Parliamentary Committees

Appropriation Bill (No.2) 2015

Report No. 12, 55th Parliament

Finance and Administration Committee

October 2015

Finance and Administration Committee

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Acknowledgements

The Committee thanks those who briefed the Committee and participated in its inquiry. In particular the Committee acknowledges the assistance provided by Queensland Treasury.

Contents

Abbreviations

CFFR	Consolidated Fund Financial Report 2013-14
DEWS	Department of Energy and Water Supply
DSITIA	Department of Science, Information Technology, Innovation and the Arts
FA Act	*Financial Accountability Act 2009*
FAC	Finance and Administration Committee
FLP	Fundamental Legislative Principles under the *Legislative Standards Act 1992*
LSA	*Legislative Standards Act 1992*
QAO	Queensland Audit Office
QTC	Queensland Treasury Corporation

Glossary

Acts	All Acts referred to in this report refer to Queensland Acts unless otherwise specified.
the Act	*Financial Accountability Act 2009*
the Bill	*Appropriation Bill (No.2) 2015*
the department	Queensland Treasury

Chair's Foreword

This report presents a summary of the Committee's examination of the *Appropriation Bill (No.2) 2015.*

The Committee's task was to consider the policy outcomes to be achieved by the legislation, as well as the application of fundamental legislative principles – that is, whether it has sufficient regard to the rights and liberties of individuals and to the institution of Parliament.

The public examination process allows the Parliament to hear views from the public and stakeholders, which should make for better policy and legislation in Queensland.

The Bill provides for supplementary appropriation for unforeseen expenditure that occurred in the 2014-15 financial year. The supplementary appropriation sought is based on the Consolidated Fund Financial Report 2014-15.

On behalf of the Committee, I would like to thank the departmental officers for their cooperation in providing information to the Committee on a timely basis.

Finally, I would like to thank the other Members of the Committee for both their active involvement and their determination to critically address the issues examined in the Bill.

Di Farmer MP
Chair

October 2015

Recommendations

Standing Order 132 states that a portfolio committee report on a Bill is to indicate the Committee's determinations on:

- whether to recommend that the Bill be passed
- any recommended amendments
- the application of fundamental legislative principles and compliance with the requirements for explanatory notes.

The Committee has made the following recommendations:

The Committee recommends that the *Appropriation Bill (No.2) 2015* be passed.

1 Introduction

1.1 Role of the Committee

The Finance and Administration Committee (the Committee) is a portfolio committee established by the *Parliament of Queensland Act 2001* and the Standing Orders of the Legislative Assembly on 27 March 2015.[1] The Committee's primary areas of responsibility are:

- Premier, Cabinet and the Arts; and
- Treasury, Employment, Industrial Relations, Aboriginal and Torres Strait Islander Partnerships.

Section 93(1) of the *Parliament of Queensland Act 2001* provides that a portfolio committee is responsible for examining each Bill and item of subordinate legislation in its portfolio area to consider –

a) the policy to be given effect by the legislation;

b) the application of fundamental legislative principles to the legislation; and

c) for subordinate legislation – its lawfulness.

Standing Order 132(1) provides that the Committee shall:

a) determine whether to recommend that the Bill be passed;

b) may recommend amendments to the Bill; and

c) consider the application of fundamental legislative principles contained in Part 2 of the *Legislative Standards Act 1992* to the Bill and compliance with Part 4 of the *Legislative Standards Act 1992* regarding explanatory notes.

Standing Order 132(2) provides that a report by a portfolio committee on a Bill is to indicate the Committee's determinations on the matters set out in Standing Order 132(1).

Standing Order 133 provides that a portfolio committee to which a Bill is referred may examine the Bill by any of the following methods:

a) calling for and receiving submissions about a Bill;

b) holding hearings and taking evidence from witnesses;

c) engaging expert or technical assistance and advice; and

d) seeking the opinion of other committees in accordance with Standing Order 135.

1.2 Referral

The Treasurer, Minister for Employment and Industrial Relations and Minister for Aboriginal and Torres Strait Islander Partnerships introduced the *Appropriation Bill (No.2) 2015* (the Bill) to the Legislative Assembly on 16 September 2015. The Bill was referred to the Committee. The Legislative Assembly agreed to a motion requiring the Committee to report to the Legislative Assembly by Tuesday 20 October 2015.

[1] *Parliament of Queensland Act 2001*, s88 and Standing Order 194

1.3 Committee Process

The Committee's consideration of the Bill included calling for public submissions and a public departmental briefing. The Committee also sought additional written advice from the department.

The Committee considered expert advice on the Bill's conformance with fundamental legislative principles (FLP) listed in Section 4 of the *Legislative Standards Act 1992*.

