QUEENSLAND BUDGET 2018–19

Budget Strategy and Outlook

Budget Paper No.2

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Queensland Government

2018–19 Queensland Budget Papers

1. Budget Speech
2. Budget Strategy and Outlook
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Overview

The 2018-19 Budget delivers on the commitments made by the Palaszczuk Government and will deliver the infrastructure to create jobs and the services that our State's growing population needs.

The key initiatives outlined in the 2018-19 Budget align with the Palaszczuk Government's clear economic plan to drive economic growth, create more jobs and improve prosperity by:

- increasing the economic opportunities available to Queenslanders
- enhancing the capacity of Queenslanders to access and capitalise on these opportunities
- ensuring all Queenslanders share in the prosperity and improved quality of life these opportunities deliver.

Delivering infrastructure

With the State's population growing over recent decades to more than five million, the Government's $45.8 billion capital works program over the four years to 2021-22 will support the ongoing delivery and facilitation of key economic and social infrastructure to meet the needs of Queensland families, businesses and communities.

The Government's substantial infrastructure investment directly generates significant employment during the construction phase. More importantly, it creates future jobs, encourages private sector investment and increases the productivity, efficiency and competitiveness of the State's businesses and industries.

The $11.6 billion capital works program in 2018-19 is estimated to directly support more than 38,000 jobs.

Importantly, to meet the needs of Queensland's growing population, the Government's 2018-19 capital works program includes a $4.9 billion investment in roads and transport infrastructure. This includes an allocation of $733 million for the Cross River Rail Delivery Authority in 2018-19 to continue to progress the planning, procurement and development associated with the $5.4 billion Cross River Rail project. In addition, $200 million will be spent to widen the Bruce Highway from four to six lanes between Caloundra Road and the Sunshine Motorway and $22 million in 2018-19 will be spent on two new jointly-funded M1 Pacific Motorway projects. These two new projects have a total cost of approximately $1.8 billion.

The 2018-19 capital program also includes significant capital purchases related to health ($985.5 million) and education ($674.3 million), as well as substantial investment in housing, justice and public safety infrastructure. Significant capital investment in the energy and water portfolios in 2018-19, of $2.2 billion and $277 million respectively, will help deliver cost effective, safe, secure and reliable energy and water supply across the State.

Other highlights of the 2018-19 capital program include:

- $534.3 million to continue the Toowoomba Second Range Crossing project
- $115 million to construct the Mackay Ring Road (Stage 1)

- $125.2 million for new classrooms and other infrastructure in state secondary schools to accommodate six full cohorts in 2020
- $94.5 million to further address enrolment growth pressures in state schools as part of the Building Future Schools fund
- $28.7 million as part of $679 million for the Building Better Hospitals program, to redevelop Logan, Caboolture and Ipswich hospitals, commence planning and business case development for the Wide Bay Burnett region, and refurbish three Cancer Council Queensland lodges
- $339.1 million towards the construction and upgrade of the social housing stock.

Across the State, the Government's investment in public infrastructure will drive transformative change, encourage private investment and make our communities better places to live.

Skill and jobs creation programs

The Palaszczuk Government remains committed to ensuring all Queenslanders have the skills and opportunities to participate and prosper in the State's economy.

The formation of the Department of Employment, Small Business and Training demonstrates this commitment and creates significant opportunities to achieve policy and service delivery synergies in driving small business growth and enhancing the employment, skills and training opportunities available to Queenslanders.

The $369 million Back to Work initiative is designed to give Queensland employers the confidence to hire eligible jobseekers. Support payments of up to $20,000 are available for eligible employers, with funding committed across regional Queensland and targeted areas of South East Queensland for applications received by 30 June 2020.

The Skilling Queenslanders for Work initiative continues to be a key element of the Government's focus on employment, training and skills development, with a further $180 million committed over three years in the 2017-18 Mid-Year Fiscal and Economic Review. Through a suite of targeted skills and training programs, this funding supports skills development, training, and job opportunities for unemployed, disengaged or disadvantaged Queenslanders.

Increasing frontline services

This Budget delivers the services that Queenslanders rely on. Since March 2015, an additional 3,634 teachers and 1,135 teacher aides have been employed to provide our children the best possible start. As part of the Government's focus on ensuring effective and better delivery of health services an additional 1,605 doctors, 4,828 nurses, and 1,488 health practitioners, professionals and technical staff have been employed. An additional 376 ambulance paramedics and 302 police officers have also been employed.

In addition to the increase in frontline services over the last three years, the Palaszczuk Government has committed to employing an additional 3,700 teachers over the next four years at an estimated cost of $1 billion. Further, consistent with its election commitment, the Government will add 3,500 new nurses, midwives and nurse navigators over four years.

The 2018-19 State Budget delivers significant funding for a range of new and ongoing initiatives.

These include:

- an additional $171.9 million over four years for 400 police officers in high priority areas and $55.1 million over four years for 85 counter-terrorism officers and operational specialists and to establish a Security and Counter-Terrorism Command. This builds on the investment in the 2017-18 Budget for an additional 30 counter-terrorism police officers and 20 police officers, bringing total additional frontline police and operational specialists in priority areas across the State to 535
- funding of $29.5 million over four years for an additional 100 firefighters and 12 fire communication officers to help the community prevent, prepare for, respond to and recover from the impact of fire and emergency events.

Promoting private sector investment

Driving and facilitating private sector investment is crucial, given the private sector accounts for more than 70% of total investment in the economy and supports 83% of Queensland jobs. Through its flagship Advance Queensland initiative totalling $650 million, the Queensland Government maintains a strong focus on fostering innovation and entrepreneurship to enable Queensland businesses to adapt rapidly to the ever-changing global business environment.

The Palaszczuk Government is also delivering a range of industry attraction and facilitation services to promote private sector investment. The 2018-19 Budget provides additional funding for both the Advanced Queensland Industry Attraction Fund and the Jobs and Regional Growth Fund, bringing the combined total funding for these programs to $255 million.

Protecting the Great Barrier Reef

Queensland's Great Barrier Reef is not only one of the natural wonders of the world, but one of the major reasons local, interstate and international visitors come to Queensland. More than 18 million visitors travel to the broader Great Barrier Reef region. To support the reef and manage the impacts of climate change, the Palaszczuk Government is investing $330 million over five years to protect our national treasure and ensure it continues to provide economic benefits now and into the future. Protecting the Great Barrier Reef is vital not just for the environment and tourism, but also to meet international commitments.

The 2018-19 State Budget allocates $40 million in new funding to significantly increase our State's financial contribution to protecting the reef. Part of this $40 million will include $26 million in extra funding over the next four years for the Joint Field Management Program for reef protection measures. This is on top of the more than $35 million already invested in this program. In addition, a further $13.8 million over the next four years will be allocated to extend the Queensland Reef Water Quality Program to support the transition of graziers, and sugarcane and banana growers to improved practices through access to professional advice.

Waste Strategy – Driving business investment, innovation and jobs

The Queensland Government's comprehensive waste management strategy, underpinned by a waste disposal levy, will be instrumental in changing waste management practices in the State.

By discouraging the interstate transport of waste and encouraging alternatives to disposal of waste to landfill, the waste disposal levy will significantly boost certainty for investment in job-creating reuse, recycling, bioproducts and waste to energy industries.

Proceeds from the waste levy will be used for waste programs, environmental priorities and community purposes. In particular, $100 million will be allocated over three years to support Queensland's resource recovery and recycling industry through the Resource Recovery Industry Development Program. The program will facilitate private sector and local government projects delivering innovative solutions to the problem of waste going to landfill and will create jobs in emerging industries.

In order to avoid direct costs to households from the introduction of the waste levy, the Government will provide an annual advance on levy charges to those local governments that dispose of municipal waste in the levy zone. In 2018-19, $32 million has been provided for this purpose.

A recent independent study has highlighted the significant employment and economic benefits resulting from the waste strategy. The study found that the introduction of a waste levy will promote a reduction of waste generation and increase the diversion of waste to higher-value waste recovery and recycling industries. Combined with other key elements of the waste strategy, the levy will support new jobs in the waste industry over the long-term.

Economic Outlook

Overall growth in the Queensland economy is expected to strengthen to 2¾% in 2017-18, reflecting further improvement in domestic demand as business spending has rebounded along with a recovery in coal exports following Severe Tropical Cyclone (STC) Debbie.

Growth in gross state product (GSP) is forecast to accelerate further to 3% in 2018-19, with household consumption gaining some momentum and a contribution to growth from the trade sector as imports ease.

While domestic activity is forecast to strengthen in 2019-20 and support stronger jobs growth, it will also boost imports. Combined with a moderation in export growth, this is expected to constrain the overseas trade sector's contribution to growth and result in overall growth easing to 2¾% in 2019-20. From 2020-21, Queensland GSP is expected to grow by 2¾% per annum, consistent with the State's long-run potential.

While employment growth has eased in early 2018, the stronger than expected gains in late 2017 means growth over the year to June quarter 2018 is estimated to be 2¾%, the strongest jobs growth in a decade.

Employment growth is expected to return to more sustainable rates of 1½% in 2018-19 and 1¾% in 2019-20, when it will be stronger than that forecast nationally. While designed to help meet the demands of the State's growing population, the Palaszczuk Government's $45.8 billion capital works program will also provide considerable support to employment in Queensland across the forecast period.

Additional jobseekers encouraged by stronger employment growth has seen the participation rate rise sharply and the unemployment rate stabilise in the short-term, with the unemployment rate forecast to remain at 6¼% in June quarter 2018 and 2019. However, stronger domestic activity is expected to see the unemployment rate fall to 6% by June quarter 2020.

Overview Table 1 Queensland economic forecasts/projections[1]

	Actual	Est. Act.	Forecasts		Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Gross state product[2]	**2.5**	**2¾**	**3**	**2¾**	**2¾**	**2¾**
Nominal gross state product	9.3	5½	4	3¾	4½	4¾
Employment[3]	1.8	2¾	1½	1¾	1¾	2
Unemployment rate[4]	6.2	6¼	6¼	6	6	5¾
Inflation[5]	1.7	1¾	2	2½	2½	2½
Wage Price Index[5]	1.9	2¼	2½	3	3	3
Population[5]	1.5	1¾	1¾	1¾	1¾	1¾

Notes:

1. Unless otherwise stated, all figures are annual percentage change.
2. Chain volume measure (CVM), 2015-16 reference year.
3. Through-the-year growth rate to the June quarter (seasonally adjusted).
4. Seasonally adjusted rate for the June quarter.
5. Annual percentage change, year-average.

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

Fiscal Outlook

The 2018-19 Budget supports the delivery of the Government's election commitments and provides additional policy measures focussed on supporting the delivery of services to the Queensland community. The election commitments are funded from reprioritisation measures and the targeted revenue measures announced during the 2017 election.

The Government is committed to delivering the services and infrastructure the community needs in a financially sustainable manner. Net operating surpluses are projected in each year of the forward estimates, despite an expectation that revenue will decline in 2018-19 driven by a substantial reduction in funding from the Australian Government. Operating expenses are forecast to grow at a sustainable rate, averaging 2.9% per annum over the five years to 2021-22.

A $45.8 billion capital program over four years, including $33.2 billion in the General Government sector, will deliver infrastructure that supports economic growth, enhances productivity, provides employment opportunities and manages the pressures of strong population growth. This level of investment will be partly funded through borrowings. Even so, General Government borrowings are expected to be lower in each year of the forward estimates than projected in the 2017-18 Budget. In 2021-22, it is expected the General Government borrowings will remain below the peak level reached in 2014-15.

The Government will continue to provide additional funds for infrastructure investment while responsibly managing debt. This is being achieved while retaining strategic assets, such as electricity, port, rail and water businesses, in public ownership.

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

	2016-17 Actual[2] $ million	2017-18 MYFER $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Revenue	56,194	56,464	58,259	57,738	58,835	59,939	62,269
Expenses	53,373	55,980	56,747	57,590	58,675	59,829	61,579
Net operating balance	**2,821**	**485**	**1,512**	**148**	**160**	**110**	**690**
PNFA[3]	4,634	4,965	4,905	5,927	7,557	7,396	7,081
Fiscal balance	536	(1,681)	(604)	(3,033)	(3,881)	(3,400)	(2,636)
Net Worth	194,936	198,268	199,686	202,636	205,775	208,101	210,515
Borrowing	**33,260**	**32,502**	**31,367**	**32,311**	**35,861**	**39,588**	**42,290**
Borrowing (NFPS)[4]	71,904	71,222	69,501	70,871	75,214	79,750	83,093

Notes:

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

1 Economic plan – creating jobs and prosperity in a growing Queensland

Features

- The Palaszczuk Government's commitment to improve the quality of life and living standards enjoyed by Queenslanders continues to be underpinned by its clear economic plan to drive economic growth, create more jobs and improve prosperity.
- The key initiatives outlined in the 2018-19 Budget, including the suite of election commitments, will continue to drive economic growth and create jobs by:
  - increasing the economic opportunities available to Queenslanders
  - enhancing the capacity of Queenslanders to access and capitalise on these opportunities
  - ensuring all Queenslanders share in the prosperity and improved quality of life these opportunities deliver.
- To create the economic growth and job opportunities needed to support Queensland's growing population, the Government's economic plan includes a $45.8 billion investment in productivity-enhancing capital works over the four years to 2021-22.
- In addition to flagship projects such as the Cross River Rail, Cairns Convention Centre, upgrades to the M1 motorway and Townsville Stadium, a range of other essential regional projects will be fast-tracked through the Growth Area and Regional Infrastructure Investment Fund while building key social infrastructure to support improved health and education outcomes.
- Ongoing and increased funding for key employment and training programs will help provide Queensland jobseekers, including the State's youth, with the skills and capabilities to access additional job opportunities.
- Meanwhile, significant funding for initiatives to further protect the Great Barrier Reef and the environment will ensure current and future generations of Queenslanders continue to enjoy the increased prosperity and quality of life that has attracted almost two million migrants to the State over the past three decades.
- The $11.6 billion capital works program in 2018-19 outlined in this Budget is estimated to directly support more than 38,000 jobs in 2018-19, as well as support significant ongoing private sector investment and employment over the short, medium and long term.

1.1 Key elements of the economic plan

The Queensland Government remains committed to creating increased opportunities and prosperity for all Queenslanders. As outlined in each of the Government's previous budgets since 2015-16, this commitment is underpinned by a clear and comprehensive economic plan to drive economic growth, create more jobs and enhance living standards.

In line with the key objectives of the Government's economic plan, Queensland has recorded significantly improved economic outcomes in recent years, with economic growth expected to strengthen to 2¾% in 2017-18 and strengthen further to 3% in 2018-19. This growth has also directly resulted in increased employment opportunities across the State, with more than 83,500 new jobs created in Queensland over the 12 months to April 2018.

Despite these achievements, an ongoing focus on building the productive capacity and resilience of the State's traditional, emerging and new industries is critical to maintain this economic momentum and support the ongoing prosperity of Queensland families, communities and regions.

As a modern, open trading economy, Queensland continues to be susceptible in the short to medium term to changes in international economic conditions.

Some key areas of regional Queensland continue to successfully transition to the post mining and LNG investment boom economy, while some regions and industries are still recovering from the impacts of natural disasters and continue to be impacted by drought.

With the State's population growing over recent decades to more than five million, ongoing delivery and facilitation of key economic and social infrastructure, as well as essential social services, will remain a key element of the Government's plan to drive ongoing improvements in the quality of life enjoyed by families and communities across the State. Further, longer term global trends, such as climate change, the rapid pace of technological advancements and demographic change, will continue to present both risks and opportunities.

A continued focus on building a strong, resilient and flexible economy and labour force is critical to ensure Queensland businesses, industries and regions are capable of responding to any challenges and capitalising on any opportunities as they arise now and in the future.

The 2018-19 Budget continues to reinforce the Government's commitment to driving sustainable economic growth and improving employment outcomes.

The $11.6 billion capital works program in 2018-19 outlined in this Budget is estimated to directly support more than 38,000 jobs in 2018-19, as well as support significant ongoing private sector investment and employment over the short, medium and long term. Key elements of the Budget will also help facilitate growth of private sector business investment and the increased participation of Queensland's youth in employment, education and training.

Given the recent strong jobs growth and increased labour force participation in Queensland, the Government's economic plan will not only continue to support overall income growth but should also help support wages growth in the medium to longer term, as the demand for labour intensifies and any spare capacity in the labour market is utilised.

Building on the economic plan outlined in the previous three State budgets, the remainder of this chapter outlines how key initiatives, including new policies and programs outlined in the 2018-19 Budget will contribute to achievement of three key elements of the Government's economic plan:

- increasing the economic opportunities available to Queenslanders
- enhancing the capacity of Queenslanders to access and capitalise on these opportunities
- ensuring all Queenslanders share in the prosperity and improved quality of life these opportunities deliver.

Figure 1.1 Driving jobs and prosperity through the economic plan

1.2 Increasing the economic opportunities available to Queenslanders

The prosperity and well-being of Queenslanders is closely linked to the economic and employment opportunities that are available to them. The creation of increased opportunities also helps provide the means for individuals and families to fully realise their economic potential through the application of their capabilities, skills and talents.

Given the private sector supports almost five out of every six jobs in Queensland, an essential element of the Government's economic plan is to drive private sector investment and business growth, thereby supporting and creating new job opportunities.

In particular, the economic plan includes a strong focus on enhancing the employment, education and training opportunities available to Queensland's youth, ensuring they can take advantage of current job opportunities as well as being better equipped to pursue the jobs of the future.

1.2.1 Delivering productive infrastructure

The Government plays a key role in creating job opportunities by investing, facilitating, and delivering productive infrastructure, particularly in the context of the State's growing population.

Infrastructure investment directly generates significant employment across the State during the construction phase. However, even more importantly, it creates future jobs and investment prospects by expanding the long-term productive capacity of the economy and helping make Queensland businesses more productive, efficient and competitive.

As Queensland transitions to a more innovative, diverse and productive economy, it is vital that infrastructure investments maximise opportunities and provide long-term sustainable benefits to Queenslanders.

The Palaszczuk Government is investing $45.8 billion through the capital works program over the four years to 2021-22. The program includes much needed additional investments in roads, rail, water, energy, hospitals, schools and digital infrastructure projects that will meet the demands of our fast-growing state.

The capital works program includes ongoing Government investment in a number of significant projects including Cross River Rail, upgrades to the M1 motorway and the Bruce Highway and the Toowoomba Second Range Crossing project.

Significant funding related to several of these projects has also been committed beyond the forward estimates period to complete delivery of this transformative infrastructure.

The $11.6 billion capital works program in 2018-19 is estimated to directly support more than 38,000 jobs.

The 2018-19 capital program includes a $4.9 billion investment in roads and transport infrastructure, significant capital purchases related to health ($985.5 million) and education ($674.3 million) and significant capital investment in energy and water of $2.2 billion and $277 million respectively.

Some key highlights of the 2018-19 capital works program include:

- $733 million to continue to progress the planning, procurement and delivery of the Cross River Rail project
- $200 million to widen the Bruce Highway from four to six lanes between Caloundra Road and the Sunshine Motorway
- $534.3 million to continue the Toowoomba Second Range Crossing project
- $115 million to construct the Mackay Ring Road (Stage 1)
- $89.2 million towards a new public transport ticketing system
- $125.2 million for new classrooms and other infrastructure in state secondary schools to accommodate six full cohorts in 2020
- $94.5 million to further address enrolment growth pressures in state schools as part of the Building Future Schools fund
- $339.1 million towards the construction and upgrade of the social housing stock.

Across the State, the Government's investment in public infrastructure will drive transformative change, encourage private investment and make our communities better places to live.

Around $5.6 billion of the capital works program in 2018-19 will help deliver key economic and social infrastructure in regional Queensland, estimated to directly support more than 19,000 jobs across Queensland's important regional economies in 2018-19.

The 2018-19 Budget provides for a $176 million State contribution towards the construction of the Rookwood Weir near Rockhampton. This is in addition to other regionally significant economic infrastructure projects previously announced by the Government.

This Budget also allocates $40 million over 2 years towards the newly established Growth Area and Regional Infrastructure Investment Fund to help fast-track essential regional infrastructure.

Importantly, the Government's capital works program and the productivity benefits it delivers are not limited to projects historically classified as 'economic' infrastructure. Investment in key social infrastructure, such as hospitals and schools, benefits individuals and families by improving health and educational outcomes, thereby increasing the capacity of Queenslanders to participate in the economy and to capitalise on the knowledge-based, high value added jobs of the future.

This Budget features a number of key social infrastructure investments, including a $985.5 million capital program for the health portfolio in 2018-19 to accommodate growing demand for health services, increase service quality and to facilitate innovative and new service delivery models. The Budget allocates an additional $308 million towards Building Future Schools, taking total funding to $808 million. The Government is also allocating $966.3 million over the forward estimates towards the $1.8 billion *Queensland Housing Strategy 2017-2027*.

Additional funding of $135 million has also been allocated to provide infrastructure grants to non-state schools to meet the needs of Queensland's growing population.

The Budget also delivers $125 million towards the construction of a $150 million 1,500 to 1,700 seat performing arts venue at the South Bank Cultural Precinct. This project will help attract new visitors and support the development of Queenslanders engaged in the performing arts industry.

Box 1.1 Population growth – a key driver of economic growth and jobs

Population growth has been a key driver of economic growth and job creation in Queensland over recent decades. From a population of only two million in May 1974, Queensland's population has grown to reach five million in May 2018, according to recent population estimates released by the Queensland Government Statistician's Office.

This represents average annual population growth of 2.1% over that period, compared with only 1.2% growth in the rest of Australia.

Notably, overseas and interstate migration were both major drivers of the State's stronger growth over recent decades. Net migration of nearly 1.9 million people to Queensland has accounted for around 60% of the State's population growth since 1974 as shown in Table 1.1.

Table 1.1 Components of Queensland population growth

		Components of change			
Date	**Queensland Population**	**Natural increase**	**Net overseas migration**	**Net interstate migration**	**Total population growth[1]**
May 1974	2,000,000				
Feb 1992	3,000,000	387,000	183,000	406,000	1,000,000
May 2006	4,000,000	367,000	249,000	431,000	1,000,000
May 2018	5,000,000	410,000	440,000	150,000	1,000,000
Total increase		**1,164,000**	**872,000**	**987,000**	**3,000,000**

Note:

1. Includes intercensal discrepancy

Source ABS 3101.0, 3105.0.65.001 and Queensland Treasury

Migration is a key driver of economic growth in Queensland:

- migration increases the demand for goods and services, supporting the growth of local businesses and industries, flowing through to increased investment and increased demand for government services
- it increases the number of people available to work
- it helps support increased productivity through the increased productivity-enhancing infrastructure required to support the population growth.

While net interstate migration contributed only 150,000 (15%) to Queensland's total population growth from 2006 to 2018, the direct result of interstate migration is significant over the period:

- The size of Queensland's economy (i.e. gross state product) in 2017-18 is around $8.8 billion greater than it otherwise would have been, consisting of:
  - $5.1 billion in additional household consumption

  - $2.3 billion in additional public and private sector investment
  - $1.6 billion in additional government consumption
  - $2.5 billion in additional exports, offset by $2.8 billion in additional imports.
- The total number of jobs in Queensland in 2017-18 is estimated to be 72,000 greater than it would have been in the absence of interstate migration over this period.
- The economic benefits of interstate migration were shared across all Queensland industries. However, trade-exposed industries such as mining and manufacturing, and labour-intensive industries such as accommodation and food services, health and retail trade, have tended to benefit more than other industries, reflecting the additional supply of labour available.
- The additional labour supply and increased workforce participation means, in the short-term, a reduction in the unemployment rate can be limited.

While population growth has historically been a key factor underpinning economic growth in Queensland, it will also continue to be an important contributor to growth in the future. In particular, as outlined in Chapter 2, the State's population growth is forecast to strengthen to 1¾% in 2018-19 and 2019-20, supported by a strengthening in net interstate migration.

Continued investment in productive infrastructure is important to ensure ongoing provision of essential services to manage the pressures related to a growing population and to ensure Queenslanders continue to benefit from the increased growth and opportunities resulting from the State's ongoing population growth.

1.2.2 Driving business growth, investment and exports

Queensland faces ongoing and increasing competition for investment, as capital increasingly becomes more mobile and the global economy becomes more interconnected. Therefore, it is critical that Queensland maintains a competitive business environment which continues to attract and support private investment.

Driving and facilitating private sector investment is crucial, given the private sector accounts for more than 70% of total investment in the economy, in addition to supporting 83% of Queensland jobs.

The Palaszczuk Government is delivering a range of industry attraction and facilitation services to assist industry to establish or expand their operations in Queensland. In the 2018-19 Budget an additional $40 million is provided for the Advance Queensland Industry Attraction Fund and $20 million for the Jobs and Regional Growth Fund, bringing the total funding committed to these programs to $105 million and $150 million, respectively.

A range of initiatives in the 2018-19 Budget will also directly support the growth of key Queensland export sectors, including an additional $94.6 million to support growth of the tourism sector under the Growing Tourism Jobs initiative.

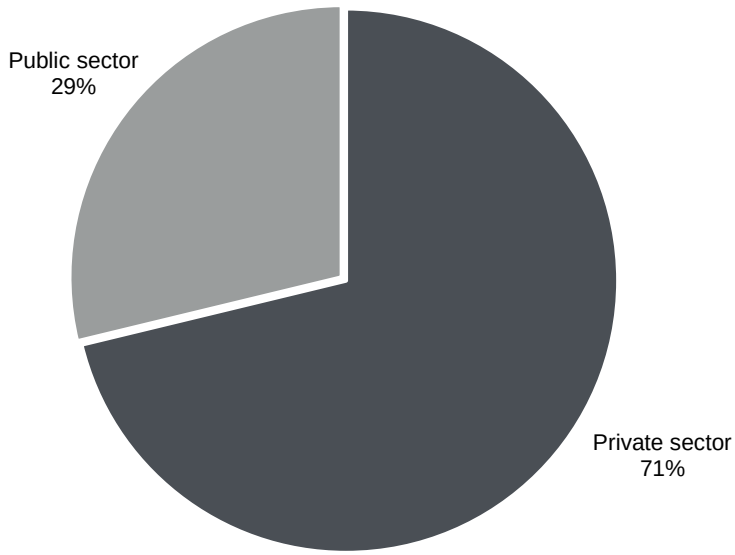
Importantly, ongoing regulatory reform is a key component of the Government's economic plan, with red tape reduction increasing business productivity and competitiveness, incentivising

greater private sector investment, thereby, ultimately providing an overall boost to employment and economic growth.

In particular, the Government remains committed to cutting costs for the State's more than 437,000 small to medium sized businesses (as at 2016-17), which employ around two thirds of all Queensland workers. The Budget provides increased funding of $3.9 million to continue delivering the ecoBiz program that helps small to medium sized businesses identify and achieve financial savings and eco-efficiency across energy, water and waste.

Building on the Government's regulatory reform efforts focused on small business, including establishment of the Better Regulation Taskforce, the Government is progressing development of a Business Impact Statement tool, as well as the election commitment to establish small business consultation panels. These initiatives will help ensure greater consideration of, and consultation with, small business stakeholders when developing policy and regulation.

Chart 1.1 Queensland business investment, private and public sector shares, 2016-17



Source: ABS 5206.0 and 8752.0

Box 1.2 Waste Strategy - driving business investment, innovation and jobs

On 20 March 2018, the Queensland Government announced the development of a comprehensive waste management strategy underpinned by a waste disposal levy.

The waste disposal levy will be instrumental in changing waste management practices in Queensland. By discouraging the disposal of waste to landfill, it will significantly boost certainty for investment in job-creating reuse, recycling, bioproducts and waste-to-energy industries.

By bringing Queensland into line with other States, the levy will also remove a key incentive for cross-border transport of waste to local landfills.

The waste strategy and levy are being introduced in a period of changing international policies relating to acceptance of recycling material, including China's decision to tighten quality standards for imported recyclable material.

Key elements of the Queensland Waste Strategy

The levy will commence in the first quarter of 2019 and will apply to 38 local government areas, covering more than 80% of the State's population. The waste disposal levy will apply to all general waste streams.

The levy will be set at $70 per tonne for general waste, increasing by $5 per annum. Proceeds from the levy will be used for waste programs, environmental priorities and community purposes.

There will be $100 million allocated over three years to support Queensland's resource recovery and recycling industry through the Resource Recovery Industry Development Program. The program will facilitate private sector and local government projects delivering innovative solutions to the problem of waste going to landfill and create jobs in emerging industries.

The Government will provide an annual advance on levy charges to those local governments that dispose of municipal waste in the levy zone. In 2018-19, $32 million has been provided for this purpose. This will avoid direct costs to households from introduction of the waste levy.

Between 2018-19 and 2021-22 it is expected that over 70% of revenue generated through the waste levy will be allocated to advance payments to councils, scheme start-up and operational costs, industry programs and other environmental priorities. Surplus revenue from the levy will benefit the entire Queensland community by providing funding for schools, hospitals, transport infrastructure and frontline services.

Economic and employment impacts

There are significant employment and economic impacts resulting from an effective waste strategy, including a waste levy on landfill disposal.

A recent independent study highlighted the relationship between the introduction of a waste levy and other key elements of a waste strategy with increasing waste diversion rates,

business investment, innovation and jobs in the recycling sector.

Based on experience in other jurisdictions, both nationally and internationally, there is potential for Queensland to achieve higher recovery rates and derive the associated business investment, innovation and employment benefits.

In particular, the report indicated that the introduction of a waste strategy and waste levy in Queensland should play an important role in enabling these benefits to Queenslanders from higher-order resource recovery opportunities in the future.

The study also found that introduction of a waste levy will promote a reduction in waste generation and increase the diversion of waste to higher-value waste recovery and recycling industries.

The introduction of a levy in Queensland at $70 per tonne, combined with other key elements of the waste strategy, will support new jobs in the waste industry over the long-term.

The report also indicated that the introduction of a waste levy should result in a significant reduction of interstate waste being transported to Queensland.

1.2.3 Encouraging innovation – Advance Queensland

Innovation is one of the key drivers of growth and job creation by facilitating economic transformation and boosting business competitiveness.

Through its flagship Advance Queensland initiative totalling $650 million, the Queensland Government maintains a strong focus on fostering innovation and entrepreneurship to enable Queensland businesses to adapt rapidly to the ever-changing global business environment. The 2018-19 Budget provides increased funding of $50 million over five years for key Advance Queensland programs, including the *Ignite Ideas Fund* and Industry Research Fellowships. The funding also includes an extension to 'The Precinct', Queensland's flagship hub for start-ups, the Clem Jones Centre for Ageing and Dementia Research and a range of programs to drive and scale innovation in Queensland.

The 2018-19 Budget also provides increased funding of $40 million over 2 years to the Business Development Fund to support emerging and high growth innovative Queensland businesses to commercialise their ideas by co-investing with experienced venture capital firms and investors.

The Palaszczuk Government's continued focus on encouraging innovation is yielding tangible benefits. Advance Queensland programs are backing over 3,000 innovators, whose projects will drive over 11,000 jobs. Engagement and involvement across the State has been high, with over 60,000 attendees at Advance Queensland events, 57% of which were held in regional Queensland.

Significant achievements to date include:

- providing over 200 small and medium sized businesses with opportunities to commercialise market ready innovative ideas under the *Ignite Ideas Fund*, helping them grow and compete in a global market
- attracting over 35 international start-ups to Queensland through the *Hot DesQ* program
- developing roadmaps and action plans for a range of industry sectors, including Biofutures and Biomedical and Life Sciences, to promote knowledge-based jobs and the economy of the future
- establishing the *Queensland Genomics Health Alliance* to address the challenge of translating genomics data into meaningful clinical care to improve the health of our community.

1.2.4 Protecting and utilising our natural assets

Queensland's natural resource endowments provide significant economic opportunities to Queenslanders and a key plank of the Government's economic plan has been to ensure appropriate protection and sustainable use of these valuable assets.

Around 80% of Queensland's land area is utilised for agricultural purposes, and the State's mineral producers exported coal, LNG and other minerals worth more than $56 billion in the year to March 2018. Meanwhile, Queensland's comparative strengths in solar, wind and biofuels have also seen significant growth in the renewable energy sector in recent years.

Queensland's beaches, national parks and Great Barrier Reef continue to attract visitors from across Australia and around the world, who spent 140 million visitor nights in the State in 2017, up 25% since 2011.

Clearly, one of Queensland's most significant natural resources and tourist attractions is the world renowned Great Barrier Reef. To protect this vital natural asset, the Queensland Government has committed substantial resources to improving water quality in the catchment to improve long-term sustainability. The *Queensland Reef Water Quality Program* provides a total of $330 million over a five-year investment plan to address all land-based sources of water pollution.

In addition to this prior commitment, the 2018-19 Budget provides $26 million in 2018-19 over the next four years for the Great Barrier Reef Joint Field Management Program, and a total of $13.8 million to help agricultural producers transition to new minimum standards designed to protect the reef.

In line with the Government's 'Saving Habitat, Protecting Wildlife and Restoring Land' commitment, the Government has committed to establishing its flagship Land Restoration Fund (LRF).

The LRF will aim to support and develop Queensland's emerging carbon farming industry by investing in projects that will deliver not only carbon reduction outcomes, but also other environmental, economic, and social co-benefits for Queenslanders. The Government will act as a cornerstone investor by providing seed capital of $500 million and the LRF will seek to leverage other sources of investment including from private and philanthropic sources.

The Fund complements a range of other initiatives being delivered, such as the $50 million Solar Thermal Plant Capital Contribution, to reduce Queensland's contribution to climate change.

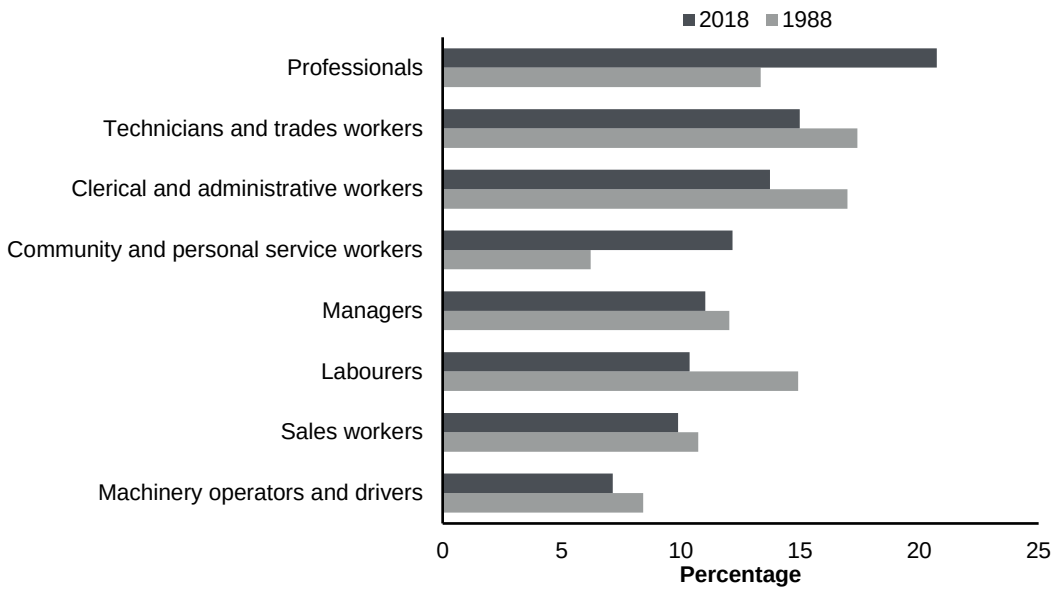
The Government is also implementing a range of policies to ensure our valuable mineral resources are managed sustainably and that their extraction brings economic and employment benefits to Queenslanders. Delivering on its election commitment, the Government has released more than 6,000 square kilometres of land for gas exploration for domestic use only to deliver more gas for domestic consumers to ease pressure on gas-dependent manufacturing industries.

1.3 Enhancing the capacity of Queenslanders to access and capitalise on opportunities

Ongoing changes in the State's industry structure, as it continues to transition to a more knowledge intensive and services based economy, combined with technological change and other factors, have seen a significant shift over recent decades in the types of jobs and the skills needed to drive economic activity.

Most notably, strong growth in community and personal service workers has seen that sector's proportion of total employment double between 1988 and 2018, while professionals now account for around one in every five jobs in Queensland.

Chart 1.2 Queensland employment share by occupation



Source: ABS 6291.0.55.003

1.3.1 Investing in skills for Queenslanders

The flexibility and adaptability that the State's workforce has displayed over many decades will need to continue for Queensland to stay along a path of strong and sustainable growth that delivers higher living standards for all Queenslanders.

In recognition of this challenge, the Government's economic plan has a strong focus on investing in training opportunities for Queensland workers and jobseekers to gain skills to seamlessly transition into new roles, engage in new types of work and continue contributing to the economy.

This includes training and employment programs targeted at improving short to medium term outcomes, but also extends to broader education focused policies aimed at maximising Queensland's human capital in the long-run.

The 2018-19 Budget builds on the success of the Back to Work program, which has successfully given Queensland employers the confidence to take on new employees and grow their businesses, through increased funding of $20.5 million to give employers in targeted areas of South East Queensland access to employer support payments with applications open to 30 June 2020.

The Payroll Tax Apprentice and Trainee Rebate is a key initiative which supports the ongoing development of Queenslanders' skills, particularly for the State's youth. The rebate assists employers grow their businesses while also helping to build the stock of qualified and skilled Queenslanders.

The 2018-19 Budget includes a commitment of $26 million to extend the higher 50% payroll tax rebate for a further 12 months to June 2019, which is expected to support the hiring of up to 26,000 apprentices and trainees throughout the year.

The State's disadvantaged jobseekers are another key focus of the Government's employment and training policy agenda, with the Skilling Queenslanders for Work initiative providing opportunities for tens of thousands of jobseekers in cohorts who have historically faced substantial labour market challenges.

Following increased investment of $180 million in the 2017-18 Mid Year Economic and Fiscal Review, the Government's six-year investment in Skilling Queenslanders for Work will now total $420 million by 2020-21.

Given the changing nature of skills requirements in the 21st century global economy, it is essential that individuals are equipped with the entrepreneurial and digital skills needed by innovative businesses and emerging industries.

Recognising the importance of early childhood education, the 2018-19 Budget also provides $20 million over four years and $5 million ongoing per annum to continue the First 5 Forever (F5F) Family Literacy Program, providing direct support to parents to build strong early years literacy foundations for children aged five years and below.

1.4 Ensuring all Queenslanders share in the increased prosperity and quality of life

The Queensland Government also plays a number of significant roles in ensuring the benefits of economic growth and the new opportunities created are translated into enhanced wellbeing and prosperity for all Queenslanders.

The Queensland Government continues to react and respond to Queenslanders' preferences and is attuned to the community's concerns and needs.

This includes the Government continually striving to improve the effectiveness and efficiency of its delivery of essential services by promoting new and innovative approaches to the procurement of those services.

As such, a range of essential Queensland Government services not only improve the health and safety of Queenslanders, their families and the community, but are also essential in underpinning economic outcomes, by enabling Queenslanders to be more productive and economically engaged through employment, education and training.

As part of the Government's commitment to reduce cost of living impacts on Queensland households and small businesses, the 2018-19 Budget provides $5.6 billion to help manage household budgets. A number of concessions are focused on supporting pensioners, special needs and disadvantaged members of the community to help reduce the cost of life's essentials including electricity, water, transport, education and housing. The 2018-19 Budget also provisions around $500 million for Queensland's participation in the National Redress Scheme for Survivors of Institutional Child Sexual Abuse.

The Government has also made substantial investments to deliver the frontline services that Queenslanders need to ensure the health, education, safety and wellbeing of Queensland communities over recent years.

A record education and training operating budget of $14.1 billion in 2018-19 will continue to deliver quality education to our young Queenslanders and $732 million transformative capital improvements to school and training facilities across the State.

The 2018-19 Budget also provides significant funding to continue to deliver first-class health services to Queenslanders. This includes a record $17.3 billion in operating funding, as well as a $985.5 million health portfolio capital program.

The Palaszczuk Government also remains committed to protecting Queenslanders and keeping the State's families and communities safe. This Budget delivers significant funding for a range of new and ongoing initiatives across the key public safety agencies, including an additional $171.9 million over four years for 400 police officers in high priority areas and $55.1 million over four years for 85 counter-terrorism officers and operational specialists and to establish a Security and Counter-Terrorism Command. This builds on the investment in the 2017-18 Budget for an additional 30 counter-terrorism police officers and 20 police officers, bringing total additional frontline police and operational specialists in priority areas across the State to 535.

The $1.8 billion Queensland Housing Strategy, announced in the 2017-18 Budget, will continue to deliver more social and affordable housing, and transform the way housing services are delivered in Queensland. Meanwhile, Queensland families and communities will continue to benefit from the revitalisation of frontline service delivery in health, education and policing.

The 2018-19 Budget provides a total of $17 million over three years to enact the Government's election commitment to implement a 'No Card, No Start' policy, which will prevent Blue Card applicants from commencing work until their application has been approved and their Blue Card issued.

The Government also recognises that a key element of being a responsive government is ensuring the services it provides are easy to use in the most effective and efficient way possible, and that it meets the standards of service demanded by Queenslanders. To this end, the 2018-19 Budget delivers additional funding of $8.8 million in 2018-19 to continue digital technology and service delivery measures to improve customer service.

The Government's economic plan also recognises the importance of the interaction between different levels of government to help fund important community projects and programs, improving environmental outcomes and reducing the cost of living. As such, the Budget provides additional funding of $32 million in 2018-19 for advance payments to councils to meet the cost of municipal household waste sent to landfill and to avoid any direct impact on households associated with the introduction of the Waste Disposal Levy in 2019.

The Budget also delivers on the Government's election commitment to implement more effective funding grants to Local Government by allocating a total of $4.5 million over four years to progress the implementation of the *Review of Grants to Local Government: Current and Future State Assessments* report. Councils will receive a total of $1.7 billion in grants in 2018-19.

2 Economic performance and outlook

Features

- Growth in Queensland gross state product (GSP) is expected to strengthen to 2¾% in 2017-18, largely reflecting a rebound in business investment and a recovery in coal exports following the impacts of Severe Tropical Cyclone (STC) Debbie in 2016-17.
- Economic growth is forecast to strengthen further to 3% in 2018-19. In 2019-20, while domestic activity should strengthen and support stronger jobs growth, it will also boost imports. Combined with a moderation in export growth, this will constrain the trade sector's contribution to growth and result in GSP growth easing to 2¾%. From 2020-21, GSP is expected to grow 2¾% per annum, consistent with the State's longer run potential.
- Stronger global economic conditions have boosted industrial production across Queensland's major trading partners, lifting demand for and prices of several of the State's key commodity exports. A rebound in coal exports following STC Debbie and the final year of the LNG ramp-up have also supported growth in overseas exports in 2017-18.
- Growth in household consumption has remained subdued in 2017-18, despite a strong pick up in full-time jobs. Growth is then expected to gradually strengthen over the forecast period. Meanwhile, dwelling investment is on track for a 'soft landing', with a slight decline in activity in 2017-18 and 2018-19 before returning to modest growth in 2019-20.
- Business investment has rebounded strongly in 2017-18, to be a key driver of economic growth. The recovery was initially driven by spending on machinery and equipment, but has since become broader-based, with improved business conditions and ongoing growth in tourism and education exports supporting a recovery in non-dwelling construction.
- However, largely reflecting the strong ramp up in business investment, overseas import growth is expected to be considerably higher than the growth in overseas exports, resulting in the trade sector detracting from overall growth in 2017-18.
- From 2018-19 onwards, growth in commodity exports is expected to be modest, while prices, particularly for coal, are expected to decline from current elevated levels. However, with imports expected to ease in 2018-19 following the surge in 2017-18, the trade sector should contribute to growth in 2018-19.
- Employment growth has been stronger than expected in 2017-18, driven largely by health, construction, transport and education. While growth has eased in early 2018, the strong gains in late 2017 mean growth over the year to June quarter 2018 is estimated to be 2¾%. Partially reflecting a lower level of activity in dwelling construction, employment is expected to grow at more sustainable rates of 1½% and 1¾% over the next two years.
- The entry of jobseekers encouraged by greater opportunities has seen the participation rate rise sharply and the unemployment rate stabilise in the short-term, with the unemployment rate forecast to remain at 6¼% in June quarter 2018 and 2019. However, stronger domestic activity is expected to see the rate fall to 6% by June quarter 2020.

