)
Net cash inflows from operating activities	1,722	1,941	1,872	2,045	2,409	2,865
Payments for investments						
In non-financial assets						
Purchases of non-financial assets	(1,886)	(2,093)	(2,433)	(1,913)	(1,689)	(1,470)
Sales of non-financial assets	125	648	629	197	150	151
Total	(1,761)	(1,445)	(1,804)	(1,716)	(1,539)	(1,319)
Payments for investments in financial assets for policy purposes	(47)	(76)	..	49	..	..
Payments for investments in financial assets for liquidity purposes	53	(14)	321	(66)	(72)	(34)
Receipts From Financing Activities						
Advances received (net)	1	(1)	..	..	..	..
Borrowing (net)	1,002	718	321	206	(119)	(557)
Deposits received (net)	(2)	..	..	..	..	..
Distributions paid	(747)	(995)	(869)	(732)	(735)	(774)
Other financing (net)	64	(348)	200	..	..	..
Total	319	(627)	(348)	(526)	(854)	(1,331)
Net Increase (Decrease) In Cash Held	287	(220)	41	(214)	(56)	181
Net cash from operating activities and investments in non-financial assets	(38)	496	68	329	870	1,546
Finance leases and similar arrangements	2	84	203	65	59	72
Distributions paid	(747)	(995)	(869)	(732)	(735)	(774)
GFS Surplus (Deficit)	(787)	(582)	(1,004)	(468)	75	700
Note:						
1. Numbers may not add due to rounding.						

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

	Actual 2000-01 \$ million	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million	Projection 2003-04 \$ million	Projection 2004-05 \$ million	Projection 2005-06 \$ million
Receipts from operating activities						
Taxes received	3,864	4,615	4,613	4,841	5,099	5,203
Grants and subsidies received	9,047	9,934	9,941	10,330	10,691	11,066
Sales of goods and services	7,637	7,643	7,506	7,888	8,147	8,520
Other receipts	2,998	2,769	2,482	3,015	3,162	3,356
Total	23,546	24,960	24,542	26,074	27,099	28,145
Payments for operating activities						
Payments for goods and services	(14,074)	(15,302)	(15,498)	(16,129)	(17,000)	(17,410)
Grants and subsidies	(3,592)	(3,818)	(3,830)	(3,659)	(3,613)	(3,730)
Interest	(979)	(929)	(992)	(1,139)	(1,189)	(1,226)
Other payments	(1,134)	(1,487)	(1,155)	(1,196)	(1,186)	(1,234)
Total	(19,779)	(21,537)	(21,475)	(22,124)	(22,988)	(23,599)
Net cash inflows from operating activities	3,767	3,423	3,068	3,950	4,111	4,546
Payments for investments						
In non-financial assets						
Purchases of non-financial assets	(4,406)	(4,505)	(4,783)	(4,115)	(3,639)	(3,247)
Sales of non-financial assets	388	969	1,267	434	381	362
Total	(4,018)	(3,537)	(3,516)	(3,682)	(3,259)	(2,885)
Payments for investments in financial assets for policy purposes	442	80	1	3	..	..
Payments for investments in financial assets for liquidity purposes	(1,069)	(813)	(430)	(1,446)	(1,330)	(1,371)
Receipts From Financing Activities						
Advances received (net)	6	(1)	..	..	..	..
Borrowing (net)	406	928	954	929	440	(92)
Other financing (net)	64	..	..	..	..	..
Total	476	927	954	929	440	(92)
Net Increase (Decrease) In Cash Held	(402)	80	76	(245)	(37)	198
Net cash from operating activities and investments in non-financial assets	(250)	(113)	(448)	268	852	1,661
Finance leases and similar arrangements	2	87	203	65	59	72
GFS Surplus (Deficit)	(252)	(200)	(651)	203	793	1,589
Note: 1. Numbers may not add due to rounding.						

OTHER GFS DATA

Data presented in Table C.10 provides details of General Government sector expenses by function. The data is presented in accordance with GFS and Uniform Presentation Framework guidelines which presents data on a consolidated basis.