The Committee considered this Bill in conjunction with the *Appropriation (Parliament) Bill (No.2) 2015*. Refer report no. 13 for further details regarding that Bill.

1.4 Submissions

The Committee advertised its inquiry into the Bill on its webpage on 18 September 2015. The Committee also wrote to stakeholder groups inviting written submissions on the Bill.

The closing date for submissions was Tuesday 6 October 2015. The Committee did not receive any written submissions.

1.5 Public departmental briefing

The Committee held a public departmental briefing on the Bill with officers from Queensland Treasury on Monday 12 October 2015. A list of officers who gave evidence at the public departmental briefing is contained in Appendix A. The transcript of the briefing has been published on the Committee's website and is available from the committee secretariat. The Committee also sought additional written information from the department subsequent to the briefing.

1.6 Policy objectives

The objective of the Bill is to provide for supplementary appropriation for unforeseen expenditure that occurred in the 2014-15 financial year. The supplementary appropriation sought is based on the Consolidated Fund Financial Report 2014-15 (CFFR).

1.8 Outcome of Committee deliberations

Standing Order 132(1)(a), requires that the Committee examine the Bill and determine whether to recommend that the Bill be passed.

Pursuant to Standing Order 132(1)(a), the Committee recommends that the Bill be passed.

Recommendation 1

The Committee recommends that the *Appropriation Bill (No.2) 2015* be passed.

2 Examination of the *Appropriation Bill (No.2) 2015*

2.1 Reasons for the Bill

The Bill provides for supplementary appropriation of $9,110,000 for unforeseen expenditure which occurred in the 2014-15 financial year to be authorised. The CFFR outlines, by department, total appropriation from the Consolidated Fund for the financial year and includes any unforeseen expenditure and provides explanations on a department-by-department basis for variations from the approved annual appropriation amount.[2]

[2] Queensland Legislative Assembly, Hon CW Pitt MP, Treasurer, Minister for Employment and Industrial Relations and Minister for Aboriginal and Torres Strait Islander Partnerships*, Parliamentary Debates (Hansard)*, 16 September 2015: 1873

Payments from the Consolidated Fund, including unforeseen expenditure, must be formally authorised under an Act of Parliament in accordance with section 66 of the *Constitution of Queensland 2001.* The explanatory notes state that timely consideration of unforeseen expenditure enhances transparency and accountability of government expenditure; and that supplementary appropriation is sought via a separate Appropriation Bill as soon as possible after the end of the financial year, rather than combined with the annual Appropriation Bills introduced next year at Budget time.[3]

The Treasurer, Minister for Employment and Industrial Relations and Minister for Aboriginal and Torres Strait Islander Partnerships stated, when introducing the Bill:

> *This is the lowest amount of unforeseen expenditure over the past 18 years. The unforeseen expenditure incurred by the seven departments was primarily in relation to additional expenditure for the support services delivered by the Queensland Agricultural Training Colleges and capital projects such as police station and watch-house upgrade and refurbishment.*[4]

The Bill also proposes to amend section 71 of the *Financial Accountability Act 2009* (FA Act) so that for the purpose of entering into finance leases or other arrangements which constitute a borrowing, departments are not limited to borrowing from the Queensland Treasury Corporation (QTC), noting that the Treasurer's approval will continue to be required prior to any such transaction occurring.[5]

The explanatory notes state:

> *The policy objectives of the Bill in relation to the amendment of section 71 of the FA Act are achieved by amending the section so that departments can borrow with the Treasurer's approval and remove specific reference to QTC. The Financial Accountability Handbook (which departments are legally required to have regard to and which provides guidance to departments in discharging the requirements of the FA Act) will clearly state the intention that the borrowing of funds (i.e. traditional borrowings) will continue to occur with QTC except in exceptional circumstances and only with the Treasurer's approval. Departments, with the Treasurer's approval, can engage with parties other than QTC for the purpose of obtaining a finance lease or entering into any other financial arrangement which constitutes a borrowing such as entering into a public private partnership arrangement.*

[3] Explanatory Notes, *Appropriation Bill (No.2) 2015*: 1

[4] Queensland Legislative Assembly, Hon CW Pitt MP, Treasurer, Minister for Employment and Industrial Relations and Minister for Aboriginal and Torres Strait Islander Partnerships*, Parliamentary Debates (Hansard)*, 16 September 2015: 1873

[5] Explanatory Notes, *Appropriation Bill (No.2) 2015*: 1

The Treasurer, Minister for Employment and Industrial Relations and Minister for Aboriginal and Torres Strait Islander Partnerships stated:

