
Queensland Budget 2015-16

Budget Strategy and Outlook

Budget Paper No.2

2015-16 Queensland Budget Papers

- 1. Budget Speech**
- 2. Budget Strategy and Outlook**
- 3. Capital Statement**
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Budget Highlights

The suite of Budget Papers is similar to that published in 2014-15.

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State Budget 2015-16

Budget Strategy and Outlook

Budget Paper No. 2

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1 Fiscal strategy and outlook

Features

- The 2015-16 Budget delivers the Government's election commitments, with key measures to revitalise the State economy and frontline service delivery, especially in the areas of health, education and training.
- At the same time, this Budget delivers on the Government's commitment to reduce General Government debt without selling government-owned corporations, without increasing taxes and without cutting services.
- Weaker commodity prices and a subdued labour market present challenges for the State Budget, in a similar way that they present challenges for the Queensland economy and national economy.
- Nonetheless, Queensland's economic growth is forecast to rise from 2% to 4½% in 2015-16, the strongest economic growth of any state or territory across Australia, with much of this growth driven by liquefied natural gas exports.
- The Government's Debt Action Plan will reduce General Government debt by approximately \$7.5 billion in 2015-16, compared to the level of debt in the absence of measures. Further reductions across the forward estimates result in a debt reduction of \$9.6 billion by 2017-18.
- This is the first Budget since 1999-2000 that has projected a reduction in General Government borrowings across the forward estimates, such that debt will be lower in 2018-19 than it was in 2014-15.
- General Government debt, which incorporates the impact of the Debt Action Plan, as well as all other budget movements, is expected to fall from \$43.268 billion in 2014-15 to \$39.532 billion in 2017-18. This is \$7.5 billion lower than the projection for 2017-18 at the time of the 2014-15 Mid Year Fiscal and Economic Review (MYFER) and \$8.9 billion lower than projected in the 2014-15 Budget.
- Following consideration of the Review of State Finances, the Government is introducing revised fiscal principles that target an ongoing reduction in Queensland's debt burden, as measured by the General Government debt to revenue ratio.
- This will be supported by the Government's principle of targeting net operating surpluses that ensure any new capital investment is primarily funded through recurrent revenues, rather than borrowing.
- Reflecting the Government's commitment to responsible and measured management of the State's finances, the General Government Sector is forecast to deliver a net operating surplus of \$962 million in 2014-15, rising to \$1.213 billion in 2015-16.

- Net operating surpluses are expected across each year of the forward estimates, despite royalty revenue forecasts being revised down by \$3.186 billion across the period 2014-15 to 2017-18 since the MYFER, and downward revisions to payroll tax.
- Consistent with the position taken to the 2015 Election, the Government is implementing reprioritisations and specific measures that more than offset the cost of election commitments. Across the period 2014-15 to 2018-19, there is a net budget improvement of \$340 million as a result.
- Additional net funding for service delivery of \$1.85 billion is being provided over the period 2014-15 to 2017-18, particularly to restore frontline capacity for Queensland Health and improve health outcomes.
- There has been an increase in the net cost of rebuilding in response to natural disasters, including the incorporation of the cost of Tropical Cyclone Marcia. While there continues to be a mismatch between the timing of revenue and expenditure, the scale of this variation is less pronounced than in previous budgets.
- Operating expenses are forecast to grow at a sustainable rate, averaging 4.1% per annum across the forward estimates, excluding disaster recovery expenses. This is less than the forecast rate of revenue growth of 4.3% per annum, excluding disaster recovery revenues, supporting stronger operating surpluses.

1.1 Context

The Palaszczuk Government announced a number of key policy positions in the lead-up to the January 2015 Election. These positions and the associated commitments included:

- paying down General Government Sector debt of \$5.4 billion over six years, with a target of paying down \$12 billion of General Government Sector debt over 10 years, while retaining assets in public hands
- implementing election commitments, reprioritisations and specific measures that deliver an improvement in the net operating balance
- bolstering frontline service delivery, particularly in the key areas of health and education
- boosting skills and training to provide improved employment and economic outcomes for all Queenslanders
- commissioning Queensland Treasury to prepare a full review of the State's finances
- not increasing royalties, tax rates, or the rate of growth of fees and charges.

The 2015-16 Budget delivers on each of these commitments.

The Palaszczuk Government has responded to the significant fall in royalties since the MYFER by enhancing the pre-election Debt Action Plan to include further modest and responsible measures refocusing the balance sheet to lower debt. These additional balance sheet measures will contribute towards General Government Sector debt being \$7.5 billion lower by 2017-18, relative to the MYFER, compared with a pay down of \$2.1 billion by 2018-19 under the pre-election *Our State Our Assets Fiscal Strategy and Debt Action Plan*. The Palaszczuk Government remains committed to merging energy government-owned corporations to increase dividends and further lower debt as set out in the pre-election Debt Action Plan.

The Government's Debt Action Plan will deliver a reduction in General Government Sector debt without requiring the sale of government-owned corporations, without increases in taxes and without cuts to services. Further detail on the Debt Action Plan is provided in Box 1.1.

The Government's election commitments focussed on the key service areas of education, training, health and environmental protection, as well as providing additional funding for regional development and supporting the tourism industry. These commitments are more than offset by specific measures and the reprioritisation of agency funding, with a net positive impact on the budget of \$340 million across the forward estimates. Agencies have been instructed that there will be no forced or voluntary redundancies associated with these reprioritisations. Further detail on the Government's election commitments is provided in Budget Paper 4 – Budget Measures.

The Review of State Finances, released concurrently with the 2015-16 Budget, has confirmed the importance of delivering substantial net operating surpluses to ensure that the General Government Sector capital program can be funded primarily from recurrent revenues, rather than borrowings. The Review has also confirmed the importance of managing General Government Sector debt through targeting an ongoing reduction in the ratio of debt to revenue.

Following consideration of the Review of State Finances, the Government has adopted five fiscal principles aimed at improving the sustainability of the State's finances. These principles are:

- target ongoing reductions in Queensland's relative debt burden, as measured by the General Government Sector debt to revenue ratio
- target net operating surpluses that ensure any new capital investment in the General Government Sector is funded primarily through recurrent revenues rather than borrowing
- the capital program will be managed to ensure a consistent flow of works to support jobs and the economy and reduce the risk of backlogs emerging
- maintain competitive taxation by ensuring that General Government Sector own-source revenue remains at or below 8.5% of nominal gross state product, on average, across the forward estimates
- target full funding of long term liabilities such as superannuation and WorkCover in accordance with actuarial advice.

Further discussion of the fiscal principles, and the Government's progress in meeting its targets, is provided in Sections 1.3 and 1.4.

The fiscal environment facing the State remains challenging. A softening of the outlook for the global economy, particularly in the key coal export markets of China and Japan, has contributed to a sharp decline in the outlook for coal prices. Weaker oil prices are weighing on the State's coal seam gas royalty revenues (as liquefied natural gas export prices are linked to oil prices).

Reflecting these factors, which have only been partly offset by a slight decline in the exchange rate, royalty forecasts have been revised down by \$3.186 billion since the 2014-15 MYFER.

Box 1.1 Debt Action Plan

The Queensland Government recognises that the current level of General Government debt restricts the State's capacity to respond to shocks, whether in financial markets or by way of natural disasters. The Government received independent advice in the Review of State Finances about measures available to immediately reduce General Government debt, in order to deliver a material improvement in the State's debt to revenue ratio.

The following measures have since been adopted as part of the Government's Debt Action Plan. These debt reduction measures will be achieved while retaining 100% state ownership of the Government's income-generating assets and maintaining 100% funding of superannuation liabilities.

General Government debt increased by \$14 billion over the past three years and the Government made a decision that a policy response was required to take a whole-of-balance-sheet approach to managing the State's assets and liabilities and to reduce risks associated with the current structure of the State's balance sheet. This will enable better use of the capital available to the State.

The measures being implemented as part of the Government's Debt Action Plan will reduce General Government debt by approximately \$7.5 billion in 2015-16, compared to the level of debt in the absence of measures, with further reductions across the forward estimates resulting in a reduction of \$9.6 billion in 2017-18.

Revising the capital structure of the Government's energy network businesses

The State's energy network businesses are currently geared at a net debt to Regulated Asset Base ratio of approximately 55%, on average. In comparison, the industry average gearing ratio is around 80%, which means that the equity (of the owner) is only used to fund around 20% of the asset.

The Review of State Finances, informed by the Queensland Treasury Corporation's assessment, identified that there is capacity to increase the gearing levels of the network businesses towards more commercial levels. The re-gearing plan was recommended by the Independent Review of State Finances. In addition, analysis by KPMG shows that this measure is consistent with industry practice which supports efficient capital management and enables shareholders to ration their equity across a wider range of investments with no impact on prices or charges, which are independently determined by the regulator.

The Government has given consideration to the revised outlook for the capital expenditure requirements of the energy network businesses, the benefits of the forthcoming merger, and the advice regarding the capacity to move towards more commercial gearing levels.

Taking each of these factors into account, the Government has decided that the level of the State's equity committed to assets in the businesses will be reduced, consistent with targeting a gearing ratio of 70% for Ergon Energy and Energex and 75% for Powerlink, measured with reference to net debt as a proportion of the Regulated Asset Base.

The lower capital expenditure requirements of the network businesses will allow for future dividends to be increased from 80% to 100% whilst still allowing for gearing levels to remain at the target ratios of 70%-75%.

The energy network businesses will be closely monitored to ensure that their financial position remains consistent with a standalone investment grade credit rating, and that the businesses will be able to service their borrowings without requiring Government support. Revising the capital structure will have no impact on electricity transmission and distribution costs, which represent approximately 40% of the electricity price paid by consumers and are independently regulated by the Australian Energy Regulator. The State will retain full ownership and control of the businesses.

As a result of these changes, an additional \$4.1 billion will be remitted from the energy network businesses to the General Government Sector across the forward estimates. Approximately \$600 million of this will be recognised as operating receipts, with \$3.5 billion being a withdrawal of equity.

The General Government Sector will also benefit from lower interest expenses associated with using these funds to reduce General Government debt.

Funding long service leave on an emergent basis

The Review of State Finances also makes reference to the current arrangements where the State sets aside assets to match the value of long service leave liabilities as they accrue. Amongst Australian jurisdictions, this arrangement is unique to Queensland. The standard practice is to fund long service leave entitlements on an emergent basis, when the leave is paid. Queensland's arrangements reflect a decision made in 1998, when the State's debt levels were low and the State had surplus financial assets.

With relatively high debt, compared with other Australian jurisdictions, the Government considers that the current approach, which results in the State holding significant financial assets at the same time as significant levels of debt, is no longer appropriate. Accordingly, the Government has decided that the State's investments currently set aside to match accrued long service leave liabilities will be drawn down, with the proceeds used to repay General Government debt.

This will result in a debt reduction of approximately \$3.4 billion, which will take effect during 2015-16.

There will be no change for employees, with all long service leave entitlements being maintained and met when claimed. There will also be no change to the administrative arrangements under which Government departments currently contribute to, and draw down from, the Long Service Leave Central Scheme.

This measure will align Queensland's long service leave arrangements with standard practice across Australia.

Temporary suspension of investment of defined benefit employer contributions, whilst maintaining fully-funded status

Queensland is the only Australian jurisdiction to fully fund its defined benefit superannuation liabilities, consistent with long-standing fiscal principles maintained by successive governments.

Recent valuations by the State Actuary indicate that the defined benefit scheme is currently in a surplus position of over \$10 billion on a funding basis. On the more conservative accounting valuation basis, (which uses Australian Government bond rates rather than expected returns in calculating the future value of scheme assets) the surplus is considered to be in the range of \$2 billion - \$2.5 billion.

The surplus represents additional cash and investments above the actuarially assessed level required to meet payment obligations to members of the defined benefit scheme (primarily current or former Queensland Government employees). Any surplus funding in the scheme returns to the State when all funding obligations to members have been met.

The Government has decided that, taking into account the size of the surplus in the defined benefit scheme and the magnitude of the State's debt, the investment of defined benefit employer contributions will be suspended for a period of five years. These contributions will instead be directed to paying down General Government debt.

Rather than investing further in an over-funded scheme, General Government debt will be reduced by approximately \$2 billion across the forward estimates. If there are any significant risks to the scheme remaining in surplus, the State will resume investment of contributions to maintain the commitment to targeting full funding of the scheme.

There will be no change to the entitlements of defined benefit members and the scheme is expected to remain in surplus. The Government's commitment to full funding of long term liabilities, such as superannuation and WorkCover will be maintained. The State Actuary has advised that the defined benefit scheme is well placed to accommodate the Government's decision, while retaining consistency with the principle of fully funding superannuation entitlements.

Further debt reduction

The Government will continue to consider opportunities for further reducing General Government debt, while maintaining its commitments to retaining ownership of government-owned corporations and fully funding superannuation.

One option available to Government is to consider whether the level of equity held in other government-owned corporations remains appropriate, or if there is potential to move these corporations towards more commercial gearing levels. This would ensure that corporations have efficient capital structures, having regard to their peers, while retaining sufficient capital to meet the ongoing needs of their organisation.

In addition, the opportunity for Queensland's defined benefit superannuation scheme to invest in the State's government-owned corporations will be closely examined.

Specific options are still to be developed, and will be subject to extensive due diligence and Government consideration. However, there would appear to be potential to provide the defined benefit scheme with the opportunity to share in the growth potential of Queensland's government-owned corporations where commercial returns are available.

This plan will also provide the State with capacity to further reduce debt and also invest in productivity-enhancing infrastructure projects that will be identified and prioritised by Building Queensland.

All options would ensure that government-owned corporations would continue to be 100% controlled and 100% owned by the Government, with all dividends continuing to be paid to the Government.

Further debt reduction proposals, and associated infrastructure investment, will also be consistent with the Government's fiscal principles, in particular the commitments to ongoing reductions in the General Government debt to revenue ratio and fully funding the State's superannuation and WorkCover liabilities in accordance with actuarial advice.

Details of the outcome of the next phase of the Government's Fiscal Strategy and Debt Action Plan will be provided in the 2015-16 MYFER.

These additional measures are considered necessary in order to implement a structural and sustained reduction in debt over the long-term.

1.2 Key fiscal aggregates

The key fiscal aggregates of the General Government Sector for the 2015-16 Budget are outlined in Table 1.1 and are discussed in detail in this chapter.

Table 1.1 General Government Sector – key fiscal aggregates¹

	2013-14 Actual ² \$ million	2014-15 MYFER \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Revenue	46,734	49,149	49,578	51,186	54,010	55,486	55,748
Expenses	46,115	49,213	48,615	49,973	51,784	53,354	54,421
Net operating balance	619	(64)	962	1,213	2,226	2,132	1,327
Capital purchases	6,322	5,903	4,987	5,374	5,832	6,125	5,851
Fiscal balance	(2,581)	(2,842)	(896)	(1,162)	(968)	(881)	(1,101)
Borrowing	41,403	45,801	43,268	38,151	38,818	39,532	40,724
Borrowing (NFPS) ³	72,716	77,553	75,535	74,113	75,714	77,119	78,802
Notes:							
1. Numbers may not add due to rounding. Bracketed numbers represent negative amounts.							
2. Reflects published actuals.							
3. NFPS: Non-Financial Public Sector.							

1.2.1 Net operating balance

Consistent with the Government's fiscal principles, substantial operating surpluses are projected in each year of the forward estimates. This will ensure that the General Government Sector capital program is primarily funded from recurrent revenues, rather than borrowings.

As identified in Table 1.1, the anticipated 2014-15 operating surplus of \$962 million compares with a forecast deficit of \$64 million expected in the 2014-15 MYFER. This \$1.026 billion improvement is largely the result of lower than forecast expenses.

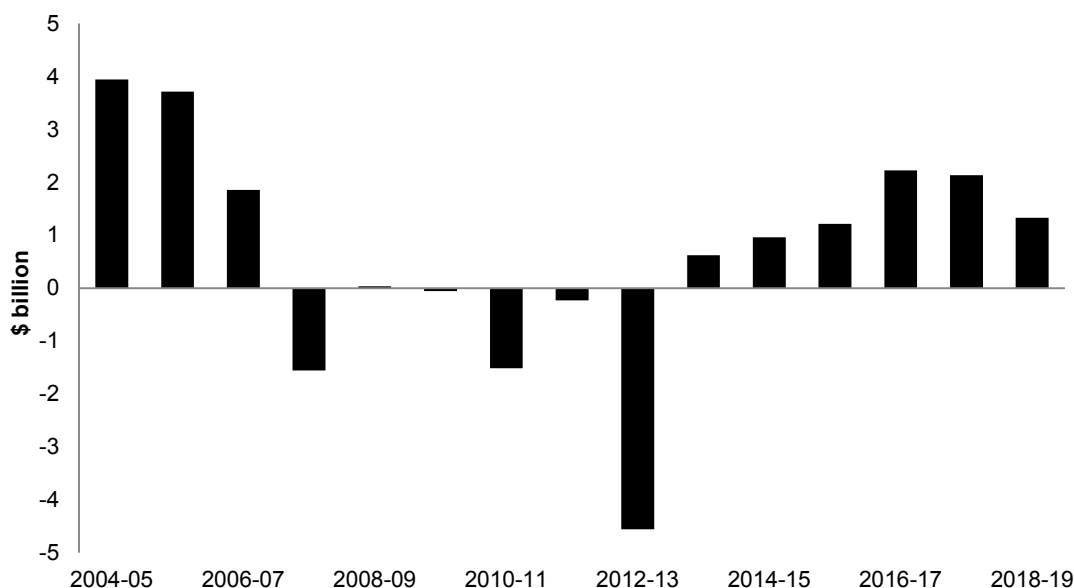
Specific drivers for the improvement in 2014-15 are:

- re-profiling expenditure in the Health portfolio, which will assist in funding sustainable growth in health expenditure from 2015-16 onwards
- revisions to the timing of natural disaster expenses and reimbursements, resulting in higher revenues and lower expenses in 2014-15.

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

The net operating surplus in 2014-15 represents only the second surplus since 2008-09, as shown in Chart 1.1. The operating surplus in 2015-16 is estimated to be the largest operating surplus since 2006-07.

Chart 1.1 Net operating balance



The estimated 2015-16 General Government Sector operating surplus of \$1.213 billion is weaker than the forecast surplus of \$3.078 billion in the 2014-15 MYFER. This is primarily a result of weaker royalty revenue, along with increases in Natural Disaster Relief and Recovery Arrangements (NDRRA) expenses and revisions to NDRRA reimbursements from the Australian Government. Revisions to NDRRA expenses and revenue in 2015-16 are expected to detract \$885 million from the operating balance compared to MYFER.

Royalty revenue estimates have been revised down by \$891 million in 2015-16, primarily because of substantially lower coal prices, as well as revisions to the timing and value of liquefied natural gas exports.

Taxation revenue has been revised down by \$89 million in 2015-16 relative to MYFER. This is primarily because of reductions in the rate of growth in payroll tax, offset, to some extent, by stronger transfer duty.

Goods and services tax (GST) revenue has been revised up by \$489 million since MYFER, reflecting an increase in Queensland's share of GST, as recommended by the Commonwealth Grants Commission (CGC).

Funding of \$558 million, in addition to election commitments, is being provided in 2015-16 to improve service delivery, primarily to restore frontline capacity for Queensland Health and improve health outcomes.

Downward revisions to operating surpluses in 2016-17 and 2017-18 compared to the 2014-15 MYFER primarily reflect substantial revisions to royalty revenue, with the cost of new policy measures broadly offset by increases to GST revenue in these years.

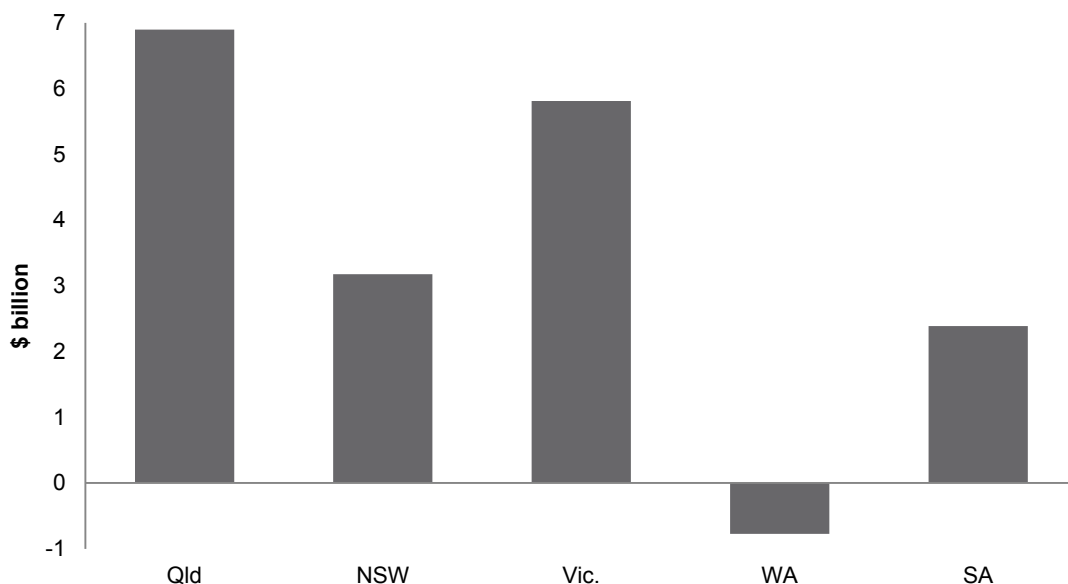
Table 1.2 General Government Sector – net operating balance forecasts¹

	2013-14 \$ million	2014-15 \$ million	2015-16 \$ million	2016-17 \$ million	2017-18 \$ million	2018-19 \$ million
2014-15 Budget	(2,298)	188	3,188	3,534	2,968	n/a
2014-15 MYFER	619	(64)	3,078	3,120	3,011	n/a
2015-16 Budget	619	962	1,213	2,226	2,132	1,327
Note:						
1. Bracketed numbers represent negative amounts.						

Despite the deterioration in the operating position since MYFER, which has been driven by a weaker outlook for commodity prices, Queensland's operating position remains stronger than that of other states, as shown in Chart 1.2.

In aggregate, Queensland is projecting surpluses of \$6.9 billion across 2015-16 to 2018-19, with the next strongest projection being \$5.8 billion in Victoria.

Chart 1.2 Net operating balance – aggregated 2015-16 to 2018-19¹



Note:

1. New South Wales figures exclude the impacts of the Transport Asset Holding Entity.

Table 1.3 provides a breakdown of the movements in the net operating balance since the 2014-15 MYFER.

Table 1.3 Reconciliation of net operating balance, 2014-15 MYFER to 2015-16 Budget¹

	2014-15	2015-16	2016-17	2017-18
	\$ million	\$ million	\$ million	\$ million
2014-15 MYFER net operating balance	(64)	3,078	3,120	3,011
Taxation revisions ²	108	(89)	(71)	(89)
Royalty revisions	(279)	(891)	(1,042)	(974)
GST revisions	11	489	613	669
Natural disaster revisions ³				
<i>Change in revenue</i>	<i>213</i>	<i>(722)</i>	<i>163</i>	<i>200</i>
<i>Change in expenses</i>	<i>271</i>	<i>(163)</i>	<i>(278)</i>	<i>(32)</i>
Net change	484	(885)	(115)	168
Election commitments ⁴	..	(43)	103	182
Measures ⁵	314	(558)	(763)	(847)
Net flows from PNFC and PFC Sector entities ⁶	181	474	99	(542)
Australian Government funding revisions ⁷	2	(528)	226	625
Other parameter adjustments ⁸	205	166	56	(71)
2015-16 Budget net operating balance	962	1,213	2,226	2,132
Notes:				
1. Numbers may not add due to rounding. Numbers indicate impact on the operating balance. A number in brackets indicates a negative impact on the operating balance.				
2. Represents parameter adjustments to taxation revenue.				
3. Represents movements in revenue, expense and capital for natural disaster restoration. Largely represents the State's cost of damage from Tropical Cyclone Marcia and revisions to expected reimbursements.				
4. Represents the net impact of election commitments on the operating balance. This number is lower than in Budget Paper 4 – Budget Measures as Budget Paper 4 also incorporates capital expenditure.				
5. Reflects the value of Government decisions since the 2014-15 MYFER, excluding election commitments. This number is lower than in Budget Paper 4 – Budget Measures as it excludes measures funded by the Australian Government and funds held centrally for these measures.				
6. Represents revisions to dividends and tax equivalent payments from, and community service obligation and Transport Service Contract payments to, Public Non-Financial Corporations and Public Financial Corporations.				
7. Represents the net impact of funding provided by the Australian Government primarily for Specific Purpose Payments and National Partnership payments (mainly for transport infrastructure).				
8. Refers to adjustments largely of a non-policy nature, primarily changes in interest paid on borrowings, depreciation, growth funding, swaps, deferrals and administered revenue, as well as changes in expenses resulting from Australian Government funding decisions.				

1.2.2 Natural Disaster Relief and Recovery Arrangements

The timing of revenue and expenditure in relation to natural disasters continues to significantly impact Queensland's budget position. Table 1.4 outlines the impact of natural disaster arrangements on Queensland's net operating balance.

Table 1.4 Impact of Natural Disaster Relief and Recovery Arrangements funding on the net operating balance¹

	2014-15 \$ million	2015-16 \$ million	2016-17 \$ million	2017-18 \$ million	2018-19 \$ million
Published net operating balance	962	1,213	2,226	2,132	1,327
less Disaster revenue	1,163	1,106	245	200	..
add Disaster expenses	750	496	278	32	..
Underlying net operating balance	549	603	2,259	1,964	1,327
Disaster related capital ²	469	197	10	..	..
Notes:					
1. Numbers may not add due to rounding.					
2. Excludes loans provided through the State.					

The cost of all disasters is \$2.232 billion over the period 2014-15 to 2017-18, of which the estimate of the NDRRA-eligible cost of Tropical Cyclone Marcia is \$577 million. The total expenditure across the period is \$343 million greater than in the 2014-15 MYFER, with the additional cost of Tropical Cyclone Marcia partly offset by downward revisions to the cost of previous events.

Changes to the expected timing of Australian Government reimbursements for previous disasters has brought revenue forward from 2015-16 into 2014-15. However, revenue across 2016-17 and 2017-18 is projected to be \$363 million greater than forecast in MYFER, primarily because of revisions to the quantum and timing of claims.

1.2.3 Cash flows and balance sheet

General Government Sector

Cash surplus/(deficit)

The General Government Sector is expected to record a cash deficit in 2014-15 of \$487 million, compared to a \$2.434 billion deficit forecast in the MYFER. The smaller than expected cash deficit primarily reflects higher operating receipts and reduced recurrent and capital expenditure.

A cash deficit of \$584 million is expected for the General Government Sector in 2015-16, improving to a surplus of \$132 million in 2016-17 before returning to modest cash deficits in each of the following years. Across the period 2015-16 to 2018-19, cash deficits equate to 8% of purchases of non-financial assets.

Capital purchases

The State's 2015-16 capital program comprises \$8.574 billion of capital purchases (\$404 million above the 2014-15 estimated actual) and \$1.531 billion of capital grants. Budget Paper 3 – Capital Statement provides details of budgeted 2015-16 capital outlays by portfolio.

Within the General Government Sector, purchases of non-financial assets (capital spending) in 2014-15 are estimated to be \$4.987 billion. This is \$916 million less than forecast in the MYFER, largely due to a range of deferrals associated with transport and health infrastructure.

General Government Sector capital purchases of \$5.374 billion are budgeted for 2015-16, \$715 million less than the \$6.089 billion forecast in the 2014-15 MYFER. This primarily relates to the deferral of Commonwealth-funded transport infrastructure, consistent with the 2015-16 Commonwealth Budget.

Over the period 2015-16 to 2018-19, purchases of non-financial assets in the General Government Sector of \$23.182 billion are planned.

Borrowings

Gross borrowings (the stock of borrowings outstanding as stated in the Balance Sheet) of \$43.268 billion at 30 June 2015 are \$2.533 billion less than forecast in the 2014-15 MYFER and \$4.873 billion less than forecast in the 2014-15 Budget. The significant reduction since MYFER is due to the lower cash deficit and an improved utilisation of cash balances across the General Government Sector.

A net borrowing repayment of \$5.514 billion is budgeted for 2015-16, with the \$7.5 billion achieved from the Debt Action Plan being partly offset by lower net cash inflows from operating activities, driven by the reduction in royalty forecasts.

A further net borrowing repayment of \$182 million is projected in 2016-17, driven by the Debt Action Plan. Net borrowing requirements are modest across the remainder of the forward estimates, ensuring that the benefits of the reduction in debt resulting from the Debt Action Plan are maintained, particularly in terms of the debt to revenue ratio, as demonstrated in Table 1.5.

Table 1.5 General Government Sector gross borrowings as a proportion of revenue

	2014-15 Est. Act. \$ million	2015-16 Forecast \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Gross borrowings	43,268	38,151	38,818	39,532	40,724
Revenue	49,578	51,186	54,010	55,486	55,748
Borrowings/revenue ratio	87%	75%	72%	71%	73%

General Government Sector borrowings are expected to be \$2.544 billion lower in 2018-19 than in 2014-15. This represents the first budgeted reduction in General Government Sector borrowings across the forward estimates period since 1999-2000.

Chart 1.3 compares the 2015-16 borrowing projections with those in the 2014-15 MYFER. The chart also demonstrates that General Government Sector borrowings are expected to be substantially lower in 2018-19 than in 2014-15.

Chart 1.3 General Government Sector borrowings

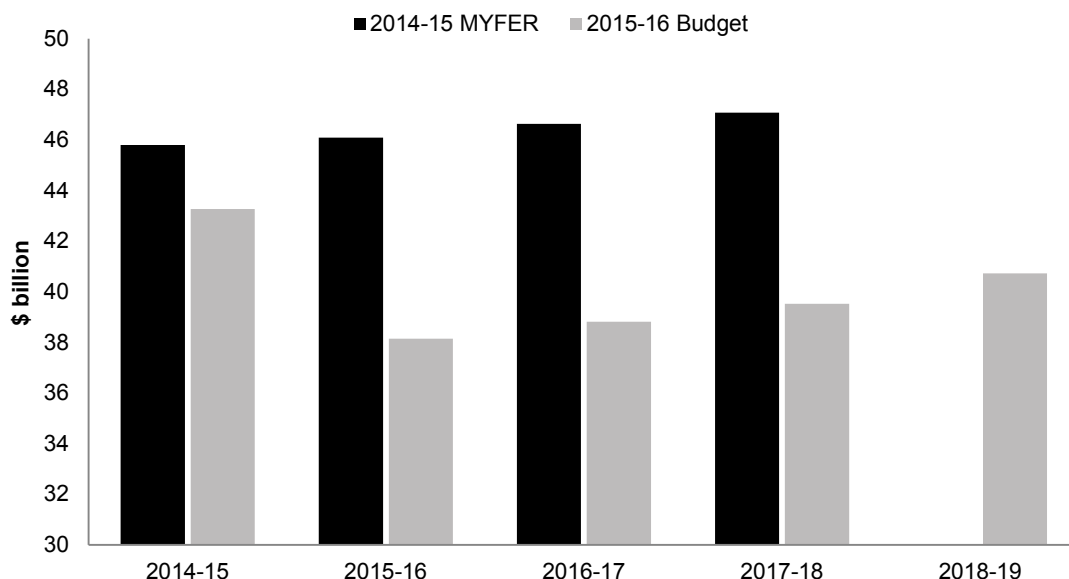


Table 1.6 identifies that General Government Sector borrowings are estimated to have peaked at \$43.268 billion in 2014-15. In comparison, the 2014-15 Budget projected General Government Sector borrowings would reach \$48.421 billion in 2017-18, with the 2014-15 MYFER projecting borrowings of \$47.072 billion.

Table 1.6 Revisions to General Government Sector borrowings

	2014-15 \$ million	2015-16 \$ million	2016-17 \$ million	2017-18 \$ million
2014-15 Budget	48,141	48,023	48,216	48,421
2014-15 MYFER	45,801	46,097	46,630	47,072
2015-16 Budget	43,268	38,151	38,818	39,532

Public Non-Financial Corporations Sector

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

The PNFC Sector is expecting net borrowings of \$826 million in 2014-15, an increase from the \$651 million 2014-15 MYFER estimate, largely reflecting higher than expected cash holdings in the sector at 30 June 2015. Gross borrowings in the PNFC Sector are estimated to have been \$32.268 billion at 30 June 2015, somewhat above the MYFER estimate of \$31.752 billion.

Borrowings in this Sector are expected to increase to \$38.078 billion in 2018-19, with the increase partly attributable to the Government's decision to increase the targeted gearing ratios of the energy network businesses.

Non-Financial Public Sector

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

Gross borrowings of \$75.535 billion are estimated at 30 June 2015 in the NFP Sector, \$2.018 billion less than the 2014-15 MYFER estimate as a result of the improvement in the General Government Sector. By 2017-18, borrowings are expected to reach \$77.119 billion, \$2.673 billion less than projected in the 2014-15 MYFER, as demonstrated in Chart 1.4.

Chart 1.4 Non-Financial Public Sector gross borrowings

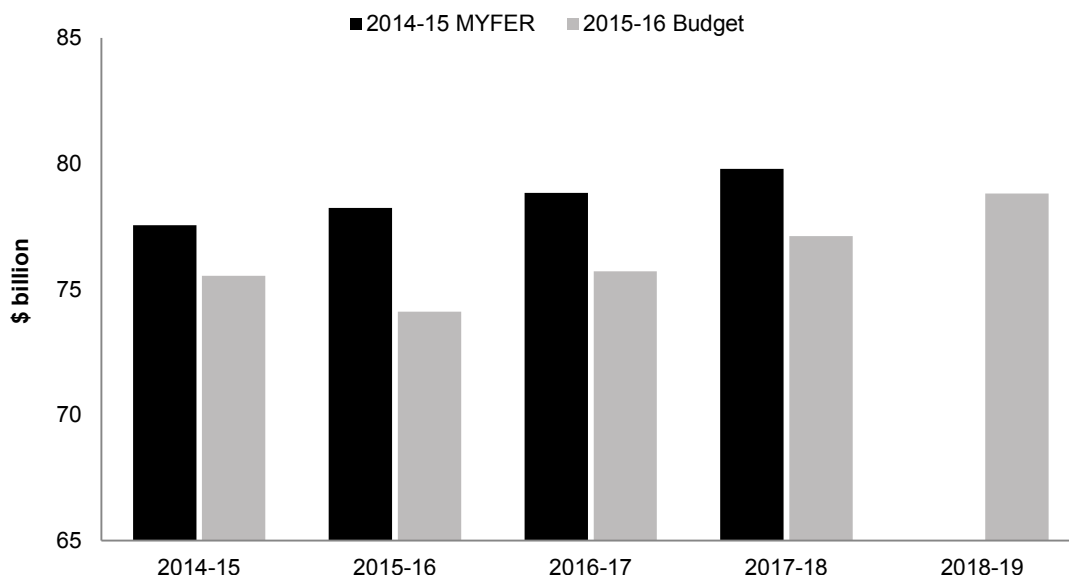


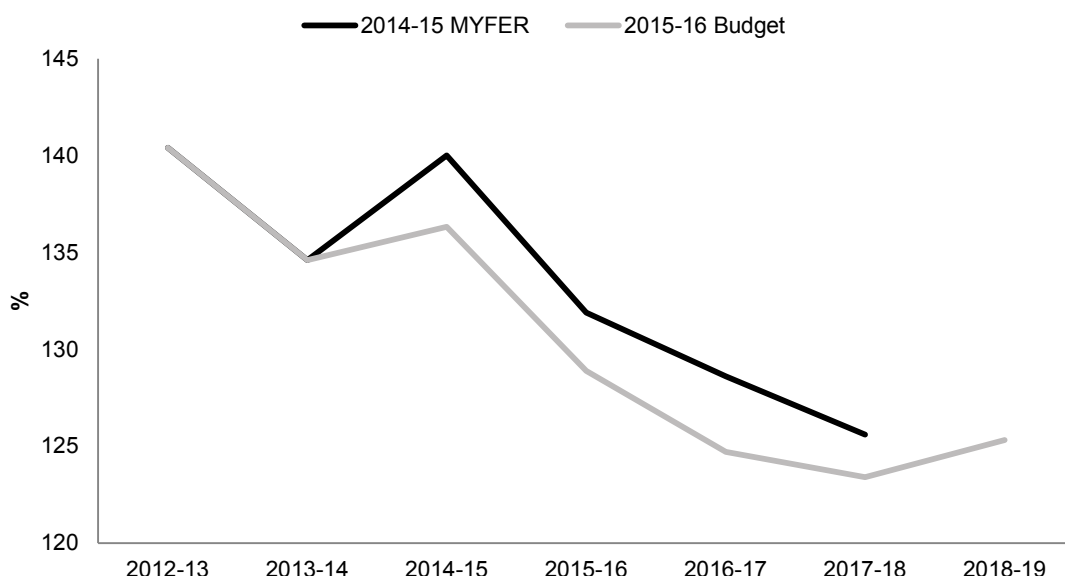
Table 1.7 identifies the revisions to NFP Sector borrowings since the 2014-15 Budget.

Table 1.7 Revisions to Non-Financial Public Sector borrowings

	2014-15 \$ million	2015-16 \$ million	2016-17 \$ million	2017-18 \$ million
2014-15 Budget	79,956	80,619	81,234	82,070
2014-15 MYFER	77,553	78,241	78,840	79,792
2015-16 Budget	75,535	74,113	75,714	77,119

The NFP Sector debt to revenue ratio is estimated at 136% in 2014-15 (down from 140% estimated at MYFER). This ratio is forecast to decline to 123% in 2017-18, compared with a ratio of 126% projected at MYFER, as shown in Chart 1.5.

Chart 1.5 Non-Financial Public Sector debt to revenue ratio



Purchases of non-financial assets (capital spending) of \$8.170 billion is estimated in the NFP Sector in 2014-15, \$1.159 billion less than the 2014-15 MYFER estimate. This decrease is largely due to deferred capital expenditure particularly in the areas of transport and health as well as reductions in the capital program of the PNFC Sector.

Over the period 2015-16 to 2018-19, purchases of non-financial assets in the NFP Sector of \$35.4 billion are planned.

1.3 Fiscal principles

In the lead-up to the January 2015 Election, the Government set out five fiscal principles for the responsible and measured management of the State's finances. Following consideration of the Review of State Finances, prepared by Queensland Treasury, the Government has refined the principles that relate to General Government Sector debt and the size of the net operating surplus. These refinements are intended to ensure the fiscal principles present a consistent strategy to underpin the development of the State Budget and financial decision-making.

Fiscal principles

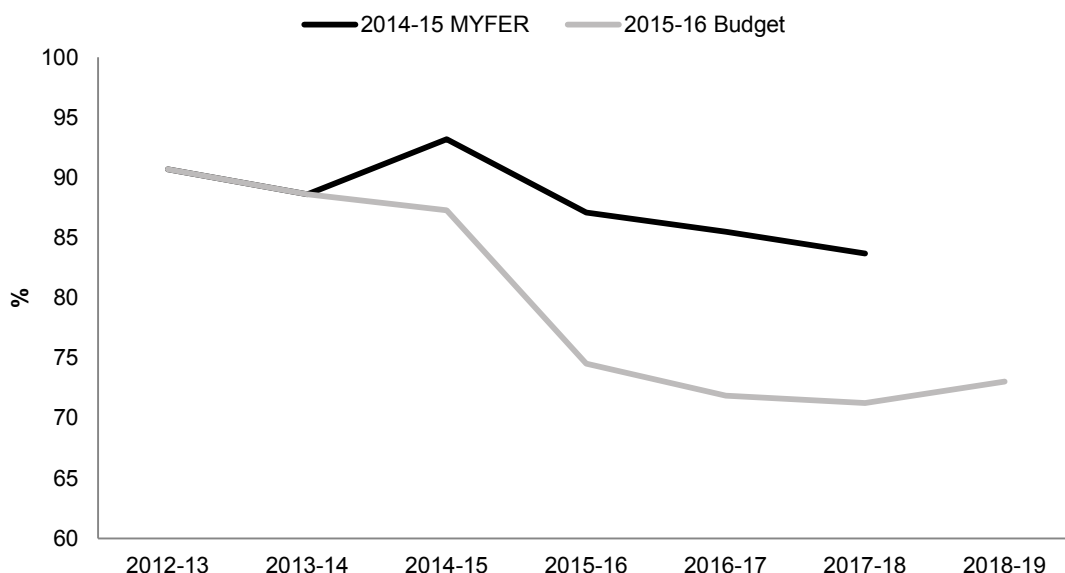
Principle 1 – Target ongoing reductions in Queensland's relative debt burden, as measured by the General Government debt to revenue ratio

The Government has consistently identified that its primary focus is on managing the debt of the General Government Sector, which must be serviced from General Government Sector revenues such as taxes (either state or federal), charges and royalties. In contrast, the debt of government-owned corporations is serviced from the operating cashflows of these businesses.

In managing General Government Sector debt, a debt to revenue ratio is a key measure of the sustainability of a jurisdiction's debt levels. With Queensland's General Government Sector debt to revenue ratio currently higher than that of other jurisdictions, it is important to seek ongoing reductions in the ratio to continue to improve the State's fiscal sustainability.

Queensland's debt to revenue ratio is expected to have peaked at 91% in 2012-13 (compared with a peak of 100% expected in 2013-14 in the 2014-15 Budget and 93% in 2014-15 projected in the 2014-15 MYFER). This ratio is expected to fall substantially in 2015-16, to 75%, as a result of the Debt Action Plan, with the improvement maintained across the forward estimates such that the ratio is projected at 73% in 2018-19, as shown in Chart 1.6.

Chart 1.6 General Government Sector debt to revenue ratio



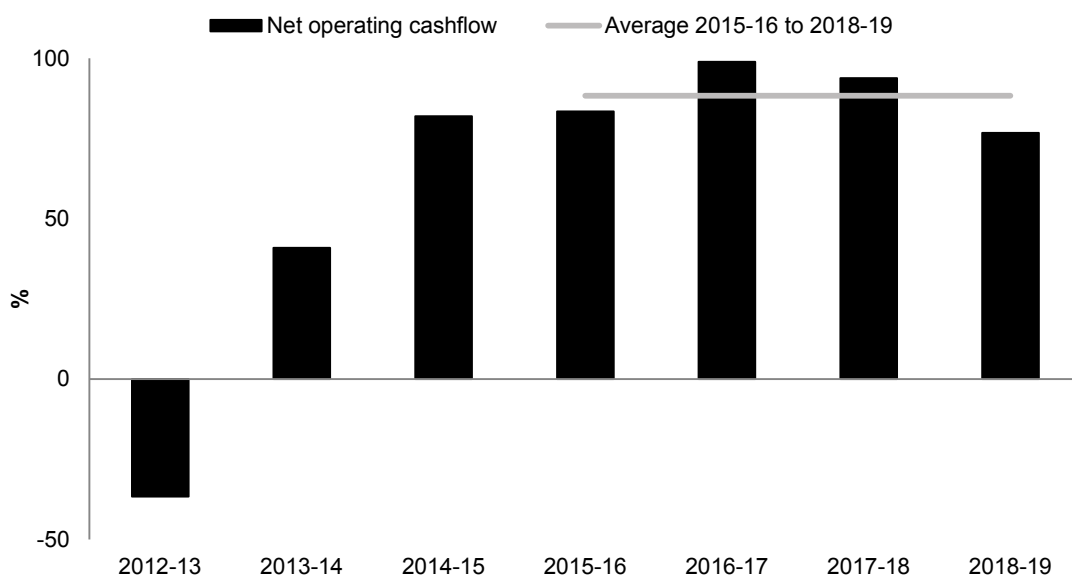
Principle 2 – Target net operating surpluses that ensure any new capital investment in the General Government Sector is funded primarily through recurrent revenues rather than borrowing

Consistent with the position in other states and territories, the Queensland Government considers that the net operating balance is the appropriate measure of the State's annual operating position. Further, the Government recognises that the size of the operating surplus must be large enough that recurrent revenues, rather than borrowings, are the primary funding source for capital investment in the General Government Sector.

This was a significant factor in the position the Government took to the January 2015 election of more than offsetting all election commitments with reprioritisations and specific measures, providing an overall improvement in the net operating balance.

The most direct way of identifying the sources of funding of capital investment is in the General Government Sector Cash Flow Statement (Table 8.7). This Statement identifies that net cash inflows from operating activities equate to 83% of the funding required for the 2015-16 capital program. Across the period 2015-16 to 2018-19, this proportion fluctuates between 77% and 99%, with an average of 88% of capital purchases funded from net operating cashflows as shown in Chart 1.7.

Chart 1.7 General Government Sector net operating cashflow as a proportion of capital expenditure



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

The General Government Sector capital program peaked in 2009-10, reflecting a significant State infrastructure program bolstered by the Australian Government's stimulus program in response to the Global Financial Crisis. In the 2014-15 MYFER, the capital program was expected to continue to decrease across the forward estimates.

While the value of the capital program can fluctuate across individual years, due to the lumpy nature of large projects and the timing of Commonwealth-funded projects, the 2015-16 Budget provides for an increase in General Government Sector capital purchases from \$4.987 billion estimated in 2014-15 to an average of \$5.8 billion across 2015-16 to 2018-19.

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

Government has a clear role in providing an economic environment that supports business and jobs growth and does not place undue strain on households. In addition to measures of interstate tax competitiveness (as discussed in Chapter 3), there are a range of other own-source revenues, such as user charges and royalties, which are also relevant for businesses and households.

General Government Sector own-source revenue is forecast at 8.1% of nominal gross state product in 2015-16 and an average of 7.7% across the period 2015-16 to 2018-19.

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

Consistent with the long-standing practice of successive governments, the Queensland Government is committed to ensuring that the State sets aside assets, on an actuarially determined basis, to meet long term liabilities such as superannuation and WorkCover.

As a result of strong investment returns in financial markets in recent years, the value of the assets held against superannuation liabilities significantly exceeds the value of those liabilities. As set out in the Debt Action Plan, the Government intends to suspend making further investment of employer contributions against superannuation liabilities for five years. Actuarial advice confirms that the current funding position accommodates this suspension.

As at 30 June 2014, the most recently available assessment, the WorkCover scheme was fully funded.

1.4 Achievement of fiscal principles

Table 1.8 demonstrates that the 2015-16 Budget projections are consistent with achieving the Government's fiscal principles.

Table 1.8 The fiscal principles of the Queensland Government

Principle	Indicator		
Target ongoing reductions in Queensland's relative debt burden, as measured by the General Government debt to revenue ratio	General Government Debt to Revenue Ratio		
		2014-15 MYFER %	2015-16 Budget %
	2014-15	93	87
	2015-16	87	75
	2016-17	86	72
	2017-18	84	71
	2018-19	n/a	73
Target net operating surpluses that ensure any new capital investment in the General Government Sector is funded primarily through recurrent revenues rather than borrowing	General Government Operating Cashflows as a proportion of the Capital Program		
		2014-15 MYFER %	2015-16 Budget %
	2014-15	53	82
	2015-16	105	83
	2016-17	113	99
	2017-18	112	94
	2018-19	n/a	77
The capital program will be managed to ensure a consistent flow of works to support jobs and the economy and reduce the risk of backlogs emerging	General Government Capital Program		
		2014-15 MYFER (\$ million)	2015-16 Budget (\$ million)
	2014-15	5,903	4,987
	2015-16	6,089	5,374
	2016-17	5,768	5,832
	2017-18	5,496	6,125
	2018-19	n/a	5,851
Maintain competitive taxation - own-source revenue to remain at or below 8.5% as a proportion of nominal gross state product	General Government own-source revenue to GSP		
	2015-16: Average across the forward estimates:		8.1% 7.7%
Target full funding of long term liabilities such as superannuation and WorkCover in accordance with actuarial advice	As at last actuarial review (released June 2014), accruing superannuation liabilities were fully funded. The State Actuary reviews the scheme every three years. The WorkCover scheme was fully funded as at 30 June 2014.		

2 Economic performance and outlook

Features

- Economic growth and labour market conditions in Queensland continue to be influenced by the transition from the historic surge in resources investment towards growth driven by the household and trade sectors. Reflecting this, following two years of subdued outcomes, growth in Queensland gross state product (GSP) is forecast to strengthen to 4½% in both 2015-16 and 2016-17, driven by the surge in liquefied natural gas (LNG) exports.
- The global and national economic outlook has softened over the past year. This has prompted the Reserve Bank of Australia (RBA) and central banks in key Queensland export markets, such as China, Japan and Korea, to support growth by easing monetary policy.
- A more subdued global outlook, combined with stronger global supply, has contributed to sharp declines in world commodity prices, including for coal – the State’s single largest export – and oil (which the price of Queensland’s LNG exports is linked to).
- While tempered by lower A\$ exchange rates, weaker commodity prices have flowed through to the Queensland domestic economy via several channels. In particular, lower returns have seen coal producers cut operating costs to sustain profitability, weakened prospects for new investment in the sector, and resulted in softer household income growth.
- Slower income growth, subdued labour market conditions and ongoing consumer caution suggest growth in household consumption will remain below average over the forecast period, despite lower domestic interest rates and improvements in household wealth.
- With investment outside the resources sector taking longer to recover than expected, the step-down in LNG construction will result in declines in business investment in both 2014-15 and 2015-16, before returning to a more sustainable growth path from 2016-17 onwards.
- Lower interest rates, solid house price growth and rising investor interest are driving a sustained recovery in dwelling investment, particularly in medium-to-high density housing.
- With the long-anticipated growth boost from LNG exports now expected to be spread across 2015-16 and 2016-17, and imports falling due to the step-down in investment, the trade sector will be a key driver of growth in these years.
- Queensland’s overseas tourism exports are also expected to grow at a healthy pace in coming years, reflecting increased outbound tourism from China, the rising popularity of working holidays in the wider Asian tourism market and lower A\$ exchange rates.
- Employment growth slowed to 0.5% in 2014-15, with weak household income growth constraining jobs growth in labour-intensive service industries and lower commodity prices and ongoing drought impacting the mining and agriculture industries respectively.
- Looking ahead, as the full impact of the Government’s employment measures flow through and the domestic economy strengthens, labour market conditions are expected to improve.
- Employment growth is expected to improve from a low base, reflecting the forecast acceleration in dwelling investment and the lower A\$ improving the competitiveness of services export sectors such as tourism and education.