2.1 International conditions

Global conditions improved significantly in 2017 and, on balance, the economic prospects of Queensland's major trading partners are positive over the forecast period. However, while the recent stronger growth is likely to extend into 2018, the pace of growth is expected to moderate in later years.

In addition to monetary policy settings by major central banks remaining accommodative, stronger global trade drove a rebound in industrial production in almost all of Queensland's major trading partners in 2017. This in turn has led to a strong recovery in mineral and energy prices.

However, the current outlook suggests that coal, iron ore and oil prices will decline to more sustainable levels in the coming year, in line with an anticipated slowing in global industrial production growth following its rebound in 2017.

Meanwhile, a widening interest rate differential between the US and Australia saw the A$ fall back towards the lower end of the 75-80USc range by mid-May 2018. A sustained lower exchange rate will support the incomes and international competitiveness of Queensland exporters. However, higher US interest rates could see funds flow more towards the US and other overseas capital markets.

Growth in the **United States**, supported by expansionary monetary and fiscal policy, has seen the US labour market at or near full employment and inflation close to the Federal Reserve's (the Fed) target. While the Fed has continued to reverse some monetary stimulus, the recent fiscal stimulus provided by tax cuts and spending legislation is likely to support growth in the short-term. However, the tight labour market may increase inflationary pressure and cause the Fed to raise interest rates further and faster than anticipated, while any future balance sheet repair required due to the impact on US government debt may offset some of the short-term stimulus.

China's economy has maintained growth close to 7% in the past three years. The country's brisk pace of economic and social development has coincided with an ageing population, widening income inequality, high corporate debts and rising pollution. China's economic growth is expected to ease in the near-term, with trade tensions with the US providing a risk to the outlook.

Japan's economy has been expanding moderately in recent years, with the country's exports increasing on the back of stronger global economic growth. Japan's monetary policy is likely to remain accommodative for some time and, along with spending related to the 2020 Tokyo Olympics, Japan's economy is likely to grow moderately in the near-term.

Industrial production growth in **Korea** moderated in 2017, partly due to the appreciation of the Korean Won against the Japanese Yen over the course of 2017. Overall economic growth in Korea is expected to moderate slightly in 2018 and 2019.

India's economy has seen a rebound in growth, as investment and consumption continue to drive the cyclical recovery. The Reserve Bank of India expects India's economy to grow by 7.4% in 2018-19, which would likely see India as the world's fastest growing major economy.

2.2 National conditions

The national economy continues to transition towards broad-based growth. Australian Treasury forecasts GDP growth to strengthen to 2¾% in 2017-18 and to 3% in both 2018-19 and 2019-20.

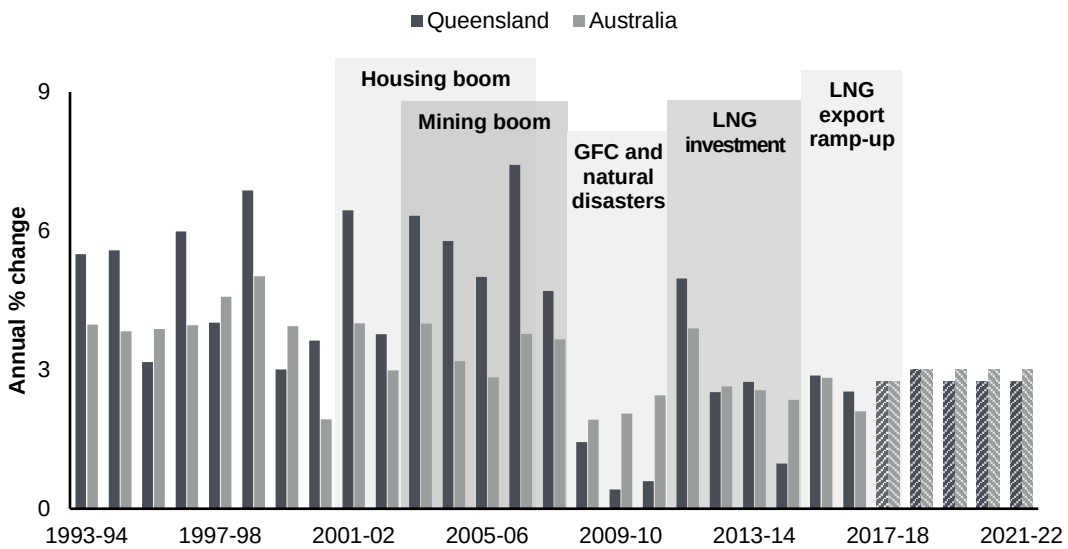
A pick-up in household consumption is supported by strengthening wage growth and solid employment outcomes, while dwelling investment is expected to remain elevated by historical standards. Australian Treasury expects business investment to return to growth in 2017-18, driven by a lift in non-mining business investment and a diminishing drag from mining investment.

Goods exports nationally continue to be supported by the expansion of mining capacity, primarily in Western Australia (iron ore and LNG) and the Northern Territory (LNG), while services exports are benefiting from opportunities in the Asian region. Australian Treasury expects employment growth to moderate from current rates and the unemployment rate to ease gradually.

2.3 Queensland conditions and outlook

Growth in the Queensland economy is expected to strengthen to 2¾% in 2017-18, reflecting further improvement in domestic demand (as business spending has rebounded) and a recovery in coal exports following STC Debbie. Economic growth is forecast to accelerate further to 3% in 2018-19, with household consumption gaining momentum and a contribution to growth from the trade sector as imports ease (Chart 2.1).

Chart 2.1 Economic growth[1], Queensland and Australia



Note:

1. CVM, 2015-16 reference year, 2017-18 onwards are forecasts/projections.

Sources: ABS 5206.0, Australian Government Budget 2018-19 and Queensland Treasury.

Domestic activity is forecast to strengthen in 2019-20, supporting stronger jobs growth, but also boosting imports. When combined with a forecast moderation in exports growth, as some key commodities approach production capacity, this is expected to constrain the trade sector's contribution to growth in 2019-20 and result in overall growth easing to 2¾% in the year. From 2020-21, Queensland GSP is expected to grow by 2¾% per annum, consistent with the State's longer-run potential (Table 2.1).

Table 2.1 Queensland economic forecasts/projections[1]

	Actual	Est. Act.	Forecasts		Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Gross state product[2]	**2.5**	**2¾**	**3**	**2¾**	**2¾**	**2¾**
Nominal gross state product	9.3	5½	4	3¾	4½	4¾
Employment[3]	1.8	2¾	1½	1¾	1¾	2
Unemployment rate[4]	6.2	6¼	6¼	6	6	5¾
Inflation[5]	1.7	1¾	2	2½	2½	2½
Wage Price Index[5]	1.9	2¼	2½	3	3	3
Population[5]	1.5	1¾	1¾	1¾	1¾	1¾

Notes:

1. Unless otherwise stated, all figures are annual percentage change.
2. Chain volume measure (CVM), 2015-16 reference year.
3. Through-the-year growth rate to the June quarter (seasonally adjusted).
4. Seasonally adjusted rate for the June quarter.
5. Annual percentage change, year-average.

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

Household consumption

Constrained by moderate growth in household incomes, Queensland household consumption grew by 2.4% in 2016-17. While a marked improvement in labour market conditions in 2017-18 has aided a pick-up in overall compensation of employees, wage pressures in the economy remain low and households continue to be cautious about spending.

Further, with the State's household savings rate in 2016-17 at its lowest since 2003-04, any growth in income will likely be utilised to pay off household debt, rather than translate into increased consumption in the short-term.

With the terms of trade expected to moderate and jobs growth forecast to soften following the exceptionally strong gains in 2017-18, household consumption growth is again forecast to be subdued in 2018-19. Additionally, the slowing in apartment construction is expected to both constrain spending on household goods and furnishings and reduce consumption due to falls in associated construction employment. In later years, consumption growth is forecast to pick up gradually, but remain below the average growth rates recorded prior to the GFC.

Dwelling investment

After several years of sustained growth, Queensland's dwelling investment cycle peaked in 2016-17. Driven by a decline in the construction of attached dwellings (units, apartments, etc.), dwelling investment is forecast to contract in 2017-18 and 2018-19, as the large amount of new apartment supply is absorbed into the market. However, the decline across these years is expected to be moderate relative to previous cycles. Modest growth is expected to return from 2019-20 onwards, as the decline in attached dwelling construction slows and is offset by the construction of new houses and ongoing growth in alterations and additions.

Business investment

Following the LNG construction boom, Queensland business investment fell rapidly in 2014-15 and 2015-16 before stabilising in 2016-17, driven by a return to growth in machinery and equipment investment. Business investment is expected to rebound strongly in 2017-18, driven by growth across all components.

Growth in engineering construction is expected to be supported by investment in renewable energy projects, including wind and solar farms, in 2017-18 and 2018-19. However, with few major resources projects currently committed or under construction, growth in heavy industry investment will likely be subdued in the medium-term.

Non-residential building construction work has risen, strengthened by accommodation and educational facilities amid increased education enrolments and tourism activity. This trend is likely to continue. Elevated vacancy rates mean new investment in office space is likely to be subdued.

Machinery and equipment expenditure has risen solidly, buoyed by increased company profits, low lending rates to businesses and the lower A$ benefiting exporters. Recent strength in employment growth and elevated capacity utilisation rates suggest this component should continue to grow in 2018-19. Overall, business investment is forecast to pick up steadily over the forecast period, consistent with a steady acceleration in non-dwelling construction growth.

Public final demand

Public final demand is forecast to continue to grow strongly. A range of large expenditure programs (such as the National Disability Insurance Scheme) and infrastructure projects, including the Queensland Government's $11.6 billion capital works program in 2018-19, will underpin this growth.

Overseas exports and imports

A rebound in coal exports following STC Debbie and the final year of the LNG production ramp-up have supported growth in overseas exports in 2017-18. However, the unexpected strong growth in overseas imports will result in net exports detracting from overall growth in 2017-18. In 2018-19, net exports are expected to contribute modestly to growth, but an increase in imports to support domestic growth in 2019-20 will constrain the overseas trade sector's contribution to growth in that year.

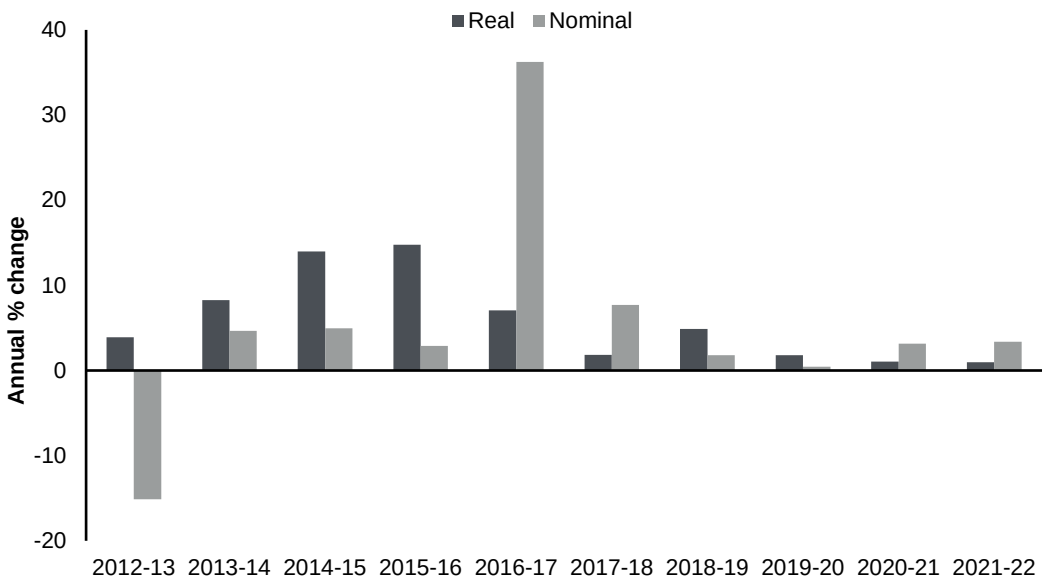
Coal export volumes have rebounded in 2017-18, following the loss of 11 million tonnes in April and May 2017 due to STC Debbie. However, this recovery has been tempered somewhat by the impacts of Tropical Cyclone Iris in early April 2018 and maintenance across port and rail infrastructure. Looking ahead, while coal exports volumes are forecast to continue to grow strongly in 2018-19, partly due to a resumption of full operation at the Dalrymple Bay Coal Terminal, the rate of growth will most likely be moderate in later years. Increased industrial production in Asia, particularly Japan and Korea, is expected to underpin demand for hard-coking coal, while new coal fired power stations in Japan will support demand for thermal coal.

Following several price spikes throughout 2016-17 and 2017-18 (due to regulatory supply restrictions in China, STC Debbie and increased demand in China), hard-coking prices are forecast to decline throughout 2018-19, but remain higher than 2015-16 levels. Similarly, thermal coal prices, which have been elevated throughout 2016-17 and 2017-18, are expected to decline in 2018-19, but remain above 2015-16 prices.

LNG export volumes have grown significantly in recent years, as all six LNG production trains on Curtis Island were completed and began exporting. However, reflecting strong domestic demand for gas, LNG exports have plateaued slightly below nameplate capacity and growth is expected to moderate in the coming years. With 2017-18 being the first full year in which all six LNG trains are in production, any further growth in LNG exports will be driven by new gas developments which will also provide additional supply into the eastern domestic gas market.

Metals export volumes are expected to return to growth in 2018, after closures of depleted mines and production cuts. With several new projects and increased production encouraged by a sustained rally in prices, metals exports are forecast to grow solidly in 2018-19 and 2019-20.

Chart 2.2 Overseas goods exports, Queensland



Source: Queensland Treasury.

Beef export volumes are expected to return to growth from 2017-18 onwards. With seasonal conditions expected to return to normal, restocking activity is forecast to gradually wane.

Sugar exports are expected to decline in 2017-18 following STC Debbie. Some recovery is expected in the near-term with only modest growth in the medium-term. **Cotton exports** are forecast to grow further in 2017-18, following a large increase in 2016-17. **Other crop exports** are forecast to decline substantially in 2017-18, due to large falls in wheat and chickpeas.

With the A$ remaining at a more competitive level for an extended period**, tourism exports** are expected to grow solidly over the forecast period. However, with national tourism growth being underpinned largely by growth from Chinese and Indian tourists visiting friends and relatives, Queensland tourism is expected to continue to grow more moderately than the southern states.

Queensland's international **education exports** have grown strongly in recent years. A competitive A$, rising demand for education from Asia and increasing popularity amongst South American students are all expected to support continued strong growth.

Imports have picked up strongly in the first half of 2017-18 as business investment growth increased the demand for imported capital goods. However, the significant growth in imports has been stronger than the growth in machinery and equipment investment, possibly reflecting pent-up demand as business confidence continues to recover following the GFC.

Following the strong rebound in 2017-18, business investment is forecast to return to more moderate growth from 2018-19, while household consumption is expected to remain subdued over the forecast period. Reflecting these trends, imports are forecast to fall from elevated levels in 2018-19, before returning to modest growth in 2019-20.

Labour market

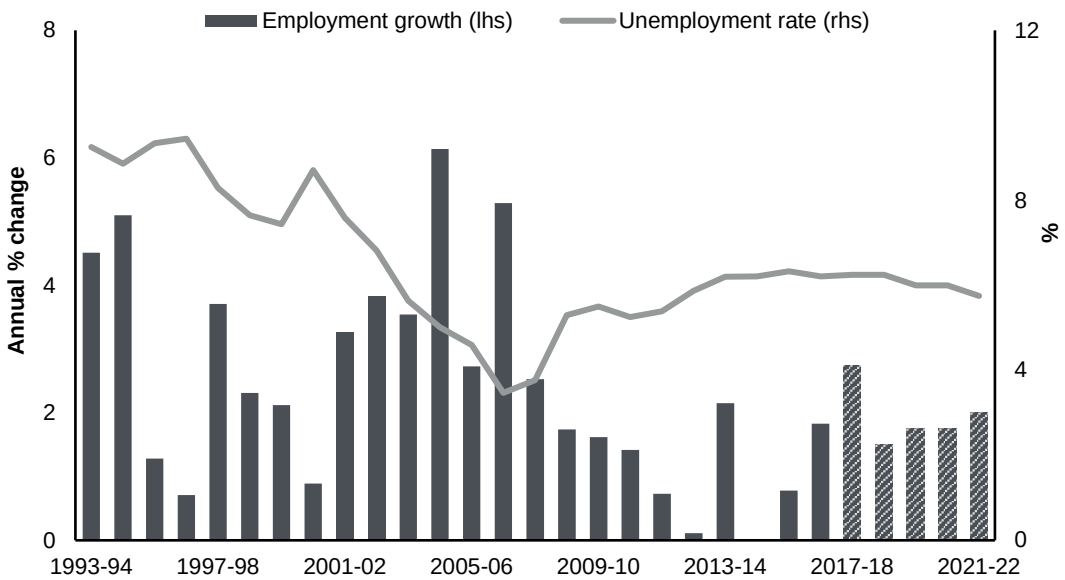
Employment growth has been stronger than expected in 2017-18. While employment growth has moderated in early 2018, the exceptional gains in late 2017 mean growth over the year to June quarter 2018 is estimated to be 2¾%. Employment growth is expected to return to more sustainable rates of 1½% and 1¾% respectively over the next two years (Chart 2.3).

The ongoing downturn in labour-intensive residential construction over 2018 and 2019 will be a key factor in the moderation of employment growth from its current high rate, with dwelling investment having considerable flow on effects to household consumption.

Rather than generating a similar reduction in the State's unemployment rate, much of the recent strength in Queensland employment has been absorbed by increased labour force participation. The strong jobs growth has encouraged jobseekers to re-enter the labour force, seeing the participation rate climbing to its highest rate in three years. As a result, the unemployment rate is forecast to remain at 6¼% in the near term (June quarter 2018 and 2019).

With improved business investment, ongoing public spending programs and a slowly strengthening household sector, employment growth is forecast to improve in 2019-20 to be at or slightly above growth in the working age population. As the dwelling investment cycle matures and domestic economic activity strengthens, employment growth is expected to strengthen and the unemployment rate is forecast to move slightly lower later in the forecast period, improving to 6% in June quarter 2020 as spare capacity in the labour market is absorbed.

Chart 2.3 Employment growth[1] and unemployment rate[2], Queensland[3]



Notes:

1. Through-the-year growth rate to the June quarter (seasonally adjusted).
2. Seasonally adjusted rate for the June quarter.
3. 2017-18 onwards are forecasts/projections.

Sources: ABS 6202.0 and Queensland Treasury.

Regional labour markets

With agriculture, mining and construction accounting for a significant portion of economic activity in regional Queensland, the operating environment of these few industries are crucial to the conditions and outlook for labour market outcomes in regional Queensland.

While farmers continue to face challenging conditions due to widespread drought, those regions exposed to the resources sector have improved. Meanwhile, continued growth in tourism activity has also supported a return to solid employment growth in regional Queensland (Chart 2.4).

As a result, the unemployment rate across many regional centres has declined and the overall gap between regional and South East Queensland has narrowed substantially in 2017-18. After stabilising between 2015 and early 2017, the aggregate unemployment rate in regional Queensland fell 0.6 percentage point (to 7.2%) over the year to April 2018, compared with a 0.1 percentage point increase in the South East (to 5.7%).

Areas such as Mackay and Cairns have shown considerable improvement. Over the year to April 2018, employment has risen in Townsville (up 10,300 persons), Mackay (up 6,900 persons) and Cairns (up 4,900 persons). Meanwhile, these regions' unemployment rates have fallen by 2.3 percentage points (to 8.5%), 2.0 percentage points (to 3.8%) and 0.8 percentage point (to 6.3%), respectively.

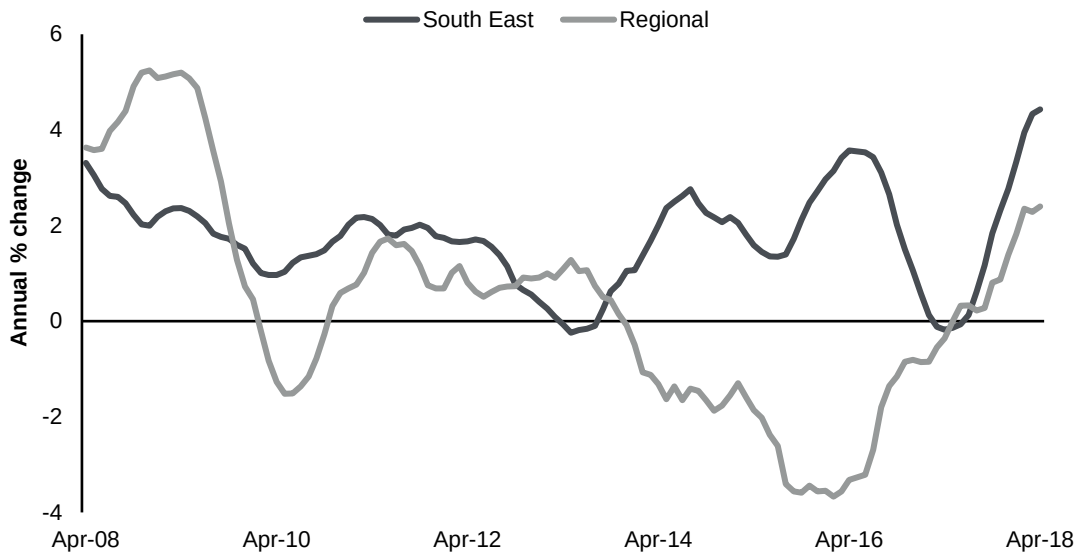
The improvement in Cairns is consistent with stronger tourism activity in recent years which has encouraged new investment projects and additional direct flights from China and Japan. Labour market conditions for younger workers in Cairns, closely linked to conditions in the region's tourism industry and opportunities for lower-skilled workers, have also improved.

Meanwhile, Fitzroy appears to be adjusting following the wind-down in LNG construction investment and lingering impacts of the drought on beef production. Similar to Mackay, coal operations in the Fitzroy region have benefited from higher coal prices.

Labour market outcomes in Townsville have improved over the past year. However, while Townsville is a reasonably diversified economy, it continues to be influenced by prospects in the resources sector, directly through fly-in fly-out workers and indirectly via its processing infrastructure.

Conditions in the diverse Queensland-Outback region also remain challenging. The Outback faces ongoing drought conditions in the south and central west, and elevated levels of unemployment across some Indigenous communities.

Chart 2.4 Employment growth[1] by region, Queensland



Note:

1. Year-average. South East Queensland is defined as Greater Brisbane, Gold Coast, Sunshine Coast and Toowoomba.

Source: ABS 6291.0.55.003

Prices and wages

Brisbane consumer price growth is expected to remain subdued in 2017-18, with inflation largely due to the scheduled 12.5% annual increase in the Australian Government's tobacco excise, higher purchasing costs for new dwellings and higher automotive fuel prices. A modest acceleration in inflation is forecast for 2018-19, with a further increase in the tobacco excise and increased new dwelling purchase prices again contributing strongly to increases in the CPI.

Despite nominal wage growth remaining low by historical standards, real wages have continued to rise. As conditions in the domestic economy and spare capacity in the labour market declines, wage growth is expected to improve over the medium-term.

Population

Queensland's population growth is forecast to average around 1¾% in 2017-18 and over the remainder of the forecast period.

Housing affordability has seen a strengthening in net interstate migration from New South Wales, while the end of the Western Australian resources investment boom has seen an increase in net inflows over recent years, after a period of outflows to that state between 2008 and 2015.

Net overseas migration in Queensland has grown strongly but is expected to moderate in 2018, consistent with national policies. However, rising incomes in Asia and the competitive A$ will continue to help drive growth in net overseas migration over the medium-term.

Over the longer term, Queensland Treasury projections show that Queensland's population, which is estimated to have recently topped 5 million, will reach 6 million by 2029 and 7 million by 2038, with much of this growth anticipated to occur in the south east of the State.

Substantial investment in transport, health and education infrastructure, from both the public and private sectors, will be required to support the productive capacity of this increased population base. The Palaszczuk Government's $45.8 billion capital works program is designed to help meet the demands of the State's growing population.

2.4 Risks and opportunities

Key risks to the international outlook include the timing of monetary policy normalisation in major economies, particularly the US. Further interest rate differentials between the US and Australia may have an adverse flow-on effect to the Australian economy in general, particularly on borrowing costs.

Further, there are still uncertainties surrounding global trade conflicts which may impair demand for key industrial commodities.

Domestically, uncertainty remains around the extent of oversupply in the apartment market, and any concurrent downturn in major southern capitals could exacerbate the downturn in Queensland.

There are ongoing uncertainties surrounding changes to coal transport scheduling and any potential response by coal miners, other above-rail providers and ports. The current assessment is that the impact may not be significant, and that the issue is expected to be resolved this year. Overall, coal exports are expected to be higher in 2018-19 compared to last year. Notwithstanding this, the uncertainty provides a risk to the outlook.

More than 50% of the State remains drought declared. While a return to normal seasonal conditions is assumed, if current drought conditions continue, it could negatively impact on agricultural investment, production and exports.

Upside risks include the possibility that business investment may be stronger than currently predicted if company profits continue to remain at high levels or more large scale renewable energy projects are committed. Further, if commodity prices remain relatively high for longer than anticipated, it may rekindle some additional interest in other mining-related investment.

Table 2.2 Queensland economic forecasts[1], by component

	Actual	Est. Act.	Forecasts	
	2016-17	2017-18	2018-19	2019-20
Economic output[2]				
Household consumption	2.4	2	2¼	2½
Private investment	1.3	4½	1¼	2½
Dwelling investment	3.2	-4¼	-1½	1
New and used	4.2	-7¼	-3¾	-½
Alterations and additions	1.1	3	3	4
Business investment	-1.9	10¾	3¼	3¾
Non-dwelling construction	-6.8	10	1½	3½
Machinery and equipment	5.3	11½	5¾	4
Private final demand	2.1	2¾	2	2½
Public final demand	5.2	4	3¾	3
Gross state expenditure	3.0	3	2¼	2¾
Net overseas exports[3]	0.4	-1¾	1¼	0
Overseas exports	6.8	2½	4¾	2¼
less Overseas imports	5.8	12	-1	2¾
Gross state product	**2.5**	**2¾**	**3**	**2¾**
Nominal gross state product	9.3	5½	4	3¾
Other economic measures				
Employment[4]	1.8	2¾	1½	1¾
Unemployment rate[5]	6.2	6¼	6¼	6
Inflation[6]	1.7	1¾	2	2½
Wage Price Index[6]	1.9	2¼	2½	3
Population[6]	1.5	1¾	1¾	1¾

Notes:

1. Unless otherwise stated, all figures are annual percentage changes.
2. CVM, 2015-16 reference year, except nominal GSP. Components not separately reported are other investment (cultivated biological resources, intellectual property products and ownership transfer costs), the balancing item (including interstate trade and inventories) and the statistical discrepancy.
3. Goods and services, percentage point contribution to growth in gross state product.
4. Through-the-year growth rate to the June quarter (seasonally adjusted). The comparable growth rates in year average terms are 0.0%, 4%, 1½% and 1¾% from 2016-17 through to 2019-20.
5. Seasonally adjusted rate for the June quarter.
6. Annual percentage change, year-average.

Forecast assumptions include: a gradual rise in the RBA cash rate from 2019; a broadly stable A$; oil prices to fall in the near term and then be relatively stable; and a neutral outlook for weather conditions.

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

3 Fiscal strategy and outlook

Features

- The 2018-19 Budget delivers on the Government's election commitments, especially in the areas of infrastructure, jobs and skills, and services.
- A net operating surplus of $1.512 billion is expected for 2017-18. This is $1.027 billion higher than estimated at the 2017-18 Mid Year Fiscal and Economic Review (MYFER), and $1.366 billion higher than the surplus forecast at the time of the 2017-18 Budget.
- The significant 2017-18 surplus results from short-term factors, particularly higher royalty revenue from coal prices remaining higher for longer than expected, increased Australian Government grants due to a larger Goods and Services Tax (GST) pool and upwards revisions to revenue from dividends and income tax equivalent income.
- The strong 2017-18 operating surplus will see General Government Sector debt in 2017-18 around $2.4 billion lower than estimated in the 2017-18 Budget.
- The expected return of coal prices to the medium-term outlook, anticipated reductions to GST revenue and declining dividends and interest income means the fiscal environment beyond 2017-18 remains challenging.
- A General Government Sector net operating surplus of $148 million is forecast for 2018-19. Net operating surpluses are forecast across the forward estimates, though smaller than estimated at MYFER as a result of anticipated significant reductions in receipts from the Australian Government, particularly GST.
- The General Government Sector debt to revenue ratio has decreased substantially over the period to 2017-18 in each successive budget since 2014-15. The debt to revenue ratio for 2017-18 has fallen to 54%, primarily as a result of the strong 2017-18 operating surplus, and is significantly lower than the peak of 91% in 2012-13.
- Queensland's General Government Sector borrowing costs as a percentage of revenue are now largely in line with that of other states. Government borrowings are funding the investment in productive infrastructure that will grow the state's economy.
- Queensland's net worth (that is, the amount by which the State's assets exceeds its liabilities) continues to increase. At the same time, the State's long-term financial liabilities, including accruing superannuation liabilities and WorkCover, continue to be fully funded.
- Non-financial Public Sector debt will continue to increase over the forward estimates as a result of continued investment in economic infrastructure, however it is forecast to remain below $80 billion in 2020-21, and is almost $1.1 billion lower than forecast at the 2017-18 MYFER.

3.1 Context

The Queensland Government is delivering the best possible services and infrastructure to all communities.

The 2018-19 Budget focuses on implementing the 2017 election commitments, managing emerging fiscal pressures and continuing to deliver the Government's commitment to grow the economy, supporting and creating jobs, and improve health and education outcomes.

The 2017 election commitments will be funded through reprioritisations and revenue measures, consistent with *Putting Queenslanders First*. In addition, Queensland Treasury will be continuing its work with agencies to find efficiencies in expenditure and ensure effectiveness in programs and service delivery.

Since MYFER, there has been a reduction of around $749 million over the forward estimates in expected GST funding provided by the Australian Government resulting from a decrease in Queensland's share of the GST. This is despite an increase in GST funding in 2017-18, which is due to an increase in the overall size of the GST pool.

3.2 Key fiscal aggregates

The key fiscal aggregates of the General Government Sector for the 2018-19 Budget are outlined in Table 3.1 and are discussed in detail in this chapter.

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

	2016-17 Actual[2] $ million	2017-18 MYFER $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Revenue	56,194	56,464	58,259	57,738	58,835	59,939	62,269
Expenses	53,373	55,980	56,747	57,590	58,675	59,829	61,579
Net operating balance	**2,821**	**485**	**1,512**	**148**	**160**	**110**	**690**
PNFA[3]	4,634	4,965	4,905	5,927	7,557	7,396	7,081
Fiscal balance	536	(1,681)	(604)	(3,033)	(3,881)	(3,400)	(2,636)
Net Worth	194,936	198,268	199,686	202,636	205,775	208,101	210,515
Borrowing	**33,260**	**32,502**	**31,367**	**32,311**	**35,861**	**39,588**	**42,290**
Borrowing (NFPS)[4]	71,904	71,222	69,501	70,871	75,214	79,750	83,093

Notes:

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

3.2.1 Net operating balance

Table 3.2 compares the General Government Sector net operating balance forecasts for the 2017-18 Budget and MYFER with 2018-19 Budget forecasts.

Table 3.2 General Government Sector - net operating balance forecasts

	2016-17 $ million	2017-18 $ million	2018-19 $ million	2019-20 $ million	2020-21 $ million	2021-22 $ million
2017-18 Budget	2,824	146	117	704	408	n.a.
2017-18 MYFER	2,821	485	165	307	531	n.a.
2018-19 Budget	**2,821**	**1,512**	**148**	**160**	**110**	**690**

The anticipated 2017-18 net operating surplus of $1.512 billion compares with a forecast surplus of $485 million expected in the 2017-18 MYFER.

Since MYFER, forecast revenue has increased by $1.795 billion in 2017-18, primarily related to:

- royalty revenues being higher than forecast, attributable largely to higher coal prices during 2017-18
- increased grants, driven by the larger GST pool
- increased dividend and income tax equivalent income, supported by increased earnings from electricity generation and network businesses.

The key drivers for a $767 million increase in expenses since MYFER include provisioning for the anticipated costs of Queensland participating in the National Redress Scheme and the Australian Government's advance payment of Financial Assistance grants to local governments in 2017-18 for the 2018-19 financial year.

In 2018-19, General Government Sector expenses are estimated to be 1.5% higher than the 2017-18 estimated actual. Factors influencing the higher expenses in 2018-19 include increased activity in Health and Education, additional job creation initiatives, community services initiatives, and advance payments to local councils for the introduction of the new Waste Disposal Levy.

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

Consistent with the Government's fiscal principles, net operating surpluses are forecast across the forward estimates. For 2018-19, the estimated General Government Sector operating surplus of $148 million is marginally lower than the $165 million expected at the time of the 2017-18 MYFER.

Table 3.3 provides a breakdown of the movements in the net operating balance since the 2017-18 MYFER.

Table 3.3 Reconciliation of net operating balance, 2017-18 MYFER to 2018-19 Budget[1]

	2017-18 $ million	2018-19 $ million	2019-20 $ million	2020-21 $ million
2017-18 MYFER net operating balance	**485**	**165**	**307**	**531**
Taxation revisions[2]	(20)	(160)	(304)	(407)
Royalty revisions	638	1,458	1,069	555
GST revisions	239	151	(278)	(861)
Measures[3]				
Expense[4]	*(528)*	*(832)*	*(583)*	*(561)*
Revenue	*..*	*116*	*474*	*478*
Net	(528)	(716)	(109)	(83)
Net flows from PNFC and PFC entities[5]	457	186	114	93
Australian Government funding revisions[6]	(64)	(515)	(481)	334
Other parameter adjustments[7]	303	(420)	(158)	(51)
2018-19 Budget net operating balance	**1,512**	**148**	**160**	**110**

Notes:

1. Numbers may not add due to rounding. Numbers indicate the impact on the operating balance. A number in brackets indicates a negative impact on the operating balance.
2. Represents parameter adjustments to taxation revenue excluding taxation revenue measures.
3. Reflects the operating balance impact of Government decisions since the 2017-18 MYFER.
4. Includes anticipated costs of Queensland participating in the National Redress Scheme.
5. Represents revisions to dividends and tax equivalent payments from, and community service obligations (CSOs) and Transport Service Contract (TSC) payments to, Public Non-financial Corporations and Public Financial Corporations, net of CSO and TSC expense measures.
6. Represents the net impact of funding provided by the Australian Government primarily for Specific Purpose Payments and National Partnership payments and includes funding for disaster recovery expenses.
7. Refers to adjustments largely of a non-policy nature, primarily changes in interest paid on borrowings, depreciation, swaps and deferrals.

3.3 Fiscal strategies

3.3.1 State's operating capacity

The Palaszczuk Government is committed to the sound management of the State's finances, while delivering high quality services to all Queenslanders. This includes managing within the State's means and budgeting for operating surpluses in each year of the forward estimates.

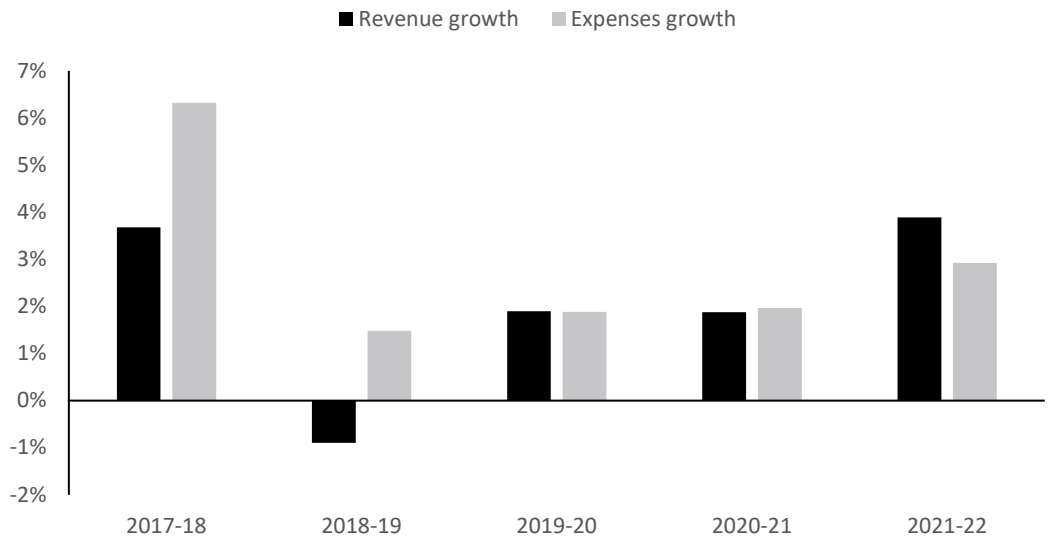
This task is made more challenging by a feature of Australia's federal system known as vertical fiscal imbalance. This imbalance occurs because the Australian Government collects the majority of the country's revenue, including GST, but States are responsible for delivering the majority of services to the public, including health and education services.

As outlined in Chapter 7, almost half of Queensland's revenue is from the Australian Government. This means that Queensland's fiscal position is largely influenced by decisions made by the

Australian Government, such as not renewing expiring funding agreements, resulting in a lack of certainty about the funding that will be received each year.

Chart 3.1 shows revenue and expenses growth over five years. Over this period, average annual growth in revenue is expected to be 2.07%, with expenses expected to grow 2.9%.

Chart 3.1 General Government Sector revenue and expenses growth



At any given time, issues exist with potentially significant fiscal impacts. However, until issues have been considered by Government or formal agreements are in place, uncertainty exists as to when and if these issues will impact on the net operating balance. Therefore, until greater certainty eventuates, the potential fiscal impacts of such issues are not included in the forward estimates.

Such issues include:

- Share of future GST revenue: The Australian Productivity Commission has completed an inquiry into horizontal fiscal equalisation – the principle underpinning the distribution of GST revenue to the states and territories. At the time of finalising the 2018-19 Budget Papers, states have not been provided with the final report. The recommendations have the potential to significantly change the amount of GST revenue that Queensland receives.
- Long-term School Funding Agreement: The Australian Government is currently in negotiation with State and Territory governments to renew a new five-year School Funding Agreement from 1 January 2019. The agreement may require Queensland to increase school funding over the coming years, based on a new funding methodology. States and Territories are negotiating the terms of the agreement, including the measurement of the funding methodology and transition period.
- Remote Housing: The National Partnership on Remote Housing focussed on addressing critical housing needs for Aboriginal and Torres Strait Islander people in remote communities

to reduce overcrowding and improve living standards. This agreement expires 30 June 2018, and no renewed funding was provided in the 2018-19 Commonwealth Budget. Significant additional investment is required to meet the growing housing needs in remote Indigenous communities. There are also significant costs to the State related to operating and maintaining existing dwellings constructed under the expiring agreement.

Revenue

An economic environment that supports business and jobs growth, and does not place undue strain on households through policy and taxation settings, is key for any jurisdiction.

To support the delivery of election commitments, the 2017-18 MYFER reflected the Government's adoption of four modest revenue measures:

- a 0.5% increase in the land tax rate for aggregated holdings above $10 million
- an increase in the Additional Foreign Acquirer Duty (AFAD) from 3% to 7%
- an increase of $2 per $100 of dutiable value for vehicles valued above $100,000
- a 15% point of consumption betting tax.

These measures are discussed in further detail in Chapter 4.

The Government will also introduce a Waste Disposal Levy of $70 per tonne from the first quarter of 2019, as part of a comprehensive waste management strategy.

More information on Queensland's revenue outlook is provided in Chapter 4.

Fiscal principle supporting revenue management

Taxation per capita in Queensland is significantly lower compared to the average of other Australian states and territories, as discussed in Chapter 4. In 2018-19, Queensland's taxation per capita of $2,808 will be $875 per capita less than the average of the other jurisdictions.

The Government also aims to support businesses and households by ensuring that own-source revenue in the General Government Sector, including user charges and royalties, remains at or below 8.5% of nominal gross state product (GSP), on average, across the forward estimates. Own-source revenue is derived from total State revenue less any grants received from external sources, mainly the Australian Government.

This principle is expected to be met over the forward estimates period, with revenue falling as a percentage of GSP. For 2018-19, General Government own-source revenue is forecast to be 8.2% of nominal GSP. This falls to 7.7% by 2021-22, with an average of 8.0% across the four years.

Expenses

The forward estimates include the Palaszczuk Government's election commitments, as outlined in *Putting Queenslanders First*, which total $1.383 billion. All election commitments have been fully funded through revenue measures and over $1 billion in reprioritisation measures (excluding Queensland Health) over the forward estimates. Delivery of these measures will neither be at the cost of public service jobs nor will require the sale of strategic income-earning assets.

Between 2016-17 and 2021-22, expenses are forecast to grow at an average annual rate of 2.9% per year. More information on Queensland's expenditure outlook is provided in Chapter 5.

Fiscal principle supporting expenses management

In the General Government sector, employee expenses equate to approximately 40% of total expenses. Increases in employee expenses reflect changes in the number of public sector employees as well as wages growth.

A key focus is to ensure a balance between delivery of high-quality services, and the discipline that underpins the Government's commitment to fiscal sustainability.

To manage employee expenses growth, the Palaszczuk Government has adopted a fiscal principle to maintain a sustainable public service by ensuring that overall growth in full-time equivalents (FTE) employees, on average over the forward estimates, does not exceed population growth.

FTEs are estimated to increase by around 3,833 (or 1.71%) in 2018-19, with the majority of the increase being attributable to growth in health and education.

Average FTE growth over the forward estimates period from 2017-18 to 2021-22 is 1.71%. This compares to an estimated Queensland population growth of 1¾% annually.

Further details on FTE estimates are provided in Chapter 5, with Table 5.2 providing in-scope agencies and their FTE estimates for 2017-18 and 2018-19.

3.3.2 Infrastructure investment

The Palaszczuk Government is delivering essential infrastructure and capital works to meet the State's increasing service needs and to promote increased productivity and efficiency for the State's industries. The Government also recognises that building infrastructure benefits local communities, strengthens local economies and supports local jobs.

The Palaszczuk Government's 2017 election commitments outlined $1.404 billion in new capital measures, including:

- $353 million towards Building Better Hospitals
- over $128 million towards Future Proofing the Bruce
- $308 million towards Building Future Schools
- $235 million towards Renewing Our Schools.

These capital measures will be funded primarily through allocations from the State Infrastructure Fund and through improved cash management practices.