> *Currently this section provides that departments can, with the Treasurer's approval, borrow amounts from Queensland Treasury Corporation. Finance lease arrangements are considered to be a form of borrowing. However, QTC is no longer in the business of leasing. An amendment to section 71 is required so that departments are not limited to borrowing—in relation to leasing—from QTC. Under section 71, departments will continue to only borrow with the Treasurer's approval. Departments will continue to undertake traditional borrowings from QTC except in exceptional circumstances and only with the Treasurer's approval. Departments will be able to engage with parties other than QTC for the purpose of obtaining a finance lease or entering into any other financial arrangement which constitutes a borrowing but only with the Treasurer's approval. In order to ensure that there is appropriate governance to support this amendment, the associated policy documents will be updated to clearly state the appropriate borrowing arrangements for traditional borrowings, leasing and other financial arrangements that constitute a borrowing.*[6]

2.2 Stakeholder consultation

The explanatory notes state consultation has been undertaken with departments in establishing the appropriation payable to them pursuant to the Bill.[7]

The explanatory notes also identify that the Queensland Audit Office (QAO) has been consulted on the amendment to section 71 of the Act. The QAO raised no objection in relation to the proposed amendment.[8]

2.3 Commencement (Clause 2)

It is proposed that the amendments to the FA Act under Part 3 of the Bill will commence on a day to be fixed by proclamation.

2.4 Estimated cost for government implementation

The explanatory notes detail that there are no additional administrative costs in implementing the Bill as it seeks Parliamentary approval for expenditure incurred in the 2014-15 financial year.[9]

The explanatory notes also state that there are unlikely to be any financial implications for implementing the requirements of the Bill in relation to the amendment to the Financial Accountability Act.[10]

2.5 Consistency with legislation of other jurisdictions

The explanatory notes state:

- The Bill, in relation to the supplementary appropriation, is specific to the State of Queensland, and is not complementary to legislation of the Commonwealth or another state.
- The amendment to the FA Act is administrative in nature and relates to the internal management of Queensland's public sector. As a result the amendment to the Act is not substantially uniform or complementary to legislation of the Commonwealth or another state.[11]

[6] Queensland Legislative Assembly, Hon CW Pitt MP, Treasurer, Minister for Employment and Industrial Relations and Minister for Aboriginal and Torres Strait Islander Partnerships*, Parliamentary Debates (Hansard)*, 16 September 2015: 1873

[7] Explanatory Notes, *Appropriation Bill (No.2) 2015*: 2

[8] Explanatory Notes, *Appropriation Bill (No.2) 2015*: 2

[9] Explanatory Notes, *Appropriation Bill (No.2) 2015*: 2

[10] Explanatory Notes, *Appropriation Bill (No.2) 2015*: 2

[11] Explanatory Notes, *Appropriation Bill (No.2) 2015*: 2

2.6 Alternative ways of achieving policy objectives

The policy objectives can only be achieved by legislation.[12]

2.7 Analysis of Consolidated Fund Financial Report 2014-15

The Consolidated Fund is kept by the Treasurer as required under the FA Act. The Consolidated Fund comprises the operating account and the investment account. The operating account is the whole-of-Government bank account into which administered receipts are paid, and from which the cost of the department services and government activities are paid as appropriation. Monies in excess of the daily cash flow requirements of Government are invested through the investment account.

The CFFR is used to account for the receipts into and the payments from the operating and investment accounts. The CFFR comprises the Statement of Receipts and Payments and the Statement of Appropriation and the accompanying notes to provide the overall view of actual funding of the budget sector[13] for the financial year compared to the approved budget position (approved appropriation) for that year.

The Act requires the Treasurer to prepare quarterly financial statements on the collections deposited to and amounts paid out of the Consolidated Fund. The quarterly financial statements provide details of the quarterly and year-to-date activities of the Consolidated Fund[14]. Only the fourth quarter financial statements, including the data for the period April to June and for the full financial year, are required to be audited by the Auditor-General.

The CFFR records transactions on the cash basis of accounting, in contrast to departmental reporting which is on an accrual basis of accounting. Transactions are recorded in the Consolidated Fund accounts at the time of receipt or issue of cash. The Act allows that payments made from or receipts paid to the Consolidated Fund within two weeks after the end of the financial year, relating to that financial year may be included in the appropriation for that year. For 2014-15, cash appropriations were finalised by 30 June 2015.

As the departments prepare their financial statements on an accrual basis, the amounts contained in the CFFR may not exactly match the information included in the departmental annual financial statements. The departments are required to include a reconciliation note in their annual financial statements tying the amount appropriated in the Appropriation Bill to the actual amount received as departmental services revenue and equity adjustments. The note is in two parts – *Reconciliation of Payments from Consolidated Fund to Departmental Services Revenue Recognised in Statement of Comprehensive Income* and *Reconciliation of Payments from Consolidated Fund to Equity Adjustment Recognised in Contributed Equity* and is the first of the explanatory notes (Note 2) in the departmental annual financial statements.