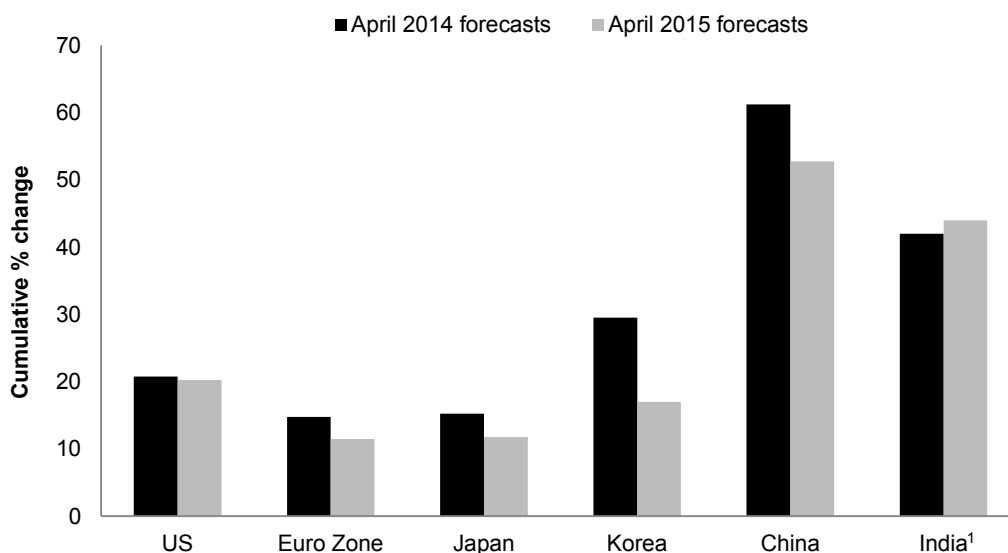
- A modest recovery in employment is expected to see the unemployment rate remain around 6½% over the next two years, before easing to 6% by 2018-19 as domestic activity strengthens.

2.1 External environment

2.1.1 International conditions

Global economic conditions deteriorated over the past year and forecasts for growth have been downgraded. While long-term bond yields in most major economies have risen in recent months, they remain somewhat lower than a year earlier, particularly in Europe, where deflationary pressures have emerged. Further, long-term forecasts for industrial production in Queensland's major export markets have been substantially downgraded (see Chart 2.1). Reflecting weaker global demand and increased supply, commodity prices, including those important to Queensland, have declined substantially. Meanwhile, the sharp decline in crude oil prices since September 2014 is expected to provide some offsetting impetus to net importers of oil.

Chart 2.1 Industrial production growth forecasts, 2013 to 2019



Note:

1. India's industrial production growth profile is on its fiscal year basis (April to March).

Source: Consensus Economics.

Policy settings in major economies remain remarkably accommodative and the response to potential changes in monetary conditions over the period ahead, particularly in the US, will be a key determinant of global economic conditions. The outcome of negotiations between Greece and its creditors remain uncertain at the time of printing. Failure to reach a lasting agreement on debt refinancing will have significant implications for Greece's economy and potentially the fragile Euro Zone recovery.

Economic growth in Queensland's major trading partners is expected to be 4% for 2015, slightly stronger than the 3.7% recorded for 2014, but still below pre-Global Financial Crisis rates. Growth is forecast to improve to 4¼% in 2016, largely due to stronger forecast growth for Japan, the State's second largest trading partner. Although uncertainties remain around its implementation, a second consumption tax increase in Japan is scheduled for April 2017 and this is expected to pull consumption spending forward into 2016. Major trading partner growth is forecast to subsequently moderate due to slower growth in China, India and Japan (see Table 2.1).

Table 2.1 Queensland's major trading partners' economic outlook¹

	Actual		Forecasts			
	2014	2015	2016	2017	2018	2019
Major trading partners	3.7	4	4¼	3¾	3¾	3¾
Non-Japan Asia	5.6	5½	5¾	5½	5¼	5¼
China	7.4	7	6¾	6½	6½	6¼
India ²	7.3	7¾	8	7½	7½	7½
Japan	-0.1	1	1¾	¾	1	1
Europe	1.3	2	2	1¾	1¾	1¾
US	2.4	2¼	2¾	2½	2½	2½
Notes:						
1. Annual % change. Decimal point figures indicate an actual outcome.						
2. India's economic growth profile is on its fiscal year basis (April to March).						
<i>Sources: Consensus Economics and Queensland Treasury.</i>						

The performance of the US economy has significant flow-on effects to growth prospects for Queensland's larger export markets, despite it being a relatively small direct trading partner. While recent severe weather conditions temporarily slowed growth in March quarter 2015, the outlook for the US economy has strengthened over the past six months.

The US Federal Reserve (the Fed) has made significant purchases of US Treasury and mortgage-backed securities since the Global Financial Crisis and the value of assets held on its balance sheet is large by historical standards. While the third phase of the quantitative easing program (QE3, which began in September 2012) was halted in October 2014, monetary policy in the US remains historically accommodative. Implications of an increase in official interest rates and the eventual reduction in assets held on the Fed's balance sheet remain uncertain.

The US housing sector remains an important element in the recovery, with housing starts improving so far in 2015, albeit from a low base. With increases in real disposable income, personal consumption expenditure is making a moderate contribution to growth. While US business investment has grown solidly over the past few years, the significant decline in the oil price has resulted in recent cut-backs to energy-related investment. Meanwhile, ongoing weakness in corporate profits may pose some uncertainty for the timing of the first interest rate increase, anticipated by many to occur in September 2015.

The US labour market, which has been a key obstacle to tighter monetary policy in recent years, continues to improve. Employment growth is accelerating, the unemployment rate is at its lowest since mid-2008 and growth in real wages appears to be picking up, following four years of lacklustre outcomes. However, the participation rate has declined throughout most of the recovery and across most age cohorts. This suggests some of the improvement in the unemployment rate is a result of potential workers exiting the labour force and, combined with persistent underemployment, is an indication of somewhat softer underlying conditions.

The Chinese economy, Queensland's largest trading partner, is slowing. The Chinese Government announced a more modest 7% economic growth target for 2015, compared with the 7.4% growth recorded in 2014. The moderation in growth partly reflects the planned transition to a more sustainable growth trajectory, reducing the reliance on investment and exports in favour of consumption. As part of its transition to a more sustainable longer-term growth path, Chinese authorities continue to manage local government debt, address income inequality and target a reduction in pollution. Meanwhile, with house prices continuing to fall nationwide, China's real estate sector presents an ongoing risk, as does volatility in China's equity markets.

China's coal production and imports fell in 2014, and a continuation of this trend may have flow-on effects to Queensland's coal exports. In recent years, growth in Queensland coal export volumes has been driven by strong demand from China, but this started to slow in 2014-15. In an attempt to counter slower economic growth and moderating inflation, the People's Bank of China has cut interest rates several times. However, China's economic growth is still expected to continue to moderate over the majority of the forecast period.

The stock market in China has fallen by over 30% since mid-June 2015, unwinding a large part of the significant gains made over the past year. While Chinese authorities responded with an interest rate cut in late-June, falling share prices have triggered margin calls with investors having to sell other assets to meet these calls. A substantial number of companies have reacted by suspending trading in their shares. The People's Bank of China is working with the China Securities Finance Corporation in an attempt to steady the stock market and the Government has announced new economic stimulus measures.

Following the April 2014 consumption tax increase, the Japanese economy went into recession, resulting in lower economic output in 2014 than in the previous year. While a depreciation of the Yen has improved its trade performance, Japan's overall growth trajectory remains unclear and a consistently declining and ageing population has been constraining economic growth. Stimulus packages are yet to boost growth and allay deflationary fears as intended. The Bank of Japan expanded its quantitative easing program in October 2014 and economic growth is expected to improve in 2015 and 2016, before moderating to around 1% per annum for the remainder of the forecast period.

Korea's trade performance is crucial to its economic outlook. With Japan and Korea sharing a similar mix of goods exports, the depreciation of the Yen is adversely impacting Korea's economic growth prospects. As a result, further stimulus may be needed to boost growth in Korea, whether in the form of fiscal policy or monetary easing.

Economic growth in Europe has been weak and inflation is extremely low, partly reflecting lower oil prices. In an attempt to lift the path of inflation, boost economic growth and reduce the Euro area unemployment rate, the European Central Bank recently expanded its asset purchasing program (targeted at around €1.1 trillion). The expanded liquidity is likely to weigh on the Euro exchange rate, which should assist Euro area export competitiveness. Despite the stimulus, growth in the Euro area is forecast to remain subdued in the near term.

At the time of printing this Budget, negotiations between Greece and its creditors were yet to be finalised. Failure to reach a lasting agreement will have significant implications for Greece's economy, and potentially the fragile European recovery.

2.1.2 National conditions

The Australian economy has experienced a significant fall in the prices received for key commodity exports, although its terms of trade remain above the historical average of the last three decades. As is the case with the Queensland economy, the transition from the resources sector investment boom to broader based growth is likely to take longer than originally expected. Australian Treasury forecasts gross domestic product (GDP) to grow 2¾% in 2015-16, before accelerating to 3¼% in 2016-17, close to trend growth (see Table 2.2).

After holding the cash rate steady at 2.5% since August 2013, the RBA responded to softness in economic activity by cutting the cash rate, by 25 basis points in both February and May 2015, to an historic low of 2%. The associated fall in the A\$ in recent months is expected to support export oriented and import competing businesses. The Australian Treasury also expects lower oil and electricity prices to support growth.

Growth in household consumption started to pick up during 2014-15, assisted by increases in household wealth, and is expected to return to just below trend over the forecast period. Growth in dwelling investment has been strong and is expected to remain so, largely driven by investor rather than owner occupier activity. However, business investment is now forecast to be weaker than previously expected, with recent data suggesting firms in non-mining sectors of the economy are yet to commit to significant additional investment in 2015-16.

As a result, the Australian Treasury forecasts employment growth to remain subdued, with the national unemployment rate expected to rise to 6½% by June quarter 2016 and then edge back to 6¼% by June quarter 2017. In line with below trend economic growth, inflation and wages growth are expected to remain contained.

Table 2.2 Australian Treasury national economic forecasts

	Actual ¹	Forecasts		
	2013-14	2014-15	2015-16	2016-17
GDP ²	2.5	2½	2¾	3¼
Employment ³	0.7	1.8	1½	2
Unemployment rate ⁴	5.9	6.0	6½	6¼
Inflation ⁵	3.0	1¾	2½	2½
Population ⁶	1.4	1¾	1¾	1¾
Terms of trade	-3.7	-12¼	-8½	¾
Notes:				
1. Calculated using original data unless otherwise indicated.				
2. Per cent change on previous year. Chain volume measure (CVM), 2012-13 reference year.				
3. Seasonally adjusted, through-the-year growth rate to the June quarter. Actual outcome for 2014-15.				
4. Seasonally adjusted rate for the June quarter. Actual outcome for 2014-15.				
5. Through-the-year growth rate to the June quarter.				
6. Through-the-year growth rate to 31 December.				
<i>Sources: ABS 3101.0, 6202.0, 6401.0 and the 2015-16 Australian Government Budget.</i>				

2.1.3 Assumptions

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

- The RBA is assumed to maintain an easing bias in 2015-16, with the official cash rate beginning to move gradually upwards in 2016-17.
- At the time the Budget forecasts were prepared, the A\$ was trading at a little below \$US0.80. Since then, the A\$ has fallen further in response to volatility in financial markets.
- Crude oil prices have fallen substantially since mid-2014. Consistent with current pricing of futures markets, it is assumed that oil prices will gradually rise over the next few years.
- Dry seasonal conditions and other adverse weather events relating to the current El Niño weather pattern have been factored into estimates of agricultural exports in 2015-16. Seasonal conditions are assumed to gradually improve from 2016-17.

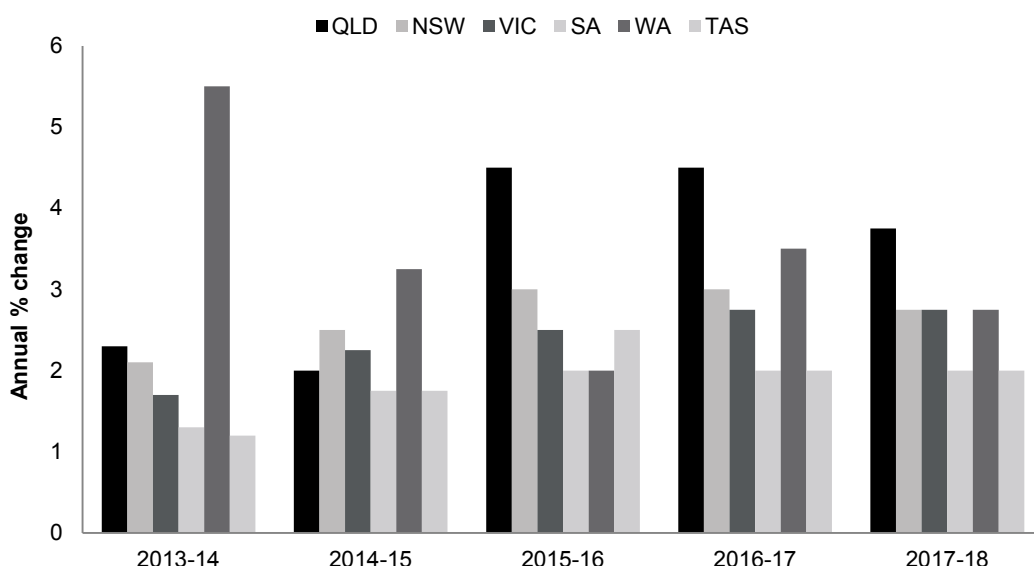
This chapter ends with a discussion of the risks related to the global economy, financial markets and other assumptions driving the Queensland outlook.

2.2 Queensland economy

2.2.1 Summary of conditions and outlook

Queensland economic growth is forecast to strengthen to 4½% in both 2015-16 and 2016-17, before moderating to 3¼% in 2017-18 (see Table 2.3). As a result, growth in Queensland is forecast to be stronger than that of all other states over the forecast period (see Chart 2.2).

Chart 2.2 Economic growth, by state¹



Note:

1. CVM, 2012-13 reference year. 2014-15 are estimates and 2015-16 onwards are forecasts.

Sources: ABS 5220.0, various state Budgets and Queensland Treasury.

The Queensland economy is now well into a transition period, as the investment phase of the large LNG projects nears completion and production and exports of LNG are underway. However, the ramp up in these exports and the recovery in most other sectors of the domestic economy is expected to take longer than originally anticipated.

Household consumption growth has been subdued in recent years and is estimated to remain so in 2014-15. Sustained low interest rates and rising asset prices have not been sufficient to offset the impact of weak growth in household income. Consumption is also being restrained as households save to rebuild their balance sheets. The recovery in dwelling investment gained further momentum in 2014-15, driven by strong activity in medium-to-high density housing.

However, growth in consumption and dwelling investment is not sufficient to compensate for the large step-down in LNG investment, which is driving a fall in business investment and overall state final demand in 2014-15 (see Chart 2.3). The step-down in LNG construction is also driving a significant decline in overseas imports, while overseas exports are experiencing moderate growth. As a result, the contribution from net exports is expected to underpin economic growth of 2% in 2014-15, slightly below the outcome of 2.3% in the previous year.

In 2015-16, a continuation of accommodative monetary policy is expected to support household consumption and dwelling investment. However, business investment will be lower in 2015-16 as it returns to more sustainable levels. As a result, state final demand is forecast to grow only marginally. Recent company guidance suggests the ramp up of LNG exports is expected to be later than originally anticipated, making a more even contribution to economic growth across 2015-16 and 2016-17. Nonetheless, total overseas exports are forecast to grow by a strong 11¼% in 2015-16. With the fall in business investment driving a further fall in overseas imports, net exports are forecast to drive GSP growth of 4½%.

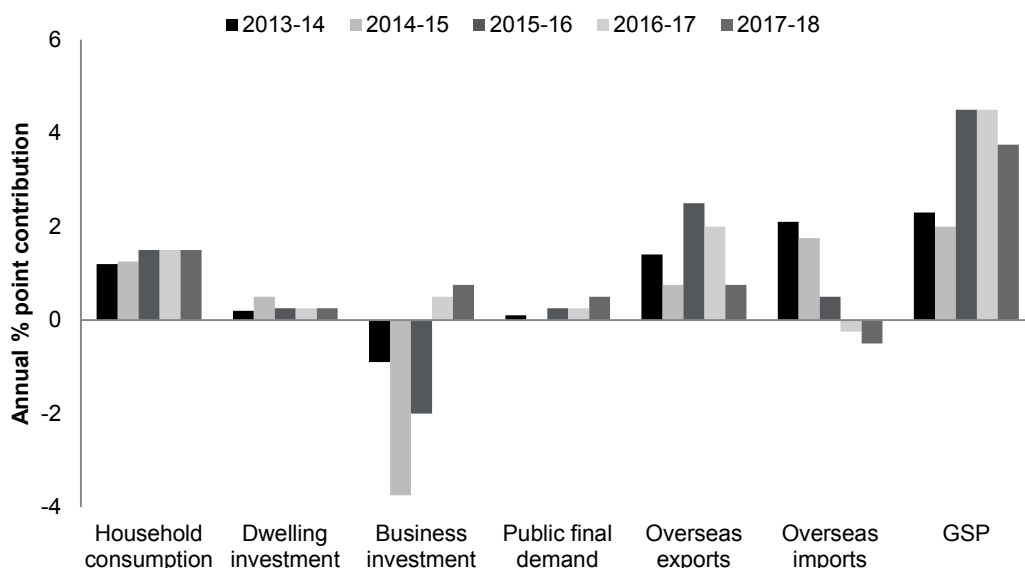
Overseas export growth will continue to be strong in 2016-17, as LNG plants approach full operational capacity. With expected moderate consumption growth, continued robust dwelling investment growth and a small rebound in business investment, GSP growth is forecast to remain solid at 4½%. Looking further ahead, GSP growth is expected to be more balanced across its major components. However, there is emerging evidence that population growth in Queensland has moved onto a lower trajectory and so GSP growth is projected to ease back to 3¼% by 2018-19, below the historical average of around 4%.

Labour market conditions in Queensland are expected to be softer than previously anticipated, and similar to those forecast nationally. With economic growth being driven by less labour intensive sectors of the economy, employment is forecast to grow moderately in 2015-16 and 2016-17. This is expected to keep the unemployment rate elevated through that period, before an improvement in domestic activity sees it ease back to 6% by 2018-19.

Table 2.3 Economic forecasts/projections, Queensland¹

	Actual 2013-14	Estimate 2014-15	2015-16	Forecasts 2016-17	2017-18	Projection 2018-19
Gross state product	2.3	2	4½	4½	3¾	3¼
Employment ²	1.4	0.5	1¼	1¾	2	2¼
Unemployment rate ²	6.0	6.5	6½	6½	6¼	6
Inflation	2.8	2	2¼	2½	2½	2½
Wage Price Index	2.6	2½	2½	2¾	3	3¼
Population	1.6	1½	1¾	1¾	1¾	1¾
Notes:						
1. Annual % change, except for unemployment rate.						
2. Actual outcome for 2014-15.						
<i>Sources: ABS 3101.0, 5220.0, 6202.0, 6345.0, 6401.0 and Queensland Treasury.</i>						

Chart 2.3 Contributions to growth in Queensland's gross state product¹



Note:

1. CVM, 2012-13 reference year. 2014-15 are estimates and 2015-16 onwards are forecasts.

Sources: ABS 5206.0, 5220.0 and Queensland Treasury.

Household consumption

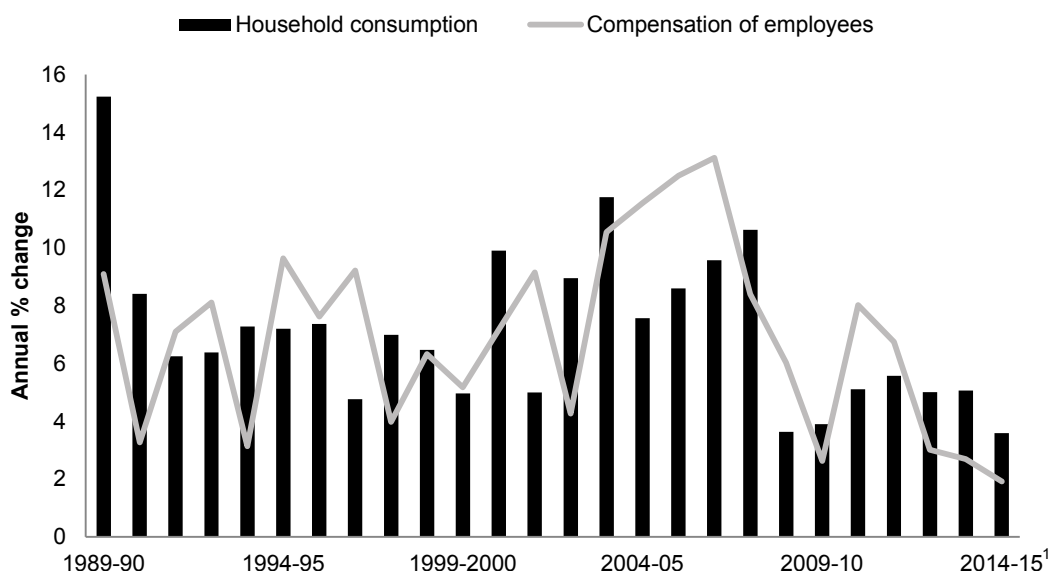
Growth in household consumption spending has been below its historical average in recent years, driven by weak household income growth (see Chart 2.4) and increased saving. As LNG investment has wound down and coal prices fallen, resource related employment has also declined. Drought conditions have affected farm production and incomes, leading to further reductions in agricultural employment. These impacts have flowed through to other sectors of the economy, including the retail sector.

While rising equity and house prices have driven strong growth in nominal household wealth over the last two years, it remains below its long-run trend. There is evidence to suggest that consumption is being restrained as households rebuild wealth in the wake of the Global Financial Crisis, for example, by using income to pay down debt more rapidly than required.

These influences continued in 2014-15, with a subdued labour market, slow wages growth and weaker commodity prices offsetting the benefits of increasing wealth and low interest rates.

Over the forecast period, growth in household spending is expected to pick up, as employment conditions begin to improve and dwelling investment recovers further. However, consumption growth is expected to remain well below its long-term average of over 4%, also reflecting in part the additional impact of slower expected population growth.

Chart 2.4 Nominal household consumption and employee income, Queensland



Note:

1. First three quarters of 2014-15.

Sources: ABS 5206.0 and Queensland Treasury.

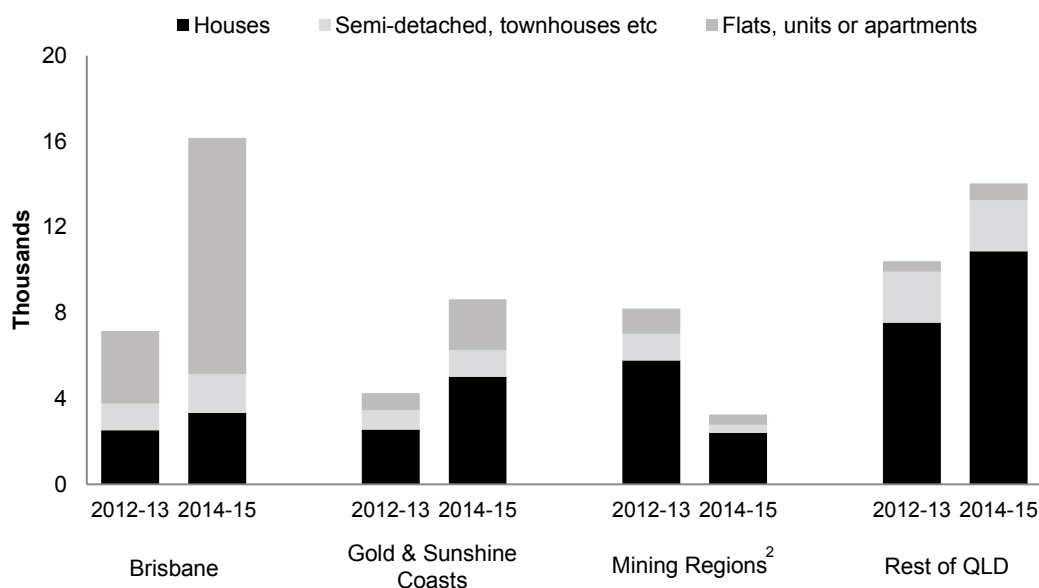
Dwelling investment

Dwelling investment in Queensland grew 4.8% in 2013-14, the first increase in six years. This recovery accelerated in 2014-15, supported by record low interest rates and increased activity by investors. However, unlike previous growth phases in Queensland, investment in new dwellings is being driven by strong demand for the construction of medium-to-high density dwellings (flats, units or apartments), particularly in Inner City Brisbane (see Chart 2.5).

A moderation in approvals in mining regions, which had previously benefited from strong demand (particularly for houses) as a result of resource-related investment, is only partly offsetting growth elsewhere in the State. Renovation activity across the State is growing at a softer pace, and is expected to remain subdued, as a result of slower household income growth and a subdued labour market.

Looking ahead, investor interest in Queensland is expected to strengthen as house prices are comparatively low compared to major southern states. Recent large gains in Sydney house prices will prompt interstate and overseas investors to seek more attractive rental yields. As a result, dwelling investment is forecast to continue to grow at a robust rate in 2015-16 and then moderate as the RBA moves towards a more neutral monetary setting.

Chart 2.5 Dwelling approvals¹ by type, Queensland



Notes:

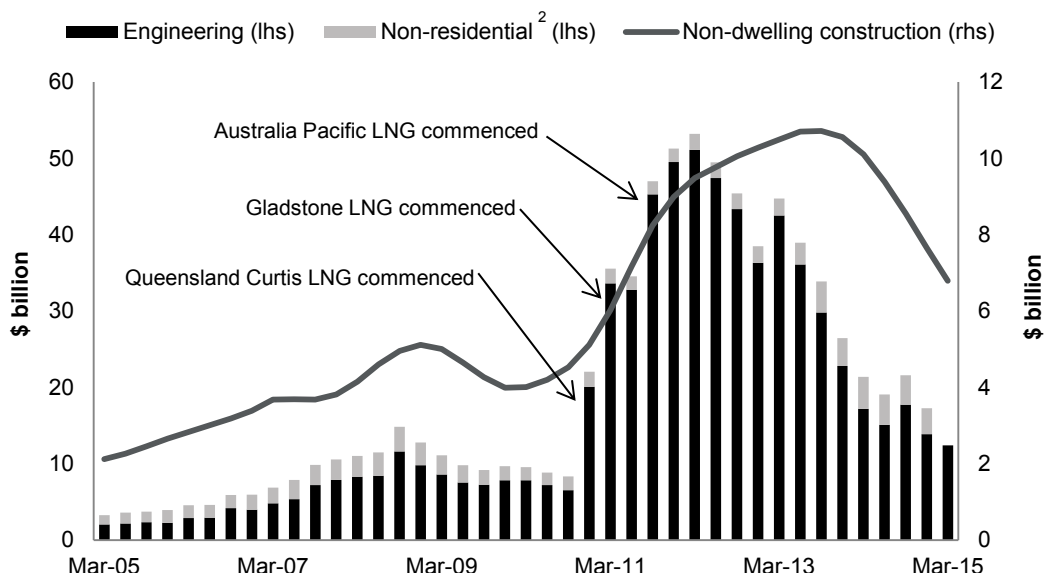
1. 12 months to May 2013 and May 2015.
2. Mining regions are Fitzroy, Mackay, Queensland Outback and Townsville.

Sources: ABS 8731.0 and Queensland Treasury.

Business investment

As construction of the three large LNG projects winds down, business investment in Queensland has fallen from the historically high levels of the past few years. With combined capital expenditure exceeding \$60 billion, the unprecedented scale of these projects means that a substantial fall in investment has been anticipated for some time, regardless of the pipeline of projects to follow (see Chart 2.6).

Chart 2.6 Non-dwelling construction and work yet to be done, by sector¹



Notes:

1. Nominal, private. Work yet to be done in stacked bar, original. Non-dwelling construction in line, trend.
2. March quarter 2015 non-residential work yet to be done not available at time of printing.

Sources: ABS 5206.0, 8752.0 and 8762.0.

Considerable falls in key commodity prices have prompted resource companies to focus on improving productivity of existing operations and to implement cuts to their exploration and capital investment budgets, including the deferral or cancellation of projects.

An anticipated pick-up in non-resource investment has yet to materialise, and a rebound is unlikely in the short term. Subdued household consumption and the downturn in the resources industry are serving to sustain spare capacity created by recent projects in several sectors, including retail, commercial offices and warehouses.

With around 80% of the State currently drought declared, the agricultural sector is also unlikely to contribute to growth in investment.

Business investment is expected to fall further in 2015-16, due primarily to the staged completion of the LNG projects. However, as non-resources investment gradually strengthens in line with improving household sector activity, business investment is expected to return to a more sustainable longer-term growth path from 2016-17 onwards.

Table 2.4 Queensland economic forecasts¹, by component

	Actual 2013-14	Estimate 2014-15	Forecasts		
			2015-16	2016-17	2017-18
Economic output²					
Household consumption	2.1	2	2½	2¾	3
Private investment	-3.6	-11¾	-6	4¾	5½
Dwelling investment	4.8	9¼	7	6½	4½
New and used	7.2	15½	10	8¼	5
Alterations and additions	2.0	1½	3	4	4
Business investment	-6.4	-20	-13¼	3½	5¾
Non-dwelling construction	-3.0	-26	-16½	3¼	6
Machinery and equipment	-14.0	-5	-6½	4¼	5½
Private final demand	0.1	-2½	0	3¼	3¾
Public final demand	0.8	0	1¼	1½	1¾
State final demand	0.3	-2	¼	3	3¼
Net overseas exports ^{3,4,5}	3½	2½	3	1¾	½
Overseas exports of goods and services ⁴	6¾	2¾	11¾	9	3¾
Overseas imports of goods and services ⁵	-10¼	-10¾	-3¾	1¾	3
Gross state product	2.3	2	4½	4½	3¾
Nominal gross state product	2.8	4½	7	7½	6¾
Other economic measures					
Employment ⁶	1.4	0.5	1¼	1¾	2
Unemployment rate (% , year-average) ⁶	6.0	6.5	6½	6½	6¼
Inflation	2.8	2	2¼	2½	2½
Wage Price Index	2.6	2½	2½	2¾	3
Population	1.6	1½	1¾	1¾	1¾
Notes:					
1. Unless otherwise stated, all figures are annual % changes.					
2. CVM, 2012-13 reference year, except nominal GSP. Components not separately reported are other investment (cultivated biological resources, intellectual property products and ownership transfer costs), the balancing item (including interstate trade and inventories) and the statistical discrepancy.					
3. Percentage point contribution to growth in gross state product.					
4. Adjusted to include re-exports and Queensland's confidential exports (largely raw sugar).					
5. Adjusted for the imports of capital goods for major resource projects.					
6. Actual outcome for 2014-15.					
Sources: ABS 3101.0, 5206.0, 5220.0, 6202.0, 6345.0, 6401.0 and Queensland Treasury.					

Public final demand

Consistent with the Government's responsible and measured approach to managing the State's finances, public final demand (the sum of federal, state and local government consumption and investment) is expected to grow moderately over the forward estimates period.

Overseas exports and imports

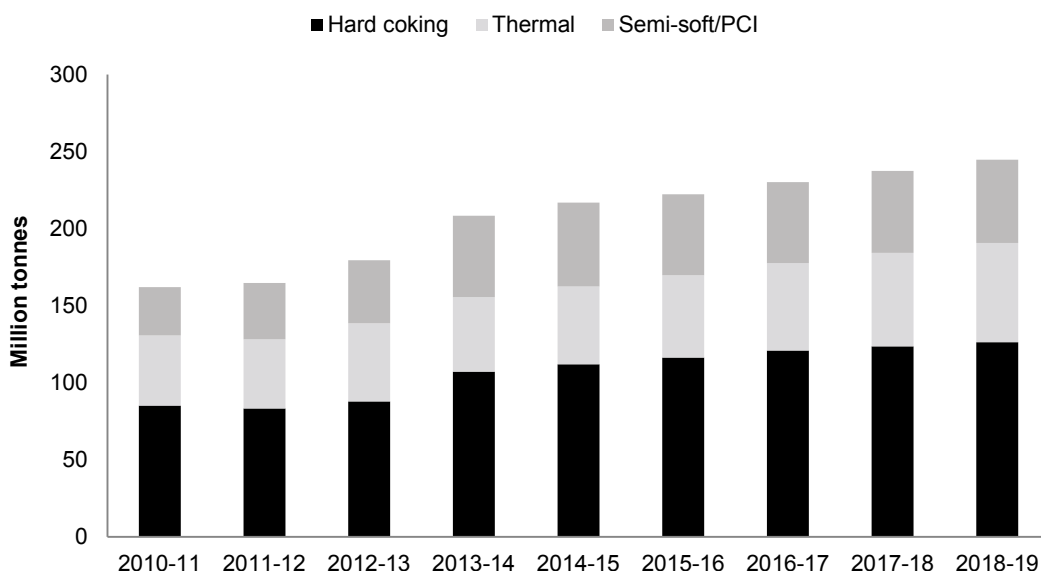
The volume of overseas goods exports is expected to grow by 3¼% in 2014-15, following an 8.1% rise in the previous year. Growth in coal export volumes has been driven by demand from China and, to a lesser extent, India. Meanwhile, exports of base metals are expected to be relatively flat. In the rural sector, drought conditions have driven growth in beef exports as farmers reduce herd sizes, while unfavourable growing conditions have contributed to lower cotton and other crop exports.

Growth in the nominal value of overseas exports is expected to be lower than volume growth, mainly due to falling coal prices. In the first 11 months of 2014-15, unit export prices of hard coking, thermal and semi-soft/PCI coal fell 9.8%, 9.3% and 9.1% respectively compared to the same period a year ago. In contrast, total coal export volumes increased by 5.1% over the same period.

Coal export volumes are forecast to grow moderately from 2015-16 onwards (see Chart 2.7). In China, which has been a significant source of growth for Queensland's coal exports, the pace of economic growth is expected to be constrained by the ongoing effort to rebalance the economy and reduce pollution. On the supply side, the ramp up of production in a number of Queensland mines will continue to support export growth across the forecast period. However, weaker global demand and increased world supply of coal products is expected to keep coal prices subdued.

The projections of relevant coal parameters are shown in Appendix C.

Chart 2.7 Queensland coal exports¹



Note:

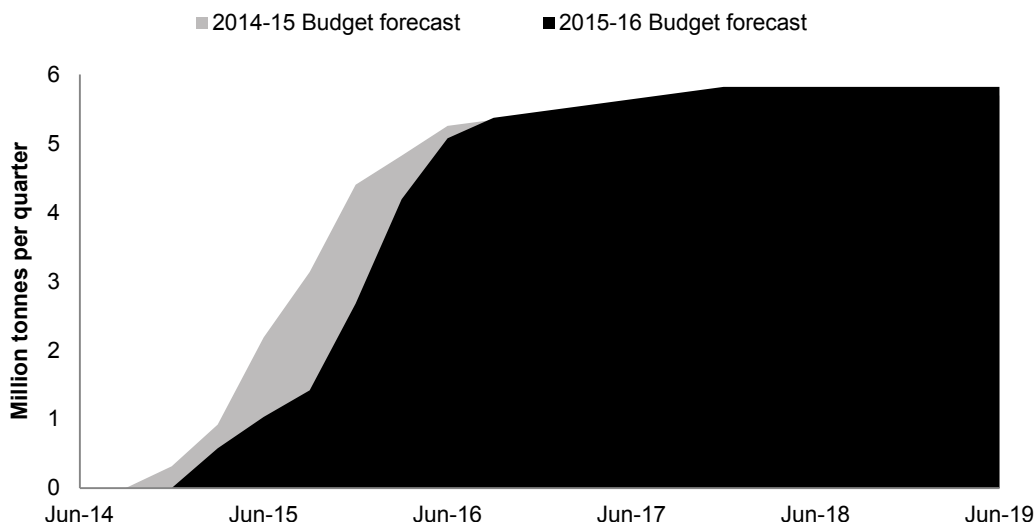
1. 2014-15 are estimates; 2015-16 onwards are forecasts.

Sources: ABS unpublished trade data and Queensland Treasury.

While the ramp up of new mines supported base metals exports in 2013-14, a decline in the quality of remaining deposits, prospective closures of depleted mines and the absence of significant new projects is expected to result in a fall in the volume of base metals exports over the forecast period.

The first shipment of LNG from the Queensland Curtis LNG plant was exported in January 2015. This will be followed by the commencement of LNG exports from the Gladstone LNG and Australia Pacific LNG plants towards the end of 2015. Construction and commissioning of these projects has taken longer than previously anticipated, causing delays to the expected commencement of LNG production and, consequently, the ramp up in exports. While expectations for the total export capacity of these projects once fully operational is largely unchanged, their contribution to Queensland's economic growth is now expected to be more evenly spread across 2015-16 and 2016-17 (see Chart 2.8).

Chart 2.8 Queensland's forecast LNG exports



Sources: Company reports and Queensland Treasury.

Beef export volumes increased by 6.8% in the first 11 months of 2014-15, when compared with the same period a year ago. Demand for Australian beef has been supported by a sharp fall in supply in the US, which has led to a rise in export prices over the past year. Combined with ongoing drought, this encouraged producers to increase slaughter rates. However, stock numbers are in decline, and will continue to fall over the next few years unless climatic conditions improve. Lower stock levels are expected to limit the supply of cattle available for slaughter and reduce the volume of beef exported in 2015-16 and 2016-17.

Cotton exports are forecast to fall in 2015-16 as a result of dry seasonal conditions. Subdued prices are expected to result in a continued fall in nominal exports in 2016-17.

Sugar producing regions have been less affected by drought and were not affected by the natural disasters that hindered production in previous years. Moderate growth in exports is expected for 2014-15. However, production is anticipated to increase only marginally in the medium term, reflecting limited capacity to increase the area of plantation.

Overseas tourism exports are estimated to recover in 2014-15, after declining in 2013-14. Moderate improvement in global economic conditions, the lower A\$ and the rising popularity of overseas travel by Chinese tourists are expected to drive growth in Queensland's overseas tourism exports over the forecast period. In addition, the Commonwealth Games, which will be held on the Gold Coast in April 2018, will boost tourism exports in 2017-18.

Overseas education exports increased strongly in the first half of 2014-15, driven by a substantial increase in commencements in vocational education and training courses and an increase in higher education enrolments. Australian Government reforms implemented since late 2011 appear to have had a positive impact on education exports and overseas enrolments are expected to continue to grow.

An unwinding of the current high levels of LNG-related imports, as well as a broader decline in business investment outside the LNG sector, is expected to result in lower total goods imports in 2014-15. Weaker household expenditure growth is also expected to constrain imports of consumption goods in that year. As conditions in these sectors improve, Queensland imports are forecast to rise from 2016-17 onwards.

Labour market

Employment growth in Queensland moderated to 0.5% in 2014-15, and has averaged just 0.9% per annum since the Global Financial Crisis. The recent weakness in employment highlights the importance of the Government's *Working Queensland* jobs plan, which is outlined in the Government's *Jobs Now, Jobs for the Future* paper.

Weak household income growth as a result of the fall in the terms of trade is constraining employment growth in labour intensive service industries such as retail trade. Meanwhile, drought conditions impacting Queensland's agricultural industry are expected to be sustained by the current El Niño weather pattern.

Employment supported by the construction of major resources projects is expected to continue to decline in 2015-16 as these projects are completed. In an environment of low commodity prices, mining operators have reduced their workforces and continue to target efficiency gains to maintain profitability. This is also having an impact on employment in industries servicing the resources sector, such as professional services and equipment hiring.

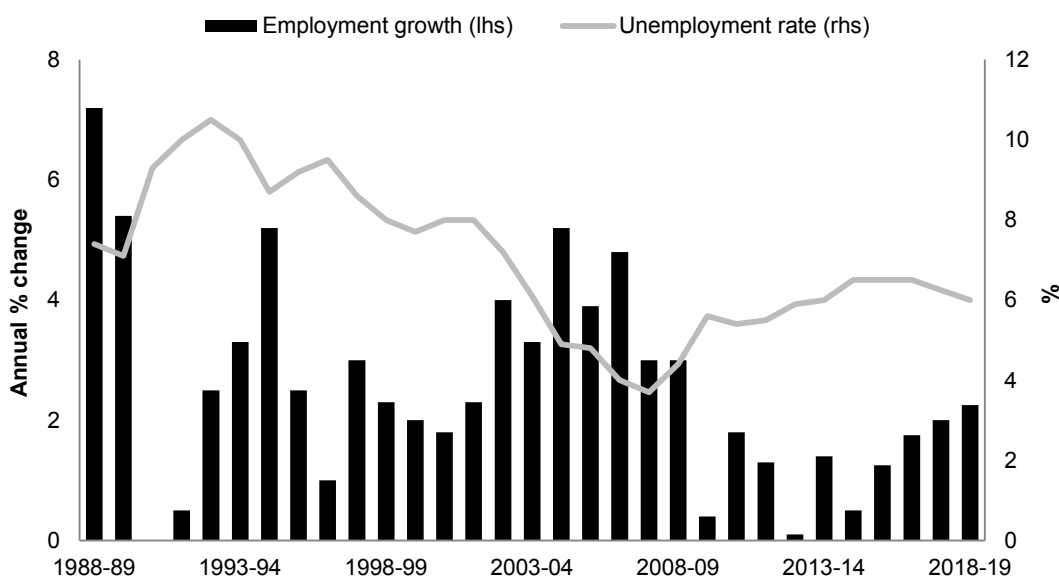
The forecast acceleration in Queensland's economic growth in 2015-16 is expected to be driven largely by LNG exports, which is unlikely to provide a significant boost to employment. LNG production and exports are less labour-intensive than both LNG construction and economic activity more generally. As a result, employment and labour income growth will be more subdued than in other periods of similar economic growth.

Employment growth is expected to improve from a low base, partly reflecting the forecast acceleration in dwelling investment as work on the significant pipeline of medium-to-high density projects is undertaken. Improved competitiveness for trade exposed sectors outside of mining, such as tourism and education, should also support jobs growth.

Further ahead, employment outcomes are forecast to continue to improve as non-resources investment gradually recovers and domestic demand strengthens. Labour market outcomes are also expected to be supported by the roll out of the Government's \$1.6 billion *Working Queensland* package, which aims to help grow the State's economy and create real and sustainable jobs for Queenslanders. More details of this package are available in *Jobs Now, Jobs for the Future*.

Queensland's unemployment rate is forecast to remain around 6½% over the next two years. From 2017-18, the unemployment rate is forecast to gradually fall as employment begins to grow faster than population (see Chart 2.9). Queensland's participation rate is expected to be marginally lower over the period ahead, having already fallen significantly from its peak. The ageing of the population is expected to continue to place downward pressure on the participation rate as more people enter age cohorts that tend to be less reliant on employment related income.

Chart 2.9 Labour market, Queensland¹



Note:

1. Year-average. 2014-15 are actual outcomes, 2015-16 to 2017-18 are forecasts and 2018-19 are projections.

Sources: ABS 6202.0 and Queensland Treasury.

Prices and wages

After accelerating to 2.8% in 2013-14, Brisbane consumer price inflation is expected to moderate to 2% in 2014-15. This slowing in headline inflation can be largely explained by two temporary factors. First, a significant fall in global oil prices since mid-2014 led to a sharp decrease in domestic automotive fuel prices. Second, a range of factors canvassed by the Australian Energy Regulator have combined to result in slower growth in electricity prices. Partially offsetting these effects, the cumulative depreciation of the A\$ over recent years has led to higher prices for imported goods.

With lower oil prices and slower growth in electricity prices largely impacting 2014-15, a modest acceleration in inflation is forecast for 2015-16. Despite a reduction in the main residential electricity tariff for the typical household in 2015-16, higher prices for imported goods are expected to gradually filter through to retail prices in that year and beyond.

Wage growth has moderated over the past couple of years and is currently at an historically low rate. Consistent with ongoing spare capacity in the labour market, little improvement in nominal wage growth is expected in the near term. As employment growth strengthens and the unemployment rate falls, wage growth is expected to pick up.

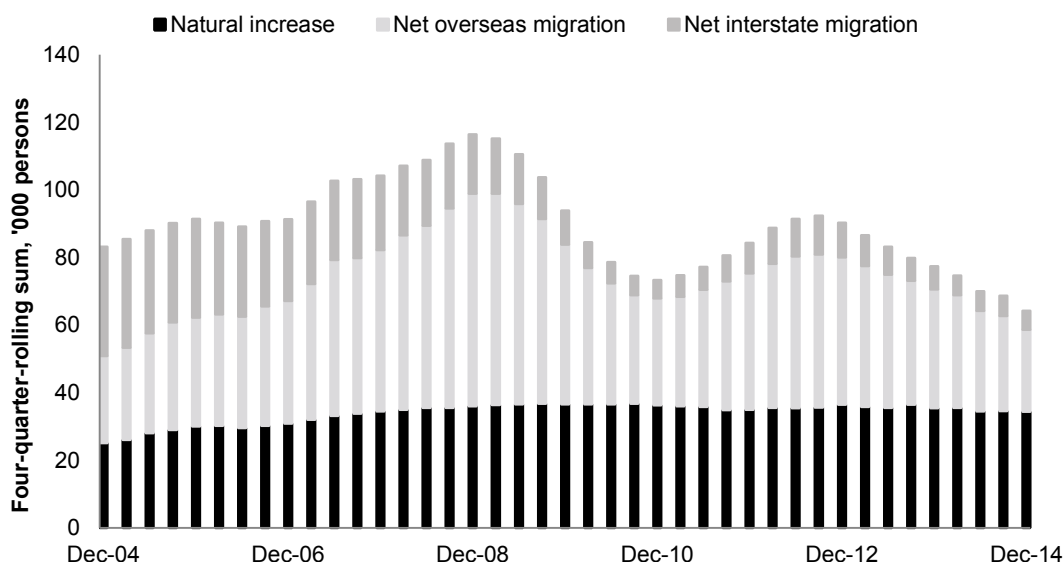
Population

With the surge in resources investment unwinding and Queensland's unemployment rate remaining above the national average, Queensland's annual population growth slowed to 64,000 in 2014. This reflects a decline in net inflows from both overseas and interstate migration (see Chart 2.10).

The slowdown in net overseas migration has also occurred nationally and resulted in a slowing in Australia's population growth rate. Queensland's share of the national migration total has also fallen below its long-run average. At the same time, Queensland's net interstate migration has persisted at historically low levels. Notably, net inflows from New South Wales have declined considerably and there has been a sustained period of net outflows to Victoria for the first time on record.

Looking ahead, national net overseas migration is expected to be subdued, but net overseas migration to Queensland is assumed to pick up towards its long-run average share. Net interstate migration is forecast to recover only slightly in coming years, as soft labour market conditions in Queensland offset the attraction of greater housing affordability in Brisbane relative to Sydney and Melbourne.

Overall, Queensland's population growth is expected to be 1½% in 2014-15, broadly in line with that expected nationally. Population growth in Queensland is then expected to strengthen to around 1¾% per annum over the remainder of the forecast period, also in line with expected national growth.

Chart 2.10 Population growth, by component, Queensland

Source: ABS 3101.0.

2.2.2 Risks to the economic outlook

Internationally, a key risk for the economic outlook is any disruption to the economic recovery in the US and Europe.

In relation to Greece, Australia's trade and direct financial connections are minor. Consequently, the impact of the Greek debt crisis will only become significant if there are flow-on effects to the Euro Zone as a whole or global financial markets are destabilised. The impact on Australia and Queensland would then depend on how much this affects growth in the US and China. Given the current uncertainties it is difficult to predict the ultimate impact of this crisis.

In Asia, the Chinese Government's focus on rebalancing growth, consolidating local government debt, addressing corruption and containing pollution means that China's economic growth may be weaker than currently anticipated. If this is the case, China's demand for energy and mineral products may weaken, with adverse implications for the Queensland economy, particularly commodity prices.

With the Chinese economy already slowing, the recent substantial correction in the Chinese stock market could further impact the real economy. This could then flow through to other Asian economies with strong links to China, as well as to the Australian economy, and drive further falls in commodity prices.

Uncertainty related to the pace of the completion of LNG investment and the transition to the production and export phase, as well as the possibility that non-mining investment remains weaker for longer, present risks to the growth outlook.

The emergence of an El Niño weather pattern means that any relief from the current drought conditions may take longer than previously thought.

Population growth, both nationally and in Queensland, has slowed in recent years. At the national level, this has been driven by a slowdown in net overseas migration. Australian Government forecasts currently imply a moderate recovery in net overseas migration. However, if this does not occur, both national and Queensland population growth could be lower than currently forecast. Further, if Queensland's share of net overseas migration does not recover toward longer-run average levels, Queensland's population growth rate may not recover from its current level.