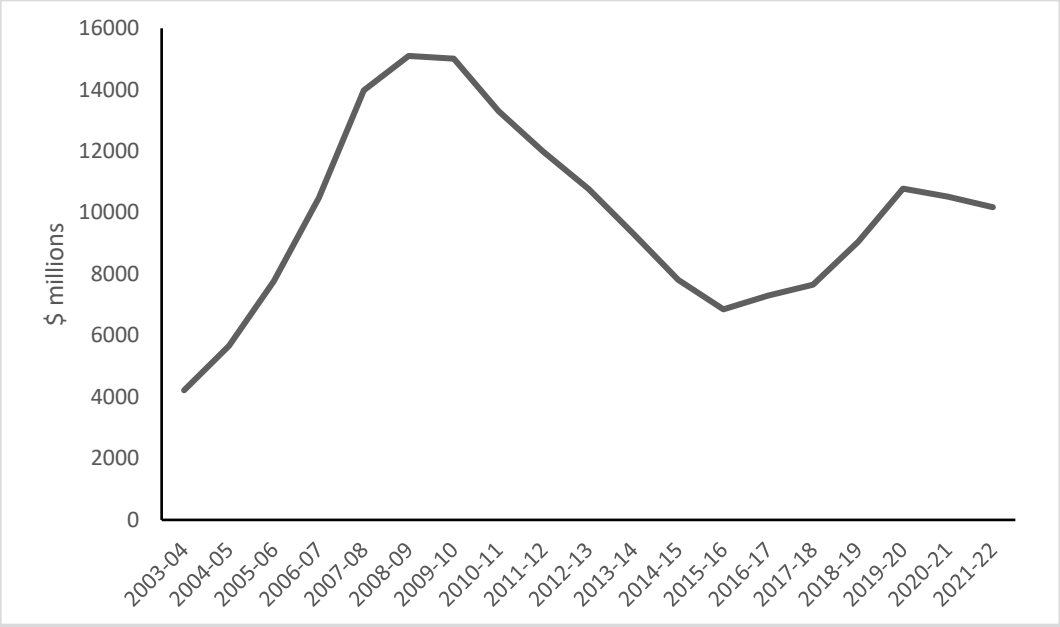
As part of the 2018-19 Budget, the Government has provided further capital funding of just over $900 million for M1 Pacific Motorway upgrades and $176 million towards the Rookwood Weir.

Further information about the Government's capital program is provided in Chapter 6 and Budget Paper 3 *Capital Statement*.

Box 3.1 History of purchases of non-financial assets in Queensland

As can be seen from Chart 3.2, purchases of non-financial assets (PNFA), across the entire Non-financial Public Sector, which includes the spending by government-owned corporations, increased significantly from 2003-04, peaking at $15.101 billion in 2008-09.

Chart 3.2 Purchases of non-financial assets, Non-financial Public Sector



The unprecedented high levels of capital spending were the culmination of many unique circumstances existing at the time. These included:

- responding to the prolonged drought in South East Queensland between 2001 and 2009, resulting in a range of measures, including the Gold Coast Desalination Plant, the Western Corridor Recycled Water Scheme and new dams and weirs, as well as the Government purchase of SEQ council-owned assets which formed the basis of the SEQ Water Grid
- several large health-related infrastructure projects from 2007-08, peaking in 2011-12, including the construction of Lady Cilento Children's Hospital, the Sunshine Coast University Hospital, and the Gold Coast University Hospital
- ramping up of investment in electricity infrastructure from 2004-05 to meet strong growth in demand and ensuring Queenslanders could enjoy improved reliability and safety of supply
- roadway infrastructure of around $500 million per year in the four years to 2010-11, prior to the divestment of Queensland Motorways Limited
- Commonwealth stimulus in response to the Global Financial Crisis, which included programs such as Social Housing and the Building the Education Revolution program.

More recently, the State has entered into several finance lease type arrangements, mainly resulting from Public Private Partnerships (PPPs), which are included in the capital program but not fully reflected in purchase of non-financial assets.

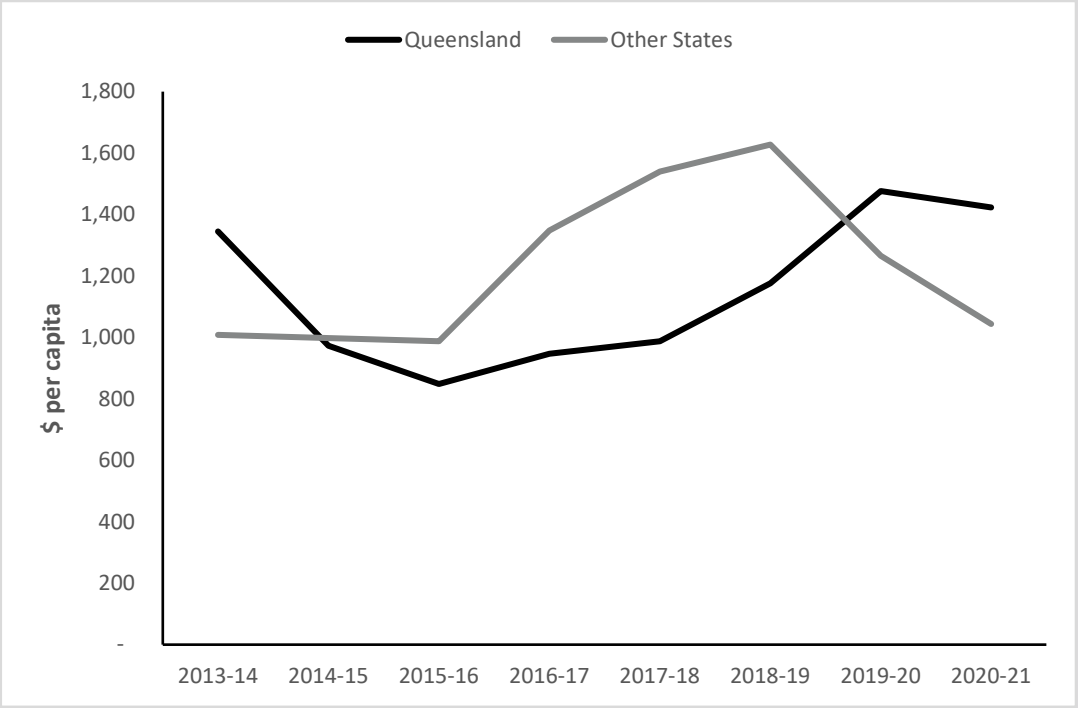
Purchases of non-financial assets going forward

Going forward, the Government is, where appropriate, funding its capital program through methods other than direct PNFA. As mentioned above, PPPs, for example, provide alternative financing approaches for the development of new infrastructure or other capital.

The magnitude of spending on PNFA that occurred from the mid-to-late 2000s was brought about by a range of unique circumstances. While the capital program is forecast to increase from its 2015-16 level, it does not return to previous highs.

Chart 3.3 provides an interjurisdictional comparison over time, showing that from 2019-20, Queensland's capital spending per capita is expected to exceed the average of other states.

Chart 3.3 Per capita purchases of non-financial assets, General Government Sector

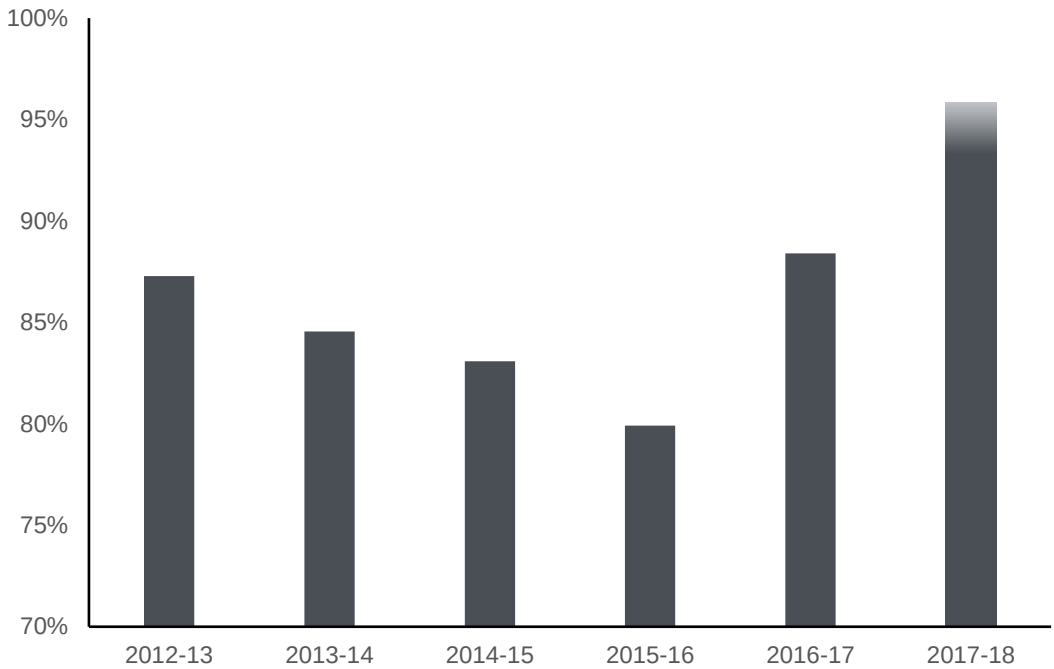


Improving delivery of the capital program

The Government has implemented a clear focus on improving the timely delivery of essential infrastructure in Queensland. This has resulted in an improvement in the amount of capital expenditure that is actually delivered, as a proportion of the Budget allocation.

This is demonstrated in Chart 3.4, which identifies that the proportion of budgeted purchases of non-financial assets actually delivered in 2016-17 was the highest in the past five years. Further improvement is anticipated in 2017-18, with more than 90% of budgeted purchases of non-financial assets expected to be delivered.

Chart 3.4 Total State purchases of non-financial assets – actual as a proportion of budget



Fiscal principles supporting capital investment management

The Government has adopted two fiscal principles to ensure that there is a consistent flow of capital works and that any new capital investment is funded primarily through recurrent revenues rather than borrowings.

While the value of the total capital program can fluctuate across financial years, the 2018-19 Budget provides for an average General Government Sector PNFA of $6.990 billion across the budget and forward estimates. Total General Government Sector PNFA over the budget and forward estimates are projected at $27.961 billion.

Infrastructure funding

The General Government Sector Cash Flow Statement (refer Table 9.7) provides details of the sources of funding for capital investment. It shows that net cash inflows from operating activities equate to 99% of the funding required for the 2017-18 net General Government Sector investments in non-financial assets.

Across 2018-19 to 2021-22, net cash inflows from operating activities are budgeted to average 49.4% of the funding required, primarily reflecting the higher level of capital spending during the period.

The Government is continuing to invest in infrastructure projects that are necessary to support Queensland's growing population and economy. Borrowings will increase to support the capital program, but are expected to remain below projections in the 2017-18 MYFER due to the stronger than expected 2017-18 operating surplus.

Gross General Government Sector borrowings of $31.367 billion at 30 June 2018 are forecast to be $1.135 billion lower than forecast in the 2017-18 MYFER and $17.054 billion less than forecast at the time of the 2014-15 Budget.

Borrowings

The history of Queensland Government debt over the past decade mirrors that of the Queensland economy. Before 2007, the economic and fiscal policies of the State reflected a transition from a low service level State, to a State with service levels comparable to other major states in Australia. This transition supported a period of sustained growth in the Queensland economy, with many significant infrastructure projects providing enhanced community facilities like schools and hospitals, along with supporting resource development as populations increased significantly across regional Queensland.

While total spending increased over this period as new major social spending programs were introduced, these costs were supported by revenues generated from the housing and mining booms, as well as increases in GST revenues arising from credit expansion. To put this into context, Queensland's GST revenue alone grew by an average rate of 7.5% per annum across the periods 2001-02 to 2007-08.

In 2007, the global financial crisis (GFC) impacted every major economy in the world, including Queensland. Consumer confidence fell, expectations of a recession rose, and the State's growing revenue base began to contract.

The Government at the time decided to maintain its economic development program and increase debt. This decision to continue the State's capital program was aimed at avoiding recession during the GFC. Combined with actions from the Australian Government and the Reserve Bank, along with strong demand from China, the Queensland and Australian economies continued to grow through the GFC.

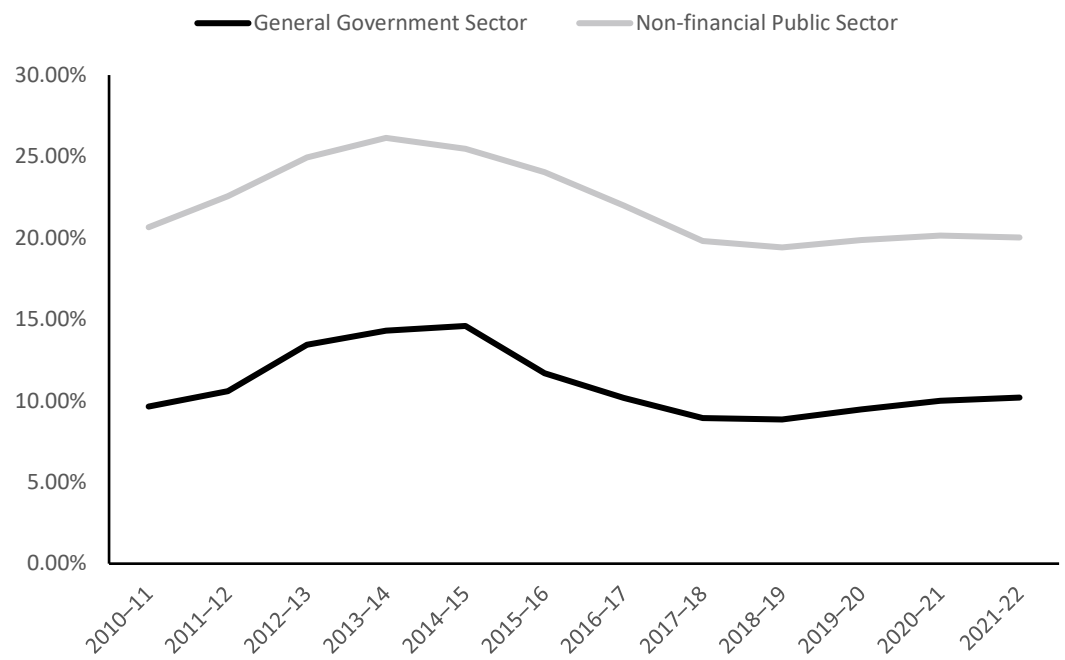
Avoiding recession also saw Queensland avoid the economic and social effects of very high and sustained unemployment, with the State's trend unemployment rate remaining below 6% through to late-2012.

Queensland is currently benefiting from the sustained levels of investment that occurred over the past decade, as discussed in Box 3.1.

The debt accumulated over this time was not wasted by governments, but was invested for the future benefit of Queensland, much of which is already being realised. This approach is consistent with fiscal sustainability principles which seek to spread the burden of public spending fairly across generations, with public consumption benefiting the current generation being paid for by that generation. This approach ensures intergenerational equity, with the debt associated with an investment repaid over the life of the asset or term of benefit received from the investment.

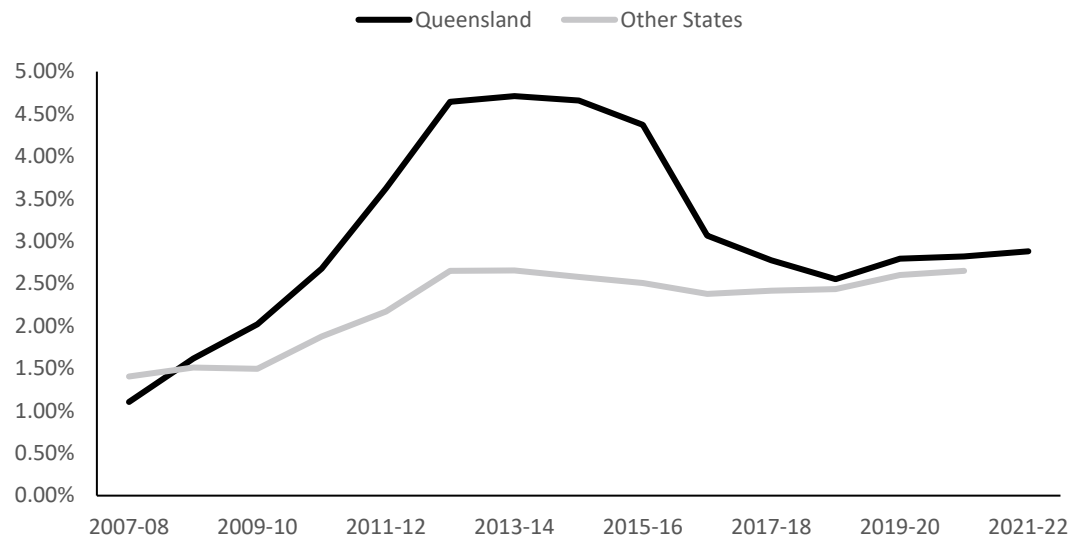
Chart 3.5 shows the ratio of borrowings to gross state product (GSP), that is, the amount of debt as compared to the state's total output.

Chart 3.5 Borrowings to gross state product ratio



An alternative way of assessing the appropriateness of debt levels is to consider the State's capacity to service its borrowing costs, that is, interest payments as a proportion of revenue (as shown in Chart 3.6). This concept can be likened to a person assessing their ability to service an interest only loan.

Chart 3.6 General Government Sector – interest expense to total revenue[1]



Note:

1. Average for other states not provided for 2021-22 as not all states have released their 2018-19 Budgets.

Queensland's ratio is projected to remain relatively flat across the forward estimates, and is only marginally higher than the average in other states.

General Government Sector net worth, which is the difference between assets and liabilities, is $200 billion, and continues to increase across the forward estimates, reflecting the State's investment in additional assets.

Fiscal principles supporting liabilities management

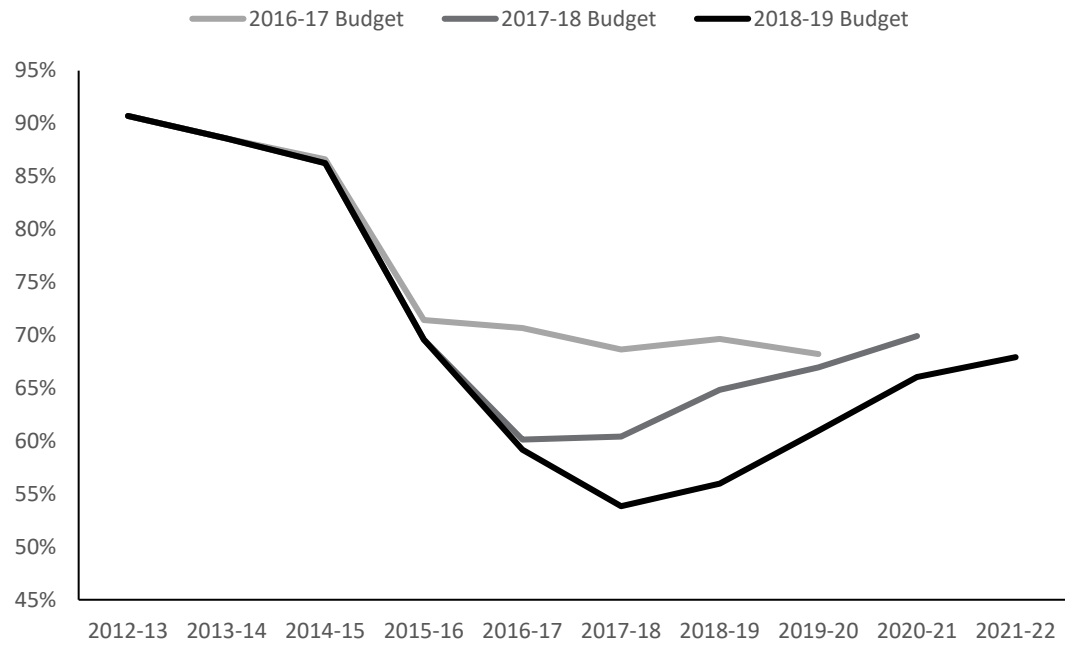
A primary fiscal principle of the Queensland Government has been to reduce General Government Sector debt, to provide the Government with the capacity to respond to market and environmental shocks.

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

The General Government Sector's debt to revenue ratio has fallen substantially over the period to 2017-18 in each successive budget since 2014-15, as seen in Chart 3.7. The debt to revenue ratio for 2017-18 falls to 54%, significantly lower than the 91% in 2012-13.

Across the forward estimates, the expected moderation in revenue growth, as well as the timing of significant capital projects and associated borrowings, sees a gradual increase in the forecast debt to revenue ratio to 2020-21. On average over the budget and forward estimates, the debt to revenue ratio is 63%, well below the four years to 2019-20 forecast in the 2016-17 Budget.

Chart 3.7 General Government Sector debt to revenue ratio



The Government also remains committed to maintaining the long-standing practice of ensuring that the State sets aside assets to meet long-term liabilities such as superannuation and WorkCover, in accordance with actuarial advice.

The State Actuary's most recent valuations indicate that, as at 30 June 2017, both the defined benefit superannuation scheme and the WorkCover scheme were fully funded.

3.4 Achievement of fiscal principles

Table 3.4 provides a summary of the Government's progress in meeting its fiscal principles' targets.

Table 3.4 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		
		2017-18 MYFER %	**2018-19 Budget %**
	2017-18	58	54
	2018-19	60	56
	2019-20	63	61
	2020-21	66	66
	2021-22	n.a.	68
Target net operating surpluses that ensure any new capital investment in the General Government Sector is funded primarily through recurrent revenues rather than borrowing.	General Government net operating cash flows as a proportion of net investments in non-financial assets		
		2017-18 MYFER %	**2018-19 Budget %**
	2017-18	69	99
	2018-19	49	60
	2019-20	40	40
	2020-21	53	44
	2021-22	n.a	53
The capital program will be managed to ensure a consistent flow of works to support jobs and the economy and reduce the risk of backlogs emerging.	General Government purchases of non-financial assets		
		2017-18 MYFER $ million	**2018-19 Budget $ million**
	2017-18	4,965	4,905
	2018-19	6,626	5,927
	2019-20	7,486	7,557
	2020-21	6,910	7,396
	2021-22	n.a.	7,081

Principle	Indicator	
Maintain competitive taxation by ensuring that General Government Sector own-source revenue remains at or below 8.5% of nominal gross state product, on average, across the forward estimates.	**General Government own-source revenue to GSP**	
	2018-19	8.2%
	Average across the forward estimates	8.0%
Target full funding of long-term liabilities such as superannuation and WorkCover in accordance with actuarial advice.	As at the last actuarial review (as at June 2017), accruing superannuation liabilities were fully funded. The WorkCover scheme was also fully funded as at 30 June 2017.	
Maintain a sustainable public service by ensuring that overall growth in full-time equivalents (FTE) employees, on average over the forward estimates, does not exceed population growth.	*FTE growth*	
	Average across the forward estimates	1.7%
	Population growth	
	Average across the forward estimates	1¾%

4 Revenue

Features

- Total General Government Sector revenue is estimated to be $58.259 billion in 2017-18, $2.065 billion (or 3.7%) higher than in 2016-17 and $2.390 billion (or 4.3%) higher than estimated in the 2017-18 Budget. Higher than budgeted revenue growth in 2017-18 is due to increased revenue from royalties resulting from higher coal prices and increased GST and other revenue from the Australian Government.
- Australian Government payments to Queensland in 2018-19 are expected to total $27.411 billion, representing a decrease of $694 million compared to payments in 2017-18.
- Total General Government Sector revenue is estimated to be $57.738 billion in 2018-19. The decrease of $521 million (or 0.9%) from 2017-18 is largely due to reduced Australian Government grants and lower dividend and income tax equivalent income.
- Total revenue is expected to grow at an average rate of 2.1% over the five years to 2021-22. Revenue growth over this period is supported by average annual growth in taxation of 5.3% and current grants of 3.0% but is also affected by declining royalties as coal prices return to medium-term levels, lower interest income due to a reduction in the portfolio of financial assets held and lower dividends.
- Queensland will maintain its competitive tax status, with per capita state tax estimated at $2,808 in 2018-19, compared to an average of $3,683 for the other states and territories. Taxation as a proportion of Queensland's economy will be 3.9% in 2018-19, down from the five-year peak of 4.3% in 2014-15.
- The Government will introduce a Waste Disposal Levy of $70 per tonne from the first quarter of 2019, as part of a comprehensive waste management strategy.
- The payroll tax rebate for apprentices and trainees will continue at the increased rate of 50% for an additional 12 months, until 30 June 2019.
- New revenue measures to fund election commitments were announced in the 2017-18 MYFER and include a 0.5% increase to the land tax rate above $10 million, increased Additional Foreign Acquirer Duty from 3% to 7%, increased duty for premium light passenger vehicles valued above $100,000 and a 15% point of consumption tax on betting operators.

4.1 2017-18 estimated actual

General Government Sector revenue in 2017-18 is estimated to be $58.259 billion, which is $2.390 billion (or 4.3%) more than the 2017-18 Budget estimate. Significant variations from the 2017-18 Budget estimates include:

- a $1.012 billion (or 29.2%) increase in revenue from royalties and land rents, mainly resulting from higher coal prices continuing for longer than expected in the 2017-18 Budget
- a $851 million (or 3.1%) increase in grants, driven by increased GST due to a larger GST pool, and other revenue from the Australian Government, partially offset by lower than anticipated capital grants
- a $629 million (or 30.6%) increase in dividend and income tax equivalent income, supported by increased earnings from electricity generation and network businesses. Queensland's ownership of its electricity assets enables the Government to reinvest dividends to improve affordability through the Affordable Energy Plan.

These increases were partially offset by lower than estimated revenue from sales of goods and services.

Table 4.1 General Government Sector revenue[1]

	2016-17 Actual $ million	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Taxation revenue	12,919	13,298	13,284	14,155	15,184	15,951	16,722
Sales of goods and services	5,642	6,067	5,861	5,731	5,947	6,074	6,306
Interest income	2,336	2,330	2,323	2,201	2,078	1,861	1,855
Grants revenue							
Current grants	24,540	25,299	26,583	26,001	26,189	27,059	28,402
Capital grants	2,843	2,332	1,898	1,700	1,967	2,002	1,985
Dividend and income tax equivalent income							
Dividends	1,693	1,453	1,877	1,552	1,407	1,293	1,229
Income tax equivalent income	997	604	809	666	669	617	558
Other revenue							
Royalties and land rents	4,000	3,472	4,484	4,615	4,260	3,904	4,011
Other	1,222	1,015	1,139	1,118	1,135	1,178	1,202
Total revenue	**56,194**	**55,869**	**58,259**	**57,738**	**58,835**	**59,939**	**62,269**

Note:

1. Numbers may not add due to rounding.

4.2 2018-19 revenue by category

General Government Sector revenue in 2018-19 is estimated to be $57.738 billion, $521 million (or 0.9%) lower than the 2017-18 estimated actual revenue of $58.259 billion. The revenue reduction in 2018-19 reflects a range of factors, including:

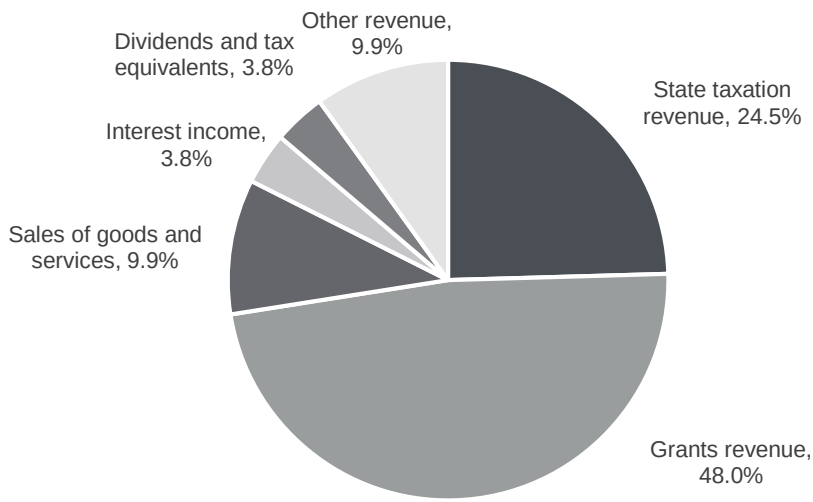
- Revenue from the Australian Government is expected to be $694 million lower in 2018-19 than in 2017-18, due to a decline in Queensland's GST revenue sharing relativity and reduced payments for specific purposes.
- Dividends and income tax equivalent income are forecast to be $469 million lower in 2018-19. Further information on these revenues can be found in Chapter 8.

Partially offsetting these decreases are moderate growth in taxation revenue (6.6%), supported by growth in the payroll tax and land tax base and new policy measures including the Waste Disposal Levy.

After increasing 11.6% in 2017-18, royalties are expected to increase 2.8% in 2018-19. While coal royalties are expected to decline 6.5% in 2018-19 due to declining hard coking coal prices, this reduction is expected to be offset by increased revenue from petroleum (including LNG) and other minerals. Trends in factors affecting royalty revenue are discussed in section 4.7.

Major sources of General Government Sector revenue in 2018-19 are grants revenue (48.0%) and taxation revenue (24.5%). Table 4.1 details revenue estimates by category, and Chart 4.1 illustrates the composition of General Government Sector revenue.

Chart 4.1 Revenue by operating statement category, 2018-19[1]



Notes:

1. Numbers may not add due to rounding.
2. The major component of other revenue is royalties and land rents (8.0% of total revenue)

4.3 2018-19 Budget initiatives

4.3.1 Extension of increased payroll tax rebate for apprentices and trainees

The Government is continuing the payroll tax rebate on the wages of apprentices and trainees at the increased rate of 50% until 30 June 2019. This rebate is in addition to their wages being exempt and will be used as an offset against payroll tax payable on the wages of other employees.

The rebate extension is estimated to reduce revenue by $26 million in 2018-19.

4.3.2 Waste Disposal Levy

The Government is committed to developing a comprehensive waste management strategy with a key component being the implementation of a Waste Disposal Levy. The levy will improve recycling outcomes and address interstate transportation of waste to Queensland.

The Waste Disposal Levy will commence in the first quarter of 2019 and will initially be set at $70 per tonne (higher for regulated waste) and increase by $5 per tonne per annum.

4.3.3 2017-18 MYFER measures

The 2017-18 MYFER outlined new revenue measures, including:

- a 0.5% increase in the land tax rate for aggregated holdings above $10 million
- an increase in Additional Foreign Acquirer Duty (AFAD) from 3% to 7%
- an increase of $2 per $100 of dutiable value for premium light passenger vehicles
- a 15% point of consumption tax on the net wagering revenue of betting operators licenced in Australia from bets placed in Queensland.

Land tax, AFAD and motor vehicle duty measures will apply from 1 July 2018. The point of consumption betting tax will apply from 1 October 2018, and is discussed further in section 4.5.4.

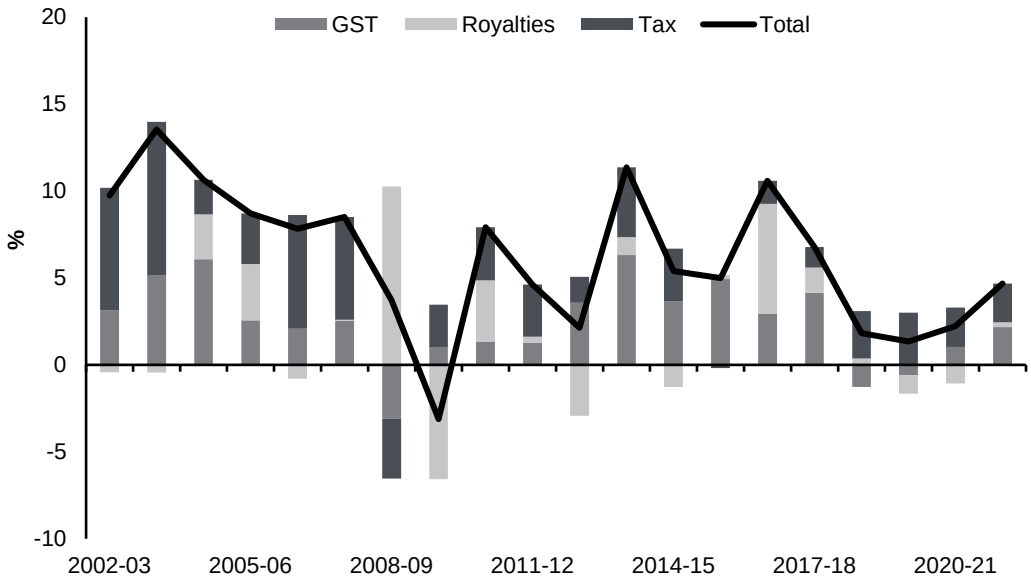
Further detail on these measures, including expected additional revenue, is included in Budget Paper 4 *Budget Measures*.

4.4 Queensland's revenue trends

Chart 4.2 examines the contribution of the key revenue sources of GST, taxation and royalties to revenue growth. GST was the largest driver of growth in 2017-18, due to increases in both the GST pool distributed to states and Queensland's share of the pool as determined by the Commonwealth Grants Commission. In 2018-19, taxation revenue contributes the largest proportion to growth, with a smaller increase to royalties expected as increasing petroleum royalty revenue is partially offset by decreasing coal royalties. Lower GST revenue is expected in 2018-19 compared to 2017-18, due to Queensland receiving a reduced share of the GST pool.

Total revenue growth, which is mainly driven by these three sources, is estimated to be 2.1% on average over the five years to 2021-22. This is far lower than the 7.6% average growth over the last fifteen years to 2016-17.

Chart 4.2 Contribution to growth of key revenues[1]



Note:

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

Total revenue growth over the forward estimates is mainly driven by moderate taxation revenue growth, averaging 5.3% over the five years to 2021-22, supported by expected growth in major taxes such as payroll tax, transfer duty and land tax, and also by the introduction of the Waste Disposal Levy. Taxation revenue as a proportion of Queensland's economy will remain stable over this period rising only slightly from 3.9% in 2018-19 to 4.0% in each year to 2021-22, below the recent peak of 4.3% in 2014-15.

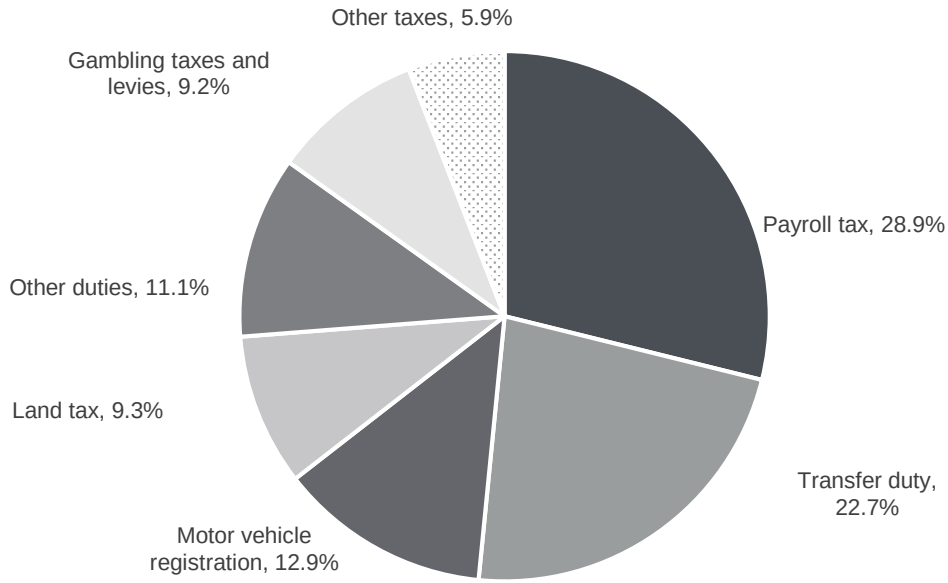
Total royalty revenue is expected to decline in 2019-20 and 2020-21 in line with declining coal prices. GST revenue increased by 9.1% in 2017-18, but is expected to decline in 2018-19 and

2019-20 due to Queensland's share of the GST pool reducing, with modest growth forecast from 2020-21 as the GST pool increases. Over the four years to 2021-22, GST revenue growth is expected to average 0.8% per year.

4.5 Taxation revenue

Total revenue from taxation is expected to grow by 6.6% in 2018-19, following an estimated increase of 2.8% in 2017-18. Chart 4.3 indicates the composition of estimated State taxation revenue for 2018-19. The largest sources are payroll tax and transfer duty, which together represent around 52% of the State's total taxation revenue in 2018-19.

Chart 4.3 State taxation by tax category, 2018-19[1]



Note:

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

Table 4.2 shows the main components of taxation revenue.

Table 4.2 State taxation revenue[1]

	2016-17 Actual $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Payroll tax	**3,695**	**3,887**	**4,086**	**4,312**	**4,574**	**4,850**
Duties						
Transfer	3,278	3,090	3,214	3,396	3,578	3,768
Vehicle registration	514	543	592	621	651	682
Insurance[2]	854	900	945	992	1,042	1,094
Other duties[3]	37	34	35	37	39	40
Total duties	**4,684**	**4,567**	**4,786**	**5,046**	**5,309**	**5,584**
Gambling taxes and levies						
Gaming machine tax	684	718	750	784	819	819
Health Services Levy	73	85	93	103	113	124
Lotteries taxes	241	258	266	274	282	291
Betting taxes[4]	10	10	71	96	99	101
Casino taxes and levies	98	103	106	109	113	113
Keno tax	20	20	21	21	22	23
Total gambling taxes and levies	**1,127**	**1,194**	**1,307**	**1,388**	**1,448**	**1,471**
Other taxes						
Land tax	1,082	1,183	1,313	1,368	1,433	1,512
Motor vehicle registration	1,681	1,755	1,829	1,892	1,961	2,032
Emergency Management Levy	484	509	536	559	583	609
Waste Disposal Levy	..	..	101	406	408	408
Guarantee fees[5]	115	139	150	165	186	206
Other taxes[6]	52	51	48	49	50	51
Total taxation revenue	**12,919**	**13,284**	**14,155**	**15,184**	**15,951**	**16,722**

Notes:

1. Numbers may not add due to rounding.
2. Includes duty on accident insurance premiums.
3. Includes duty on life insurance premiums.
4. Does not account for allocation of proceeds subject to commercial-in-confidence negotiations, for example, the quantum of compensation to Racing Queensland for impacts from implementation of the betting tax.
5. Includes competitive neutrality fees charged to government-owned corporations.
6. Includes the Statutory Insurance Scheme Levy and Nominal Defendant Levy.

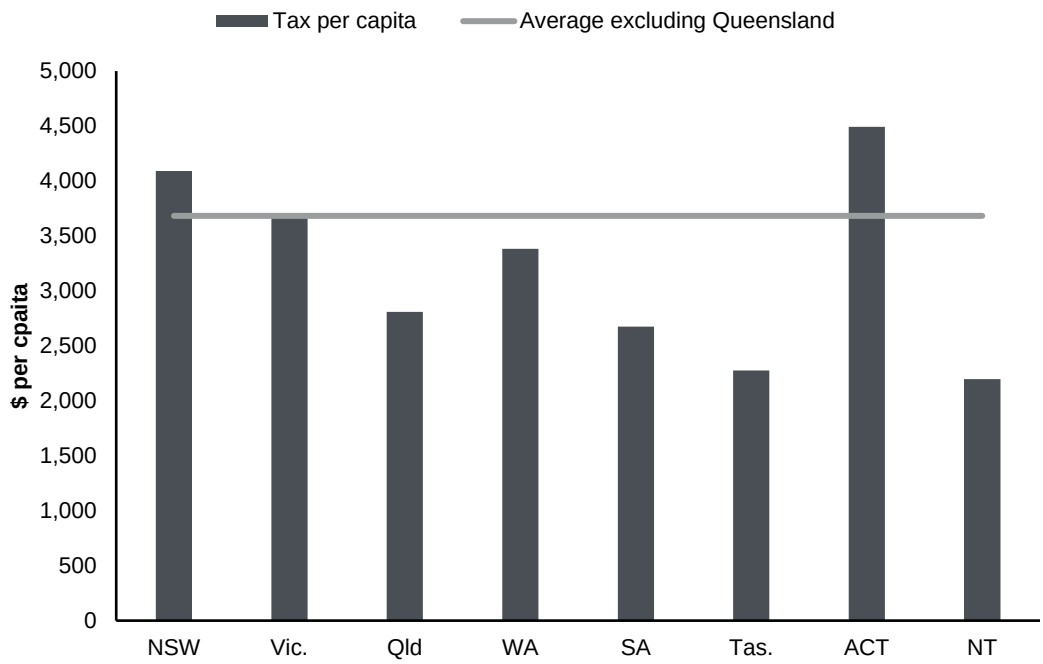
4.5.1 Queensland's competitive tax status

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

One of the Government's fiscal principles is to maintain competitive taxation by ensuring General Government Sector own-source revenue remains at or below 8.5% of nominal gross state product (GSP), on average, across the forward estimates. Own-source revenue is the total State revenue less any grants received from external sources, mainly the Australian Government. This principle is expected to be met over the forward estimates period, with own-source revenue below 8.5% of GSP. Chapter 3 provides more detail on the Government's fiscal principles.

As Chart 4.4 shows, taxation per capita in Queensland is significantly lower than the average taxation per capita in the other states and territories. In 2018-19, it is estimated that Queensland's taxation per capita of $2,808 will be $875 per capita less than the average of other jurisdictions.

Chart 4.4 Taxation per capita, 2018-19



Sources: 2018-19 Budget for all jurisdictions except New South Wales, South Australia and Tasmania where 2017-18 mid-year updates are used. Population estimates from the 2018-19 Commonwealth Budget.

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

Queensland's tax effort, as measured by the Commonwealth Grants Commission, was 14.9% below the national average in 2016-17. A third measure of competitiveness, taxation as a share of GSP, also confirms that Queensland's taxes are competitive with other states.

Table 4.3 Queensland's tax competitiveness

	NSW	Vic.	Qld	WA	SA	Tas.[4]	ACT[5]	NT[4]	Avg[6]
Taxation per capita[1]($)	4,090	3,686	2,808	3,382	2,674	2,277	4,518	2,198	3,683
Taxation effort[2] (%)	103.9	105.0	85.1	102.4	102.8	89.3	97.3	84.2	100.0
Taxation % of GSP[3] (%)	5.4	5.3	4.0	3.4	4.3	3.8	4.4	2.3	4.9

Notes:

1. 2018-19 data. Sources: 2018-19 Budget for all jurisdictions except New South Wales, South Australia and Tasmania, where 2017-18 mid-year updates are used. Population data from Commonwealth 2018-19 Budget.
2. 2016-17 data. Source: Commonwealth Grants Commission 2018 Update - total tax revenue effort for assessed taxes (payroll, transfer duty, land tax, insurance duty and motor vehicle taxes). Revenue raising effort ratios are an indicator of the extent to which governments burden their revenue bases.
3. 2016-17 data. Sources: *Australian Bureau of Statistics 5506.0 and ABS 5220.0*.
4. Low taxation per capita primarily reflects the lower revenue raising capacity of those jurisdictions.
5. Figures include municipal rates.
6. Weighted average of states and territories, excluding Queensland (aside from taxation effort, which is the average of all states).

4.5.2 Payroll tax

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.

In addition to the wages of eligible apprentices and trainees being exempt from payroll tax, a 25% payroll tax rebate was applied to these wages from 1 July 2015. To offer an added incentive for businesses to employ apprentices and trainees, the rebate was increased to 50% from 1 July 2016 to 30 June 2018. In this Budget, the increased rebate has been extended a further 12 months, and will provide additional support to businesses employing apprentices and trainees to 30 June 2019.

Payroll tax collections are estimated to be $4.086 billion in 2018-19, representing growth of 5.1% on 2017-18. The 2017-18 estimated actual is 1.8% higher than forecast in the 2017-18 Budget, with key sectors such as construction, manufacturing and mining and associated industries contributing to growth for the first time in two years.

The average annual payroll tax growth is forecast to be 5.6% over the five years to 2021-22, compared to the average of 7.8% over the period from 2001-02 to 2016-17.

4.5.3 Duties

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

Transfer duty

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

Revenue from transfer duty is expected to be 4.0% higher in 2018-19 than in 2017-18. This follows a fall of 5.7% in 2017-18 that was largely due to a reduction in large non-residential transactions. Growth in 2018-19 is expected to be driven by modest growth in residential and non-residential transactions and the 1 July 2018 rate increase for additional foreign acquirer duty.

Over the five years to 2021-22, transfer duty is estimated to grow by 2.8% on average per annum.

Vehicle registration duty

Vehicle registration duty is charged on the dutiable value of a motor vehicle on the transfer or initial registration, with a general rate of 2% to 4% dependent on the number of cylinders or rotors of the vehicle. From 1 July 2018, an additional $2 per $100 of dutiable value will be applied for vehicles valued above $100,000.

Revenue from vehicle registration is expected to grow by 9.1% in 2018-19 following growth of 5.6% in 2017-18, with the higher growth due to the introduction of the premium motor vehicle duty from 1 July 2018.

