Queensland Budget 2016-17

Budget Strategy and Outlook

Budget Paper No.2

Queensland Government

2016-17 Queensland Budget Papers

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Contents

Overview

The 2016–17 Budget focuses on growing innovation, attracting investment and transforming infrastructure. These are the necessary elements for job creation that will enable Queensland's $300 billion economy to continue to grow and transition to a more diversified and robust base following the resource investment peak associated with building the State's new liquefied natural gas (LNG) export industry. In 2016–17, Queensland will have a $10.666 billion capital program, including transport, health and education.

Advance Queensland

In a rapidly changing global economy, the Government's Advance Queensland agenda is focussed on supporting local businesses to harness innovation, grow our regional economies, inspire the next generation of Queenslanders and create the jobs of the future.

In line with the Advance Queensland agenda, the Government is taking action to help support and position the State's businesses, industries and communities to respond to current and future challenges, while ensuring existing, new and emerging industries can capitalise on opportunities. Accordingly, the 2016–17 Budget includes the following initiatives:

- fostering entrepreneurship and innovation;
- promoting business investment and exports;
- delivering and facilitating productive infrastructure;
- growing our human capital;
- optimising the use of our land and natural resources; and
- leading an innovative, active and responsive public sector.

The most significant of these measures are the $405 million Advance Queensland Package, a $100 million Regional Queensland Back to Work Jobs Package and a $2 billion State Infrastructure Fund.

For rural and regional communities, the Budget includes support such as the Rural Assistance Package, extensions to the Building our Regions Program and Drought Assistance Package.

Economic diversity

The State continues to face national and international economic headwinds. In this environment, Queensland's diversified economy, climate and natural assets, our connection to global supply chains, and our shared time–zone with expanding Asian markets are our competitive advantages. The 2016–17 Budget outlines the economic framework through which the Government will help drive the growth of a more innovative and productive Queensland, thereby boosting living standards and the quality of life for all Queenslanders.

The 2016–17 Budget balances sustainable fiscal management with further diversifying the Queensland economy from a period of growth driven by significant resource investment towards more broad–based growth.

Regional Queensland Back to Work Package

This Budget provides for a $100 million two–year Back to Work Jobs Package for Regional Queensland that will help get unemployed Queenslanders back to work, create jobs in the regions and boost local economies, by supporting up to 8,000 jobs across regional Queensland. This builds on the suite of Working Queensland initiatives already implemented by the Government to drive job creation across the State.

The 2016–17 Budget provides for further debt reduction and at the same time, targeted initiatives to boost productivity through infrastructure investment. The total capital program in 2016–17 will be $10.666 billion.

State Infrastructure Fund

The $2 billion State Infrastructure Fund will support delivery of the transformational infrastructure that Queenslanders need today to prepare for the challenges of tomorrow and will provide:

- $300 million towards the Priority Economic Works and Productivity Program;
- $180 million towards the Significant Regional Infrastructure Projects Program;
- $20 million towards Maturing the Infrastructure Pipeline; and
- $1.5 billion for the next phase of priority infrastructure needs, to be informed by independent advice from Building Queensland, including the Building Queensland infrastructure pipeline of priority projects.

Net operating surpluses across the forward estimates

The net operating surplus of $867 million for 2016–17 is forecast to be the largest surplus since 2006–07. Net operating surpluses are expected each year of the forward estimates, despite royalty revenue forecasts being revised down by $2.713 billion across the period 2015–16 to 2018–19 since the Mid Year Fiscal and Economic Review (MYFER), and further downward revisions to State taxation revenue of around $350 million (net of measures) over the same period. Demonstrating the Government's commitment to expenditure control, the new expenditure initiatives outlined in the 2016–17 Budget are partly funded through reprioritisations.

Operating expenses are forecast to grow at a sustainable rate, averaging 2.9% per annum over the four years to 2019–20. This is less than the forecast rate of revenue growth of 3.2% per annum.

Economic outlook

The Queensland economy has improved during the last 12 months, with growth estimated to strengthen to 3½% in 2015–16 and 4% in 2016–17.

This rebound in growth is underpinned by a surge in overseas exports, as LNG production ramps up and drives the value of Queensland exports to around $100 billion in 2019–20.

In contrast to this robust outlook for Queensland exports, which reflects the benefits of an earlier surge in investment, conditions in the global and domestic economies remain subdued.

International economic conditions have weakened over the past year, with forecasts for global economic growth progressively downgraded by key international agencies and prospects for growth in industrial production in the State's major export markets deteriorating.

The more subdued global outlook has contributed to sharp declines in commodity prices, which have led Queensland coal and base metal producers to cut costs and reduced the prospects for new investment.

As has been identified in previous State Budgets, business investment could not be sustained at the extraordinary levels recorded during LNG project construction and is forecast to fall in 2015–16. Consistent with trends nationally, forward indicators also suggest that business investment more broadly may take longer to recover than previously expected.

While growth in household consumption is expected to recover, it will remain below average, tempered by slow wages growth, subdued population growth and soft labour market conditions. Even so, low interest rates, solid house price growth and investor interest are driving a sustained recovery in dwelling investment, particularly in apartments in inner Brisbane.

The ramp–up in LNG exports will see the trade sector drive overall economic growth in Queensland in both 2015–16 and 2016–17, with total overseas exports forecast to grow by 11% and 8% respectively.

Overseas tourism exports are expected to experience substantial growth over the forecast period, driven by a combination of the lower A$ exchange rate and the expanding middle class in Asian nations. Similar trends are also supporting forecast growth in overseas education exports.

Following a very weak result in 2014–15, headline labour market indicators for Queensland have improved in 2015–16, supported by employment gains associated with robust dwelling construction activity and the delivery of health and education services by the public and private sectors.

This has also improved the outlook for unemployment, with the unemployment rate now forecast to average 6¼% in both 2015–16 and 2016–17, lower than the 6½% forecast at MYFER.

Forecasts and projections across the forward estimates period for key economic variables are shown in Overview Table 1 and discussed in detail in Chapter 2.

Overview Table 1 Economic forecasts/projections, Queensland[1]

	Actual	Est. Act.	Forecasts		Projections	
	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Gross state product[2]	0.8	3½	4	3½	3	3
Nominal gross state product	2.4	3½	6	6¾	6½	6
Employment	0.3	1¾	1½	1¾	1¾	1¾
Unemployment rate[3]	6.5	6¼	6¼	6	5¾	5¾
Inflation	1.9	1½	2	2½	2½	2½
Wage Price Index	2.4	2	2¼	2¾	3	3¼
Population	1.2	1¼	1½	1½	1½	1½

Notes:

1. Unless otherwise stated, all figures are annual % changes.
2. Chain volume measure (CVM), 2013–14 reference year.
3. Per cent, year–average.

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

Fiscal outlook

The 2016–17 Budget progresses the Government's election commitments and provides new, aligned policy measures to support future economic growth. The Government continues to face significant weakness in royalties and key tax revenues and as a result has identified further responsible measures to refocus the balance sheet to lower debt, while enabling prudent infrastructure investment, such as committing $2 billion for the State Infrastructure Fund.

Debt reduction

The Government's actions, consistent with its undertakings at the time of the 2015 State election, will continue to manage General Government Sector debt and provide additional funds for infrastructure investment without requiring the sale of government–owned corporations, without increases in taxes on Queenslanders, without cuts to services and without redundancies. Further detail on these measures is provided in Chapter 3.

The Government is building on its budget strategy from the 2015–16 Budget through the Debt Action Plan, retaining and delivering on the fiscal principles introduced in that Budget. The strategy will be further strengthened through the introduction of an additional fiscal principle which ensures that growth in the public service, on average over the forward estimates, will be aligned with population growth.

Net operating surpluses

The net operating surplus of $867 million for 2016–17 is forecast to be the largest surplus since 2006–07. Net operating surpluses are expected each year of the forward estimates, despite royalty revenue forecasts being revised down by $2.713 billion across the period 2015–16 to 2018–19 since the MYFER, and further downward revisions to State taxation revenue of around $350 million (net of measures) over the same period. Demonstrating the Government's commitment to expenditure control, the new expenditure initiatives outlined in the 2016–17 Budget are partly funded through reprioritisations.

Operating expenses are forecast to grow at a sustainable rate, averaging 2.9% per annum over the four years to 2019–20. This is less than the forecast rate of revenue growth of 3.2% per annum.

General Government Sector debt is estimated to be $4.443 billion lower in 2019–20 than its 2014–15 high of $43.105 billion. Importantly, the debt to revenue ratio is declining significantly over the forward estimates to reach 68% in 2019–20 compared to 87% in 2014–15. General Government Sector debt in 2016–17 is expected to be $37.775 billion, a reduction of $10.441 billion compared with the 2014–15 Budget projection.

The key fiscal aggregates of the General Government Sector for the 2016–17 Budget are outlined in the table below and are discussed in detail in Chapter 3.

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

	2014–15 Actual[2] $ million	2015–16 MYFER $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Revenue	49,765	51,354	49,976	53,449	55,349	55,097	56,674
Expenses	49,224	50,180	49,824	52,582	54,123	54,775	55,934
Net operating balance	**542**	**1,175**	**152**	**867**	**1,225**	**321**	**741**
PNFA[3]	4,779	5,325	4,173	5,452	6,590	5,840	5,983
Fiscal balance	(581)	(1,140)	(940)	(2,006)	(2,114)	(2,115)	(1,042)
Borrowing	**43,105**	**37,973**	**35,698**	**37,775**	**38,000**	**38,365**	**38,662**
Borrowing (NFPS)[4]	75,233	73,878	72,715	75,270	76,939	77,976	78,869

Notes:

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

1 Economic framework – growing a more innovative and productive Queensland

Features

- The Queensland economy is currently in transition following a sustained period of high growth during the 1990s and early 2000s, driven by a combination of underlying strong population growth, high levels of infrastructure investment and the mining boom.
- More recently, the State has experienced more moderate growth, primarily underpinned by the completion of substantial investment in the construction of several major liquefied natural gas (LNG) projects.
- The State faces some significant challenges as it continues to transition to broader–based drivers of growth: uncertain national and international economic conditions in the short–term; and demographic, social and broader global economic trends in the longer–term.
- Boosting living standards and the quality of life enjoyed by Queenslanders, including those most in need of assistance, depends on the ongoing strength of the State's economy. Hence, it is important to foster innovative and creative approaches to drive economic growth.
- Building on the *Jobs Now, Jobs for the Future* employment plan, the Government's Advance Queensland agenda and State Infrastructure Plan are key to its role in driving job creation and helping support and position the State's businesses, industries and communities to respond to current and future challenges, as well as capitalising on opportunities.
- Innovative policies and approaches that drive productivity growth will help grow the State's businesses, improve employment opportunities for current and future generations of Queenslanders and boost incomes. As a result, this will enhance the State's capacity to fund the additional services required by an ageing population.
- The Government will help drive economic growth across all sectors of the economy by:
    - fostering entrepreneurship and innovation;
    - promoting business investment and exports;
    - delivering and facilitating productive infrastructure;
    - growing our human capital;
    - optimising the use of our land and natural resources; and
    - leading an innovative, active and responsive public sector.

1.1 Introduction

Historically, Queensland's strong economic performance and resilience in response to major external shocks has been underpinned by the diversified nature of the economy and the State's comparative advantages in a range of areas, including its valuable natural resources, climate and natural environment, and a well–educated and resourceful workforce.

The Queensland economy is currently in transition, following a sustained period of high growth prior to the Global Financial Crisis (GFC), with the State having experienced more moderate growth in recent years, primarily driven by substantial investment in LNG construction.

The performance of the State's economy is influenced by a wide range of factors and Queensland currently faces some challenges. However, business confidence remains high, with Queensland the highest of the mainland states over the last 10 months on this measure according to the NAB Monthly Business Survey.

In the short–term, the global economic environment is expected to remain weak while the national economy continues its transition associated with the completion of major resource investment projects and a decline in the terms of trade. In the longer–term, the emergence of new technologies and ongoing demographic change, particularly ageing, mean Queensland industries face constant pressure to adopt new approaches to doing business, while employment opportunities and occupations will continue to change rapidly.

Through its ongoing focus on innovation, investment and infrastructure, the Queensland Government will help create the environment in which Queensland businesses, individuals and communities can maximise the benefits from the State's existing economic strengths and productive advantages, while ensuring existing, new and emerging industries can capitalise on opportunities as they occur.

1.2 Economic growth in Queensland

For the last two decades, the Queensland economy has shown resilience despite a series of external shocks and has outperformed the Australian economy throughout most of this period.

From the early 1990s onwards, Queensland embarked on a period of sustained economic expansion, benefitting from the commodity boom in the early 2000s as well as high levels of infrastructure investment in response to its ongoing rapid population growth.

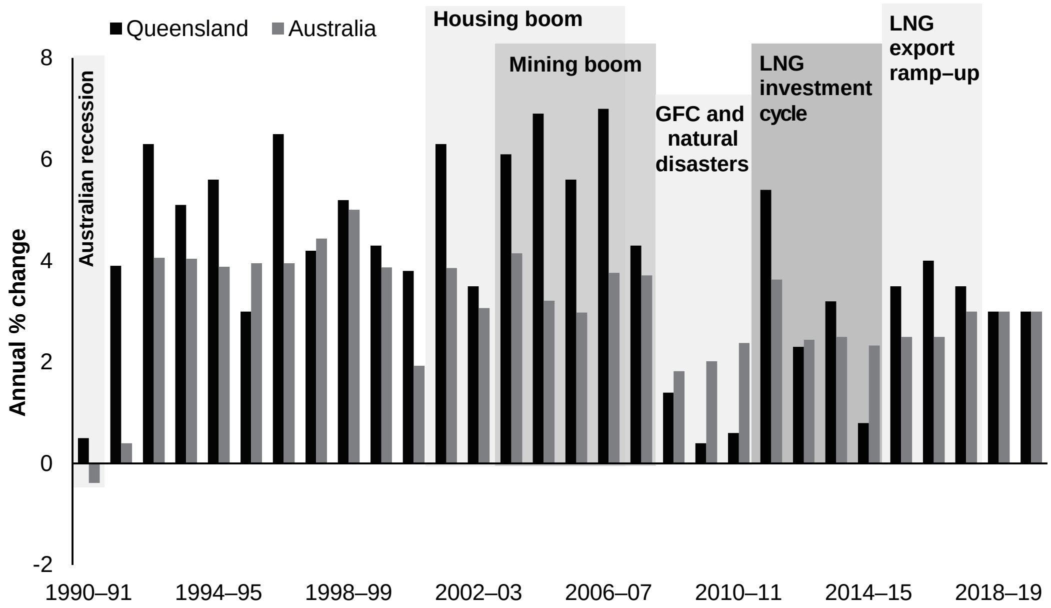
While the Asian Financial Crisis temporarily hampered business and consumer confidence in 1997–98, the housing boom then saw house prices more than double and dwelling investment reach an historical high in 2007–08.

The onset of the GFC in 2008 led to weaker domestic conditions, with the State's economy hindered in subsequent years by subdued global economic conditions, the ongoing strength of the Australian dollar and natural disasters.

However, growth strengthened in subsequent years, driven by a recovery in coal exports, a significant increase in business investment as a result of the construction of LNG projects and, more recently, a pick–up in dwelling investment in the south–east corner of the State.

As the LNG construction phase is completed and subdued global conditions continue to impact growth, the Queensland economy faces challenges. These include the weaker outlook for the State's major trading partners, a significant decline in the terms of trade, and business investment returning to a more sustainable growth path.

Chart 1.1 Economic growth[1], Queensland and Australia



1. Chain volume measure (CVM), 2013–14 reference year, 2015–16 onwards are forecasts.

Sources: ABS 5206.0, Australian Government Budget 2016–17 and Queensland Treasury.

1.3 Queensland's economic outlook

As highlighted in Chapter 2 – Economic Performance and Outlook, while Queensland's economic growth is expected to strengthen in 2016–17, this growth is being driven by LNG exports, with domestic economic activity remaining subdued. Meanwhile, economic growth in 2017–18 is expected to be more broad–based, as LNG production levels mature following the expected ramp–up and domestic activity strengthens.

In the longer–term, Queensland's economic performance will continue to be driven by several key factors including: the performance of international and national economies; the transition of the economy following the resources investment boom; and ongoing demographic change.

In particular, the international outlook remains uncertain, with several of the world's largest developed and emerging economies, including some with strong linkages to the Queensland economy, experiencing prolonged periods of subdued activity.

With several major resource projects in the LNG sector nearing completion, the transition to the production phase will see the continuation of strong growth in export volumes. However, capital investment in the sector – a key driver of recent economic growth and employment – has fallen significantly and is likely to remain subdued for some time.

Meanwhile, over the medium to longer–term, the State's ageing population will likely lead to lower growth in the working age population, reduced overall participation and greater demand for health and aged care services. These factors will add to the fiscal pressures on all levels of government.

1.4 Long–term global trends

A substantial body of research and work has been undertaken over recent years by highly respected organisations, including the CSIRO, to identify and consider the impacts of longer–term social and economic changes, or 'mega–trends', influencing the direction and performance of the global economy and the way people live.

Importantly, Queensland's economic growth and productive capacity over the medium–to–longer–term is likely to be affected by a number of these key global trends, including:

- **Development of a more global marketplace** – emerging economies will continue to make an increasing contribution to global trade and economic growth.
- **Technological change** – digital disruption and advancements will impact on future economic activity, leading to significant changes to established business models.
- **Ageing population** – most developed economies, including Australia, are currently facing an ageing population, and this will continue.
- **Declining resources** – ongoing growth of the world's economy and population continues to place considerable pressure on global resources.
- **Environmental considerations** – increasing global economic activity, industrial activity and consumption has seen an increased focus on environmental issues such as the impact of climate change, decreasing biodiversity and land degradation.

1.5 Queensland's strengths

Given the prevailing global economic conditions and the significant challenges presented by longer–term economic, demographic and social trends, it is essential to maximise the benefits derived from the State's core strengths.

Box 1.1 Queensland's comparative advantages

Our people

- Queensland's well–educated, resourceful and versatile workforce will enable it to adapt more readily to changes in the economic environment in coming years. In the short–term, this will include workers transitioning into new employment as investment in major resource projects completes. In the longer–term, many Queenslanders will need to move to new and growing industries, occupations and regions as technological change, the ageing population and global factors drive structural shifts in the economy and labour market.

Proximity to growing trading partners

- Trade will continue to be a significant source of growth, with the State's time–zone and location within the rapidly growing Asia–Pacific region continuing to create new opportunities for trade and employment. Further growth in this region is likely to drive demand across a range of goods and services, including resources, tourism, education and agriculture.

Resource endowments

- Despite the recent falls in commodity prices, the continued strength of emerging economies will see Queensland producers continue to have further opportunities to leverage off the State's natural resource endowments, including land, minerals and other resources. The State's expertise in managing natural resources and fostering sustainable development is also likely to be in demand in response to increasing concerns about resource constraints.

Natural environment

- Queensland's natural environment, including our World Heritage Areas, represents a significant source of economic opportunity, particularly in relation to tourism in an increasingly developed Asia–Pacific region. The increasing wealth and population of the tropical world is also creating new market opportunities for tropical expertise in areas such as health, environmental management, infrastructure and urban design. The State's reputation in environmental management provides opportunities to increase demand for our agricultural expertise in global markets.

Diversified economy

- Over recent decades, the diversified nature of the Queensland economy, including the transition to a broader–based and more services–orientated economy, has helped it respond to major shocks and take advantage of a range of developing global trends. This will continue to provide the flexibility to enable the State to better capitalise on any global opportunities and withstand any future external shocks that may eventuate.

Research and development

- Research and development to support the growth of existing, new and emerging industries will be of increasing importance in a global economy characterised by innovation and technological change. The continued enhancement of Queensland's education and research sectors will position the State well to take advantage of opportunities and adapt to longer–term trends affecting the global and Queensland economies.

1.6 Growing a more innovative and productive economy

The output or level of goods and services produced in an economy determines the incomes received by individuals for their labour, the profits earned by business owners as a return on their capital and the taxes paid to governments that will fund the provision of services to the community.

In turn, the level of income generated determines the standard of living, that is, the quantity and quality of goods and services individuals, families and communities can demand and enjoy.

The output produced in an economy depends on four key factors of production – land and natural resources, capital, labour and innovation.

Land and natural resources, capital and labour are discrete factors and limited in their availability. They are also subject to 'diminishing returns to scale', that is, as increasing amounts of a factor are used within a given production setting, each additional unit of the factor tends to result in less additional output.

However, innovation is different. By its nature, there is no specific supply of innovation that can be exhausted and, rather than being a discrete factor, innovation is embedded in each of the other factors of production. For example:

- innovative production techniques can increase output by increasing the efficiency of the inputs used;
- innovative technology can be embedded in capital, with investment in new or more advanced infrastructure and equipment increasing productivity; and
- investment in education, health and improved management techniques allows labour to be more engaged, innovative and entrepreneurial, thereby enhancing labour productivity.

Innovation is a key component of productivity, with experimental data suggesting innovation investments and their spill–over benefits could account for up to 62% of productivity growth in Australia.[1] As such, innovation is often said to be the factor that boosts the effectiveness of the other factors of production, that is, innovation increases the returns or output achieved from the other factors of production beyond what it would have otherwise been.

Increasing productivity through innovation in all aspects of the economy will be critical to provide ongoing increases in living standards in coming years, given the ageing of the population and other demographic changes are likely to limit the contribution of labour participation and population to economic growth.

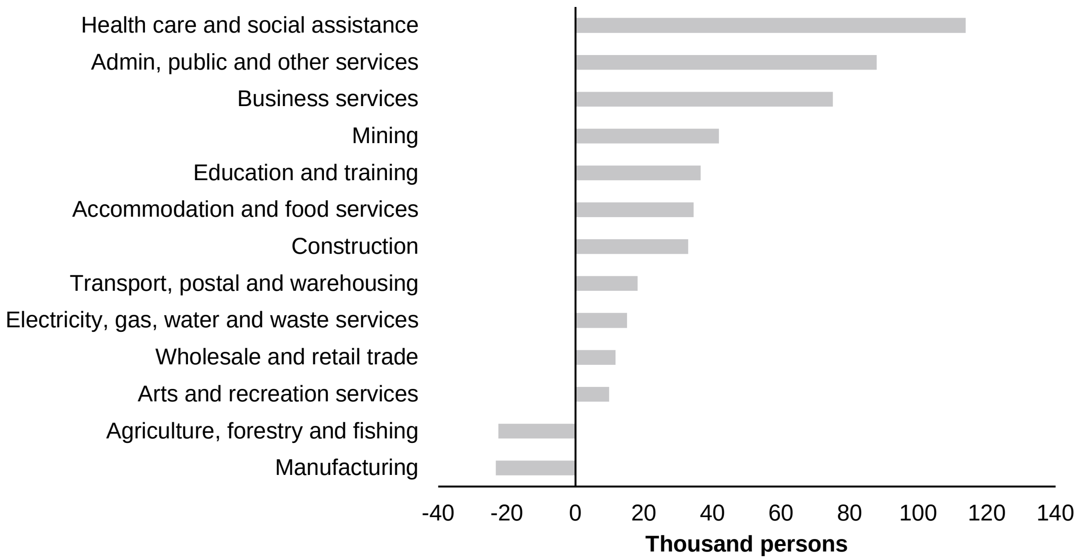
[1] Australian Innovation System Report 2011, p. 9, www.innovation.gov.au/aisreport.

Furthermore, as highlighted in Chart 1.2 below, the State boasts a diversified economy with broad drivers of growth across a range of industries, including expanding service–based sectors, such as health care and social assistance and business services, as well as more traditional industries such as mining, accommodation and food services, and construction.

It is noted that, while mining employment increased over the decade, it has declined from its 2013–14 peak and the current weak outlook for the global resources sector is likely to continue to constrain resources–related employment growth in coming years.

Further, while still playing a key role in the economy by supporting jobs, generating exports and promoting regional growth, other traditional industries such as agriculture and manufacturing have also seen a reduction in employment over the last decade.

Chart 1.2 Queensland employment growth by industry, 2004–05 to 2014–15



Source: ABS 6291.0.

The diversified nature of the State's economy, including ongoing strong employment growth in the more labour–intensive services sector, is likely to limit future labour productivity growth in the absence of more innovative practices across all industries.

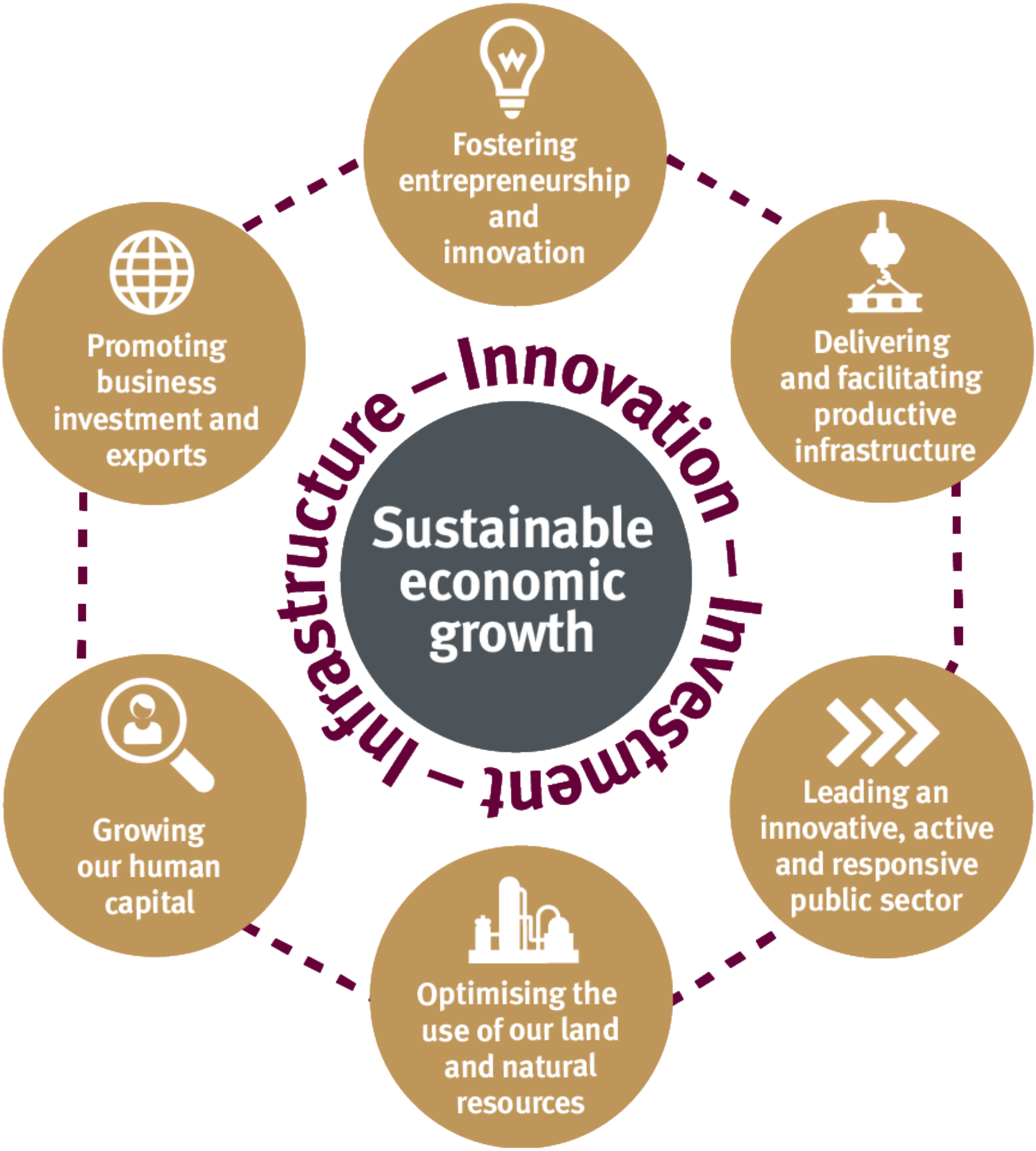
The combination of the factors discussed above, that is, the ongoing demographic change and diversified nature of the Queensland economy, highlights the need to identify, develop and implement innovative approaches to the production and delivery of goods and services across all areas of the economy in order to drive ongoing productivity gains.

Therefore, within a framework of carefully and prudently managing the State's fiscal resources, the Queensland Government will continue to focus on the development and implementation of policies and programs to enhance productivity, drive economic growth and ultimately improve living standards for all Queenslanders.

The key policy channels through which the Queensland Government can achieve this outcome include:

1. Fostering entrepreneurship and innovation;
2. Promoting business investment and exports;
3. Delivering and facilitating productive infrastructure;
4. Growing our human capital;
5. Optimising the use of our land and natural resources; and
6. Leading an innovative, active and responsive public sector.

Growing a more innovative and productive Queensland



Importantly, the Government's immediate priorities of innovation, investment and infrastructure are not only key drivers of productivity and economic growth; they also underpin development and implementation of responses across all other service delivery areas.

For example, growing our human capital includes investment in teacher training, infrastructure spending in schools and other educational facilities, and innovation in the way education and training are delivered. Similarly, in optimising the use of our land and natural resources, innovation and investment in new technology drives the adoption of more effective and efficient resource extraction and farming techniques, as well as better environmental management practices.

Furthermore, innovative approaches to procuring and providing goods and services, attracting investment and delivering infrastructure are critical to improving the efficiency and effectiveness of health, education and other essential government services.

1.6.1 Fostering entrepreneurship and innovation

Entrepreneurship and innovation are critical to increase an economy's productive capacity through the development and implementation of new technologies and production techniques that boost productivity, employment and economic growth.

The significance of innovation as a driver of long–term economic growth is particularly high in modern, developed economies such as Queensland, where there are limited opportunities to drive economic growth through improvements in the supply of key factors of production.

The significant enhancement of the Government's Advance Queensland agenda in this Budget highlights that the focus on entrepreneurship and innovation is much broader than research and development, commercialisation and start–ups. Indeed, the generation and application of new ideas is critical to driving improved productivity, economic outcomes and employment opportunities in all key areas of the economy.

Fostering entrepreneurship and innovation

Key new initiatives in the 2016–17 Budget include:

- $25 million in increased funding over three years for the Advance Queensland Acceleration package, including industry accelerators, regional innovation hubs and the Platform Technology Program.
- $19.7 million in additional funding over three years as part of a Biofutures Roadmap to achieve the Government's vision for a $1 billion sustainable and export–orientated industrial biotechnology and bioproducts sector – attracting significant international investment, as well as creating regional, high–value and knowledge intensive jobs.
- $8.5 million in additional funding over two years for the Department of State Development to undertake initial work on economy–building initiatives aimed at harnessing innovation, forging entrepreneurialism and the growth of new industries to assist with a broader suite of industries for employment.
- $7.9 million over four years for Strengthening Science Capability, including vegetation management monitoring and scientific analysis, the Reef and Water Resources Modelling Centre and international science partnerships.

- $4.8 million in additional and reallocated funding over four years to implement the Technology Commercialisation Fund, a pilot program under the New Agricultural Economy aimed at attracting private sector capital into government agriculture and food based research and development.
- $25 million in reallocated funds over five years to establish a Clinical Genomics Service to position Queensland to keep up with advances in the field of human genomics, to expedite results and treatment for Queensland patients.
- $10 million contribution to James Cook University (JCU) towards the construction of its $50 million Cairns Innovation Centre, subject to finalisation of a detailed business case and confirmation of contributions from JCU and the Australian Government.
- $2.1 million in reallocated funding over three years to stage an annual innovation and start–up festival to position Queensland as an attractive investment destination with a strong innovation and entrepreneurial culture.

Major existing policies and programs include:

- Advance Queensland to foster innovation, skills, education, business development and a start–up culture to deliver knowledge–based jobs now and into the future with major milestones, including:
  - Establishing the Business Investment Attraction Package, including the Business Development Fund, to provide early stage venture capital to assist emerging and innovative Queensland industries.
  - Investing through the Best and Brightest Fund to develop, attract and retain world–class scientific and entrepreneurial talent.
  - Investing through the Advance Queensland Future Jobs Strategy to make Queensland the nation's largest source of investment for industry–research collaboration.
  - Establishing the Start–up Queensland program to increase start–up formation and attraction in Queensland.
- Queensland Entrepreneurs of Tomorrow program established to support entrepreneurship through schools and home based business programs.

1.6.2 Promoting business investment and exports

The private sector is a key driver of employment, accounting for more than 80% of total employment. Therefore, it is critical to ensure policy and regulatory settings are aimed at facilitating business growth and investment.

In particular, trade and investment are significant sources of growth for Queensland, with the State's time–zone and location within the rapidly growing Asia–Pacific region creating new opportunities for trade and employment. Further growth in these economies will drive demand across a range of goods and services, including resources, tourism, education and agricultural commodities.

Furthermore, as capital becomes increasingly mobile, high–value, innovative firms with strong linkages to global value chains will base their location decisions on a range of factors, most importantly access to skilled labour, the provision of strong economic and social infrastructure, and a regulatory framework conducive to business investment.

Therefore, the Queensland Government has a key role to play in facilitating industry growth in response to changing regional and global demand. This includes provision of the key social and economic infrastructure, maintaining a competitive taxation and regulatory regime (including reducing red tape and regulatory impediments), and implementation of appropriate and effective policy to encourage the development of priority industries and sectors.

Promoting business investment and exports

Key new initiatives in the 2016–17 Budget include:

- $40 million in additional funding over four years for the Advance Queensland Industry Attraction Fund to further diversify economic activity by harnessing growth in emerging industries and value adding to existing industries.
- $49.9 million in increased funding over two years to continue the restoration of Tourism and Events Queensland's funding to allow it to continue to promote Queensland destinations and drive tourism growth.
- $33.5 million in additional funding over four years for the Advance Queensland: Connecting with Asia Strategy – to increase visitation from Asia by destination marketing, attracting further airline routes to Queensland from key markets in Asia, improving tourism products and expanding the tourism industry's digital capability.
- $22.7 million in additional funding over three years for the Advancing Small Business Queensland Strategy, which will focus on making Queensland the place for small business to start, grow and employ.
- $25.3 million in increased funding over five years to deliver initiatives from the Queensland International Education and Training Strategy to Advance Queensland 2016–2021 and continue the International Education and Training Unit.
- $10.9 million in increased funding in 2016–17 to continue the One–Stop Shop program, which is focused on delivering improvements to frontline services, encouraging innovation and better services for citizens and businesses.
- $5 million in additional funding over four years towards the activities of the Mining Equipment, Technology and Services Industry Growth Centre at the Queensland University of Technology.
- $11.6 million in additional funding for the implementation of the Biofuels Mandate, including a campaign to educate consumers about biofuels and the development of best practice environmental standards.

Major existing policies and programs include:

- Establishing the independent Queensland Productivity Commission to formulate policy proposals and recommendations to encourage economic growth, productivity and improved living standards across Queensland.
- Establishing the Red Tape Reduction Advisory Council to recommend areas in which regulation could be reduced for small business.

- Boosting the Attracting Aviation Investment Fund to promote Queensland tourism destinations to targeted international markets and attract new flights direct to Queensland.
- Enhancing the Government's Business and Industry Portal, transforming how the Queensland Government delivers online services and interacts with businesses and industry.
- Undertaking additional trade missions to support Queensland businesses and promote exports.
- Increasing funding for Tourism and Events Queensland to assist growth and promotion of events in Queensland.
- Implementing the Government's Food and Fibre Plan to ensure the growth of a productive and prosperous food and fibre sector in Queensland and to actively address the challenges facing primary producers.

1.6.3 Delivering and facilitating productive infrastructure

Essential economic infrastructure is critical to allow an economy to function effectively and efficiently. In particular, investment in productive infrastructure reduces transaction costs for business, thereby improving employment and economic outcomes.

For example, improved transport infrastructure can help businesses reduce freight costs and increase the speed at which goods reach their final market. Meanwhile, more effective public transport reduces congestion costs and gives workers greater choice around work and leisure decisions.

The Queensland Government plays a crucial role in coordinating, planning, pricing, financing and maintaining infrastructure, each of which is crucial in ensuring key infrastructure is used efficiently and put to its most productive use.

New and innovative approaches to infrastructure planning, financing and delivery will continue to be an important focus in the constrained fiscal environment.

Delivering and facilitating productive infrastructure

Key new initiatives in the 2016–17 Budget include:

- A $2 billion State Infrastructure Fund to build the infrastructure needed to support economic growth and liveability into the future.
- The Building our Regions program provides funding to local governments for critical infrastructure in regional areas supporting jobs, fostering economic development and improving liveability in regional communities. The program is receiving a $175 million boost over the next four years, in addition to the $200 million in new funding allocated in the 2015–16 Budget. This increased allocation includes $90 million over three years for the Transport Infrastructure Development Scheme.
- $96.5 million in additional funding over five years to enable upgrades to roads in North Queensland.
- $50 million in additional funding in 2016–17 for Cross River Rail environmental impact approvals, establishment of the statutory body, commencement of scoping of value share opportunities, and commencement of early works and pre–procurement activities.
- $18.1 million in increased funding over four years for the continuation of the Remote Indigenous Land and Infrastructure Program Office to provide an integrated capital works approach to infrastructure works in the 34 discrete Aboriginal and Torres Strait Islander communities.
- $15 million in increased funding over two years to improve mobile coverage in Queensland and leverage the Commonwealth Mobile Black Spot Program.

Major existing policies and programs include:

- Releasing the State Infrastructure Plan, which outlines a new strategic direction for the planning, investment and delivery of infrastructure in Queensland.
- Implementing the Building our Regions program to provide critical infrastructure projects in regional Queensland to meet specific needs of communities and support economic development.
- Delivering the Accelerated Works Program to help sustain and create jobs and economic activity by getting projects underway sooner in regional Queensland.
- Establishing Building Queensland as a statutory body to provide independent, expert advice on infrastructure priorities.

1.6.4 Growing our human capital

Queensland’s human capital represents the total skills, knowledge and capacity embedded in the State’s most valuable resource, our people.

Increasing the quantity and quality of human capital will help create a more skilled, active and flexible workforce, thereby having a positive impact on economic growth. A more educated population will support innovation, either through adapting new ideas in their immediate work environment or generating and developing new products and services.

Government can influence human capital outcomes through either supply side policies to influence the quantity and quality of human capital (for example, investment in health, education, training and skills development, and incentives to address labour market shortages) or demand side policies aimed at influencing how effectively human capital is used in the labour market (for example, incentives to employers to employ workers from key disadvantaged cohorts).

Maintaining a well–educated, resourceful and flexible workforce will enable Queensland to adapt more readily to the changing economic environment in coming years. More skilled workers are generally more productive and are able to transition into different forms of employment, facilitating a smoother labour market adjustment to changes in industries or new industry development.

A better educated workforce can also increase the attractiveness of the State for the location of high–value, innovative and knowledge–based businesses.

Labour market incentive programs can also be effectively used to target specific groups in the labour market, or to encourage workers to move into areas or professions with high skills demand. Employer incentives to hire workers from disadvantaged groups can assist in integrating/reintegrating them into the workforce, while incentives for workers with specialised skills to move into regional areas can assist in meeting labour demands in regional areas.

The timeframes over which policies aimed at growing human capital effectively impact on economic growth can vary significantly. In particular, by their nature, many supply–side policies, particularly education and health–related programs, tend to impact on economic outcomes over the medium to long–term.

Growing our human capital

Key new initiatives in the 2016–17 Budget include:

- $100 million in additional and reprioritised funding over two years for the Back to Work Jobs Package for Regional Queensland to give employers the confidence to employ jobseekers and provide an economic boost to regions facing challenging times. The package will assist up to 8,000 eligible jobseekers across regional Queensland.
- $102 million in additional funding over four years for Queensland Schools to implement the findings of the Review of School Administrative and Support Staff.
- $72.4 million in additional funding over four years to continue the development of new senior assessment and tertiary entrance systems, including the development and trialling of new senior assessment processes, redevelopment of senior syllabuses and professional development for teachers and curriculum leaders.
- $42.8 million in additional funding over two years to fund the Australian Government's shortfall resulting from the National Partnership Agreement on Universal Access to Early Childhood Education and to maintain current service delivery and child subsidies.
- Establishment of the Sunshine Coast Health Institute as part of the $1.872 billion Sunshine Coast University Hospital, a skills, academic and research centre in partnership with two Universities and TAFE Queensland.

- $491.3 million in additional funding to maintain, expand and build Queensland schools, including:
  - $94.7 million in 2019–20 for the School Asset Maintenance Program;
  - $147.3 million over five years to procure three new schools in high growth areas; and
  - $249.3 million over four years for the State School Base Capital Works Program (plus ongoing funding of $79.1 million per annum), including $60 million for the construction of a new state high school at Calliope.

Major existing policies and programs include:

- Reinstating the Skilling Queenslanders for Work initiative to support up to 32,000 Queenslanders into work.
- Establishing Jobs Queensland as an independent statutory authority to provide advice to government on skills demand and long–term workforce planning.
- Providing a payroll tax rebate for apprentices and trainees to enable Queensland to continue developing a highly skilled workforce into the future.
- Establishing the Rural Jobs and Skills Alliance as the single point of reference for Queensland's agricultural sector workforce and to provide strategic industry advice to government on skills demand and future workforce planning.
- Extending the Queensland Building and Construction Training Policy to include government–owned corporations to improve employment opportunities for apprentices and trainees.
- Restoring TAFE Queensland's status as Queensland's premier provider of vocational education and training through Rescuing TAFE.
- Investing in the nursing workforce by offering up to 4,000 one year graduate nursing places and supporting 400 nurse navigators by 2018–19.

1.6.5 Optimising the use of our land and natural resources

Queensland's land, water, minerals and other natural resources represent a significant potential source of economic growth and employment, as well as the Queensland Government revenue needed to enable the provision of essential services.

Maximising the contribution of our natural resources to economic growth and employment requires policy settings that facilitate the efficient use of land and consumption of natural resources, including renewable and non–renewable resources. Therefore, the Government has a key role to play in ensuring that land use and planning frameworks, land tax arrangements and development assessment processes facilitate the efficiency and effectiveness of land use.

Similarly, appropriate taxation arrangements, pricing frameworks and regulations in resource–related industries such as mining, agriculture, forestry and fisheries are important to ensure the efficiency of land use and natural resource consumption, while effective environmental regulation is critical to minimise negative environmental impacts arising from economic activity.

Optimising the use of our land and natural resources

Key new initiatives in the 2016–17 Budget include:

- $77.9 million over five years for Rural Assistance to support rural producers across the State affected by debt and drought, including:
  - $41.9 million in 2016–17 for the Drought Assistance Package to extend drought relief and drought reform initiatives by a further year; and
  - $36 million over five years for the Rural Assistance Package including pest and weed management (including wild dog control), expanded functions and services of a new Queensland Rural and Industry Development Authority, new farm debt mediation requirements, financial management and climate risk mitigation grants, the establishment and ongoing operation of the Office of Rural Affairs, assistance to rural school students in drought affected communities, funding to assist the Wet Tropics Management Authority to manage yellow crazy ants (conditional on an Australian Government contribution), and an extension of the family farm transfer duty concession.
- $42 million in increased funding over five years to 2020–21, with $8 million ongoing from 2021–22, for the Abandoned Mine Lands Program to manage the public safety risks associated with abandoned mine sites across Queensland.
- $7.3 million in increased funding over two years for the Coal Seam Gas Compliance Unit, which focuses on regulation and administration of the Coal Seam Gas industry.
- $15.2 million in increased funding over four years to support a range of wildlife management and conservation activities, including wildlife hospitals, wildlife licensing and inspections, and the continued development of wildlife management regulations.
- $6.8 million in increased funding over four years and $1.7 million per annum ongoing to develop and implement a Queensland Climate Change Strategy.
- $30.2 million in funding ($10.8 million in additional funding and $19.4 million internally reallocated) over four years to implement the recommendations of the Queensland Biosecurity Capability Review and restore Queensland's biosecurity capability to world's best practice.
- $7.8 million in additional funding over four years and $1.5 million per annum ongoing to support aerial satellite imagery in rural and remote areas of Queensland not covered by aerial photography to support the State’s vegetation management provisions.

