Queensland Government

STATE BUDGET 2000-2001

BUDGET OVERVIEW

Budget Paper No. 2

TABLE OF CONTENTS

THE 2000-01 BUDGET - HIGHLIGHTS

- *There is a budgeted net operating surplus in 2000-01 of $29 million and a cash surplus of $330 million in the General Government sector on a GFS basis.*

- *The General Government Forward Estimates, for both the operating position and cash terms, project a sustained and improving surplus position throughout the outyears and consistent adherence to the fiscal principles outlined in the Charter of Social and Fiscal Responsibility.*

- *General Government revenue is expected to increase by 4.4% in 2000-01, to $18.180 billion.*

- *General Government expenses are expected to increase by 4.5% in 2000-01, to $18.152 billion. This includes significant increases in service provision funding consistent with the Government's key policy priorities.*

- *Total capital outlays in 2000-01 are expected to be $5.285 billion, a 2.5% increase on estimated actual capital expenditure in 1999-2000.*

- *The net assets of the State are expected to grow to $57.776 billion at 30 June 2001, from $57.342 billion at 30 June 2000.*

- *Consistent with the national outlook, Queensland's real gross state product is forecast to grow by 3¾% in 2000-01, following stronger than expected estimated growth of 4¼% in 1999-2000.*

- *Employment is expected to grow by a further 31,000 jobs in this financial year.*

- *There has been a reduction in taxes, including a decrease in the payroll tax rate from 5% to 4.9%, gambling tax reductions of approximately 23% to make provision for the GST and Bookmakers Turnover Tax has been abolished. There are no new taxes in the 2000-01 Budget.*

1. BUDGET STRATEGY AND OBJECTIVES

INTRODUCTION

This chapter details:

- the Government's policy settings and priorities which underpin the 2000-01 Budget; and
- the Budget accountabilities under the Charter of Social and Fiscal Responsibility.

THE POLICY SETTINGS FOR THE 2000-01 BUDGET

The policy settings used to develop the 2000-01 Budget are guided by continued adherence to the Charter of Social and Fiscal Responsibility and the Government's seven key policy priorities. In line with the Charter's fiscal principles, ongoing operating surpluses will continue, with the 2000-01 Budget estimated to achieve a $29 million surplus and an increase of $434 million in the State's net worth in 2000-01 to $57.776 billion.

The Queensland economy is forecast to continue to grow at a solid pace in 2000-01, with gross state product expected to rise by 3¾%. State economic growth is forecast to be broadly based during 2000-01. Net exports are expected to contribute to growth for the first time since the Asian crisis in 1997-98, while growth in domestic demand is forecast to moderate to a more sustainable pace, following the historically high rates of increase in recent years. Labour market conditions are expected to remain firm over the course of 2000-01, with employment forecast to increase by 2%. However, sustained growth in the supply of labour and a continuing high labour force participation rate are expected to result in the year average unemployment rate in Queensland remaining unchanged at 8%.

Economic growth is again expected to contribute to Queensland's employment growth which is forecast to increase by 2% for 2000-01, producing 31,000 new jobs. Inflation in Queensland is expected to be 5¾%, consistent with that forecast in the Commonwealth Budget papers for Australia.

Historically, Queensland has maintained a very strong fiscal position relative to the other Australian States. Queensland consistently has maintained a cash surplus budget over time, whereas the other States, on average, only have moved recently to strengthen their fiscal positions. Consistently achieving cash surpluses has ensured Queensland maintains a strong balance sheet position and is the only State to achieve a negative net debt position and to fully fund employee entitlements.

The Queensland Government has embarked on significant capital expenditure programs to enhance the State's infrastructure and drive employment creation. According to the Australian Bureau of Statistics, in its recent General Finance Statistics (GFS) publication for 1999-2000, capital expenditure in Queensland accounted for over 30% of all capital expenditure by Australian States and Territories. This result has been achieved despite the high levels of capital expenditure in NSW associated with staging the Olympic Games.

Further information on the main budget aggregates for 2000-01 is detailed in Chapter 2 and longer-term fiscal trends are discussed in Chapter 7.

This Budget is being presented against a backdrop of the introduction of the Commonwealth Government's Goods and Services Tax (GST). Queenslanders have consistently paid less taxes than residents of other States and Territories; however, they will be disadvantaged by national tax reform relative to other taxpayers. Effectively, Queenslanders will cross-subsidise significant cuts in State taxes in high taxing jurisdictions and will receive the lowest relative share of Budget Balancing Assistance of all jurisdictions.

Further information on the impact of national taxation reform is discussed in Budget Paper 3.

SOCIAL AND FISCAL PRIORITIES

POLICY PRIORITIES AND OBJECTIVES

The Government has identified seven key policy priorities which have been designed to complement one another. The services or outputs provided by Queensland agencies generally contribute to more than one priority.

The key policy priorities focus on areas where the Government is seeking significant progress in its current term to improve the quality of life and standard of living for Queenslanders, wherever they reside in the State. With the introduction of the outcomes focus to budgeting and resource management in the 1999-2000 Budget, these seven key policy priorities provide the broader framework for the specification of policy and service delivery across all portfolio areas for the longer term.

Essentially, spending to achieve these priorities falls into two categories: operating and capital. Operating expenses are costs incurred in providing services including salaries, such as for health professionals, teachers, emergency workers and road maintenance personnel, and the cost of running and maintaining assets. Operating expenses are addressed in Chapter 3.

Apart from capital grants, capital expenditure in the GFS context relates almost exclusively to the purchase and construction of assets that are used to support the delivery of services to the people of Queensland. Examples of these assets include hospitals, schools, courthouses, police stations, fire and ambulance stations and roads. Capital is discussed in Chapter 6 of this Budget Paper, and in greater detail in Budget Paper 5.

Capital grants, which are paid to persons and organisations outside the State Government to provide assets to support services for the Queensland public, are treated as operating expenses for GFS purposes and are included in Chapter 3.

The seven key policy priorities are detailed in Box 1.1.

Box 1.1: The Queensland Government's Key Policy Priorities

More jobs for Queenslanders

Employment is the primary source of income for the vast majority of Queenslanders and is the most important means for people to participate in community life. Employment is also essential for a productive and robust economy.

Building Queensland's regions

Queensland is a highly decentralised State. Supporting regional life and development contributes to the richness, creativity and diversity of our communities.

Skilling Queensland – The Smart State

Education and training ensure a better educated, highly skilled and more flexible workforce. We need to be responsive to the increasing demand for new and better skills, consistent with a developing global society.

Safer and more supportive communities

Investing in the social development of Queensland enables individuals to contribute more equally to the richness of our communities. We want sustainable communities in Queensland where people are safe and respected, where children are protected from harm and where diversity and social justice are supported. We also want a system of justice that is fair, reasonable and applied without prejudice.

Better quality of life

Families, individuals and communities should be supported to maintain and improve their quality of life. Encouraging all people to participate in the cultural, social and economic life of Queensland ensures vibrant, diverse and sustainable communities and a high quality of life.

Valuing the environment

A clean environment with fresh air and safe water is essential. We need to protect our environment and its biodiversity for current and future generations and manage the development of our natural resources in an ecologically sustainable way.

Strong Government leadership

It is important for transparency and accountability that the Government articulates a strong vision for the future that identifies policy directions and areas for direct government action.

More Jobs for Queenslanders

The Government recognises that secure employment is the key to economic independence, better health, less threat of crime, reduced family violence and improved future prospects. The Government remains fully committed to reducing unemployment to ensure that all Queenslanders enjoy a secure future. This Budget builds on the Government's significant achievements in actively seeking to attract industry and jobs to Queensland.

The 2000-01 Budget continues the *Breaking the Unemployment Cycle* initiative. It is anticipated that this initiative will create 10,850 training and employment places in 2000-01. In addition, a number of employment initiatives will be undertaken, including community training, improvements to the industrial relations system, better workplace health and safety and apprentice training undertaken by Q-Build will continue throughout the State.

Capital investment is a major source of employment growth. It is estimated that the Government's record $5.285 billion capital works program in 2000-01 will contribute to the provision of some 61,034 full-time jobs. In 2000-01, $1.833 billion will be spent on Transport and Main Roads infrastructure, the largest capital expenditure of any portfolio. $1.372 billion is allocated to the Mines and Energy portfolio to facilitate investments by the State's electricity Government Owned Corporations, such as the Swanbank E Power Station.

Building Queensland's Regions

In framing this Budget, the Government has recognised the importance of rural communities and their need for appropriate infrastructure. In the 2000-01 Budget, the Government is seeking to expand export markets, encourage value-adding industries and fund infrastructure, tourism and agriculture projects to support regional economies.

Approximately 64% of capital expenditure in 2000-01 will be undertaken outside the Brisbane region. Capital investment highlights which contribute to this priority include $762 million in 2000-01 for roads funding which supports rural and regional development, population growth and industry development throughout Queensland. For instance, $32.5 million has been provided to widen the Bruce Highway between Yandina and Cooroy and $26 million has been allocated to improve the Barkly Highway between Cloncurry and the Northern Territory border. $443 million will be provided to local governments in grants and subsidies, including $16 million over four years to continue the Rural Living Infrastructure Program. $120 million is to be spent in 2000-01, as part of a $422 million project, for passenger rolling stock including the Cairns Tilt Train. $25.4 million has been allocated for the Cairns Cityport Development.

Recurrent expenditure, including the running costs of schools, hospitals, policing, water infrastructure and assistance to rural industry and tourism, coupled with the flow-on employment effects of major capital works, contribute to a secure and prosperous future for rural and regional Queensland.

Skilling Queensland - The Smart State

In framing the 2000-01 Budget, the Government has maintained a strong emphasis on developing a skilled workforce and preparing the State for a world with increasingly complex and rapidly changing technology. The Government's Smart State blueprint positions Queensland to take advantage of its human and natural resource attributes to move into the information age.

Queensland's ability to meet the challenges of, and to thrive and prosper in, the global economy will depend largely on the quality of its workforce. Countries and states with educated, highly skilled and flexible workforces are more likely to attract investment, particularly from new and high technology industries.

A sound education in childhood and access to lifelong learning and training are vital for achieving a sustained positive employment outlook for Queenslanders. The Government is investing in a range of initiatives for young Queenslanders to provide a strong foundation for a successful future. This year, the Government will provide $3.4 billion to the primary and secondary education of State school children. In addition, significant assistance will be provided to non-State schools and tertiary institutions.

Capital investment highlights which contribute to this priority include $102.6 million for the construction of four new schools and further staged work at nine new schools; an increase in the number of schools that teach students from preschool to Year 12 (P-12 schools); and more than 200 additional classrooms at existing schools in growth areas of the State.

TAFE Queensland will receive infrastructure support to enhance the delivery of training in Queensland through the investment of $28.6 million in major capital works projects during 2000-01. Additional support is also provided through the investment of $15.2 million to upgrade and enhance the information technology systems across TAFE Queensland.

Safer and More Supportive Communities

One of the Government's key priorities is to support, develop and respond to the emerging and diverse needs and aspirations of Queensland's communities. The Government aims to promote individual, family and community vitality, including working with Aboriginal and Torres Strait Islander people to find practical ways to progress reconciliation and improve well being and quality of life.

In 2000-01, the Government's focus will be on *Putting Families First*, particularly by addressing the needs of young people by enacting Child Protection legislation and expanding family support and counselling services. Aboriginal and Torres Strait Islander communities will be provided with infrastructure and business opportunities.

The Government is committed to addressing the social and economic causes of crime through an integrated approach to unemployment, education, training and crime prevention. Funding is provided for 357 new police officers as part of the Queensland Police Service's 10 year staffing plan.

Capital investment highlights which contribute to this priority include $82.6 million in 2000-01 for police capital infrastructure. New stations will be built in some areas where the demand for police services is increasing. In other areas, current police facilities will be refurbished or replaced. $7.1 million is provided in 2000-01 for courthouse upgrades which will provide improved services to courthouse staff, the judiciary and clients of the courts.

Better Quality of Life

The Government aims to deliver services that enable people to maintain and improve the quality of their lives.

The Government is committed to improving access to the health system particularly for the chronically ill and people living in rural and remote communities. In 2000-01, the focus will be on rebuilding projects for health services and improving fire, ambulance and emergency services.

Capital investment highlights which contribute to this priority include $473 million for a number of community health, hospitals, mental health, and residential care projects, pathology and scientific services, state of the art technology and equipment replacement.

Work will commence in 2000-01 on the redevelopment of several Torres Strait Primary Health Centres and the Brisbane North Community Health Centre. Significant progress will continue on the redevelopment of the Royal Brisbane, Princess Alexandra, Caloundra, Gold Coast, Cairns and Townsville hospitals.

$64.7 million will be spent on Aboriginal and Torres Strait Islander (ATSI) housing including Grants to Aboriginal and Torres Strait Island Councils and building 85 new dwellings, upgrading 150 existing houses throughout Queensland, estate redevelopment and improvement on Thursday Island and land purchases.

Valuing The Environment

The Government is committed to ecologically sustainable development and aims to achieve both intra and inter-generational equity. In 2000-01, the focus will be on ensuring scarce natural resources are used sustainably, protecting coasts and waterways through the acquisition of coastal lands and improved environmental management, encouraging the use of energy efficient technologies and improving visitor facilities in protected areas.

Major enhancements include $31.9 million over four years for vegetation management and $81 million over five years for the implementation of the South East Queensland Regional Forestry Agreement.

Capital investment highlights which contribute to this priority include $5.1 million for the public acquisition of critical lands of high conservation value, to protect key coastal resources along Queensland's extensive coastline. Natural Heritage Trust funding of $4 million to enhance and expand the network of protected areas on the Cape York Peninsula through land acquisitions and other capital works.

Strong Government Leadership

The Charter of Social and Fiscal Responsibility provides a framework for accountability through the endorsement of key policy priorities and performance indicators. In 2000-01, the Government will continue to focus on exploring and implementing new ways to improve the delivery of services and also on strengthening the openness, accountability and integrity of government operations.

Key initiatives include ensuring a smooth transition to the Goods and Services Tax regime, implementing processes to reduce backlogs for the Offices of the Parliamentary Commissioner for Administrative Investigations and the Information Commissioner and the continued development of on-line government services.

More information on the Government's key policy priorities is provided in Budget Paper 4 (Portfolio Services), Budget Paper 5 (Capital Statement) and in the Ministerial Portfolio Statements.

FISCAL STRATEGY

The Charter of Social and Fiscal Responsibility outlines the Government's fiscal strategy, and is an integral part of the Government's commitment to the community. The fiscal strategy principles, which are detailed in Box 1.2, have been framed to meet a number of objectives, with the overriding requirement to maintain the integrity of the State's finances.

The fiscal principles establish the basis for sustainability of the Government's policies; that is, they require that the services provided by government can be funded from tax and other revenue sources, over the long term. Accrual accounting requires the recognition of future liabilities, thereby highlighting the full cost of sustaining the Government's operations on an ongoing basis.

Box 1.2: The Fiscal Principles of the Queensland Government

Competitive tax environment

The Government will ensure that State taxes and charges remain competitive with the other States and Territories.

Affordable service provision

The Government will ensure that its level of service provision is sustainable by maintaining an overall General Government operating surplus, as measured in Government Finance Statistics terms.

Capital funding

Borrowings or other financial arrangements will only be undertaken for capital investments and only where these can be serviced within the operating surplus, consistent with maintaining a AAA credit rating.

Managing financial risk

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

Building the State's net worth

The Government will at least maintain and seek to increase Total State Net Worth.

The principles recognise intergenerational equity in government service delivery and taxation. Broadly, each generation should pay for the services it consumes. It would not be equitable for the present generation to leave a debt for services they enjoyed, to be paid for by future generations. Conversely, future generations should pay for that part of the services they consume from long life assets, such as infrastructure.

Finally, the principles recognise the importance of a strong financial position for the State. A State government, because of its more limited tax base, does not have the same capacity as a national government to cushion economic and financial shocks. At the same time, State governments have a responsibility to provide continuity of services, such as health, police and education. A strong financial position, as indicated by a AAA credit rating, provides the Government with the greatest flexibility, if needed, to deal with adverse financial shocks and other exogenous factors. It also enables lower borrowing costs. That is, a AAA credit rating is an indication of the soundness of the financial position and policies of the Government, rather than a goal in itself.

REPORTING ON THE SOCIAL AND FISCAL OUTCOMES

A critical part of government accountability is the requirement to publish regular, informative reports on the outcomes of the Government's activities, against previously announced objectives. The Charter details the reports and information the Government will provide on its performance against its objectives for the community and its financial commitments.

In the coming months, the Government will release its first annual report on the efficiency and effectiveness of its activities in meeting its objectives for the community during 1999-2000. The report will:

- detail the performance of the Government across a range of qualitative and quantitative indicators and outcomes, each applying to one of the seven key policy priorities;

- summarise evaluations undertaken during the preceding year, identifying the basis of and methodologies applied in the evaluations, stating what steps will be taken as a result of the evaluations and nominating the goals for the next financial year; and

- outline legislative and policy changes recently made as a result of reviews and evaluations, explaining how these changes will assist in achieving Government objectives.

Evaluation in the report will be undertaken on a whole-of-Government basis, although individual government agencies will be responsible for reporting on specified outputs.

The Charter also makes clear the importance placed by the Government on financial transparency and details a range of financial information the Government is required to produce. Much of this information is contained in this Budget's documentation, as outlined in Box 1.3.

Box 1.3:
Financial information required by the Charter to be produced with the Budget

The Budget Papers provide the following reports and information as required by the Charter of Social and Fiscal Responsibility:

- information detailing how the Government has complied with the fiscal principles. The budgeted outcomes for relevant fiscal measures are discussed in this Budget Paper;
- a tax expenditure statement, detailing the revenue foregone as a result of government decisions (see Budget Paper No. 3);
- a capital funding statement (see Chapter 6 of this Budget Paper);
- an explanation of the major assumptions (economic and other) underpinning the Budget forward estimates (see Budget Paper No. 3);
- an analysis of the potential risks to the fiscal aggregates, such as changes in the major economic and other assumptions (see the Statement of Risks at Appendix C to this Budget Paper); and
- presentation of 1999-2000 Estimated Actual Results, 2000-01 Budget and full three year forward estimates under both widely accepted standards: the accounting standards in line with Australian Accounting Standard AAS 29 and the Australian Accounting Standard AAS 31; and the Australian Bureau of Statistics Government Finance Statistics standard as required under Loan Council's Uniform Presentation Framework. (See Appendix A and B to this Budget Paper).

Continuous Improvement in Performance Management and Reporting

The 1999-2000 Budget was the first budget delivered in an accrual output format. Accrual output budgeting takes into account the full cost of providing services, including non-cash costs such as depreciation of assets used in providing services. The adoption of accrual accounting makes government accounts consistent with standard accounting practice in the private sector. This is an important element in improving the transparency and accountability of government, as it allows readers to assess more accurately the economic effects of the Budget and its service provision priorities.

The Queensland model of accrual output budgeting is known as *Managing for Outcomes.* During the year, the Government commissioned an independent evaluation of the 1999-2000 Budget process and, in particular, the implementation of the *Managing for Outcomes* framework.

The evaluation report was presented in March this year and detailed a number of recommendations that the Government is progressively addressing. In particular, under the new Budget format, agencies are required to provide a higher level of non-financial and financial performance information. Within this context, the Government is continuing to improve the quality of performance information to enable better resource allocation decisions to be made that will further the delivery of its desired outcomes for the community.

The Budget focus is principally on the performance of Ministerial portfolios in delivering outputs within the financial parameters set in the Budget each year. The focus on both the non-financial and financial aspects of service delivery to the community highlights the importance of planning, budgeting and measuring performance in an integrated manner to achieve targeted results.

Over the Budget planning horizon, elements of performance management, including internal and external reporting, non-financial and financial performance management and decision making within agencies and by the Government, will be the subject of further development.

As part of this process, agencies will need to evaluate extensively their performance, based on their particular circumstances. In this way, measures and targets developed by agencies will reflect benchmarked best practice or an agreed substitute, or continuous improvement towards it.

2. BACKGROUND AND OUTLOOK

KEY POINTS

- *The 1999-2000 General Government operating outcome, on a GFS basis, is a estimated actual surplus of $40 million. The Total State outcome is a estimated actual surplus of $239 million, reflecting a sound performance by the State's Public Trading Enterprises.*

- *In underlying terms in 1999-2000, there is an estimated actual GFS cash surplus in the General Government Sector of $18 million.*

- *For 2000-01, there is a budgeted surplus of revenue over operating expenses, on a GFS basis, of $29 million, and a budgeted cash surplus of $330 million in the General Government sector.*

- *Economic growth in 2000-01 is expected to be broadly consistent with national trends, resulting in the continuation of solid employment growth and the generation of 31,000 jobs.*

- *Total revenue on a GFS basis in the General Government Sector is expected to grow by $773 million or 4.4%, and total expenses are expected to increase by $785 million or 4.5%.*

- *The Forward Estimates in the General Government Sector, for both the operating position and in cash terms, project a sustained and improving surplus position throughout the outyears.*

- *The capital program in 2000-01 is budgeted to be $5.285 billion, a 2.5% increase on the 1999-2000 estimated outcome of $5.159 billion. 64% of the capital program will be spent outside the Brisbane region.*

INTRODUCTION

This Chapter discusses:

- the economic and financial background to the Budget, including the Queensland economy in 1999-2000 and the outlook for 2000-01;

- the summary financial aggregates of the 2000-01 Budget; and

- key elements of the 2000-01 Budget, highlighting how the Budget delivers the Government's key policy priorities and improved service delivery to Queenslanders.

ECONOMIC PERFORMANCE AND OUTLOOK

THE QUEENSLAND ECONOMY IN 1999-2000

State economic activity in 1999-2000 grew slightly faster than forecast in last year's Budget Papers, with gross state product estimated to have increased by 4¼%. The key driver of growth in Queensland was again household consumption activity, which continued to grow at above average rates despite only moderate growth in household income. However, a resurgence in overseas exports of goods and services in 1999-2000 resulted in a lower detraction from growth by net exports than in 1998-99.

Key Components of Growth

Domestic demand continued to provide the basis for growth in State economic activity in 1999-2000, with the household sector, in particular, contributing 3.0 percentage points to growth in Queensland. Public final demand is estimated to have made a contribution to growth of 1½ percentage points, following a similar contribution in 1998-99.

Despite only modest growth in household incomes in 1999-2000, the household sector was the major source of growth in gross state product. Household consumption expenditure is estimated to have grown by 5% in 1999-2000, moderating slightly from the very rapid rates of growth experienced over recent years.

Dwelling investment is estimated to have grown strongly in 1999-2000, by 7½%, recovering strongly from a poor performance in the previous year. The recovery in dwelling investment was largely in response to the pull-forward effect of the GST, with households bringing forward planned activity into 1999-2000 in order to avoid the price rises anticipated with the new tax system in 2000-01.

Activity in the business sector in Queensland was subdued in 1999-2000, with the level of business investment easing after several years of sustained growth. Both components of business investment are estimated to have fallen, with investment in other building and structures easing by less than machinery and equipment (-2½% and -4¾%, respectively).

Employment conditions in the State continued to improve, with the year-average unemployment rate falling by 0.3% point to 8.0%. The improved unemployment outcome resulted from solid employment growth of 2.2%, being partly offset by labour force growth of 1.9%. The labour market participation rate remained relatively unchanged over the year, averaging 65.0% over the year. This remains substantially higher than in the rest of Australia, where participation rates increased slightly to 63.0%. The sustained employment growth resulted in the creation of an additional 36,100 jobs in Queensland, in year-average terms.

Wage pressures remained subdued in Queensland in 1999-2000, with average earnings estimated to have increased by only 1¼%. Inflation increased from its historically low levels of the past two years. Headline inflation was estimated to be 1¾% in Brisbane, compared with 2½% for the nation as a whole.

A more detailed analysis of Queensland's economic performance in 1999-2000 is provided in Chapter 1 of Budget Paper 3.

2000-01 ECONOMIC OUTLOOK

The Economic Framework for the 2000-01 State Budget

Consistent with expectations for economic growth nationally, the Queensland economy is forecast to grow by 3¾% in 2000-01, somewhat below estimated growth of 4¼% in 1999-2000. The composition of growth is expected to change substantially during the fiscal year, with easing growth in domestic demand largely offset by a recovery in Queensland's net exports position. Continued strong improvement in exports of goods and services is forecast, with a moderation in imports growth flowing from the lower growth in gross state expenditure.

Key Components of the Forecasts

Table 2.1 shows the key economic parameters that underpin the 2000-01 Budget, incorporating forecasts for 2000-01 and projections for the outyears.

Table 2.1
Economic Parameters/Projections[1]
(annual % change)

	Outcome	Est. Actual	Forecast	Projections		
	1998-99	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Queensland						
Gross state product[2]	4.8	4¼	3¾	4¼	4¼	4¼
Employment	2.7	2.2	2	2½	2½	2½
Inflation (consumer price index)	1.0	1¾	5¾	2½	2½	2½
Average earnings[3]	3.3	1¼	4	3½	3½	3½
Population	1.7	1¾	1½	1½	1½	1½

Note:
1. Figures not quoted as a fraction are an actual outcome.
2. Chain volume measure, 1997-98 reference year.
3. Average earnings State Accounts basis, labour force wages and salary earners.

Source: Queensland Treasury

Growth in household consumption is expected to return to a more sustainable level in 2000-01, with a forecast increase of 4%. Dwelling investment is forecast to fall by 4½% in 2000-01, from the exceptionally strong growth recorded in 1999-2000, which was exaggerated by the pull-forward of residential construction activity ahead of the introduction of the GST. Both components of business investment are also forecast to fall, with an overall decline of 5¾% forecast in 2000-01.

Net exports are forecast to contribute 1½ percentage points to growth in gross state product in 2000-01. The moderation of growth in household consumption and the decline in machinery and equipment investment is expected to result in much lower growth in imports of goods and services. At the same time, strengthening overseas demand and a boost to inbound tourism arising from the Sydney 2000 Olympics will lead to another year of strong export performance in 2000-01.

Employment growth is expected to moderate in 2000-01, with forecast growth of 2% matching expected growth in the labour force. As a result, the average unemployment rate in 2000-01 is expected to remain unchanged at 8%.

Inflation will be substantially affected by the one-off impact on consumer prices associated with the introduction of the GST, with year-average headline inflation of 5¾% forecast. However, underlying inflation in the State is forecast to rise 2¼% in 2000-01, up from an estimated 1¾% in 1999-2000. In line with an increase in the superannuation guarantee charge, growth in average earnings is forecast to rise by 4% in 2000-01.

Implicit in the forecasts are a number of assumptions concerning Queensland's external economic environment, both overseas and in the rest of Australia. The critical assumptions for the 2000-01 forecasts are:

- sustained economic growth and relatively low inflation in Queensland's trading partners;
- no further tightening in monetary policy by the Reserve Bank of Australia; and
- a moderate appreciation of the $A exchange rate by around 5-10% by June 2001.

Risks to the Economic Outlook for 2000-01

The following key risk factors may affect the above assumptions and, consequently, the economic forecasts:

- Recent adjustments to monetary policy settings in the US have been directed at slowing the rate of economic growth to more sustainable levels. An excessive tightening of monetary policy may result in a more pronounced slowing in US economic activity. This would have major implications for economic growth in Queensland's major trading partners and consequently this State's trade performance.
- Recent increases in mortgage and credit card interest rates are likely to partly offset the boost to discretionary incomes arising from the personal income tax cuts which applied from 1 July 2000. Further, price confusion associated with the introduction of the GST is expected to have an impact on underlying consumption patterns, at least in the first half of 2000-01, as consumers adjust to new pricing and taxation arrangements.
- The Queensland economy is highly integrated with the rest of the Australian economy. Any significant policy changes which are implemented by the Commonwealth Government, in particular, over the forecast horizon or any unanticipated change in the economic performance in the rest of Australia would be expected to have an impact on economic conditions in Queensland.

In keeping with the requirement in the Charter of Social and Fiscal Responsibility, these assumptions are presented in detail in Chapter 1 of Budget Paper 3, together with a full analysis of the forecasts and an assessment of the key risk factors.

SUMMARY OF KEY FINANCIAL AGGREGATES

1999-2000 ESTIMATED OUTCOME

On a Government Finance Statistics (GFS) basis, the General Government Sector is estimated to achieve a surplus of revenue over operating expenses for 1999-2000 of $40 million. This compares with the budgeted net operating surplus of $21 million.

Table 2.2 provides aggregate outcome information for 1999-2000 and projections for 2000-01.

Table 2.2
1999-2000 Operating Result and 2000-01Budget Projections
(GFS Basis)

	Actual 1998-99 $ million	Budget 1999-2000 $ million	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million
General Government Sector:				
Revenue	16,488	16,845	17,407	18,180
Expenses	16,345	16,824	17,367	18,152
General Government Net Operating Result[1]	**143**	**21**	**40**	**29**
Public Trading Enterprise Sector Net Operating Result	372	(8)	157	(80)
Non PFE State Net Operating Result	**515**	**13**	**197**	**(51)**
Public Financial Enterprise Sector Net Operating Result[2]	299	n.a.	42	n.a.
Total State Net Operating Result	**814**	**13**	**239**	**(51)**

Note:

1. The estimated 1999-2000 Net Operating Result for the General Government sector includes the impact of the transfer of the assets of the South East Queensland Water Board to the new joint South East Queensland Water Corporation Ltd during 1999-2000. This treatment is in line with preliminary views provided by the Australian Bureau of Statistics (ABS).
2. Under Loan Council Uniform Presentation Framework arrangements, Budget and forward estimates data are not required for Public Financial Enterprises (PFEs). This is due to the difficulties in preparing robust projections of activity.

Within the General Government Sector, revenue for 1999-2000 was $17.407 billion (compared with the budgeted figure of $16.845 billion).

Expenses for 1999-2000 in the General Government Sector were $17.367 billion (compared with the budgeted figure of $16.824 billion).

The two major factors affecting the General Government Sector result were the impact of South East Queensland Water Board's transfer of assets to the South East Queensland Water Corporation Ltd[1] (cost of $363 million), offset by higher than budgeted interest revenue. Noting the one-off nature of this transfer, the estimated actual result for 1999-2000 is sound in underlying terms.

For the Total State Government sector, the 1999-2000 outcome on a GFS basis is estimated to be a net operating surplus of $239 million.

The major factors behind the estimated result are: a sound result in the Public Trading Enterprises (PTE) sector (net operating surplus of $157 million), largely attributable to greater sales of goods and services particularly in forestry and ports, and to a lesser extent, the Queensland Electricity Supply Industry (QESI) and additional CSO funding for QRail; and a sound performance in the Public Financial Enterprise (PFE) Sector by Workcover.

2000-01 BUDGET PROJECTIONS

A surplus of revenue over operating expenses of $29 million is expected for 2000-01 for the General Government Sector. This compares with an estimated surplus of $40 million in 1999-2000 and is consistent with the commitment in the Charter of Social and Fiscal Responsibility that the Government will maintain an overall General Government operating surplus, as measured in GFS terms.

The Total State net operating result for 2000-01 is expected to be a deficit of $51 million, with the PTE sector expected to record a net operating deficit of $80 million.

The decline in the PTE operating position in 2000-01 reflects a number of factors, including that the Home Purchase Assistance Account, the Queensland Motorways Company and the Queensland Power Trading Corporation (QPTC) will run operating deficits as part of their normal operations.

Revenue

General Government Revenue is budgeted to increase by $773 million to $18.180 billion in 2000-01. Current grants and subsidies, and taxation are the principal forms of revenue for the State, accounting for two-thirds of General Government revenue.

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1 The GFS treatment of the transfer of equity of the South East Queensland Water Board (SEQWB) to the South East Queensland Water Corporation Ltd, showing the transfer in the General Government Sector, reflects the preliminary view of the Australian Bureau of Statistics (ABS). Under the accounting presentation, the transfer is shown in the PTE sector as the actual payment was made by the former SEQWB. This transfer, while reducing the reported net worth of the State, has no underlying or ongoing impact upon resource usage within the State, and only represented a one-off transfer of ownership to reflect more closely the responsibilities of the respective levels of government involved in the operations of the entity. Final determination of the treatment of the transfer for GFS purposes is still under negotiation with the ABS.

There is a significant impact on State taxes from national tax reform. Section 90 revenue replacement payments (treated as a tax for GFS purposes) cease, reductions in gambling taxes occur to make “tax room” for the GST and changes in economic activity related to the GST impact on other taxes and charges, particularly conveyance duties. Fuel subsidies (presently treated as a tax offset for GFS) will be recorded as expenses, causing an equivalent increase in both revenues and expenses.

There also are impacts on State taxes flowing from the assumed impact on underlying economic activity ($14 million according to the Commonwealth estimates used to calculate States’ guaranteed minimum income), and from the effects due to purchasing and other economic transactions shifting between years - the so called “pull-forward” and “push-back” effects. For example, while motor vehicle sales (and hence stamp duty on motor vehicle transfer revenues) are expected to increase with the abolition of the wholesale sales tax, the “pull-forward” impact of the GST on residential construction activity will impact adversely on conveyance duty revenues.

The GST revenue, as well as a range of related national tax reform financial changes, are the subject of an intergovernmental agreement which guarantees fiscal neutrality against what the forward estimates would have been under the previous arrangements, during the transition period.

This guarantee does not wholly protect the Queensland Budget (because if the State’s general revenue funding relativity determined by the Commonwealth Grants Commission falls, then the guaranteed minimum payment from the Commonwealth also falls, and the State can still potentially lose budgetary funding). It does mean, however, that the GST does not provide any extra funding to Queensland than what would have been received for at least two years. On current projections, Queensland does not begin to benefit in budgetary terms from the new arrangements until at least 2003-04.

The State must have the capacity to raise sufficient revenue to fund the growing service delivery and strategic infrastructure needs of an expanding Queensland. After adjusting for the impact of changes directly related to the implementation of the GST, in 2000-01, taxation revenue, on a GFS basis, is expected to increase by 2.0% in underlying terms.

It is equally important to raise revenue in a manner that minimises distortions to private sector economic activity and maximises equity. A key principle is to apply competitive tax rates to the broadest possible tax base.

By maintaining competitive tax rates in 2000-01, the Government will ensure that Queensland enjoys an economic environment that is conducive both to business and employment. Per capita collections of State taxes, fees and fines in Queensland in 2000-01 are estimated at $1,359, compared with $1,733 for the average of the other States and Territories. The tax burden in the average of other States is forecast to be 27.6% higher than Queensland in 2000-01.

The Government will reduce several tax rates as part of its strategy to maintain a competitive tax environment. The rate of payroll tax is to be reduced from 5.0% to 4.9% from 1 July 2000 with a further reduction to 4.8% from 1 July 2001. These rate reductions will maintain the competitive structure of the Queensland tax system. The totalisator tax will be replaced with a wagering tax at significantly lower rates. Bookmaker's turnover tax have been abolished and a proposed Duties Bill will harmonise stamp duty arrangements for mortgage duty and reduce compliance costs thereby improving the competitiveness of Queensland Business.

Investment earnings, principally from investments covering the State's employee entitlements (superannuation and long service leave) are expected to return to long-term average earning levels.

Further detail regarding revenue outcomes is contained in Chapter 3 of Budget Paper 3.

Expenses

In GFS terms, General Government Expenses are budgeted to increase by $785 million to $18.152 billion in 2000-01.

The increase in expenses reflects the low levels of price and wage inflation, the tight budgetary outlook, and the Government's determination that an increased focus on service delivery priorities should lead to increased output and policy effectiveness largely from existing resource allocations. Notwithstanding that, some realignment of funding across the different areas of service delivery activity has occurred, in line with the Government's key policy priorities, as outlined in Chapter 1.

New funding has been provided to agencies where demonstrable improvements in service delivery or advances in achieving the Government's core policy priorities are being pursued. The Government has been conscious to ensure that the considerable resources already provided to agencies are being actively managed to better achieve desired outcomes and objectives and obtain better value-for-money service delivery for Queensland taxpayers.

Reconciliation of Forward Estimates

Table 2.3 provides a reconciliation of the General Government sector forward estimates for 2000-01, as published in the 1999-2000 Budget, with the 2000-01 Budget estimates.

Table 2.3
Reconciliation of 2000-01 Operating Budget To Previous Estimate (GFS Basis)

	2000-01 $ million
General Government Sector	
Forward Estimate published in 1999-2000 Budget	**(49)**
Economic parameter adjustments[1]	134
Policy decision adjustments	(162)
Classification adjustments	118
Other[2]	(13)
2000-01 Budget	**29**

Notes:
1. This category includes adjustments related to national tax reform.
2. This category includes whole-of-Government adjustments such as for employee entitlements, timing adjustments between years and agency specific adjustments.

The table indicates that the impact of economic parameters adjustments, including those flowing from national tax reform and from variations in taxation and revenue from investments, has been largely sufficient to offset the impact of new policy decisions made through the course of the year and during the Cabinet Budget deliberations. For example, additional allocations were provided for the South East Queensland Regional Forest Agreement, Olympic Games security and a range of additional disability services.

Principal among the classification adjustments was the recognition of the interest free loan component of the GST Budget balancing payments as revenue for State purposes.

BALANCE SHEET

1999-2000 Outcome

Table 2.4 provides data on the State's capital program for 1999-2000 and net worth. On a GFS basis, Total Gross Fixed Capital Formation (GFCF) in 1999-2000 is estimated to be $4.143 billion, compared with the budgeted figure of $4.574 billion. After adding back proceeds from asset sales and adjusting for capital grants and inventories, total capital outlays (as defined in Budget Paper 5) were $5.159 billion.

Table 2.4
1999-2000 Capital Program and Balance Sheet Results and 2000-01 Budget Projections (GFS Basis)

	Actual 1998-99 $ million	Budget 1999-2000 $ million	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million
Gross Fixed Capital Formation[1]:				
General Government Sector	2,073	2,321	2,465	2,233
Public Trading Enterprise Sector	2,196	2,252	1,671	1,572
Public Financial Enterprise Sector[2]	4	n.a.	7	n.a.
Total State Gross Fixed Capital Formation	**4,273**	**4,574**	**4,143**	**3,805**
Net Worth				
General Government (Total State) Sector[3]	**57,689**	**58,038**	**57,342**	**57,776**
Incorporating Equity Investment in:				
Public Trading Enterprise Sector	12,622	13,362	12,218	11,808
Public Financial Enterprise Sector	761	761	931	931

Note:
1. Gross Fixed Capital Formation comprises net expenditure on new and second-hand fixed assets, plus land and intangible assets. Fixed assets are durable goods intended to be employed in the production process for longer than a year. It also includes net expenditure on mineral deposits, timber tracts and similar non-reproducible tangible assets, and net expenditure on intangible assets such as patents and copyrights. By adding back the proceeds of asset disposals and including the change in inventories, Gross Fixed Capital Formation can be reconciled with the data in Budget Paper 5 on the State Capital Program.
2. Under present Loan Council Uniform Presentation Framework arrangements, budget and forward estimate data are not required for Public Financial Enterprises (PFEs), due to the difficulties in preparing robust projections of activity. No capital expenditure is assumed for this sector in the Budget year.
3. As no budget data are collected for PFEs, the forecast net worth in the 1999-2000 Budget figures assumes that PFE net worth (equity investment for which is held by the State, and recorded in the General Government Sector) remains constant. The 1999-2000 Estimated Actual is derived from March year-to-date.

GFCF in the General Government sector has increased due to stronger investment by the Departments of Main Roads, Natural Resources and Transport. In the PTE sector, the decrease in GFCF is principally due to a decrease in the QESI and ports capital purchases, as well as the transfer of assets from the South East Queensland Water Board to the South East Queensland Water Corporation Ltd.