4.5.4 Gambling taxes and levies

A range of gambling activities are subject to State taxes and levies. Total gambling tax and levy collections are estimated to grow by 9.5% in 2018-19, and 5.5% on average over the five years to 2021-22, with these growth rates supported by increased revenue from the new point of consumption tax on betting (betting tax).

Responding to changing consumer behaviour facilitated by increased use of online and interactive technologies, a 15% betting tax will apply from 1 October 2018. The revised date for commencement allows for industry preparation for commencement of the tax, post enactment. Forecasts as at the 2017-18 MYFER were based on the betting tax applying to online wagering only and before allocation of proceeds. Some of these allocations are subject to commercial-in-confidence discussions/negotiation.

The betting tax will be implemented in line with other states and territories including South Australia, Victoria, and the Australian Capital Territory. As such, the tax will apply to the net wagering revenue of betting operators licensed in Australia from bets placed by customers in Queensland. This change, and the gross revenue amount excluding allocations of proceeds subject to commercial-in-confidence discussions/negotiation, account for the increased gross revenue from this tax since the 2017-18 MYFER.

Smaller betting operators will not incur a betting tax liability as the rate of 15% applies to taxable wagering revenue exceeding an annual tax-free threshold amount of $300,000. No tax will be paid on a betting operator's revenue up to and including $300,000 in a financial year. Reconciliation against the threshold in the annual return, and refund provisions for any overpayment, will ensure this. In 2018-19 there will be a proportionate reduction of the tax-free threshold to reflect the 1 October commencement. The new point of consumption betting tax replaces the existing place of supply wagering tax that applied only to the sole retail wagering licensee in Queensland.

4.5.5 Land tax

Land tax is levied on the taxable value of the landowner's aggregated holdings of freehold land owned in Queensland as at midnight on 30 June each year. The principal place of residence is deducted from the 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 11% to $1.313 billion in 2018-19, largely due to the new marginal tax rate on land holdings above $10 million from 1 July 2018, along with growth in land values in recent years.

4.5.6 Tax expenditures

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

4.6 Grants

Grants revenue is comprised of Australian Government grants, grants from the community and industry, and other miscellaneous grants. The 2.7% decline in grants revenue in 2018-19 is driven by a decline in GST revenue and payments for specific purposes from the Commonwealth.

Table 4.4 Grants revenue[1]

	2016-17 Actual $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Current grants						
GST revenue	13,939	15,210	14,794	14,598	14,946	15,699
Other Australian Government grants	10,302	11,066	10,950	11,333	11,862	12,454
Other grants and contributions	299	307	257	258	251	249
Total current grants	**24,540**	**26,583**	**26,001**	**26,189**	**27,059**	**28,402**
Capital grants						
Australian Government grants	2,742	1,828	1,667	1,957	1,993	1,935
Other grants and contributions	101	70	33	10	9	50
Total capital grants	**2,843**	**1,898**	**1,700**	**1,967**	**2,002**	**1,985**
Total Australian Government[2]	26,983	28,105	27,411	27,888	28,802	30,088
Total grants revenue	**27,383**	**28,481**	**27,701**	**28,156**	**29,062**	**30,387**

Notes:

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

4.6.1 Australian Government payments

Australian Government payments to Queensland in 2018-19 are expected to total $27.411 billion, representing a decrease of $694 million compared to payments in 2017-18. This decrease is made up of a $415 million (2.7%) decrease in GST revenue and a $278 million (2.2%) decrease in total payments for capital and other Australian Government grants.

The decline in GST revenue is due to Queensland receiving a reduced share of the GST pool in 2018-19, based on Commonwealth Grants Commission recommendations. The decrease in payments for specific purposes is mainly due to lower national partnership (NP) payments, particularly the cessation of the National Partnership on Remote Housing.

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

4.6.2 Other grants and contributions

Other grants and contributions are funds received from other state and local government agencies, other bodies and individuals. Contributions exclude Australian Government grants and user charges. The main sources of contributions are those received from private enterprise and

community groups to fund research projects and community services and contributed assets and goods and services received for a nominal amount.

4.7 Royalty revenue

The State earns royalties from the extraction of coal, base and precious metals, bauxite, petroleum and gas, mineral sands and other minerals. Royalties ensure some of the proceeds of the extraction of non-renewable resources are returned to the community. Land rents are also earned from pastoral holdings, and mining and petroleum leases. Royalties and land rents are detailed in Table 4.5.

Table 4.5 Royalties and land rents[1]

	2016-17 Actual $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Coal	3,405	3,768	3,522	3,135	2,774	2,866
Petroleum[2]	98	188	447	446	438	450
Other royalties[3]	376	371	479	506	515	506
Land rents	122	157	167	172	178	189
Total	**4,000**	**4,484**	**4,615**	**4,260**	**3,904**	**4,011**

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

The largest factor affecting upwards revisions to royalties since the 2017-18 Budget is the continued strength in the hard coking coal price, resulting in a significant uplift to price assumptions across 2018-19 and a more gradual return to a medium-term price assumption. While royalty revenue estimates in the 2017-18 MYFER were based on an expectation the hard coking coal price would decline from the end of 2017, prices increased further in the first few months of 2018 before declining on average between March and May 2018. Prices are expected to continue to progressively decline to a medium-term price of $US130/t.

There is a high degree of uncertainty associated with estimates of commodity prices, which can have significant impacts on royalty revenue. Risks to coal export volumes also have the potential to impact royalty estimates, though changes to export volumes may in turn impact prices. Specific risk factors are considered in developing forecasts and include the level of exposure of mining operations to the risk of natural disasters and the timing of scheduled maintenance for the rail network and ports. For 2018, the potential for reduced throughput over the Aurizon Network following the economic regulator's draft decision on the 2017 Draft Access Undertaking is also a consideration, although any impact is not expected to be significant and coal exports are expected to be higher overall in 2018-19. Appendix C outlines the sensitivity of coal royalty estimates to individual changes in price, volume and exchange rate parameters.

At the same time, the contribution of royalties to overall revenue growth and volatility is limited by its quantum. Royalties make up 7.7% of total revenue in 2018-19, compared to 24.5% for state taxes and 25.6% for GST.

Royalty revenue exceeded the previous 2008-09 peak for the first time in 2016-17, and increased by a further 11.6% in 2017-18 as coal prices remained strong and petroleum (including LNG) royalties increased.

While royalties are expected to grow modestly in 2018-19, a gradual decline of 3.1% is expected per year on average over the four years to 2021-22. While the coal price is expected to decline 9.9% per year on average as it returns to medium-term levels, total royalties are expected to be supported by growth in other factors, such as coal volumes and stronger petroleum revenue from increased Brent oil prices.

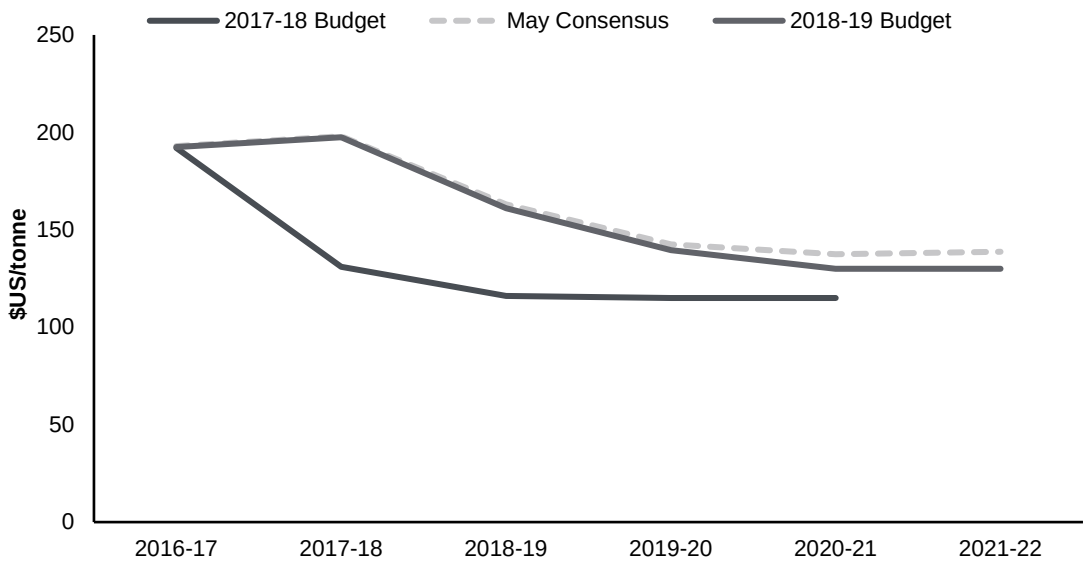
Assumptions underlying the royalty estimates, and the sensitivity of royalty estimates to changes in the assumptions are contained in Appendix C.

4.7.1 Coal Royalties

Chart 4.5 shows coking coal price forecasts compared to the 2017-18 Budget and average quarterly price from the latest Consensus Economics forecasts. Consensus Economics is a monthly survey of more than 40 energy and metals analysts outlining their price forecasts for a range of commodities. The Australian Government's 2018-19 Budget assumed that the coking coal spot price would fall over the June and September quarters of 2018 to reach US$120 per tonne by the December 2018 quarter.

Revisions since the 2017-18 Budget are in line with Consensus Economics forecasts in the next few years, with a degree of conservatism in the medium-term.

Chart 4.5 Coking coal price forecasts by iteration[1]

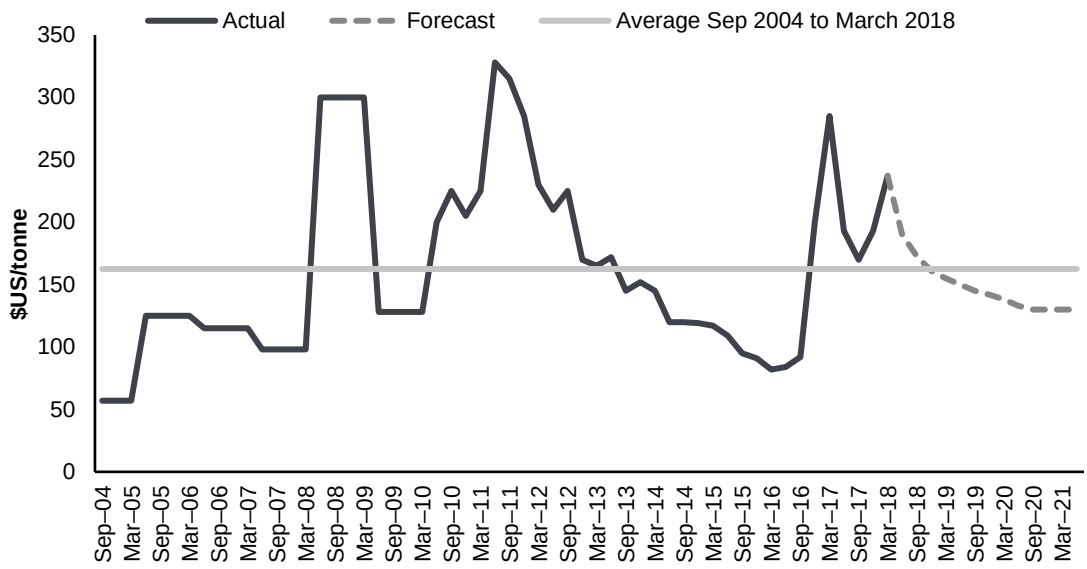


Sources: Queensland State Budget 2017-18 and 2018-19 and Consensus Economics Energy and Metals May 2018.

Hard coking coal prices increased sharply in the second half of 2016, driven by factors such as a program of rationalisation for China's coal production, as well as logistical bottlenecks and seaborne supply constraints. Across 2017, coal prices remained above the historical average shown in Chart 4.6 but displayed moderate volatility, declining rapidly in the early months of 2017 but increasing again following Severe Tropical Cyclone Debbie. While strengthening global economic conditions are supporting a continued strength in coal prices during 2018, royalty forecasts incorporate a gradual decline in coal prices to $US130/t by 2020-21.

On a year average basis, the premium hard coking coal price is estimated to increase 2.6% in 2017-18 to $US198 per tonne, and is expected to decline 18.5% to $US161 per tonne in 2018-19.

Chart 4.6 Coking coal price



Source: Consensus Economics and Queensland Treasury.

4.7.2 Petroleum royalties

Oil prices factor strongly into royalty forecasts, with most of the LNG produced in Queensland sold under long-term contracts linked to oil prices. Since the 2017-18 Budget, estimates of Brent oil prices have been revised up by 28.8% to $US73 per barrel on average in 2018-19. Prices are expected to moderate from current levels as the impact of temporary factors affecting supply is reduced, leading to smaller royalty increases in 2019-20 and 2020-21. Oil prices are expected to remain steady from 2019-20, consistent with expectations for production and consumption remaining at similar levels. Forecasts of the Brent oil price are detailed in Appendix C and are similar to Consensus Economics forecasts. Forecasts of LNG volumes are similar to the 2017-18 Budget.

Significant growth in LNG exports over the last few years is supporting growth in petroleum royalty forecasts. Efforts to support LNG industry growth in Queensland also has broader benefits including job creation, and in turn supports increased revenue collection by the Australian Government.

Petroleum royalties have been revised up by $253 million in 2018-19 since the 2017-18 Budget, mainly resulting from increased Brent oil prices. The value of coal seam gas, which is largely based on export LNG prices less allowable deductions, has meant that increased oil prices have had a proportionally larger impact on petroleum royalties.

4.7.3 Other royalties

Other royalties include revenue from metals mined in Queensland such as copper, lead and zinc and other minerals including bauxite. Revenue from other royalties is expected to grow 29.0% in 2018-19, supported by a stronger outlook for base and precious metals prices. This follows small declines of 1.4% in 2016-17 and 1.2% in 2017-18.

4.7.4 Land rents

Revenue from land rents derived from mining and petroleum leases and pastoral holdings are expected to grow 6.1% in 2018-19.

4.8 Sales of goods and services

Sales of goods and services revenue comprises cost recoveries from providing goods or services. Table 4.6 provides a breakdown of the category.

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

Table 4.6 Sales of goods and services[1]

	2016-17 Actual $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Fee for service activities	2,370	2,377	2,135	2,221	2,199	2,202
Public Transport: South East Queensland	356	338	344	353	362	363
Rent revenue	533	577	597	628	661	830
Sale of land inventory	65	52	59	66	97	98
Hospital fees	794	859	879	892	907	919
Transport and traffic fees	398	426	448	467	485	504
Other sales of goods and services	1,127	1,233	1,269	1,320	1,363	1,390
Total	**5,642**	**5,861**	**5,731**	**5,947**	**6,074**	**6,306**

Note:

1. Numbers may not add due to rounding.

4.8.1 Fee for service activities

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

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

4.8.2 Other sales of goods and services

As shown in Table 4.6, there are a variety of other types of sales of goods and services. These include revenue from public transport ticketing arrangements, rent or lease of government property, hospital fees, transport and traffic fees, title registration fees and other licences and permits.

4.9 Interest income

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

Interest income is estimated to account for 3.8% of total General Government Sector revenue in 2018-19. Consistent with the 2017-18 Budget, interest income is expected to decline between 2017-18 and 2021-22 due to a reduction in the portfolio of financial assets held for defined benefit superannuation and in the Queensland Government Insurance Fund.

4.10 Dividend and income tax equivalent income

Dividend and income tax equivalent income accounts for 3.8% of total General Government Sector revenue in 2018-19.

Estimated revenue from dividend and income tax equivalent income in 2017-18 has been revised upwards by $629 million since the 2017-18 Budget, supported by increased earnings from electricity generation and network businesses. In 2018-19, dividend and income tax equivalent income is expected to decline $469 million mainly from the electricity generation and electricity network sectors. Dividend and income tax equivalent income is expected to decline over the four years to 2021-22, driven by reductions in dividend returns from the electricity network, electricity generation and water sectors. Trends in dividends and income tax equivalent income are discussed in more detail in Chapter 8.

4.11 Other revenue

Other revenue, including royalty revenue, accounts for 9.9% of total General Government Sector revenue in 2018-19. Royalties themselves account for 7.7% of revenue in 2018-19, and are discussed in section 4.7.

The major fines and infringements included in this category are issued by the Department of Transport and Main Roads (DTMR) and Queensland Police Service (QPS), incorporating fixed and mobile camera offences, speeding and tolling offences. Revenue from fines and forfeitures are expected to grow by 11.5% in 2018-19.

Table 4.7 Other revenue[1]

	2016-17 Actual $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Royalties and land rents	4,000	4,484	4,615	4,260	3,904	4,011
Fines and forfeitures	375	400	446	471	507	520
Revenue not elsewhere classified	847	739	672	664	672	682
Total	**5,222**	**5,623**	**5,733**	**5,395**	**5,083**	**5,212**

Note:

1. Numbers may not add due to rounding.

5 Expenses

Features

- The 2018-19 Budget continues to target initiatives that drive more inclusive economic growth and job creation, reduce the cost of living pressures and enhance the safety, security and liveability of Queensland communities.
- Expenses for 2017-18 are estimated to be $56.747 billion, an increase of $3.374 billion (or 6.3%) from 2016-17. The increase is due to growth funding to support ongoing demand for health services and student enrolments, expenditure in relation to the final preparation and delivery of the Gold Coast 2018 Commonwealth Games and establishment of a provision for the anticipated costs of Queensland participating in the National Redress Scheme for Survivors of Institutional Child Sexual Abuse (National Redress Scheme).
- Total expenses are projected to grow at an average annual rate of 2.9% over the five years to 2021-22. This is a reduction from last year's budget projected rate of 3.2% over the five years to 2020-21.
- In 2018-19, General Government Sector expenses are estimated to be $57.590 billion, an expected increase of $843 million (or 1.5%) over the estimated actual for 2017-18. The increase is a result of continued demand growth in education, health and community services.
- The average growth in employee expenses over the five years to 2021-22 is 4.5% per annum, reflecting growth in full time equivalents (FTEs) and the Government's wages policy.
- In 2018-19, the major areas of expenditure are health and education, which together constitute approximately 54.4% of General Government Sector expenses, the highest ever proportional spend on these services.

This chapter provides an overview of General Government Sector expenses for the estimated actual for 2017-18, forecasts for the 2018-19 Budget year and projections for 2019-20 to 2021-22. The forward estimates are based on the economic projections outlined in Chapter 2.

5.1 2017-18 estimated actual

General Government Sector expenses in 2017-18 are estimated to be $56.747 billion, $767 million higher than the 2017-18 Mid Year Fiscal and Economic Review (MYFER) estimate. The increase since MYFER is largely driven by provisioning for the anticipated costs of Queensland participating in the National Redress Scheme for Survivors of Institutional Child Sexual Abuse, and the Australian Government's advance payment of financial assistance grants to local governments in 2017-18 for the 2018-19 financial year.

5.2 2018-19 Budget and out-years

Table 5.1 General Government Sector expenses[1]

	2016-17 Actual $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Employee expenses	21,258	22,838	23,807	24,645	25,541	26,466
Superannuation interest costs	514	665	667	717	774	778
Other superannuation expenses	2,661	2,819	2,887	2,933	2,957	3,001
Other operating expenses	15,582	17,382	15,774	15,119	15,291	15,745
Depreciation and amortisation	3,068	3,330	3,429	3,543	3,650	3,776
Other interest expenses	1,722	1,616	1,474	1,643	1,691	1,794
Grants expenses	8,568	8,096	9,552	10,075	9,926	10,019
Total Expenses	**53,373**	**56,747**	**57,590**	**58,675**	**59,829**	**61,579**

Note:

1. Numbers may not add due to rounding.

General Government Sector expenses of $57.590 billion in 2018-19 represent an increase of $843 million (or 1.5%) over the 2017-18 estimated actual. Factors influencing the higher expenditure in 2018-19 include:

- delivery of the Government's election commitments including additional frontline nurses, police and firefighters
- growth in demand for health services
- growth in education expenditure reflecting student enrolment growth in Queensland schools, enterprise bargaining outcomes, maintaining secondary curriculum offerings for the half year cohort of students going into senior secondary and review of salary classification of school administration and support staff
- job creation initiatives including Works for Queensland, Back to Work Packages, Skilling Queenslanders for Work and Jobs and Regional Growth package
- community services initiatives continuing to improve the child protection system and support of the transition of disability services to the National Disability Insurance Scheme (NDIS)
- costs associated with the introduction of the new Waste Disposal Levy including implementation costs, advance payments to local councils and industry support funding.

Expenditure largely isolated to 2017-18 for the delivery of Gold Coast 2018 Commonwealth Games and the provision for the anticipated cost of Queensland's participation in the National Redress Scheme contribute to the observed reduced growth in 2018-19 expenses. Growth in 2018-19 is also impacted by the Australian Government's advance payment of financial assistance grants in 2017-18 for 2018-19 and the 2018-19 whole-of-Government reprioritisation measures (refer to Budget Paper 4 *Budget Measures*).

5.3 Expenses by operating statement category

As outlined in Chart 5.1, the largest expense categories in the General Government Sector in 2018-19 are employee and superannuation expenses (47.4%), followed by other operating expenses (27.4%) that reflect non-labour costs of providing goods and services to government and non-government recipients including consultancies and contractors, transport service contract payments and repairs and maintenance.

Chart 5.1 Expenses by operating statement category, 2018-19

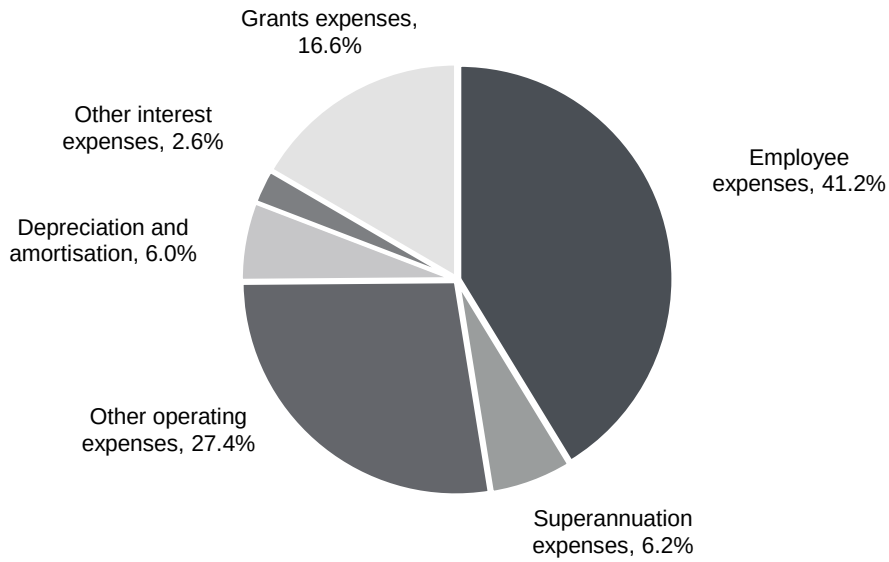
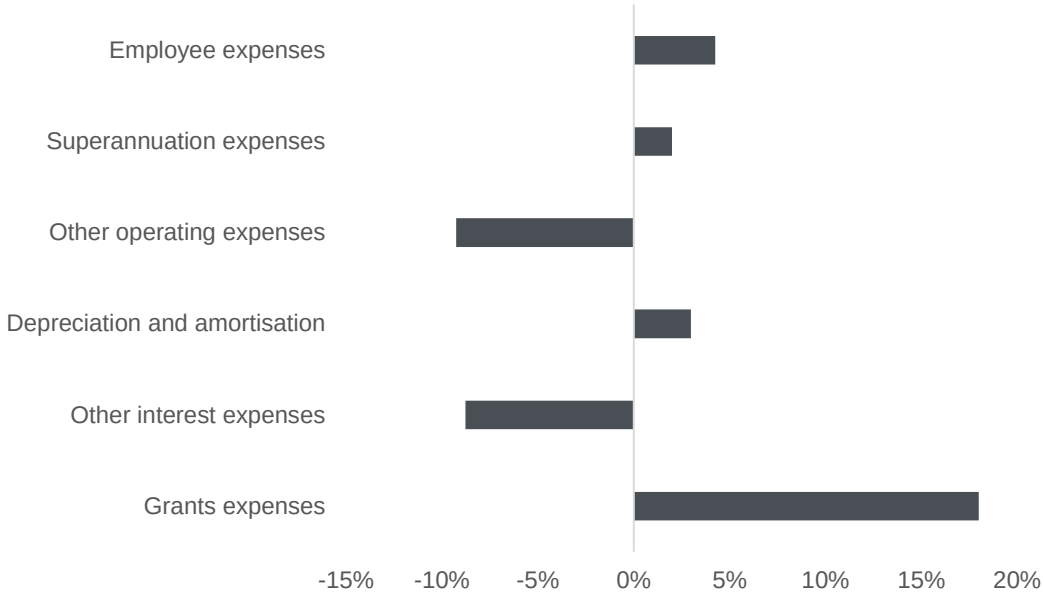


Chart 5.2 identifies the growth in expenses for each operating statement category between the 2017-18 estimated actual and the 2018-19 Budget. The fastest growth is in grant expenses, which primarily reflects the change in service delivery model of disability services with the State progressively transitioning to the National Disability Insurance Scheme (NDIS).

Chart 5.2 Growth in expenses by operating statement category - 2017-18 estimated actual to 2018-19 Budget



5.3.1 Employee expenses

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

In 2018-19, employee expenses are expected to be $23.807 billion, $969 million or 4.2% higher than the 2017-18 estimated actual. This reflects both growth in full-time equivalents (FTEs) and the Government's 2.5% wages policy. Much of the increase in employee expenses in 2018-19 is the key frontline service areas of health and education reflecting increasing demand for health services and student population growth.

Full-time equivalents

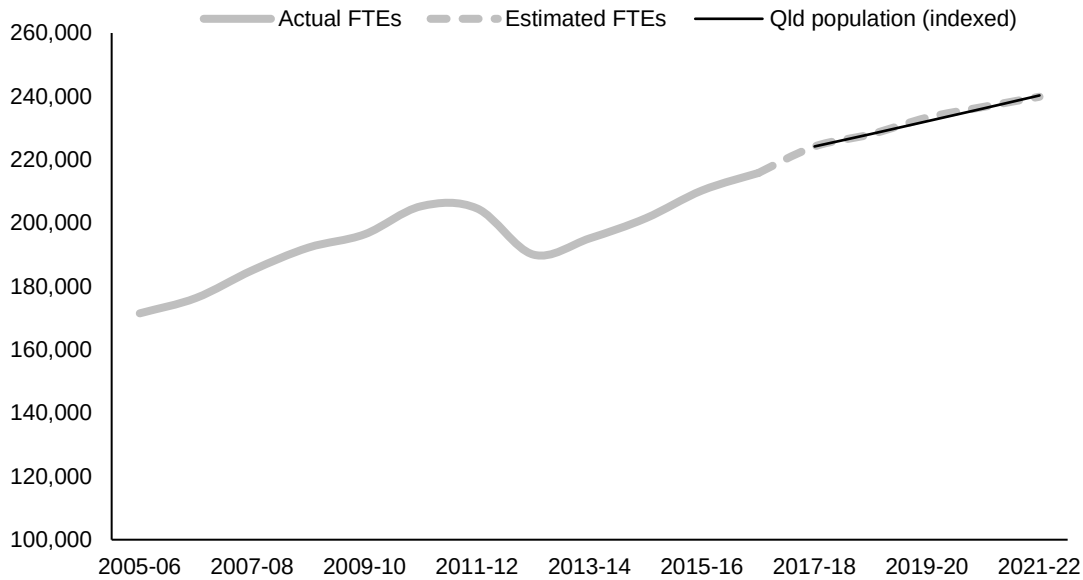
During the 2015 election, the Government made commitments to revitalise frontline service delivery. This resulted in FTEs increasing 14,269 (or 7.1%) in 2015-16 and 2016-17, and an estimated further 8,380 (or 3.88%) in 2017-18. Between March 2015 and March 2018:

- teachers increased by 3,634 (or 8.6%)
- teacher aides increased by 1,135 (or 12.2%)
- nurses increased by 4,828 (or 17.3%)
- health practitioners increased by 1,488 (or 15.2%)
- doctors increased by 1,605 (or 20.3%)
- ambulance officers increased by 376 (or 10.2%)
- police officers increased by 302 (or 2.7%).

As at March 2018, 90.5% of public servants were engaged in frontline and frontline support roles.

Chart 5.3 shows actual FTEs from 2005-06 to 2016-17 and estimated FTEs from 2017-18 to 2021-22.

Chart 5.3 Departmental FTEs



FTE growth is moderating. FTEs are estimated to increase by around 3,833 (or 1.71%) in 2018-19, with the majority of the increase being attributable to growth in health and education. These additional FTEs will continue to reduce the number of patients waiting longer than the recommended time, relieve pressure on class sizes and continue to improve student outcomes.

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

The overall average annual growth rate over 2017-18 to 2021-22, based on current estimates, is 1.71%. This compares to an estimated Queensland population growth of 1¾% annually. To enable ongoing monitoring, the Queensland Public Service Commission (PSC) will continue to collect agency workforce data on a quarterly basis for analysis and reporting purposes.

Box 5.1 Better data to drive decision making

As noted in previous years' Budget Paper 2 *Budget Strategy and Outlook*, issues have existed for many years with collecting and reporting information about FTEs in the Queensland public service.

These issues have arisen primarily due to the existence of two methodologies to calculate the number of FTEs, and scope of agencies included within the reported numbers. The Minimum Obligatory Human Resource Information (MOHRI) data is published in quarterly Workforce Profile reports and used primarily for broader human resources planning purposes. The Budget FTE number is used to monitor the actual number of FTEs being paid by an agency.

The PSC, with support from Queensland Treasury, has been working on strategies to reduce inconsistencies and improve the quality of data being reported. This has included restructuring parts of the quarterly Workforce Profile reports so that the data for agencies that are included in Budget Paper 2, Table 5.2 is shown separately from those that are not.

The Government acknowledges that there are still limitations surrounding the use of the MOHRI data. The key limitation of the MOHRI methodology is the inconsistency with how employee expenses are accounted for and monitored in agencies. Further, the complexity of the MOHRI methodology means that data on FTEs is not readily available in a timely fashion.

The Government will improve the quality of information by:

- enhancing data collection, reporting and monitoring of indirect employment, such as the use of labour hire, contractors and consultants
- working with agencies to improve geographical reporting, including by postcode
- reviewing the contents of the Workforce Profile reports to assess whether they are meeting the needs of users or whether further opportunities exist to provide tailored reporting, to be reported on by the 2018-19 MYFER
- reviewing occupational codes to identify whether any additional key occupational groups exist which should be reported upon.

The Government is also committed to ensuring that public service staff are located where they are needed in the community. Around 32% of FTEs are located outside South East Queensland, consistent with population share. Regional Action Plans show increases in key service delivery occupations across the regions.

The devolved frontline service delivery models used in some agencies continue to present challenges for FTE estimation and monitoring, in particular when funding is provided in such a way that agencies determine how to most efficiently deliver services. Consistent with last year, the 2018-19 Budget FTE estimates build in an allowance for this.

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

Table 5.2 Funded controlled FTE positions by Department[1,2]

	2017-18 Adj. Budget[3]	2017-18 Est. Act	2018-19 Budget
Aboriginal and Torres Strait Islander Partnerships	315	327	324
Agriculture and Fisheries	2,089	2,131	2,128
Child Safety, Youth and Women[4]	4,631	4,638	4,834
Communities, Disability Services and Seniors[4,5]	2,675	2,676	2,241
Education	70,340	71,296	72,784
Electoral Commission of Queensland	56	56	60
Employment, Small Business and Training[4]	4,538	4,517	4,432
Environment and Science	3,074	3,083	3,093
Housing and Public Works	5,510	5,512	5,541
Innovation, Tourism Industry Development and the Commonwealth Games	193	194	173
Justice and Attorney-General	3,362	3,369	3,449
Local Government, Racing and Multicultural Affairs	178	181	188
Natural Resources, Mines and Energy	2,669	2,676	2,665
Office of the Inspector-General Emergency Management	22	22	22
Premier and Cabinet	480	478	467
Public Safety Business Agency	1,144	1,129	1,117
Public Service Commission	73	73	70
Queensland Audit Office	197	182	182
Queensland Corrective Services[4]	4,868	5,005	5,039
Queensland Fire and Emergency Services	3,280	3,280	3,321
Queensland Health (total – disaggregation below)	87,396	87,610	90,095
Queensland Police Service	15,463	15,566	15,696
Queensland Treasury	975	994	994
State Development, Manufacturing, Infrastructure and Planning	1,013	1,058	1,045
The Public Trustee of Queensland	609	611	615
Transport and Main Roads	7,490	7,505	7,427
Total	**222,639**	**224,169**	**228,002**

	2017-18 Adj. Budget[3]	2017-18 Est. Act	2018-19 Budget
Queensland Health Disaggregation			
Health	7,415	7,497	7,645
Queensland Ambulance Service	4,346	4,402	4,507
Cairns and Hinterland Hospital and Health Service	4,923	4,937	4,971
Central Queensland Hospital and Health Service	2,890	2,980	3,052
Central West Hospital and Health Service	373	380	373
Children's Health Queensland Hospital and Health Service	3,608	3,792	3,700
Darling Downs Hospital and Health Service	4,315	4,396	4,549
Gold Coast Hospital and Health Service	7,482	7,635	8,063
Mackay Hospital and Health Service	2,160	2,286	2,312
Metro North Hospital and Health Service	15,750	15,832	16,165
Metro South Hospital and Health Service	12,604	13,275	12,882
North West Hospital and Health Service	702	716	782
South West Hospital and Health Service	777	806	819
Sunshine Coast Hospital and Health Service	6,540	5,970	6,400
Torres and Cape Hospital and Health Service	926	961	943
Townsville Hospital and Health Service	5,180	5,381	5,401
West Moreton Hospital and Health Service	3,243	3,284	3,572
Wide Bay Hospital and Health Service	3,049	3,080	3,132
Funded unallocated FTEs[6]	1,113	..	827
Total Queensland Health	**87,396**	**87,610**	**90,095**

Notes:

1. Numbers may not add due to rounding.
2. Explanation of variations in departmental FTEs can be found in the Service Delivery Statements (SDSs). Departmental totals may include multiple tables from Service Delivery Statements, due to separate FTE tables being provided for Commercialised Business Units.
3. Adjusted Budget reflects movements of FTEs following Machinery of Government changes only.
4. Differs from SDSs due to departmental transfers which were not classified as Machinery of Government changes in the SDS.
5. Decline in FTEs in 2018-19 reflects the transfer of clients with disability to the National Disability Insurance Scheme (NDIS).
6. Funded unallocated FTEs represents estimates of additional FTEs which have not yet been allocated to particular Hospital and Health Services.

5.3.2 Superannuation expenses

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

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

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

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

5.3.3 Other operating expenses

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

In 2018-19, other operating expenses are expected to be $15.774 billion, a decrease of $1.609 billion or 9.3% lower compared to the 2017-18 estimated actual.

Other operating expenses decline significantly in 2018-19 due to:

- delivery of the Gold Coast 2018 Commonwealth Games in 2017-18
- the Government provisioning in 2017-18 for Queensland's participation in the National Redress Scheme
- continuing transition of specialist disability services to the NDIS. Queensland's contributions to the NDIS are reflected as grants expenses.

Other operating expenses continue to decline in 2019-20 following the final year of transition to the NDIS in 2018-19.

5.3.4 Depreciation and amortisation

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

Depreciation expenses have increased since the 2017-18 MYFER in all years of the forward estimates following revisions for transport and health infrastructure.

5.3.5 Other interest expenses

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

Other interest expenses are estimated to decline $142 million in 2018-19 to $1.474 billion compared to $1.616 billion in 2017-18.

Interest costs have fallen significantly since the recent peak of $2.328 billion in 2014-15. The decline in General Government Sector debt servicing costs is due in part to the repatriation of surplus defined benefit superannuation assets and other balance sheet measures.

5.3.6 Grants expenses

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

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

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

Table 5.3 Grants expenses[1]

	2016-17 Actual $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million
Current			
Grants to local government	905	744	603
Grants to private and not-for-profit organisations			
State funding for non-state schools	664	688	683
Australian Government funding for non-state schools	2,393	2,537	2,670
Other	1,220	1,434	1,514
Grants to other sectors of government			
Community service obligations to PNFCs	615	499	472
Other payments to PNFCs	797	37	44
Other (includes payments to NDIA)	157	411	1,653
Other	437	305	238
Total current grants	**7,189**	**6,656**	**7,878**
Capital			
Grants to local government	732	976	1,064
State funding for non-state schools	93	93	98
Grants to private and not-for-profit organisations	361	144	359
Payments to PNFCs	29	16	13
Queensland First Home Owners' Grants	158	201	140
Other	6	10	..
Total capital grants	**1,379**	**1,440**	**1,674**
Total current and capital grants	**8,568**	**8,096**	**9,552**

Note:

1. Numbers may not add due to rounding.

In 2017-18, total grant expenses are estimated to be $8.096 billion; $472 million lower than 2016-17. This decrease is mainly due to:

- the payment in 2016-17 of the $771 million Electricity Affordability grant to Energy Queensland to remove the costs of the Solar Bonus Scheme from retail electricity prices from 2017-18 to 2019-20
- the Australian Government's payment in 2016-17 of the financial assistance grants to local governments for both 2016-17 and 2017-18. The 2018-19 grant will be paid in 2017-18.

The effect of these grant payments in 2016-17 were partially offset in 2017-18 by increased funding to non-state schools, grants under the Government's job creation programs, First Home Owners' Grants and payments by the State to the National Disability Insurance Agency (NDIA) on the progressive transition to the NDIS.

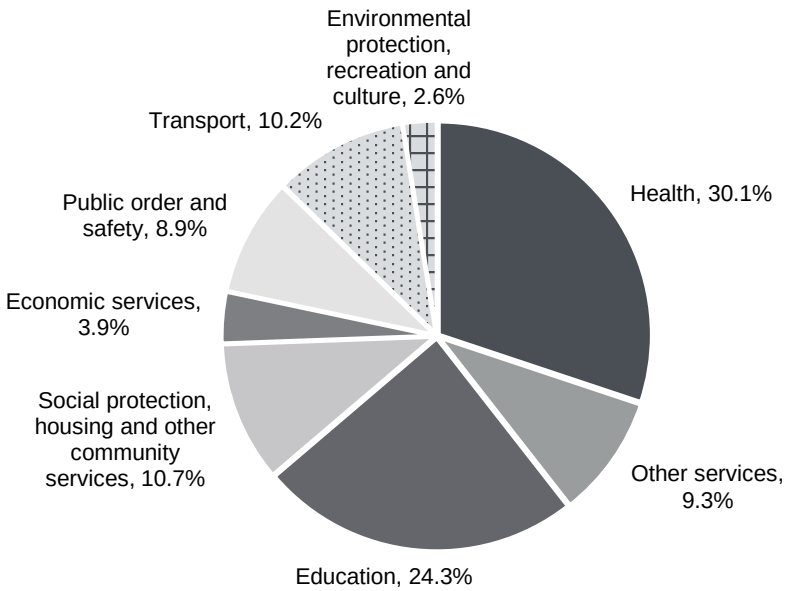
In 2018-19, total grant expenses are estimated to be $9.552 billion, an increase of $1.456 billion from 2017-18. The increase in grants expenses is mainly due to grants to other sectors of government, reflecting the change in service delivery model of disability services with the State progressively transitioning to the NDIS, higher capital grants to local councils under Natural Disaster Relief and Recovery Arrangements, waste strategy measures supported by the waste disposal levy and various election commitment expense measures. The increase in grants expenses in 2018-19 is partly offset by the Australian Government again making advance payment of the 2018-19 financial assistance grants to local councils in 2017-18.

5.4 Operating expenses by purpose

Chart 5.4 indicates the proportion of expenditure by major purpose classification for the 2018-19 Budget. Health accounts for the largest share of expenses (30.1%) followed by Education (24.3%).

The Australian Bureau of Statistics introduced a revised Classification of the Functions of Government Australia Framework, effective 1 July 2017, which has resulted in some re-classification of expenditure between purposes.

Chart 5.4 General Government Sector expenses by purpose, 2018-19



5.5 Departmental expenses

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

Table 5.4 Departmental controlled expense[1,2]

	2017-18 Est. Act. $ 000	2018-19 Budget $ 000
Aboriginal and Torres Strait Islander Partnerships	90,905	86,868
Agriculture and Fisheries	470,493	481,707
Child Safety, Youth and Women	801,680	1,625,340
Communities, Disability Services and Seniors	2,130,417	868,802
Education	9,371,431	9,421,193
Electoral Commission of Queensland	58,286	48,033
Employment, Small Business and Training	569,445	1,074,848
Energy and Water Supply[3]	43,796	..
Environment and Science	548,345	813,880
Health Consolidated[4]	16,865,940	17,317,943
Housing and Public Works	2,193,512	2,469,903
Innovation, Tourism Industry Development and the Commonwealth Games	372,003	222,834
Inspector General Emergency Management	4,876	4,887
Justice and Attorney-General	1,081,575	602,728
Legislative Assembly	97,415	98,193
Local Government, Racing and Multicultural Affairs	484,553	436,063
National Parks, Sport and Racing[3]	152,700	..
Natural Resources, Mines and Energy	530,990	663,388
Office of the Governor	7,126	7,174
Office of the Ombudsman	8,677	9,205
Premier and Cabinet[5]	205,286	116,370
Public Safety Business Agency	437,286	422,577
Public Service Commission	15,969	14,598
Queensland Audit Office	42,667	43,821
Queensland Corrective Services	469,406	951,883
Queensland Fire and Emergency Services	678,022	702,492
Queensland Police Service	2,320,969	2,325,591
Queensland Treasury	321,494	256,965
Science, Information Technology and Innovation[3]	176,127	..
State Development, Manufacturing, Infrastructure and Planning	401,707	595,992
The Public Trustee of Queensland	88,154	95,362
Transport and Main Roads	5,728,206	5,885,706
Total expenses	**46,769,458**	**47,664,346**

Notes:

1. Total expenses by department do not equate to total General Government expenses in Uniform Presentation Framework (UPF) terms reported elsewhere in the Budget Papers as General Government expenses include a wider range of entities including State Government statutory authorities. In addition, transactions eliminated between entities within the General Government Sector are excluded in the preparation of whole-of-Government UPF financial statements.
2. Explanation of variations in departmental controlled expenses can be found in the Service Delivery Statements.
3. Ceased 12 December 2017.
4. This represents Health Consolidated in the Service Delivery Statement, which consolidates Queensland Health controlled, the Hospital and Health Services, and Queensland Ambulance Service.
5. Excludes Corporate Administration Agency.

Table 5.5 Departmental administered expense[1,2]

	2017-18 Est. Act. $ 000	2018-19 Budget $ 000
Aboriginal and Torres Strait Islander Partnerships	14,261	12,518
Agriculture and Fisheries	27,717	40,370
Child Safety, Youth and Women	494,601	5,868
Communities, Disability Services and Seniors	811,834	1,929,471
Education	3,413,315	3,550,845
Energy and Water Supply[3]	233,064	..
Environment and Science	71,194	139,452
Health	73,784	18,748
Housing and Public Works	23,892	52,079
Innovation, Tourism Industry Development and the Commonwealth Games	625,534	107,889
Justice and Attorney-General	400,860	415,442
Local Government, Racing and Multicultural Affairs	750,723	247,124
National Parks, Sport and Racing[3]	31,688	..
Natural Resources, Mines and Energy	335,764	533,012
Premier and Cabinet	137,247	123,127
Queensland Police Service		734
Queensland Treasury	6,002,470	6,049,595
Science, Information Technology and Innovation[3]	37,433	..
State Development, Manufacturing, Infrastructure and Planning	222,792	604,240
The Public Trustee of Queensland	604	..
Total expenses	**13,708,777**	**13,830,514**

Notes:

1. Total expenses by department does not equate to total General Government expenses in Uniform Presentation Framework (UPF) terms reported elsewhere in the Budget Papers as General Government expenses include a wider range of entities including State Government statutory authorities. In addition transactions eliminated between entities within the General Government Sector are excluded in the preparation of whole-of-Government UPF financial statements.
2. Explanation of variations in departmental administered expenses can be found in the Service Delivery Statements.
3. Ceased 12 December 2017.