Major existing policies and programs include:

- Providing a Drought Relief Package in 2015–16 to support producers and communities that have been affected by drought conditions across the State.
- Implementing Protecting the Great Barrier Reef initiatives, including water quality initiatives, scientific research and helping businesses transition to better environmental practices in the primary production, mining and fishing industries.
- Implementing State Government actions in the Reef 2050 Long–Term Sustainability Plan.
- Supporting climate change adaptation through the Local Government Coastal Hazard Climate Adaptation Fund and the development of a Queensland Climate Change Adaptation Strategy.

- Increased funding over two years from 2015–16 to support ongoing investigations and compliance actions into instances of alleged serious environmental harm, relating to underground coal gasification.
- Providing a $100 million investment over five years to protect the Great Barrier Reef, including $21.7 million in 2016–17.

1.6.6 Leading an innovative, active and responsive public sector

In addition to its key responsibility for establishing appropriate regulatory and policy settings in many areas of the economy, the Government plays a significant role in providing essential services like health, education, policing, fire and emergency services, as well as a range of public utilities.

Collectively, Queensland state and local government expenditure has historically accounted for more than 15% of Queensland's total economic activity (or Gross State Product), and directly employed approximately 15% of the State's workforce. Governments, therefore, have an opportunity to lead the way by driving greater productivity and growth through responsible and sustainable fiscal management, including identifying and promoting new, innovative approaches to the procurement and delivery of infrastructure and essential services.

Leading an innovative, active and responsive public sector

Key new initiatives in the 2016–17 Budget include:

- $198.2 million over five years ($192.9 million new funding and $5.3 million reprioritised funding) has been allocated since the 2015–16 Budget to continue implementing the Government's response to the *Not Now, Not Ever: Putting an End to Domestic and Family Violence in Queensland* report.
- Reforming the funding arrangements for legal assistance, legal professional regulation and law library services to improve certainty and long–term sustainability of services to vulnerable Queenslanders. From 1 July 2016, all legal assistance, legal profession regulation, and law library services expenditure will be fully funded from the Consolidated Fund.
- $32.4 million over four years and $13 million ongoing in increased funding to deliver the election commitment to increase legal aid funding over time to a level equal to the national average per capita.
- $16.2 million in increased funding over four years to improve counter–terrorism capability and capacity in response to the sustained national threat level.
- $8.3 million over four years in additional and reprioritised funding to deliver the *Queensland: an age–friendly community* strategy and implement recommendations from the Parliamentary Inquiry into the adequacy of existing financial protections for Queensland's seniors.
- $9.9 million in increased funding over two years for disaster mitigation and to build community resilience to natural disasters.
- $14.1 million in additional funding over four years for a new telephony solution to ensure the ongoing success of the delivery of call centre services to the Queensland Government and public, particularly during periods of disasters and other significant events.

- $9.9 million in additional funding over four years for cyber security initiatives and the establishment of a cyber security capability within the Department of Science, Information Technology and Innovation.
- $40 million in additional funding to temporarily increase the Queensland First Home Owners' Grant from $15,000 to $20,000 for 12 months to assist first home buyers of newly constructed homes to enter the housing market.
- $12.4 million over four years to implement a cloud service for the State's existing Revenue Management Solution suite and other measures as part of a transformational program of work to deliver improved revenue management services into the future.

Major existing policies and programs include:

- Implementing Social Benefit Bonds – the Government is piloting social benefit bonds in the areas of homelessness, reoffending and reducing Indigenous disadvantage as part of a new and innovative approach to tackling complex social and economic challenges.
- Encouraging private sector projects for economic and social infrastructure through Market–Led Proposals. In 2015–16, four proponents were granted an exclusive mandate to develop a detailed proposal for submission to Government.
- Implementing the Nursing Guarantee policy and safe nurse to patient ratios to assist in rebuilding the nursing workforce, improve patient safety and assist patients to navigate from their referring GP or other primary care providers, through hospital based care.

2 Economic performance and outlook

Features

- Following a weak result in 2014–15, growth in Queensland gross state product (GSP) is expected to strengthen to 3½% in 2015–16 and to 4% in 2016–17. Based on the latest forecasts from individual state governments, Queensland is expected to record the strongest economic growth of all states over the forecast period.
- This rebound in GSP growth is underpinned by a surge in overseas exports, as liquefied natural gas (LNG) production ramps up and drives the value of Queensland exports to almost $100 billion by the end of the decade.
- However, as part of this adjustment, sectors that previously suffered during the resources boom are now strengthening. In particular, low interest rates are supporting housing construction and the lower A$ is boosting tourism and education exports.
- In contrast to this robust outlook for Queensland exports, which reflects the benefits of an earlier surge in investment, conditions in the global and domestic economies remain subdued.
- International conditions have weakened over the past year, with forecasts for global economic growth progressively downgraded by key international agencies. More importantly from a Queensland perspective, prospects for growth in industrial production in the State's major export markets for energy and mineral products have deteriorated further.
- The more subdued global outlook, combined with strong global supply, has contributed to sharp declines in commodity prices, which have not been fully offset by a lower A$. Weaker commodity prices have led Queensland coal and base metal producers to cut costs and have reduced prospects for new resources sector investment.
- As has been identified in previous State Budgets, business investment could not be sustained at the extraordinary levels recorded during LNG construction and is forecast to fall in 2015–16. Consistent with trends nationally, forward indicators also suggest that business investment more broadly may take longer to recover than previously expected.
- While growth in household consumption is expected to recover, it will remain below average, tempered by slow wages growth, subdued population growth and soft labour market conditions.
- Low interest rates, solid house price growth and investor interest are driving a sustained recovery in dwelling investment, particularly in apartments in inner Brisbane.
- The trade sector is expected to drive overall economic growth in Queensland in 2015–16 and 2016–17, with the volume of overseas goods and services exports forecast to grow by 11% and 8% respectively, as the LNG projects ramp–up production.
- Coal export volumes are expected to be largely unchanged in 2015–16, and grow only moderately from 2016–17 onwards, as slower growth in industrial production tempers demand from China. Base metals export volumes are expected to decline, due to the planned closure of a number of mining operations.

- The outlook for agricultural exports is mixed, with beef exports to decline as herd numbers are rebuilt, while some crop exports are benefitting from expanding overseas markets.
- Overseas tourism exports are expected to experience substantial growth over the forecast period, driven by a combination of the lower A$ exchange rate and the expanding middle class in Asian nations.
- In addition, the Commonwealth Games, to be held on the Gold Coast in April 2018, is expected to provide a boost to tourism exports in 2017–18.
- Overseas education exports are also forecast to grow strongly. As with tourism exports, the depreciation in the A$ and rising incomes in Asia, as well as increased demand for higher education in developing Asian economies, particularly China and India, are expected to drive growth in enrolments.
- Following a very weak result in 2014–15, headline labour market indicators for Queensland have improved in 2015–16, supported by employment gains associated with robust dwelling construction activity and the delivery of health and education services by the public and private sectors.
- This has also improved the outlook for unemployment, with the unemployment rate now forecast to average 6¼% in both 2015–16 and 2016–17, lower than the 6½% forecast at Mid Year Fiscal and Economic Review (MYFER).
- However, employment growth over the past year has been concentrated in South East Queensland, with conditions remaining subdued in regional areas, particularly those with significant mining or resource–related construction workforces.
- The solid headline economic growth in Queensland in 2015–16 and 2016–17 is being driven by LNG exports, which tend to be less labour intensive than the broader economy, while domestic economic activity remains subdued. This is expected to keep employment growth below average, leading to a relatively stable unemployment rate in the short–term.
- Growth in consumer prices and wages are expected to remain low.
- Looking further ahead, while economic growth in Queensland is forecast to moderate to 3½% in 2017–18, it will still be the strongest growth of any state and importantly this growth will be more broad–based, as LNG production plateaus and domestic activity strengthens.
- These trends are expected to support some improvement in labour market conditions, including a fall in the unemployment rate to around 6% by 2017–18.

2.1 External environment

2.1.1 International conditions

Economic growth of Queensland's major trading partners is expected to be around 3½% in each year to 2020 (see Table 2.1), lower than the average growth of around 4% per annum following the Global Financial Crisis (GFC).

Table 2.1 Queensland's major trading partners' economic outlook[1]

	Actual	Forecasts				
	2015	2016	2017	2018	2019	2020
Major trading partners	**3.6**	**3½**	**3½**	**3½**	**3½**	**3½**
Non–Japan Asia[2]	5.1	5	5¼	5	5	5
China	6.9	6½	6¼	6	5¾	5¾
India[3]	7.5	7½	7¾	7½	7½	7½
South Korea	2.6	2½	2¾	2¾	2½	2½
Japan	0.5	½	½	1	1	1
Europe[4]	2.0	1¾	1¾	1¾	1¾	1¾
US	2.4	1¾	2¼	2¼	2¼	2¼

Notes:

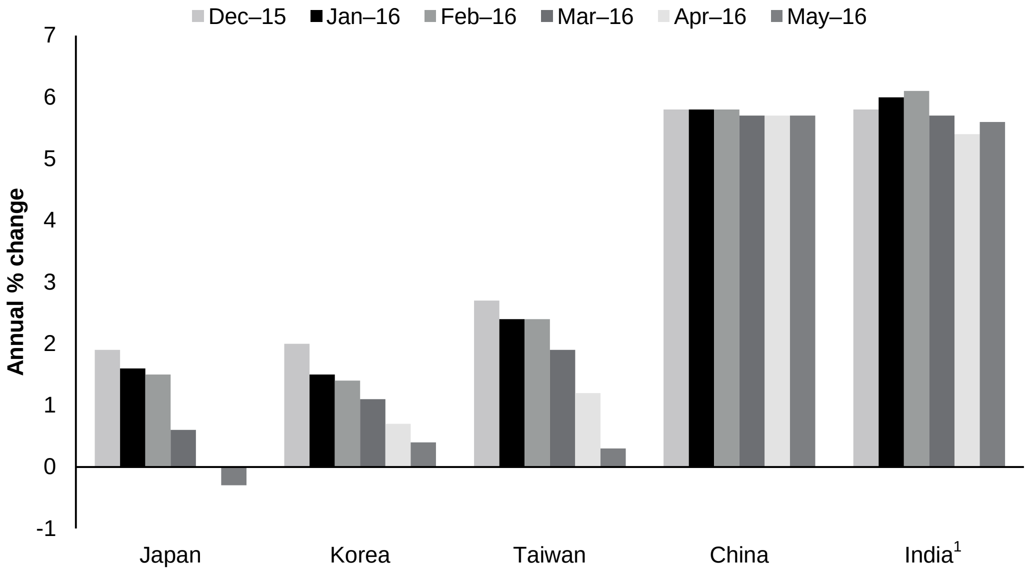
1. Annual % change. Decimal point figures indicate an actual outcome.
2. Includes New Zealand.
3. India's growth profile is based on an April to March fiscal year.
4. Includes United Kingdom.

Sources: Consensus Economics and Queensland Treasury.

However, this stable outlook masks substantial downward revisions to the forecasts for industrial production among Queensland's major export markets in Asia since the release of the 2015–16 MYFER (see Chart 2.1). For instance, Japan's industrial production in 2016 was forecast to grow by 1.9% in December 2015, but by May 2016 was forecast to fall 0.3%. Growth in Korea's industrial production has been downgraded from 2.0% to 0.4% over the same period.

With more than three quarters of Queensland's merchandise exports going to Asia, a softer outlook for this region is expected to have a material impact on the State's trade performance, particularly exports of key industrial commodities such as coal and base metals.

Chart 2.1 Consensus forecasts of industrial production growth for 2016



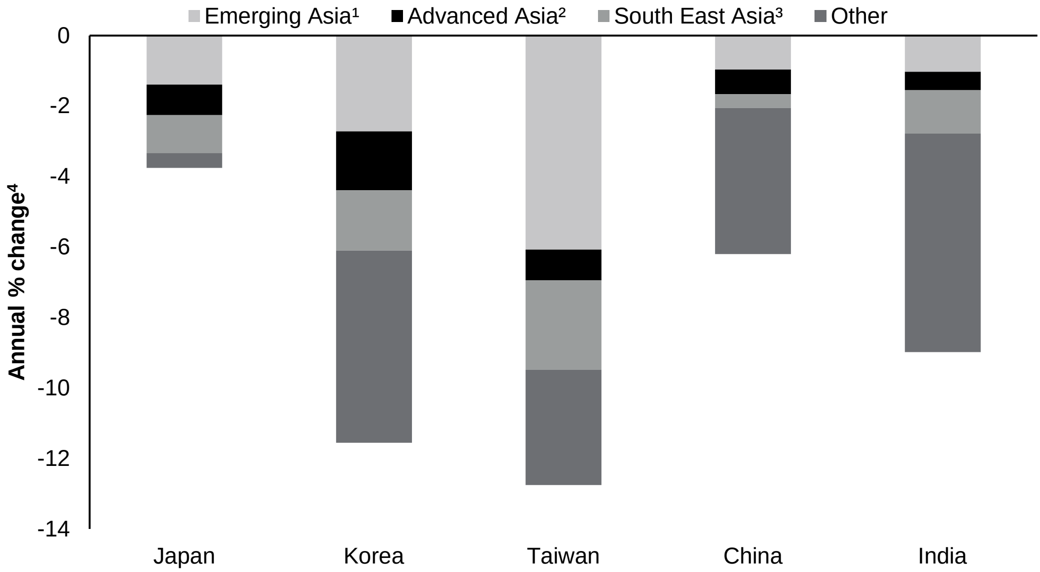
Note:

1. India's growth profile is based on an April to March fiscal year.

Source: Consensus Economics.

The weakening in the outlook for industrial production has also occurred in other advanced economies such as the United States and the Euro zone. However, the extensive supply networks established within Asia mean adverse effects of the downturn are likely to be more severe and prolonged in Asia. In particular, intra–regional trade among these economies has been adversely affected. Most noticeably, the value of Taiwan's merchandise exports fell at an annual rate of 12.7% in the first ten months of 2015–16, with 9.5 percentage points of this fall due to a decline in exports to within the region (see Chart 2.2). Similarly, a decline in exports to within Asia contributed 3.3 percentage points to the 3.8% annual decline in the total value of merchandise exports from Japan over the period, while 6.1 percentage points out of Korea's 11.5% decrease in exports were contributed by trade within Asia.

Chart 2.2 Contributions to decline in the value of merchandise exports, by country



Notes:

1. Emerging Asia is represented by China, Hong Kong and India.
2. Advanced Asia is represented by Japan, Korea and Taiwan.
3. South East Asia is represented by Indonesia, Malaysia, the Philippines, Singapore and Thailand.
4. Between the first ten months of 2015–16 and the first ten months of 2014–15.

Source: Thomson Reuters.

Amid the softening in industrial production, and associated decline in intra–regional trade, inflation continued to moderate across much of the global economy in 2015–16. Core inflation (which excludes volatile items such as food and energy) in Japan slowed to 0.8% in the first ten months of 2015–16, compared with 2.0% in the same period a year ago. Core inflation in Taiwan and Singapore also moderated to 0.7% (from 1.3%) and -0.1% (from 0.6%) respectively over the period. Meanwhile, core inflation was only 0.9% in the European Union. An exception is the United States, where core inflation increased 0.3 percentage point to an annual rate of 2.0% in the first ten months of 2015–16.

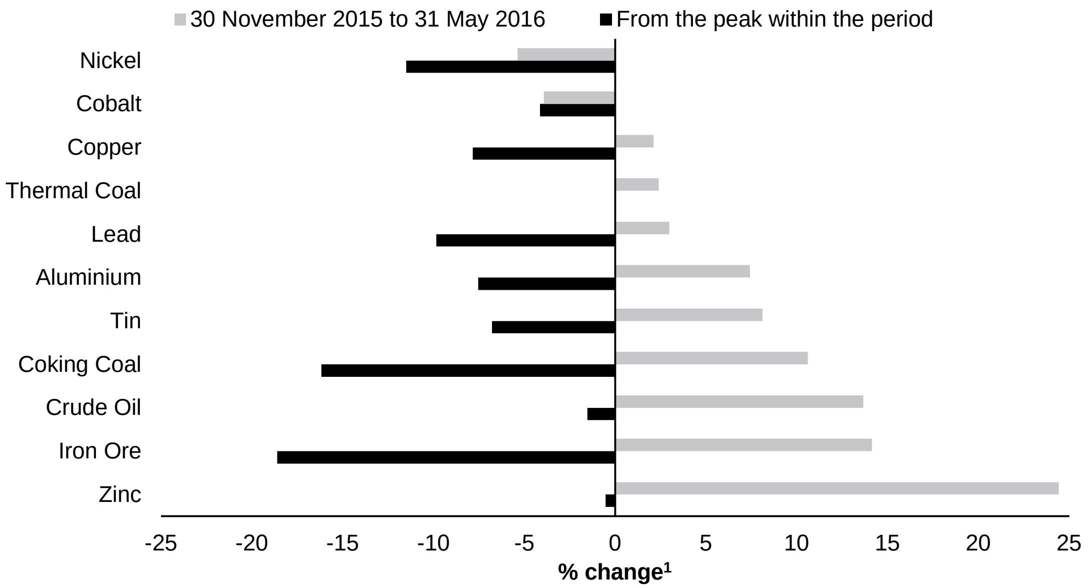
In response to weakening inflation, central banks around the world continued to ease their monetary stances in 2016. This is particularly the case in Asia, where the Bank of Japan adopted negative interest rates in late January, while the People's Bank of China cut the reserve requirement ratio for the fifth time in 12 months in late February. The central banks of India, Indonesia, Singapore and Taiwan also engaged in monetary easing in recent months.

However, the effectiveness of further monetary easing has diminished due to long–term interest rates in many Asian countries falling to historically low levels. The 10–Year Japanese government bond yield has been negative since late February 2016, while 10–Year Treasury bond yields in Korea and Taiwan have fallen around 50 and 40 basis points, to 1.8% and 0.8% respectively, since the end of November 2015.

These developments indicate a softening in demand has been a main driver, if not the most important driver, of the current weak growth and inflation outlooks among Queensland's major Asian trading partners. This is consistent with the poor stock market performance in Asia in recent months. Share prices in China, Japan and Hong Kong were 20%, 16% and 10% below where they were in November 2015, while stock markets in Singapore, Taiwan and Korea recorded declines of 6%, 3% and 2% respectively over the period.

This persistent weakness in demand means that imports of industrial commodities into Asia are likely to remain subdued. This implies the recent recovery in industrial commodity prices may not be sustained. Although international prices of most industrial commodities remain above their levels of 30 November 2015, they have all retreated from their respective recent peaks (see Chart 2.3).

Chart 2.3 Changes in industrial commodity prices since November 2015



Note:

1. US dollar terms.

Source: Thomson Reuters.

2.1.2 National conditions

The Australian economy is rebalancing away from resources investment towards broader–based growth. An extended period of accommodative monetary policy has been employed to promote domestic activity, while unexpectedly weak inflation has prompted the Reserve Bank of Australia (RBA) to lower the cash rate further.

Australian Treasury forecasts gross domestic product (GDP) growth of 2½% for both 2015–16 and 2016–17, before strengthening to an above–trend 3% in 2017–18 (refer Table 2.2).

Exports are expected to remain a key driver of GDP growth in coming years, as iron ore and LNG projects continue to ramp–up production following the investment phase of the mining boom, and services exports such as tourism and education are supported by a lower exchange rate and rising demand from Asia.

Business investment is forecast to decline further over the next two years. The continued unwinding of resources investment from unprecedented levels is expected to more than offset recovery in non–resources investment until 2017–18, when overall business investment is forecast to stabilise. As with Queensland, the pace and timing of the anticipated pick–up in national non–resources business investment continues to be a key source of uncertainty for the outlook.

Dwelling investment growth is expected to ease from 2016–17, as a record number of residential projects reach completion, while strengthened lending protocols for new borrowers and the potential for lower returns constrain investor activity. Australian Treasury considers that strong labour market conditions, low interest rates and an easing in the household savings rate are expected to continue to support steady growth in household consumption.

There has been a notable improvement in national labour market conditions, with the employment to population ratio continuing to trend upwards from its late–2014 low. Reflecting the national increase in part–time jobs in the service sectors and increased female participation, strong growth in national employment has been accompanied by fewer hours worked by those who have a job.

Australian Treasury forecasts solid employment growth to continue, supported by moderate wage increases and the transition to more labour–intensive sectors of the economy, such as household services. As a result, the unemployment rate is forecast to ease from around 5¾% currently, to 5½% by June quarter 2017, where it is expected to stay over the remainder of the forecast period.

Table 2.2 Australian Treasury national economic forecasts

	Actual[1]	Estimate	Forecasts		Projections	
	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
GDP[2]	2.2	2½	2½	3	3	3
Employment[3]	1.6	2	1¾	1¾	1¼	1½
Unemployment rate[4]	6.1	5¾	5½	5½	5½	5½
Inflation[5]	1.5	1¼	2	2¼	2½	2½
Population[6]	1.4	1½	1½	1½	1½	1½
Terms of trade	-10.3	-8¾	1¼	0	n.a.	n.a.

Notes:

1. Calculated using original data unless otherwise indicated.
2. Per cent change on previous year. Chain volume measure (CVM), 2013–14 reference year.
3. Seasonally adjusted, through–the–year growth rate to the June quarter.
4. Seasonally adjusted rate for the June quarter.
5. Through–the–year growth rate to the June quarter.
6. Through–the–year growth rate to 31 December.

Source: 2016–17 Australian Government Budget.

2.1.3 Assumptions

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

- The RBA is assumed to maintain an easing bias in the near–term, before adopting a more neutral stance during 2017.
- The A$ is assumed to be broadly unchanged against the US$ across the forecast period.
- Crude oil prices are substantially lower than mid–2014, although they have improved somewhat from late–2015 lows. Consistent with current pricing of futures markets, it is assumed that oil prices will continue to gradually rise over the next few years.
- According to the Bureau of Meteorology, the El Niño weather event has officially ended, with the likelihood of a La Niña forming later in 2016 at around 50%. La Niña weather patterns are often, but not always, associated with above average winter–spring rainfall. An improvement in seasonal conditions has been factored into the forecasts.

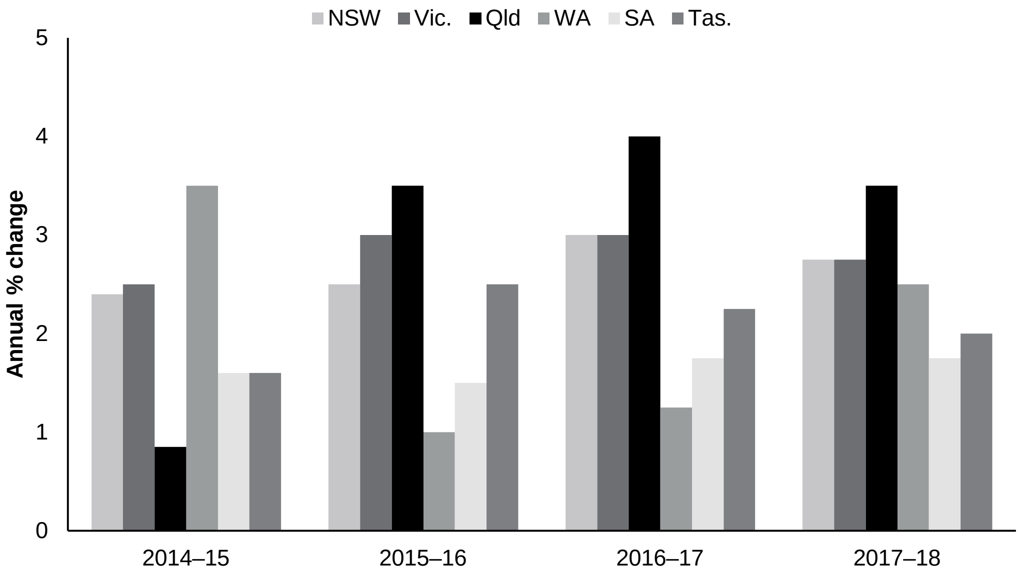
This chapter ends with a discussion of the risks related to the global economy, financial markets and other assumptions driving the Queensland outlook.

2.2 Queensland economy

2.2.1 Summary of conditions and outlook

Following a weak result in 2014–15, Queensland's economic growth is forecast to strengthen to 3½% in 2015–16 and to 4% in 2016–17, before moderating slightly in 2017–18. As a result, Queensland's growth is forecast to be higher than those of other states over the forecast period (see Chart 2.4).

Chart 2.4 Economic growth, by state[1]



Note:

1. CVM, 2013–14 reference year. 2015–16 are estimates; 2016–17 onwards are forecasts.

Sources: Queensland Treasury and various state budgets and mid–year reviews.

Household consumption is expected to remain subdued in 2016–17, as slow growth in household income more than offsets the impact of low interest rates and rising house prices. As labour market conditions continue to improve, consumption growth is forecast to pick–up gradually. Underpinned by low interest rates and attractive rental yields for investors, dwelling investment has grown strongly, with a large pipeline of medium–to–high density projects expected to support activity.

Weaker commodity prices and a softer global outlook than previously expected are continuing to weigh on resources sector investment. With the pick–up in non–resources investment likely to occur later than previously anticipated, business investment is now forecast to fall further in 2016–17. A moderate recovery is expected across the remainder of the forecast period as business investment returns to a more sustainable growth path following the historical high of the LNG construction phase (see Chart 2.5).

Table 2.3 outlines the detailed components of GSP for the Actual 2014–15 outcome, the Estimated Actual 2015–16 outcome and the 2016–17 and 2017–18 forecast period.

Table 2.3 Queensland economic forecasts[1], by component

	Actual	Est. Act.	Forecasts	
	2014–15	2015–16	2016–17	2017–18
Economic output[2]				
Household consumption	2.5	2½	2½	2¾
Private investment	-16.1	-11¼	-3¼	3½
Dwelling investment	8.7	14	6¼	4
New and used	14.6	16	6¼	3¼
Alterations and additions	1.3	11	6¼	5¼
Business investment	-25.0	-23	-10¾	2¾
Non–dwelling construction	-33.4	-26½	-18	2¼
Machinery and equipment	-4.2	-17¼	¾	3
Private final demand	-3.6	-1½	1	3
Public final demand	-0.5	¾	2¾	2¾
State final demand	-3.0	-1	1½	3
Net overseas exports[3]	2.6	3¼	2	¾
Overseas exports	7.7	11	8	4½
less Overseas imports	-5.6	-4¾	-1	2
Gross state product	0.8	3½	4	3½
Nominal gross state product	2.4	3½	6	6¾
Other economic measures				
Employment	0.3	1¾	1½	1¾
Unemployment rate[4]	6.5	6¼	6¼	6
Inflation	1.9	1½	2	2½
Wage Price Index	2.4	2	2¼	2¾
Population	1.2	1¼	1½	1½

Notes:

1. Unless otherwise stated, all figures are annual % changes.
2. CVM, 2013–14 reference year, except nominal GSP. Components not separately reported are other investment (cultivated biological resources, intellectual property products and ownership transfer costs), the balancing item (including interstate trade and inventories) and the statistical discrepancy.
3. Goods and services, percentage point contribution to growth in GSP.
4. Per cent, year–average.

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

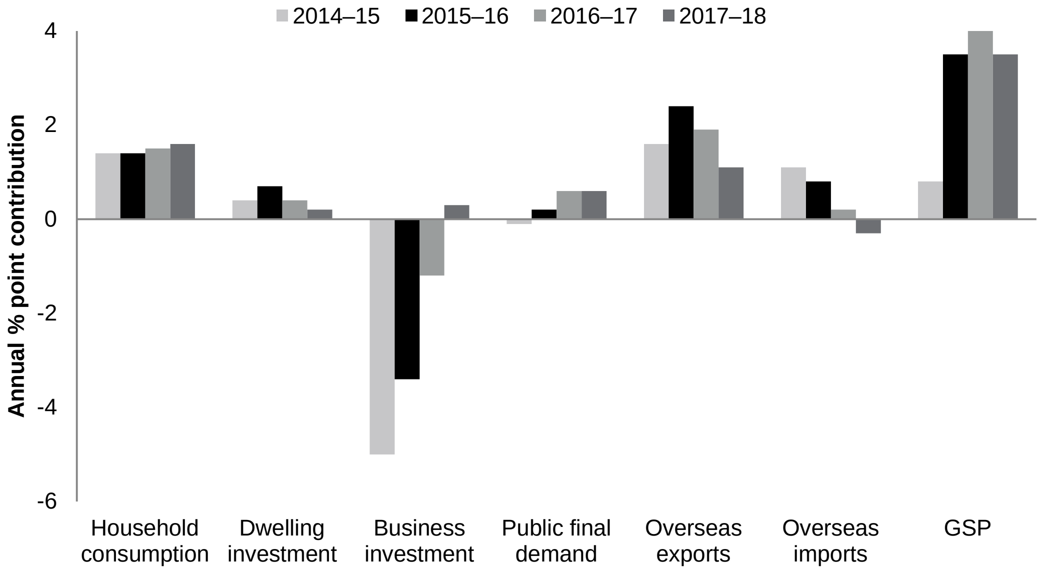
While some strengthening in government spending on key services and infrastructure will help state final demand grow moderately in 2016–17, net exports are forecast to remain the major contributor to economic growth. Net exports will contribute around 2 percentage points to GSP growth, as LNG exports drive strong growth in total exports and falling business investment results in lower imports.

Overall economic growth in 2016–17 has been revised from MYFER, with a weaker outlook for private final demand (up 1%), which is only partially offset by stronger expected growth in public final demand (2¾%).

Beyond 2016–17, GSP growth is expected to be more balanced across its major components (see Chart 2.5). With population growth in Queensland lower than originally expected, GSP growth is expected to ease back to around 3% by 2018–19, below the historical average of around 4%.

Labour market outcomes in 2015–16 have been more solid than previously anticipated, although some softening in employment growth is expected in 2016–17. Employment growth is forecast to improve modestly from 2017–18, reflecting a gradual pick–up in domestic demand. However, the moderation in population growth is expected to constrain employment growth to around 1¾% per annum over the remainder of the forecast period. In line with these conditions, Queensland's unemployment rate is forecast to be broadly unchanged in 2016–17 and then improve.

Chart 2.5 Contributions to growth in Queensland's gross state product[1]



Note:

1. CVM, 2013–14 reference year. 2015–16 are estimates; 2016–17 onwards are forecasts.

Source: Queensland Treasury.

Household consumption

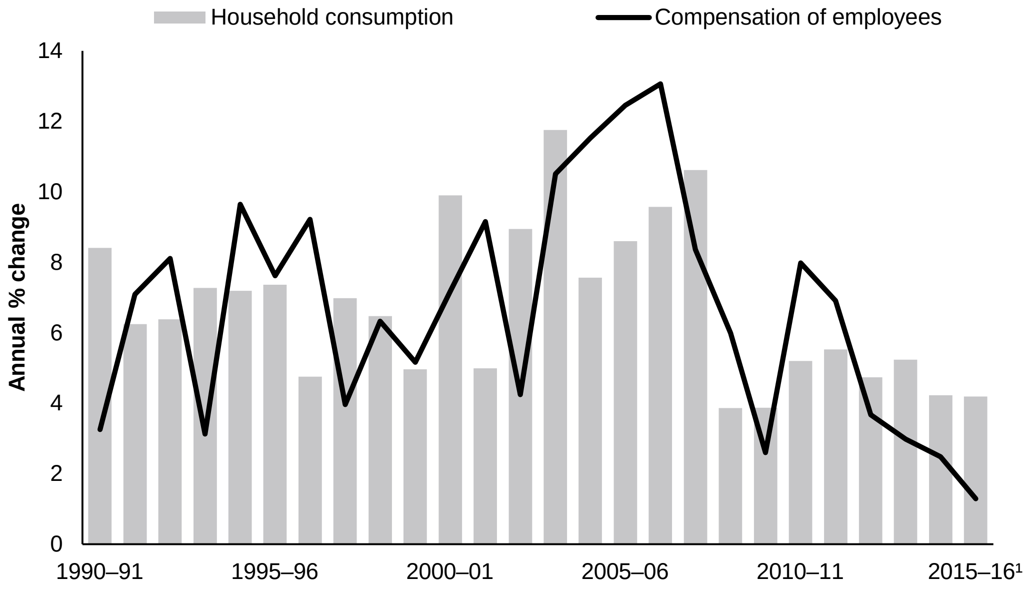
Growth in household consumption has remained below its historical average since the GFC. The impacts of weak household income growth (see Chart 2.6) continue to offset the benefits of increased wealth and low interest rates.

Resource–related employment has fallen and aggregate employment growth has shifted from higher wage mining and construction sectors towards the services sector which generally have lower average earnings.

These factors have been only partially offset by the wealth effect of rising house prices over the past three years and lower interest rates, which have increased the disposable incomes of debt holders. Further, savings rates remain elevated as households continue to rebuild their balance sheets in the aftermath of the GFC, imposing an additional constraint on consumption spending.

Continued strength in the dwelling construction sector, and improving labour market conditions from 2017–18, are expected to drive a gradual pick–up in household consumption growth over the forecast period. However, the effect of slower migration on population growth is expected to keep household consumption growth below its historical average.

Chart 2.6 Nominal household consumption and employee income, Queensland



Note:

1. First three quarters of 2015–16 compared to the same period a year earlier.

Sources: ABS 5206.0 and Queensland Treasury.

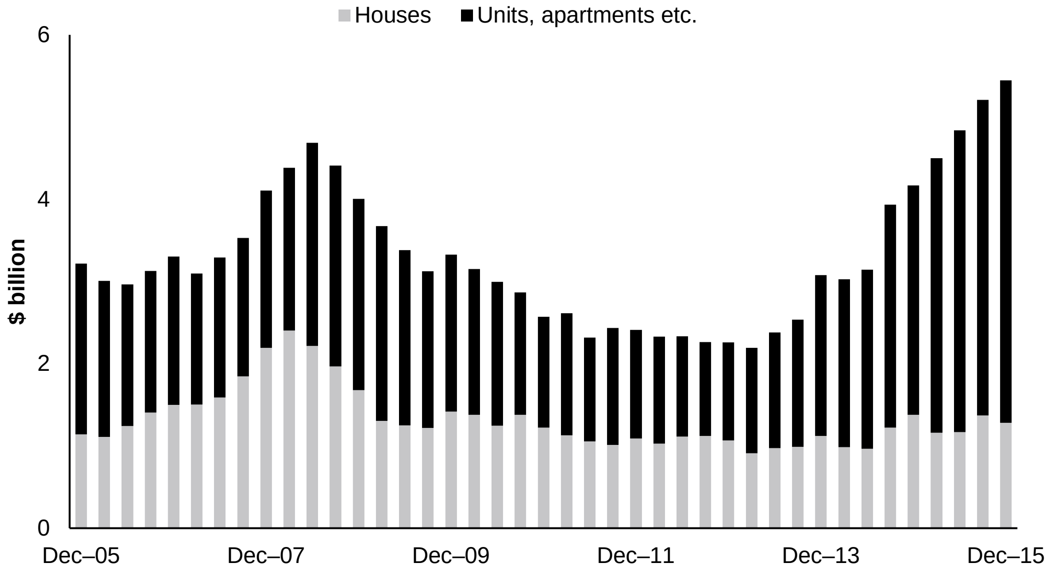
Dwelling investment

Supported by sustained low mortgage rates and investor interest, dwelling investment in Queensland continues to grow robustly, following growth of 8.7% in 2014–15.

This growth phase has been predominantly driven by construction of medium–to–high density housing (units, townhouses and apartments). Underpinned by strong investor demand, particularly in Inner City Brisbane, the Gold Coast and Brisbane South, the number of approvals for medium–to–high density dwellings remains elevated, while the improvement in approvals for houses has been modest. The substantial amount of construction work still in the pipeline underpins the strong forecast growth in dwelling investment in 2015–16 and a further solid result in 2016–17 (see Chart 2.7).

Looking further ahead, the high number of attached dwellings being completed in South East Queensland, as well as tighter lending practices, may restrain growth in prices and rents in this segment of the market and limit further investment beyond the current pipeline. Further, slower population growth and subdued labour market conditions are likely to result in more moderate growth in dwelling investment over the medium–term.

Chart 2.7 Value of work yet to be done by dwelling type, Queensland[1]



Note:

1. Nominal, quarterly.

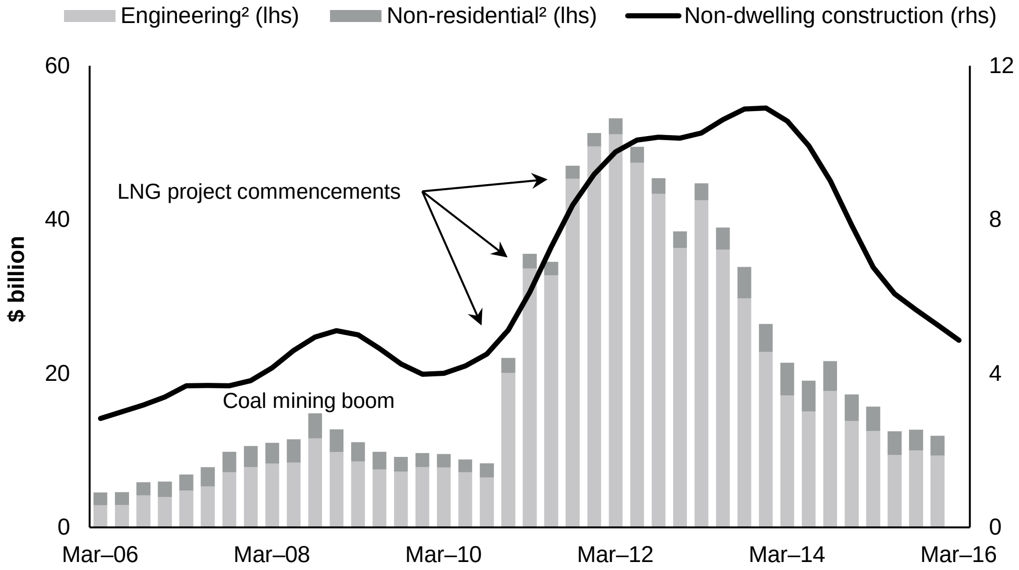
Source: ABS 8752.0.

Business investment

Business investment continues to adjust from the record levels experienced at the peak of LNG construction in 2012–13. The completion of the two remaining LNG projects by the end of 2016, along with modest investment outside the resources sector, will result in a fall in business investment through to 2016–17 (see Chart 2.8).

Low prices and moderating demand in the global commodities market are discouraging significant new capital expenditure in the resources sector, with market conditions expected to remain subdued over the next few years. The level of investment in a small number of committed new resource projects is modest compared with the completion of major LNG projects, which had a combined capital expenditure in excess of $60 billion.

Chart 2.8 Non–dwelling construction and work yet to be done, by sector[1]



Notes:

1. Nominal, private. Work yet to be done in stacked bar, original. Non–dwelling construction in line, trend.
2. March quarter 2016 not available.

Sources: ABS 5206.0, 8752.0 and 8762.0.

Following strong growth in 2013–14, non–residential building construction (shops, offices, factories etc.) has moderated as several large projects reach completion. With domestic economic activity expected to remain subdued in the short–term, this will see the spare capacity of several industries (particularly commercial office and industrial space) remain relatively high, reducing the incentive for investment.

In contrast, investment in the accommodation and entertainment industries has been increasing and is expected to remain elevated over the next few years, supported by strong growth in international tourism. The agricultural sector may also experience investment growth in the medium–term, assuming a return to normal seasonal conditions.

However, the scale of the decline in engineering construction will outweigh any improvement in non–residential building construction activity through to 2016–17. Consistent with weaker construction activity and an increased focus on lowering costs, particularly within the resources sector, expenditure on machinery and equipment is also expected to fall substantially in 2015–16, before stabilising in 2016–17. As a result, overall business investment is forecast to continue to decline in both 2015–16 and 2016–17.

As the impact of the LNG investment wind–down passes and non–resources investment recovers in line with improving household sector activity, business investment is expected to return to a more sustainable growth path from 2017–18 onwards.

Public final demand

Public final demand covers spending across Commonwealth, state and local governments on consumption and investment. Growth in this component is forecast to remain moderate as governments at all levels remain committed to responsible and measured financial management, whilst continuing to invest in key services and infrastructure.

Following slow growth in 2015–16, which partly reflects the completion in 2014–15 of the Legacy Way Tunnel at the local government level, public final demand is expected to grow by 2¾% in both 2016–17 and 2017–18.

Overseas exports and imports

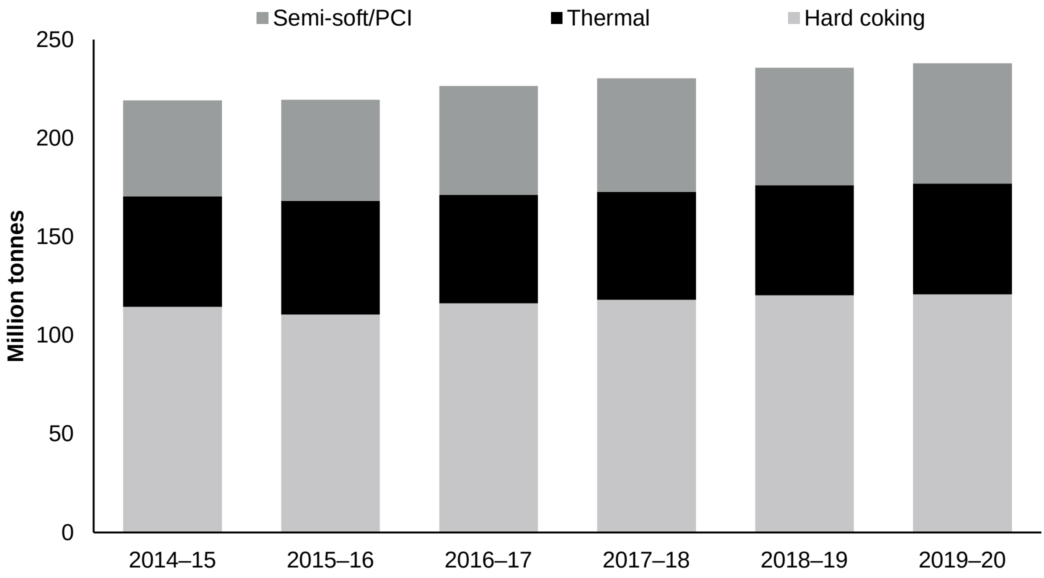
The trade sector is expected to drive overall economic growth in Queensland in 2015–16. The volume of overseas goods exports is forecast to grow by 11¾% in 2015–16, driven by the first full year of LNG exports, as all three projects ramp–up production. Coal export volumes are estimated to be largely unchanged in the year, as demand from China declines due to slower industrial production growth. Base metals export volumes are expected to decline in both 2015–16 and 2016–17, reflecting the anticipated closure of a number of significant projects. Beef export volumes are likely to decline in the year due to lower herd numbers, while some crop exports are expected to benefit from expanding overseas markets.

