

# **2019–20**

# **AASB 1049**

# **Financial Statements**

Overview and Analysis – 30 June 2020

## AASB 1049 - Overview and Analysis

The following analysis compares current year General Government Sector (GGS) and Total State Sector (TSS) performance with last year's balances, restated for changes in accounting policies, presentational and timing differences and errors.

*AASB 1049 Whole of Government and General Government Sector Financial Reporting* aims to harmonise the disclosure presentation to be consistent with the Uniform Presentation Framework disclosed in the Outcomes Report.

### Summary of Key Financial Aggregates of the Consolidated Financial Statements

The table below provides aggregate information under AASB1049:

	General Government Sector		Total State Sector	
	2020 \$ million	2019 \$ million	2020 \$ million	2019 \$ million
Taxation revenue	14,585	14,165	14,146	13,870
Grants revenue	27,641	28,307	27,571	28,239
Sales of goods and services	5,618	5,783	17,674	18,707
Interest income	2,076	2,191	935	1,678
Dividend and income tax equivalent income	1,929	2,784	14	13
Other revenue	5,915	6,598	6,425	7,113
<b>Continuing Revenue from Transactions</b>	<b>57,764</b>	<b>59,828</b>	<b>66,766</b>	<b>69,621</b>
Employee expenses	25,660	24,019	27,710	25,877
Superannuation expenses	3,537	3,665	3,795	3,899
Other operating expenses	17,087	16,480	22,751	21,611
Depreciation and amortisation	4,033	3,451	6,779	6,051
Other interest expense	1,486	1,581	3,868	4,177
Grants expenses	11,695	9,647	11,061	9,098
<b>Continuing Expenses from Transactions</b>	<b>63,498</b>	<b>58,843</b>	<b>75,965</b>	<b>70,713</b>
<b>Net Operating Balance</b>	<b>(5,734)</b>	<b>985</b>	<b>(9,199)</b>	<b>(1,092)</b>
Other Economic Flows - Included in Operating Result	(5,015)	(819)	(4,989)	(2,962)
<b>Operating Result</b>	<b>(10,749)</b>	<b>166</b>	<b>(14,188)</b>	<b>(4,054)</b>
Other Economic Flows - Other Movements in Equity	3,620	5,657	5,600	5,694
<b>Comprehensive Result <sup>1</sup></b>	<b>(7,129)</b>	<b>5,823</b>	<b>(8,588)</b>	<b>1,640</b>
Purchases of non-financial assets	6,291	5,764	9,483	8,485
<b>Fiscal Balance</b>	<b>(9,158)</b>	<b>(2,207)</b>	<b>(13,256)</b>	<b>(4,441)</b>
<b>Borrowing with QTC</b>	<b>37,570</b>	<b>29,468</b>	<b>-</b>	<b>-</b>
Leases and other loans	6,499	2,612	7,396	2,965
Securities and derivatives	198	121	115,027	102,786
Assets	288,485	280,950	369,908	355,725
Liabilities	94,754	80,089	187,392	164,621
<b>Net Worth</b>	<b>193,731</b>	<b>200,861</b>	<b>182,516</b>	<b>191,104</b>
<p>Note:</p> <p>1. Comprehensive result is different to the Outcomes Report as it reflects the movement from the 2020 recast position, rather than the 2020 published position.</p> <p>2. Numbers may not add due to rounding.</p>				

**Net Operating Balance**

The GGS net operating balance was a deficit of \$5.734 billion compared to a restated surplus of \$985 million in 2018-19. The global COVID-19 pandemic had a profound negative impact on the 2019-20 net operating balance, with the combined effect of lower revenues due to the downturn in economic activity and a rise in GGS expenses to mitigate the effects of the crisis on businesses, households and industry.

GGS revenue fell by around 3% (\$2.064 billion) while expenses grew by around 8% (\$4.655 billion) over the year.