Table C.10 Expenses by Function: GFS Basis		
	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million
General public services	1,370	976
Public order and safety	1,901	1,976
Education	4,959	5,198
Health	4,021	4,250
Social security and welfare	762	835
Housing and community amenities	625	726
Recreation and culture	380	446
Fuel and energy	684	661
Agriculture, forestry, fishing and hunting	764	696
Mining, manufacturing and construction	136	122
Transport and communications	3,111	3,198
Other economic affairs	806	757
Other purposes	309	316
Total Expenses	19,828	20,157
Note: 1. Numbers may not add due to rounding.		

Data presented in Table C.11 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 C.11 Taxation: GFS Basis		
	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million
Taxes on Employers' Payroll and Labour Force	1,213	1,288
Taxes on Property		
Land Taxes	228	278
Stamp Duties on Financial and Capital Transactions	1,225	1,091
Financial Institutions' Transaction Taxes	279	267
Other	41	48
Taxes on the Provision of Goods and Services		
Excises and Levies	186	193
Taxes on Gambling	566	602
Taxes on Insurance	277	303
Taxes on Use of Goods and Performance of Activities		
Motor Vehicles	782	819
Other	2	21
Total Taxes	4,800	4,909
Note: 1. Numbers may not add due to rounding.		

Loan Council Allocation

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

Table C.12 presents the State's revised LCA nomination for 2002-03 and the estimated outcome for 2001-02.

Table C.12 Queensland Loan Council Allocation		
	Est. Actual 2001-02 \$ million	Budget 2002-03 \$ million
General Government Cash Deficit (Surplus) ¹	(382)	(354)
Public Trading Enterprise Cash Deficit (Surplus) ¹	582	1,004
Non-PFE State Government Cash Deficit (Surplus)¹	200	650
Advances paid (net)	(80)	(1)
Memorandum Items ²	(118)	17
Loan Council Allocation³	2	666
Notes: 1. Figures in brackets represent surpluses. 2. Other memorandum items include items such as local government borrowings. 3. Major factor responsible for the change in the 2001-02 LCA since the <i>Mid Year Fiscal and Economic Review</i> is the lower gross fixed capital expenditure for the Public Trading Enterprise sector due to the deferral of a number of capital works projects to subsequent years. 4. Numbers may not add due to rounding.		

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 LCA 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. 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.

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.

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 Electricity entities.

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 taxes and 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 financial investments (primarily representing investments to cover superannuation and long service leave entitlements).

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 and 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 PTEs 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.

Other Interest Expense

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
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
Office of Public Service Commissioner
Ombudsman
Police
Premier and Cabinet
Primary Industries (excluding Forestry)
Public Trust Office
Public Works
Queensland Ambulance Service (amalgamated into Emergency Services 2001-02)
Queensland Audit Office
Queensland Fire & Rescue Authority (amalgamated into Emergency Services 2001-02)
State Development
Tourism, Racing and Fair Trading
Transport
Treasury

Statutory Authorities

Anti-Discrimination Commission Queensland
Australian College of Tropical Agriculture
Board of Senior Secondary School Studies (ceased 2001-02)
Bureau of Sugar Experiment Stations
Commission for Children and Young People
Council of the Queensland Institute of Medical Research
Crime and Misconduct Commission (commenced 2001-02)
Criminal Justice Commission (ceased 2001-02)
Dalby Agricultural College Board
Emerald Agricultural College Board
Legal Aid Queensland
Library Board of Queensland
Longreach Pastoral College Board
Motor Accident Insurance Commission
Nickel Resources North Queensland
Nominal Defendant
Prostitution Licensing Authority
Queensland Art Gallery
Queensland Building Services Authority
Queensland Crime Commission (ceased 2001-02)
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 (ceased 2001-02)
Queensland Studies Authority (commenced 2002-03)
Queensland Theatre Company
Queensland Treasury Holdings
Residential Tenancy Authority
Royal Children's Hospital Foundation
SGH Limited
South Bank Corporation
Stadium Redevelopment Authority (commenced 2001-02)
Tertiary Entrance Procedures Authority (ceased 2001-02)
Tourism Queensland