Following several years of strong growth, total coal export volumes are expected to be broadly unchanged in 2015–16, having increased by just 0.4% in the first ten months of the year. Lower prices received for these exports are expected to result in a decline in the nominal value of coal exports in 2015–16. In the first ten months of 2015–16, the unit export price of Queensland's hard coking, semi–soft/PCI and thermal exports have declined by 11.6%, 9.2% and 7.6% respectively compared to the same period in the previous year. The fall in A$ unit export price occurred despite the A$ depreciating by 14.3% against the US$ over the same period.

Coal export volumes are forecast to grow moderately from 2016–17 onwards, supported by supply growth from new and existing mines (see Chart 2.9). However, China's industrial production growth has slowed to its lowest rate since the GFC, reducing demand for coal imports. Further, weak global demand and increased world supply is expected to limit coal price growth.

The projections of major coal parameters for mining royalties are shown in Appendix C.

Chart 2.9 Queensland coal exports[1]



Note:

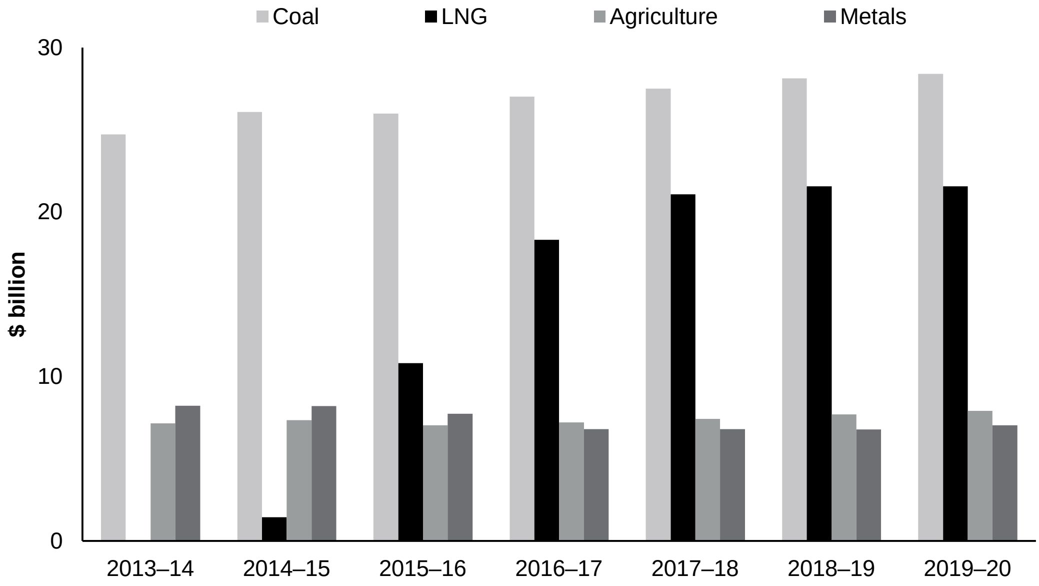
1. 2015–16 are estimates; 2016–17 onwards are forecasts.

Sources: ABS unpublished trade data and Queensland Treasury.

Metal exports are forecast to fall in both 2015–16 and 2016–17, reflecting announced production cuts, closures of depleted mines such as the Century Zinc and Black Star Open Cut mines and the cessation of operations at the Yabulu Nickel refinery. Deterioration in ore grades should see copper and lead production gradually decline later in the forecast period. The current low–price environment has also resulted in limited investment in new base metals capacity. One exception to this is the scheduled commissioning of Rio Tinto's Amrun bauxite mine in 2019, which is expected to more than offset the decline in production from the depleting Weipa mine.

All three LNG projects on Curtis Island have commenced exporting. Queensland Curtis LNG achieved plateau production during 2015–16, while Gladstone LNG (GLNG) and Australia Pacific LNG (APLNG) shipped first cargos in October 2015 and January 2016 respectively. With GLNG commencing production from its second train in May 2016 and APLNG's second train expected to commence in the second half of 2016, LNG exports are forecast to drive overall export growth in 2015–16 and 2016–17 as the projects continue to ramp–up towards full commercial production (see Chart 2.10).

Chart 2.10 Queensland's major merchandise exports[1]



Note:

1. CVM, 2013–14 reference year. 2015–16 are estimates; 2016–17 onwards are forecasts.

Sources: Unpublished ABS trade data and Queensland Treasury.

A shortage of beef supply in the United States and the depreciation of the A$ has resulted in the export price of beef increasing by over 30% in the past two years. Beef producers in Queensland responded to elevated prices and prevailing drought conditions by selling record numbers of cattle. Consequently, the size of the Queensland cattle herd has fallen to its lowest level since 2003, and beef export volumes have begun to decline in 2016. Beef production and exports are expected to continue to fall in 2016–17 and 2017–18, as farmers seek to rebuild herd numbers. Additionally, despite the official end of El Niño conditions, lasting effects of the current drought are likely to extend the herd rebuilding phase in Queensland compared with the rest of the nation.

The harvest outcome for the 2015 season suggests sugar exports will continue to grow moderately in 2015–16. Queensland's sugar industry is well developed with limited opportunity for increasing land allocation in the near–term, hence growth is expected to remain moderate to the end of the forecast period.

Cotton export volumes are forecast to decline in 2015–16, following a switch from cotton to less water intensive crops, such as sorghum, in response to drought. Cotton production and exports are expected to recover from 2016–17, as weather conditions improve.

Other crop exports have grown strongly in 2015–16, driven by chickpea exports, as producers took advantage of a temporary production shortfall in India. Sorghum exports have experienced significant growth so far in 2015–16, reflecting increased demand from China.

Overseas tourism exports are forecast to experience substantial growth in 2015–16. A combination of a lower A$ and expanding middle class in Asia are expected to drive growth over the forecast period. In addition, the Gold Coast Commonwealth Games, to be held in April 2018, is expected to provide a boost to tourism exports in 2017–18.

Overseas education exports are also forecast to grow strongly in 2015–16. As with tourism exports, the depreciation in the A$ and rising incomes in Asia, as well as increased demand for higher education in developing Asian economies, particularly China and India, are expected to drive growth in enrolments over the forecast period.

With the high level of LNG–related imports continuing to unwind and a lack of significant new capital expenditure outside of LNG, imports of goods are expected to decline in both 2015–16 and 2016–17, contributing to economic growth in these years. From 2017–18 onwards, overall business investment is expected to gradually improve and, together with a forecast strengthening in household spending, overseas imports are expected to increase.

Labour market

Following a very weak result in 2014–15, headline labour market indicators for Queensland have improved in 2015–16, supported by employment gains associated with robust dwelling construction activity and the delivery of health and education services by the public and private sectors.

This has also improved the outlook for unemployment, with the unemployment rate now forecast to average 6¼% in both 2015–16 and 2016–17, lower than the 6½% forecast at MYFER.

Employment growth has been concentrated in South East Queensland, with conditions remaining weak in many regional areas, particularly those with significant mining or resource–related construction workforces.

As with economic growth more generally, developments in the resources sector are influencing Queensland labour market conditions. Several major mining companies announced reductions in their workforce and cut unprofitable production in 2015–16. Prospects for new investment in the current low–price environment are limited, and employment in the resources sector, including in exploration, is likely to fall further in the short–term.

Industries servicing the resources sector, for example metal manufacturing, are also impacted. With LNG projects nearing completion, construction employment is declining. An increase in residential building activity (which is somewhat more labour intensive) has only partially offset this trend in construction employment.

Labour demand in regional Queensland is expected to remain soft in the near–term, leading to some of those formerly employed in the mining or engineering construction industries needing to retrain or relocate to find work elsewhere. The Government has a role to play in helping to facilitate this transition.

Box 2.1 Jobs Now, Jobs for the Future – Getting Queenslanders Back to Work

In coming to office in early 2015, the Palaszczuk Government identified improving employment opportunities for all Queenslanders as its core policy objective to lead Queensland to a prosperous future for all.

The Queensland Government immediately commenced implementation of its $1.6 billion Working Queensland package of employment initiatives – to help grow the State's economy and improve opportunities for Queenslanders in the short, medium and longer–term.

To ensure a cohesive, co–ordinated approach across government, the Government established a specific Working Queensland Cabinet Committee of key ministers to oversee implementation of the initiatives. A dedicated Employment Policy Unit was also established within Queensland Treasury to help drive the ongoing development and implementation of additional employment policies and programs across Government.

Jobs Now, Jobs for the Future

The Government's *Jobs Now, Jobs for the Future* employment plan in the 2015–16 State Budget outlined the economic rationale underpinning the Working Queensland initiatives.

Consistent with the Government's economic framework outlined in Chapter 1 of this Budget paper, the *Jobs Now, Jobs for the Future* plan outlines how these initiatives will help create increased employment opportunities and foster greater participation in the labour market, thereby increasing the productive capacity of the Queensland economy.

The *Jobs Now, Jobs for the Future* plan included a commitment to continue to consult closely with stakeholders and the community on how best to improve employment opportunities across existing, new and emerging industries for the State's vital rural and regional areas, and for job seekers who have historically experienced less favourable employment outcomes.

To help inform policy development, the Government has held an extensive series of ministerial–led employment forums across the State to identify local issues, broader regional issues and targeting solutions for specific disadvantaged groups.

Throughout 2015 and the first half of 2016, employment forums have been held in Charters Towers, Mount Isa, Maryborough, Mackay, Gladstone, Cairns, Rockhampton, Bundaberg, the Gold Coast, Brisbane North, Brisbane South and Toowoomba.

Forum participants included business owners, community leaders and industry leaders, as well as representatives of disadvantaged cohorts, not–for–profit organisations and State, local and federal governments.

The employment forums highlighted that, while there have been significant signs of improvement in the State's labour market, conditions remain challenging, particularly in our regions where greater confidence is required for employers to get Queenslanders back to work.

Accelerated Works Program

In early 2016, as part of the Government's proactive and innovative approach to addressing these challenges in regional areas, the Premier announced an Accelerated Works Program to support economic activity and employment in regions across Queensland experiencing subdued economic conditions.

The Government has announced the acceleration of over $440 million in capital works projects, supporting more than 950 jobs in Cairns, Townsville, Mackay, Fitzroy, Wide Bay and remote Queensland regions.

The newly established Infrastructure Portfolio Office (IPO) within the Department of Infrastructure, Local Government and Planning has been tasked with driving implementation of the Accelerated Works Program.

The IPO will take a greater role in the roll out of the Accelerated Works Program to ensure the progression of projects supports economic activity and delivers on the Government's commitment to sustain and create new jobs in regional Queensland.

The 2016–17 Budget builds on initiatives from the 2015–16 Budget to provide greater employment opportunities, such as the Back to Work Regional Employment Package.

Box 2.2 Back to Work – Regional Employment Package

Building on the broad suite of Working Queensland initiatives and the momentum generated by the Accelerated Works Program, this Budget includes a major new initiative to support regional employment – the $100 million Back to Work Regional Employment Package.

Back to Work is a two year package to help get unemployed Queenslanders back to work, create jobs in the regions and boost local economies, by supporting up to 8,000 jobs across regional Queensland.

Back to Work will deliver assistance directly to employers, to help them build the confidence to take on staff, provide opportunities for jobseekers and provide an economic boost to regions facing challenging times.

Back to Work includes:

- $80 million for Back to Work Employer Support – providing financial support of up to $15,000 directly to employers to help boost their confidence to take on new employees across regional Queensland, including disadvantaged jobseekers, such as the long–term unemployed, young people, mature aged jobseekers, Queenslanders with disability and Aboriginal and Torres Strait Islanders.

- $10 million for Back to Work Navigation Teams – who know the local economy and will work with employers and connect jobseekers to job opportunities or further skills, training and apprentice pathways.
- $10 million for the Certificate 3 Guarantee Boost – to provide access to subsidised training to eligible jobseekers, including opportunities such as 'second chance' training for jobseekers with a Certificate III qualification that need to reboot their skills to get back to work.

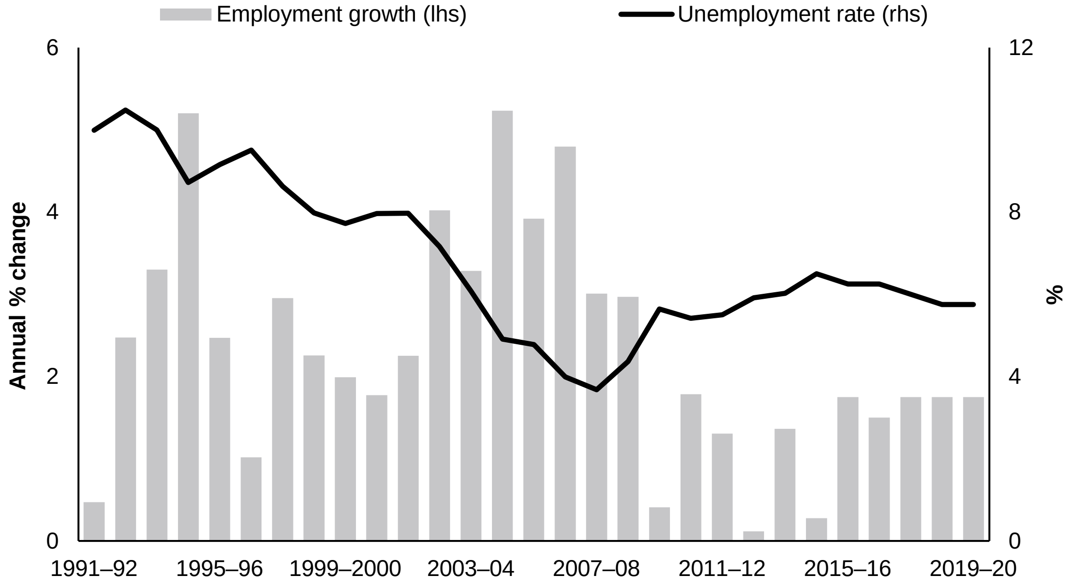
A significant fall in Queensland's terms of trade and a shift away from predominantly full–time, high–wage resource and construction jobs towards lower income (but more labour intensive) industries, is contributing to weak household income growth. The moderation in income growth is, in turn, constraining consumer spending. Meanwhile, the lower A$ is expected to provide some support to trade exposed industries, including drought affected agricultural producers and international education providers, as well as tourism operators who have benefitted from an increase in international arrivals.

The long anticipated improvement in business investment is now not expected to occur until 2017–18. This, combined with subdued household consumption growth and moderation in health and education employment growth, is expected to result in some softening of employment growth in 2016–17 (see Chart 2.11).

Employment growth is forecast to improve modestly in 2017–18, reflecting a gradual pick–up in domestic demand, particularly household consumption. However, the moderation in population growth is expected to constrain employment growth to around 1¾% per annum over the remainder of the forecast period.

In line with modest employment growth, Queensland's unemployment rate is forecast to be broadly unchanged in 2016–17. Notwithstanding these trends, the unemployment rate is now expected to be lower across the forecast period than at the time of MYFER. As employment growth begins to outpace growth in the working–age population, the unemployment rate is expected to improve from 2017–18.

Chart 2.11 Labour market, Queensland[1]



Note:

1. Year–average. 2015–16 are estimates; 2016–17 onwards are forecasts.

Sources: ABS 6202.0 and Queensland Treasury.

Prices and wages

Brisbane consumer price inflation is expected to continue to moderate in 2015–16, primarily reflecting the significant decline in the price of automotive fuel as global oil prices have fallen. Additionally, measures introduced by the Australian Energy Regulator have resulted in more modest increases in utility prices than those in recent years.

Some upward pressure to Brisbane consumer price inflation has been provided by increased prices for tobacco (due to excise rates increasing 12.5% on 1 September 2015) and the depreciation of the A$ leading to higher prices for imported goods.

A modest acceleration in Brisbane consumer price inflation is forecast for 2016–17, as the impact of lower oil prices recedes and higher prices for imported goods continues to filter through to the retail market.

Despite low nominal wage growth by historical standards, slower consumer price inflation has maintained wage growth in real terms. Ongoing spare capacity in the labour market is expected to minimise upward pressure on real wage growth in 2016–17. As labour demand improves and the unemployment rate falls, wage growth is expected to pick–up.

Population

Queensland's population growth is forecast to average around 1½% per annum over the forward estimates. Over the longer–term it is expected there will be some moderate recovery in population growth.

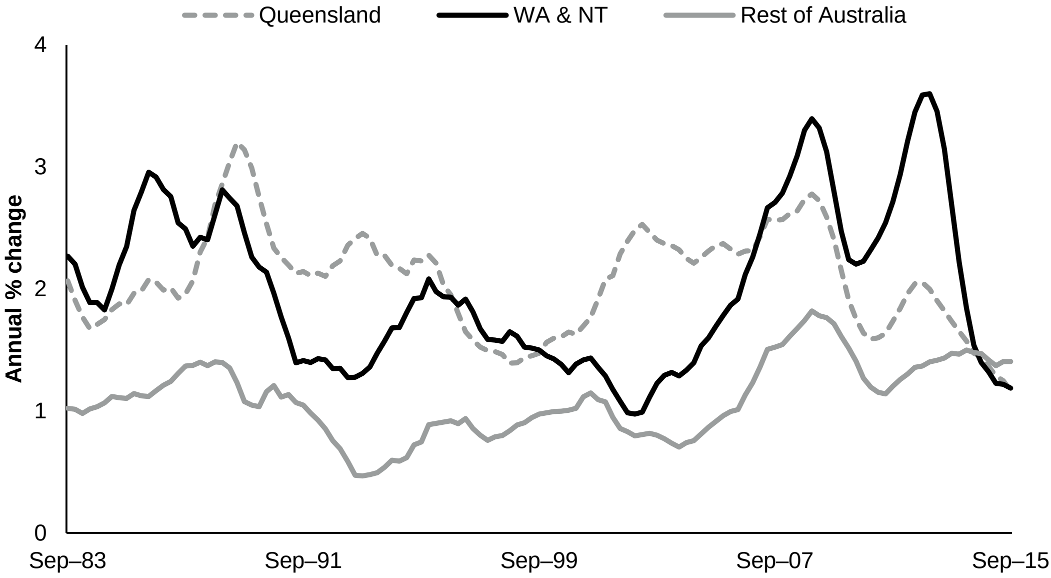
In large part due to the completion of major resource projects, which at their peak supported thousands of jobs, Queensland's population growth slowed to just over 55,000 persons in the year to September quarter 2015. Queensland's share of net overseas migration has fallen and net interstate migration, while picking up slightly in the last year, also remains subdued. These trends are, however, even more marked in Western Australia and the Northern Territory, which are more heavily dependent on the resources sector and have experienced a much sharper fall in population growth rates (see Chart 2.12).

Looking ahead, a factor that may impact population growth, as it did in the early 2000s, is the relative difference in house prices between Brisbane and Sydney and, to a lesser extent, Melbourne. While these differentials have widened recently, this is being offset by the soft Queensland labour market.

Slower long–term population growth, both nationally and for Queensland, will have an impact on the rate of economic growth. Importantly, a lower population growth rate will enable per capita living standards to be improved despite a lower headline rate of economic growth.

The Queensland Government is focussed on implementing policies to encourage population growth and promote Queensland as a great State to live and work.

Chart 2.12 Population growth, by region



Source: ABS 3101.0.

2.2.2 Risks to the economic outlook

A key risk for the international economic outlook is a greater than expected intensification of global deflationary trends. Despite accommodative monetary policy in most major economies, growth remains sluggish and has continued to disappoint on the downside.

There is also a risk that the anticipated recovery in the United States could stall. Annual economic growth has been slowing, and manufacturing orders have been falling, since mid–2015. There is uncertainty surrounding the path of official interest rates over the next two years, with the expected number of interest rate rises wound back from four to two since the initial increase in December 2015.

In China, there is a risk that the transition from investment–led to consumption–led growth may not proceed smoothly. A larger than expected slowdown in China's economy would have a significant impact on its major trading partners, including Queensland.

If the renewed volatility in financial markets seen at the start of 2016 were to re–emerge, this could impair confidence and growth. Contributing to these risks is the increased political uncertainty across many parts of the world.

A vote in the United Kingdom (UK) to exit the European Union (scheduled for 23 June 2016) could add to economic uncertainty in the Euro area, given the deep trade and financial links between the Euro bloc and the UK.

Domestically, the pace and timing of a pick–up in non–resources business investment continues to be a key source of uncertainty for the outlook, as investment declines and the economy transitions into broader–based growth.

A further domestic risk to the outlook for the Queensland economy is a larger than anticipated moderation in dwelling investment growth. With dwelling approval numbers remaining elevated, particularly in inner Brisbane, their successful translation into construction activity will be a critical factor.

Finally, there is a risk the current drought, which has led to significant hardship in the State's agricultural sector, could be protracted. While the Bureau of Meteorology has announced an end to the recent El Niño weather pattern, a continuation of below average rainfall across much of Queensland may prolong the recovery in the agriculture sector.

3 Fiscal strategy and outlook

Features

- The Queensland economy has strengthened during the last 12 months, with growth estimated to rise by 3½% in 2015–16. This growth is expected to increase to 4% in 2016–17. While the economy is transitioning, there are continuing growth and revenue challenges facing the Queensland and national economies and persistent volatility in global markets. Softer global growth prospects and weak commodity prices are weighing on royalty revenues and mining investment. In contrast, services exports such as tourism and education services, which are supported by a lower exchange rate, are performing strongly.
- The 2016–17 Budget balances sustainable fiscal management with supporting the transition of the Queensland economy from the resource investment peak associated with building the State’s new liquefied natural gas (LNG) export industry towards a more diversified economy.
- The 2016–17 Budget focuses on innovation, investment and infrastructure as the necessary elements of job creation and to advance the Queensland economy to a more diversified and robust base. In line with the Advance Queensland agenda, the Queensland Government has a key role to play in helping support and position the State’s businesses, industries and communities to respond to current and future challenges, as well as capitalising on opportunities. Innovative policies and approaches that drive productivity growth will help grow the State's businesses, improve employment opportunities for current and future generations of Queenslanders and boost incomes.
- Accordingly, the 2016–17 Budget includes initiatives to: foster innovation, encourage entrepreneurship and grow the State’s human capital; encourage investment in the efficient and sustainable delivery of productivity–enhancing infrastructure; develop innovative approaches to providing essential government services; optimise the use of our land and natural resources; and promote business investment and exports. As a result of the challenging revenue outlook and demonstrating the Government’s commitment to expenditure control, these new initiatives are partly funded through reprioritisations. The most significant of these new measures include a $405 million Advance Queensland package, a $100 million Regional Back to Work package and a $2 billion State Infrastructure Fund.
- For rural and regional communities particularly affected by a transitioning economy, the Budget includes support such as the Rural Assistance Package, extensions to the Building our Regions Program and drought assistance measures.
- In the 2015–16 Budget the Government embarked on a responsible path to reduce Queensland’s debt. The 2016–17 Budget provides for further debt reduction and, at the same time, targeted initiatives to boost productivity through infrastructure investment, including the $2 billion State Infrastructure Fund. This will support delivery of the transformational infrastructure that Queenslanders need today to prepare for the challenges of tomorrow. The fund will provide $300 million towards the Priority Economic Works and Productivity Program, $180 million towards the Significant Regional Infrastructure Projects Program, and $20 million

towards Maturing the Infrastructure Pipeline. The balance of $1.5 billion for the next phase of priority infrastructure needs, to be informed by independent advice from Building Queensland, including the Building Queensland infrastructure pipeline of priority projects.

- Non–financial Public Sector capital expenditure totals $9.634 billion for 2016–17, which comprises $8.264 billion of purchases of non–financial assets (PNFA), and $1.370 billion of capital grants expenses. In addition to these, acquisitions of non–financial assets under finance leases of $1.032 billion brings the total capital program in 2016–17 to $10.666 billion.
- The total Non–financial Public Sector capital program is $40.836 billion for the period 2016–17 to 2019–20. This comprises capital expenditure of $38.461 billion (which itself is comprised of $35.242 billion of PNFA and $3.220 billion of capital grants expenses) and acquisitions of non–financial assets under finance leases of $2.375 billion.
- The Government is continuing to manage General Government Sector debt, while also optimising its investment in infrastructure, by leveraging the State's balance sheet. General Government Sector debt is estimated to be $38.662 billion in 2019–20, which is $4.443 billion lower than the 2014–15 peak of $43.105 billion. Importantly, the debt to revenue ratio is declining significantly over the forward estimates to reach 68% in 2019–20 compared to 87% in 2014–15. General Government Sector debt in 2016–17 is expected to be $37.775 billion, a reduction of $10.441 billion compared with the 2014–15 Budget projection.
- Interest on General Government Sector borrowings is an estimated $906 million less than projected at the time of the 2015–16 Mid Year Fiscal and Economic Review (MYFER) for the period 2015–16 to 2018–19, largely as a result of the Debt Action Plan and lower interest rates.
- At MYFER, a General Government Sector net operating surplus of $1.175 billion was forecast for 2015–16. Around $1.1 billion in Natural Disaster Relief and Recovery Arrangements (NDRRA) funding has been deferred from 2015–16 to 2016–17 and 2017–18. This has occurred as a result of the Commonwealth Government's 2016–17 Budget, which deferred Queensland's NDRRA funding without prior consultation, contributing to a reduced forecast net operating surplus of $152 million in 2015–16.
- The net operating surplus of $867 million for 2016–17 is forecast to be the largest surplus since 2006–07. Net operating surpluses are expected each year of the forward estimates, despite royalty revenue forecasts being revised down by $2.713 billion across the period 2015–16 to 2018–19 since the MYFER, and further downward revisions to State tax revenue of around $350 million (net of measures) over the same period.
- Additional expense measures averaging $394 million per year are being provided over the period 2015–16 to 2018–19, including for support to the regions, biosecurity and Biofutures, community and disaster resilience, enhanced Advance Queensland measures and support for small business.
- Operating expenses are forecast to grow at a sustainable rate, averaging 2.9% per annum over the four years to 2019–20. This is less than the forecast rate of revenue growth of 3.2% per annum over the same period.

- The Government is building on its budget strategy from the 2015–16 Budget through the Debt Action Plan, retaining and delivering on the fiscal principles introduced in that budget. The strategy will be further strengthened through the introduction of an additional fiscal principle which ensures that growth in the public service, on average over the forward estimates, will be aligned with population growth.

3.1 Context

In its first Budget, the Palaszczuk Government delivered on a number of key policy positions taken to the January 2015 Election. The 2016–17 Budget builds on the 2015–16 Budget, progressing the Government's election commitments and new, aligned policy measures to support future economic growth.

The Government continues to face significant weakness in royalties and key tax revenues and as a result has identified further responsible measures to refocus the balance sheet to lower debt, while enabling prudent infrastructure investment, such as committing $2 billion for the State Infrastructure Fund.

The Government's actions, consistent with its undertakings at the time of the 2015 State election, will continue to manage General Government Sector debt and provide additional funds for infrastructure investment without requiring the sale of government–owned corporations, without increases in taxes on Queenslanders, without cuts to services, and without redundancies. Further detail on these measures is provided in Box 3.1.

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

In the 2015–16 Budget, following consideration of the Review of State Finances, the Government adopted five fiscal principles aimed at improving the sustainability of the State's finances. The Government remains committed to these principles which are:

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

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

In the 2016–17 Budget the Government is introducing an additional fiscal principle in relation to the management of growth in the public service. The new principle, which follows the delivery of key commitments to revitalise frontline services, is as follows:

- Maintain a sustainable public sector by ensuring that overall growth in full–time equivalent employees, on average over the forward estimates, does not exceed population growth.

Further discussion of the fiscal principles, and the Government's progress in meeting its targets, is provided in Sections 3.3 and 3.4. Further discussion of the size of the Queensland public sector is in Chapter 5.

The fiscal environment facing the State remains challenging. There has been a further softening of the outlook for the global economy, and in line with this, prospects for growth in industrial production in Queensland's major export markets for energy and mineral products have plateaued in recent months particularly in the key coal export market of China. This has contributed to a decline in the outlook for coal prices. Weaker oil prices are also weighing on the State's coal seam gas royalty revenues (as liquefied natural gas export prices are linked to oil prices).

Reflecting these factors, royalty revenue forecasts have been revised down by $2.713 billion since the 2015–16 MYFER.

Box 3.1 Debt Action Plan

The Queensland Government remains committed to taking action to reduce the level of General Government Sector debt and its associated interest expenses.

The following measures are being undertaken while retaining 100% State ownership of the government–owned corporations and fully funding superannuation entitlements.

The Government continues to explore opportunities to reduce General Government Sector debt.

Surplus repatriation from the defined benefit superannuation scheme

The State Actuary's most recent valuation indicates that as at 30 June 2015 the defined benefit superannuation scheme is in a surplus position of over $10 billion on a funding basis (common actuarial practice focuses on the funding basis when determining the funding strategy for superannuation schemes).

In light of the strong financial position of the scheme, the Government will repatriate $4 billion from the previous over–contribution to the scheme by the Government.

Half of the funds repatriated will be used to fund additional priority infrastructure and the balance to reduce General Government Sector debt.

This measure is a continuation of the debt reduction strategy outlined in the 2015–16 Budget and is consistent with the Government's continuing focus on balance sheet management.

The Government's objectives in managing the defined benefit scheme are to minimise overfunding of the scheme and to manage the scheme based on the Australian Prudential and Regulatory Authority (APRA) funding standards that apply to corporate defined benefit superannuation schemes.

The State Actuary has advised that a repatriation of up to $5 billion could be undertaken while maintaining consistency with APRA funding standards for corporate defined benefit superannuation schemes.

The payment of defined benefit scheme entitlements remains guaranteed by legislation. There will be no change in entitlements for defined benefit scheme members. All defined benefit scheme member entitlements will continue to be paid as they fall due.

Although the defined benefit scheme was closed to new members in 2008, it will continue until the retirement of the last of the current members.

Queensland is still the only Australian jurisdiction to fully fund its defined benefit superannuation liabilities.

The surplus repatriation is consistent with Government's ongoing commitment to the fiscal principle of targeting full funding of long–term liabilities, including superannuation, in accordance with actuarial advice.

Government–owned corporations and cash management arrangements

The cash balances of Government departments are aggregated daily in a set–off bank facility. Any surplus cash is invested until needed or used to reduce General Government Sector debt.

Currently, significant cash balances are maintained in State owned entities, at the same time that the Government has a net borrowing requirement.

In order to make more effective use of available resources, government–owned corporations will be required to make any surplus cash available to the General Government Sector through a modified set–off banking arrangement. Additionally, where Government makes payments to government–owned corporations, these will be paid in the future according to a detailed cash flow forecast rather than a periodic payment schedule.

These revised cash management arrangements will ensure that government–owned corporations are not financially or commercially disadvantaged, but allow any surplus cash to be made available to the General Government Sector and contribute to General Government Sector debt reduction.

This arrangement will be implemented in such a way that government–owned corporations will still be able to meet their required operational cash flows as they fall due and encourage a more disciplined and commercial focus.

The improved cash management arrangements are expected to contribute to General Government Sector debt reduction by an estimated $750 million by 2017–18.

Regearing

As announced in the 2015–16 MYFER, the Government is implementing the regearing strategy for a number of government–owned corporations. These measures contribute approximately $1 billion to debt reduction over the forward estimates. At the same time, the Government continuously assesses the capital structure and gearing levels of all government–owned corporations, making adjustments in accordance with forecast information.

3.2 Key fiscal aggregates

The key fiscal aggregates of the General Government Sector for the 2016–17 Budget are outlined in Table 3.1 and are discussed in detail in this chapter.

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

	2014–15 Actual[2] $ million	2015–16 MYFER $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Revenue	49,765	51,354	49,976	53,449	55,349	55,097	56,674
Expenses	49,224	50,180	49,824	52,582	54,123	54,775	55,934
Net operating balance	**542**	**1,175**	**152**	**867**	**1,225**	**321**	**741**
PNFA[3]	4,779	5,325	4,173	5,452	6,590	5,840	5,983
Fiscal balance	(581)	(1,140)	(940)	(2,006)	(2,114)	(2,115)	(1,042)
Borrowing	**43,105**	**37,973**	**35,698**	**37,775**	**38,000**	**38,365**	**38,662**
Borrowing (NFPS)[4]	75,233	73,878	72,715	75,270	76,939	77,976	78,869

Notes:

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

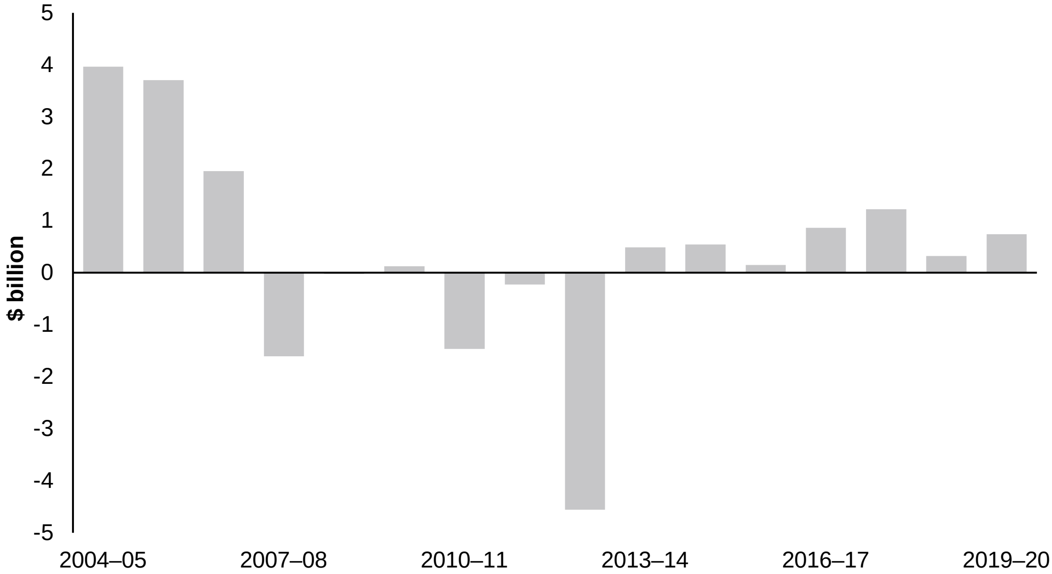
3.2.1 Net operating balance

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

As identified in Table 3.1, the anticipated 2015–16 operating surplus of $152 million compares with a forecast surplus of $1.175 billion expected in the 2015–16 MYFER. This $1.023 billion deterioration is largely the result of the Commonwealth Government's decision to defer reimbursement for NDRRA expenses already incurred by the State.

While there is continuing weakness in revenue outlooks, the lower net operating surplus in 2015–16 relative to previous forecasts is primarily driven by timing in Commonwealth funding for disaster recovery expenditure. As shown in Chart 3.1, the operating surplus in 2016–17 is estimated to be the largest operating surplus since 2006–07 and surpluses are forecast across the remainder of the forward estimates.

Chart 3.1 Net operating balance



The estimated 2016–17 General Government Sector operating surplus of $867 million is weaker than the forecast surplus of $1.413 billion in the 2015–16 MYFER. This is primarily a result of reduced royalty revenues. Royalty revenue estimates have been revised down by $639 million in 2016–17 since MYFER, primarily because of substantially lower coal prices, and revisions to coal seam gas royalties.

Taxation revenue has been revised down by $154 million in 2016–17 relative to MYFER. This is primarily because of reductions in the rate of growth in payroll tax, offset, to some extent, by transfer duty. Goods and services tax (GST) revenue has been revised up by $390 million since MYFER, reflecting an increase in Queensland's share of GST, as recommended by the Commonwealth Grants Commission (CGC).

Since the 2015–16 MYFER, additional expense measures of $497 million have been provided for 2016–17. These will improve service delivery and support economic transition and future employment in the regions, enhance Advance Queensland and continue with the Government's commitment to restore frontline services in Health and Education. The 2016–17 Budget continues implementation of the Government response to the *Not Now, Not Ever* Report on domestic and family violence and provides additional funding for legal services, including court and tribunal workloads.

Downward revisions to operating surpluses in 2017–18 and 2018–19 compared to the 2015–16 Budget primarily reflect substantial revisions to royalty revenue and to a lesser extent taxation and new policy measures. These are partly offset by reprioritisation measures, increases to GST revenue and changed timing for the receipt of Commonwealth funding in relation to disaster expenditure.

Table 3.2 General Government Sector – net operating balance forecasts

	2014–15 $ million	2015–16 $ million	2016–17 $ million	2017–18 $ million	2018–19 $ million	2019–20 $ million
2015–16 Budget	962	1,213	2,226	2,132	1,327	n.a.
2015–16 MYFER	542	1,175	1,413	1,640	1,145	n.a.
2016–17 Budget	**542**	**152**	**867**	**1,225**	**321**	**741**

Despite the deterioration in the operating position since the 2015–16 Budget and MYFER, Queensland's operating position remains sound with operating surpluses expected each year of the forward estimates.

Table 3.3 provides a breakdown of the movements in the net operating balance since the 2015–16 MYFER.

Table 3.3 Reconciliation of net operating balance, 2015–16 MYFER to 2016–17 Budget[1]

	2015–16 $ million	2016–17 $ million	2017–18 $ million	2018–19 $ million
2015–16 MYFER net operating balance	**1,175**	**1,413**	**1,640**	**1,145**
Taxation revisions[2]	(129)	(131)	(158)	(5)
Royalty revisions	(178)	(639)	(918)	(978)
GST revisions	54	390	177	163
Natural disaster revisions[3,4]				
Change in revenue	*(1,106)*	*501*	*396*	..
Change in expenses	*71*	*(3)*	*(64)*	(8)
Net change	(1,035)	498	332	(8)
Measures[5]				
Expense	(68)	(497)	(683)	(327)
Revenue	..	38	54	55
Net	(68)	(459)	(628)	(272)
Net flows from PNFC and PFC Sector entities[6]	35	(47)	171	92
Australian Government funding revisions[7]	76	(192)	203	141
Other parameter adjustments[8]	222	34	406	43
2016–17 Budget net operating balance	**152**	**867**	**1,225**	**321**

Notes:

1. Numbers may not add due to rounding. Numbers indicate impact on the operating balance. A number in brackets indicates a negative impact on the operating balance.
2. Represents parameter adjustments to taxation revenue.
3. Represents movements in revenue and expense for natural disaster restoration. Largely represents revisions to expected reimbursements from the Australian Government. The reduction in revenue in 2015–16 is in part re–profiled to 2016–17 and 2017–18 and in part an absolute reduction in NDRRA revenue.
4. This table shows changes in NDRRA revenues and expenses since the 2015–16 MYFER and differs from numbers in Table 3.4, which shows budgeted total NDRRA revenue and expenditure.
5. Reflects the value of Government decisions since the 2015–16 MYFER. This number varies from the total figure in Budget Paper 4 – Budget Measures as it excludes some measures funded by the Australian Government.
6. Represents revisions to dividends and tax equivalent payments from, and community service obligation and Transport Service Contracts payments to, Public Non–financial Corporations and Public Financial Corporations.
7. Represents the net impact of funding provided by the Australian Government primarily for Specific Purpose Payments and National Partnership payments (mainly for transport infrastructure) and excluding funding for disaster recovery expenses.
8. Refers to adjustments largely of a non–policy nature, primarily changes in interest paid on borrowings, depreciation, growth funding, swaps, deferrals and administered revenue.

3.2.2 Natural Disaster Relief and Recovery Arrangements

The timing of revenue and expenditure in relation to natural disasters continues to significantly impact Queensland's near–term budget position. Table 3.4 outlines the impact of natural disaster arrangements on Queensland's net operating balance.

Table 3.4 Impact of Natural Disaster Relief and Recovery Arrangements funding on the net operating balance[1]

	2015–16 $ million	2016–17 $ million	2017–18 $ million	2018–19 $ million	2019–20 $ million
Published net operating balance	152	867	1,225	321	741
less Disaster revenue[2]	..	746	596	..	..
add Disaster expenses	425	279	96	8	..
Underlying net operating balance	**577**	**400**	**725**	**329**	**741**
Disaster related capital[2]	121	23	..	..	..

Notes:

1. Numbers may not add due to rounding.
2. Numbers differ from those shown in Table 3.3, as Table 3.3 represents changes since the 2015–16 MYFER and Table 3.4 represents total budgeted revenue and expenditure.

A change to the expected timing of Australian Government reimbursements for previous disasters has deferred revenue from 2015–16 into 2016–17 and 2017–18. Revenue across 2016–17 and 2017–18 is now projected to be $501 million and $396 million higher respectively than forecast in MYFER. Commonwealth NDRRA payments reimburse the State for disaster recovery expenditure already incurred.

From 2018–19 onwards the impact of disasters and the timing of NDRRA reimbursements have a minimal impact on the expected net operating position.

3.2.3 Cash flows and balance sheet

General Government Sector

Cash surplus/(deficit)

The General Government Sector is expected to record a cash surplus in 2015–16 of $821 million, compared to a $655 million deficit forecast in the MYFER. The significant cash surplus, compared to the expected cash deficit primarily reflects slightly higher net operating receipts, re–profiled expenditure, and reduced cash requirements for investments in non–financial assets.

A cash deficit of $1.550 billion is expected for the General Government Sector in 2016–17 with cash deficits in each of the following years. Across the period 2016–17 to 2019–20, cash deficits equate to 28% of purchases of non–financial assets.

Capital purchases

The State's 2016–17 Non–financial Public Sector capital expenditure totals $9.634 billion, which comprises $8.264 billion of purchases of non–financial assets (PNFA), and $1.370 billion of capital grants expenses. In addition to these, acquisitions of non–financial assets under finance leases are forecast to be $1.032 billion, bringing the total capital program in 2016–17 to $10.666 billion.

The leases predominantly relate to Public Private Partnerships which constitute a larger proportion of the State's capital program in 2016–17 than in previous years. Budget Paper 3 – Capital Statement provides details of budgeted 2016–17 capital outlays by portfolio, including acquisitions of non–financial assets under finance leases.

Within the General Government Sector, PNFA in 2015–16 are estimated to be $4.173 billion. This is $1.152 billion less than forecast in the MYFER, largely due to a re–profiling of cash flows across a range of departments and also reclassifications of transport and health expenditure from capital to operating expenses. The reclassified expenditures, while reducing the reported capital program, will continue to be applied to the delivery of infrastructure outcomes.

General Government Sector PNFA of $5.452 billion are budgeted for 2016–17, $370 million less than the $5.822 billion forecast in the 2015–16 MYFER. This primarily relates to the deferral of Commonwealth–funded transport infrastructure, consistent with the 2016–17 Commonwealth Budget, and some reclassification of transport expenditure from capital to operating expenses.

Over the period 2016–17 to 2019–20, PNFA in the General Government Sector of $23.865 billion are planned. Capital grants expenses for the General Government Sector over the same period are expected to total $3.220 billion, bringing capital expenditure for that Sector to $27.085 billion. With acquisitions of non–financial assets under finance leases being $2.375 billion, the total General Government Sector capital program is forecast to be $29.460 billion over the four years to 2019–20. This compares to a total General Government sector capital program at the time of the 2015–16 Budget of $28.535 billion over the four years to 2018–19.

Borrowings

Gross General Government Sector borrowings (the stock of borrowings outstanding as stated in the Balance Sheet) of $35.698 billion at 30 June 2016 are $2.453 billion less than forecast in the 2015–16 Budget and $12.326 billion lower than the $48.023 billion forecast at the time of the 2014–15 Budget. The significant reduction since the 2014–15 Budget is primarily due to measures under the Debt Action Plan.

A net General Government Sector borrowing of $665 million is budgeted for 2016–17, as PNFA are somewhat greater than net cash flows from operating activities.