Total State net worth is estimated to be $57.342 billion at 30 June 2000, a decrease of $347 million from 30 June 1999, reflecting changed accounting methods rather than underlying factors. A major writedown in the recorded value of the infrastructure assets of State Water Projects, as a result of applying the principles set down in the new Accounting Standard AAS 38, reduced net worth by $1.837 billion.

After adjusting for this factor, Total State Net Worth would have grown by $1.490 billion. This underlying growth in net worth is due to the net operating surplus (reflecting the general sustainability of resource usage within the State in the medium-term), and a number of asset and liability revaluations and other changes not recorded within the GFS Net Operating Result.

Net financial assets (including equity held in public enterprise subsidiaries) in the General Government sector are estimated to reach $15.731 billion, as at 30 June 2000, compared with $15.128 billion a year earlier.

- Liabilities increased by $62 million to $16.393 billion, principally due to borrowings undertaken by the Department of Main Roads to fund road infrastructure.

- Financial assets in 1999-2000 increased by $665 million to $32.124 billion, mainly due to increases in equity investments and other non-equity assets.

After excluding the value of equity investments of public enterprises, financial assets in the General Government sector are still more than sufficient to meet all the liabilities of the sector. Accordingly, the financial position of the State remains very strong, with sufficient financial assets available to meet liabilities as they fall due, in accordance with the requirements of the Government's Charter of Social and Fiscal Responsibility.

2000-01 Budget Projections

State net worth is projected to increase from $57.342 billion at 30 June 2000 to $57.776 billion at 30 June 2001 (see Table 2.4). This increase is due to a range of factors including anticipated revaluations, net gains from asset sales, net additions to stock and the budgeted net operating result.

The budgeted decrease in General Government GFCF in 2000-01 reflects in part the impact of several capital bring forwards in 1999-2000, including by the Departments of Main Roads, Transport and Education.

The change in GFCF for the PTE sector for 2000-01 reflects budgeted increases in asset purchases by ports and the QESI being offset by the proceeds from the anticipated long term lease of the Dalrymple Bay Coal Terminal. On an underlying basis, GFCF will increase by some 10.8% in 2000-01.

2000-01 Capital Program

The State's capital program, in aggregate, comprises Property, Plant and Equipment Outlays, Other Capital Expenditure and Capital Grants for specified entities. Specified entities include all Government Departments and Statutory Authorities[2], but exclude Public Financial Enterprises.

The State's capital program for 2000-01 is budgeted to be $5.285 billion. As in previous years, a capital contingency reserve to allow for slippage in projects due to inclement weather, planning and contractual delays, etc., has been included at the whole-of-Government level.

The 2000-01 capital program maintains the current historically high capital works budgets for Queensland, both in nominal and real per capita terms. In 2000-01, Total State Gross Fixed Capital Formation on a GFS basis is budgeted to be $3.805 billion, maintaining the relatively high levels of recent years.

[2] Only Statutory Authorities with capital outlays in excess of $250,000 per annum are included.

More information on State's net worth, assets and liabilities is at Chapter 4, and more detail on the capital program is at Chapter 6 and in Budget Paper 5.

CASH FLOW

1999-2000 Outcome

Table 2.5 summarises the State's cash position, on a GFS basis, for 1999-2000 and projections for 2000-01.

Table 2.5
1999-2000 Cash Position and 2000-01 Budget Projections
(GFS Basis)

	Actual 1998-99 $ million	Budget 1999-2000 $ million	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million
General Government Sector:				
Receipts	16,754	16,731	17,241	17,780
Less Current Outlays	14,038	14,756	15,859	15,226
Less Capital Outlays	2,051	2,325	2,464	2,224
Add back superannuation transfer	-	-	1,100	-
General Government Underlying Cash Surplus/(Deficit)[1]	**665**	**(350)**	**18**	**330**
Public Trading Enterprise Sector Cash Surplus/(Deficit)	(1,610)	(885)	(561)	(526)
Public Financial Enterprise Sector Cash Surplus/(Deficit)[2]	22	n.a.	47	n.a.
Total State Underlying Cash Surplus/(Deficit)[1,2]	**(923)**	**(1,235)**	**(495)**	**(197)**

Note:

1. The underlying Estimated Actual 1999-2000 result excludes the $1.1 Billion transfer of funds set aside for employee entitlements to the State Superannuation Scheme Members' Trust Fund. As the transfer resulted in the extinguishment of the State's related liability to pay those funds to members upon retirement, the transaction was neutral in its impact on the State's Balance Sheet and underlying operating position.
2. Under Loan Council Uniform Presentation Framework arrangements, data is not required for Public Financial Enterprises in early reporting Budgets, due in part to the difficulties in preparing robust projections of activity for these entities. 1999-2000 Budget comparatives in this table assume a balanced PFE Budget.

On a GFS basis, the General Government Sector is estimated to achieve an underlying cash surplus in 1999-2000 of $18 million (after adjustment for the impact of the abnormal $1.1 billion transfer of financial assets from the Government's future liability account to member employees trust fund[3]). This compares with the budgeted cash deficit of $350 million. The improved underlying GFS outcome can be attributed to increased cash flows from financial and equity investments and an increase in net cash outflows from investment in non-financial assets. The latter reflects increased capital purchases by the Departments of Main Roads and Transport during 1999-2000.

[3] The $1.1 billion transfer of funds set aside for employee entitlements to the State Public Sector Superannuation Scheme Members' Trust Fund in 1999-2000 was effected to improve efficiency in that fund of cashflows and overall cost of member benefits. As the transfer resulted in the extinguishment of the State's related liability to pay those funds to members upon retirement, the transaction was neutral in its impact on the State's Balance Sheet and operating position.

2000-01 Budget Projections

On a GFS basis, a cash surplus of $330 million is expected in 2000-01 for the General Government sector. This compares with the estimated 1999-2000 underlying result of $18 million surplus (after excluding the impact of $1.1 billion superannuation transfer).

The improvement in the cash position largely reflects the improvement in the operating cash position and the receipt of enhanced investment returns.

Increased cash receipts ($539 million) from operating activities are forecast for 2000-01. In particular, grants and subsidies receipts are expected to increase by $1.776 billion, reflecting the introduction of GST payments from the Commonwealth. This increase is partially offset by a decrease in taxation receipts ($798 million), resulting from the reduced State's taxation base and the cessation of the Section 90 safety net payment arrangements following the introduction of the GST. Other receipts are expected to decrease in 2000-01 by $373 million, reflecting in part, the receipt of interest on the Government's superannuation and Consolidated Fund investments.

Cash payments from operating activities are forecast to increase by $467 million in 2000-01 after adjustment for the one-off transfer of superannuation in 1999-2000, primarily due to estimated growth in wages and expenditure on other goods and services, and an increase in other payments largely reflecting the introduction of the First Home Owner Grant scheme.

Budget cash payments to General Government related to the proposed long term lease of the Dalrymple Bay coal Terminal and Ports recapitalisation have been treated as cashflows from investments in financial assets for policy purposes (commonly referred to as advances), and have been excluded from the GFS cash surplus result in the General Government sector.

More information on the GFS cash position is provided in Chapter 5.

FORWARD ESTIMATES

Table 2.6 provides a summary of the State's Forward Estimates on a GFS basis.
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Table 2.6
2000-01 Operating Budget Forward Estimates
(GFS Basis)

	Projection 2001-2002 $ million	Projection 2002-2003 $ million	Projection 2003-2004 $ million
General Government Sector:			
Revenue	18,489	19,091	19,755
Expense	18,456	19,021	19,664
General Government Net Operating Result	**34**	**70**	**91**
Public Trading Enterprise Sector Net Operating Result	22	56	47
Public Financial Enterprise Net Operating Result[1]	n.a.	n.a.	n.a.
Total State Net Operating Result[1]	**55**	**127**	**138**

Note:
1. Under present Loan Council Uniform Presentation Framework arrangements, budget and forward estimate data is not required for Public Financial Enterprises due to the difficulties in preparing robust projections of activity. Forward projections assume a balanced PFE result.

Revenue is expected to grow at a moderate rate over the forward estimates period, reflecting higher Commonwealth payments in the form of GST revenues and steady growth in State taxes, offset by a reduction in returns from Public Trading Enterprises. Interest revenue is likely to grow at a more moderate rate over the forward estimates period as investment returns, which have been at high levels in recent years, return to the longer term trend.

Expenses are forecast to grow at a moderate rate over the forward estimates period, with employee entitlements forecast to grow in line with enterprise bargaining outcomes and anticipated normal growth in employee numbers to service a growing State. Depreciation costs are projected to increase as the new infrastructure generated by successive record capital works spending comes on line.

3. OPERATING STATEMENT

KEY POINTS

- *The 2000-01 budgeted position for the General Government Sector is an operating surplus of $29 million in GFS terms, compared with an estimated actual operating result of $40 million for 1999-2000.*

- *Total General Government revenue is expected to increase by $773 million (or 4.4%) to $18.180 billion in 2000-01, reflecting growth in Commonwealth grant revenues, offset in part by expected falls in investment earnings and taxation revenue.*

- *Total General Government expenses are budgeted to increase by $785 million (or 4.5%) to $18.152 billion in 2000-01 reflecting increases in employee entitlements, supplies and services and current transfers.*

- *The General Government Sector is budgeted to achieve increased operating surpluses for the outyears.*

INTRODUCTION

This Chapter provides an overview of the Government Finance Statistics (GFS) Operating Statement for the General Government Sector.

The GFS Operating Statement is prepared on an accrual basis. The main differences between the GFS presentation and the presentation under accounting standards are that GFS excludes revaluations of assets, gains and losses on sales of assets, and bad and doubtful debts expense.

A reconciliation of the variations between the two presentations is included in Appendix D which also includes a glossary of the terms used in the Operating Statement.

In essence, the GFS Operating Statement is an aggregation of all the revenues of the General Government Sector and of all the recurrent costs of delivering services to the people of Queensland. The GFS Operating Statement shows the allocation of resources into a number of broad categories and provides a high level indicator of whether or not the Government is living within its means.

In keeping with its commitment under the Charter of Social and Fiscal Responsibility to ensure sustainable levels of service provision, the Government has budgeted for an operating surplus of $29 million. However, budgeting for an operating surplus is not an end in itself. It is a way of enabling the Government to ensure the sustainability of service delivery within the context of its key policy priorities, as outlined in Chapter 1.

The budgeted GFS Operating Statement for 2000-01 forecasts revenues of $18.180 billion and provides for $18.152 billion to be spent on services for Queenslanders.

The Operating Statement is a financial record of expenses by broad expense categories. As such, it does not show specific initiatives or services relating to the Government's priorities. Nevertheless, these expenditures are embedded in the Statement. For example:

- the depreciation expense of $1.461 billion includes funds to replace old school buildings used to educate the workforce of the future who will need to maintain and increase Queensland's technological edge (linking to the “Smart State” initiatives aimed at attracting investors);

- included in the gross operating expenses of $12.550 billion is the wages and salaries of the police, emergency, social services and health professionals who help to provide safe and more supportive communities, foster a better quality of life, and the environment; and

- among current and capital transfers are subsidies to provide more jobs for Queenslanders, and grants to assist the economic development of the regions. Transfers also include grants to local councils, private schools and hospitals and various other non-government organisations which play a vital role in delivering services to Queenslanders.

Budget Paper 4 and Ministerial Portfolio Statements provide details on outlays for each portfolio.

SUMMARY OF RESULTS

1999-2000 ESTIMATED OPERATING RESULT

The Estimated Actual General Government net operating result on a GFS basis for 1999-2000 is a $40 million surplus, compared with a budgeted operating surplus of $21 million.

The 1999-2000 estimated actual result was influenced by:

- significantly stronger than expected investment returns by Queensland Investment Corporation (QIC)[1], with an earnings rate of approximately 14% achieved for the year; and

- the impact of a one-off capital transfer of $363 million, reflecting the Australian Bureau of Statistics' advice on the treatment of the transfer of the equity of the former South East Queensland Water Board to the new joint venture with local government (South East Queensland Water Corporation).[2]

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[1] Queensland Investment Corporation holds significant financial assets on behalf of the General Government sector. These include those assets set aside to provide for employee entitlements and other known future liabilities, as well as the funds set aside to ensure the ongoing revenue stream lost through the Suncorp-Metway merger (dividends and tax equivalent payments) is replaced.

[2] See Chapter 2 for further explanation of this transaction.

Table 3.1
General Government GFS Net Operating Result 1999-2000

	Actual 1998-99 $ million	Budgeted 1999-2000 $ million	Est. Actual 1999-2000 $ million	Variance Actual/ Est. Actual $ million	Percent Change Actual/ Est Act
Revenue					
Taxation Revenue	4,732	4,942	4,986	254	5.4
Current Grants and Subsidies	6,256	6,303	6,356	100	1.6
Capital Grants	241	406	464	223	92.5
Sales of Goods and Services	1,757	1,754	1,708	(49)	(2.8)
Interest Income	1,373	1,132	1,721	348	25.3
Other	2,129	2,308	2,171	42	2.0
Total Revenue	**16,488**	**16,845**	**17,407**	**918**	**5.6**
Expenses					
Gross Operating Expenses					
Employee Entitlements	7,224	7,414	7,701	477	6.6
Supplies and Services	3,423	3,115	2,927	(496)	(14.5)
Depreciation	1,353	1,462	1,499	146	10.8
Current Transfers	3,110	3,322	3,553	443	14.2
Capital Transfers	438	575	829	391	89.3
Nominal Superannuation Interest	643	609	598	(45)	(7.0)
Other Interest	154	327	259	105	68.2
Total Expenses	**16,345**	**16,824**	**17,367**	**1,021**	**6.2**
Net Operating Result	**143**	**21**	**40**		

2000-01 BUDGET

As illustrated in Table 3.2, the budgeted position for the General Government Sector is for an operating surplus of $29 million in 2000-01, compared with an estimated actual operating surplus of $40 million for 1999-2000.

Table 3.2
General Government GFS Net Operating Result

	Est Actual 1999-2000 $ million	Budget 2000-01 $ million	Variance $ million	Percent Change
Revenue				
Taxation Revenue	4,986	4,190	(796)	(16.0)
Current Grants and Subsidies	6,356	8,242	1,886	29.7
Capital Grants	464	539	75	16.2
Sales of Goods and Services	1,708	1,831	123	7.2
Interest Income	1,721	1,281	(440)	(25.6)
Other	2,171	2,097	(74)	(3.4)
Total Revenue	**17,407**	**18,180**	**773**	**4.4**
Expenses				
Gross Operating Expenses				
Employee Entitlements	7,701	7,960	259	3.4
Supplies and Services	2,927	3,129	202	6.9
Depreciation	1,499	1,461	(38)	(2.5)
Current Transfers	3,553	4,178	625	17.6
Capital Transfers	829	493	(336)	(40.5)
Nominal Superannuation Interest	598	594	(4)	(0.7)
Other Interest	259	337	78	30.1
Total Expenses	**17,367**	**18,152**	**785**	**4.5**
Net Operating Result	**40**	**29**		

The Net Operating Result is consistent with the Charter of Social and Fiscal Responsibility's requirements for 2000-01. The Charter requires the Government to ensure its level of service provision is sustainable by maintaining an overall General Government operating surplus, as measured in GFS terms.

This Operating Statement incorporates a budgeted increase in General Government revenue of 4.4% in 2000-01, compared with the 1999-2000 outcome. This is largely due to:

- increased current grants and subsidies, mainly from the Commonwealth (up 29.7% to $8.242 billion); and

- increased capital grants (up 16.2% to $539 million) due to funding for Main Roads infrastructure works and Black Spot Program and GST compensation for public housing;

partially offset by:

- decreased taxation revenue (down 16.0% to $4.190 billion) largely as a result of the impact of the GST on Queensland's tax base, including the need to adjust gambling taxes for GST, the impact on conveyances due to the slowdown within the building industry and the discontinuation of section 90 revenue replacement payments (which were treated as a tax for GFS); and

- lower earnings from financial investments (down 25.6% to $1.281 billion).

These variances are discussed further in the Revenue section of this chapter and in greater detail in Chapter 2 of Budget Paper 3.

General Government expenses are budgeted to increase by $785 million (or 4.5%) to $18.152 billion in 2000-01. This is largely due to:

- increased employee entitlements, in line with recent enterprise bargaining settlements (up 3.4% to $7.960 billion);

- increased supplies and services (up 6.9% to $3.129 billion) reflecting increased service delivery costs and a range of new initiatives; and

- higher current transfers (up 17.6% to $4.178 billion) reflecting the reclassification of fuel subsidy payments from a negative tax and commencement of the First Home Owner Grant Scheme.

These higher expenses will be offset by decreased capital transfers (down 40.5% to $493 million), reflecting the one-off impact of the South East Queensland Water Board capital transfer in 1999-2000.

These variances are discussed in further detail in the Expenses section of this chapter.

OUTLOOK BEYOND 2000-01

Table 3.3 summarises the projected GFS operating results for the outyears. The General Government sector is budgeted to achieve increased operating surpluses in the outyears. The key trends in these projections are that:

- continued economic growth is expected to deliver modest improvements to State tax revenue;

- Commonwealth payments will increase in line with Queensland's Guaranteed Minimum Amount under revised Commonwealth funding arrangements. This increase in payments is designed to replace the revenue that Queensland would have obtained through State taxes and the former Commonwealth funding arrangements if national tax reform had not been implemented;

- employee entitlements increase in the outyears in line with anticipated enterprise bargaining outcomes; and

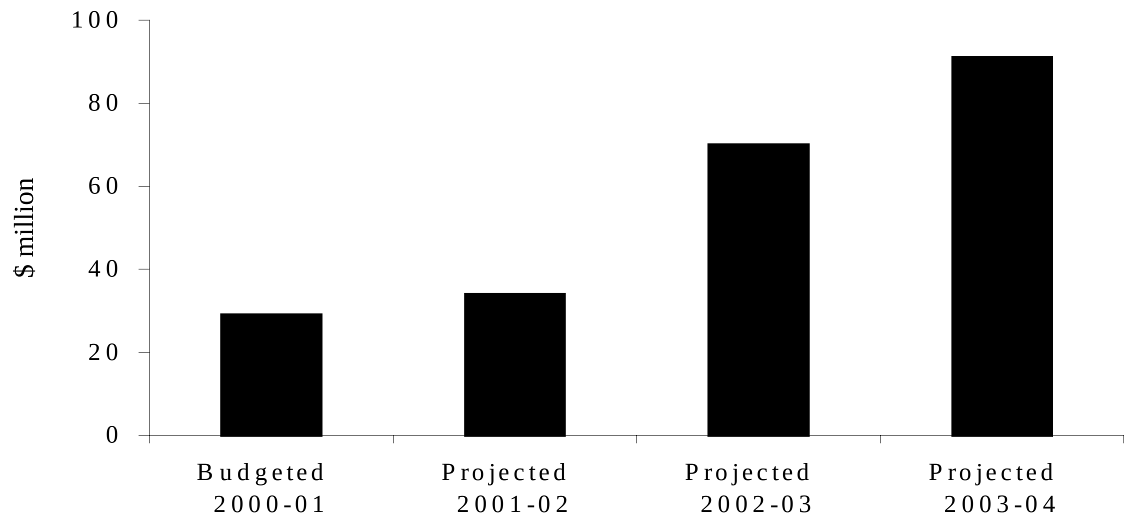
- supplies and services increase, reflecting the impact of growing demand for services to be provided to the community.

Table 3.3
General Government GFS Net Operating Result (summary)

	Budgeted 2000-01 $ million	Projected 2001-02 $ million	Projected 2002-03 $ million	Projected 2003-04 $ million
Revenue				
Taxation Revenue	4,190	4,296	4,477	4,703
Current Grants and Subsidies	8,242	8,601	8,975	9,380
Capital Grants	539	504	384	311
Sales of Goods and Services	1,831	1,832	1,937	1,842
Interest Income	1,281	1,307	1,449	1,604
Other	2,097	1,949	1,869	1,914
Total Revenue	**18,180**	**18,489**	**19,091**	**19,755**
Expenses				
Gross Operating Expenses				
Employee Entitlements	7,960	8,365	8,683	9,093
Supplies and Services	3,129	3,073	3,169	3,334
Depreciation	1,461	1,492	1,515	1,515
Current Transfers	4,178	4,114	4,233	4,222
Capital Transfers	493	404	293	245
Nominal Superannuation Interest	594	690	800	928
Other Interest	337	317	328	327
Total Expenses	**18,152**	**18,456**	**19,021**	**19,664**
Net Operating Result	**29**	**34**	**70**	**91**

Chart 3.1 shows General Government operating surpluses for the period from 2000-01 to 2003-04. It illustrates the Government's commitment to maintaining ongoing GFS operating surpluses in the General Government Sector.

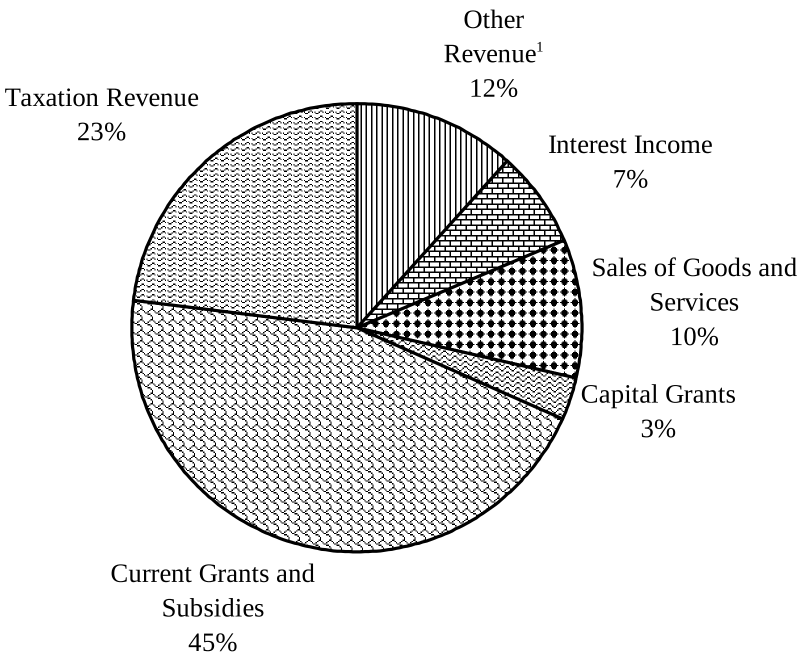
Chart 3.1
General Government Operating Surplus (GFS Basis)



REVENUE

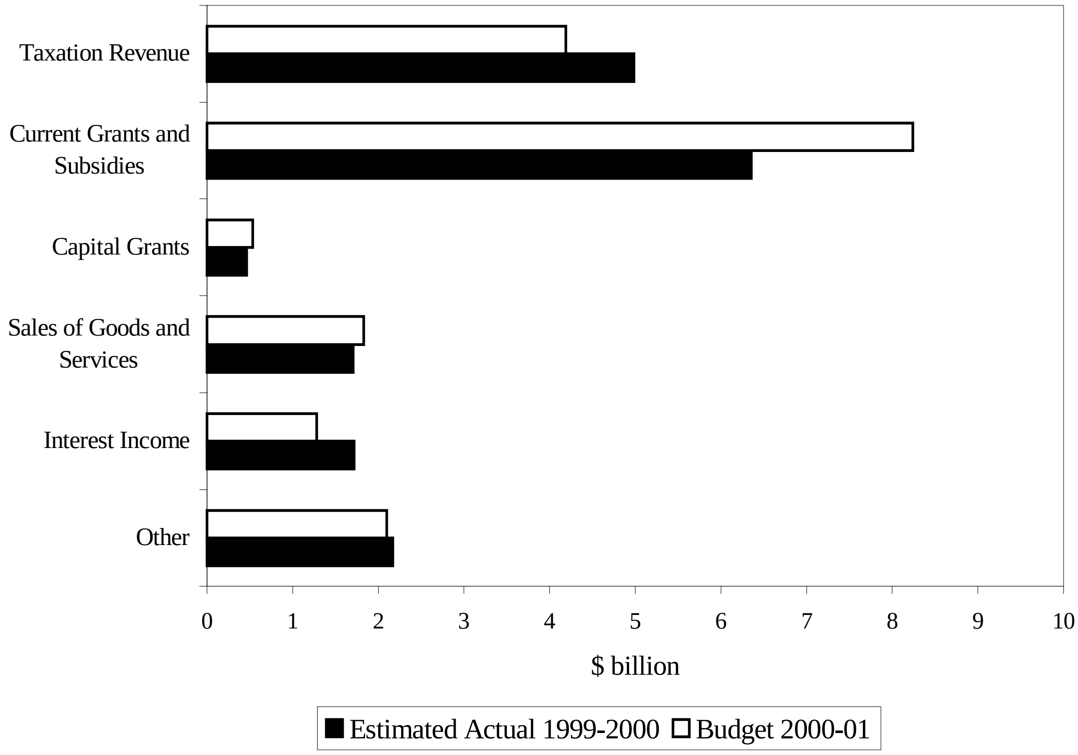
Total General Government revenue is expected to increase by 4.4% in 2000-01. Chart 3.2 details the composition of total State revenue for 2000-01 and Chart 3.3 compares the composition of General Government revenue, based on 1999-2000 estimated actuals and 2000-01 estimates. Overall growth primarily reflects increases in grants and subsidies. These gains are offset in part by expected falls in investment earnings and taxation revenue.

Chart 3.2
Revenue by Operating Statement Category 2000-01



[1] The major components of 'Other Revenue' are dividends (4.7%), tax equivalent payments from PTEs (2.7%), royalties (2.7%), and fees and fines (0.6%).

Chart 3.3
Revenue by Operating Statement Category



TAXATION

Total taxation revenue is expected to decrease by 16% in 2000-01, primarily due to reductions in gambling taxes that the State has been required to make as part of national taxation reform.

Gambling taxes are forecast to decline by approximately 23%, in order to make "tax room" for the impact of the imposition of GST. Conveyancing transactions are projected to decline during 2000-01, primarily due to the “pull-forward” effect the GST has had on the building industry and the abnormal impact of a number of large one-off transactions in 1999-2000.

The rate of payroll tax has been reduced from 5% to 4.9% from 1 July 2000 and will decrease further to 4.8% on 1 July 2001. Growth in wages and employment will nevertheless result in growth in payroll tax in 2000-01.

Following the reductions in 2000-01, State taxes are expected to return to normal levels of growth as reflected in Table 3.3.

Whilst the tax bases of all the States have narrowed following national tax reform, Queensland remains the most tax competitive of any State or Territory. On a per capita basis, Queensland's tax burden is forecast to be 27.6% lower than that of the average of the other States and Territories in 2000-01.

Different measures of Queensland’s tax competitiveness are discussed further in Budget Paper No. 3 , Chapter 2.

CURRENT GRANTS AND SUBSIDIES

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

Grants and subsidies in total are expected to increase by 29.7% in 2000-01, primarily due to the growth in Commonwealth payments, which now includes GST revenue.

Under the revised Commonwealth funding arrangements arising from national tax reform, Commonwealth payments received by the State in 2000-01 will comprise:

- general purpose (or untied) payments (including GST revenues, Budget Balancing Assistance and National Competition Policy Payments) for both recurrent and capital purposes; and

- specific purpose (or tied) payments (including grants for health, education, transport, etc.) for both recurrent and capital purposes.

The Commonwealth Financial Assistance Grants and Revenue Replacement Payments paid in prior years ceased from 1 July 2000.

Total general purpose payments in 2000-01 comprise GST revenue of $4.604 billion, Budget Balancing Assistance of $369 million and a National Competition Payment of $86.4 million.

The increase in the outyears in Table 3.3 primarily reflects the impact of the national tax reform package.

Commonwealth GST projections are based on consumption estimates, which incorporate assumed growth in the outyears. The distribution of these revenues is based on the recommendations of the Commonwealth Grants Commission in accordance with the application of horizontal fiscal equalisation principles.

SALES OF GOODS AND SERVICES

Sales of goods and services represent revenue earned where the seller is seeking to recover the cost of goods supplied or services rendered where there is a direct benefit to the user.

Revenue from this source is expected to increase by 7.2% in 2000-01, the combined effect of growth in both volume and fees charged for services.

Significant growth will result from the implementation of the State Penalties Enforcement Registry designed to streamline the enforcement and payment of outstanding warrants, penalties and fines ($10 million), as well as increased hospital fees, due to a combination of CPI rises and increased service provision.

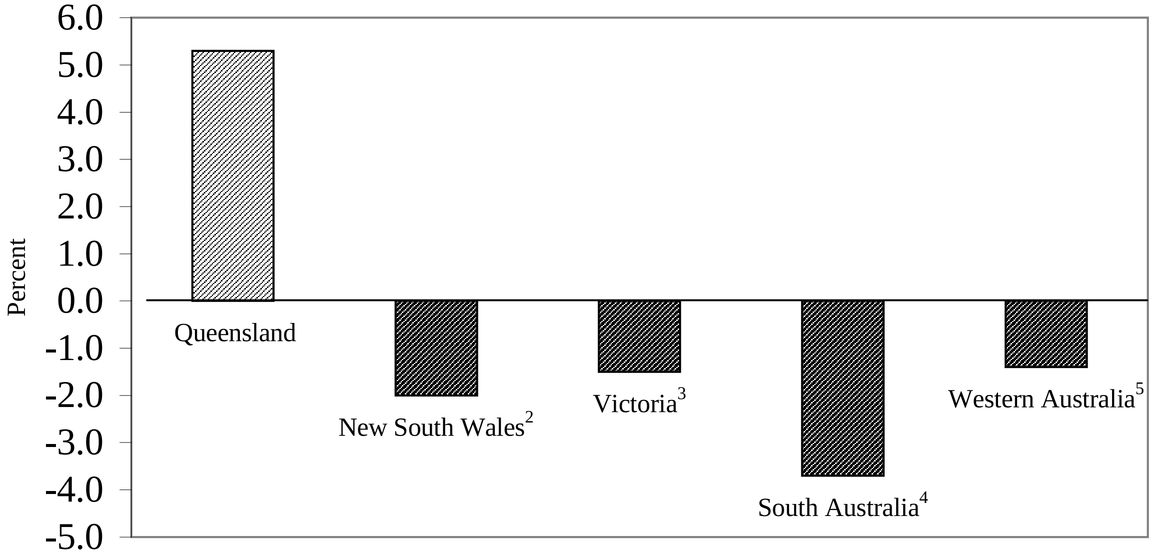
INTEREST INCOME

Investment earnings performed strongly in 1999-2000. The investment portfolio’s performance is attributable mainly to higher than forecast returns in Australian equities and positive international returns, partly due to the fall of the Australian dollar.

These strong returns are not expected to continue. In accordance with normal practice, projections for 2000-01 and the outyears incorporate assumed rates of return in accordance with the long term trend.

Net interest payments are a common feature of other State Government Budgets. Chart 3.4 illustrates that New South Wales, Victoria, South Australia and Western Australia incur net interest payments which reduce the funds available for expenditure.

Chart 3.4
Excess of Interest Income over Budgeted Borrowing Costs as a percentage of Total General Government Revenue - 2000-01 ($ million[1])



1. Data excludes nominal superannuation expense.
2. NSW Budget Statement 2000-01, Budget Paper No 2 2000-01 Budget Statement, Chapter 9: GFS and Uniform Reporting Framework, Table 9.2, p 9-12, Table 9.5, p 9-15.
3. Victorian Budget Papers, Budget Paper No 2, Appendix C – Accrual Uniform Presentation of GFS, Table C1, p309, Table C4, p312
4. South Australian Budget Papers, Uniform Financial Information (Presented at time of Budget), SA 2000-2001, 6. Uniform Presentation Framework Tables, Table 1, p6, Table 4, p9.
5. Western Australia, A Budget Paper No 3 – Economic and Fiscal Outlook, Chapter 2: Budget Strategy & Financial Positions, Table 1, p2, Table 2, p6.

Conversely, Queensland receives net investment income from financial assets allowing the State to plan for lower primary operating balances (ie. operating balances excluding net interest) and achieve an overall operating surplus. The result is increased revenue available for service delivery.

OTHER INCOME

Other income comprises dividends, tax equivalent payments and royalties, property income (land rents and royalties), fines, donations and other sundry revenues.

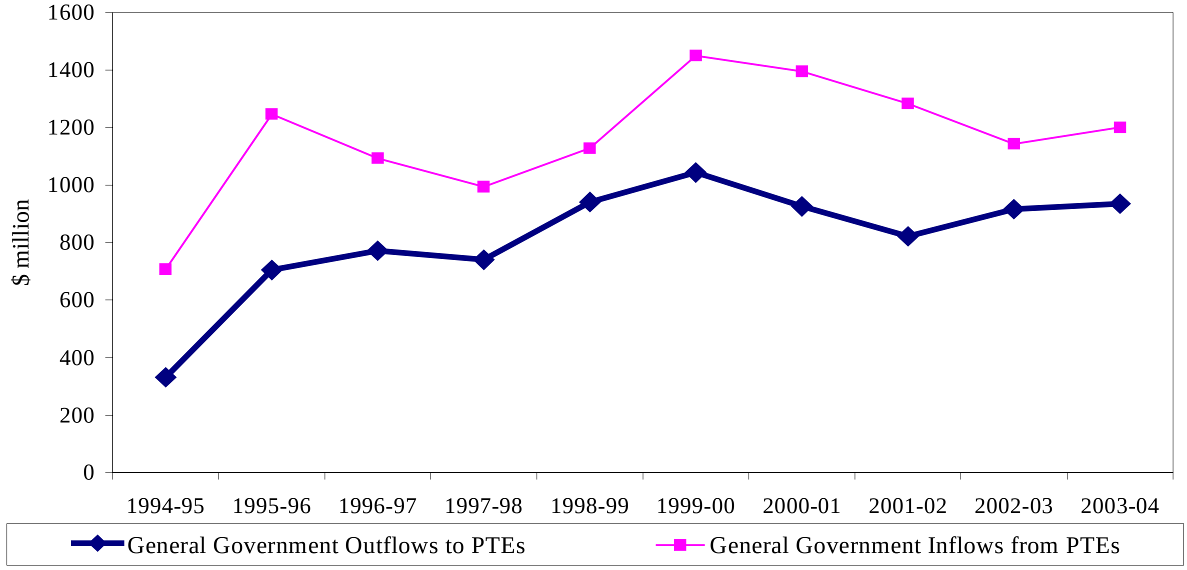
Other income is expected to fall slightly by 3.4% in 2000-01. This fall is principally due to the inclusion of abnormal dividends in 1999-2000 (special dividends from Queensland Treasury Corporation and from the sale of the TAB) which will not occur in 2000-01.

Dividends are projected to decline in the outyears due to reduced net operating results for Public Trading Enterprises. Forecasts for operating results are restrained due to greater competitive pressures affecting the Queensland Electricity Supply Industry (QESI) and a decline in Community Service Obligation payments from departments. Queensland Rail, however, has estimated an improved performance as a result of improved sales of goods and services.

This reduction in revenue is balanced by a reduction in Government subsidies, in effect keeping the relationship between revenues and expenses approximately the same (although there is some narrowing in the outyears).

Chart 3.5 illustrates that the General Government sector is forecasting to receive a moderately smaller net return above the subsidies paid to the Public Trading Enterprises and Public Financial Enterprises sectors over the forward years.

Chart 3.5
Net Revenues from Public Enterprises



The total payments budgeted for these sectors in absolute terms in 2000-01 is $926 million, whilst the total revenue from dividends, tax equivalents, and competitive neutrality fees is expected to be in the order of $1.395 billion. As a percentage of total General Government revenue, the CSO subsidy in 2000-01 is budgeted to be 5.1%.

The dividend payout ratio set by government for its public enterprises does not impact adversely on the capacity and requirement of these entities to carry out necessary maintenance and repairs and asset replacement (via provision for depreciation). Dividends are calculated on the basis of net profits (after tax) after providing for such costs.

Royalty revenues are forecast to increase in 2000-01 due to anticipated increases in production levels and the impact of the lower Australian dollar exchange rate. Royalties are projected to resume normal growth in the outyears in line with production.

Tax equivalent payments are expected to increase in 2000-01, largely due to projected increased income tax equivalent provisions from the QESI. After the initial growth in 2000-01, tax equivalent payments are forecast to decline in the outyears, due to the impact of some of the recent company tax changes made by the Commonwealth (which are mirrored by the tax equivalents regime under Commonwealth-State agreements).

More details on revenue items are included in Chapter 2 of Budget Paper 3.

EXPENSES

The Government provides a diverse range of services to the community including direct services, such as health care, policing and education, and indirect services, such as the framework of health and safety regulations, vehicle licensing and infrastructure planning and development.

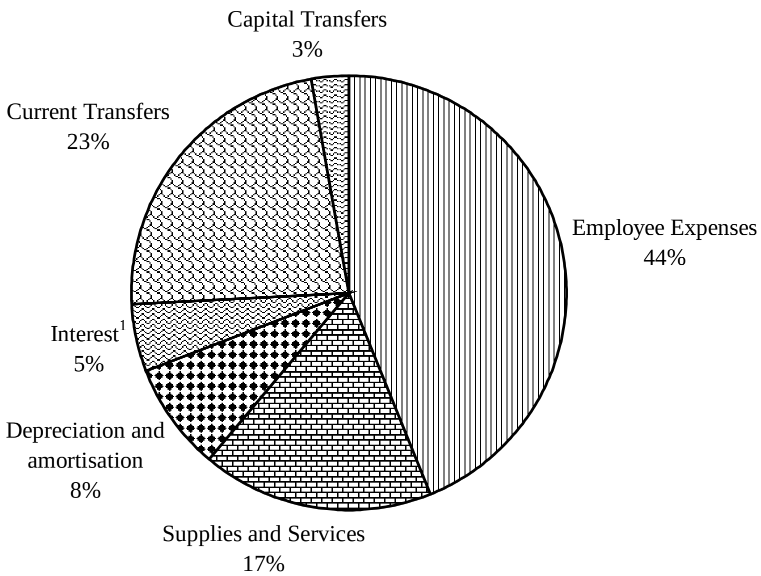
Under the accrual output budgeting framework, the Government specifies the services to be delivered by agencies and evaluates whether those services are contributing to its priorities. Identifying and costing services allows the Government to better target services and reallocate resources within and among agencies to meet these priorities.

The General Government Operating Statement provides for $18.152 billion to be expended on services for Queenslanders in 2000-01. The composition of these expenses in the Operating Statement is discussed in detail in the remainder of this Chapter.

EXPENSES BY OPERATING STATEMENT CATEGORY

This section analyses significant variances in expenses in the General Government Operating Statement in 2000-01 compared with 1999-2000 estimated actual expenses, and the trends in expenses over the forward estimate years. Chart 3.6 illustrates the composition of expenses.