If some of these risks were to eventuate, the forecast recovery in domestic activity and labour market conditions may be slower than currently anticipated.

This heightens the importance of the Government's \$1.6 billion Working Queensland package. The full suite of measures to grow jobs now and jobs for the future is expected to strengthen the labour market and put downward pressure on unemployment. These measures are outlined in the supplementary *Jobs Now, Jobs for the Future* paper.

3 Revenue

Features

- The Government has met its commitment to no new taxes, fees and charges in this Budget.
- Queensland will retain its competitive tax status, with per capita state tax estimated at \$2,666 in 2015-16, compared to an average of \$3,343 for the other states and territories.
- Total General Government Sector revenue is estimated to be \$49.578 billion in 2014-15, \$2.844 billion (or 6.1%) higher than in 2013-14. This is largely attributable to an increase in current grants from the Australian Government (including \$941 million of specific purpose payments and \$920 million of goods and services tax (GST) revenue) and \$862 million in taxation revenue.
- The revenue outlook is challenging. Total revenue is expected to grow at an average annual growth rate of 3.6% over the period 2013-14 to 2018-19 (or 4.3%, excluding Natural Disaster Relief and Recovery Arrangements (NDRRA) payments). This is significantly less than the 7.9% average growth over the period 2001-02 to 2013-14.
- Total General Government Sector revenue in 2014-15 is estimated to have been \$542 million (or 1.1%) lower than was estimated in the 2014-15 Budget. A major driver of this decrease has been a \$762 million reduction in grants from the Australian Government and a \$619 million reduction in royalty revenue due to the impact of falling commodity prices, partially offset by higher taxation and dividend revenue.
- Since the 2014-15 Budget, forecasts for royalty revenue have been downgraded by \$4.635 billion over the period 2014-15 to 2017-18. This reflects significant reductions in the expectation for commodity prices, including the average coking coal price being 28.3% lower over the period and oil prices being 30.1% lower over the period. The reduction since the 2014-15 Mid Year Fiscal and Economic Review (MYFER) is \$3.186 billion over the comparable period.
- Total General Government Sector revenue is estimated to be \$51.186 billion in 2015-16. The increase of \$1.608 billion (or 3.2%) on 2014-15 estimated actual revenue is primarily driven by grants from the Australian Government, including an increase of \$1.174 billion in GST revenue.
- Liquefied natural gas (LNG) exports commenced in 2014-15, with the first shipment of LNG from the Queensland Curtis LNG plant occurring in January 2015. Other proponents are expected to begin exporting during 2015-16, contributing significantly to strong growth in royalty revenue in that year. Coal seam gas royalties are discussed further in Box 3.1.
- To encourage businesses to employ apprentices or trainees, the Government has introduced a 25% rebate on payroll tax on the wages of each apprentice and trainee employed. This rebate is in addition to apprentice and trainee wages being exempt from payroll tax and is offset against the tax payable on the wages of other employees.

This chapter provides an overview of General Government Sector revenue for the 2014-15 estimated actual outcome, forecasts for the 2015-16 Budget year and projections for 2016-17 to 2018-19.

Table 3.1 General Government Sector revenue¹

	2013-14 Actual \$ million	2014-15 Budget \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Taxation revenue	11,845	12,455	12,707	12,926	13,607	14,289	15,007
Grants revenue							
Current grants	19,172	20,610	20,962	21,895	23,555	24,592	24,820
Capital grants	2,583	3,433	2,411	2,660	2,744	2,385	1,241
Sales of goods and services	5,048	5,187	5,350	5,430	5,444	5,565	5,769
Interest income	2,460	2,429	2,467	2,372	2,274	2,289	2,302
Dividend and income tax equivalent income							
Dividends	1,568	1,515	1,752	1,632	1,636	1,283	1,233
Income tax equivalent income	407	633	658	762	800	639	618
Other revenue							
Royalties and land rents	2,537	2,846	2,220	2,444	2,857	3,329	3,614
Other	1,114	1,013	1,051	1,065	1,093	1,116	1,146
Total revenue	46,734	50,120	49,578	51,186	54,010	55,486	55,748
Note:							
1. Numbers may not add due to rounding.							

3.1 2014-15 estimated actual

General Government Sector revenue in 2014-15 is estimated to be \$49.578 billion, which is \$542 million (or 1.1%) less than the 2014-15 Budget estimate.

Significant variations from the 2014-15 Budget estimates include:

- a \$1.035 billion (or 31.1%) decrease in capital grants from the Australian Government largely due to payments for disaster recovery in 2014-15 being lower than estimated (with 2013-14 being higher due to an early payment from the Australian Government)
- lower royalty revenue, by \$619 million (or 23.2%), due to significant decreases in oil prices and coal contract prices

- a \$252 million (or 2.0%) increase in taxation, primarily associated with higher transfer duty receipts.

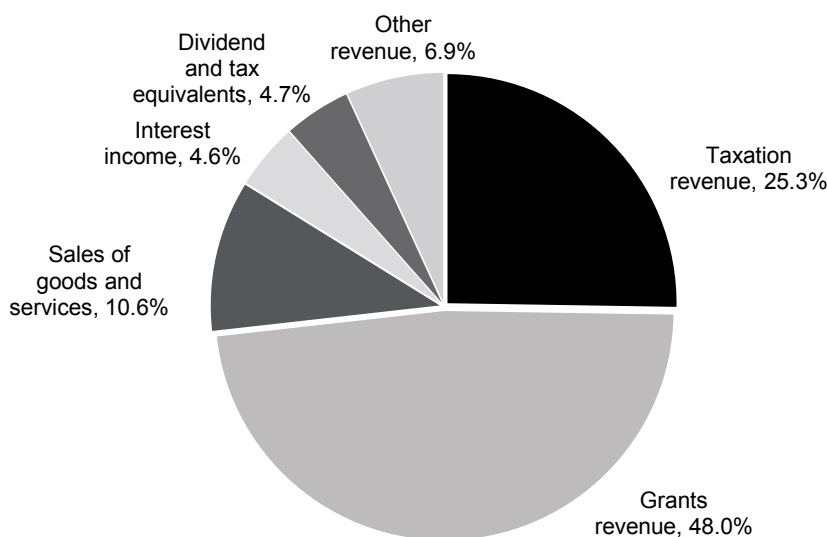
3.2 2015-16 revenue by category

General Government Sector revenue in 2015-16 is estimated to be \$51.186 billion, \$1.608 billion (or 3.2%) higher than the 2014-15 estimated actual revenue of \$49.578 billion. This is largely due to growth of \$1.225 billion in grants from the Australian Government and modest increases in royalty and taxation revenue.

The significant increase in grants from the Australian Government is largely due to the \$1.174 billion increase in GST. Total NDRRA payments for 2015-16 are estimated at \$1.106 billion. After adjusting for natural disaster payments, the underlying growth in revenue is \$1.665 billion (or 3.4%) in 2015-16, compared to \$3.196 billion (or 7.1%) in 2014-15.

Major sources of General Government Sector revenue in 2015-16 are grants revenue (48.0% of revenue) and taxation revenue (25.3%). Chart 3.1 illustrates the composition of General Government Sector revenue.

Chart 3.1 Revenue by operating statement category, 2015-16^{1,2}

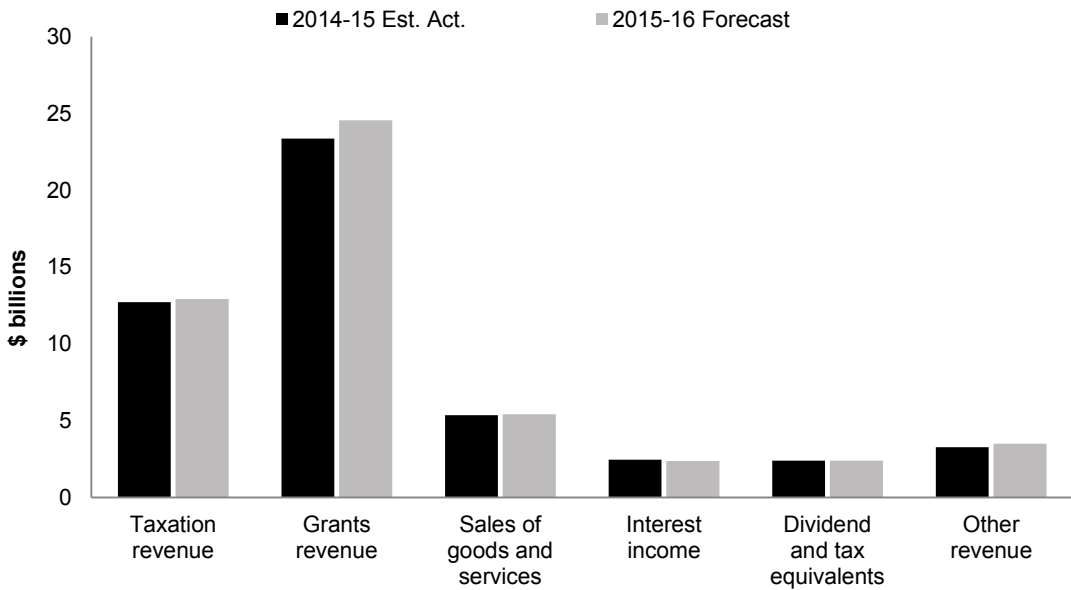


Notes:

1. Numbers may not add due to rounding.
2. The major component of other revenue is royalties and land rents (4.8% of total revenue).

Chart 3.2 compares 2015-16 estimates with 2014-15 estimated actuals. The main driver of revenue growth in 2015-16 is increased GST revenue of \$1.174 billion.

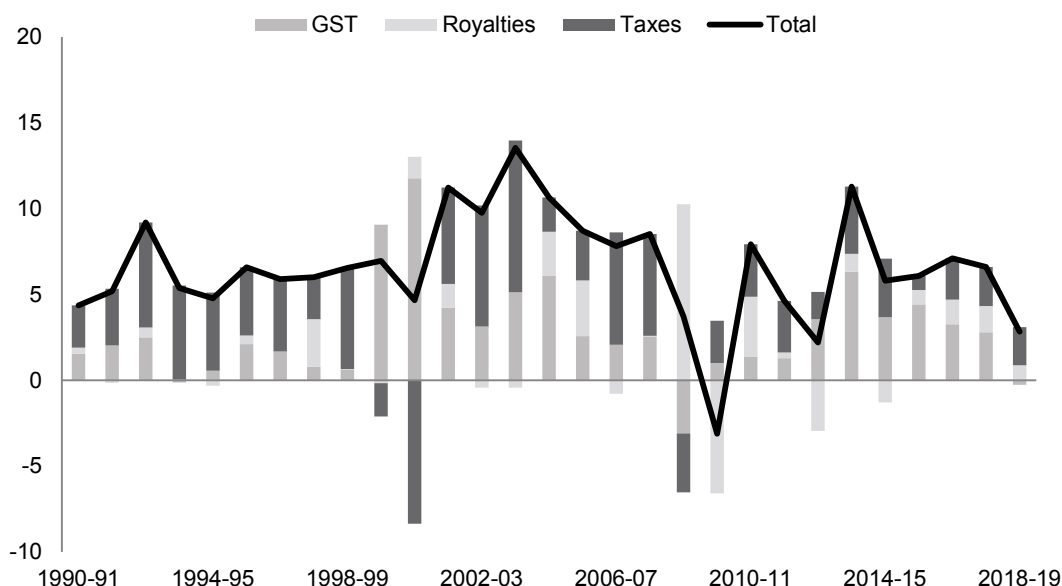
Chart 3.2 Revenue by operating statement category for 2014-15 and 2015-16



3.3 Queensland's revenue trends

Chart 3.3 examines the contribution of the key revenue sources of GST, taxation and royalties to revenue growth. As shown, the primary driver of the growth in these three key revenues in 2015-16 is GST revenue distributed to Queensland by the Australian Government.

Chart 3.3 Contribution to growth of key revenues¹



Note:

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

3.3.1 GST revenue

Queensland's GST revenue grew by an average rate of 7.5% across 2001-02 to 2007-08, primarily due to strong growth in national GST collections. Growth in GST was supported by strong growth in household consumption and dwelling investment activity, which were sustained by high levels of consumer confidence and partly funded by increases in household borrowings.

Queensland's GST revenue is expected to grow by 9.9% in 2015-16 compared to the 2014-15 estimated actual. This is due to the Commonwealth Grants Commission (CGC) assessment that Queensland should receive a higher per capita share of the GST pool in 2015-16 than 2014-15, and growth in the overall GST pool. This reflects the relative weakness in Queensland's revenue base between 2011-12 and 2013-14 resulting in a higher relativity in 2015-16. Additionally, in its 2015-16 Budget, the Australian Government's forecasts of total GST collections were revised upwards by \$1.570 billion over the period 2014-15 to 2017-18 since the 2014-15 Mid Year Economic and Fiscal Outlook (MYEFO).

The 2015-16 relativity reflects the application of the CGC's assessment to state budget outcomes from the period 2011-12 to 2013-14. Queensland's single year relativity for 2013-14, which enters the assessment for the first time is historically high, reflecting short-term factors such as expenses relating to natural disaster events in 2011 and 2012, and strong mining revenue in Western Australia in 2013-14. As GST shares are based on a three year lagged average of relativities, the 2013-14 result will continue to affect Queensland's GST share up to 2017-18.

Further discussion of Queensland's share of GST is provided in Chapter 6.

3.3.2 Taxation

Annual growth in transfer duty averaged 22.6% over the seven years to 2007-08, driven by a range of factors including Queensland's relative affordability of housing, high population growth and the impact of the burgeoning mining sector. This was a key contributor to total taxation growth of 12.1% per annum over this period, with revenue from transfer duty effectively offsetting a number of reductions in other taxes.

Looking forward, the expected average annual transfer duty growth of 6.7% over the period 2013-14 to 2018-19 is modest relative to that experienced between 2000-01 and 2007-08. While low interest rates and a solid economic outlook are expected to support recovery in the property market, this is expected to occur at a gradual pace, particularly in the non-residential sector.

Although transfer duty is expected to have grown by 30.7% in 2014-15, this has been boosted by several extraordinary large business transactions.

Residential turnover has been strong in 2014-15 with investor activity a particular driver, and relatively modest price growth anticipated.

Since the Global Financial Crisis, payroll tax has overtaken transfer duty as the key contributor to Queensland's tax revenue collections. In 2007-08, these two taxes contributed around \$2.5 billion each, but in 2014-15 payroll tax is expected to be \$3.8 billion while transfer duty will reach \$3.1 billion.

The growth in payroll tax is due to the relatively stable base and relationship to the underlying strength in economic conditions compared with the volatility associated with transfer duty. Slower than historical growth in employment and wages, along with changes in the composition of the payroll tax base (including relatively low growth in the resources sector) is moderating growth.

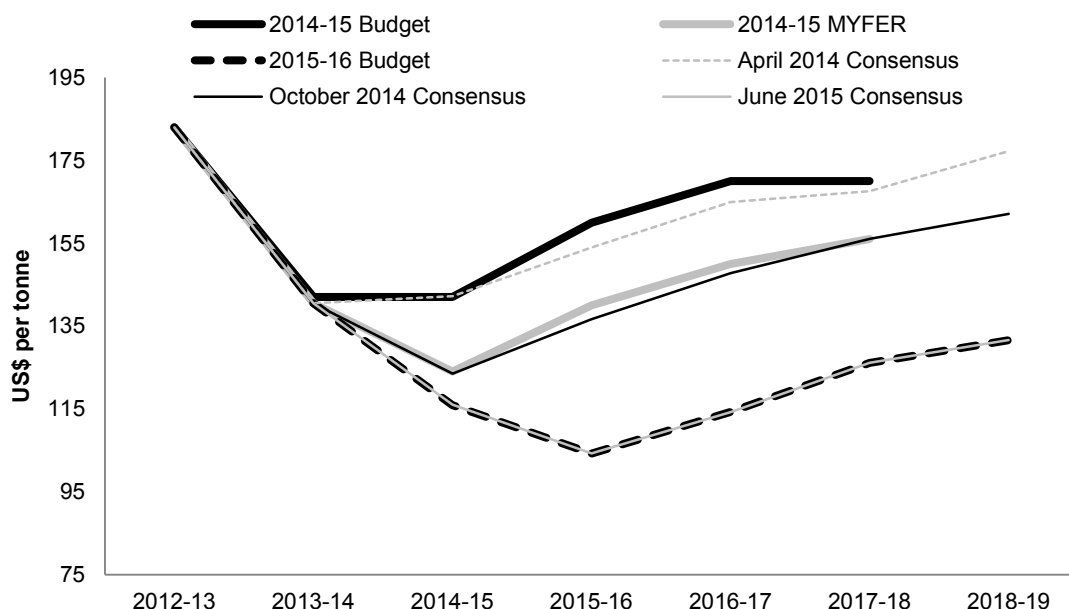
Hence, payroll tax is expected to grow by 4.0% on average across the period 2013-14 to 2018-19, well below the 9.4% average across the period 1999-2000 to 2013-14.

3.3.3 Royalty revenue

Royalty revenue grew strongly between 2000-01 and 2007-08, with growth of around 50% in both 2004-05 and 2005-06. In contrast to the other key discretionary revenues, royalty revenues reached a peak in 2008-09, as coal prices had been contracted at record levels prior to the onset of the Global Financial Crisis (see Chart 3.4). Royalty revenue then fell significantly in 2009-10, along with coal contract prices, and has not returned to the levels of 2008-09.

Royalty revenue is estimated to be \$619 million lower in 2014-15 than was estimated in the 2014-15 Budget. Although coal export volumes have increased with mining companies pushing for productivity increases, weaker than anticipated coal and oil prices have more than offset this.

Chart 3.5 Coking coal price forecasts, by iteration¹



Note:

1. The Consensus Economics estimates represent the most recent releases to the published Budgets and MYFER.

Sources: Queensland State Budget 2014-15 and 2015-16; 2014-15 MYFER and Consensus Economics Energy and Metals April 2014, October 2014 and June 2015.

As explained in Chapter 2, although the first exports of LNG occurred in January 2015, the construction and commissioning of these projects has taken longer than previously anticipated. This has caused delays to the commencement of LNG production, and consequently, a slower ramp up in coal seam gas (CSG) production and royalty revenue.

Royalties on CSG used as feedstock for LNG production are calculated the same way as other petroleum in that it is based on wellhead value. However, as explained in Box 3.1 there can be additional complexity in determining the CSG value at its first point of disposal. Royalties are expected to be lower in the early stages of production when claimable capital costs are spread across a lower production volume.

While expectations for the total export capacity of these projects once fully operational is largely unchanged, their contribution to royalty revenue is now expected to be more prominent in 2016-17.

Box 3.1 LNG process and CSG royalties

Queensland has abundant CSG reserves that are underpinning the development of Queensland's LNG industry. In coming years, the expansion of CSG production and the LNG industry in Queensland will make an increased contribution to Queensland's exports, gross state product and royalty revenue.

CSG is extracted from the Bowen and Surat Basins before either being sold on the domestic market, or being piped to plants on Curtis Island, where it is processed into LNG. The LNG is then shipped out of the Port of Gladstone in specially designed LNG tankers. The LNG value chain in Queensland covers the surveying, drilling, extraction, processing and compression of CSG and the transmission of CSG via high pressure pipelines to the Gladstone LNG plants for CSG conversion into a liquid form for storage and shipping.

The three LNG projects on Curtis Island near Gladstone are moving towards full scale production. Queensland Curtis LNG has entered into production, with Santos GLNG and APLNG projects expected to enter production during the second half of 2015. Capital expenditure for construction of these projects is in excess of \$60 billion. The partnerships behind the LNG projects include significant international and domestic energy companies. The three LNG processing plants will have a combined capacity of 25.3 million tonnes of LNG per annum.

In Queensland, royalties are calculated at the rate of 10% of the wellhead value of CSG produced as LNG feedstock and for other purposes. Calculating the wellhead value of CSG involves determining the market value of the CSG at the first point of disposal, and then deducting from this the value of certain expenses related to getting the CSG from the wellhead to that point.

Most of the LNG produced by the three Queensland LNG plants will be sold under long-term contracts to customers in Asia with prices linked to oil prices. There is no single global price for LNG. Across different regions there are variations in LNG markets and pricing. In East Asian markets, LNG contracts can be linked to the Japanese Customs-Cleared (JCC) average price for crude oils delivered into Japan. Historically, there is a correlation between the JCC price and the Brent oil price. On this basis, the outlook for the Brent oil price is an important input for the 2015-16 Budget assumptions regarding LNG prices and in turn the expected royalties from CSG.

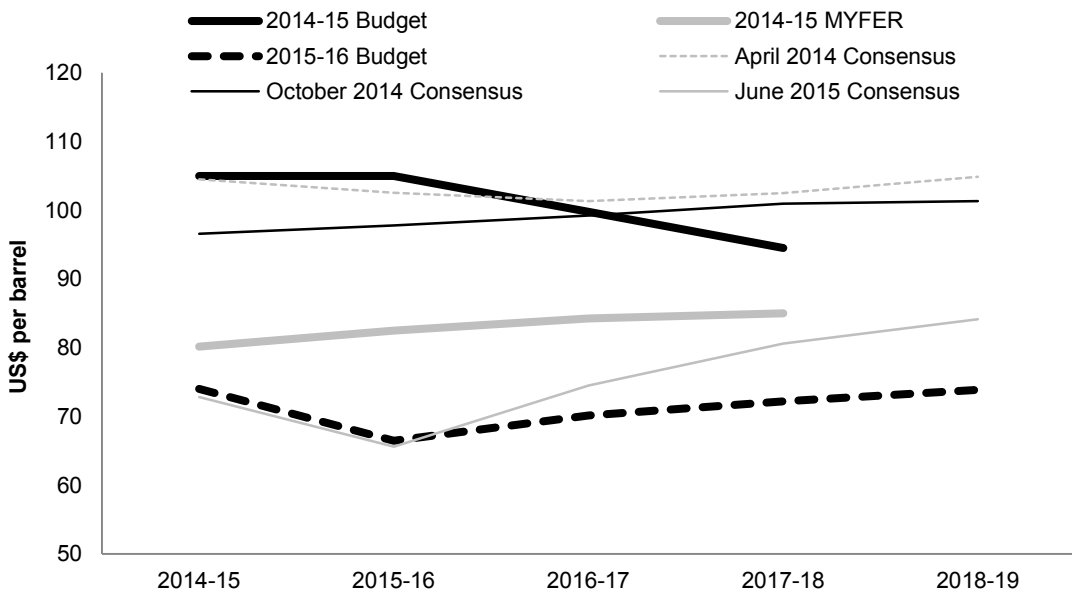
The expansion of Queensland's CSG sector in response to the emergence of the LNG industry will have a significant positive effect on Queensland's royalty revenue. At this early stage of the Queensland LNG industry, forecasting royalties from the CSG used for LNG production faces a number of complexities in relation to several variables, including:

- the timing for the remaining LNG projects to enter production
- the rate at which the three LNG projects ramp up to full production
- the outlook for the Brent crude oil price
- the correlation between the Brent crude oil price and the JCC price
- the relationship (if any) between the LNG export price and the producer's initial CSG disposal price
- the extent and variability of deductions allowed to determine wellhead value.

As discussed above, oil prices are a significant driver of LNG prices and therefore potentially royalties collected. Oil prices have fallen significantly since mid-2014 but consistent with current pricing of futures markets, it is assumed that oil prices will gradually rise over the next few years as the supply of oil starts to rebalance with demand (see Chart 3.6).

While somewhat below the latest Consensus Economics forecasts, the 2015-16 assumptions for the oil price are similar to the current pricing of futures markets, consistent with a conservative approach.

Chart 3.6 Revisions to Brent Oil price forecasts¹



Note:

1. The Consensus Economics estimates represent the most recent releases to the published Budgets and MYFER.

Sources: Queensland State Budget 2014-15 and 2015-16 and 2014-15 MYFER and Consensus Economics Energy and Metals April 2014 and October 2014 and June 2015.

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

3.4 Election commitments

3.4.1 Payroll tax rebate for apprentices and trainees

Since 1 July 2015, in addition to being exempt from payroll tax, the Government is providing a 25% rebate on payroll tax on the wages of eligible apprentices and trainees. This measure, a component of *Working Queensland*, and an election commitment, recognises that apprenticeships and traineeships provide a great employment pathway, particularly for younger Queenslanders.

3.4.2 Payroll tax threshold

Queensland's current payroll tax arrangements are very competitive. Queensland has the highest exemption threshold of any mainland state, and the lowest tax rate of any jurisdiction (see Table 3.2).

The threshold will remain at \$1.1 million from 1 July 2015.

Table 3.2 Comparison of payroll tax rates and thresholds

	QLD	NSW	Vic.	SA	WA	Tas.	ACT	NT
Exemption threshold (\$000)	1,100	750	550	600	800	1,250	1,850	1,500
Tax rate (%)	4.75	5.45	4.85	4.95	5.5	6.10	6.85	5.5
<i>Source: Other jurisdictions State Revenue Offices.</i>								

3.4.3 No new or increased taxes, fees or charges

The Government considers that the business community needs certainty and as such has committed to not increasing current or introducing new taxes, fees or charges.

Already scheduled increases in annual indexation of certain fees and charges will continue. The 3.5% rate of indexation was determined by the former Government, with the associated revenue factored into forward estimates at the time of the 2014-15 MYFER.

3.5 Taxation revenue

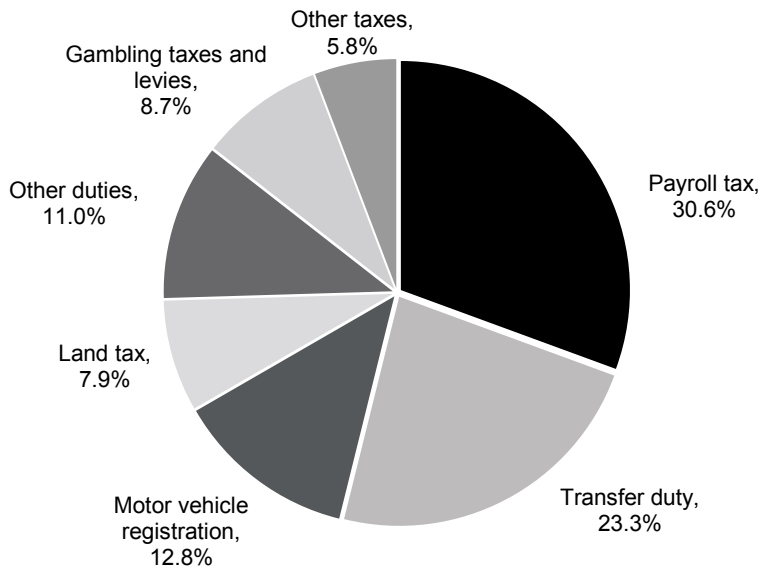
Total revenue from taxation is expected to grow by 1.7% in 2015-16, following estimated growth of 7.3% in 2014-15. The strong growth in 2014-15 was partly due to the transfer duty on large commercial transactions. The main components of taxation revenue are shown in Table 3.3.

Table 3.3 Taxation revenue¹

	2013-14 Actual \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Payroll tax	3,914	3,836	3,955	4,194	4,462	4,751
Duties						
Transfer	2,403	3,140	3,009	3,130	3,224	3,320
Vehicle registration	486	488	495	520	546	573
Insurance ²	767	833	882	938	998	1,062
Other duties ³	28	44	46	48	51	53
Total duties	3,684	4,505	4,433	4,636	4,818	5,009
Gambling taxes and levies						
Gaming machine tax	608	648	677	707	739	772
Health Services Levy	51	61	67	73	81	89
Lotteries taxes	240	240	247	255	262	270
Wagering taxes	40	14	14	14	15	15
Casino taxes and levies	83	94	97	100	103	106
Keno tax	22	21	21	22	23	23
Total gambling taxes and levies	1,044	1,076	1,123	1,171	1,222	1,275
Other taxes						
Land tax	986	977	1,016	1,067	1,132	1,200
Motor vehicle registration	1,543	1,583	1,654	1,728	1,806	1,887
Emergency Management Levy ⁴	391	436	461	487	515	544
Guarantee fees	230	238	232	269	278	283
Other taxes ⁵	53	56	53	55	56	58
Total taxation revenue	11,845	12,707	12,926	13,607	14,289	15,007
Notes:						
1. Numbers may not add due to rounding.						
2. Includes duty on accident insurance premiums.						
3. Includes duty on life insurance premiums.						
4. Prior to 1 January 2014 this was the Fire Levy.						
5. Includes the Statutory Insurance Scheme Levy and Nominal Defendant Levy.						

Chart 3.7 indicates the composition of estimated State taxation revenue for 2015-16.

Chart 3.7 Taxation by tax category, 2015-16¹



Note:

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

The largest sources of taxation revenue are payroll tax and transfer duty, which together represent around 54.0% of the State's total taxation revenue in 2015-16.

Payroll tax (30.6% of total tax revenue in 2015-16) has a stable base with growth driven by the underlying strength of the State economy. In contrast, revenue growth from transfer duty (representing 23.3% of tax revenue) can vary significantly from year to year due to the volatility of both the residential and non-residential segments of the property market.

Land tax represents 7.9% of total tax revenue in 2015-16. While also subject to the volatility of price movements in the property market, this impact is moderated by a relatively stable base and the effect of three year averaging of land values for assessments.

Gambling taxes and levies represent 8.7% of tax revenues in 2015-16. Motor vehicle registration represents 12.8% of total tax revenue.

Other duties, including registration duty and insurance duty represent 11.0% of total tax revenue.

3.5.1 Payroll tax

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

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

Payroll tax collections are estimated to be \$3.955 billion in 2015-16, representing growth of 3.1% on the 2014-15 estimated actual. The decline in mining investment has seen a reduction in payroll tax receipts in 2014-15 and this is expected to continue to weigh on 2015-16 as the construction of resources projects is completed.

Payroll tax is now forecast to be \$1.191 billion lower over the period 2014-15 to 2017-18 than was estimated in the 2014-15 Budget, reflecting the significant deterioration in employment growth and rising unemployment prior to the 2015 State election. These reductions would have been larger if the previous Government's scheduled threshold increases had been progressed.

In an environment of low commodity prices, mining operators have reduced their workforce and continue to target efficiency gains to maintain profitability. This is also having an impact on employment in industries servicing the resources sector, such as professional services and equipment hiring.

The forecast acceleration in Queensland's economic growth in 2015-16 is expected to be driven largely by LNG exports, which are less labour-intensive than both LNG construction and the economy more generally. As a result, employment and labour income growth will be more subdued than in other periods of similar economic growth and payroll tax is expected to grow only moderately. The average annual payroll tax growth of 4.0% remains well below the average of 9.4% from the period 1999-2000 to 2013-14.

The Government has committed to fully fund their election commitments by finding savings or reprioritisations and given the competitiveness of Queensland's payroll tax regime has decided not to progress the annual threshold increases planned by the previous Government (noting this was previously also deferred in the 2013-14 Budget). The savings from this decision will be utilised to meet election commitments including those focused on jobs and training programs.

From 1 July 2015, in addition to their wages already being exempt from payroll tax, a 25% payroll tax rebate applies to the wages of eligible apprentice and trainees.

3.5.2 Duties

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

Transfer duty

Transfer duty is charged at various rates on the transfer of real and business property. The Queensland Government offers extensive concessions for the transfer of land where the property is purchased as a home. For example, eligible home buyers pay a 1% concessional rate on dutiable values up to \$350,000, rather than the normal schedule of rates between 1.5% and 3.5%. If a first home buyer purchases a property up to \$500,000 they will pay no duty, with reduced rates available up to \$550,000.

Revenue from transfer duty is expected to be 4.2% lower in 2015-16 than in 2014-15, following strong growth in 2013-14 and 2014-15 that was supported by a number of large commercial transactions. Underlying growth was 12.0% in 2014-15 and is estimated to be 4.4% in 2015-16 once the impact of these large transactions is removed.

The forecasts are based on the expectation that the growth in the number of transactions experienced during 2014-15 will moderate, but that modest improvements in house prices will continue and offset a subdued outlook for non-residential activity.

Over the period 2013-14 to 2018-19 transfer duty is estimated to grow by on average 6.7% per annum. Again this modest rate of growth reflects the strength of 2014-15.

Vehicle registration

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

Revenue from vehicle registration duty is expected to grow by 1.5% in 2015-16, reflecting a modest recovery in the value of sales following a flat 2014-15.

Insurance duty

Insurance duty is charged on contracts of general insurance (for example, insurance for house and contents, vehicle, professional indemnity), life insurance, compulsory third party insurance and accident insurance. Revenue from insurance duty is expected to grow by 5.9% in 2015-16.

3.5.3 Gambling taxes and levies

A range of gambling activities are subject to State taxes and levies. Total gambling tax and levy collections are estimated to grow by 4.3% in 2015-16, and 4.1% on average over the period 2013-14 to 2018-19.

3.5.4 Land tax

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

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

Land tax is estimated to grow by 4.0% to \$1.016 billion in 2015-16 reflecting a modest recovery in land values. The three year averaging process dilutes the impact on tax collections which is reflected by the moderate annual growth of 4.0% over the period 2013-14 to 2018-19.

3.5.5 Motor vehicle registration

Motor vehicle registration fees are expected to grow by 4.5% in 2015-16, reflecting an increase in the number of motor vehicles as well as the annual indexation of fees.

3.5.6 Emergency Management Levy

The Emergency Management Levy revenue, which is used to partly offset the costs of emergency management in Queensland, is expected to grow by 5.7% in 2015-16.

3.5.7 Guarantee fees

Guarantee fees are revenues collected by Queensland Treasury Corporation (QTC) on behalf of the State and comprise competitive neutrality fees and credit margin fees. These fees promote competitive neutrality between public sector agencies and those in the private sector, and ensure that the benefits accruing from the financial backing of the State (through QTC) are shared between the borrower and the State.

3.5.8 Other taxes

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

3.5.9 Tax expenditures

Tax expenditures are reductions in tax revenue that result from the use of the tax system as a policy tool to deliver Government policy objectives. Tax expenditures are provided through a range of concessions, including tax exemptions, reduced tax rates, tax rebates, tax deductions and provisions which defer payment of a tax liability to a future period. Appendix A provides details of tax expenditure arrangements currently provided by the Queensland Government.

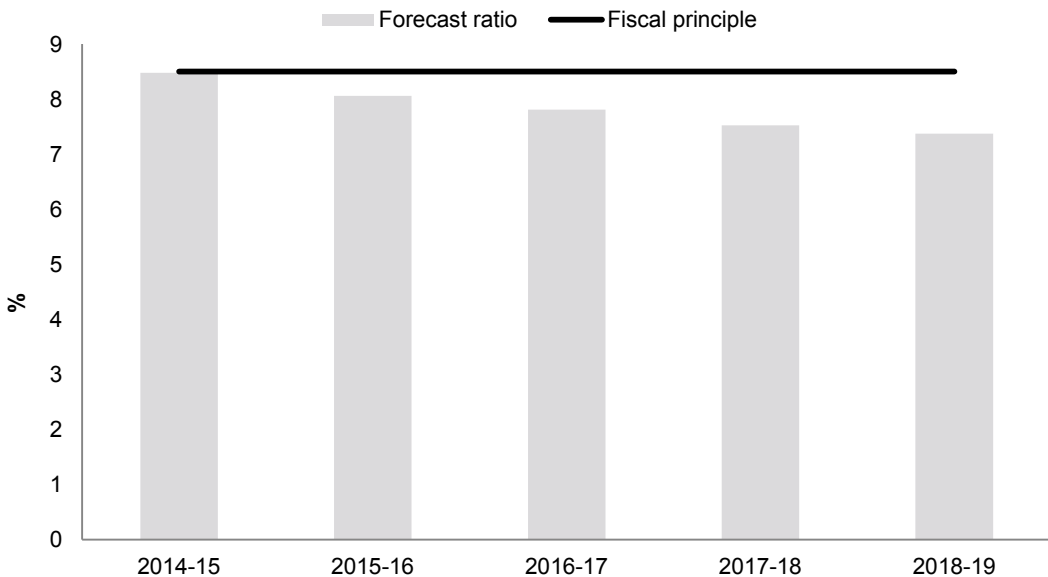
3.6 Queensland's competitive tax status

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

One of the Government's Fiscal Principles is to maintain competitive taxation by ensuring that General Government Sector own-source revenue remains at or below 8.5% of nominal gross state product (GSP), on average, across the forward estimates. Own-source revenue is derived from total State revenue less any grants received from external sources, mainly the Australian Government.

As Chart 3.8 shows, this principle is expected to be met over the forward estimates period.

Chart 3.8 Own-source revenue¹ as a proportion of nominal GSP



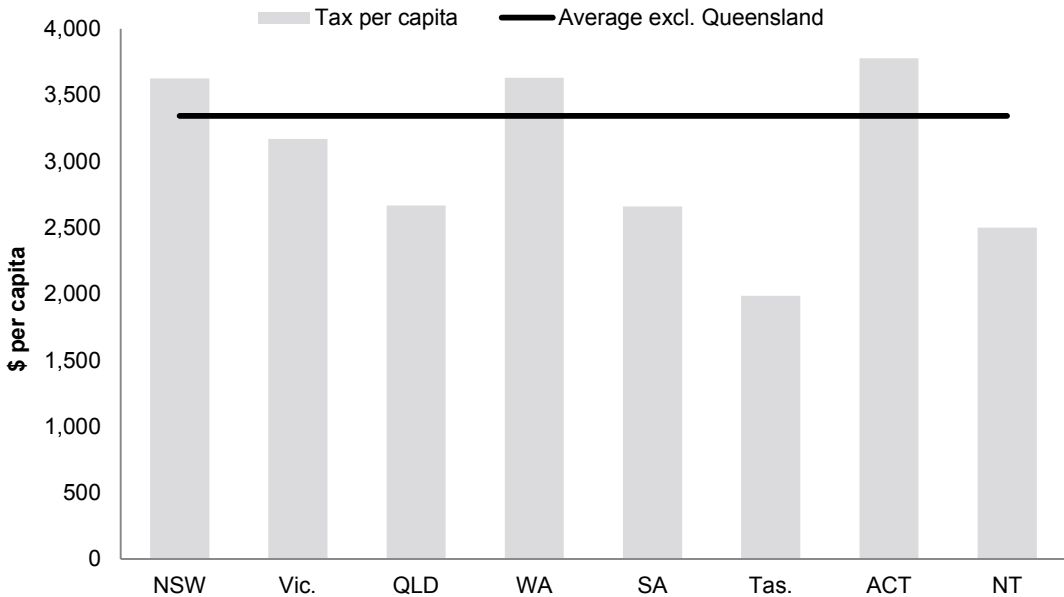
Note:

1. Own-source revenue derived from total revenue less grants revenue.

Source: Queensland Treasury.

As Chart 3.9 shows, taxation per capita in Queensland is significantly lower than the average taxation per capita in the other states and territories. In 2015-16, it is estimated that Queensland's taxation per capita will be \$676 per capita less than the average of other jurisdictions.

Chart 3.9 Taxation per capita, 2015-16



Sources: 2015-16 Budgets for all jurisdictions. Population data from 2015-16 Commonwealth Budget.

Table 3.4 demonstrates using various measures of tax competitiveness that the Queensland tax system remains amongst the most competitive in Australia.

Queensland's tax effort, as measured by the Commonwealth Grants Commission, was more than 11% below the national average in 2013-14. A third measure of competitiveness, taxation as a share of gross state product (GSP), also confirms that Queensland's taxes are competitive with other states.

Table 3.4 Queensland's tax competitiveness

	Qld	NSW	Vic.	WA	SA	Tas. ⁴	ACT ⁵	NT ⁴	Avg ⁶
Taxation per capita ¹ (\$)	2,666	3,626	3,170	3,631	2,659	1,986	3,777	2,500	3,343
Taxation effort ² (%)	88.9	105.5	102.1	98.8	103.8	93.7	96.1	86.8	100.0
Taxation % of GSP ³ (%)	3.91	5.14	4.97	3.36	4.34	3.80	3.91	2.50	4.44
Notes:									
1. 2015-16 data. Sources: 2015-16 Budget for all jurisdictions. Population data from Commonwealth 2015-16 Budget.									
2. 2013-14 data. Source: Commonwealth Grants Commission 2015 Review – total tax revenue effort for assessed taxes (payroll, transfer duty, land tax, insurance duty and motor vehicle taxes). Revenue raising effort ratios, assessed by the Commonwealth Grants Commission, isolate policy impacts from revenue capacity impacts and are an indicator of the extent to which governments burden their revenue bases. Queensland's tax revenue raising effort is well below the Australian policy standard (equal to 100%).									
3. 2015-16 data. Sources: 2015-16 Budget for all jurisdictions. GSP derived using 2013-14 ABS 5220.0 and published GSP growth rates.									
4. Low taxation per capita primarily reflects the lower revenue raising capacity of those jurisdictions.									
5. Figures include municipal rates.									
6. Weighted average of states and territories, excluding Queensland.									

3.7 Grants revenue

Grants revenue is comprised of Australian Government grants, grants from the community and industry, and other miscellaneous grants. The growth of \$1.183 billion (or 5.1%) in 2015-16 largely reflects the \$1.174 billion increase in GST revenue.

Table 3.5 Grants revenue¹

	2013-14 Actual \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million
Current grants			
Australian Government grants	18,841	20,580	21,578
Other grants and contributions	331	382	317
Total current grants	19,172	20,962	21,895
Capital grants			
Australian Government grants	2,574	2,398	2,625
Other grants and contributions	9	13	35
Total capital grants	2,583	2,411	2,660
Total grants revenue	21,755	23,373	24,555
Note:			
1. Numbers may not add due to rounding.			

3.7.1 Australian Government payments

Australian Government payments to Queensland comprise:

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

Australian Government payments to Queensland in 2015-16 are expected to total \$24.203 billion, representing growth of \$1.225 billion (or 5.3%) compared to payments in 2014-15. This significant increase is due to growth of \$1.174 billion in GST revenue and \$227 million in capital grants. Changes made in the 2014-15 Commonwealth Budget to the provision of health and education growth funding have resulted in \$18 billion worth of Federal funding cuts that will impact on the Queensland Budget in the outyears of the forward estimates and beyond. These significant cuts were not restored in the 2015-16 Commonwealth Budget.

Table 3.6 Australian Government payments¹

	2013-14 Actual \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million
GST revenue grants	10,896	11,816	12,990
Total payments for specific purposes ²	10,519	11,162	11,213
Total Australian Government payments	21,415	22,978	24,203
Notes:			
1. Numbers may not add due to rounding.			
2. Differs from Chapter 6 due to the inclusion of direct Australian Government payments to Queensland agencies for Commonwealth own purpose expenditure.			

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

GST revenue grants and associated payments

GST revenue grants and associated payments to Queensland in 2015-16 are expected to be \$12.990 billion, which represents growth of \$1.174 billion on the 2014-15 estimated actual.

GST revenue projections are based on expected growth in economic parameters, such as household consumption and dwelling investment, which have a strong link to the GST base. In the 2015-16 Budget, the Australian Government has increased their estimate for the GST pool by approximately \$1.570 billion over the period 2014-15 to 2017-18 since the 2014-15 MYEFO.

The distribution of GST revenues is based on the recommendations of the Commonwealth Grants Commission in accordance with the application of horizontal fiscal equalisation principles.

Queensland's share of GST funding (relativity) increased in the 2015 update from the Commonwealth Grants Commission. Chapter 6 provides further detail on Queensland's expected GST revenue.

Payments for specific purposes

Australian Government payments for specific purposes to Queensland in 2015-16 are estimated at \$11.213 billion.

3.7.2 Other grants and contributions

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

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

Table 3.7 Other grants and contributions

	2013-14 Actual \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million
Other grants and contributions	340	394	352

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

3.8 Sales of goods and services

Sales of goods and services revenue comprises cost recoveries from providing goods or services. Table 3.8 shows a breakdown of the sales of goods and services category.

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

Table 3.8 Sales of goods and services¹

	2013-14 Actual \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million
Fee for service activities	2,057	2,207	2,220
Public Transport: South East Queensland	374	384	391
Rent revenue	482	549	536
Sale of land inventory	160	126	112
Hospital fees	718	765	776
Transport and traffic fees	356	376	378
Other sales of goods and services	901	942	1,017
Total sales of goods and services	5,048	5,350	5,430
Note:			
1. Numbers may not add due to rounding.			

3.8.1 Fee for service activities

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

- recoverable works carried out by the Department of Transport and Main Roads and the commercialised arm of the department
- fees charged by Technical and Further Education (TAFE) colleges
- fees charged by CITEC to commercial clients for information brokerage services.

3.8.2 Other sales of goods and services

As shown in Table 3.8, there are a variety of other types of sales of goods and services and these are discussed in more detail below:

- Revenues arising from the arrangements associated with South East Queensland integrated ticketing and public transport arrangements, which commenced in July 2004. The Department of Transport and Main Roads collects revenues from the operation of public transport services in South East Queensland to assist in funding public transport services in the region. These revenues are estimated at \$391 million in 2015-16.
- Rent revenue is earned on the rent or lease of Government buildings, housing, plant and equipment and car parks. Major items under this category include public housing rentals and rents charged for Government buildings.
- Sale of land inventory includes property transactions where it is a core business of the agency, such as Economic Development Queensland's role to facilitate land to unlock economic growth opportunities. As such, it is distinct from business as usual transactions undertaken by most Government agencies.

- Hospital fees are collected by public hospitals for a range of hospital services. Fees include those received from private patients and other third party payers, as well as payments received from the Australian Government Department of Veterans' Affairs for the treatment of veterans.
- Transport and traffic fees comprise state transport fees, the Traffic Improvement Fee, drivers' licence fees and various marine licence and registration fees.
- Other sales of goods and services include items such as Title Registration Fees, recreational ship registrations and other licences and permits.

3.9 Interest income

Interest income accounts for 4.6% of total General Government Sector revenue in 2015-16. Interest income is expected to decline, reflecting a reduction in the value of financial assets held as a result of the implementation of the Debt Action Plan (refer to Box 1.1 of Chapter 1 for more detail).

Table 3.9 Interest income

	2013-14 Actual \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million
Interest income	2,460	2,467	2,372

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

3.10 Dividend and income tax equivalent income

Dividend and income tax equivalent income account for 4.7% of total General Government Sector revenue in 2015-16. Much of this income would have been lost had the previous Government sold the State's assets.

Table 3.10 Dividend and income tax equivalent income¹

	2013-14 Actual \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million
Dividend	1,568	1,752	1,632
Income tax equivalent income	407	658	762
Total dividend and income tax equivalent income²	1,975	2,410	2,395
Notes:			
1. Numbers may not add due to rounding.			
2. Does not match tables 7.3 and 7.4 in Chapter 7 because it includes dividends and tax equivalents from outside the Public Non-Financial Corporations Sector such as QIC Limited.			

Dividends are received from the State's equity investments in Public Non-financial Corporations and Public Financial Corporations, for example, the Queensland electricity supply industry, QIC Limited, Queensland Treasury Corporation, port authorities and Queensland Rail. Income tax equivalent income comprises payments by government-owned corporations in lieu of state and Australian Government taxes and levies from which they are exempt. These payments arise from an agreement reached between the Australian Government and state governments in 1994 to establish a process for achieving tax uniformity and competitive neutrality between public sector and private sector trading activities.

Dividends and income tax equivalent income do not represent the full extent of financial arrangements between the Public Non-financial Corporations Sector and the General Government Sector. As discussed in Chapter 7, General Government Sector expenditure on community service obligations and Transport Service Contracts are expected to be over \$2 billion in both 2014-15 and 2015-16.

3.11 Other revenue

Other revenue, including royalty revenue, accounts for 6.9% of total General Government Sector revenue in 2015-16.

Table 3.11 Other revenue¹

	2013-14 Actual \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million
Royalties and land rents	2,537	2,220	2,444
Fines and forfeitures	398	402	484
Revenue not elsewhere classified	716	650	581
Total other revenue	3,650	3,271	3,509
Note:			
1. Numbers may not add due to rounding.			

3.11.1 Royalties and land rents

Royalty estimates

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

Table 3.12 Royalties and land rents¹

	2013-14 Actual \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million
Coal	1,947	1,610	1,684
Petroleum ²	69	51	129
Other royalties ³	363	392	463
Land rents	158	167	167
Total royalties and land rents	2,537	2,220	2,444
Notes:			
1. Numbers may not add due to rounding.			
2. Includes CSG.			
3. Includes base and precious metal and other minerals royalties.			

Revenue from royalties and land rents in 2014-15 is expected to be \$286 million lower than forecast in the 2014-15 MYFER. This weakness is largely due to export coal prices being significantly lower than expected, partially offset by an improvement in the A\$-US\$ exchange rate.

Royalty and land rent revenue is expected to grow by 10.1% in 2015-16 due to moderate increases in export coal volumes, and the A\$ depreciating slightly against the US\$. Further, 2015-16 represents the first year with multiple proponents exporting LNG although the low price of oil has offset some of this volume impact.

3.11.2 Fines and forfeitures

The major fines and infringements included in this category are issued by the Department of Transport and Main Roads and Queensland Police Service, incorporating fixed and mobile camera offences, speeding and tolling offences. The expected increase of 20.3% in fines and forfeitures in 2015-16 relates to increased referrals of tolling fines to the State Penalty Enforcement Registry for collection, an increase in failure to vote fines following the State election and the 3.5% increase in the penalty unit.

3.11.3 Revenue not elsewhere classified

The \$68 million decrease in 2015-16 includes an expected decline in asset transfers from non-Queensland Government entities and reductions in sundry revenue across a number of departments.