Net borrowing requirements are modest across the remainder of the forward estimates. This is largely a result of the repatriation of funds from the previous over–contribution to the Defined Benefit Superannuation scheme effectively funding increased capital investment and the reduction in revenue. The benefits of the enhanced Debt Action Plan are apparent particularly in terms of the debt to revenue ratio, as demonstrated in Table 3.5.

Table 3.5 General Government Sector gross borrowings as a proportion of revenue

	2015–16 Est. Act. $ million	2016–17 Projection $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Gross borrowings	35,698	37,775	38,000	38,365	38,662
Revenue	49,976	53,449	55,349	55,097	56,674
Borrowings/revenue ratio	71%	71%	69%	70%	68%

Chart 3.2 compares the 2016–17 borrowing projections with those in the 2014–15 Budget and 2015–16 Budget. The chart demonstrates that General Government Sector borrowings are expected to be substantially lower in each year of the forward estimates compared to both prior Budgets, particularly the 2014–15 Budget. The chart also demonstrates that borrowings are expected to be $4.443 billion lower in 2019–20 than 2014–15.

Chart 3.2 General Government Sector borrowings

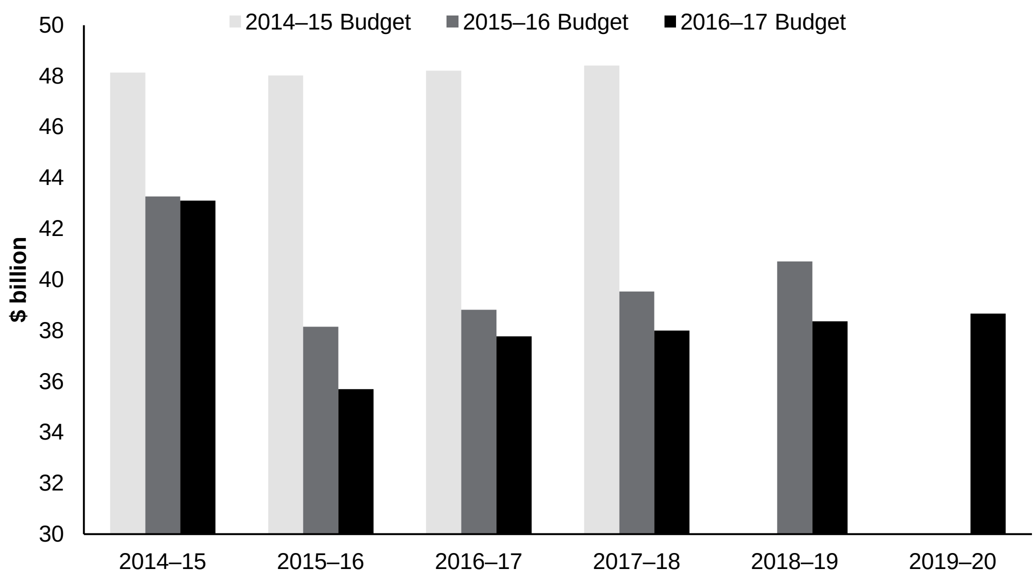


Table 3.6 identifies that General Government Sector borrowings are estimated to be lower than 2014–15 in each year of the forward estimates. In comparison, the 2014–15 Budget projected General Government Sector borrowings would increase each year reaching $48.421 billion in 2017–18.

Table 3.6 Revisions to General Government Sector borrowings[1]

	2014–15 $ million	2015–16 $ million	2016–17 $ million	2017–18 $ million	2018–19 $ million
2014–15 Budget	48,141	48,023	48,216	48,421	n.a.
2015–16 Budget	43,268	38,151	38,818	39,532	40,724
2016–17 Budget	43,105	35,698	37,775	38,000	38,365
Change between 2014–15 Budget and 2016–17 Budget	**(5,037)**	**(12,326)**	**(10,441)**	**(10,420)**	**n.a.**

Notes:

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

Public Non–financial Corporations Sector

The Public Non–financial Corporations (PNFC) Sector is comprised of the State's commercial entities, such as those that operate in the energy, transport and water industries. Further detail on the PNFC Sector is provided in Chapter 8.

The PNFC Sector is expecting net borrowings of $4.553 billion in 2015–16, an increase from the $3.703 billion 2015–16 MYFER estimate, largely reflecting changes to the timing of dividend payments. Gross borrowings in the PNFC Sector are estimated to be $37.018 billion at 30 June 2016, above the MYFER estimate of $35.905 billion.

Borrowings in this Sector are expected to increase to $40.208 billion in 2019–20, with the increase partly attributable to the Government's decisions under the Debt Action Plan to increase the targeted gearing ratios of the energy network businesses and Gladstone Ports Corporation Limited, North Queensland Bulk Ports Limited and SunWater Limited, acknowledging that these government–owned corporations and their borrowings are self–sustaining and able to be managed commercially.

Purchases of non–financial assets in the PNFC Sector are forecast to be $2.812 billion in 2016–17 and $11.377 billion in the four years to 2019–20.

Non–financial Public Sector

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

Gross borrowings of $72.715 billion are estimated at 30 June 2016 in the NFP Sector, $7.904 billion less than the 2014–15 Budget estimate primarily as a result of the improvement in General Government Sector debt. By 2017–18, borrowings are expected to reach $76.939 billion, $5.131 billion less than projected in the 2014–15 Budget as demonstrated in Chart 3.3.

Chart 3.3 Non–financial Public Sector gross borrowings

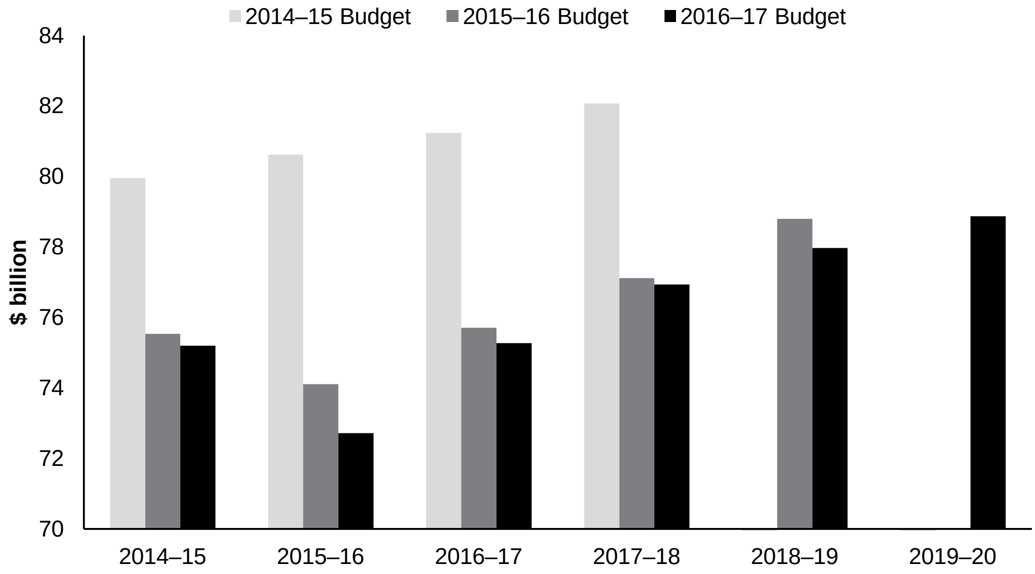


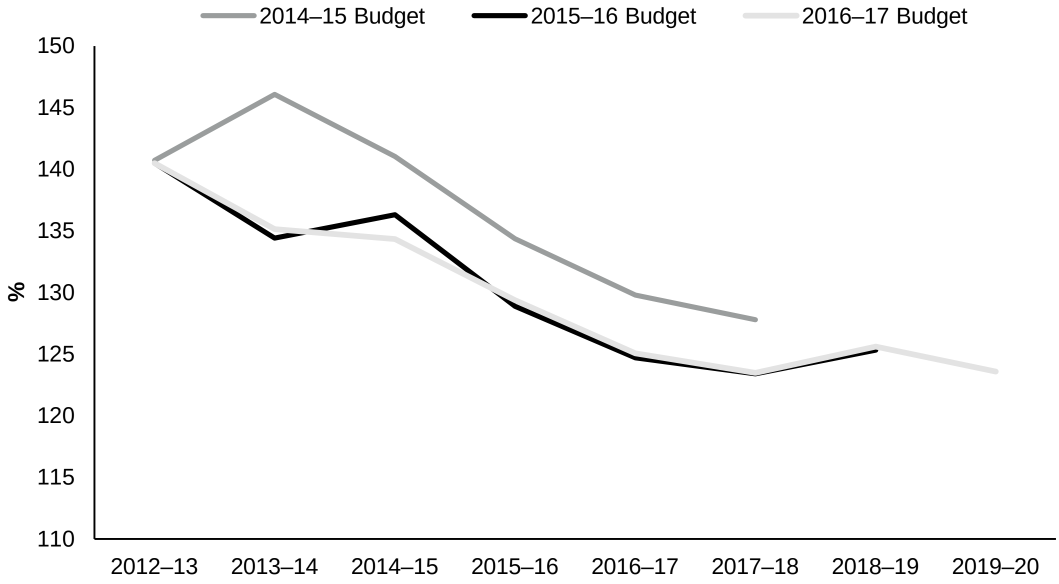
Table 3.7 identifies the revisions to NFP Sector borrowings since the 2014–15 Budget.

Table 3.7 Revisions to Non–financial Public Sector borrowings

	2014–15 $ million	2015–16 $ million	2016–17 $ million	2017–18 $ million	2018–19 $ million
2014–15 Budget	79,956	80,619	81,234	82,070	n.a.
2015–16 Budget	75,535	74,113	75,714	77,119	78,802
2016–17 Budget	75,233	72,715	75,270	76,939	77,976
Change between 2014–15 Budget and 2016–17	**(4,723)**	**(7,904)**	**(5,963)**	**(5,131)**	**n.a.**

The NFP Sector debt to revenue ratio is estimated at 129% in 2015–16 (unchanged from MYFER). This ratio is forecast to decline to 124% in 2019–20 as shown in Chart 3.4.

Chart 3.4 Non–financial Public Sector debt to revenue ratio



Purchases of non–financial assets of $6.918 billion are estimated in the NFP Sector in 2015–16, $1.556 billion less than the 2015–16 MYFER estimate. This decrease is largely due to deferred capital expenditure particularly in the areas of transport and health and by government–owned corporations.

Over the period 2016–17 to 2019–20, PNFA in the NFP Sector of $35.242 billion are planned. Capital grants over the same period are expected to total $3.220 billion, bringing capital expenditure to $38.461 billion. Finance leases over this period are also expected to total $2.375 billion, bringing the total capital program to $40.836 billion.

3.3 Fiscal principles

In the lead–up to the January 2015 Election, the Government set out five fiscal principles for the responsible and measured management of the State's finances. Following consideration of the Review of State Finances, prepared by Queensland Treasury, the Government refined the principles that relate to General Government Sector debt and the size of the net operating surplus. These refinements were intended to ensure the fiscal principles present a consistent strategy to underpin the development of the State Budget and financial decision–making. The fiscal principles provide the framework for the 2016–17 Budget.

Fiscal principles

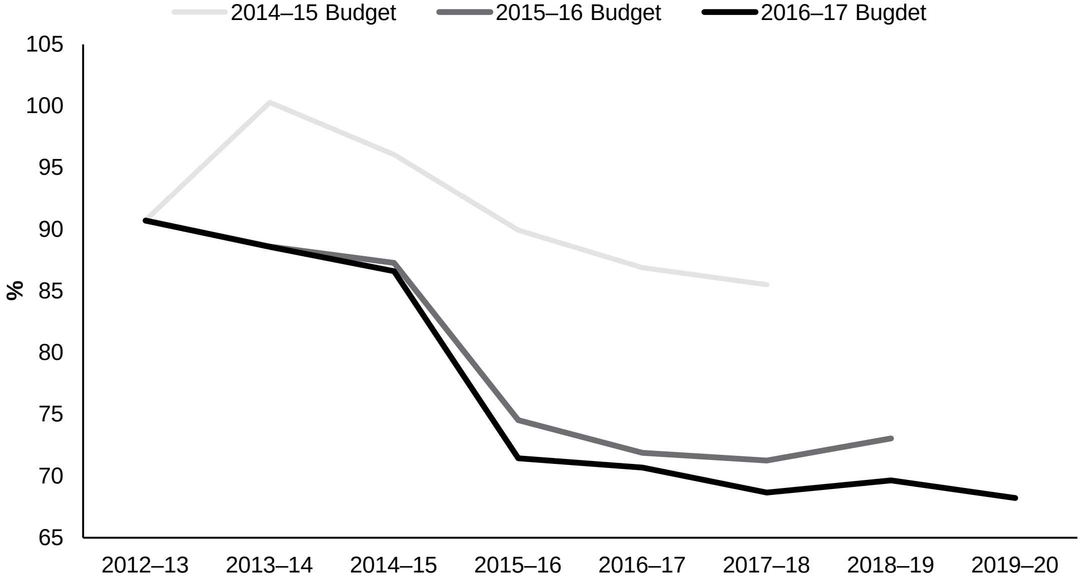
Principle 1 – Target ongoing reductions in Queensland's relative debt burden, as measured by the General Government debt to revenue ratio

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

For the purposes of General Government Sector debt, a debt to revenue ratio is a key measure of the sustainability of a jurisdiction's debt levels. It is important to seek reductions in the ratio to continue to improve the State's fiscal sustainability.

Queensland's debt to revenue ratio peaked at 91% in 2012–13. This ratio is expected to fall substantially in 2015–16, to 71%, as a result of the Debt Action Plan, and then fall gradually across the forward estimates as shown in Chart 3.5. Despite the deterioration in key revenue items, the improvement in the General Government Sector debt to revenue ratio delivered through the 2015–16 Budget has been maintained, and slightly improved in the 2016–17 Budget.

Chart 3.5 General Government Sector debt to revenue ratio



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

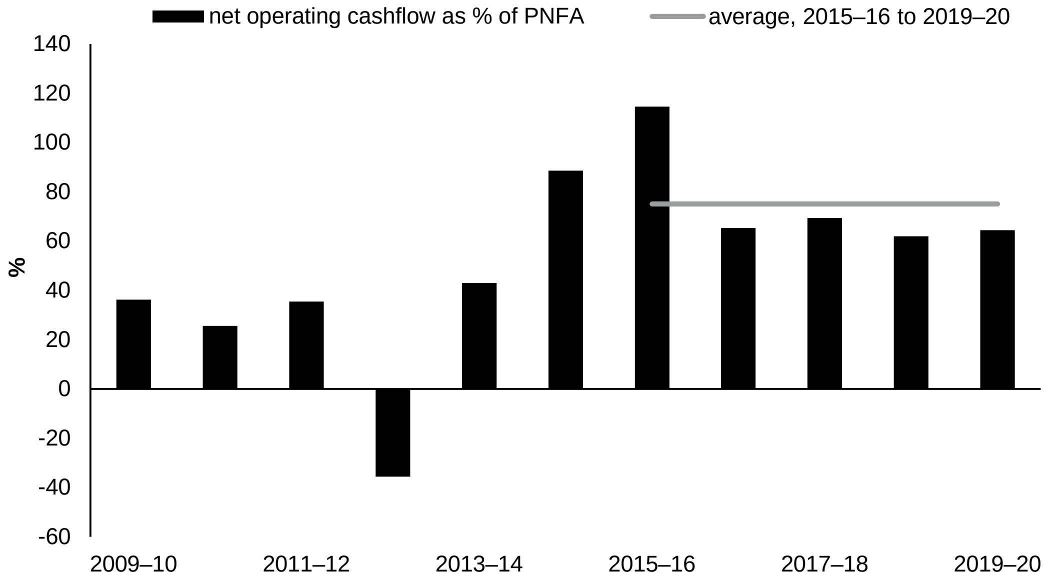
Consistent with other states and territories, the Queensland Government considers that the net operating balance is the appropriate measure of the State's annual operating position. Further, the Government recognises that the size of the operating surplus must be large enough that recurrent revenues,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

The most direct way of identifying the sources of funding of capital investment is in the General Government Sector Cash Flow Statement (refer to Table 9.7). This statement identifies that net cash inflows from operating activities equate to 65% of the funding required for the 2016–17 General Government Sector PNFA. Across the period 2016–17 to 2019–20, this proportion remains relatively constant as shown in Chart 3.6.

At the time of the 2015–16 Budget, net cash inflows from operating activities were expected to cover 83% of the funding required for the 2015–16 PNFA. In the 2015–16 MYFER this was revised down slightly to 82%. The 2015–16 estimated actual coverage is now expected to be 115%. This is primarily due to early receipt of cash related to dividends recognised as operating revenue in 2015–16, as well as reclassifications of capital expenditure to operating expenses or finance leases since the MYFER.

Purchases of non–financial assets funded from net operating cash flows averages 75% across the period 2015–16 to 2019–20.

Chart 3.6 General Government Sector net operating cash flow as a proportion of purchases of non–financial assets



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

General Government Sector purchases of non–financial assets peaked in 2009–10, reflecting a significant State infrastructure program bolstered by the Australian Government's stimulus program in response to the Global Financial Crisis. Purchases of non–financial assets are expected to increase somewhat across the forward estimates, but not return to the extraordinarily high levels of 2009–10 to 2011–12.

While the value of the total capital program can fluctuate across individual years, due to the lumpy nature of large projects and the timing of Commonwealth–funded projects, the 2016–17 Budget provides for an increase in General Government Sector PNFA from $4.173 billion estimated in 2015–16 to an average of $6 billion across 2016–17 to 2019–20.

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

Government has a clear role in providing an economic environment that supports business and jobs growth and does not place undue strain on households. In addition to measures of interstate tax competitiveness (as discussed in Chapter 4), there are a range of other own–source revenues, such as user charges and royalties, which are relevant for businesses and households.

General Government Sector own–source revenue is forecast to be 7.8% of nominal gross state product in 2016–17 and an average of 7.5% across the period 2016–17 to 2019–20.

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

Consistent with the long–standing practice of successive governments, the Queensland Government is committed to ensuring that the State sets aside assets to meet long–term liabilities such as superannuation and WorkCover, in accordance with actuarial advice.

The State Actuary's most recent valuation indicates that as at 30 June 2015 the defined benefit superannuation scheme is in a surplus position of over $10 billion on a funding basis. As set out in the enhanced Debt Action Plan (see Box 3.1), the Government will repatriate $4 billion from the over–contributions made by Government to the scheme to reduce General Government sector debt and fund additional priority infrastructure.

The repatriation is consistent with the Government's objectives in managing the scheme to minimise overfunding and based on the APRA funding standards that apply to corporate defined benefit superannuation schemes. The State Actuary has advised that a repatriation of up to $5 billion could be undertaken while maintaining consistency with the APRA funding standards.

As at 30 June 2015, the most recently available assessment, the WorkCover scheme was also fully funded.

New Principle

Principle 6 – Maintain a sustainable public service by ensuring that overall growth in full–time equivalent (FTE) employees, on average over the forward estimates, does not exceed population growth

The Government has a clear role in providing high quality and appropriate frontline services that keep pace with growth in the population while maintaining fiscally responsible and affordable levels of expenditure.

Accordingly, the Government has decided to adopt a new fiscal principle. The Government will work towards a sustainable public service by ensuring that growth in FTEs for in–scope agencies, on average over the forward estimates, does not exceed population growth. This will ensure a balance between delivery of high–quality services, and the discipline that underpins the Government's commitment to fiscal sustainability.

In–scope agencies are the agencies and staff identified in Table 5.2. Population growth will be measured as the growth in estimated resident population.

3.4 Achievement of fiscal principles

Table 3.8 demonstrates that the 2016–17 Budget projections are consistent with achieving the Government's fiscal principles. In addition, a new fiscal principle in relation to the size of the public service has been introduced.

Table 3.8 The fiscal principles of the Queensland Government

Principle	Indicator		
Target ongoing reductions in Queensland's relative debt burden, as measured by the General Government debt to revenue ratio.	General Government debt to revenue ratio		
		2015–16 MYFER %	**2016–17 Budget %**
	2015–16	74	71
	2016–17	72	71
	2017–18	72	69
	2018–19	74	70
	2019–20	n.a.	68
Target net operating surpluses that ensure any new capital investment in the General Government Sector is funded primarily through recurrent revenues rather than borrowing.	General Government operating cash flows as a proportion of purchases of non–financial assets		
		2015–16 MYFER %	**2016–17 Budget %**
	2015–16	82	115
	2016–17	83	65
	2017–18	85	69
	2018–19	80	62
	2019–20	n.a.	64
The capital program will be managed to ensure a consistent flow of works to support jobs and the economy and reduce the risk of backlogs emerging (measured as PNFA).	General Government purchases of non–financial assets		
		2015–16 MYFER ($ million)	**2016–17 Budget ($ million)**
	2015–16	5,325	4,173
	2016–17	5,822	5,452
	2017–18	5,935	6,590
	2018–19	5,188	5,840
	2019–20	n.a.	5,983
Maintain competitive taxation – own–source revenue to remain at or below 8.5% as a proportion of nominal gross state product.	General Government own–source revenue to GSP		
	2016–17:		7.8%
	Average across the forward estimates:		7.5%

Principle	Indicator
Target full funding of long–term liabilities such as superannuation and WorkCover in accordance with actuarial advice.	As at last actuarial review (as at June 2015), the scheme was fully funded. The State Actuary has advised that repatriation can be undertaken while maintaining consistency with APRA funding standards for corporate defined benefit schemes. The State Actuary undertakes a comprehensive review of the scheme at least every three years. The WorkCover scheme was fully funded as at 30 June 2015.
Maintain a sustainable public service by ensuring that overall growth in full–time equivalent employees, on average over the forward estimates, does not exceed population growth.	Growth in FTEs *FTE growth* Average across the forward estimates: 1½% *Population growth* Average across the forward estimates: 1½%

4 Revenue

Features

- Total General Government Sector revenue is estimated to be $49.976 billion in 2015–16, $211 million (or 0.4%) higher than in 2014–15. Lower than budgeted revenue growth in the 2015–16 estimated actual is mainly due to a decrease in capital grants, largely relating to the Australian Government's decision to defer Natural Disaster Relief and Recovery Arrangements (NDRRA) payments. Excluding NDRRA, revenue is expected to be 2.8% higher in 2015–16 than in 2014–15.
- Total General Government Sector revenue in 2015–16 is estimated to be $1.210 billion (or 2.4%) lower than was estimated in the 2015–16 Budget. A major driver of this decrease has been payments for NDRRA that were expected in 2015–16 being delayed until 2016–17 and 2017–18 in the 2016–17 Commonwealth Budget, as well as lower royalty and taxation revenue.
- The revenue outlook is challenging. Total revenue is expected to grow at an average annual growth rate of 3.2% over the four years to 2019–20 (revenue growth is also 3.2% when NDRRA payments are excluded). This is significantly less than the 7.1% average growth over the fifteen years to 2014–15.
- Since the 2015–16 Mid Year Fiscal and Economic Review (MYFER), forecasts for royalty revenue have been downgraded by $2.713 billion over the four years to 2018–19. This mainly reflects reductions in the expectation for commodity prices, including the benchmark coking coal price being 12% lower over the period and the Brent oil price being 13% lower over the period. The reduction since the 2015–16 Budget is $3.059 billion over the four year period to 2018–19.
- These royalty revisions follow significant reductions in previous budget updates. Since the 2014–15 Budget, price estimates for 2016–17 have fallen by 48% for hard coking coal and 52% for Brent oil. Royalty estimates for 2016–17 and 2017–18 in the 2016–17 Budget are less than half that expected in the 2014–15 Budget.
- Total General Government Sector revenue is estimated to be $53.449 billion in 2016–17. The increase of $3.473 billion (or 6.9%) on 2015–16 estimated actual revenue is primarily driven by growth in payments from the Australian Government, associated with increased GST revenue and the delay in disaster recovery payments from 2015–16 to 2016–17 and 2017–18.
- Queensland will retain its competitive tax status, with per capita state tax estimated at $2,697 in 2016–17, compared to an average of $3,464 for the other states and territories.
- Queenslanders continue to benefit from the Government maintaining its commitment to not introduce new taxes, fees or charges. Scheduled annual indexation of certain fees and charges, as determined by the previous Government, will continue.

- From 1 October 2016, a 3% transfer duty surcharge will be applied to foreign buyers of residential property in Queensland. This measure will have no direct impact on Queensland residents, and is designed to ensure that foreign purchasers of residential land, who benefit from Government services and infrastructure, make a contribution to their delivery.
- As part of the Rural Assistance Package, $7 million has been provided over four years to extend the family farm transfer duty concession, ensuring intergenerational transfers of land do not incur a transfer duty liability in Queensland, bringing Queensland into line with other states.
- Other measures, such as targeted additional Office of State Revenue compliance activity, will affect few Queenslanders and are necessary to maintain the integrity of tax collections and the efficient delivery of government services.

This chapter provides an overview of General Government Sector revenue for the 2015–16 estimated actual outcome, forecasts for the 2016–17 Budget year and projections for 2017–18 to 2019–20.

Table 4.1 General Government Sector revenue[1]

	2014–15 Actual $ million	2015–16 Budget $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Taxation revenue	12,575	12,926	12,660	13,150	13,794	14,622	15,460
Sales of goods and services	5,250	5,430	5,409	5,423	5,764	5,752	5,934
Interest income	2,470	2,372	2,427	2,296	2,302	2,243	2,105
Grants revenue							
Current grants	21,172	21,895	22,234	24,286	25,068	25,315	25,982
Capital grants	2,422	2,660	1,462	2,830	3,078	1,520	1,212
Dividend and income tax equivalent income							
Dividends	1,833	1,632	1,698	1,590	1,382	1,356	1,360
Income tax equivalent income	722	762	740	717	615	614	605
Other revenue							
Royalties and land rents	2,223	2,444	2,173	2,111	2,289	2,600	2,928
Other	1,098	1,065	1,173	1,046	1,056	1,076	1,088
Total revenue	**49,765**	**51,186**	**49,976**	**53,449**	**55,349**	**55,097**	**56,674**

Note:

1. Numbers may not add due to rounding.

4.1 2015–16 estimated actual

General Government Sector revenue in 2015–16 is estimated to be $49.976 billion, which is $1.210 billion (or 2.4%) less than the 2015–16 Budget estimate.

Significant variations from the 2015–16 Budget estimates include:

- A $1.199 billion (or 45.1%) decrease in capital grants from the Australian Government, largely due to payments for disaster recovery that were expected in 2015–16 being delayed until 2016–17 and 2017–18 in the 2016–17 Commonwealth Budget.
- Lower royalty revenue ($271 million) as a result of lower than expected coal and oil prices.
- A $266 million decrease in taxation, primarily associated with lower payroll tax receipts.

These decreases were partially offset by increased current grants from the Australian Government ($339 million), associated with GST and increased estimates of recurrent tied funding.

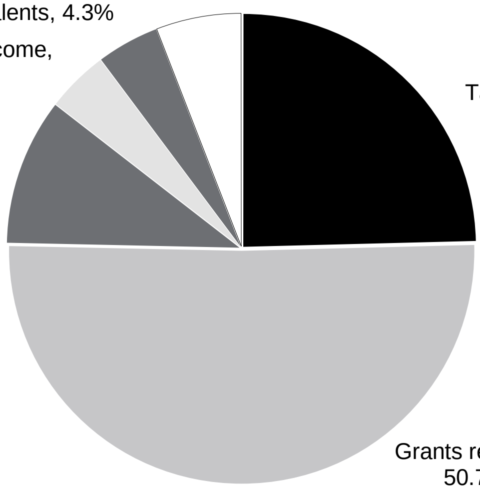
4.2 2016–17 revenue by category

General Government Sector revenue in 2016–17 is estimated to be $53.449 billion, $3.473 billion (or 6.9%) higher than the 2015–16 estimated actual revenue of $49.976 billion. This is largely due to growth of $3.385 billion in payments from the Australian Government, associated mainly with the delay in disaster recovery payments from 2015–16 and increased GST revenue.

After adjusting for natural disaster payments, the underlying growth in revenue is $2.727 billion (or 5.5%) in 2016–17, compared to $1.373 billion (or 2.8%) in 2015–16.

Major sources of General Government Sector revenue in 2016–17 are grants revenue (50.7% of revenue) and taxation revenue (24.6%). Chart 4.1 illustrates the composition of General Government Sector revenue.

Chart 4.1 Revenue by operating statement category, 2016–17[1, 2]

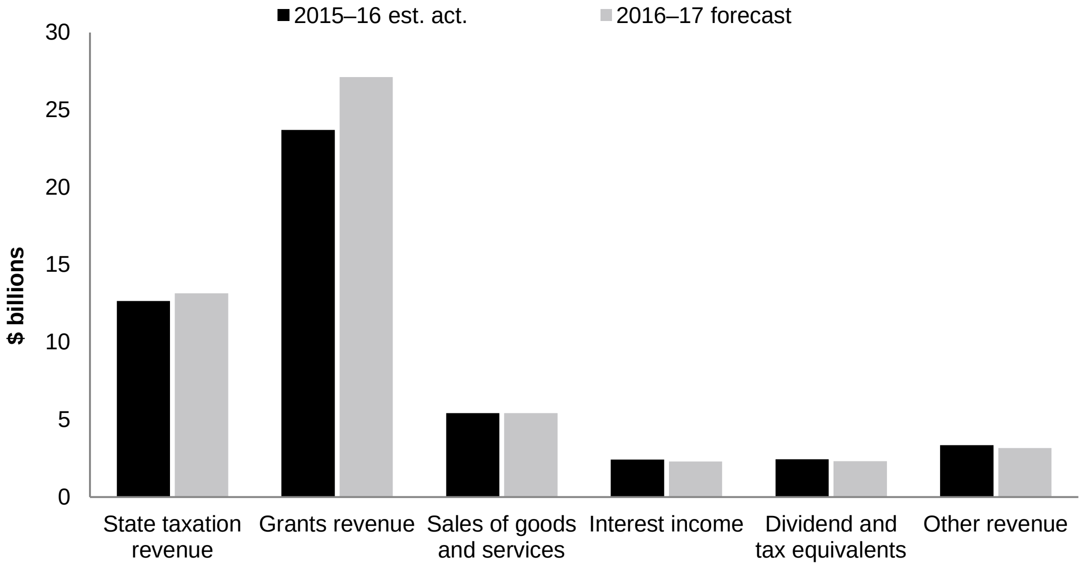


Notes:

1. Numbers may not add due to rounding.
2. The major component of other revenue is royalties and land rents (3.9% of total revenue).

Chart 4.2 compares 2016–17 forecasts with 2015–16 estimated actuals. The main drivers of revenue growth in 2016–17 are disaster recovery funding and GST revenue from the Australian Government.

Chart 4.2 Revenue by operating statement category, 2015–16 and 2016–17[1]



Note:

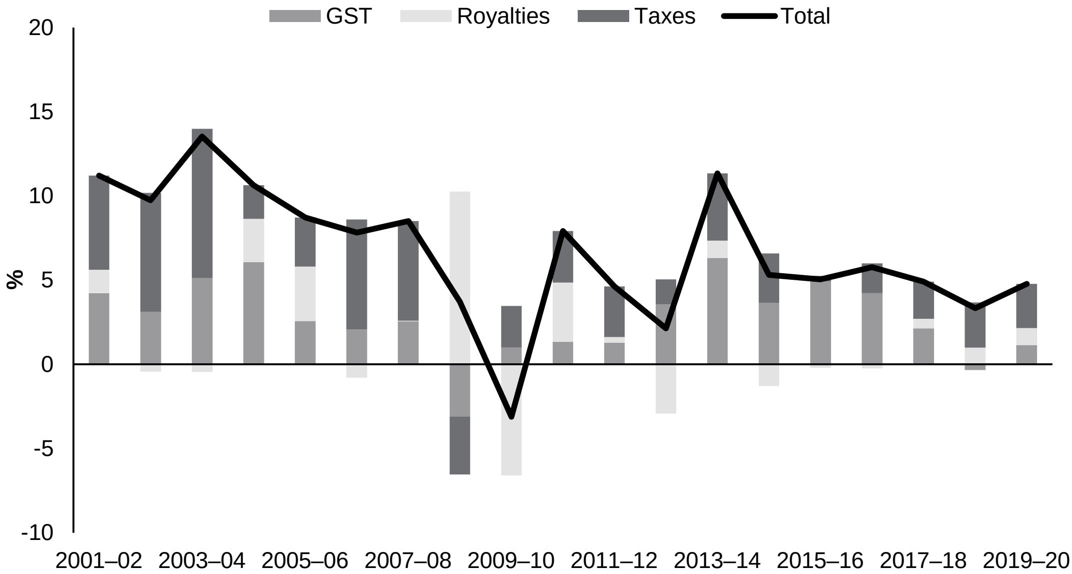
1. Grants revenue is largely made up of Australian Government funding.

4.3 Queensland's revenue trends

Chart 4.3 examines the contribution of the key revenue sources of GST, taxation and royalties to revenue growth. In 2015–16 and 2016–17, the primary driver of the growth in revenues is GST revenue distributed to Queensland by the Australian Government, resulting from growth in both total GST revenue and in Queensland's share of GST. From 2017–18, State taxes contribute a larger proportion of growth.

Total revenue growth, which is mainly driven by these three sources, is estimated to be 3.2% in the four years to 2019–20. This is far lower than the 7.1% average growth in total revenue in the fifteen years to 2014–15.

Chart 4.3 Contribution to growth of key revenues[1]



Note:

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

4.3.1 GST revenue

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

Queensland's GST revenue is expected to grow by 9.0% in 2016–17 compared to the 2015–16 estimated actual. This is due to the Commonwealth Grants Commission (CGC) assessment that Queensland should receive a higher per capita share of the GST pool in 2016–17 than 2015–16, and growth in the overall GST pool. The CGC assessment reflects the relative weakness in Queensland's revenue base and higher than average NDRRA expenses between 2012–13 and 2014–15, resulting in a higher relativity in 2016–17. Additionally, the Australian Government forecast total GST collections to increase by $3.210 billion (or 5.6%) in 2016–17 compared with the 2015–16 estimated actual.

The 2016–17 relativity reflects the application of the CGC's assessment of each state's revenue and expenditure circumstances from the period 2012–13 to 2014–15. Queensland's single year relativity for 2013–14, which first affected the GST distribution in 2015–16, was historically high, reflecting short–term factors such as expenses relating to natural disaster events in 2011 and 2012, and strong mining revenue in Western Australia in 2013–14. Queensland's single year relativity for 2014–15 was lower than for 2013–14, reflecting changes in these short–term factors. As GST shares are based on a three year average of relativities applied with a two year lag, the 2013–14 result will continue to affect Queensland's GST share up to and including 2017–18.

Over the period 2015–16 to 2018–19, the Australian Government's forecasts of total GST collections were revised upwards by $1.070 billion since the 2015–16 Mid Year Economic and Fiscal Outlook (MYEFO).

Further discussion of Queensland's share of GST is provided in Chapter 7.

4.3.2 Taxation

Annual growth in transfer duty averaged 22.6% over the seven years to 2007–08, driven by a range of factors including Queensland's relative affordability of housing, high population growth and the impact of the burgeoning mining sector. This was a key contributor to total taxation average annual growth of 12.2% over this period.

Looking forward, the expected average annual transfer duty growth of 5.2% over the four years to 2019–20 is modest relative to that experienced between 2000–01 and 2007–08. While low interest rates are expected to support recovery in the property market, this is expected to occur at a gradual pace, particularly in the non–residential sector.

Although transfer duty is expected to decrease slightly in 2015–16, this reflects several extraordinary large business transactions occurring in 2014–15. Residential property transfers have been strong in 2015–16, with increases in both homebuyer and investor activity.

Since the Global Financial Crisis (GFC), payroll tax has overtaken transfer duty as the key contributor to Queensland's tax revenue collections. In 2015–16, payroll tax is expected to be $3.753 billion while transfer duty will reach $3.060 billion.

Payroll tax has a relatively stable base and more direct relationship to the underlying economic conditions compared with the volatility associated with transfer duty.

Payroll tax is expected to grow by 5.1% on average in the four years to 2019–20.

4.3.3 Royalty revenue

Royalty revenue grew strongly between 2000–01 and 2007–08, with growth of around 50% in both 2004–05 and 2005–06. In contrast to the other key revenues, royalty revenues reached a peak in 2008–09, as coal contracts had been priced at record levels prior to the onset of the GFC (see Chart 4.4). Royalty revenue then fell significantly in 2009–10, as a result of falling coal contract prices, and has not returned to the levels of 2008–09.

Since the 2014–15 Budget, significant downwards revisions have been made to royalties across the period 2014–15 to 2017–18, mainly due to lower commodity prices. This is discussed further in Box 4.1.

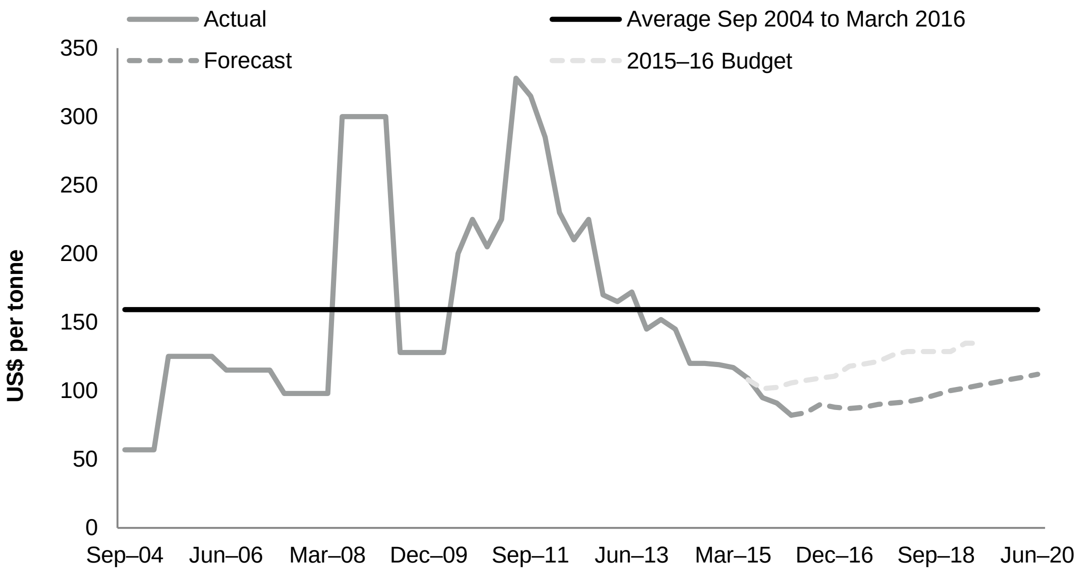
Royalty revenue is estimated to be $271 million lower in 2015–16 than was estimated in the 2015–16 Budget. This is the result of both lower than expected coal export volumes and weaker than anticipated coal and oil prices, partially offset by a lower exchange rate.

After falling by 2.6% in 2015–16, royalties are expected to decline by 3.2% in 2016–17. The lower royalty revenue in 2016–17 is due to royalty revenue in 2015–16 being supported by compliance reassessments. Excluding compliance reassessments, royalties are expected to grow by around 10% in 2016–17, reflecting increased export volumes and a modest recovery in prices for some commodities.

Although a gradual recovery in coal prices is expected from 2017, coking coal prices are forecast to be significantly lower across the forward estimates than they were in the 2015–16 Budget (see Chart 4.4 below). Since the 2015–16 Budget, estimated coking coal contract prices have deteriorated by 16% in 2015–16 and 23% in 2016–17.

Across the forward estimates, a modest recovery in commodity prices, combined with growth in export volumes (especially from LNG) is expected to see royalty revenue improve, though royalties will still be far below the level anticipated at the time of the 2014–15 and 2015–16 Budgets.

Chart 4.4 Coking coal price



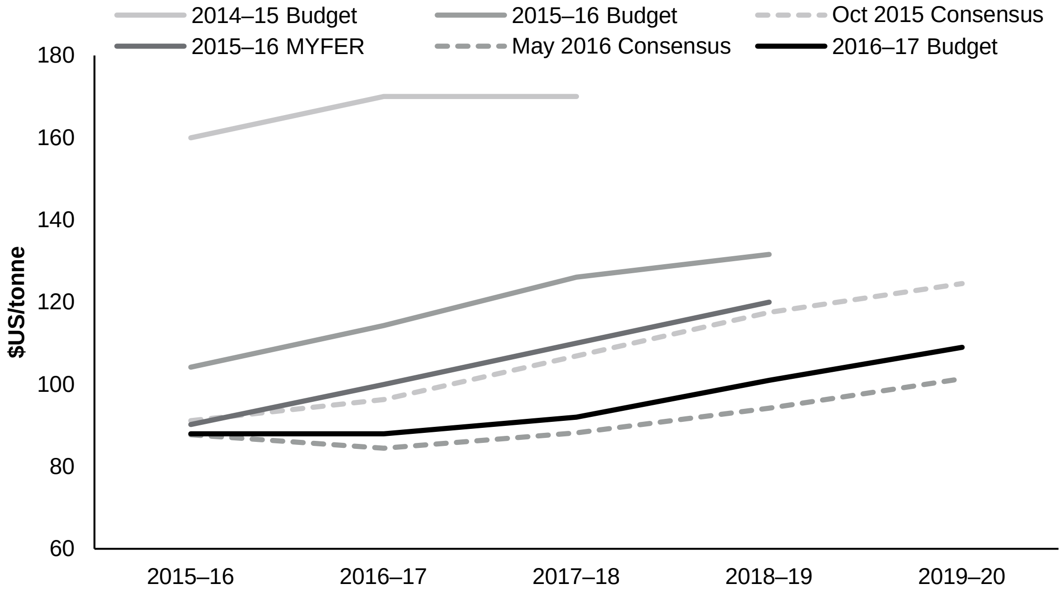
Sources: Consensus Economics and Queensland Treasury.

Increases in the exchange rate since MYFER have had a small negative impact on royalties in 2015–16 and 2016–17, with the exchange rate assumed to remain flat across the forward estimates.

There is a high degree of uncertainty associated with estimates of commodity prices and the A$–US$ exchange rate, both of which have significant impacts on royalty revenue. Since MYFER, coal price forecasts have declined significantly across all years of the forward estimates. As supply and demand conditions rebalance, hard coking coal prices are expected to move above US$100/tonne by early 2019.

As shown in Chart 4.5, coal price forecasts have been downgraded since the 2015–16 MYFER.