The statement of appropriation is a reconciliation statement between the appropriation approved in the Appropriation Acts (for departments and Parliament) and money withdrawn from the Consolidated Fund to pay each department. This statement is based on cash flows during the financial year and the subsequent two weeks for 'transfers', and subsequent four weeks for 'unforeseen expenditure'.

[12] Explanatory Notes, *Appropriation Bill (No.2) 2015*: 2
[13] Budget sector consists of all departments (as defined in the *Financial Accountability Act*)
[14] The consolidated fund is the combined cash transaction's and balances of the operating and investment accounts.

The statement of appropriation is a reconciliation statement between the appropriation approved in the Appropriation Acts 2014[15] (for departments and Parliament) and moneys withdrawn from the Consolidated Fund to pay each department. This statement is based on cash flows during the financial year and the subsequent two weeks for 'transfers', and subsequent four weeks for 'unforeseen expenditure'.

The following table provides the statement of receipts and payments to the Consolidated Fund for the year ended 30 June 2015:

	Operating Account	Investment Account	Total Year to Date 30 June 2015	Total Year to Date 30 June 2014	Change	
Consolidated Fund	**$'000**	**$'000**	**$'000**	**$'000**	**$'000***	**%****
Balance as at 1 July	(1,047,466)	31,983,178	30,935,712	28,847,641	2,088,071	7%
Receipts						
Collections received from Departments	35,258,240	0	35,258,240	34,998,301	259,939	1%
Investment Interest	2,239,346	0	2,239,346	2,166,897	72,449	3%
Dividends and Income Tax Equivalents	2,190,513	0	2,190,513	1,425,474	765,039	54%
Non-Appropriated Equity Adjustments	2,224,094	0	2,224,094	5,983,945	(3,759,851)	(63%)
Superannuation, Long Service Leave, Queensland Government Insurance Fund and ALCS contributions	2,684,414	0	2,684,414	2,531,670	152,744	6%
Capital return from Public Enterprise Investments	11,300	0	11,300	519,839	(508,539)	(98%)
Other Receipts	7,168	0	7,168	2,180	4,988	229%
	44,615,075	0	44,615,075	47,628,306	(3,013,231)	(6%)
Payments						
Appropriations provided to Departments	(43,571,850)	0	(43,571,850)	(45,540,235)	1,968,385	(4%)
	(43,571,850)	0	(43,571,850)	(45,540,235)	1,968,385	(4%)
Net Effect of Investments						
Funds transfer to/from Treasurer's Account	(1,073,193)	1,073,193	0	0	0	n/a
Consolidated Fund Balance as at 30 June	(1,077,434)	33,056,371	31,978,937	30,935,712	1,043,225	3%
* change = 2014 $ - 2013 $ () indicates a decrease from the previous year						
** % change = $ change/2013 $						
Change in Operating Account:	(29,968)					
Change in Investment Account:	1,073,193					
Change in Consolidated Fund	1,043,225					

Table 1: Statement of receipts and payments for the year ended 30 June 2015
Source: Queensland Treasury, *Consolidated Fund Financial Report 2014-15*, September 2015: 3

The Committee sought an explanation of the variations between the 2013-14 and 2014-15 financial years. Details of these explanations are contained in Appendix B.

The following table summarises the total for all departments:

	Year ended 30 June 2015	Year ended 30 June 2014	Appropriation Acts 2014	Transfers s79	Appropriation adjusted for s79 transfers	Treasurers Transfers s33	Lapsed Appropriation s29	Unforeseen expenditure s35	2015 Actual	2014 Actual
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Departmental Totals										
Controlled Items										
Departmental Services	30,081,896	29,426,406	30,991,285	0	30,991,285	11,117	(923,714)	3,208	30,078,107	29,426,406
Equity Adjustments	1,152,334	1,384,090	2,608,271	0	2,608,271	(18,079)	(1,443,971)	6,113	1,152,334	1,384,090
Administered Items	12,337,620	14,729,739	13,411,853	0	13,411,853	6,962	(1,083,918)	2,723	12,337,620	14,729,739
Total for Department	43,571,850	45,540,235								
Vote			47,011,409	0	47,011,409	0	(3,451,603)	12,044	43,568,061	45,540,235

Table 2: Appropriations provided and statement of appropriations for departments for year ended 30 June 2015
Source: Queensland Treasury, *Consolidated Fund Financial Report 2014-15*, September 2015: 12

[15] *Appropriation Act 2014* and *Appropriation (Parliament) Act 2015*

It should be noted that the table above details total unforeseen expenditure and therefore includes unforeseen expenditure for the Legislative Assembly and Parliamentary Service which is the subject of the *Appropriation (Parliament) Bill (No.2) 2015*. Refer to the separate report on that Bill for further detail.