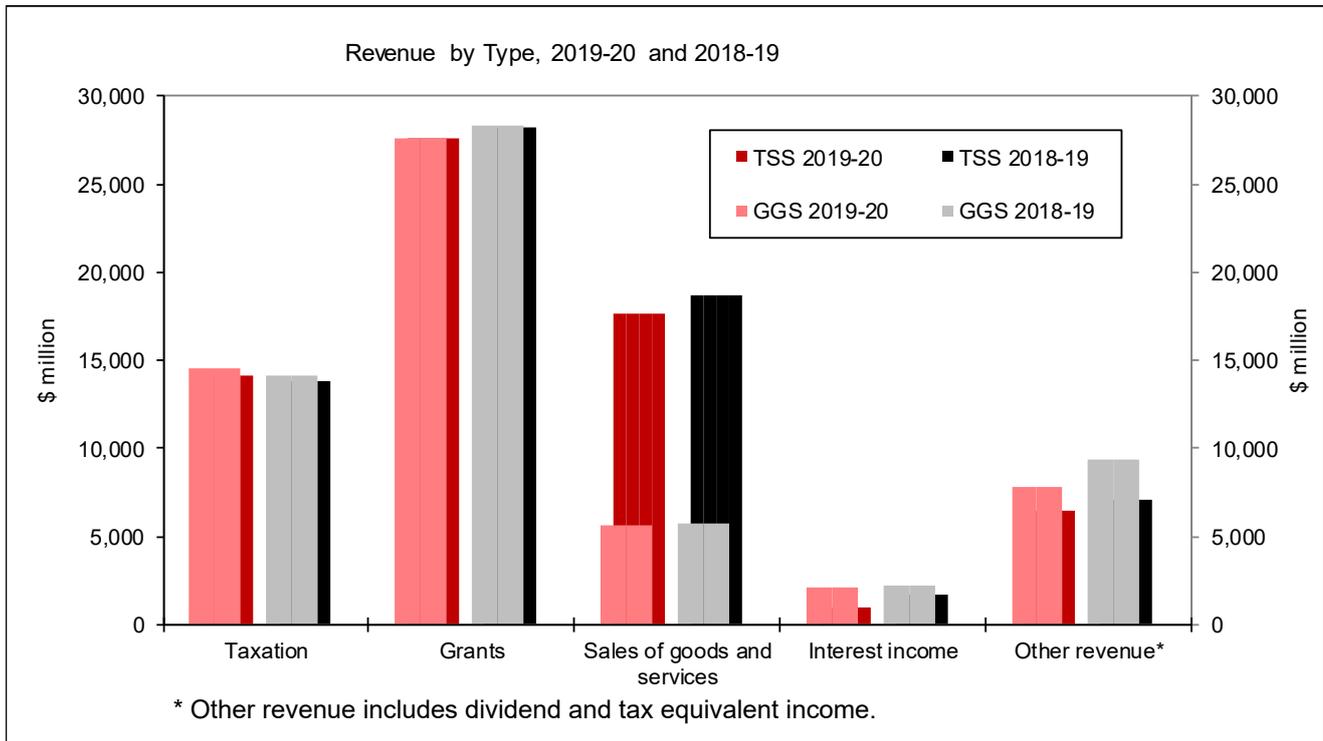
The Total State Sector (TSS) net operating balance showed a deficit of \$9.199 billion compared to a restated deficit of \$1.092 billion in 2018-19.

The variances are explained below.

**Revenue**

Revenue from transactions declined from \$59.828 billion in 2018-19 to be \$57.764 billion in the GGS and totals \$66.766 billion in the TSS, a fall of \$2.855 billion over 2018-19.

Revenues by type for the GGS and TSS are shown in the following chart:



Taxation revenue increased in 2019-20 by \$420 million for GGS and \$276 million for the TSS.

The increase in GGS taxation revenue was predominantly due to the introduction of a waste levy on landfill in Queensland from 1 July 2019 and guarantee fees from Queensland Investment Corporation. Besides these two tax streams, overall taxation revenue was lower in the second half of 2019-20 compared to the previous year driven by the pandemic-led economic downturn.

Stamp duties and gaming machine taxes and levies were respectively \$153 million and \$75 million lower than 2018-19, while payroll and land tax only showed modest increases compared to normal growth patterns, also affected by relief measures.

Commonwealth and other grants comprised 48% of GGS revenue and 41% of TSS revenue. Grant revenue decreased \$666 million from 2019-20 for the GGS and \$668 million for the TSS. The decrease was due to

- lower GST revenue of \$1.571 billion driven by lower national GST collections following the COVID-19 economic downturn; and
- National Partnership Payments were \$190 million lower partly due to one-off funding for the Restocking, Replanting and On-farm Infrastructure grants program in 2018-19.