Chart 4.5 Coking coal price forecasts, by iteration[1]



Note:

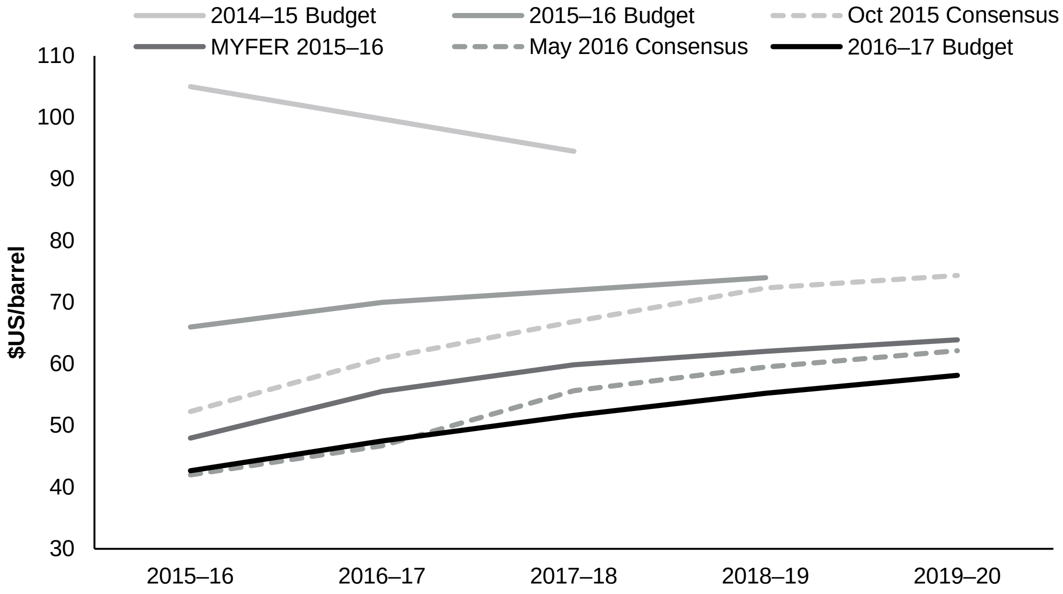
1. The Consensus Economics estimates represent the releases closest to the published Budgets and MYFER respectively.

Sources: Queensland State Budget 2014–15 to 2016–17; 2015–16 MYFER and Consensus Economics Energy and Metals May 2016 and October 2015.

Oil prices are related to LNG prices and therefore factor strongly into royalty forecasts. Since the 2015–16 Budget, estimates of oil prices across the forward estimates have fallen significantly. Compared to the 2015–16 Budget, oil prices have been revised down by 35% in 2015–16 and 32% in 2016–17. While the price is expected to recover over the forward estimates period as the supply of oil starts to rebalance with demand, the recovery is expected to occur over a longer period than anticipated in the 2015–16 Budget (see Chart 4.6).

The assumptions for the oil price in the short–run are similar to Consensus Economics forecasts in 2016–17, with some recognition of recent strength in oil futures prices. From 2017–18, oil price assumptions are below Consensus Economics forecasts, consistent with a conservative approach.

Chart 4.6 Brent Oil price forecasts, by iteration[1]



Note:

1. The Consensus Economics estimates represent the releases closest to the published Budgets and MYFER respectively.

Sources: Queensland State Budgets 2014–15 to 2016–17 and 2015–16 MYFER and Consensus Economics Energy and Metals May 2016 and October 2015.

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

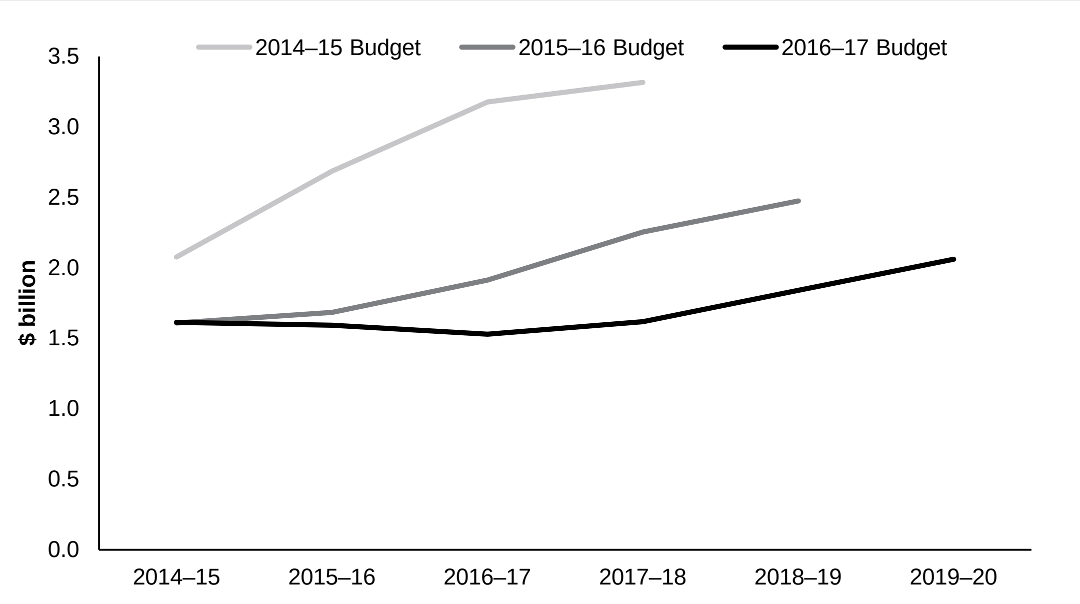
Box 4.1 Royalty revenue revisions

Over the last few years, significant reductions in expectations for commodity prices have resulted in large downgrades to Queensland's royalty revenues. Since the 2014–15 Budget, changes to global conditions have meant that royalty revenue has been revised down in each subsequent budget update, leaving revenues at a much lower level than had more favourable conditions persisted.

In the 2015–16 Budget, royalties were downgraded by over $4.5 billion from 2014–15 to 2017–18, reflecting reductions in the expectations for commodity prices, particularly the coking coal price.

Coal prices were again revised down in the 2015–16 MYFER due to downgrades to forecasts of industrial production growth of major importers and a reduction in thermal coal usage. Since MYFER, further downgrades have been made to estimates of coal prices, with ongoing weakness in China's pig iron production expected to deter price improvement in the short–term. In total since the 2014–15 Budget, coal prices have been revised down by 45% in 2015–16 and 48% in 2016–17.

Chart 4.7 Coal royalty revenue estimates since the 2014–15 Budget



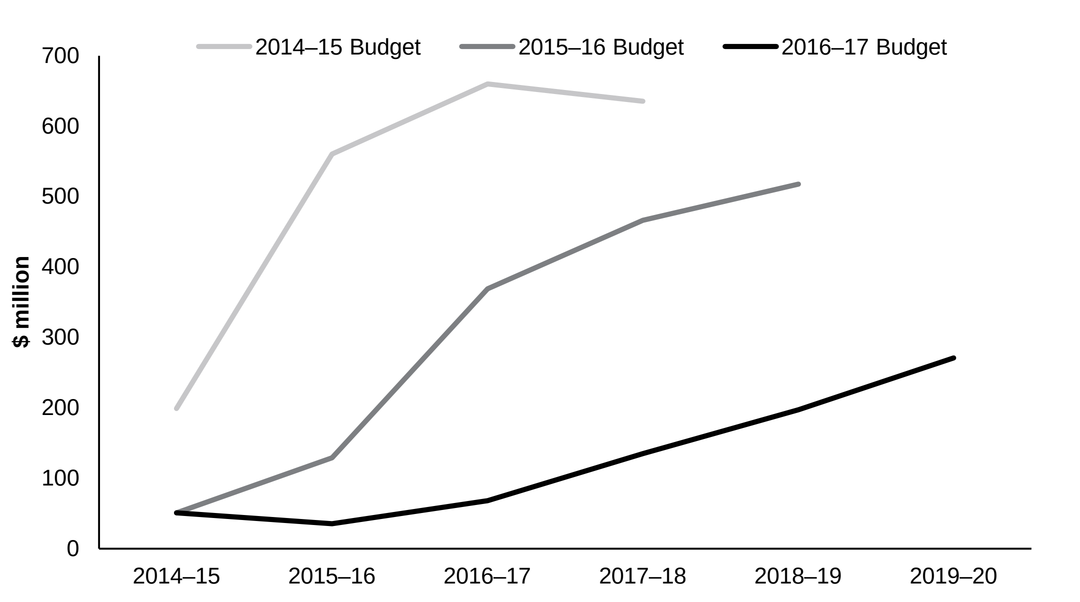
Sources: Queensland State Budgets 2014–15 to 2016–17.

Over the period 2014–15 to 2017–18, royalty revenue has been revised down by a total of $6.7 billion since the 2014–15 Budget. Over the same period, significant revisions have been made to coking coal prices.

The volatility of mineral prices and their impact on royalty revenues is a challenge. Royalty revisions arising from the falling commodity prices have had a sharp impact on Queensland's position, with estimates for 2016–17 and 2017–18 royalties in this Budget being less than half that expected in the 2014–15 Budget.

Estimates of LNG export prices, which are linked to oil prices, have also been revised down significantly over the last two budgets. Since the 2014–15 Budget, the estimated average oil price has declined by 59% in 2015–16 and 52% in 2016–17. While CSG volumes are still anticipated to grow across the forward estimates, reductions in estimated prices have resulted in downwards revisions in CSG royalties since the 2015–16 Budget. CSG royalties are included in petroleum royalties.

Chart 4.8 Petroleum royalty revenue estimates since the 2014–15 Budget



Sources: Queensland State Budgets 2014–15 to 2016–17.

While the anticipated A$–US$ exchange rate has also decreased significantly since the 2014–15 Budget, this has only partially cushioned royalty forecasts from decreases in other parameters, particularly prices.

4.4 2016–17 Budget Initiatives

4.4.1 Transfer duty surcharge for foreign purchasers of residential property

From 1 October 2016, a 3% transfer duty surcharge will be applied to foreign buyers of residential property in Queensland.

The Government affirms its commitment to Queenslanders to no new taxes, fees or charges. This measure will have no direct impact on Queensland residents, and is designed to ensure that foreign purchasers of residential land, who benefit from Government services and infrastructure, make a contribution to their delivery.

4.4.2 Rural Assistance Package – transfer duty concession

The Rural Assistance Package is to be delivered across several departments and is designed to assist rural producers across the State affected by debt and drought.

As part of the Package, the Government is extending the family farm transfer duty concession for the familial transfer of farm businesses, at an estimated cost of $7 million over the four years to 2019–20.

The existing concession applies to transfers (and indirect acquisitions through family partnerships, family trusts and family unit trusts) of land primarily used to carry on a business of primary production, including adjacent residential land as well as personal property used to conduct the business on the land, to the extent the transfer is by way of gift. The concession will be extended by removing the requirement that the transfer be by way of gift.

4.4.3 Additional compliance activity – Office of State Revenue

The Office of State Revenue will undertake targeted additional compliance activity, estimated to raise an additional $9.8 million over three years. This will focus on compliance relating to certain key taxes.

4.5 Taxation revenue

Total revenue from taxation is expected to grow by 3.9% in 2016–17, following estimated growth of 0.7% in 2015–16. The main components of taxation revenue are shown in Table 4.2.

Table 4.2 State taxation revenue[1]

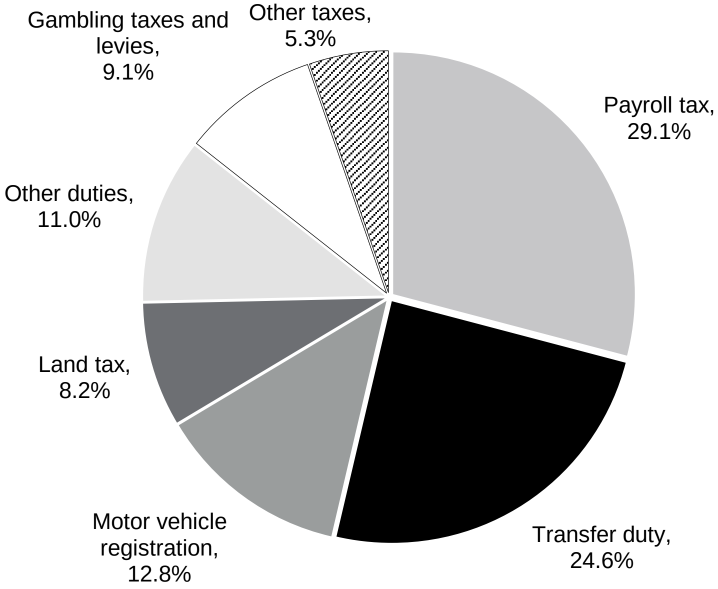
	2014–15 Actual $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Payroll tax	3,782	3,753	3,826	4,040	4,306	4,583
Duties						
Transfer	3,082	3,060	3,231	3,326	3,531	3,750
Vehicle registration	483	503	518	539	565	594
Insurance[2]	822	820	868	908	952	999
Other duties[3]	60	21	56	57	60	62
Total duties	**4,448**	**4,404**	**4,672**	**4,829**	**5,109**	**5,405**
Gambling taxes and levies						
Gaming machine tax	647	680	711	743	776	811
Health Services Levy	60	68	75	82	91	100
Lotteries taxes	241	265	273	281	290	298
Wagering taxes	14	11	11	11	11	12
Casino taxes and levies	94	101	104	107	110	114
Keno tax	21	21	22	23	23	24
Total gambling taxes and levies	**1,077**	**1,146**	**1,195**	**1,247**	**1,301**	**1,358**
Other taxes						
Land tax	977	1,010	1,083	1,161	1,231	1,300
Motor vehicle registration	1,571	1,632	1,677	1,742	1,810	1,892
Emergency Management Levy[4]	435	460	486	514	541	570
Guarantee fees[5]	232	202	156	206	268	294
Other taxes[6]	52	53	54	55	56	57
Total taxation revenue	**12,575**	**12,660**	**13,150**	**13,794**	**14,622**	**15,460**

Notes:

1. Numbers may not add due to rounding.
2. Includes duty on accident insurance premiums.
3. Includes duty on life insurance premiums.
4. Prior to 1 January 2014 this was the Fire Levy.
5. Includes competitive neutrality fees charged to government–owned corporations.
6. Includes the Statutory Insurance Scheme Levy and Nominal Defendant Levy.

Chart 4.9 indicates the composition of estimated State taxation revenue for 2016–17.

Chart 4.9 State taxation by tax category, 2016–17[1]



Note:

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

The largest sources of state taxation revenue are payroll tax and transfer duty, which together represent around 54% of the State's total taxation revenue in 2016–17.

Payroll tax (29.1% of total tax revenue in 2016–17) has a relatively stable base with growth usually driven by the underlying strength of the State economy. At present, payroll tax is affected by changes in the composition of the payroll tax base, with reductions in collections from the mining and construction industries only partially offset by growth in other industries, such as retail trade.

In contrast, revenue growth from transfer duty (representing 24.6% of tax revenue) can vary significantly from year to year due to the volatility of both the residential and non–residential segments of the property market.

Land tax represents 8.2% of total tax revenue in 2016–17. While also subject to the volatility of price movements in the property market, this impact is moderated by a relatively stable base and the effect of three year averaging of land values for assessments.

Gambling taxes and levies represent 9.1% of tax revenues in 2016–17. Motor vehicle registration represents 12.8% of total tax revenue.

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

4.5.1 Payroll tax

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

The overall payroll tax rate of 4.75% is the lowest in Australia and the exemption threshold of $1.1 million is the highest threshold of any mainland state. Queensland employers with total yearly Australian taxable wages between $1.1 million and $5.5 million also obtain a partial deduction, with the deduction withdrawn at a rate of $1 in every $4 of taxable wages. From 1 July 2015, in addition to their wages already being exempt from payroll tax, a 25% payroll tax rebate applied to the wages of eligible apprentices and trainees.

Payroll tax collections are estimated to be $3.826 billion in 2016–17, representing growth of 2.0% on the 2015–16 estimated actual. The decline in mining investment has seen a reduction in payroll tax receipts in 2015–16 and this is expected to continue to weigh on growth in 2016–17.

Payroll tax is now forecast to be $1.437 billion lower over the period 2015–16 to 2018–19 than was estimated in the 2015–16 Budget.

Payroll tax collections have declined from the mining and construction industries, which have a higher concentration of larger organisations. In an environment of low commodity prices, mining operators have reduced their workforce and continue to target efficiency gains to maintain profitability. This is also having an impact on employment in industries servicing the resources sector, such as professional services and equipment hiring.

Modest growth in other industries, such as retail trade, has partially offset the decline in payroll tax collections from mining and construction. The average annual payroll tax growth is forecast to be 5.1% over the four years to 2019–20, well below the average of 8.5% from the fifteen years to 2014–15.

4.5.2 Duties

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

Transfer duty

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

Revenue from transfer duty is expected to be 5.6% higher in 2016–17 than in 2015–16, following a decrease of 0.7% in 2015–16. The 2015–16 decrease was mainly a result of strong transfer duty revenue in 2014–15, which was supported by a number of large commercial transactions. Underlying growth is estimated to be 12.3% in 2015–16 once the impact of these large transactions is removed. In 2016–17, underlying growth is expected to be 5.8%, similar to the growth in total revenue from transfer duty.

Over the four years to 2019–20, transfer duty is estimated to grow by 5.2% on average per annum. This rate of growth is based on an expectation of moderate growth in residential and non–residential transfer duty, supported by a pipeline of construction works.

Vehicle registration duty

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

Revenue from vehicle registration duty is expected to grow by 3.0% in 2016–17, following growth of 4.0% in 2015–16.

Insurance duty

Insurance duty is charged on contracts of general insurance (for example, insurance for house and contents, vehicle, professional indemnity), life insurance, compulsory third party insurance and accident insurance. Revenue from insurance duty is expected to grow by 5.8% in 2016–17.

From 1 July 2016, the life and total and permanent disability insurance and income protection insurance previously managed by QSuper will be met by QInsure, which will operate as a separate company within the QSuper group. QSuper insurance was previously provided on a self–insurance basis and was therefore not subject to duty. Duty on insurance provided by QInsure has resulted in modest increases to estimates of insurance duty and other duties in 2016–17.

4.5.3 Gambling taxes and levies

A range of gambling activities are subject to State taxes and levies. Total gambling tax and levy collections are estimated to grow by 4.3% in 2016–17, and 4.3% on average over the four years to 2019–20.

The Government has been undertaking targeted consultation on planned changes to electronic gaming machine tax arrangements for community–based clubs that would mean revenue is recognised on a per–premises rather than a per–licence basis. The proposal is expected to make it easier for clubs to establish new venues and revitalise existing ones, thereby generating jobs and economic opportunities for their local communities. There will be no increase in the number of gaming machines in Queensland as a result of the change.

4.5.4 Land tax

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

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

Land tax is estimated to grow by 7.3% to $1.083 billion in 2016–17, reflecting growth in land values in recent years. Some moderation in property value growth is expected in the next few years, which is reflected by the annual growth of 6.5% over the four years to 2019–20.

4.5.5 Motor vehicle registration

Motor vehicle registration fees are expected to grow by 2.7% in 2016–17 and 3.8% on an annual average basis across the four years to 2019–20, reflecting an increase in the number of motor vehicles as well as the annual indexation of fees.

Growth in motor vehicle registration fees are somewhat lower in 2016–17 than the four year average, primarily due to heavy vehicle fee revenue remaining at 2015–16 levels in 2016–17. This reflects the implementation pathway to new heavy vehicle charges agreed by the Transport and Infrastructure Council in November 2015. Heavy vehicle charges aim to recover costs relating to the impact of operating heavy vehicles on roads.

4.5.6 Emergency Management Levy

The Emergency Management Levy revenue, which is used to partly offset the costs of emergency management in Queensland, is expected to grow by 5.7% in 2016–17.

4.5.7 Guarantee fees

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

4.5.8 Other taxes

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

4.5.9 Tax expenditures

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

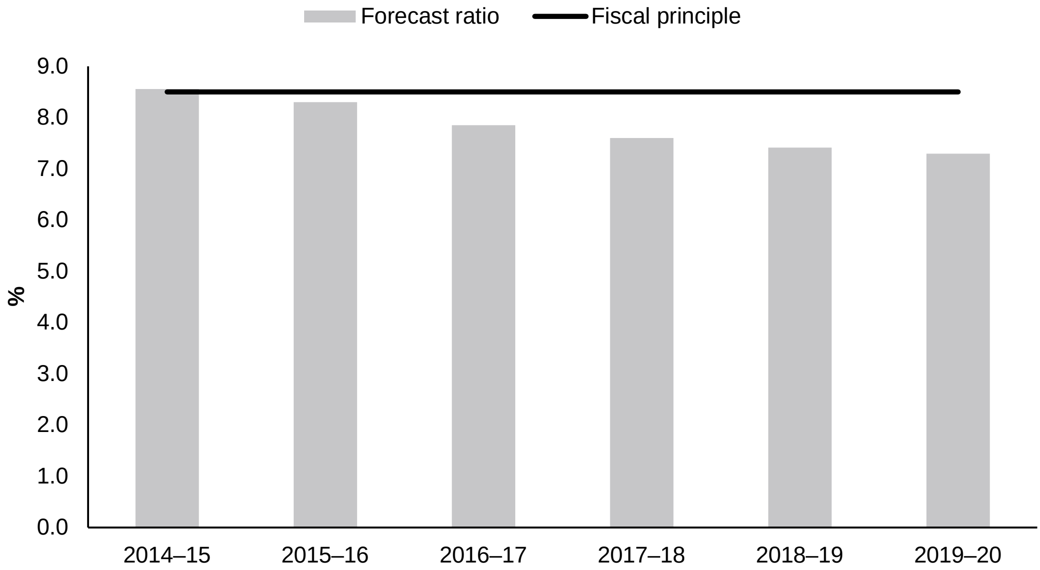
4.6 Queensland’s competitive tax status

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

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

As Chart 4.10 shows, this principle is expected to be met over the forward estimates period, with revenue falling as a percentage of GSP.

Chart 4.10 Own–source revenue[1] as a proportion of nominal GSP



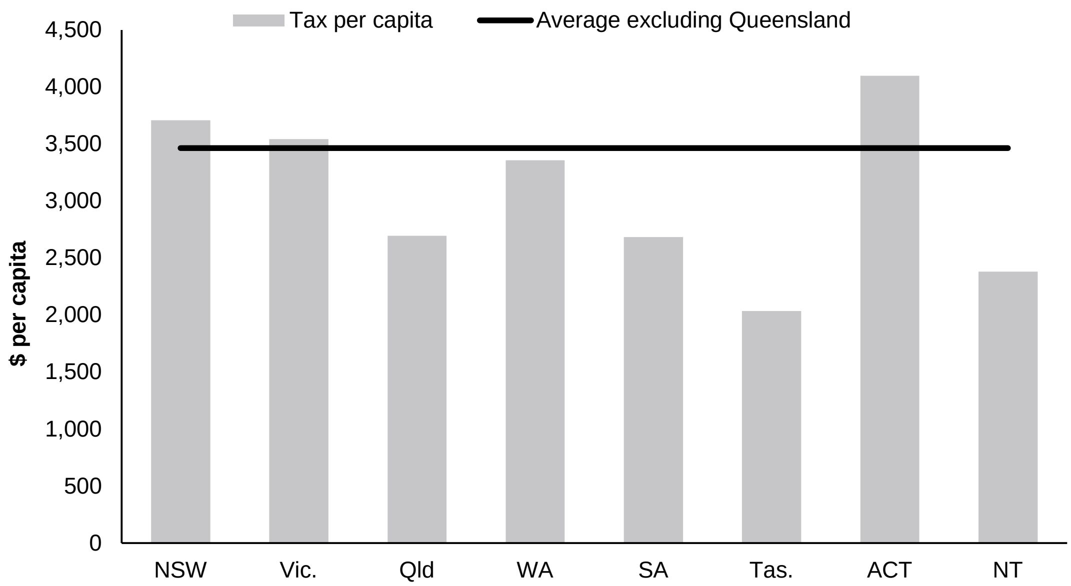
Note:

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

Source: Queensland Treasury.

As Chart 4.11 shows, taxation per capita in Queensland is significantly lower than the average taxation per capita in the other states and territories. In 2016–17, it is estimated that Queensland's taxation per capita of $2,697 will be $767 per capita less than the average of other jurisdictions.

Chart 4.11 Taxation per capita, 2016–17



Sources: 2016–17 Budgets for all jurisdictions except NSW and SA, where 2015–16 mid–year updates are used. Population data from 2016–17 Commonwealth Budget.

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

Queensland's tax effort, as measured by the Commonwealth Grants Commission, was 11% below the national average in 2014–15. A third measure of competitiveness, taxation as a share of GSP, also confirms that Queensland's taxes are competitive with other states.

Table 4.3 Queensland's tax competitiveness

	NSW	Vic.	Qld	WA	SA	Tas.[4]	ACT[5]	NT[4]	Avg[6]
Taxation per capita[1] ($)	3,708	3,542	2,697	3,357	2,684	2,036	4,098	2,381	3,464
Taxation effort[2] (%)	104	103	89	99	105	91	100	104	100
Taxation % of GSP[3] (%)	5.1	5.1	4.1	3.6	4.4	3.9	4.0	3.1	4.7

Notes:

1. 2016–17 data. Sources: 2016–17 Budget for all jurisdictions except NSW and SA, where 2015–16 mid–year updates are used. Population data from Commonwealth 2016–17 Budget.
2. 2014–15 data. Source: Commonwealth Grants Commission 2016 Update – total tax revenue effort for assessed taxes (payroll, transfer duty, land tax, insurance duty and motor vehicle taxes). Revenue raising effort ratios, assessed by the Commonwealth Grants Commission, isolate policy impacts from revenue capacity impacts and are an indicator of the extent to which governments burden their revenue bases. Queensland's tax revenue raising effort is well below the Australian policy standard (equal to 100%).
3. 2014–15 data. Sources: 2014–15 financial reports for all jurisdictions and ABS 5220.0.
4. Low taxation per capita primarily reflects the lower revenue raising capacity of those jurisdictions.
5. Figures include municipal rates.
6. Weighted average of states and territories, excluding Queensland.

4.7 Grants revenue

Grants revenue is comprised of Australian Government grants, grants from the community and industry, and other miscellaneous grants. The growth of $3.420 billion (or 14.4%) in 2016–17 largely reflects the shifting of NDRRA funding from 2015–16 to 2016–17 and 2017–18 and the $1.175 billion increase in GST revenue in 2016–17.

Table 4.4 Grants revenue[1]

	2014–15 Actual $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Current grants						
Australian Government grants	20,767	21,950	23,977	24,796	25,066	25,737
Other grants and contributions	405	284	309	272	249	246
Total current grants	**21,172**	**22,234**	**24,286**	**25,068**	**25,315**	**25,982**
Capital grants						
Australian Government grants	2,408	1,401	2,759	3,023	1,472	1,165
Other grants and contributions	14	60	71	56	47	47
Total capital grants	**2,422**	**1,462**	**2,830**	**3,078**	**1,520**	**1,212**
Total grants revenue	**23,594**	**23,696**	**27,116**	**28,147**	**26,834**	**27,194**

Note:

1. Numbers may not add due to rounding.

4.7.1 Australian Government payments

Australian Government payments to Queensland comprise:

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

Australian Government payments to Queensland in 2016–17 are expected to total $26.736 billion, representing growth of $3.385 billion (or 14.5%) compared to payments in 2015–16. This significant increase is due to growth of $1.175 billion in GST revenue and $1.358 billion in capital grants, mainly related to NDRRA and roads payments from the Australian Government. NDRRA payments previously expected in 2015–16 are now expected to be provided over 2016–17 and 2017–18. This has also contributed to total estimated payments for specific purposes being lower in 2015–16 than in 2014–15.

Table 4.5 Australian Government payments[1]

	2014–15 Actual $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
GST revenue grants[2]	11,816	13,122	14,297	14,927	14,825	15,189
Total payments for specific purposes[3]	11,359	10,229	12,439	12,892	11,713	11,712
Total Australian Government payments	**23,175**	**23,351**	**26,736**	**27,819**	**26,538**	**26,901**

Notes:

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

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

GST revenue grants and associated payments

GST revenue grants and associated payments to Queensland in 2016–17 are expected to be $14.297 billion, which represents growth of $1.175 billion on the 2015–16 estimated actual.

GST revenue projections are based on expected growth in economic parameters, such as household consumption and dwelling investment, which have a strong link to the GST base. In the 2016–17 Budget, the Australian Government has increased their estimate for the GST pool by $1.070 billion over the period 2015–16 to 2018–19 since the 2015–16 MYEFO.

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

Queensland's share of GST funding (relativity) increased in the 2016 Update from the Commonwealth Grants Commission. Chapter 7 provides further detail on Queensland's expected GST revenue.

Payments for specific purposes

Australian Government payments for specific purposes to Queensland in 2016–17 are estimated at $12.439 billion. Chapter 7 provides further detail on Australian Government payments for specific purposes.

4.7.2 Other grants and contributions

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

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

Table 4.6 Other grants and contributions

	2014–15 Actual $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Other grants and contributions	420	345	380	328	296	293

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

4.8 Sales of goods and services

Sales of goods and services revenue comprises cost recoveries from providing goods or services. Table 4.7 shows a breakdown of the sales of goods and services category.

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

Table 4.7 Sales of goods and services[1]

	2014–15 Actual $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Fee for service activities	2,140	2,164	2,137	2,372	2,190	2,278
Public Transport: South East Queensland	379	391	352	341	351	360
Rent revenue	513	564	594	628	661	696
Sale of land inventory	139	103	74	61	101	82
Hospital fees	767	798	845	861	877	893
Transport and traffic fees	374	381	398	415	433	451
Other sales of goods and services	939	1,007	1,023	1,086	1,139	1,173
Total sales of goods and services	**5,250**	**5,409**	**5,423**	**5,764**	**5,752**	**5,934**

Note:

1. Numbers may not add due to rounding.

4.8.1 Fee for service activities

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

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

4.8.2 Other sales of goods and services

As shown in Table 4.7, there are a variety of other types of sales of goods and services and these are discussed in more detail below:

- Revenues arising from the arrangements associated with South East Queensland integrated ticketing and public transport arrangements, which commenced in July 2004. The Department of Transport and Main Roads collects revenues from the operation of public transport services in South East Queensland to assist in funding public transport services in the region. These revenues are estimated at $352 million in 2016–17. A new fare structure will commence in January 2017 (including extending the existing fare freeze by a further six months), with the CPI applied annually from January 2018.
- Rent revenue is earned on the rent or lease of Government buildings, housing, plant and equipment and car parks. Major items under this category include public housing rentals and rents charged for Government buildings.
- Sale of land inventory includes property transactions where it is a core business of the agency, such as Economic Development Queensland's role to facilitate land to unlock economic growth opportunities.
- Hospital fees are collected by public hospitals for a range of hospital services. Fees include those received from private patients and other third party payers, as well as payments received from the Australian Government Department of Veterans' Affairs for the treatment of veterans.
- Transport and traffic fees comprise state transport fees, the Traffic Improvement Fee, drivers' licence fees and various marine licence and registration fees.
- Other sales of goods and services include items such as Title Registration Fees, recreational ship registrations and other licences and permits.

The Queensland Civil and Administrative Tribunal fee structure will be changed in 2016–17 to provide a disincentive for unmeritorious appeals.

Further information on fee changes is in Budget Paper No. 4 – Budget Measures.

4.9 Interest income

Interest income accounts for 4.3% of total General Government Sector revenue in 2016–17. Interest income is expected to decline, reflecting a reduction in the portfolio of financial assets held for defined benefit superannuation as a result of the implementation of the Debt Action Plan (refer to Box 3.1 of Chapter 3 for more detail). Concurrently, there will be a decline in interest payable due to reduced borrowings as a result of the Debt Action Plan.

Table 4.8 Interest income

	2014–15 Actual $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Interest income	2,470	2,427	2,296	2,302	2,243	2,105

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

4.10 Dividend and income tax equivalent income

Dividend and income tax equivalent income account for 4.3% of total General Government Sector revenue in 2016–17.

Table 4.9 Dividend and income tax equivalent income[1]

	2014–15 Actual $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Dividend	1,833	1,698	1,590	1,382	1,356	1,360
Income tax equivalent income	722	740	717	615	614	605
Total dividend and income tax equivalent income[2]	**2,554**	**2,438**	**2,307**	**1,997**	**1,970**	**1,965**

Notes:

1. Numbers may not add due to rounding.
2. Does not match Table 8.3 or Table 8.4 in Chapter 8 because it includes dividends and tax equivalents from outside the Public Non–financial Corporations Sector such as QIC Limited.

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

Dividends and income tax equivalent income do not represent the full extent of financial arrangements between the Public Non–financial Corporations Sector and the General Government Sector. As discussed in Chapter 8, General Government Sector expenditure on community service obligations and Transport Service Contracts are expected to be over $2 billion in each year from 2015–16.

4.11 Other revenue

Other revenue, including royalty revenue, accounts for 5.9% of total General Government Sector revenue in 2016–17. Royalties themselves account for 3.6% of revenue in 2016–17.

Table 4.10 Other revenue[1]

	2014–15 Actual $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Royalties and land rents	2,223	2,173	2,111	2,289	2,600	2,928
Fines and forfeitures	408	524	451	470	490	510
Revenue not elsewhere classified	691	650	595	586	586	578
Total other revenue	**3,322**	**3,346**	**3,156**	**3,345**	**3,676**	**4,017**

Note:

1. Numbers may not add due to rounding.

4.11.1 Royalties and land rents

Royalty estimates

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

Table 4.11 Royalties and land rents[1]

	2014–15 Actual $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Coal	1,614	1,594	1,531	1,619	1,842	2,062
Petroleum[2]	51	36	68	135	197	271
Other royalties[3]	393	376	343	356	376	405
Land rents	165	168	169	179	185	191
Total royalties and land rents	**2,223**	**2,173**	**2,111**	**2,289**	**2,600**	**2,928**

Notes:

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

Revenue from royalties and land rents in 2015–16 is expected to be $177 million lower than forecast in the 2015–16 MYFER. This weakness is largely due to falls in export coal and oil prices since MYFER, notwithstanding a partial recovery in prices in recent months.

While royalty revenue is expected to decrease by 3.2% in 2016–17 compared to 2015–16, it is expected to grow by around 10% in underlying terms (excluding compliance reassessments). This mainly reflects increased export volumes and a modest recovery in prices for some commodities.

4.11.2 Fines and forfeitures

The major fines and infringements included in this category are issued by the Department of Transport and Main Roads and Queensland Police Service, incorporating fixed and mobile camera offences, speeding and tolling offences. The expected decrease of 13.8% in total fines and forfeitures in 2016–17 relates mainly to an expected decrease in referrals of fines for tolling offences to the State Penalties Enforcement Registry (SPER) in 2016–17. This is a result of an agreement with the toll road operator that will provide increased opportunities for customers to pay their tolls prior to referral to the State for the issue of a fine, amending decisions made in 2014 that gave rise to an increase in the number of fines for tolling offences referred to SPER.

Table 4.12 Fines and forfeitures[1]

	2014–15 Actual $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Red light camera fines	8	10	10	11	11	12
Speed camera fines	144	166	173	179	187	194
Other camera detected offences	3	7	8	8	9	9
Other fines and forfeitures	253	340	260	272	284	296
Total fines and forfeitures	**408**	**524**	**451**	**470**	**490**	**510**

Notes:

1. Numbers may not add due to rounding.

4.11.3 Revenue not elsewhere classified

The $55 million decrease in 2016–17 is mainly driven by a reduction in sundry revenues across a number of departments.

5 Expenses

Features

- The Government continues its commitment to expenditure control, with new expense measures announced since the 2015–16 Budget being partly funded through expenditure reprioritisations. In addition, a new fiscal principle has been introduced to maintain a sustainable public service workforce. The overall growth in public service full–time equivalent employees, on average over the forward estimates, will be aligned with population growth.
- Total expenses are projected to grow on average by 2.9% over the four years to 2019–20. Expenses growth is slightly less than revenue growth of 3.2% over the same period.
- In the absence of Natural Disaster Relief and Recovery Arrangements (NDRRA), expenses growth is 3.2% per annum over the four years to 2019–20. This is equivalent to revenue growth excluding disaster recovery revenue of 3.2% per annum over the same period.
- Interest on General Government Sector borrowings is an estimated $906 million less than projected in the Mid Year Fiscal and Economic Review (MYFER) for the period 2015–16 to 2018–19. This is largely the result of further actions taken by the Government to reduce General Government Sector Debt as part of its ongoing Debt Action Plan and lower interest rates.
- Expenses for 2015–16 are estimated to be $49.824 billion, an increase of 1.2% from 2014–15. The increase is mainly due to growth funding to support ongoing demand for health services, and student enrolment. In underlying terms, the increase in expenses in 2015–16 is estimated to be 3.0%. This includes adjustments for the one–off transfer of infrastructure to the Gold Coast City Council as part of the Gold Coast Light Rail project, and lower NDRRA expenses in 2015–16.
- In 2016–17, General Government Sector expenses are estimated to be $52.582 billion, an expected increase of $2.758 billion (or 5.5%) over the estimated actual for 2015–16. This is primarily a result of increased service delivery including funding to support the ongoing growth in demand for health and education services, increased operating expenditure for transport and road projects, commencement of the transition to the National Disability Insurance Scheme and deferrals of Commonwealth funding from 2015–16.
- The average growth in employee expenses over the four years to 2019–20 is 3.7% per annum. Employee expenses grow by 7.3% in 2015–16 and 4.9% in 2016–17 before growth moderates to an average of 3.3% over the next three years. This solid growth over the forecasts reflects the Government's 2015 election commitment to revitalise frontline service delivery, particularly in health and education.
- The major areas of expenditure are health and education, which together constitute approximately 53% of General Government Sector expenses.

This chapter provides an overview of General Government Sector expenses for the estimated actual for 2015–16, forecasts for the 2016–17 Budget year and projections for 2017–18 to 2019–20. The forward estimates are based on the economic projections outlined in Chapter 2.

5.1 2015–16 estimated actual

General Government Sector expenses in 2015–16 are estimated to be $49.824 billion, $355 million lower than the 2015–16 MYFER. Downward revisions to other operating expenses and grant expenses are the key contributions to lower overall expenses in 2015–16.

Other operating expenses have declined $274 million from 2015–16 MYFER due in part to:

- the deferral of Australian Government National Partnership (NP) payments including Skills Reform, National Schools Chaplaincy and Universal Access to Early Childhood Education; and
- rescheduling of Commonwealth Games venues expenditure.

Grant expenses are estimated to be $214 million less than 2015–16 MYFER largely reflecting:

- realignment of Building our Regions funding to 2017–18;
- changes in quantity and timing of expected natural disaster reimbursements to local government authorities;
- re–profiling of the timing of expenditure for the Local Government Grants and Subsidies Program, the Community Resilience Fund, and the Royalties for the Regions Program to 2016–17; and
- deferral of Australian Government NP's funding for Remote Indigenous Housing.

5.2 2016–17 Budget and out–years

Table 5.1 General Government Sector expenses[1]

	2014–15 Actual $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Employee expenses	18,593	19,956	20,930	21,643	22,126	23,065
Superannuation interest costs	878	778	810	852	870	888
Other superannuation expenses	2,319	2,548	2,628	2,615	2,629	2,657
Other operating expenses	14,519	14,895	16,220	16,743	15,864	15,592
Depreciation and amortisation	3,154	3,367	3,501	3,681	3,777	3,897
Other interest expenses	2,328	2,193	1,693	1,672	1,637	1,547
Grants expenses	7,433	6,088	6,799	6,917	7,873	8,288
Total Expenses	**49,224**	**49,824**	**52,582**	**54,123**	**54,775**	**55,934**

Note:

1. Numbers may not add due to rounding.

General Government Sector expenses of $52.582 billion in 2016–17 represent an increase of $2.758 billion (or 5.5%) over the 2015–16 estimated actual. Factors influencing the higher expenditure include:

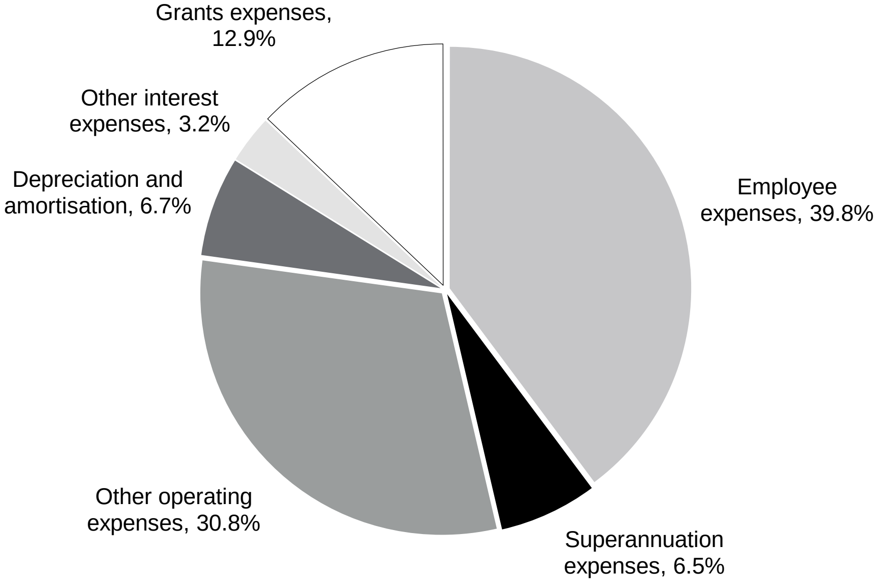
- growth in funding to Queensland Health to support growing demand and critical service needs;
- growth in education expenditure reflecting student enrolment growth in state schools, election commitment funding for Extra Teachers and School Guidance Officers, implementation of Senior Assessment and Tertiary Entrance Arrangements, Australian Government funding for the Students First program and deferral from 2015–16 of National Partnership programs for Skills Reform and Universal Access to Early Childhood Education;
- increased transport funding including higher Transport Service Contracts payments to Queensland Rail, reclassification of transport projects costs previously recognised as capital expenditure to operating costs and funding for pre–procurement associated with the Cross River Rail project;
- higher community services funding including continuing child and family reform initiatives and costs associated with the commencement of the transition to the National Disability Insurance Scheme; and
- expenditure on venues in the lead up to the Commonwealth Games.

Growth in 2016–17 expenses is partly offset by $500 million in lower interest costs (due in large part to the implementation of the Government’s Debt Action Plan measures announced in the 2015–16 Budget and a decline in interest rates) and whole–of–Government reprioritisation expense measures (refer to Budget Paper 4 – Budget Measures).

5.3 Expenses by operating statement category

As outlined in Chart 5.1, the largest expense categories in the General Government Sector in 2016–17 are employee and superannuation expenses (46.3%), followed by other operating expenses (30.8%) that reflect non–labour costs of service.

Chart 5.1 Expenses by operating statement category, 2016–17[1]

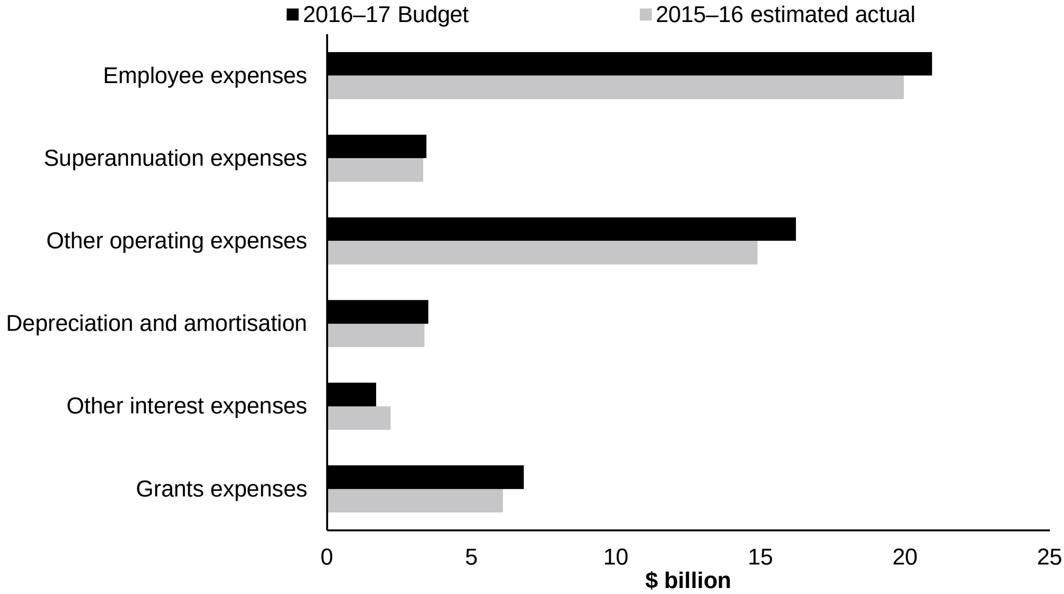


Note:

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

Chart 5.2 compares the 2015–16 estimated actual expenses for each operating statement category with the 2016–17 Budget. Growth in the two largest categories, employee expenses and other operating expenses, is contributing most to growth in 2016–17.