Commercialised Business Units

Citec
GoPrint
Main Roads – Road Tek
Project Services
Property Services Group

Q-Build
Q-Fleet
Sales and Distribution

Public Trading Enterprises

Brisbane Cricket Ground Trust (ceased 2001-02)
Brisbane Market Corporation
Bundaberg Port Authority
Cairns Port Authority
CS Energy Ltd
DBCT Holdings Pty Ltd (commenced 2001-02)
DPI Forestry
Energex
Ergon Energy
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 (ceased 2001-02)
Home Purchase Assistance Account (amalgamated into Housing 2001-02)
Lang Park Trust (ceased 2001-02)
Mackay Port Authority
Major Sports Facilities Authority (commenced 2001-02)
Mt Isa Water Board
North West Queensland Water Pipeline Pty Limited
Pioneer Valley Water Board
Port of Brisbane Corporation
Ports Corporation of Queensland
Powerlink Queensland
Queensland Abattoir Corporation
Queensland Motorways Limited
Queensland Power Trading Corporation
Queensland Rail
Rockhampton Port Authority
Stanwell Corporation Ltd
Sun Water
Tarong Energy Corporation Ltd
Townsville Port Authority
Trustees of the Albion Park Paceway

APPENDIX D – 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 2002-03 Queensland Budget.

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 C.

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.

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 estimated 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 estimated 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 estimated 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

Payments for outputs - The revenues appropriated by Government to an agency for the purchase of outputs i.e. to deliver services to the community.

User charges and fees – Fees charged to specific users of services e.g. TAFE fees and land title search fees.

Other revenues – Includes interest revenue, Specific Purpose Payments from the Commonwealth and other contributions.

Employee Expenses – Wages, salaries and accruing leave costs for Government employees.

Supplies and services – Consumables used to produce outputs, e.g. electricity and lease payments.

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

Equity return – Cost of holding capital (fully funded in 2002-03).

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

Other expenses – Includes audit fees, operating lease rentals and sundry expenses.

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

Inventories - Stocks of consumables on hand, e.g. medical equipment, spare parts for equipment.

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

Property, plant and equipment - Physical assets that generally last more than one year, e.g. buildings, computer hardware and office equipment.

Intangibles - Non-physical assets that generally last more than one year, e.g. computer software, patents and copyrights.

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

Current Provisions - Amounts due that are expected to be paid within 12 months, e.g. amounts due to employees for annual leave and long service leave.

Non-current Borrowings – Amounts owing on loans not expected to be paid within the next 12 months.

Non-current Provisions – Amounts due not expected to be paid within the next 12 months, e.g. amounts due to employees for long service leave.

Equity – 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.

Cash flows from Operating Activities – 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.

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

Cash Flows from Financing Activities – Financing activities include borrowings and arrangements in the nature of borrowings (e.g. finance leasing) undertaken by the agency, and equity adjustments in the agency made by the Government.

Cash at end of Financial Year – Cash held on account of an agency at the end of the financial year e.g. 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 (e.g. patents, research and development costs, copyrights) and natural resources (e.g. 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. <p>The total State Contribution for each agency is known as the agency's Vote.</p>

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

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.

Charter of Fiscal and Social Responsibility	A charter outlining the broad objectives and priorities of the Government linking the State's financial position as a mechanism for policy and service delivery. It provides a framework to measure the Government's performance in achieving progress towards its key priorities.
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.