4 Expenses

Features

- The Government has fully funded its election commitments, totalling \$1.975 billion over the forward estimates from departmental savings, reprioritisations, contingencies and revenue measures.
- Total expenses are projected to grow on average by 3.4% over the period 2013-14 to 2018-19 or 4.1% per annum across the forward estimates excluding disaster recovery expenses.
- Interest on General Government Sector borrowings is an estimated \$963 million less than projected in the Mid Year Fiscal and Economic Review (MYFER) for the period 2014-15 to 2017-18, largely as a result of the Government's Debt Action Plan.
- Expenses for 2014-15 are estimated to be \$48.615 billion, an increase of 5.4% from 2013-14. The increase is mainly due to growth funding to support ongoing demand for health services, education expenditure for enrolment growth and Australian Government funding for the Students First program and an advance payment of Financial Assistance grants to local governments by the Australian Government in 2014-15.
- Compared to the 2014-15 MYFER, General Government Sector expenses for 2014-15 were \$598 million lower, reflecting:
 - re-profiling of \$320 million of health expenditure as part of the Government's growth funding package
 - changes to the quantity and timing of Natural Disaster Relief and Recovery Arrangements (NDRRA) expenditure of \$271 million
 - deferral of \$124 million of Commonwealth funded expenditure for various National Partnership Agreements (NPs) including Skills Reform and Universal Access to Early Childhood Education.
- In 2015-16, General Government Sector expenses are expected to increase by \$1.358 billion (or 2.8%) over the estimated actual for 2014-15. This primarily is a result of increased service delivery including funding to support the ongoing growth in demand for health and education services and deferrals of Commonwealth funding from 2014-15.
- The average growth in employee expenses over the forward estimates period is 4.0%.
- The major areas of expenditure are health and education, which together constitute approximately 52.7% of General Government Sector expenses.

This chapter provides an overview of General Government Sector expenses for the estimated actual for 2014-15, forecasts for the 2015-16 Budget year and projections for 2016-17 to 2018-19. The forward estimates are based on the economic projections outlined in Chapter 2.

4.1 2014-15 estimated actual

General Government Sector expenses in 2014-15 are estimated to be \$48.615 billion, \$598 million lower than the 2014-15 MYFER. Downward revisions to other operating expenses and grant expenses are the key contributions to lower overall expenses in 2014-15.

Other operating expenses have declined \$478 million from 2014-15 MYFER due in part to:

- the re-profiling of \$320 million of health expenditure to be redirected to support Outpatient Waiting Lists strategy
- the deferral of Australian Government NPs including Skills Reform and Universal Access to Early Childhood Education.

Grant expenses are estimated to be \$303 million less than 2014-15 MYFER largely reflecting:

- lower than expected natural disaster reimbursements to local governments of \$271 million as the extensive program of works in relation to the pre-2015 disasters nears completion and ineligible expenditure is identified
- lower community service obligation payments to Ergon Energy
- offset in part, by the Australian Government's advance payment of Financial Assistance grants to local governments in 2014-15 for 2015-16 of \$225 million.

4.2 2015-16 Budget and outyears

Table 4.1 General Government Sector expenses¹

	2013-14 Actual \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Employee expenses	17,817	18,938	19,937	20,567	21,135	21,648
Superannuation interest costs	963	872	803	848	886	898
Other superannuation expenses	2,277	2,359	2,553	2,564	2,554	2,588
Other operating expenses	13,114	14,158	14,980	16,075	16,931	17,451
Depreciation and amortisation	2,946	3,116	3,264	3,443	3,525	3,628
Other interest expenses	2,201	2,265	2,115	1,873	1,914	1,956
Grants expenses	6,796	6,907	6,320	6,414	6,409	6,252
Total Expenses	46,115	48,615	49,973	51,784	53,354	54,421
Note:						
1. Numbers may not add due to rounding.						

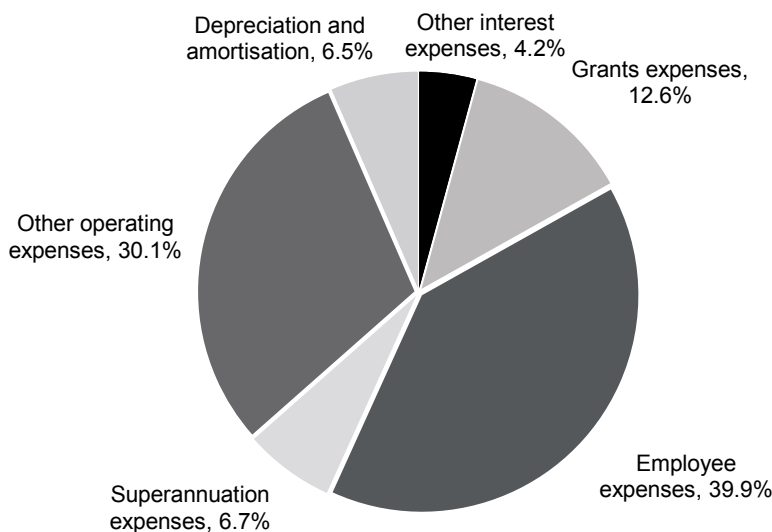
General Government Sector expenses of \$49.973 billion in 2015-16 represent an increase of \$1.358 billion (or 2.8%) over the 2014-15 estimated actual. Factors influencing the growth in expenses include:

- growth in funding to Queensland Health through the \$2.3 billion Growth Funding package to support growing demand and critical service needs, funding for Sunshine Coast Public University Hospital Transition program and new initiatives including the Outpatient Long Wait Strategy
- growth in education expenditure for student enrolment growth and the impact of increases in Australian Government funding for the Students First program and National Partnership programs for Skills Reform and Universal Access to Early Childhood Education
- expenditure on venues in the lead up to the Commonwealth Games
- costs associated with enterprise bargaining agreements.

4.3 Expenses by operating statement category

As outlined in Chart 4.1, the largest expense categories in the General Government Sector in 2015-16 are employee and superannuation expenses (46.6%), followed by other operating expenses (30.1%) that reflects non-labour costs of service.

Chart 4.1 Expenses by operating statement category, 2015-16¹

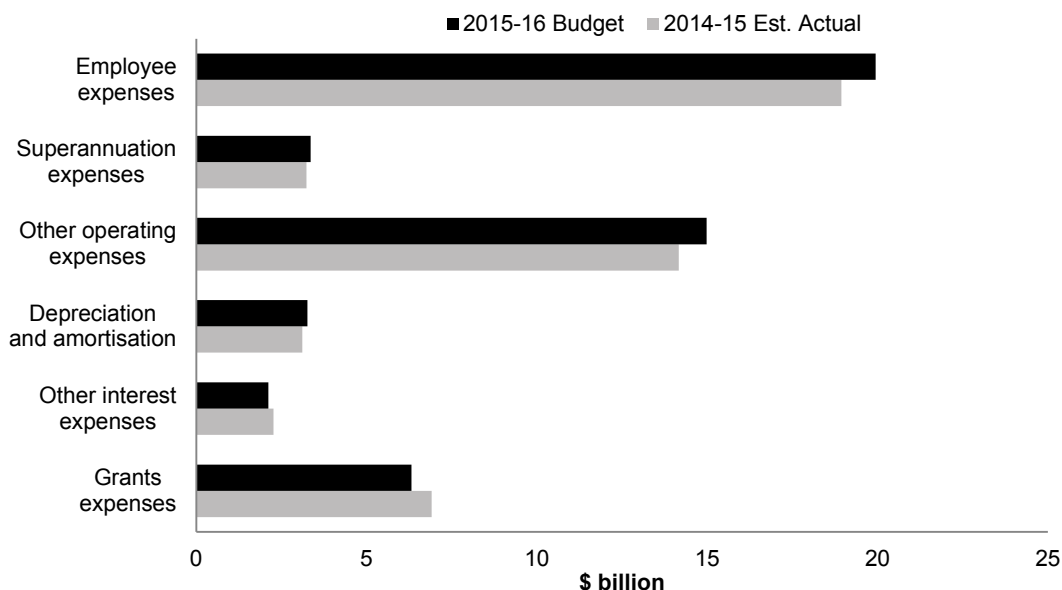


Note:

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

Chart 4.2 compares the 2014-15 estimated actual expenses for each operating statement category with the 2015-16 Budget. Growth in the two largest categories, employee expenses and other operating expenses, is contributing most to growth in 2015-16.

Chart 4.2 Expenses by operating statement category



4.3.1 Employee expenses

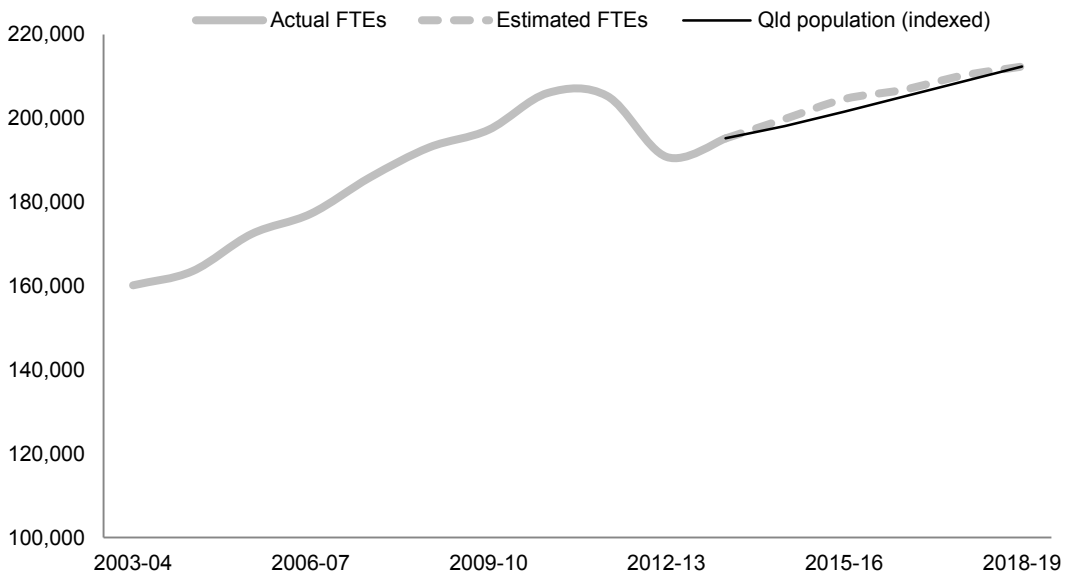
Employee expenses include salaries and wages, annual leave, long service leave and redundancy payments.

In 2015-16, employee expenses are expected to be \$19.937 billion, \$999 million or 5.3% higher than the 2014-15 estimated actual. Much of the increase in employee expenses in 2015-16 is in the key front line service areas of health and education.

Full time equivalents

Chart 4.3 shows actual Full Time Equivalents (FTEs) from 2003-04 to 2013-14 and estimated FTEs from 2014-15 to 2018-19.

Chart 4.3 Departmental FTEs¹



Note:

1. Does not match Table 4.2 because additional funding for frontline services has not been allocated across specific agencies.

This chart demonstrates the significant impact of the previous Government's austerity program.

FTEs are expected to grow modestly, at a rate similar to expected State population growth over the period to 2018-19. This largely reflects the Government's commitment to deliver quality frontline services and public sector job security in a manner that is financially sustainable.

Table 4.2 shows the total funded FTE positions by department and is consistent with agency Service Delivery Statements. In 2015-16, FTEs are expected to grow by just over 3,000. Eighty per cent of this growth is attributable to frontline services in the areas of health and education.

Table 4.2 Total funded FTE positions by Department^{1, 17}

	2014-15 Adjusted Budget	2014-15 Est. Act	2015-16 Budget
Aboriginal and Torres Strait Islander Partnerships	343	335	341
Agriculture and Fisheries ²	2,168	2,168	2,030
Communities, Child Safety and Disability Services	5,937	5,937	5,994
Education and Training ³	65,653	66,633	67,641
Electoral Commission of Queensland	52	52	52
Energy and Water Supply	225	207	217
Environment and Heritage Protection	1,026	1,050	1,056
Housing and Public Works ⁴	2,805	2,989	2,915
Infrastructure, Local Government and Planning ⁵	428	444	521
Justice and Attorney-General ^{6,14}	8,456	8,726	8,228
Legislative Assembly	473	478	479
National Parks, Sport and Racing ⁷	1,346	1,357	1,371
Natural Resources and Mines	2,440	2,440	2,440
Office of the Governor	44	44	44
Office of the Inspector-General Emergency Management	21	21	21
Office of the Ombudsman	63	63	63
Premier and Cabinet ⁸	849	826	821
Public Safety Business Agency ⁹	2,435	1,994	1,994
Public Service Commission	74	74	86
Queensland Audit Office	190	183	190
Queensland Fire and Emergency Services ¹⁰	2,941	3,001	3,077
Queensland Health ¹¹	72,595	73,982	75,442
Queensland Police Service ¹²	14,029	14,431	14,582
Queensland Treasury ¹³	969	972	1,790
Science, Information Technology and Innovation ¹⁴	2,861	2,744	2,757
State Development ¹⁵	585	609	588
The Public Trustee of Queensland	578	567	584
Tourism, Major Events, Small Business and the Commonwealth Games	121	126	130
Transport and Main Roads ¹⁶	7,290	7,266	7,333
Total	196,997	199,719	202,787
Notes:			
1. Explanation of variations in departmental FTEs can be found in the Service Delivery Statements. Departmental totals may include multiple tables from Service Delivery Statements, due to separate FTE tables being provided for Commercialised Business Units.			

2. FTEs for the 2014-15 Budget and estimated actual were nominal thresholds for the department's budget management purposes. The actual number of occupied positions during this period was less. Following extensive reviews, the 2015-16 staffing budget has now been recalibrated to better reflect the department's requirements. The budgeted FTE resources will be supported by short term labour hire capacity as required, providing the department with greater flexibility to meet surge, seasonal and emergency response demands across the State. Reductions between 2014-15 estimated actual and Budget also relate to positions transferring to the University of Southern Queensland and funding arrangements for National Cost Sharing having yet to be finalised.
3. Includes TAFE Queensland. The increase between 2014-15 adjusted budget and 2014-15 estimated actual primarily relates to state schools utilising the additional Australian Government Students First funding to employ more teachers and support. Also contributing are increases associated with Early Childhood Education and Care (ECEC) and reflects the department's increased focus on regional frontline services to the ECEC sector and families, and working with schools to support children's successful transitions into Prep. The increase in the 2015-16 Budget is mainly related to the impact of election commitments for the first year of an additional 875 teachers and 45 guidance officers over 3 years and forecast school enrolment growth.
4. Variance between 2014-15 adjusted budget and 2014-15 estimated actual is mainly due to the deferral in outsourcing of the tenancy and maintenance function in Logan City until 2015-16, a number of Procurement Transformation projects finishing in 2014-15, and the planned transition of some apprentices and field staff to the private sector no longer progressing. Variance between 2014-15 estimated actual and 2015-16 Budget is mainly due to a number of apprentices completing their training in 2015-16, as well as the outsourcing of the tenancy and maintenance function in Logan City in 2015-16.
5. Represents the transfer of Planning and Infrastructure functions from the Department of State Development on 1 March 2015. In addition, Building Queensland has been established to provide independent, expert advice on infrastructure priorities. In addition, the Government has provided additional funding to the department to deliver a better planning system.
6. Variance between 2014-15 adjusted budget and 2014-15 estimated actual is mainly due to the establishment of the Commission of Inquiry into Organised Crime, reinstating the Sentencing Advisory Council, the departmental response to Domestic and Family Violence, additional staff to accommodate growth of youths and prisoners in detention, and to commission and operate additional prison capacity. The decrease in the 2015-16 Budget is due to the Office of Industrial Relations being transferred to Queensland Treasury from 1 July 2015. This is partly offset by the reinstatement of the Courts and Youth Justice Conferencing diversionary process, additional staff to accommodate growth in prisoner numbers and to commission and operate additional prison capacity.
7. The increase in the 2014-15 estimated actual is mainly due to the Queensland Greyhound Racing Industry Commission of Inquiry, staff employed on the Nest to Ocean program and filling of vacancies within Sport and Recreation. The increase in 2015-16 Budget is due to staff required for managing newly acquired National Park estate as well as Cape York Peninsula Aboriginal Land National Parks.
8. Reduction is mainly due to fewer support staff required as a result of the reduction in the number of Ministerial Offices.
9. The decrease in the 2014-15 estimated actual is due to police officers being seconded from, and included in the numbers for, the Queensland Police Service.
10. Increase largely to due to expansion in the number of district (Area) offices.
11. This represents Health Consolidated, which consolidates Queensland Health controlled, the Queensland Ambulance Service and the Hospital and Health Services (HHSs). The 2015-16 Budget for HHSs may change due to updates to the 2015-16 Service Agreement throughout the financial year. Variations between 2014-15 adjusted budget and 2014-15 estimated actual are mainly due to commissioning of new services and additional activity purchased from HHSs through amendments to the 2014-15 Service Agreements. Increases in FTEs for the 2015-16 Budget reflect commissioning of new services, additional activity purchased from HHSs and election commitments.
12. Relates to increases in projected recruit numbers and police officers being seconded from the Public Safety Business Agency.

13. The increase in the 2015-16 Budget relates to the transfer of the Office of Industrial Relations (formerly Office of Fair and Safe Work Queensland) transferring from Justice and Attorney-General on 1 July 2015, the filling of vacancies and graduate intakes.
14. Reduction in 2014-15 estimated actual is mainly due to a reduction in staff delivering externally funded projects and increased efficiencies due to automation and process improvements.
15. Includes the transfer of planning and infrastructure functions to the Department of Infrastructure, Local Government and Planning on 1 March 2015. The increase in the 2014-15 estimated actual and subsequent decrease in 2015-16 Budget is due to temporary staff engaged for Commonwealth Games venue projects and other high priority projects.
16. The forecasted increase in 2015-16 Budget is due to RoadTek accommodating apprentices and trainees into the workforce and continuing to reduce long term reliance on labour hire and transitioning temporary resources to support maintenance delivery.
17. The estimate of 195,612 FTEs in Table 4.2 of the published 2014-15 Budget did not include approximately 1,500 lower than shown in this table because certain smaller departments. The additional departments are the Electoral Commission, Legislative Assembly, Office of the Governor, Office of the Inspector-General Emergency Management, Office of the Ombudsman, Public Service Commission, Queensland Audit Office, and The Public Trustee.

4.3.2 Superannuation expenses

The superannuation interest cost represents the imputed interest on the Government's accruing defined benefit superannuation liabilities.

In determining the State's defined benefit superannuation liabilities, AASB 119 *Employee Benefits* requires the discounting of future benefit obligations using yield rates on Government bonds net of investment tax. Interest costs are calculated on a net liability approach by applying the discount rate to both the gross liability and superannuation plan assets.

In 2015-16, superannuation interest costs are projected to decrease by \$69 million over the estimated actual to \$803 million due to the lower estimated actuarial valuation of superannuation liabilities as at 30 June 2015. The defined benefit scheme, which is closed to new members and subject to interest rate fluctuations, will decline over time as members leave.

Other superannuation expenses represent employer superannuation contributions to accumulation superannuation and the current service cost of the State's defined benefit obligation (or the increase in the present value of the defined benefit obligation resulting from employee service in the current period).

The Government's decision to suspend future investment in the over-funded defined benefit superannuation scheme will not impact on employee entitlements. Accordingly, these expenses are not impacted by the investment suspension.

4.3.3 Other operating expenses

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

Other operating expenses have decreased \$478 million from the 2014-15 MYFER mainly as a result of Queensland Health's estimated \$320 million re-profiling and deferrals of Australian Government National Partnership programs for education, including Skills Reform.

In 2015-16, other operating expenses are expected to be \$14.980 billion, an increase of \$822 million or 5.8% over the 2014-15 estimated actual. Significant movements from the 2014-15 estimated actual outcome are due to:

- health growth funding for frontline services and new initiatives including Outpatient Long Wait Reduction Strategy
- anticipated student enrolment growth, and the impact of increases in Australian Government funding for the Students First program and National Partnership programs (including deferrals) for Skills Reform and completion of the Fixing Our Schools program
- introduction of Skilling Queenslanders for Work and Jobs Queensland initiatives
- expenses for Commonwealth Games venues
- increased funding for child protection and family and parenting support systems and disability services, including preparing Queensland for the National Disability Insurance Scheme.

4.3.4 Depreciation and amortisation

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

4.3.5 Other interest expenses

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

In 2015-16, the General Government Sector has total debt servicing costs forecast at \$2.115 billion, a decrease of 6.6% over the 2014-15 estimated actual.

Interest expenses are expected to be an estimated \$963 million less than projected in the MYFER for the period 2014-15 to 2017-18 due to the implementation of the Government's Debt Action Plan. Details of the Government's Debt Action Plan can be found in Chapter 1 - Fiscal Strategy and Outlook.

4.3.6 Grants expenses

Current grants include grants and subsidies to the community (such as schools, hospitals, benevolent institutions and local governments) and personal benefit payments. Community service obligations (CSOs) are provided where Public Non-financial Corporations (PNFCs) are required to provide non-commercial services or services at non-commercial prices for the benefit of the community (for further details refer Chapter 7).

Grant expenses have decreased \$303 million from the 2014-15 MYFER as a result of the timing of NDRRA payments to local councils, lower CSO payments to Ergon Energy and lower levels of Australian Government grant assistance to non-state schools, offset in part by the Australian Government's advance payment of Financial Assistance grants to local governments in 2014-15 for 2015-16.

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

Table 4.3 Grant expenses¹

	2014-15 Est. Act. \$ million	2015-16 Budget \$ million
Current		
Grants to local government	858	404
Grants to private and not-for-profit organisations		
State funding for non-state schools	694	757
Australian Government funding for non-state schools	2,107	2,249
Other	809	599
Grants to other sectors of government		
Community service obligations to PNFCs	640	444
Other payments to PNFCs	24	23
Other	4	4
Other	208	283
Total current transfers	5,345	4,764
Capital		
Grants to local government	1,004	829
Grants to private and not-for-profit organisations	427	566
Payments to PNFCs	13	25
First Home Owner Grant schemes	95	92
Other	22	44
Total capital transfers	1,561	1,556
Total current and capital transfers	6,907	6,320
Note:		
1. Numbers may not add due to rounding.		

Current grants are estimated to decrease by \$581 million in 2015-16. This decrease is due to lower CSO payments to Ergon Energy under the Uniform Tariff Policy, the Australian Government's advance payment of Financial Assistance grants to local governments in 2014-15 in relation to the 2015-16 financial year (thereby reducing 2015-16) and other grants to private and not-for-profit organisations. These reductions are partly offset by increases in State and Australian Government funding for non-state schools.

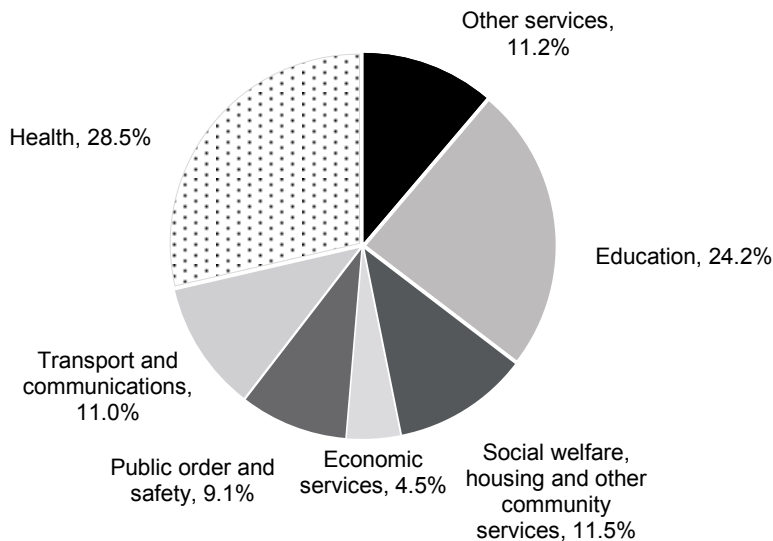
Capital transfers represent grants to PNFCs, local governments, not-for-profit institutions and other non-government entities, such as businesses and households (including the Great Start Grant) for capital purposes.

Capital grants are estimated to decrease \$5 million to \$1.556 billion in 2015-16. The decline in capital grants to local government is largely represented by re-profiling natural disaster grants to local governments for the rebuilding of roads, bridges and transport infrastructure related to pre-2015 natural disaster events. This finalisation of natural disaster payments has been mainly offset by the Government's new Building Our Regions initiative and higher level of expenditure for the Royalties for Regions program (fourth and final round).

4.4 Operating expenses by purpose

Chart 4.4 indicates the proportion of expenditure by major purpose classification for the 2015-16 Budget. Health accounts for the largest share of expenses (28.5%) followed by Education (24.2%).

Chart 4.4 General Government Sector expenses by purpose, 2015-16



4.5 Departmental expenses

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

Table 4.4 Departmental controlled expense^{1, 2}

	Notes	2014-15 Budget \$ 000	2014-15 Est. Act. \$ 000	2015-16 Budget \$ 000
Aboriginal and Torres Strait Islander Partnerships	3, 5	154,284	118,303	118,719
Agriculture and Fisheries	6	408,579	426,524	437,986
Communities, Child Safety and Disability Services	3, 7	2,521,217	2,563,177	2,684,004
Education and Training	8	8,552,849	8,327,596	9,003,741
Electoral Commission of Queensland	9	54,124	54,317	39,640
Energy and Water Supply	10	50,729	46,029	50,087
Environment and Heritage Protection	11	175,034	176,684	207,651
Health Consolidated	4, 12	13,621,951	13,560,255	14,182,562
Housing and Public Works	3, 13	1,851,318	1,737,534	1,777,427
Inspector General Emergency Management		4,495	4,504	4,607
Infrastructure, Local Government and Planning	3, 14	223,380	196,841	318,350
Justice and Attorney-General	3, 15	1,436,188	1,448,574	1,386,142
Legislative Assembly	16	86,484	89,195	86,093
National Parks, Sport and Racing	17	420,049	335,200	404,318
Natural Resources and Mines	18	450,002	439,345	449,187
Office of the Governor		6,263	6,148	6,575
Office of the Ombudsman		8,602	8,350	8,719
Premier and Cabinet	3, 19	166,319	169,570	239,347
Public Safety Business Agency	20	610,265	621,289	680,760
Public Service Commission		17,025	17,107	17,762
Queensland Audit Office	21	38,372	42,922	42,704
Queensland Fire and Emergency Services	22	620,024	616,561	647,682
Queensland Police Service	23	2,070,324	2,046,282	2,084,895
Queensland Treasury	3, 24	203,033	241,940	330,415
Science, Information Technology and Innovation	3, 25	408,355	421,825	390,300
State Development	3, 26	396,264	251,701	620,138
The Public Trustee of Queensland		87,705	81,207	84,723
Tourism, Major Events, Small Business and the Commonwealth Games	27	107,441	52,015	205,186

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Transport and Main Roads	28	5,390,333	5,388,419	5,482,261
Total expenses		40,141,008	39,489,414	41,991,981

Notes:

1. Total expenses by department does not equate to total General Government Sector expenses in Uniform Presentation Framework (UPF) terms reported elsewhere in the Budget Papers as General Government Sector expenses include a wider range of entities including State Government statutory authorities. In addition transactions eliminated between entities within the General Government Sector are excluded in the preparation of whole-of-government UPF financial statements.
2. Full explanation of variations in departmental controlled expenses can be found in the SDS. A summary of major variances is provided below.
3. 2014-15 Budget figures have been adjusted to reflect machinery-of-government changes.
4. This represents Health Consolidated in the Service Delivery Statement, which consolidates Queensland Health controlled and the Hospital and Health Services.
5. The decrease from the 2014-15 Budget to the 2014-15 estimated Actual relates to the timing of land and infrastructure-related works undertaken by the department under the National Partnership Agreement on Remote Indigenous Housing (NPARIH).
6. The increase from 2014-15 Budget to 2014-15 estimated actual is principally due to additional expenses for pest and disease emergency responses during 2014-15, increased expenses for research and development projects, and increased expenses in relation to Drought Relief Assistance Scheme Payments. This is partially offset by a reduction in expenses due to the deferral of funding from 2014-15 to 2015-16 to realign with anticipated expenditure.
7. The increase from 2014-15 Budget to 2014-15 estimated actual is mainly due to Commonwealth revenue for the National Partnership Agreement (NPA) for pay equity for the social and community services sector (SACS) being received in 2012-13 and 2013-14 and spent in 2014-15; additional funding transferred from the Department of Housing and Public Works for Youth Housing and Reintegration and Post Care Support programs; and the repurposing of prior years' grant refunds, received from non-government organisations through the annual acquittal process, to respond to disability and child safety demand pressures. The increase from 2014-15 estimated actual to 2015-16 Budget is primarily due to population growth and indexation funding to meet increased demand for services and cost pressures; increased expenditure on National Disability Insurance Scheme related activity and to continue implementing the child and family reforms (Stronger Families – the Government's response to the recommendations of the Queensland Child Protection Commission of Inquiry); Commonwealth revenue relating to the NPA for pay equity for SACS; and new funding provided as part of the 2015-16 Budget for parenting support programs, the Alcohol Fuelled Violence Program, an extension of existing drought relief arrangements, and multicultural initiatives.
8. The decrease from 2014-15 Budget to 2014-15 estimated actual is partly due to deferrals of funding for various Australian Government National Partnership Agreement payments, with the remaining difference mainly due to lower actual expenditure incurred by state schools and delays in delivery of numerous minor programs. The increase from 2014-15 estimated actual to 2015-16 Budget is mainly due to expenses associated with student enrolment growth, new education and training initiatives, and increases in employee expenses attributable to Enterprise Bargaining Arrangements.
9. The expenditure profile reflects election activity, including the 2015 State Election and 2016 local government quadrennial elections.
10. The decrease from the 2014-15 Budget to the 2014-15 estimated actual include the lapse of \$3.3 million due to finalisation of the Dam Spillway Upgrade Program, plus energy related deferrals of \$2.9 million to fund the Government's election commitments relating to renewable energy initiatives. The deferred funding will now be directed towards the Government's solar and other renewable initiatives in 2015-16. In addition, funds for a consumer education campaign (\$3.3 million) related to the reform of SEQ electricity tariffs will now be expended in 2015-16 rather than 2014-15 following the Government's decision to delay the reform by one year.
11. The increase from the 2014-15 Budget and 2014-15 estimated actual to 2015-16 Budget reflects new funding for Saving the Great Barrier Reef and Climate Change Adaptation initiatives; additional funding for underground coal gasification investigations, the NatureAssist program, wildlife management activities and environmental impact assessments; and the impact of the deferral of funding from 2014-15 to 2015-16.

12. The decrease in expenditure from the 2014-15 Budget to the 2014-15 estimated actual mainly relates to the deferral of a Queensland Health surplus across the forward estimates partly offset by equity to output swaps for capital items that are required to be expensed under the accounting standards. The increase from the 2014-15 estimate actual to the 2015-16 Budget mainly relates to existing enterprising bargaining costs, the More Beds for Hospitals program, election commitments and growth funding to support ongoing increases in demand for health and ambulance services offset by a decrease in Commonwealth funding due to expired National Partnership Agreements.
13. The decrease in 2014-15 estimated actual is mainly due to the deferral of funding for various Indigenous housing programs including the Indigenous Rural and Remote, Indigenous Community Housing Organisations and Deed of Grants in Trust (DOGIT) programs; the transfer of expenses from capital grants to capital works for the DOGIT program; and the deferral of funding for some Public Works programs, in particular the Office Accommodation program and ICT projects. The increase between the 2014-15 estimated actual and the 2015-16 Budget is driven primarily by increased expenditure on grants under the renewed two year National Partnership Agreement on Homelessness commencing in 2015-16 and increased costs associated with the re-instatement of the Tenant Advisory and Advocacy Service.
14. The decrease from the 2014-15 Budget to the 2014-15 estimated actual is primarily due to the deferral of funding for the Royalties for the Region program (due to delays in round four projects commencing), the Torres Strait Major infrastructure program, Local Government capacity building programs and flood studies. This is partially offset by increased recurrent expenditure on the Commonwealth Games Athletes Village as a result of a revised funding profile across the forward estimates following the finalisation of a development agreement. The increase between the 2014-15 estimated actual and the 2015-16 Budget is primarily due to new funding for the establishment of the Community Resilience Fund and Building Queensland; increased funding to deliver a better planning system for Queensland; increased expenditure on the Commonwealth Games Athletes Village; and machinery-of-government changes. This is partially offset by decreased funding for the Natural Disaster Resilience program.
15. The increase from 2014-15 Budget to 2014-15 estimated actual reflects additional funding to accommodate growth in prisoner and young offender numbers, depreciation and the Commission of Inquiry into Organised Crime. The decrease in funding from 2014-15 estimated actual to 2015-16 Budget is mainly due to the machinery-of-government transfer of the Office of Fair and Safe Work Queensland from the Department of Justice and Attorney-General to Queensland Treasury in July 2015, finalisation of the revitalisation program for the Registry of Births, Deaths and Marriages, the whole-of-Government reprioritisation program, partially offset by additional funding provided to accommodate growth in young offender and prisoner numbers, wage costs and Budget measures.
16. The increase from 2014-15 Budget to 2014-15 estimated actual is largely due to additional one-off expenses related to the January 2015 State election, including transition allowances for departing Members and Electorate Officer severance payments. The decrease in expenses in the 2015-16 Budget reflects the impact of these one-off expenses in 2014-15 as well as the savings from the reduction in the number of Ministers and Assistant Ministers (\$1.909 million ongoing from 2015-16).
17. The decrease from the 2014-15 Budget to the 2014-15 estimated actual and the increase from the 2014-15 Est. Actual to the 2015-16 Budget mainly relate to the timing of expenditure under major grant programs, including Sport and Recreation grant programs, the Racing Industry Capital Development Scheme and the Racing Infrastructure Fund.
18. The decrease in the 2014-15 Est. Actual is mainly due to revised estimates for Australian Government programs such as the Water for the Future and Murray Darling Basin programs and the timing of payments for various other programs.
19. The increase from 2014-15 estimated actual and 2015-16 Budget is primarily related to the machinery-of-government transfer of Arts Queensland to the Department of the Premier and Cabinet. Expenditure related to the transfer includes an increase in grants and subsidies primarily due to restoration of arts grant funding and the additional funding for the Visual Arts and Crafts Strategy, Backing Indigenous Arts and Queensland Art Gallery exhibitions, and an increase in depreciation and amortisation primarily due to the funding realignment of Cultural Precinct non-land assets to match annual depreciation expense. Further departmental expenditure includes activities focussed upon reducing Domestic and Family Violence and impending Cultural Precinct capital maintenance works. Expenditure is partially offset by the completion of G20 activities, Queensland Health Renewal Taskforce and Our Community Newsletter.
20. The increase in the 2014-15 estimated actual expenses over budget reflects the finalisation of the machinery-of-government transfer of corporate services from the Queensland Police Service (QPS), partly offset by project deferrals, including the human resource and payroll systems replacement project. The spike in 2015-16 expenses reflects expenditure on major projects including for QPS mobile services and capital works, improved safety equipment, and the machinery-of-government transfer of the community helicopter providers from Queensland Health.

21. Increase from 2014-15 Budget to 2014-15 estimated actual is mainly due to underestimation of contracted-out audit work for 2014-15 Budget. Decrease from 2014-15 estimated Actual to 2015-16 Budget mainly reflects lower contracting and travel expenses, partly offset by increases in employee expenses due to Enterprise Bargaining Arrangements.
22. The decrease in 2014-15 estimated actual relative to 2014-15 Budget reflects lower than expected supplier expenses including on motor vehicle and property repairs and maintenance, operational equipment, professional services and contractor expense, communications and marketing. The increase in 2015-16 Budget reflects expected increases in employee and supplier expenses including for property repairs and to address critical digital communications requirements; and continuation of projects related to cultural change and the Police and Community Safety Review.
23. The decrease in 2014-15 estimated actual relative to the 2014-15 Budget is due to the finalisation of the machinery-of-government transfer of corporate functions to the Public Safety Business Agency, as well as the deferral of expenditure related to several projects budgeted for 2014-15 including Telecommunications Interception System Upgrade, ICT and Mobile Services. The increase from 2014-15 estimated actual to 2015-16 Budget reflects additional funding for police growth (266 new police officers in 2015-16), wage increases and additional resources for targeting organised crime, partly offset by finalisation of the G20 operation. In addition, rescheduling of Telecommunications Interception System Upgrade, ICT and Mobile Service programs also boosts 2015-16 expenditure.
24. The increase from the 2014-15 Budget to the 2014-15 estimated actual primarily relates to payment to Queensland Treasury Corporation to compensate for costs incurred during the preparation of assets for lease or sale under the direction of the former State Government. The increase from the 2014-15 estimated Actual to the 2015-16 Budget is due to the machinery-of-government transfer of the Office of Fair and Safe Work Queensland from the Department of Justice and Attorney-General to Queensland Treasury in July 2015.
25. The decrease from the 2014-15 estimated actual to 2015-16 Budget is mainly due to the impact of the Machinery-of-government transfer of Arts Queensland to the Department of the Premier and Cabinet in February 2015.
26. The decrease in the 2014-15 estimated actual relates to the deferral of approximately \$40 million in funding to 2015-16 high priority projects (including the Mission Beach Safe Boating Infrastructure Project, the Bundaberg Gas Pipeline and Great Barrier Reef Ports Reform activities) and the transfer of Royalties for Regions funding to Transport and Main Roads and Infrastructure, Local Government and Planning. The increase in 2015-16 Budget relates to new funding for the Building our Regions program and Townsville Stadium; increased expenditure on Commonwealth Games Venue projects; the deferral of projects from 2014-15; and higher expenditure under Round 4 of the Royalties for the Regions program.
27. The decrease in expenditure from the 2014-15 Budget to the 2014-15 estimated actual is primarily due to the deferral of funding to 2015-16 to match the timing of anticipated expenditure on venues for the Gold Coast 2018 Commonwealth Games. The increase from 2014-15 estimated actual to 2015-16 Budget is almost entirely due to the increase in planned expenditure associated with the delivery of venues for the Gold Coast 2018 Commonwealth Games.
28. The increase in expenses in 2015-16 Budget mainly reflects increased expenditure under the Transport Service Contract with Queensland Rail, expenditure on the Lawnton to Petrie rail line project, and increases in road operations and maintenance costs. This is partially offset by decreases in expenditure on regional freight and livestock contracts.

Table 4.5 Departmental administered expense^{1, 2}

	Notes	2014-15 Budget \$ 000	2014-15 Est. Act. \$ 000	2015-16 Budget \$ 000
Aboriginal and Torres Strait Islander Partnerships	4	8,100	9,974	9,935
Agriculture and Fisheries	5	9,395	11,868	11,305
Communities, Child Safety and Disability Services	6	239,631	257,061	253,949
Education and Training	7	3,083,848	3,021,234	3,108,900
Energy and Water Supply	8	711,303	654,226	465,849
Health Consolidated		33,910	33,934	33,548
Housing and Public Works	9	3,452	8,061	3,468
Infrastructure, Local Government and Planning	3, 10	2,308,584	1,479,475	1,163,549
Justice and Attorney-General	11	308,257	296,744	313,987
National Parks, Sport and Racing	12	26,811	26,715	41,754
Natural Resources and Mines		51,625	51,625	51,625
Premier and Cabinet	3, 13	74,336	64,890	126,420
Queensland Treasury	14	6,500,940	6,397,817	6,305,214
Science, Information Technology and Innovation	3, 15	131,942	123,949	80,117
State Development	3, 16	27,433	27,433	2,500
The Public Trustee of Queensland		..	850	438
Tourism, Major Events, Small Business and the Commonwealth Games	17	119,393	127,662	170,386
Total expenses		13,638,960	12,593,518	12,142,944
Notes:				
<ol style="list-style-type: none"> 1. Total expenses by department does not equate to total General Government Sector expenses in Uniform Presentation Framework (UPF) terms reported elsewhere in the Budget Papers as General Government Sector expenses include a wider range of entities including State Government statutory authorities. In addition transactions eliminated between entities within the General Government Sector (for example payroll tax payments) are excluded in the preparation of whole-of-Government UPF financial statements. 2. Full explanation of variations in departmental administered expenses can be found in the SDS. A summary of major variances is provided below. 3. 2014-15 Budget figures have been adjusted to reflect machinery-of-government changes. 4. The increase in 2014-15 estimated actual reflects additional funding provided for the Western Cape Communities Trust under the Western Cape Communities Co-existence agreement and additional funding provided to the Family Responsibilities Commission for the expansion into Doomadgee during 2014-15. 5. The increase from 2014-15 Budget to 2014-15 estimated actual reflects the additional funding towards supporting service delivery for the Queensland Agricultural Training Colleges. 6. The increase from 2014-15 Budget to 2014-15 estimated actual is largely due to the recognition of expenditure incurred relating to natural disasters in 2013-14 and 2014-15. The decrease in the 2015-16 Budget is due to the winding down of spending on natural disasters and an increase in concessions due to growth and indexation. 				

7. The decrease in administered expenditure from 2014-15 Budget to 2014-15 estimated actual is mainly due to an adjustment in expenses relating to the Central Queensland TAFE/Central Queensland University merger and lower expenses due to a decrease in Australian Government Students First funding. The increase from 2014-15 Budget to 2015-16 Budget is mainly due to increased Australian Government funding for non-government schools reflecting enrolment growth and indexation of per student funding, and the introduction of the Non-State Schools Capital Grants program.
8. Decreases in the 2014-15 estimated actual and the 2015-16 Budget are attributable to reduced expenditure required for the Government's Uniform Tariff Policy. The large reduction in the 2015-16 requirement follows recent determinations by the Australian Energy Regulator, which have reduced allowable revenues of Ergon Energy by more than those of Energex. The decrease is also affected by the cessation of a smaller (\$30 million) community service obligation payment to Energex, which was paid in 2014-15.
9. The increase in the 2014-15 estimated actual primarily reflects the cost of severance payments made to Building and Asset Services following the amalgamation of the former QBuild and Project Services Commercialised Business Units. This also explains the reduction in expenditure in the 2015-16 Budget.
10. The decrease in the 2014-15 estimated actual primarily relates to funding for the Queensland Reconstruction Authority and is due to a change in the profile of reconstruction expenditure by agencies.
11. The decrease from 2014-15 Budget to 2014-15 estimated actual relates to a realignment of the former Safe Night Out Strategy (to be replaced by the new Alcohol Fuelled Violence Program) and lower benefit payments under the victims of crime financial assistance and compensation scheme. The increase in 2015-16 Budget is primarily due to the funding profile under the National Partnership Agreement on Legal Assistance Services for Community Legal Centres, indexation for Gambling Community Benefit Fund grants, enterprise bargaining for statutory bodies and the new Domestic Violence Duty Lawyer Service.
12. The increase in the 2015-16 Budget relates to a capital grant payment to Stadiums Queensland towards the construction of a state netball facility.
13. The reduction in expenditure between 2014-15 Budget and 2014-15 estimated actual primarily relates to a decrease in Employee expenses and Supplies and Services in relation to the Government's election commitment to reduce the number of Ministers and Ministerial Offices. The increase in expenditure from 2014-15 estimated actual to 2015-16 Budget primarily relates to an increase in grants and subsidies due to the machinery-of-government transfer of Arts Queensland to the Department of the Premier and Cabinet. Further expenditure relates to additional funding provided to statutory bodies for Enterprise Bargaining arrangements as well as to Queensland Family and Child Commission to develop a Customer Services Directory, Workforce Strategy, public education, an evaluation framework and a new records management system; Queensland Performing Arts Trust for the Out of the Box Festival; and to Screen Queensland.
14. The decrease in 2014-15 estimated actual largely relates to a decrease in borrowing costs due to lower than budgeted borrowings in 2013-14 which reduced the opening stock of borrowing for 2014-15. Additionally, new borrowings were lower than budgeted due to the improved operating position and lower capital purchases by the State. The decrease in 2015-16 Budget is largely due to the impact of the Government's Debt Action Plan which is reflected in lower borrowing costs.
15. The decrease in expenditure from 2014-15 Budget to 2014-15 estimated actual is largely due to Queensland Shared Services (QSS) deferrals, a reduction in subsidy to account for payroll tax exemption for QSS and the transfer of Chief Technology Officer funding and functions to the Department from CITEC. The decrease in 2015-16 Budget relates mainly to the full year impact of the machinery-of-government transfer of Arts statutory bodies to Department of the Premier and Cabinet in February 2015 and a reduction in subsidies to QSS.
16. The decrease in 2015-16 Budget relates to funding for the management and operation of South Bank and Roma Street Parklands transferring to the Department of Infrastructure, Local Government and Planning as part of machinery-of-government changes.
17. The increase from 2014-15 Budget to 2014-15 estimated actual is the result of a deferral of funds by Tourism and Events Queensland (TEQ) from 2013-14 to 2014-15 which occurred after the publication of TEQ's 2014-15 Budget. The increase from 2014-15 Est. Actual to 2015-16 Budget principally relates to an increase in grants to the Gold Coast 2018 Commonwealth Games Corporation for expenditure associated with event planning and preparation for the Gold Coast 2018 Commonwealth Games. Increased funding of \$128.3 million over four years has been provided to TEQ to restore its funding and provide it with Budget certainty.

Table 4.6 reconciles the departmental expenses set out above with General Government Sector total expenses.

Table 4.6 Reconciliation of departmental to UPF expenses¹

	2014-15 Est. Act. \$ million	2015-16 Budget \$ million
Departmental expenses per Service Delivery Statements		
- Controlled (Table 4.4)	39,489	41,992
- Administered (Table 4.5)	12,594	12,143
Non-UPF departmental expenses and whole-of-Government schemes ²	(4,078)	(4,009)
Other General Government entities (e.g. CBUs, SSPs, Statutory Bodies)	5,084	4,413
	53,089	54,540
Superannuation Interest cost	872	803
Eliminations and Other whole-of-Government adjustments		
Elimination of payments to CBUs and SSPs	(2,795)	(2,590)
Other eliminations and adjustments	(2,551)	(2,779)
Total General Government UPF expenses	48,615	49,973
Notes:		
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.		
2. Certain expenses such as asset valuation changes are excluded from UPF reporting. In addition, this item removes the effect of cash payments for whole-of-government schemes such as the State's share of superannuation beneficiary payments reported in Treasury Administered's expenses. Costs associated with these schemes are accrued annually.		

5 Balance sheet and cash flows

Features

- The Government's Debt Action Plan will reduce General Government Sector debt by approximately \$7.5 billion in 2015-16, compared to the level of debt in the absence of measures. Further reductions across the forward estimates result in a debt reduction of \$9.6 billion by 2017-18.
- This is the first budget since 1999-2000 that has projected a reduction in General Government Sector borrowings across the forward estimates, such that debt will be lower in 2018-19 than it was in 2014-15.
- General Government Sector debt, which incorporates the impact of the Debt Action Plan, as well as all other budget movements, is expected to fall from \$43.268 billion in 2014-15 to \$39.532 billion in 2017-18. This is \$7.5 billion lower than the projection for 2017-18 at the time of the 2014-15 Mid Year Fiscal and Economic Review (MYFER) and \$8.9 billion lower than projected in the 2014-15 Budget.
- Due to measures being implemented by the current Government refocusing the balance sheet to lower debt, Non-Financial Public (NFP) Sector debt by 2017-18 is projected to be \$4.951 billion lower than the original 2014-15 Budget projections under the previous Government.
- In 2015-16, budgeted General Government Sector borrowings of \$38.151 billion will be \$7.946 billion lower than anticipated at 2014-15 MYFER. Meanwhile, budgeted NFP Sector borrowings will be around \$4 billion lower as a direct result of the Government's Debt Action Plan.
- Over 80% of General Government Sector capital purchases of \$4.987 billion estimated for 2014-15 will be funded by operating cash flows. Over the period 2014-15 to 2018-19 around 87% of General Government Sector capital purchases are forecast to be funded by operating cash flows. This is consistent with the Government's key fiscal principles of primarily funding capital from recurrent revenue, rather than borrowing.

5.1 Context

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

The Review of State Finances document, released concurrently with the 2015-16 Budget, has confirmed the need for the Government to have the capacity to respond to market and environmental shocks. The Government recognises that this capacity is restricted where there are high levels of General Government Sector debt. The Review of State Finances, and the resultant Debt Action Plan, will see General Government Sector debt reduce substantially over the forward estimates while retaining government-owned corporations in public hands.

5.2 Balance sheet

Table 5.1 provides a summary of the key balance sheet aggregates for the General Government Sector.

Table 5.1 General Government Sector: summary of budgeted balance sheet¹

	2014-15 Budget ² \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Financial assets	66,962	67,920	61,798	61,965	62,096	62,397
Non-financial assets	197,556	183,503	187,058	191,285	195,428	199,034
Total assets³	264,518	251,423	248,856	253,250	257,525	261,431
Borrowings, advances and deposits	48,685	43,911	38,833	39,495	40,204	41,354
Superannuation liability	23,641	25,744	24,278	22,672	21,298	20,003
Other provisions and liabilities	13,101	11,760	12,044	12,495	12,893	13,308
Total liabilities	85,428	81,415	75,155	74,663	74,395	74,665
Net worth	179,091	170,007	173,701	178,588	183,130	186,766
Net financial worth	(18,466)	(13,496)	(13,357)	(12,697)	(12,299)	(12,268)
Net financial liabilities	43,495	35,891	35,885	35,654	35,611	36,174
Net debt	10,942	6,056	3,910	4,405	5,074	6,307
Notes:						
1. Numbers may not add due to rounding and bracketed numbers represent negative numbers.						
2. Numbers have been restated where subsequent changes in classification have occurred.						
3. For UPF purposes, the State's assets are classified as either financial or non-financial assets.						