Chart 5.2 Expenses by operating statement category



5.3.1 Employee expenses

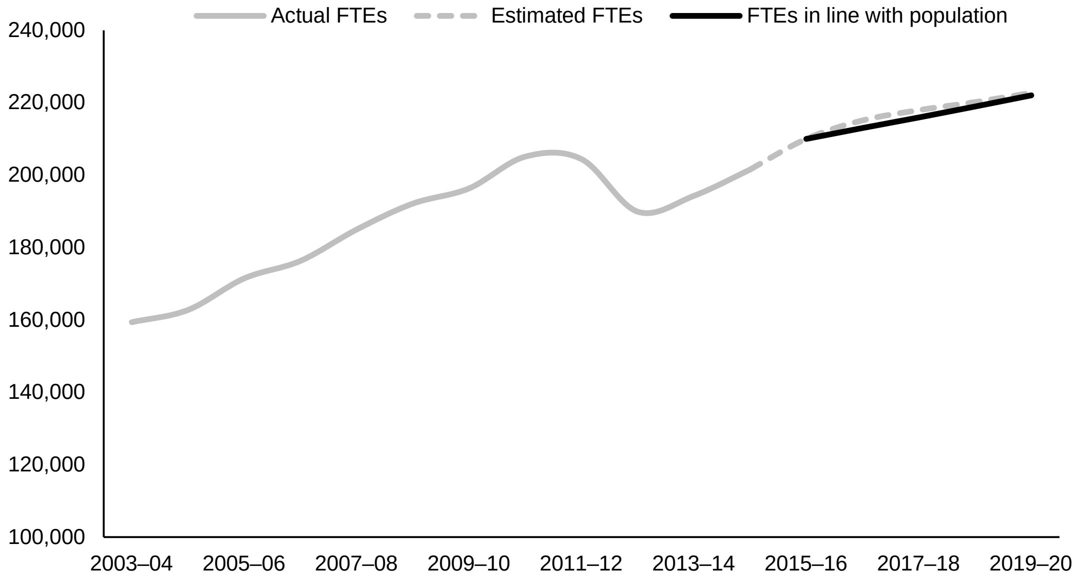
Employee expenses include salaries and wages, annual leave and long service leave.

In 2016–17, employee expenses are expected to be $20.930 billion, $974 million or 4.9% higher than the 2015–16 estimated actual. This reflects both growth in full–time equivalents (FTEs) and the Government's 2.5% wages policy. Much of the increase in employee expenses in 2016–17 is in the key frontline service areas of health and education.

Full–time equivalents

Chart 5.3 shows actual FTEs from 2003–04 to 2014–15 and estimated FTEs from 2015–16 to 2019–20.

Chart 5.3 Departmental FTEs



The Government commitment to revitalising frontline services is reflected in an increase in FTEs of almost 8,500 in 2015–16. The vast majority of this growth has been in frontline services, including increases in nurses, teachers and police officers.

During the 2015 election, the Government made commitments to revitalise the State economy and frontline service delivery, especially in the areas of health, education and training. Key commitments included employing 1,000 nursing graduates each year for four years, the introduction of a legislated nurse–to–patient ratio in specified health care settings, and an additional 875 teachers over four years with the Extra Teachers commitment.

These commitments and others reflect the Government's view of appropriate service delivery arrangements to the community. The implications of these commitments for growth in the public service are evident in 2015–16, and consolidated in 2016–17.

Nine out of 10 public servants are engaged in frontline and frontline support roles. Between June 2015 and March 2016, recruitment in the health and education sectors alone accounted for approximately 86% of the increase in FTEs.

Now that these services have been largely restored, the Government has introduced a new fiscal principle to maintain a sustainable public service by ensuring that overall growth in FTEs for in–scope agencies, on average over the forward estimates, does not exceed population growth. As can be seen in Chart 5.3 above, after 2016–17, FTEs are expected to grow modestly, at a rate similar to expected state population growth. The State Government is taking strong measures to ensure that these estimates are delivered.

Growth in FTEs will be managed through Departments taking a whole–of–sector approach to reprioritise efforts and find opportunities that will grow and share talent to best meet new and challenging service priorities. At the heart of this new approach is a more mobile, more adaptable public sector; one that is looking to develop its people, able to quickly and seamlessly shift resources to priority areas of need.

An example of this is the successful internal movement of staff to the newly established Infrastructure Portfolio Office within the Department of Infrastructure, Local Government and Planning. This important new priority has been met without the need to recruit additional FTEs. The same process is now being applied to support the Office of the Commonwealth Games for its role in delivering a highly successful GC2018 with existing staff being sourced from across the service.

For Queensland public servants, this approach represents a unique opportunity to gain experience on large–scale, fast–paced projects that are of fundamental importance to Queensland. For taxpayers, it maximises the return on their investment in a more responsive and efficient public service.

Monitoring of FTEs is undertaken at the whole–of–government level by the Public Service Commission Board. Departments are required to regularly report to the Board on overall financial and non–financial performance and FTEs to identify and explain any potential variance from budget estimates. This level of scrutiny will be enhanced.

Devolved frontline service delivery models, such as for the 16 separate Hospital and Health Services and schools having the capacity to engage additional staff, present challenges to FTE estimation and monitoring. In particular, funding is provided in such a way that agencies determine how to most efficiently deliver services. The 2016–17 Budget FTE estimates build in an allowance for this.

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

Table 5.2 Funded controlled FTE positions by Department[1, 2, 3, 4]

	2015–16 Budget	2015–16 Est. Act	2016–17 Budget
Aboriginal and Torres Strait Islander Partnerships	341	351	351
Agriculture and Fisheries	2,030	2,030	2,057
Communities, Child Safety and Disability Services	5,994	5,994	5,942
Education and Training (total – disaggregation below)	69,937	71,225	72,872
Electoral Commission of Queensland	52	55	55
Energy and Water Supply	217	220	224
Environment and Heritage Protection	1,056	1,091	1,109
Housing and Public Works	2,915	2,977	2,968
Infrastructure, Local Government and Planning[5]	487	498	516
Justice and Attorney–General[6]	8,039	8,159	8,501
National Parks, Sport and Racing	1,371	1,374	1,369
Natural Resources and Mines	2,440	2,440	2,440
Office of the Inspector–General Emergency Management	21	21	21
Premier and Cabinet	623	646	679
Public Safety Business Agency	1,994	2,025	2,057
Public Service Commission	86	74	73
Queensland Audit Office	190	183	184
Queensland Fire and Emergency Services	3,077	3,084	3,110
Queensland Health (total – disaggregation below)	75,442	79,625	80,930
Queensland Police Service	14,582	14,582	14,656
Queensland Treasury[6]	1,821	1,810	1,813
Science, Information Technology and Innovation[7]	2,757	2,748	2,697
State Development	588	607	599
The Public Trustee of Queensland	584	584	597
Tourism, Major Events, Small Business and the Commonwealth Games	130	171	167
Transport and Main Roads	7,333	7,425	7,416
Funded unallocated FTEs[8]	1,789	..	1,684
Total	**205,896**	**209,999**	**215,087**

	2015–16 Budget	2015–16 Est. Act	2016–17 Budget
Education and Training Disaggregation			
Education and Training[9]	65,892	67,245	68,856
TAFE Queensland	4,045	3,980	4,016
Total Education and Training	**69,937**	**71,225**	**72,872**
Queensland Health Disaggregation			
Health	6,732	6,981	7,308
Queensland Ambulance Services	4,106	4,146	4,261
Cairns and Hinterland Hospital and Health Service	4,178	4,801	4,554
Central Queensland Hospital and Health Service	2,678	2,678	2,688
Central West Hospital and Health Service	316	343	349
Children's Health Queensland Hospital and Health Service	3,183	3,400	3,486
Darling Downs Hospital and Health Service	4,039	4,009	4,011
Gold Coast Hospital and Health Service	6,447	7,069	7,069
Mackay Hospital and Health Service	1,908	1,980	2,000
Metro North Hospital and Health Service	12,935	14,300	14,300
Metro South Hospital and Health Service	11,852	12,264	12,021
North West Hospital and Health Service	651	660	669
South West Hospital and Health Service	689	693	722
Sunshine Coast Hospital and Health Service	3,868	4,346	5,700
Torres and Cape Hospital and Health Service	822	855	899
Townsville Hospital and Health Service	5,200	5,200	5,073
West Moreton Hospital and Health Service	2,859	2,953	3,037
Wide Bay Hospital and Health Service	2,979	2,947	2,783
Total Queensland Health	**75,442**	**79,625**	**80,930**

Notes:

1. The budgeted and estimated FTEs in this table are the funded FTEs in each agency as at 30 June of each relevant year. This data is often compared to the Public Service Commission's (PSC) Queensland public sector quarterly workforce profile reporting. The PSC's reports include Minimum Obligatory Human Resource Information (MOHRI) for people (on both an FTE and headcount basis) at a point in time.
2. Agencies included in Budget Paper 2 have changed between the 2015–16 Budget and 2016–17 Budget to more closely align with the scope of PSC's MOHRI reporting. Entities that were previously included in Budget Paper 2 include Legislative Assembly, Office of the Governor and Office of the Ombudsman. Full FTE reporting on these entities can be found in the Service Delivery Statements. Combined, these agencies had a total of 586 funded FTE for the 2015–16 Budget, an estimated 584 actual FTE for 2015–16 and 589 funded FTE for the 2016–17 Budget.
3. Queensland Art Gallery, Legal Aid Queensland, Office of the Health Ombudsman, Queensland Family and Child Commission, Queensland Museum, State Library of Queensland, Anti–Discrimination Commission Queensland and Trade and Investment Queensland are excluded from this table but are included in the Public Service Commission's workforce reporting framework. These bodies had a combined total of 1,515 funded FTE position for the 2015–16 Budget. Full FTE reporting on these entities can be found in the

Service Delivery Statements.

4. Explanation of variations in departmental FTEs can be found in the Service Delivery Statements. Departmental totals may include multiple tables from Service Delivery Statements, due to separate FTE tables being provided for Commercialised Business Units.
5. The 2015–16 Budget figure has been reduced by 34 FTEs compared to the 2015–16 published Budget to reflect the transfer of 30 FTEs on creation of the Building Queensland statutory body, the transfer of 6 FTEs responsible for administering the Natural Disaster Relief and Recovery Arrangements to the Queensland Reconstruction Authority and the transfer–in of two FTEs from the Department of Housing and Public Works for the Office of the Queensland Government Architect.
6. The 2015–16 Budget represents an adjusted budget.
7. Decrease in 2016–17 Budget is largely due to the completion of major initiatives including the Government Wireless Network and 1 William Street ICT projects. There is also a decrease in Queensland Shared Services due to automation of services and a decline in service demand, including return of service to clients.
8. Funded unallocated FTEs represents estimates of additional FTEs that will be engaged by agencies with devolved frontline service delivery models. This figure is nil in 2015–16 estimated actuals as the additional staff are reflected in the estimated actuals of the individual agencies.
9. The 2015–16 Budget has been recast to reflect a change in methodology from using Budgeted FTEs to MOHRI FTE data.

Box 5.1 Improving comparability with Public Service Commission reporting

Throughout each year, the Public Service Commission publishes the Queensland Public Service Quarterly Workforce Profile Report (PSC workforce report). This report provides an overview of the composition of the Queensland public sector and is used for strategic workforce planning.

Due to differences in the methodologies and agency scopes used in the PSC workforce report and the count of public servants outlined in annual Budget documentation, the numbers in these two report sets are not always directly comparable.

The data provided in the PSC workforce report is part of the Government approved Minimum Obligatory Human Resource Information (MOHRI) process. MOHRI data is based on the actual number of FTEs (excluding FTEs paid via administered funding) and includes rules about counting staff on extended leave. Where staff on leave must be back–filled, it can result in large numbers of 'doubled–up' FTEs in the MOHRI count. Budgeted FTEs, however, are based on the number of FTE positions funded within an agency's annual budget.

There have also historically been differences between the in–scope agencies for MOHRI data and Budget Paper 2. To address these scoping differences for the 2016–17 Budget, the following three departments (which are not included in the MOHRI collection process) are no longer included in Budget Paper 2 – the Legislative Assembly, Office of the Governor, and the Office of the Ombudsman. Budgeted FTEs for these departments can still be accessed in their respective Service Delivery Statements. TAFE Queensland and the HHSs will continue to be the only statutory bodies included in Budget Paper 2.

For additional clarity, all future reporting by the Public Service Commission will separately show the MOHRI FTE for Budget Paper 2 agencies and other agencies within the PSC's reporting scope. This measure, through enhancing transparency, will strengthen accountability.

5.3.2 Superannuation expenses

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

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

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

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

The Government's decision to repatriate $4 billion of surplus assets from the over–contributed defined benefit superannuation scheme has no impact on superannuation expenses.

The repatriation of surplus government contributions has no impact on the entitlements of defined benefit members. Further details are provided in Chapter 3 – Fiscal Strategy and Outlook, Box 3.1 Debt Action Plan.

5.3.3 Other operating expenses

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

In 2016–17, other operating expenses are expected to be $16.220 billion, an increase of $1.325 billion or 8.9% over the 2015–16 estimated actual. Significant movements from the 2015–16 estimated actual outcome are due to:

- health growth funding for frontline services;
- anticipated student enrolment growth, and the impact of increases in Australian Government funding for the Students First program and deferred expenditure from the Skills Reform National Partnership;
- expenses for Commonwealth Games venues;
- continued funding for child and family reform initiatives and disability services; and
- increase in transport funding including higher Transport Service Contracts payments to Queensland Rail, reclassification of transport projects costs previously recognised as capital expenditure to operating costs and funding for early works associated with the Cross River Rail project.

5.3.4 Depreciation and amortisation

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

5.3.5 Other interest expenses

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

In 2016–17, the General Government Sector has total debt servicing costs forecast at $1.693 billion, a decrease of 22.8% over the 2015–16 estimated actual. This decline is due in large part to the implementation of the Government's Debt Action Plan measures announced in the 2015–16 Budget, as well as lower interest rates.

Interest expenses are expected to be an estimated $906 million less than projected in the MYFER for the period 2015–16 to 2018–19 due to the further debt reduction measures taken by the Government under its Debt Action Plan as well as lower interest rates since MYFER. Details of the Government's Debt Action Plan can be found in Chapter 3 – Fiscal Strategy and Outlook.

5.3.6 Grants expenses

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

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

Table 5.3 Grant expenses[1]

	2015–16 Est. Act. $ million	2016–17 Budget $ million
Current		
Grants to local government	392	633
Grants to private and not–for–profit organisations		
State funding for non–state schools	634	660
Australian Government funding for non–state schools	2,238	2,388
Other	831	772
Grants to other sectors of government		
Community service obligations to PNFCs	510	570
Other payments to PNFCs	22	26
Other	..	128
Other	224	227
Total current transfers	**4,851**	**5,404**
Capital		
Grants to local government	775	935
State funding for non–state schools	123	93
Grants to private and not–for–profit organisations	203	222
Payments to PNFCs	25	25
Queensland First Home Owners' Grants	96	120
Other	15	..
Total capital transfers	**1,237**	**1,395**
Total current and capital transfers	**6,088**	**6,799**

Note:

1. Numbers may not add due to rounding.

Current grants are estimated to increase by $553 million in 2016–17. This increase is due to:

- The Australian Government reverting to the payment of Financial Assistance grants to local governments in the year to which the grant relates. (In 2014–15, The Australian Government made an advance payment of these grants to the State thereby having the effect of reducing grants in 2015–16 and amplifying the increase in 2016–17).
- A higher level of Australian Government grant assistance to non–state schools to reflect student enrolment growth.
- An increase in CSO payments to Ergon Energy Corporation Limited under the Uniform Tariff Policy.

- Grants to other sectors of government mainly represents the commencement of the transition to the National Disability Insurance Scheme reflecting payments by the State to the National Disability Insurance Agency.

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

Capital grants are estimated to increase $158 million to $1.395 billion in 2016–17 ($1.370 billion when excluding grants to PNFC Sector). The increase is largely due to capital grants to local governments and are attributable to grants for Building our Regions, Community Resilience grants for disaster mitigation projects and Local Government Grants and Subsidies program expenditure deferred from 2015–16.

Temporary increase in the Queensland First Home Owners' Grant

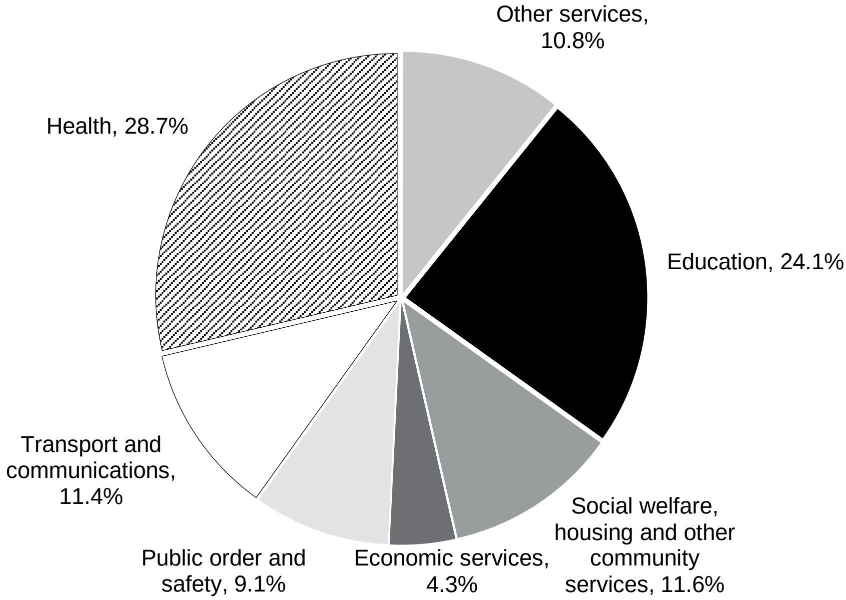
The Queensland First Home Owners' Grant is available for first home buyers who are buying or building a new house, unit or townhouse valued at less than $750,000.

To assist first home buyers entering the housing market, the Queensland First Home Owners' Grant will be increased temporarily, from $15,000 to $20,000 for contracts on newly constructed homes signed between 1 July 2016 and 30 June 2017.

5.4 Operating expenses by purpose

Chart 5.4 indicates the proportion of expenditure by major purpose classification for the 2016–17 Budget. Health accounts for the largest share of expenses (28.7%) followed by Education (24.1%).

Chart 5.4 General Government Sector expenses by purpose, 2016–17[1]



Note:

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

5.5 Departmental expenses

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

Table 5.4 Departmental controlled expense[1, 2]

	Notes	2015–16 Adj. Budget $ 000	2015–16 Est. Act. $ 000	2016–17 Budget $ 000
Aboriginal and Torres Strait Islander Partnerships	5	118,719	104,357	117,623
Agriculture and Fisheries	6	437,986	449,697	438,954
Communities, Child Safety and Disability Services	7	2,684,004	2,705,406	2,818,430
Education and Training	3, 8	9,056,562	8,825,787	9,378,773
Electoral Commission of Queensland	9	39,640	45,120	24,727
Energy and Water Supply	10	50,087	48,353	61,878
Environment and Heritage Protection	11	207,651	206,265	231,160
Health Consolidated	4, 12	14,182,562	14,638,213	15,273,970
Housing and Public Works	3, 13	1,777,282	1,774,954	1,968,500
Inspector General Emergency Management		4,607	4,668	4,653
Infrastructure, Local Government and Planning	3, 14	312,187	217,730	351,072
Justice and Attorney–General	3, 15	1,382,326	1,401,862	1,493,917
Legislative Assembly	16	86,093	88,286	89,386
National Parks, Sport and Racing	17	404,318	343,728	400,589
Natural Resources and Mines	18	449,187	452,426	456,731
Office of the Governor		6,575	6,526	6,912
Office of the Ombudsman		8,719	8,695	8,650
Premier and Cabinet	19	239,347	234,064	233,625
Public Safety Business Agency	20	680,760	684,101	683,111
Public Service Commission		17,762	15,658	14,622
Queensland Audit Office		42,704	45,271	43,257
Queensland Fire and Emergency Services	21	647,682	647,371	675,256
Queensland Police Service	22	2,084,895	2,080,325	2,149,166
Queensland Treasury	3, 23	331,364	342,990	374,272
Science, Information Technology and Innovation	24	390,300	353,880	361,625
State Development	25	620,138	355,489	475,113

The Public Trustee of Queensland		84,723	80,015	87,255
Tourism, Major Events, Small Business and the Commonwealth Games	26	205,186	156,685	231,825
Transport and Main Roads	27	5,482,261	5,574,000	6,021,311
Total expenses		**42,035,627**	**41,891,922**	**44,476,363**

Notes:

1. Total expenses by department do not equate to total General Government expenses in Uniform Presentation Framework (UPF) terms reported elsewhere in the Budget Papers as General Government expenses include a wider range of entities including State Government statutory authorities. In addition transactions eliminated between entities within the General Government Sector are excluded in the preparation of whole–of–Government UPF financial statements.
2. Full explanation of variations in departmental controlled expenses can be found in the Service Delivery Statements. A summary of major variances is provided below.
3. 2015–16 Budget figures have been adjusted to reflect machinery–of–government changes
4. This represents Health Consolidated in the Service Delivery Statement, which consolidates Queensland Health controlled; the Hospital and Health Services; and Queensland Ambulance Service.
5. The decrease from the 2015–16 adjusted budget to the 2015–16 estimated actual is due to deferral of funding for the Cape York Tenure Resolution Program, the Welfare Reform Program and the National Partnership Agreement on Remote Indigenous Housing. The increase from the 2015–16 estimated actual to 2016–17 Budget is mainly due to funding for new initiatives including the From Jails to Jobs pilot, Economic Participation Partnerships Projects and to support an integrated response to domestic and family violence.
6. The increase from the 2015–16 adjusted budget to the 2015–16 estimated actual relates to enterprise bargaining increases, an increase in grant payments for the purchase of a grains property in partnership with the Grains Research and Development Corporation (GRDC) and the net–free fishing zone initiative. The decrease from 2015–16 estimated actual to 2016–17 Budget is mainly due the completion of the net–free fishing zone initiative and contributions towards the purchase of a grains property in partnership with GRDC in 2015–16. This is partially offset by additional FTE expenditure required to deliver 2016–17 Budget outcomes and enterprise bargaining increases.
7. The increase from the 2015–16 adjusted budget to the 2015–16 estimated actual is mainly due to the repurposing of prior years' grant refunds (received from non–government organisations through the annual acquittal process) to respond to disability and child safety demand pressures; and funding received from the Department of Housing and Public Works for the Youth Housing and Reintegration and Post Care Support programs. The increase from the 2015–16 estimated actual to the 2016–17 Budget is primarily due to population growth and indexation funding to meet increased demand for services and cost pressures; increased expenditure to continue implementing the child and family reforms (Supporting Families Changing Futures; enterprise bargaining increases and additional funding for the prevention of domestic and family violence).
8. The decrease from the 2015–16 adjusted budget to the 2015–16 estimated actual mainly relates to deferrals of funding associated with the Australian Government Skills Reform, National Schools Chaplaincy and Universal Access to Early Childhood Education National Partnership programs and adjustments to reflect lower depreciation costs, partially offset by funding for enterprise bargaining outcomes and the implementation of the Senior Assessment and Tertiary Entrance initiative. The increase from the 2015–16 estimated actual to the 2016–17 Budget mainly relates to State funding for school enrolment growth, enterprise bargaining outcomes and other school based cost increases, election commitments including Extra Teachers, Supporting Students and an increase in Australian Government funding for the Students First program.
9. The increase from the 2015–16 adjusted budget to the 2015–16 estimated actual is due to the conduct of the State referendum on four year terms. The decrease from the 2015–16 estimated actual to the 2016–17 Budget is because there are no major electoral events scheduled to occur in 2016–17.
10. The increase from 2015–16 estimated actual to the 2016–17 Budget is largely due to funding for the Local Management Arrangements Project and the implementation of the Biofuels Mandate and the Energy Consumer Education Campaign.

11. The increase from the 2015–16 estimated actual to the 2016–17 Budget reflects expenses associated with new funding in 2016–17 for Community Sustainability Action Grants, waste management initiatives, the biofuels mandate, and climate change and pristine rivers policy development; increased funding for koala protection, various wildlife management activities, and the Saving the Great Barrier Reef program; and the impact of the deferral of funding for a number of programs including Everyone's Environment grants, the Nature Assist program and the Indigenous Land and Sea Rangers program.
12. The increase in expenditure from the 2015–16 adjusted budget to the 2015–16 estimated actual reflects additional Commonwealth Health funding, and equity to output swaps for capital items that are required to be expensed under accounting standards and deferrals from 2014–15 for backlog maintenance and Surgery Connect. The increase from the 2015–16 estimated actual to 2016–17 Budget is largely due to growth funding to support ongoing increases in demand for health and ambulance services and enterprise bargaining costs.
13. The increase from the 2015–16 estimated actual to the 2016–17 Budget is due primarily to the increase in rental costs associated with the move from owned to leased office accommodation including 1 William Street, Brisbane, the net deferral of expenditure from 2015–16 to 2016–17 for the office accommodation program and additional expenditure on maintenance for non–residential buildings. Also contributing to the increase is the deferral of expenditure for various Indigenous and social housing programs, including the National Partnership Agreement on Remote Indigenous Housing, Indigenous Community Housing Organisations and the long–term housing program.
14. The decrease from the 2015–16 adjusted budget to the 2015–16 estimated actual is primarily due to the re–profiling of expenditure on the Planning Reform Program and the timing of grant expenditure for the Community Resilience Fund, the Royalties for Regions Program and the Local Government Grants and Subsidies Program. The increase from the 2015–16 estimated actual to the 2016–17 Budget is primarily due to increased expenditure for fast–tracking infrastructure projects, increased project expenditure for the Palm Island Water Shortage Project, the Commonwealth Games Village and the Rockhampton and Yeppoon Revitalisation projects as well as increased grant expenditure for the Community Resilience Fund and the Local Government Grants and Subsidies Program.
15. The increase from the 2015–16 adjusted budget to the 2015–16 estimated actual is mainly due to enterprise bargaining increases and costs associated with the growth in offender numbers. The increase from 2015–16 estimated actual to the 2016–17 budget reflects a number of initiatives including the government's response to the *Not Now, Not Ever Report* on domestic and family violence and growth in offender numbers in the correctional system and enterprise bargaining costs.
16. The increase from the 2015–16 adjusted budget to the 2015–16 estimated actual is largely due to enterprise bargaining increases, increases in Members' remuneration as determined by the Queensland Independent Remuneration Tribunal, costs associated with additional office holders and increases in electorate office leasing costs. The increase from 2015–16 estimated actual to 2016–17 Budget is due to enterprise bargaining increases, increases in Members' remuneration and additional resourcing to support the parliamentary committee system.
17. The decrease from the 2015–16 adjusted budget to the 2015–16 estimated actual and the increase from the 2015–16 estimated actual to the 2016–17 Budget relate mainly to the timing of expenditure under major grant programs, including sport and recreation grant programs, the Racing Industry Capital Development Scheme and the Racing Infrastructure Fund.
18. The increase from the 2015–16 adjusted budget to the 2015–16 estimated actual is mainly due to costs associated with enterprise bargaining, and a capital to operating swap for the One Enterprise Program, offset by a decrease due to timing of payments for the Geological Survey of Queensland Future Resources Program and a change in funding arrangements for the Natural Disaster Relief and Recovery Arrangements program. The increase from the 2015–16 estimated actual to 2016–17 Budget is mainly due to costs associated with enterprise bargaining, additional resourcing for the Abandoned Mine Lands Program and State–wide High Resolution Satellite Imagery, an increase in funding profile for the Great Artesian Basin Sustainability Initiative Phase 4, offset by a decrease due to the timing of payments for the Natural Resource Management Investment Program.
19. The decrease from 2015–16 adjusted budget to 2015–16 estimated actual is primarily due to the deferral of some coordination activities partly offset by additional funding provided for activities associated with

reducing Domestic and Family Violence, hosting the Far North Queensland Economic Summit and managing the Advance Queensland communications strategy. The decrease from 2015–16 estimated actual to the 2016–17 Budget is primarily due to declining level of funding for multi–year limited life initiatives including Anzac Centenary Commemoration and State Coordination of Legal Representation and the end of some smaller funded initiatives, which is partly offset by increased appropriation due to employee enterprise bargaining agreements and Budget outcomes.

20. The increase from the 2015–16 adjusted budget to the 2015–16 estimated actual mainly relates to enterprise bargaining increases. The decrease from 2015–16 estimated actual to the 2016–17 Budget is primarily due to planned completion of the flood focused road safety campaign and completion of initial roll–out of body worn video cameras for police.
21. The decrease from the 2015–16 adjusted budget to the 2015–16 estimated actual relates to reduction in expenses for professional services, equipment maintenance and property repairs. The increase from 2015–16 estimated actual to 2016–17 Budget is mainly due to increased employee expenses in accordance with enterprise bargaining agreements and progressive wage increases for Auxiliary firefighters as provided by the Auxiliary award. The increase is also driven by additional overtime provisions, increased vehicle expenses for rural fire appliances and aircraft expenses.
22. The decrease from the 2015–16 adjusted budget to the 2015–16 estimated actual is mainly due decreases in costs associated with supplying special services. The increase from 2015–16 estimated actual to 2016–17 Budget is due to enterprise bargaining increases and funding for improving counter–terrorism capability and targeting serious and organised crime.
23. The increase from the 2015–16 adjusted budget to the 2015–16 estimated actual is mainly due to costs related to safety campaigns in the Office of Industrial Relations (OIR). The increase between the 2015–16 estimated actual and the 2016–17 Budget is primarily due to policy decisions, enterprise bargaining and prior year deferrals.
24. The decrease from 2015–16 adjusted budget to 2015–16 estimated actual is primarily due to deferrals for Australian Institute of Tropical Health and Medicine and other science related initiatives in line with contractual commitments. The increase from 2015–16 estimated actual to 2016–17 Budget is primarily due to Advance Queensland, Advance Queensland Acceleration and Mobile Black Spots offset by a reduction in science related grants in line with funding commitments and also reflects the completion of the Government Wireless Network implementation project.
25. The decrease from the 2015–16 adjusted budget to the 2015–16 estimated actual is mainly due to funding adjustments to the Royalties for the Regions program and the Building our Regions program (including funding transfers to the Department of Transport and Main Roads); an operating to capital swap for the Bundaberg Gas Pipeline; realignment of funds for high priority projects (including North Queensland Stadium, economic and industry development and Safe Anchorage at Mission Beach); and anticipated expenditure for the Gold Coast 2018 Commonwealth Games venues. The increase from the 2015–16 estimated actual to the 2016–17 Budget is mainly due to additional Government funding for the Building our Regions program, Queensland Biofutures 10 Year Roadmap and Action Plan, Community Hubs and Partnerships, priority economy building initiatives and the Mining, Equipment, Technology and Services Industry Growth Centre, plus funding realignments for high priority projects (including Royalties for the Regions program, Safe Anchorage at Mission Beach, North Queensland Stadium and economic and industry development) and anticipated expenditure for the Gold Coast 2018 Commonwealth Games venues.
26. The decrease in expenditure from the 2015–16 adjusted budget to the 2015–16 estimated actual is primarily due to the deferral of funding to 2016–17 to match the timing of anticipated expenditure on venues for the Gold Coast 2018 Commonwealth Games. The increase from 2015–16 estimated actual to 2016–17 Budget is largely due to the increase in planned expenditure associated with the delivery of venues for the Gold Coast 2018 Commonwealth Games.
27. The increase from the 2015–16 adjusted budget to 2015–16 estimated actual is partially due to higher depreciation expense based on a higher value of road infrastructure as a result of clarification by the Australian Accounting Standards Board of the residual values that apply to these assets. The increase in expenses from 2015–16 estimate actual to 2016–17 Budget is mainly due to a budget reduction in

2015–16 due to the earlier than anticipated delivery of some works in 2014–15 which has been matched by anexpenditure reduction in 2015–16 that is not expected to recur in 2016–17, additional expenses for the operating component of project costs that had previously been recognised as capital expenditure, early expenditure associated with the Cross River Rail project, depreciation and grants payments for Gold Coast Light Rail Stage 2 project.

Table 5.5 Departmental administered expense[1, 2]

	Notes	2015–16 Adj. Budget[3] $ 000	2015–16 Est. Act. $ 000	2016–17 Budget $ 000
Aboriginal and Torres Strait Islander Partnerships	4	9,935	14,344	14,371
Agriculture and Fisheries	5	11,305	11,424	13,227
Communities, Child Safety and Disability Services	6	253,949	245,893	392,892
Education and Training	7	3,108,900	3,089,049	3,237,431
Energy and Water Supply	8	465,849	525,835	592,534
Health Consolidated		33,548	33,508	33,974
Housing and Public Works		3,468	3,338	3,553
Infrastructure, Local Government and Planning	3, 9	1,169,857	533,759	877,379
Justice and Attorney–General		313,987	322,986	363,663
National Parks, Sport and Racing	10	41,754	73,276	67,606
Natural Resources and Mines		51,625	51,505	51,705
Premier and Cabinet	11	126,420	131,082	150,956
Queensland Treasury	3, 12	6,305,831	6,045,847	5,895,400
Science, Information Technology and Innovation	13	80,117	72,406	73,945
State Development		2,500	2,500	2,500
The Public Trustee of Queensland		438	395	311
Tourism, Major Events, Small Business and the Commonwealth Games	14	170,386	166,506	269,906
Total expenses		**12,149,869**	**11,323,653**	**12,041,353**

Notes:

1. Total expenses by department does not equate to total General Government expenses in Uniform Presentation Framework (UPF) terms reported elsewhere in the Budget Papers as General Government expenses include a wider range of entities including State Government statutory authorities. In addition transactions eliminated between entities within the General Government Sector are excluded in the preparation of whole–of–Government UPF financial statements.
2. Full explanation of variations in departmental administered expenses can be found in the Service Delivery Statements. A summary of major variances is provided below.
3. 2015–16 Budget figures have been adjusted to reflect machinery–of–government changes.
4. The increase from the 2015–16 estimated actual to the 2016–17 Budget is mainly due to increased expenses for the Western Cape Communities Trust under the Western Cape Communities Co–existence agreement. In addition the State's contribution to the Family Responsibilities Commission for the second half of 2015–16 was not included in the 2015–16 Budget.
5. The increase between the 2015–16 estimated actual and the 2016–17 Budget is mainly due to additional funding to the QRAA for initiatives under the Rural Assistance Package and enterprise bargaining outcomes, partially offset by a planned reduction in transitional funding for the Queensland Agricultural Training Colleges.
6. The increase from the 2015–16 estimated actual to the 2016–17 Budget is mainly due to the commencement of the National Disability Insurance Scheme (NDIS) resulting in funding for disability services being made via administered payments (rather than controlled funding) to the National Disability

Insurance Agency to administer the NDIS and increased expenditure on concessions, largely due to forecast demand growth.

7. The decrease in administered expenditure from the 2015–16 adjusted budget to 2015–16 estimated actual is mainly due to a decrease in Australian Government Students First funding. The increase from 2015–16 Budget to 2016–17 Budget is mainly due to increased Australian Government funding for non–government schools reflecting enrolment growth and indexation of per student funding
8. The increase in administered expenditure from the 2015–16 adjusted budget to the 2015–16 estimated actual is mainly due to higher Ergon Energy Community Service Obligation (CSO) payments under the Uniform Tariff Policy as a result of higher network costs than forecast, primarily driven by the final determinations by the Australian Energy Regulator and the Queensland Competition Authority. The increase from the 2015–16 estimated actual to the 2016–17 Budget largely relates to Ergon Energy's network charges increasing at a greater rate than Energex's network cost, leading to a higher CSO payment forecast.
9. The decrease from the 2015–16 adjusted budget to the 2015–16 estimated actual is mainly due to the timing of Australian Government funding for the 2015–16 Financial Assistance Grants, which was received in the 2014–15 financial year instead of 2015–16 as expected, in addition to a reduction in grant funding to the Queensland Reconstruction Authority (QRA). The increase from the 2015–16 estimated actual to the 2016–17 Budget is due to an increase in Financial Assistance Grants and an increase in funding provided to the QRA.
10. The increase from the 2015–16 adjusted budget to 2015–16 estimated actual reflects additional funding provided to Racing Queensland to meet its forecast operating deficit and enable it to continue to service the Queensland racing industry. The decrease from the 2015–16 estimated actual to the 2016–17 Budget reflects the expiry of funding to Racing Queensland, partially offset by the commencement of funding to the Queensland Racing Integrity Commission.
11. The increase from 2015–16 adjusted budget to 2015–16 estimated actual is mainly due to employee bargaining arrangements and transfer of funding for the Queensland Family and Child Commission's Strengthening the Sector strategy. The increase from 2015–16 estimated actual to 2016–17 Budget is mainly due to additional exhibition and capital improvements at the Queensland Art Gallery, regional campus upgrades and permanent gallery renewal at the Queensland Museum and enterprise bargaining arrangements.
12. The decrease from 2015–16 adjusted budget to 2015–16 estimated actual is largely due to lower state share of defined benefit superannuation beneficiary payments offset in part by higher interest on whole–of–government borrowings. The decrease from 2015–16 estimated actual to 2016–17 Budget is due to lower interest expenses on whole–of–government borrowings as a result of the Government's Debt Action Plan, offset in part by an increase in the state share of defined benefit superannuation beneficiary payments.
13. The decrease from 2015–16 adjusted budget to 2015–16 estimated actual is primarily due to Queensland Shared Services deferrals in relation to business capability and capacity projects. The increase from 2015–16 estimated actual to 2016–17 Budget is primarily due to additional GovNet funding provided to CITEC.
14. The increase from 2015–16 estimated actual to 2016–17 Budget principally relates to an increase in grants to the Gold Coast 2018 Commonwealth Games Corporation. This is for operational expenditure associated with event planning and preparation for the Gold Coast 2018 Commonwealth Games.

Table 5.6 reconciles the departmental expenses set out above with General Government Sector total expenses.

Table 5.6 Reconciliation of departmental to UPF expenses[1]

	2015–16 Est. Act. $ million	2016–17 Budget $ million
Departmental expenses per Service Delivery Statements		
– Controlled (Table 5.4)	41,892	44,476
– Administered (Table 5.5)	11,324	12,041
Non–UPF departmental expenses and whole–of–Government schemes[2]	(3,817)	(4,059)
Other General Government entities (e.g. CBUs, SSPs, Statutory Bodies)	4,250	4,280
	53,648	**56,739**
Superannuation Interest cost	778	810
Eliminations and Other whole–of–Government adjustments		
Elimination of payments to CBUs and SSPs	(2,764)	(2,762)
Other eliminations and adjustments	(1,838)	(2,206)
Total General Government UPF expenses	**49,824**	**52,582**

Notes:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.
2. Certain expenses such as asset valuation changes are excluded from UPF reporting. In addition, this item removes the effect of cash payments for whole–of–government schemes such as the State's share of superannuation beneficiary payments reported in Treasury Administered's expenses. Costs associated with these schemes are accrued annually.

6 Balance sheet and cash flows

Features

- The Government's enhanced Debt Action Plan will facilitate the provision of an additional $2 billion in infrastructure spend, while decreasing debt, and despite significant write–downs in royalty revenue. The State Infrastructure Fund (SIF) had an initial injection of $500 million announced in March 2016 and is being boosted in the 2016–17 Budget by a further $1.5 billion.
- General Government Sector debt, which incorporates the impact of the enhanced Debt Action Plan, as well as all other budget movements, is expected to fall $5.105 billion from $43.105 billion in 2014–15 to $38 billion in 2017–18. This is $1.721 billion lower than the projection for 2017–18 at the time of the 2015–16 Mid Year Fiscal and Economic Review (MYFER) and $10.421 billion lower than in the 2014–15 Budget.
- Due to measures being implemented by the current Government refocusing the balance sheet to reduce debt, Non–financial Public (NFP) Sector debt is projected to be $5.131 billion lower in 2017–18 than the original 2014–15 Budget projections under the previous Government.
- Over the period 2016–17 to 2019–20, General Government Sector purchases of non–financial assets (PNFA) of $23.865 billion are planned to be funded from $15.605 billion of net operating cash flows. In addition to this, the State is expected to enter into $2.375 billion of finance leases (mainly Public Private Partnerships) over the same period.
- At the time of the 2015–16 MYFER, net cash inflows from operating activities were expected to cover 82% of the funding required for the 2015–16 PNFA for the General Government Sector. The estimated actual coverage is now expected to be 115%.
- Non–financial Public Sector capital expenditure totals $38.462 billion for the period 2016–17 to 2019–20, which comprises $35.242 billion of PNFA, and $3.220 billion of capital grants expenses. In addition to these, acquisitions of non–financial assets under finance leases of $2.375 billion brings the total capital program in 2016–17 to $40.836 billion.

6.1 Context

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

Following consideration of the 2015 Review of State Finances, the Government introduced revised fiscal principles in the 2015–16 Budget and the Government has retained these principles in framing the 2016–17 Budget. The principles include the targeting of an ongoing reduction in Queensland's debt burden, as measured by the General Government Sector debt to revenue ratio, and targeting net operating surpluses that ensure any new capital investment is primarily funded through recurrent revenues, rather than borrowing. The Government's enhanced Debt Action Plan will see General Government Sector debt reduce further than previously projected over the forward estimates, ensuring the Government has the capacity to respond to future challenges while supporting economic growth.