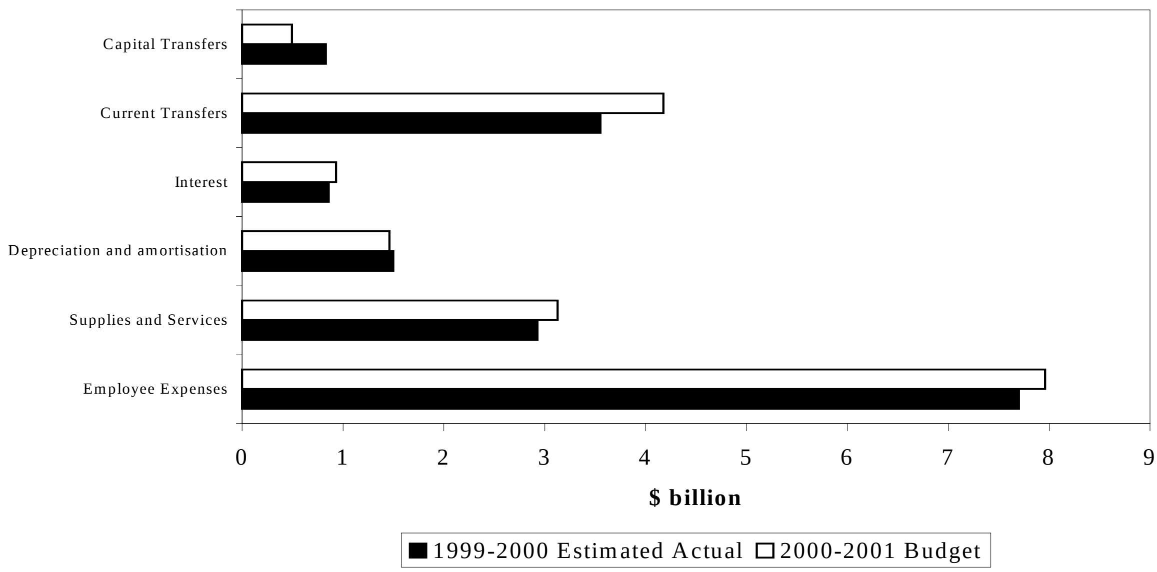
Chart 3.6
Expenses by Operating Statement Category for 2000-01 (GFS Basis)



[1] includes Nominal Superannuation Interest Expense

Chart 3.7 compares the 1999-2000 estimated actual expenses for each operating statement category with the 2000-01 Budget. The explanations for the major variances are discussed in the following sections.

Chart 3.7
Expenses by Operating Statement Category for 1999-2000 and 2000-01 (GFS Basis)



Note: Interest includes Nominal Superannuation Interest Expense

TOTAL GROSS OPERATING EXPENSES

Total gross operating expenses comprise employee entitlements (including superannuation), supplies and services and depreciation. Table 3.2 shows the components of Total Gross Operating Expenses over the forward estimate years.

EMPLOYEE ENTITLEMENTS

Employee entitlements include salaries and wages, annual leave, long service leave and superannuation contributions and payments.

The increase over the forward estimate years is generally a result of anticipated growth in employee costs due to the provision of additional services to the community and to enterprise bargaining costs.

Superannuation expense represents the employer's contribution to the superannuation of government employees in the General Government Sector.

SUPPLIES AND SERVICES

Supplies and services comprise the non-labour costs of providing services to Queenslanders, such as repairs and maintenance, consultancies, contractors, equipment, communications and marketing. The moderate increases in the forward years reflects projected increases in service delivery costs and a range of new initiatives.

Budget Paper 4 and Ministerial Portfolio Statements provide details on new and existing services for each portfolio.

DEPRECIATION

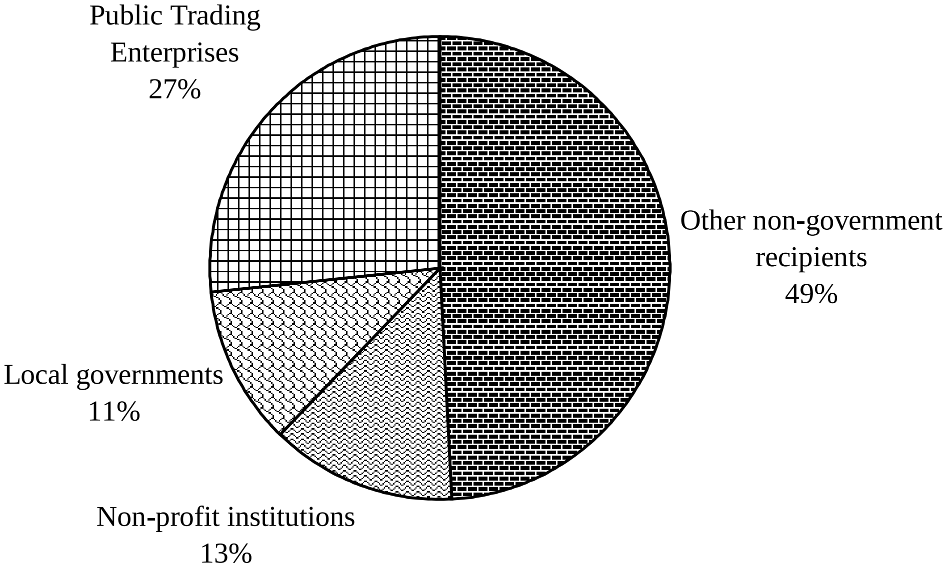
The budgeted depreciation expense is an estimate of the progressive consumption of the State's assets through normal usage, wear, tear and obsolescence. Queensland's depreciation expense as a percentage of fixed assets is generally higher than that of other States, reflecting a more realistic provision for asset replacement over time.

Chapter 7 provides further analysis of this issue.

CURRENT TRANSFERS

Current transfers include grants to the community, including to schools, hospitals and benevolent institutions, local governments, personal benefit payments and Commonwealth taxes including fringe benefits tax. Chart 3.8 indicates the composition of current grants by recipient.

Chart 3.8
Current Transfers 2000-01 Recipients



In 2000-01 and the forward years, current transfers includes the First Home Owner Grant Scheme for which the Commonwealth has provided through GST revenues. Fuel subsidy payments are now treated as current transfers following the discontinuation of the safety net payments for fuel. In previous years, these payments were treated as a negative adjustment to taxation revenue pursuant to advice from the Australian Bureau of Statistics. These two schemes substantially account for the increase in current transfers.

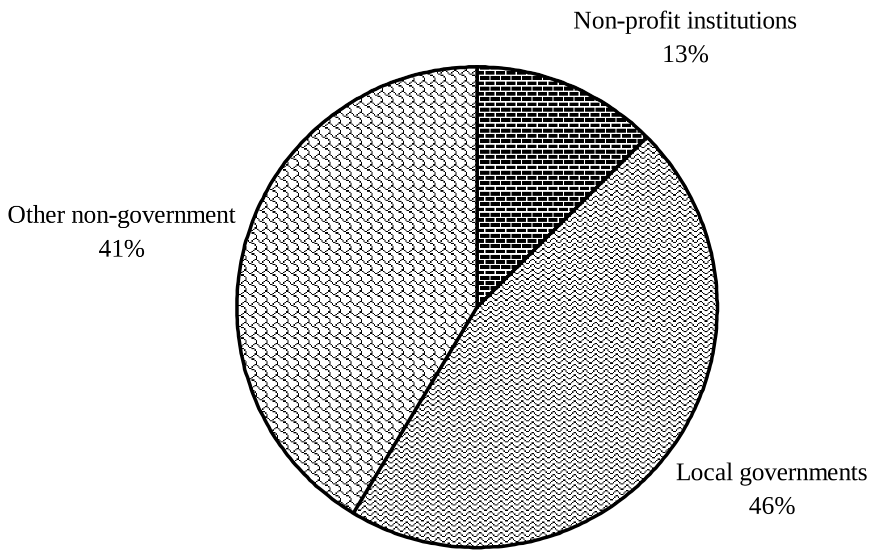
CSO payments to the PTE Sector are also included in current transfers. The CSO payment to the Department of Mines and Energy for electricity distribution corporations to support the uniform franchise price is budgeted to fall based on forecast pool prices retailers can expect to pay for electricity and the impact of the recent CPI increase on the uniform tariff.

CAPITAL TRANSFERS

Capital transfers represent grants by the Government for capital works to local governments, non-profit institutions and other non-government entities, such as businesses.

Chart 3.9 provides a breakdown of capital transfers by recipient. The major recipient of capital transfers by the Government are local governments (46%), with Queensland businesses also receiving a significant share (41%).

Chart 3.9
Capital Transfers 2000-01 Recipients



The 1999-2000 Estimated Actual capital transfers includes $363 million for the transfer of equity in the former South East Queensland Water Board to the new local government joint venture, the South East Queensland Water Corporation.

Excluding that transaction, there is a 5.8% increase in capital transfers for 2000-01 over the 1999-2000 Estimated Actual. This mainly results from new projects including Magnetic Island Public Infrastructure and Australia TradeCoast Waste as well as increases to existing projects.

INTEREST

This expense includes interest paid by agencies, principally to the Queensland Treasury Corporation, on borrowings to acquire capital assets and infrastructure such as roads and government buildings. It also includes nominal superannuation interest expense, representing that component of the increase in the Government's liability to its employees that is related to earnings on fund balances flowing from past service.

Nominal superannuation interest expense is higher in 2001-02 and forward years, relative to the 2000-01 amount due to:

- actuarial estimates of the liabilities;
- recent enterprise bargaining agreements;
- increases in average earnings levels; and
- increases in the number of public sector employees.

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

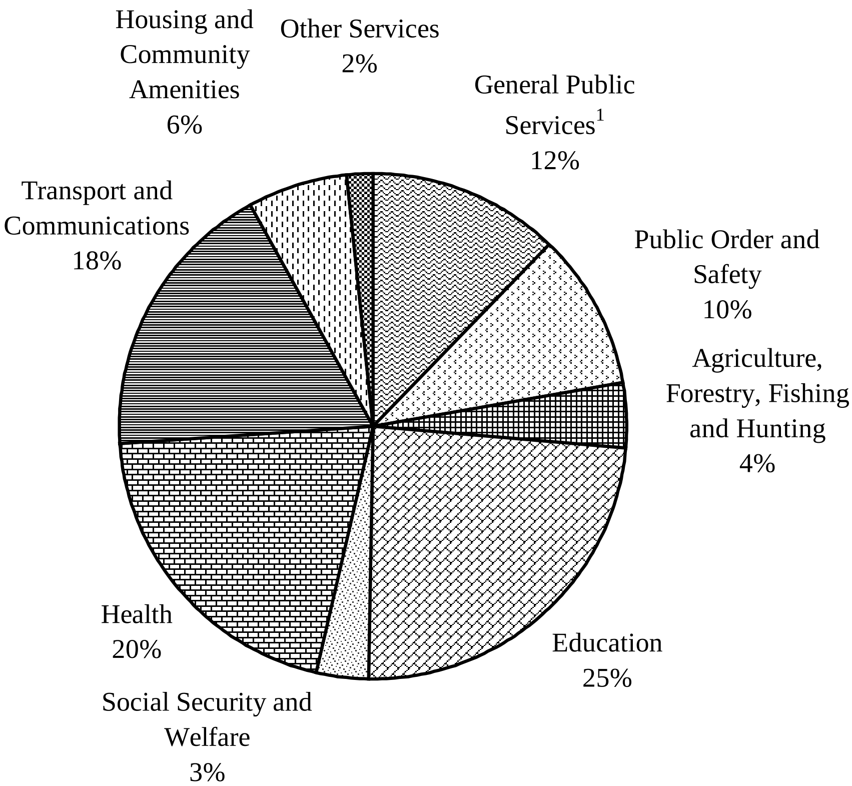
OTHER EXPENSES

Other expenses include land rental and royalty expenses. It is anticipated that the General Government Sector will incur less than $1 million per annum of other expenses.

OPERATING EXPENSES BY PURPOSE

Chart 3.10 indicates the proportion of expenditure by major purpose classification for the 2000-01 Budget. Education accounts for the largest share of expenses (25%), followed by Health (20%).

Chart 3.10
General Government Expenses By Purpose – 2000-01 (GFS Basis)



[1] includes Government Superannuation Benefits

4. STATEMENT OF FINANCIAL POSITION

KEY POINTS

- *The Queensland Government's strong financial position is expected to be enhanced in 2000-01. State net worth is projected to rise by $434 million through the year to $57.776 billion.*
- *Net worth is forecast to increase each year over the forward estimates period, meeting the Government's commitment to maintain and seek to increase total State net worth.*
- *The State is well placed to meet all its present, accruing and future liabilities. Financial assets are projected to exceed liabilities by $15.139 billion in the General Government sector as at 30 June 2001, in accordance with the requirements of the Government's Charter of Social and Fiscal Responsibility.*

INTRODUCTION

The budgeted Statement of Financial Position, or Balance Sheet, shows the projected assets, liabilities and equity of the General Government Sector as at 30 June 2001. It is important for the Queensland Government to maintain a strong and growing balance sheet which provides stability, flexibility and the capacity to cope with financial and economic exigencies.

The assets and liabilities in the balance sheet presented here are defined according to the Government Finance Statistics (GFS) standard of the Australian Bureau of Statistics. In the Charter of Social and Fiscal Responsibility, the Government made certain commitments in terms of the State's net worth and its ability to meet emerging liabilities. The continued achievement of these commitments is discussed in this chapter.

FINANCIAL REPORTING MEASURES

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 or deficits that increase or decrease the Government's equity. Queensland has a long history of reinvesting operating surpluses in productive assets or capital projects used to provide additional or improved public services;
- revaluation of assets as required under accounting standards;
- revaluation of liabilities. Some financial liabilities are revalued on a regular basis. For example the Government's accruing liabilities for employee superannuation, long service leave and Workcover, which are determined by actuarial assessments; and

- gains or losses on disposal of assets. To maintain their operating capability at the most economical and efficient level, Government agencies routinely buy and sell assets. Where the selling price of an asset is greater or less than its carrying value in an agency's accounts, the resultant profit or loss affects net worth.

An important emerging issue affecting net worth is the valuation of non-current assets. Current Government policy requires such assets (eg. property, plant and equipment) which would be replaced in event of their loss, to be valued at deprival value. Deprival value is generally the current replacement or reproduction cost of the asset, adjusted to reflect its remaining economic life.

The deprival value methodology was adopted to enable the State to maintain its capacity to deliver the required level of goods and services. It ensures that the depreciation charge (which is a non-cash expense and forms part of the Government's payments to agencies for outputs), is based on the current values of agencies' assets. This policy ensures that sufficient funds are set aside to replace assets.

The revised Australian Accounting Standard AAS 10 and the new Australian Accounting Standard AAS 38, which came into effect on 1 July 2000, will have an impact on the State's net worth. These new standards require Commercial Business Units (CBUs) and Government Owned Corporations (GOCs) to value their non-current assets at either 'cost' or 'fair value' from 1 July 2000.

Because the fair value concept is not so readily applied to social infrastructure assets of the types held by Government departments, these entities have a two-year transition period before the adoption of 'cost' or 'fair value' valuation methodology becomes mandatory. At this stage, there is insufficient information to quantify with any degree of certainty the likely impact on State net worth of a general application of these standards.

Any change in reported net worth arising from revaluations under the new and revised standards will not result in a reduction in available resources or a diminished service delivery capacity – it will only be a technical adjustment to the carrying value of these assets on the Balance Sheet.

NET FINANCIAL ASSETS

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

The largest single accruing liability in the General Government Sector is for employee entitlements (principally superannuation and long service leave) which, at 30 June 2001, is projected to total $10.448 billion. Other liabilities include borrowings and advances received.

The net financial assets measure is broader than the alternative measure, net debt, which measures only cash, advances and investments on the assets side and borrowings and advances on the liabilities side. Because of its comprehensive nature, the net financial assets measure is more appropriate for an accrual accounting framework.

The net financial assets of the General Government Sector reflect the cumulative impact of sound fiscal policies and mean the State is fully capable of meeting all its current and recognised future obligations, without recourse to adjustments in fiscal policy settings.

GENERAL GOVERNMENT SECTOR

NET WORTH

The Charter of Social and Fiscal Responsibility specifically requires that the Government maintain and seek to increase Total State net worth. Table 4.1 shows the projected annual movements in the Government's equity (net worth) in the General Government Sector as at 30 June, for the years from 1999 through to 2004.

Table 4.1
General Government Sector: Summary of Budgeted Statement of Financial Position (GFS Basis)

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million	Projected 2001-02 $ million	Projected 2002-03 $ million	Projected 2003-04 $ million
Non-financial assets[2]	42,561	43,448	42,637	43,123	43,343	43,500
Financial assets[1]	31,459	32,124	33,286	34,763	37,607	40,413
Assets	**74,020**	**75,572**	**75,923**	**77,887**	**80,950**	**83,913**
Liabilities	**16,331**	**16,393**	**18,147**	**18,997**	**21,014**	**23,135**
Unadjusted Net Worth[2]		**59,179**				
Less SWP Revaluation		1,837				
Net Worth[2]	**57,689**	**57,342**	**57,776**	**58,890**	**59,936**	**60,778**

Notes:
1. For GFS purposes, the State's assets are classed as either financial, or non-financial, assets.
2. Net Worth and non-financial assets for 1999-2000 are shown before and after the write down in value of State Water Projects (SWP) assets. This is appropriate as the decline in net worth of $347 million occurred after the SWP assets were written down by $1.837 billion. In the absence of the SWP asset write down, which was attributable solely to a change in accounting policy, the net worth of the General Government Sector would have risen by $1.490 billion.

The AAS 38 methodology was used at 30 June 2000 for valuation of the assets of the Commercialised Business Unit, State Water Projects (SWP), as a precursor to its possible corporatisation in early 2000-01. The result (and intent) is to reflect the realistic commercial value of the assets as part of a commercially oriented entity which has a high value, long life infrastructure asset base but limited cash flows. This has resulted in a significant downwards revaluation of SWP assets with a subsequent detraction from net worth in 1999-2000 of some $1.837 billion. It is important to note that the writedown does not reflect any change in the service capacity of infrastructure assets, and in no way reflects any change in the resources available to the community.

The full equity in the State's public enterprises, principally the shareholding in Government Owned Corporations, is held by the General Government Sector under the GFS standard.

In the General Government presentation, the General Government Sector is treated in the same manner as the parent or holding company in a group of companies. The estimated net investment in Public Enterprises ($12.860 billion at 30 June 2001) is included in the General Government Sector's financial assets[1].

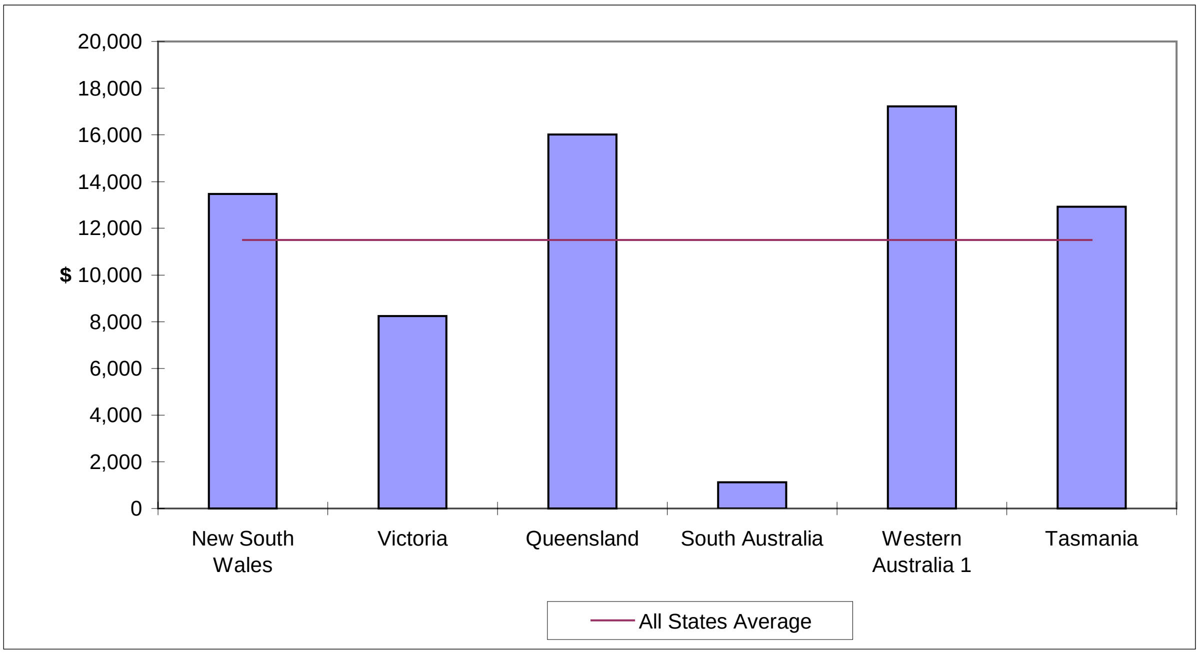
Non-financial assets are projected to total $42.637 billion at 30 June 2001. Of this, $30.987 billion represents non-current physical assets used in the provision of services, such as schools, hospitals and roads. Other non-financial assets held by the State include intangibles (mainly computer software and licences), inventories and land.

In the year ending 30 June 2001, the value of the State's non-current physical assets is expected to grow by a net amount of $1.007 billion, after allowing for the purchase and/or construction of replacement or new assets, asset revaluations, depreciation and disposals.

Of the total increase in net physical asset values, $1.834 billion is represented by net acquisitions of assets (purchases less sales) offset by a balance of $0.827 billion representing depreciation and revaluation of assets under the deprival value method.

Chart 4.1 illustrates the State's strong net worth position when compared against the other States. Queensland's net worth per capita is 40% greater than the average of all the States.

Chart 4.1
Interstate Comparison of Net Worth as at 30 June 2001
(per capita)



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

[1] Some credit rating agencies and analysts set aside the equity investment in public entities in assessing net financial assets. Their view is that as such investments are held for policy purposes and are not readily realisable, they cannot, in practice, be used to offset liabilities.

FINANCIAL ASSETS AND LIABILITIES

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

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

Table 4.2 shows financial assets available to meet the accruing and expected financial liabilities of the General Government Sector.

In the year to 30 June 2001, financial assets are projected to increase by $1.162 billion. This is attributable to a variety of factors, including increases in investments by the State related to its superannuation assets and increases in departmental cash.

Offsetting this, liabilities are budgeted to increase by $1.754 billion largely on account of employee entitlements and borrowings. The small reduction in net financial assets projected for 2000-01 reflects the Government's determination to fund the 2000-01 capital program internally as much as possible. Net financial assets are budgeted to grow steadily over the forward estimates period.

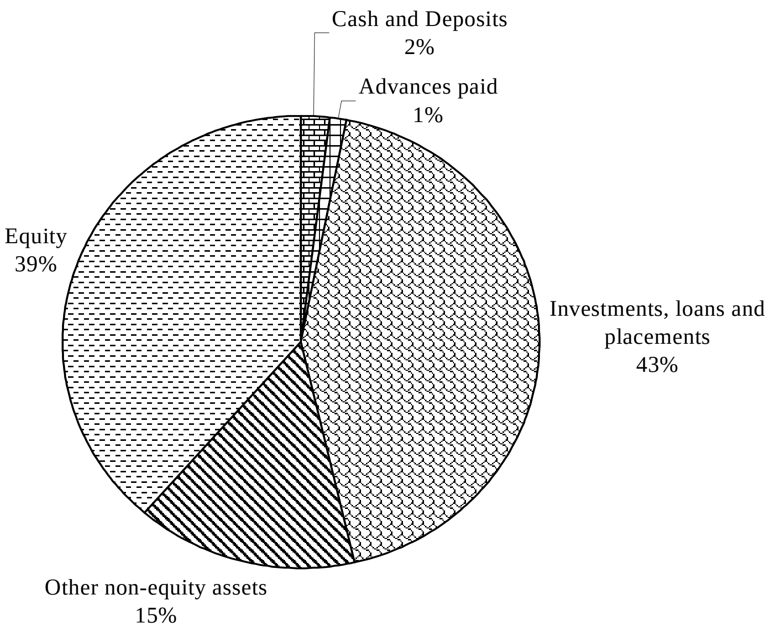
The State's net financial asset position remains extremely sound. Based on these projected figures, the General Government Sector will continue to meet the commitment in the Government's Charter to ensure that the State's financial assets cover all accruing and expected future liabilities in all the years through to 30 June 2004.

Table 4.2
General Government Sector: Summary of Budgeted Net Financial Assets

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million	Projected 2001-02 $ million	Projected 2002-03 $ million	Projected 2003-04 $ million
Equity in public enterprises	12,908	13,148	12,860	13,153	13,625	14,114
Other financial assets	18,551	18,976	20,426	21,610	23,982	26,299
Financial assets	**31,459**	**32,124**	**33,286**	**34,763**	**37,607**	**40,413**
Borrowing	2,999	3,509	3,987	4,260	4,571	4,869
Provisions	10,351	10,689	12,225	13,861	15,582	17,418
Other Liabilities	2,981	2,196	1,935	877	861	846
Liabilities	**16,331**	**16,393**	**18,147**	**18,997**	**21,014**	**23,135**
Net financial assets	**15,128**	**15,731**	**15,139**	**15,776**	**16,593**	**17,278**

Chart 4.2 illustrates the General Government Sector's financial assets by category as at 30 June 2001. Investments held to meet accruing future liabilities comprise the major part of the financial assets, with investments held for future employee entitlements totalling $11.977 billion.

Chart 4.2
Financial Assets by Category as at 30 June 2001

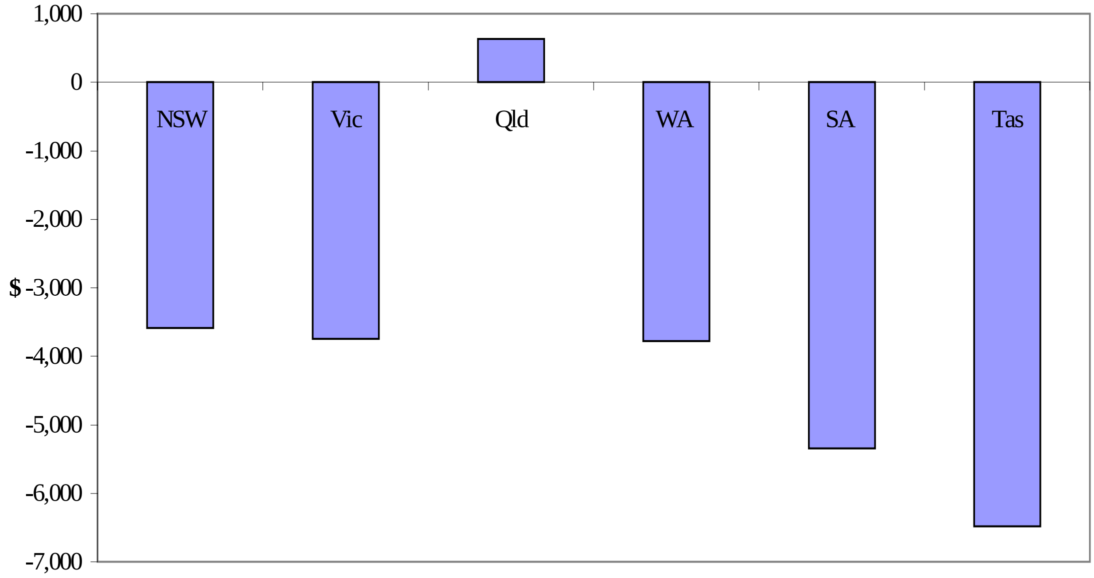


The strength of the State’s financial asset position is illustrated below in Chart 4.3.

The State’s sound financial position and strong liquidity at all times during the Budget period and outyears is evidenced by the fact that the General Government Sector (excluding investments in Public Enterprises) maintains at least $1.13 in financial assets to meet every $1.00 of liability. This compares to the average of all other States only possessing $0.25 in financial assets to meet every $1.00 of liability.

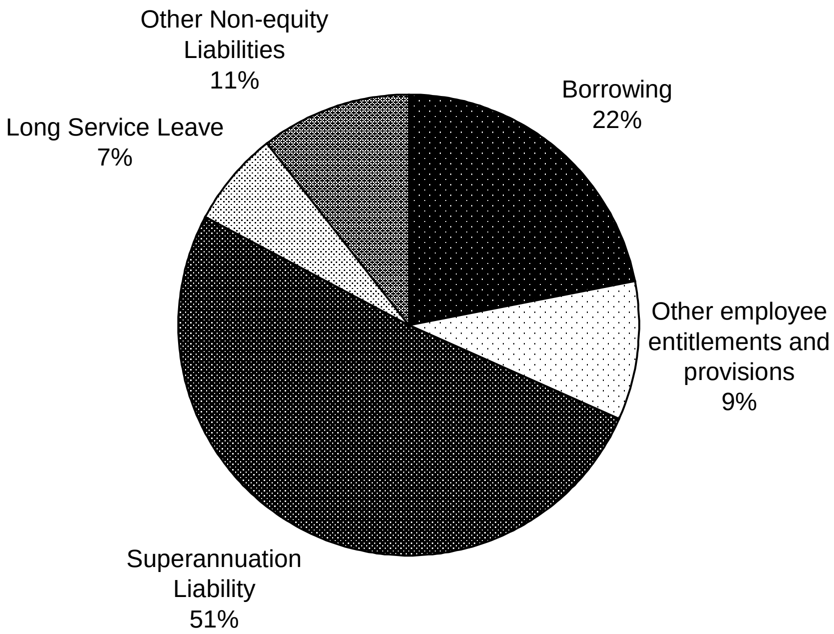
This is due to Queensland pursuing sound fiscal policies over many years, including being the only State in which all superannuation and long service leave obligations have been fully funded.

Chart 4.3
Interstate Comparison of Net Financial Assets as at 30 June 2001 – Excluding Investments in Public Enterprises
(per capita)



The composition of the General Government Sector's liabilities is illustrated in Chart 4.4. The major component of liabilities relates to the State's provisions for future employee entitlements, especially superannuation and long service leave.

Chart 4.4
General Government Liabilities by Category as at 30 June 2001



PUBLIC TRADING ENTERPRISE SECTOR

The Public Trading Enterprise (PTE) sector represents the commercial activities of the Queensland Government. It includes Government Owned Corporations (GOCs) that generate and distribute electricity, run rail passenger and freight services and manage the State's ports.

The budgeted net worth (value of the State's equity) of the PTE sector at 30 June 2001 is $11.808 billion. This is projected to rise to $13.061 billion by 30 June 2004. At 30 June 2001, the ratio of total borrowings of the PTE sector as a percentage of the sector's total borrowings plus equity is projected to be 50.0%.

GOCs are established as commercial operations, generally with extensive infrastructure assets. To operate efficiently and effectively and achieve reasonable returns for the State they must carry levels of debt commensurate with these aims. The Government's ownership ratio (ratio of equity to total assets) of this sector at 30 June 2001 is 42.0% rising to 42.8% over the forward estimates period. This is more conservative than for example two blue chip Australian companies with a heavy investment in infrastructure, BHP and Telstra, having ownership ratios of 29.7% and 37.2% respectively as at 30 June 1999.

It is important to recognise that $8.961 billion or nearly 75.9% of the debt of the PTE sector is owed to Queensland Treasury Corporation (QTC), itself 100% owned by the Queensland Government. A further $1.146 billion represents the net deferred tax equivalents liabilities of the GOCs, which are also owed to the Queensland Government.

The Queensland whole-of-Government budgeted Statement of Financial Position (Balance Sheet), which includes QTC and the PTE sector, remains conservatively lowly geared with a projected ownership ratio of 65.3% at 30 June 2001. At 30 June 2001, the ratio of total borrowings of the whole-of-Government as a percentage of the State's total borrowings plus equity is projected to be 21.5%.

Table 4.3
PTE Sector: Summary of Budgeted Statement of Financial Position (GFS Basis)

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million	Projected 2001-02 $ million	Projected 2002-03 $ million	Projected 2003-04 $ million
Non-financial assets	21,837	23,381	24,676	25,755	26,432	26,951
Financial assets[1]	3,604	3,498	3,464	3,527	3,568	3,556
Assets	**25,442**	**26,879**	**28,140**	**29,283**	**30,000**	**30,507**
Liabilities	**12,819**	**14,661**	**16,332**	**17,181**	**17,428**	**17,447**
Net Worth	**12,622**	**12,218**	**11,808**	**12,101**	**12,572**	**13,061**

Note:
1. For GFS purposes, the State's assets are classed as either financial, or non-financial assets.

The increase in liabilities of $1.842 billion from 1998-99 to 1999-2000 is represented by an increase in PTE borrowings of $1.199 billion and an increase in their net deferred tax equivalent liabilities.

TOTAL STATE POSITION

NET WORTH

The Total State financial position shows the combined assets and liabilities of the General Government Sector and the Public Trading Enterprises (PTEs).

Table 4.4 shows projected changes in the Government's equity (net worth), as at 30 June for the years from 1999 through to 2004.

Table 4.4
Total State (Non-PFE) Position: Summary of Budgeted Statement of Financial Position (GFS Basis)

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million	Projected 2001-02 $ million	Projected 2002-03 $ million	Projected 2003-04 $ million
Non-financial assets[1 & 2]	64,398	66,830	67,312	68,879	69,775	70,451
Financial assets[1]	19,221	20,030	21,211	22,243	24,464	26,574
Assets	**83,619**	**86,859**	**88,523**	**91,122**	**94,240**	**97,025**
Liabilities	**25,930**	**27,680**	**30,747**	**32,232**	**34,304**	**36,247**
Net Worth [2]		**59,179**				
Less SWP Revaluation		1,837				
Net Worth[2]	**57,689**	**57,342**	**57,776**	**58,890**	**59,936**	**60,778**

Note:
1. For GFS purposes, the State's assets are classed as either financial, or non-financial assets.
2. See footnote 2, Table 4.1.

Based on the projected figures for the year ending 30 June 2001, the Government will meet its Charter commitment to maintain or increase Total State Net Worth. (It should be noted that these tables assume no change in the Government's equity in Public Financial Enterprises beyond 1999-2000, as no Budget or Forward Estimates data is reported by these entities.)

The net worth of the Total State is projected to increase by $434 million to $57.776 billion at 30 June 2001, and is estimated to reach $60.778 billion at 30 June 2004.

As the Total State position is an aggregation of all the assets and liabilities held by Government Departments and Public Enterprises, changes in its net worth mirror those of the General Government Sector and arise for the same reasons, discussed in earlier commentary.

The strength of the State's Balance Sheet is demonstrated by the State's equity position growing 20.8% from 1994-95 to 2003-04. The major component of the State's liabilities is provisions for future employee entitlements, including both superannuation and long service leave. These provisions are fully funded through financial investments held by the State.

5. STATEMENT OF CASH FLOWS

KEY POINTS

- *The General Government sector is estimated to record a cash surplus of $330 million in 2000-01, following an estimated underlying cash surplus of $18 million in 1999-2000.*

- *The General Government sector is estimated to record a surplus of $2.554 billion from operating activities, more than sufficient to fund an estimated $2.224 billion in investment in non-financial assets.*

- *The General Government sector investment in financial assets of $1.040 billion in 2000-01 largely reflects the re-investment of contributions and earnings to be set aside to finance the Government's superannuation employee entitlements liability.*

INTRODUCTION

The cash flow statement provides information on the Government's estimated cash flows from its operating, financing and investing activities. In particular, the GFS cash flow statement provides information on the type of financing and investing activity undertaken by the Government and also provides the GFS cash surplus (deficit) measure.

Detailed cash flow tables on a GFS basis are included in Appendix A.

BACKGROUND

GFS data is conceptually different from the General Purpose Financial Reports included in Appendix B. A discussion of these differences is included in Appendix D.

The cash flow statement records estimated cash receipts and disbursements associated with the Government's operating, investing and financing activities. The cash flows reflect the actual payment and receipt of cash and hence differ from accrual revenue and expenses recorded in the operating statement. In particular, the operating statement often records revenues and expenses that do not have an associated cash flow (for example, depreciation expense). Also, the timing of recognition of the accrual revenue or expense in the operating statement may differ from the actual cash disbursement or receipt (for example, tax equivalents).

The cash flow statement also records cash flows associated with investing and financing activity that is otherwise reflected in the balance sheet. For example, purchases of capital equipment are recorded in the cash flow statement and impact on the balance sheet through an increase in physical assets. A detailed reconciliation between the cash flows from operations and the operating statement is provided later in this chapter.

The cash flow statement therefore provides useful information on the cash flow position of the Government, particularly from the perspective of cash and asset management.

The GFS cash flow statement provides the cash surplus (deficit) measure, which was a key aggregate or fiscal indicator under the previous cash-based GFS and Government accounting system. The cash surplus (deficit) measure is comprised of the net cash flow from operating activities plus the net cash flow from investment in non-financial assets (or physical capital). The cash surplus (deficit) measure therefore provides an indication of the net purchases of current goods and services and net expenditure on capital works projects.

The cash surplus (deficit) measure is still used by a number of financial and economic commentators and analysts, although its usefulness, now that a broader range of measures is available under accrual reporting, has declined. The measure is also used to derive the Loan Council Allocation nomination, provided in Appendix A.

BUDGETED STATEMENT OF CASH FLOW SUMMARY

Table 5.1 provides summary cash flow information for the General Government Sector for 1998-99, 1999-2000 and 2000-01.

Table 5.1
General Government Sector: Summary of Budgeted Cash Flows
(GFS basis)

	1998-99 Actual $ million	1999-2000 Est. Actual $ million	2000-01 Estimate $ million
Cash receipts from operating activities	16,754	17,241	17,780
Cash payments from operating activities	14,038	15,859	15,226
Net cash flow from operating activities	**2,716**	**1,382**	**2,554**
Net cash flows from investing activities	(1,418)	(2,154)	(3,264)
Net cash flows from financing activities	(221)	242	748
Net increase/(decrease) in cash held	**1,077**	**(530)**	**38**
Derivation of GFS cash surplus (deficit)			
Net cash flow from operating activities	2,716	1,382	2,554
Less net cash flow from investments in non-financial assets	(2,051)	(2,464)	(2,224)
Equals GFS cash surplus (deficit)	**665**	**(1,082)**	**330**
Add back transfer of superannuation assets [1]	-	(1,100)	-
Equals underlying GFS cash surplus (deficit)	**665**	**18**	**330**

1. The $1.1 billion transfer of funds set aside for employee entitlements to the State Public Sector Superannuation Scheme Members' Trust Fund in 1999-2000 was effected to improve efficiency in that fund of cash flows and overall cost of member benefits. As the transfer resulted in the extinguishment of the State's related liability to pay those funds to members upon retirement, the transaction was neutral in its impact on the State's Balance Sheet and operating position.

The GFS cash surplus of $330 million in 2000-01 represents a significant improvement on the estimated underlying cash surplus of $18 million for 1999-2000, which adjusts for the transfer of superannuation assets from the Government's consolidated fund to an employee superannuation fund. Under GFS this transfer is treated as an employee expenditure; however, it merely represents a transfer of previously accrued assets and the associated liability. Under the Australian Loan Council's Loan Council Reporting framework, the cash flow associated with the transfer of assets is being treated as a negative memorandum item, which means that the transfer will not count towards Queensland's LCA position. For more information on the LCA, see Appendix A.

CASH FLOWS FROM OPERATING ACTIVITES

Cash flows from operating activities incorporate cash receipts and disbursements for the Government's current operating transactions.

Cash inflows from operating activities include receipts from taxes, grants from the Commonwealth Government, fees and charges levied on the provision of goods and services, interest receipts from investments and dividend and tax receipts from Government owned trading enterprises. The largest source of cash receipts is from Commonwealth grants, which are now in the form of GST payments, which account for 49.0% of total cash receipts in 2000-01.

Taxes received by the General Government sector are forecast to decrease by 16.0% to $4.189 billion in 2000-01. This is mainly due to the reduction in the State's taxation base with the introduction of the GST and the impact of changes in recording the safety net grants.