5.2.1 Financial assets

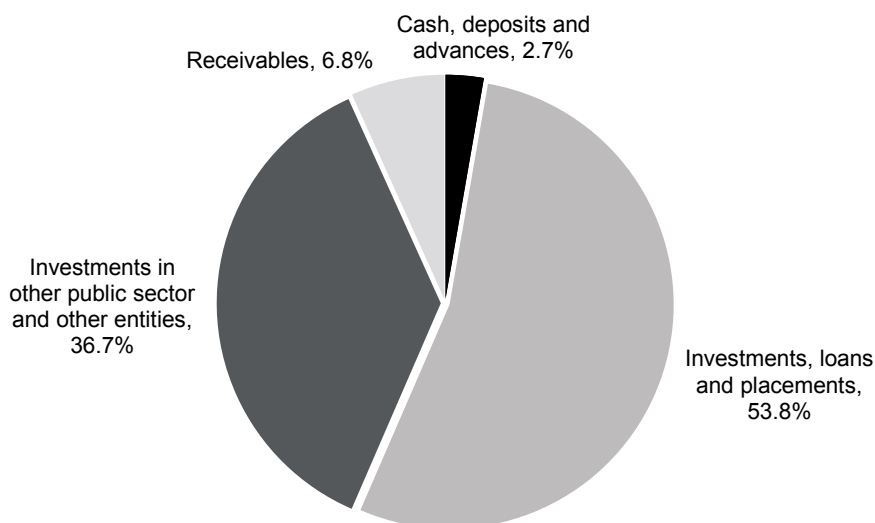
The General Government Sector holds the equity of the State's public enterprises, principally its shareholding in government-owned corporations (GOCs) but also Public Financial Corporations like Queensland Treasury Corporation (QTC), in much the same manner as the parent or holding company in a group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

Financial assets of \$67.920 billion are estimated for 2014-15, \$958 million higher than originally budgeted for 2014-15. This is due primarily to an increase in the value of holdings in Public Financial Corporations, principally as a result of the gain on divestment of Queensland Motorways Limited by the Queensland Investment Corporation Trust at 30 June 2014, which was not budgeted.

In the year to 30 June 2016, financial assets are projected to decrease by \$6.122 billion over the 2014-15 estimated actual, attributable principally to the draw down of long service leave investments, temporary suspension of investment of employer defined benefit contributions and capital returns from the Government's energy network businesses as part of the Government's Debt Action Plan.

Chart 5.1 shows forecast General Government Sector financial assets by category at 30 June 2016. Investments held to meet future liabilities, including superannuation and the Queensland Government Insurance Fund, comprise the major part of the State's financial assets.

Chart 5.1 Forecast General Government Sector financial assets by category at 30 June 2016



5.2.2 Non-financial assets

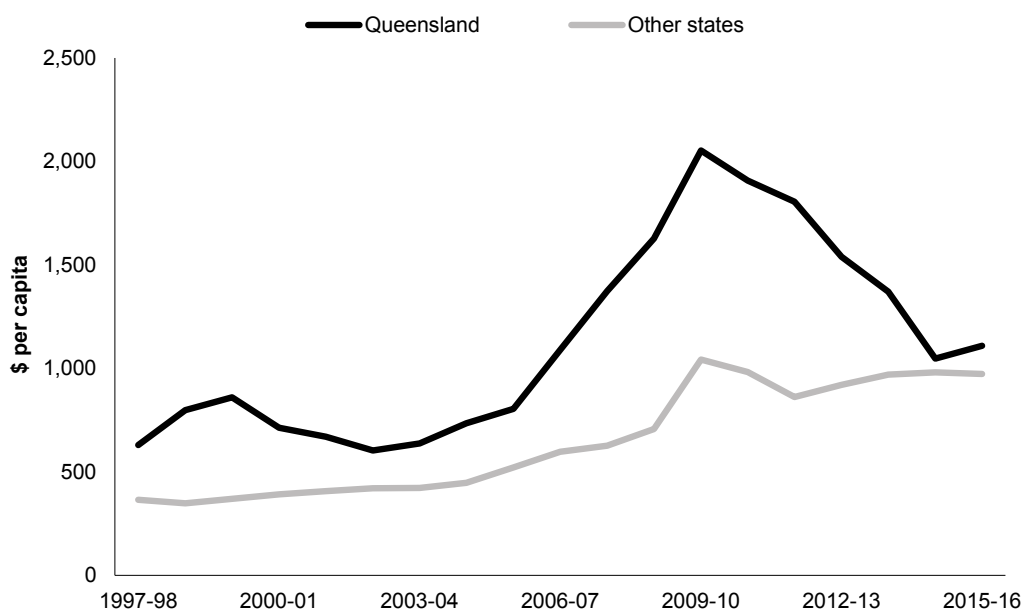
General Government Sector non-financial assets are estimated to total \$183.503 billion at 30 June 2015, \$14.053 billion lower than forecast at the 2014-15 Budget and \$1.205 billion lower than in the 2014-15 MYFER.

The decrease since the 2014-15 Budget reflects the first time implementation of AASB13 *Fair Value Measurement* and the flow through of downward revaluations at 30 June 2014 primarily for reserve and leasehold land. These downward revaluations were incorporated in the 2014-15 MYFER.

Non-financial assets in the year ending 30 June 2016 are expected to grow by \$3.555 billion over the 2014-15 estimated actuals, to be \$187.058 billion at 30 June. These assets consist primarily of land and other fixed assets of \$180.775 billion, the majority of which are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets of \$6.283 billion held by the State include prepayments and deferred tax assets relating to income tax equivalents collected primarily from GOCs.

Since the mid-1990s, the Queensland Government has invested in new infrastructure at levels well beyond that of the other states. General Government Sector purchases of non-financial assets per capita have exceeded the average of the other states and territories for well over a decade (refer Chart 5.2).

Chart 5.2 General Government Sector per capita purchases of non-financial assets



Source: ABS 5512.0, various state Budgets.

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

Purchases of non-financial assets for the General Government Sector are forecast to increase from \$4.987 billion in 2014-15 estimated actual to \$5.851 billion in 2018-19.

Forecast capital purchases for the General Government Sector and Public Non-Financial Corporations Sector over the period 2015-16 to 2018-19 is \$35.362 billion, which is an average of \$8.840 billion per annum. While its primary aim is to facilitate service delivery to Queenslanders, infrastructure investment makes an important contribution to the economy and is a cornerstone of the Queensland job market, particularly in the construction industry.

In terms of ensuring new capital investment in the General Government Sector is primarily funded through operating revenues, forecast net operating cash flows from 2015-16 to 2018-19 of \$20.492 billion are funding capital purchases of \$23.182 billion. Over this period, almost 90% of capital spending is funded by operating revenues.

The State has also entered into a number of finance leases, mainly in relation to Public Private Partnerships, totalling \$2.376 billion over the period 2014-15 to 2018-19. There is no cash impact at commencement of these leases, however they do increase the level of non-financial assets and gross borrowing to the same extent.

5.2.3 Liabilities

General Government Sector

Estimated General Government Sector liabilities of \$81.415 billion in 2014-15 are \$4.013 billion lower than the 2014-15 Budget. This is mainly due to the flow through from 30 June 2014 of lower than expected gross borrowing. In addition, better than expected operating results and lower than expected capital outlays estimated for 2014-15 are contributing to the lower debt. Offsetting this is the flow through of the impact of lower than expected bond yields on the actuarially assessed superannuation and long service leave liabilities at 30 June 2014.

Total liabilities in the General Government Sector in 2015-16 are budgeted to decrease by a further \$6.260 billion from 2014-15 estimated actual. This is primarily due to measures being implemented to refocus the balance sheet to lower debt as part of the Government's Debt Action Plan.

Liabilities relating to employee entitlements (principally superannuation and long service leave) are projected to total \$29.482 billion at 30 June 2016, a 3.8% decrease on the 2014-15 estimated actual. The State's superannuation liability can be seen to decline over the forward estimates as a result of the defined benefit fund being closed to new entrants from 2009. In addition, as interest rates return to more normal levels (following a period of historically low bond yields) it is expected that their negative impact on superannuation liabilities will start to reverse.

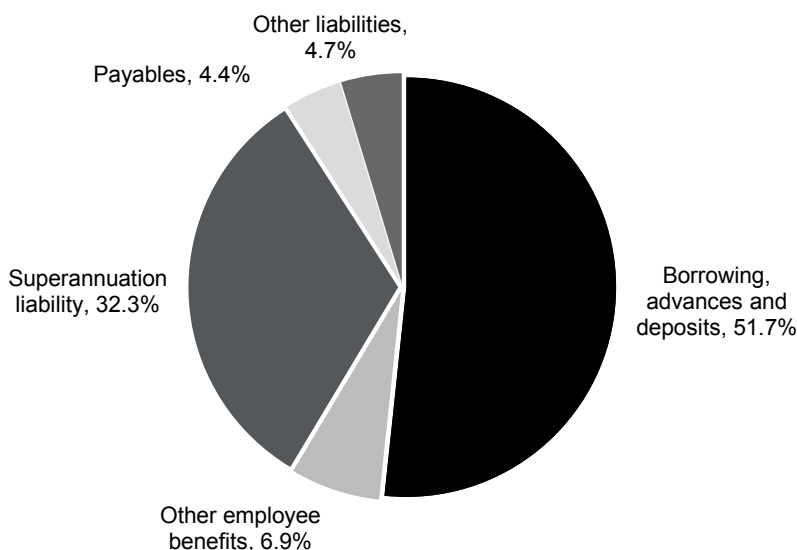
General Government Sector borrowings of \$38.151 billion are budgeted for 2015-16, a decrease of \$5.117 billion over 2014-15 estimated actual. This decrease is primarily due to the combination of aligning gearing ratios of Government energy network businesses with the industry average, the draw down of long service leave assets and the temporary suspension of the investment of employer defined benefit contributions, to repay debt.

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

The composition of the General Government Sector's forecast liabilities at 30 June 2016 is illustrated in Chart 5.3.

The Government considers the General Government Sector debt to revenue ratio to be an important indicator consistent with its fiscal principle of targeting ongoing reductions in Queensland's relative debt burden (refer Chart 1.6 in Chapter 1). Consistent with the practice of ratings agencies, less emphasis is now placed on the net financial liabilities to revenue ratio, which incorporates the superannuation liability.

Chart 5.3 Forecast General Government Sector liabilities by category, at 30 June 2016



Non-Financial Public Sector borrowings

NFP Sector borrowings of \$75.535 billion are expected for 2014-15, \$4.421 billion lower than expected at the 2014-15 Budget.

NFP Sector borrowings of \$74.113 billion are budgeted for 2015-16, a further decrease of \$1.422 billion over 2014-15 estimated actual, largely reflecting the draw down of long service leave assets in response to the Review of State Finances.

5.2.4 Net financial worth

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

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

The net financial worth of the General Government Sector for 2014-15 is estimated at negative \$13.496 billion, an improvement of \$4.970 billion over the 2014-15 Budget mainly as a result of the flow through of lower borrowing in the outcomes at 30 June 2014. Net financial worth is expected to stabilise and improve slightly over the forward estimates period.

5.2.5 Net financial liabilities

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

The net financial liabilities of the General Government Sector for 2014-15 are estimated to be \$35.891 billion, \$7.604 billion lower than 2014-15 Budget. This largely reflects the flow through of lower borrowings in the outcomes at 30 June 2014 and the increase in dividends receivable from energy GOCs as a result of the revisions to their capital structure and dividend policy.

Net financial liabilities are expected to stabilise from 2014-15 as movements in borrowings and financial assets offset each other.

5.2.6 Net worth

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

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

- operating surpluses (deficits) that increase (decrease) the Government's equity
- revaluation of assets and liabilities as required by accounting standards. For example, the Government's accruing liabilities for employee superannuation and long service leave are determined by actuarial assessments
- movements in the net worth of the State's investments in the Public Non-Financial Corporations and Public Financial Corporations sectors
- gains or losses on disposal of assets. Where the selling price of an asset is greater (less) than its value in an agency's accounts, the resultant profit (loss) affects net worth.

The net worth of the General Government Sector in 2014-15 is estimated to be \$170.007 billion. This is \$9.084 billion lower than forecast in the 2014-15 Budget primarily due to the downward revaluation of reserve and leasehold land at 30 June 2014 (under AASB13 *Fair Value Measurement*) and higher superannuation liabilities as a result of lower bond rates, offset by lower stocks of borrowings.

From 2015-16, net worth is projected to steadily increase mainly as a result of the growth in non-financial assets.

5.2.7 Net debt

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

Net debt for the General Government Sector in 2014-15 is estimated to be \$6.056 billion, \$4.886 billion less than the 2014-15 Budget. Net debt will reduce by a further \$2.146 billion to be \$3.910 billion in 2015-16 as a result of the Government's Debt Action Plan.

In the Non-Financial Public Sector, net debt is estimated at \$36.083 billion in 2014-15, \$5.434 billion less than the 2014-15 Budget. Net debt is expected to increase to \$38.201 billion in 2015-16 and then grow slowly in line with borrowings through to 2018-19.

5.3 Cash flows

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

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

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

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

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

The estimated General Government Sector cash deficit of \$487 million in 2014-15 is \$1.855 billion lower than that forecast at the time of the 2014-15 Budget. This is largely due to the lower than expected capital program and improved operating position.

After taking into account a capital program of \$5.374 billion, a cash deficit of only \$584 million is forecast for 2015-16, demonstrating the Government's commitment to funding new capital investment primarily through net operating surpluses.

Net cash flows from investments in financial assets for policy purposes include net cash flows from disposal or return of equity, and net equity injections into GOCs. Cash flows from the return of equity in the energy network businesses as a result of the Debt Action Plan are expected to total \$3.482 billion over the period 2015-16 to 2018-19.

Net cash flows from investments in financial assets for liquidity purposes represent net investment in financial assets to cover liabilities such as superannuation, other employee entitlements and insurance. The draw down of long service leave assets and suspension of employer defined benefit contributions as a result of the Debt Action Plan flow through this line in the Statement of Cash Flows.

Total General Government Sector capital purchases of \$5.374 billion are budgeted for 2015-16 and, over the period 2015-16 to 2018-19, capital expenditure is expected to total \$23.182 billion in the General Government Sector. As discussed in 5.2.2, this capital is funded to the extent of almost 90% by operating cash flows.

5.4 Reconciliation of operating cash flows to the operating statement

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

Table 5.2 General Government Sector: reconciliation of cash flows from operating activities to accrual operating activities¹

	2014-15 Est. Act. \$ million	2015-16 Budget \$ million
Revenue from transactions	49,578	51,186
Plus/(less) movement in tax equivalent and dividend receivables	(363)	343
Plus GST receipts	1,921	1,764
Plus/(less) movement in other receivables	(318)	(437)
Equals cash receipts from operating activities	50,818	52,856
Expenses from transactions	48,615	49,973
(Less) non-cash items		
Depreciation and amortisation expense	(3,116)	(3,264)
Accrued superannuation expense	(1,803)	(1,750)
Accrued employee entitlements	(613)	(648)
Other accrued costs	(155)	(81)
Plus superannuation benefits paid – defined benefit	1,856	1,943
Plus/(less) movement in employee entitlement provisions	386	275
Plus/(less) GST paid	1,847	1,786
Plus/(less) movement in other provisions and payables	(286)	137
Equals cash payments for operating activities	46,731	48,372
Note:		
1. Numbers may not add due to rounding.		

The main difference between the accrual operating statement and the cash flow relates to the timing of cash payments and receipts and their recognition in accrual terms and the inclusion of non-cash expenses and revenues. The largest differences between accrual accounting and cash flows are in relation to depreciation and superannuation. Differences due to the timing of receipt or payment of amounts are recorded as either a receivable or payable in the balance sheet.

6 Intergovernmental financial relations

Features

- The Queensland Government is committed to working with the Australian Government to achieve outcomes for Queenslanders. The fiscal constraints facing all levels of government are well understood, but the Australian Government's plan to grow health funding in line with Consumer Price Index (CPI) and population, and education funding with CPI and enrolments is not sustainable. This is expected to result in \$18 billion worth of Australian Government cuts over the next decade based on Queensland's population share. This highlights the importance of the White Paper processes on Federalism and Tax Reform to ensure federal financial relations are sensible and sustainable, and do not simply cost shift to the states.
- The White Paper processes provide an opportunity to restructure federal-state relations, clarify roles and responsibilities, improve the long-term sustainability of government finances, create a fairer and simpler tax system and consider the merits of the current horizontal fiscal equalisation system.
- The 2015-16 Commonwealth Budget extended funding for a number of key agreements – early childhood education, homelessness and legal assistance services. However, funding cuts made to health (\$11.8 billion) and education (\$6 billion) in the 2014-15 Commonwealth Budget remain a significant ongoing fiscal challenge for Queensland. Not addressing these cuts in the 2015-16 Commonwealth Budget, combined with parameter adjustments to growth funding, only adds to these challenges. Equally concerning is the lack of advice on funding for mental health reforms and key Queensland infrastructure projects.
- The Queensland Government notes the Australian Government's budget measures to assist development of infrastructure in northern Australia. North Queensland has the potential to be the growth engine of our State and the nation, and infrastructure is a key part of driving this growth. Queensland deserves our fair share of this funding.
- Estimated Australian Government funding in 2015-16 for Queensland is \$23.747 billion. Queensland is estimated to receive \$10.757 billion in payments for specific purposes, with \$850 million as National Specific Purpose Payments, \$3.229 billion as National Health Reform funding, \$3.534 billion as Students First funding and \$3.145 billion as National Partnership payments including Natural Disaster Relief and Recovery Arrangements.
- The Queensland Government welcomes acceptance of the Commonwealth Grants Commission (CGC) 2015 Methodology Review recommendations for states' goods and services tax (GST) shares in 2015-16. Increases to Queensland's GST share duly recognise the impact of factors beyond the State's control on its fiscal capacity, such as the significant rebuilding expenses following natural disasters in 2011 and 2012.
- Queensland is estimated to receive \$12.990 billion of GST revenue in 2015-16, \$1.509 billion more than its population share. Total GST revenue to all states is expected to be \$57.050 billion in 2015-16, an increase of \$3.050 billion or 5.6% on 2014-15.

6.1 Federal financial arrangements

Federal financial relations in Australia are characterised by vertical fiscal imbalance (VFI). This is where the Australian Government's own spending responsibilities are less than its revenue, and State and Territory governments' spending responsibilities are greater than their revenue. The Australian Government collected the majority of taxation revenues (81%) in 2013-14, whilst the states collected 16% and local governments collected the remaining 3%.¹ The states and territories (states)² require grants from the Australian Government to meet their spending responsibilities. These grants represent 45.3% of all states' revenues in 2015-16, based on the Australian Government budget estimates.³

VFI in Australia arises from a number of factors including:

- The Australian Constitution, which precludes states from levying customs duty or excise duty, or introducing taxes based on the value of goods produced, for example, a consumption or retail tax.
- Restrictions imposed by the Australian Government, particularly on the states' levying of income tax. While the Constitution permits states to levy income tax, High Court decisions effectively allow the Australian Government to obstruct the states' application of this power through its ability to reduce other grants to offset any revenue benefits to a state that chooses to raise its own income tax.
- Agreements with the Australian Government, which prevent reinstatement of taxes that were abolished under the arrangements associated with the introduction of the GST. These include a number of duties and financial taxes, such as debits tax.

In Australia, governments look to address VFI through a system of intergovernmental grants from the Australian Government to the states. Just over half these grants are untied 'general revenue assistance', mainly the proceeds from the GST. Most other grants are payments for specific purposes, provided to fund particular activities.

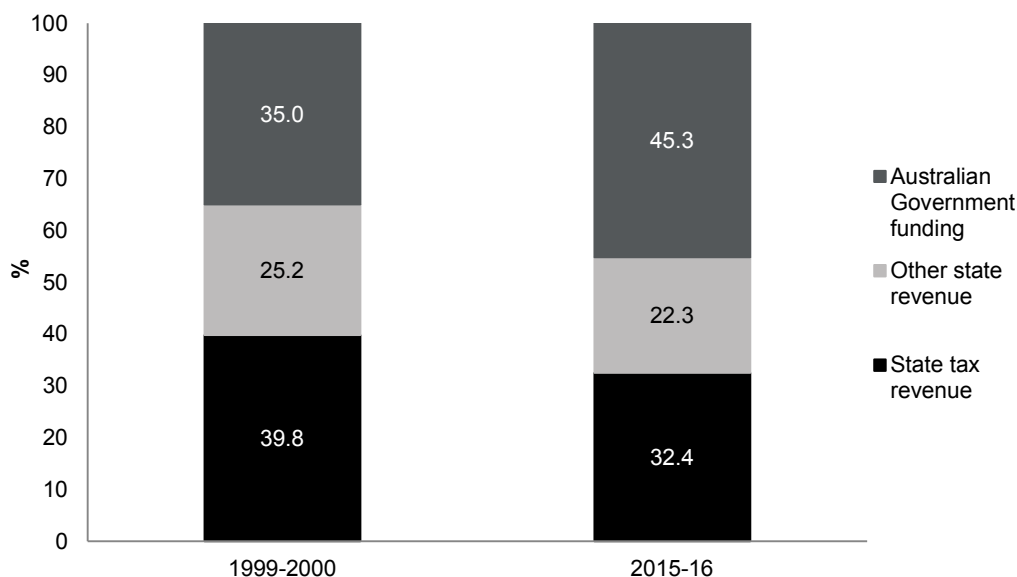
National tax reform and other changes since 2000 have led to an increase in VFI. Chart 6.1 shows that while the states received 35% of their revenues from the Australian Government in 1999-2000, this is forecast to increase to 45.3% in 2015-16. In contrast, the proportion of the states' General Government Sector revenues from state taxes has declined from 39.8% in 1999-2000 to 32.4% in 2015-16.

¹ ABS Government Finance Statistics Cat No. 5506.0.

² States refers to States and Territories unless otherwise specified.

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

Chart 6.1 General Government revenue sources, all states, 1999-2000 and 2015-16¹



Note:

1. 2015-16 are estimates.

Sources: ABS Government Finance Statistics Cat No. 5512.0 and State and Commonwealth Budgets, 2015-16.

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

Another important element of Australian federal financial arrangements is the process of horizontal fiscal equalisation (HFE). Like many federations, different Australian states have different capacities to raise revenue or deliver services due to factors largely beyond their control, such as demography, socio-economic status, geography and natural resources. The HFE process is designed to equalise states' fiscal capacities. Under the process, GST revenue is distributed amongst state governments so they have the capacity to provide similar levels of services to their communities.

The CGC provides advice to the Treasurer of Australia on the distribution of GST revenue.

6.1.1 2015-16 Commonwealth Budget

The 2015-16 Commonwealth Budget was released on 12 May 2015. The Commonwealth Budget provided short-term extensions of funding for a range of essential agreements including early childhood education, homelessness, legal assistance services and adult public dental services, but provided no advice on funding for mental health reforms. It is essential in the future that the renegotiation of National Partnership Agreements (NPs) is a genuine collaboration and not a unilateral decision to extend payments made just weeks before the Commonwealth Budget.

The implications of the 2014-15 Commonwealth Budget, including a number of revisions and reversals to funding agreements unilaterally determined by the Australian Government, remain an ongoing fiscal challenge for Queensland. Not addressing these issues in the 2015-16 Commonwealth Budget, combined with changes in parameter adjustments to growth funding (such as lower estimates of population and lower wage cost index), will have ongoing implications for the capacity of the State to fund growth in services to meet demand. More information on the implications of the 2014-15 Commonwealth Budget is provided in Box 6.1.

Despite the additional funding for some NPs, the 2015-16 Commonwealth Budget does not provide ongoing funding certainty, with most funding arrangements relatively short term (less than three years). This poses a considerable risk for Queensland to manage future service delivery responsibilities when faced with uncertainty around the Australian Government's willingness to remain committed to longer term agreements. How these issues are addressed in the White Paper processes will be crucial to ensure Queensland has a sustainable revenue stream to meet our service delivery responsibilities.

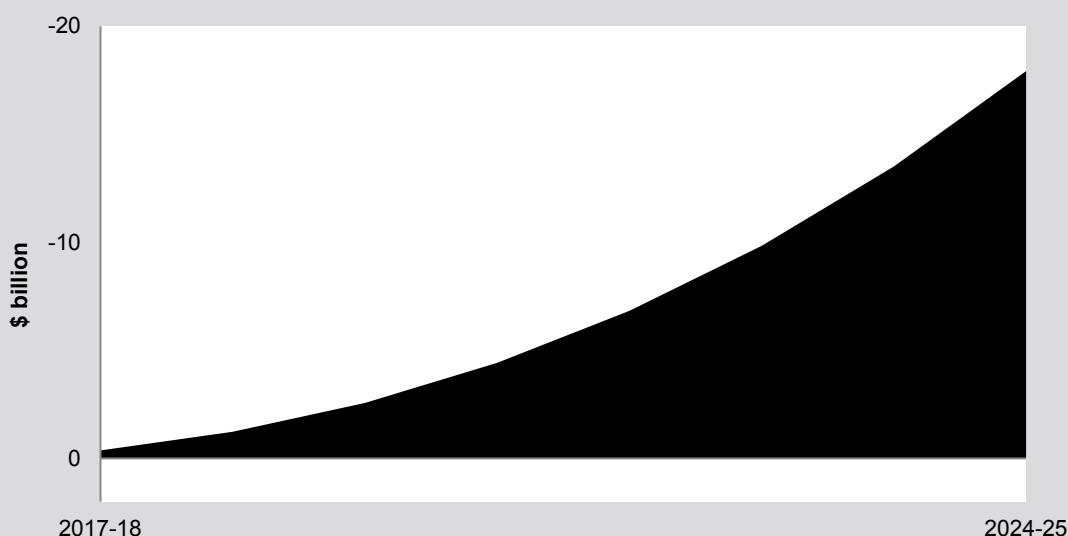
Queensland will closely consider the potential impacts and implications for the State of the White Paper on Developing Northern Australia, and is keen to work with the Australian Government to identify north Queensland infrastructure needs and priority projects for targeted funding.

Box 6.1 Reductions in Australian Government funding to health and education

In the 2014-15 Commonwealth Budget, the Australian Government announced revised funding arrangements for public hospitals (from 1 July 2017) and schools (from 1 January 2018), resulting in expected funding cuts to the states of over \$80 billion in the period to 2024-25.

Based on Australian Government estimates, Queensland's share of these funding cuts is expected to be around \$11.8 billion for public hospital funding and around \$6 billion in schools funding, in total across the period from 2017-18 to 2024-25 (as shown in Chart 6.2). The 2015-16 Commonwealth Budget continued this funding decision.

Chart 6.2 Reduced Australian Government funding for health and education



The reduction in health, education and other funding represents a significant cost shift from the Australian Government to Queensland's budget, increasing the fiscal burden on Queensland if the State has to find the lost funding.

From 1 July 2017 the Australian Government's funding contribution for public hospitals will grow in line with CPI and population growth only, irrespective of demand or activity. Similarly, from the 2018 school year, the Australian Government's changes will index recurrent school funding by CPI only, with an allowance for changes in enrolments, resulting in a reduction of around \$6 billion to 2024-25 compared with previous indexation arrangements.

The removal of billions of dollars of Australian Government funds from core services in Queensland highlights the volatility and vulnerability of the state revenue base to Australian Government actions. This underlines the importance of federalism reform to ensure an appropriate allocation of roles and responsibilities, supported by a sustainable revenue stream to meet our service delivery responsibilities.

6.1.2 Opportunities for reform

The Australian Government's ambitious economic and fiscal reform agenda includes the National Commission of Audit (NCoA) and White Paper processes on Federalism and Tax Reform.

The Queensland Government is supportive of the White Paper processes on Federalism and Tax Reform and is working productively with the Australian Government and other states to address the key challenges faced by the nation, including the need to restructure federal-state relations, make government finances more sustainable, and to foster robust and diverse economic growth across the nation.

Funding cuts in the 2014-15 Commonwealth Budget remain an ongoing fiscal challenge for Queensland, and not addressing these cuts in the 2015-16 Commonwealth Budget adds to these challenges, and highlights the need to secure sustainable financial positions for states.

The context for the White Papers was set by the NCoA report which was critical of the size of the federal bureaucracy and the duplication of state functions. The NCoA recommended a comprehensive review of roles and responsibilities of the Australian and state governments be undertaken.

To assist, a Steering Committee, chaired by the Australian Government and involving all state governments and the Australian Local Government Association, was established to oversee the development of the Federalism White Paper. The Tax Reform White Paper is being coordinated by the Australian Treasury.

The Federalism White Paper seeks to clarify roles and responsibilities to ensure states are sovereign in their own spheres and reduce duplication between levels of government. Broadly it will consider: (i) improvements to federation governance and accountability arrangements; (ii) improving allocation of roles and responsibilities across the key reform areas of Health, Education, and Housing and Homelessness; and (iii) federal financial relations, and addressing VFI and the merits of and potential reform to the current system of HFE.

The objective of the White Paper on Tax Reform is to achieve a better tax system that delivers taxes that are lower, simpler, and fairer – a system that supports higher economic growth and living standards, improves international competitiveness and is able to adjust to a changing economy. This is achieved by raising the revenue needed without imposing unnecessary costs on the economy.

As part of the White Paper processes, Queensland will be focused on ensuring state sovereignty over its policy and service delivery responsibilities is maintained and supported by sustainable revenue streams.

The Australian Government and states are committed to considering expenditure responsibilities across a range of areas, and the parallel consideration of tax reform means that appropriate revenue arrangements can also be addressed. Approaches that increase the likelihood of successful reform will inevitably involve better division of roles and responsibilities to reduce VFI, and a combination of Australian Government and state tax reform.

Further detail on the White Paper processes is provided in Box 6.2.

Box 6.2 Federalism and Tax Reform White Papers

In 2013, the Australian Government announced the preparation of two White Papers on Federalism and Tax Reform, to be prepared collaboratively with states.

The White Paper processes present an opportunity for Queensland to ensure reforms align with the Queensland Government's objectives, clarify federal-state relations, improve the sustainability and efficiency of Queensland's revenue base, and address VFI.

Federalism White Paper

The Federalism White Paper seeks to clarify roles and responsibilities to ensure states are sovereign in their own spheres and reduce duplication between levels of government. Ensuring states have access to a sustainable and stable revenue base will also need to be considered and will link with the Australian Treasury led Tax Reform White Paper process. The key sectors under consideration for reform of roles and responsibilities are health, education, housing and homelessness.

The key principles that the federalism reform process aims to address include: subsidiarity; equity, efficiency and effectiveness of service delivery; national interest; accountability and outcomes; durability; and fiscal sustainability.

A number of issues papers have been released and public consultation forums held to consider the issues of federalism. A draft Discussion Paper was released in June 2015, to be followed by release of the Green Paper, and the White Paper by the end of 2015 or early 2016.

Tax Reform White Paper

On 30 March 2015, the Australian Government released the first Tax Reform issues paper "Re:think" for public consultation. The Australian Government's issues paper has begun the consultation process for future directions of Australia's tax system including state taxes.

The Queensland Government will take a lead role in shaping the direction of this process, including the special Treasurers' Tax Summit in August 2015 with a view to providing options for the Green Paper which will be released in late 2015, followed by a White Paper later in 2016.

From this process the Queensland Government supports improved efficiency and equity of Australia's tax system and a fair and sustainable model of distribution of all tax revenues to encourage economic growth, supported by a division of roles and responsibilities which reduces the current inefficient levels of VFI.

Queensland has undertaken tax reform over the past decade and a half, with reform of its mix, design and administration, and removal of a large number of less efficient taxes. However Queensland does not have the fiscal capacity to simply cut its own taxes given the need to ensure Queenslanders can access quality services.

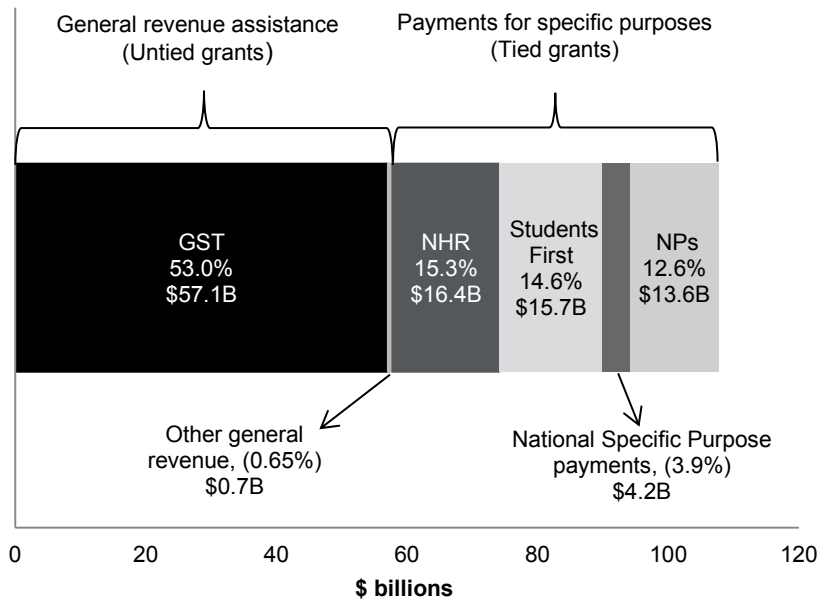
States face significant spending pressures, reflecting rising community expectations about the breadth and quality of services delivered. States require reliable streams of revenue, but also capacity to adjust their levels of revenue to allow them to meet fiscal and economic challenges that arise.

6.2 Australian Government funding to the states

The framework for federal financial relations is set out in the Intergovernmental Agreement on Federal Financial Relations (IGA). The IGA outlines the Australian Government's commitment to provide ongoing financial support to the states through two types of grants - general revenue assistance and payments for specific purposes.

General revenue assistance grants are able to be used by the states for any purpose (untied funding). Payments for specific purposes are considered tied funding, where the state is restricted in how the funding can be spent (either by sector or for specific projects or reforms). Chart 6.3 outlines Australian Government grants to states.

Chart 6.3 Breakdown of Australian Government grants to states, 2015-16¹



Note:

1. NHR is funding under the National Health Reform. NPs is funding for National Partnership payments.

Source: Commonwealth Budget 2015-16 and Queensland Treasury estimates.

Table 6.1 shows total Australian Government payments to the states in 2015-16 are expected to be \$107.711 billion, an increase of \$6 billion or 5.9% in nominal terms when compared with 2014-15. This increase is primarily driven by increases to the GST. These figures are based on 2015-16 Commonwealth Budget estimates.

GST revenue from the Australian Government to all states is expected to be \$57.050 billion in 2015-16, an increase of 5.6% in nominal terms. In real per capita terms, GST is expected to increase by 3.1% in 2015-16.

Total payments for specific purposes in 2015-16 are expected to be \$49.962 billion, a 7.4% increase in nominal terms and a 3.0% increase in real per capita terms compared with 2014-15.

Table 6.1 Estimated Australian Government payments to the states, 2014-15 and 2015-16¹

	2013-14 Actual \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million	Change Nominal Terms %	Change Real Terms %	Change Real Per Capita %
GST revenue	51,090	54,000	57,050	5.6	3.1	1.3
Payments for specific purposes						
National Partnership payments	14,534	12,272	13,557			
National Specific Purpose Payments	10,415	4,135	4,222			
National Health Reform Funding	13,841	15,459	16,441			
Students First – Education Reform Funding	6,766	14,664	15,743			
Total payments for specific purposes	45,557	46,530	49,962	7.4	4.8	3.0
Other general revenue²	1,300	1,178	699			
Total payments	97,948	101,708	107,711	5.9	3.3	1.6
Notes:						
1. Numbers may not add due to rounding.						
2. Include payments to the Australian Capital Territory for municipal services, compensation for reduced royalties, royalties and Snowy Hydro Limited tax compensation.						
<i>Source: Commonwealth Budget 2015-16 and Queensland Treasury estimates.</i>						

Table 6.2 shows the expected shares of total Australian Government payments to each state for 2015-16 compared with each state's population share.

Queensland is expected to receive payments above its population share, with above-population shares of payments for both general and specific purposes, for reasons explained in Section 6.4 and 6.5.

Table 6.2 Relative shares of Australian Government payments to the states, 2015-16¹

	Share of payments ² %	Share of population %	Relative share ³ %
New South Wales	30.5	31.9	95.5
Victoria	23.0	24.9	92.4
Queensland	21.7	20.1	108.0
Western Australia	7.0	11.2	62.8
South Australia	8.5	7.1	120.1
Tasmania	3.2	2.1	149.0
Australian Capital Territory	1.8	1.6	106.8
Northern Territory	4.3	1.0	414.3
<p>Notes:</p> <ol style="list-style-type: none"> 1. Numbers may not add due to rounding. 2. Excludes payments unallocated among the states and territories in the Commonwealth Budget papers and royalties paid by the Australian Government to Western Australia and the Northern Territory. 3. A state's relative share is measured as its funding share as a percentage of its population share (may not divide due to rounding). <p><i>Source: Commonwealth Budget 2015-16.</i></p>			

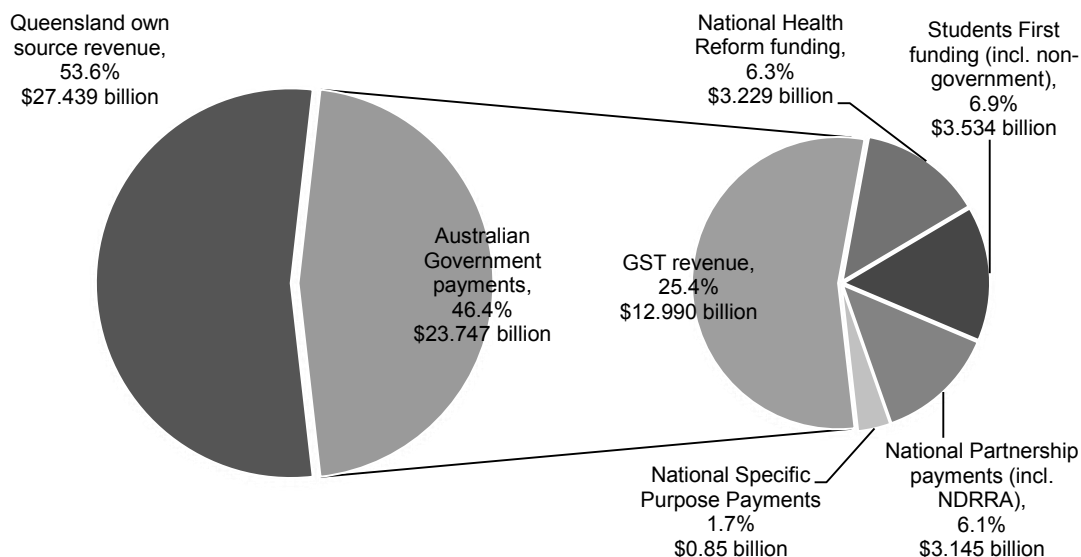
6.3 Australian Government funding to Queensland

This section reflects the Queensland Government's estimates of proposed Australian Government funding.

Queensland's reliance on Australian Government funding is expected to increase from 34.8% in 1999-2000 to an estimated 46.4% in 2015-16 (see Chart 6.4). This is consistent with the national trend (shown in Chart 6.1), with states receiving 45.3% of their revenues from the Australian Government in 2015-16, compared to 35% in 1999-2000.

National tax reform and other changes since 2000 have led to an increase in vertical fiscal imbalance and reliance on Australian Government funding.

Chart 6.4 General Government Sector revenue sources, Queensland, 2015-16



Sources: Commonwealth Budget 2015-16 Paper No. 3 and Queensland Treasury estimates.

Estimated Australian Government funding in 2015-16 for Queensland, included in the 2015-16 Queensland Budget, is \$23.747 billion⁴, an increase of \$1.733 billion or 7.9% compared with 2014-15 (as shown in Table 6.3).

Table 6.3 Estimated Australian Government payments to Queensland^{1, 2}

	2013-14 Actual \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million	Change Nominal Terms %	Change Real Terms %	Change Real Per Capita %
GST revenue	10,823	11,746	12,990	10.6	8.2	6.2
GST balancing item³	73	69	..			
Total payments for general purposes	10,896	11,816	12,990			
Payments for specific purposes						
National Partnership payments (excluding NDRRA ⁴)	1,889	1,917	2,039			
NDRRA	1,515	1,163	1,106			
National Specific Purpose Payments	807	831	850			
National Health Reform Funding	2,815	3,057	3,229			
Students First – Education Reform Funding	2,926	3,231	3,534			
Total payments for specific purposes	9,951	10,198	10,757	5.5	3.2	1.3
Total payments	20,847	22,014	23,747	7.9	5.5	3.6
Notes: 1. Numbers may not add due to rounding. 2. Does not include Australian Government funding direct to Local Governments. 3. The balancing adjustment accounts for differences between the GST paid to states and the final GST pool size and population outcomes in the prior year (2012-13 and 2013-14). 4. NDRRA is funding for the Natural Disaster Relief and Recovery Arrangements. <i>Sources: Commonwealth Budget 2015-16 Paper No. 3 and Queensland Treasury estimates.</i>						

Queensland expects to receive \$12.990 billion of GST revenue in 2015-16, \$1.509 billion greater than its population share. In the same year, total payments for specific purposes are forecast to be \$10.757 billion, with \$3.229 billion as National Health Reform funding, \$3.534 billion as Students First funding, \$850 million as National Specific Purpose Payments and \$2.039 billion as National Partnership payments. Payments for Natural Disaster Relief and Recovery Arrangements (NDRRA) are estimated to be \$1.106 billion in 2015-16.

⁴ This figure differs to Chapter 3 Australian Government grants estimates, due to the exclusion of direct Australian Government payments to Queensland departments for Commonwealth own purpose expenditure.

6.4 GST revenue payments

Under the terms of the Intergovernmental Agreement on Federal Financial Relations (IGA), states receive the revenue collected by the Australian Government's GST. The IGA also required GST revenue to be distributed on the basis of horizontal fiscal equalisation (HFE) principles. The application of HFE principles aims to give all states the same fiscal capacity to deliver services to their populations after the distribution of the GST, taking into account states' capacities to raise revenue from their own sources, as well as their different expenditure needs.

The CGC is tasked with recommending state shares of GST funding to the Australian Government. The amount of GST revenue received by an individual state is determined by the national pool of revenue collected through the GST and the Australian Government's determination of the distribution of that revenue amongst the states.

In April 2015, the Australian Government released the results of the CGC's *2015 Review of Methodology* (the 2015 Review) used to determine the distribution of GST among the states. The 2015 Review considered the recommendations of the 2012 GST Distribution Review, the implications of recent national reforms (such as the National Disability Insurance Scheme) on the GST distribution, and other improvements and simplifications to the methodology. More information on the 2015 Review is provided in Box 6.3.

The White Paper on Reform of the Federation is to consider the merits and potential reforms to the current HFE process.

6.4.1 Queensland's share of GST revenue

The Australian Government has accepted the CGC's recommendations of GST revenue sharing relativities as the basis for the distribution of the GST revenue to the states in 2015-16.

In the 2015 Review, the CGC recommended an underlying increase in Queensland's share of GST revenue of \$556 million in 2015-16, as shown in Table 6.4.

Table 6.4 GST share and underlying impact of relativities, 2015-16¹

	NSW	Vic.	Qld	WA	SA	Tas.	ACT	NT
Underlying impact of relativities ² (\$ million)	(517)	131	556	(494)	284	225	(129)	(56)
GST Share (\$ million)	17,295	12,730	12,990	1,915	5,518	2,236	1,032	3,335
GST per capita (\$)	2,251	2,121	2,679	713	3,229	4,324	2,614	13,234
Notes:								
1. Bracketed numbers represent negative amounts.								
2. The underlying impact reflects the change to Queensland's GST share from the CGC's new relativities using estimated 2015-16 GST pool size and populations.								
Sources: <i>Commonwealth Budget 2015-16</i> , <i>Commonwealth Grants Commission Report on GST Revenue Sharing Relativities 2015 Review</i> .								

Queensland's share of GST for 2015-16 has increased due to:

- A higher level of NDRRA expenses, due to the high level of disaster spending in 2013-14 relating to 2011 and 2012 disaster events. NDRRA expenses are shared between the Australian Government and states, with the Australian Government providing reimbursement for a proportion of state expenses resulting from a natural disaster. The GST distribution takes into account the proportion of NDRRA expenses that are not reimbursed by the Australian Government, as these arise from circumstances beyond states' control.
- Strong mining production value in Western Australia in 2013-14, which reduced the GST redistributed away from Queensland due to its mining royalties, and changes to the mining assessment methodology. As the CGC's assessments are lagged by two years, this affects GST shares in 2015-16. These gains were partially offset by changes to the methodology for transport infrastructure and services expenses.

More detail on the outcomes of the 2015 Review is in Box 6.3.

For the last few years, Queensland's single year relativity has been above 1.0, that is, Queensland has been assessed as having a lower than average fiscal capacity and requiring a greater than population share of GST. This reflects the relatively higher cost of service provision in the State.

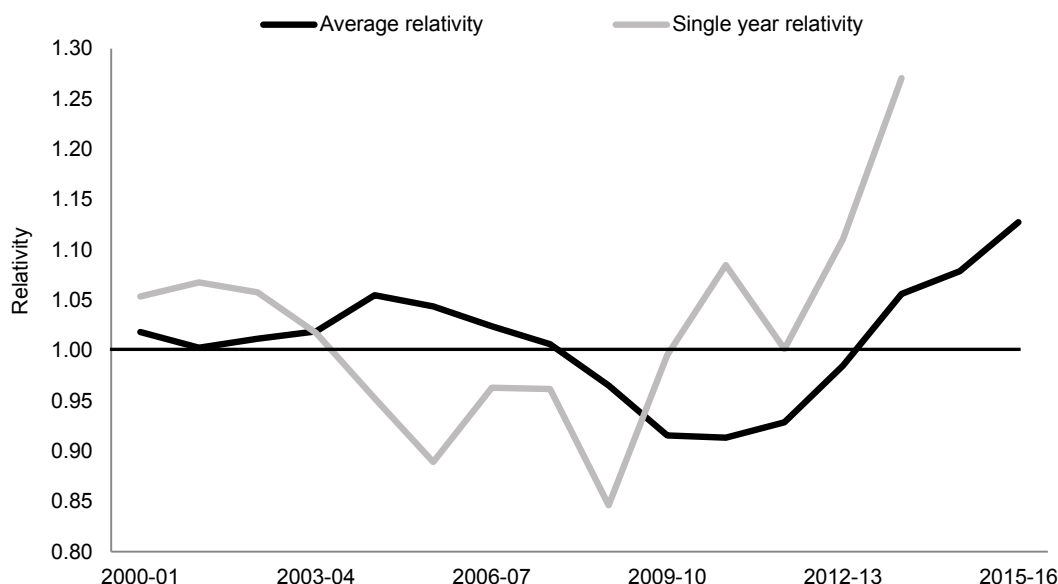
In the 2015 Review Final Report, Queensland received its highest single year relativity since the introduction of the GST, a result that was driven primarily by short term factors outside of the State's control such as the significant rebuilding following natural disasters in Queensland.

To determine the GST share of each state, the CGC uses a three year average of single year relativities (with a two year lag). This dampens the impact of single year relativity changes so that states' GST shares are more predictable and less volatile.

As shown in Chart 6.5, Queensland's three year average relativity has risen above 1.0 for the third consecutive year, meaning that Queensland will receive a greater than population share of GST in 2015-16. The impact of the historically high 2013-14 single year relativity is likely to keep Queensland's three year average relativity above 1.0 for the next few years, but many of the factors driving the 2013-14 result are short term.

Net expenses for NDRRA are expected to be lower in 2014-15, and Western Australia's mining revenue has been adversely affected by a fall in iron ore prices. Queensland's share of GST can be expected to move closer to 1.0 once the short term impact of 2013-14 factors are removed from the averaging process.

Chart 6.5 Queensland's GST Relativity, 2000-2001 to 2014-15¹



Note:

1. GST shares have used a three year average of single year relativities since 2010-11. Previous average relativities were based on a five year average of single year relativities. Average relativities are calculated with a two year lag.

Sources: *Commonwealth Grants Commission Report on GST Revenue Sharing Relativities 2015 Review*, *Queensland Treasury*.

In general, the CGC assesses Queensland as having higher than average expenditure needs, due to the state's higher proportions of remote and Indigenous populations. Other factors, such as a higher capacity to raise revenue from mining royalties and lower assessed public sector wage costs offset these additional needs.

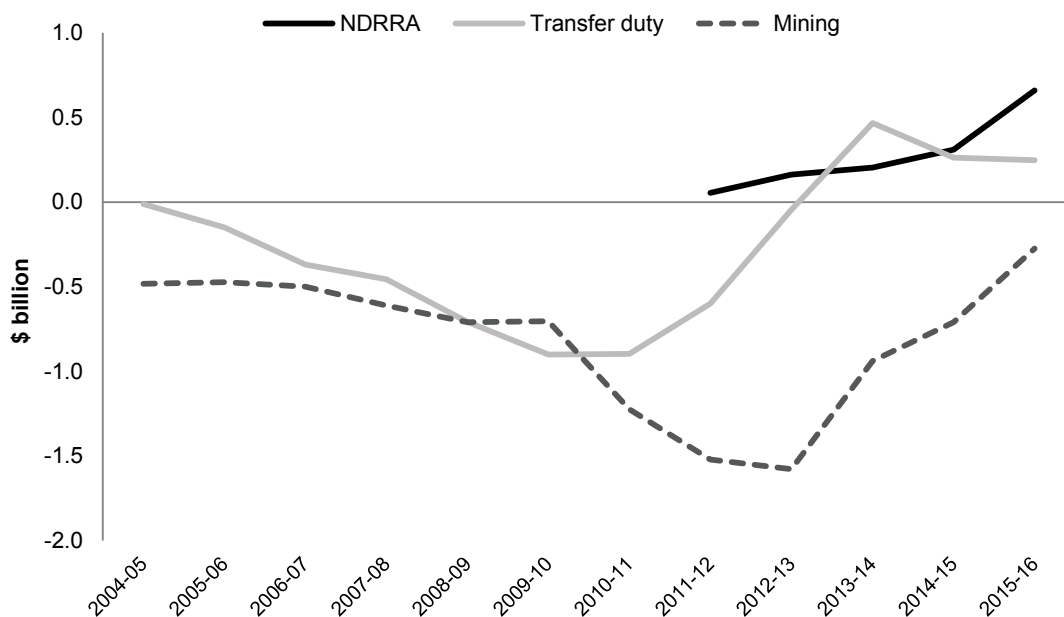
In the longer term, Queensland's fiscal capacity can be expected to be around the average of states (relativity of 1.0). However, many of the factors impacting Queensland's relativity are volatile, such as transfer duty, mining revenue, natural disaster relief and other Australian Government payments.