The supplementary appropriation totals $12.044 million made up of $9.110 million for departments and $2.939 million for the Legislative Assembly.

The difference between the approved appropriation and the actual appropriation received is explained by each of the departments. The notes cover all three vote headings – departmental services; equity adjustments and administered items.

The explanatory notes are provided by the departments. The Auditor-General has issued an unqualified audit opinion on the CFFR which ensures that the explanations provided are accurate.

2.4.1 Transfers

Section 79 allows the Treasurer to redistribute funding after machinery of government change. Section 79 transfers are specifically used to transfer appropriations when the government restructures the departments or moves services between the departments. In this context**,** the Treasurer is not drawing more funding from the consolidated fund, but is just moving the funding between the departments.

Section 33 allows the Treasurer to make transfers of appropriation between headings within a department's vote.

The transfers made under section 79 and section 33 of the Financial Accountability Act cannot increase the total amount of the appropriation approved by Parliament.

2.4.2 Unforeseen Expenditure

Under section 29, the total amount appropriated for a department for a financial year under an annual appropriation act is available for the Treasurer to pay to the department in the financial year or within the further 2 weeks. If all the available amount is not paid to the department within this time frame, the unpaid amount of the appropriation lapses. Technically lapsed appropriations are not paid to the departments from the consolidated fund. Appropriation/unforeseen expenditure is paid to the level required to meet the expenditure of the departments. If departments do not require the funding to meet expenditure commitments, it is not drawn out of the consolidated fund.

Unforeseen Expenditure refers to expenditure authorised by the Governor in Council, under section 35 of the Act, to be made in advance of appropriation. Such authorisation may be given for expenditure where there is no appropriation, or there is an appropriation but the making or charging of the expenditure to a department's vote would mean that the amount allocated to the vote would be exceeded. Unforeseen expenditure occurs when a department exceeds its approved vote and the Treasurer needs to have the additional payment from the Consolidated Fund approved.

Explanations for unforeseen expenditure by department are contained in the notes of the CFFR.

The following table details unforeseen expenditure by department:

Department	Departmental Services	Equity Adjustments	Administered items
	$'000	$'000	$'000
Department of Aboriginal and Torres Strait Islander Partnerships			186
Department of Agriculture and Fisheries			2,537
Electoral Commission of Queensland	280		
Office of Governor		25	
Office of the Inspector-General of Emergency Management	9		
Public Safety Business Agency		5,806	
Public Service Commission	267		
Department of Science, Information Technology & Innovation			
Department of Transport and Main Roads			
Total	**556**	**5,831**	**2,723**

Table 3: Details of unforeseen expenditure by department for year ended 30 June 2015
Source: Queensland Treasury, *Consolidated Fund Financial Report 2014-15*, September 2015: 5-12

The department confirmed that the total unforeseen expenditure for 2014-15 is $9.110 million was incurred by seven departments.[16]

The most significant of the unforeseen expenditure were $5.806 million for the Public Safety Business Agency and $2.537 for the Department of Agriculture and Fisheries. The department advised:

> *In summary, over 60 per cent of unforeseen expenditure incurred by departments was incurred by the Public Safety Business Agency and this related to capital projects transferred from the Queensland Police Service, such as police station and watch house upgrades and refurbishments. A further 28 per cent was incurred by the Department of Agriculture and Fisheries. This related to the additional expenditure required for the support services delivered by the Queensland Agricultural Training Colleges.*[17]

2.4.3 Lapsed Appropriation

If a department does not draw down the full amount of its approved appropriation during the financial year, the appropriation is considered to lapse. Funds may be transferred from those vote headings which are likely to lapse to those that may be overrun (section 33 transfers) with the approval of the Treasurer.

In 2014-15, $30.1 billion was paid as departmental services revenue compared with the approved appropriation of $31.0 billion. The difference between the approved and actual is shown in the Statement of Appropriations as a combination of transfers between vote headings and lapsed appropriation.

Equity adjustments are used to manage the government 'investment' in a department. The appropriation for equity adjustments may increase or decrease the government's investment in an individual department to fit the whole of government or the department's priorities. The amounts of lapsed appropriation in the equity adjustments totalled $1.44 billion.

[16] Mr Molloy, Queensland Treasury, Public Departmental Briefing Transcript 12 October 2015: 2
[17] Mr Molloy, Queensland Treasury, Public Departmental Briefing Transcript 12 October 2015: 2

Administered Items are those that a department manages on behalf of the Government. In doing so, it has responsibility and is accountable for administering related transactions and items, but does not have the discretion to deploy the resources for the achievement of the department's objectives. The amounts of lapsed appropriation in the administered items totalled $1.08 billion.