Grants and subsidies receipts are expected to increase by 25.5% in 2000-01 to $8.729 billion. This reflects the introduction of GST payments from the Commonwealth and the impact of the recording of grant receipts under the GFS basis. Prior to 2000-01, in GFS, cash receipts from the Commonwealth representing the safety net payments for the previous business franchise fees (fuel, liquor and tobacco) were recorded as tax receipts. Under the GST arrangements the safety net payments cease, but are implicitly included in the grants received from the Commonwealth. Removing this distortion from the cash flow reveals that cash grants will increase 5.2% in 2000-01.

Other receipts include investment earnings, dividends and tax equivalents received from GOCs and royalties. Other receipts are expected to decrease in 2000-01 by 11.1% to $2.983 billion, largely reflecting lower forecast investment earnings.

Cash outflows represent payment for supplies and services, wages and salaries, finance costs and grants and subsidies paid to households, businesses and other Government agencies. The largest cash disbursement is employee expenses at $6.979 billion.

The 2000-01 estimate for payments for goods and services, which includes wages and salaries, is expected to decline 7.5% to $11.019 billion, reflecting the transfer of superannuation assets in 1999-2000 which is recorded in GFS as an employee expense. Adjusting for this one-off transfer, payments for goods and services are estimated to increase 1.9% in 2000-01, reflecting underlying estimated growth in wages and expenditure on other goods and services.

Cash payments for subsidies and grants are expected to increase to $3.070 billion in 2000-01. This item largely represents recurrent grants paid to non-government schools, grants paid to industry and non-profit institutions. This item also includes capital grants which are largely paid to local government authorities to fund capital works.

Interest payments are expected to increase 19.6% to $232 million, in line with an increased borrowing associated with capital works projects.

Other payments mainly comprise personal benefit payments and other transfer payments. This item is estimated to increase in 2000-01 by $202 million, primarily resulting from the introduction of the First Home Owners Grant Scheme.

CASH FLOWS FROM INVESTMENTS

Cash flows from investments include both financial and non-financial assets. Table 5.2 provides a disaggregation of investment Cash flows into the different types.

Table 5.2
General Government Sector: Cash Flows from Investing Activities
(GFS basis)

	1998-99 Actual $ million	1999-2000 Est. Actual $ million	2000-01 Estimate $ million
Net cash flows from investing activities in non-financial assets	(2,051)	(2,464)	(2,224)
Net cash flows from investing activities in financial assets for policy purposes	657	498	466
Net cash flows from investing activities in financial assets for liquidity purposes	(24)	(188)	(1,506)
Net increase /(decrease) in cash held	**(1,418)**	**(2,154)**	**(3,264)**

The largest cash disbursement for the Government, outside of current operations, is in investment in non-financial assets. This represents the Government's capital works program, which provides for schools, hospitals, roads etc. More detail on the Government's capital works program is included in Budget Paper 5.

Apart from investing in new capital expenditure, governments also manage financial assets in order to finance overall expenditures. In addition, Queensland manages assets set aside for its employees to provide employee benefits (e.g. superannuation and long service leave). The way that the Government manages its financial assets includes borrowing or investing funds and selling or acquiring equity in government or private sector entities.

Investment activities in financial assets include activities relating to both policy and liquidity. Investments for policy purposes include net equity injections into Government and other business enterprises and the net cash flow from disposal of financial assets (including equity in Government business enterprises). Cash flows from investment for liquidity purposes represent net investment in financial assets such as to cover superannuation and other employee entitlements, as well as other relatively liquid assets.

Cash flows from investing in non-financial assets is expected to decline to $2.224 billion in 2000-01 from $2.464 billion in 1999-2000. This largely reflects a contingency to reflect the usual slippage of capital works expenditure on account of delays, for example due to wet weather. The cash expenditure on investment in non-financial assets differs from the estimates of capital works expenditure in Budget Paper 5. The estimates contained in Budget Paper 5 are on a gross basis and incorporate both departmental agencies and GOCs. In addition, Budget Paper 5 includes capital grants and does not offset proceeds from asset sales.

Cash flows from investments for policy purposes for 2000-01 of $466 million largely reflects equity transactions, such as the proposed capital restructuring of the Government Owned Port Corporations, being a source of capital financing for the Budget year. The port restructuring is not expected to exceed $150 million and is subject to further consultation with the Port Corporations.

Cash outflows from investments in financial assets for liquidity purposes is estimated to be $1.506 billion in 2000-01, a net purchase of investments, compared with $188 million in 1999-2000. This reflects the usual re-investment of interest earnings and investment of contributions set aside for the Government's superannuation scheme. In 1999-2000, the $1.1 billion transfer of superannuation assets from the consolidated fund represented a one-off redemption of the investment, and hence offsets the usual investment of superannuation interest and contributions.

CASH FLOWS FROM FINANCING ACTIVITIES

Cash flows generated from financing activities are outlined in Table 5.3 below.

Table 5.3
General Government Sector: Cash Flows from Financing Activities
(GFS basis)

	1998-99 Actual $ million	1999-2000 Est. Actual $ million	2000-01 Estimate $ million
Net cash flows from Advances received (net)	(20)	2	18
Net cash flows from Borrowing (net)	(82)	240	731
Net cash flows from other Financing	(119)	..	..
Net increase/(decrease) in cash held	**(221)**	**242**	**748**

Cash flows from financing activities include cash flows from net borrowing (increase in borrowing less redemption), net advances (gross investment in new loans less redemption of loans issued) and other financing (net movement in government securities on issue).

Cash flows from advances received (net) are estimated to increase to $18 million in 2000-01 reflecting increased loans from the Commonwealth by the Department of Housing.

Cash flows from borrowing are estimated to increase, reflecting a net increase in borrowing, to fund capital projects in General Government.

RECONCILIATION OF OPERATING CASH FLOWS TO THE OPERATING STATEMENT

Table 5.4 provides a reconciliation of the cash flows from operating activities to the operating result, on a GFS basis, for the General Government sector for the Budget year.

Table 5.4
General Government Sector: Reconciliation of Cash Flows from Operating Activities to Accrual Operating Activities
(GFS basis)

	2000-01 Estimate $ million
GFS accrual revenue	**18,180**
Less dividend and taxation receivable	347
Less grants receivable	52
Less sales of goods and services receivable	(48)
Less other receivable	48
Equals GFS cash receipts	**17,780**
GFS accrual expense	**18,152**
Less depreciation expense	1,461
Less superannuation non-cash expense	594
Less grants payable	205
Less interest payable	105
Less employee entitlements taken	320
Less other employee and non-employee non-cash expenses	241
Equals GFS cash expenditure	**15,226**

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 or revenues. The largest differential is on the expenses – expenditure side, with large non-cash expenses associated with depreciation and superannuation.

Differences due to the timing of receipt or payment of amounts are recorded as either a receivable or payable in the balance sheet.

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Differences due to the timing of receipt or payment of amounts are recorded as either a receivable or payable in the balance sheet.

6. CAPITAL PROGRAM

KEY POINTS

- *The total capital program for 2000-01 is estimated to be $5.285 billion, an increase of 2.5% over 1999-2000 estimated actual expenditure of $5.158 billion.*

- *The 2000-01 Capital Outlays Budget will have a significant effect on employment. It is estimated that the capital program will support some 61,034 full-time jobs.*

- *$1.833 billion is provided for capital funding on Transport and Main Roads, $1.373 billion for Mines and Energy capital outlays which includes electricity corporations, $473 million for Health, $227.6 million for Education, and $253.2 million for Police, Emergency Services and Corrective Services.*

- *Capital outlays in 2000-01 reflect a substantial regional focus, with 63.8% of capital expenditure occurring outside the Brisbane Statistical Division. In per capita terms, expenditure on capital outlays across the State will be highest in the Central-West, Fitzroy and North-West Statistical Divisions.*

INTRODUCTION

This Chapter provides an overview of the 2000-01 Capital Expenditure Program. Detailed departmental and regional information is provided in Budget Paper 5.

The State's capital program enhances infrastructure development to meet the social and economic needs of Queensland's growing population.

In 2000-01, the State's capital outlays are estimated to be $5.285 billion, after making allowances for anticipated capital contingencies of $120 million. This adjustment recognises that whilst individual agencies may budget to fully expend their capital works allocations, historically, on a whole-of-Government basis, there is likely to be underspending, resulting in a carryover of capital allocations.

DEFINITIONS

Capital is defined as the stock of assets, including property, plant and equipment and intangible assets and inventories that an agency owns and/or controls and uses in the delivery of services, as well as capital grants made to other entities. For the purposes of this Budget Paper, capital outlays refer to the gross acquisition of assets.

COVERAGE

Capital outlays include information for all bodies defined as reporting entities for the purposes of whole-of-Government financial reporting requirements, excluding Public Financial Enterprises[1]. The list of entities covered is shown in Appendix D.

[1] Statutory authorities and Public Trading Enterprises with total capital outlays of $0.25 million or less have not been included due to lack of materiality.

FISCAL STRATEGY AND CAPITAL POLICY

The Government is committed to maintaining investment in the State's social and economic infrastructure and services to meet the needs of Queensland's population, now and into the future.

The Government will pursue a capital program that improves the net social benefits the community as a whole derives from the provision of government services. New capital projects will proceed only where such benefits have been clearly demonstrated through rigorous analysis. In such circumstances, the aggregate level of the program should be consistent with the Government's fiscal responsibility principles and economically sustainable in the medium term.

The Government's capital policy strategy provides the means to better manage the State's large asset base by explicitly recognising that, over a period of time, capital assets are utilised to produce goods and services for the community.

The nature and mix of an agency's assets are determined in light of service delivery needs. The ongoing cost of capital assets is recognised as an expense through an agency's operating statement, encouraging more efficient use of capital.

Accrual budgeting recognises that an agency's ability to continue to supply services is affected by its asset base. For example, the capacity of an agency to supply services may be reduced if the assets it requires to produce them are run down over time. Agencies receive funding (in the form of depreciation) through the payment for outputs to replace assets as they wear out.

The Government's policies of increasing service delivery and improving the State's infrastructure are reflected in the extent of the growth in the State's capital program over the last decade. Queensland's capital program in recent years has been very large, both in historical terms and in comparison with other States. On a per capita basis, Queensland has by far the largest capital program of any State.

The 2000-01 capital program maintains the current historically high capital works budgets for Queensland, both in nominal and real per capita terms. In 2000-01, Total State Gross Fixed Capital Formation on a Government Finance Statistics basis is budgeted to be $1,056 in per capita terms, maintaining the relatively high levels of recent years. In particular, capital expenditure in the General Government Sector since 1998-99 has been at its highest, in real per capita terms, since the mid 1980s.

CAPITAL OUTLAYS

Chart 6.1 and Table 6.1 summarise capital outlays by type. The principal form of total capital outlays is the acquisition of property, plant and equipment, which accounts for an estimated 75% of total capital outlays.

Chart 6.1
Capital Outlays by Type - 2000-01

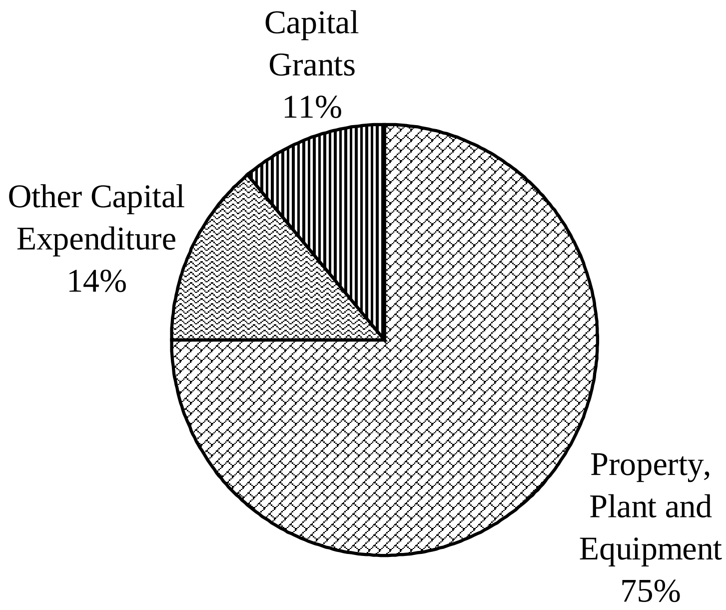


Table 6.1 Capital Outlays by Type			
	1999-2000 Est. Actual $ million	2000-01 Budget $ million	Change %
Property, Plant and Equipment	4,182.6	4,055.1	(3.0)
Other Capital Expenditure	509.1	752.2	47.8
Capital Grants	512.9	597.6	16.5
Capital Contingency Reserve[1]	(46.1)	(120.0)	160.1
Total Capital Outlays	**5,158.5**	**5,285.1**	**2.5**

Note: Totals may not add due to rounding.
1. The 1999-2000 figure reflects end-of-year deferrals not able to be included in individual agency data for documentation purposes.

Capital outlays by purpose in 2000-01 are detailed in Table 6.2 below.

Table 6.2 Capital Outlays by Purpose for 2000-01	
Purpose	Outlays $ million
Education	227.6
Health	473.0
Law, Order & Public Safety	253.2
Electricity Infrastructure	1,372.5
Transport Infrastructure	1,832.9
Other Economic Infrastructure	626.0
Other	619.9
Capital Contingency Reserve	(120.0)
Total	**5,285.1**

Capital outlays by Region in 2000-01 are estimated in Table 6.3 below. Around 63.8% of expenditure will occur outside the Brisbane Statistical Division. As shown in more detail in Budget Paper 5, per capita expenditure is highest in non-metropolitan areas, including the Central-West, Fitzroy, North-West and South-West Statistical Divisions.

Table 6.3
Capital Outlays by Region for 2000-01

Region	Outlays $ million	Outlays per capita $
Brisbane	1,958.9	1,223
Moreton	946.9	1,401
Wide Bay-Burnett	430.0	1,845
Darling Downs and South-West	298.9	1,316
Fitzroy and Central-West	622.2	3,216
Mackay and Northern	602.6	1,864
Far North and North-West	545.6	2,114
Capital Contingency Reserve	(120.0)	n.a.
Total	**5,285.1**	**1,539**

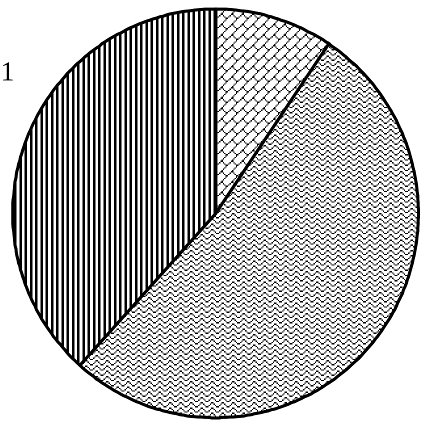
FUNDING

Under *Managing for Outcomes*, there is no specific appropriation for capital. Instead, responsibility for capital management has been devolved to agencies, which must develop Capital Investment Plans that include sources of funding for assets. Funding sources can include equity injections from the Government as owner (where considered appropriate), output funding provided to cover the consumption of capital (depreciation and amortisation), asset sales, borrowings, retained earnings and own sourced revenue.

Chart 6.2 and Table 6.4 detail the composition of capital outlays for Property, Plant and Equipment and Other Capital Expenditure by sources of funding. In 2000-01, 9% of gross capital outlays for these categories will be funded from equity contributions by the State, while provisions for depreciation will fund some 53%.

Under accrual output budgeting, agencies are required to raise a periodic depreciation expense to recognise that certain non-current assets have a limited life span. Agencies are able to utilise the funds provided in this manner as a source of capital funding.

Chart 6.2
Sources of Funding for Capital Outlays -
Property, Plant and Equipment and Other Capital 2000-01



Note:
1. Other Sources include borrowings, Public Trading Enterprise own sources, asset sales; and operating surpluses etc.

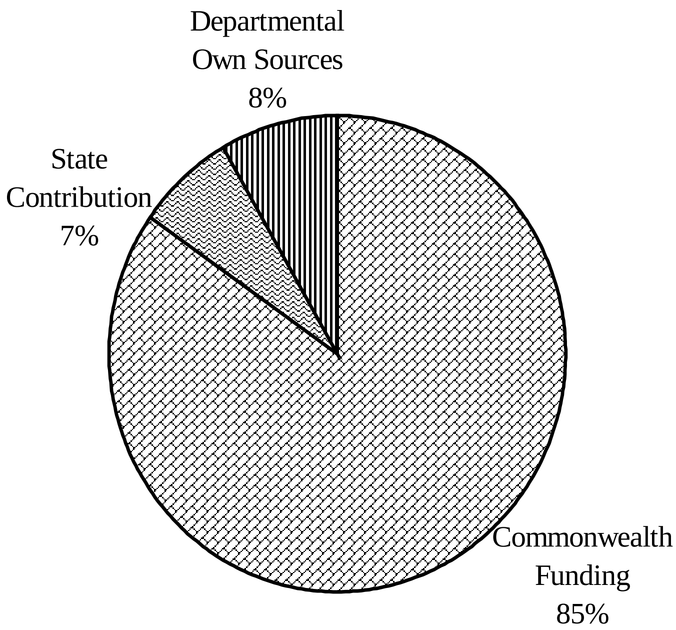
Table 6.4
Sources of Funding for Property Plant and Equipment and Other Capital

Source[1]	1999-2000 Est. Actual $ million	2000-01 Budget $ million	Change %
Equity Adjustments	558.9	455.5	(18.5)
Funding for Depreciation and Amortisation	2,475.0	2,508.0	1.3
Other Sources[2]	1,657.8	1,843.8	11.2
Capital Contingency Reserve	(46.1)	(120.0)	160.3
Total Property Plant and Equipment, and Other Capital Expenditure	**4,645.6**	**4,687.3**	**0.9**

Notes:
1. Some Commonwealth funding is provided for capital projects. Under accrual output budgeting, it is no longer separately identified and is included under Equity, Depreciation Funding, or Other Funding.
2. Other funding sources include borrowings (gross), Public Trading Enterprise own sources, asset sales, operating surpluses etc.

Chart 6.3 shows the sources of capital grants funding for 2000-01.

Chart 6.3
Sources of Funding for Capital Grants - 2000-01



EMPLOYMENT GENERATION

On an indicative basis, it is estimated that the 2000-01 capital program will contribute to the net provision of some 61,034 full-time jobs. This is calculated by using an employment multiplier which assumes that for each $1,490 spent on employment generating capital this equates to one person week of direct employment. Employment generating capital does not include expenditure on land purchases and plant and equipment.

SERVICE PRIORITIES

Projects for individual agencies are also listed in Budget Paper 5 and in more detail in the Ministerial Portfolio Statements.

The following section details the significant capital projects being undertaken or continued during 2000-01 for each of the Government's seven key policy priorities. Capital grants are not included in this section, as they form part of the Operating Statement and are incorporated in Chapter 3.

More Jobs for Queenslanders

Attracting new industries and creating employment remains a key focus of the Government to ensure that all Queenslanders enjoy a secure future. The 2000-01 Budget continues the breaking the unemployment cycle initiative.

Capital investment highlights which contribute to this priority include:

- $87.9 million in 2000-01 for the construction and/or acquisition of 500 housing units. This funding is provided for ongoing and targeted housing solutions for those in housing need. This commitment is reflected in the Department of Housing's 2000-01 Budget of $289.9 million for capital projects;

- $150 million in 2000-01 for the Swanbank E Power Station Project, which will include a new 385 megawatt, gas fired electricity generator;

- $19 million to be spent in 2000-01 on the Northern Busway out of a total project cost of $76 million and $156 million for the South East Transit Project;

- A number of major rail initiatives including $238 million to be spent on the development and maintenance of the rail track network, $68.4 million on upgrading coal and mainline freight locomotives and rolling stock and $6 million to upgrade coal and mainline freight depots;

- $101 million on upgrading Port Authority facilities; and

- $13.6 million to complete the establishment of the Carole Park Energy Park, designed to provide an industrial estate that will principally host food manufacturing industries and those industries that support primary food manufacturing activities.

Building Queensland's Regions

In the 2000-01 Budget, the Government is seeking to expand export markets and encourage value-adding industries and has provided funds for regional infrastructure, tourism and agriculture projects to support regional economies.

Capital investment highlights which contribute to this priority include:

- $762 million in 2000-01 for roads capital funding including $26 million for improvements to the Barkly Highway, $11 million to convert the Marburg bypass from 2 to 4 lanes and $32.5 million to convert the Yandina to Cooroy bypass from 2 to 4 lanes. This supports rural and regional development, population growth and industry development throughout Queensland;

- $120 million in 2000-01 as part of a $422 million project for passenger rolling stock including the Cairns Tilt Train; and

- $25.4 million in 2000-01 for the Cairns Cityport Development.

Skilling Queensland – The Smart State

In 2000-01, the Government has continued to maintain a strong emphasis on achieving employment growth and preparing the State for a world with increasingly complex and rapidly changing technology.

Capital investment highlights which contribute to this priority include:

- $102.6 million for the construction of four new schools and further staged work at nine new schools, an increase in the number of schools that teach students from preschool to Year 12 (P-12 schools), and more than 200 additional classrooms at existing schools in growth areas of the State;

- $25.5 million ($114 million over three years) for the *Secondary School Renewal* program, which will reinvigorate older secondary schools, starting with eight schools in 2000-01;

- $18.2 million for *Cooler Schools* projects to air condition facilities at various State schools; and

- $28.6 million for TAFE Queensland infrastructure to enhance the delivery of training in Queensland. This will be supported by the investment of $15.2 million to upgrade and enhance the Information Technology systems across TAFE Queensland.

Safer and More Supportive Communities

In 2000-01, the Government's focus will be on the needs of young people. These needs will be addressed through Child Protection legislation and the expansion of family support and counselling services. Aboriginal and Torres Strait Islander communities will be provided with infrastructure and business opportunities.

Capital investment highlights which contribute to this priority include:

- $82.5 million in 2000-01 for the Police capital infrastructure project. New stations will be built in some areas where the demand for police services is increasing. In other areas, current police facilities will be refurbished or replaced. Assets will be purchased to improve the efficiency and effectiveness of policing services;

  This initiative provides funding for several projects including upgrading the Rockhampton District and Regional Head Quarters ($4 million in 2000-01) and replacing the Mount Isa District Head Quarters and Watchhouse ($2.5 million in 2000-01). New projects expected to commence in 2000-01 include replacing the Ipswich District Head Quarters ($1.1 million in 2000-01); and

- $7.1 million is provided in 2000-01 for Courthouse upgrades at Mount Isa, Wynnum, Maryborough, Inala and Mackay. The upgrades will provide improved services to courthouse staff, the judiciary and clients of the courts.

Better Quality of Life

The Government is improving access to the health system particularly for the chronically ill and people living in rural and remote communities. In 2000-01, the focus will be on rebuilding projects for health services and improving fire, ambulance and emergency services.

Capital investment highlights which contribute to this priority include:

- $473 million for a number of community health, hospitals, mental health, and residential care projects, pathology and scientific services, state of the art technology and equipment replacement.

  - Community projects planned for completion in 2000-01 include the Community Health Centres at Goodna ($2.3 million) and Centenary Square, the Herston Child Care Centre and the Dental Clinics at Nambour and Mareeba.

  - Major hospital projects to be finalised in 2000-01 include the Logan and Mackay hospital redevelopments, and the Royal Women's component of the Herston Hospital Redevelopment ($52.6 million);

- In 2000-01, rebates totalling $4.6 million will be provided to remote area residents who install power systems, as an alternative to being connected to the State electricity grid, under the Remote Area Power Supply scheme; and

- $64.7 million will be spent on Aboriginal and Torres Strait Islander housing including capital grants to Aboriginal and Torres Strait Islander Councils and the construction of 85 new dwellings, the upgrade of 150 existing houses throughout Queensland, estate redevelopment and Thursday Island land purchases.

Valuing the Environment

In 2000-01, the focus will be on ensuring scarce natural resources are used sustainably, protecting coasts and waterways through the acquisition of coastal lands and improved environmental management, encouraging the use of energy efficient technologies and improving visitor facilities in protected areas.

Capital investment highlights which contribute to this priority include:

- $5.1 million for the public acquisition of critical lands of high conservation value, protecting key coastal resources along Queensland's extensive coastline;

- $4 million for the acquisition of 1,000 hectares of land at Trinity Inlet near Cairns and land in the Brigalow Belt and Desert Uplands biographic areas ($1.5 million);

- Natural Heritage Trust funding of $4 million to enhance and expand the network of protected areas on the Cape York Peninsula through land acquisitions and other capital works; and

- $0.5 million towards the joint New South Wales and Queensland Tweed River Sand Bypassing Project, which is designed to relieve the sand build up at the Tweed River entrance and replenish Gold Coast beaches.

Strong Government Leadership

The Charter of Social and Fiscal Responsibility provides a framework for accountability through the endorsement of, and the identification of policy priorities and performance indicators. In 2000-01, the Government will continue to focus on exploring and implementing new ways to improve the delivery of services and also on strengthening the openness, accountability and integrity of Government operations.

Capital investment highlights which contribute to this priority include:

- $7.5 million over four years to develop electronic service delivery projects which will enable a range of Government services to be available on-line; and

- $2.4 million to complete the refurbishment of the Parliamentary Annexe.

7. LONG TERM FISCAL TRENDS

KEY POINTS

- *The long term fiscal trends affecting the State reflect the combined impact of social and demographic factors and the various policies adopted by successive governments.*

- *Trends in the State's financial position are characterised by expenditure effort approaching the average of the other States, increases in the size of the capital program, the maintenance of low taxation levels, and increases in other revenue.*

- *The State's strong balance sheet position and commitment to sound fiscal management provide a high degree of flexibility to adapt to externally driven changes. National tax reform arrangements erode some of this fiscal flexibility.*

INTRODUCTION

This chapter discusses the long term fiscal trends impacting on the fiscal position in Queensland.

The long term trends impacting on the State's fiscal position reflect the evolutionary change to the social and economic environment in which the State exists. These underlying fiscal trends have not changed leading into the 2000-01 Budget. These trends include:

- State taxes still being maintained at lower levels than the average of the other States; and

- recurrent expenditure effort in key service delivery areas approaching the average of the other States.

The fiscal position achieved in recent years is a reflection both of these ongoing trends and the commitments made by the Government in the Charter. In particular, the Charter requires the Government to ensure that State taxes and charges remain competitive with the other States and Territories, maintain an overall General Government operating surplus (in GFS terms) and build net worth. The trends impacting on this Budget mostly, however, are a reflection both of underlying social and demographic factors and the cumulative impact of policy decisions taken by successive Governments over many years.

SOCIAL AND ECONOMIC ENVIRONMENT

Trends in the activities of Government reflect the general social and economic trends affecting the State. An example of the social trends impacting Government service delivery over the last 20 years is the significant demographic changes in Queensland.

The main demographic change affecting all Australian States is the ageing of the population. Australia's population, with the "baby boomer" generation (born between 1946 and 1960), suggests strongly that governments should be building the capacity now to deliver social services to this population cohort as they move into retirement (utilising taxes collected largely from this generation while they are of working age). The 1946-1960 birth-range cohort will form the largest ever retirement age cohort, as they make the transition into that lifecycle stage in the next decade. From June 1979 to June 1999, the number of people aged 65 years and over has increased by 70%[1]. The ageing of the population will place demands on Government services, particularly health and community services, for the next 20-30 years substantially in excess of past service levels.

In addition, Queensland's population has other characteristics that are not common to all States, including:

- high levels of population growth, primarily from interstate and overseas migration[2];
- high growth in the number of children in comparison to other States[3]; and
- geographic diversity – 54% of Queenslanders live outside the capital city, whereas in the other States combined only 32% of the population live outside the capital.[4]

These population characteristics have created challenges in Government service delivery over the last 20 years, including:

- growing demand for Government services, with particular emphasis on:
  - the educational needs of young people; and
  - health and community care requirements associated with an ageing population;
- ensuring high quality services in rural and remote areas where there are small population groups; and
- growing demand for energy, transport, communication and other basic infrastructure.

While this is just one of several long term social and economic trends that impact on the activities of the Government, it provides an example of the effect that such trends have on the Government's service delivery activities, as reflected through the State Budget.

The response of successive Governments to the range of social and economic challenges affecting the State, including those outlined above, are reflected in the trends that have characterised the State's expenditure. There has been increased expenditure over the last ten years on social services and a large capital program in recent years focused on improving infrastructure and the capacity of the State to deliver social and economic services.

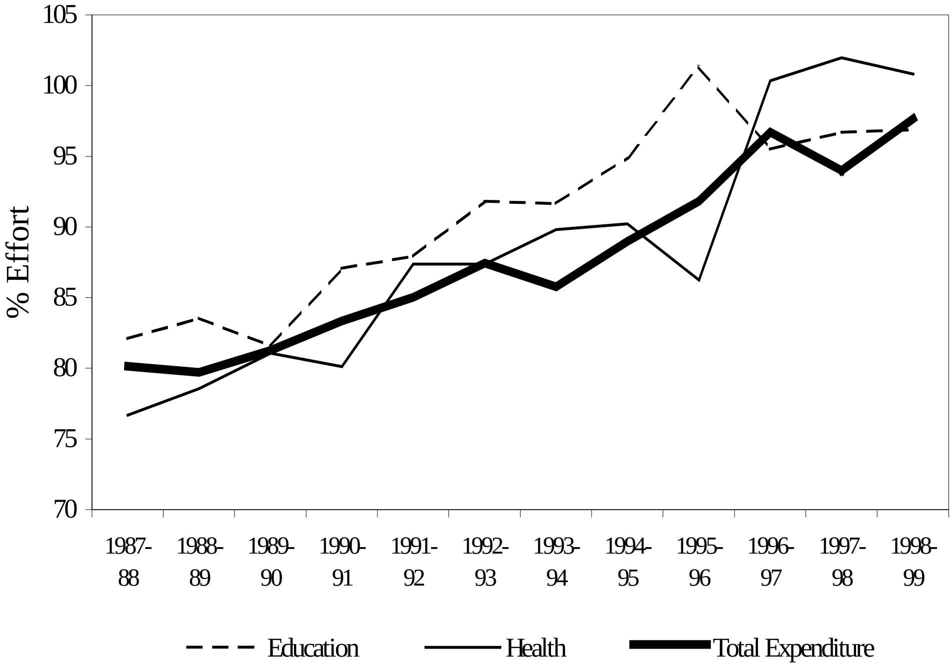
[1] ABS Cat. No. 3201.0.
[2] Population growth in the five years to 1998. Source: ABS publication "Australia Now – A Statistical Profile".
[3] Population group 0-14 years – June 1998 to June 1999. Source: ABS Cat. No. 3201.0, June 1999.
[4] Percentage of population outside the capital city statistical division (1997 Statistical Local Area boundaries). Queensland 54% - Australian average 36%. Source: ABS publication "Australia Now – A Statistical Profile".

TRENDS IN RECURRENT EXPENDITURE

The Charter recognises that a strong financial position is not an end in itself but an important element in achieving the broader range of policy objectives necessary to advance the prosperity, welfare and quality of life of the Queensland community. Enhancements to service delivery to meet the growing demand for Government services, and to move towards levels in other States, are reflected in Queensland spending more than previously in key social service delivery areas.

In recent years, Queensland's recurrent expenditure effort has been moving towards the average of the other States in key service delivery areas such as health and education. As shown in Chart 7.1, over the past 10 years, the expenditure effort on these key areas has risen from around 80% of the average of the other States to variously between 90-100%. This expenditure has enabled important social objectives to be met and led to greatly improved service delivery outcomes.

Chart 7.1
Level of Service Provision Ratios



Source: Commonwealth Grants Commission

Revenue and expenditure effort, as shown in Charts throughout this chapter, are measures calculated by the Commonwealth Grants Commission (CGC). More detail on how these measures are derived is provided in Box 7.1.

Box 7.1
Commonwealth Grants Commission's Revenue Raising Effort and Level of Service Provision Ratios

The Commonwealth Grants Commission (CGC) assesses a State's need for Commonwealth financial assistance by taking into account its revenue capacities and expenditure needs (what a State is required to spend to provide an Australian average level of service). These assessments are prepared on a policy neutral basis, which means that only those factors that are beyond a State's control are considered.

CGC measures used in this paper are:

- the revenue raising effort ratio, which measures the severity of State taxes and efficiency in ensuring compliance, relative to the Australian average effort; and
- the level of service provision ratio, which measures both the level of services provided in a State relative to the Australian average and the relative efficiency with which they are provided.

These measures compare actual data with capacities and needs, rather than using simple Australian averages. They therefore offer a more informed view of fiscal policy settings over a specified time period by taking account of factors that are beyond a State's control. As the Australian average is by definition 100 per cent, ratios of less than 100 per cent indicate low tax policies or below average levels of service provision.

EFFICIENCY IN SERVICE DELIVERY

Evidence from independent sources is that Queensland is one of the more efficient providers of government services among the States. As an example, analysis by the Productivity Commission[5] outlined in Chart 7.2 below shows that Queensland is relatively more efficient in a range of areas such as providing hospital care, corrective services, courts and public housing.

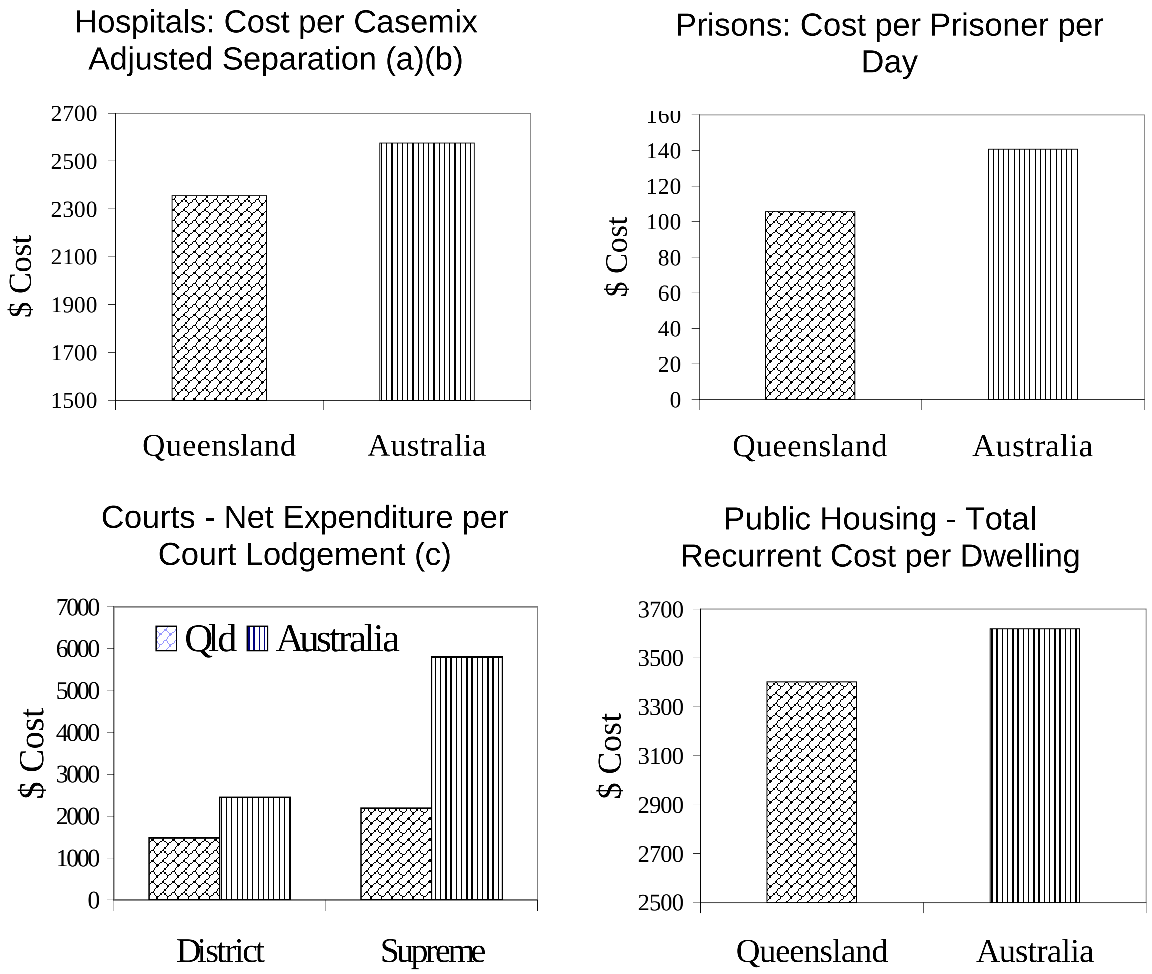
While expenditure effort has increased over time, Queensland continues to be a very efficient provider of social services. This efficiency, combined with the increase in expenditure effort, has resulted in Queensland leading the way in actual service levels in many areas.

Efficiency in service delivery is expected to further improve within the framework of the State's Managing For Outcomes (MFO) program. The MFO program, incorporating accrual accounting and output based budgeting, will assist the Government to determine funding priorities and manage competing community demands in the most efficient manner.

[5] Productivity Commission Report on Government Services 2000

MFO encapsulates, within outcome statements and outcome performance indicators, the strategic priorities of the Government. These outcome statements provide the basis for prioritising the services and products (outputs) funded through the Budget process. Outputs are funded insofar as they represent the best means of achieving the Government's endorsed outcomes and meeting identified community needs within agreed resource constraints. Performance targets are specified for each output in terms of quality, quantity, timeliness, cost and location.

Chart 7.2
Measures of Comparative Efficiency, 1998-99



(a) This indicator measures the average cost of providing care for an admitted patient, adjusted for relative complexity of the mix of patients' clinical conditions and of hospital services provided.
(b) Based on Australian Hospital Statistics (Australian Institute of Health and Welfare).
(c) Includes both criminal and civil proceedings. Expenditure less in-house revenue per primary lodgement.
Source: Productivity Commission Report on Government Services 2000

MFO improves the value for money the community obtains from Government by allocating public resources and holding agencies accountable on the basis of:

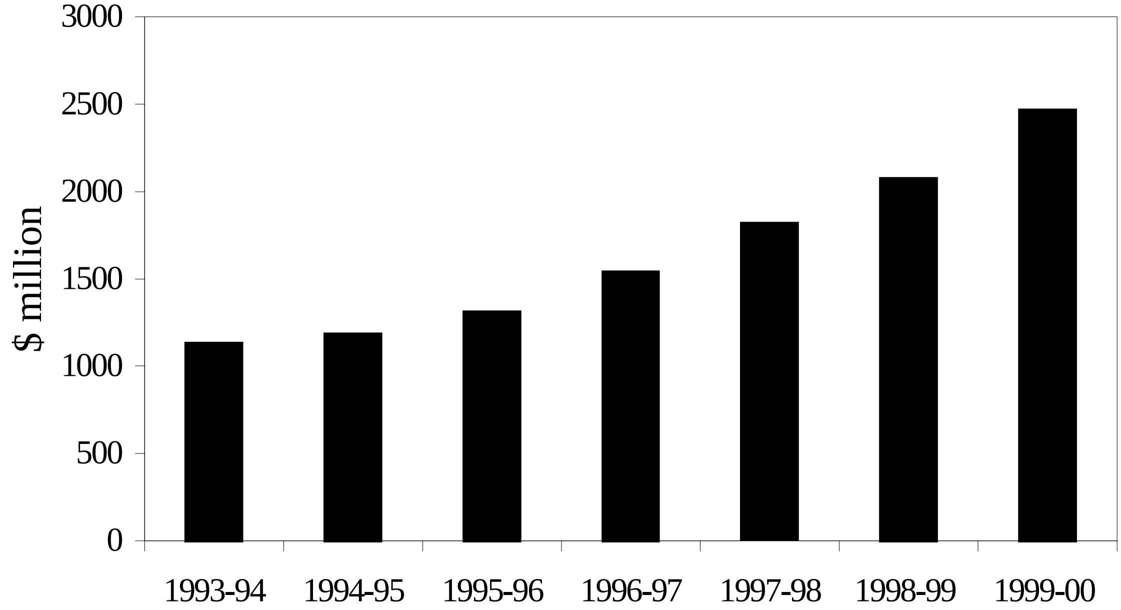
- the delivery of services, at agreed levels of quality, quantity and cost, aimed at achieving the Government's priorities and outcomes; and
- the efficient management of the asset bases that agencies control.