Mining revenue is heavily influenced by volatile commodity prices, while Queensland's relative capacity to raise revenue from transfer duty is driven by differences in the timing of property cycles between states and NDRRA expenses are driven by the incidence of large disasters.

The significant impact of volatile factors means that while Queensland's relativity may be around the average of states in the longer term, on an annual basis it will continue to fluctuate, and be above 1.0 in some years and below in others.

Chart 6.6 shows the impact of the volatile assessments.

Chart 6.6 Contribution of volatile assessments to Queensland's difference from an equal per capita share of GST (three year average)^{1, 2}



Notes:

- Contributions are scaled to the growth in the pool size from 2004-05 to 2015-16 to improve comparability.
- NDRRA data for earlier years is not available.

Sources: Commonwealth Grants Commission and Queensland Treasury.

Box 6.3 2015 Review of CGC methodology

In April 2015, the CGC released the Final Report of its 2015 Review of the methodology used to determine the distribution of GST among the states. The Final Report recommended that Queensland's share of GST revenue be increased by \$556 million in 2015-16. The 2015 Review outcome encompasses the impact of methodology changes on states' GST shares, as well as the impact of changes to states' circumstances and revisions to the data used in the CGC's assessments. Table 6.5 shows the contribution of these factors to the overall impact.

Table 6.5 Underlying changes in GST allocations 2015-16 (\$ million)^{1, 2}

	NSW	Vic.	Qld	WA	SA	Tas.	ACT	NT
Methodology change	(105)	423	(186)	(255)	74	89	(93)	53
Data revisions	(157)	(44)	(45)	202	58	(7)	(47)	40
States' circumstances	(254)	(249)	787	(441)	152	144	10	(149)
Total change	(517)	131	556	(494)	284	225	(129)	(56)

Notes:

1. Bracketed numbers represent negative amounts.
2. Numbers may not add due to rounding.

Sources: *Commonwealth Grants Commission Report on GST Revenue Sharing Relativities – 2015 Review.*

The increase to Queensland's GST share was mainly driven by a weakening in Queensland's circumstances relative to other states since the last CGC update in 2014 (\$787 million increase). Updates to the CGC's recommendations are designed to capture changes in factors beyond states' control that impact their fiscal circumstances. For Queensland, high NDRRA expenditure (net of contributions from the Australian Government) as well as relatively weaker mining revenue have meant that Queensland has been assessed as requiring additional GST. The increase in Queensland's share of GST in 2015-16 is not a windfall, rather, it recognises that Queensland has had higher expenses and weaker revenues than in previous updates.

Methodological changes made by the CGC in the 2015 Review have negatively impacted Queensland. This is largely due to a new assessment of states' requirements for transport infrastructure. The new methodology places a larger emphasis on city size than on population growth, redistributing GST away from Queensland because it does not have a city the size of Sydney or Melbourne. Queensland has argued against this methodology, which does not have a robust evidence base, and considers that fundamental changes to this assessment should be a priority of the next CGC methodology review.

Along with the 2015 Review Final Report, the CGC also released its advice on the treatment of large volatile state revenues in its GST distribution methodology. This was in the context of large decreases in Western Australia's iron ore royalties in 2014-15. Although the CGC found there were no grounds for special treatment of iron ore royalties, the 2015-16 Commonwealth Budget provided an additional \$499 million of infrastructure funding to Western Australia. Queensland supports the CGC advice, noting there was no special treatment when Queensland faced similar circumstances when coal prices fell in 2009-10. The Australian Government should ensure that additional capital payments made to Western Australia are not at the expense of other states.

6.5 Payments to Queensland for specific purposes

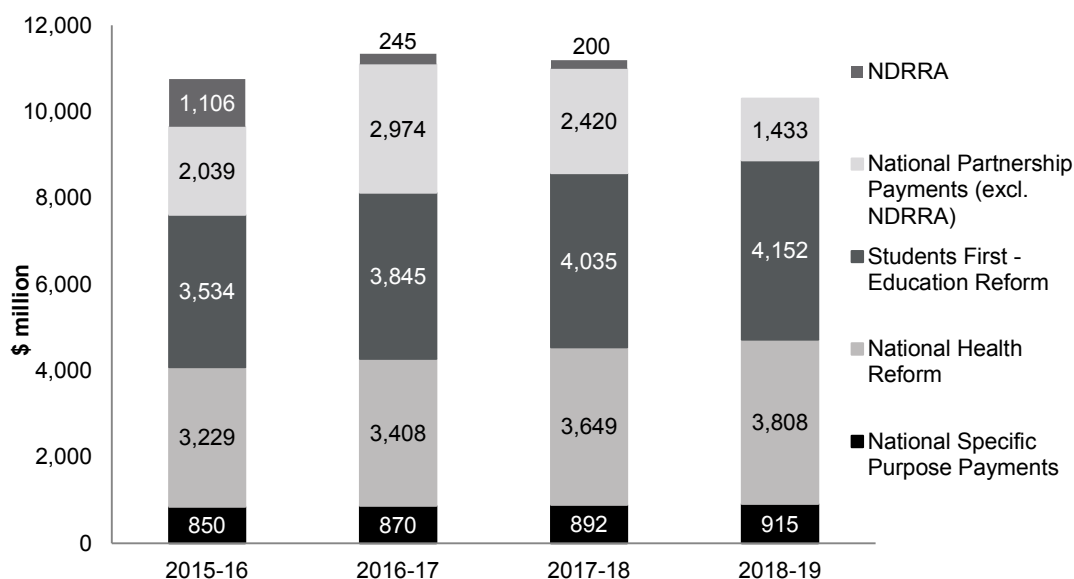
6.5.1 Structure of payments for specific purposes

Payments for specific purposes comprise National Specific Purpose Payments (SPPs), National Health Reform funding, Students First funding and National Partnership (NP) payments. These payments represent a significant source of revenue to Queensland, comprising 21.0% of total expected revenue in 2015-16 and 45.3% of Australian Government funding to Queensland.

Projections of specific purpose funding to Queensland

Funding for National SPPs is relatively stable across the forward estimates, with growth of 2.4% in 2016-17 increasing to 2.6% in 2018-19. Growth in National Health Reform (NHR) funding increases to 7.1% in 2017-18, but declines to 4.4% in 2018-19. Growth in Students First funding of 8.8% in 2016-17 is expected to decline to 2.9% in 2018-19. The decrease in growth in funding for health and education is mainly due to revised indexation arrangements from 2017-18 announced at the 2014-15 Commonwealth Budget. Total payments for specific purposes decreases in 2018-19 mainly due to current time limited NP agreements ceasing in 2017-18.

Chart 6.7 Payments for specific purposes to Queensland¹



Note:

1. Excludes Australian Government direct funding to local government.

Sources: Commonwealth Budget 2015-16 Paper No. 3 and Queensland Treasury estimates.

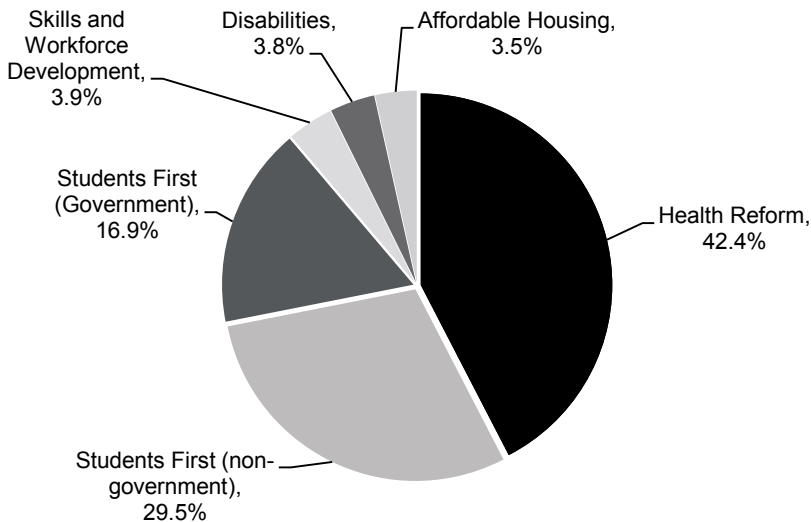
The level of NP payments varies from year to year, depending on the nature and duration of agreements, and the value of new agreements. Chart 6.7 outlines how NP funding, including NDRRA, is expected to rise to \$3.219 billion in 2016-17, before declining to \$1.433 billion in 2018-19. This variability is primarily due to fluctuations in the timing of funding for NDRRA and infrastructure payments.

6.5.2 National Specific Purpose Payments

National SPPs are an ongoing financial payment to the states for service delivery in a particular sector. National SPPs are considered to be 'tied' payments since they must be spent in the relevant sector. Apart from this condition, states have total budget flexibility to allocate SPP funding within the relevant sector according to their priorities. In turn, states are accountable to their communities on SPP expenditure and the achievement of outcomes, as set out in the associated National Agreements.

In addition to funding for Health and Education, there are three National SPPs to the states for skills and workforce development, disability services and affordable housing. Chart 6.8 shows the breakdown of Australian Government funding across these sectors for SPPs, National Health Reform funding and Students First funding.

Chart 6.8 National Specific Purpose Payments by sector, 2015-16



Sources: Commonwealth Budget 2015-16 Paper No. 3 and Queensland Treasury estimates.

National Health Reform funding

The National Health Reform Agreement (NHRA) commenced on 1 July 2012. Under this arrangement, growth in funding from the Australian Government was based on 45% of the efficient costs of additional hospital activity, increasing to 50% in 2017-18. In the 2014-15 Commonwealth Budget, the Australian Government revised the indexation arrangement and funding from 2017-18 will instead be tied to a combination of the CPI and population growth.

The 2014-15 Commonwealth Budget also removed the funding guarantees which were a feature of the NHRA that ensured a guaranteed level of additional funding would flow to the State irrespective of growth in public hospital activity. This revision has major implications for the State in managing the long term growth in hospital demand services. These changes to the NHRA were confirmed by the Australian Government in its 2015-16 Budget. Queensland is expected to receive \$3.229 billion in 2015-16 (\$14.093 billion over four years to 2018-19).

Students First – A fairer funding agreement for schools

Australian Government funding under Students First for Queensland Government schools will be \$1.286 billion in 2015-16 (\$5.827 billion over four years to 2018-19). Non-government schools funding will be \$2.044 billion in 2015-16 (\$8.854 billion over four years to 2018-19).

In the 2014-15 Commonwealth Budget, the Australian Government announced that from the 2018 school year onwards, the Students First funding will be indexed to CPI with an allowance for school enrolment numbers. This will result in cuts to education funding for Queensland schools from the Australian Government compared to previous indexation arrangements.

In the 2015-16 Commonwealth Budget, there was an overall reduction in Students First funding of \$466 million for the period 2014-15 to 2017-18 compared to the 2014-15 Commonwealth Budget. This comprises a \$140 million decrease for government schools and \$326 million for non-government schools. For Queensland, the decrease in funding is largely attributed to revised enrolment estimates associated with the transition of Year 7 into secondary school and incorporation of updated enrolment projections.

A review by the Australian Government of the new funding arrangements for schools will occur later in 2015.

National Disability funding

The Australian Government's significant reforms to disability services will impact the National Disability SPP to Queensland in future years. From 2019-20, the Australian and Queensland Government contributions to the National Disability Insurance Scheme (NDIS) will be \$2.140 billion and \$2.030 billion respectively. The roll out of NDIS in Queensland will commence on 1 July 2016 with full implementation expected by 1 July 2019.

The Queensland Government has consistently argued for Queensland's share of the Medicare Levy Surcharge introduced in 2014 for the NDIS to be paid in alignment with the State's service delivery requirements associated with NDIS, and as a consequence the State should be provided with its full share of the Medicare Levy Surcharge from 1 July from 2016. The

Australian Government has instead unilaterally decided to ration Queensland's access to its rightful share of funding for the NDIS and this will have an impact on the rollout of the Scheme.

6.5.3 National Partnership payments

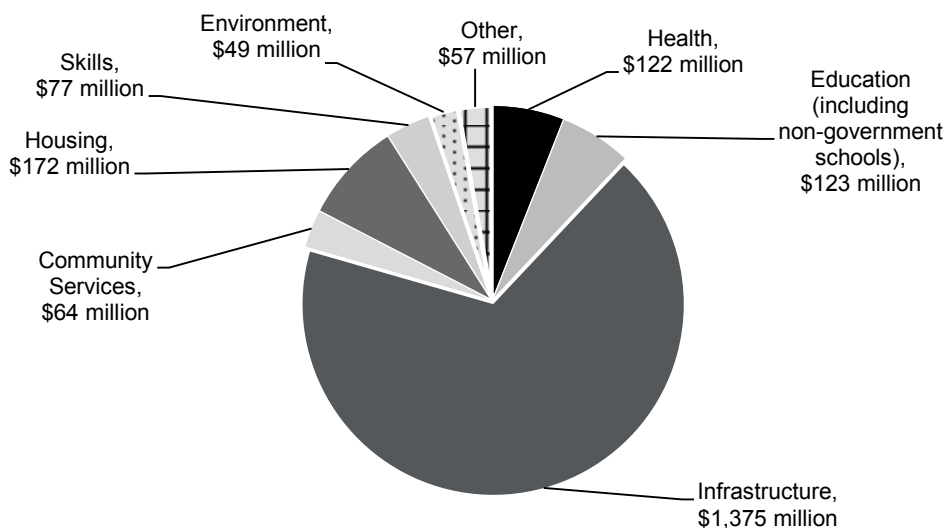
NP payments are paid to states to implement specific NP agreements. These agreements are usually time limited and support the delivery of projects, facilitate reforms or reward states that deliver on national reforms or achieve service delivery improvements.

NP payments are an important source of revenue for Queensland. In 2015-16, proposed NP payments to Queensland, including NDRRA, will be 13.2% (\$3.145 billion) of total Australian Government funding to Queensland.

NP funding by sector

Excluding payments for NDRRA, NP payments for infrastructure, housing, health and education represent the major components of NP funding in 2015-16 (refer Chart 6.9), representing 87.9% of non-NDRRA NP funding. NDRRA payments are excluded as these payments are contingent payments that will only arise following a reimbursement claim for expenditure on eligible natural disasters.

Chart 6.9 National Partnership Payments by sector (excluding NDRRA), 2015-16¹



Note:

1. Excludes Australian Government direct funding to local government.

Sources: Commonwealth Budget 2015-16 Paper No. 3 and Queensland Treasury estimates.

Major funding agreements

The 2015-16 Commonwealth Budget will provide short-term extensions to the following National Partnership Agreements, despite the requests of all states and territories for long-term funding certainty:

- \$175.8 million for early childhood education with an extension to the current program, with the new agreement to now expire in 2017-18. Funding in 2015-16 is increased by \$26.0 million (total of \$86.0 million), with additional funding of \$87.5 million in 2016-17 and \$62.3 million in 2017-18.
- \$57.4 million for homelessness through an extension of the current program to 2016-17 (\$28.7 million in 2015-16 and 2016-17).
- Confirmation of ongoing funding for the Legal Assistance Services NP (\$202.6 million over four years to 2018-19).
- A new NP on Adult Public Dental Services providing \$30.3 million in 2015-16.

Infrastructure funding provided in the 2015-16 Commonwealth Budget, includes a new NP for improving cattle supply chains in northern Australia (with estimated funding of \$62 million from 2016-17 to 2018-19). Further detail on Queensland's Infrastructure funding is contained in Box 6.4.

As part of the 2015-16 Commonwealth Budget, the Australian Government also announced changes to the Remote Indigenous Housing NP (currently due to expire in 2017-18). The Australian Government is intending to replace the existing NP with a new Remote Indigenous Housing Strategy over three years (2015-16 to 2017-18) to build new houses and refurbish existing houses in remote Indigenous communities. State funding allocations for the new proposal have not been determined, and the Queensland Government will seek further details of the new Strategy and the implications for Queensland remote Indigenous communities.

Box 6.4 Infrastructure

Infrastructure plays a crucial role in driving Queensland's productivity and competitiveness. It is a concern the 2015-16 Commonwealth Budget did not provide any funding towards Queensland's key infrastructure priority projects such as Brisbane's second river rail crossing, Gold Coast light rail extension and Sunshine Coast rail duplication.

The Australian Government also continues to deny Queensland its fair share of infrastructure funding from the Asset Recycling Initiative Fund. Under the fund, the Australian Government will provide states with incentive payments to sell public assets, provided the proceeds are reinvested in additional economic infrastructure.

In January 2015, Queenslanders rejected the sale of income earning assets, including power networks and ports. The Queensland Government will not sell these essential income earning and strategic public assets – a position that now has bipartisan support in Queensland. The Australian Government has decided to withhold infrastructure funding from Queensland for not engaging in asset sales by allocating the remaining \$800 million to pay for infrastructure initiatives under the Developing Northern Australia White Paper with funds to be shared with Western Australia and Northern Territory. Western Australia is also receiving another \$499 million in road funding outside of the GST distribution process.

The 2015-16 Commonwealth Budget also included a \$5 billion loan scheme to promote infrastructure investment in northern Australia. The Queensland Government supports measures aimed at assisting and encouraging development to open the untapped economic potential of northern Australia. Queensland will engage with the Australian Government to understand the full implications of the Northern Australia Infrastructure Facility and the proposed path forward.

Expiring agreements

As of 30 June 2015, there were 52 active agreements between the Queensland Government and the Australian Government, with a further 16 agreements under development.

In 2015-16, there are 11 agreements expiring, with minimal advice from the Australian Government about the future of these programs, which will have impacts on service delivery. The 2015-16 Commonwealth Budget provided no extension of funding for Mental Health Reform, with the current agreement providing \$51.5 million in funding over 5 years, and expiring in 2015-16.

The expiry of a number of large NPs over the last few years in a tight fiscal environment has brought the risks posed by the number of fixed term funding arrangements into sharp focus. States have had limited capacity to influence the continuation of expiring agreements and often there is little warning on whether funding will be continued. An early indication as to the continuation, lapse or other treatment of funding under expiring agreements is necessary, to enable states to undertake effective service delivery and budgetary planning. The uncertain nature of expiring agreements demonstrates why the outcomes of the federalism reform process and the allocation of roles and responsibilities into the future will be crucial for States.

7 Public Non-Financial Corporations Sector

Features

- Returns from the Public Non-Financial Corporations (PNFC) are expected to reduce over the forward estimates period. This is largely driven by the Australian Energy Regulator's (AER) April 2015 regulatory decisions for Energex and Ergon Energy, which cut revenue for both businesses significantly.
- Consumers are already starting to see the benefits of these revenue reductions, with electricity prices falling in 2015-16.
- The generators are expecting a material improvement in their performance in 2015-16 and across the forward estimate period. Demand growth from liquefied natural gas (LNG) plants at Gladstone is expected to tighten the wholesale market, leading to higher sales and stronger prices for the generators. The generators have also implemented a number of cost-saving measures to maximise their ongoing competitiveness with other generators.
- Growth in LNG exports is also expected to help the ports. This growth from LNG, alongside additional revenue from the newly commissioned Wiggins Island Coal Export Terminal, will contribute to growth in revenues and dividends from the port businesses.
- Borrowings across the sector are forecast to continue to grow to \$35.962 billion in 2015-16, driven in part by an increase in gearing in the electricity network businesses associated with the Government's Debt Action Plan (as detailed in Box 1.1 of Chapter 1).

7.1 Context

A number of industries are covered by the PNFC Sector, including energy, rail, port and water. Queensland's government-owned corporations (GOCs), declared by regulation to be GOCs under the *Government Owned Corporations Act 1993*, make up a large part of the PNFC sector. Also included in the sector are non-GOC entities including Seqwater, Queensland Rail, local water boards and other public corporations. A list of PNFC Sector entities is available in Chapter 8.

GOCs are accountable for their financial performance and are required to be commercial and efficient organisations. These requirements are legislated under the *Government Owned Corporations Act 1993*.

PNFC Sector entities provide services or commodities like other businesses. The entities incur costs and bear commercial risks to deliver their services or products and generate revenue from the sale of these services or products. The aim of these entities is to achieve a commercial rate of return which is returned to the Government as dividends. In some cases, part of a PNFC entity's revenue may arise from community service obligation (CSO) payments from the Government. These payments subsidise the provision of a service or commodity supplied on a non-commercial basis in order to support the Government's broader policy objectives.

7.2 Finances and performance

7.2.1 Earnings before interest and tax

Total forecast PNFC Sector earnings before interest and tax (EBIT) for 2014-15 is estimated to be \$3.994 billion, down from \$4.137 billion at the time of the 2014-15 Budget. This decline is primarily due to worse than budgeted performance by Stanwell Corporation Limited (Stanwell) and SunWater Limited (SunWater).

EBIT is set to decline to \$3.987 billion in 2015-16 and \$3.806 billion by 2018-19 (Table 7.1).

Table 7.1 Earnings Before Interest and Tax¹

	2013-14 Actual \$ million	2014-15 Budget \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million	2016-17 Projection \$million	2017-18 Projection \$ million	2018-19 Projection \$ million
Electricity Networks ²	2,636	2,783	2,803	2,652	2,579	2,090	1,971
Electricity Generation ³	209	296	200	320	516	474	518
Transport	616	666	645	547	675	673	704
Water	244	439	361	475	528	593	641
Other	152	(47)	(14)	(7)	(9)	(26)	(28)
Total PNFC sector Earnings Before Interest and Tax	3,857	4,137	3,994	3,987	4,289	3,803	3,806
Notes:							
1. Numbers may not add due to rounding. Bracketed numbers represent negative amounts.							
2. The decline relates to lower earnings from Energex and Ergon Energy as a result of the new AER regulatory determinations.							
3. Includes Stanwell coal revenue sharing arrangements.							

This decline in earnings over the projection period is attributable to lower earnings from Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy) as a result of the new AER regulatory determinations, offset by increased earnings from generation, transport and water sectors. CS Energy Limited's (CS Energy) and Stanwell's (electricity generation) earnings increase as a result of a forecast improvement in wholesale electricity prices, primarily due to increased demand from the LNG industry. Seqwater's earnings increase in line with the current bulk water price path and increased forecast water demand. The forecast increase in earnings in the transport sector from 2016-17 reflects forecast growth in port tonnages.

Energy Sector

Generation

CS Energy's and Stanwell's core business is the generation and sale of electricity. Combined, the companies have over 6,600 megawatts (MW) of installed capacity, a combination of coal, gas and hydro powered plant. CS Energy also has access for trading purposes to 810MW from the Gladstone Power Station. Together CS Energy and Stanwell provide over 60% of Queensland's electricity supply.

The generation businesses of CS Energy and Stanwell are facing substantial challenges with the evolution of the electricity market and the growth of new technologies. The Government is investigating structural and non-structural options for improving the performance of the businesses, in light of these challenges to the current businesses, and the evolving energy market including the growth of renewable energy supplies. Throughout these investigations, the Government is committed to delivering efficiencies whilst ensuring competition in the wholesale electricity markets is maintained.

After years of oversupply of generation capacity in the Queensland region of the National Electricity Market (NEM), the LNG industry is changing the Queensland energy market.

The demand outlook, and consequently the supply demand balance, is forecast to improve in 2015-16 and out to 2018-19 as LNG plants on Curtis Island progressively commence operation. LNG-related electricity consumption is forecast to increase from 250 gigawatt hours (GWh) in 2013-14 to 8,350 GWh in 2018-19. This ramp-up of LNG will boost Queensland's electricity demand by approximately 15% and is expected to result in an improved outlook for the wholesale electricity market.

The tightening of the supply and demand balance and the increasing gas costs creates an environment where the existing coal fired generators may improve their returns.

The expected increase in electricity demand from the LNG industry will be tempered by the continued growth of solar photovoltaic (PV) panels and consumers' ongoing sensitivity to increases in electricity retail tariffs. At 31 May 2015, installed PV capacity in Queensland was 1,385MW (approximately 10% of total capacity in Queensland). Solar PV generation in Queensland in 2014-15 is estimated to have been almost 1,900 GWh.

Networks

The Queensland Government owns three network businesses that are responsible for transporting safe, reliable electricity to consumers across the state.

Powerlink is a high-voltage transmission network that transports electricity long distances from generation plants to the distribution networks and connects Queensland to other states.

Ergon Energy and Energex are low-voltage distribution networks that take electricity from Powerlink's transmission network and distribute it to households across Queensland. Ergon Energy is also Queensland's second largest electricity retailer, providing retail services to the bulk of customers in regional Queensland.

Revenues for these businesses are largely derived from network services that are regulated by the AER. The AER determines these revenues on a five-yearly basis, based on the businesses' proposals and its view of the reasonable benchmark costs for a network business. In April 2015, the AER released its preliminary determination on Energex's and Ergon Energy's revenues for 2015-16 to 2019-20. The AER has made significant cuts to both businesses' revenues reflecting the flat energy demand forecasts for the next five years, the efficiency programs within the businesses to reduce their costs, and a significant reduction in the returns the businesses receive on their assets. This will flow through to customers in reduced or flat prices, but will also lead to a significant reduction in returns to Government from these businesses.

Powerlink's current determination commenced in 2012-13 and concludes in 2016-17, meaning the revenue outlook for Powerlink is relatively set until 2016-17. From 2017-18, the outlook for Powerlink is less certain, and will depend on the new determination set by the AER. Government has committed to finding efficiencies within the network businesses to benefit consumers and achieve the best possible value from the businesses. To drive this work and streamline performance, the Queensland Government proposes to merge the network businesses, consolidating Boards, backroom office functions and senior management positions. The Government remains committed to a policy of no forced redundancies within these businesses, meaning any staffing reductions will occur only through natural attrition and voluntary redundancies.

Energex, Ergon Energy and Powerlink are giving significant consideration to their future roles in the energy market. As technology continues to advance, consumers will change the way they consume energy. Accordingly, the businesses will need to evolve with the market to ensure they stay current and provide the services that consumers demand. The Government has stated its intention to operate these government-owned corporations as efficiently as possible for the long term.

Queensland Rail

Queensland Rail is an integrated, publicly owned rail operator, responsible for the delivery of passenger transport in South East Queensland, long distance passenger services in rural and regional Queensland, and provision of third party access to networks for freight transport across the State. Efficient and effective delivery of rail services, including network access, contributes to positive economic and social benefits for Queensland.

The majority of Queensland Rail's services are delivered under a Rail Transport Services Contract (Rail TSC) between the Government, represented by the Department of Transport and Main Roads, and Queensland Rail. The Rail TSC provides funding for rail infrastructure, Citytrain (South East Queensland passenger services) and Traveltrain (regional passenger services).

Queensland Rail is focused on the delivery of safe, reliable and value for money rail services. During 2014-15, Queensland Rail continued to focus on the achievement of further efficiencies in the delivery of its services.

Ports

Queensland has an extensive network of ports along its coastline, ranging from small community ports to large export terminals. With the exception of the Port of Brisbane, all Queensland ports are owned by the Queensland Government. These ports are a major component of Queensland's supply chain and economy. The efficient operation of Queensland's port network is essential to delivering continued economic growth, job creation and sustainable development in Queensland.

The financial performance of the port sector is influenced by the level of economic activity in the State, particularly in terms of international demand for Queensland's resources and agricultural commodities. Demand for coal impacts most significantly on the coal-handling ports of Gladstone and Abbot Point. The recent contraction in investment in the mining sector and lower forecast coal prices are anticipated to impact on growth in tonnages in 2015-16. The ports continue to look for opportunities to enhance supply chain efficiency and identify new trades to improve financial outcomes.

The Government has recently committed through the Reef 2050 Long Term Sustainability Plan to protect the Great Barrier Reef by banning sea-based disposal of capital-dredged material from ports in the Great Barrier Reef World Heritage Area and restricting port-related capital dredging. Economic development, investment and job creation will be supported by master planning for priority ports.

A key project in 2015-16 include the Abbot Point Gateway Expansion project at the Port of Abbot Point.

Water Infrastructure

SunWater

SunWater is the Government's major bulk water supply business outside of South East Queensland. SunWater supplies untreated bulk water to around 5,000 customers across the mining, power generation, industrial, local government and irrigated agriculture sectors via its regional network of dams, weirs, pumping stations, pipelines and channels and other supply and distribution assets.

SunWater has experienced a period of slow growth across key customer segments, and its ongoing interaction with customers and industry representative groups suggests the outlook for key customer sectors will remain subdued. Notwithstanding the subdued market, SunWater continues to actively work with customers to investigate all business opportunities which are consistent with the Government's expectations and priorities.

In light of this low growth operating environment, SunWater will target incremental improvements across all business areas, particularly through the improvement of the quality and effectiveness of the company's engagement with customers, communities and other stakeholders.

While SunWater core business areas remain unchanged, it will continue to facilitate, develop and operate bulk water supply infrastructure throughout regional Queensland. From 1 July 2015, SunWater's internal business structure will change to ensure the business is best placed to deliver services to customers in the most efficient way possible and to maximise the utilisation of its staff in the current market.

Seqwater

Seqwater is responsible for ensuring a safe, secure and reliable bulk drinking water supply for 3.3 million people across South East Queensland. Seqwater also provides essential flood mitigation services, and provides irrigation services to around 1,200 rural customers in seven water supply schemes.

Seqwater's revenue is largely driven by the bulk water price. Seqwater is also forecasting average water use to slightly increase over the forward estimates. The bulk water price is smoothing the implementation of cost reflective pricing over a ten year period ending in 2017-18. The price path and increased water use will see Seqwater's revenue increase over the forward estimates.

Seqwater continues to pursue operational and capital efficiency targets in order to deliver value for money for residents of South East Queensland. Seqwater uses asset management programs, benchmarking against similar providers, multiskilling of employees and streamlining of operational structure to ensure the business runs efficiently.

Given the high level of water security, the Gold Coast Desalination Plant (GCDP) continues to operate in hot-standby mode producing a minimal amount of water to ensure the plant stays in a fully maintained status, but reducing operating and maintenance costs as far as possible. The GCDP is expected to be utilised if key water storages reach 60% of their full supply levels. The Western Corridor Recycled Water Scheme (WCRWS) has been decommissioned to minimise its ongoing costs. It is now operated in a care and maintenance mode to preserve the asset to allow reactivation if required.

Under the forecast future operating conditions, Seqwater is projecting an improvement to its fiscal position driven by operational and capital efficiency targets and certainty in regard to bulk water pricing, following the adoption of prices recommended by the Queensland Competition Authority for the period 2015-16 to 2017-18. As a result of this improved operating position, Seqwater will proceed to reduce its \$9.6 billion debt, incurred in building the Water Grid and managing the subsequent annual losses, over the forward estimates.

Borrowings

Entities in the PNFC Sector utilise debt financing as a source of funds for asset renewal, capital investments and to maintain an optimum capital structure.

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

Total forecast PNFC Sector borrowings for 2014-15 are estimated to be \$32.268 billion (Table 7.2).

Table 7.2 Borrowings¹

	2013-14 Actual \$ million	2014-15 Budget \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Electricity Networks	15,994	16,791	16,760	20,692	21,820	22,723	23,446
Electricity Generation	1,600	1,588	2,117	1,914	1,648	1,494	1,457
Transport	3,631	3,654	3,622	3,811	3,941	3,941	3,957
Water	9,913	9,970	9,808	9,799	9,756	9,713	9,515
Other	175	(189)	(40)	(254)	(269)	(283)	(298)
Total PNFC Sector borrowings	31,313	31,814	32,268	35,962	36,896	37,587	38,078
Note:							
1. Numbers may not add due to rounding. Bracketed numbers represent negative amounts.							

Borrowings are budgeted to increase to \$35.962 billion in 2015-16 and to \$38.078 billion in 2018-19. The increase in borrowings in 2015-16 is driven by revisions to the capital structure of the Electricity Network businesses associated with the Government's Debt Action Plan, as detailed in Box 1.1 of Chapter 1. Increased borrowings in the Electricity Network and Transport sectors are partly offset by reduced borrowings by CS Energy, Stanwell and SunWater as a result of improved earnings and cash management practices.

7.2.2 Returns to Government

PNFC Sector entities provide returns to Government by way of dividends and current tax equivalent payments (TEPs).

Dividends

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

As part of the changes to the preferred capital structure of the Electricity Network businesses under the Debt Action Plan, the dividend payout ratios of these businesses have increased from 80% of net profit after tax to 100% of net profit after tax (as detailed in Box 1.1 of Chapter 1).

Total forecast PNFC sector dividends for the 2014-15 period are estimated to be \$1.659 billion, up from \$1.420 billion at the time of the 2014-15 Budget (Table 7.3). The increase in expected dividends is driven by the Electricity Networks sector, partly due to the move to a dividend payout ratio of 100%.

Table 7.3 Dividends^{1, 2, 3}

	2013-14 Actual \$ million	2014-15 Budget \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Electricity Networks	965	1,007	1,326	1,198	1,038	690	577
Electricity Generation	97	98	56	125	210	182	209
Transport	262	264	257	216	287	296	325
Water	48	51	20	50	52	59	57
Other	..	..	..	..	..	..	..
Total PNFC Sector Dividends	1,372	1,420	1,659	1,590	1,587	1,227	1,168

Notes:

1. Numbers may not add due to rounding.
2. The above dividends do not include amounts from the Public Financial Corporations Sector.
3. Dividends are declared as part of end-of-year accounting arrangements and paid in the following November.

Dividends are budgeted to increase to \$1.590 billion in 2015-16. In 2018-19, dividends are expected to be \$1.168 billion. The decline in dividends is predominantly due to substantially lower returns from Energex, Ergon Energy and Powerlink reflecting their lower revenue outlook. These reductions are partially offset by improved profitability in the generation and transport sectors. The improvement in the generation sector is driven by forecasts of improved wholesale electricity prices as a result of increased demand from the LNG industry. SunWater dividends are forecast to improve, driven by the profitable Woleebee Creek Pipeline Project which was completed in 2014-15.

Tax equivalent payments

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

Total forecast PNFC Sector TEPs for 2014-15 are estimated to be \$625 million, up from \$604 million at the time of the 2014-15 Budget (Table 7.4).

Generally TEPs move in line with earnings. TEPs are forecast to increase to \$733 million in 2015-16 and then decline to \$577 million in 2018-19, in line with GOC earnings.

Table 7.4 Tax equivalent payments¹

	2013-14 Actual \$ million	2014-15 Budget \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million	2016-17 Projection \$million	2017-18 Projection \$ million	2018-19 Projection \$ million
Electricity Networks	196	389	425	514	445	298	253
Electricity Generation	44	56	27	84	129	107	118
Transport	110	146	139	113	146	140	151
Water	10	7	30	20	45	56	54
Other	2	6	4	1	1	1	1
Total PNFC Sector tax equivalents	361	604	625	733	767	602	577
Note:							
1. Numbers may not add due to rounding.							

Competitive neutrality fees

In accordance with the National Competition Policy principles, GOCs are expected to operate on the basis that they do not experience significant advantages or disadvantages by virtue of their Government ownership. One of the most significant advantages available to GOCs is the ability to borrow funds at a lower rate than private sector competitors on the basis of the State Government's credit strength. In order to account for this advantage, the Competition Principles Agreement requires a notional charge to be applied to a GOC's cost of debt. A competitive neutrality fee (CNF) is thus applied to all borrowings and financial arrangements in the nature of debt obligations.

Total forecast PNFC sector CNF payments for 2014-15 are estimated to be \$238 million, down from \$245 million at the time of the 2014-15 Budget (Table 7.5).

Changes in CNF payments reflect movements in borrowing amounts, interest rate spreads and the entity's stand-alone credit rating. CNF payments are forecast to increase to \$283 million in 2018-19.

Table 7.5 Competitive neutrality fee payments¹

	2013-14 Actual \$ million	2014-15 Budget \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million	2016-17 Projection \$million	2017-18 Projection \$ million	2018-19 Projection \$ million
Electricity Networks	144	153	149	155	192	203	209
Electricity Generation	25	32	30	30	29	27	27
Transport	55	54	51	42	45	45	45
Water	7	6	7	4	3	3	3
Other	..	..	..	..	..	..	..
Total PNFC Sector CNF payments	230	245	238	232	269	278	283
Note:							
1. Numbers may not add due to rounding.							

7.2.3 Community service obligation and Rail Transport Service Contract payments

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

Transport Service Contract (TSC) payments are made to Queensland Rail for non-commercial rail passenger services for the commuter and tourism markets. These payments were reported previously as CSOs.

Total forecast PNFC CSO and TSC payments for the 2014-15 period are estimated to be \$2.175 billion, down from \$2.396 billion at the time of the 2014-15 Budget (Table 7.6).

In 2015-16, it is estimated that the Government will provide CSO and TSC payments to PNFC Sector entities of \$2.042 billion. This is forecast to increase to \$2.392 billion in 2018-19. The increase is attributable to the TSC and is due to a mix of factors such as growth in patronage, escalation of service delivery costs and forecast growth in services.

Table 7.6 Community service obligations and Transport Service Contracts receipts¹

	2013-14 Actual \$million	2014-15 Budget \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million	2016-17 Projection \$million	2017-18 Projection \$ million	2018-19 Projection \$ million
Electricity Networks	523	683	626	432	540	566	632
Electricity Generation	..	..	..	..	..	..	..
Transport ²	1,620	1,699	1,535	1,598	1,758	1,758	1,758
Water	13	14	14	12	6	3	3
Other	..	..	..	..	..	..	..
Total PNFC Sector CSO and TSC	2,155	2,396	2,175	2,042	2,303	2,327	2,392

Notes:

1. Numbers may not add due to rounding.
2. The presentation of Transport revenue is not directly comparable to CSO revenue disclosed in the 2013-14 Budget Paper 2, as it now includes patronage revenue received by Queensland Rail and remitted to the Department of Transport and Main Roads under integrated ticketing arrangements.

In line with the Queensland Government's uniform electricity tariff policy, a CSO payment is provided to Ergon Energy to compensate its non-competitive retail subsidiary for the difference between network charges and distribution loss factors applicable in Ergon Energy's region and the relevant Energex network charges and distribution loss factors which are used to set uniform retail electricity tariff prices, which are regulated by the State. This subsidy is a key part of the uniform electricity tariff policy and is provided to ensure that Queenslanders, regardless of their geographic location, pay a reasonable price for their electricity. The Budget includes an amount to ensure tariffs are consistent with the Queensland Competition Authority's draft determination. The drop in the CSO to \$432 million in 2015-16 largely relates to the outcome of the AER determination. Specifically, the AER has reduced Ergon Energy's allowable revenue more than Energex's, reducing the difference between SEQ prices and cost-reflective regional prices. While the CSO reduces in 2015-16, customers outside southeast Queensland will continue to pay the same regulated rate as customers in southeast Queensland.

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

Net flows, as shown in Table 7.7, represent the net value of flows to and from the PNFC Sector (dividends and TEPs less CSO and TSC payments).

Table 7.7 Net Flows to the General Government Sector from PNFC Sector entities¹

	2013-14 Actual \$ million	2014-15 Budget \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Net Flows	(421)	(372)	109	281	50	(497)	(647)
Note: 1. Numbers may not add due to rounding. Bracketed numbers represent a net flow from the General Government Sector to the PNFC Sector.							

7.2.4 Equity movements

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

Total forecast PNFC equity movements for 2014-15 are estimated to be negative \$3.170 billion, reflecting the return of equity from the PNFC Sector to the General Government Sector associated with the Debt Action Plan (Table 7.8).

Estimated equity movements for PNFCs are negative \$97 million in 2015-16.

The \$59 million equity contribution to the transport sector in 2015-16 represents a contribution to Queensland Rail for the Toowoomba Rail Freight Crossing Loops project.

Table 7.8 Equity movements¹

	2013-14 Actual \$ million	2014-15 Budget \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million	2016-17 Projection \$million	2017-18 Projection \$ million	2018-19 Projection \$ million
Electricity Networks	..	..	(3,159)	(156)	(2)	(165)	..
Electricity Generation	..	..	..	..	..	..	..
Transport	(35)	(10)	(11)	59	..	..	..
Water	..	..	..	..	..	..	..
Other	..	..	..	..	..	..	..
Total PNFC Sector equity movements	(35)	(10)	(3,170)	(97)	(2)	(165)	..
Note: 1. Bracketed numbers represent equity returns from the PNFC Sector to the General Government Sector.							

8 Uniform Presentation Framework

8.1 Context

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

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

In addition, the chapter provides:

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

8.2 Uniform Presentation Framework financial information

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

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

Table 8.1 General Government Sector Operating Statement¹

	2013-14 Actual \$ million	2014-15 Budget \$ million	2014-15 Est.Actual \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Revenue from Transactions							
Taxation revenue	11,845	12,455	12,707	12,926	13,607	14,289	15,007
Grants revenue	21,755	24,043	23,373	24,555	26,298	26,977	26,061
Sales of goods and services	5,048	5,187	5,350	5,430	5,444	5,565	5,769
Interest income	2,460	2,429	2,467	2,372	2,274	2,289	2,302
Dividend and income tax equivalent income	1,975	2,148	2,410	2,395	2,436	1,923	1,851
Other revenue	3,650	3,859	3,271	3,509	3,950	4,445	4,760
Total Revenue from Transactions	46,734	50,120	49,578	51,186	54,010	55,486	55,748
Less Expenses from Transactions							
Employee expenses	17,817	18,585	18,938	19,937	20,567	21,135	21,648
Superannuation expenses							
Superannuation interest cost	963	932	872	803	848	886	898
Other superannuation expenses	2,277	2,364	2,359	2,553	2,564	2,554	2,588
Other operating expenses	13,114	15,249	14,158	14,980	16,075	16,931	17,451
Depreciation and amortisation	2,946	3,226	3,116	3,264	3,443	3,525	3,628
Other interest expenses	2,201	2,379	2,265	2,115	1,873	1,914	1,956
Grants expenses	6,796	7,198	6,907	6,320	6,414	6,409	6,252
Total Expenses from Transactions	46,115	49,933	48,615	49,973	51,784	53,354	54,421
Equals Net Operating Balance	619	188	962	1,213	2,226	2,132	1,327
Plus Other economic flows - included in operating result	334	158	3,273	(139)	(254)	(119)	(277)
Equals Operating Result	952	345	4,236	1,074	1,971	2,013	1,051
Plus Other economic flows - other movements in equity	(5,407)	3,079	(3,517)	2,619	2,916	2,529	2,586
Equals Comprehensive Result - Total Change In Net Worth	(4,455)	3,424	719	3,693	4,887	4,542	3,637
KEY FISCAL AGGREGATES							
Net Operating Balance	619	188	962	1,213	2,226	2,132	1,327
Less Net Acquisition of Non-financial Assets							
Purchases of non-financial assets	6,322	5,972	4,987	5,374	5,832	6,125	5,851
Less Sales of non-financial assets	389	292	414	305	196	202	184
Less Depreciation	2,946	3,226	3,116	3,264	3,443	3,525	3,628
Plus Change in inventories	(42)	(2)	(37)	25	(24)	4	(22)
Plus Other movements in non-financial assets	255	6	438	545	1,024	612	411
Equals Total Net Acquisition of Non-financial Assets	3,200	2,458	1,858	2,375	3,193	3,013	2,428
Equals Fiscal Balance	(2,581)	(2,271)	(896)	(1,162)	(968)	(881)	(1,101)
Note: 1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.							

Table 8.2 Public Non-financial Corporations Sector Operating Statement¹

	2013-14 Actual \$ million	2014-15 Budget \$ million	2014-15 Est.Actual \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Revenue from Transactions							
Grants revenue	787	989	815	649	754	769	838
Sales of goods and services	10,398	10,164	9,837	10,477	10,961	10,776	10,812
Interest income	141	86	64	53	48	54	53
Dividend and income tax equivalent income	21	..	10	..	..	..	..
Other revenue	391	292	232	191	254	233	248
Total Revenue from Transactions	11,738	11,531	10,959	11,370	12,018	11,831	11,952
Less Expenses from Transactions							
Employee expenses	1,582	1,705	1,614	1,691	1,698	1,717	1,747
Superannuation expenses							
Superannuation interest cost	(2)	..	..	..	..	..	..
Other superannuation expenses	204	211	215	221	224	228	233
Other operating expenses	3,812	3,188	2,634	3,095	3,211	3,402	3,449
Depreciation and amortisation	2,232	2,255	2,279	2,380	2,486	2,572	2,616
Other interest expenses	2,043	2,009	1,894	1,907	2,011	1,968	1,990
Grants expenses	21	15	14	15	15	15	15
Other property expenses	368	607	630	738	772	608	582
Total Expenses from Transactions	10,260	9,990	9,281	10,047	10,417	10,511	10,632
Equals Net Operating Balance	1,478	1,541	1,678	1,323	1,601	1,320	1,320
Plus Other economic flows - included in operating result	36	(109)	(337)	26	(86)	(93)	(95)
Equals Operating Result	1,514	1,433	1,341	1,349	1,515	1,227	1,225
Plus Other economic flows - other movements in equity	(27)	(921)	(6,026)	(1,216)	(1,086)	(871)	(631)
Equals Comprehensive Result - Total Change In Net Worth	1,486	512	(4,685)	133	429	356	594
KEY FISCAL AGGREGATES							
Net Operating Balance	1,478	1,541	1,678	1,323	1,601	1,320	1,320
Less Net Acquisition of Non-financial Assets							
Purchases of non-financial assets	2,991	3,429	3,182	3,201	3,168	2,923	2,889
Less Sales of non-financial assets	105	56	85	46	58	32	49
Less Depreciation	2,232	2,255	2,279	2,380	2,486	2,572	2,616
Plus Change in inventories	77	(14)	10	(11)	(7)	20	17
Plus Other movements in non-financial assets	103	..	16	45	47	50	52
Equals Total Net Acquisition of Non-financial Assets	835	1,104	844	809	663	389	294
Equals Fiscal Balance	643	438	834	513	938	931	1,026
Note:							
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.							

Table 8.3 Non-financial Public Sector Operating Statement¹

	2013-14 Actual \$ million	2014-15 Budget \$ million	2014-15 Est.Actual \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Revenue from Transactions							
Taxation revenue	11,497	12,109	12,363	12,584	13,226	13,896	14,606
Grants revenue	21,946	24,281	23,498	24,698	26,446	27,130	26,218
Sales of goods and services	13,671	13,513	13,385	14,022	14,428	14,352	14,591
Interest income	2,601	2,515	2,531	2,426	2,323	2,342	2,355
Dividend and income tax equivalent income	263	123	136	72	82	94	105
Other revenue	4,030	4,147	3,498	3,699	4,204	4,678	5,008
Total Revenue from Transactions	54,008	56,687	55,412	57,501	60,710	62,491	62,883
Less Expenses from Transactions							
Employee expenses	19,301	20,198	20,458	21,531	22,166	22,751	23,292
Superannuation expenses							
Superannuation interest cost	962	932	872	803	848	886	898
Other superannuation expenses	2,482	2,574	2,574	2,775	2,788	2,782	2,821
Other operating expenses	15,138	16,589	14,980	16,183	17,301	18,335	18,900
Depreciation and amortisation	5,178	5,480	5,395	5,644	5,929	6,098	6,244
Other interest expenses	4,013	4,143	3,921	3,791	3,615	3,604	3,663
Grants expenses	6,210	6,462	6,231	5,829	5,823	5,809	5,587
Total Expenses from Transactions	53,284	56,379	54,431	56,556	58,470	60,266	61,405
Equals Net Operating Balance	724	309	981	946	2,240	2,226	1,479
Plus Other economic flows - included in operating result	110	(104)	(223)	(268)	(342)	(377)	(371)
Equals Operating Result	834	205	759	678	1,897	1,849	1,107
Plus Other economic flows - other movements in equity	(5,289)	3,223	982	3,016	2,990	2,693	2,529
Equals Comprehensive Result - Total Change In Net Worth	(4,455)	3,428	1,741	3,693	4,887	4,542	3,637
KEY FISCAL AGGREGATES							
Net Operating Balance	724	309	981	946	2,240	2,226	1,479
Less Net Acquisition of Non-financial Assets							
Purchases of non-financial assets	9,312	9,401	8,170	8,574	9,000	9,048	8,740
Less Sales of non-financial assets	494	348	499	351	254	234	232
Less Depreciation	5,178	5,480	5,395	5,644	5,929	6,098	6,244
Plus Change in inventories	35	(17)	(27)	14	(31)	24	(5)
Plus Other movements in non-financial assets	358	6	454	590	1,071	662	464
Equals Total Net Acquisition of Non-financial Assets	4,033	3,562	2,703	3,184	3,857	3,402	2,722
Equals Fiscal Balance	(3,309)	(3,253)	(1,721)	(2,238)	(1,617)	(1,176)	(1,243)
Note: 1. Numbers may not add due to rounding and bracketed numbers represent negative numbers.							