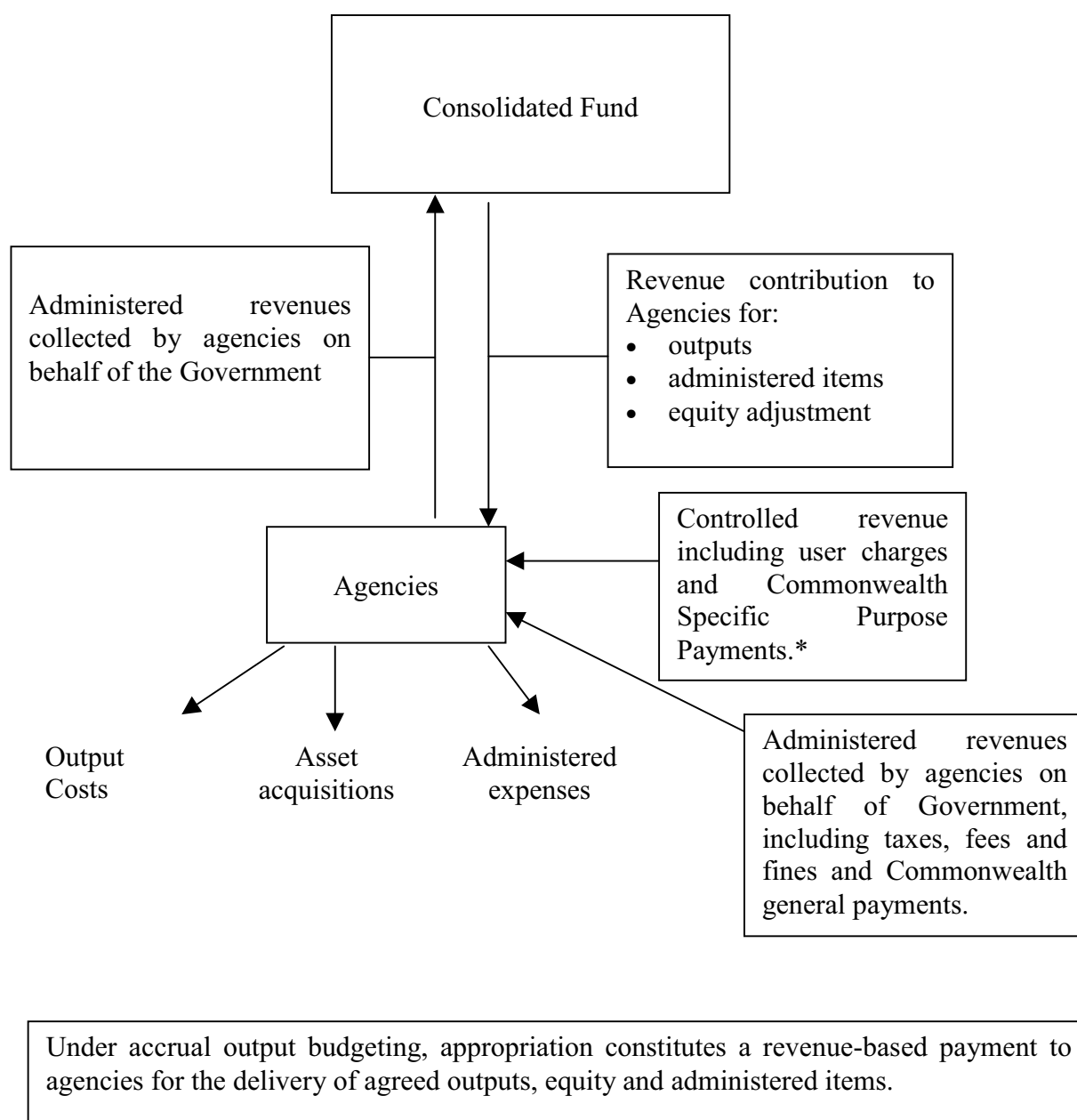
Equity Withdrawal	A decrease in the investment of the Government in the equity of a public sector agency.
Equity Return	Reflects the holding or opportunity cost of capital in terms of the alternative return foregone by Government because of its investment in the equity of an agency.
Estimates Committees	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 basis for three years after each Budget year) 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.

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 Appendix C of this Budget Paper.
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.
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 on a portfolio basis 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.
Priorities in Progress	The report used to inform the community about the impact of the Government's policies and initiatives towards meeting its key policy priorities. (See also <i>Charter of Fiscal and Social Responsibility</i> .)
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 <i>Charter of Social and Fiscal Responsibility</i>), 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 – Skills and Innovation – the Smart State.

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.

This page has been left intentionally blank

This page has been left intentionally blank

This page has been left intentionally blank