TRENDS IN CAPITAL EXPENDITURE

A significant trend over the last decade is the increase in the State's capital program. The increase in the State's capital program reflects policies to improve the State's infrastructure and service delivery capacity and a recognition of the direct employment impacts of public capital expenditure.

Investment in new capital in Queensland has been growing over the last decade (see Chart 7.3) and is now very large both in historical terms and in comparison with other States. An example of the initiatives which have been implemented in recent years is the $2.8 billion Statewide Health Building Program, which has involved the building of new health facilities and upgrading of existing facilities to accommodate expected increases in demand, driven by influences such as the ageing population.

Chart 7.3
General Government Gross Fixed Capital Expenditure(1)

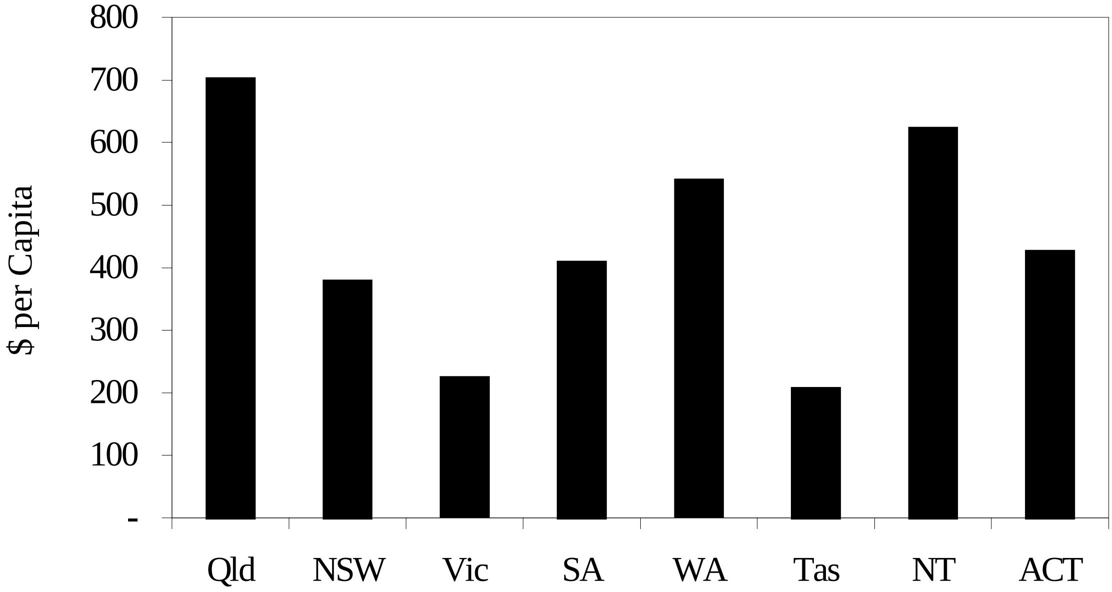


(1) Audited actual for 1998-99. Est. Actual for 1999-2000.
Source: ABS Cat. No. 5501.0 for 1993-94 to 1997-98. Queensland Treasury for 1998-99 and 1999-2000.

General Government capital expenditure in Queensland in 1999-2000 is estimated to account for over 30% of all capital expenditure by Australian State and Territory governments[6]. This is despite the fact that high levels of capital expenditure have been undertaken in New South Wales associated with the Olympics. On a per capita basis, as shown in Chart 7.4, Queensland has by far the largest capital program of any State.

[6] Source: ABS Cat. No. 5501.0 – Estimates for 1999-2000

Chart 7.4
General Government Capital Expenditure Per Capita – 1999-2000



Source: Various State Budget Papers – Uniform Presentation Framework estimates for gross fixed capital formation (net cashflow from investment in non-financial assets for ACT). Commonwealth 2000-01 Budget Papers for 1999-2000 population estimates.

As large capital spending initiatives, such as the Statewide Health Building Program, move towards completion, the size of the capital program will naturally move to a new sustainable level.

FUNDING CAPITAL EXPENDITURE

Traditionally, the State's capital expenditure program has been funded by agencies and statutory bodies from the following sources:

- retained earnings;
- own source revenues;
- converting financial assets such as equity in public enterprises into higher priority capital;
- equity injections from the Government;
- output funding (provided to cover the consumption of capital, including depreciation);
- asset sales; and/or
- borrowing.

There is a relationship between capital spending and the outcomes achieved on the State's balance sheet and operating position. This relationship includes:

- increased borrowing or the rundown of financial assets to fund capital will impact on the level of net financial assets of the State;

- to the extent that the capital program cannot be financed from the balance sheet (from asset sales, borrowing and conversion of financial assets), there is a direct trade-off between the size of the operating result and the funding of the capital program; and

- the size of the recurrent depreciation expense (an item on the operating statement) is dependent upon, among other things, the size of the asset base. The State's stock of assets is a reflection of the magnitude of the capital program over previous years. Conversely, provisions for depreciation are another source of financing replacement of capital which often is of a better standard and efficiency than the written down assets it replaces.

Impact of the Capital Program on the Balance Sheet

The increase in the size of the State's capital program in recent years has been sustained without compromising the strength of the balance sheet. The funding of the State's actuarially assessed liabilities such as superannuation has enabled the State to achieve a negative net debt position. While borrowing where prudent, as well as maintaining an operating surplus over many years, Queensland has been able to finance a substantial capital program within a negative net debt position. The benefits of this negative net debt position are:

- low net interest expense;

- financial assets can be used as an alternative to debt financing;

- reduced borrowing costs as negative net debt is associated with high credit quality; and

- intergenerational equity is enhanced by not placing a debt burden on future generations.

As seen in Chart 7.5, Queensland has very low net debt in comparison to other States. Unlike the other major States, Queensland is in a negative net debt position. Negative net debt and the overall growth in net worth and net financial assets over time (as discussed in Chapter 4) are evidence that the State's balance sheet position has not been compromised by the growth in capital expenditure.

Chart 7.5
Net Debt per Capita, 30 June 2000

Source: State Budget papers

Impact of the Charter of Social and Fiscal Responsibility on the funding of Capital Expenditure

The relationship between the size of the capital program and the size of the operating surplus and the dynamic between the fiscal strategy objectives in the Charter implies that a sustainable balance will automatically be reached over the long term between the capital and recurrent sides of the Budget. The strong balance sheet discussed above, however, affords the State relatively more flexibility in this context than available to other jurisdictions.

The fiscal strategy requirements in the Charter include:

- the Government will ensure its level of service provision is sustainable by maintaining an overall General Government operating surplus;
- borrowings and other financial arrangements will only be undertaken for capital investments and only where these can be serviced within the operating surplus;
- the Government will ensure that the State's financial assets cover all accruing and expected future liabilities of the General Government sector; and
- the Government will at least maintain and seek to increase Total State Net Worth.

To the extent that the capital program is funded from one-off sources, such as the sale of existing assets, all of the Charter requirements continue to be met. In such a situation, the capital program does not impact directly, in the first instance, on the operating position, the level of borrowing, or the maintenance of net worth.

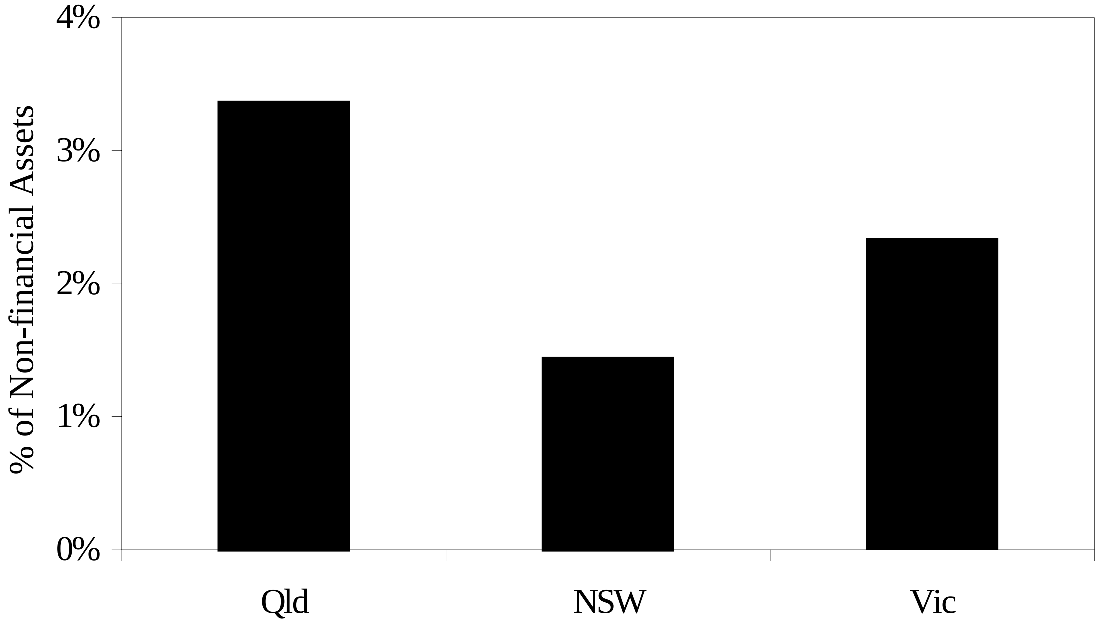
Where one-off sources are not sufficient to fund a net addition to the capital stock, the Government's fiscal strategy implies a long term limit on the total size of the capital program to that which can be funded from the operating surplus and depreciation provisions.

The recent trend of historically large capital programs is not likely to continue indefinitely, due mainly to the fact that several large projects are currently nearing completion (eg. Pacific Motorway).

Link Between the Capital Program and Depreciation

The budgeted depreciation expense represents that portion of the Government's total fixed asset base (capital base) estimated to be consumed in the financial period covered by the Budget. There is a direct correlation between the size of the Government's capital base and the depreciation expense. Put simply, the larger the capital base, the higher the depreciation expense. The State's large capital investment program in recent years has seen a significant increase in the value of the Queensland Government's capital base, which has also lead to a corresponding increase in the depreciation expense.

Chart 7.6
Depreciation Expense 1999-2000 (estimated actual).



Source: State budget papers.

Compared with agencies in the larger States (see Chart 7.6), Queensland Government agencies have adopted a more conservative approach to asset management and applied higher average rates of depreciation to their assets[7]. Although this results in lower operating surpluses, it has the advantage of more rapidly setting aside the funding necessary for the future replacement and renewal of existing assets.

[7] Depreciation as a proportion of total fixed assets.

It is anticipated that, over time, there will be a number of benefits from this approach. The budgetary impact of funding replacement assets will be smaller with less capital funding required from other sources. Furthermore, shorter depreciation timeframes will mean that if application of the valuation principles set forth in AAS 38 (which becomes mandatory for Government departments on 1 July 2002) results in significant decrements in the value of existing assets, the impact of this will have already been absorbed, to some extent, in earlier operating statements.

TRENDS IN STATE GOVERNMENT REVENUE

The State's revenue is comprised of taxation revenue, other own-source revenue and Commonwealth Government funding. Further details of the composition of the State's revenue is contained in Budget Paper 3. Trends in the size and composition of State revenue have been as important as those changes in expenditure outlined above in shaping the evolution of Queensland's fiscal position over recent decades.

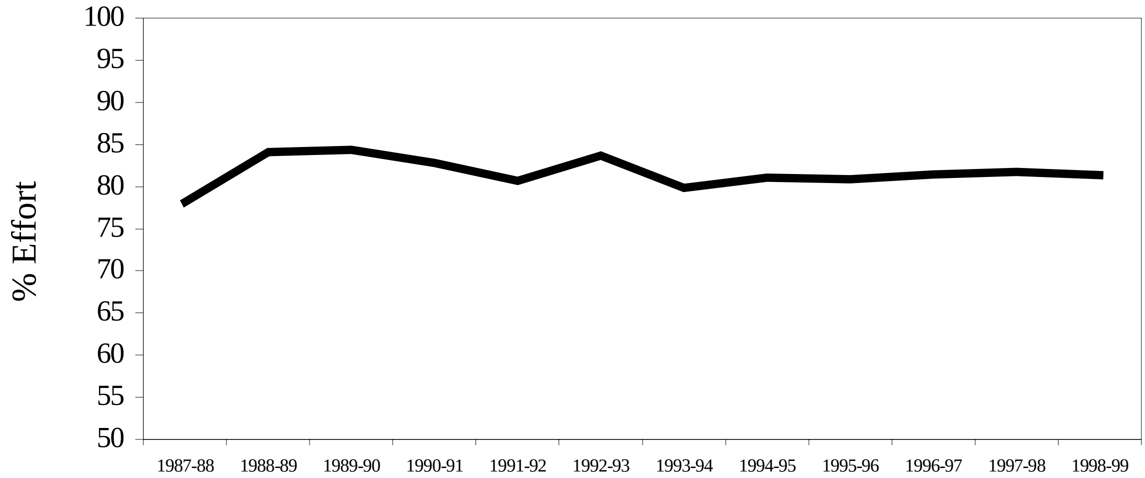
Taxation Revenue

The State has experienced increasing expenditure effort and the large capital program outlined above without a commensurate increase in taxation revenue raising effort (as assessed by the CGC). Although total taxation revenue has increased due to factors such as economic and population growth, the State has low tax levels in relation to other States. This reflects both the fiscal flexibility offered by the State's strong balance sheet position and the Government's Charter commitment to ensure that State taxes and charges remain competitive with the other States and Territories.

As shown in Chart 7.7 below, Queensland's taxation revenue raising effort, as assessed by the CGC, has remained well below the Australian average (represented as 100%) in recent years. Revenue effort is the ratio of the actual revenue raised to that which a State could have raised had it applied Australian average tax rates to its assessed tax base. This graph confirms that Queensland's favourable tax status is due to the Government's tax policies rather than any underlying weakness in its capacity to raise revenue.

By maintaining competitive tax rates, Queensland provides a competitive advantage to business and a reduced tax burden for its citizens. The maintenance of Queensland's competitive tax status is fundamental to the Government's commitment to job creation and economic development.

Chart 7.7
Taxation Revenue Raising Effort Ratios For Queensland



Source: Commonwealth Grants Commission.

The ability to maintain a low tax revenue raising effort has added considerably to Queensland's fiscal flexibility. The ability to raise further revenue in the event of a large externally driven shock to the State's fiscal position means that the State has the capacity to maintain its commitment to ensuring an operating surplus on a GFS basis. Over the medium term, the capacity to raise tax revenue is available to offset unexpected external shocks to the State's fiscal position.

This flexibility is recognised by international credit rating agencies who have issued Queensland strong credit ratings in recent years. A strong credit rating allows the State to borrow at cheaper rates, which further improves the cost structure of the Government to the benefit of taxpayers.

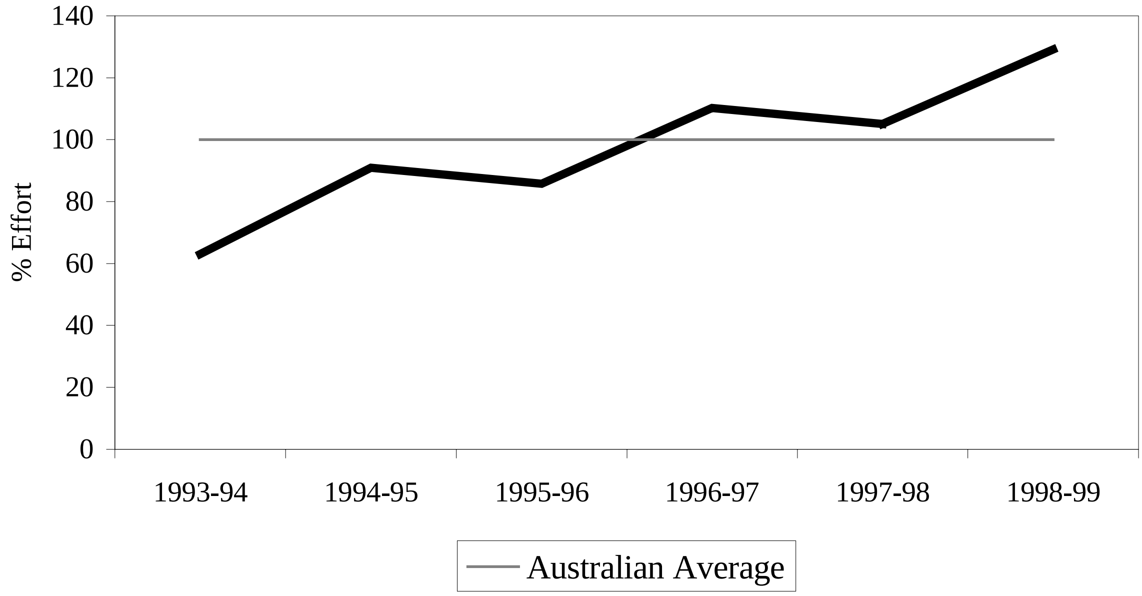
Other Revenue

One of the reasons Queensland has been able to maintain a low tax revenue raising effort over a long period of time is that there has been growth in the capacity to raise other forms of revenue. Other revenue includes:

- contributions by trading enterprises;
- interest earnings; and
- mining revenue.

Queensland's effort in raising "other revenue" (that is, own source revenue aside from taxation) in relation to other States is outlined in Chart 7.8 below. This shows increases in the "other revenue" raising effort from 63% in 1993-94 to around 130% in 1998-99.

Chart 7.8
Revenue Raising Effort – Other Revenue(1)



(1) Data prior to 1994-95 not available in comparable form.
Source: Commonwealth Grants Commission

Funding from the Commonwealth

Funding from the Commonwealth comprises general revenue, which can be used at the discretion of the recipient State, and specific purpose payments which are conditional payments tied to particular Commonwealth policy objectives.

Distribution of Payments to Queensland

Prior to 2000-01, general revenue was largely paid as financial assistance grants. However, from 2000-01, general revenue will comprise GST revenues, budget balancing assistance and national competition payments. The disbursement to the States of the financial assistance grants and GST revenues is determined by the Commonwealth Government following recommendations from the CGC. The CGC's recommendations are based on the principles of fiscal equalisation.

Queensland's funding for 2000-01 cannot be directly compared to previous years owing to the different composition of the general revenues. However, comparisons can be made between Queensland's share of funding and its relativity to Queensland's population share. Table 7.1 below demonstrates Queensland's Commonwealth funding shares for 1992-93 and 2000-01 and compares them with Queensland's population shares.

Table 7.1
Queensland's Relative Shares of Commonwealth Funding

	Queensland	Australia	Share %	Share Relative to Population %
1992-93				
General Revenue[1] ($m)	2,777.1	14,087.1	19.7	113
SPPs to the State ($m)	1,953.1	11,294.3	17.3	99
Total ($m)	**4,730.2**	**25,381.4**	**18.6**	**107**
Population ('000)	3,075.1	17,578.6	17.5	
2000-01				
General Revenue[2] ($m)	5,059.5	27,222.1	18.6	100
SPPs to the State ($m)	2,571.9	13,802.6	18.6	100
Total ($m)	**7,631.4**	**41,024.7**	**18.6**	**100**
Population ('000)	3,596.5	19,299.8	18.6	

(1) Comprises financial assistance grants, identified road grants and capital grants.
(2) Comprises GST, budget balancing assistance and national competition payments.
Source: Commonwealth Budget Papers

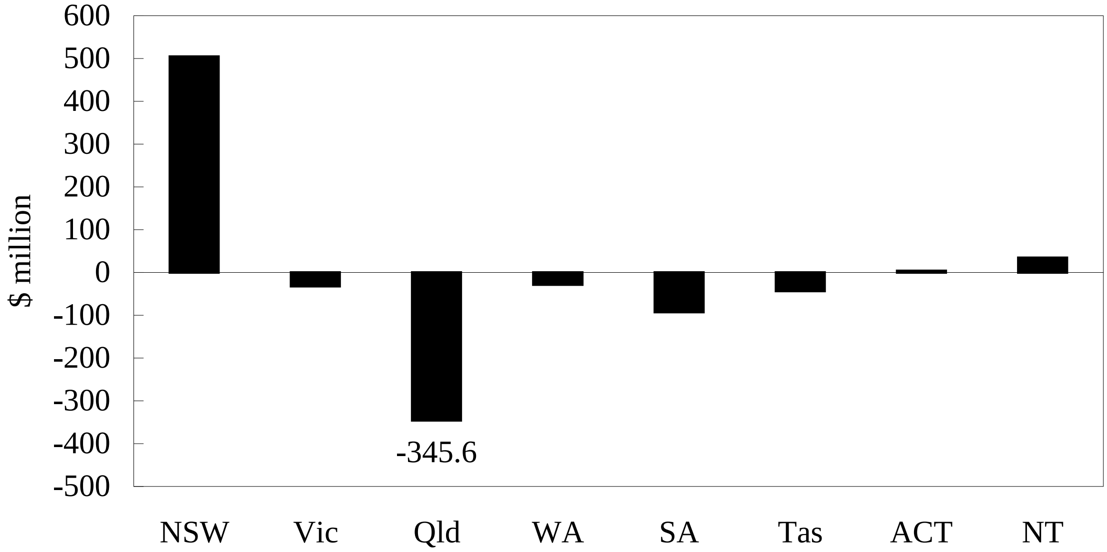
Queensland's share of general revenue relative to its population share has been declining over time. In 1992-93, Queensland's share of general revenue was 19.7% and its population share was 17.5%, indicating that Queensland received 13% more general revenue than its population share. For 2000-01, Queensland's share of general revenue and population share are both expected to be 18.6%, indicating that Queensland will receive a share equivalent to its population share.

On the other hand, Queensland's share of specific purpose payments to the State in 1992-93 was 17.3%, which was marginally below its population share. For 2000-01, Queensland's share of specific purpose payments is estimated to be 18.6% which is equivalent to its population share.

In total, Commonwealth funding to Queensland was 7% above its population share in 1992-93 but is expected to be equivalent to its population share in 2000-01. These data indicate a general decline in Queensland's relative share of funding from the Commonwealth since 1992-93.

The decline in Queensland's share of general revenue is not due generally to improvements in revenue capacities or expenditure disabilities. Rather it is largely a result of changes to the CGC's method of assessing States' needs. In its 1993 Review, the Commonwealth Grants Commission introduced a wages input costs factor and expanded the urbanisation factor to its assessment of State expenditures which largely benefited New South Wales at the expense of Queensland. Further, in its 1999 Review, the CGC introduced a capital depreciation assessment which benefited New South Wales at the expense of all other States. Based on CGC data, the effect of these changes, as shown in Chart 7.9, has been to redistribute $345.6 million away from Queensland to other States in 2000-01.

Chart 7.9
Impact of Urbanisation, Input Costs and Depreciation by State, 2000-01



Source: Commonwealth Grants Commission

Impact of Tax Reform on General Revenue

In addition to the decline in Queensland's share of general revenue, Commonwealth tax reform will exacerbate the already high levels of vertical fiscal imbalance. Higher levels of funding transferred from the Commonwealth to the States and lower levels of State's own source revenues will result in Queensland's fiscal flexibility being reduced.

The Commonwealth's tax reforms will result in the States receiving the revenues from GST largely at the expense of the abolition of a number of State taxes and the discontinuation of the Commonwealth's financial assistance grants and Section 90 payments to the States for petroleum, tobacco and alcohol. The introduction of the GST and the reduction in States' own source revenues mean that the States have reduced capacity to alter the mix or rates of State taxes in response to changing economic circumstances.

The pool of GST revenue for 2000-01 is estimated to be insufficient to compensate States for the revenue costs and additional expenditure responsibilities. To overcome this, the Commonwealth will be providing budget balancing assistance in the form of grants and loans to ensure that no State's budget position will be worse off as a result of tax reform.

Queensland's share of total budget balancing assistance over the transitional period of tax reform is low compared to other States. This is a direct result of Queensland's low tax policies for the taxes being abolished.

Any underestimation of the GST revenue will benefit the Commonwealth, and not the States, during the transition years. Above estimated amounts of GST will be offset by reducing the budget balancing assistance to the States. The potential for the State to access any possible upside potential in GST revenue does not exist at least until 2002-03. The State remains concerned that any increased funding may be offset by arbitrary Commonwealth changes to SPP funding arrangements and/or shifts in funding responsibilities for programs. Further detail on the impact of national tax reform is at Chapter 3 of Budget Paper No. 3.

Specific Purpose Payments

Overall, there has been some growth in specific purpose payments to Queensland since 1992-93. However, specific purpose payments do not provide full funding of services generally. Growth in specific purpose payments is generally accompanied by increased expenditure responsibilities which ultimately increase demands on the State Budget.

In calculating its relativities, the CGC includes the majority of specific purpose payments in its assessments. This results in offsetting interactions between a State's level of specific purpose payments and its general revenue share. In other words, increases in a State's specific purpose payments are generally offset by decreases in its share of general revenue.

There are insufficient Commonwealth guarantees on the overall amount of specific purpose payments. In addition, annual growth parameters apply only to a limited number of payment agreements. The Commonwealth has agreed not to reduce specific purpose payments to the States as a result of national tax reform. However, this does not prevent the Commonwealth from reducing specific purpose payments for reasons other than tax reform.

IMPACT OF PAST TRENDS ON FUTURE FISCAL PERFORMANCE

Future trends in the State's fiscal position will continue to be affected by external influences such as demographic and economic impacts. The Statement of Risks at Attachment C provides greater detail on some of the underlying Budget assumptions and specific factors that could impact during 2000-01 or in later years, giving an indication as to why the State needs to retain a prudent measure of fiscal flexibility within its Budget.

The State's strong balance sheet position and commitment to sound fiscal management principles in the Government's Charter of Social and Fiscal Responsibility will dictate the fiscal outcomes achieved. Based on the long term fiscal trends, the following conclusions can be drawn regarding Queensland's future fiscal position:

- the capital program will continue to be framed to meet the service needs of the State, while finding an equilibrium at a level that is sustainable in the long term, consistent with the Charter principles; and

- the effort to improve the efficiency of Government service delivery and consistent growth in revenue will assist to maintain operating surpluses in the long term.

Queensland's ability to cope with unexpected external changes is enhanced by the flexibility offered by the State's strong balance sheet position and low tax status. However, under National Tax Reform, Queensland has been penalised for its low tax status and the arrangements as a whole will reduce the flexibility of the State's taxation arrangements. If Queensland is to maintain its strong fiscal position into the long term, it will need to be treated equitably under the arrangements for distribution of GST and other Commonwealth funding, to allow the State's growing service and infrastructure demands to be met.

APPENDIX A

GOVERNMENT FINANCE STATISTICS

INTRODUCTION

This appendix contains financial statements for the Queensland Public Sector based on Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) standards. The tables herein provide the detailed Uniform Presentation Framework data required under the Australian Loan Council arrangements for uniform financial reporting. In line with these requirements, detailed information for the Public Financial Enterprise sector is not included, however estimated balances are included in General Government and Non-Financial State sector tables for comparability purposes.

An overview of GFS concepts and the differences between GFS and the General Purpose Financial Reports (GPFR), as well as a GFS and GPFR reconciliation, is provided in Appendix D. Detailed analysis of the data is provided in Chapters 3, 4 & 5. The tables also include 1998-99 comparative data which is derived from the 1998-99 audited Consolidated Financial Statements. In some cases, these data have been reclassified to conform with the accounting treatments applying in the Budget and outyears.

OPERATING POSITION

NET OPERATING RESULTS

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

The State Non-PFE sector recorded an estimated net operating surplus of $197 million in 1999-2000, mainly due to the PTE sector which recorded a net operating surplus of $157 million in 1999-2000.

GENERAL GOVERNMENT

The General Government sector operating result for 2000-01 is a surplus of $29 million ($40 million surplus in 1999-2000). Over the forward estimates period, the General Government sector is projected to maintain surpluses.

PUBLIC TRADING ENTERPRISES

The PTE sector is projected to have a GFS deficit of $80 million in 2000-01 ($157 million surplus in 1999-2000). The sector is projected to record operating surpluses over the forward estimates period.

STATE NON-PFE SECTOR

The consolidated operating result for the State sector in 2000-01 is a deficit of $51 million ($197 million surplus in 1999-2000).

Table A.1
General Government GFS Net Operating Result

		Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
OPERATING RESULT							
GFS Revenue							
	Taxation revenue	4,732	4,986	4,190	4,296	4,477	4,703
	Current grants and subsidies	6,256	6,356	8,242	8,601	8,975	9,380
	Capital grants	241	464	539	504	384	311
	Sales of goods and services	1,757	1,708	1,831	1,832	1,937	1,842
	Interest income	1,373	1,721	1,281	1,307	1,449	1,604
	Other	2,129	2,171	2,097	1,949	1,869	1,914
	Total Revenue	**16,488**	**17,407**	**18,180**	**18,489**	**19,091**	**19,755**
Less	**GFS Expenses**						
	Gross operating expenses	12,000	12,127	12,550	12,930	13,367	13,942
	Superannuation interest expense	643	598	594	690	800	928
	Other interest expense	154	259	337	317	328	327
	Current transfers	3,110	3,553	4,178	4,114	4,233	4,222
	Capital transfers	438	829	493	404	293	245
	Total Expenses	**16,345**	**17,367**	**18,152**	**18,456**	**19,021**	**19,664**
Equals	**GFS net operating balance**	**143**	**40**	**29**	**34**	**70**	**91**
Less	**Net acquisition of non-financial assets**						
	Gross fixed capital formation	2,073	2,465	2,233	1,679	1,435	1,396
	Less Depreciation	1,353	1,499	1,461	1,492	1,515	1,515
	Plus Change in inventories	3	1	28	13	24	1
	Equals Total net acquisition of non-financial assets	723	967	799	199	(56)	(118)
Equals	**GFS Net lending/borrowing (Fiscal Balance)**	**(580)**	**(927)**	**(771)**	**(166)**	**126**	**210**

Main features of the General Government operating statement are:

- the replacement of taxation revenue with grant revenue in 2000-01, reflecting changed arrangements under national tax reform;
- a strong performance in interest income in 1999-2000 arising from higher than anticipated investment returns;
- a continuing strong capital program in 2000-01, but reducing in the out-years, reflecting the completion of major capital works such as the Pacific Motorway project;
- an increase in current transfers in 2000-01 reflecting ongoing subsidy payments introduced under the Commonwealth's "safety net" arrangements (these payments previously were shown as a negative tax revenue);
- a 2000-01 operating surplus of similar magnitude to the 1999-2000 estimated actual outcome, and projected continuing operating surpluses; and

- a one-off capital grant expense of $363.5 million in 1999-2000 reflecting the ABS treatment of the transfer of the assets of the South East Queensland Water Board (SEQWB).
  In March 2000, the State transferred assets of the SEQWB to a consortium comprising 20% State ownership and 80% Local Government ownership.

  This transaction involved a disbursement to the public sector shareholders of the new entity. In line with accounting practice, this disbursement is shown as an extraordinary item in the GPFR operating statement and as a capital grant in the GPFR cash flow statement.

  Preliminary advice from the ABS is that for GFS purposes the $363.5 million distribution should be treated as a return of equity to the General Government sector and subsequently as a capital grant from the General Government sector. This treatment has been implemented in the GFS data, subject to final resolution of treatment of the transaction.

More detailed information is provided in Chapters 3 & 6.

Table A.2
Public Trading Enterprise GFS Net Operating Result

		Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
OPERATING RESULT							
GFS Revenue							
	Current grants and subsidies	1,030	1,060	972	857	865	898
	Capital grants	52	63	43	39	40	40
	Sales of goods and services	4,152	4,250	4,398	4,578	4,892	5,024
	Interest income	51	50	35	30	31	38
	Other	276	189	204	207	201	209
	Total Revenue	**5,562**	**5,611**	**5,653**	**5,711**	**6,030**	**6,209**
Less	**GFS Expenses**						
	Gross operating expenses	3,809	3,672	3,910	4,014	4,259	4,404
	Other interest expense	312	606	679	751	788	773
	Other property expenses	890	1,168	1,125	912	914	973
	Current transfers	67	8	12	12	12	12
	Capital transfers	113	..	7	..	..	..
	Total Expenses	**5,191**	**5,454**	**5,733**	**5,689**	**5,973**	**6,162**
Equals	**GFS net operating balance**	**372**	**157**	**(80)**	**22**	**56**	**47**
Less	**Net acquisition of non-financial assets**						
	Gross fixed capital formation	2,196	1,671	1,572	1,941	1,460	1,316
	Less Depreciation	919	976	1,046	1,116	1,190	1,245
	Plus Change in inventories	66	166	263	(5)	1	16
	Equals Total net acquisition of non-financial assets	1,343	862	789	819	271	87
Equals	**GFS Net lending/borrowing (Fiscal Balance)**	**(971)**	**(705)**	**(869)**	**(798)**	**(215)**	**(40)**

The outlook for the PTE sector is for relatively stable operating surpluses over the forward estimates period.

The operating deficit in 2000-01 reflects the fact that a number of entities, including the Home Purchase Assistance Account, Queensland Power Trading Corporation and the Queensland Motorways Company, will run operating deficits as part of their normal operations.

The GFS PTE operating result projections are typically lower than accounting presentation surpluses because they include dividend and tax equivalent payments as an operating expense.

The capital program in 1999-2000 and 2000-01 is lower compared with 1998-99 and 2001-02 due to the netting of proceeds from the transfer of SEQWB to local government in 1999-2000 and the proposed long term lease of the Dalrymple Bay Coal Terminal in 2000-01.

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

		Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
OPERATING RESULT							
GFS Revenue							
	Taxation revenue	4,315	4,776	3,975	4,076	4,244	4,452
	Current grants and subsidies	6,261	6,392	8,206	8,582	8,952	9,364
	Capital grants	275	527	582	543	424	351
	Sales of goods and services	5,784	5,868	6,137	6,330	6,749	6,786
	Interest income	1,424	1,771	1,316	1,337	1,480	1,642
	Other	1,509	1,190	1,175	1,237	1,147	1,139
	Total Revenue	**19,568**	**20,524**	**21,390**	**22,106**	**22,997**	**23,734**
Less	**GFS Expenses**						
	Gross operating expenses	15,331	15,707	16,366	16,857	17,536	18,255
	Superannuation interest expense	643	598	594	690	800	928
	Other interest expense	388	865	1,015	1,068	1,115	1,100
	Current transfers	2,162	2,327	2,965	3,030	3,125	3,068
	Capital transfers	529	829	500	404	293	245
	Total Expenses	**19,054**	**20,326**	**21,441**	**22,050**	**22,870**	**23,596**
equals	**GFS net operating balance**	**515**	**197**	**(51)**	**55**	**127**	**138**
less	**Net acquisition of non-financial assets**						
	Gross fixed capital formation	4,269	4,136	3,805	3,619	2,895	2,712
	Less Depreciation	2,272	2,475	2,508	2,608	2,705	2,760
	Plus Change in inventories	69	167	291	8	25	17
	Equals Total net acquisition of non-financial assets	2,066	1,829	1,589	1,019	216	(31)
equals	**GFS Net lending/borrowing (Fiscal Balance)**	**(1,552)**	**(1,631)**	**(1,640)**	**(963)**	**(89)**	**169**

BALANCE SHEET POSITION

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

As discussed in Appendix D, the format of these statements differs from the GPFR primarily as the GFS statements do not distinguish between current and non-current assets.

Equity that the State holds in the PTE sector has been included as an investment asset in the General Government sector, reflecting its ownership role. Accordingly, net worth of the General Government sector is the same as the net worth of the State Non-PFE Sector. This is the major difference between the accounting and GFS data.

The other major difference in the balance sheet data is that borrowings are shown on a market value basis in the GFS statements whereas in the GPFR statements borrowings are recorded at book value.

GENERAL GOVERNMENT

General Government estimated net worth for 1999-2000 is $57.342 billion, a decrease of $347 million over actual 1998-99 figures. This decrease is a result of the $1.837 billion write down of the State Water Projects (SWP) assets.

In the absence of the SWP asset write down, which was attributable solely to a change in accounting policy, the net worth of the General Government sector would have risen by $1.490 billion. A more detailed explanation of the effect of the accounting policy change is provided in Chapter 4.

PUBLIC TRADING ENTERPRISES

PTE estimated net worth for 2000-01 is $11.808 billion, a decrease of $410 million over the 1999-2000 estimated actual. This decrease is due to an expected increase in borrowings by Government Owned Corporations as part of the planned capital restructuring of certain PTEs.

Table A.4
General Government GFS Balance Sheet

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
ASSETS						
Financial Assets						
Cash and deposits	1,170	640	678	656	690	761
Advances paid	321	311	338	356	369	380
Investments, loans and placements	12,688	12,932	14,414	15,288	17,227	19,024
Other non-equity assets	4,372	5,093	4,995	5,310	5,695	6,134
Equity	12,908	13,148	12,860	13,153	13,625	14,114
Total	31,459	32,124	33,286	34,763	37,607	40,413
Non-Financial Assets	42,561	41,611	42,637	43,123	43,343	43,500
Total Assets	**74,020**	**73,735**	**75,923**	**77,887**	**80,950**	**83,913**
LIABILITIES						
Deposits held	..	..	..	..	1	1
Borrowing	2,999	3,509	3,987	4,260	4,571	4,869
Superannuation liability	7,993	7,970	9,252	10,642	12,159	13,789
Other employee entitlements and provisions	2,358	2,719	2,973	3,219	3,423	3,629
Other non-equity liabilities	2,981	2,196	1,935	877	861	846
Total Liabilities	**16,331**	**16,393**	**18,147**	**18,997**	**21,014**	**23,135**
Net Worth	**57,689**	**57,342**	**57,776**	**58,890**	**59,936**	**60,778**
Net Financial Worth	15,128	15,731	15,139	15,766	16,593	17,278
Net Debt	(11,180)	(10,373)	(11,444)	(12,040)	(13,716)	(15,295)

Main features of the General Government balance sheet are:

- a run-down in cash balances in 1999-2000 to fund capital works;
- a smaller than normal increase in investments in 1999-2000 reflecting the transfer of \$1.1 billion of assets from the Government's future liability accounts to the employees' superannuation funds. This is also reflected in a reduction in superannuation liability in 1999-2000; and
- a strong increase in investments in 2000-01 reflecting higher than expected superannuation fund earnings for 1999-2000.

Overall, the General Government balance sheet is exceptionally strong with sufficient investments to more than offset all liabilities. Net financial worth is positive and improving in the outyears. The decrease in net worth in 1999-2000 reflects a \$1.837 billion asset write down in State Water Projects asset values.

Net debt in the sector is negative, with the decrease in 1999-2000 reflecting the transfer of \$1.1 billion in investment assets from the Government's future liability accounts to employees' superannuation funds.