Table 8.4 General Government Sector Balance Sheet¹

	2013-14 Actual \$ million	2014-15 Budget \$ million	2014-15 Est.Actual \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Assets							
Financial Assets							
Cash and deposits	897	1,056	853	875	825	750	695
Advances paid	686	878	728	820	845	879	827
Investments, loans and placements	35,171	35,810	36,274	33,229	33,421	33,501	33,526
Receivables	4,080	4,022	7,509	4,177	3,738	3,463	3,244
Equity							
Investments in other public sector entities	26,421	25,029	22,395	22,528	22,957	23,313	23,906
Investments - other	160	167	160	170	180	190	200
Total Financial Assets	67,416	66,962	67,920	61,798	61,965	62,096	62,397
Non-financial Assets							
Land and other fixed assets	173,998	190,033	177,435	180,775	184,893	188,842	192,246
Other non-financial assets	6,784	7,524	6,067	6,283	6,391	6,587	6,788
Total Non-financial Assets	180,783	197,556	183,503	187,058	191,285	195,428	199,034
Total Assets	248,198	264,518	251,423	248,856	253,250	257,525	261,431
Liabilities							
Payables	3,315	3,405	3,504	3,328	3,260	3,317	3,387
Superannuation liability	25,512	23,641	25,744	24,278	22,672	21,298	20,003
Other employee benefits	4,976	5,611	4,892	5,204	5,435	5,661	5,879
Deposits held	1	..	1	1	1	1	1
Advances received	554	544	643	682	677	672	630
Borrowing	41,403	48,141	43,268	38,151	38,818	39,532	40,724
Other liabilities	3,171	4,085	3,363	3,512	3,799	3,914	4,042
Total Liabilities	78,933	85,428	81,415	75,155	74,663	74,395	74,665
Net Worth	169,265	179,091	170,007	173,701	178,588	183,130	186,766
Net Financial Worth	(11,517)	(18,466)	(13,496)	(13,357)	(12,697)	(12,299)	(12,268)
Net Financial Liabilities	37,938	43,495	35,891	35,885	35,654	35,611	36,174
Net Debt	5,203	10,942	6,056	3,910	4,405	5,074	6,307
Notes:							
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.							

Table 8.5 Public Non-financial Corporations Sector Balance Sheet¹

	2013-14 Actual \$ million	2014-15 Budget \$ million	2014-15 Est.Actual \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Assets							
Financial Assets							
Cash and deposits	1,568	1,143	1,629	1,257	1,198	1,241	1,318
Advances paid	49	41	41	33	25	18	11
Investments, loans and placements	392	91	605	415	249	114	112
Receivables	2,796	2,959	1,638	1,527	1,634	1,656	1,654
Equity							
Investments - other	278	4	271	271	271	271	271
Total Financial Assets	5,083	4,238	4,184	3,502	3,377	3,300	3,365
Non-financial Assets							
Land and other fixed assets	58,190	58,708	58,520	59,978	61,268	62,305	63,280
Other non-financial assets	1,371	2,504	1,407	1,421	1,436	1,442	1,463
Total Non-financial Assets	59,561	61,212	59,927	61,399	62,704	63,747	64,742
Total Assets	64,644	65,451	64,111	64,901	66,081	67,046	68,107
Liabilities							
Payables	2,522	2,491	5,920	2,652	2,273	1,989	1,766
Superannuation liability	(155)	(61)	(151)	(131)	(109)	(87)	(85)
Other employee benefits	701	846	707	720	733	744	754
Deposits held	26	28	26	26	26	26	26
Advances received	9	8	8	8	7	6	5
Borrowing	31,313	31,814	32,268	35,962	36,896	37,587	38,078
Other liabilities	7,617	8,578	7,400	7,597	7,760	7,930	8,118
Total Liabilities	42,033	43,705	46,178	46,834	47,586	48,195	48,662
Net Worth	22,611	21,745	17,934	18,067	18,496	18,852	19,445
Net Financial Worth	(36,950)	(39,467)	(41,994)	(43,332)	(44,208)	(44,895)	(45,297)
Net Debt	29,339	30,575	30,027	34,292	35,457	36,247	36,669
Notes:							
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.							

Table 8.6 Non-financial Public Sector Balance Sheet¹

	2013-14 Actual \$ million	2014-15 Budget \$ million	2014-15 Est.Actual \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Assets							
Financial Assets							
Cash and deposits	2,466	2,199	2,482	2,131	2,023	1,991	2,013
Advances paid	727	911	761	846	863	891	832
Investments, loans and placements	35,562	35,902	36,879	33,643	33,670	33,615	33,638
Receivables	5,156	4,868	3,846	3,704	3,766	3,785	3,782
Equity							
Investments in other public sector entities	3,810	3,186	4,462	4,462	4,462	4,462	4,462
Investments - other	438	171	431	441	451	461	471
Total Financial Assets	48,159	47,237	48,860	45,226	45,235	45,204	45,196
Non-financial Assets							
Land and other fixed assets	232,188	248,740	235,955	240,752	246,161	251,146	255,525
Other non-financial assets	1,279	956	478	473	393	369	343
Total Non-financial Assets	233,467	249,695	236,433	241,225	246,554	251,516	255,868
Total Assets	281,626	296,932	285,293	286,451	291,789	296,720	301,064
Liabilities							
Payables	4,164	3,832	4,170	4,029	3,976	4,021	4,086
Superannuation liability	25,357	23,580	25,594	24,147	22,563	21,211	19,918
Other employee benefits	5,677	6,458	5,599	5,925	6,168	6,405	6,633
Deposits held	26	28	26	27	27	27	27
Advances received	554	544	643	682	677	672	630
Borrowing	72,716	79,956	75,535	74,113	75,714	77,119	78,802
Other liabilities	3,865	3,542	3,719	3,829	4,076	4,136	4,203
Total Liabilities	112,361	117,940	115,286	112,751	113,201	113,590	114,298
Net Worth	169,265	178,992	170,007	173,701	178,588	183,130	186,766
Net Financial Worth	(64,201)	(70,703)	(66,426)	(67,524)	(67,966)	(68,386)	(69,102)
Net Financial Liabilities	68,012	73,889	70,888	71,986	72,428	72,848	73,564
Net Debt	34,542	41,517	36,083	38,201	39,862	41,321	42,976
<p>Notes:</p> <p>1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.</p>							

Table 8.7 General Government Sector Cash Flow Statement¹

	2013-14 Actual \$ million	2014-15 Budget \$ million	2014-15 Est.Actual \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Cash Receipts from Operating Activities							
Taxes received	11,889	12,453	12,671	12,924	13,606	14,288	15,006
Grants and subsidies received	21,847	24,117	23,424	24,650	26,397	27,033	26,118
Sales of goods and services	5,420	5,435	5,696	5,565	5,600	5,738	5,939
Interest receipts	2,348	2,429	2,467	2,372	2,274	2,289	2,302
Dividends and income tax equivalents	1,386	1,887	2,084	2,740	2,655	2,347	1,898
Other receipts	4,745	4,929	4,477	4,605	5,013	5,540	5,879
Total Operating Receipts	47,635	51,251	50,818	52,856	55,545	57,234	57,141
Cash Payments for Operating Activities							
Payments for employees	(21,101)	(21,579)	(21,995)	(23,113)	(23,992)	(24,725)	(25,405)
Payments for goods and services	(14,603)	(16,585)	(15,641)	(16,289)	(17,361)	(18,143)	(18,653)
Grants and subsidies	(6,893)	(7,019)	(6,476)	(6,506)	(6,366)	(6,289)	(6,202)
Interest paid	(2,202)	(2,378)	(2,265)	(2,115)	(1,873)	(1,914)	(1,957)
Other payments	(249)	(351)	(354)	(348)	(184)	(414)	(431)
Total Operating Payments	(45,047)	(47,912)	(46,731)	(48,372)	(49,776)	(51,487)	(52,649)
Net Cash Inflows from Operating Activities	2,587	3,338	4,087	4,485	5,768	5,747	4,492
Cash Flows from Investments in Non-Financial Assets							
Purchases of non-financial assets	(6,322)	(5,972)	(4,987)	(5,374)	(5,832)	(6,125)	(5,851)
Sales of non-financial assets	389	292	414	305	196	202	184
Net Cash Flows from Investments in Non-financial Assets	(5,933)	(5,680)	(4,574)	(5,069)	(5,636)	(5,922)	(5,668)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	527	169	12	3,100	156	2	165
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	(667)	(866)	(1,088)	3,061	(124)	(77)	(23)
Receipts from Financing Activities							
Advances received (net)	95	(52)	(52)	(41)	(31)	(26)	10
Borrowing (net)	3,449	3,107	1,551	(5,514)	(182)	201	968
Deposits received (net)	1	..	..	..	..	..	..
Net Cash Flows from Financing Activities	3,544	3,055	1,498	(5,555)	(213)	175	978
Net Increase/(Decrease) in Cash held	59	16	(64)	22	(50)	(75)	(55)
Net cash from operating activities	2,587	3,338	4,087	4,485	5,768	5,747	4,492
Net cash flows from investments in non-financial assets	(5,933)	(5,680)	(4,574)	(5,069)	(5,636)	(5,922)	(5,668)
Surplus/(Deficit)	(3,345)	(2,342)	(487)	(584)	132	(176)	(1,176)
Derivation of ABS GFS Cash Surplus/Deficit							
Cash surplus/(deficit)	(3,345)	(2,342)	(487)	(584)	132	(176)	(1,176)
Acquisitions under finance leases	(94)	(14)	(415)	(385)	(843)	(502)	(231)
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	(3,440)	(2,356)	(901)	(968)	(711)	(678)	(1,407)
<p>Note:</p> <p>1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.</p>							

Table 8.8 Public Non-financial Corporations Sector Cash Flow Statement¹

	2013-14 Actual \$ million	2014-15 Budget \$ million	2014-15 Est. Actual \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Cash Receipts from Operating Activities							
Grants and subsidies received	890	1,005	778	665	739	753	822
Sales of goods and services	11,237	10,839	10,623	11,954	11,980	11,860	11,921
Interest receipts	141	86	65	53	48	54	53
Dividends and income tax equivalents	21	..	10	..	..	..	..
Other receipts	215	375	232	148	210	184	196
Total Operating Receipts	12,504	12,305	11,709	12,821	12,977	12,851	12,992
Cash Payments for Operating Activities							
Payments for employees	(1,837)	(1,905)	(1,820)	(1,879)	(1,890)	(1,914)	(1,969)
Payments for goods and services	(4,563)	(3,830)	(3,373)	(3,853)	(3,801)	(4,026)	(4,076)
Grants and subsidies	(9)	(13)	(11)	(13)	(14)	(14)	(14)
Interest paid	(1,918)	(1,897)	(1,770)	(1,787)	(2,007)	(1,977)	(1,990)
Other payments	(911)	(954)	(971)	(1,582)	(1,507)	(1,231)	(1,134)
Total Operating Payments	(9,237)	(8,599)	(7,944)	(9,115)	(9,218)	(9,162)	(9,183)
Net Cash Inflows from Operating Activities	3,267	3,706	3,764	3,706	3,759	3,689	3,809
Cash Flows from Investments in Non-Financial Assets							
Purchases of non-financial assets	(2,991)	(3,429)	(3,182)	(3,201)	(3,168)	(2,923)	(2,889)
Sales of non-financial assets	105	56	85	46	58	32	49
Net Cash Flows from Investments in Non-financial Assets	(2,886)	(3,373)	(3,097)	(3,155)	(3,110)	(2,891)	(2,840)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	644	180	..	(3,159)	(156)	(2)	(165)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	8	..	(31)	..	..	..	..
Receipts from Financing Activities							
Advances received (net)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Borrowing (net)	94	716	826	3,828	1,095	834	499
Dividends paid	(1,038)	(1,293)	(1,376)	(1,651)	(1,646)	(1,587)	(1,227)
Deposits received (net)	2	2	..	..	..	..	..
Other financing (net)	(516)	(185)	(25)	59	..	..	..
Net Cash Flows from Financing Activities	(1,458)	(760)	(576)	2,235	(552)	(753)	(728)
Net Increase/(Decrease) in Cash held	(426)	(248)	61	(373)	(58)	43	76
Net cash from operating activities	3,267	3,706	3,764	3,706	3,759	3,689	3,809
Net cash flows from investments in non-financial assets	(2,886)	(3,373)	(3,097)	(3,155)	(3,110)	(2,891)	(2,840)
Dividends paid	(1,038)	(1,293)	(1,376)	(1,651)	(1,646)	(1,587)	(1,227)
Surplus/(Deficit)	(657)	(960)	(709)	(1,100)	(997)	(788)	(258)
Derivation of ABS GFS Cash Surplus/Deficit							
Cash surplus/(deficit)	(657)	(960)	(709)	(1,100)	(997)	(788)	(258)
Acquisitions under finance leases	(44)	..	..	..	..	..	..
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	(701)	(960)	(709)	(1,100)	(997)	(788)	(258)
<p>Note:</p> <p>1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.</p>							

Table 8.9 Non-financial Public Sector Cash Flow Statement¹

	2013-14 Actual \$ million	2014-15 Budget \$ million	2014-15 Est. Actual \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Cash Receipts from Operating Activities							
Taxes received	11,536	12,108	12,328	12,583	13,225	13,895	14,605
Grants and subsidies received	22,040	24,343	23,514	24,778	26,532	27,174	26,262
Sales of goods and services	14,760	14,237	14,139	15,280	15,242	15,249	15,509
Interest receipts	2,489	2,515	2,532	2,426	2,323	2,342	2,355
Dividends and income tax equivalents	81	217	238	146	76	86	98
Other receipts	4,959	5,299	4,705	4,753	5,223	5,724	6,075
Total Operating Receipts	55,866	58,719	57,456	59,966	62,621	64,470	64,904
Cash Payments for Operating Activities							
Payments for employees	(22,839)	(23,392)	(23,720)	(24,894)	(25,783)	(26,539)	(27,272)
Payments for goods and services	(17,349)	(18,391)	(16,846)	(17,915)	(18,838)	(19,833)	(20,392)
Grants and subsidies	(6,135)	(6,252)	(5,798)	(5,983)	(5,776)	(5,691)	(5,538)
Interest paid	(3,885)	(4,032)	(3,799)	(3,672)	(3,611)	(3,613)	(3,664)
Other payments	(843)	(903)	(817)	(963)	(732)	(944)	(964)
Total Operating Payments	(51,051)	(52,969)	(50,980)	(53,426)	(54,739)	(56,620)	(57,830)
Net Cash Inflows from Operating Activities	4,815	5,751	6,475	6,540	7,882	7,850	7,074
Cash Flows from Investments in Non-Financial Assets							
Purchases of non-financial assets	(9,312)	(9,401)	(8,170)	(8,574)	(9,000)	(9,048)	(8,740)
Sales of non-financial assets	494	348	499	351	254	234	232
Net Cash Flows from Investments in Non-financial Assets	(8,817)	(9,053)	(7,671)	(8,224)	(8,746)	(8,813)	(8,507)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	651	174	(8)	..	..	..	..
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	(659)	(866)	(1,119)	3,061	(124)	(77)	(23)
Receipts from Financing Activities							
Advances received (net)	94	(53)	(53)	(41)	(31)	(26)	9
Borrowing (net)	3,543	3,823	2,377	(1,686)	913	1,035	1,468
Deposits received (net)	3	2	..	..	..	..	..
Other financing (net)	4	(10)	(5)	..	..	..	..
Net Cash Flows from Financing Activities	3,644	3,763	2,319	(1,728)	881	1,008	1,477
Net Increase/(Decrease) in Cash held	(366)	(232)	(3)	(351)	(108)	(32)	21
Net cash from operating activities	4,815	5,751	6,475	6,540	7,882	7,850	7,074
Net cash flows from investments in non-financial assets	(8,817)	(9,053)	(7,671)	(8,224)	(8,746)	(8,813)	(8,507)
Surplus/(Deficit)	(4,003)	(3,302)	(1,195)	(1,684)	(865)	(964)	(1,433)
Derivation of ABS GFS Cash Surplus/Deficit							
Cash surplus/(deficit)	(4,003)	(3,302)	(1,195)	(1,684)	(865)	(964)	(1,433)
Acquisitions under finance leases	(138)	(14)	(415)	(385)	(843)	(502)	(231)
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	(4,141)	(3,316)	(1,610)	(2,068)	(1,708)	(1,466)	(1,664)
<p>Note:</p> <p>1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.</p>							

8.3 Reconciliation of net operating balance to accounting operating result

The primary difference between the net operating balance and the accounting operating result calculated under Australian Accounting Standards is that valuation adjustments are excluded from the net operating balance.

Data presented in Table 8.10 provides a reconciliation of the General Government Sector net operating balance to the accounting operating result.

Table 8.10 Reconciliation of UPF net operating balance to accounting operating result¹

	2014-15 Budget \$ million	2014-15 Est.Act. \$ million	2015-16 Budget \$ million
Net operating balance General Government sector (Table 8.1)	188	962	1,213
<i>Remeasurement/valuation adjustments</i>			
Bad debts and amortisation	(83)	(40)	(100)
Deferred tax equivalents	99	116	(19)
Dividends received on privatisation sales	152	..	..
Dividends from network GOCs under Debt Action Plan (treated as return of equity for UPF)	..	3,159	156
Market value adjustments investments/loans	20	28	23
Revaluation of provisions	136	322	66
Decommissioned infrastructure assets and land under roads	(143)	(143)	(143)
Gain/(loss) on assets sold/written off/impaired	(25)	(169)	(121)
Accounting operating result General Government sector	345	4,236	1,074
Note: 1 Numbers may not add due to rounding and bracketed numbers represent negative amounts.			

8.4 General Government Sector time series

Data presented in Table 8.11 provides a time series from 2003-04 to 2013-14 for the General Government Sector on the key fiscal aggregates used by the Government to measure financial performance. These aggregates have been backcast (as far as is possible) to comply with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Table 8.11 General Government Sector¹

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
Revenue from Transactions											
Taxation revenue	6,676	6,952	7,396	8,484	9,546	8,866	9,375	9,981	10,608	10,937	11,845
Grant revenue	11,528	12,755	13,590	14,378	15,510	17,481	20,205	20,338	22,652	18,322	21,755
Sales of goods and services	2,105	2,380	2,641	2,909	3,357	3,648	3,961	4,172	5,002	5,087	5,048
Interest income	2,723	2,972	3,414	3,338	(275)	1,482	2,204	2,368	2,485	2,644	2,460
Dividend and income tax equivalent income	1,148	1,022	1,059	858	1,244	1,180	949	1,232	1,112	1,351	1,975
Other revenue	1,035	1,517	1,983	2,032	2,041	4,421	3,033	3,921	3,942	3,415	3,650
Total Revenue	25,214	27,599	30,084	31,999	31,424	37,078	39,727	42,013	45,801	41,755	46,734
Expenses from Transactions											
Employee expenses	8,972	9,621	10,615	11,731	13,175	14,310	15,566	16,826	18,250	18,130	17,817
Superannuation expenses											
Superannuation interest costs	1,040	867	840	1,154	816	858	1,320	1,240	1,216	923	963
Other superannuation expenses	1,061	1,238	1,367	1,513	1,865	2,012	2,051	2,171	2,301	2,420	2,277
Other operating expenses	3,948	4,522	5,236	6,138	6,646	7,300	7,588	8,646	9,497	12,817	13,114
Depreciation and amortisation	1,460	1,526	1,678	1,764	1,851	2,496	2,501	2,507	2,777	2,902	2,946
Other interest expenses	213	213	174	180	347	599	803	1,125	1,659	1,940	2,201
Grant expenses	5,180	5,647	6,467	7,565	8,329	9,525	9,790	10,963	10,327	7,182	6,796
Total Expenses	21,873	23,634	26,378	30,046	33,030	37,099	39,599	43,479	46,028	46,312	46,115
Net Operating Balance	3,341	3,964	3,707	1,953	(1,606)	(21)	128	(1,466)	(226)	(4,558)	619
OTHER KEY AGGREGATES											
Purchases of non-financial assets	2,415	2,717	3,196	4,412	5,725	6,772	8,959	8,237	7,971	7,001	6,322
Net acquisition of non-financial assets	521	1,016	1,234	2,157	3,680	4,349	6,665	5,583	5,241	3,389	3,200
Fiscal Balance	2,819	2,946	2,472	(204)	(5,286)	(4,371)	(6,537)	(7,049)	(5,467)	(7,947)	(2,581)
Cash Surplus/(Deficit)	3,489	4,635	4,649	2,360	(4,924)	(2,866)	(5,341)	(5,880)	(4,951)	(8,585)	(3,345)
Net Worth	77,723	92,148	104,446	118,532	193,838	184,277	175,588	177,875	170,745	172,963	189,265
Net Debt	(14,811)	(19,354)	(23,203)	(26,622)	(22,586)	(19,251)	(13,354)	(9,542)	(5,720)	2,399	5,203
Borrowing	3,208	2,794	2,084	2,267	6,328	10,308	15,916	24,593	29,517	37,878	41,403
Borrowing (NFPS)	15,248	15,819	17,314	23,971	30,856	42,645	51,713	53,708	61,542	69,086	72,716

Note:

1. Numbers may not add due to rounding.

Source: Report on State Finances for Queensland 2003-04 to 2013-14. (Numbers have been recast for changes to UPF presentation.)

8.5 Other General Government uniform presentation framework data

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

8.5.1 Grants

Data presented in Tables 8.12 and 8.13 provide details of General Government Sector current and capital grant revenue and expenses.

Table 8.12 General Government Sector grant revenue¹

	2014-15 Est.Actual \$ million	2015-16 Budget \$ million
Current grant revenue		
Current grants from the Commonwealth		
General purpose grants	11,823	12,994
Specific purpose grants	5,966	6,109
Specific purpose grants for on-passing	2,791	2,474
Total current grants from the Commonwealth	20,580	21,578
Other contributions and grants	382	317
Total current grant revenue	20,962	21,895
Capital grant revenue		
Capital grants from the Commonwealth		
Specific purpose grants	2,393	2,613
Specific purpose grants for on-passing	5	12
Total capital grants from the Commonwealth	2,398	2,625
Other contributions and grants	13	35
Total capital grant revenue	2,411	2,660
Total grant revenue	23,373	24,555
Note:		
1. Numbers may not add due to rounding.		

Table 8.13 General Government Sector grant expense¹

	2014-15 Est.Actual \$ million	2015-16 Budget \$ million
Current grant expense		
Private and Not-for-profit sector	1,498	1,341
Private and Not-for-profit sector on-passing	2,113	2,264
Local Government	179	179
Local Government on-passing	678	225
Grants to other sectors of Government	668	472
Other	208	283
Total current grant expense	5,345	4,764
Capital grant expense		
Private and Not-for-profit sector	427	566
Local Government	999	817
Local Government on-passing	5	12
Grants to other sectors of Government	13	25
Other	117	136
Total capital grant expense	1,561	1,556
Total grant expense	6,907	6,320
Note:		
1. Numbers may not add due to rounding.		

8.5.2 Dividend and income tax equivalent income

Table 8.14 provides details of the source of dividend and income tax equivalent income in the General Government Sector.

Table 8.14 General Government Sector dividend and income tax equivalent income¹

	2014-15 Est.Actual \$ million	2015-16 Budget \$ million
Dividend and Income Tax Equivalent income from PNFC sector	2,285	2,323
Dividend and Income Tax Equivalent income from PFC sector	125	72
Total Dividend and Income Tax Equivalent income	2,410	2,395
Note:		
1. Numbers may not add due to rounding.		

8.5.3 Expenses by function

Data presented in Table 8.15 provides details of General Government Sector expenses by function.

Table 8.15 General Government Sector expenses by function¹

	2014-15 Budget \$ million	2014-15 Est. Actual \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
General public services	1,333	1,294	1,261	1,195	1,212	1,209
Public order and safety	4,348	4,303	4,566	4,587	4,676	4,761
Education	11,727	11,449	12,076	12,869	13,464	13,869
Health	13,761	13,654	14,272	14,964	15,580	16,201
Social security and welfare	2,808	2,855	2,976	3,401	3,611	3,922
Housing and community amenities	1,626	1,554	1,614	1,550	1,513	1,552
Recreation and culture	932	895	1,135	1,280	1,430	872
Fuel and energy	734	669	482	577	604	669
Agriculture, forestry, fishing and hunting	668	603	674	636	604	601
Mining, manufacturing and construction	312	334	345	352	354	362
Transport and communications	5,829	5,524	5,475	5,613	5,553	5,679
Other economic affairs	894	804	755	733	744	742
Other purposes	4,961	4,677	4,341	4,029	4,010	3,983
Total Expenses	49,933	48,615	49,973	51,784	53,354	54,421
Note: ¹ Numbers may not add due to rounding.						

8.5.4 Purchases of non-financial assets by function

Data presented in Table 8.16 provides details of General Government Sector purchases of non-financial assets by function.

Table 8.16 General Government Sector purchases of non-financial assets by function¹

	2014-15 Budget \$ million	2014-15 Est. Actual \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
General public services	29	22	40	236	20	19
Public order and safety	336	307	370	294	317	316
Education	373	378	474	418	407	467
Health	1,353	1,073	1,159	921	619	535
Social security and welfare	29	74	23	31	26	23
Housing and community amenities	265	269	387	378	359	262
Recreation and culture	66	69	103	73	48	41
Agriculture, forestry, fishing and hunting	21	24	33	25	25	26
Mining, manufacturing and construction	5	4	6	1	1	2
Transport and communications	3,458	2,715	2,709	3,387	4,257	4,114
Other economic affairs	6	6	8	7	8	8
Other purposes	32	44	61	61	38	38
Total Purchases	5,972	4,987	5,374	5,832	6,125	5,851
Note: 1. Numbers may not add due to rounding.						

8.5.5 Taxes

Data presented in Table 8.17 provides details of taxation revenue collected by the General Government Sector.

Table 8.17 General Government Sector taxes¹

	2014-15 Est.Actual \$ million	2015-16 Budget \$ million
Taxes on employers' payroll and labour force	3,836	3,955
Taxes on property		
Land taxes	977	1,016
Stamp duties on financial and capital transactions	3,140	3,009
Other	718	738
Taxes on the provision of goods and services		
Taxes on gambling	1,076	1,123
Taxes on insurance	889	935
Taxes on use of goods and performance of activities		
Motor vehicle taxes	2,071	2,149
Total Taxation Revenue	12,707	12,926
Note: 1. Numbers may not add due to rounding.		

8.5.6 Loan Council Allocation

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

Table 8.18 presents the State's revised Budget LCA and the Loan Council endorsed LCA for 2015-16.

Table 8.18 Loan Council Allocation¹

		2015-16 Nomination \$ million	2015-16 Budget \$ million
	General Government sector cash deficit/(surplus)	(571)	584
	PNFC sector cash deficit/(surplus)	667	1,100
	Non-financial Public sector cash deficit/(surplus)	96	1,684
	Acquisitions under finance leases and similar arrangements	195	385
Equals	ABS GFS cash deficit/(surplus)	290	2,068
Less	Net cash flows from investments in financial assets for policy purposes	249	..
Plus	Memorandum items ²	422	384
	Loan Council Allocation	463	2,452
Notes: 1. Numbers may not add due to rounding. 2. Memorandum items include operating leases and local government borrowings.			

The State's Budget LCA is a deficit of \$2.452 billion, compared to the LCA nomination of \$463 million. This deterioration is largely the result of changes in the timing and quantum of spending on disasters and the resulting payment under Natural Disaster Relief and Recovery Arrangements, as well as lower royalty receipts.

8.6 Contingent liabilities

Contingent liabilities represent items that are not included in the Budget as significant uncertainty exists as to whether the Government would sacrifice future economic benefits in respect of these items. Nevertheless, such contingencies need to be recognised and managed wherever possible in terms of their potential impact on the Government's financial position in the future.

The State's quantifiable and non-quantifiable contingent liabilities are detailed in the *2013-14 Report on State Finances* – whole-of-government financial statements (Note 47).

A summary of the State's quantifiable contingent liabilities as at 30 June 2014 is provided in Table 8.19.

Table 8.19 Contingent liabilities

	2013-14 \$ million
Nature of contingent liability	
Guarantees and indemnities	9,774
Other	1,181
Total	10,955

8.7 Background and interpretation of uniform presentation framework

As mentioned in the introduction to this chapter, the UPF was reviewed in 2007 following the release of the AASB accounting standard, AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

This standard aims to harmonise GFS and GAAP with the objective of improving the clarity and transparency of government financial statements.

8.7.1 Accrual Government Finance Statistics framework

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

The accrual GFS framework is based on an integrated recording of stocks and flows. Stocks refer to a unit's holdings of assets and liabilities at a point in time, whilst flows represent the movement in the stock of assets and liabilities between two points in time. Flows comprise two separate types, transactions and other economic flows. Transactions come about as a result of mutually agreed interactions between units or within a single unit. Other economic flows would include revaluations and destruction or discovery of assets that do not result from a transaction. In GFS operating statements, other economic flows, being outside of the control of government, are excluded and do not affect the net operating balance or fiscal balance.

8.7.2 Generally Accepted Accounting Principles

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

8.7.3 Harmonisation under AASB 1049

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

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

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

8.7.4 Revisions to the Uniform Presentation Framework

Following the introduction of AASB 1049, the Australian, state and territory governments consider that the UPF will continue to be an important framework for ensuring comparability of financial information across jurisdictions. The UPF shall continue to apply to financial statements produced by government in budgets, mid-year budget updates and final budget outcome reports, whereas the accounting standard applies only to outcome reports.

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

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

8.8 Sector classification

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

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

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

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

Further discussion of the GFS framework of reporting, including definitions of GFS terms, can be obtained from the webpage of the ABS at www.abs.gov.au.

8.9 Reporting entities

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

8.9.1 General Government

Departments

Aboriginal and Torres Strait Islander Partnerships
Agriculture and Fisheries
Communities, Child Safety and Disability Services
Education and Training
Electoral Commission of Queensland
Energy and Water Supply
Environment and Heritage Protection
Housing and Public Works
Infrastructure, Local Government and Planning
Justice and Attorney-General
Legislative Assembly
National Parks, Sport and Racing
Natural Resources and Mines
Office of the Governor
Office of the Inspector-General Emergency Management
Office of the Ombudsman
Premier and Cabinet
Public Safety Business Agency
Public Service Commission
Queensland Audit Office
Queensland Fire and Emergency Services
Queensland Health

Queensland Police Service
Queensland Treasury
Science, Information Technology and Innovation
State Development
The Public Trustee of Queensland
Tourism, Major Events, Small Business and the Commonwealth Games
Transport and Main Roads

Commercialised Business Units

Building and Asset Services
CITEC
Economic Development Queensland
QFleet
RoadTek

Shared Service Providers

Corporate Administration Agency
Queensland Shared Services

Statutory Authorities

Anti-Discrimination Commission	Prostitution Licensing Authority
Board of the Queensland Museum	Queensland Agricultural Training Colleges
City North Infrastructure Pty Ltd	Queensland Art Gallery Board of Trustees
Crime and Corruption Commission	Queensland Building and Construction Commission
Gold Coast 2018 Commonwealth Games Corporation	Queensland Curriculum and Assessment Authority
Gold Coast Waterways Authority	Queensland Family and Child Commission
Hospital and Health Services	Queensland Mental Health Commission
Cairns and Hinterland	Queensland Performing Arts Trust
Central Queensland	Queensland Reconstruction Authority
Central West	QRAA
Children's Health Queensland	Queensland Training Assets Management Authority
Darling Downs	Residential Tenancies Authority
Gold Coast	South Bank Corporation
Mackay	TAFE Queensland
Metro North	The Council of the Queensland Institute of Medical Research
Metro South	Tourism and Events Queensland
North West	Trade and Investment Queensland
South West	
Sunshine Coast	
Torres and Cape	
Townsville	
West Moreton	
Wide Bay	
Legal Aid Queensland	
Library Board of Queensland	
Motor Accident Insurance Commission	
Nominal Defendant	
Office of the Information Commissioner	
Office of the Health Ombudsman	

8.9.2 Public Non-financial Corporations

Brisbane Port Holdings Pty Ltd

CS Energy Limited

DBCT Holdings Pty Ltd

Energex Limited

Ergon Energy Corporation Limited

Far North Queensland Ports Corporation
Limited

Gladstone Area Water Board

Gladstone Ports Corporation Limited

Mount Isa Water Board

North Queensland Bulk Ports Corporation
Limited

Port of Townsville Limited

Powerlink Queensland

Queensland Bulk Water Supply Authority
(Seqwater)

Queensland Lottery Corporation Pty Ltd

Queensland Rail

Queensland Treasury Holdings Pty Ltd

Stadiums Queensland

Stanwell Corporation Limited

SunWater Limited

Appendices

Appendix A: Tax expenditure statement

Context

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

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

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

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

Methodology

Revenue foregone approach

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

Measuring tax expenditures requires the identification of:

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

Defining the tax benchmark

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

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

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

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

The Tax Expenditure Statement

This year's statement includes estimates of tax expenditures in 2013-14 and 2014-15 for payroll tax, land tax, duties and gambling taxes. A summary of the major tax expenditures valued on the basis of revenue foregone is presented in Table A.1. Not all expenditures can be quantified at this time. Accordingly, the total value of tax expenditures should be considered as indicative only.

Table A.1 Tax expenditure summary¹

	2013-14 ²	2014-15
	\$ million	\$ million
Payroll Tax		
Exemption threshold	1,242	1,274
Deduction scheme	288	297
Section 14 exemptions		
Local Government	147	153
Education	157	161
Hospitals	304	311
Total payroll tax	2,138	2,196
Land tax		
Liability thresholds ³	570	584
Graduated land tax scale	513	534
Primary production deduction	92	87
Part 6 Divisions 2 and 3 exemptions not included elsewhere ⁴	105	103
Land developers' concession	19	23
Total land tax	1,299	1,331
Duties		
Transfer duty on residential		
Home concession	343	346
First home concession	216	211
First home vacant land	19	19
Insurance duty⁵		
Non-life insurance	62	0
Workcover	64	60
Health insurance	302	323
Total duties	1,006	959
Taxes on gambling		
Gaming machine taxes	112	114
Casino taxes	9	9
Total gambling tax	121	123
Total	4,564	4,609
Notes:		
1. Numbers may not add due to rounding.		
2. 2013-14 estimates may have been revised since the 2014-15 Budget.		
3. Land tax is payable only on the value of taxable land above a threshold which depends on the ownership structure.		
4. Applicable, but not limited, to religious bodies, public benevolent institutions and other exempt charitable institutions.		
5. From August 2013 the rate of duty applicable to insurance premiums for Class 1 and Class 2 general insurance products increased to 9%. The new rates apply to premiums paid on or after 1 August 2013, for policies entered into on or after that date.		

Discussion of individual taxes

Payroll tax

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

Payroll tax exemption threshold

Employers who employ in Queensland with an annual Australian payroll of \$1.1 million or less are exempt from payroll tax. On the basis of 2013-14 average weekly earnings, this threshold corresponded to approximately 15 full-time equivalent employees. This exemption is designed to assist small and medium sized businesses.

Deduction scheme

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

Section 14 exemptions

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

Land tax

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

Liability thresholds

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

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

Graduated land tax scale

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

Primary production deduction

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

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

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

Land developers' concession

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

Transfer duty concession on residential property

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

Home concession

A concessional rate of duty applies to purchases of a principal place of residence. A 1% concessional rate applies on dutiable values up to \$350,000, rather than the normal schedule of rates between 1.5% and 3.5%. For properties valued over \$350,000, the scheduled rates of transfer duty apply on the excess.

First home concession

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

First home vacant land concession

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

Insurance duty

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

The rate of duty applicable to general insurance increased to 9% on 1 August 2013 (previously 7.5% for Class 1 products and 5% for Class 2 products). There was no change in duty payable on Compulsory Third Party or Workers' Compensation premiums.

Gaming machine tax concessions for licensed clubs

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

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

Casino tax concessions

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

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

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

Appendix B: Concessions statement

Context

The Government provides a diverse range of concessions across a wide variety of services. In addition to targeted discounts, rebates and subsidies for individuals or families based on eligibility criteria relating to factors such as age, income and special needs or disadvantage, broader concession arrangements are in place that reduce the price paid by all consumers in areas such as transport, electricity and water.

The majority of people will benefit from at least one concession and in many cases will benefit from multiple concessions each year. For example, aged pensioners are eligible for a number of Queensland Government concessions, including discounts on their council rates, water, gas and electricity bills, vehicle registration fees as well as subsidised optometry and dental services.

Further information on the eligibility requirements and benefits of a range of Government concessions can be found at: <http://www.qld.gov.au/community/cost-of-living-support/concessions/>.

Concessions provided to Pensioners and Seniors Card holders despite termination of Australian Government assistance

In its 2014-15 Budget, the Australian Government announced that it would unilaterally terminate the *National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders* (the NPA) from 1 July 2014. This reduced funding to Queensland by \$223.2 million from 2014-15 to 2017-18, or 15% of the total cost of concessions supported through the NPA for Pensioner Concession Card and Seniors Card holders (Budget Paper 4 shows the cost of these concessions over the period 2014-15 to 2018-19). Impacted concessions are set out in Table B.1.

The Queensland Government will deliver certainty to Pensioners and Seniors Card holders in this Budget by guaranteeing that concessions will remain fully funded. Reversing the Commonwealth cuts to Pensioner and Seniors Card holder concessions will cost \$56 million in 2015-16.

Table B.1 Concessions (Pensioner and Seniors Card holder portion) impacted by the termination of the NPA¹

Concession	2015-16 Estimate \$ million
Electricity Rebate Scheme	154.3
Pensioner Rate Subsidy Scheme	53.6
South East Queensland (SEQ) Pensioner Water Subsidy Scheme	19.3
Reticulated Natural Gas Rebate Scheme	2.2
Vehicle registration concessions ²	87.0
TransLink Transport Concessions (South East Queensland) ³	18.3
Rail Concession Scheme ⁴	12.6
Designated Public Transport Concessions for Seniors Card Holders	3.8
Total	351.1
Notes:	
1. Numbers may not add due to rounding.	
2. The NPA related only to the motor vehicle portion of this concession provided to Pensioner Concession Card and Seniors Card holders. The 2015-16 estimate in Table B.2 includes all recipients and concessions for boat registrations.	
3. This estimate is the Pensioner and Seniors Card holder component of this concession. The 2015-16 estimate in Table B.2 includes a broad range of recipients in addition to Pensioner Concession Card and Seniors Card holders.	
4. The NPA only related to the urban rail component of this concession provided to Pensioner Concession Card and Seniors Card holders. The 2015-16 estimate for this item in Table B.2 includes both urban rail and long distance rail concessions.	

Focus

This statement highlights the cost and nature of concessions provided by the Queensland Government. It covers concessions that are direct Budget outlays (for example, fee subsidy payments) and revenue foregone through fees and charges that are set at a lower rate than applies to the wider community or, in the case of broader concessions, the full cost of service provision.

Table B.2 sets out the cost of concessions by agency. The total value of these concessions is estimated at \$4.735 billion in 2015-16. This represents a significant Government and taxpayer commitment to improving the accessibility and affordability of a diverse range of services; and reducing the price paid by consumers of those services to ease cost of living pressures.

Explanation of scope

For the purposes of this document, concessions include:

- discounts, rebates and subsidies to improve access to, and the affordability of, a range of services for individuals or families based on eligibility criteria relating to factors such as age, income and special needs or disadvantage
- concessional prices for Government services, where the price charged to all consumers is less than the full cost of service provision.

Both General Government and Public Non-financial Corporations (PNFC) Sector concessions are included. Where a payment is made from a General Government Sector agency to a PNFC entity for a concession arrangement, the expenditure is reported against the GG sector agency only to avoid double counting.

To be included in this statement, concessions must meet the minimum materiality threshold of estimated expenditure or revenue foregone of \$100,000 in 2015-16.

Varying methods have been used to estimate the cost of concessions depending on the nature of the concessions, including:

- direct Budget outlay cost (for example, direct subsidy or rebate payments or Government's contribution in the case of items such as rental subsidies)
- revenue foregone (for example, concessional fees and charges)
- cost of goods and services provided.

For the purposes of illustration, the document often uses averages to demonstrate the value of the concession to consumers. However, averages are not reflective of individual circumstances, meaning the actual dollar value of the concession to consumers may vary from person to person.

This Concessions Statement does not include Tax Expenditures (for example, tax exemptions, reduced tax rates, tax rebates and deductions). Information on Tax Expenditures is provided in Appendix A – Tax expenditure statement.

Table B.2 Concession by agency¹

Agency	2014-15 Est. act \$ million	2015-16 Estimate \$ million
Department of Agriculture and Fisheries		
Drought Relief Assistance Scheme - Emergency Water Infrastructure Rebate	17.1	19.0
Drought Relief Assistance Scheme - Fodder and Water Freight	11.3	12.5
Primary Industry Productivity Enhancement Scheme	15.2	15.2
Hendra Virus - Rebate to front line veterinarians	0.1	0.3
Department of Communities, Child Safety and Disability Services		
Electricity Rebate Scheme ^{2,3}	149.2	154.3
Electricity Life Support Concession Scheme	2.2	2.3
Medical Cooling and Heating Electricity Concession Scheme	1.1	1.2
Pensioner Rate Subsidy Scheme ^{2,3}	52.0	53.6
South East Queensland (SEQ) Pensioner Water Subsidy Scheme ^{3,4}	19.6	19.3
Home Energy Emergency Assistance Scheme	10.0	10.0
Reticulated Natural Gas Rebate Scheme ³	2.1	2.2
Department of Education and Training		
User Choice - Apprentice and Trainee Training Subsidy ⁵	209.0	243.0
Vocational Education and Training (VET) - Certificate 3 Guarantee Tuition Fee Subsidy ⁶	140.0	122.6
VET - Higher Level Skills Tuition Fee Subsidy ⁷	37.0	60.0
Travel and Accommodation Subsidy ⁸	3.5	4.5
Textbook and Resource Allowance ⁹	55.4	57.5
School Transport Assistance for Students with Disabilities ¹⁰	39.3	40.7
Living Away from Home Allowance Scheme	6.8	7.8
Non-Government Schools Transport Assistance Scheme	5.5	5.9
Distance Education - Information and Communication Technology Subsidy Scheme	0.9	0.8
Distance Education - Non-Government Student Fee Subsidy ¹¹	0.5	0.2
Dalby State High School - Bunya Campus Residential Facility ¹²	2.0	2.5
Spinifex State College - Mount Isa Student Residential Facility	1.0	1.0
Far North Queensland Region - Student Residential College	0.5	0.5
Tuition fee exemptions/waivers - Dependants of international students	6.3	6.3

Agency	2014-15 Est. act \$ million	2015-16 Estimate \$ million
Department of Energy and Water Supply		
Ergon Energy - Uniform Tariff Policy (excluding Isolated Systems) ¹³	529.9	375.7
Ergon Energy - Uniform Tariff Policy for Isolated Systems ¹⁴	66.0	56.0
Origin Energy - Uniform Tariff Policy ¹⁵	4.0	6.5
Urban Water Price Path ¹⁶	154.7	56.8
Cloncurry Water Pipeline Water Supply Subsidy	5.5	5.5
SunWater Rural Irrigation Water Price Subsidy ¹⁷	6.0	4.7
Seqwater Rural Irrigation Water Price Subsidy ¹⁸	2.3	2.0
Extending Existing Drought Relief Arrangements ^{19,20}	..	2.5
Department of Environment and Heritage Protection		
Protected Plant Licence and Permits Concessions	0.1	0.1
Department of Housing and Public Works		
Government managed housing rental rebate ²¹	404.1	393.7
National Rental Affordability Scheme ²²	24.6	28.8
Home Assist Secure ²³	17.9	19.6
Non-residential buildings - subsidised rents	5.8	6.0
Rental Bond Loans ²⁰	1.7	1.9
Non-government managed housing ²⁴	N/A	N/A
Department of Justice and Attorney-General		
Public Trustee of Queensland - Concessions	30.1	31.4
Court Services - Civil Court Fees	17.0	17.5
Queensland Civil and Administrative Tribunal Fees	15.9	16.2
Body Corporate and Community Management - Dispute Resolution	2.1	2.1
Department of National Parks, Sport and Racing		
Tour fee and access permit concessions	1.2	1.2
Queensland Recreation Centres - Concessional usage rates ²⁵	0.4	0.4
Department of Natural Resources and Mines		
Drought Assistance Package - Water Licence Fee Waiver and Land Rental Rebates	3.9	4.1

Agency	2014-15 Est. act \$ million	2015-16 Estimate \$ million
Department of Science, Information Technology and Innovation		
State Library of Queensland - Venue hire rebates	0.3	0.3
Department of Transport and Main Roads		
General Public Transport Concessions (South East Queensland) ²⁶	1,134.2	1,147.6
General Public Transport Concessions (Regional Queensland)	206.0	206.2
TransLink Transport Concessions (South East Queensland) ³	100.5	104.1
Other transport concessions (Regional Queensland) and taxi subsidies	25.6	27.3
Designated Public Transport Concessions for Seniors Card Holders	3.8	3.8
Rail Network and Infrastructure Funding ²⁷	502.2	554.1
Livestock and Regional Freight Contracts ²⁸	119.7	46.3
Rail Concession Scheme ³	36.0	36.0
Vehicle and boat registration concessions ³	133.7	146.1
School Transport Assistance Scheme	138.2	144.3
Practical Driving Test	5.8	6.2
Commercial ship registration and licensing	4.9	4.9
Department of the Premier and Cabinet		
Arts Queensland - Discount on property lease rentals	0.6	0.5
Arts Queensland - Venue hire rebates	0.2	0.2
Queensland Performing Arts Trust - Arts concessional entry fees ²⁹	0.5	0.9
Queensland Performing Arts Trust - Venue hire rebates	0.8	0.8
Queensland Museum - Arts concessional entry fees	1.5	1.6
Queensland Art Gallery - Arts concessional entry fees	0.9	1.0
Public Safety Business Agency		
Blue card assessments - Volunteer applicants ³⁰	11.0	7.6
Queensland Fire and Emergency Services		
Emergency Management Levy Concession	8.6	9.1

Agency	2014-15 Est. act \$ million	2015-16 Estimate \$ million
Queensland Health		
Oral Health Scheme ³¹	159.4	157.8
Patient Travel Subsidy Scheme ³²	71.1	79.0
Medical Aids Subsidy Scheme	40.3	40.5
Spectacle Supply Scheme	9.1	9.2
Community Aids Equipment and Assistive Technologies Initiative and Vehicle Options Subsidy Scheme ³³	8.7	5.0
CS Energy Limited		
Gladstone Power Station Interconnection and Power Pooling Agreement ³⁴	N/A	N/A
Energex Limited		
Regulated Service Charges	13.6	15.4
Ergon Energy Corporation Limited		
Regulated Service Charges	4.7	4.5
Far North Queensland Ports Corporation Limited		
Concessional Leases - Industry/Commercial	0.6	0.6
Concessional Leases - Community	0.2	0.2
Gladstone Ports Corporation Limited		
Concessional Port Charges	49.4	49.6
Concessional Leases - Industry/Commercial	3.2	3.0
Concessional Leases - Community	0.5	0.5
North Queensland Bulk Ports Corporation Limited		
Concessional Leases - Industry/Commercial	1.4	1.4
Concessional Leases - Community	0.2	0.2
Port of Townsville Limited		
Concessional Leases - Industry/Commercial	5.4	5.4
Concessional Leases - Community	0.1	0.1

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Agency	2014-15 Est. act \$ million	2015-16 Estimate \$ million
Queensland Rail Limited		
Kuranda Scenic Railway	8.2	9.7
Heritage Rail Services	6.2	5.9
Concessional Leases - Community	1.6	1.6
SunWater Limited		
Water Supply Contracts	21.0	21.0
Total	4,920.7	4,735.4
Notes:		
<ol style="list-style-type: none"> 1. Numbers may not add due to rounding. 2. The increase between the 2014-15 estimated actual and the 2015-16 estimate reflects the impact of an increased number of recipients. 3. The Australian Government ceased the <i>National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders</i> from 1 July 2014. Concessions are fully funded by the State. 4. The decrease between the 2014-15 estimated actual and the 2015-16 estimate is due to increased verification checks by water retailers to ensure only eligible customers are accessing the subsidy. 5. The increase is due to a CPI increase on subsidies, the anticipated increase in apprentices and related program activity. 6. The decrease is due to a higher amount of Australian Government funding available that contributes to the total cost of the program. Overall the Certificate 3 Guarantee program will report an increased investment in 2015-16. 7. The increase is due to the anticipated increase in activity through demand-driven funding arrangements. 8. The increase in 2015-16 is due to a low take up of this subsidy in 2014-15. 9. The increase in 2015-16 is due to a combination of CPI indexation and forecast enrolment growth in State and non-government schools. 10. The increase in the 2015-16 estimate is due to CPI indexation. 11. The decrease in 2015-16 is due to an anticipated lower take up of this subsidy in 2016. 12. The increase in 2015-16 is due to anticipated increased student enrolments in 2016. 13. The variance between the 2014-15 estimated actual and the 2015-16 estimate reflects a reduction in network charges due to the Australian Energy Regulator's Preliminary Decision Ergon Energy Determination 2015-16 to 2019-20. 14. The variance between the 2014-15 estimated actual and the 2015-16 estimate reflects a decrease in costs of generating power. 15. The cost depends on the relative difference between Queensland and New South Wales retail electricity prices for non-market customers. 16. The variance between the 2014-15 estimated actual and the 2015-16 estimate reflects a decrease in the difference between the price paid by consumers and the cost of supply, consistent with the staged transition to full cost recovery under the 10 year bulk water price path in South East Queensland. 17. The change between the 2014-15 estimated actual and 2015-16 estimate reflects irrigation prices increasing as a result of the current 2012-17 price path leading to a reduction in the concession required. 18. The change between the 2014-15 estimated actual and 2015-16 estimate reflects irrigation prices increasing as a result of the current 2013-17 price path leading to a reduction in the concession required. 19. Additional funding for expected uptake of drought relief as a result of extended drought conditions in regional Queensland. 20. New item for the 2015-16 Concessions statement. 		