6.2 Balance sheet

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

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

	2015–16 Budget $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Financial assets	61,798	59,841	60,462	59,883	58,150	57,172
Non–financial assets	187,058	181,851	185,686	189,218	192,572	195,385
Total assets	**248,856**	**241,691**	**246,148**	**249,101**	**250,722**	**252,557**
Borrowings	**38,151**	**35,698**	**37,775**	**38,000**	**38,365**	**38,662**
Advances and deposits	682	566	809	1,303	1,270	1,179
Superannuation liability	24,278	27,219	25,891	24,807	23,584	22,447
Other provisions and liabilities	12,044	11,124	11,946	12,113	12,411	12.609
Total liabilities	**75,155**	**74,607**	**76,421**	**76,223**	**75,630**	**74,897**
Net worth	**173,701**	**167,084**	**169,726**	**172,878**	**175,092**	**177,660**
Net financial worth	**(13,357)**	**(14,766)**	**(15,960)**	**(16,340)**	**(17,480)**	**(17,725)**
Net financial liabilities	**35,885**	**36,090**	**37,279**	**37,953**	**39,128**	**39,371**
Net debt	**3,910**	**1,590**	**3,525**	**5,072**	**7,309**	**8,641**

Notes:

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

6.2.1 Financial assets

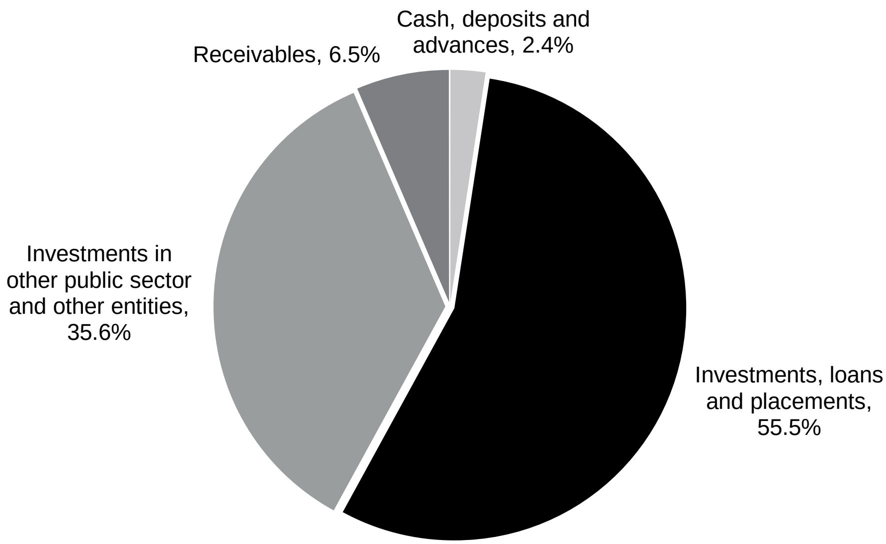
The General Government Sector holds the equity of the State's public enterprises, principally its shareholding in government–owned corporations (GOCs) but also Public Financial Corporations like Queensland Treasury Corporation (QTC), in much the same manner as the parent or holding company in a group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

Financial assets of $59.841 billion are estimated for 2015–16, $1.957 billion lower than originally budgeted for 2015–16. This is due primarily to a decrease in the value of holdings in Public Financial Corporations, as a result of lower than average returns on financial markets following high returns in previous years.

In the year to 30 June 2017, financial assets are projected to increase slightly over the 2015–16 estimated actual, subsequently decreasing by $3.290 billion between 2016–17 and 2019–20. The decrease occurs as investments are repatriated from the actuarially assessed defined benefit superannuation fund surplus, to fund additional priority capital projects and to reduce General Government Sector debt.

Chart 6.1 shows forecast General Government Sector financial assets by category at 30 June 2017. Investments held to meet future liabilities, including superannuation and the Queensland Government Insurance Fund, comprise the major part of the State's financial assets.

Chart 6.1 Forecast General Government Sector financial assets by category at 30 June 2017



6.2.2 Non–financial assets

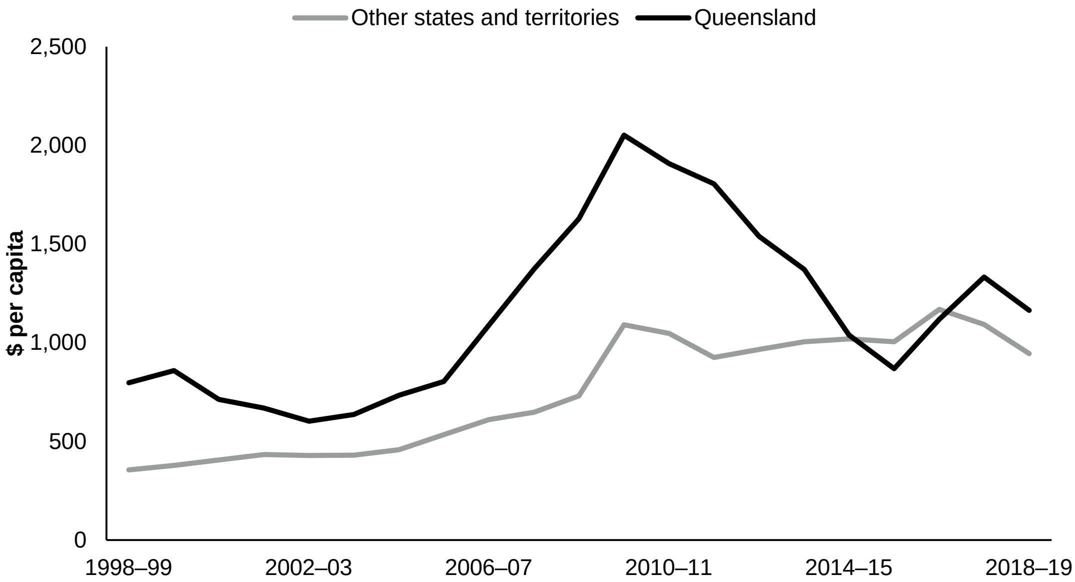
General Government Sector non–financial assets are estimated to total $181.851 billion at 30 June 2016, $5.207 billion lower than forecast at the 2015–16 Budget and $1.194 billion lower than in the 2015–16 MYFER.

The decrease since the 2015–16 Budget reflects the flow through of a net downward revaluation at 30 June 2015 primarily for road infrastructure assets. These revaluations were incorporated into the 2015–16 MYFER.

Non–financial assets in the year ending 30 June 2017 are expected to grow by $3.835 billion over the 2015–16 estimated actuals, to be $185.686 billion at 30 June. These assets consist primarily of land and other fixed assets of $178.628 billion, the majority of which are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non–financial assets of $7.058 billion held by the State include prepayments and deferred tax assets relating to income tax equivalents collected primarily from GOCs.

Queensland has historically had a higher level of General Government Sector capital spending than other jurisdictions. Reflecting the pipeline of decisions made during a period of fiscal consolidation, and increased spending in other jurisdictions, per capita PNFA in Queensland were lower than the average of other states in 2014–15 and 2015–16. Over the course of the forward estimates, the Government's enhanced infrastructure investment decisions are expected to drive Queensland back up over the average of other jurisdictions.

Chart 6.2 General Government Sector per capita purchases of non–financial assets[1]



Source: ABS 5512.0 and Queensland Treasury calculations based on various state Budgets.

General Government Sector 2016–17 capital expenditure is forecast to be $6.822 billion, which comprises $5.452 billion of PNFA, and $1.370 billion of capital grants expenses. In addition to these, acquisitions of non–financial assets under finance leases are forecast to be $1.032 billion, bringing the total General Government Sector capital program in 2016–17 to $7.854 billion.

Over the four years to 2019–20, General Government Sector capital expenditure is forecast to be $27.085 billion, which comprises $23.865 billion of PNFA, and $3.220 billion of capital grants expenses. In addition to these, acquisitions of non–financial assets under finance leases are forecast to be $2.375 billion, bringing the total General Government Sector capital program over the period to $29.460 billion.

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

General Government Sector PNFA are forecast to increase from $4.173 billion in the 2015–16 estimated actual to $5.983 billion in 2019–20. This increase reflects the Government's commitment to fiscally responsible infrastructure investment, including the SIF, which adds $2 billion to capital spending over the years 2016–17 to 2019–20 to deliver productivity–enhancing infrastructure, without increasing debt.

In terms of ensuring new capital purchases in the General Government Sector are primarily funded through operating revenues, forecast net operating cash flows from 2016–17 to 2019–20 of $15.605 billion are funding PNFA of $23.865 billion. Net cash inflows from operating activities equate to 65% of the funding required for the 2016–17 General Government Sector PNFA, with this proportion remaining relatively constant across the period 2016–17 to 2019–20. PNFA funded from net operating cash flows averages 75% across the period 2015–16 to 2019–20.

The State has also entered into a number of finance leases, mainly in relation to Public Private Partnerships, totalling $2.375 billion over the period 2016–17 to 2019–20, including:

- $1.016 billion for New Generation Rollingstock;
- $430 million for the Toowoomba Second Range Crossing;
- $180 million for the Gold Coast Light Rail – Stage 2; and
- $460 million for the Sunshine Coast University Hospital.

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

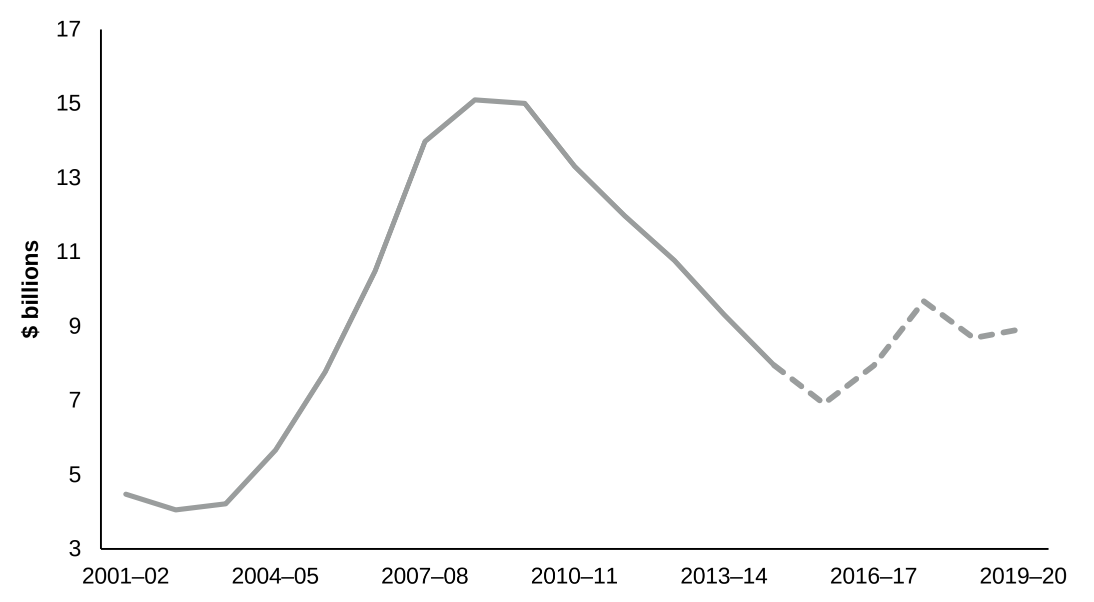
Purchases of non–financial assets by the NFP Sector over the period 2016–17 to 2019–20 are forecast to be $35.242 billion, which is an average of $8.811 billion per annum. With capital grants expenses of $3.220 billion, this brings total capital expenditure to $38.461 billion. In addition to these, acquisitions of non–financial assets under finance leases of $2.375 billion brings the total capital program over the period to $40.836 billion. While its primary aim is to facilitate service delivery to Queenslanders, infrastructure investment makes an important contribution to the economy and is a cornerstone of the Queensland job market, particularly in the construction industry.

Box 6.1 Purchases of non–financial assets

History

As can be seen from Chart 6.3, purchases of non–financial assets (PNFA), across the entire Non–financial Public Sector, which includes the spending by government–owned corporations, increased significantly from 2004–05, peaking at $15.101 billion in 2008–09.

Chart 6.3: Purchases of non–financial assets, Non–financial Public Sector



Source: Queensland Treasury.

A number of unique circumstances combined to result in Queensland's PNFA reaching unprecedented levels in 2008–09 and remaining high for several years. Each of these exceptional circumstances is outlined below.

Drought responses

From 2001 to 2009, South East Queensland experienced a prolonged drought. During this time, the combined levels of the region's three chief water storages (Wivenhoe, Somerset and North Pine Dams) fell below 17%. Serious concerns were held around the security of SEQ's water supply if the drought continued.

In August 2006, the Government approved a range of measures in response to the critical depletion of regional storages, including the construction of major new supply assets.

The drought–response assets included around 20 infrastructure projects, including additional ground–water supplies, the Gold Coast Desalination Plant, the Western Corridor Recycled Water Scheme and new dams and weirs. The Government also purchased SEQ council–owned assets. Between 2006–07 and 2008–09 the State raised $7.4 billion in debt to pay for this water infrastructure. The assets form the basis of the SEQ Water Grid.

The response significantly raised capital spending during the period, as well as significantly contributing to debt growth.

Health infrastructure

Several large health–related infrastructure projects also contributed significantly to PNFA from 2007–08 onwards. This included the construction of Lady Cilento Children's Hospital; the Sunshine Coast University Hospital; and the Gold Coast University Hospital. This resulted in a large pipeline of health projects that supported elevated levels of health capital spending for several years, peaking in 2011–12.

Rail infrastructure

From 2006–07, investment in rail infrastructure ramped up significantly. However, with the privatisation of QR National Limited (now Aurizon Limited) in November 2010, the requirement for the Government to invest in rail freight infrastructure declined significantly.

Electricity infrastructure

From 2004–05, investment in electricity infrastructure ramped up in Queensland to meet the strong growth in demand and ensured Queenslanders could enjoy improved reliability and safety of supply. In more recent years, growth in electricity demand has slowed considerably, and Queensland's network is more reliable and resilient than ever before. The Australian Energy Regulator (AER) has approved significantly reduced capital expenditure allowances for Energex and Ergon Energy Corporation Limited over the next 5 years – consumers have already started to see the benefits of this reduction, with network charges for typical residential customers reducing in 2015–16 and in 2016–17.

Queensland Motorways Limited (QML) and Ports

The divestment of QML, which had averaged almost $0.5 billion per year in PNFA in the four years to 2010–11, reduced the required amount of public spending on roadway infrastructure from 2011–12 onwards.

Similarly, the Port of Brisbane averaged over $100 million per annum of PNFA in the four years to 2009–10, before it was leased. Prior to lease, Abbot Point Coal Terminal had undergone the X50 expansion, at a cost of around $800 million. The significant expansion of the RG Tanna Coal Terminal by Gladstone Ports Corporations Limited (previously Central Queensland Ports Authority) in 2010–11 also contributed to increased levels of capital expenditure.

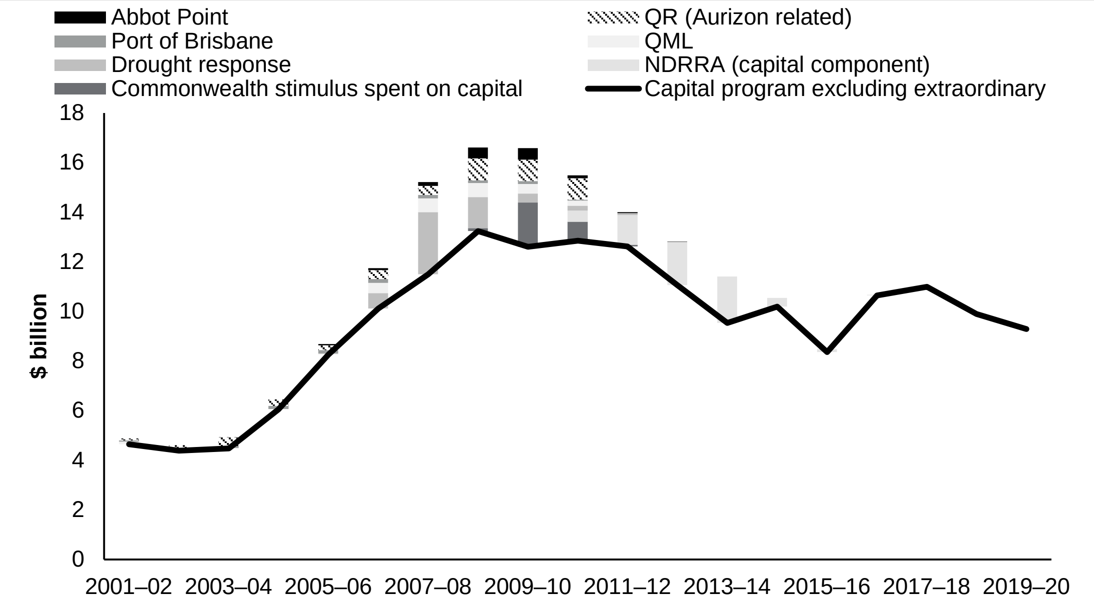
Natural disaster spending and Commonwealth stimulus

Natural disasters have contributed significantly to capital costs over the past decade. The Australian federation has supportive risk sharing arrangements for such events. Under these arrangements, and with certain thresholds and exclusions, the Australian Government contributes up to 75% towards the cost of repair and recovery from natural disasters. With a varying proportion of this funding going towards capital replacement, it also resulted in increased levels of capital expenditure.

Similarly, Commonwealth stimulus in response to the Global Financial Crisis, such as the Nation Building and Jobs Plan (which included funding programs such as Social Housing; Black Spots, Boom Gates and Community Infrastructure; and the Building the Education Revolution program), added to Queensland Government's expenditure on capital.

Chart 6.4 below attempts to separate out capital expenditure that was due to unique and exceptional reasons, along with entities that are no longer in the public sector. As can be seen, the exceptional spending can make the capital program profile more variable. For example, on an unadjusted basis, the capital program (including PNFA, capital grants expenses and acquisitions of non–financial assets under finance leases) peaked at $16.601 billion in 2008–09. In contrast, the underlying or business as usual capital expenditure (after adjusting for extraordinary items) was $13.232 billion in 2008–09.

Chart 6.4 Capital program, Non–financial Public Sector[1]



Note:

1. Figures for separately identified items based on budgeted and estimated actual amounts.

Source: Queensland Treasury.

Purchases of non–financial assets going forward

Going forward, the Government is increasingly funding its capital program through methods other than direct PNFA. For example, public private partnerships (PPPs) and finance leases provide alternative funding approaches for the development of new infrastructure or other capital.

Clearly, the magnitude of spending on PNFA that occurred from the mid–to–late 2000s was brought about by a range of exceptional and unique circumstances. The same level of expenditure on capital is not required through the forward estimates. However, even though it does not return to previous highs, the capital program is forecast to increase from its 2015–16 level.

6.2.3 Liabilities

General Government Sector

Estimated General Government Sector liabilities of $74.607 billion in 2015–16 are $548 million lower than the 2015–16 Budget, mainly due to the timing of expected flows from the merger of government–owned electricity network businesses and lower than expected capital outlays estimated for 2015–16. Offsetting this is the impact of lower yields and projected beneficiary payments increasing the superannuation liability.

Due to the Government's commitment to sustainable fiscal management, General Government Sector borrowing is expected to fall $7.407 billion from $43.105 billion in 2014–15 to $35.698 billion in 2015–16.

Total liabilities in the General Government Sector in 2016–17 are budgeted to increase by $1.814 billion from the 2015–16 estimated actual.

General Government Sector borrowings of $37.775 billion are budgeted for 2016–17, $10.441 billion lower than the projection in the 2014–15 Budget and $786 million lower than projected at the time of the 2015–16 MYFER. The increase of $2.077 billion between 2015–16 estimated actual and the 2016–17 forecast supports PNFA of $5.452 billion.

By 30 June 2019, borrowing is expected to be $38.365 billion, $2.359 billion lower than anticipated at the 2015–16 Budget and $2.556 billion lower than the projection at the time of the 2015–16 MYFER as the Government implements the next stages of the Debt Action Plan.

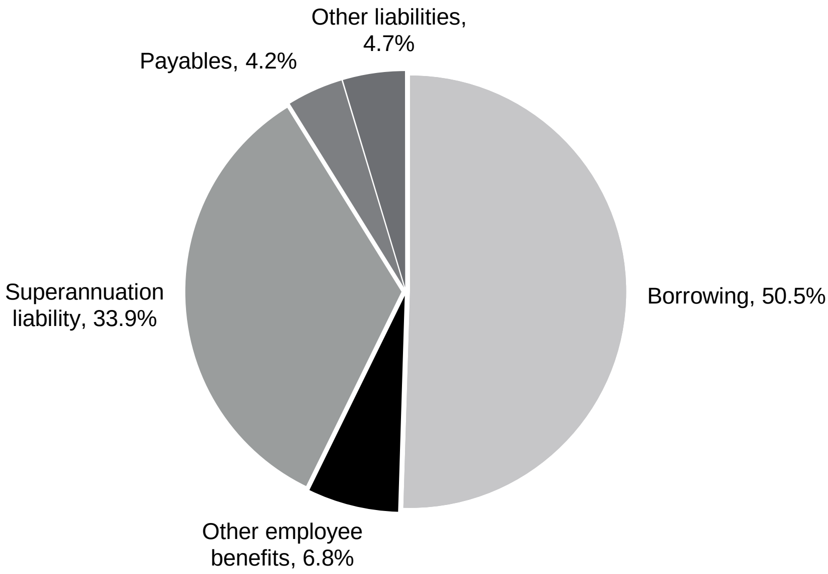
Liabilities relating to employee entitlements (principally superannuation and long service leave) are projected to total $31.070 billion at 30 June 2017, a 3.6% decrease on the 2015–16 estimated actual. The State's defined benefit fund has been closed to new entrants from 2008. Given the age profile of those employees still in that fund, retirements are also increasing. Accordingly, the State's superannuation liability is now declining over the forward estimates. In addition, as anticipated bond rates slowly recover across the forward estimates, it is expected that superannuation liabilities will decline.

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

The composition of the General Government Sector's forecast liabilities at 30 June 2017 is illustrated in Chart 6.5.

The Government considers the General Government Sector debt to revenue ratio to be an important indicator, consistent with its fiscal principle of targeting ongoing reductions in Queensland's relative debt burden (refer Chart 3.5 in Chapter 3).

Chart 6.5 Forecast General Government Sector liabilities by category, at 30 June 2017[1]



Note:

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

Non–financial Public Sector borrowings

Non–financial Public Sector borrowings of $72.715 billion are expected for 2015–16, $1.398 billion lower than expected at the 2015–16 Budget, $1.163 billion lower than 2015–16 MYFER and $7.904 billion lower than forecast in the 2014–15 Budget.

Due to the Debt Action Plan measures being implemented by the Government refocusing the balance sheet to lower debt, by 30 June 2018, NFP Sector debt is projected to be $5.131 billion lower than the original 2014–15 Budget projections.

Non–financial Public Sector borrowings of $77.976 billion are now expected for 2018–19, $1.691 billion lower than expected at the 2015–16 MYFER. This largely reflects the Government's commitment to fiscally responsible infrastructure investment, without increasing debt.

6.2.4 Net financial worth

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

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

The net financial worth of the General Government Sector for 2015–16 is estimated at negative $14.766 billion, $1.409 billion lower than expected at the 2015–16 Budget mainly due to the impact of the decrease in the value of holdings in Public Financial Corporations.

6.2.5 Net financial liabilities

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

The net financial liabilities of the General Government Sector for 2015–16 are estimated to be $36.090 billion, $205 million higher than 2015–16 Budget.

Net financial liabilities remain relatively stable in 2016–17, then increase from 2017–18 mainly as investments are repatriated from the actuarially assessed defined benefit superannuation fund surplus to fund priority infrastructure projects.

6.2.6 Net worth

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

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

- operating surpluses (deficits) that increase (decrease) the Government's equity;
- revaluation of assets and liabilities as required by accounting standards. For example, the Government's accruing liabilities for employee superannuation and long service leave are determined by actuarial assessments;
- movements in the net worth of the State's investments in the Public Non–financial Corporations and Public Financial Corporations sectors; and

- gains or losses on disposal of assets. Where the selling price of an asset is greater (less) than its value in an agency's accounts, the resultant profit (loss) affects net worth.

The net worth of the General Government Sector in 2015–16 is estimated to be $167.084 billion. This is $6.617 billion lower than forecast in the 2015–16 Budget primarily due to downward revaluations of land and infrastructure assets at 30 June 2015, a decrease in the value of holdings in Public Financial Corporations and higher superannuation liabilities offset by lower stocks of borrowings.

From 2016–17, net worth is projected to steadily increase mainly as a result of the growth in non–financial assets.

6.2.7 Net debt

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

Net debt for the General Government Sector in 2015–16 is estimated to be $1.590 billion, $2.320 billion less than the 2015–16 Budget mainly as a result of deferrals of PNFA and changes to the timing of cash associated with dividend revenues. Net debt is forecast to increase across the forward estimates to fund priority infrastructure projects.

In the NFP Sector, net debt is estimated at $36.964 billion in 2015–16, $1.237 billion less than the 2015–16 Budget. Net debt is expected to increase to $39.903 billion in 2016–17 and then grow in line with borrowings and investment redraws through to 2019–20.

6.3 Cash flows

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

The cash flow statement records estimated cash payments and cash receipts and hence differs from accrued revenue and expenditure recorded in the operating statement. In particular, the operating statement records certain revenues and expenses that do not have an associated cash flow (for example, depreciation expense). The timing of recognition of accrued revenues or expenses in the operating statement may differ from the actual cash disbursement or receipt (for example, tax equivalents). A reconciliation between the cash flows from operations and the operating statement is provided in Table 6.2.

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

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

The Australian Bureau of Statistics Government Finance Statistics (GFS) surplus (deficit) is derived by including the initial increase in liability at the commencement of finance leases in the cash surplus (deficit). This measure is also used to derive the Loan Council Allocation nomination, provided in Chapter 9.

The estimated General Government Sector cash surplus of $821 million in 2015–16 is $1.405 billion higher than that forecast at the time of the 2015–16 Budget. This is largely due to the lower than expected PNFA.

After taking into account PNFA of $5.452 billion, a cash deficit of $1.550 billion is forecast for 2016–17, $798 million higher than at MYFER due to a change in the timing of dividend flows from electricity distributors.

Net cash flows from investments in financial assets for policy purposes include net cash flows from disposal or return of equity, and net equity injections into government–owned corporations. Cash flows from the return of equity in the energy network businesses and select non–network businesses as a result of the enhanced Debt Action Plan are expected to total almost $5 billion over the period 2015–16 to 2019–20.

Net cash flows from investments in financial assets for liquidity purposes represent net investment in financial assets to cover liabilities such as superannuation, other employee entitlements and insurance. The drawdown of long service leave assets and the repatriation of the actuarially assessed defined benefit superannuation fund surplus as a result of the enhanced Debt Action Plan, flow through this line in the Statement of Cash Flows.

Total General Government Sector PNFA of $5.452 billion are budgeted for 2016–17 and, over the period 2016–17 to 2019–20, PNFA are expected to total $23.865 billion in the General Government Sector. As discussed in 6.2.2, these PNFA are funded to the extent of around 65% by operating cash flows.

6.4 Reconciliation of operating cash flows to the operating statement

Table 6.2 provides a reconciliation of the cash flows from operating activities to the operating result for the General Government Sector.

Table 6.2 General Government Sector: reconciliation of cash flows from operating activities to accrual operating activities[1]

	2015–16 Est. Act. $ million	2016–17 Budget $ million
Revenue from transactions	**49,976**	**53,449**
Plus/(less) movement in tax equivalent and dividend receivables	1,291	(665)
Plus GST receipts	1,731	1,736
Plus/(less) movement in other receivables	(470)	(378)
Equals cash receipts from operating activities	**52,528**	**54,142**
Expenses from transactions	**49,824**	**52,582**
(Less) non–cash items		
Depreciation and amortisation expense	(3,367)	(3,501)
Accrued superannuation expense	(1,723)	(1,691)
Accrued employee entitlements	(480)	(485)
Other accrued costs	(78)	(73)
Plus superannuation benefits paid – defined benefit	1,622	1,923
Plus/(less) movement in employee entitlement provisions	170	250
Plus/(less) GST paid	1,685	1,719
Plus/(less) movement in other provisions and payables	97	(143)
Equals cash payments for operating activities	**47,749**	**50,581**

Note:

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

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

7 Intergovernmental financial relations

Features

- The 2016–17 Commonwealth Budget provided additional interim short–term funding for health and education. However, this does not fully address funding cuts made to health (around $11.8 billion) and education (around $6 billion) in the 2014–15 Commonwealth Budget. In addition, uncertainty of funding for the critical areas of early childhood education, skills reform, homelessness, remote Indigenous housing and mental health is posing a considerable fiscal risk to Queensland's capacity to manage future service delivery responsibilities.
- The 2016–17 Commonwealth Budget deferred around $1.1 billion in Natural Disaster Relief and Recovery Arrangements (NDRRA) funding to Queensland from 2015–16 to 2016–17 and 2017–18. The decision of the Australian Government to defer the reimbursement of funds for reconstruction work already undertaken by Queensland was made without prior consultation with the State.
- Estimated Australian Government funding in 2016–17 for Queensland (excluding NDRRA and payments for Commonwealth own–purpose expenditure) is $25.270 billion. Queensland is estimated to receive $10.973 billion in payments for specific purposes, with $864 million as National Specific Purpose Payments, $3.630 billion as National Health Reform funding, $3.868 billion as Students First funding and $2.611 billion as National Partnership payments. NDRRA funding of $746 million is expected in 2016–17.
- The Commonwealth Grants Commission (CGC) 2016 Update Report recommended that Queensland's share of goods and services tax (GST) increase in 2016–17. This recognises the impact of factors beyond the State's control, such as high NDRRA expenditure relating to 2011 and 2012 disaster events and weaker mining revenue owing to declining coal prices.
- Queensland is estimated to receive $14.297 billion of GST revenue in 2016–17, $2.125 billion more than its population share. Total GST revenue to all states is expected to be $60.660 billion in 2016–17, an increase of $3.210 billion or 5.6% on 2015–16.

7.1 Federal financial arrangements

Federal financial relations in Australia are characterised by vertical fiscal imbalance (VFI). This is where the Australian Government's own spending responsibilities are less than its revenue, and state and territory governments' spending responsibilities are greater than their revenue. The Australian Government collected the majority of taxation revenues (80.0%) in 2014–15, whilst the states collected 16.5% and local governments collected the remaining 3.5%.[1] The states and territories (states)[2] require grants from the Australian Government to meet their spending responsibilities. These grants represent 46.7% of all states' revenues in 2016–17, based on the Australian Government's budget estimates.[3]

VFI in Australia arises from a number of factors including:

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

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

National tax reform and other changes since 2000 have led to an increase in VFI. Chart 7.1 shows that while all states received 35.0% of their revenues from the Australian Government in 1999–2000, this is forecast to increase to 46.7% in 2016–17. In contrast, the proportion of all states' General Government Sector revenues from state taxes[4] has declined from 39.8% in 1999–2000 to 32.2% in 2016–17.

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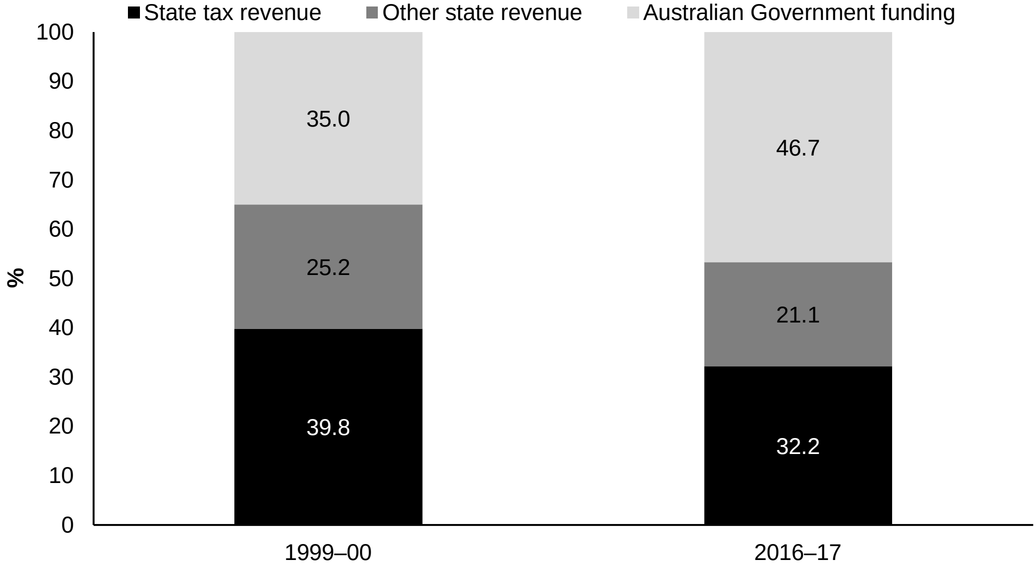
[1] ABS Government Finance Statistics Cat No. 5506.0.

[2] States refers to states and territories unless otherwise specified.

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

[4] State taxes include transfer duty, land tax, payroll tax, gambling tax, insurance tax and motor vehicle tax.

Chart 7.1 General Government revenue sources, all states, 1999–2000 and 2016–17[1]



Note:

1. 2016–17 are estimates.

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

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

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

The Commonwealth Grants Commission provides advice to the Treasurer of Australia on the distribution of GST revenue.

7.1.1 2016–17 Commonwealth Budget

The Australian Government released its 2016–17 Budget on 3 May 2016. The 2016–17 Commonwealth Budget provided additional interim short–term funding for health and education from 2017–18.

Despite the additional funding for some agreements, the 2016–17 Commonwealth Budget does not provide any ongoing funding certainty for the critical areas of early childhood education, skills reform, homelessness, remote Indigenous housing and mental health, where existing agreements will expire in the coming years. This poses a considerable risk for Queensland's capacity to manage future service delivery responsibilities when faced with uncertainty around the Australian Government's commitment to longer–term agreements.

The 2016–17 Commonwealth Budget deferred the payment to Queensland of around $1.1 billion in NDRRA funding, which was expected in 2015–16.

The fiscal and service delivery challenges for Queensland arising from funding cuts made to health (around $11.8 billion) and education (around $6 billion) in the 2014–15 Commonwealth Budget remain.

Details of the key impacts of the 2016–17 Commonwealth Budget is provided in Box 7.1.

Box 7.1 Key impacts of the 2016–17 Commonwealth Budget

Deferral of NDRRA payments

Under the NDRRA, the Australian Government provides up to 75% of funding to assist states with relief and recovery assistance after eligible natural disasters.

NDRRA funding was expected in 2015–16 as published in the 2015–16 Commonwealth Mid–Year Economic and Fiscal Outlook (MYEFO) in December 2015. Prior to the 2016–17 Commonwealth Budget, there was no advice from the Australian Government to suggest it would defer funding to the State.

Nonetheless, in the 2016–17 Commonwealth Budget, the Australian Government deferred the payment of around $1.1 billion in NDRRA funding to Queensland for up to two years.

The decision of the Australian Government to defer the reimbursement of funds for reconstruction work already undertaken by the State following natural disaster events will impact on the State's revenue and the net operating position. While Queensland recognises that the Australian Government undertakes assurance processes on NDRRA claims, this process was already well progressed with Emergency Management Australia. Uncertainty around the timing of NDRRA reimbursements and arbitrary Commonwealth decisions to withhold payment, despite due processes being followed, make it challenging for the State to plan its Budget.

Expiring agreements

The 2016–17 Commonwealth Budget did not provide for an extension of funding for several agreements due to expire over the current and next two financial years. The most significant of these agreements are:

- Mental Health Reform, with the current agreement providing $51.5 million in funding to Queensland over five years, and expiring in 2015–16.
- Universal Access to Early Childhood, with the current agreement providing $175.9 million in funding to Queensland over two calendar years, and expiring in 2017–18. There have been four Early Childhood Education agreements since 2009 worth $651 million to Queensland.
- Skills Reform, with the current agreement providing $356.9 million in funding to Queensland over five years, and expiring in 2016–17.
- Homelessness, with the current agreement providing $57.4 million in funding to Queensland over two years, and expiring in 2016–17. There have been four homelessness agreements since 2008 worth $258 million to Queensland.
- Remote Indigenous Housing, with total funding of $1.126 billion to Queensland over 10 years, expiring in 2017–18.

The Homelessness and Early Childhood Education and Care National Partnerships have both been renewed a number of times, often for short extensions only. This uncertainty impacts on Queensland's capacity to undertake effective service delivery and budgetary planning in these sectors.

The Adult Public Dental Services agreement is to be replaced by a new Child and Adult Public Dental Health Scheme; however, the Australian Government is yet to provide details of the new scheme.

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

7.1.2 Opportunities for reform

The Queensland Government participated in the economic and fiscal reform agenda being undertaken by the Australian Government through the Tax and Federation White Papers. Queensland worked productively with other jurisdictions to seek to address the key fiscal challenge of ensuring government finances are on a sustainable footing, especially in core areas of state service delivery responsibility such as hospitals and schools. The sustainability of funding arrangements in these areas has been significantly tested by the funding cuts to Queensland of around $18 billion in the 2014–15 Commonwealth Budget.

In early 2016, the Australian Government confirmed that the tax and federation reform processes would no longer be culminating in White Papers, but funding and competition reforms would be progressed through the Council of Australian Governments (COAG).

Funding reforms

On 1 April 2016, COAG agreed to an interim funding arrangement for hospitals and health reform, worth around $2.9 billion nationally over three years. This funding was reflected in the recent Commonwealth Budget. Its interim and insufficient nature underlines the importance of continuing to work towards a sustainable long–term funding agreement with the Australian Government.

COAG also agreed that discussions on new funding arrangements for schools should be concluded in early 2017. While the 2016–17 Commonwealth Budget subsequently included some additional funding for schools over the interim period, the Australian Government and the states will still continue working towards a long–term funding model.

These additional funds for hospitals and schools improve Queensland's capacity to delivery high quality services to the community. But they are both short–term approaches, and they represent only partial solutions to the funding challenge as they do not reverse the funding cuts of the 2014–15 Commonwealth Budget. Work remains to be done to build stable, sustainable and certain funding models for health and education over the longer–term.

Competition reform

The final report of the Australian Government's *Competition Policy Review*, released in March 2015, presents further opportunities for reform. The Queensland Government provided its response to the Review to the Australian Government in mid–2015, expressing general support for proposals which increase competition and which lead to real and meaningful benefits to people and the economy. The Australian Government subsequently responded to the Review on 24 November 2015, indicating it would accept a majority of its recommendations.

Because many of the Competition Policy Review's recommendations concern policies of joint federal–state responsibility, Queensland is working with other jurisdictions to consider proposals that will benefit Queenslanders. At its April 2016 meeting, COAG agreed to the development of a new intergovernmental agreement on productivity–enhancing competition reforms. The new agreement will incorporate:

- an updated set of federal–state competition principles drawing from, and expanding on, those recommended by the Competition Policy Review;
- shared national and state–specific competition and productivity reforms;
- independent evaluation and assessment mechanisms; and
- innovation payments, based on performance, including consideration of recent reforms.

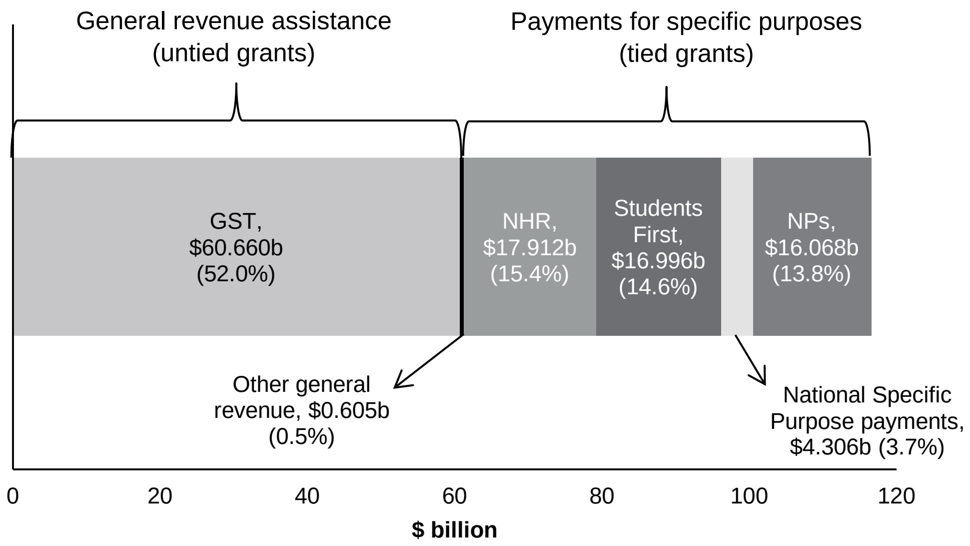
A draft agreement is expected to be considered by COAG later in 2016. The Queensland Government's approach to these discussions will be to ensure the agreed reforms will help grow the Queensland economy and provide real benefits to Queenslanders.

7.2 Australian Government funding to the states

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

General revenue assistance grants are able to be used by the states for any purpose (untied funding). Payments for specific purposes are considered tied funding, where the state is restricted in how the funding can be spent (either by sector or for specific projects or reforms). Chart 7.2 outlines Australian Government grants to states.

Chart 7.2 Breakdown of Australian Government grants to states, 2016–17[1]



Note:

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

Source: 2016–17 Commonwealth Budget Paper No. 3.

Table 7.1 shows total Australian Government payments to the states in 2016–17 are expected to be $116.545 billion, an increase of $8.350 billion, or 7.7%, when compared with 2015–16. This growth is primarily driven by increases to the payments for specific purposes.

GST revenue from the Australian Government to all states is expected to be $60.660 billion in 2016–17, an increase of 5.6% in nominal terms. In real per capita terms, GST is expected to increase by 2.0% in 2016–17.

Total payments for specific purposes in 2016–17 are expected to be $55.280 billion, a 10.7% increase in nominal terms and a 6.9% increase in real per capita terms compared with 2015–16.

Table 7.1 Estimated Australian Government payments to the states, 2015–16 and 2016–17[1]

	2014–15 Actual $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million
GST revenue	**54,342**	**57,450**	**60,660**
Payments for specific purposes			
National Partnership payments	13,681	12,908	16,068
National Specific Purpose Payments	4,143	4,220	4,306
National Health Reform Funding	15,466	17,196	17,912
Students First – Education Reform Funding	14,707	15,636	16,996
Total payments for specific purposes	**47,997**	**49,958**	**55,280**
Other general revenue[2]	1,083	786	605
Total payments	**103,423**	**108,195**	**116,545**

Notes:

1. Numbers may not add due to rounding.
2. Include payments to the Australian Capital Territory for municipal services, compensation for reduced royalties, royalties and Snowy Hydro Limited tax compensation.

Source: 2016–17 Commonwealth Budget Paper No. 3.

Table 7.2 shows the expected shares of total Australian Government payments to each state for 2016–17 compared with each state's population share.

Queensland is expected to receive payments above its population share, with above–population shares of payments for both general and specific purposes, for reasons explained in Sections 7.4 and 7.5.

Table 7.2 Relative shares of Australian Government payments to the states, 2016–17[1]

	Share of payments[2] %	Share of population %	Relative share[3] %
New South Wales	30.5%	32.0%	95.3%
Victoria	22.4%	25.1%	89.4%
Queensland	22.5%	20.1%	112.3%
Western Australia	7.0%	10.9%	63.6%
South Australia	8.8%	7.1%	123.8%
Tasmania	3.1%	2.1%	145.0%
Australian Capital Territory	1.8%	1.6%	110.1%
Northern Territory	3.9%	1.0%	383.6%

Notes:

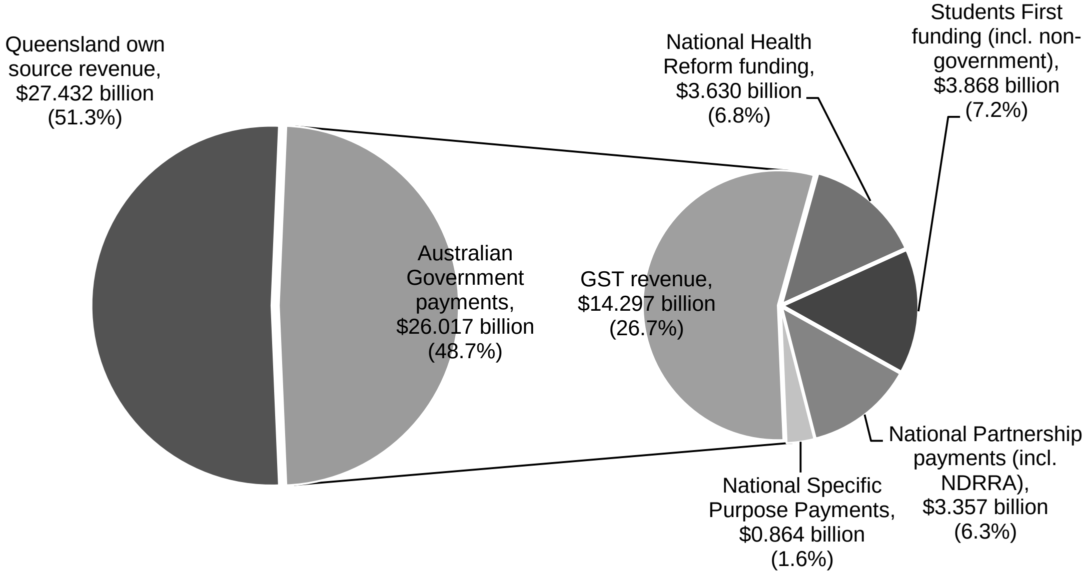
1. Numbers may not add due to rounding.
2. Excludes payments unallocated among the states and territories in the Commonwealth Budget papers, and royalties paid by the Australian Government to Western Australia and the Northern Territory.
3. A state's relative share is measured as its funding share as a percentage of its population share (may not divide due to rounding).