Table A.5
Public Trading Enterprise GFS Balance Sheet

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
ASSETS						
Financial Assets						
Cash and deposits	684	664	873	896	886	855
Advances paid	1	..	..	..	..	..
Investments, loans and placements	720	1,042	740	739	743	748
Other non-equity assets	2,078	1,779	1,642	1,684	1,731	1,746
Equity	122	12	209	208	208	208
Total	3,604	3,498	3,464	3,527	3,568	3,556
Non-Financial Assets	21,837	23,381	24,676	25,755	26,432	26,951
Total Assets	**25,442**	**26,879**	**28,140**	**29,283**	**30,000**	**30,507**
LIABILITIES						
Deposits held	123	13	13	13	13	13
Borrowing	9,092	10,291	11,791	12,628	12,718	12,552
Other employee entitlements and Provisions	2,398	3,099	3,370	3,502	3,687	3,901
Other non-equity liabilities	1,207	1,258	1,158	1,038	1,010	981
Total Liabilities	**12,819**	**14,661**	**16,332**	**17,181**	**17,428**	**17,447**
Net Worth	**12,622**	**12,218**	**11,808**	**12,101**	**12,572**	**13,061**
Net Financial Worth	(9,215)	(11,164)	(12,868)	(13,654)	(13,860)	(13,890)
Net Debt	7,810	8,598	10,191	11,006	11,102	10,962

The PTE sector continues to maintain strong infrastructure spending, with non-financial assets increasing from $21.837 billion to $26.951 billion over the projection period. New infrastructure spending is primarily funded by debt. Accordingly, net worth for the sector shows gradual growth from 2000-01 onwards.

Table A.6 State Non-PFE GFS Balance Sheet						
	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
ASSETS						
Financial Assets						
Cash and deposits	1,854	1,304	1,551	1,552	1,576	1,616
Advances paid	374	311	338	356	369	380
Investments, loans and placements	13,356	13,974	15,155	16,027	17,970	19,772
Other non-equity assets	3,232	3,498	2,906	3,048	3,287	3,545
Equity	405	943	1,261	1,261	1,262	1,261
Total	19,221	20,030	21,211	22,243	24,464	26,574
Non-Financial Assets	64,398	64,993	67,312	68,879	69,775	70,451
Total Assets	**83,619**	**85,022**	**88,523**	**91,122**	**94,240**	**97,025**
LIABILITIES						
Deposits held	123	13	13	13	14	14
Borrowing	12,091	13,800	15,778	16,888	17,289	17,421
Superannuation liability	7,993	7,970	9,252	10,642	12,159	13,789
Other employee entitlements and Provisions	2,274	2,683	2,817	2,983	3,191	3,427
Other non-equity liabilities	3,449	3,214	2,888	1,706	1,651	1,595
Total Liabilities	**25,930**	**27,680**	**30,747**	**32,232**	**34,304**	**36,247**
Net Worth	**57,689**	**57,342**	**57,776**	**58,890**	**59,936**	**60,778**
Net Financial Worth	(6,709)	(7,650)	(9,537)	(9,989)	(9,840)	(9,673)
Net Debt	(3,370)	(1,776)	(1,253)	(1,034)	(2,612)	(4,332)

Overall the strong financial position of the Queensland government is being maintained with increasing net financial worth, and overall negative net debt.

STATEMENT OF CASH FLOWS

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

GENERAL GOVERNMENT

The GFS outcome for 2000-01 is expected to be a surplus of $330 million ($18 million underlying surplus in 1999-2000). The improvement largely reflects the transfer in 1999-2000 of superannuation assets from the Government's future liability accounts to employees' superannuation funds. Under GFS, this transfer is treated as payments for goods and services.

Lower expenditure on non-financial assets due to the completion of recent major capital works projects and an improvement in the operating cash position also contribute to the projected surplus in 2000-01 (particularly interest earnings from the State's superannuation investments).

In the outyears, the situation is expected to improve, with a surplus of $1.611 billion expected by 2003-04. This improving trend largely reflects lower levels of capital expenditure in the outyears, aided by a stronger operating surplus.

PUBLIC TRADING ENTERPRISES

The expected GFS outcome for 2000-01 is a deficit of $526 million ($561 million deficit in 1999-2000).

The sector also shows an improving trend in the outyears due largely to projected lower levels of capital expenditure.

Table A.7
General Government GFS Statement of Cash Flows

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
Receipts from operating activities						
Taxes received	4,780	4,987	4,189	4,296	4,477	4,703
Grants and subsidies received	6,660	6,953	8,729	9,113	9,366	9,694
Sales of goods and services	1,825	1,945	1,879	1,892	1,989	1,891
Other receipts	3,489	3,356	2,983	2,832	2,803	2,933
Total	16,754	17,241	17,780	18,132	18,634	19,221
Payments for operating activities						
Payments for goods and services	(10,191)	(11,910)	(11,019)	(11,640)	(11,812)	(12,376)
Interest	(346)	(194)	(232)	(289)	(335)	(337)
Grants and subsidies	(3,300)	(3,052)	(3,070)	(2,942)	(2,835)	(2,733)
Other payments	(201)	(703)	(905)	(688)	(750)	(769)
Total	(14,038)	(15,859)	(15,226)	(15,560)	(15,732)	(16,214)
Net cash inflows from operating activities	**2,716**	**1,382**	**2,554**	**2,573**	**2,903**	**3,007**
Payments for investments in non-financial assets						
Purchases of non-financial assets	(2,733)	(2,757)	(2,579)	(1,991)	(1,822)	(1,732)
Sales of non-financial assets	682	292	355	295	387	337
Total	(2,051)	(2,464)	(2,224)	(1,696)	(1,435)	(1,395)
Payments for investments in financial assets for policy purposes	**657**	**498**	**466**	**365**	**(87)**	**(84)**
Payments for investments in financial assets for liquidity purposes	**(217)**	**(188)**	**(1,506)**	**(1,527)**	**(1,657)**	**(1,756)**
Receipts from financing activities						
Advances received (net)	(20)	2	18	(15)	(29)	(37)
Borrowing (net)	(82)	240	731	278	339	336
Deposits received (net)	(119)	..	..	..	..	1
Total	(221)	242	748	263	310	300
Net Increase (Decrease) In Cash Held	**884**	**(530)**	**38**	**(22)**	**34**	**71**
Net cash from operating activities and investments in non-financial assets	665	(1,082)	330	877	1,468	1,611
GFS Surplus (Deficit)	**665**	**(1,082)**[1]	**330**	**877**	**1,468**	**1,611**

Note:

1. The published deficit for 1999-2000 includes a $1.1 billion transfer of funds to the employees' superannuation funds, which is treated as payments for goods and services. Net of this amount there is an underlying surplus of $18 million.

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

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
Receipts from operating activities						
Grants and subsidies received	722	1,373	1,113	881	890	923
Sales of goods and services	4,344	4,391	4,438	4,566	4,861	4,997
Other receipts	638	175	192	177	171	185
Total	5,704	5,939	5,744	5,624	5,923	6,105
Payments for operating activities						
Payments for goods and services	(1,724)	(1,460)	(1,579)	(1,388)	(1,433)	(1,460)
Interest	(673)	(634)	(674)	(697)	(750)	(743)
Grants and subsidies	(67)	(375)	(18)	(11)	(12)	(12)
Other payments	(1,908)	(1,584)	(1,575)	(1,558)	(1,598)	(1,657)
Total	(4,372)	(4,053)	(3,847)	(3,655)	(3,792)	(3,871)
Net cash inflows from operating activities	**1,332**	**1,886**	**1,897**	**1,969**	**2,131**	**2,234**
Payments for investments in non-financial assets						
Purchases of non-financial assets	(2,599)	(2,092)	(2,275)	(1,967)	(1,475)	(1,365)
Sales of non-financial assets	370	446	733	53	40	74
Total	(2,229)	(1,646)	(1,542)	(1,914)	(1,435)	(1,291)
Payments for investments in financial assets for policy purposes	**145**	**(563)**	**(236)**	**(10)**	**(12)**	**(13)**
Payments for investments in financial assets for liquidity purposes	**13**	**7**	**11**	**(5)**	**(12)**	**(22)**
Receipts from financing activities						
Advances received (net)	(23)	(1)	8	8	8	9
Borrowing (net)	615	1,179	1,307	773	35	(216)
Deposits received (net)	104	(110)	..	..	..	..
Distributions paid	(713)	(794)	(879)	(798)	(724)	(733)
Other financing (net)	..	22	(357)	..	..	..
Total	(17)	297	79	(16)	(681)	(941)
Net Increase (Decrease) In Cash Held	**(756)**	**(20)**	**209**	**24**	**(10)**	**(32)**
Net cash from operating activities and investments in non-financial assets	(897)	240	355	55	696	944
Finance leases and similar arrangements	..	6	2	1	..	..
Distributions paid	(713)	(794)	(879)	(798)	(724)	(733)
GFS Surplus (Deficit)	**(1,610)**	**(561)**	**(526)**	**(744)**	**(29)**	**210**

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

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
Receipts from operating activities						
Taxes received	4,431	4,777	3,974	4,076	4,244	4,452
Grants and subsidies received	6,713	7,302	8,833	9,118	9,369	9,702
Sales of goods and services	5,716	5,806	6,190	6,381	6,781	6,818
Other receipts	2,328	2,735	2,295	2,204	2,240	2,374
Total	19,188	20,620	21,292	21,778	22,635	23,345
Payments for operating activities						
Payments for goods and services	(11,462)	(13,907)	(13,131)	(13,538)	(13,684)	(14,169)
Interest	(938)	(829)	(906)	(986)	(1,084)	(1,079)
Grants and subsidies	(2,698)	(2,817)	(3,088)	(2,954)	(2,846)	(2,744)
Other payments	(755)	(593)	(594)	(557)	(712)	(845)
Total	(15,853)	(18,146)	(17,720)	(18,035)	(18,326)	(18,838)
Net cash inflows from operating activities	**3,335**	**2,474**	**3,572**	**3,744**	**4,309**	**4,508**
Payments for investments						
In non-financial assets						
Purchases of non-financial assets	(5,332)	(4,849)	(4,855)	(3,958)	(3,298)	(3,097)
Sales of non-financial assets	1,052	738	1,088	348	427	411
Total	(4,280)	(4,111)	(3,766)	(3,610)	(2,870)	(2,686)
Payments for investments in financial assets for policy purposes	**802**	**(43)**	**(128)**	**355**	**(99)**	**(97)**
Payments for investments in financial assets for liquidity purposes	**(204)**	**(181)**	**(1,494)**	**(1,532)**	**(1,669)**	**(1,778)**
Receipts from financing activities						
Advances received (net)	(43)	1	26	(7)	(20)	(29)
Borrowing (net)	533	1,420	2,038	1,051	374	121
Deposits received (net)	(15)	(110)	..	..	..	1
Total	475	1,310	2,063	1,044	354	93
Net Increase (Decrease) In Cash Held	**127**	**(549)**	**247**	**1**	**24**	**40**
Net cash from operating activities and investments in non-financial assets	(945)	(1,636)	(195)	134	1,439	1,822
Finance leases and similar arrangements	..	6	2	1	..	..
GFS Surplus (Deficit)	**(945)**	**(1,642)**[1]	**(197)**	**133**	**1,439**	**1,822**

Note:

1. The published deficit for 1999-2000 includes a $1.1 billion transfer of funds to the employees' superannuation funds, which is treated as payments for goods and services. Net of this amount the underlying position is a deficit of $542 million.

OTHER GFS DATA

Data presented in Table A.10 provides details of taxation revenue collected by the General Government sector. The data is presented in accordance with GFS and Uniform Presentation Framework guidelines which presents data on a consolidated basis and net of *ex gratia* refunds. This is different from the treatment of revenue presented in Chapter 2 of Budget Paper 3, which presents revenue data on a gross basis. In addition, in line with ABS guidelines, the revenue replacement grants (net of subsidy payments) provided by the Commonwealth in lieu of the former franchise fees, are shown as taxes (these grants cease from 1 July 2000).

Table A.10
Taxation: GFS Basis

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million
Taxes on Employers' Payroll and Labour Force	1,012	1,096	1,175
Taxes on Property			
Land Taxes	227	220	225
Stamp Duties on Financial and Capital Transactions	784	909	818
Financial Institutions' Transactions Taxes	277	287	294
Other	16	25	26
Taxes on the Provision of Goods and Services			
Excises and Levies	142	168	177
Taxes on Gambling	645	646	495
Taxes on Insurance	183	217	232
Taxes on Use of Goods and Performance of Activities			
Motor Vehicles	684	684	748
Franchise Taxes	747	735	..
Other	15	..	..
Total Taxes	**4,732**	**4,986**	**4,190**

LOAN COUNCIL ALLOCATION

Table A.11 presents the State's revised *Loan Council Allocation* (LCA) nomination for 2000-01 and the estimated outcome for 1999-2000.

Table A.11
Queensland Loan Council Allocation

	Est. Actual 1999-2000 $ million	Budget 2000-01 $ million
General Government Deficit (Surplus)[1]	1,082	(330)
Public Trading Enterprise Deficit (Surplus)[1]	561	526
Non-PFE State Government Deficit (Surplus)[1]	**1,642**	**197**
Advances paid (net)	(43)	(128)
Memorandum Items[2]	(1,147)	(52)
LOAN COUNCIL ALLOCATION	**453**	**16**

1. Figures in brackets represent surpluses.
2. A $1.1 billion transfer of funds set aside for employee entitlements to the State Public Sector Superannuation Scheme Members' Trust Fund in 1999-2000 was effected to improve efficiency in that Fund of cashflows and reduce costs of member' benefits. As the transfer resulted in the extinguishment of the State's related liability to pay those funds to members upon retirement, the transaction was neutral in its impact on the State's Balance Sheet and operating position.
   Other memorandum items include items such as local government borrowings. Although University borrowings are no longer included in the Non-PFE State Government sector under current ABS classification arrangements, they remain within the State's LCA nomination, for Loan Council purposes.

The 2000-01 Budget LCA projected outcome is $16 million. This compares with a 1999-2000 LCA nomination outcome of $453 million.

The projected lower LCA outcome for 2000-01 mainly reflects a higher cash surplus for the General Government sector. The turnaround in the General Government sector reflects lower investment in non-financial assets and an improved operating cash position.

APPENDIX B

FINANCIAL STATEMENTS – GENERAL PURPOSE FINANCIAL REPORT PRESENTATION

INTRODUCTION

The budgeted financial statements in this appendix comprise a Statement of Financial Performance, Statement of Financial Position and a Statement of Cash Flows for the General Government, Public Trading Enterprises and Total (Non-Public Financial Enterprises) State Sectors for the year 2000-01 together with outyear projections to 2003-04. Comparative information, representing 1998-99 actual figures and 1999-2000 estimated actual figures also are shown.

BASIS OF REPORTS

The General Purpose Financial Report (GPFR) statements contained in this appendix have been prepared in accordance with generally accepted accounting principles, including AAS 24 *Consolidated Financial Reports.*

They differ from the statements contained in Appendix A, which are prepared in terms of Government Finance Statistics (GFS) Standards and the Accrual Uniform Presentation Framework of the Australian Loan Council.

For this reason, the operating results as per the GPFR presentation in this appendix differ from the operating results recorded in the GFS presentation.

Reconciliation between the two perspectives and further explanation as to the differences between the GPFR and GFS presentations are provided in Appendix D.

The accounting policies adopted in the preparation of the 2000-01 budgeted statements and outyear projections generally are consistent with those used for the 1999-2000 estimated actual results. However, the format of the Budgeted Statements of Financial Performance has been varied to conform to revised Australian Accounting Standard AAS1 *Statement of Financial Performance.*

In terms of that standard, abnormal items no longer are disclosed separately on the face of the Statements of Financial Performance but form part of revenues and expenses from ordinary activities. In addition, borrowing costs now are shown separately on the face of the statements.

The 1998-99 actual figures and 1999-2000 estimated actual figures have been restated, where appropriate, to conform to the new format and to ensure valid comparisons.

All estimates and projections assume a continuation of the policies reflected in the outputs proposed to be delivered by agencies, including new initiatives.

In the Government's capacity as a taxpayer under the Commonwealth's Goods and Services Tax (GST) arrangements, which applied from 1 July 2000, the budgeted financial statements do not include any estimates relating to GST, as there is insufficient historical data available to calculate these amounts. A similar reporting position also has been adopted by a number of other State jurisdictions.
Allowance has been made, however, for higher expenses in the case of public housing and financial services as these items are input taxed and therefore, GST paid by State Budget Sector entities will not be recoverable.

For disclosure purposes, inter and intra-entity transactions and balances have been eliminated in the financial statements, where they are material and to the extent practicable.

Only those agencies considered material by virtue of the size of their financial operations or balances are consolidated for the purposes of this appendix. These agencies are listed in Appendix D.

The Budgeted Statements of Financial Position adopt historical cost accounting principles except for certain assets and liabilities, principally non-current physical assets and loan borrowings that generally, are at valuation.

In terms of Queensland Treasury's *Guidelines for the Recording and Valuation of Non-Current Physical Assets in the Queensland Public Sector*, all non-current physical assets are valued using 'deprival value' methodology except for certain State water infrastructure assets that now are carried at 'fair value'.

All comparatives in the commentary sections of this appendix relate to 1999-2000 estimated actual figures.

Also included in this appendix is a range of notes to the financial statements to facilitate better the analysis of data contained in the statements.

SCOPE OF STATEMENTS

The anticipated revenues, expenses and net operating results for each sector are shown in the Budgeted Statements of Financial Performance. The projected assets and liabilities and the Government's equity in the respective sectors are detailed in the Budgeted Statements of Financial Position.

The Budgeted Statements of Cash Flows indicate the ability of the respective sectors to generate sufficient cash flows to meet their financial commitments as they fall due. They also indicate the ability of the respective sectors to fund changes in the scope and/or nature of their activities and to obtain external finance, where this is necessary.

The contingent assets and liabilities of the various sectors are not recognised in the Budgeted Statements of Financial Position as they represent items where there is significant uncertainty at balance date, as to the necessity for the Government to receive or make payments in respect of them.

The value of certain assets, including State quarry resources, State native forestry resources (but not self-generating and regenerating assets such as the State's commercial forests), land under roads and railway corridor land also are not included in the Statements of Financial Position. This is due to the difficulty in determining a reliable deprival value for these assets.

Although the value of the collections held by the State Art Gallery, State Museum and State Library are valued and recognised in the Budgeted Statements of Financial Position, certain other manuscripts, historical artifacts and heritage assets are excluded because of the unique nature of the items and/or the difficulty in determining a reliable deprival value. Based on a whole of Government position, it is considered that the value of these items is not material.

From 1 July 1999, new intangible assets with a value greater than an asset recognition threshold (maximum of $50,000) must be recognised by public sector agencies. In a number of instances, intangibles prior to this date have been expensed.

GENERAL GOVERNMENT SECTOR

The primary function of General Government Sector (GGS) agencies is to provide public services that are non-trading in nature and that are for the collective benefit of the community, involve the transfer or redistribution of income and are financed largely by way of grants, taxes, fees and other compulsory charges.

The sector comprises the core ministerial departments as well as a number of statutory bodies that deliver services of a General Government nature.

GENERAL GOVERNMENT SECTOR - BUDGETED STATEMENT OF FINANCIAL PERFORMANCE

This statement, Table B.1, sets out the estimated actual and budgeted revenues and expenses of the sector for the years shown, together with anticipated extraordinary items.

The net operating result of the sector, which represents the surplus/deficit of revenues less expenses and extraordinary items, also forms part of the movement in the accumulated surpluses and general equity of the sector for the year as shown in the Statement of Financial Position, Table B.2.

As indicated previously, a reconciliation between the GPFR operating results as indicated in this appendix and the GFS operating results shown in Appendix A is contained in Appendix D.

Table B.1
General Government Sector – Budgeted Statement of Financial Performance

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
REVENUE						
Commonwealth and other grants[1]	7,964	8,171	8,790	9,113	9,366	9,694
Sales of goods and services	1,385	1,329	1,410	1,408	1,501	1,404
Taxes, fees and fines	4,378	4,650	4,611	4,731	4,929	5,161
Investment income	2,593	3,269	2,734	2,642	2,645	2,857
Royalties and other territorial revenue	525	478	508	550	587	579
Other	509	422	136	624	71	68
Total revenue from ordinary activities	**17,354**	**18,319**	**18,189**	**19,068**	**19,099**	**19,763**
EXPENSES						
Employee entitlements[2]	7,897	8,325	8,582	9,085	9,511	10,049
Supplies and services	3,138	2,804	2,996	2,964	3,055	3,217
Depreciation and amortisation[3]	1,353	1,499	1,461	1,493	1,515	1,515
Grants and other contributions	4,063	4,589	4,632	4,483	4,490	4,431
Borrowing costs	315	309	337	317	328	327
Asset write-downs and decrements	233	532	199	409	175	176
Other	32	138	132	108	120	123
Total expenses from ordinary activities	**17,031**	**18,196**	**18,339**	**18,859**	**19,194**	**19,838**
OPERATING RESULT FROM ORDINARY ACTIVITIES	**323**	**123**	**(150)**	**209**	**(95)**	**(75)**
Extraordinary items	143	-	-	-	-	-
NET OPERATING RESULT	**466**	**123**	**(150)**	**209**	**(95)**	**(75)**

Note: 1999-2000 estimated actual figures are unaudited.

	Actual 1998-99 $million	Est. Actual 1999-00 $million	Estimate 2000-01 $million	Projection 2001-02 $million	Projection 2002-03 $million	Projection 2003-04 $million
Note 1 – Commonwealth and other grants						
Commonwealth grants	7,599	7,967	8,553	8,914	9,186	9,525
Donations, gifts and services received at below fair value	131	6	6	8	8	2
Industry/community contributions	156	150	155	153	148	148
Other	78	48	76	38	24	19
Total	7,964	8,171	8,790	9,113	9,366	9,694

	Actual 1998-99 $million	Est. Actual 1999-00 $million	Estimate 2000-01 $million	Projection 2001-02 $million	Projection 2002-03 $million	Projection 2003-04 $million
Note 2 – Employee entitlements						
Salaries and wages	5,911	6,339	6,482	6,844	7,097	7,482
Employer superannuation expense	1,388	1,292	1,368	1,493	1,634	1,766
Annual leave	300	362	371	359	366	369
Long service leave	146	193	210	231	254	271
Other employee related expenses	152	139	151	158	160	161
Total	7,897	8,325	8,582	9,085	9,511	10,049
Note 3 – Depreciation and amortisation						
Infrastructure	638	698	693	704	704	704
Buildings	351	385	389	403	425	427
Plant and equipment	298	363	321	331	328	331
Heritage and cultural assets	32	0	0	0	0	0
Leased plant and equipment	4	3	4	4	4	4
Software development	28	33	35	32	36	31
Intangibles	2	17	19	19	18	18
Total	1,353	1,499	1,461	1,493	1,515	1,515

As indicated in Table B.1, there is a budgeted net operating deficit of $150 million in the General Government Sector for 2000-01 (1999-2000, $123 million surplus).

The table also discloses net operating deficits of $95 million and $75 million for the years 2002-03 and 2003-04 respectively. These deficits are due primarily to increased budgeted asset write-downs, particularly in respect of the decommissioning of roads. These write-downs are excluded in the corresponding GFS Operating Statement presentation.

Comment on the amounts making up the 2000-01 outcome follows:

Operating Revenue

The total budgeted operating revenue of the sector for 2000-01 is $18.189 billion (1999-2000, $18.319 billion), a decrease of $130 million from the previous year.

This decrease is attributable mainly to lower expected investment income of $535 million due to a reduction in expected investment returns in line with projected long-term averages.

‘Other’ revenue is forecast to decrease by $286 million as the result of the inclusion in the 1999-2000 results of additional revenue from the sale of the Totalisator Administration Board of Queensland and the State’s share in the distribution of the equity of the South East Queensland Water Board.

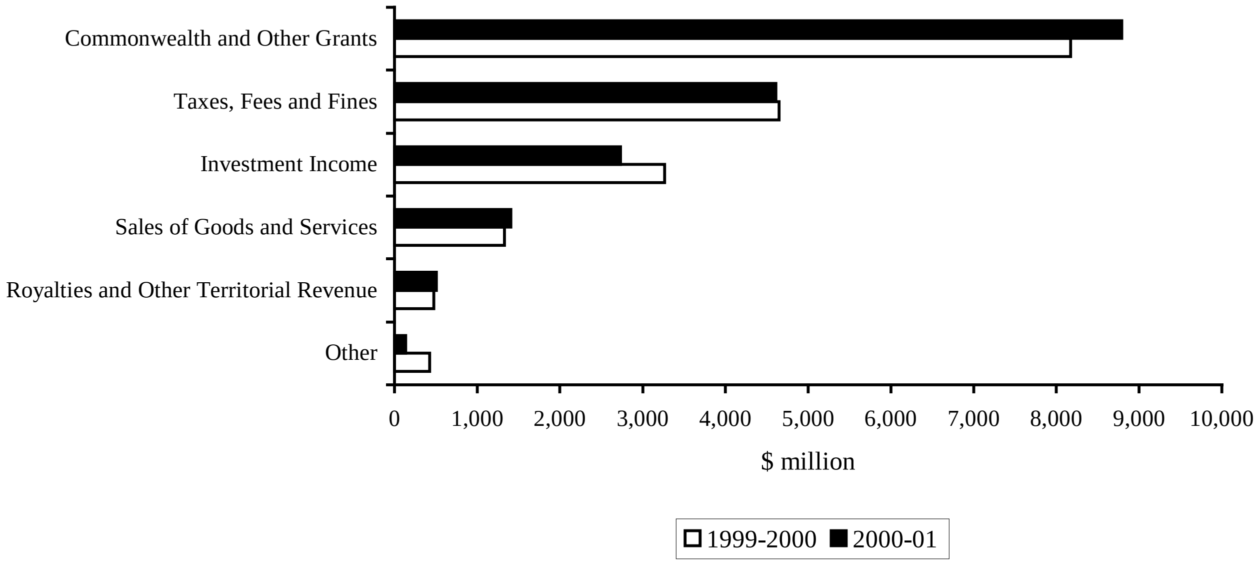
State taxes are expected to decrease by $39 million in 2000-01 due to the effect of national tax reform arrangements.

Offset against these decreases are anticipated increases in Commonwealth and other grants of $619 million due to the implementation of national tax reforms, coupled with increased sales of goods and services of $81 million, the latter being consistent with the State's underlying economic growth.

Royalties and other territorial revenue also are expected to rise by $30 million in line with production forecasts and the impact of a lower $A exchange rate.

Movements in the main categories of revenues between the 1999-2000 estimated actual figures and the 2000-01 Budget are detailed in Chart B.1.

Chart B.1
General Government Sector - Budgeted Revenue by Types
($18,189 million)



Operating Expenses

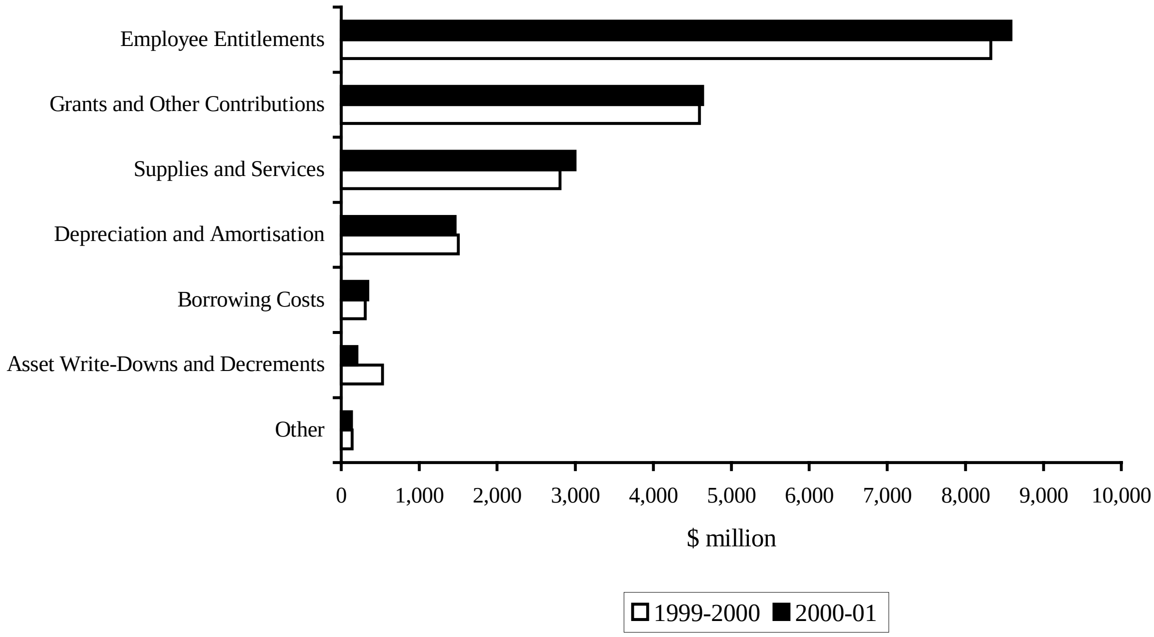
Budgeted operating expenses for the sector for 2000-01 are $18.339 billion (1999-2000, $18.196 billion), an increase of $143 million from the previous year.

This increase is attributable mainly to higher budgeted outlays for employee entitlements of $257 million reflecting recent Enterprise Bargaining Agreement increases, increased supplies and services of $192 million due to the impact of new initiative funding and an increase in grants and other contributions of $43 million.

Offset against this is an expected reduction in budgeted asset write-downs and decrements of $333 million due principally to the inclusion in 1999-2000 of a $204 million write-down in Education Department assets following an increase in that department's asset recognition thresholds and the expensing of the department's school library assets.

Movements in the main categories of expenses between the 1999-2000 estimated actual figures and the 2000-01 budgeted results are detailed in Chart B.2.

Chart B.2
General Government Sector - Budgeted Expenses by Types
($18,339 million)



GENERAL GOVERNMENT SECTOR - BUDGETED STATEMENT OF FINANCIAL POSITION

This statement, Table B2, shows the assets and liabilities of the sector at 30 June for the years shown, together with the equity held by the Government in the sector at those dates, after allowing for surpluses(deficits) in operations and movements in reserves.

Table B.2
General Government Sector – Budgeted Statement of Financial Position

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
CURRENT ASSETS						
Cash	1,170	640	679	656	690	761
Receivables	2,205	2,456	2,475	2,624	2,861	3,175
Investments	298	931	305	324	343	341
Loans and advances	55	68	72	59	53	47
Inventories	147	159	186	199	223	224
Other	384	215	189	162	135	109
Total Current Assets	**4,259**	**4,469**	**3,906**	**4,024**	**4,305**	**4,657**
NON-CURRENT ASSETS						
Receivables	497	547	125	126	121	121
Investments	22,066	21,841	23,513	24,114	26,064	27,891
Loans and advances	387	364	389	418	435	449
Property, plant and equipment[1]	41,898	41,093	42,077	42,569	42,771	42,902
Intangibles	308	346	360	341	335	360
Deferred tax assets	1,283	1,682	2,029	2,271	2,478	2,659
Other	233	204	188	137	110	81
Total Non-Current Assets	**66,672**	**66,077**	**68,681**	**69,978**	**72,314**	**74,463**
Self-generating and regenerating assets	3	3	3	3	3	3
TOTAL ASSETS	**70,934**	**70,549**	**72,590**	**74,004**	**76,622**	**79,123**
CURRENT LIABILITIES						
Payables	1,055	721	471	455	466	475
Interest-bearing liabilities	188	509	948	1,796	2,193	2,618
Provisions[2]	625	871	1,030	1,195	1,349	1,488
Other	250	168	146	126	110	94
Total Current Liabilities	**2,118**	**2,269**	**2,595**	**3,572**	**4,118**	**4,675**
NON-CURRENT LIABILITIES						
Payables	245	161	175	184	194	205
Interest-bearing liabilities	2,868	3,051	3,089	2,514	2,427	2,303
Provisions[2]	9,089	9,014	10,329	11,758	13,319	15,029
Deferred tax liabilities	636	795	855	889	884	861
Other	1,457	1,153	1,154	130	121	112
Total Non-Current Liabilities	**14,295**	**14,174**	**15,602**	**15,475**	**16,945**	**18,510**
TOTAL LIABILITIES	**16,413**	**16,443**	**18,197**	**19,047**	**21,063**	**23,185**
NET ASSETS	**54,521**	**54,106**	**54,393**	**54,958**	**55,559**	**55,938**
EQUITY						
Accumulated surpluses and general equity	45,988	45,154	45,003	45,125	45,283	45,218
Asset revaluation and other reserves	8,533	8,952	9,389	9,833	10,276	10,720
TOTAL EQUITY	**54,521**	**54,106**	**54,393**	**54,958**	**55,559**	**55,938**

Note: 1999-2000 estimated actual figures are unaudited.

	Actual 1998-99 $million	Est. Actual 1999-00 $million	Estimate 2000-01 $million	Projection 2001-02 $million	Projection 2002-03 $million	Projection 2003-04 $million
Note 1 - Property, plant and equipment						
Infrastructure	16,762	15,913	16,264	15,847	15,351	14,830
Land and buildings	20,855	21,306	21,986	22,409	22,659	22,706
Plant and equipment	1,547	1,636	1,456	1,429	1,468	1,583
Heritage and cultural assets	466	303	305	305	305	305
Leased plant and equipment	32	28	24	20	16	12
Capital works in progress	2,236	1,907	2,042	2,559	2,972	3,466
Total	41,898	41,093	42,077	42,569	42,771	42,902
Note 2 - Provisions - current and non-current						
Annual leave	411	422	417	418	419	421
Long services leave	1,004	1,097	1,205	1,327	1,463	1,613
Superannuation	7,993	7,971	9,251	10,642	12,159	13,789
Other employee entitlements	144	119	126	128	138	157
Other	162	276	360	438	489	537
Total	9,714	9,885	11,359	12,953	14,668	16,517

Assets

As indicated in Table B.2, the total assets held by the sector at 30 June 2001 have an estimated value of $72.590 billion (30 June 2000, $70.549 billion). This represents a $2.041 billion increase over that recorded at the previous 30 June and is attributable primarily to budgeted rises in the value of investments held of $1.046 billion, reflecting the receipt of higher investment returns to be reinvested and the receipt in 2000-01 of the proceeds of the second tranche of the Suncorp-Metway Exchanging Instalment Notes (EINs).

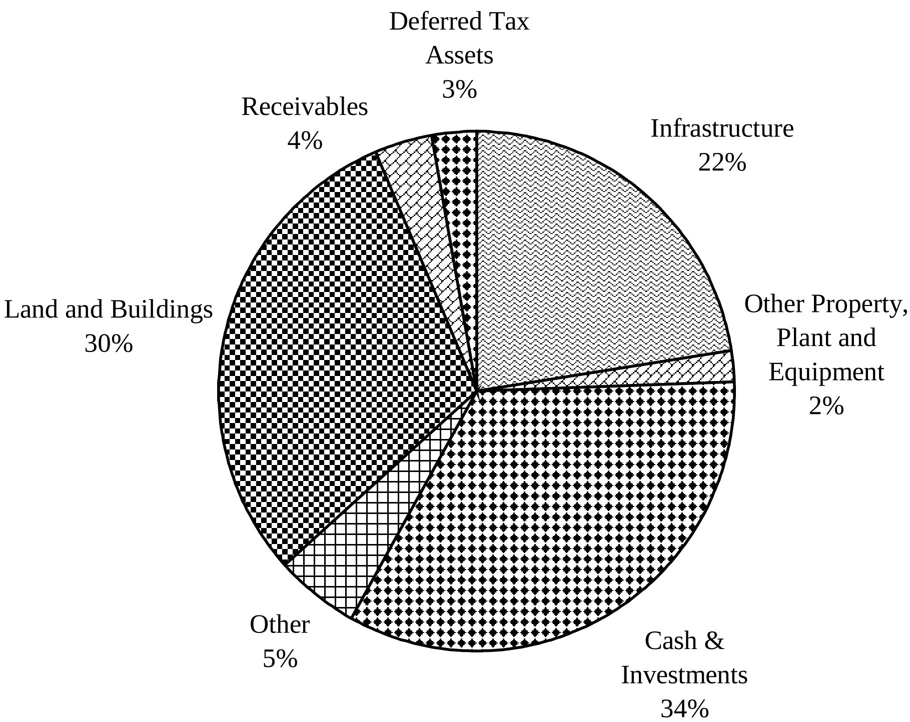
Property, plant and equipment also is expected to increase by $984 million as a result of the State's expanded capital works program.

Deferred tax assets, representing future receivables of tax equivalents from the Public Trading Enterprises Sector are expected to increase by $347 million.

Offset against the foregoing increases is an expected decrease in receivables of $403 million. This is due mainly to the inclusion in the 1999-2000 total for receivables of $442 million in respect of the second tranche of the Suncorp-Metway EINs.

The main types of assets estimated to be held by the sector at 30 June 2001 are detailed in Chart B.3.

Chart B.3
General Government Sector - Budgeted Assets by Types
($72,590 million)

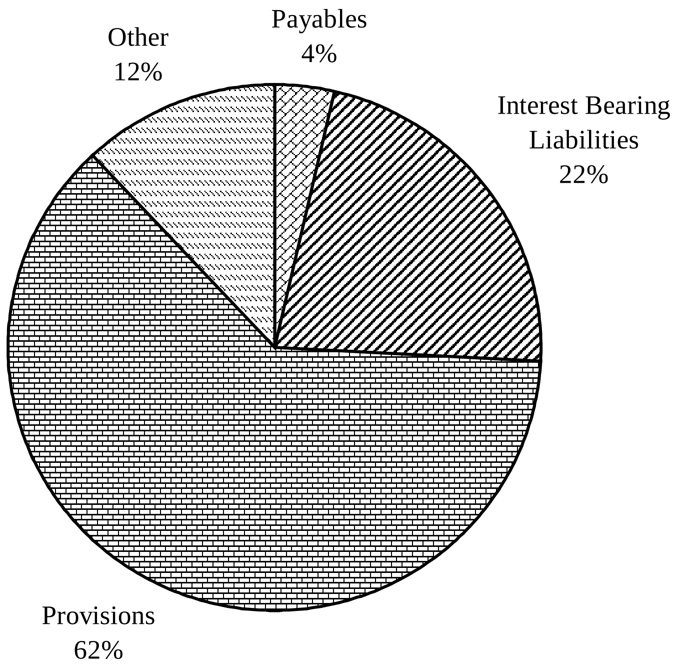


Liabilities

The total budgeted liabilities of the sector at 30 June 2001 are estimated at $18.197 billion (30 June 2000, $16.443 billion) an increase of $1.754 billion over the previous 30 June. This is due mainly to an estimated increase in provisions of $1.473 billion, principally in respect of employee entitlements and an increase in loan raisings of $477 million to fund the State's Capital Works Program. Offset against this is a decrease in payables at 30 June of $236 million.

Further details of sector liabilities by type are provided in Chart B.4.

Chart B.4
General Government Sector - Budgeted Liabilities by Types
($18,197 million)



Equity

The total equity of the sector at 30 June 2001 is budgeted at $54.393 billion (30 June 2000, $54.106 billion), an increase of $287 million for the year, after allowing for a budgeted deficit of $150 million in 2000-01 and an increase in asset revaluation and other reserves in the year of $437 million.

In compliance with Australian Accounting Standard AAS1 *Statement of Financial Performance*, as applicable in 1999-2000, the total accumulated surpluses and general equity for the sector at 30 June 2000 included an adjustment of $1.8 billion representing the write-down of State Water Project assets to their fair value prior to corporatisation and so as to reflect the realistic commercial value of the assets.

Net Worth

The maintenance of Queensland's net worth is a key fiscal commitment in the State's Charter of Social and Fiscal Responsibility.

Based on this priority, Queensland's financial position remains strong relative to the other States and its growth is expected to continue to exceed that of most of the other States and Territories on a per capita basis.