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### Revenue continued

These decreases were partly offset by higher Commonwealth Specific Purpose Payments of \$721 million (including health COVID-19 funding and schools funding) and higher on-passing grants to non-state schools of \$386 million.

TSS sales of goods and services were \$1.033 billion lower than 2018-19 largely due to lower electricity prices.

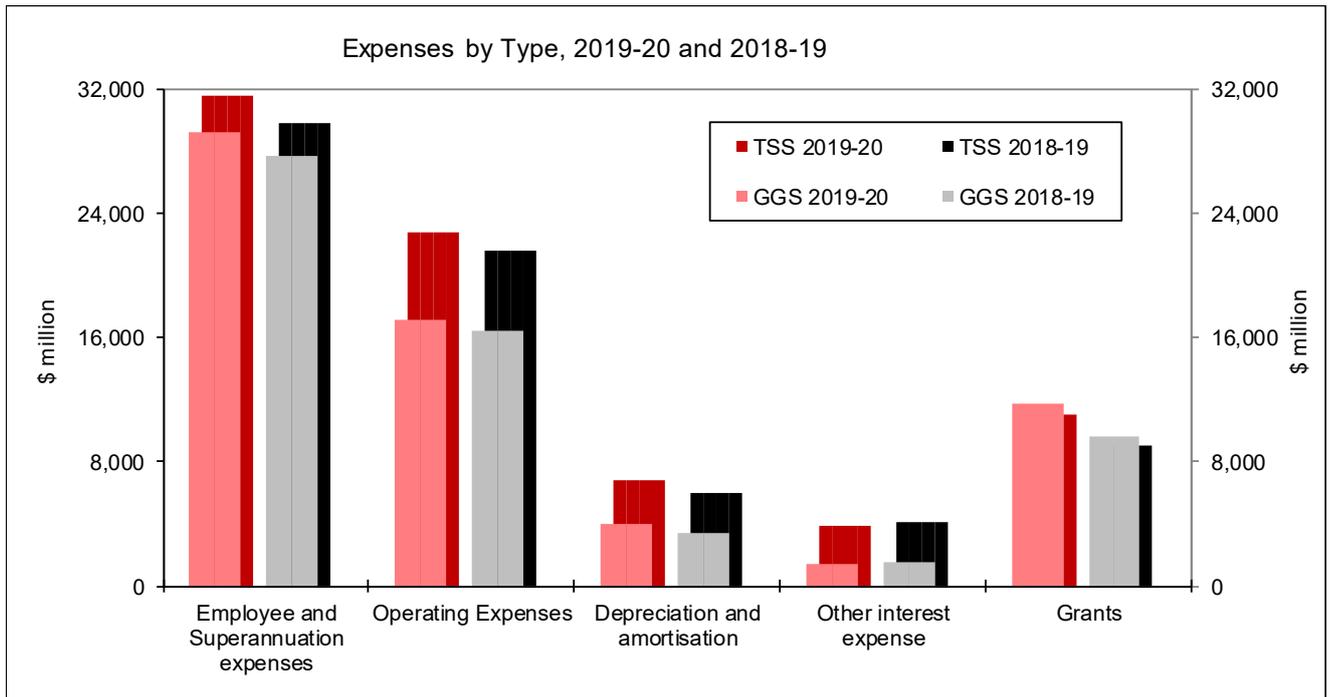
Dividend and income tax equivalent revenue for the GGS decreased \$855 million in comparison to 2018-19 mainly due to lower returns in the electricity sector from lower prices.

GGS other revenue was \$683 million lower in 2019-20 than 2018-19 mainly due to the impact on royalties of weaker global demand during the COVID-19 pandemic. This increase flows through to the TSS.

### Expenses

Total expenses for 2019-20 were \$63.498 billion for the GGS and \$75.965 billion for the TSS, \$4.655 billion and \$5.251 billion more than the previous year respectively.

Expenses by type are shown in the following chart:



Employee and superannuation expenses were 5.5% higher in 2019-20, consistent with the estimate in the 2019-20 Budget. The increases are mainly in the areas of Health and Education, reflecting the Government's commitment to revitalising frontline services.