The following table details lapsed appropriation by department:

Department	Departmental Services	Equity Adjustments	Administered Items
	$'000	$'000	$'000
Department of Communities, Child Safety & Disability Services	158,722	4,046	
Department of Education & Training	139,974	68,450	23,553
Department of Energy & Water Supply	6,728	2,022	71,376
Department of Environment & Heritage Protection	7,211	5,959	
Department of Housing & Public Works	52,188	101,878	
Department of Justice & Attorney-General		20,713	25,112
Department of Infrastructure, Local Government & Planning	15,521	24,438	831,142
Department of National Parks, Recreation, Sport & Racing	82,087	774	96
Department of Natural Resources & Mines	11,050		
Office of the Ombudsman	430		
Department of the Premier & Cabinet	27		1,898
Queensland Audit Office	143		
Queensland Fire & Emergency Services	940		
Queensland Health	131,214	551,563	
Queensland Police Service	42,585		
Queensland Treasury			121,396
Department of Science, Information Technology & Innovation		9,448	9,345
Department of State Development	155,919	1,580	
Department of Tourism, Major Events, Small Business & the Commonwealth Games	27,804	825	
Department of Transport & Main Roads	91,171	652,275	
Total	**923,714**	**1,443,971**	**1,083,918**

Table 4: Details of lapsed appropriation by department for the year ended 30 June 2015
Source: Queensland Treasury, *Consolidated Fund Financial Report 2014-15*, September 2015: 5-12

Each department has included the major factor(s) which lead to the lapsed appropriation. The factors that give rise to the lapsed appropriation are unique to each department and are summarised in the Explanatory Notes to the Statement of Appropriations. Common themes included:

- Timing changes and adjustments of grant payments and other programs;
- Return of proceeds from disposal of assets;
- Transfer of projects between agencies; and
- Reduction in required level of funding/expenditure.[18]

[18] Queensland Treasury, *Consolidated Fund Financial Report 2014-15*, September 2015: 5-12

3 Examination of the *Appropriation Bill (No.2) 2015* – Supplementary appropriation for 2014-15 (Part 2 – Clause 3 and Schedule 1)

3.1 Clause 3 – Supplementary appropriation for 2014-15 based on unforeseen expenditure included in the consolidated fund financial report

Clause 3 authorises the Treasurer to pay $9,110,000 from the consolidated fund for departments as stated in schedule 1 of the Bill for the financial year starting 1 July 2014.

Schedule 1 is consistent with details contained in the CFFR as discussed and itemised in Table 3 above.

During its examination of the Bill, the Committee sought additional information on the possible explanations for the low level of unforeseen expenditure during the last financial year. The Committee was advised that in previous years there have been a number of events, such as the 2010-11 floods, which have impacted on unforeseen expenditures which would not have been envisaged. However, the department advised that they continue to not include allowances for such events, they have been improving their level of scrutiny on agency spending.[19]

3.2 Committee comments

The Committee acknowledges that the unforeseen expenditure amount is the lowest amount of unforeseen expenditure over the past 18 years. The Committee also wishes to acknowledge the department's comments that this may be due to an improved level of scrutiny of agency spending.

4 Examination of the *Appropriation Bill (No.2) 2015* – Amendment of *Financial Accountability Act 2009* (Clauses 4 and 5)

4.1 Clause 5 – Amendment of section 71 (Borrowings by accountable officers))

Clause 5 proposes to amend section 71 of the Act.

Current section 71 is as follows:

> **71 Borrowings by accountable officers**
>
> The accountable officer of a department may, under a Treasurer's approval, borrow amounts for the State from the Queensland Treasury Corporation.

The proposed amendment will amend the section to reflect the following:

> **71 Borrowings by accountable officers**
>
> The accountable officer of a department may, under a Treasurer's approval, borrow amounts for the State.

The proposed amendment removes specific reference to Queensland Treasury Corporation.

[19] Mr Molloy, Queensland Treasury, Public Departmental Briefing Transcript 12 October 2015: 2

The department advised:

> *The Appropriation Bill (No.2) 2015 also makes a technical adjustment to section 71 of the Financial Accountability Act 2009. Under the current provision, departments are permitted to borrow only with the Treasurer's approval and only from Queensland Treasury Corporation, or QTC. Following a review of its operations and products in mid-2014, QTC sought and received agreement from Treasury to exit the business of leasing. It was considered that leasing did not fit with the core functions of QTC. Whilst the term 'borrowing' is not explicitly defined in the Financial Accountability Act, from an accounting perspective a finance lease—so a lease—is a type of borrowing. Given that QTC has withdrawn from the business of leasing, an amendment to the Financial Accountability Act is proposed to remove the stipulation that borrowings can be sought only from QTC so that the department has the ability to enter into a lease arrangement with the private sector.*[20]

The department confirmed that the Treasurer's approval will still be required before any borrowing can be entered into. They also noted that it is the intention that the borrowing of funds for 'traditional' borrowings will continue to occur with QTC, except in exceptional circumstances and only with the Treasurer's approval.[21]

4.2 Committee comments

The Committee considers that the proposed amendment has been caused by the exit of QTC from the business of leasing. The Committee is satisfied that protections are in place, including the need for the Treasurer's approval, to ensure appropriate use of the proposed provision.