GENERAL GOVERNMENT SECTOR - BUDGETED STATEMENT OF CASH FLOWS

This statement, Table B.3, indicates the ability of the sector to generate sufficient cash flows to meet its financial commitments as they fall due. It also indicates its ability to fund changes in the scope and/or nature of its activities and to obtain external finance, where necessary.

Table B.3
General Government Sector - Budgeted Statement of Cash Flows

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
OPERATING CASH FLOWS						
Receipts						
Grants and other contributions	8,023	8,171	8,789	9,113	9,366	9,693
Sales of goods and services	1,536	1,472	1,378	1,374	1,461	1,362
Taxes, fees and fines	4,,370	4,649	4,612	4,734	4,929	5,161
Royalties and other territorial receipts	1,544	1,647	1,781	1,710	1,566	1,563
Interest received	1,634	1,785	1,280	1,202	1,311	1,441
Payments						
Grants and other contributions	4,075	4,814	4,837	4,481	4,490	4,431
Employee entitlements	6,980	8,248	7,216	7,571	7,847	8,252
Supplies and services	2,735	2,867	2,946	3,143	2,984	3,118
Borrowing costs	338	194	232	290	335	336
Other	264	220	55	75	76	75
Net cash provided by(used in) operating activities	**2,716**	**1,382**	**2,554**	**2,573**	**2,903**	**3,006**
INVESTING CASH FLOWS						
Receipts						
Sales of property, plant and equipment	682	292	355	295	387	337
Investments	2,470	2,304	1,029	151	363	388
Loans and advances	47	118	41	171	45	46
Payments						
Payments for property, plant and equipment	2,734	2,756	2,579	1,991	1,822	1,732
Payments for investments	2,030	2,084	2,041	1,306	2,108	2,232
Loans and advances	46	29	69	178	44	42
Net cash provided by(used in) investing activities	**(1,611)**	**(2,155)**	**(3,265)**	**(2,858)**	**(3,179)**	**(3,235)**
FINANCING CASH FLOWS						
Receipts						
Proceeds from borrowings	224	653	1,049	940	452	443
Payments						
Repayment of borrowings	442	408	297	674	139	141
Lease payments	2	3	3	3	3	3
Net cash provided by(used in) financing activities	**(221)**	**242**	**748**	**263**	**310**	**300**
Net increase(decrease) in cash held	**884**	**(530)**	**39**	**(23)**	**34**	**71**
Cash at beginning of financial year	**286**	**1,170**	**640**	**678**	**656**	**690**
Cash at end of financial year	**1170**	**640**	**678**	**656**	**690**	**761**

Note: 1999-2000 estimated actual figures are unaudited.

Cash Flows

Total budgeted cash inflows from operating, investing and financing activities are expected to exceed cash outflows in 2000-01, resulting in a $39 million increase in cash held between the beginning and end of the 2000-01 year (1999-2000, $530 million decrease in cash held). The large decrease in cash on hand at the close of the year 2000 is attributable largely to expenditure on capital works in excess of net receipts from operating activities and borrowings in that year, funded primarily from previous years' cash surpluses.

PUBLIC TRADING ENTERPRISES SECTOR

The primary function of agencies in the Public Trading Enterprises (PTE) Sector is to provide goods and services that are trading, non-regulatory or non-financial in nature and that are financed by way of sales of these goods and services to consumers.

The sector includes entities such as Queensland Rail, the various Port Authorities and the corporations that comprise Queensland's Electricity Industry.

PUBLIC TRADING ENTERPRISES SECTOR - BUDGETED STATEMENT OF FINANCIAL PERFORMANCE

This statement, Table B.4, sets out the budgeted and actual revenues and expenses of the sector for the years shown, together with anticipated extraordinary items.

The budgeted net operating result for each year, representing the surplus(deficit) of revenues over expenses after allowing for any income tax equivalents and dividends, also forms part of the movement in accumulated surpluses and general equity as shown in the Budgeted Statement of Financial Position of the sector, Table B.5.

Table B.4
Public Trading Enterprises Sector - Budgeted Statement of Financial Performance

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
REVENUE						
Sales of goods and services	4,152	4,245	4,394	4,573	4,888	5,019
Grants and other contributions[1]	1,111	1,154	1,044	921	930	964
Investment income	59	50	35	38	46	53
Other	252	284	242	186	173	179
Total revenue from ordinary activities	**5,574**	**5,733**	**5,715**	**5,718**	**6,037**	**6,215**
EXPENSES						
Employee entitlements[2]	1,306	1,265	1,256	1,278	1,308	1,334
Supplies and services	1,067	1,152	1,327	1,321	1,445	1,478
Depreciation and amortisation[3]	926	976	1,046	1,116	1,190	1,245
Grants and other contributions	75	8	19	12	12	13
Borrowing costs	570	623	622	693	736	725
Asset write-downs and decrements	189	18	13	6	6	5
Other	608	339	338	358	368	395
Total expenses from ordinary activities	**4,741**	**4,381**	**4,621**	**4,784**	**5,065**	**5,195**
OPERATING RESULT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EQUIVALENT	**833**	**1,352**	**1,094**	**934**	**972**	**1,020**
Income tax equivalent relating to ordinary activities	(409)	(314)	(394)	(302)	(314)	(327)
OPERATING RESULT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EQUIVALENT	**424**	**1,038**	**700**	**632**	**658**	**693**
Extraordinary items after related income tax equivalent	(143)	(363)	-	-	-	-
NET OPERATING RESULT	**281**	**675**	**700**	**632**	**658**	**693**
Dividends paid or payable	(473)	(850)	(730)	(610)	(600)	(645)
INCREASE (DECREASE) IN NET ASSETS	**(192)**	**(175)**	**(30)**	**22**	**58**	**48**

Note: 1999-2000 estimated actual figures are unaudited.

	Actual 1998-99 $million	Est. Actual 1999-00 $million	Estimate 2000-01 $million	Projection 2001-02 $million	Projection 2002-03 $million	Projection 2003-04 $million
Note 1 – Grants and other contributions						
Commonwealth grants	..	3	..	..	..	..
Donations, gifts and services received at below fair value	16	12	..	..	..	..
Industry/community contributions	62	31	34	34	34	35
Other	1,033	1,108	1,010	887	896	929
Total	1,111	1,154	1,044	921	930	964
Note 2 - Employee entitlements						
Salaries and wages	1,025	1,011	989	1,044	1,074	1,096
Employer superannuation expense	77	14	13	11	11	11
Annual leave	63	8	16	5	5	5
Long service leave	8	2	6	1	1	1
Other employee related expenses	133	230	232	217	217	221
Total	1,306	1,265	1,256	1,278	1,308	1,334
Note 3 - Depreciation and amortisation						
Infrastructure	402	270	287	291	308	320
Buildings	34	21	25	16	25	27
Plant and equipment	344	545	591	664	712	754
Leased plant and equipment	123	125	125	126	127	126
Intangibles	16	15	18	19	18	18
Deferred maintenance	7	..	..	..	..	..
Total	926	976	1,046	1,116	1,190	1,245

As indicated in Table B.4, there is a budgeted net operating surplus, after extraordinary items, in the Public Trading Enterprises Sector of $700 million for 2000-01 (1999-2000, $675 million), an increase of $25 million. Comment on the amounts comprising the surplus for 2000-01 follow.

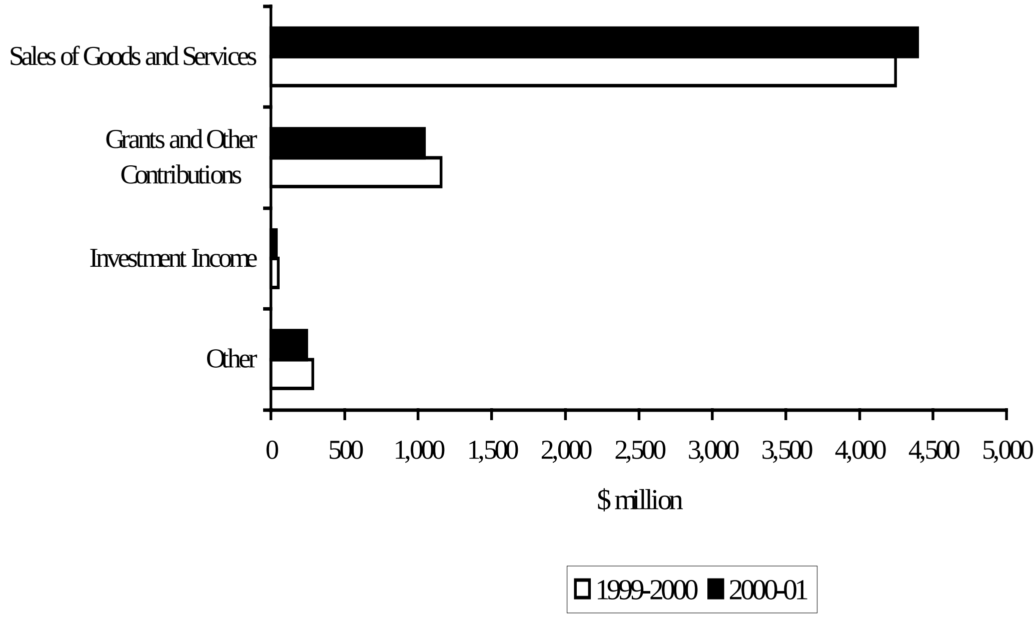
Operating Revenue

The total budgeted revenue from ordinary activities of the sector for 2000-01 is $5.715 billion (1999-2000, $5.733 billion), a decrease of $18 million from the previous year.

This is due mainly to a budgeted decrease in grants and other contributions received of $110 million as a result of lower budgeted Community Service Obligation payments to the Queensland Electricity Industry and to Queensland Rail. This decrease is offset by a budgeted increase in sales of goods and services of $149 million reflecting the State's underlying economic growth.

Movements in the main categories of revenues between the 1999-2000 estimated actual figures and the 2000-01 Budget are detailed in Chart B.5.

Chart B.5
Public Trading Enterprises Sector - Budgeted Revenue by Types
($5,715 million)



Operating Expenses

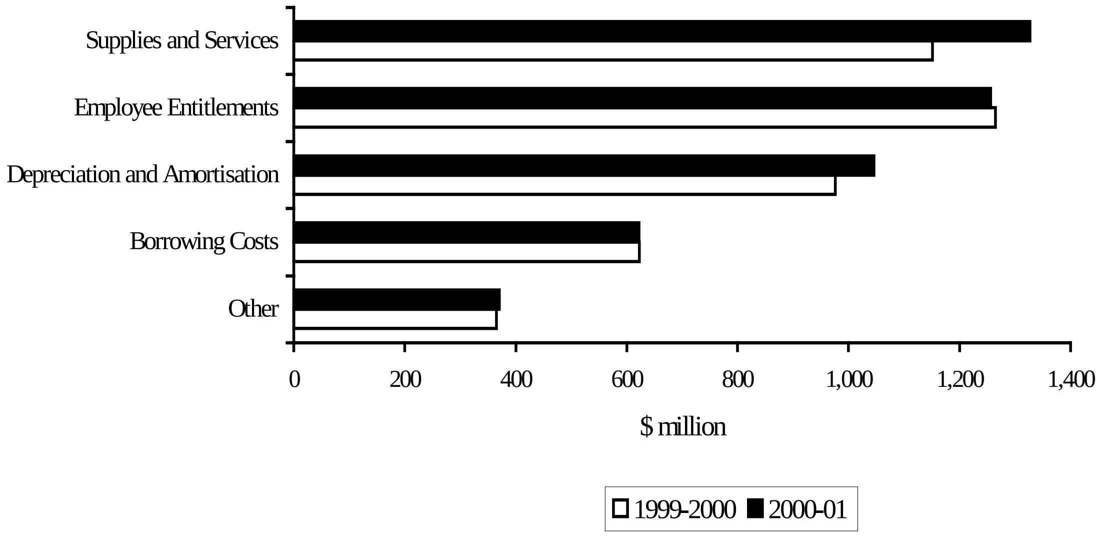
The total budgeted operating expenses from ordinary activities of the sector for 2000-01 are $4.621 billion (1999-2000, $4.381 billion), an increase of $240 million from the previous year.

The increase primarily results from additional anticipated expenses of $175 million on supplies and services, and increased depreciation and amortisation of $70 million in line with forecast increases in sales and services and an increase in the asset base of the sector.

Included in the net operating result for 1999-2000 is an extraordinary item of $363 million representing the transfer of 80 percent of the net assets of the South East Queensland Water Board (a PTE statutory body) to Local Government control.

Movements in the main categories of expenses between the 1999-2000 estimated actual figures and the 2000-01 Budget are detailed in Chart B.6.

Chart B.6
Public Trading Enterprises - Budgeted Expenses by Types
($4,621 million)



PUBLIC TRADING ENTERPRISES SECTOR - BUDGETED STATEMENT OF FINANCIAL POSITION

This statement, Table B.5, details the assets and liabilities of this sector at 30 June for the years shown, together with equity held by the Government in the sector at those dates, after allowing for any surpluses/deficits in operations and movements in reserves.

Table B.5
Public Trading Enterprises Sector - Budgeted Statement of Financial Position

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
CURRENT ASSETS						
Cash	684	664	873	896	886	855
Receivables	986	786	590	600	631	659
Investments	98	59	66	72	77	83
Loans and advances	39	325	23	23	23	23
Inventories	380	546	810	804	806	822
Other	101	66	69	35	36	36
Total Current Assets	**2,288**	**2,446**	**2,431**	**2,430**	**2,459**	**2,478**
NON-CURRENT ASSETS						
Receivables	16	18	17	18	18	18
Investments	564	551	729	711	696	682
Loans and advances	141	120	131	142	154	167
Property, plant and equipment	20,259	21,605	22,587	23,644	24,291	24,766
Intangibles	218	203	206	188	170	152
Deferred tax assets	625	776	836	870	865	842
Other	412	133	130	161	182	191
Total Non-Current Assets	**22,235**	**23,406**	**24,636**	**25,734**	**26,376**	**26,818**
Self-generating and regenerating assets	981	1,027	1,073	1,119	1,165	1,211
TOTAL ASSETS	**25,504**	**26,879**	**28,140**	**29,283**	**30,000**	**30,507**
CURRENT LIABILITIES						
Payables	607	698	649	579	601	620
Interest-bearing liabilities	196	249	243	339	415	468
Provisions	519	977	950	866	852	893
Current tax liabilities	282	86	71	63	64	67
Other	169	94	89	85	81	78
Total Current Liabilities	**1,773**	**2,104**	**2,002**	**1,932**	**2,013**	**2,126**
NON-CURRENT LIABILITIES						
Payables	23	42	44	45	46	47
Interest-bearing liabilities	9,139	10,128	11,633	12,375	12,389	12,168
Provisions	339	390	367	361	365	368
Deferred tax liabilities	1,258	1,646	1,982	2,212	2,405	2,574
Other	471	423	376	329	282	235
Total Non-Current Liabilities	**11,230**	**12,629**	**14,402**	**15,322**	**15,487**	**15,392**
TOTAL LIABILITIES	**13,003**	**14,733**	**16,404**	**17,254**	**17,500**	**17,518**
NET ASSETS	**12,501**	**12,146**	**11,736**	**12,029**	**12,500**	**12,989**
EQUITY						
Accumulated surpluses and general equity	10,914	10,099	9,183	9,225	9,284	9,327
Asset revaluation and other reserves	1,587	2,047	2,553	2,804	3,216	3,662
TOTAL EQUITY	**12,501**	**12,146**	**11,736**	**12,029**	**12,500**	**12,989**

Note: 1999-2000 estimated actual figures are unaudited.

	Actual 1998-99 $million	Est Actual 1999-00 $million	Estimate 2000-01 $million	Projection 2001-02 $million	Projection 2002-03 $million	Projection 2003-04 $million
Note 1 - Property, plant and equipment						
Infrastructure	8,818	7,749	7,552	7,859	8,305	8,681
Land and buildings	1,806	1,559	1,521	1,517	1,583	1,644
Plant and equipment	5,111	7,761	8,778	9,715	10,029	10,219
Leased plant and equipment	3,098	3,012	2,922	2,836	2,742	2,611
Capital works in progress	1,426	1,524	1,814	1,717	1,632	1,611
Total	20,259	21,605	22,587	23,644	24,291	24,766
Note 2 - Provisions - current and non-current						
Annual leave	130	88	90	86	86	87
Long services leave	224	153	151	148	149	150
Other employee entitlements	80	201	131	136	140	140
Dividends	280	673	657	578	568	614
Other	144	252	288	279	274	270
Total	858	1,367	1,317	1227	1,217	1,261

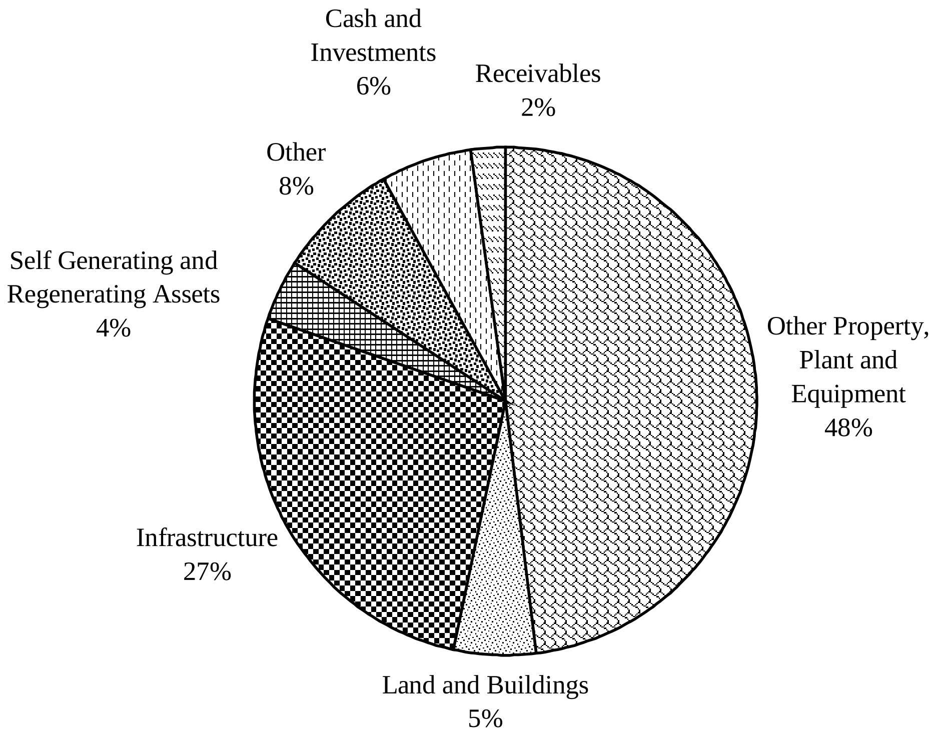
Assets

As indicated in Table B.5, the budgeted value of assets held by the sector at 30 June 2001, is $28.140 billion (30 June 2000, $26.879 billion), an increase of $1.261 billion over that recorded for the previous year.

This is attributable largely to budgeted increases in property, plant and equipment of $982 million due to the State’s expanded capital works program, including for Queensland Ports and the Electricity Industry. There also is an expected increase in investments of $185 million offset by a budgeted reduction in receivables of $197 million due to investment returns that were accrued being received and reinvested.

The main types of assets held by the sector at 30 June 2001 are detailed in Chart B.7.

Chart B.7
Public Trading Enterprises Sector - Budgeted Assets by Types
($28,140 million)



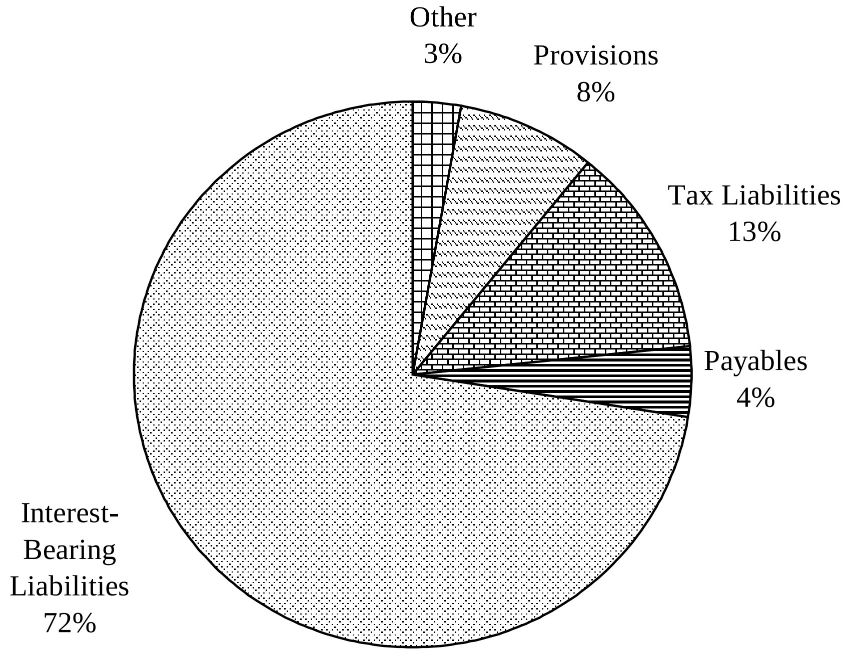
Liabilities

The budgeted liabilities of the sector at 30 June 2001 totalled $16.404 billion (30 June 2000, $14.733 billion), an increase of $1.671 billion from the previous year.

This increase is due mainly to a $1.499 billion increase in interest bearing liabilities principally to replace equity withdrawals and to fund capital works. Deferred tax liabilities also increased by $336 million. These tax liabilities are owed to the General Government Sector and not external parties.

Further details of sector liabilities by type are provided in Chart B.8.

Chart B.8
Public Trading Enterprises Sector - Budgeted Liabilities by Types
($16,404 million)



Equity

The total equity of the sector is budgeted to decrease by $410 million to a total of $11.736 billion at 30 June 2001 (30 June 2000, $12.146 billion), after allowances for the net operating surplus for the year of $700 million; increases in the asset revaluation and other reserves of $506 million; and dividends payable of $730 million.

Also included in the movement in total equity for the year are amounts representing a withdrawal of equity as the result of the long term lease of Dalrymple Bay Coal Terminal; a debt to equity realignment in the accounts of the State's Port Authorities to reflect a more commercial gearing ratio; and an equity withdrawal from the State's Electricity Industry for similar purposes.

PUBLIC TRADING ENTERPRISES SECTOR - BUDGETED STATEMENT OF CASH FLOWS

This statement, Table B.6, indicates the ability of the sector to generate sufficient cash flows to meet its financial commitments as they fall due. It also indicates its ability to fund changes in the scope and/or nature of their activities and to obtain external finance, where necessary.

Table B.6
Public Trading Enterprises Sector - Budgeted Statement of Cash Flows

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
OPERATING CASH FLOWS						
Receipts						
Grants and other contributions	734	1,370	1,113	881	890	923
Sales of goods and services	4,239	4,391	4,438	4,566	4,862	4,997
Interest received	53	50	35	29	31	38
Other	158	125	157	148	141	148
Payments						
Grants and other contributions	80	453	19	12	12	12
Employee entitlements	1,303	1,235	1,329	1,285	1,303	1,330
Supplies and services	1,338	1,446	1,566	1,377	1,423	1,449
Borrowing costs	662	635	675	697	750	743
Taxation equivalents	107	338	133	112	115	133
Other	577	304	360	396	420	470
Net cash provided by(used in) operating activities	**1,118**	**1,526**	**1,662**	**1,745**	**1,901**	**1,968**
INVESTING CASH FLOWS						
Receipts						
Sales of property, plant and equipment	370	446	733	53	40	74
Investments	447	48	13	13	12	11
Loans and advances	56	25	16	14	12	12
Payments						
Payments for property, plant and equipment	2,599	2,092	2,275	1,967	1,475	1,365
Payments for investments	290	41	199	17	24	33
Loans and advances	55	301	25	25	25	25
Net cash provided by(used in) investing activities	**(2,070)**	**(1,916)**	**(1,736)**	**(1,929)**	**(1,460)**	**(1,326)**
FINANCING CASH FLOWS						
Receipts						
Proceeds from borrowings	2,245	1,618	1,824	885	322	214
Share capital injection (redemption)	-	22	(357)	-	-	-
Payments						
Repayment of borrowings	1,545	541	495	103	278	421
Equity paid	-	301	31	-	-	-
Lease payments	4	8	14	-	-	-
Dividends paid	499	420	644	574	495	467
Net cash provided by(used in) financing activities	**197**	**369**	**283**	**207**	**(451)**	**(674)**
Net increase(decrease) in cash held	**(756)**	**(20)**	**209**	**23**	**(10)**	**(32)**
Cash at beginning of financial year	**1439**	**684**	**664**	**873**	**896**	**886**
Cash at end of financial year	**684**	**664**	**873**	**896**	**886**	**855**

Note: 1999-2000 estimated actual figures are unaudited.

Cash Flows

Total cash inflows from operating, investing and financing activities are expected to exceed cash outflows resulting in a $209 million increase in cash held by the sector between the beginning and end of the 2000-2001 year (1999-2000, $20 million decrease).

TOTAL (NON-PFE) STATE SECTOR

The Total (Non-PFE State Sector is a consolidation of the General Government and Public Trading Enterprises Sectors and includes all departments, their commercialised business units, the various Public Trading Enterprises and any of their controlled entities. However, it excludes agencies that form part of the Public Financial Enterprises Sector.

TOTAL (NON-PFE) STATE SECTOR - BUDGETED STATEMENT OF FINANCIAL PERFORMANCE

This statement, Table B.7, sets out the budgeted and estimated actual revenues and expenses of the sector for the years shown, together with anticipated extraordinary items.

The budgeted net operating result for the year, representing the net increase or decrease in assets held by the sector as a result of delivering agency outputs and the conduct of trading activities, also forms part of the movement in accumulated surpluses and general equity in the Budgeted Statement of Financial Position, Table B.8.

Although the net operating result of the Total (Non-PFE) State Sector, equals the combined totals for this line item in the Budgeted Statement of Financial Performance of the General Government and Public Trading Enterprises Sectors, after dividends, the individual line items for revenues and expenses do not total.

This is because dividends and tax equivalent payments from the Public Trading Enterprises Sector are recognised as revenue in the General Government Sector and the Total (Non-PFE) State Sector but not as an expense in the Public Trading Enterprises Sector. Individual line items for revenues and expenses also are affected by the elimination of inter-sector revenues and expenses on consolidation.

Table B.7
Total (Non-PFE) State Sector – Budgeted Statement of Financial Performance

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
REVENUE						
Commonwealth and other grants[1]	8,047	8,300	8,824	9,159	9,409	9,742
Sales of goods and services	5,412	5,484	5,711	5,901	6,309	6,343
Taxes, fees and fines	4,031	4,440	4,396	4,512	4,696	4,910
Investment income	1,685	2,152	1,643	1,768	1,777	1,937
Royalties and other territorial revenue	525	479	508	550	588	580
Gains and revaluations	62	417	70	585	16	14
Other	699	286	309	216	217	222
Total revenue from ordinary activities	**20,461**	**21,558**	**21,461**	**22,691**	**23,012**	**23,748**
EXPENSES						
Employee entitlements[2]	9,203	9,590	9,838	10,363	10,819	11,383
Supplies and services	4,023	3,865	4,230	4,203	4,418	4,613
Depreciation and amortisation[3]	2,278	2,475	2,508	2,608	2,705	2,760
Grants and other contributions	3,111	3,573	3,642	3,619	3,615	3,529
Borrowing costs	878	932	959	1,010	1,064	1,052
Asset write-downs and decrements	423	550	211	416	181	181
Other	271	261	253	241	247	256
Total expenses from ordinary activities	**20,187**	**21,246**	**21,641**	**22,460**	**23,049**	**23,774**
OPERATING RESULT FROM ORDINARY ACTIVITIES	**275**	**311**	**(180)**	**231**	**(37)**	**(27)**
Extraordinary items	-	(363)	-	-	-	-
NET OPERATING RESULT	**275**	**(52)**	**(180)**	**231**	**(37)**	**(27)**

Note: 1999-2000 estimated actual figures are unaudited.

	Actual 1998-99 $million	Est. Actual 1999-00 $million	Estimate 2000-01 $million	Projection 2001-02 $million	Projection 2002-03 $million	Projection 2003-04 $million
Note 1 – Commonwealth and other grants						
Commonwealth grants	7,599	7,970	8,553	8,914	9,186	9,525
Donations, gifts and services received at below fair value	147	18	6	8	8	2
Industry/community contributions	217	181	189	187	183	183
Other	84	131	76	50	32	32
Total	8,047	8,300	8,824	9,159	9,409	9,742

	Actual 1998-99 $million	Est. Actual 1999-00 $million	Estimate 2000-01 $million	Projection 2001-02 $million	Projection 2002-03 $million	Projection 2003-04 $million
Note 2 – Employee entitlements						
Salaries and wages	6,926	7,350	7,471	7,888	8,170	8,578
Employer superannuation expense	1,466	1,306	1,381	1,503	1,645	1,777
Annual leave	363	370	387	364	372	374
Long service leave	154	195	215	232	255	272
Other employee related expenses	294	369	384	376	377	382
Total	9,203	9,590	9,838	10,363	10,819	11,383
Note 3 - Depreciation and amortisation						
Infrastructure	1,030	969	980	995	1,011	1,024
Buildings	392	403	416	409	461	457
Plant and equipment	639	909	911	1,005	1,031	1,082
Heritage and cultural assets	32	0	0	0	0	0
Leased plant and equipment	131	129	129	130	131	130
Intangibles	47	65	72	69	71	67
Deferred maintenance	7	0	0	0	0	0
Total	2,278	2,475	2,508	2,608	2,705	2,760

As indicated in Table B.7, there is a budgeted net operating deficit in the Total (Non-PFE) State Sector for 2000-01 of $180 million (1999-2000, $52 million deficit), reflecting the net operating results of the General Government and Public Trading Enterprises Sectors, after dividends and extraordinary items.

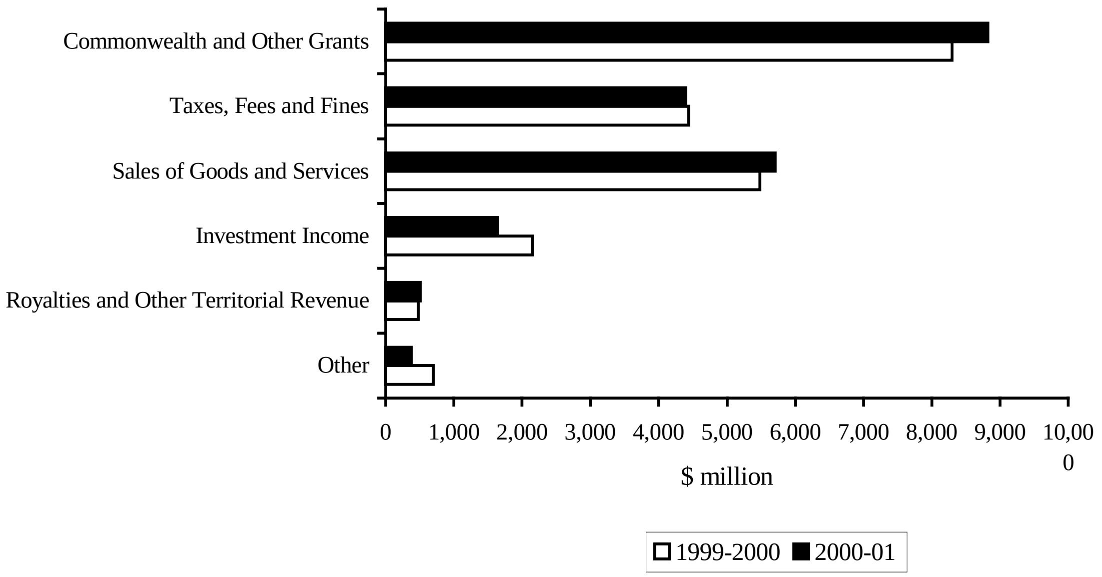
Operating Revenue

The total budgeted operating revenue for the sector for 2000-01 is $21.461 billion (1999-2000, $21.558 billion), a decrease of $97 million from the previous year.

This decrease is attributable primarily to lower investment income of $509 million and decreased gains and revaluations of $347 million. Taxes, fees, and fines also decreased by an amount of $44 million. Offset against these decreases are increases in Commonwealth and other grants of $524 million, increased sales of goods and services of $227 million and increased royalties and other territorial revenue of $29 million. The reasons for these variations are indicated in the respective General Government and Public Trading Enterprises Sector narratives.

Movements in the main categories of revenues between the 1999-2000 estimated actual figures and the 2000-01 Budget are detailed in Chart B.9.

Chart B.9
Total (Non-PFE) State Sector - Budgeted Revenue by Types
($21,461 million)



Operating Expenses

Budgeted operating expenses for this sector for 2000-01 are $21.641 billion (1999-2000, $21.246 billion), an increase of $395 million from the previous year.

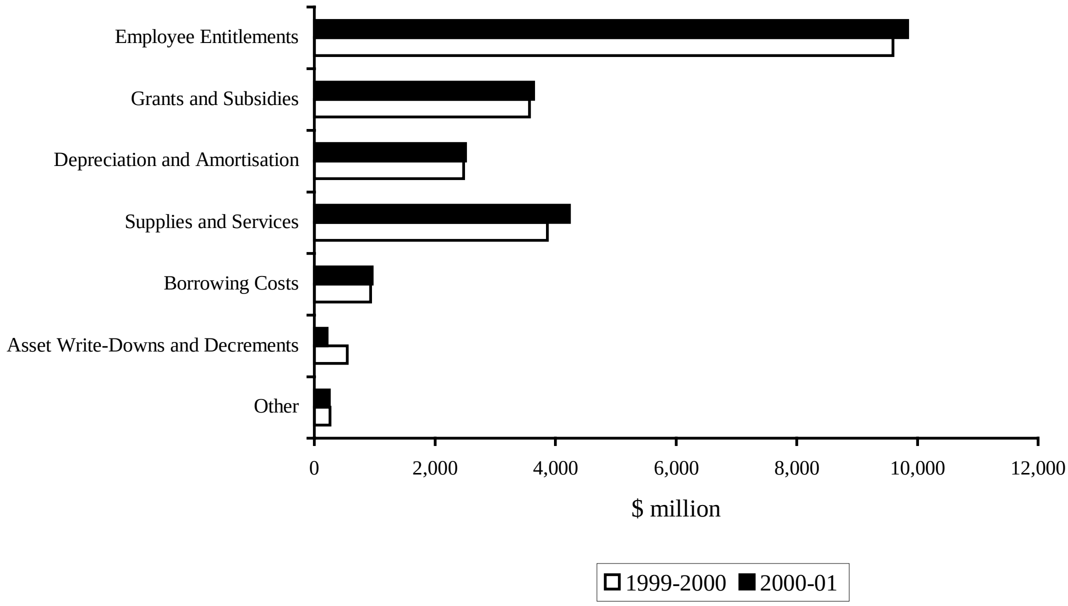
The main reasons for these higher expenses are additional employee entitlements of $248 million, an increase in the cost of supplies and services of $365 million and an increase in grants and other contributions of $69 million. Depreciation costs also rose by $33 million.

Offset against this is an expected reduction in asset write-downs and decrements of $339 million.

The reasons for the foregoing variations are indicated in the respective General Government and Public Trading Enterprises Sector narratives.

Movements in the main categories of expenses between the 1999-2000 estimated actual figures and the 2000-01 Budget are detailed in Chart B.10.

Chart B.10
Total (Non-PFE) State Sector - Budgeted Expenses by Types
($21,641 million)



TOTAL (NON-PFE) STATE SECTOR - BUDGETED STATEMENT OF FINANCIAL POSITION

This statement, Table B.8, details the assets and liabilities of this sector at 30 June for the years shown, together with equity held by the Government in the sector at those dates, after allowing for any surpluses/deficits in operations and movements in reserves.

Table B.8
Total (Non-PFE) State Sector - Budgeted Statement of Financial Position

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
CURRENT ASSETS						
Cash	1,854	1,304	1,551	1,552	1,576	1,616
Receivables	2,214	2,309	2,171	2,378	2,643	2,934
Investments	396	990	371	395	420	424
Loans and advances	90	394	95	82	76	71
Inventories	527	705	996	1,004	1,029	1,046
Other	469	280	259	198	171	144
Total Current Assets	**5,550**	**5,982**	**5,443**	**5,609**	**5,915**	**6,235**
NON-CURRENT ASSETS						
Receivables	513	564	143	145	139	139
Investments	13,006	12,717	14,798	15,631	17,539	19,326
Loans and advances	305	484	520	560	589	617
Property, plant and equipment[1]	62,156	62,698	64,664	66,213	67,062	67,667
Intangibles	526	549	566	529	505	512
Deferred tax assets	14	17	27	40	54	67
Other	338	338	318	297	292	273
Total Non-Current Assets	**76,858**	**77,367**	**81,036**	**83,415**	**86,180**	**88,601**
Self-generating and regenerating assets	984	1,030	1,075	1,122	1,168	1,214
TOTAL ASSETS	**83,392**	**84,379**	**87,554**	**90,146**	**93,263**	**96,050**
CURRENT LIABILITIES						
Payables	1,246	1,180	914	825	846	865
Interest-bearing liabilities	380	758	1,191	2,135	2,609	3,086
Provisions[2]	864	1,240	1,393	1,535	1,680	1,817
Other	403	262	205	163	147	133
Total Current Liabilities	**2,893**	**3,440**	**3,703**	**4,658**	**5,282**	**5,901**
NON-CURRENT LIABILITIES						
Payables	267	203	218	229	240	252
Interest-bearing liabilities	11,784	13,178	14,722	14,889	14,816	14,472
Provisions[2]	9,428	9,405	10,697	12,119	13,684	15,397
Other	1,622	1,577	1,530	459	403	347
Total Non-Current Liabilities	**23,101**	**24,363**	**27,167**	**27,696**	**29,143**	**30,468**
NET ASSETS	**57,398**	**56,576**	**56,685**	**57,792**	**58,838**	**59,681**
EQUITY						
Accumulated surpluses and general equity	47,278	45,577	44,743	45,155	45,346	45,299
Asset revaluation and other reserves	10,120	10,999	11,943	12,637	13,492	14,382
TOTAL EQUITY	**57,398**	**56,576**	**56,685**	**57,792**	**58,838**	**59,681**

Note: 1999-2000 estimated actual figures are unaudited.