6 Balance sheet and cash flows

Features

- Due to a stronger than expected 2017-18 operating surplus, borrowing in 2017-18 is expected to remain below projections in the 2017-18 MYFER and be nearly $2.4 billion lower than projected in the 2017-18 Budget.
- General Government Sector debt is expected to increase slightly from $31.367 billion in 2017-18 to $32.311 billion in 2018-19. This is $1.6 billion lower than the projection for 2018-19 at the time of the 2017-18 MYFER and over $4 billion lower than 2017-18 budget.
- The reduction in General Government debt in 2017-18 has provided the Government with the capacity to fund essential infrastructure and capital works over the forward estimates, while General Government debt and Non-financial Public Sector (NFPS) debt remains lower each year than predicted in the 2017-18 Budget.
- The State's net worth, the amount by which its assets exceed its liabilities, is forecast to be over $208 billion by 2020-21, $2.35 billion higher than at the time of the 2017-18 MYFER. The increase since the 2017-18 MYFER predominantly reflects lower than expected borrowing as a result of the strong 2017-18 operating surplus.
- At the time of 2017-18 MYFER, net cash inflows from operating activities for 2017-18 were expected to cover 68.9% of net investments in Non-financial Assets (NFAs) for the General Government Sector. The estimated actual coverage is now expected to be nearly 100%.
- The total capital program for 2018-19 Budget of $45.769 billion for the period 2018-19 to 2021-22 is comprised of $40.543 billion of Purchases of Non-financial Assets (PNFA), $4.074 billion of capital grant expenses and acquisitions of non-financial assets under finance leases of $1.151 billion.

6.1 Context

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

The cash flow statement shows the expected cash flows of the General Government Sector during each financial year of the forward estimates. 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.

6.2 Balance Sheet

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

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

	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Financial assets	60,814	61,544	59,460	58,581	58,642	58,458
Non-financial assets	212,407	210,900	214,752	219,987	224,570	229,016
Total assets	**273,222**	**272,443**	**274,212**	**278,568**	**283,213**	**287,474**
Borrowings	**33,758**	**31,367**	**32,311**	**35,861**	**39,588**	**42,290**
Advances and deposits	1,544	2,231	1,816	1,533	1,367	1,384
Superannuation liability	23,355	25,294	23,414	21,334	19,946	18,877
Other provisions and liabilities	12,642	13,865	14,034	14,065	14,211	14,407
Total liabilities	**71,299**	**72,757**	**71,575**	**72,793**	**75,112**	**76,958**
Net worth	**201,922**	**199,686**	**202,636**	**205,775**	**208,101**	**210,515**
Net financial worth	**(10,485)**	**(11,213)**	**(12,115)**	**(14,211)**	**(16,470)**	**(18,501)**
Net financial liabilities	**33,273**	**34,216**	**35,928**	**38,362**	**40,540**	**42,462**
Net debt	**1,622**	**(267)**	**2,815**	**7,336**	**11,018**	**13,707**

Note:

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

6.2.1 Financial assets

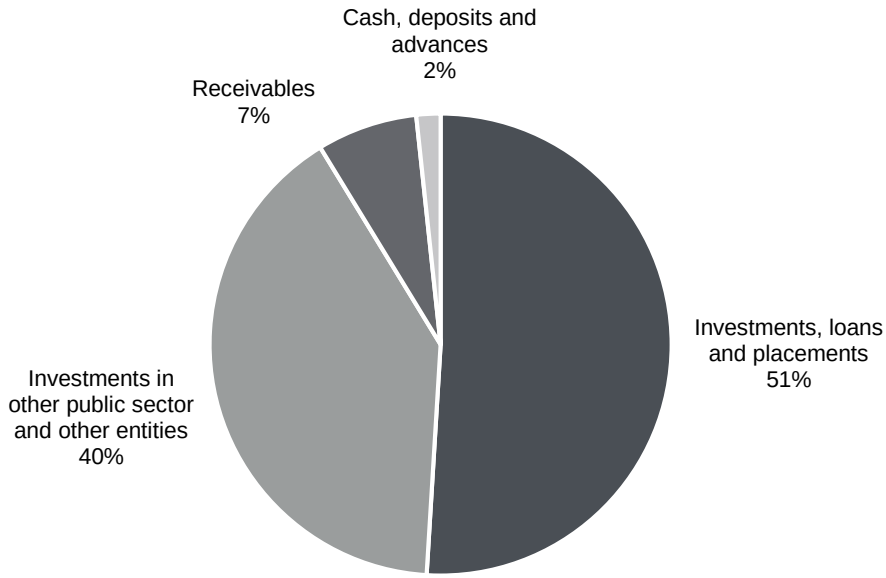
The General Government Sector holds the equity of the State's public enterprises, principally its shareholding in government-owned corporations (GOCs) but also Public Financial Corporations like Queensland Treasury Corporation (QTC), in much the same manner as the parent or holding company in a group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

Financial assets of $61.544 billion are estimated for 2017-18, $730 million higher than originally budgeted for 2017-18. Receivables are $333 million higher than budgeted, which includes dividends from other sectors.

Between 2017-18 and 2019-20, financial assets are projected to decrease by $2.963 billion as investments are repatriated from the actuarially assessed defined benefit superannuation fund and Queensland Government Insurance Fund (QGIF) surpluses. These repatriations, announced in previous budgets, will be used to fund the State Infrastructure Fund and additional priority capital projects as well as reducing debt.

Chart 6.1 shows forecast General Government Sector financial assets by category at 30 June 2019. Investments held to meet future liabilities, including superannuation and insurance, comprise the major part of the State's financial assets.

Chart 6.1 Forecast General Government Sector financial assets by category, at 30 June 2019



6.2.2 Non-financial assets

General Government Sector non-financial assets are estimated to total $210.9 billion at 30 June 2018, $1.507 billion lower than forecast at 2017-18 Budget and $281 million higher than in the 2017-18 MYFER.

The decrease since the 2017-18 Budget reflects the flow through of a net downward revaluation at 30 June 2017 primarily for road infrastructure assets. These revaluations were incorporated into the 2017-18 MYFER.

NFAs in 2018-19 are expected to grow by $3.852 billion over the 2017-18 estimated actuals, to be $214.752 billion at 30 June 2019. These assets consist primarily of land and other fixed assets of $207.985 billion, the majority of which are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets of $6.767 billion held by the State include prepayments and deferred income tax assets relating to GOCs.

General Government Sector capital expenditure for 2018-19 is forecast to be $7.601 billion, which comprises $5.927 billion of PNFA, and $1.674 billion of capital grant expenses. In addition to these, acquisitions of non-financial assets under finance leases are forecast to be $864 million, bringing the total General Government Sector capital program for 2018-19 to $8.465 billion.

Over the four years to 2021-22, General Government Sector capital expenditure is forecast to be $32.078 billion, which comprises $27.961 billion of PNFA, and $4.117 billion of capital grant expenses. Acquisitions of non-financial assets under finance leases are forecast to be $1.151 billion, bringing the total General Government Sector capital program over the period to $33.229 billion.

General Government Sector PNFA are forecast to increase from $4.905 billion in the 2017-18 estimated actual to $7.081 billion in 2021-22. This increase reflects the Government's commitment to providing essential infrastructure and capital works to deliver productivity enhancing infrastructure, strengthening local economies and supporting local jobs.

One of the Government's fiscal principles targets net operating surpluses that ensure General Government Sector PNFA are funded primarily through recurrent revenues rather than borrowing. Forecast net operating cash flows from 2017-18 to 2021-22 of $17.670 billion are funding net investments in NFAs of $31.414 billion. Net cash inflows from operating activities equate to 59.7% of the funding required for the 2018-19 General Government Sector net investments in NFAs, and averages 59.3% across the period 2017-18 to 2021-22.

The State has also entered into a number of finance leases, mainly in relation to Public Private Partnerships, totalling $1.710 billion over the period 2017-18 to 2019-20, including:

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

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

Purchases of non-financial assets by the NFPS over the period 2018-19 to 2021-22 are forecast to be $40.543 billion, which is an average of $10.136 billion per annum. With capital grant expenses of $4.074 billion, this brings total capital expenditure to $44.618 billion. In addition to this, acquisitions of non-financial assets under finance leases of $1.151 billion bring the total capital program over the period to $45.769 billion. While its primary aim is to facilitate service delivery to Queenslanders, infrastructure investment makes an important contribution to the economy and is a cornerstone of the Queensland job market, particularly in the construction industry.

6.2.3 Liabilities

General Government Sector

Estimated General Government Sector liabilities of $72.757 billion in 2017-18 are $1.458 billion higher than the 2017-18 Budget. The superannuation liability was $1.939 billion higher, mainly from the flow through of actuarial adjustments at 30 June 2017, as well as lower beneficiary payments. Advances received were higher as more GOCs joined the cash management scheme and there was an increase in other liabilities, predominantly the State's commitment to join the National Redress Scheme for Survivors of Institutional Child Sexual Abuse. Partially offsetting these increases was lower debt than expected at the time of the 2017-18 Budget mainly resulting from improved royalty revenue.

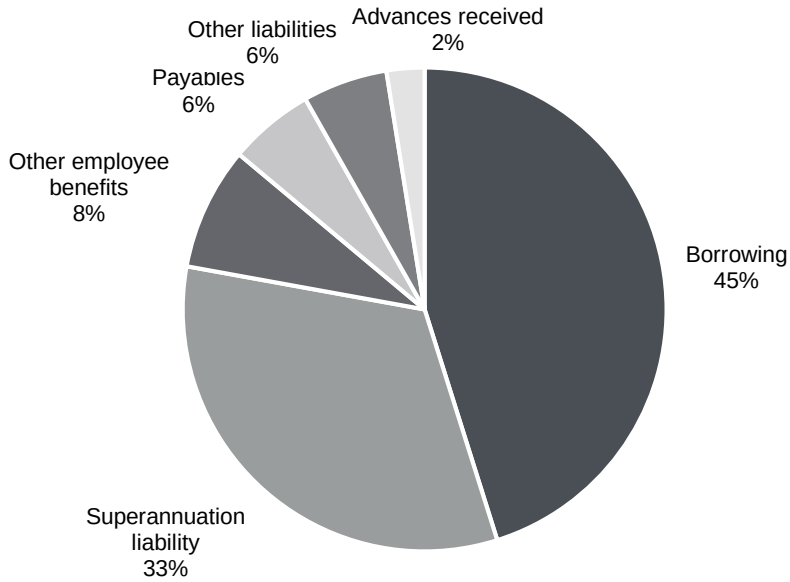
Due to the Government's commitment to sustainable fiscal management, General Government Sector borrowing is expected to fall $1.893 billion from $33.260 billion in 2016-17 to $31.367 billion in 2017-18.

Total liabilities in the General Government Sector in 2018-19 will reduce by $1.182 billion from the 2017-18 estimated actual, predominantly due to lower superannuation liabilities. Liabilities relating to employee entitlements (principally superannuation and long service leave) are projected to total $29.302 billion at 30 June 2019, a 5.6% decrease on the 2017-18 estimated actual. The State's defined benefit fund has been closed to new entrants since 2008. Given the age profile of those employees still in that fund, retirements are also increasing. Accordingly, the State's superannuation liability is now declining over the forward estimates. In addition, an anticipated increase in bond rates across the forward estimates contributes to the expected decline.

General Government Sector borrowings of $32.311 billion are budgeted for 2018-19, $4.082 billion lower than the projection in the 2017-18 Budget and $1.601 billion lower than projected at the time of the 2017-18 MYFER. Borrowings are expected to increase by $10.923 billion between 2017-18 and 2021-22 in support of PNFA's of $27.961 billion.

The composition of the General Government Sector's forecast liabilities at 30 June 2019 is illustrated in Chart 6.2.

Chart 6.2 Forecast General Government Sector liabilities by category, at 30 June 2019



Borrowing in 2018-19 is budgeted to be 45% of total liabilities, compared with 53% in 2014-15, reflecting the reduction in borrowings over this period.

Non-financial Public Sector borrowings

Non-financial Public Sector borrowings of $69.501 billion are expected for 2017-18, $2.488 billion lower than expected at the 2017-18 Budget, and $1.721 billion lower than 2017-18 MYFER.

Non-financial Public Sector borrowings of $79.750 billion are now expected for 2020-21, $1.093 billion lower than expected at the 2017-18 MYFER and $1.398 billion less than the comparable 2017-18 Budget estimate. This largely reflects the Government's commitment to fiscally responsible infrastructure investment, without substantially increasing debt.

6.2.4 Net financial worth

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

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

The net financial worth of the General Government Sector for 2017-18 is estimated at negative $11.213 billion, an improvement of $1.138 billion on the 2017-18 MYFER.

6.2.5 Net financial liabilities

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

The net financial liabilities of the General Government Sector for 2017-18 are estimated to be $34.216 billion. Net financial liabilities start increasing from 2018-19 mainly as borrowings increase and investments are repatriated from the actuarially assessed defined benefit superannuation fund and QGIF surplus to assist funding of priority infrastructure projects.

6.2.6 Net worth

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

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

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

The net worth of the General Government Sector in 2017-18 is estimated to be $199.686 billion. This is $2.236 billion lower than forecast in the 2017-18 Budget primarily due to downward revaluations of road infrastructure assets at 30 June 2017. From 2017-18, net worth is projected to steadily increase, mainly as a result of the growth in purchases of non-financial assets.

6.2.7 Net debt

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

Net debt for the General Government Sector in 2017-18 is estimated to be negative $267 million, $1.889 billion less than the 2017-18 Budget mainly as a result of improved royalty receipts. Net debt is forecast to increase across the forward estimates to fund priority infrastructure projects.

In the NFPS, net debt is estimated at $34.854 billion in 2017-18, $3.036 billion less than the 2017-18 Budget. Net debt is expected to increase to $39.027 billion in 2018-19 and then grow through to 2021-22 with infrastructure provision partly funded by borrowings and investment drawdowns.

6.2.8 New Accounting Standards

Two new accounting standards will apply to public and private sectors in Australia from 1 July 2019, AASB 16 *Leases* and AASB 1059 *Service Concession Arrangements*, that have the potential to significantly impact balance sheets.

Currently, only finance leases are recognised on the balance sheet (and classified as borrowings for GFS purposes). The intention of the new leasing standard is to also bring operating leases onto the balance sheet of lessees. There will therefore no longer be a distinction between finance leases and operating leases for lessees.

Lessees will be required to recognise a right-of-use asset on balance sheet (representing the right to use the underlying leased asset) and a lease liability (representing the obligation to make future lease payments) for all leases except for short-term leases and leases of low-value assets. Social PPPs (such as schools) are already treated as finance leases and included on the State's balance sheet.

For Service Concession Arrangements, the State, as grantor will recognise an asset and a matching liability which may be classified as a borrowing or unearned revenue (included in other liabilities), depending on the individual contract.

The impact of these new standards will be addressed in the 2019-20 Budget.

6.3 Cash flows

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

The estimated General Government Sector cash deficit of $47 million in 2017-18 is $1.875 billion lower than that forecast at the time of the 2017-18 Budget. This is largely due to the higher than expected operating cash flows.

After taking into account PNFA of $5.927 billion, a cash deficit of $2.248 billion is forecast for 2018-19, an improvement of $937 million compared to the 2017-18 MYFER.

Net cash flows from investments in financial assets for policy purposes include net cash flows from disposal or return of equity, net equity injections into government-owned corporations and concessional loans and advances. Cash flows from the return of equity from the PNFC and PFC sectors are the primary driver of net inflows of $1.127 billion over the period 2017-18 to 2021-22.

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 repatriation of surpluses in the actuarially assessed defined benefit superannuation fund and the QGIF flow through this line in the Statement of Cash Flows.

Total General Government Sector PNFA of $5.927 billion are budgeted for 2018-19 and, over the period 2018-19 to 2021-22, PNFA are expected to total $27.961 billion in the General Government Sector.

7 Intergovernmental financial relations

Features

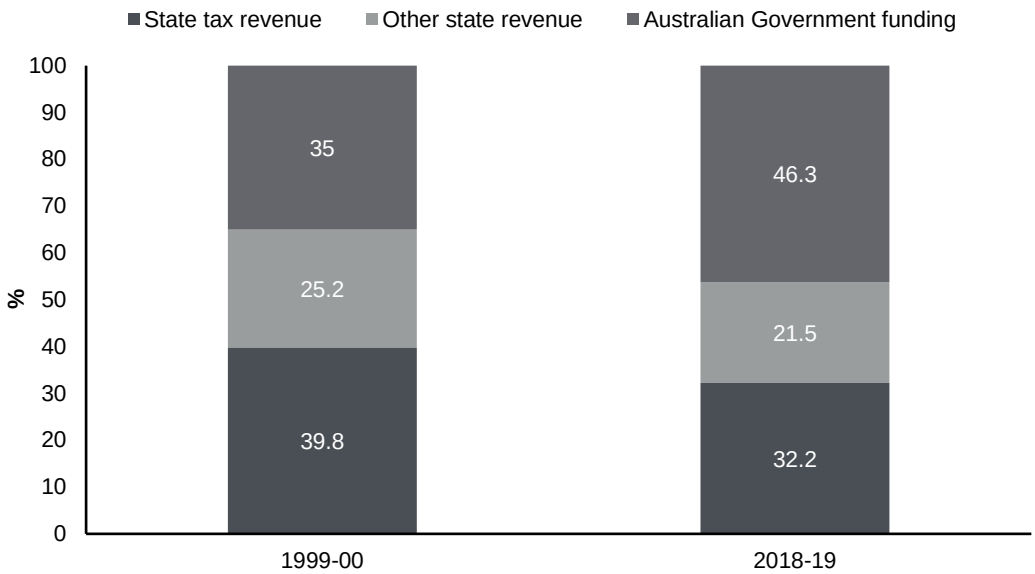
- Queensland's ability to meet its service delivery and infrastructure responsibilities is dependent on payments from the Australian Government with over 45% of Queensland General Government revenue coming from the Australian Government.
- Estimated Australian Government funding in 2018-19 for Queensland is $26.776 billion; $14.794 billion in GST revenue and $11.982 billion in payments for specific purposes (National Specific Purpose Payments and National Partnership payments).
- Queensland's GST revenue in 2018-19 is $415.2 million lower than that received in 2017-18. Queensland has a reduced GST share because of factors such as strong mining royalties and population growth below the national average in the three years to 2016-17. The Australian Government's direction to the Commonwealth Grants Commission to exclude selected payments from GST distribution calculations has also negatively impacted Queensland's share of GST.
- In 2018-19, $11.982 billion is provided for payments for specific purposes comprising:
  - $4.557 billion for National Health Reform
  - $4.408 billion for Quality Schools
  - $2.034 billion for National Partnership payments, including $1.487 billion for the Infrastructure Investment Program, $158 million for Natural Disaster Relief and Recovery Arrangements (NDRRA) and $88 million for Universal Access to Early Childhood Education
  - $669.5 million for National Specific Purpose Payments, including $366 million for disability services, and $303.5 million for skills and workforce development
  - $313.6 million for National Housing and Homelessness.
- Queensland is currently negotiating a number of agreements with the Australian Government. Three key agreements are the National Health Reform Agreement, Quality Schools Agreement and the National Housing and Homelessness Agreement.
- Despite repeated requests from states and territories, the Australian Government has not provided greater certainty on the longevity of some funding, preferring instead to provide short-term extensions, or none at all in the case of remote housing, rather than make long-term commitments. The Australian Government also continues to impose stringent conditions in new agreements. This is inconsistent with the principles of the Intergovernmental Agreement on Federal Financial Relations.
- Similarly, Queensland is particularly challenged by a lack of sufficient funding from the Australian Government towards nationally significant infrastructure projects in Queensland, most notably Cross River Rail.

7.1 Federal financial arrangements

Federal financial relations in Australia are characterised by different levels of government sharing responsibility for raising revenue and delivering services to communities. State and territory governments' ability to raise revenue is less than required to meet their service delivery responsibilities. Alongside this, the Australian Government raises more revenue than is required to meet its service delivery responsibilities. This is called vertical fiscal imbalance (VFI), and requires the sharing of revenue between the Commonwealth and states and territories.

In 2016-17, the Australian Government collected the majority of taxation revenues (79.6%), while states and territories (states)[1] collected 16.8% and local governments the remaining 3.6%[2]. National tax reform and other changes since 2000 have led to the Commonwealth having greater capacity to raise revenue compared to states and therefore an increase in VFI. Chart 7.1 shows that states received 35% of their revenue from the Australian Government in 1999-2000, with this forecast to significantly increase to 46.3% in 2018-19[3].

Chart 7.1 General Government revenue sources, all states, 1999-2000 and 2018-19[1]



Note:

1. 2018-19 are estimates.

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

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

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

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

In Australia, VFI is addressed through a system of intergovernmental payments from the Australian Government to the states which allows the states to meet their service delivery and infrastructure responsibilities. The Australian Government provides two types of payments:

- general revenue assistance payments such as the GST which are able to be used by states for any purpose (untied funding)
- payments for specific purposes (tied funding) such as National Specific Purpose Payments (SPPs) and National Partnership payments (NPs) which support specific projects or service areas.

Without a contribution by the Australian Government, states would not be able to provide essential services and infrastructure.

Another feature of Australian federalism is horizontal fiscal imbalance (HFI). HFI arises from disparities between the states' capacity to raise revenue and deliver services. Some states can raise higher revenue or deliver services at a lower cost compared to other states. Over time, this can distort capital and labour mobility towards states providing higher level of services.

To address this, GST revenue collected by the Australian Government is distributed to states in a way that ensures each is provided with the fiscal capacity to deliver the same standard of services and infrastructure to their population no matter where they live. This is known as horizontal fiscal equalisation (HFE).

The Commonwealth Grants Commission (CGC) uses the principle of HFE in recommending to the Australian Government how GST revenue should be distributed. The amount each state receives is a function of the amount of GST revenue collected (the GST pool) and the share of revenue recommended by the CGC.

In April 2017, the Australian Government directed the Productivity Commission to review the current HFE system to determine its impact and whether preferable alternatives exist. Further details are provided in Box 7.1.

Box 7.1 Productivity Commission Inquiry into HFE

The Productivity Commission's (PC) inquiry into Australia's system of HFE commenced on 30 April 2017. This inquiry examines the current system of distributing GST revenue to the states and its impact on productivity, efficiency, economic growth and the incentives for states to undertake fiscal reforms.

The PC released a draft report on 9 October 2017. It found that the current system achieves a high degree of equalisation but has the potential to discourage states from pursuing efficiency-enhancing reform. In response, the PC canvassed several alternative systems for distributing GST revenue. A key element of these alternative systems is that states are not equalised to deliver the same standard of services and infrastructure to their population. In each alternative system, Queensland would receive significantly less GST revenue. Under one system, the PC estimates that Queensland would have received $1.588 billion less GST in 2017-18 compared to the current system. This is equivalent to losing 5,000 teachers, 5,000 nurses, 3,000 police officers and 1,135 firefighters.

In its submission to the PC in December 2017, and at the public inquiry in Brisbane on 5 February 2018, the Queensland Government strongly advocated for the principle of HFE. It also stressed the importance of a system that recognises the different circumstances of each state so that additional funding can be directed to states with unavoidably higher service delivery costs.

The PC final report was provided to the Australian Government on 15 May 2018. At the time of finalising the 2018-19 Budget papers, states have not been provided with the report or the PC final recommendations.

7.2 Australian Government funding to the states

As discussed in section 7.1, total Australian Government payments to the states are made up of general revenue assistance payments and payments for specific purposes.

Total Australian Government payments for the states in 2018-19 are expected to be $126.751 billion, an increase of $4.312 billion, or 3.5%, from 2017-18.

Within this total, payments to states for specific purposes in 2018-19 are expected to be $58.554 billion, a 1.0% increase from 2017-18. These consist of:

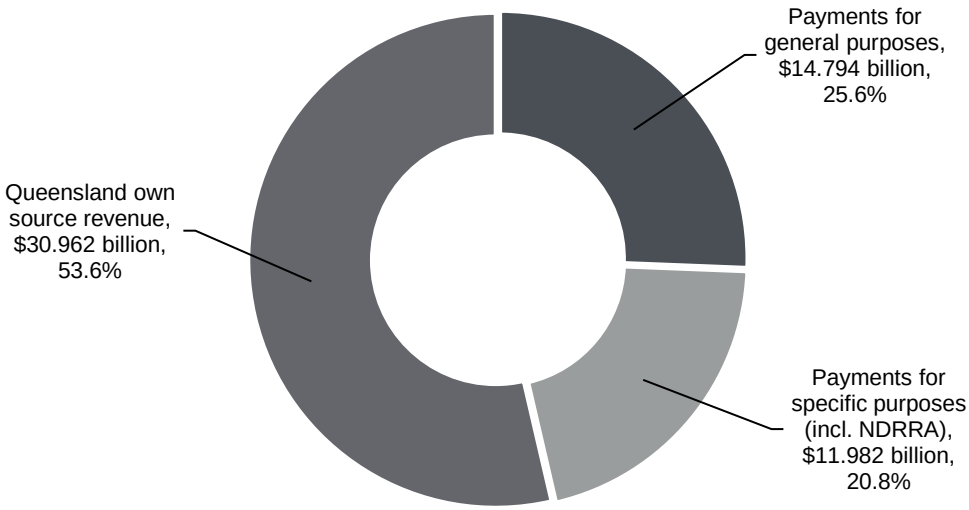
- $21.189 billion in National Health Reform funding
- $19.518 billion in Quality Schools funding
- $13.840 billion in National Partnership payments
- $2.471 billion in National Specific Purpose Payments
- $1.536 billion in National Housing and Homelessness funding.

7.3 Australian Government funding to Queensland

Estimated Australian Government funding in 2018-19 for Queensland, included in the 2018-19 Queensland Budget, is $26.776 billion[4], a decrease of $523.2 million, or 1.9%, compared with 2017-18.

Australian Government funding is estimated to account for 46.4% of Queensland's total General Government Sector revenue sources in 2018-19 (shown in Chart 7.2). Australian Government funding has grown significantly as a proportion of Queensland's total revenue since the introduction of the GST in 2000, consistent with the broader national trend.

Chart 7.2 General Government Sector revenue sources, Queensland, 2018-19[1]



Note:

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

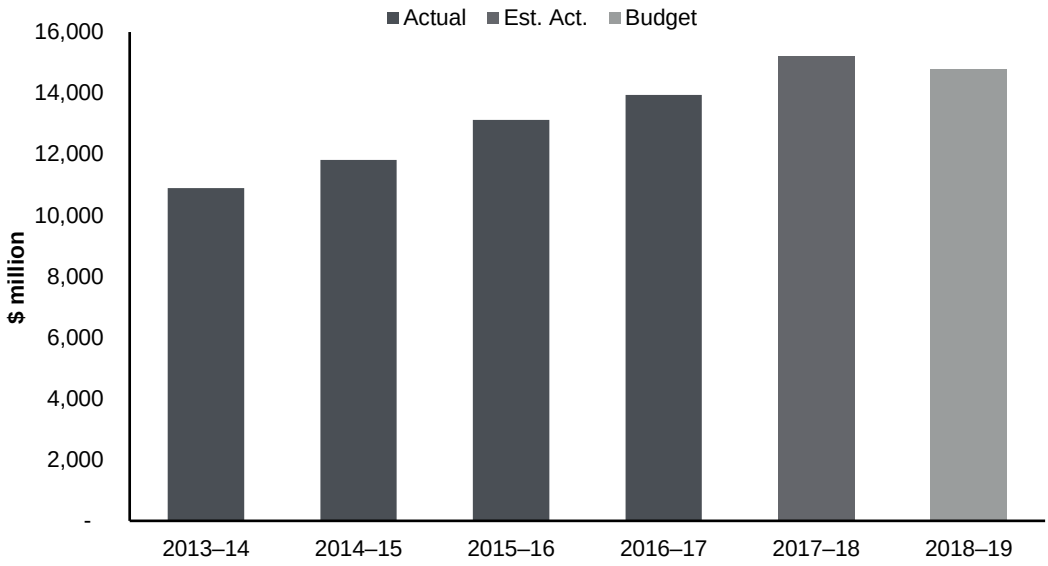
Source: 2018-19 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.

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

7.4 GST revenue payment

GST revenue accounts for all general revenue assistance payments Queensland receives. In 2018-19, Queensland expects to receive $14.794 billion of GST revenue, $415.2 million or 2.7% less than the amount received in 2017-18 (see Chart 7.3).

Chart 7.3 Estimated GST payments to Queensland, 2013-14 to 2018-19[1]



Note

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

Sources: 2018-19 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.

The decrease in GST revenue in 2018-19 reflects the CGC's recommendation that Queensland receive a lesser share of GST compared to 2017-18. This is expressed as a relativity; the measure of a state's fiscal capacity compared to other states, after considerations are made for its ability to raise revenue and provide services. A state with a lower relativity is considered to have a higher fiscal capacity and requires a lower share of the GST. In 2018-19, the Australian Government accepted the CGC's recommended relativity for Queensland of 1.09584, down from 1.18769 in 2017-18.

The CGC has recommended a decrease to Queensland's share of GST for 2018-19 due to the following:

- Queensland's population growth over the assessment years from 2014-15 to 2016-17 was lower than the national average, leading to a reduction in Queensland's assessed need for infrastructure investment relative to the rest of Australia
- Queensland required less GST funding to cover natural disaster expenses compared to years following the major flood and cyclone events between 2011 and 2014
- strong commodity prices increased Queensland's mining revenue which in turn improved the state's ability to meet its own expenditures
- Queensland received more than its population share of Commonwealth payments which increased its capacity to provide services.

Queensland's GST revenue is also adversely affected by the Australian Government excluding some payments from the GST distribution calculations. These have favoured other states in recent years, for example, funding for the Perth Freight Link paid to Western Australia and payments made to states under the Asset Recycling Initiative. The adverse effect of such payments on Queensland's GST share last several years before they are no longer relevant to the calculation of the State's GST share.

The CGC Report on GST Revenue Sharing Relativities (2018 Update) provides detail on the factors that determine Queensland's GST share. It also provides information on Queensland's share of GST compared to other states and the reasons underpinning these differences. Table 7.1 shows the relativities and resulting GST distributions for each state and territory for 2018-19.

Table 7.1 Recommended relativities and estimated GST shares, 2018-19

	NSW	Vic.	Qld	WA	SA	Tas.	ACT	NT
CGC recommended relativity	0.85517	0.98670	1.09584	0.47287	1.47727	1.76706	1.18070	4.25816
GST Share ($ million)	18,442	17,261	14,794	3,315	6,887	2,488	1,328	2,805
GST per capita ($)	2,290	2,642	2,934	1,266	3,956	4,733	3,161	11,405

Sources: 2018-19 Commonwealth Budget Paper No. 3, Commonwealth Grants Commission Report on GST Revenue Sharing Relativities - 2018 Update.

Currently the CGC is reviewing its method for determining the distribution of GST among the states. Through the 2020 Methodology Review, Queensland aims to ensure the assessment accurately reflects the challenges of delivering services to a large and decentralised state and that the State receives its fair share of GST revenue

The final report for the 2020 Methodology Review will be provided to the Commonwealth and states by 28 February 2020.

7.5 Payments to Queensland for specific purposes

Payments for specific purposes comprise funding for:

- National Health Reform
- Quality Schools
- National Housing and Homelessness
- National Specific Purpose Payments (SPPs)
- National Partnership (NP) payments.

Queensland is expected to receive $11.982 billion in payments for specific purposes in 2018-19. This is $107.2 million lower than 2017-18 and is mainly due to the cessation of the National Partnership on Remote Housing in 2017-18.

Table 7.2 Estimated Payments to Queensland for Specific Purposes[1]

	2016-17 Actual $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million
National Specific Purpose Payments	**907**	**925**	**670**
Skills and workforce development	296	299	304
Disability services	341	353	366
Affordable housing[2]	269	273	..
National Health Reform funding	**3,851**	**4,595**	**4,557**
Quality Schools funding	**3,874**	**4,157**	**4,408**
National Housing and Homelessness funding[2]	**..**	**..**	**314**
National Partnership Payments (incl. NDRRA)	**3,228**	**2,412**	**2,034**
Total payments for specific purposes	**11,860**	**12,089**	**11,982**

Notes:

1. Numbers may not add due to rounding.
2. From 2018-19, funding under the National Affordable Housing SPP and the National Partnership Agreement on Homelessness is combined under the National Housing and Homelessness Agreement.

Sources: 2018-19 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.

In 2018-19, National Health Reform funding accounts for 38% and Quality Schools funding accounts for 36.8% of the total payments for specific purposes respectively. The estimated decrease in National Health Reform funding from 2017-18 to 2018-19 is due to funding for services provided in previous years being recognised in 2017-18. Queensland projections of National Health Reform Funding differ from the projections contained in the 2018-19 Commonwealth Budget. For 2018-19, Commonwealth projections assume higher activity growth than is projected in service agreements between the Queensland Department of Health and

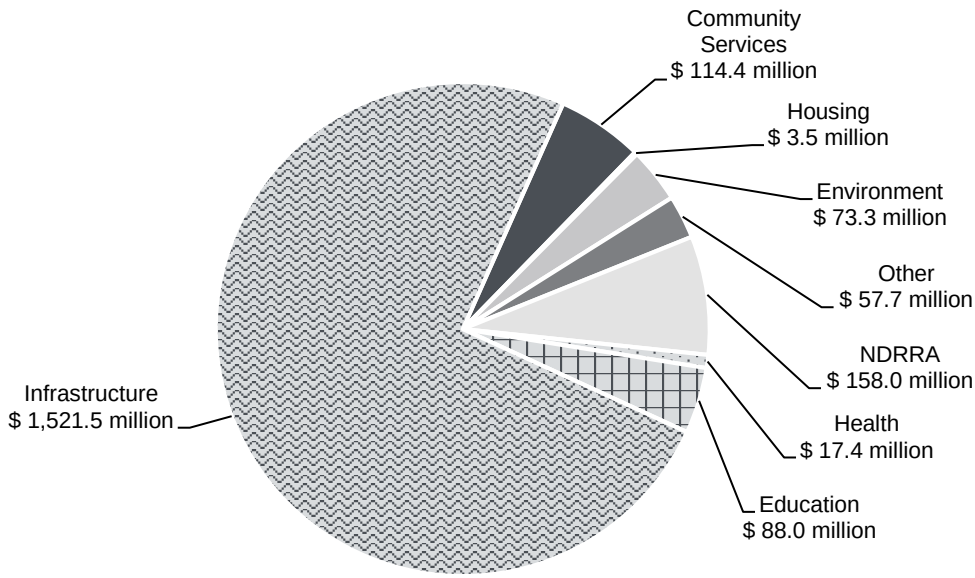
Hospital and Health Services. Actual National Health Reform payments may vary from estimates based on actual public hospital activity delivered each year.

From 1 July 2018, the new National Housing and Homelessness Agreement (NHHA) will commence. The NHHA combines funding under the National Affordable Housing SPP and continues the homelessness funding under the National Partnership Agreement on Homelessness, which expires on 30 June 2018.

National SPPs, which encompass 5.6% of the total payments for specific purposes, are expected to decrease by 27.6% to $669.5 million in 2018-19 (as shown in Table 7.2). The reduction is due to funding for the National Affordable Housing SPP being merged with homelessness funding, and reported as part of the new NHHA from 2018-19.

NP payments (including NDRRA), which account for 17% of the total payments for specific purposes, are expected to decrease by 15.7% to $2.034 billion in 2018-19 compared to the previous year. This is mainly due to the cessation of the National Partnership on Remote Housing. A significant proportion of these payments is allocated for infrastructure, community services, NDRRA and education (refer to Chart 7.4).

Chart 7.4 National Partnership Payments by sector, 2018-19[1]



Note:

1. Excludes Australian Government direct funding to local government.

Sources: 2018-19 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.

In the 2018-19 Commonwealth Budget, the Australian Government announced funding of $5.2 billion for major infrastructure projects in Queensland, with most of the funding allocated outside the forward estimates. This includes:

- a further $3.3 billion for priority upgrades along the Bruce Highway, including Pine Rivers to Caloundra ($880 million) and Cooroy to Curra Section D ($800 million)
- a contribution of $1 billion to M1 Pacific Motorway projects (Eight Mile Plains to Daisy Hill and Varsity Lakes to Tugun)
- $390 million for the Beerburrum to Nambour rail upgrade.

The Commonwealth Budget also provides funding for a number of national infrastructure initiatives that have implications for Queensland. This includes:

- $15 million allocation for the Toowoomba to Brisbane Passenger Rail Business Case under the $250 million Major Projects Business Case Fund
- $1.5 billion Northern Australia strategic roads package to be shared across Queensland, the Northern Territory and Western Australia
- $160 million to upgrade sections of the Outback Way, which links Laverton in Western Australia to Winton in Queensland. Funding will be shared across Queensland, the Northern Territory and Western Australia.

The Australian Government has failed to fund critical infrastructure such as Cross River Rail. Furthermore, it has applied inconsistent funding splits between the Commonwealth contribution compared to Queensland's contribution (e.g. 80:20 or 50:50) for similar projects, and regularly budgets its contribution well after projects commence and beyond the forward estimates. For example, for the two M1 Pacific Motorway projects, the Australian Government has only committed to 15.5% of its project contribution within the forward estimates.

Box 7.2 Projections of specific purpose funding to Queensland

Across the forward estimates, total payments for specific purposes are expected to steadily increase, with average growth of around 4% between 2019-20 and 2021-22.

National Health Reform funding for Queensland is expected to increase by an average of 5.5% per annum from 2019-20. Under the Addendum to the National Health Reform Agreement, the Australian Government will fund 45% of efficient growth in hospital activity subject to a national growth cap of 6.5% per annum. Current estimates are based on this methodology however, funding is subject to Queensland agreeing to the Addendum to the National Health Reform Agreement, including an agreed mechanism for finalising future National Health Reform funding determinations in a timely manner.

Growth in Quality Schools funding for Queensland is expecting to average 6.7% per annum between 2018-19 and 2021-22 as a result of enrolment growth and increased per student funding. In June 2017, legislation was passed by the Australian Government to introduce a new needs-based funding model for schools. Under the new funding model, Queensland is expecting to receive $7.856 billion for state schools and $11.687 billion (including GST) for non-government schools over the forward estimates. Funding for the 2019 to 2023 calendar years is contingent on states agreeing to national and bilateral agreements with the Australian Government by the end of 2018.

Queensland is currently negotiating the bilateral agreement for the new National Housing and Homelessness Agreement (NHHA). Funding is due to commence in 2018-19, and combines funding for the National Affordable Housing SPP with homelessness funding. NHHA funding is expected to be relatively stable across the forward estimates.

Funding for National SPPs is expected to decrease from 2019-20 as the NDIS is fully implemented from the same year, which will redirect the National Disability SPP funding to the NDIS. Funding for the National Skills and Workforce Development SPP is expected to be relatively stable across the forward estimates.

7.5.1 Expiring agreements

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

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

There are 14 agreements due to expire in 2017-18 or 2018-19. Funding will expire in 2017-18 for eight agreements, worth approximately $212 million in 2017-18. There are six agreements where funding expires in 2018-19, worth approximately $126 million in 2017-18.

The 2018-19 Commonwealth Budget provided no advice on renewal and/or funding for the National Partnership on Remote Housing following its expiry in 2017-18. Funding under this agreement improves housing outcomes by providing for new housing, housing refurbishments and housing-related infrastructure in Indigenous communities.

Further, short-term funding was announced for the National Partnership on Universal Access to Early Childhood Education until December 2019. This will be the sixth short-term extension for this agreement. Alongside this, no further funding to states was announced for the National Partnership on the National Quality Agenda for Early Childhood Education and Care following its expiry on 31 December 2018. The Commonwealth has committed to fund the Australian Children's Education and Care Quality Authority (ACECQA) until 30 June 2020 to administer the National Quality Framework for Early Childhood Education and Care.

When the Australian Government decides to cease funding for expiring agreements, this presents a significant ongoing fiscal risk for states, with impacts on the quality and continuity of much needed services delivered to some of the most vulnerable members of the community.

7.6 State-local government financial relations

In 2018-19, the Queensland Government will provide a total of $1.667 billion in grants to local governments. This includes financial assistance grants paid by the Australian Government through the State to local governments.

The Government is providing funding of $3.2 million over four years to undertake implementation planning to improve and simplify the administration of grants to local government.

The Government is providing funding of $1.3 million in 2018-19 to develop a new grants management system. This is to progress recommendations from the *Review of Grants to Local Government: Current and Future State Assessments* and is an important initiative to make the interaction of Queensland Government and local governments more efficient and more effective in serving the people of Queensland.

Table 7.3 Grants to local governments in Queensland[1,2]

	2017-18 Est. Act. $ million	2018-19 Budget $ million
Aboriginal and Torres Strait Islander Partnerships	3	7
Environment and Science	38	61
Child Safety, Youth and Women	1	2
Communities, Disability Services and Seniors	63	60
Education	2	2
Natural Resources, Mines and Energy	33	..
Housing and Public Works	56	81
Innovation, Tourism Industry Development and the Commonwealth Games	31	2
Local Government, Racing and Multicultural Affairs[3]	865	559
Premier and Cabinet	13	1
Queensland Ambulance Service	1	..
Queensland Fire and Emergency Services	2	2
State Development, Manufacturing, Infrastructure and Planning	382	544
Queensland Treasury	1	2
Transport and Main Roads	204	213
Other[4]	26	132
Total Queensland Government grants	**1,721**	**1,667**

Notes:

1. Includes current, capital and asset grants to local government authorities and Aboriginal and Torres Strait Islander councils. Includes Australian Government grants paid through the state to local governments.
2. Numbers may not add due to rounding.
3. Decline in 2018-19 reflects prepayment of Financial Assistance Grants by the Australian Government in 2017-18.
4. Includes grants yet unallocated to government agencies and ceased entities following Machinery of Government changes.

Box 7.3 Grants to local governments

The Queensland Government allocates considerable funding in the State Budget to support local governments across the State. The Queensland Government acknowledges the shared responsibilities in serving the people of Queensland and the important role local governments play. A summary of grant programs available to local governments are listed below.

Grant programs exclusively available to local government

Program Name	Description	Total Funding (2015-16 onwards)	Funding Allocated	Funding Not Yet Allocated
Works for Queensland	Support local governments in regional areas to undertake job-creating maintenance and minor infrastructure works.	$600 million	$400 million	$200 million
Transport Infrastructure Development Scheme	Provide targeted investment in regional local government transport infrastructure.	$460 million	Committed through the *Roads and Transport Alliance* as annual allocations to 17 formalised groups of councils (Regional Roads and Transport Groups) to prioritise as rolling four-year programs of work.	
Building our Regions	Provide funding for critical infrastructure in regional areas to support economic development, including generating jobs.	$295 million	$225 million	$70 million
Local Government Grants and Subsidies Program	Provide funding for priority infrastructure projects that will enhance sustainable and liveable communities.	$29 million per annum	Ongoing funding	
Coastal Hazard Adaptation Program - $QCoast_{2100}$	Assist coastal local governments to prepare plans and strategies for addressing climate change.	$12 million	$4.3 million	$7.8 million
Queensland Water Regional Alliances Program	Assist regional councils to collaborate and improve efficiencies and administration around water infrastructure.	$6 million	$1.8 million	$4.2 million

In addition to the above grant programs, the Government will be providing additional funding of $38 million over four years from 2018-19 to establish the Disaster Resilience Fund. This fund will be administered by the Queensland Reconstruction Authority (QRA) and will be available to a range of organisations including local governments, to deliver mitigation and resilience projects. The QRA intends to seek matched funding from the Australian Government.

Funding is also made available to local governments under the Natural Disaster Relief and Recovery Arrangements which are a joint funding initiative of the State and Australian Governments to provide disaster relief and recovery payments to help communities recover following the effects of natural disasters.