5 Compliance with *Legislative Standards Act 1992* – Fundamental Legislative Principles

Section 4 of the *Legislative Standards Act 1992* states that fundamental legislative principles (FLPs) are the 'principles relating to legislation that underlie a parliamentary democracy based on the rule of law'. The principles include that legislation has sufficient regard to:

- the rights and liberties of individuals, and
- the institution of parliament.

The Committee examined the Bill's consistency with FLPs. This section of the report discusses potential breaches of the FLPs identified during the Committee's examination of the Bill and includes any reasons or justifications contained in the explanatory notes and provided by the department.

The explanatory notes state:

> *The Bill is consistent with fundamental legislative principles.*[22]

5.1 Issues identified

It is considered that this Bill raises no FLP issues.

5.2 Explanatory Notes

Part 4 of the *Legislative Standards Act 1992* relates to explanatory notes. It requires that an explanatory note be circulated when a Bill is introduced into the Legislative Assembly, and sets out the information an explanatory note should contain.

[20] Mr Molloy, Queensland Treasury, Public Departmental Briefing Transcript 12 October 2015: 2
[21] Mr Molloy, Queensland Treasury, Public Departmental Briefing Transcript 12 October 2015: 2
[22] Explanatory Notes, *Appropriation Bill (No.2) 2015*: 2

Explanatory notes were tabled with the introduction of the Bill. The notes contain the information required by Part 4 and a reasonable level of background information and commentary to facilitate understanding of the Bill's aims.

Appendices

Appendix A – Officers appearing on behalf of the department at public departmental briefing – Monday 12 October 2015

Witnesses
Mr Dennis Molloy, A/Deputy Under Treasurer
Mr Glenn Miller, A/Assistant Under Treasurer

Appendix B – Copy of correspondence from Queensland Treasury in response to questions taken on notice at hearing held on Monday 12 October 2015

Queensland Government

Queensland Treasury

Our Ref: 04118-2015

14 OCT 2015

Ms D Farmer MP
Chair
Finance and Administration Committee
Parliament House
George Street
BRISBANE QLD 4000

Dear Ms Farmer

I refer to the public departmental briefing held on 12 October 2015 into the Appropriation Bill (No. 2) 2015 and Appropriation (Parliament) Bill (No. 2) 2015.

During the hearing, it was agreed that Treasury officers would provide further information to the Committee in relation to a number of questions. Queensland Treasury's response to the additional questions is attached.

I trust that the Committee finds our response useful in relation to its consideration of supplementary Appropriation Bills.

We would also like to take the opportunity to advise the Committee that Treasury officers misunderstood the question being asked in relation to changes in Dividends and Income Tax Equivalents between 2013-14 and 2014-15. Instead of explaining changes in receipts (i.e. cash movements), the Treasury officers discussed changes in revenue (i.e. accrual movements). The 2014-15 receipts generally relate to activity during 2013-14 and are therefore unrelated to the Government's Debt Action Plan. The change in dividend arrangements for Government Owned Corporations from 80% to 100% are not reflected in the 2014-15 receipts, but will be reflected in 2014-15 revenue in the Report on State Finances.

If you require any further information, please do not hesitate to contact Mr Glenn Miller, Acting Assistant Under Treasurer, Fiscal Strategy Division on (07) 3035 1962 or glenn.miller@treasury.qld.gov.au.

Yours sincerely

Jim Murphy

Jim Murphy
Under Treasurer

14/10/15.

Encl.

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Attachment:
Treasury Response to Finance and Administration Committee Departmental Hearing held on 12 October 2015

Responses to questions raised by the Finance and Administration Committee (the Committee) Departmental Briefing into the Appropriation Bill (No. 2) 2015 and Appropriation (Parliament) Bill (No. 2) 2015 held on 12 October 2015

EXTRACT FROM THE CONSOLIDATED FUND FINANCIAL REPORT (PAGE 3)