Other operating expenses were \$607 million higher than 2018-19 for the GGS. The increase was due to electricity rebates provided to households as COVID-19 measures and expected claims for civil child abuse, offset by reallocations of disability costs to grants under NDIS, and operating lease expenses to depreciation and interest on the adoption of AASB 16 Leases. In addition to these higher GGS expenses, additional claims costs, partly offset by lower costs in the electricity sector contributed to the \$1.14 billion higher other operating expenses for TSS.

Depreciation and amortisation increased by \$582 million for the GGS and \$729 million for the TSS, mainly due to the adoption of AASB 16, which brings additional assets onto the State's balance sheet and results in a reallocation from other operating expenses.

Interest costs decreased by \$94 million to \$1.486 billion for the GGS in 2019-20, due to lower interest rates on borrowing with QTC, partly offset by additional interest on finance leases following the adoption of AASB 16.

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### Expenses continued

Grant expenses increased \$2.048 billion in the GGS, mainly due to the transition of disability services to the NDIS (\$499 million), increases in the on-passing of Commonwealth grants for non-state schools (\$386 million) and payroll and land tax rebates and electricity subsidies to businesses (\$550 million) in response to the COVID-19 crisis. Grants expense for the TSS were \$1.963 billion higher than 2018-19.

### Operating Result

The operating result is the surplus or deficit for the year under the Australian Accounting Standards framework. Valuation and other adjustments such as deferred tax, capital returns and market value interest are shown as other economic flows and are included in the operating result.

The GGS operating result for the 2019-20 year was a deficit of \$10.749 billion, compared to a surplus of \$166 million in 2018-19. The difference in the result compared to 2018-19 is mainly due to the lower net operating balance, discussed above, the market value adjustment to the fixed rate notes with QTC, and deferred tax adjustments for impairments and unrealised losses on investments.

The TSS operating result was a deficit of \$14.188 billion compared to a deficit of \$4.054 billion in 2018-19. The lower result in 2019-20 arose mainly from the lower net operating balance as well as the net effect of realised and unrealised market value adjustments to derivatives, investments, non-financial assets and borrowings.

### Fiscal Balance

The GGS fiscal deficit was \$9.158 billion for 2019-20 compared to a deficit of \$2.207 billion for 2018-19. The TSS fiscal deficit was \$13.256 billion for 2019-20 compared to a deficit of \$4.441 billion for 2018-19. The changes are driven by the lower net operating balances and higher purchases of non-financial assets in each case.

### Assets

Assets controlled by the GGS at 30 June 2020 totalled \$288.485 billion, an increase of \$7.535 billion on 2018-19, while assets controlled by the TSS at 30 June 2020 totalled \$369.908 billion. This is an increase of \$14.183 billion from the 2019 balance of \$355.725 billion.

Financial assets in the GGS were \$4.486 billion lower than 2018-19, with lower balances on the fixed rate notes and investments in public sector entities following market value adjustments and impairments. Decreases in cash balances were largely offset by increases in advances, mainly for the Jobs Support Loan package.

Financial assets of the State increased by \$1.973 billion, reflecting higher cash balances of \$754 million, mainly in QTC, Jobs Support loans, increased onlendings to Local Government, higher electricity derivative balances, and securities and bonds invested by QTC from forward funding and client deposits. These increases were offset by lower balances on QIC trusts following market value adjustments.

Non-financial assets increased by \$12.021 billion in the GGS due to revaluations of land under roads, road infrastructure and schools, and the adoption of AASB 16, as well as capital purchases exceeding depreciation. The increase at the TSS level was \$12.21 billion.