The Government also understands there are added challenges faced by Indigenous local governments, which are often located in very remote areas of the State, to ensure their communities have access to essential services and critical infrastructure. In response, the Government has allocated substantial additional funding to specifically support Indigenous councils and their communities. A summary of grant programs available to Indigenous councils and their communities are listed below.

Grant programs to support Indigenous councils and their communities

Program Name	Description	Total Funding (2015-16 onwards)	Funding Allocated	Funding Not Yet Allocated
Indigenous Councils Critical Infrastructure Program	Contribute water, wastewater and solid waste infrastructure in Indigenous communities.	$120 million	$33.2 million	$86.8 million
Major Infrastructure Program	Deliver environmental health and other infrastructure upgrades within the Torres Strait Island Regional Council, Torres Shire Council and Northern Peninsula Area Regional Council areas.	$15 million	$7.5 million	$7.5 million
State Government Financial Aid	A financial contribution (in lieu of rates) to meet the costs incurred by Indigenous councils in the provision of local government services.	$33.7 million per annum	Ongoing funding indexed by CPI	
Indigenous Local Government Sustainability Program (2016-18)	Assist Indigenous councils to increase their capacity, capability and sustainability.	$8.2 million	$7.6 million	$550,000

8 Public Non-Financial Corporations Sector

Features

- The Queensland Government businesses operate commercially and efficiently and improve services to Queenslanders.
- The Government is supporting over $3.130 billion of additional infrastructure investment through the Public Non-Financial Corporations Sector in 2018-19. This includes $2.128 billion on electricity infrastructure, $204.7 million on water infrastructure, $181.2 million on port infrastructure and $587.5 million on rail infrastructure.
- The Public Non-Financial Corporations Sector is forecast to generate dividends of $1.435 billion in 2018-19. Importantly, dividends generated by the government-owned corporations will be used to fund an Asset Ownership Dividend which provides $50 a year for every household electricity bill over 2017-18 and 2018-19. This initiative forms part of the $2 billion Affordable Energy Plan, providing cost of living relief to Queenslanders.
- The Government continues to progress core energy policy proposals including the establishment of a clean energy government-owned corporation, progressing the business case for the Burdekin Falls Hydro Power Station and the Renewables 400 auction. Alongside diversifying the State's energy generation mix to more renewable sources, these projects will help to drive greater competition, putting downward pressure on energy prices in Queensland.
- Energy Queensland Limited is preparing for the new regulatory control period 2020-25, through which the Australian Energy Regulator will determine allowable revenues for the Ergon Energy and Energex network businesses.
- In 2018-19, Queensland Rail is implementing a number of rail projects to improve the capacity and efficiency of the network, including the New Generation Rollingstock project, North Coast Line Capacity Improvement Project and European Train Control System – Inner City.
- The government-owned port corporations will continue to progress key projects in 2018-19 across the State. This includes progressing approvals for the Cairns Shipping Development Project, progressing the detailed business case and seeking approvals to commence works on the Clinton Vessel Interaction Project, progressing the Gladstone Port Master Plan and progressing works for the Channel Capacity Upgrade project at the Port of Townsville.
- The Rookwood Weir project presents an opportunity to supplement urban water supplies and enhance agricultural and industrial development in the Fitzroy Basin and Gladstone region. The Queensland Government and the Australian Government have both committed matching funding of $176 million ($352 million in total) to ensure the capital costs of the project are fully funded.

8.1 Context

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

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

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

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

8.1.1 Electricity Networks

The Government owns two electricity network businesses that are responsible for transporting safe and reliable electricity to consumers across the State - Powerlink and Energy Queensland Limited (EQL).

Powerlink

Powerlink is a high-voltage transmission network business that transports electricity long distances from generation plants to the distribution networks and connects Queensland to other states. The electricity is transmitted at high voltages so that large volumes can travel efficiently over long distances.

To ensure mandated reliability levels are maintained as demand grows, Powerlink is obligated to plan and develop the network. Powerlink's external environment has changed significantly in recent years with changes in consumer demand, market and regulatory changes, increasing complexity within the electricity market and the emergence of renewable energies and other technologies.

Energy Queensland Limited

On 30 June 2016, Energex and Ergon Energy were merged under the parent company, EQL. EQL owns and operates the low-voltage distribution network that transports electricity from Powerlink's transmission network and distributes it to households and businesses across Queensland. Ergon Energy Network provides the distribution network in regional Queensland and Ergon Energy Retail offers its customers retail services in regional Queensland. Energex provides distribution network services to customers within SEQ.

EQL, through its subsidiary Yurika, is also involved in a range of other service delivery functions including demand management services, large-scale connections, microgrid solutions, the provision of contestable metering services and telecommunications infrastructure. Yurika is focussed on pursuing strategic investments in unregulated markets to provide greater choice to customers and provide EQL an enhanced ability to respond to emerging trends.

When the Government announced the merger of Energex and Ergon Energy under EQL, it was estimated that through the merger and other efficiencies, savings of $562 million were to be generated over five years. These savings will deliver benefits to both Government and electricity consumers, through improved returns from the business, and by putting downward pressure on electricity prices. EQL is on track to reach the savings target by 2019-20.

Network Revenues

Revenues for the network businesses are largely derived from network services that are regulated by the Australian Energy Regulator (AER). The AER determines these revenues on a five-yearly basis, based on the businesses' proposals and its view of the reasonable benchmark efficient costs for a network business.

The AER published Powerlink's revenue determination in April 2017 for the 2017-22 regulatory control period, which resulted in a significant reduction in allowable revenues for the business. On 31 October 2017, the Energex and Ergon Energy network businesses formally submitted to the AER a request to develop a replacement framework and approach to apply for the next regulatory control period 2020-25. EQL will continue to consult and develop its regulatory proposals over 2018 and 2019 for submission to the AER.

8.1.2 Electricity Generation

The National Electricity Market (NEM) continues to experience significant change. The Government has and will continue to act to ensure wholesale prices in Queensland remain affordable for customers.

The Powering Queensland Plan includes a number of measures to put downward pressure on wholesale prices, including returning Swanbank E to service, directing Stanwell to alter its bidding strategies, and investigating the establishment of a clean energy generator to boost competition.

Queensland has already seen the benefits of these initiatives, with forward wholesale prices in Queensland remaining the lowest in the NEM and Queensland having the lowest wholesale market spot prices over the recent summer despite record peak demand being exceeded.

CS Energy

CS Energy is a merchant electricity generator that sells electricity in the NEM under the *Electricity Act 1994*. CS Energy has more than 400 employees, operates three power stations and has a trading portfolio of 4,035MW. CS Energy dispatches over 30 per cent of Queensland's electricity and slightly over 10 per cent of all electricity supplied to the NEM.

CS Energy's diverse asset portfolio comprises coal-fired and hydroelectric power stations, electricity trading rights and coal assets. CS Energy owns and operates the Callide B, Kogan Creek and Wivenhoe power stations, and has a 50 per cent interest in the Callide C Power Station, where it provides operations and maintenance services. CS Energy is also a party to the Gladstone Interconnection and Power Pooling Agreement, which entitles it to trade the output of the Gladstone Power Station that exceeds the requirements of the Boyne Island aluminium smelter.

CS Energy's joint venture with Alinta Energy continues to provide SEQ customers with discounted usage charges. As at early June 2018, almost 180,000 customers have signed up with Alinta Energy. The joint venture has successfully boosted competition in SEQ with many other retailers responding with lower electricity prices.

Stanwell

Stanwell is one of Australia's largest energy providers, with a diversified portfolio of coal, gas and hydro assets totalling 4,000MW of installed capacity. It employs over 800 staff across Queensland. Stanwell dispatches over 30 per cent of Queensland's electricity and slightly over 10 per cent of all electricity supplied to the NEM.

Box 8.1 Clean Energy Leader

Queensland is in a strong position to deliver reliable, affordable energy with the right mix of baseload and renewable generation capacity. The Government is committed to reaching the 50 per cent Queensland Renewable Energy Target (QRET) by 2030 and providing a two-year cap on electricity price rises to average inflation.

Under its Powering Queensland Plan (PQP), the Government continues to ensure affordable, secure and sustainable energy supply for Queensland homes, businesses and industry. This includes continuing to remove the costs of the Solar Bonus Scheme from customer bills over 2018-19 and 2019-20.

As part of the PQP, the Government committed to investigate the creation of a clean energy generation government-owned corporation (CleanCo). CleanCo will assist in meeting the QRET by 2030, increase competition and help to put downward pressure on wholesale electricity prices, delivering benefits to customers. During 2017-18, the Government established a taskforce to investigate the establishment of CleanCo and will continue to investigate and engage with stakeholders across 2018-19 to deliver on its commitment.

As part of the 2017-18 State Budget, the Government announced the reinvestment of $100 million towards the Burdekin Falls Hydro Power Station and $150 million towards the North Queensland Clean Energy Hub, subject to feasibility investigations. Work continues to progress on these projects to ensure the best possible outcome for Queenslanders.

During 2017-18, the Queensland Government announced the $2 billion Affordable Energy Plan. The Affordable Energy Plan includes a $50 annual Asset Ownership Dividend to provide bill relief for households over 2017-18 and 2018-19. The initiative has been made possible due to Queensland's ownership of its electricity assets, enabling the Government to reinvest GOC dividends in a concerted effort to improve affordability. The Affordable Energy Plan also provides benefits to large customers. Initiatives such as the Large Customer Assistance Program and the Energy Savers Plus Program Extension look to assist large customers with increasing energy efficiency and electricity savings.

Queensland has experienced significant growth in the renewable energy sector over the previous two years. Queensland has many large-scale renewable projects under construction, forming part of the $4.2 billion worth of committed projects set to deliver approximately 2,200MW of generation capacity by the end of 2019. These works will generate over 3,500 construction jobs, and put Queensland on track to achieve its 50 per cent renewable energy target by 2030.

The Government is also running the Renewables 400 reverse auction to facilitate the next wave of up to 400MW of diversified renewable energy, including up to 100MW of energy storage.

The Queensland Government will spend $97 million over three years to install solar and energy efficiency measures in approximately 800 state schools. The Advancing Clean Energy Schools (ACES) program will help Queensland schools cut their combined power bill by up to 20 per cent and save an estimated $10.2 million per year. The ACES program will also boost Queensland's progress towards the 50 per cent renewables target by 2030.

8.1.3 Rail

Queensland Rail is an integrated, publicly-owned rail operator, responsible for the delivery of passenger transport in SEQ, long distance passenger services in rural and regional Queensland and provision of third party access to networks for freight transport across the state.

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

In 2018-19, Queensland Rail is implementing a number of rail projects which will improve the capacity and efficiency of the network, including the New Generation Rollingstock project, North Coast Line Capacity Improvement project and European Train Control System (ETCS) - Inner City.

The New Generation Rollingstock project will see a significant increase to the SEQ train fleet to meet growing demand for rail services. ETCS - Inner City is a rail signalling and train protection system which will boost the capacity and safety of the inner-city rail network.

8.1.4 Ports

Queensland has a large network of ports along its coastline, ranging from small installations serving local communities to large, world class multi-user and multi-cargo ports, which have public and privately-owned import and export facilities. Apart from the Port of Brisbane, the port authorities responsible for all of Queensland's ports are owned and run by GOCs. Queensland's ports are a major component of the State's supply chain networks and economy, and their efficient and profitable operation is essential for continued economic growth, job creation, and sustainable development in the State.

The port sector's financial performance is influenced by the condition of the Queensland economy, particularly in terms of demand abroad for Queensland's natural resources and agricultural products. Queensland ports continue to look to further enhance supply chain efficiency and identify new markets to improve financial outcomes and stimulate the economy.

Key projects that will be progressed in 2018-19 include:

- progressing approvals for the Cairns Shipping Development Project
- progressing the detailed business case and seeking approvals to commence works on the Clinton Vessel Interaction Project
- progressing the final Gladstone Port Master Plan and overlay documentation
- progressing works for the Channel Capacity Upgrade project at the Port of Townsville.

8.1.5 Water

The two largest entities in the Queensland bulk water market are the Queensland Bulk Water Supply Authority (trading as Seqwater) and SunWater Limited (SunWater).

Seqwater

Seqwater is responsible for supplying safe, secure and reliable bulk drinking water for people across SEQ. Its assets and operations spread across a large geographic area from the New South Wales border, to the base of the Toowoomba ranges and as far north as Gympie. Seqwater provides essential flood mitigation services, and manages seven water supply schemes which provide irrigation services.

Seqwater's revenue primarily comes from bulk water sales, with prices determined by the SEQ bulk water price path. In 2008, a 20-year bulk water price path was developed to phase in affordable price increases to fund the construction of the SEQ Water Grid and transition all Local Government Areas in SEQ to a 'common price'. During the first 10-years of the price path it was anticipated that bulk water prices would not recover the costs of bulk water supply, which resulted in Seqwater selling bulk water at a loss, with the shortfall funded by borrowings (the resulting debt is known as 'price path debt'). The following 10-years of the price path will see this debt repaid.

Most Local Government Areas in SEQ reached the common price in 2017-18, with the remaining Local Government Areas of Noosa, the Sunshine Coast, and Redland City to reach the common price by 2020-21.

The Queensland Competition Authority has conducted a Bulk Water Price Review to recommend urban bulk water prices for SEQ to apply from 1 July 2018. The final report was delivered to Government in March 2018.

Seqwater has maintained a positive operating position since the merger with the SEQ Water Grid Manager, LinkWater and the former Seqwater on 1 January 2013. Seqwater continues to set improved operational and capital efficiency targets to deliver value for money for customers.

SunWater

SunWater is the Government's major bulk water supply business for all regions outside of SEQ. It supplies untreated bulk water to approximately 5,000 customers across the industrial, mining, urban and irrigation customer segments. SunWater provides this through an extensive regional asset base, owning and managing water infrastructure assets with a replacement value of around $13 billion.

Dam safety is a major focus for SunWater as it is for all bulk water suppliers. SunWater commenced a prioritised Dam Safety Improvement Program (DSIP) in 2005 to ensure that dam safety is maintained. The DSIP is regularly reviewed to ensure highest priority projects are addressed first.

The DSIP is an essential program to ensure the safety and stability of dams and the ongoing safety of downstream communities, and SunWater must undertake dam safety work to meet its obligations under Queensland dam safety regulations. However, it is also likely to significantly influence SunWater's financial performance and net flows to the Government over the forward estimates period and beyond.

Key projects that will be progressed in 2018-19 include:

- Fairbairn Dam spillway improvements and rectification works
- progressing works for the Teemburra Dam safety improvement project
- strengthening the monoliths 'D' and 'K' within the primary spillway of Paradise Dam and undertaking secondary spillway improvements
- progressing works for the Leslie Dam safety improvement project.

Box 8.2 Rookwood Weir

The Rookwood Weir project presents an opportunity to supplement urban water supplies and enhance agricultural and industrial development in the Fitzroy Basin and Gladstone region. The weir could add 76,000 megalitres of water for agricultural production along the Fitzroy River, as well as an eventual back-up supply for Gladstone, Rockhampton and Livingstone Shire. The project is also expected to create 100 jobs in regional Queensland during construction.

Significant steps have been taken through the year toward the construction of Rookwood Weir. During 2017-18, Building Queensland publicly released the detailed business case and Queensland welcomed the Australian Government's matching commitment to fund half of the construction costs amounting to $176 million.

The State has allocated matching funding across the next four years. This means that the capital costs of $352 million for the project are fully funded.

It is expected that SunWater will be constructing and operating the weir and preparatory activities are already underway.

The Queensland Government continues to engage with the Australian Government to formalise the details of the arrangement and to agree an appropriate split of operational costs for the Rookwood Weir so that construction can begin.

8.2 Finances and Performance

8.2.1 Earnings Before Interest and Tax

Total forecast PNFC Sector earnings before interest and tax (EBIT) for 2017-18 are estimated to be $4.476 billion, up from $4.053 billion forecast at the time of the 2017-18 State Budget. This increase is primarily due to increases in the electricity network and electricity generation sectors, driven in part by favourable wholesale energy market conditions, higher than budgeted regulated revenue collections, and operational business and procurement savings.

Over the forward estimates, total PNFC Sector EBIT is expected to decrease to $3.621 billion in 2021-22. Relative to 2016-17, EBIT in the energy sector (networks and generation) is estimated to fall by almost 30 per cent by 2018-19 and 38 per cent by 2021-22.

The decrease in electricity generation EBIT over the forward estimates is primarily driven by forecast reductions in wholesale generation revenues as new renewable entrants enter the wholesale market, adding increased competition.

Electricity network EBIT drops from $2.331 billion in 2017-18 to $1.899 billion in 2018-19 in line with a declining forecast of regulated revenue collections. Similarly, movement in electricity network EBIT over the forward estimates is influenced by forecasts of regulated revenue collections for the network businesses.

Water sector EBIT is expected to reach $573 million in 2019-20, largely reflecting the upwards trend associated with the SEQ bulk water price path. Water sector EBIT is revised downwards from 2020-21 in recognition of the increased spend by SunWater associated with dam safety upgrades.

Port sector EBIT is expected to trend steadily upwards over the forward estimates, driven by increased activity and forecast increased tonnage volumes.

Table 8.1 Earnings before interest and tax[1]

	2016-17 Actual $ million	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Electricity Networks	2,888	2,064	2,331	1,899	1,914	1,937	1,965
Electricity Generation	1,241	1,070	1,230	1,009	804	695	598
Rail	328	291	304	325	326	365	389
Ports	206	188	178	203	248	251	266
Water	470	438	477	556	573	540	414
Other	36	1	(44)	(16)	(10)	(11)	(10)
Total PNFC Sector	**5,169**	**4,053**	**4,476**	**3,976**	**3,855**	**3,777**	**3,621**

Note:

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

8.2.2 Borrowings

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

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

Total forecast PNFC Sector borrowings for 2017-18 are estimated to be $38.135 billion. Forecast borrowings are expected to increase to $40.802 billion by 2021-22. The increase in borrowings over the forward estimates is primarily driven by the rail and electricity network businesses.

Electricity network borrowings are forecast to increase over the forward estimates in line with growth in the regulated asset base. Rail sector borrowings are expected to increase in line with the Queensland Rail capital program.

Port sector borrowings are forecast to steadily increase over the forward estimates to fund new capital works and infrastructure projects, primarily at the Port of Townsville.

Borrowings in the water sector are largely attributable to Seqwater, which holds around $9.4 billion of debt. The debt balance is the result of the large investment in water infrastructure in response to the Millennium Drought and the associated price path. Seqwater's forecast borrowings are stable across the forward estimates.

The gearing levels of all GOCs continue to be monitored to ensure that they maintain metrics that are at a minimum consistent with an investment grade credit rating.

Table 8.2 Borrowings[1]

	2016-17 Actual $ million	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Electricity Networks	21,702	21,689	21,702	22,252	22,722	23,215	23,738
Electricity Generation	2,593	1,580	1,864	1,602	1,588	1,585	1,585
Rail	3,310	4,061	3,498	3,617	3,902	4,200	4,439
Ports	1,054	997	1,064	1,086	1,142	1,175	1,198
Water	9,955	9,846	9,992	10,005	10,017	10,014	9,878
Other[2]	29	57	14	(2)	(18)	(27)	(36)
Total PNFC Sector	**38,644**	**38,231**	**38,135**	**38,560**	**39,353**	**40,162**	**40,802**

Notes:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.
2. Includes derivative adjustments for the energy GOC's.

8.2.3 Returns to Government

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

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, a GOC board is expected to ensure it takes into account the return shareholders expect on their investments and the levels of equity required to maintain a preferred capital structure. The final dividend payment is determined in accordance with the GOC Act.

Total forecast PNFC Sector dividends for 2017-18 are estimated to be $1.819 billion, up from the $1.395 billion forecast in the 2017-18 State Budget. This increase in dividends has been driven by increased earnings from the electricity generation and electricity network businesses, which have benefited from favourable wholesale energy market conditions, higher than budgeted regulated revenue collections, and operational business and procurement savings. However, this is a temporary boost.

Importantly, the Government intends to use GOC dividend returns to help fund the $50 annual Asset Ownership Dividend which provides electricity bill relief for households over 2017-18 and 2018-19. The Asset Ownership Dividend forms part of the $2 billion Affordable Energy Plan which includes various initiatives aimed at making energy more affordable for households and businesses.

Lower profits from the GOC sector across the forward estimates are translating into much lower dividends. Relative to 2017-18, dividends are estimated to fall by 21 per cent by 2018-19 and by almost 40 per cent by 2021-22, with PNFC sector dividends projected to decrease to $1.108 billion in 2021-22. This reduction is being driven by the electricity sector, with electricity dividends halving across the forward estimates.

Electricity network dividends are expected to drop from $948 million in 2017-18 to $618 million in 2018-19, and are forecast to continue to decline over the forward estimates. Movements in electricity network dividends are influenced by forecasts of regulated revenue collections for the network businesses.

It is highlighted that the Government directed Energex and Ergon Energy to not appeal the Australian Energy Regulator's (AER) determination in 2015. In the absence of this decision, the returns from the network sector would have been higher, resulting in a higher dividend baseline.

Electricity generation dividends are expected to decline over the forward estimates in line with the reduction in generation earnings as renewable generation alternatives enter the market.

The decline in water sector dividends in 2020-21 and 2021-22 reflects the increased costs associated with dam safety upgrades.

Table 8.3 Dividends[1]

	2016-17 Actual $ million	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Electricity Networks	1,083	716	948	618	554	507	471
Electricity Generation	383	463	645	535	457	387	320
Rail	101	92	100	134	150	162	176
Ports	72	86	80	94	126	127	136
Water	8	28	36	55	36	5	5
Other	..	10	10	..	..	..	..
Total PNFC Sector	**1,647**	**1,395**	**1,819**	**1,435**	**1,323**	**1,188**	**1,108**

Note:

1. Numbers may not add due to rounding.

Tax Equivalent Payments

Tax equivalent payments (TEPs) are paid by the PNFC Sector entities to recognise the benefits derived from not being 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 2017-18 are estimated to be $770 million, up from the projected $572 million in the 2017-18 State Budget. This is largely driven by the increased profitability experienced by the electricity generation and electricity network sectors.

As TEPs generally move in line with earnings, TEPs are forecast to decrease from $770 million in 2017-18 to $499 million in 2021-22.

Table 8.4 Tax equivalent payments[1]

	2016-17 Actual $ million	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Electricity Networks	556	324	417	290	265	244	229
Electricity Generation	190	154	249	236	234	215	164
Rail	29	39	44	47	37	32	29
Ports	47	37	41	51	66	66	69
Water	19	11	13	3	18	2	3
Other	3	7	5	5	5	5	5
Total PNFC Sector	**844**	**572**	**770**	**630**	**626**	**564**	**499**

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. In general, changes in CNF payments reflect movements in borrowing amounts, interest rate spreads and the entity's stand-alone credit rating.

Total forecast PNFC Sector CNF payments for 2017-18 are estimated to be $139 million, $11 million higher than the $128 million forecast in the 2017-18 State Budget. CNF payments are forecast to increase from $139 million in 2017-18 to $206 million in 2021-22.

Table 8.5 Competitive neutrality fee payments[1]

	2016-17 Actual $ million	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Electricity Networks	48	59	69	84	102	122	141
Electricity Generation	21	22	20	17	15	16	16
Rail	33	32	34	32	33	34	35
Ports	9	11	12	11	11	11	11
Water	4	5	5	5	5	5	5
Total PNFC Sector	**115**	**128**	**139**	**150**	**166**	**187**	**206**

Note:

1. Numbers may not add due to rounding.

8.2.4 Community Service Obligation and Rail Transport Services Contract Payments

The Government sometimes directs or requires its businesses to perform activities that are not in the entity's commercial interest (for example, offering services at a reduced price to benefit the community). In these situations, the Government will often provide a Community Service Obligation (CSO) payment to the entity for the cost of delivering the service.

Transport Services Contract (TSC) payments are made to Queensland Rail to provide rail passenger services at non-commercial (subsidised) prices for the commuter and tourism markets.

In line with the Queensland Government's Uniform Tariff Policy, a CSO payment is provided to Energy Queensland Limited to compensate the retail subsidiary for the increased costs of operating in regional Queensland. This subsidy is provided to ensure that Queenslanders, regardless of their geographic location, pay a similar price for their electricity.

Seqwater and SunWater own and operate water supply schemes, where irrigation prices for some schemes are set below the level necessary to recover the cost of supplying water to irrigators. The Government provides a CSO to offset the reduced revenue and to ensure that increases in water prices paid by rural irrigation customers to recover costs are gradual.

Total forecast PNFC Sector CSO and TSC payments for 2017-18 are estimated to be $2.142 billion, slightly lower than the $2.209 billion forecast at the time of the 2017-18 State Budget.

In 2018-19, it is estimated that the Government will provide CSO and TSC payments to PNFC Sector entities of $2.270 billion. This is forecast to increase to $2.501 billion in 2021-22, largely driven by the TSC. The increase in the TSC is due to a mix of factors such as changes in patronage, escalation of service delivery costs and forecast growth in services.

The CSO for the water sector will be determined from 2019-20, following the Queensland Competition Authority's review of irrigation prices.

Table 8.6 Community service obligation payments and Transport Services Contracts[1]

	2016-17 Actual $ million	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Electricity Networks	603	488	488	462	498	493	515
Rail	1,576	1,710	1,643	1,797	1,822	1,903	1,985
Water	13	11	11	11	..	..	..
Total PNFC Sector	**2,191**	**2,209**	**2,142**	**2,270**	**2,320**	**2,397**	**2,501**

Note:

1. Numbers may not add due to rounding.

8.2.5 Net Flows

Net flows represent the net value of flows to and from the PNFC Sector. This includes the positive effect of dividends and tax equivalent payments less the negative effect of CSO and TSC payments.

In contrast to the forecast in the 2017-18 State Budget, net flows to Government are expected to be positive in 2017-18, driven by upwards revisions in dividends and TEPs, particularly in the electricity sector (networks and generation).

Net flows are expected to be negative over the forward estimates. Key contributors to the deteriorating net flow position include the increasing TSC payment and declining dividend projections for the energy generation and electricity network sectors.

Table 8.7 Net flows to the General Government Sector from PNFC Sector entities[1]

	2016-17 Actual $ million	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Total PNFC Sector	299	(242)	447	(204)	(371)	(644)	(894)

Note:

1. Numbers may not add due to rounding. Bracketed numbers represent a net flow from the General Government Sector to the PNFC Sector.

8.2.6 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 Sector equity movements for 2017-18 are estimated to be an equity reduction of $60 million.

Equity movements across the forward estimates are primarily influenced by the electricity networks sector. These equity movements reflect changes to ensure an efficient level of gearing is maintained for Energy Queensland Limited and Powerlink.

In 2018-19, Port of Townsville will receive an equity injection of $60 million to undertake works associated with the Channel Capacity Upgrade project.

In 2018-19, Queensland Rail will receive an equity injection of $460 million in relation to the Moreton Bay Rail Link project, which was constructed by the Department of Transport and Main Roads but will be transferred to Queensland Rail as the rail operator.

In 2019-20, SunWater will receive an equity injection of $100 million to undertake essential dam safety upgrades at Burdekin Falls Dam, and to develop a detailed business case for improvement, to ensure the dam continues to meet current best practice standards.

Table 8.8 Equity movements[1]

	2016-17 Actual $ million	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Electricity Networks	(160)	(20)	(50)	(110)	(190)	(545)	(510)
Electricity Generation	..	..	..	..	..	..	..
Rail	..	18	(5)	460	..	..	..
Ports	(110)	..	..	60	..	..	..
Water	..	..	(5)	(4)	100	..	..
Other	10	..	..	..	..	..	..
Total PNFC Sector	**(260)**	**(1)**	**(60)**	**406**	**(90)**	**(545)**	**(510)**

Note:

1. Numbers may not add due to rounding. Bracketed numbers represent equity returns from the PNFC Sector to the General Government Sector.

9 Uniform Presentation Framework

9.1 Context

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

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

In addition, the chapter provides:

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

9.2 Uniform Presentation Framework financial information

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

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

Table 9.1 General Government Sector Operating Statement[1]

		2016-17 Outcome $ million	2017-18 Budget $ million	2017-18 Est.Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
	Revenue from Transactions							
	Taxation revenue	12,919	13,298	13,284	14,155	15,184	15,951	16,722
	Grants revenue	27,383	27,631	28,481	27,701	28,156	29,062	30,387
	Sales of goods and services	5,642	6,067	5,861	5,731	5,947	6,074	6,306
	Interest income	2,336	2,330	2,323	2,201	2,078	1,861	1,855
	Dividend and income tax equivalent income	2,690	2,057	2,686	2,217	2,075	1,910	1,787
	Other revenue	5,222	4,487	5,623	5,733	5,395	5,083	5,212
	Total Revenue from Transactions	**56,194**	**55,869**	**58,259**	**57,738**	**58,835**	**59,939**	**62,269**
Less	**Expenses from Transactions**							
	Employee expenses	21,258	22,420	22,838	23,807	24,645	25,541	26,466
	Superannuation expenses							
	Superannuation interest cost	514	600	665	667	717	774	778
	Other superannuation expenses	2,661	2,753	2,819	2,887	2,933	2,957	3,001
	Other operating expenses	15,582	17,037	17,382	15,774	15,119	15,291	15,745
	Depreciation and amortisation	3,068	3,093	3,330	3,429	3,543	3,650	3,776
	Other interest expenses	1,722	1,706	1,616	1,474	1,643	1,691	1,794
	Grants expenses	8,568	8,114	8,096	9,552	10,075	9,926	10,019
	Total Expenses from Transactions	**53,373**	**55,723**	**56,747**	**57,590**	**58,675**	**59,829**	**61,579**
Equals	**Net Operating Balance**	**2,821**	**146**	**1,512**	**148**	**160**	**110**	**690**
Plus	Other economic flows - included in operating result	381	(75)	(91)	85	202	483	398
Equals	**Operating Result**	**3,202**	**71**	**1,421**	**233**	**363**	**593**	**1,088**
Plus	Other economic flows - other movements in equity	(176)	3,785	3,329	2,717	2,776	1,733	1,326
Equals	**Comprehensive Result - Total Change In Net Worth**	**3,027**	**3,856**	**4,750**	**2,950**	**3,139**	**2,326**	**2,414**
	KEY FISCAL AGGREGATES							
	Net Operating Balance	2,821	146	1,512	148	160	110	690
Less	**Net Acquisition of Non-financial Assets**							
	Purchases of non-financial assets	4,634	5,123	4,905	5,927	7,557	7,396	7,081
	Less Sales of non-financial assets	389	392	227	345	373	343	165
	Less Depreciation	3,068	3,093	3,330	3,429	3,543	3,650	3,776
	Plus Change in inventories	5	73	32	(4)	(67)	(74)	6
	Plus Other movements in non-financial assets	1,103	797	735	1,032	467	180	180
	Equals **Total Net Acquisition of Non-financial Assets**	2,285	2,508	2,115	3,181	4,042	3,510	3,326
Equals	**Fiscal Balance**	**536**	**(2,363)**	**(604)**	**(3,033)**	**(3,881)**	**(3,400)**	**(2,636)**

Note:

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

Table 9.2 Public Non-financial Corporations Sector Operating Statement[1]

		2016-17 Outcome $ million	2017-18 Budget $ million	2017-18 Est.Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
	Revenue from Transactions							
	Grants revenue	1,491	647	610	632	640	636	659
	Sales of goods and services	12,712	10,950	12,141	11,718	11,627	11,944	12,131
	Interest income	45	37	63	52	50	58	59
	Dividend and income tax equivalent income	15	14	13	13	13	13	13
	Other revenue	381	300	477	318	298	250	259
	Total Revenue from Transactions	**14,644**	**11,948**	**13,303**	**12,733**	**12,628**	**12,900**	**13,121**
Less	**Expenses from Transactions**							
	Employee expenses	1,654	1,925	1,909	1,981	2,030	2,034	2,077
	Superannuation expenses							
	Superannuation interest cost	(4)	..	..	..	..	..	..
	Other superannuation expenses	241	155	151	164	169	173	177
	Other operating expenses	4,286	3,388	4,275	4,032	3,784	3,996	4,102
	Depreciation and amortisation	2,382	2,575	2,470	2,618	2,708	2,749	2,828
	Other interest expenses	2,030	1,952	1,881	1,908	1,988	2,078	2,155
	Grants expenses	791	21	27	22	22	23	23
	Other property expenses	849	578	773	637	632	571	506
	Total Expenses from Transactions	**12,229**	**10,594**	**11,486**	**11,361**	**11,332**	**11,625**	**11,866**
Equals	**Net Operating Balance**	**2,415**	**1,354**	**1,817**	**1,372**	**1,296**	**1,275**	**1,255**
Plus	Other economic flows - included in operating result	(176)	57	(58)	(29)	(52)	(144)	(289)
Equals	**Operating Result**	**2,239**	**1,412**	**1,759**	**1,343**	**1,244**	**1,131**	**966**
Plus	Other economic flows - other movements in equity	(1,572)	60	(1,120)	(532)	(905)	(1,211)	(1,076)
Equals	**Comprehensive Result - Total Change In Net Worth**	**666**	**1,472**	**639**	**810**	**338**	**(80)**	**(110)**
	KEY FISCAL AGGREGATES							
	Net Operating Balance	2,415	1,354	1,817	1,372	1,296	1,275	1,255
Less	**Net Acquisition of Non-financial Assets**							
	Purchases of non-financial assets	2,708	2,866	2,751	3,130	3,229	3,126	3,097
	Less Sales of non-financial assets	71	46	46	11	8	8	6
	Less Depreciation	2,382	2,575	2,470	2,618	2,708	2,749	2,828
	Plus Change in inventories	4	3	(44)	35	(0)	4	9
	Plus Other movements in non-financial assets	68	68	73	68	69	70	71
	Equals **Total Net Acquisition of Non-financial Assets**	327	316	263	604	582	443	343
Equals	**Fiscal Balance**	**2,088**	**1,038**	**1,554**	**767**	**713**	**832**	**913**

Note:

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

Table 9.3 Non-financial Public Sector Operating Statement[1]

		2016-17 Outcome $ million	2017-18 Budget $ million	2017-18 Est.Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
	Revenue from Transactions							
	Taxation revenue	12,685	13,062	13,040	13,892	14,902	15,645	16,394
	Grants revenue	27,415	27,722	28,519	27,788	28,244	29,151	30,477
	Sales of goods and services	16,545	15,025	16,082	15,353	15,433	15,778	16,128
	Interest income	2,381	2,367	2,342	2,219	2,099	1,893	1,887
	Dividend and income tax equivalent income	215	103	109	164	139	170	193
	Other revenue	5,598	4,786	6,098	6,051	5,693	5,333	5,471
	Total Revenue from Transactions	**64,840**	**63,066**	**66,192**	**65,467**	**66,510**	**67,970**	**70,550**
Less	**Expenses from Transactions**							
	Employee expenses	22,809	24,249	24,655	25,688	26,571	27,469	28,434
	Superannuation expenses							
	Superannuation interest cost	510	600	665	667	717	774	778
	Other superannuation expenses	2,902	2,908	2,970	3,051	3,102	3,129	3,178
	Other operating expenses	18,042	18,428	19,728	17,703	16,755	17,040	17,530
	Depreciation and amortisation	5,450	5,668	5,800	6,047	6,251	6,399	6,604
	Other interest expenses	3,637	3,530	3,313	3,198	3,437	3,558	3,717
	Grants expenses	7,900	7,579	7,550	9,029	9,545	9,402	9,473
	Total Expenses from Transactions	**61,251**	**62,961**	**64,682**	**65,383**	**66,377**	**67,772**	**69,713**
Equals	**Net Operating Balance**	**3,589**	**105**	**1,510**	**84**	**133**	**197**	**837**
Plus	Other economic flows - included in operating result	45	(37)	(199)	(54)	(39)	(207)	(401)
Equals	**Operating Result**	**3,634**	**67**	**1,311**	**31**	**93**	**(9)**	**436**
Plus	Other economic flows - other movements in equity	(608)	3,789	3,439	2,920	3,045	2,335	1,979
Equals	**Comprehensive Result - Total Change In Net Worth**	**3,027**	**3,856**	**4,750**	**2,950**	**3,139**	**2,326**	**2,414**
	KEY FISCAL AGGREGATES							
	Net Operating Balance	3,589	105	1,510	84	133	197	837
Less	**Net Acquisition of Non-financial Assets**							
	Purchases of non-financial assets	7,305	7,989	7,656	9,057	10,786	10,523	10,177
	Less Sales of non-financial assets	460	438	273	356	381	351	171
	Less Depreciation	5,450	5,668	5,800	6,047	6,251	6,399	6,604
	Plus Change in inventories	10	77	(12)	31	(67)	(69)	15
	Plus Other movements in non-financial assets	1,171	865	809	1,100	536	251	252
	Equals **Total Net Acquisition of Non-financial Assets**	2,576	2,825	2,379	3,785	4,624	3,953	3,668
Equals	**Fiscal Balance**	**1,013**	**(2,720)**	**(869)**	**(3,701)**	**(4,491)**	**(3,756)**	**(2,831)**

Note:

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

Table 9.4 General Government Sector Balance Sheet[1]

	2016-17 Outcome $ million	2017-18 Budget $ million	2017-18 Est.Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Assets							
Financial Assets							
Cash and deposits	1,069	548	579	303	285	228	338
Advances paid	678	831	630	703	695	751	812
Investments, loans and placements	33,633	32,301	32,655	30,306	29,078	28,957	28,817
Receivables	4,926	4,190	4,523	4,182	4,218	4,480	4,375
Equity							
Investments in other public sector entities	21,866	22,787	23,002	23,812	24,151	24,071	23,961
Investments - other	154	156	154	154	154	154	154
Total Financial Assets	**62,327**	**60,814**	**61,544**	**59,460**	**58,581**	**58,642**	**58,458**
Non-financial Assets							
Land and other fixed assets	200,632	205,439	203,721	207,985	212,987	217,425	221,688
Other non-financial assets	6,921	6,969	7,179	6,767	6,999	7,146	7,328
Total Non-financial Assets	**207,553**	**212,407**	**210,900**	**214,752**	**219,987**	**224,570**	**229,016**
Total Assets	**269,879**	**273,222**	**272,443**	**274,212**	**278,568**	**283,213**	**287,474**
Liabilities							
Payables	4,372	4,089	4,015	4,088	4,181	4,217	4,252
Superannuation liability	26,123	23,355	25,294	23,414	21,334	19,946	18,877
Other employee benefits	5,608	5,510	5,749	5,888	5,878	6,036	6,271
Deposits held	3	3	2	2	2	2	2
Advances received	1,831	1,541	2,229	1,814	1,531	1,365	1,382
Borrowing	33,260	33,758	31,367	32,311	35,861	39,588	42,290
Other liabilities	3,747	3,044	4,100	4,059	4,005	3,957	3,883
Total Liabilities	**74,943**	**71,299**	**72,757**	**71,575**	**72,793**	**75,112**	**76,958**
Net Worth	**194,936**	**201,922**	**199,686**	**202,636**	**205,775**	**208,101**	**210,515**
Net Financial Worth	(12,617)	(10,485)	(11,213)	(12,115)	(14,211)	(16,470)	(18,501)
Net Financial Liabilities	34,483	33,273	34,216	35,928	38,362	40,540	42,462
Net Debt	(287)	1,622	(267)	2,815	7,336	11,018	13,707

Note:

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

Table 9.5 Public Non-financial Corporations Sector Balance Sheet[1]

	2016-17 Outcome $ million	2017-18 Budget $ million	2017-18 Est.Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Assets							
Financial Assets							
Cash and deposits	1,464	524	698	465	489	593	542
Advances paid	1,370	1,073	1,762	1,360	1,157	1,011	1,045
Investments, loans and placements	749	395	578	547	507	470	473
Receivables	1,581	1,610	1,585	1,432	1,487	1,628	1,574
Equity							
Investments - other	302	280	240	240	240	240	240
Total Financial Assets	**5,465**	**3,882**	**4,863**	**4,043**	**3,881**	**3,941**	**3,874**
Non-financial Assets							
Land and other fixed assets	61,138	62,730	62,132	63,882	65,133	66,181	66,975
Other non-financial assets	1,472	1,112	1,193	1,203	1,207	1,224	1,277
Total Non-financial Assets	**62,610**	**63,842**	**63,326**	**65,085**	**66,340**	**67,405**	**68,251**
Total Assets	**68,075**	**67,724**	**68,188**	**69,128**	**70,221**	**71,346**	**72,126**
Liabilities							
Payables	3,411	2,809	3,366	2,890	2,690	2,942	2,963
Superannuation liability	(332)	(155)	(324)	(316)	(308)	(300)	(292)
Other employee benefits	761	767	752	746	752	757	763
Deposits held	17	23	17	17	17	17	17
Advances received	7	7	7	6	5	5	4
Borrowing	38,644	38,231	38,135	38,560	39,353	40,162	40,802
Other liabilities	7,691	7,470	7,722	7,901	8,050	8,182	8,396
Total Liabilities	**50,200**	**49,151**	**49,675**	**49,805**	**50,559**	**51,764**	**52,653**
Net Worth	**17,875**	**18,573**	**18,513**	**19,323**	**19,662**	**19,582**	**19,472**
Net Financial Worth	(44,735)	(45,269)	(44,812)	(45,761)	(46,679)	(47,823)	(48,779)
Net Debt	35,087	36,268	35,121	36,212	37,222	38,111	38,763

Note:

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

Table 9.6 Non-financial Public Sector Balance Sheet[1]

	2016-17 Outcome $ million	2017-18 Budget $ million	2017-18 Est.Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Assets							
Financial Assets							
Cash and deposits	2,533	1,073	1,277	768	774	821	880
Advances paid	695	842	616	682	668	725	786
Investments, loans and placements	34,382	32,696	33,234	30,852	29,586	29,427	29,290
Receivables	4,597	4,005	3,949	3,808	3,952	4,177	4,207
Equity							
Investments in other public sector entities	3,993	4,216	4,490	4,490	4,490	4,490	4,490
Investments - other	456	436	393	394	394	394	394
Total Financial Assets	**46,655**	**43,267**	**43,959**	**40,994**	**39,863**	**40,033**	**40,048**
Non-financial Assets							
Land and other fixed assets	261,769	268,168	265,853	271,866	278,120	283,605	288,662
Other non-financial assets	1,408	1,451	1,594	1,014	1,094	1,073	1,025
Total Non-financial Assets	**263,177**	**269,619**	**267,447**	**272,880**	**279,214**	**284,678**	**289,687**
Total Assets	**309,832**	**312,885**	**311,406**	**313,874**	**319,077**	**324,711**	**329,735**
Liabilities							
Payables	5,892	5,155	5,243	5,193	5,139	5,250	5,497
Superannuation liability	25,791	23,200	24,971	23,098	21,026	19,646	18,585
Other employee benefits	6,369	6,277	6,501	6,634	6,629	6,793	7,034
Deposits held	20	26	19	19	19	19	19
Advances received	486	485	460	439	352	333	315
Borrowing	71,904	71,989	69,501	70,871	75,214	79,750	83,093
Other liabilities	4,433	3,831	5,024	4,982	4,921	4,820	4,676
Total Liabilities	**114,896**	**110,963**	**111,720**	**111,237**	**113,302**	**116,611**	**119,220**
Net Worth	**194,936**	**201,922**	**199,686**	**202,636**	**205,775**	**208,101**	**210,515**
Net Financial Worth	(68,241)	(67,697)	(67,760)	(70,243)	(73,439)	(76,577)	(79,172)
Net Financial Liabilities	72,234	71,912	72,250	74,733	77,928	81,067	83,662
Net Debt	34,800	37,890	34,854	39,027	44,558	49,129	52,471

Note:

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

Table 9.7 General Government Sector Cash Flow Statement[1]

	2016-17 Outcome [2] $ million	2017-18 Budget [2] $ million	2017-18 Est.Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Cash Receipts from Operating Activities							
Taxes received	12,940	13,296	13,282	14,153	15,183	15,949	16,721
Grants and subsidies received	27,174	27,628	28,529	27,712	28,153	29,059	30,384
Sales of goods and services	6,116	6,165	5,966	5,947	6,158	6,292	6,520
Interest receipts	2,337	2,328	2,321	2,199	2,076	1,859	1,852
Dividends and income tax equivalents	1,929	2,309	2,532	2,619	2,185	2,068	1,975
Other receipts	6,477	5,595	6,867	7,007	6,681	6,323	6,350
Total Operating Receipts	**56,973**	**57,320**	**59,497**	**59,637**	**60,435**	**61,550**	**63,803**
Cash Payments for Operating Activities							
Payments for employees	(24,278)	(26,099)	(26,375)	(27,701)	(28,911)	(29,736)	(30,746)
Payments for goods and services	(17,005)	(18,661)	(18,691)	(17,635)	(16,960)	(17,115)	(17,607)
Grants and subsidies	(8,325)	(8,045)	(8,186)	(9,492)	(10,030)	(9,870)	(9,974)
Interest paid	(1,700)	(1,706)	(1,614)	(1,474)	(1,645)	(1,692)	(1,795)
Other payments	(5)	..	..	..	(1)	(1)	(3)
Total Operating Payments	**(51,313)**	**(54,511)**	**(54,866)**	**(56,303)**	**(57,546)**	**(58,414)**	**(60,123)**
Net Cash Inflows from Operating Activities	**5,660**	**2,809**	**4,631**	**3,334**	**2,889**	**3,136**	**3,680**
Cash Flows from Investments in Non-Financial Assets							
Purchases of non-financial assets	(4,634)	(5,123)	(4,905)	(5,927)	(7,557)	(7,396)	(7,081)
Sales of non-financial assets	389	392	227	345	373	343	165
Net Cash Flows from Investments in Non-financial Assets	**(4,244)**	**(4,731)**	**(4,678)**	**(5,582)**	**(7,185)**	**(7,053)**	**(6,916)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**954**	**460**	**515**	**(53)**	**41**	**167**	**457**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(2,615)**	**1,268**	**(1,054)**	**2,877**	**4,734**	**817**	**153**
Receipts from Financing Activities							
Advances received (net)	1,315	210	403	(410)	(277)	(176)	25
Borrowing (net)	(1,118)	(176)	(353)	(393)	(221)	3,053	2,711
Deposits received (net)	14	..	46	(47)	..	..	..
Net Cash Flows from Financing Activities	**211**	**33**	**96**	**(851)**	**(498)**	**2,877**	**2,735**
Net Increase/(Decrease) in Cash held	**(35)**	**(161)**	**(491)**	**(275)**	**(19)**	**(56)**	**109**
Net cash from operating activities	5,660	2,809	4,631	3,334	2,889	3,136	3,680
Net cash flows from investments in non-financial assets	(4,244)	(4,731)	(4,678)	(5,582)	(7,185)	(7,053)	(6,916)
Surplus/(Deficit)	**1,416**	**(1,922)**	**(47)**	**(2,248)**	**(4,295)**	**(3,917)**	**(3,236)**
Derivation of ABS GFS Cash Surplus/Deficit							
Cash surplus/(deficit)	1,416	(1,922)	(47)	(2,248)	(4,295)	(3,917)	(3,236)
Acquisitions under finance leases and similar arrangements	(758)	(618)	(559)	(864)	(287)	..	..
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	**658**	**(2,540)**	**(606)**	**(3,112)**	**(4,582)**	**(3,917)**	**(3,236)**

Notes:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.
2. With the implementation of the latest GFS Manual (AGFS15), the 2016-17 Outcomes and 2017-18 Budget cash flow categories have been restated above to ensure comparability.