	Actual 1998-99 $million	Est. Actual 1999-00 $million	Estimate 2000-01 $million	Projection 2001-02 $million	Projection 2002-03 $million	Projection 2003-04 $million
Note 1 - Property, plant and equipment						
Infrastructure	25,580	23,662	23,817	23,706	23,655	23,511
Land and buildings	22,660	22,865	23,507	23,926	24,242	24,351
Plant and equipment	6,658	9,397	10,234	11,145	11,497	11,801
Heritage and cultural assets	466	303	305	305	305	305
Leased plant and equipment	3,129	3,040	2,946	2,856	2,758	2,622
Capital works in progress	3,662	3,431	3,855	4,275	4,605	5,077
Total	62,156	62,698	64,664	66,213	67,062	67,667
Note 2 - Provisions – current and non-current						
Annual leave	542	510	506	504	506	508
Long services leave	1,227	1,250	1,355	1,475	1,612	1,763
Superannuation	7,993	7,970	9,252	10,642	12,159	13,789
Other employee entitlements	224	320	257	264	279	297
Other	306	595	720	769	808	857
Total	10,292	10,645	12,090	13,654	15,364	17,214

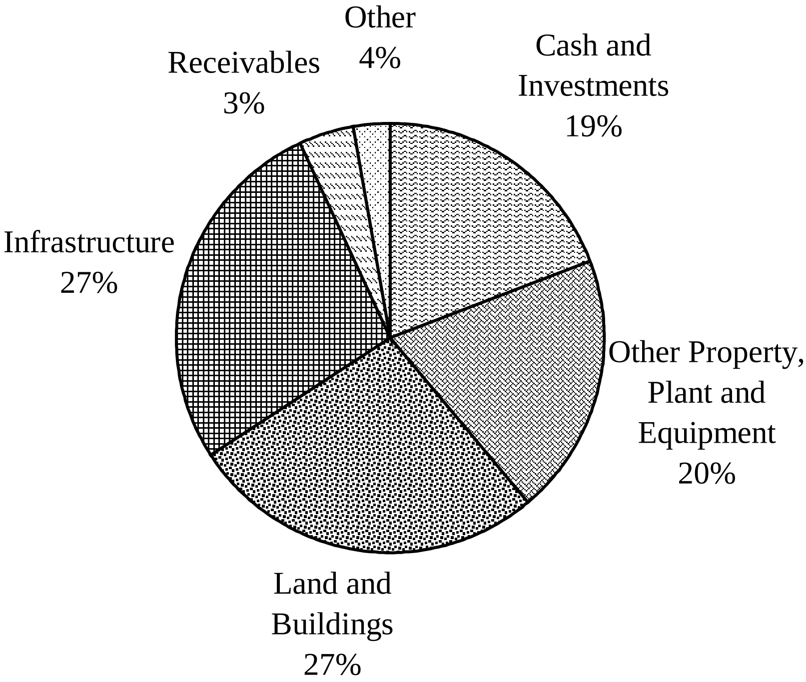
Assets

As indicated in Table B.8, the budgeted value of assets held by the sector at 30 June 2001, is $87.554 billion (30 June 2000, $84.379 billion), a $3.175 billion increase. This is attributed largely to increases in investments of $1.462 billion, and in property, plant and equipment of $1.966 billion, partially offset by an expected reduction in receivables of $559 million.

The reasons for the foregoing variations are indicated in the respective General Government and Public Trading Enterprises Sector narratives.

The main types of assets held by the sector at 30 June 2001 are detailed in Chart B.11.

Chart B.11
Total (Non-PFE) State Sector - Budgeted Assets by Types
($87,554 million)



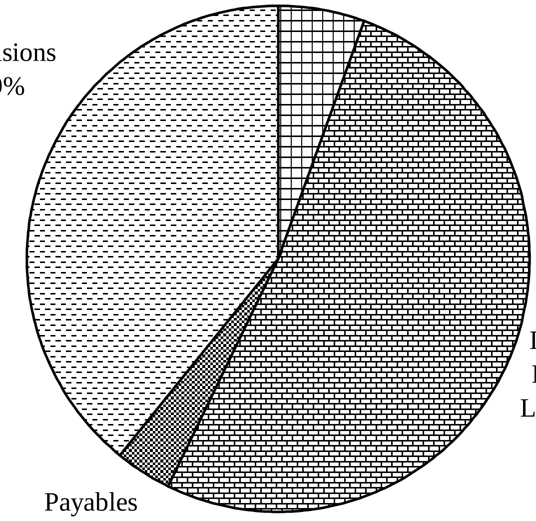
Liabilities

The budgeted liabilities of the sector at 30 June 2001 are $30.869 billion (30 June 2000, $27.803 billion), an increase of $3.066 billion. This increase is due primarily to higher interest bearing liabilities of $1.977 billion and an increase in provisions of $1.445 billion, offset by an expected reduction in payables of $251 million.

The reasons for the foregoing variations are indicated in the respective General Government and Public Trading Enterprises Sector narratives.

Further details of sector liabilities by type are provided in Chart B.12.

Chart B.12
Total (Non-PFE) State Sector - Budgeted Liabilities by Types
($30,869 million)



Equity

The budgeted equity of the sector indicates an increase of $109 million during the year to a total of $56.685 billion at 30 June 2001 (30 June 2000, $56.576 billion), after allowing for an increase in asset revaluation and other reserves of $944 million and a decrease in accumulated surpluses and general equity of $835 million. This decrease has resulted largely from the replacement of equity in the Public Trading Enterprises Sector with borrowings.

TOTAL (NON-PFE) STATE SECTOR - BUDGETED STATEMENT OF CASH FLOWS

This statement, Table B.9, indicates the ability of the sector to generate sufficient cash flows to meet its financial commitments as they fall due. It also indicates the ability of the sector to fund changes in the scope and/or nature of its activities and to obtain external finance, where necessary.

Table B.9
Total (Non-PFE) State Sector - Budgeted Statement of Cash Flows

	Actual 1998-99 $ million	Est. Actual 1999-2000 $ million	Estimate 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
OPERATING CASH FLOWS						
Receipts						
Grants and other contributions	8,010	8,316	8,894	9,118	9,369	9,702
Sales of goods and services	5,173	5,103	5,689	5,863	6,254	6,289
Taxes, fees and fines	4,028	4,439	4,397	4,514	4,696	4,910
Royalties and territorial receipts	1,224	975	1,056	1,052	972	967
Interest	1,687	1,835	1,315	1,231	1,342	1,478
Payments						
Grants and other contributions	3,077	3,412	3,847	3,618	3,615	3,529
Employee entitlements	8,283	9,482	8,545	8,855	9,150	9,582
Supplies and services	3,985	4,182	4,384	4,442	4,337	4,496
Borrowing costs	1,000	829	907	987	1,085	1,079
Other	443	290	99	133	140	152
Net cash provided by(used in) operating activities	**3,336**	**2,474**	**3,570**	**3,744**	**4,309**	**4,508**
INVESTING CASH FLOWS						
Receipts						
Sales of property, plant and equipment	1,052	738	1,088	348	427	411
Investments	2,914	2,051	1,011	164	375	399
Loans and advances	103	157	57	185	57	58
Payments						
Payments for property, plant and equipment	5,332	4,849	4,855	3,958	3,298	3097
Payments for investments	2,320	2,103	2,597	1,323	2,132	2,265
Loans and advances	101	329	94	203	69	67
Net cash provided by(used in) investing activities	**(3,685)**	**(4,335)**	**(5,388)**	**(4,788)**	**(4,638)**	**(4,561)**
FINANCING CASH FLOWS						
Receipts						
Proceeds from borrowings	2,469	2,270	2,872	1,825	774	657
Payments						
Repayment of borrowings	1,986	949	792	778	418	561
Lease payments	6	10	16	3	3	3
Net cash provided by(used in) financing activities	**476**	**1,311**	**2,064**	**1,044**	**354**	**93**
Net increase(decrease) in cash held	**128**	**(550)**	**247**	**1**	**25**	**40**
Cash at beginning of financial year	**1,726**	**1,854**	**1,304**	**1,551**	**1,552**	**1,576**
Cash at end of financial year	**1,854**	**1,304**	**1,551**	**1,552**	**1,576**	**1,616**

Note: 1999-2000 estimated actual figures are unaudited.

Cash Flows

Total cash inflows from operating, investing and financing activities are expected to exceed cash outflows, resulting in a $247 million increase in cash held between the beginning and end of the 2000-01 year (1999-2000, $550 million decrease in cash held).

APPENDIX C

STATEMENT OF RISKS

INTRODUCTION

Consistent with the Charter of Social and Fiscal Responsibility, the following analysis is provided of the sensitivity of the fiscal estimates to changes in the major economic and other assumptions used in estimating the Budget and forward estimates. This analysis is provided, as required under the Charter, to enhance the level of transparency and accountability of the Government.

The Queensland State Budget, like those of other States and Territories, is based in part on assumptions made about future elements of uncertainty which are both internal and external to the State operating environment, but which can impact directly, either positively or negatively, on the Budget outcome and forward years.

The forward estimates of revenue and expenses in the 2000-01 Budget are based on a number of major economic and other assumptions about the future state of the economy in Queensland.

Notwithstanding the risks associated with the Budget, Queensland is in the best position of any State or Territory to absorb unforeseen adjustment developments. Queensland's AAA credit rating, based on its relative low tax status, strong balance sheet and negative net debt position (including fully funded employee entitlements of superannuation and long service leave) means it has greater capacity than any other jurisdiction in Australia to withstand the risks that are normally associated with any State or Territory Budget.

ECONOMIC

The forward estimates of revenue and expenses are sensitive to the assumptions made in regard to the economic environment within which the Budget is positioned. The risks to the economic outlook for the State in 2000-01, both positive and negative, are discussed in detail in Chapter 1 of Budget Paper 3. This Appendix identifies some key risks in the context of their potential impact on the budget position.

The rate of growth in tax revenues is dependent on the rate of growth in economic activity in the State, with some taxes being closely related to activity in particular sectors of the economy, while others are broadly related to the general rate of economic growth.

Payroll tax is a major source of tax revenue for the State Government, with growth in payroll tax revenue related to employment and wages growth. If the expected outcome for growth in gross state product is lower than forecast, there is a risk that employment growth also will be lower than forecast, with an ensuing adverse impact on payroll tax revenue. Equally, should employment growth be stronger than forecast, there will be a positive impact on State revenues.

State Government expenditure can be more closely associated with socio-demographic factors, such as the number of school age children or the number of elderly residents, than with economic activity. The rate of inflation impacts on nominal government expenditure through the effect of price movements on wage settlements and costs of providing services, with labour being a major component of current outlays. Offsetting this is the effect that rising prices have on some components of revenue, such as stamp and conveyance duties.

There is some risk to State expenditure should the impact of the GST on inflation be greater than expected. If this eventuates and results in general national wage pressures, there may be added risks to real economic activity and revenues from further, but currently unanticipated, monetary tightening.

Key economic variables in the context of the budget position are therefore the rate of inflation, the rate of growth in gross state product, and the rate of growth in gross state expenditure (which abstracts external trade flows from gross state product).

Further information on economic risks is contained in Chapter 1 of Budget Paper 3.

REVENUE AND EXPENSES

Government Policy

The forward estimates in the Budget are framed on a no policy change basis. That is, the expenditure and revenue policies in place at the time of the Budget (including those announced in the Budget) are applied consistently through the forward estimates period.

Many factors can influence the demand for goods and services, and therefore the cost of maintaining existing policies, including the broader social, demographic and economic trends and flow on effects of policy changes. This is particularly evident in the health, education, community services and criminal justice sectors. For example, demand for public health services is directly influenced by the take up of private health insurance, which is a Commonwealth Government policy objective.

While these impacts have been estimated and allowances made in the Budget and forward estimates to accommodate them, the actual outcome may differ from the estimates calculated for the Budget.

Commonwealth National Taxation Reform

The Commonwealth Government's national tax reform package was introduced with effect from 1 July 2000. As part of this package, the Commonwealth and all State and Territory Governments signed an Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA). Under this agreement, there have been substantial changes to the funding arrangements for States and Territories, including compensation for certain costs and revenue foregone.

Estimates of Commonwealth GST Revenue grants to States and Territories are dependent on GST revenue collections. The Commonwealth Government has provided estimates of GST collections in its Budget Papers. Over time, GST collections are likely to be closely correlated with the general level of economic activity, especially household final consumption expenditure. In the early years of operation of the GST, there is likely to be a greater degree of uncertainty as to the level of revenue collections. As a result, under the IGA, the Commonwealth has agreed to provide transitional assistance, so that States and Territories' budgetary positions are no worse or better off. This ameliorates risks pertaining to Commonwealth general revenue for the first two years following the introduction of the GST. Following that, Queensland's budget will bear the risks of fluctuations in GST revenues and the other components of the package (First Home Owner Grant, administrative costs associated with the GST, gambling tax losses, etc).

However, not all costs and foregone revenues were recognised by the Commonwealth in negotiating the IGA. Significant set-up costs are being incurred by government agencies. To the extent that the actual set-up costs vary from the estimates, or agencies' preparations for the GST prove inadequate, there may be an adverse budgetary impact. A GST Implementation Unit has been established in Queensland Treasury to assist agencies to prepare for the GST and minimise ongoing compliance costs.

The IGA does not wholly protect the Queensland Budget (because if the State's general revenue funding relativity determined by the Commonwealth Grants Commission falls, then the guaranteed minimum payment from the Commonwealth also falls, and the State can still potentially lose budgetary funding). The IGA does ensure, however, that the GST does not provide any extra funding to Queensland over what it would have received for at least two years.

Commonwealth Grants (Specific Purpose Payments)

Specific Purpose Payments (SPPs) are payments made by the Commonwealth to promote its policy objectives. Indexation arrangements and distribution among the States vary for each SPP. The Commonwealth reviews the payments each year and while it has guaranteed it will not reduce SPPs as a result of national tax reform, the State has insufficient certainty that SPPs will not be reduced for other purposes by the Commonwealth.

Royalties

Estimates of mining royalties are sensitive to movements in the $A/$US exchange rate and commodity prices. Given the multiplicity of minerals, estimating the impact of commodity price fluctuations is inherently difficult. However, a significant movement in the order of five cents, on average, in the $A/$US exchange rate would be required to have any material impact on royalties revenue.

Government Owned Corporations (GOCs)

Forecasts for dividends, tax equivalents and community service obligations (CSOs) for the GOCs are derived from best available information at the time the Budget figures are compiled. GOCs generally are operating in highly competitive markets where trading conditions may be subject to volatile fluctuations. As a result, ongoing volatility may result in variations in the earnings of GOCs, which in turn impacts on dividends and tax equivalents. This volatility may also impact on CSO requirements. The impact may be positive or negative depending on prevailing market conditions.

Investment Returns

Investment earnings are based on the assumption of long-term average returns for an acceptable level of risk. These investments principally cover the superannuation investment funds. The Government's financial investments are held in a balanced portfolio comprising cash, property, domestic and offshore equities and fixed interest.

A fluctuation in investment returns from the projected long-term average returns will affect revenues. The net impact on the Budget, however, depends on the extent to which those additional revenues must be passed onto employees as part of their superannuation entitlements – a matter for actuarial assessment by the State Actuary in accordance with the provisions of the State's superannuation schemes.

Actuarial Estimates of Superannuation and Long Service Leave

Liabilities for superannuation and long service leave are estimated actuarially with reference to, among other things, assumed rates of real investment return and costings of the State's defined and accumulation benefit schemes for superannuation. These liabilities are therefore subject to the risk that the real investment returns achieved over time by the underlying assets will differ from those assumed. Similarly, the long service leave liabilities are subject to the risk that the actual rates of employee retention will vary from those assumed in the liability calculation.

Depreciation

The Queensland Government requires all General Government Sector agencies to comprehensively revalue their non-current assets at five year intervals, with interim revaluations conducted annually using the deprival value methodology. Based on past years' experience, this has usually resulted in modest increases in asset values which are either commensurate with, or slightly more than, the general rate of inflation. However, it cannot necessarily be assumed that this will always be the case and should there be significant increases or decreases in the values of major infrastructure assets there will be a corresponding impact on depreciation expense (see also Net Worth below).

Public Sector wage costs

The impact of enterprise bargaining agreements for the general public sector and Queensland Rail has been included in the Budget and forward estimates. These EB agreements include scope for the parties to discuss the wage increases should there be any significant inflationary developments due to the introduction of the GST, across the life of the agreement, which negatively impacts on employees generally (taking into account compensation provided through tax cuts or transfer payments).

The Budget does not allow for the potential for further wage increases for the life of the agreements recently ratified or anticipated in the near future. A contingency provision for wage increases beyond the current agreements has been provided in the outyear forward estimates.

NET WORTH

A key performance indicator in the Charter is Total State Net Worth. The operating outcome of the General Government Sector will have an impact on Total State Net Worth, as will any significant changes in asset values resulting in from the application of the State's asset valuation policy. At present, the State uses the deprival value methodology, which is equivalent to depreciated current replacement cost. However, from 1 July 2000, the revised Australian Accounting Standard AAS 10 will be applied generally and the new Australian Accounting Standard AAS 38 will be introduced, although departments will have until 30 June 2002 before full implementation becomes mandatory.

The Commonwealth Department of Finance is presently evaluating the relationship between deprival value and fair value and will make the results of its studies available to the States and Territories. At this stage, there is insufficient information to quantify with any degree of certainty the likely impact of applying these standards. Nevertheless, there is some likelihood that the application of these new asset valuation standards will have a material impact on net worth in all jurisdictions, including Queensland, over the next few years.

CONTINGENT ASSETS AND LIABILITIES

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

CONTINGENT LIABILITIES

Guarantees

These mainly comprise guarantees by the State Government in respect of borrowings by local governments from the Queensland Treasury Corporation.

Queensland Treasury Corporation (QTC) – Stock Loans

In support of an active trading and pricing market for QTC stock, the Corporation lends stock to various financial institutions on the basis that it forms part of its total exposure to the institution concerned.

Queensland Power Trading Corporation - Power Purchase Agreements

The Corporation has a number of long-term contractual commitments through Power Purchase Agreements that impose upon the Corporation future obligations to purchase electricity from independent power producers.

Suncorp, QIDC and Metway Bank Merger

To facilitate the merger of the former State-owned financial institutions, Suncorp Insurance and Finance and Queensland Industry Development Corporation with Metway Bank Ltd, the State Government provided guarantees relating to certain obligations of the Queensland Government and Suncorp General Insurance Ltd. The most significant guarantees expired within twelve months of the merger, while remaining guarantees continue to reduce each year.

Legal Proceedings and Disputes

A number of legal actions have been brought against the State Government and its agencies. Notification also has been received of a number of other cases that are not yet subject to court action but which may result in litigation. Due to the wide variety and nature of the claims and the uncertainty of any potential liability, no value has been attributed to the claims.

Native Title

In excess of 200 native title claims that affect the Queensland Government have been filed with the Federal Court under the Commonwealth *Native Title Act 1993* (the Act). The Act provides for payment of compensation to native title holders for a variety of acts that may affect native title. It is possible that the Queensland Government may face future litigation and liability in respect of these claims and acts. Given the subjectivity of the issue, it is inappropriate to attempt to determine the likely success of such claims or to quantify any potential liability for these acts.

Aborigines Welfare Fund and Associated Accounts

Until the 1970s, the State controlled most aspects of Indigenous people's lives under a series of Acts which provided for work, wages and savings schemes. A 1991 report to Government was critical of the administration of the property and wages regime.

Since 1992, successive Labor Governments have made public commitments to resolving the issue by negotiation. In June 2000, Cabinet agreed to a negotiating framework, rather than defending legal action likely to be brought by claimants under a number of classes of litigation.

Whilst there have been some estimates of likely impacts on the Budget should the negotiations be successful, the quantum of any reparations payments, the number of claimants and the administrative arrangements that need to be established in association with this process have yet to be determined with any degree of reliability.

WorkCover

The *WorkCover Queensland Act 1996* provides that every WorkCover policy or other insurance contract with WorkCover Queensland (a statutory body) is guaranteed by the State of Queensland. Given the nature of this contingency, it is not possible to estimate the liability, if any, due under this heading.

Queensland Investment Corporation

The Queensland Investment Corporation acts as trustee of certain property and other trusts and is potentially liable for any unsettled liabilities of these trusts. However, under the respective Trust Deeds, the Corporation is entitled to be indemnified out of the assets of the Trusts against any losses or outgoings sustained in its role as Trustee.

The State Government has assessed the recoverable amounts of the assets of the Trusts and concluded that, currently, they have excess assets over liabilities.

Cross Border Lease Transactions

Certain agencies have entered into cross border lease transactions resulting in a contingent liability to the State Government. QTC has assumed responsibility for a significant portion of the transaction risk relating to these leases, and if certain events occur, could be liable to make additional payments in terms of the lease agreements. QTC has made explicit provisions to cover the risks involved, which have been approved by the Auditor-General. However, external advice and history to date indicate that the likelihood of liability is remote.

In addition, QTC has provided certain guarantees and indemnities to various participants in the cross border lease transactions. External advice is that, unless exceptional circumstances arise, QTC will not be required to make material payments under these guarantees and indemnities.

Cost of Greenhouse Emissions Permits for Electricity Generators

The Kyoto Protocol to the Framework Convention on Climate Change includes a provision for trading in greenhouse emissions between world jurisdictions. The Commonwealth Government is considering the introduction of a domestic greenhouse emissions trading scheme to facilitate Australia's participation in this international trade. It is expected to make an in-principle decision on the adoption of domestic emissions trading in 2000, although it could be several years before the details of such a scheme are finalised.

A requirement to hold permits to cover greenhouse emissions will have implications a number of GOCs, particularly the electricity generation corporations (CS Energy, Tarong Energy and Stanwell Corporation) as the energy sector is the largest source of greenhouse emissions. The cost to these corporations will depend on the system of permit allocation adopted, but it is likely that they will need to purchase permits for emissions in excess of the free allowance agreed by the Commonwealth Government. Queensland Rail may also be affected, as would DPI Forestry, which could earn credits for carbon dioxide offsets. However, any potential impacts are likely to be incurred in the outyears and not in 2000-01.

CONTINGENT ASSETS

Suncorp and Metway Bank Merger

During the year ended 30 June 1997, Suncorp General Insurance Limited (formerly Suncorp Insurance and Finance) transferred a contingent asset to Queensland Treasury Holdings Pty Ltd related to the proceeds from objections lodged with the Australian Taxation Office ('ATO') regarding income tax assessments for the years ended 30 June 1991 to 30 June 1996 inclusive. This matter remains under consideration by the ATO.

Also, during the year ended 30 June 1997, Suncorp Group Holdings Ltd (formerly Suncorp Building Society Ltd) transferred a contingent asset to Queensland Treasury Holdings Pty Ltd in relation to an objection lodged with the ATO relating to an income tax assessment for the year 30 June 1994. The ATO has disallowed the objection. The Government is currently appealing the matter before the High Court.

APPENDIX D

BACKGROUND AND INTERPRETATION OF GOVERNMENT FINANCE STATISTICS

INTRODUCTION

Government Finance Statistics (GFS) data is used extensively in the presentation of financial statement information in the Budget papers. This appendix provides background information on GFS, including the conceptual basis for GFS and its relationship with accounting standards and presentation.

In addition the appendix includes sector definitions, an explanation of main terms, and a list of reporting entities.

BACKGROUND

The concepts underlying GFS financial information are developed by the Australian Bureau of Statistics (ABS). ABS GFS standards are largely based on international statistical standards (the International Monetary Fund *Manual on Government Finance Statistics* and the United Nations *System of National Accounts*). GFS are widely used by governments, commentators, academics and ratings agencies as a consistent and uniform standard by which to compare the fiscal performance of a jurisdiction both over time and with other jurisdictions.

GFS have been the basis for the Australian Loan Council's Uniform Presentation Framework (UPF) since its introduction in 1991. The UPF is an agreement by members of the Australian Loan Council to present financial information for each jurisdiction on a consistent and uniform basis to assist in the comparative analysis of the fiscal performance of jurisdictions.

GFS concepts are also used to prepare the Loan Council Allocation nomination, an important indicator of the net borrowing requirement of governments, which requires Loan Council approval.

RECENT DEVELOPMENTS IN GFS REPORTING

Accrual Uniform Presentation Framework

In March 2000, the Australian Loan Council agreed to an accrual GFS framework developed by the Australian Bureau of Statistics in close consultation with Commonwealth, State and Territory Governments.

Under this agreement, jurisdictions have until 2002-03 Budget year to fully implement reporting on an accrual UPF basis, although most jurisdictions will have implemented this in their 2000-01 Budgets.

As Queensland's 1999-2000 Budget was presented on an accrual GFS basis, this is the second year in which Queensland has reported accrual GFS data.

RELATIONSHIP WITH STANDARD ACCOUNTING TREATMENT

Financial information prepared in accordance with accounting standards and GFS, while both utilising the new accrual accounting systems developed by governments, in effect provide two different, but complementary, views of the financial positions of governments.

Financial statements prepared in accordance with accounting standards measure the operating result and net worth of government, using a standard presentation which is compatible with private sector standards (General Purpose Financial Reports - GPFR). This allows comparability with like statements in the private sector and also with other governments.

GFS, on the other hand, measures the economic impact of government activity by excluding the impact of changes to asset values that are deemed to be outside the control of government.

GFS is derived from the same source data as used in the GPFR. In the accrual GFS presentation, financial information generally is presented in a format similar to standard accounting statements. In a number of cases, different interpretations or presentations are used to highlight particular aggregates that are relevant to macro-economic analysis of the State's financial position.

The major ways in which the GFS presentation differs from the GPFR include:

- the inclusion of dividends and taxation equivalent provisions in the calculation of the net operating result;
- the exclusion of asset valuation changes, eg profit/loss in sale of assets and write-offs, from the operating result calculation;
- the availability of an extension of the operating statement that explains the application of the net operating result; and
- a balance sheet presentation that provides information on financial and non-financial assets, and does not distinguish between current and non-current assets and liabilities.

INTERPRETATION OF GFS

GFS provides a consistent and uniform framework to analyse and measure the impact of government activity on the rest of the economy, to gauge the sustainability of government fiscal policy, and to monitor the efficiency of the allocation and use of government resources.

The accrual GFS series measures both stocks and flows. Stocks are economic aggregates measured at a point in time, reflecting the position or holding of assets and liabilities at that point in time, generally measured at market prices. Flows represent the movement in the stock of assets and liabilities between two points in time. In GFS, flows comprise two separate types. Flows can represent a transaction, and/or a revaluation or other change in the volume of net assets.

The transaction component of flows is separated from revaluations and ‘other change in the volume of assets' flows, in order to gauge the impact of government decisions on the rest of the economy. It is argued that any revaluation or other change in the volume of assets (such as destruction, depletion or discovery of assets) is not within the control of government. Hence, in the GFS operating statement, any revenue or expense recognising these non-transaction flows is excluded and does not affect the net operating result.

RELATIONSHIP WITH ABS STATISTICS

Whilst there is generally strong alignment between Treasury and ABS data, there are two areas where differences arise:

- GST ‘transitional assistance payments’. The ABS considers these payments to be either a loan or grant depending on how they are provided. Treasury with the advice of the Queensland Auditor General and in accordance with the treatment adopted by other States, has decided that the amount within the budget balancing assistance payments should be treated as revenue.

- Queensland Sugar Corporation. The ABS includes the Queensland Sugar Corporation in its GFS statistics. Treasury and the Queensland Auditor General have reviewed the status of the Queensland Sugar Corporation and have determined that it is not a controlled entity and hence is appropriately excluded from Treasury GFS data.

DIFFERENCES BETWEEN GFS AND GPFR’S

The major areas of difference are discussed below.

Bad and Doubtful Debts

Provisions for bad debts that are expensed in a standard accounting presentation are not regarded as a flow in GFS, as they do not represent an economic transaction. These provisions are excluded from GFS operating expenses and are reflected as an adjustment to the level of accounts receivable in the balance sheet.

Bad debts written off either from prior provisions or without prior provisioning are included in GFS operating expense. This type of transaction is included as the bad debt written off is the result of an economic transaction.

Distributions to Owners (Dividends)

Distributions to owners or shareholders, in the form of dividends or distributions are not normally considered part of expenses in GPFR, and are reported as a payment from after tax profits.

In GFS, dividend payments are treated as an expense and are therefore included in the calculation of the net operating result.

Extraordinary Items

Extraordinary items occur outside the scope of normal operations, are non-recurring in nature, and have a significant impact on the operating result.

These items are disclosed separately in AAS31 statements and may impact on the operating result at different levels.

In GFS, items are recorded against the revenue or expense item that they relate to. Where an extraordinary item represents an adjustment for past period expenses or revenue, GFS will only record that portion applicable to the current period. Adjustments will therefore be necessary to past periods, or future periods, if the case is appropriate.

Fees and Fines

GFS records fees as user charges or sales of goods and services. Fines are now recorded as part of other revenue. In the GPFR, fees and fines are recorded under the broad category of taxes, fees and fines.

Market Valuation Adjustments

GFS presents debt servicing costs and borrowings on a market value basis. In the GPFR, market valuations effects are taken up at whole of government level and consequently do not appear in the sector level data. This creates differences in the operating statement between interest expense and the operating surplus.

Similarly, the borrowing figures, and consequently gross liabilities and net assets, differ between the two presentations.

Non-Share Equity in Public Enterprises

Under the GFS presentation, General Government sector gross assets include non-share equity (net assets less share capital) of Public Trading Enterprises and Public Financial Enterprises. As a result, General Government gross and net assets are typically higher than under the GPFR presentation. Because this asset is eliminated upon consolidation, General Government Net Worth (Net Assets) is equal to State Non-Financial sector Net Worth.

Revaluations

Revaluations (including profit or loss on asset sales) represent a change in the value of an asset or liability arising from a change in market prices.

In the GPFR, revaluations representing decrements in asset values are usually brought to account as an expense in the operating statement or are recognised within the balance sheet in the revaluation reserve (subsequent revaluation increments also can be brought to the operating statement as revenue).

In GFS, revaluations that affect the GPFR operating statement are excluded from revenue and expense, and hence do not impact on the GFS net operating result. Revaluations normally included in the balance sheet are retained in the GFS net worth measure.

Superannuation

GFS distinguishes between those expenses relating to liabilities incurred in the current period and those relating to liabilities accumulated in previous periods. Only the former is included in the net operating balance.

Changes in liability due to an actuarial reassessment are either amortised over all periods affected or are treated as a revaluation.

Treatment of the Revenue Replacement Grants

Following the invalidation of State Business Franchise Fees by the High Court in 1997, the Commonwealth Government implemented safety net arrangements on behalf of the States to safeguard State revenue. This arrangement involved the Commonwealth collecting additional excise revenue on alcohol, tobacco and fuel and on-passing this to the States.

In GPFR, the receipt of these monies from the Commonwealth is treated as grant revenue and subsequent subsidy payments to distributors is shown as expense.

In GFS, the receipt of these monies from the Commonwealth is shown as a tax revenue, and subsequent subsidy payments to distributors treated as a negative tax revenue.

Reconciliation of GFS and GPFR Operating Results

Table D.1 provides a reconciliation for the General Government sector between the GFS and GPFR net operating result.

Table D.1
Reconciliation of Main GFS General Government Measures to the Budget Sector Operating Results

		Actual 1998-99 $ million	Est. Actual 1999-00 $ million	Budget 2000-01 $ million	Projection 2001-02 $ million	Projection 2002-03 $ million	Projection 2003-04 $ million
GFS Net Operating Result		**143**	**40**	**29**	**34**	**70**	**91**
Plus	Gains/losses on assets, including derivatives	347	(230)	(178)	178	(162)	(162)
Plus	SEQWB grant	..	363	..	..	..	..
Minus	Book to Market Interest adjustments	161	50	..	..	..	..
Minus	Provision for bad and doubtful debts	6	..	1	3	3	3
Equals	**GPFR Operating Surplus (Deficit)**	**323**	**123**	**(150)**	**209**	**(95)**	**(74)**

In any given year, many different transactions and revaluations may be required to be taken up to derive the gains and losses on asset adjustment for the GFS net operation result. The principal factor behind the adjustments is the anticipated depletion of assets by agencies (in particular, the Department of Main Roads) each year. In 1998-99, however, it was more than offset by the actuarial re-assessment of the State’s superannuation scheme liability; and in 2001-02, it is more than offset by the anticipated net gain for the State on the Suncorp-Metway Exchanging Instalment Notes Series 2 (which mature in that year and convert to shares).

DEFINITION OF GFS SECTORS

The GFS presentation provides both a sectoral view of Queensland's financial position as well as a consolidated view of the non-financial State public sector.

The scope and coverage of the GFS is identical to that of the GPFR contained in Appendix B.

GFS presents financial statements for three sub-sectors of government: General Government, Public Trading Enterprise and Public Financial Enterprise.

General Government

The General Government sector comprises government departments, departmental business units and certain statutory agencies which provide goods and services of a non-market nature, that are charged at less than cost or at no cost or provide regulatory services.

The General Government sector is usually referred to as the core of government that is financed by general revenue (taxation).

Public Trading Enterprises

The PTE sector comprises various statutory authorities, government business enterprises and marketing bodies which provide goods and services usually at cost or below cost through an explicit government subsidy (community service obligation).

PTEs usually provide goods and services of a market nature, examples include Queensland Rail and the Queensland Electricity Supply Industry.

Public Financial Enterprises

The PFE sector comprises publicly owned financial institutions such as Queensland Treasury Corporation, Queensland Investment Corporation and Workcover.

These entities provide financial services to the community or government, and usually provide these services on a commercial basis.

Consolidated State sector

GFS also presents consolidated state sector financial statements, which represent the total of all transactions of each sub-sector of government, with any inter-sector transactions eliminated. GFS follows the standard accounting methodology for performing eliminations.

Eliminations are necessary so as to avoid double counting of transactions between different sectors of government, such as dividend payments by PTEs to General Government.

MAIN GFS AGGREGATES

GFS presents three main accrual-based measures: Net Operating Result, Net Lending and Increase in Net Worth (INW).

Net Operating Result

Net Operating Result is defined as the excess of revenue over expenses, plus net transfers (eg net transfer payments to households).

GFS revenue excludes any gain or loss on assets brought to account in the profit and loss statement. GFS expenses exclude provisions for bad and doubtful debts.

The Net Operating Result is arguably the best summary measure of a Government’s fiscal performance, as it abstracts from valuation effects and focuses on financial impacts which Government has the ability to manage.

Net Operating Result is equivalent to the INW measure (see below), less the effects of revaluations.

Net Lending

The Net Lending measure is defined as Net Operating Revenue, less net acquisition of non-financial assets, plus consumption of fixed capital.

The measure effectively excludes depreciation as a measure of fixed assets consumed in a period from expenses and includes gross fixed capital expenditure, which represents the net cost of non-financial assets acquired. It therefore represents an increase in the net financial asset position, not including revaluations.

The accrual concept of Net Lending is broadly equivalent to the previous cash-based GFS deficit measure.

In practical terms, Net Lending is the combination of the operating result, plus net transaction flows in the balance sheet, which together give an indication of the net financial resources required by Government.

Conceptually, Net Lending may be viewed as the net financial resources that government effectively makes available for use by other sectors of the economy, or additional resources that a government requires.

Increase in Net Worth

The INW measure may be measured from the balance sheet as the increase in the net asset position, including non-financial assets (stock measure). It also may be measured as the Net Operating Result, plus revaluations.

INW represents the overall change in financial position, including financial and non-financial flows.

GFS OPERATING STATEMENT GLOSSARY OF TERMS

REVENUE

TAXATION REVENUE

Income arising from levies imposed by the State that is mainly designed to raise revenue, and are prescribed under State tax legislation.

CURRENT GRANTS AND SUBSIDIES

Largely comprise payments received from the Commonwealth and industry and community contributions for the provision of State Government services.

SALES OF GOODS AND SERVICES

Represents revenue earned where the seller is seeking to recover the cost of goods supplied or services rendered where there is a direct benefit to the user.

INTEREST INCOME

Represents the interest earned on Queensland's superannuation investments.

OTHER

Other revenue comprises revenue from dividends, royalties and other property income, fines, revenue from financial and intangible assets, donations and grants received and miscellaneous revenue.

EXPENSES

GROSS OPERATING EXPENSES

Comprises depreciation, superannuation, and other operating expenses (employee entitlements and supplies and services).

Depreciation represents the recognition of the cost of the estimated diminution in the state's assets through wear, tear and obsolescence.

Superannuation expense represents the growth in the Government's superannuation liabilities.

Employee entitlements include salaries and wages, annual and long service leave and workers compensation expense.

Supplies and services comprises the costs of providing services to the community, and includes administration costs, consultancies, payments to contractors and other overhead costs such as electricity and other consumables.

CURRENT TRANSFERS

Includes Community Service Obligation (CSO) payments to Public Trading Enterprises and grants to community, including schools, hospitals and benevolent institutions, personal benefit payments and Commonwealth taxes including fringe benefits tax.

CAPITAL TRANSFERS

Represents grants paid by the Government for capital works to the private sector and to other public enterprises.

INTEREST

Comprises of interest paid by agencies, principally paid to the Queensland Treasury Corporation on borrowings to acquire capital assets and infrastructure such as roads and government buildings and also includes Nominal superannuation interest expense.

NOMINAL SUPERANNUATION INTEREST EXPENSE

This represents that component of the increase in the Government's liability to its employees that is related to earnings on superannuation fund balances.

OTHER

Other expenses comprise items such as land rental and royalty expenses.

REPORTING ENTITIES

The reporting entities included in the General Government and PTE sectors are detailed below.

GENERAL GOVERNMENT

Departments

Aboriginal and Torres Strait Islander Policy and Development

Communication and Information, Local Government, Planning and Sport

Corrective Services

Disability Services Queensland

Education

Electoral Commission of Queensland

Emergency Services

Employment, Training and Industrial Relations

Environmental Protection Agency

Equity and Fair Trading

Families, Youth and Community Care

Health

Housing

Housing Department (excluding Housing Trusts)

Justice and Attorney General

Legislative Assembly of Queensland

Main Roads

Mines and Energy

Natural Resources

Office of the Governor

Ombudsman

Police

Premier and Cabinet

Primary Industries (excluding Forestry)

Public Trust Office

Public Works

Queensland Ambulance Service

Queensland Audit Office

Queensland Fire & Rescue Authority

State Development

Tourism and Racing

Transport

Treasury

Statutory Authorities

Anti-Discrimination Commission Queensland

Board of Senior Secondary School Studies

Bureau of Sugar Experiment Stations

Children's Commissioner

Council of the Queensland Institute of Medical Research

Criminal Justice Commission

Legal Aid Queensland

Library Board of Queensland

Nickel Resources North Queensland

Queensland Art Gallery

Queensland Building Services Authority

Queensland Crime Commission

Queensland Events Corporation Pty Ltd

Queensland Fruit and Vegetable Growers

Queensland Infrastructure Financing Fund (QIFF) Trust

Queensland Institute of Medical Research Trust

Queensland Museum

Queensland Performing Arts Trust (QPAT)

Queensland Rural Adjustment Authority (QRAA)

Queensland School Curriculum Council

Queensland Theatre Company

Queensland Treasury Holdings (QTH)

Residential Tenancy Authority

Royal Children's Hospital Foundation

SGH Limited

Southbank Corporation

Tertiary Entrance Procedures Authority

Tourism Queensland

Treasury Special Purpose Trust No. 1

PUBLIC TRADING ENTERPRISES

Brisbane Cricket Ground Trust

Brisbane Market Authority

Bundaberg Port Authority

Cairns Port Authority

DPI Forestry

Eungella Water Pipeline Pty Limited

Gladstone Area Water Board

Gladstone Port Authority

Gold Coast Events Corporation

Golden Casket Lottery Corporation Limited

2001 Goodwill Games Brisbane Ltd

Home Purchase Assistance Account

Lang Park Trust

Mackay Port Authority

Mt Isa Water Board

North West Queensland Water Pipeline Pty Limited

Pioneer Valley Water Board

Port of Brisbane Corporation

Ports Corporation of Queensland

Queensland Abattoir Corporation

Queensland Electricity Supply Industry

Queensland Motorways Limited

Queensland Rail

Rockhampton Port Authority

South East Queensland Water Board [1]

Totalisator Administration Board of Qld (TAB) [2]

Townsville Port Authority

Townsville Thuringowa Water Supply Board

Trustees of the Albion Park Paceway

[1] The assets and equity of the South East Queensland Water Board were transferred to local Government joint venture company, South East Queensland Water Company, in March 2000.

[2] The TAB transferred to private ownership in November 1999.