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE 2015

	Query	Operating Account	Investment Account	Total 30 June 2015	Total 30 June 2014	Percentage Change
Consolidated Fund		**$'000**	**$'000**	**$'000**	**$'000**	
Balance as at 1 July		(1,047,466)	31,983,178	30,935,712	28,847,641	
Receipts						
Collections received from Departments		35,258,240	-	35,258,240	34,998,301	
Investment Interest		2,239,346	-	2,239,346	2,166,897	
Dividends and Income Tax Equivalents	1	2,190,513	-	2,190,513	1,425,474	54%
Non-Appropriated Equity Adjustments	2	2,224,094	-	2,224,094	5,983,945	(63%)
Superannuation, Long Service Leave, Queensland Govt Insurance Fund and ALCS Contributions		2,684,414	-	2,684,414	2,531,670	
Capital return from Public Enterprise Investments		11,300	-	11,300	519,839	
Other Receipts	3	7,168	-	7,168	2,180	229%
		44,615,075	-	44,615,075	47,628,306	
Payments						
Appropriations provided to Departments		(43,571,850)	-	(43,571,850)	(45,540,235)	
		(43,571,850)	-	(43,571,850)	(45,540,235)	
Net Effect of Investments						
Funds transfer to/from Treasurer's Account		(1,073,193)	1,073,193	-	-	
Consolidated Fund Balance as at 30 June		**(1,077,434)**	**33,056,371**	**31,978,937**	**30,935,712**	

Questions in relation to the Statement of Receipts and Payments

Question 1: On page 3 of the Consolidated Fund Financial Report, Statement of Receipts and Payments for the year ended 30 June 2015 'Dividends and Income Tax Equivalents' increased from $1,425 million in 30 June 2014 to $2,190 million in 30 June 2015. This represents a 54 per cent increase in 'Dividends and Income Tax Equivalents'. The Committee would like more information on what makes up this item and why there has been a large percentage increase.

> **Response:** Amounts received in relation to Dividends and Income Tax Equivalents are dividends and taxes based on previous years' (i.e. 2013-14) profits of the Non-financial Corporations and Public Financial Corporations sectors, as well as some commercialised business units. The increase in 2014-15 primarily relates to higher profits for Queensland Rail, Stanwell Corporation, Energex Limited and Ergon Energy Corporation Limited (Ergon) in 2013-14. Ergon and Economic Development Queensland also made tax equivalent payments for the first time in 2014-15. There was also a $120 million dividend received from Queensland Treasury Corporation in 2014-15 (nil for 2013-14).
>
> The cash increase between 2013-14 and 2014-15 is consistent with, and related to, the increase in accrued revenue between 2012-13 and 2013-14, as identified in the 2013-14 Report on State Finances (page 6-35).

Question 2: On page 3 of the Consolidated Fund Financial Report, Statement of Receipts and Payments for the year ended 30 June 2015 'Non-Appropriated Equity Adjustments' decreased from $5,983 million in 30 June 2014 to $2,224 million in 30 June 2015. This represents a 63 per cent decrease in 'Non-Appropriated Equity Adjustments". The Committee would like more information on what makes up this item and why there has been a large percentage decrease.

> **Response:** The Statement of Receipts and Payments reflects cash movements in the consolidated fund. This item mostly comprises whole of Government borrowings. Therefore, the reduction in Non-Appropriated Equity Adjustments is due to lower whole of Government borrowings in 2014-15.

Question 3: On page 3 of the Consolidated Fund Financial Report, Statement of Receipts and Payments for the year ended 30 June 2015 'Other Receipts' increased from $2.180 million in 30 June 2014 to $7.168 million in 30 June 2015. This represents a 228 per cent increase in 'Other Receipts'. The Committee would like more information on what makes up this item and why there has been a large percentage increase.

> **Response:** The increase in Other Receipts mostly reflects a management fee rebate agreed upon and received from QIC Limited for the first time in 2014-15 in relation to QIC Limited's management of assets set aside for superannuation and other purposes.

Question in relation to unforeseen expenditure

Question 4: The explanation provided for the unforeseen expenditure of $2.537 million for the Department of Agriculture and Fisheries (DAF) was in relation to additional expenditure incurred for the support services delivered by the Queensland Agricultural Training Colleges. The Committee would like more information in relation to this explanation.

> **Response:** The unforeseen expenditure for DAF was in relation to a grant, approved by Cabinet Budget Review Committee in October 2014, for Queensland Agricultural Training Colleges (QATC) to develop a strategy for improving its financial performance and implement new governance arrangements (new independent statutory body established with a number of boards established to oversight the Longreach and Emerald businesses). The financial performance of QATC needed to be addressed as its vocational and education training funding (competitive funding from Department of Education and Training - as the purchaser of vocational training in Queensland) was in decline as a result of falling student numbers. To improve financial performance, the grant funding enabled QATC to develop and introduce new training programs. At this time, the Government also noted that the long term viability of QATC will ultimately rely on increased student numbers and demonstrated competiveness with other providers.