21. The decrease between the 2014-15 estimated actual and the 2015-16 estimate is a result of an increase in market rents, offset by the impact of the implementation of the new rent policy introduced by the previous government.
22. The increase between the 2014-15 estimated actual and the 2015-16 estimate is due to an expected increase in the number of dwellings delivered.
23. The increase reflects a grant indexation adjustment and increased demand for supported accommodation initiatives.
24. The value of this concession arrangement is not easily quantified.
25. Previously reported as 'Active Recreation Centres - Concessional usage rate'.
26. The General Public Transport Concessions (South East Queensland) is increasing in 2015-16 due to annual cost indexation while fare box revenue is impacted by the November 2014 5% fare decrease and January 2015 fare freeze.
27. The estimated cost increase in 2015-16 is due to annual cost indexation.
28. The decrease between the 2014-15 estimated actual and 2015-16 estimate is primarily due to the majority of rail services becoming commercially viable.
29. The increase between the 2014-15 estimated actual and 2015-16 estimate is due to a change in the number and type of shows that will attract concessional ticket pricing.
30. The decrease between the 2014-15 estimated actual to the 2015-16 estimate is due to the impact of the change in the validity period of blue cards, which was extended from two to three years from April 2010. As a result of this change, there was a significant drop in the volume of renewal applications received in 2012-13, which is forecast to impact again in 2015-16.
31. The reduction in the 2015-16 estimate reflects the cash flow arrangements of the *National Partnership Agreement for Adult Public Dental Services* and Medicare Child Dental Benefits Schedule.
32. The variation between the 2014-15 estimated actual and 2015-16 estimate is due to predicted annual growth.
33. The decrease between 2014-15 estimated actual and the 2015-16 estimate reflects an additional one-off budget allocation relating to increased demand in 2014-15. In addition, the implementation of the National Disability Insurance Scheme will affect both programs' expenditure.
34. Due to the parties to the Interconnection and Power Pooling Agreement including private sector companies, current estimates are commercial-in-confidence and are unable to be published.

Concessions by agency

Department of Agriculture and Fisheries

Funding for the **Drought Relief Assistance Scheme** (DRAS) provides freight subsidies and emergency water infrastructure rebates to support producers and communities that have been affected by drought conditions across the State. Freight subsidies of up to 50% and emergency water infrastructure rebates of up to 50% are available to eligible applicants, up to a maximum of between \$20,000 and \$40,000 per property, per financial year.

The **Primary Industry Productivity Enhancement Scheme** is administered by QRAA and provides concessional rates of interest on loans to eligible primary producers in need of financial assistance. First Start Loans and Sustainability Loans of up to \$650,000 support applicants to enter primary production and to improve productivity and sustainability. Concessional interest rates on these loans range from 3.23% to 3.45%.

The Government provides a rebate towards the cost of eligible personal protective equipment used by veterinarians in the testing of suspected **Hendra virus** cases. The rebate scheme came into effect on 1 July 2012. The rebate scheme allows private veterinarians to claim up to \$250 from Biosecurity Queensland to help equip veterinarians with appropriate personal protective equipment for themselves and anyone else assisting with the testing of horses.

A replenishment rebate of \$250 is also available for veterinarians that have conducted Hendra virus testing in order to assist them with the cost of restocking personal protective equipment. Funding of \$0.3 million is allocated in 2015-16 for this initiative. As at 1 May 2015, 59 payments have been made to veterinarians across the State during 2014-15 with some of these payments incorporating multiple rebates.

Department of Communities, Child Safety and Disability Services

The **Electricity Rebate Scheme** provides a rebate of up to \$321 per annum to assist with the cost of domestic electricity supply to the home of eligible holders of a Pensioner Concession Card, a Queensland Seniors Card or a Department of Veterans' Affairs Gold Card (and receive the War Widow/er Pension or special rate Totally or Permanently Incapacitated Pension).

The **Electricity Life Support Concession Scheme** is aimed at assisting seriously ill people who use home based life support systems by providing a rebate of up to \$654 per annum for users of oxygen concentrators and a rebate of up to \$438 per annum for users of kidney dialysis machines to meet their electricity costs. The concession is paid quarterly and is subject to the patient being medically assessed in accordance with Queensland Health eligibility criteria.

The **Medical Cooling and Heating Electricity Concession Scheme** provides a rebate of up to \$321 per annum for eligible concession card holders with a medical condition who have dependence on air conditioning to regulate body temperature.

These electricity price linked rebates have historically been adjusted annually according to the Queensland Competition Authority (QCA) price determination for general household electricity tariff. For 2015-16, the QCA determined that the general household electricity tariff will decrease by 0.5%. The Queensland Government has decided to not decrease the value of the concessions and will instead continue the electricity price linked rebates at their 2014-15 values.

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

The **South East Queensland (SEQ) Pensioner Water Subsidy Scheme** provides an annual subsidy of up to \$120 to eligible pensioner property owners in the SEQ Water Grid to lessen the impact of increased water prices. This subsidy is in addition to the Pensioner Rate Subsidy Scheme.

The **Home Energy Emergency Assistance Scheme** provides one off emergency assistance of up to \$720 per annum (for a maximum of two consecutive years) to assist low income households experiencing a short term financial crisis and who are unable to pay their current electricity and/or reticulated natural gas account. It is not a requirement for the claimant to hold a concession card.

The **Reticulated Natural Gas Rebate Scheme** provides a rebate of up to \$69 per annum to assist with the cost of reticulated natural gas supplied to the home of eligible holders of a Pensioner Concession Card, Queensland Seniors Card or a Department of Veterans' Affairs Gold Card (and receive the War Widow/er Pension or special rate Totally or Permanently Incapacitated Pension).

Department of Education and Training

The **User Choice - Apprentice and Trainee Training Subsidy** program provides Government funding towards the costs of training and assessment for eligible Queensland apprentices and trainees. The subsidy is available to public and private registered training organisations (pre-approved as pre-qualified suppliers) to subsidise tuition fees to reduce the cost of required accredited, entry level training for apprentices and trainees. The program provides greater flexibility for apprentices, trainees and their employers to select a preferred registered training organisation of their choice and to negotiate the type of training to meet their specific needs. Whilst the full cost of each training subsidy varies by course, the average annual dollar value of the Government fee subsidy per student is \$2,686.

The **Vocational Education and Training (VET) Certificate 3 Guarantee Tuition Fee Subsidy** provides a government subsidy to allow eligible Queenslanders to obtain their first post-school Certificate III qualification to gain a job or to improve their employment status. The subsidy is available to private and public registered training organisations (pre-approved as pre-qualified suppliers) to subsidise tuition fees paid by students undertaking eligible vocation education and training qualifications (primarily Certificate III qualifications).

The annual average dollar value of the Government fee subsidy for each qualification ranges from \$520 to \$7,730 depending on the eligibility and qualification subsidised. The average subsidy value is \$2,703.

The **VET Higher Level Skills Tuition Fee Subsidy** provides a government subsidy to eligible students and employers to undertake a priority Certificate IV, diploma or advanced diploma or industry endorsed skill set. This program will help individuals gain employment in a critical occupation, career advancement in a priority industry or transition to university to continue their studies. The subsidy is available to private and public registered training organisations (pre-approved as pre-qualified suppliers) to subsidise tuition fees paid by students undertaking eligible vocational education and training qualifications at Certificate IV or above.

The annual average dollar value of the Government fee subsidy for each qualification ranges from \$1,305 to \$8,130 depending on the eligibility and qualification subsidised. The average subsidy value is \$4,416.

The **Travel and Accommodation Subsidy** provides financial assistance to Queensland apprentices and trainees for travel expenses incurred in attending off the job training at a registered training organisation. To be eligible, apprentices must attend the closest registered training organisation that offers the required qualification and travel a minimum of 100km return from their usual place of residence to the registered training organisation. The subsidy provides for:

- return land travel to the registered training organisation of 15 cents per km for distances between 100 - 649km, increasing to 19 cents per km for distances between 650 - 1,400 km
- accommodation assistance of \$27 per day, if it is necessary to live away from their usual place of residence to attend training
- a return economy air ticket to the location of the registered training organisation if necessary
- cost of ferry travel if necessary.

The **Textbook and Resource Allowance** is for parents/caregivers of secondary school age students attending State and approved non-government schools to assist with the cost of textbooks and learning resources. Parents generally sign over this allowance to the school to reduce the fees associated with participating in the school's textbook and resource scheme. In 2015, the rates per annum are \$119 for students in Years 7 to 10 and \$258 for students in Years 11 and 12.

School Transport Assistance for Students with Disabilities is provided for students to attend State school programs that meet their individual education needs. This transport assistance includes the provision of taxis or specialised contracted minibuses, payment of fares on regular buses or trains, or an allowance for parents who drive their children to school. The benefit level is to a maximum of \$400 per week, per student, however in exceptional circumstances higher amounts may be approved. A separate scheme is in place for students with disabilities attending non-government schools (refer 'Non-Government Schools Transport Assistance Scheme').

The **Living Away from Home Allowance Scheme** provides financial assistance to support Queensland families and targets geographically-isolated families. The scheme meets the costs of children who are required to live away from home to attend schools. This concession is available to Queensland students attending both State and non-government schools.

The benefits available for eligible students in 2015 are:

- Remote Area Tuition Allowance - primary students up to \$3,401 per annum and secondary students up to \$4,898 per annum. Benefit levels are linked to the tuition fees charged by approved boarding schools
- Remote Area Travel Allowance - available where the distance from the family home to the boarding location is at least 50km. Benefit levels depend on the distance travelled, and range from \$131 to a maximum of \$1,639 per annum
- Remote Area Allowance - assistance of \$2,138 per annum is available to students attending campuses of the Australian Agricultural College Corporation in lieu of Years 11 and 12
- Remote Area Disability Supplement - available to students with disabilities who incur additional costs associated with living away from home to attend school. Benefits are up to \$6,959 per student per annum.

The **Non-Government School Transport Assistance Scheme** assists families by providing funding towards the transport costs of students attending non-government schools outside of the Brisbane City Council area. Under the scheme, reimbursement is provided for transport expenses above a set weekly threshold amount. In 2015, the threshold is \$33 per week for families, or \$25 for families with a Health Care Card, Pensioner or Department of Veteran's Affairs Pensioner Card.

The program also assists families of students with disabilities who attend a non-government school. The level of assistance provided is dependent on the type of transport needed and travel assistance already provided by the Department of Transport and Main Roads. For families using taxis, assistance is capped at \$300 per week.

The **Distance Education - Information and Communication Technology Subsidy Scheme** provides assistance to students enrolled in a school of distance education that are geographically isolated or in the medical category.

The scheme provides \$250 per annum to assist with purchasing, replacing or upgrading computer hardware for students in the distance/geographically isolated and medical categories, and \$500 per annum to assist students in the distance/geographically isolated category to meet the costs of broadband internet access and download charges for the home classroom. Eligible students also receive access to free software licences.

The **Distance Education - Non-Government Student Fee Subsidy** is available to students who are enrolled in non-government schools and also choose to access distance education subjects. It provides an average annual subsidy of approximately \$1,232.50 per distance education subject enrolment.

This subsidises approximately 50% of the total average cost per annum of providing a subject through distance education for non-government school students. The concession contributes towards the state continuing to make distance education available to non-government schools, ensuring the widest possible subject choice for students, while recovering a proportion of the teaching and overhead costs.

The **Dalby State High School - Bunya Campus Residential Facility** provides affordable residential accommodation for secondary school students in a boarding facility. The concession particularly targets secondary school students from rural and remote communities, however, any secondary age student is eligible. Students accommodated at the residential facility are enrolled at Dalby State High School and participate in agricultural education programs.

The **Spinifex State College - Mount Isa Student Residential Facility** provides an affordable residential facility in Mount Isa for students from the North Western area of the state whose home community does not provide secondary schooling. The funding meets the cost of wages for the residential college, increasing the affordability of the accommodation rates charged to students.

The **Far North Queensland Region - Student Residential College** provides a residential schooling option for students from the Torres Strait and Cape York. This college provides an option that is more familiar for students from remote locations with the intent to increase participation and retention of secondary students in schooling. The concession targets students from the Torres Strait and Cape York seeking secondary education when their home community does not provide secondary schooling. The concession provides wages for the residential college allowing the rates charged to students to be more affordable.

Tuition fee exemptions/waivers - Dependants of international students allows students who meet the approved exemption criteria and wish to enrol their child in Preparatory (Prep) Year to Year 12 of schooling to be exempt from paying dependant tuition fees. The exemption only applies for the duration of the main temporary visa holder's (parent) course of study in Queensland. A dependant student (Prep to Year 12) of a temporary visa holder may also be eligible for a tuition fee waiver in certain circumstances, including financial hardship. The average value of the exception/waiver is \$6,543.40 per student.

Department of Energy and Water Supply

The **Ergon Energy – Uniform Tariff Policy (excluding Isolated Systems)** ensures that, where possible, all Queensland non-market electricity customers of a similar type pay the same price for electricity regardless of where they live. As the notified prices do not reflect the full cost of electricity supply for most remote and regional Queenslanders, a subsidy is provided. The community service obligation (CSO) payment to Ergon Energy Queensland Pty Ltd (Ergon Energy) covers the difference between the revenue earned by charging customers notified prices and the actual costs in the regional areas (due to differences in network costs and energy losses).

The drop in the CSO in 2015-16 largely relates to the outcome of the Australian Energy Regulator's (AER) determination. Specifically, the AER has reduced Ergon Energy's allowable revenue more than Energex Limited's, reducing the difference between South East Queensland prices and cost-reflective regional prices. While the CSO reduces in 2015-16, customers outside South East Queensland will continue to pay the same regulated rate as customers in South East Queensland.

The **Ergon Energy - Uniform Tariff Policy for Isolated Systems** ensures that, where possible, all Queensland non-market electricity customers of a similar type pay the same price for electricity regardless of where they live. Ergon Energy owns and operates 33 isolated power stations which supply electricity to remote and isolated Queensland communities. Ergon Energy Queensland Pty Ltd retails electricity to these customers at the notified prices and the Government provides funding to Ergon Energy Queensland Pty Ltd to cover the difference between the revenue earned and the cost of supplying electricity to these customers.

The **Origin Energy - Uniform Tariff Policy** ensures that, where possible, all Queensland non-market electricity customers of a similar type pay the same price for electricity regardless of where they live. Origin Energy retails electricity to approximately 5,450 Queensland non-market customers in the Goondiwindi, Texas and Inglewood areas who are supplied electricity through the New South Wales Essential Energy distribution network.

The Government provides a rebate to these customers, via Origin Energy, to ensure they pay no more for electricity than other similar customers in Queensland.

Urban Water Price Path: Bulk water price revenues in South East Queensland (SEQ) are currently set at levels below the cost of supply. This has been the case since the commencement of a 10 year price path in 2008. The difference between revenue received, based on these below cost prices, and the costs to be recovered is due to be repaid from bulk water prices over the period to 2027-28.

However, it should be noted that this under recovery is not funded through a CSO or consolidated revenue, but is to be recovered through SEQ bulk water prices. The reduction in the level of under recovery between the 2014-15 estimated actual and the 2015-16 estimate is due to the narrowing gap between the cost of supplying water and the price paid by consumers.

Cloncurry Water Pipeline Water Supply Subsidy: North West Queensland Water Pipeline Limited (NWQWP), a SunWater subsidiary, owns and operates the Cloncurry Water Pipeline between the Ernest Henry Mine and Cloncurry. The pipeline guarantees Cloncurry Shire Council's long term water supply and supports industrial development in the region. As the construction and operation of the Cloncurry Water Pipeline is a non-commercial investment, the Government provides funding to NWQWP to ensure that SunWater receives a return on its investment in the pipeline.

SunWater Rural Irrigation Water Price Subsidy: SunWater Limited (SunWater) owns and operates water supply schemes across regional Queensland. As the owner of SunWater, the Government decides how much to recover of SunWater's costs through irrigation prices. Currently, SunWater's irrigation water prices for some schemes are set below the level which recovers the costs of supplying water to the irrigators. Government funding is provided to SunWater to offset the reduced revenue and to ensure that increases in water prices paid by rural irrigation customers to recover costs are gradual.

Seqwater Rural Irrigation Water Price Subsidy: Seqwater owns and operates water supply schemes across SEQ which also supply bulk water services to rural irrigation customers. Currently Seqwater's rural irrigation prices for some schemes are set below the level which recovers the costs of supplying water to the irrigators. Government funding is provided to Seqwater to offset the reduced revenue and to ensure that increases in water prices paid by rural irrigation customers to recover costs are gradual.

The Government is **extending existing Drought Relief Arrangements** by providing increased funding of \$2.5 million in 2015-16 to provide relief to farming customers from fixed charges for electricity accounts that are used to pump water for farm or irrigation purposes during periods of drought.

Department of Environment and Heritage Protection

The *Nature Conservation Act 1992* and its subordinate legislation regulate the clearing, growing, harvesting and trade of protected plants in Queensland. **Protected Plant Licence and Permits Concessions** are available for individuals and groups undertaking activities for educational purposes, scientific research purposes, conservation, clearing to establish necessary property infrastructure and traditional owner activity. The dollar amount of the fee reduction provided under the concession depends on the type of permit or licence; it is \$401.20 for plant growing licences, \$803.30 for plant harvesting licences and \$2,009 for plant clearing permits.

Department of Housing and Public Works

The **Government managed housing rental rebate** targets low income families and individuals and represents the difference between the rents that would be payable in the private market and rent that is charged by Government based on household income.

Assistance is provided to approximately 57,000 households. The estimated average yearly subsidy per household for 2015-16 is \$7,313.

The **National Rental Affordability Scheme** (NRAS) is an Australian Government initiative, delivered in partnership with the Queensland Government, to increase the supply of new affordable rental housing. The scheme provides financial incentives to investors to build well located dwellings and rent them to eligible low to moderate income households, at a discounted rate, at least 20% below market rent.

Under the scheme the concession to the tenant is provided by the property owner. Due to the nature of the arrangement, the overall value of the concession to the tenant cannot be quantified. In 2015-16, the Government has allocated \$28.8 million for the payment of financial incentives to NRAS investors who are then required to discount rents to tenants.

Home Assist Secure provides free safety related information and referrals, and subsidised assistance to eligible clients unable to undertake or pay for critical maintenance services. To be considered for assistance, home owners or tenants with a disability or who are over the age of 60 must hold a Pensioner Concession Card and be unable to complete the work themselves. In addition, they must be unable to access assistance from family or friends or other services. Labour costs (up to \$400 per household per year) for the assistance provided are subsidised by Home Assist Secure while the balance of the costs (including all materials) are met by the client.

Home Assist Secure targets home owners and those in rental housing who are over 60 years of age or have a disability, and who require assistance to remain living in their home. In 2015-16, \$19.6 million in grants to Home Assist Secure providers will be issued to ensure the ongoing delivery of assistance to those in greatest need. It is estimated that 50,000 households will be assisted.

The provision of **non-residential buildings – subsidised rents** assists various organisations to deliver services to communities. Accommodation is provided to 44 community, arts and not-for-profit organisations in Government owned non-residential buildings. Tenures for the occupancies are by way of leases, licences or month to month arrangements. Rents paid by the organisations are often below independently assessed market rent levels. Subsidised rental arrangements are provided to 27 properties comprising a total floor area of approximately 29,000 square metres. The total subsidy is calculated by deducting the actual amount paid by the occupants from the total estimated annual market rent for the office space.

The Government provides interest-free **rental bond loans** equivalent to a maximum amount of four weeks rent to people who cannot afford to pay a full bond to move into private rental accommodation reducing the need for more costly, subsidised housing assistance. The concession represents the interest saving for the client on the bond loan. In 2015-16, it is estimated that \$31.6 million in bond loans will be advanced to approximately 23,800 clients.

The Government provides contributions to **non-government managed housing** providers, including capital grants, granted land or properties, or recurrent funding, to assist in increasing housing affordability and access to social housing. Due to the nature of the arrangement, the overall value of the concession provided by the Government is not easily quantified. Rents charged for social housing managed by the providers are based on 25% of a household's assessable income, which substantially reduces accommodation costs for eligible individuals and families.

Department of Justice and Attorney-General

The **Public Trustee of Queensland** (the Public Trustee) is a self-funding organisation and uses a scale of fees which is designed to reflect a fair cost for the services provided.

The Public Trustee has established a safety net limit on the annual fees payable by certain clients. The arrangement provides for a rebate of fees for some clients with limited assets, for example financial administration for clients with impaired capacity, or administration of deceased estates or trusts. The Public Trustee also provides free will making services for Queenslanders.

The Public Trustee also provides funding to the Public Guardian (formerly the Office of the Adult Guardian) and financial assistance under the Civil Law Legal Aid Scheme administered by Legal Aid Queensland, to enable these organisations to provide services to the people of Queensland.

The Supreme, District and Magistrates Courts hear civil disputes between two or more parties (people or organisations) where one party sues the other, usually to obtain compensation, or seek some other remedy. These disputes may involve anything from defamation to outstanding debts.

Civil Court Fees are prescribed under the *Uniform Civil Procedure (Fees) Regulation 2009* for proceedings commenced in civil matters and are set below full cost recovery to ensure that civil remedies are accessible to all Queenslanders.

The **Queensland Civil and Administrative Tribunal** (QCAT) is an independent tribunal which makes decisions and resolves disputes across a wide range of jurisdictions for the community. Fees for these services are below cost recovery to ensure services are accessible, fair and inexpensive. QCAT provides human rights services with no application fees for matters in guardianship and administration of adults, children and young people and anti-discrimination.

The Office of the Commissioner for **Body Corporate and Community Management** provides a dispute resolution service to parties unable to resolve disputes themselves. The service consists of conciliation, with the aim of achieving a voluntary agreement, and adjudication, which results in a formal order. The service is delivered below full cost recovery so as to not restrict access to justice due to affordability reasons.

Department of National Parks, Sport and Racing

Tour fee and access permit concessions are available in specified protected areas including David Fleay Wildlife Park, Mon Repos Conservation Park, St Helena Island National Park, Walk-About Creek Wildlife Centre, Fort Lytton National Park, Cooloola Recreation Area, Moreton Island and Fraser Island.

Queensland Recreation Centres - Concessional usage rates are offered to students and children 17 years and under, for the use of Queensland Recreation Centres, primarily at Currimundi and Tallebudgera. These concessional rates provide discounts of between 3.4% and 41.4%.

Department of Natural Resources and Mines

As part of the Government's **drought assistance package**, the annual water licence fee of \$74.00 will be waived for 2015-16 for landholders in Local Government Areas (LGA) that are drought declared and those declared as individually droughted properties.

Category 11 Grazing and Primary Production landholders under the *Land Act 1994* will also be eligible to a rent rebate in 2015-16. The rebate is available to lessees, other than those on minimum rent that are in a drought declared LGA and to individually droughted properties. In addition to this rebate, drought declared landholders will be granted hardship deferral for required rent payments.

Department of Science, Information Technology and Innovation

State Library of Queensland provides venue hire concessions to targeted community and non-profit groups including cultural and charitable organisations and educational institutions in order to support events and programs directly linked to State Library of Queensland's services, programs and activities.

Department of Transport and Main Roads

The **General Public Transport Concessions (South East Queensland)** represent the direct funding contribution that Government makes towards the cost of operating public transport services within South East Queensland. This contribution effectively reduces the ticket price paid by all public transport users on bus, rail and ferry services, increasing the affordability of these services. This concession incorporates the recent 5% decrease in fares in November 2014 and subsequent fare freeze in January 2015.

The **General Public Transport Concessions (Regional Queensland)** identify the financial contribution that Government provides across a range of transport services in regional Queensland. The impact of this contribution benefits all public transport users through reduced transport fares. This concession covers:

- TravelTrain (excluding the 'Rail Concession Scheme' for eligible pensioners, veterans and seniors)
- subsidies for regional bus and ferry operators (excluding concessional top up amounts and School Transport Assistance Scheme related amounts)
- subsidies for air services to remote and rural communities within the State
- subsidies for the Rail XPT Service (Sydney-Brisbane) and Savannahlander (Atherton Tableland)
- subsidies for long distance coach services to rural and remote communities within the State.

The **TransLink Transport Concessions (South East Queensland)** are provided by the Government to ensure access and mobility for Queenslanders who require assistance because of age, disability or fixed low income. Passengers entitled to receive public transport concessions include holders of a Pensioner Concession Card, Veterans' Affairs Gold Card, Seniors Card (all states and territories), Companion Card, Vision Impairment Travel Pass, TPI Veteran Travel Pass, children, as well as secondary and tertiary students. For a peak two zone journey using a go card, the concession will reduce an adult fare from \$3.93 to \$1.96.

Other transport concessions (Regional Queensland) and taxi subsidies are provided by the Government to ensure access and mobility for Queenslanders who require assistance because of age, disability or fixed low income. Passengers entitled to receive public transport concessions include holders of a Pensioner Concession Card, Veterans' Affairs Gold Card, Seniors Card (all states and territories), Companion Card, Vision Impairment Travel Pass, TPI Veteran Travel Pass, children, as well as secondary and tertiary students.

The Taxi Subsidy Scheme aims to improve the mobility of persons with severe disabilities by providing a 50% concession fare up to a maximum subsidy of \$25 per trip.

Designated Public Transport Concessions for Seniors Card Holders allows visitors from interstate, who hold a state or territory Seniors Card, to access public transport concessions within Queensland and is fully funded by the Queensland Government.

Rail network and infrastructure funding ensures that the State supported rail network is safe, reliable and fit for purpose. The contract also provides funding to Queensland Rail to support major capital projects and related asset strategies. The funding provided via this contract directly benefits customers of the State supported rail network, including both freight and passengers. Without this funding, rail access charges (including public transport fares) would be significantly higher for all users of the rail network.

The **Livestock and Regional Freight Contracts** provide funding to support the movement of cattle (via rail only) and freight (via road and rail) to and from regional areas of Queensland. The funding provided directly benefits the cattle industry and enables regional communities to maintain employment and directly benefits communities in regional Queensland who are reliant on rail freight services by reducing the cost of these freight services for users.

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

Vehicle and boat registration concessions are provided to holders of the Pensioner Concession Card, Queensland Seniors Card and to those assessed by the Department of Veterans' Affairs as meeting the necessary degree of incapacity or impairment. The concession is aimed at improving access to travel for pensioners, seniors and persons with a disability by providing a reduced rate of registration fees. For most eligible card holders, a concession for a private use 4-cylinder vehicle would reduce the 12 month registration charge from \$289.85 to \$144.95. For a recreational boat up to and including 4.5 metres in length, the concession reduces the registration charge from \$98.25 to \$59.10 (based on registration charges at 1 July 2015).

A special interest vehicle (SIV) registration concession is offered for motor vehicles that have low use associated with vintage and historic and street rod car club events. A 12 month registration for a 6-cylinder SIV concession reduces registration from \$458.95 for a private use vehicle to \$81.70. Other motor vehicle and boat registration concessions are also provided to primary producers, local governments, charitable and community service organisations, and people living in remote areas without access to the wider road network.

The **School Transport Assistance Scheme** assists students that do not have a school in their local area or who are from defined low income groups with travel costs. The scheme provides funding to reduce the cost of travelling to school on bus, rail and/or ferry services, with allowances for private vehicle transport in certain circumstances. A typical concession would be to fully fund the cost of travel from home to the nearest State primary or high school where no local primary or high school is available (for example from Bargara to Bundaberg High School).

As part of the State's driver licensing arrangements, applicants for new licences are required to undertake a **practical driving test**. The total cost to pre-book driver examinations and to perform the practical driver assessment is not fully recovered by the fee charged (\$47.50 as at 1 July 2015), providing a direct concession to applicants.

The commercial vessel safety program including ship design and inspection standards and ship operator competency standards is funded from commercial ship registration and licensing revenue. The **commercial ship registration and licensing** concession represents the difference between the cost of supporting safety of commercial vessels in Queensland waters and revenue collected via commercial registration and compliance fees. The concession represents a benefit to commercial ship owners and operators. Vessels operated by primary or secondary schools used in marine education courses, vessels owned by Queensland Fire and Emergency Services, volunteer marine rescue associations and surf lifesaving associations are exempt from fees. From 2013-14, the Australian Maritime Safety Authority is responsible for regulation of domestic commercial vessels. Under an interim agreement, the State Government will continue to provide these services until 2017.

Department of the Premier and Cabinet

Arts Queensland – Discount on property lease rentals are provided to arts and cultural organisations at a discount from market rental rates at the Judith Wright Centre of Contemporary Arts, 381 Brunswick Street, Fortitude Valley and the Cairns Centre of Contemporary Arts. Discounts range from 20% to 100% of the market rate (dependent on location) of the commercial office space. Further discounts on specialist rehearsal and gallery space are given as negotiated at the time of entering the lease and dependent on the individual arts or cultural organisation and its funding.

Arts Queensland – Venue hire rebates are provided to support Queensland funded arts organisations and professional artists to create, rehearse and present new productions at the Judith Wright Centre of Contemporary Arts and the Cairns Centre of Contemporary Arts.

Queensland Performing Arts Trust – Arts concessional entry fees are offered for specific QPAT productions and provide support for other not for profit theatre companies to enable tickets to be sold at concessional prices. The level of concession provided varies depending on the number and size of events being held each year.

Queensland Performing Arts Trust – Venue hire rebates are offered to Government funded cultural organisations, charitable organisations, government departments and educational institutions. Organisations currently receiving discounts are Queensland Symphony Orchestra, Opera Queensland, Queensland Theatre Company and Queensland Ballet.

Queensland Museum - Arts concessional entry fees are provided to seniors, students, children, families and a variety of concession card holders for ticketed exhibitions at Queensland Museum & Science Centre and for general entry to Cobb & Co Museum Toowoomba, The Workshops Rail Museum Ipswich, and Museum of Tropical Queensland Townsville. Concessions are also provided to targeted groups, such as schools, to encourage visits to museums. The level of concession provided varies depending on the venue and the event.

Queensland Art Gallery's ticket prices are set to ensure that they are affordable and to maximise attendance, with additional concessions provided to seniors, students, children, families and a variety of concession card holders. The purpose of the **Queensland Art Gallery – Arts concessional entry fees** concession is to contribute to the cultural, social and intellectual development of Queenslanders, and encourage diverse audiences.

Public Safety Business Agency

Individuals providing child-related services or conducting child-related activities in regulated service environments are required to undergo an assessment of their police and relevant disciplinary information, and if approved, are issued with a blue card. A blue card is valid for three years unless cancelled or suspended earlier. The application fee for a blue card is \$81.40 (as at 1 July 2015). Since the inception of the blue card system in 2001, Government has met the cost of **blue card assessments – volunteer applicants**.

Queensland Fire and Emergency Services

The **Emergency Management Levy** applies to all prescribed properties within Queensland. The levy provides a sustainable funding base for all emergency services including emergency management, fire and rescue services. Owners of prescribed properties who are in receipt of an Australian Government pension are eligible to receive a discount of 20% on the levy payable for a property that is their principal place of residence. In addition, community organisation owners of specified properties are exempt from payment of the levy.

Queensland Health

The **Oral Health Scheme** provides free dental care to eligible clients and their dependants who possess a current Health Care Card, Pensioner Concession Card, Queensland Seniors Card or Commonwealth Seniors Card. The average value of a course of treatment for eligible clients is approximately \$600 for general care, \$1,800 for treatment involving dentures, and \$265 for emergency dental care. In rural and remote areas where no private dental practitioner exists, access to dental care for the general public is provided at a concessional rate, generally 15% to 20% less than average private dental fees.

The **Patient Travel Subsidy Scheme** provides financial assistance to patients who need to access specialist medical services which are not available within their local area. The Scheme provides a subsidy towards the cost of travel and accommodation for patients and, in some cases, an approved escort. Patients will receive fully subsidised commercial transport if arranged by Queensland Health or alternatively a subsidy of 30 cents per kilometre where a private vehicle is used. The accommodation subsidy is \$60 per person per night for commercial accommodation. A subsidy of \$10 per person per night is payable to patients and approved escorts who stay in private accommodation.

The **Medical Aids Subsidy Scheme** provides access to funding assistance for the provision of a range of aids and equipment to eligible Queensland residents with permanent and stabilised conditions or disabilities. Aids and equipment are provided primarily to assist people to live at home thus avoiding premature or inappropriate residential care or hospitalisation.

Subsidies vary based on service category and clinical criteria and are provided to assist with the costs of communication aids, continence aids, daily living aids, medical grade footwear, mobility aids, orthoses and oxygen. The scheme provides over 65,000 occasions of service to approximately 42,000 clients each year.

The **Spectacle Supply Scheme** provides eligible Queensland residents with free access to a comprehensive range of basic spectacles every two years including bifocals and trifocals. Applicants must be holders of eligible concession cards and be deemed by a prescriber to have a clinical need for spectacles.

The scheme provides around 80,000 items each year to approximately 70,000 clients (some clients require more than one pair of spectacles due to clinical need). With eligibility on a two year basis, this equates to over 140,000 clients. The average cost of services provided to applicants is approximately \$115 per item, including the costs of administering the scheme through the Medical Aids Subsidy Scheme.

The **Community Aids Equipment and Assistive Technologies Initiative (CAEATI)** and **Vehicle Options Subsidy Scheme (VOSS)** provide financial assistance to eligible Queensland residents to support them to be more independent, participate further in social and economic opportunities in the community and contribute to a better quality of life.

CAEATI funding is capped at \$10,000 per client over a three year period. CAEATI includes aids equipment and assistive technologies for postural support, communication support, community mobility and active participation.

VOSS funding is capped at \$10,000 per client over a five year period. VOSS provides subsidies for a range of vehicle access options, including the subsidy of driving lessons on a suitably modified vehicle, modifications to a vehicle, purchase of a suitably modified vehicle or vehicle suitable for modification.

To receive funding through either of these schemes, an individual must be assessed as eligible for specialist disability support under the *Disability Support Act 2006*. Queensland resident eligibility is determined during the intake process, and confirmed as part of the assessment process.

CS Energy Limited

CS Energy Limited is party to the **Interconnection and Power Pooling Agreement (IPPA)**, a long term contract which allows CS Energy Limited to dispatch and partially trade the output of Gladstone Power Station. The costs of maintaining this contract exceed the revenues of the trade which benefits the private sector owners of the Gladstone Power Station.

Whilst current estimates are commercial-in-confidence, CS Energy Limited's 2013-14 Annual Report quantifies the value of the agreement up to the contract expiry date at \$388.6 million as at 30 June 2014.

Energex Limited

Under Schedule 8 of the *Electricity Regulation 2006*, **service charges** for a range of services provided by Energex Limited (Energex) to energy retailers, for example disconnection and reconnection of supply, are capped. The maximum amount Energex is able to charge for these services is, on average, less than 5% of the value which the Australian Energy Regulator ascribes to the provision of these services by Energex, resulting in a concession provided to energy retailers and in turn households.

Ergon Energy Corporation Limited

Under Schedule 8 of the *Electricity Regulation 2006*, **service charges** for a range of services provided by Ergon Energy Corporation Limited (Ergon Energy) to energy retailers, for example disconnection and reconnection of supply, are capped. The maximum amount Ergon Energy is able to charge for these services is, on average, less than the value which the Australian Energy Regulator ascribes to the provision of these services by Ergon Energy, resulting in a concession provided to energy retailers and in turn households.

Far North Queensland Ports Corporation Limited

Far North Queensland Ports Corporation Limited (FNQPC) provides several **leases** to agricultural industry proponents at below commercial rates. FNQPC also provides leases to various community organisations at below commercial rates. The amounts shown are estimates of the revenue foregone by not charging commercial rates.

Gladstone Ports Corporation Limited

The Gladstone Ports Corporation Limited (GPC) is subject to a number of long term major industry contracts where **port charges** are significantly lower than market rates. These historical contracts were entered into to support various industries and government initiatives from time to time. The amounts shown are estimates of the revenue foregone by GPC as a result of being unable to charge commercial rates.

GPC also has various land and building **lease arrangements** at non-commercial rates. These contracts relate to incentives to improve utilisation of port land and assets and to establish businesses within port precincts. GPC also provides support to community and not-for-profit organisations through concessional leasing arrangements. The amounts shown are estimates of the revenue foregone by not charging commercial rates.

North Queensland Bulk Ports Corporation Limited

North Queensland Bulk Ports Corporation Limited (NQBPC) provides several long term **leases** to agricultural industry proponents at below commercial rates. NQBPC also provides leases to various community organisations, local councils and Government departments at below commercial rates. The amounts shown are estimates of the revenue foregone by not charging commercial rates.

Port of Townsville Limited

Port of Townsville Limited has a number of long term **leases** at below commercial rates with the sugar industry, recreational marine businesses and the not-for-profit sector at the Port of Townsville and the Port of Lucinda. The amounts shown are estimates of the revenue foregone by not charging commercial rates.

Queensland Rail

Kuranda Scenic Rail is a 37km railway line used predominantly for tourist railway services between Cairns and Kuranda. The amount shown represents the difference between ticket revenue and the cost of providing the service, effectively subsidising users of the railway.

Heritage Rail Services repairs and maintains the heritage fleet and hires it out to interested parties at below cost. The amount shown represents the shortfall between revenue and the cost of providing these services.

Queensland Rail **leases** properties, typically to community organisations, at below commercial rates under the continuation of pre-existing arrangements. The properties are generally of historical significance to the local community and the lessee often undertakes beautification works on the property. The amount shown is an estimate of the revenue foregone by not charging commercial rates.

SunWater Limited

SunWater Limited has a number of historic non-commercial **water supply contracts** that benefit specific entities, predominantly local government authorities. The future treatment of these water supply contracts is currently being considered by Government. The amount shown represents the difference between revenue and expenses under a fully costed allocation model.

Appendix C: Revenue and expense assumptions and sensitivity analysis

The Queensland Budget, like those of other jurisdictions, is based in part on assumptions made about parameters that are uncertain, both internal and external to the State, which can impact directly on economic and fiscal forecasts.

This appendix outlines the assumptions underlying the revenue and expense estimates and analyses the sensitivity of the estimates to changes in the economic and other assumptions. This analysis is provided to enhance the level of transparency and accountability of the Government.

The forward estimates in the Budget are framed on a no policy change basis. That is, the expenditure and revenue policies in place at the time of the Budget (including those announced in the Budget) are applied consistently throughout the forward estimates period.

The following discussion provides details of some of the key assumptions, estimates and risks associated with revenue and expenditure and, where a direct link can be established, the indicative impact on forecasts resulting from a movement in those variables.

Taxation and royalty revenue

Table C.1 Taxation and royalty revenue¹

	2013-14 Actual \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million	2016-17 Projection \$ million	2017-18 Projection \$ million	2018-19 Projection \$ million
Payroll tax	3,914	3,836	3,955	4,194	4,462	4,751
Transfer duty	2,403	3,140	3,009	3,130	3,224	3,320
Other duties	1,281	1,365	1,423	1,506	1,595	1,688
Gambling taxes and levies	1,044	1,076	1,123	1,171	1,222	1,275
Land tax	986	977	1,016	1,067	1,132	1,200
Motor vehicle registration	1,543	1,583	1,654	1,728	1,806	1,887
Other taxes	674	729	746	811	849	885
Total taxation revenue	11,845	12,707	12,926	13,607	14,289	15,007
Royalties						
Coal	1,947	1,610	1,684	1,913	2,255	2,474
Petroleum ²	69	51	129	369	467	518
Other royalties ³	363	392	463	399	426	434
Land rents	158	167	167	176	182	188
Total royalties and land rents	2,537	2,220	2,444	2,857	3,329	3,614
Notes:						
1. Numbers may not add due to rounding.						
2. Includes impact of liquefied natural gas (LNG) from 2014-15.						
3. Includes base and precious metal and other mineral royalties.						

Taxation revenue assumptions and revenue risks

The rate of growth in tax revenues is dependent on a range of factors that are linked to the rate of growth in economic activity in the State. Some taxes are closely related to activity in specific sectors of the economy, whilst others are broadly related to the general rate of economic growth, employment, inflation and wages. A change in the level of economic activity, resulting from economic growth differing from forecast levels, would impact upon a broad range of taxation receipts.

Wages and employment growth – payroll tax collections

Wages and employment growth have a direct impact on payroll tax collections. The Budget assumptions are for an increase in wages of 2½% and an increase in employment of 1¼% in 2015-16. The composition of the payroll tax base is also important. For example, the rate of growth in payroll tax is expected to be lower as fast growing sectors such as tourism, retail and hospitality are often outside the tax base because they are below the threshold.

A one percentage point variation in either Queensland wages growth or employment would change payroll tax collections by approximately \$40 million in 2015-16.

Transfer duty estimates

Transfer duty collections in 2015-16 are expected to fall by 4.2% on the 2014-15 estimated actual. This fall reflects the large contribution from one-off transactions in 2014-15.

In underlying terms, the forecast is predicated on a moderation in residential property market volumes from those experienced in 2014-15 and increasing house prices, somewhat moderated by restrained levels of activity in the non-residential property sector. Across the forward estimates period, modest house price growth is expected to provide further support for transfer duty collections, while non-residential sector activity is expected to gradually improve in response to increased levels of employment and economic activity.

A one percentage point variation in either the average value of property transactions or the volume of transactions would change transfer duty collections by approximately \$30 million in 2015-16.

Royalty assumptions and revenue risks

Table C.2 Coal royalty assumptions

	2014-15 Est. Act.	2015-16 Budget	2016-17 Projection	2017-18 Projection	2018-19 Projection
Tonnages - crown export ¹ coal (Mt)	208	212	218	225	233
Exchange rate US\$ per A\$ ²	0.84	0.80	0.80	0.80	0.80
Year average coal prices (US\$ per tonne)³					
Hard coking	116	104	114	126	132
Semi-soft	92	82	87	92	97
Thermal	67	66	69	75	78
Year average oil price					
Brent (\$US per barrel)	74	66	70	72	74
Notes:					
1. Excludes coal produced for domestic consumption and coal where royalties are not paid to the Government, i.e private royalties. 2015-16 estimate for domestic coal volume is approximately 24Mt and private coal is 8Mt.					
2. Year average.					
3. Price for highest quality coking and thermal coal. Lower quality coal can be sold below this price with indicative average prices for 2015-16 as follows: Hard coking US\$99 and thermal US\$63.					

Royalty Assumptions

Table C.2 provides the 2015-16 Budget assumptions regarding coal royalties, which represent the bulk of Queensland's royalty revenue.

As discussed in Chapter 3, the CSG industry made a small contribution to royalties in 2014-15 and will increase from 2015-16 onwards as LNG production ramps up.

Exchange rate and commodity prices and volumes – royalties estimates

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

Coal

For each one cent movement in the A\$-US\$ exchange rate, the impact on royalty revenue would be approximately \$30 million in 2015-16.

A 1% variation in export coking and thermal coal volumes would lead to a change in royalty revenue of approximately \$15 million.

A 1% variation in the average price of export coal would lead to a change in royalty revenue of approximately \$25 million.

Parameters influencing Australian Government GST payments to Queensland

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

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

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

Sensitivity of expenditure estimates and expenditure risks

Public sector wage costs

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

The 2015-16 Budget and forward estimates includes funding for wage increases as per existing agreements and reflect the Government's wages policy where outcomes are yet to be finalised.

A general 1% increase in wage outcomes in a particular year would increase expenses by around \$200 million in that year. The impact would compound and be much larger in the later years.

Interest rates

The General Government Sector has a total debt servicing cost estimated at \$2.1 billion in 2015-16.

The current average duration of General Government Sector debt is around five years. The majority of General Government Sector debt is held under fixed interest rates and therefore the impact of interest rate variations on debt servicing costs in 2015-16 would be relatively modest, with the impact occurring progressively across the forward estimates.

Actuarial estimates of superannuation and long service leave

Liabilities for superannuation and long service leave are estimated by the State Actuary with reference to, among other things, assumed rates of investment returns, salary growth, inflation and discount rate. These liabilities are therefore subject to changes in these parameters.

Similarly, the long service leave liabilities are subject to the risk that the actual rates of employee retention will vary from those assumed in the liability calculation.

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

Demographic and demand based risks

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

State government expenditure is often more closely associated with socio-demographic factors, such as the number of school age children or the number of elderly residents, than with economic activity. Such changes are likely to impact significantly in the medium term.

For this reason, the composition, size and location of the State's population are more significant in projecting the State's expenditure needs across the forward estimates period than for the current or budget year.

Appendix D: Fiscal aggregates and indicators

Table D.1 Key Fiscal Aggregates¹

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Est. Act.	Budget	Projection	Projection	Projection
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
General Government												
Total revenue	31,424	37,078	39,727	42,013	45,801	41,755	46,734	49,578	51,186	54,010	55,486	55,748
Tax revenue	9,546	8,866	9,375	9,981	10,608	10,937	11,845	12,707	12,926	13,607	14,289	15,007
Total expenses	33,030	37,099	39,599	43,479	46,028	46,313	46,115	48,615	49,973	51,784	53,354	54,421
Employee expenses	13,175	14,310	15,566	16,826	18,250	18,130	17,817	18,938	19,937	20,567	21,135	21,648
Net operating balance	(1,606)	(21)	128	(1,466)	(226)	(4,558)	619	962	1,213	2,226	2,132	1,327
Capital purchases	5,725	6,772	8,959	8,237	7,971	7,001	6,322	4,987	5,374	5,832	6,125	5,851
Net capital purchases	3,680	4,349	6,665	5,583	5,241	3,389	3,200	1,858	2,375	3,193	3,013	2,428
Fiscal balance	(5,286)	(4,371)	(6,537)	(7,049)	(5,467)	(7,947)	(2,581)	(896)	(1,162)	(968)	(881)	(1,101)
Borrowings	6,328	10,308	15,916	24,593	29,517	37,878	41,402	43,268	38,151	38,818	39,532	40,724
Net debt	(22,586)	(19,251)	(13,354)	(9,542)	(5,720)	2,399	5,203	6,056	3,910	4,405	5,074	6,307
Non-Financial Public Sector												
Total revenue	38,356	43,749	47,883	49,040	52,307	49,181	54,008	55,412	57,501	60,710	62,491	62,883
Capital purchases	13,976	15,101	15,007	13,306	11,980	10,774	9,312	8,170	8,574	9,000	9,048	8,740
Borrowings	30,856	42,645	51,713	53,708	61,542	69,086	72,716	75,535	74,113	75,714	77,119	78,802
Note s:												
1. Bracketed numbers represent negative amounts.												

Table D.2 Key Fiscal Indicators¹

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Est. Act.	Budget	Projection	Projection	Projection
	%	%	%	%	%	%	%	%	%	%	%	%
General Government												
Revenue/GSP	13.6	14.4	15.8	15.7	16.1	14.5	15.8	16.0	15.5	15.2	14.6	13.8
Tax/GSP	4.1	3.4	3.7	3.7	3.7	3.8	4.0	4.1	3.9	3.8	3.8	3.7
Own source	6.9	7.6	7.8	8.1	8.1	8.1	8.4	8.5	8.1	7.8	7.5	7.4
Revenue/GSP	14.3	14.4	15.8	16.2	16.1	16.1	15.6	15.7	15.1	14.6	14.1	13.5
Expenses/GSP	5.7	5.5	6.2	6.3	6.4	6.3	6.0	6.1	6.0	5.8	5.6	5.4
Employee												
expenses/GSP												
Net operating	(0.7)	(0.0)	0.1	(0.5)	(0.1)	(1.6)	0.2	0.3	0.4	0.6	0.6	0.3
balance/GSP												
Capital purchases/GSP	2.5	2.6	3.6	3.1	2.8	2.4	2.1	1.6	1.6	1.6	1.6	1.5
Net cash inflows from												
operating	6.9	53.1	37.8	25.5	35.4	(35.5)	40.9	81.9	83.5	98.9	93.8	76.8
activities/capital												
purchases												
Fiscal balance/GSP	(2.3)	(1.7)	(2.6)	(2.6)	(1.9)	(2.8)	(0.9)	(0.3)	(0.4)	(0.3)	(0.2)	(0.3)
Borrowings/GSP	2.7	4.0	6.3	9.2	10.4	13.1	14.0	14.0	11.5	10.9	10.4	10.1
Borrowings/revenue	20.1	27.8	40.1	58.5	64.4	90.7	88.6	87.3	74.5	71.9	71.2	73.0
Revenue growth	(1.8)	18.0	7.1	5.8	9.0	(8.8)	11.9	6.1	3.2	5.5	2.7	0.5
Tax growth	12.5	(7.1)	5.7	6.5	6.3	3.1	8.3	7.3	1.7	5.3	5.0	5.0
Expenses growth	9.9	12.3	6.7	9.8	5.9	0.6	(0.4)	5.4	2.8	3.6	3.0	2.0
Employee expenses												
growth	12.3	8.6	8.8	8.1	8.5	(0.7)	(1.7)	6.3	5.3	3.2	2.8	2.4
Non-Financial Public												
Sector												
Capital purchases/GSP	6.0	5.8	6.0	5.0	4.2	3.7	3.1	2.6	2.6	2.5	2.4	2.2
Borrowings/GSP	13.3	16.5	20.6	20.0	21.6	24.0	24.5	24.4	22.4	21.3	20.4	19.6
Borrowings/revenue	80.4	97.5	108.0	109.5	117.7	140.5	134.6	136.3	128.9	124.7	123.4	125.3
Net financial												
liabilities ² /revenue	75.4	97.4	112.5	96.2	115.6	133.4	125.9	127.9	125.2	119.3	116.6	117.0

Notes:

1. Bracketed numbers represent negative amounts.

2. UPP: definition, which is equal to total financial assets less investments in other public sector entities less total liabilities.