Table 9.8 Public Non-financial Corporations Sector Cash Flow Statement[1]

	2016-17 Outcome [2] $ million	2017-18 Budget [2] $ million	2017-18 Est.Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Cash Receipts from Operating Activities							
Grants and subsidies received	1,451	623	585	585	605	601	624
Sales of goods and services	14,187	12,268	13,374	13,113	12,749	12,998	13,396
Interest receipts	44	37	63	52	50	58	59
Dividends and income tax equivalents	15	14	13	13	13	13	13
Other receipts	335	257	394	215	224	174	179
Total Operating Receipts	**16,032**	**13,198**	**14,429**	**13,977**	**13,641**	**13,844**	**14,270**
Cash Payments for Operating Activities							
Payments for employees	(1,874)	(2,072)	(2,062)	(2,143)	(2,185)	(2,194)	(2,239)
Payments for goods and services	(5,290)	(4,192)	(4,890)	(4,610)	(4,307)	(4,553)	(4,545)
Grants and subsidies	(20)	(289)	(281)	(264)	(269)	(52)	(23)
Interest paid	(2,054)	(1,960)	(1,900)	(1,910)	(1,987)	(2,081)	(2,154)
Other payments	(1,577)	(1,071)	(1,260)	(1,172)	(1,164)	(1,148)	(1,148)
Total Operating Payments	**(10,815)**	**(9,584)**	**(10,392)**	**(10,098)**	**(9,913)**	**(10,028)**	**(10,110)**
Net Cash Inflows from Operating Activities	**5,217**	**3,614**	**4,037**	**3,879**	**3,729**	**3,816**	**4,161**
Cash Flows from Investments in Non-Financial Assets							
Purchases of non-financial assets	(2,708)	(2,866)	(2,751)	(3,130)	(3,229)	(3,126)	(3,097)
Sales of non-financial assets	71	46	46	11	8	8	6
Net Cash Flows from Investments in Non-financial Assets	**(2,637)**	**(2,820)**	**(2,704)**	**(3,119)**	**(3,221)**	**(3,118)**	**(3,090)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(2,100)**	**(252)**	**(473)**	**284**	**41**	**(79)**	**(569)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**116**	**..**	**(8)**	**(3)**	**(4)**	**(4)**	**(5)**
Receipts from Financing Activities							
Advances received (net)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Borrowing (net)	768	122	41	471	815	814	642
Dividends paid	(747)	(1,646)	(1,658)	(1,805)	(1,435)	(1,324)	(1,188)
Deposits received (net)	(3)	..	..	..	..	..	..
Other financing (net)	(692)	18	1	60	100	..	..
Net Cash Flows from Financing Activities	**(675)**	**(1,506)**	**(1,617)**	**(1,275)**	**(521)**	**(510)**	**(546)**
Net Increase/(Decrease) in Cash held	**(79)**	**(965)**	**(766)**	**(233)**	**25**	**104**	**(50)**
Net cash from operating activities	5,217	3,614	4,037	3,879	3,729	3,816	4,161
Net cash flows from investments in non-financial assets	(2,637)	(2,820)	(2,704)	(3,119)	(3,221)	(3,118)	(3,090)
Dividends paid	(747)	(1,646)	(1,658)	(1,805)	(1,435)	(1,324)	(1,188)
Surplus/(Deficit)	**1,834**	**(853)**	**(326)**	**(1,045)**	**(927)**	**(626)**	**(117)**
Derivation of ABS GFS Cash Surplus/Deficit							
Cash surplus/(deficit)	1,834	(853)	(326)	(1,045)	(927)	(626)	(117)
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	**1,834**	**(853)**	**(326)**	**(1,045)**	**(927)**	**(626)**	**(117)**

Notes:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.
2. With the implementation of the latest GFS Manual (AGFS15), the 2016-17 Outcomes and 2017-18 Budget cash flow categories have been restated above to ensure comparability.

Table 9.9 Non-financial Public Sector Cash Flow Statement[1]

	2016-17 Outcome [2] $ million	2017-18 Budget [2] $ million	2017-18 Est.Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Cash Receipts from Operating Activities							
Taxes received	12,682	13,061	13,039	13,891	14,901	15,644	16,393
Grants and subsidies received	27,201	27,708	28,556	27,788	28,230	29,137	30,464
Sales of goods and services	18,454	16,085	17,069	16,609	16,391	16,671	17,223
Interest receipts	2,381	2,365	2,340	2,217	2,097	1,891	1,885
Dividends and income tax equivalents	157	94	179	166	126	150	179
Other receipts	6,805	5,851	7,259	7,222	6,905	6,498	6,529
Total Operating Receipts	**67,680**	**65,164**	**68,442**	**67,892**	**68,650**	**69,991**	**72,672**
Cash Payments for Operating Activities							
Payments for employees	(26,050)	(28,075)	(28,344)	(29,743)	(30,993)	(31,824)	(32,877)
Payments for goods and services	(20,329)	(20,504)	(21,302)	(19,789)	(18,745)	(19,043)	(19,452)
Grants and subsidies	(6,920)	(7,791)	(7,908)	(9,247)	(9,771)	(9,398)	(9,451)
Interest paid	(3,616)	(3,539)	(3,331)	(3,202)	(3,438)	(3,563)	(3,717)
Other payments	(670)	(479)	(548)	(503)	(520)	(535)	(522)
Total Operating Payments	**(57,585)**	**(60,387)**	**(61,432)**	**(62,484)**	**(63,467)**	**(64,363)**	**(66,020)**
Net Cash Inflows from Operating Activities	**10,095**	**4,776**	**7,010**	**5,408**	**5,183**	**5,628**	**6,653**
Cash Flows from Investments in Non-Financial Assets							
Purchases of non-financial assets	(7,305)	(7,989)	(7,656)	(9,057)	(10,786)	(10,523)	(10,177)
Sales of non-financial assets	460	438	273	356	381	351	171
Net Cash Flows from Investments in Non-financial Assets	**(6,845)**	**(7,551)**	**(7,383)**	**(8,701)**	**(10,405)**	**(10,171)**	**(10,006)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(42)**	**457**	**465**	**(104)**	**(15)**	**(59)**	**(79)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(2,499)**	**1,268**	**(1,063)**	**2,873**	**4,730**	**813**	**148**
Receipts from Financing Activities							
Advances received (net)	(30)	(22)	(21)	(16)	(81)	(30)	(10)
Borrowing (net)	(350)	(54)	(312)	78	594	3,867	3,353
Deposits received (net)	11	..	46	(47)	..	..	..
Other financing (net)	(452)	..	1	..	..	..	..
Net Cash Flows from Financing Activities	**(821)**	**(76)**	**(286)**	**15**	**513**	**3,837**	**3,343**
Net Increase/(Decrease) in Cash held	**(113)**	**(1,126)**	**(1,256)**	**(509)**	**6**	**48**	**59**
Net cash from operating activities	10,095	4,776	7,010	5,408	5,183	5,628	6,653
Net cash flows from investments in non-financial assets	(6,845)	(7,551)	(7,383)	(8,701)	(10,405)	(10,171)	(10,006)
Surplus/(Deficit)	**3,249**	**(2,775)**	**(373)**	**(3,293)**	**(5,222)**	**(4,543)**	**(3,353)**
Derivation of ABS GFS Cash Surplus/Deficit							
Cash surplus/(deficit)	3,249	(2,775)	(373)	(3,293)	(5,222)	(4,543)	(3,353)
Acquisitions under finance leases and similar arrangements	(758)	(618)	(559)	(864)	(287)	..	..
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	**2,492**	**(3,393)**	**(932)**	**(4,157)**	**(5,509)**	**(4,543)**	**(3,353)**

Notes:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.
2. With the implementation of the latest GFS Manual (AGFS15), the 2016-17 Outcomes and 2017-18 Budget cash flow categories have been restated above to ensure comparability.

9.3 Reconciliation of net operating balance to accounting operating result

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

Data presented in Table 9.10 provides a reconciliation of the General Government Sector net operating balance to the accounting operating result.

Table 9.10 Reconciliation of UPF net operating balance to accounting operating result [1]

	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million
Net operating balance General Government sector (Table 9.1)	146	1,512	148
Remeasurement/valuation adjustments			
Bad debts and amortisation	(89)	(93)	(96)
Deferred tax equivalents	64	16	(1)
Dividends from network GOCs under Debt Action Plan (treated as return of equity for UPF)	20	50	110
Market value adjustments on financial assets and liabilities	17	31	11
Revaluation of provisions	66	12	87
Decommissioned infrastructure assets and land under roads	(143)	(12)	(12)
Gain/(loss) on assets sold/written off/impaired	(9)	(96)	(12)
Accounting operating result General Government sector	**71**	**1,421**	**233**

Note:

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

9.4 General Government Sector time series

Data presented in Table 9.11 provides a time series from 2005-06 to 2016-17 for the General Government Sector on the key fiscal aggregates used by the Government to measure financial performance. These aggregates have been backcast (as far as possible) to comply with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Table 9.11 General Government Sector time series [1]

	2005-06 Actual $ million	2006-07 Actual $ million	2007-08 Actual $ million	2008-09 Actual $ million	2009-10 Actual $ million	2010-11 Actual $ million	2011-12 Actual $ million	2012-13 Actual $ million	2013-14 Actual $ million	2014-15 Actual $ million	2015-16 Actual $ million	2016-17 Actual $ million
Revenue from Transactions												
Taxation revenue	7,396	8,484	9,546	8,866	9,375	9,981	10,608	10,937	11,840	12,598	12,547	12,919
Grant revenue	13,590	14,378	15,510	17,481	20,205	20,338	22,652	18,322	21,740	23,583	23,740	27,383
Sales of goods and services	2,641	2,909	3,357	3,648	3,961	4,172	5,002	5,087	5,039	5,443	5,712	5,642
Interest income	3,414	3,338	(275)	1,482	2,204	2,368	2,485	2,644	2,460	2,470	2,543	2,336
Dividend and income tax equivalent income	1,059	858	1,244	1,180	949	1,232	1,112	1,351	1,975	2,554	2,661	2,690
Other revenue	1,983	2,032	2,041	4,421	3,033	3,921	3,942	3,415	3,650	3,322	3,577	5,222
Total Revenue	**30,084**	**31,999**	**31,424**	**37,078**	**39,727**	**42,013**	**45,801**	**41,755**	**46,705**	**49,970**	**50,780**	**56,194**
Expenses from Transactions												
Employee expenses	10,615	11,731	13,175	14,310	15,566	16,826	18,250	18,130	17,816	18,592	20,045	21,258
Superannuation expenses												
Superannuation interest costs	840	1,154	816	858	1,320	1,240	1,216	923	963	878	767	514
Other superannuation expenses	1,367	1,513	1,865	2,012	2,051	2,171	2,301	2,420	2,277	2,319	2,507	2,661
Other operating expenses	5,236	6,138	6,646	7,300	7,568	8,646	9,497	12,817	13,108	14,539	14,811	15,582
Depreciation and amortisation	1,678	1,764	1,851	2,496	2,501	2,507	2,777	2,902	3,060	3,137	2,921	3,068
Other interest expenses	174	180	347	599	803	1,125	1,659	1,940	2,200	2,328	2,220	1,722
Grant expenses	6,467	7,565	8,329	9,525	9,790	10,963	10,327	7,182	6,792	7,758	6,841	8,568
Total Expenses	**26,378**	**30,046**	**33,030**	**37,099**	**39,599**	**43,479**	**46,028**	**46,312**	**46,217**	**49,551**	**50,112**	**53,373**
Net Operating Balance	**3,707**	**1,953**	**(1,606)**	**(21)**	**128**	**(1,466)**	**(226)**	**(4,558)**	**488**	**420**	**668**	**2,821**
OTHER KEY AGGREGATES												
Purchases of non-financial assets	3,196	4,412	5,725	6,772	8,959	8,237	7,971	7,001	6,323	4,635	4,044	4,634
Net acquisition of non-financial assets	1,234	2,157	3,680	4,349	6,665	5,583	5,241	3,389	3,087	992	1,164	2,285
Fiscal Balance	**2,472**	**(204)**	**(5,286)**	**(4,371)**	**(6,537)**	**(7,049)**	**(5,467)**	**(7,947)**	**(2,599)**	**(572)**	**(497)**	**536**
Cash Surplus/(Deficit)	4,649	2,360	(4,924)	(2,866)	(5,341)	(5,880)	(4,951)	(8,585)	(3,213)	(105)	866	1,416
Net Worth	104,446	118,532	193,838	184,277	175,588	177,875	170,745	172,963	166,492	171,933	188,099	194,936
Net Debt	(23,203)	(26,622)	(22,586)	(19,251)	(13,354)	(9,542)	(5,720)	2,399	5,208	5,749	653	(287)
Borrowing	2,084	2,267	6,328	10,308	15,916	24,593	29,517	37,878	41,368	43,105	35,486	33,260
Borrowing (NFPS)	17,314	23,971	30,856	42,645	51,713	53,708	61,542	69,086	72,637	75,233	72,922	71,904

Note:

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

Source: Report on State Finances for Queensland 2005-06 to 2016-17. (Numbers have been recast for changes to UPF presentation.)

9.5 Other General Government uniform presentation framework data

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

9.5.1 Grants

Data presented in Tables 9.12 and 9.13 provide details of General Government Sector current and capital grant revenue and expenses.

Table 9.12 General Government Sector grant revenue[1]

	2017-18 Est. Act. $ million	2018-19 Budget $ million
Current grant revenue		
Current grants from the Commonwealth		
General purpose grants	15,240	14,799
Specific purpose grants	7,970	7,987
Specific purpose grants for on-passing	3,019	2,918
Total current grants from the Commonwealth	26,229	25,704
Other contributions and grants	354	296
Total current grant revenue	**26,583**	**26,001**
Capital grant revenue		
Capital grants from the Commonwealth		
Specific purpose grants	1,826	1,659
Specific purpose grants for on-passing	..	5
Total capital grants from the Commonwealth	1,826	1,664
Other contributions and grants	72	36
Total capital grant revenue	**1,898**	**1,700**
Total grant revenue	**28,481**	**27,701**

Note:

1. Numbers may not add due to rounding.

Table 9.13 General Government Sector grant expenses[1]

	2017-18 Est. Act. $ million	2018-19 Budget $ million
Current grant expense		
Private and Not-for-profit sector	2,107	2,181
Private and Not-for-profit sector on-passing	2,553	2,687
Local Government	271	362
Local Government on-passing	473	241
Grants to other sectors of Government	947	2,169
Other	304	238
Total current grant expense	**6,656**	**7,878**
Capital grant expense		
Private and Not-for-profit sector	237	458
Local Government	976	1,059
Local Government on-passing	..	5
Grants to other sectors of Government	16	13
Other	211	140
Total capital grant expense	**1,440**	**1,674**
Total grant expense	**8,096**	**9,552**

Note:

1. Numbers may not add due to rounding.

9.5.2 Dividends and income tax equivalent income

Table 9.14 provides details of the source of dividend and income tax equivalent income in the General Government Sector.

Table 9.14 General Government Sector dividend and income tax equivalent income[1]

	2017-18 Est. Act. $ million	2018-19 Budget $ million
Dividend and Income Tax Equivalent income from PNFC sector	2,589	2,066
Dividend and Income Tax Equivalent income from PFC sector	97	151
Total Dividend and Income Tax Equivalent income	**2,686**	**2,217**

Note:

1. Numbers may not add due to rounding.

9.5.3 Expenses by function

Data presented in Table 9.15 provides details of General Government Sector expenses by function. The Australian Bureau of Statistics introduced a revised Classification of the Function of Government Australian Framework (COFOG-A) which has resulted in some re-classification of expenditure between purposes (see 9.6.1).

Table 9.15 General Government Sector expenses by function[1]

	2017-18 Budget[2] $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
General public services	5,115	5,419	5,368	5,412	5,287	5,259
Public order and safety	5,139	5,023	5,154	5,231	5,345	5,505
Economic affairs	2,160	2,221	2,241	2,165	2,114	2,017
Environmental protection	609	726	631	726	716	734
Housing and community amenities	295	224	275	373	364	268
Health	16,478	17,005	17,347	17,980	18,513	19,173
Recreation, culture and religion	1,458	1,535	842	741	763	746
Education	13,660	13,536	14,006	14,634	15,314	15,906
Social protection	5,056	5,425	5,865	5,439	5,452	5,930
Transport	5,752	5,633	5,861	5,975	5,961	6,042
Total Expenses	**55,723**	**56,747**	**57,590**	**58,675**	**59,829**	**61,579**

Notes:

1. Numbers may not add due to rounding.
2. 2017-18 Budget has been restated to comply with COFOG-A.

9.5.4 Purchases of non-financial assets by function

Data presented in Table 9.16 provides details of General Government Sector purchases of non-financial assets by function as per COFOG-A.

Table 9.16 General Government Sector purchases of non-financial assets by function[1]

	2017-18 Budget[2] $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
General public services	217	127	373	249	45	38
Public order and safety	552	415	555	522	265	245
Economic affairs	37	32	47	33	29	28
Environmental protection	28	58	67	29	19	20
Housing and community amenities	21	26	78	90	132	83
Health	984	598	1,099	1,046	907	623
Recreation, culture and religion	81	52	161	173	77	39
Education	643	589	711	993	599	664
Social protection	460	322	384	319	291	298
Transport	2,100	2,685	2,451	4,104	5,032	5,042
Total Purchases	**5,123**	**4,905**	**5,927**	**7,557**	**7,396**	**7,081**

Notes:

1. Numbers may not add due to rounding.
2. 2017-18 Budget has been restated to comply with COFOG-A.

9.5.5 Taxes

Data presented in Table 9.17 provides details of taxation revenue collected by the General Government Sector.

Table 9.17 General Government Sector taxes[1]

	2017-18 Est. Act. $ million	2018-19 Budget $ million
Taxes on employers' payroll and labour force	3,887	4,086
Taxes on property		
Land taxes	1,183	1,313
Stamp duties on financial and capital transactions	3,090	3,214
Other	682	822
Taxes on the provision of goods and services		
Taxes on gambling	1,194	1,307
Taxes on insurance	951	992
Taxes on use of goods and performance of activities		
Motor vehicle taxes	2,297	2,421
Total Taxation Revenue	**13,284**	**14,155**

Note:

1. Numbers may not add due to rounding.

9.6 Contingent liabilities

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

The State's quantifiable and non-quantifiable contingent liabilities are detailed in the *2016-17 Report on State Finances* – whole-of-government financial statements (note 43).

A summary of the State's quantifiable contingent liabilities as at 30 June 2017 is provided in Table 9.18.

Table 9.18 Contingent liabilities

	2016-17 $ million
Nature of contingent liability	
Guarantees and indemnities	10,421
Other	328
Total	**10,748**

9.7 Background and interpretation of uniform presentation framework

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

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

9.7.1 Accrual Government Finance Statistics framework

The GFS reporting framework, developed by the Australian Bureau of Statistics (ABS), is based on international statistics 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 refers 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.

Effective 1 July 2017, the ABS has updated its framework to incorporate changes outlined in the IMF's latest manual. The ABS's new framework (AGFS15) has required changes to the economic types of stocks and flows, and the classification of flows by function (classification of the functions of government – Australia, or COFOG-A).

In implementing AGFS15, Queensland Treasury has revised some of the classifications of operating cashflows in the Cashflow Statement. The 2016-17 Outcome and 2017-18 Budget have been restated to facilitate comparability. The key aggregates have not changed.

Adopting COFOG-A has resulted in some changes to the broad categories of function. As far as possible, the 2017-18 Budget has been restated to reflect these changes.

9.7.2 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.

9.7.3 Harmonisation under AASB 1049

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

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

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

9.7.4 Revisions to the Uniform Presentation Framework

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

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

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

9.8 Sector classification

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

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

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

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

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

9.9 Reporting entities

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

9.9.1 General Government

Departments

Aboriginal and Torres Strait Islander Partnerships

Agriculture and Fisheries

Child Safety, Youth and Women

Communities, Disability Services and Seniors

Education

Electoral Commission of Queensland

Employment, Small Business and Training

Environment and Science

Housing and Public Works

Innovation, Tourism Industry Development and the Commonwealth Games

Justice and Attorney-General

Legislative Assembly

Local Government, Racing and Multicultural Affairs

Natural Resources, Mines and Energy

Office of Industrial Relations

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 Corrective Services

Queensland Fire and Emergency Services

Queensland Health

Queensland Police Service

Queensland Treasury

Sport and Recreation

State Development, Manufacturing, Infrastructure and Planning

The Public Trustee of Queensland

Transport and Main Roads

Commercialised Business Units

Building and Asset Services

CITEC

Economic Development Queensland

QFleet

RoadTek

Shared Service Providers

Corporate Administration Agency

Queensland Shared Services

Statutory Authorities

Anti-Discrimination Commission

Board of the Queensland Museum

Crime and Corruption Commission

Cross River Rail Delivery Authority

Gold Coast 2018 Commonwealth Games Corporation

Gold Coast Waterways Authority

Hospital and Health Services

- Cairns and Hinterland
- Central Queensland
- Central West
- Children's Health Queensland
- Darling Downs
- Gold Coast
- Mackay
- North West
- South West
- Sunshine Coast
- Torres and Cape
- Townsville
- West Moreton
- Wide Bay

Legal Aid Queensland

Library Board of Queensland

Motor Accident Insurance Commission

Nominal Defendant

Office of the Information Commissioner

Office of the Health Ombudsman

Prostitution Licensing Authority

Queensland Agricultural Training Colleges

Queensland Art Gallery Board of Trustees

Queensland Building and Construction Commission

Queensland Curriculum and Assessment Authority

Queensland Family and Child Commission

Queensland Mental Health Commission

Queensland Performing Arts Trust

Queensland Racing Integrity Commission

Queensland Reconstruction Authority

Queensland Rural and Industry Development Authority

Residential Tenancies Authority

South Bank Corporation

TAFE Queensland

The Council of the Queensland Institute of Medical Research

Tourism and Events Queensland

Trade and Investment Queensland

Appendix A: Concessions statement

Context

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

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

Further information on the eligibility requirements and benefits of a range of Government concessions can be found at:

https://campaigns.premiers.qld.gov.au/smart-savings/.

Focus

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

Sections A.2 and A.3 set out the individual concessions by agency and government-owned corporation respectively, sorted in descending order. The total value of these concessions is estimated to be $5.584 billion in 2018-19. This represents a significant Government and taxpayer commitment to improving the accessibility and affordability of a diverse range of services, and reducing the price paid by consumers of those services to ease cost of living pressures.

Explanation of scope

For the purposes of this document, concessions include:

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

Both General Government and Public Non-financial Corporations (PNFC) Sector concessions are included. Where a payment is made from a General Government Sector agency to a PNFC entity for a concession arrangement, the expenditure is reported against the General Government Sector agency only to avoid double counting. To be included in this statement, concessions must meet the minimum materiality threshold of estimated expenditure or revenue foregone of $50,000 in 2018-19.

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 potential value of the concession to consumers. However, averages are not reflective of individual circumstances, meaning the actual dollar value of the concession to consumers may vary from person to person.

The Concessions Statement does not include Tax Expenditures (for example, tax exemptions, reduced tax rates, tax rebates and deductions). Information on Tax Expenditures can be found in Appendix B – Tax expenditure statement.

A.1 Concessions summary

Table A.1.1 Concession by entity[1]

Concession by entity	2017-18 Est. Act. $ million	2018-19 Estimate $ million
Agency		
Department of Agriculture and Fisheries	32.4	43.6
Department of Communities, Disability Services and Seniors	366.3	383.8
Department of Education	124.8	131.6
Department of Employment, Small Business and Training	429.7	453.1
Department of Environment and Science	8.8	7.1
Department of Housing and Public Works	450.7	461.6
Department of Justice and Attorney-General	91.2	93.1
Department of Natural Resources, Mines and Energy	825.8	795.6
Department of Transport and Main Roads	2,601.1	2,796.7
Queensland Fire and Emergency Services	9.7	10.2
Queensland Health	295.5	281.7
Total Agency	**5,236.1**	**5,458.1**
Government-owned corporations		
Energy Queensland	22.0	22.9
Far North Queensland Ports Corporation Limited	0.8	0.8
Gladstone Ports Corporation Limited	55.5	43.1
North Queensland Bulk Ports Corporation Limited	1.6	1.7
Port of Townsville Limited	5.7	5.8
Queensland Rail Limited	1.7	1.9
SunWater Limited	48.5	49.4
Total Government-owned corporations	**135.8**	**125.6**
Total all entities	**5,371.9**	**5,583.7**

Note:

1. Numbers may not add due to rounding.

A.2 Concessions by agency

Table A.2.1 Department of Agriculture and Fisheries

Concession	2017-18 Est. Act. $ million	2018-19 Estimate $ million
Primary Industry Productivity Enhancement Scheme (PIPES)	21.2	20.3
Drought Relief Assistance Scheme[1]	10.0	20.0
Vessel Tracking Rebate Scheme[2]	0.1	1.7
Farm Management Grant[3]	1.1	1.6
Total	**32.4**	**43.6**

Notes:

1. The 2017-18 estimated actual is lower than previously anticipated due to improved climatic conditions across the State. In 2018-19 the Government is providing funding of up to $20 million, held centrally, for the continuation of the Drought Relief Assistance Scheme.
2. The variance is due to the commencement of the scheme (June 2018) and an anticipated increased take up of the scheme during 2018-19.
3. The variance is due to an anticipated increased take up of the grants in 2018-19, as a result of the expansion of a targeted communications strategy.

Primary Industry Productivity Enhancement Scheme (PIPES)

PIPES is administered by the Queensland Rural and Industry Development Authority (QRIDA) and provides concessional rates of interest on loans to eligible primary producers in need of financial assistance. First Start Loans and Sustainability Loans of up to $2 million and $1.3 million respectively support applicants to enter primary production and to improve productivity and sustainability. The average concessional interest rate for new lending is 3.24%. The amounts shown in the above table represent the fair values of the interest rate concessions pertaining to loans issued in each of the financial years shown.

Drought Relief Assistance Scheme

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

Vessel Tracking Rebate Scheme

The *Queensland Sustainable Fisheries Strategy 2017-2027* requires vessel tracking on all commercial fishing boats by 2020 to assist in the management of Queensland Fisheries. This initiative is designed to assist commercial fishers by providing rebates up to prescribed amounts, to offset the cost of purchasing and installing approved vessel tracking units.

Farm Management Grant

The Farm Management Grant aims to assist eligible Queensland primary producers, or their relatives, to offset the costs of professional advice associated with succession planning. The grant provides rebates of up to 50% of the amount paid for professional advice, up to a maximum of $2,500 per financial year.

Table A.2.2 Department of Communities, Disability Services and Seniors

Concession	2017-18 Est. Act. $ million	2018-19 Estimate $ million
Electricity Rebate Scheme[1,2]	181.0	195.5
Electricity Asset Ownership Dividend	100.0	100.0
Pensioner Rate Subsidy Scheme	53.0	53.6
South East Queensland Pensioner Water Subsidy Scheme	18.0	18.2
Home Energy Emergency Assistance Scheme	8.1	10.0
Electricity Life Support Concession Scheme[2]	2.3	2.3
Reticulated Natural Gas Rebate Scheme	2.5	2.6
Medical Cooling and Heating Electricity Concession Scheme[2]	1.5	1.6
Total	**366.3**	**383.8**

Notes:

1. The variance is due to the estimated growth in recipients, particularly Health Care Card holders.
2. Electricity price linked rebates are adjusted annually according to the Queensland Competition Authority's (QCA) price determination for general household electricity tariff (Tariff 11). For 2018-19, the QCA determined Tariff 11 will decrease by 1.3%. However, existing rebate values will not be decreased and will continue to apply in 2018-19.

Electricity Rebate Scheme

The Electricity Rebate Scheme provides a rebate of up to approximately $341 per annum, to assist with the cost of domestic electricity supply to the home of eligible holders of a Pensioner Concession Card, a Queensland Seniors Card or a Department of Veterans' Affairs Gold Card (and receive a War Widow/er Pension or special rate Totally or Permanently Incapacitated Pension).

Additionally, the rebate was extended to Commonwealth Health Care Card Holders and asylum seekers from 1 January 2017, allowing an estimated 157,000 additional Queensland families to access the rebate.

Electricity Asset Ownership Dividend

The Electricity Asset Ownership Dividend is providing Queensland households with a $50 electricity rebate in 2017-18 and 2018-19. This initiative is funded from the dividends of Queensland's government-owned corporations and forms part of the $2 billion Affordable Energy Plan.

Pensioner Rate Subsidy Scheme

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

South East Queensland Pensioner Water Subsidy Scheme

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

Home Energy Emergency Assistance Scheme

The Home Energy Emergency Assistance Scheme provides emergency assistance of up to $720 once in a two year period to assist low income households experiencing a short-term financial crisis and who are unable to pay their current electricity and/or reticulated natural gas account. It is not a requirement for the claimant to hold a concession card.

Electricity Life Support Concession Scheme

The Electricity Life Support Concession Scheme is aimed at assisting seriously ill people who use home based life support systems by providing a rebate of up to approximately $694 per annum for users of oxygen concentrators and a rebate of up to approximately $465 per annum for users of kidney dialysis machines to meet their electricity costs. The concession is paid quarterly and is subject to the patient being medically assessed in accordance with Queensland Health eligibility criteria.

Reticulated Natural Gas Rebate Scheme

The Reticulated Natural Gas Rebate Scheme provides a rebate of up to approximately $73 per annum to assist with the cost of reticulated natural gas supplied to the home of eligible holders of a Pensioner Concession Card, Queensland Seniors Card or a Department of Veterans' Affairs Gold Card (and receive the War Widow/er Pension or special rate Totally or Permanently Incapacitated Pension).

Medical Cooling and Heating Electricity Concession Scheme

The Medical Cooling and Heating Electricity Concession Scheme provides a rebate of up to approximately $341 per annum for eligible concession card holders with a medical condition who have dependence on air conditioning to regulate body temperature.

Table A.2.3 Department of Education

Concession	2017-18 Est. Act. $ million	2018-19 Estimate $ million
Textbook and Resource Allowance[1]	57.9	61.2
School Transport Assistance for Students with Disabilities[1]	40.7	43.7
Living Away from Home Allowance Scheme[2]	8.3	8.4
Tuition Fee Exemptions/Waivers - Dependants of International Students[2]	6.8	7.0
Non-Government Schools Transport Assistance Scheme[2]	6.0	6.2
Dalby State High School - Bunya Campus Residential Facility	2.7	2.7
Spinifex State College - Mount Isa Student Residential Facility	1.1	1.1
Distance Education - Information and Communication Technology Subsidy Scheme	0.8	0.8
Distance Education - Non-Government Student Fee Subsidy	0.5	0.5
Total	**124.8**	**131.6**

Notes:

1. The variance is due to a combination of indexation and student enrolment growth.
2. The variance is due to indexation.

Textbook and Resource Allowance

The Textbook and Resource Allowance is available for all 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 2018, the rates per annum are $125 for students in Years 7 to 10 and $271 for students in Years 11 and 12.

School Transport Assistance for Students with Disabilities

School Transport Assistance for Students with Disabilities is provided for eligible students to attend State school programs that meet their individual education needs. This transport assistance includes the provision of taxis or specialised contracted minibuses, payment of fares on regular buses or trains, or an allowance for parents who drive their children to school. The benefit level is to a maximum of $400 per week, per student, however in exceptional circumstances higher amounts may be approved. A separate scheme is in place for students with disabilities attending non-government schools (refer 'Non-Government Schools Transport Assistance Scheme').

The Department of Education is working with the Department of Transport and Main Roads (DTMR) to establish a long-term solution for the delivery of school transport assistance for students with disabilities under the National Disability Insurance Scheme (NDIS).

Living Away from Home Allowance Scheme

The Living Away from Home Allowance Scheme provides financial assistance to support Queensland families and targets geographically isolated families. The scheme meets the costs of children who are required to live away from home to attend schools. This concession is available to Queensland students attending both state and non-government schools. The benefits available for eligible students in 2018 are:

- Remote Area Allowance - assistance of $2,354 per annum is available to students attending campuses of the Australian Agricultural College Corporation in lieu of Year 11 and 12.
- Remote Area Tuition Allowance - primary students up to $3,744 per annum and secondary students up to $5,391 per annum.
- 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 $142 to a maximum of $1,727 per annum.
- Remote Area Disability Supplement - available to students with disabilities who incur additional costs associated with living away from home to attend school. Benefits are up to $7,659 per student per annum.

Tuition Fee Exemptions/Waivers - Dependants of International Students

This concession is available for dependants of international students. It allows students who meet the approved exemption criteria, and wish to enrol their child in Preparatory Year (Prep) 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 estimated average amount exempted or waived per student is $7,818 for the 2018-19 financial year.

Non-Government Schools Transport Assistance Scheme

The Non-Government Schools 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 2018, the threshold is $33 per week for families, or $25 for families with a Health Care Card, Pensioner or Department of Veterans' Affairs Pensioner Card.

The program also assists families of students with disabilities who attend a non-government school. The level of assistance provided is dependent on the type of transport needed and travel assistance already provided by DTMR. For families using taxis, assistance is capped at $300 per week.

The Department of Education is working with DTMR to establish a long-term solution for the delivery of school transport assistance for students with disabilities under the NDIS.

Dalby State High School - Bunya Campus Residential Facility

The Dalby State High School - Bunya Campus Residential Facility provides affordable residential accommodation for secondary school students in a boarding facility. The concession particularly targets secondary school students from rural and remote communities, however, any secondary age student is eligible. Students accommodated at the residential facility are enrolled at Dalby State High School and participate in agricultural education programs.

Spinifex State College - Mount Isa Student Residential Facility

The Spinifex State College - Mount Isa Student Residential Facility provides an affordable residential facility in Mount Isa for students from the north-western area of the State whose home community does not provide secondary schooling. The funding meets the cost of wages for the residential college, increasing the affordability of the accommodation rates charged to students.

Distance Education - Information and Communication Technology Subsidy Scheme

The Distance Education - Information and Communication Technology Subsidy Scheme provides assistance to students enrolled in a school of distance education that are geographically isolated or in the medical category.

The scheme provides $250 per annum to assist with purchasing, replacing or upgrading computer hardware for students in the distance/geographically isolated and medical categories, and $500 per annum to assist students in the distance/geographically isolated category to meet the costs of broadband internet access and download charges for the home classroom. Eligible students also receive access to free software licences.

Distance Education - Non-Government Student Fee Subsidy

The Distance Education - Non-Government Student Fee Subsidy is available to students who are enrolled in non-government schools and also choose to access distance education subjects. It provides an average annual subsidy of approximately $1,343 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.

Table A.2.4 Department of Employment, Small Business and Training

Concession	2017-18 Est. Act. $ million	2018-19 Estimate $ million
User Choice - Apprentice and Trainee Training Subsidy[1]	191.5	202.0
Vocation Education and Training (VET) - Certificate 3 Guarantee Tuition Fee Subsidy[1]	172.8	182.1
VET - Higher Level Skills Tuition Fee Subsidy[1]	63.4	67.0
Travel and Accommodation Subsidy	2.0	2.0
Total	**429.7**	**453.1**

Note:

1. The variance is due to the anticipated increase in activity due to the demand driven nature of the programs.

User Choice - Apprentice and Trainee Training Subsidy

The User Choice - Apprentice and Trainee Training Subsidy program provides government funding towards the costs of training and assessment for eligible Queensland apprentices and trainees or complementary pathways leading to apprenticeship and traineeship outcomes. The subsidy is available to public and private registered training organisations (pre-approved as pre-qualified suppliers) to subsidise tuition fees to reduce the cost of required accredited, entry level training for apprentices and trainees. The program provides greater flexibility for apprentices, trainees and their employers to select a preferred registered training organisation and to negotiate the type of training to meet their specific needs.

The value of this subsidy for each qualification ranges from $1,140 to $50,720 depending on the eligibility and qualification subsidised. The average subsidy value is $9,007.

Vocation Education and Training (VET) - Certificate 3 Guarantee Tuition Fee Subsidy

The Vocational Education and Training (VET) Certificate 3 Guarantee Tuition Fee Subsidy provides a government subsidy to allow eligible Queenslanders to obtain their first post-school Certificate III qualification to help them 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 value of this subsidy for each qualification ranges from $440 to $6,260 depending on the eligibility and qualification subsidised. The average subsidy value is $2,836.

VET - Higher Level Skills Tuition Fee Subsidy

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

The value of this subsidy for each qualification ranges from $1,105 to $8,190 depending on the eligibility and qualification subsidised. The average subsidy value is $4,078.

Travel and Accommodation Subsidy

The Travel and Accommodation Subsidy provides financial assistance to Queensland apprentices and trainees for travel expenses incurred in attending off the job training at a registered training organisation. To be eligible, apprentices must attend the closest registered training organisation that offers the required qualification and travel a minimum of 100 kilometres (km) return from their usual place of residence to the registered training organisation. The subsidy provides for:

- return land travel to the registered training organisation of 15 cents per km for distances between 100-649 km, increasing to 19 cents per km for distances between 650-1,400 km
- cost of ferry travel if necessary
- a return economy air ticket to the location of the registered training organisation if necessary
- accommodation assistance of $28 per day for overnight stay within Queensland and $68 for interstate travellers, if it is necessary to live away from their usual place of residence to attend training.

Table A.2.5 Department of Environment and Science

Concession	2017-18 Est. Act. $ million	2018-19 Estimate $ million
Queensland Performing Arts Trust - Arts concessional entry fees	2.0	2.0
Tour fee and access permit concessions	1.6	1.6
Queensland Museum - Arts concessional entry fees	1.5	1.5
Queensland Performing Arts Trust - Venue hire rebates	0.6	0.6
State Library of Queensland - Venue hire rebates	0.5	0.5
Arts Queensland - Discount on property lease rentals[1]	0.7	0.4
Arts Queensland - Venue hire rebates	0.3	0.3
Queensland Art Gallery - Arts concessional entry fees[2]	1.6	0.2
Total	**8.8**	**7.1**

Notes:

1. The decrease from 2017-18 estimated actual to 2018-19 budget is mainly due to a reduction in the market rental assessment for Judith Wright Centre of Contemporary Arts budgeting a 5% vacancy rate in 2018-19 and the planned six months closure of Centre of Contemporary Arts, Cairns for renovation.
2. Decrease in concessions in 2018-19 is due to the major exhibition in 2018-19 (The 9th Asia Pacific Triennial of Contemporary Art) being a free exhibition. Overall concession in previous year was higher as a result of better than expected attendance at Marvel: Creating the Cinematic Universe and a greater than expected proportion of concession holders.

Queensland Performing Arts Trust - Arts concessional entry fees

Concessional entry fees are offered for specific Queensland Performing Arts Trust productions and to provide support for other not-for-profit theatre companies to enable tickets to be sold at concessional prices. The level of concession provided varies depending on the number and size of events being held each year.

Tour fee and access permit concessions

Tour fee, access permit and camping fee concessions are available in specified protected areas including David Fleay Wildlife Park, Mon Repos Conservation Park, St Helena Island National Park, Walk-About Creek Wildlife Centre, Fort Lytton National Park, Cooloola Recreation Area, Moreton Island and Fraser Island.

Queensland Museum - Arts concessional entry fees

Queensland Museum provides concessional entry fees to seniors, students, children, families and a variety of concession card holders for ticketed exhibitions at Queensland Museum and Sciencentre and for general entry to Cobb & Co Museum Toowoomba, The Workshops Rail Museum Ipswich and Museum of Tropical Queensland Townsville. Concessions are also provided to targeted groups, such as schools, to encourage visits to museums. The level of concession provided varies depending on the venue and the event.

Queensland Performing Arts Trust - Venue hire rebates

Venue hire rebates are offered to Government funded cultural organisations, charitable organisations, government departments and educational institutions. Organisations currently receiving discounts are Queensland Symphony Orchestra, Opera Queensland, Queensland Theatre Company and Queensland Ballet.

State Library of Queensland - Venue hire rebates

State Library of Queensland provides venue hire concessions to targeted community and non-profit groups including cultural and charitable organisations and educational institutions in order to support events and programs directly linked to State Library of Queensland's services, programs and activities.

Arts Queensland - Discount on property lease rentals

Property lease rentals are provided to arts and cultural organisations at a discount from market rental rates at the Judith Wright Centre of Contemporary Arts and the Cairns Centre of Contemporary Arts. Discounts range from 20% to 100% of the market rate (dependent on location) of the commercial office space. Further discounts on specialist rehearsal and gallery space are given as negotiated at the time of entering the lease and dependent on the individual arts or cultural organisation and its funding.

Arts Queensland - Venue hire rebates

Venue hire rebates support Queensland Government funded arts organisations and professional artists to develop and present new work at the Judith Wright Centre of Contemporary Arts and the Cairns Centre of Contemporary Arts.