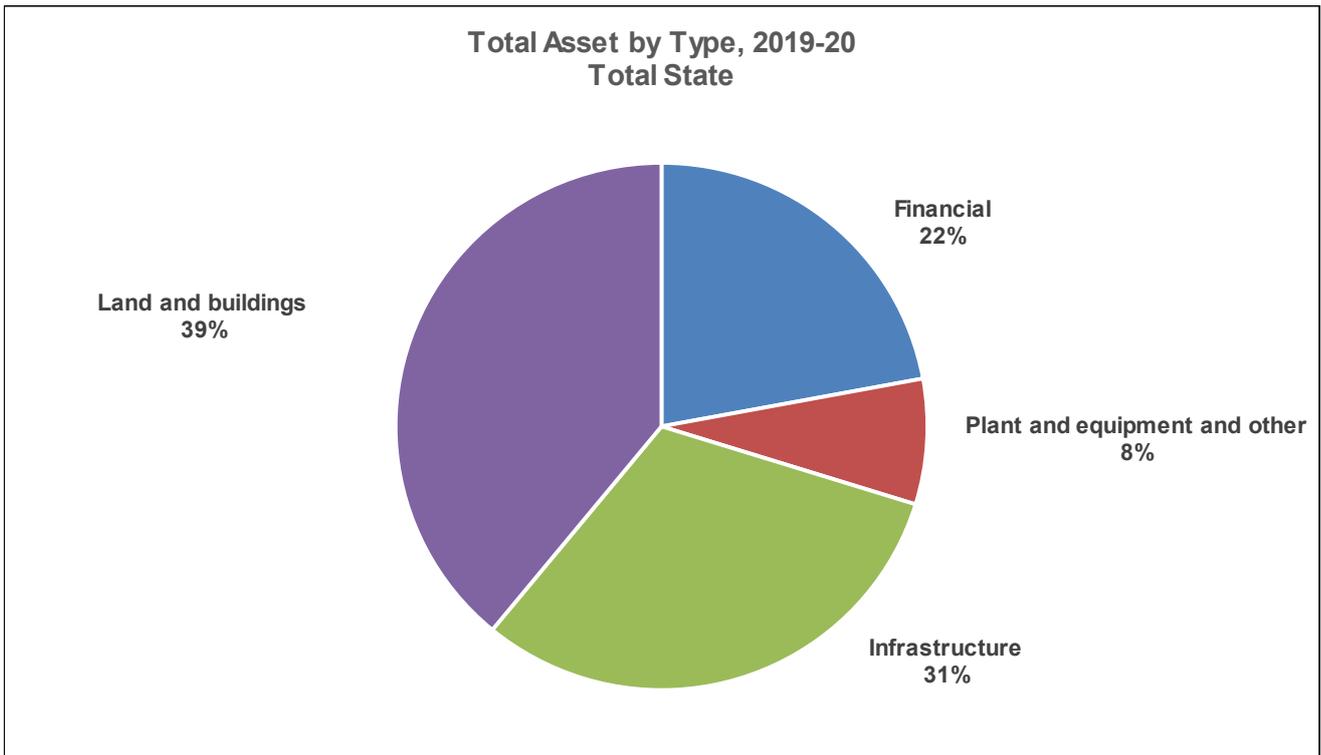
Of the TSS assets, GGS assets comprised 78%. Total assets are made up of:

	General Government	Total State
	\$M	\$M
Financial	58,278	81,703
Infrastructure	62,116	115,412
Land and buildings	139,936	144,365
Plant and equipment and other	28,155	28,428
	288,485	369,908

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### Assets continued

The main types of assets owned by the State are detailed in the following chart:



### Liabilities

Liabilities at 30 June 2020 totalled \$94.754 billion for the GGS and \$187.392 billion for the TSS, an increase of \$14.665 billion over 2018-19 for the GGS and an increase of \$22.771 billion for the State.

The overall increase in liabilities for the GGS arose largely from GST overpaid by the Commonwealth, actuarial changes to long service leave liabilities, additional borrowing from QTC (\$8.102 billion), increased leases and other loans (\$3.887 billion) following the adoption of AASB 16, \$546 million of additional deferred tax liabilities, and \$1.3 billion in provisions mainly from civil child abuse and other litigation claims. Partly offsetting these increases were lower advances from GOCs.

For the TSS, securities and derivatives, largely held by QTC, have increased \$12.241 billion, mainly to fund additional on-lending requirements as well as being impacted by market value adjustments. Following the adoption of AASB 16, the increase in leases and other loans is \$4.432 billion. Provisions have increased by \$2.816 billion, mainly for WorkCover and the National Injury Insurance Scheme and other claims, in addition to the increase in the GGS.