Queensland Art Gallery - Arts concessional entry fees

Queensland Art Gallery's ticket prices are set to ensure that they are affordable and to maximise attendance, with additional concessions provided to seniors, students, children, families and a variety of concession card holders. The purpose of the Queensland Art Gallery Arts concessional entry fees concession is to contribute to the cultural, social and intellectual development of Queenslanders, and encourage diverse audiences.

Table A.2.6 Department of Housing and Public Works

Concession	2017-18 Est. Act. $ million	2018-19 Estimate $ million
Government managed housing rental rebate[1]	396.4	406.1
National Rental Affordability Scheme[2]	28.4	29.3
Home Assist Secure[2]	19.0	19.0
Non-residential buildings - subsidised rents	5.6	5.9
Rental Bond Loans	1.0	1.0
Queensland Recreation Centres - Concessional usage rates	0.3	0.3
Non-government managed housing[3]	..	..
Total	**450.7**	**461.6**

Notes:

1. The variance is primarily due to lower forecast growth in tenant rental income.
2. The variance is due to the expected increase in the indexation rate for the 2018-19 scheme.
3. The value of this concession arrangement cannot be easily quantified.

Government managed housing rental rebate

The Government managed housing rental rebate targets low income families and individuals and represents the difference between the rents that would be payable in the private market and rent that is charged by Government based on household income.

Assistance is provided to approximately 53,000 households. The estimated average yearly subsidy per household for 2018-19 is $7,623.

National Rental Affordability Scheme

The National Rental Affordability Scheme (NRAS) is an Australian Government initiative, delivered in partnership with the Queensland Government, to increase the supply of new affordable rental housing. The scheme provides financial incentives to investors to build well located dwellings and rent them to eligible low to moderate income households, at a discounted rate at least 20% below market rent.

Under the scheme, the concession to the tenant is provided by the property owner. Due to the nature of the arrangement, the overall value of the concession to the tenant cannot be quantified. In 2018-19, the Government has allocated $29.3 million for the payment of financial incentives to NRAS investors who are then required to discount rents to tenants.

Home Assist Secure

Home Assist Secure provides free safety related information and referrals, and subsidised assistance to eligible clients unable to undertake or pay for critical maintenance services without assistance. To be considered for assistance, home owners or tenants over the age of 60 or of any age with a disability must hold a Pensioner Concession Card and be unable to complete the work themselves. In addition, they must be unable to access assistance from other services. Subsidised assistance can be undertaken for maintenance, repairs and minor modifications where the total cost for any one job or service does not exceed $1,500. Labour costs (up to $500 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 2018-19, $19 million in grants to Home Assist Secure providers will be issued to ensure the ongoing delivery of assistance to those in greatest need. It is estimated that over 47,500 households will be assisted.

Non-residential buildings - subsidised rents

Accommodation is provided to 40 community, education, arts and not-for-profit organisations in Government owned non-residential buildings. Tenures for the occupancies are by way of leases, licences or month to month arrangements. Rents paid by the organisations are often below independently assessed market rent levels. Subsidised rental arrangements are provided to 24 properties comprising a total floor area of approximately 25,038 square metres. The total subsidy is calculated by deducting the actual amount paid by the occupants from the total estimated annual market rent for the office space.

Rental Bond Loans

The Government provides interest-free rental bond loans equivalent to a maximum amount of four weeks rent to people who cannot afford to pay a full bond to move into private rental accommodation; reducing the need for more costly, subsidised housing assistance. The interest-free bond loan targets low-income households and can stabilise tenancies, prevent households from entering the cycle of homelessness and engaging with fringe, high interest credit providers. The concession represents the interest saving for the client on the bond loan. In 2018-19, $27.7 million in bond loans will be advanced to an estimated 24,000 clients.

Queensland Recreation Centres - Concessional usage rates

Concessional usage rates are offered to students and children 17 years and under, for the use of Queensland Recreation Centres at Currimundi and Tallebudgera. These concessional rates provide a discount of between 3.25% to 18% of the full charge to approximately 34,000 recipients.

Non-government managed housing

The Government provides contributions to social housing providers, including capital grants, granted land or properties, or recurrent funding, to assist in increasing housing affordability and access to social housing. Due to the nature of the arrangement, the overall value of the concession provided by the Government cannot be easily quantified.

Rents charged for social housing managed by the providers are based on 25% of a household's assessable income or the market rent, whichever is lower, which may substantially reduce accommodation costs for eligible individuals and families.

Table A.2.7 Department of Justice and Attorney-General

Concession	2017-18 Est. Act. $ million	2018-19 Estimate $ million
Public Trustee of Queensland - Concessions	36.2	37.7
Court Services - Civil Court	22.8	24.2
Queensland Civil and Administrative Tribunal[1]	19.4	18.7
Blue Card - Volunteer Applicants	10.6	10.3
Body Corporate and Community Management - Dispute Resolution	2.2	2.2
Total	**91.2**	**93.1**

Note:

1. The variance is mainly due to the decrease in the Tribunal's rental expenses in 2018-19.

Public Trustee of Queensland - Concessions

The Public Trustee of Queensland (the Public Trustee) is a self-funding organisation and uses a scale of fees which is designed to reflect a fair cost for the services provided.

The Public Trustee has established a safety net limit on the annual fees payable by certain clients which provides for a rebate of fees for some clients with limited assets. The rebate is applied to clients such as financial administration clients with impaired capacity, or estate administration clients of limited means. The Public Trustee also provides Will making services at no cost for all Queenslanders.

In addition, the Public Trustee provides funding to the Public Guardian and financial assistance under the Civil Law Legal Aid Scheme administered by Legal Aid Queensland, to enable these organisations to provide services to the people of Queensland.

Court Services - Civil Court

The Supreme, District and Magistrates Courts hear civil disputes between two or more parties (people or organisations) where one party sues the other, usually to obtain compensation, or seek some other remedy. These disputes may involve anything from defamation to outstanding debts. Civil Court Fees are prescribed under the *Uniform Civil Procedure (Fees) Regulation 2009* for proceedings commenced in civil matters and are set below full cost recovery to ensure that civil remedies are accessible to all Queenslanders.

Queensland Civil and Administrative Tribunal

The Queensland Civil and Administrative Tribunal (QCAT) is an independent tribunal which makes decisions and resolves disputes across a wide range of jurisdictions for the community. Fees for these services are below cost recovery to ensure services are accessible, fair and inexpensive. QCAT provides human rights services with no application fees for matters in guardianship and administration of adults, children and young people and anti-discrimination.

Blue Card - Volunteer Applicants

Individuals providing child-related services or conducting child-related activities in regulated service environments are required to undergo an assessment of their police and relevant disciplinary information, and if approved, are issued with a blue card. A blue card is valid for three years unless cancelled or suspended earlier. The application fee for a blue card is $90.25 (as at 1 July 2018). Since the inception of the blue card system in 2001, Government has met the cost of blue card assessment for volunteer applicants.

Body Corporate and Community Management - Dispute Resolution

The Office of the Commissioner for Body Corporate and Community Management provides a dispute resolution service to parties unable to resolve disputes themselves. The service consists of conciliation, with the aim of achieving a voluntary agreement, and adjudication, which results in a formal order. The service is delivered below full cost recovery so as to not restrict access to justice due to affordability reasons.

Table A.2.8 Department of Natural Resources, Mines and Energy

Concession	2017-18 Est. Act. $ million	2018-19 Estimate $ million
Energy Queensland - Uniform Tariff Policy (excluding Isolated Systems)[1]	441.1	413.5
Energy Queensland - Uniform Tariff Policy for Isolated Systems	47.1	48.3
Powering Queensland Plan – Electricity Affordability Package	287.4	284.2
Affordable Energy Plan - Solar & Storage Interest Free Loans Scheme[2]	..	13.7
Affordable Energy Plan - Energy Savers Program	..	4.0
Affordable Energy Plan - Energy Savvy Families[3]	0.2	3.8
Affordable Energy Plan - Energy Efficiency Appliance Rebate[4]	19.8	..
Extending existing drought relief arrangements - Electricity Charge Scheme[5]	12.0	10.4
Cloncurry Pipeline Water Supply Subsidy	6.1	6.2
Extending existing drought relief arrangements - Water Licence Fee Waiver and Land Rental Rebates	4.2	4.2
Origin Energy - Uniform Tariff Policy	2.7	2.8
SunWater Rural Irrigation Water Price Subsidy[6]	3.1	2.4
Seqwater Bulk Water Rural Irrigation Water Price Subsidy	2.1	2.1
Total	**825.8**	**795.6**

Notes:

1. The variance between 2017-18 estimated actual and 2018-19 budget is due to Energy Queensland assuming a lower Ergon Energy distribution charge relative to the Energex charges. This is consistent with the Australian Energy Regulator's decision for the two distribution businesses.
2. This concession will commence in June 2018.
3. This initiative provides digital electricity meters to eligible low-income families in regional Queensland to help them gain a greater understanding of when and how they use their electricity.
4. The program commenced 1 January 2018 and closes 3 June 2018.
5. The concessions can vary depending on the shires that are drought declared and the number of eligible customers.
6. The decrease in the Community Service Obligation (CSO) for 2018-19 is largely due to the price path arrangements leading to a reduction in the concession required.

Energy Queensland - Uniform Tariff Policy (excluding Isolated Systems)

The Energy Queensland - Uniform Tariff Policy (excluding Isolated Systems) ensures that, where possible, all Queensland non-market electricity customers of a similar type pay a similar price for electricity regardless of where they live. As the notified prices do not reflect the full cost of electricity supply for most remote and regional Queenslanders, a subsidy is provided. The community service obligation (CSO) payment to the regional retailer Energy Queensland covers the difference between the revenue earned by charging customers notified prices and the actual costs in the regional areas (due to differences in network costs and energy losses).

Energy Queensland - Uniform Tariff Policy for Isolated Systems

The Energy Queensland - Uniform Tariff Policy for Isolated Systems ensures that, where possible, all Queensland non-market electricity customers of a similar type pay a similar price for electricity regardless of where they live. Energy Queensland owns and operates 33 isolated power stations which supply electricity to remote and isolated Queensland communities. Energy Queensland retails electricity to these customers at the notified prices, and the Government provides funding to the retailer to cover the difference between the revenue earned and the cost of supplying electricity to these customers.

Powering Queensland Plan – Electricity Affordability Package

The Powering Queensland Plan provided one-off funding in 2016-17 of $771 million to support the stabilisation of electricity prices for Queensland consumers, by funding the removal of costs of the Solar Bonus Scheme from electricity prices for three years from 1 July 2017 and directing Energy Queensland to remove costs from network charges. This will place downward pressure on electricity prices for the typical household, and provide an average saving of $51 for households and $90 for small businesses, compared with the increase which would have occurred without Government intervention. It is estimated that the benefit to Queenslanders in 2018-19 as a result of this measure will be $284.2 million.

Affordable Energy Plan - Solar & Storage Interest Free Loans Scheme

This scheme is designed to assist households and small businesses address electricity affordability by providing upfront capital to those who otherwise would not have access to funds to invest in rooftop solar and battery energy storage technology.

Affordable Energy Plan - Energy Savers Program

The $20 million Business Energy Savers Program, an initiative under the Affordable Energy Plan, provides free energy audits for agricultural customers and large business customers, and co-contributions to fund energy efficiency upgrades. It includes a 3 year extension of the existing Energy Savers Plus Program (for agricultural businesses) and the Large Customer Adjustment Program (for large electricity users).

Under the expanded Energy Savers Plus Program, 200 additional audits for agricultural customers will be completed. In addition to this, co-contribution grants of up to $20,000 will be made available to assist businesses in implementing the recommendations from the audit.

Under the expanded Large Customer Adjustment Program an additional 30 audits of large customers will be completed and co-contributions capped at up to $250,000 will be made available to help encourage the business to implement the audit recommendations.

Affordable Energy Plan - Energy Savvy Families

Under this plan, $4 million has been provided over two years to enable the provision of digital electricity meters as well as providing educational material and information to low income families in regional Queensland to help them better understand and manage their energy use.

Affordable Energy Plan - Energy Efficiency Appliance Rebate

The program was designed to assist Queensland households improve their energy efficiency through providing a rebate to help purchase high energy efficient appliances. The program commenced on 1 January 2018 and closed 3 June 2018.

The rebates applied to purchases on or after 1 January 2018 for the following household appliances:

- $200 for a 4 star or higher energy rated washing machine
- $250 for a 4 star or higher energy rated refrigerator
- $300 for a 4 star or higher energy rated air conditioner.

There was a limit of 1 rebate application per household.

Extending existing drought relief arrangements - Electricity Charge Scheme

Drought Relief Arrangements provide relief to farming customers from fixed charges for electricity accounts that are used to pump water for farm or irrigation purposes during periods of drought. The concessions can vary depending on the shires that are drought declared and the number of eligible customers.

Cloncurry Pipeline Water Supply Subsidy

North West Queensland Water Pipeline Limited (NWQWP), a SunWater Limited (SunWater) subsidiary, owns and operates the Cloncurry Pipeline between the Ernest Henry Mine and Cloncurry. The pipeline guarantees Cloncurry Shire Council's long-term water supply and supports industrial development in the region. As the construction and operation of the Cloncurry Water Pipeline is a non-commercial investment, the Government provides funding to NWQWP to ensure that SunWater receives a return on its investment in the pipeline.

Extending existing drought relief arrangements - Water Licence Fee Waiver and Land Rental Rebates

As part of the Government's drought assistance package, the annual water licence fee of $82 will be waived for 2018-19 for landholders in Local Government Areas (LGA) that are drought declared and other properties that are individually drought declared. The estimate is dependent on drought declarations and the demand for drought assistance.

Category 11 Grazing and Primary Production landholders under the *Land Act 1994* will also be eligible to a rent rebate in 2018-19. The rebate is available to lessees, other than those on minimum rent that are in a drought declared LGA and to individually drought declared properties. In addition to this rebate, drought declared landholders will be granted a hardship deferral for required rent payments.

Origin Energy - Uniform Tariff Policy

The Origin Energy - Uniform Tariff Policy ensures that, where possible, all Queensland non-market electricity customers of a similar type pay the similar price for electricity regardless of where they live. Origin Energy retails electricity to approximately 5,450 Queensland non-market customers in the Goondiwindi, Texas and Inglewood areas who are supplied electricity through the New South Wales Essential Energy distribution network.

The Government provides a rebate to these customers, via a CSO payment to Origin Energy, to ensure they pay no more for electricity than similar customers in Queensland. Therefore, the CSO amount depends on the relative difference between Queensland and New South Wales retail electricity tariffs for non-market customers.

SunWater Rural Irrigation Water Price Subsidy

SunWater owns and operates water supply schemes across regional Queensland. As the owner of SunWater, the Government decides how much to recover of SunWater's costs through irrigation prices. Currently, SunWater's irrigation water prices for some schemes are set below the level necessary to recover the cost of supplying water to the irrigators. Government funding is provided to SunWater to offset the reduced revenue and to ensure that increases in water prices paid by rural irrigation customers to recover costs are gradual.

Seqwater Bulk Water Rural Irrigation Water Price Subsidy

Seqwater owns and operates water supply schemes across SEQ which also supply bulk water services to rural irrigation customers. Currently Seqwater's rural irrigation prices for some schemes are set below the level necessary to recover the cost of supplying water to the irrigators. Government funding is provided to Seqwater to offset the reduced revenue and to ensure that increases in water prices paid by rural irrigation customers to recover costs are gradual.

Urban Water Price Path

As foreshadowed in the 2017-18 State Budget, the concessional period for the South East Queensland urban bulk water price path, which commenced in 2008, is ending as prices in South East Queensland converge to a common rate reflective of the actual cost of supply. Accordingly the Urban Water Price Path is not included in the 2018–19 Concession Statement and is not anticipated to be included in future years.

Table A.2.9 Department of Transport and Main Roads

Concession	2017-18 Est. Act. $ million	2018-19 Estimate $ million
General Public Transport Concessions (South East Queensland) [1]	1,289.2	1,440.1
Rail Network and Infrastructure Funding	591.9	618.3
General Public Transport Concessions (Regional Queensland)	238.8	246.7
Vehicle and boat registration concessions	168.6	177.5
School Transport Assistance Scheme	133.8	138.1
TransLink Transport Concessions (South East Queensland)	74.3	75.6
Rail Concession Scheme	36.5	37.4
Livestock and Regional Freight Contracts	33.2	34.7
Other transport concessions (Regional Queensland) and taxi subsidies[2]	25.1	20.9
Designated Public Transport Concessions for Seniors Card Holders	3.8	3.8
Practical Driving Test	3.5	3.6
Commercial ship registration and licensing[3]	2.4	..
Total	**2,601.1**	**2,796.7**

Notes:

1. The increase in 2018-19 is due to annual cost indexation, increased finance lease costs and availability and operator payments associated with the acquisition of New Generation Rollingstock.
2. This concession is estimated to decrease in 2018-19 as the current concessions associated with the Taxi Subsidy Scheme will transition to the NDIS funding model.
3. The reduction in the amount of concession is due to the Australian Maritime Safety Authority (AMSA) increasing its effort in regulating domestic commercial vessels while Maritime Safety Queensland has correspondingly reduced its efforts in this area. From 2018-19, AMSA will provide service delivery as national regulator to the commercial domestic vessel fleet and will also set and collect fees.

General Public Transport Concessions (South East Queensland)

The General Public Transport Concessions (South East Queensland) represents the direct funding contribution that Government makes towards the cost of operating public transport services within South East Queensland. This contribution effectively reduces the ticket price paid by all public transport users on bus, rail and ferry services, increasing the affordability of these services.

Rail Network and Infrastructure Funding

Rail network and infrastructure funding ensures that the State supported rail network is safe, reliable and fit for purpose. The contract also provides funding to Queensland Rail to support major capital projects and related asset strategies. The funding provided via this contract directly benefits customers of the State supported rail network, including both freight and passengers. Without this funding, rail access charges (including public transport fares) would be significantly higher for all users of the rail network.

General Public Transport Concessions (Regional Queensland)

The General Public Transport Concessions (Regional Queensland) represents the financial contribution that Government provides across a range of transport services in regional Queensland. The impact of this contribution benefits all public transport users through reduced transport fares. This concession covers:

- TravelTrain (excluding the 'Rail Concession Scheme' for eligible pensioners, veterans and seniors)
- subsidies for Kuranda Scenic Railway
- subsidies for Heritage Rail Services
- subsidies for regional bus and ferry operators (excluding concessional top up amounts and School Transport Assistance Scheme related amounts)
- subsidies for the Rail XPT Service (Sydney-Brisbane) and Savannahlander (Atherton Tableland)
- subsidies for air services to remote and rural communities within the State
- subsidies for long distance coach services to rural/remote communities within the State.

Vehicle and boat registration concessions

Registration concessions for light and heavy motor vehicles and recreational boats are provided to holders of the Pensioner Concession Card, Queensland Seniors Card and to those assessed by the Department of Veterans' Affairs as meeting the necessary degree of incapacity or impairment. The concession is aimed at improving access to travel for pensioners, seniors and persons with a disability by providing a reduced rate of registration fees. For most eligible card holders, a concession for a family 4-cylinder vehicle would reduce the 12 month registration charge from $321.35 to $160.65. For a recreational boat up to and including 4.5 metres in length, the concession reduces the registration charge from $86.75 to $43.35 (based on registration charges at 1 July 2018).

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 $508.85 to $90.55. A concession is also available for specific purposes such as water, mineral or oil exploration and bee keeping. Other motor vehicle and recreational 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.

School Transport Assistance Scheme

The School Transport Assistance Scheme assists students that do not have a school in their local area or who are from defined low income groups with travel costs. The scheme provides funding to reduce the cost of travelling to school on bus, rail and/or ferry services, with allowances for private vehicle transport in certain circumstances. A typical concession would be to fully fund the cost of travel from home to the nearest State primary or high school where no local primary or high school is available (for example, from Bargara to Bundaberg High School).

TransLink Transport Concessions (South East Queensland)

The TransLink Transport Concessions (South East Queensland) are provided by the Government to ensure access and mobility for Queenslanders who require assistance because of age, disability or fixed low income. Passengers entitled to receive public transport concessions include holders of a Pensioner Concession Card, Veterans' Affairs Gold Card, Seniors Card (all states and territories), Companion Card, Vision Impairment Travel Pass, Total Permanent Incapacitated (TPI) Veteran Travel Pass, children, as well as secondary and tertiary students. In addition to these existing groups, concession groups now include Newstart and Youth Allowance (Job Seeker) recipients and asylum seekers. In February 2018, White Card Holders joined the groups eligible for public transport concessions. Under the new 2018 fares, for a peak one zone journey using a *go* card, the concession will reduce an adult fare from $3.25 to $1.63.

Rail Concession Scheme

The Queensland Rail Concession Scheme improves the affordability of long distance and urban rail services for eligible pensioners, veterans, seniors and current/past rail employees with 25 years of service. Assistance for long distance rail services is provided through discounted fares and free travel vouchers. For TravelTrain (long distance rail) services, depending on the service, the concession may be for free travel for up to four trips per year for Queensland pensioners (subject to availability of seats and payment of an administration fee).

Livestock and Regional Freight Contracts

The Livestock and Regional Freight Contracts provide funding to support the movement of cattle (via rail only) and freight (via road and rail) to and from regional areas of Queensland. The funding provided directly benefits the cattle industry and enables regional Queensland communities to maintain employment and directly benefits those communities who are reliant on rail freight services by reducing the cost of these freight services for users.

Other transport concessions (Regional Queensland) and taxi subsidies

Other transport concessions (Regional Queensland) and taxi subsidies are provided by the Government to ensure access and mobility for Queenslanders who require assistance because of age, disability or fixed low income. Passengers entitled to receive public transport concessions include holders of a Pensioner Concession Card, Veterans' Affairs Gold Card, Seniors Card (all states and territories), Companion Card, Vision Impairment Travel Pass, TPI Veteran Travel Pass, children, as well as secondary and tertiary students. In addition to these existing groups, new concession groups are to include Newstart and Youth Allowance (Job Seeker) recipients and asylum seekers. In February 2018, White Card holders were also added to these existing groups. 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.

Concessions associated with the Taxi Subsidy Scheme are transitioning to the NDIS funding model.

Designated Public Transport Concessions for Seniors Card Holders

Designated Public Transport Concessions for Seniors Card Holders allows visitors from interstate, who hold a state or territory Seniors Card, to access public transport concessions within Queensland and is fully funded by the Queensland Government.

Practical Driving Test

As part of the State's driver licensing arrangements, applicants for new licences are required to undertake a practical driving test. The total cost to pre-book driver examinations and to perform the practical driver assessment is not fully recovered by the fee charged ($52.68 (ex GST) as at 1 July 2018), providing a direct concession to applicants.

Commercial ship registration and licensing

The commercial ship registration and licensing concession is ceasing as the regulation of domestic commercial vessels operations is now the responsibility of the Australian Maritime Safety Authority (AMSA). For 2017-18, the commercial vessel safety program including inspection and ship operator competency audits is funded from commercial ship registration and licensing revenue. The commercial ship registration and licensing concession represents the difference between the cost of supporting the safety of commercial vessels in Queensland waters and revenue collected via commercial registration and compliance fees. The concession represents a benefit to commercial ship owners and operators.

Table A.2.10 Queensland Fire and Emergency Services

Concession	2017-18 Est. Act. $ million	2018-19 Estimate $ million
Emergency Management Levy Concession	9.7	10.2
Total	**9.7**	**10.2**

Emergency Management Levy Concession

The Emergency Management Levy applies to all prescribed properties within Queensland. The levy provides a funding base for emergency services including emergency management, fire and rescue services. Owners of prescribed properties who are in receipt of an Australian Government pension are eligible to receive a discount of 20% on the levy payable for a property that is their principal place of residence. In addition, community organisation owners of specified properties are exempt from payment of the levy.

Table A.2.11 Queensland Health

Concession	2017-18 Est. Act. $ million	2018-19 Estimate $ million
Oral Health Scheme[1]	149.2	151.8
Patient Travel Subsidy Scheme[2]	81.8	84.8
Medical Aids Subsidy Scheme[3]	40.4	29.6
Spectacle Supply Scheme	9.3	9.3
Community Aids Equipment, Assistive Technologies Initiative and Vehicle Options Subsidy Scheme[4]	14.8	6.2
Total	**295.5**	**281.7**

Notes:

1. The $2.6 million increase from the 2017-18 estimated actual to the 2018-19 estimate is due to additional state funding in 2018-19 for Hospital and Health Services' oral health services.
2. The Patient Travel Subsidy Scheme allocation is calculated on historical utilisation rates. The increase of $3.0 million from the 2017-18 estimated actual to the 2018-19 estimate is due to expected population growth and higher utilisation of the Scheme.
3. The variance is due to funding for this activity being progressively transferred to the National Disability Insurance Scheme (NDIS).
4. The variance is due to funding for this activity being progressively transferred to NDIS. The $6.2 million estimate is to address commitments carrying across from 2017-18 and residual application in 2018-19.

Oral Health Scheme

The Oral Health Scheme provides free dental care to eligible clients and their dependants who possess a current Health Care Card, Pensioner Concession Card, Queensland Seniors Card or Commonwealth Seniors Card. The average value of a course of treatment for eligible clients is approximately $600 for general care, $1,800 for treatment involving dentures, and $265 for emergency dental care. In rural and remote areas where no private dental practitioner exists, access to dental care for the general public is provided at a concessional rate, generally 15% to 20% less than average private dental fees.

Patient Travel Subsidy Scheme

The Patient Travel Subsidy Scheme (PTSS) provides financial assistance to patients who need to access specialist medical services which are not available within their local area. The PTSS provides a subsidy towards the cost of travel and accommodation for patients and, in some cases, an approved escort.

Patients will receive fully subsidised commercial transport if arranged by Queensland Health, or will be subsidised at the economy/government discount rate (less GST). Alternatively a subsidy of 30 cents per kilometre is paid where a private vehicle is used. The accommodation subsidy is $60 per person per night for the period the patient is required to be away from home for medical reasons and when they are not in hospital, and for their escort, if approved. A subsidy of $10 per person per night is payable to patients and approved escorts who stay in private accommodation.

Medical Aids Subsidy Scheme

The Medical Aids Subsidy Scheme (MASS) 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 therefore avoiding premature or inappropriate residential care or hospitalisation.

Subsidies vary based on service category and clinical criteria and are provided to assist with the costs of communication aids, continence aids, daily living aids, medical grade footwear, mobility aids, orthoses and oxygen. The scheme will provide over 72,000 occasions of service to approximately 48,000 clients during 2018-19.

The National Disability Insurance Scheme (NDIS) is currently being rolled out in Queensland. MASS clients who are NDIS eligible are being transitioned to the scheme with associated funding progressively cashed out to the NDIS.

Spectacle Supply Scheme

The Spectacle Supply Scheme provides eligible Queensland residents with free access to a comprehensive range of basic spectacles every two years including bifocals and trifocals. Applicants must be holders of eligible concession cards and be deemed by a prescriber to have a clinical need for spectacles.

The scheme provides around 75,000 items to approximately 72,000 clients (some clients require more than one pair of spectacles due to clinical need). The average cost of services provided to applicants is approximately $124 per item, including the costs of administering the scheme through the Medical Aids Subsidy Scheme.

Community Aids Equipment, Assistive Technologies Initiative and Vehicle Options Subsidy Scheme

The Community Aids Equipment and Assistive Technologies Initiative (CAEATI) and Vehicle Options Subsidy Scheme (VOSS) provide financial assistance to eligible Queensland residents to support them to be more independent, participate further in social and economic opportunities in the community and contribute to a better quality of life.

CAEATI funding is capped at $10,000 per client over a three year period. CAEATI includes aids, equipment and assistive technologies for postural support, communication support, community mobility and active participation.

VOSS funding is capped at $10,000 per client over a five year period. VOSS provides subsidies for a range of vehicle access options, including the subsidy of driving lessons on a suitably modified vehicle, modifications to a vehicle, purchase of a suitably modified vehicle or vehicle suitable for modification.

To receive funding through either of these schemes, an individual must be assessed as eligible for specialist disability support under the *Disability Support Act 2006*. Queensland resident eligibility is determined during the intake process, and confirmed as part of the assessment process.

The National Disability Insurance Scheme (NDIS) is currently being rolled out in Queensland. CAEATI and VOSS clients who are NDIS eligible are being transitioned to the scheme with associated funding progressively cashed out to the NDIS.

A.3 Concessions by entity – Government-owned Corporations

Table A.3.1 Energy Queensland

Concession	2017-18 Est. Act. $ million	2018-19 Estimate $ million
Regulated Service Charges - Energex	17.1	17.2
Regulated Service Charges - Ergon	4.9	5.7
Total	**22.0**	**22.9**

Regulated Service Charges - Energex

Under Schedule 8 of the *Electricity Regulation 2006*, charges for a range of services provided by Energex Limited (Energex) to energy retailers, for example disconnection and reconnection of supply, are capped. The maximum amount Energex is able to charge for these services is, on average, less than the value which the Australian Energy Regulator ascribes to the provision of these services by Energex, resulting in a concession provided to energy retailers and in turn households.

Regulated Service Charges - Ergon

Under Schedule 8 of the *Electricity Regulation 2006*, service charges for a range of services provided by Ergon Energy Corporation Limited (Ergon Energy) to energy retailers, for example disconnection and reconnection of supply, are capped. The maximum amount Ergon Energy is able to charge for these services is, on average, less than the value which the Australian Energy Regulator ascribes to the provision of these services by Ergon Energy, resulting in a concession provided to energy retailers and in turn households.

Table A.3.2 Gladstone Ports Corporation Limited

Concession	2017-18 Est. Act. $ million	2018-19 Estimate $ million
Concessional Port Charges[1]	52.0	39.8
Total	**52.0**	**39.8**

Note:

1. The variance is due to some uncommercial legacy contracts expiring and being replaced with new contracts at market rates.

Concessional Port Charges

The Gladstone Ports Corporation Limited (GPC) is subject to a number of long-term major industry contracts where port charges are significantly lower than market rates. These historical contracts were entered into to support various industries and government initiatives from time to time. The amounts shown are estimates of the revenue foregone by GPC as a result of being unable to charge commercial rates.

Table A.3.3 SunWater Limited

Concession	2017-18 Est. Act. $ million	2018-19 Estimate $ million
Water Supply Contracts	48.5	49.4
Total	**48.5**	**49.4**

Water Supply Contracts

SunWater Limited has a number of historic non-commercial water supply contracts that benefit specific entities, predominantly local government authorities. The future treatment of these water supply contracts is currently being considered by Government. The amount shown represents the difference between revenue and expenses under a fully costed allocation model.

SunWater and local governments have agreed to work together to negotiate new arrangements for water supply over the next 18 months. The amount shown represents the difference between revenue and expenses under a fully costed allocation model.

Table A.3.4 Concessional Leases (Industry, Commercial and Community) by entity

Concession	2017-18 Est. Act. $ million	2018-19 Estimate $ million
Port of Townsville Limited	5.7	5.8
Gladstone Ports Corporation Limited	3.5	3.3
Queensland Rail Limited	1.7	1.9
North Queensland Bulk Ports Corporation Limited	1.6	1.7
Far North Queensland Ports Corporation Limited	0.8	0.8
Total	**13.3**	**13.5**

Concessional Leases (Industry, Commercial and Community)

The above Government Owned Corporation entities provide leases to various community organisations, local councils, Government departments and industry participants at below commercial rates. The amounts shown are estimates of the revenue foregone by not charging commercial rates.

Appendix B: Tax expenditure statement

Context

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

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

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

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

Methodology

Revenue foregone approach

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

Measuring tax expenditures requires the identification of:

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

Defining the tax benchmark

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

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

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

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

The tax expenditure statement

This year's statement includes estimates of tax expenditures in 2016-17 and 2017-18 for payroll tax, land tax, duties and gambling taxes. A summary of the major tax expenditures valued on the basis of revenue foregone is presented in Table B.1. Not all expenditures can be quantified at this time. Accordingly, the total value of tax expenditures should be considered as indicative only.

Table B.1 Tax expenditure summary[1]

	2016-17[2] $ million	2017-18 $ million
Payroll Tax		
Exemption threshold	1,392	1,384
Deduction scheme	342	361
Section 14 exemptions		
Local Government	143	148
Education	192	196
Hospitals	393	425
Total Payroll Tax	**2,462**	**2,513**
Land Tax		
Liability thresholds[3]	726	744
Graduated land tax scale	666	868
Primary production deduction	86	88
Part 6 Divisions 2 and 3 exemptions not included elsewhere[4]	140	142
Land developers' concession	12	13
Total Land Tax	**1,630**	**1,855**
Duties		
Transfer duty on residential property		
Home concession	406	406
First home concession	222	221
First home vacant land	30	31
Insurance duty		
WorkCover	57	62
Health insurance	420	437
Total Duties	**1,134**	**1,157**
Taxes on Gambling		
Gaming machine taxes	114	122
Casino taxes	8	9
Total Gambling Tax	**122**	**131**
Total	**5,348**	**5,656**

Notes:

1. Numbers may not add due to rounding.
2. 2016-17 estimates may have been revised since the 2017-18 Budget.
3. Land tax is payable only on the value of taxable land above a threshold which depends on the ownership structure.
4. Applicable, but not limited, to religious bodies, public benevolent institutions and other exempt charitable institutions.

Discussion of individual taxes

Payroll tax

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

Payroll tax exemption threshold

Employers who employ in Queensland with an annual Australian payroll of $1.1 million or less are exempt from payroll tax. On the basis of 2016-17 average weekly earnings, this threshold corresponded to approximately 13 full-time equivalent employees. This exemption is designed to assist small and medium sized businesses.

Deduction scheme

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

Section 14 exemptions

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

Land tax

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

Liability thresholds

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

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

Graduated land tax scale

A graduated (concessional) scale of land tax rates is applicable to land with a taxable value of less than $5 million for resident individuals and companies, trustees and absentees.

The benchmark rates used for estimating the tax expenditures were 1.75% for individuals and 2.0% for companies, trustees and absentees.

Primary production deduction

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

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

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

Land developers' concession

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

Duties

Home concession

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

First home concession

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

First home vacant land concession

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

Insurance duty

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

Gambling taxes

Gaming machine tax concessions for licensed clubs

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

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

Casino tax concessions

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

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

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

Appendix C: Revenue and expense assumptions and sensitivity analysis

The Queensland Budget, like those of other jurisdictions, is based in part on assumptions made about parameters that are uncertain, both internal and external to the State, which can impact directly on economic and fiscal forecasts.

This appendix outlines the assumptions underlying the revenue and expense estimates and analyses the sensitivity of the estimates to changes in the economic and other assumptions. This analysis is provided to enhance the level of transparency and accountability of the Government.

The forward estimates in the Budget are framed on a no policy change basis. That is, the expenditure and revenue policies in place at the time of the Budget (including those announced in the Budget) are applied consistently throughout the forward estimates period.

The following discussion provides details of some of the key assumptions, estimates and risks associated with revenue and expenditure and, where a direct link can be established, the indicative impact on forecasts resulting from a movement in those variables.

Table C.1 Taxation and royalty revenue[1]

	2016-17 Actual $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Payroll tax	3,695	3,887	4,086	4,312	4,574	4,850
Transfer duty	3,278	3,090	3,214	3,396	3,578	3,768
Other duties	1,405	1,477	1,572	1,650	1,731	1,816
Gambling taxes and levies	1,127	1,194	1,307	1,388	1,448	1,471
Land tax	1,082	1,183	1,313	1,368	1,433	1,512
Motor vehicle registration	1,681	1,755	1,829	1,892	1,961	2,032
Other taxes	651	699	834	1,179	1,227	1,273
Total taxation revenue	**12,919**	**13,284**	**14,155**	**15,184**	**15,951**	**16,722**
Royalties						
Coal	3,405	3,768	3,522	3,135	2,774	2,866
Petroleum[2]	98	188	447	446	438	450
Other royalties[3]	376	371	479	506	515	506
Land rents	122	157	167	172	178	189
Total royalties and land rents	**4,000**	**4,484**	**4,615**	**4,260**	**3,904**	**4,011**

Notes:

1. Numbers may not add due to rounding.
2. Includes impact of liquefied natural gas (LNG).
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 1½% in 2018-19. The composition of the payroll tax base is also important as businesses in fast growing sectors such as tourism, retail and hospitality are often outside the tax base because they are below the threshold. A one percentage point variation in either Queensland wages growth or employment would change payroll tax collections by approximately $41 million in 2018-19.

Transfer duty estimates

Transfer duty collections in 2018-19 are expected to increase by 4.0% on the 2017-18 estimated actual with restrained growth in the residential sector being supported by stronger growth in large non-residential transactions and revenue from the additional foreign acquirer duty measure.

Across the forward estimates period, moderate growth is expected in both residential and non-residential transfer duty as sentiment in both markets begins to improve.

A one percentage point variation in either the average value of property transactions or the volume of transactions would change transfer duty collections by approximately $32 million in 2018-19.

Royalty assumptions and revenue risks

Table C.2 Coal royalty assumptions

	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Tonnages - crown export[1]	212	222	233	236	242
Exchange rate US$ per A$[2]	0.78	0.75	0.75	0.75	0.75
Year average coal prices (US$ per tonne)[3]					
Hard coking	198	161	140	130	130
Semi-soft	142	128	110	101	101
Thermal	87	89	79	75	75
Year average oil price					
Brent (US$ per barrel)	62	73	67	66	67

Notes:

1. Excludes coal produced for domestic consumption and coal where royalties are not paid to the Government, i.e. private royalties. 2018-19 estimate for domestic coal volume is approximately 26.1 Mt and private coal is 11.2 Mt.
2. Year average.
3. Price for highest quality coking and thermal coal. Lower quality coal can be sold below this price with indicative average prices for 2018-19 as follows: Hard coking US$151 and thermal US$83.

Royalty Assumptions

Table C.2 provides the 2018-19 Budget assumptions regarding coal royalties, which represent the bulk of Queensland's royalty revenue.

Exchange rate and commodity prices and volumes - royalties estimates

Estimates of mining royalties are sensitive to movements in the A$-US$ exchange rate and commodity prices and volumes. Contracts for the supply of commodities are generally written in US dollars. Accordingly, a change in the exchange rate impacts on the Australian dollar price of commodities and therefore expected royalties collections.

Coal

For each one cent movement in the A$-US$ exchange rate, the impact on royalty revenue would be approximately $66 million in 2018-19.

A 1% variation in export coking and thermal coal volumes would lead to a change in royalty revenue of approximately $32 million. A 1Mt variation would lead to a change in royalty revenue of approximately $14 million.

Appendix D: Fiscal aggregates and indicators

Table D.1 Key Fiscal Aggregates[1]

	2010-11 Actual $ million	2011-12 Actual $ million	2012-13 Actual $ million	2013-14 Actual $ million	2014-15 Actual $ million	2015-16 Actual $ million	2016-17 Actual $ million	2017-18 Revised $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
General Government												
Total revenue	42,013	45,801	41,755	46,705	49,970	50,780	56,194	58,259	57,738	58,835	59,939	62,269
Tax revenue	9,981	10,608	10,937	11,840	12,598	12,547	12,919	13,284	14,155	15,184	15,951	16,722
Total expenses	43,479	46,028	46,313	46,217	49,551	50,112	53,369	56,747	57,590	58,675	59,829	61,579
Employee expenses	16,826	18,250	18,130	17,816	18,592	20,045	21,258	22,838	23,807	24,645	25,541	26,466
Net operating balance	(1,466)	(226)	(4,558)	488	420	668	2,825	1,512	148	160	110	690
Capital purchases	8,237	7,971	7,001	6,323	4,635	4,044	4,634	4,905	5,927	7,557	7,396	7,081
Net capital purchases	5,583	5,241	3,389	3,087	992	1,164	2,285	2,119	3,183	4,044	3,512	3,331
Fiscal balance	(7,049)	(5,467)	(7,947)	(2,599)	(572)	(497)	540	(604)	(3,033)	(3,881)	(3,400)	(2,636)
Borrowings	24,594	29,518	37,879	41,369	43,105	35,486	33,260	31,367	32,311	35,861	39,588	42,290
Net debt	(9,542)	(5,720)	2,399	5,208	5,749	653	(335)	(267)	2,815	7,336	11,018	13,707
Non-Financial Public Sector												
Total revenue	49,040	52,307	49,181	53,502	56,178	57,393	64,840	66,192	65,467	66,510	67,970	70,550
Capital purchases	13,306	11,980	10,774	9,313	7,811	6,852	7,305	7,656	9,057	10,786	10,523	10,177
Borrowings	53,708	61,542	69,086	72,637	75,233	72,922	71,904	69,501	70,871	75,214	79,750	83,093

Notes:

1. Bracketed numbers represent negative amounts.

Table D.2 Key Fiscal Indicators[1]

	2010-11 Actual %	2011-12 Actual %	2012-13 Actual %	2013-14 Actual %	2014-15 Actual %	2015-16 Actual %	2016-17 Actual %	2017-18 Revised %	2018-19 Budget %	2019-20 Projection %	2020-21 Projection %	2021-22 Projection %
General Government												
Revenue/GSP	16.2	16.5	14.8	16.1	16.9	16.7	17.2	16.6	15.8	15.5	15.1	15.0
Tax/GSP	3.8	3.8	3.9	4.1	4.3	4.1	4.0	3.8	3.9	4.0	4.0	4.0
Own source revenue/GSP	8.3	8.2	8.2	8.6	8.9	8.9	8.8	8.5	8.2	8.1	7.8	7.7
Expenses/GSP	16.7	16.5	16.4	16.0	16.8	16.5	16.3	16.2	15.8	15.5	15.1	14.8
Employee expenses/GSP	6.5	6.6	6.4	6.2	6.3	6.6	6.5	6.5	6.5	6.5	6.5	6.4
Net operating balance/GSP	(0.6)	(0.1)	(1.6)	0.2	0.1	0.2	0.9	0.4	0.0	0.0	0.0	0.2
Capital purchases/GSP	3.2	2.9	2.5	2.2	1.6	1.3	1.4	1.4	1.6	2.0	1.9	1.7
Net cash inflows from operating activities/Net cash flows from investments in non-financial assets	26.3	36.3	(40.8)	45.9	97.5	122.9	133.5	99.0	59.7	40.2	44.5	53.2
Fiscal balance/GSP	(2.7)	(2.0)	(2.8)	(0.9)	(0.2)	(0.2)	0.2	(0.2)	(0.8)	(1.0)	(0.9)	(0.6)
Borrowings/GSP	9.5	10.6	13.4	14.3	14.6	11.7	10.2	8.9	8.9	9.5	10.0	10.2
Borrowings/revenue	58.5	64.4	90.7	88.6	86.3	69.9	59.2	53.8	56.0	61.0	66.0	67.9
Revenue growth	13.3	9.0	(8.8)	11.9	7.0	1.6	10.7	3.7	(0.9)	1.9	1.9	3.9
Tax growth	12.6	6.3	3.1	8.3	6.4	(0.4)	3.0	2.8	6.6	7.3	5.0	4.8
Expenses growth	17.2	5.9	0.6	(0.2)	7.2	1.1	6.5	6.3	1.5	1.9	2.0	2.9
Employee expenses growth	17.6	8.5	(0.7)	(1.7)	4.4	7.8	6.1	7.4	4.2	3.5	3.6	3.6
Non-Financial Public Sector												
Capital purchases/GSP	5.1	4.3	3.8	3.2	2.6	2.3	2.2	2.2	2.5	2.8	2.7	2.5
Borrowings/GSP	20.7	22.1	24.5	25.1	25.5	24.0	22.0	19.8	19.4	19.9	20.1	20.0
Borrowings/revenue	109.5	117.7	140.5	135.8	133.9	127.1	110.9	105.0	108.3	113.1	117.3	117.8
Net financial liabilities[2]/revenue	112.3	132.1	157.1	148.7	140.7	144.0	128.5	124.0	129.4	132.4	135.2	134.3

Notes:

1. Bracketed numbers represent negative amounts.
2. UPF definition, which is equal to total financial assets less investments in other public sector entities less total liabilities.

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