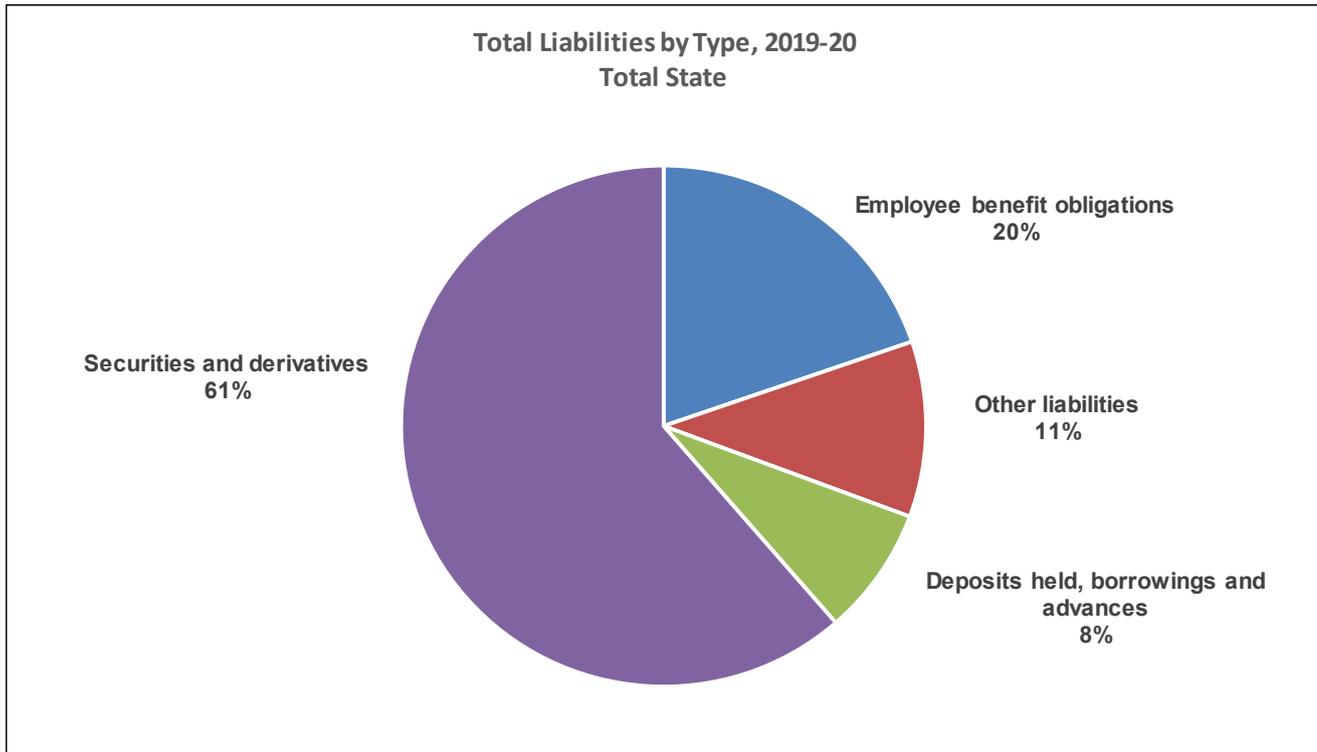
Of the TSS liabilities, GGS liabilities comprised 51%. Total liabilities are made up of:

	General Government	Total State
	\$M	\$M
Securities and derivatives	198	115,027
Deposits held, borrowings and advances	45,913	14,935
Employee benefit obligations	36,135	37,009
Other liabilities	12,508	20,422
	94,754	187,392

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### Liabilities continued

The components of State liabilities are shown in the following chart:



### Cash Flow Statement

The impact of COVID-19 and the Government's response to the crisis have resulted in negative cash flows from operating activities for the GGS of \$180 million. When this is added to the net investments in non-financial assets of \$6.061 billion, the cash deficit totals \$6.241 billion, compared to a cash surplus in 2019 of \$302 million.

The TSS recorded net cash outflows from operating activities for the 2019-20 financial year of \$113 million. After net investments in non-financial assets of \$9.217 billion, the resulting cash deficit is \$10.65 billion, compared to a \$2.475 billion cash deficit for 2018-19.