Source: 2016–17 Commonwealth Budget Paper No.3.

7.3 Australian Government funding to Queensland

Queensland's reliance on Australian Government funding is expected to increase from 34.8% in 1999–2000 to an estimated 48.7% in 2016–17 (see Chart 7.3). This is consistent with the national trend (shown in Chart 7.1).

Chart 7.3 General Government Sector revenue sources, Queensland, 2016–17[1]



Note:

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

Sources: 2016–17 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.

Estimated Australian Government funding in 2016–17 for Queensland, included in the 2016–17 Queensland Budget, is $25.270 billion[1], an increase of $2.462 billion, or 10.8%, compared with 2015–16 (as shown in Table 7.3). This amount excludes payments for NDRRA of around $746 million in 2016–17.

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

Table 7.3 Estimated Australian Government payments to Queensland[1, 2]

	2014–15 Actual $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million
GST revenue	11,746	13,044	14,297
GST balancing item[3]	69	78	..
Total payments for general purposes	**11,816**	**13,122**	**14,297**
Payments for specific purposes			
National Partnership payments (excluding NDRRA)[4]	1,853	1,919	2,611
National Specific Purpose Payments	839	856	864
National Health Reform Funding	3,060	3,409	3,630
Students First – Education Reform Funding	3,254	3,502	3,868
Total payments for specific purposes (excluding NDRRA)[4]	**9,005**	**9,686**	**10,973**
Total payments (excluding NDRRA)[4]	**20,821**	**22,808**	**25,270**

Notes:

1. Numbers may not add due to rounding.
2. Does not include Australian Government funding direct to Local Governments.
3. The balancing adjustment accounts for differences between the GST paid to states and the final GST pool size and population outcomes in the prior year (2013–14 and 2014–15).
4. NDRRA funding is excluded from total payments because this funding will only arise following a reimbursement claim for expenditure on eligible natural disasters. Differs from Chapter 4 due to the exclusion of direct Australian Government payments to Queensland agencies and Local Government for Commonwealth own purpose expenditure.

Sources: 2016–17 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.

Queensland expects to receive $14.297 billion of GST revenue in 2016–17, $2.125 billion greater than its population share. In the same year, total payments for specific purposes are forecast to be $10.973 billion, with $3.630 billion as National Health Reform funding, $3.868 billion as Students First funding, $864 million as National Specific Purpose Payments and $2.611 billion as National Partnership payments.

7.4 GST revenue payments

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

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

In April 2016, the Australian Government released the results of the CGC's Report on GST Revenue Sharing Relativities – 2016 Update (the 2016 CGC Update Report) which considered changes in state circumstances to determine the distribution of GST. More information on the 2016 CGC Update Report is provided in Box 7.2.

7.4.1 Queensland's share of GST revenue

The Australian Government has accepted the CGC's recommendations of GST revenue sharing relativities as the basis for the distribution of the GST revenue to the states in 2016–17.

In the 2016 CGC Update Report, the CGC recommended an underlying increase in Queensland's share of GST revenue. The CGC's recommended relativity for Queensland increased to 1.17109 for 2016–17, up from 1.12753 in 2015–16. Table 7.4 shows the relativities and resulting GST distributions for each state and territory. Relativities are discussed in more detail in Box 7.2.

Table 7.4 Recommended relativities and estimated GST shares, 2016–17

	NSW	Vic.	Qld	WA	SA	Tas.	ACT	NT
CGC recommended relativity	0.90464	0.90967	1.17109	0.30330	1.41695	1.77693	1.15648	5.28450
GST share ($ million)	17,634	13,886	14,297	2,019	6,101	2,307	1,154	3,262
GST per capita ($)	2,265	2,278	2,932	759	3,548	4,449	2,896	13,231

Sources: 2016–17 Commonwealth Budget Paper No. 3, Commonwealth Grants Commission Report on GST Revenue Sharing Relativities – 2016 Update.

Queensland's share of GST for 2016–17 has increased because of:

- A higher level of natural disaster relief and recovery arrangements (NDRRA) expenses, owing to the high level of disaster spending in 2013–14 relating to 2011 and 2012 disaster events. NDRRA expenses are shared between the Australian Government and states, with the Australian Government providing reimbursement for a proportion of state expenses resulting from a natural disaster. The GST distribution takes into account the proportion of NDRRA expenses that are not reimbursed by the Australian Government, as these arise from circumstances beyond states' control.
- Declining prices for coal. Queensland receives less GST because of its higher capacity to collect royalties on coal. Lower prices reduced the royalties Queensland received, which in turn reduces the GST redistributed away from Queensland.

These gains were partially offset by slower population growth. Queensland's GST share is normally increased because our above–average population growth rate implies a greater need for infrastructure investment. However, because Queensland's population growth has slowed, we have benefited less from this than in recent years.

More detail on the outcomes of the 2016 CGC Update Report is in Box 7.2.

7.4.2 Queensland's GST relativity

A GST relativity is a measure of a state's fiscal capacity to deliver services to its community, taking into account factors such as the relative strength of the state's tax base, its unique service delivery costs, and so on. To determine the GST share of each state, the CGC uses a three–year average of single–year relativities (with a two–year lag). The three–year average relativities, combined with updated data on the expected size of the total GST pool and the populations of the states, are used to determine the GST distributions for the states. This means that the recommended GST distribution for 2016–17 has been determined using data for 2012–13, 2013–14, and 2014–15. This methodology smooths the impact of single–year relativity changes, so that states' GST shares are more predictable and less volatile.

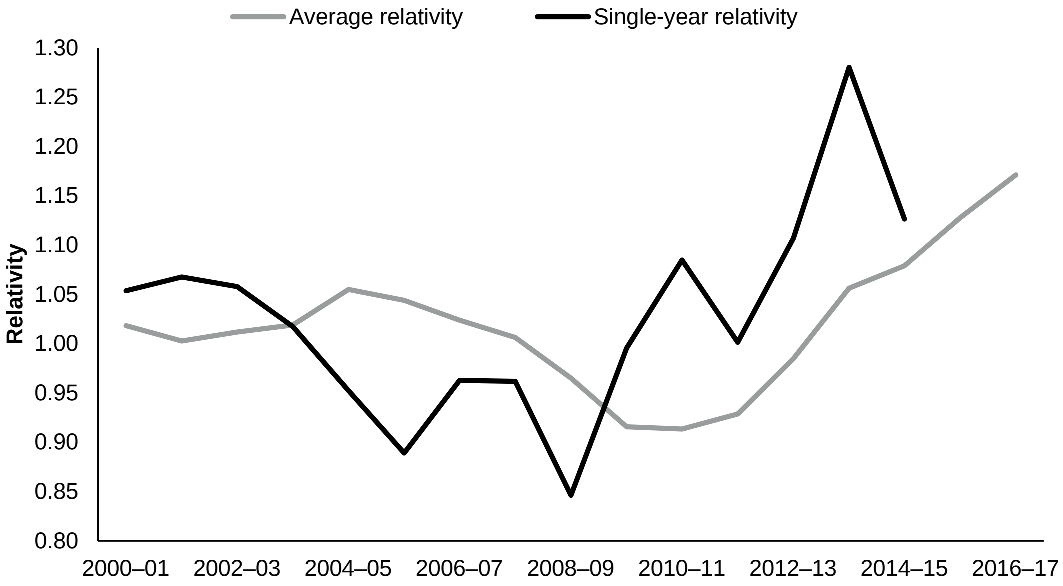
For the last few years, Queensland's single–year relativity has been above 1.0 meaning Queensland has been assessed as having a lower than average fiscal capacity, requiring a greater than population share of GST. This reflects the relatively higher cost of service provision in the State.

Queensland will continue to be impacted by the recommendations in the 2015 Review Final Report, in which Queensland received its highest single–year relativity since the introduction of the GST. This result was driven primarily by short–term factors outside of the State's control, such as the significant rebuilding following natural disasters in Queensland.

As shown in Chart 7.4, Queensland's three–year average relativity has risen for the fourth consecutive year. While the single–year relativity has fallen in 2014–15, the historically high 2013–14 single–year relativity will continue to impact Queensland's GST share until 2017–18.

However, the factors driving the 2013–14 result are short–term. Net expenses for NDRRA are expected to remain low, and Western Australia's mining revenue has been adversely affected by a fall in iron ore prices. Queensland's share of GST can be expected to move closer to 1.0 once the short–term impacts of 2013–14 factors are removed from the averaging process.

Chart 7.4 Queensland's GST relativity, 2000–01 to 2016–17[1]



Note:

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

Sources: Commonwealth Grants Commission Report on GST Revenue Sharing Relativities – 2016 Update, Queensland Treasury.

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

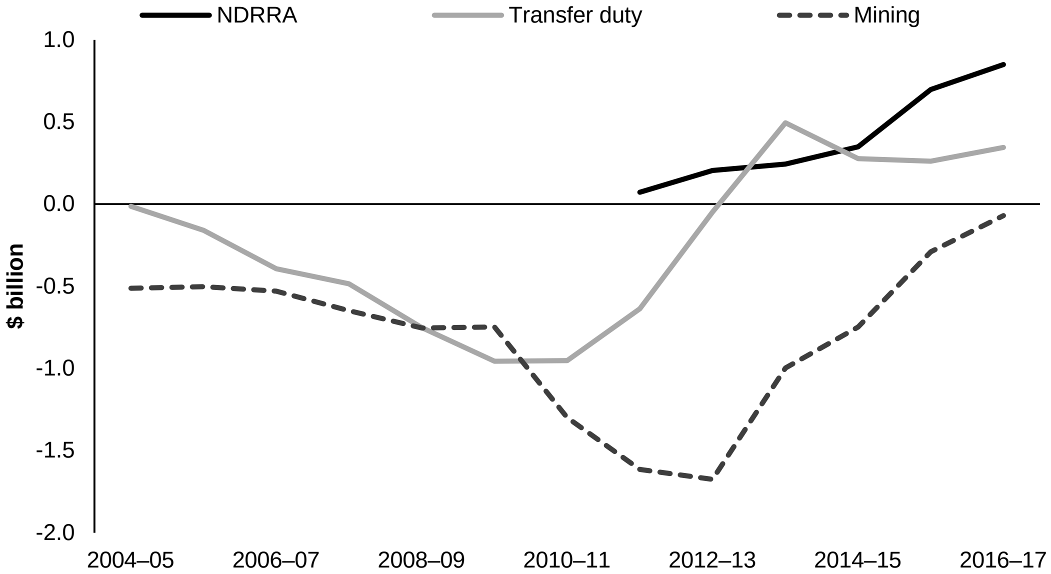
In the longer–term, Queensland's fiscal capacity can be expected to be nearer to the average of states (that is, a relativity of 1.0). However, many of the factors impacting Queensland's relativity are volatile, such as transfer duty, mining revenue, natural disaster relief and other Australian Government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

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

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

Chart 7.5 shows the impact of the volatile assessments.

Chart 7.5 Contribution of volatile assessments to Queensland's difference from an equal per capita share of GST (three year average)[1, 2]



Notes:

1. NDRRA data for earlier years are not available.
2. Contributions are scaled to the growth in the pool size from 2004–05 to 2016–17 to improve comparability.

Sources: Commonwealth Grants Commission and Queensland Treasury.

Box 7.2 2016 CGC Update Report

In April 2016, the CGC released its Report on *GST Revenue Sharing Relativities – 2016 Update*, which is used to determine the distribution of GST among the states. The 2016 CGC Update Report recommended that Queensland's share of GST revenue be increased, with an underlying impact of $520 million in 2016–17. The 'underlying impact' reflects the effect of the change in assessed fiscal capacities on the GST distribution compared to the previous year, distinct from the effects of changes in pool size and population. The 2016 CGC Update Report takes account of changes to states' circumstances and revisions to the data used in the CGC's assessments. Table 7.5 shows the contribution of these factors to the underlying impact for each state and territory.

Table 7.5 Underlying changes in GST allocations 2016–17 ($ million)[1, 2]

	NSW	Vic.	Qld	WA	SA	Tas.	ACT	NT
Data revisions	(42)	34	30	(44)	(22)	(9)	50	2
States' circumstances	(808)	213	491	63	267	(48)	6	(183)
Total change	**(850)**	**248**	**520**	**20**	**245**	**(57)**	**55**	**(182)**

Notes:

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

Sources: Commonwealth Grants Commission Report on GST Revenue Sharing Relativities – 2016 Update.

Updates to the CGC's recommended relativities are designed to capture changes in factors beyond the states' control that impact their fiscal capacities. Queensland's GST share reflects the cost of providing services across our State, offset by the revenues we are able to collect. The increases in Queensland's GST share was mainly driven by the weakening in Queensland's circumstances in 2014–15 relative to in 2011–12.

For Queensland, high NDRRA expenditure (net of contributions from the Australian Government) as well as a fall in the value of mining production (notably coal) has led to the increased GST share in 2016–17. This increase is not a windfall; rather, it recognises that Queensland's circumstances have resulted in higher Government expenses and weaker revenues than other states.

7.5 Payments to Queensland for specific purposes

7.5.1 Structure of payments for specific purposes

Payments for specific purposes comprise National Specific Purpose Payments (SPPs), National Health Reform funding, Students First funding and National Partnership (NP) payments. These payments represent a significant source of revenue to Queensland, comprising 21.9% of total expected revenue in 2016–17 and 45.0% of Australian Government funding to Queensland.

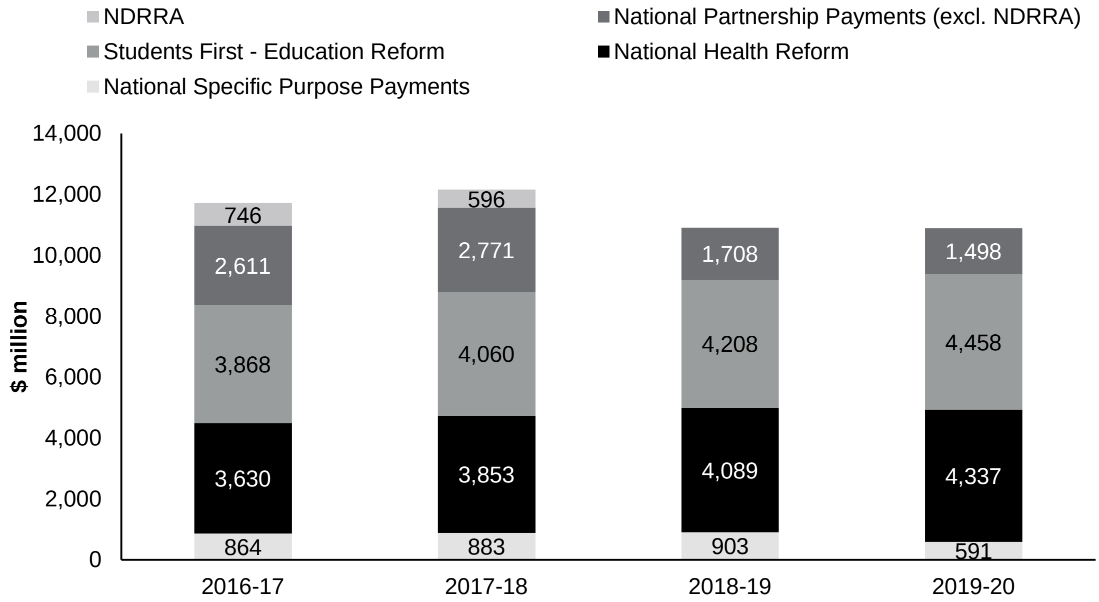
Projections of specific purpose funding to Queensland

Funding for National SPPs is relatively stable across the forward estimates, with growth of around 2.2% in 2017–18 and 2018–19 before decreasing in 2019–20. This decrease reflects the full implementation of the NDIS in 2019–20, which will redirect the National Disability SPP to the NDIS. The underlying growth of National SPPs across the forward estimates without the National Disability SPP is around 1.5%.

Growth in National Health Reform (NHR) funding is stable at around 6.1% each year from 2017–18 to 2019–20. Growth in Students First funding is 5.0% in 2017–18, declining to 3.6% in 2018–19, and then increasing to 6.0% in 2019–20. The increase in 2017–18 is mainly driven by additional funding provided nationally over four years (from 2017–18) for government and non–government schools. Total payments for specific purposes decrease in 2018–19 mainly because of time–limited NP agreements ceasing in 2017–18.

The level of NP payments varies from year to year, depending on the nature and duration of agreements, and the value of new agreements. Chart 7.6 outlines how NP funding, including NDRRA, is expected to rise to $3.367 billion in 2017–18, before declining to $1.498 billion in 2019–20. This variability is primarily due to fluctuations in the timing of funding for NDRRA and infrastructure payments, and expiring NP agreements.

Chart 7.6 Payments for specific purposes to Queensland[1]



Note:

1. Excludes Australian Government direct funding to local government.

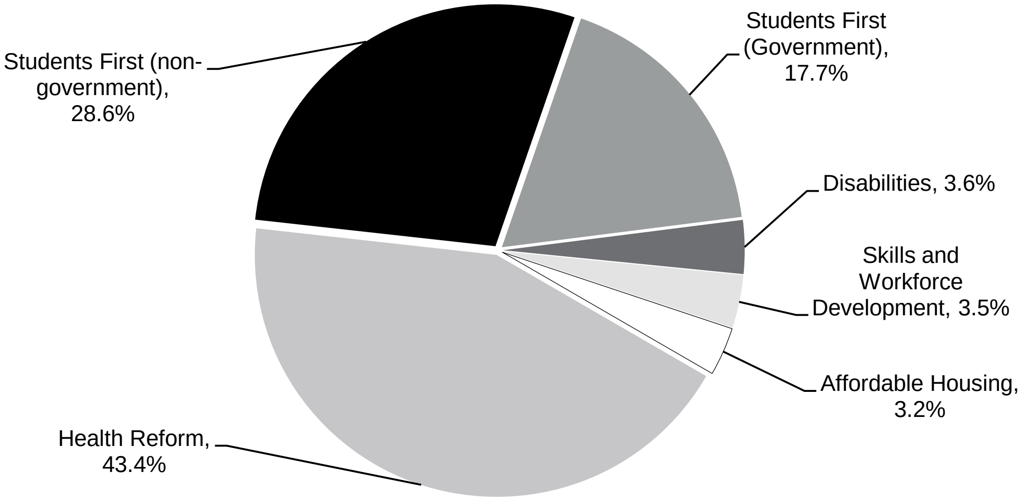
Sources: 2016–17 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.

7.5.2 National Specific Purpose Payments

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

In addition to funding for health and education, there are three National SPPs to the states for skills and workforce development; disability services and affordable housing. Chart 7.7 shows the breakdown of Australian Government funding across these sectors for SPPs, National Health Reform funding and Students First funding.

Chart 7.7 National Specific Purpose Payments by sector, 2016–17[1]



Note:

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

Sources: 2016–17 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.

National Health Reform funding

The National Health Reform Agreement (NHRA) commenced on 1 July 2012. Under this arrangement, growth in funding from the Australian Government was based on 45.0% of the efficient costs of additional hospital activity, increasing to 50.0% in 2017–18. In the 2014–15 Commonwealth Budget, the Australian Government revised the indexation arrangement, with funding from 2017–18 to be tied to a combination of the CPI and population growth.

At the April 2016 Council of Australian Governments meeting, the Australian Government and the states signed a Heads of Agreement for interim funding for public hospitals from 1 July 2017 to 30 June 2020, ahead of consideration of longer–term arrangements. This will see the continuation of the link between Australian Government funding and activity levels. Under the terms of the agreement, the Australian Government will fund 45.0% of the efficient growth, up to a contribution growth cap of 6.5% per annum. For block funded services, the Australian Government will fund 45.0% of the efficient growth.

Funding for this agreement was confirmed in the 2016–17 Commonwealth Budget. It estimated an additional $2.9 billion nationally will be available to public hospital services between 2017–18 and 2019–20. In 2016–17, Queensland is expecting to receive total Commonwealth funding of $3.630 billion for public hospitals ($15.909 billion over four years to 2019–20).

Students First – A fairer funding agreement for schools

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

In the 2016–17 Commonwealth Budget, the Australian Government announced additional funding of $1.2 billion nationally over four financial years from 2017–18, to provide further funding support for government and non–government schools for the 2018 to 2020 school calendar years. Schools funding, which will grow by 3.56% each year with an allowance for changes in enrolments, will be contingent on reform efforts by the states and the non–government schools sector to improve education outcomes.

The Students First funding in the 2016–17 Commonwealth Budget also included additional funding over two years (from 2016–17) for school students with disability.

Australian Government funding under Students First for Queensland Government schools will be $1.480 billion in 2016–17 ($6.359 billion over four years to 2019–20). Non–government schools funding will be $2.171 billion in 2016–17 ($9.304 billion over four years to 2019–20).

National Disability funding

The National Disability Insurance Scheme (NDIS) is Australia's largest social reform in more than 40 years and will almost double the number of Queenslanders currently accessing disability services. In Queensland, the NDIS will assist more than 90,000 people with disability and contribute to expenditure of about $4 billion each year. By mid–2019, with the NDIS fully implemented, the National Disability Insurance Agency estimates an additional 15,900 to 19,400 full–time equivalent jobs will be created in Queensland's disability sector.

In January 2016, early launch of the NDIS commenced in Townsville and Charters Towers for children aged under 18 years and on Palm Island for people with disability aged under 65 years. From 1 July 2016, the state–wide, progressive roll out will commence, with full implementation by 1 July 2019.

This significant reform to disability services will impact the National Disability SPP to Queensland in future years. When the NDIS reaches full roll–out in Queensland, the National Disability SPP will be redirected to the National Disability Insurance Agency, which will be responsible for administering the Scheme.

From 2019–20, the Australian and Queensland Government contributions to the NDIS will be around $2.140 billion and $2.035 billion respectively.

The Queensland Government has consistently argued the State should receive its full and fair share of the Medicare Levy Surcharge introduced in 2014. However, the Australian Government's position is to ration the State's access to these funds unless all jurisdictions hand over greater control of the NDIS to the Australian Government or share cost overrun risk. This is not acceptable to Queensland. The Australian Government's stance effectively slows the pace of rollout of the NDIS in Queensland and results in the majority of participants waiting until 2018–19 to transition into the Scheme.

7.5.3 National Partnership payments

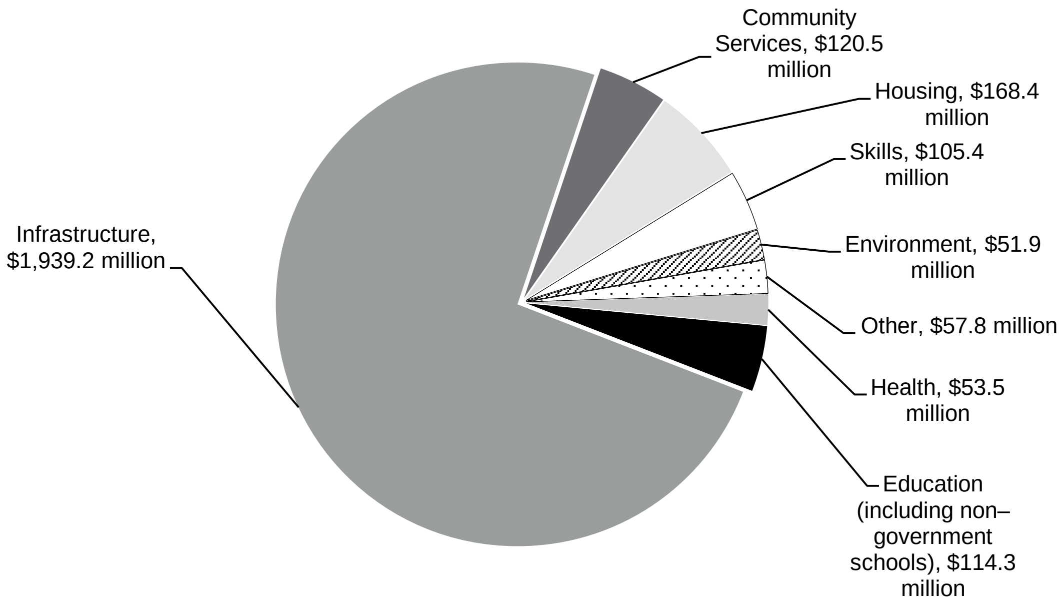
NP payments are paid to states to implement specific NP agreements. These agreements are usually time–limited and support the delivery of projects, facilitate reforms or reward states that deliver on national reforms or achieve service delivery improvements.

NP payments are an important source of revenue for Queensland. In 2016–17, proposed NP payments to Queensland, including NDRRA, will be 12.9% ($3.357 billion) of total Australian Government funding to Queensland.

NP funding by sector

Excluding payments for NDRRA, NP payments for infrastructure, housing, community services and education represent the major components of NP funding in 2016–17 (refer Chart 7.8), representing 89.7% of non–NDRRA NP funding. NDRRA payments are excluded as these payments only arise following a reimbursement claim for actual expenditure on eligible natural disasters.

Chart 7.8 National Partnership Payments by sector (excluding NDRRA), 2016–17[1]



Note:

1. Excludes Australian Government direct funding to local government.

Sources: 2016–17 Commonwealth Budget Paper No. 3 and Queensland Treasury estimates.

Major funding agreements

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

As of 31 May 2016, there were 48 active agreements between the Queensland Government and the Australian Government, with a further 14 agreements under development.

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

In 2016–17, there are several agreements expiring, with minimal advice from the Australian Government about the future of these programs, which will have impacts on service delivery. Box 7.1 lists the key agreements expiring in 2015–16, 2016–17 and 2017–18 still facing uncertainty from the Australian Government.

8 Public Non–financial Corporations Sector

Features

- The Government expects its businesses to operate commercially and efficiently. These businesses are central to the Government's strategy to reduce debt and improve services to Queenslanders.
- To drive this, the Government has initiated reform in a number of key industries across the sector. In the electricity industry, Energex and Ergon Energy Corporation Limited (Ergon Energy) will merge into a single energy business – 'Energy Queensland'. A new energy services business will also be developed to deliver innovative products and create jobs.
- The Government has also completed a review into the effectiveness of Powerlink and the generation businesses. Shareholding Ministers have developed mandates for the generation businesses to drive efficiencies and seek out new value growth areas.
- A review into Queensland Rail is underway, for Government consideration in the second half of 2016. This review will provide a valuable opportunity to test existing structures and funding arrangements (i.e. the Transport Services Contract (TSC)), and their continued suitability in achieving the Government's objectives.
- The returns from the Public Non–financial Corporations (PNFC) sector are expected to moderate over the forward estimates (FE) period. This is largely driven by the Australian Energy Regulator's (AER) 2015 electricity determinations, which reduced the amount of network revenue allowed to be collected by both Energex and Ergon Energy over the FEs. Transmission business Powerlink also expects a reduction in allowable revenue from 2017–18 when its new regulatory period begins.
- Network charges make up around half of a typical residential electricity bill. Customers are seeing the benefits of reductions in allowable revenue, with residential prices stabilising in 2015–16 and 2016–17.
- The Government is implementing a new cash management strategy for the government–owned corporations to make more effective use of available resources.

8.1 Context

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

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

PNFC Sector entities provide services or commodities like other businesses. The entities incur costs and bear commercial risks to deliver their services or products and generate revenue from the sale of these services or products. The aim of these entities is to deliver vital services and also achieve a commercial rate of return which is returned to the Government as dividends. These dividends are used to pay for important community services like hospitals, education and concession payments and to repay Government debt.

In some cases, part of a PNFC entity's revenue may arise from community service obligation (CSO) payments from the Government. These payments are used to subsidise a service or commodity, and allow it to be provided to the community at a lower price than it would be on a purely commercial basis.

8.2 Finances and performance

8.2.1 Earnings before interest and tax

Total forecast PNFC Sector earnings before interest and tax (EBIT) for 2015–16 are estimated to be $3.882 billion, slightly down from $3.987 billion forecast at the time of the 2015–16 Budget. This slight decrease is primarily due to lower than expected earnings in Ergon Energy and SunWater Limited (SunWater). This is somewhat offset by better than expected EBIT for the generation sector and Queensland Rail.

EBIT is then set to increase to $4.059 billion in 2016–17, with a decrease in 2017–18 to $3.672 billion, before recovering to $3.776 billion by 2019–20 (refer to Table 8.1).

Table 8.1 Earnings before interest and tax[1]

	2014–15 Actual $ million	2015–16 Budget $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Electricity Networks[2]	2,863	2,652	2,566	2,533	2,147	2,063	2,019
Electricity Generation[3]	731	320	372	482	540	449	504
Transport	603	547	611	621	592	671	783
Water	374	475	371	409	396	436	475
Other	(79)	(7)	(38)	14	(3)	(4)	(5)
Total PNFC sector Earnings Before Interest and Tax	**4,492**	**3,987**	**3,882**	**4,059**	**3,672**	**3,615**	**3,776**

Notes:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.
2. The decline relates to lower earnings from Energex and Ergon Energy as a result of the AER regulatory determinations, and likely reduced returns from Powerlink in 2017–18 as a result of the AER determination.
3. Includes Stanwell coal revenue sharing arrangements.

This decline in earnings from 2016–17 is attributable to decreasing earnings from Energex and Ergon Energy as a result of the AER's 2015 regulatory determinations, and the sharp drop–off in 2017–18 is almost entirely due to the expected reduction in revenue for Powerlink when its new AER regulatory period begins. This decrease over the FEs is somewhat offset by increased earnings from the generation sector from 2016–17, and the transport and water sectors from 2018–19.

The improvement in the generation sector is driven by forecasts of increasing demand from the LNG industry. Similarly, the ports sector is expecting increased returns due to growth in LNG exports at the Port of Gladstone, and a general improvement in coal and bulk trade across all ports.

Energy Sector

Generation

The core business of CS Energy Limited (CS Energy) and Stanwell Corporation Limited (Stanwell) is the generation and sale of electricity. Combined, the companies have over 6,600 megawatts (MW) of installed capacity, a combination of coal, gas and hydroelectric plant. On top of the significant output, CS Energy also has access for trading purposes to 509 MW from the Gladstone Power Station. Together CS Energy and Stanwell account for around 64% of Queensland's electricity generation capacity.

The generation businesses are facing significant challenges with the evolution of the electricity market and the growth of new technologies. After years of oversupply, the Queensland region of the National Electricity Market (NEM) is tightening as the LNG industry comes online. LNG related electricity consumption is expected to increase from 250 gigawatt hours (GWh) in 2013–14 to 7,840 GWh in 2018–19 as LNG plants on Curtis Island progressively commence operation.

Going forward, the forecast is for Queensland to have a higher average annual energy growth over the next 10 years due to growth in the economy. Further, Queensland is the only region in the NEM with forecast growth in its maximum demand level over the next 10 years.

The expected increase in electricity demand from the LNG industry will be tempered by the continued growth of solar photovoltaic (PV) panels and consumers' ongoing sensitivity to increases in electricity retail tariffs. At 31 May 2016, installed PV capacity in Queensland was 1,516 MW.

In December 2015, the Queensland Government announced its decision not to merge the two government–owned generators. At the same time, the Queensland Government reaffirmed its commitment to realise efficiency savings over five years from the generation businesses. Since that time, the Queensland Government has been undertaking a review of Stanwell and CS Energy.

The review has focused on ensuring that the generation businesses operate as efficiently and effectively as possible. Importantly, the Queensland Government expects these businesses to focus on delivering stable and appropriate returns which will contribute meaningfully to the reduction in Government debt.

Networks

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

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

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

Revenues for these businesses are largely derived from network services that are regulated by the AER. The AER determines these revenues on a five–yearly basis, based on the businesses' proposals and its view of the reasonable benchmark efficient costs for a network business. Energex and Ergon Energy both began a new five–year regulatory period on 1 July 2015, which significantly reduced their allowable revenues, resulting in lower prices for Queensland customers. To ensure customers would continue to benefit from this decision, the Government directed the businesses to not appeal the decision by the AER to facilitate stable electricity prices over the next five years.

From 30 June 2016, Energex and Ergon Energy will be merged under a new parent company (more information is provided in Box 8.1). This new parent company will be called Energy Queensland. In December 2015, the Queensland Government announced its decision not to include Powerlink as part of the merger, to allow it to focus on the unique challenges facing transmission businesses.

The Government is working with Powerlink to streamline operations and find efficiencies to benefit customers. This strategic review for Powerlink will consider the alignment of work practices between the network businesses and identify opportunities to improve the efficiency of high voltage work practices.

Powerlink's current determination concludes in 2016–17. From 2017–18, Powerlink's outlook will depend on the new determination set by the AER.

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

Box 8.1 Energy Queensland – a changed business for a changing market

The Government expects its network energy businesses to operate as efficiently as possible, ensuring that Queenslanders receive the services they deserve at the best possible price. In December 2015, the Queensland Government announced that government–owned electricity network businesses Ergon Energy and Energex would be merged into a single new business. The merged group will also include Ergon Retail, the businesses' ICT provider SPARQ Solutions and a new energy services business. When established on 30 June 2016, the new business will have the scale and expertise to meet the changing needs of Queensland consumers, with more than $24 billion in assets.

This new merged business will be called Energy Queensland.

Based in Townsville, Energy Queensland will commence operation on 30 June 2016. This is an integral part of the Government's plan to use savings from these businesses to reduce Government debt and provide better outcomes for Queensland taxpayers. Energy Queensland will be a more efficient business, releasing funds to invest in better services for all Queenslanders. Importantly, our energy businesses will remain in Queenslanders' hands, instead of being sold–off and the dividend stream used for Government service delivery lost.

A more efficient business also means lower prices for Queenslanders over time, as capital and operational efficiencies are realised. Reducing duplication in areas like administration, shared services, boards, management and corporate governance, will mean less waste and more savings being passed back to consumers.

Energy Queensland will steer Energex and Ergon Energy towards the future, as a business that will proactively respond to the needs of the energy market. A key part of this new approach is the creation of an innovative energy services business within Energy Queensland. Also based in Townsville, the energy services business will facilitate opportunities for customers to access new grid–connected products, allowing them to regain control of their energy usage, lower their energy costs and create greater value from their investments in solar, batteries and other emerging technologies. It is anticipated that this will result in more job opportunities for electrical contractors as energy services grow in the future.

The structure of the new energy services business will ensure it operates on a level playing field with other businesses that offer new energy services. The Government has confirmed it is not the intention for the energy services business to duplicate the installation of offerings that are already available in markets well serviced by independent electrical contractors. Specifically, the energy services business will not install solar panels for residential customers.

As previously outlined in MYFER, the merger, along with a number of other efficiency measures across Queensland's electricity network and generation businesses, will result in savings of around $680 million over the period to 2019–20 in the energy government–owned corporations. Of these total savings, over $562 million is the result of savings found in the new merged business.

Queensland Rail

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

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

Queensland Rail is focused on the delivery of safe, reliable and value for money rail services. To ensure Queenslanders are receiving the best value for money for its services, the Government is undertaking a review of Queensland Rail (more information is provided in Box 8.2).

Box 8.2 Review of Queensland Rail

In December 2015, the Government approved the Terms of Reference for a review of Queensland Rail's structural operating and funding approach and to assess its commercial mandate. The scope also included establishing a framework for monitoring QR's operational and financial performance, in order to ensure value for money outcomes are achieved for the State.

Queensland Treasury Corporation has been appointed to lead the review, supported by a Government working group chaired by TMR.

Given the changes to Queensland Rail's operations in recent years and the Government's commitment to maintaining public ownership of the business, the review provides a valuable opportunity to test existing structures and funding arrangements (i.e. the TSC), and their suitability to achieving Government's objectives.

Government will consider the outcomes of the review in the second half of 2016. Any recommended structural or financial changes will be addressed as part of the 2016–17 MYFER.

Ports

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

The financial performance of the port sector is influenced by the level of economic activity in the State, particularly in terms of international demand for Queensland's resources and agricultural commodities. Demand for coal impacts most significantly on the primarily coal–handling ports of

Gladstone and Abbot Point. The ports continue to look for opportunities to enhance supply chain efficiency and identify new trade to improve financial outcomes.

Key projects in 2016–17 include an additional $12.2 million to continue the Channel Duplication Investigation, East Shores Parkland Expansion, and other port services projects at the Port of Gladstone, at a total cost of $38.8 million; $44.1 million towards continuing upgrades at the RG Tanna Coal Terminal at the Port of Gladstone; and $26 million towards the redevelopment of the Berth 4 facility at Port of Townsville.

Water

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

Seqwater

Seqwater is responsible for ensuring a safe, secure and reliable bulk drinking water supply for 3.3 million people across South East Queensland (SEQ). Its assets and operations are spread over a large geographic area from the New South Wales border, to the base of the Toowoomba ranges and as far north as Gympie. Seqwater also provides essential flood mitigation services, and provides irrigation services to around 1,200 rural customers in seven water supply schemes.

Seqwater also owns and operates 37 water treatment plants, the Gold Coast Desalination Plant and Western Corridor Recycled Water Scheme, and a 600 kilometre reverse flow pipeline network that connects the Sunshine Coast to the Gold Coast (the Water Grid).

The majority of Seqwater's revenue comes from bulk water sales, and is predominantly determined by the SEQ bulk water price path. The price path was established in order to phase in affordable price increases associated with construction of the SEQ Water Grid. During this period it was anticipated that bulk water prices would not recover the costs of bulk water supply, which resulted in Seqwater selling bulk water at a loss, with the shortfall funded by borrowings (the resulting debt is known as 'price path debt'). This price path debt is expected to peak in 2016–17 and decline steadily over the period to 2028 as this debt is repaid. Total borrowings are forecast to stabilise from 2016–17 onwards.

In practical terms the bulk water price path is smoothing the implementation of cost–reflective pricing, which will be achieved for most Local Government Areas in SEQ by 2017–18, and by 2019–20 for the Local Government Areas of Noosa, the Sunshine Coast, and Redland. The price path will see Seqwater's revenue continue to increase over the forward estimates with the entity maintaining a positive operating position from 2016–17 and each year over the forward estimates period, excluding depreciation expenses. Seqwater has maintained a positive operating position since it was merged with the SEQ Water Grid Manager, LinkWater and the former Seqwater on 1 January 2013. Seqwater continues to pursue operational and capital efficiency targets in order to deliver value for money for residents of SEQ.

SunWater

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

SunWater owns and manages around $9 billion in water infrastructure assets including 19 major dams, 63 weirs and barrages, 80 major pumping stations, 2,500 km of pipelines and open channels; and 730 km of drains.

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

Dam safety is a major focus for SunWater as it is for all bulk water suppliers. SunWater commenced a prioritised Dam Safety Improvement Program (DSIP) in 2005 to ensure that dam safety is maintained. Recent dam safety improvement projects completed under the program include Kinchant Dam and Eungella Dam.

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

8.2.2 Borrowings

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

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

Total forecast PNFC Sector borrowings for 2015–16 are estimated to be $37.018 billion (refer to Table 8.2).

Table 8.2 Borrowings[1]

	2014–15 Actual $ million	2015–16 Budget $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Electricity Networks	16,673	20,692	21,457	21,622	22,259	22,937	23,610
Electricity Generation	1,869	1,914	1,879	1,700	1,594	1,546	1,478
Transport	3,622	3,811	3,738	4,341	5,186	5,222	5,244
Water	9,806	9,799	9,901	10,004	10,086	10,109	10,096
Other	158	(254)	43	(172)	(187)	(203)	(219)
Total PNFC Sector borrowings	**32,128**	**35,962**	**37, 018**	**37,496**	**38,938**	**39,610**	**40,208**

Notes:

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

Borrowings are budgeted to increase to $37.496 billion in 2016–17 and to $40.208 billion in 2019–20. The increase in borrowings is mostly driven by capital expenditure requirements and re–gearing towards more commercial levels.

8.2.3 Returns to Government

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

Dividends

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

As part of the Debt Action Plan, the Government announced its intention to increase the dividend payout ratios for all GOCs, excluding CS Energy, to 100% of net profit after tax. It also announced its decision to transition to more commercial capital structures for a number of the GOCs, including the electricity network businesses.

Total forecast PNFC sector dividends for 2015–16 are estimated to be $1.607 billion, up from $1.590 billion at the time of the 2015–16 Budget (refer to Table 8.3). The slight decrease in expected dividends from the network and water sectors in 2015–16 has been largely offset by a better than expected dividend return from the transport and generation sectors.

Table 8.3 Dividends[1, 2, 3]

	2014–15 Actual $ million	2015–16 Budget $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Electricity Networks	1,364	1,198	1,137	1,000	768	683	626
Electricity Generation	90	125	160	216	258	223	257
Transport	252	216	269	278	262	343	365
Water	25	50	31	41	23	23	18
Other	..	..	10	..	..	..	..
Total PNFC Sector Dividends	**1,731**	**1,590**	**1,607**	**1,535**	**1,312**	**1,273**	**1,266**

Notes:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.
2. The above dividends do not include amounts from the Public Financial Corporations Sector.
3. Dividends are declared as part of end–of–year accounting arrangements and usually paid in the following November, although Energex and Ergon Energy will pay 2015–16 dividends in June this year.

Dividends are budgeted to decrease to $1.535 billion in 2016–17. By 2019–20, dividends are expected to be $1.266 billion. The decline in dividends is predominantly due to substantially lower returns from the energy network businesses reflecting their lower revenue outlook as a result of the Australian Energy Regulator's decision to apply a lower rate of return in their final revenue determination.

The generation and transport sectors are expected to see an increase in dividends through to 2019–20. The improvement in the generation sector is driven by expectations of increasing demand from the LNG industry. The forecast increase in dividends in the transport sector is driven by both the ports and QR, with an expected increase in ports revenue from growth in LNG exports at the Port of Gladstone, and a general improvement in coal and bulk trade across all ports.

In the water sector, modest dividends are expected over the forward estimates. In South East Queensland (SEQ) forecast water demand is lower than previously anticipated and Seqwater is not expected to return an operating profit over the forward estimates and as such is not in a position to provide dividends. However revenue from the SEQ bulk water price path steadily increases year on year and the entity maintains a positive operating position in 2016–17 and each year over the forward estimates period, once depreciation expenses are excluded.

Dividends from SunWater, Queensland's largest regional bulk water supplier, have declined from previous forecasts driven by increased capital expenditure to ensure the safety and stability of dams and the ongoing safety of downstream communities. Category one water boards (the Gladstone Area Water Board and Mt Isa Water Board) also contribute small dividend returns to the State.

Tax equivalent payments

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

Total forecast PNFC Sector TEPs for 2015–16 are estimated to be $710 million, down from the projected $733 million at the time of the 2015–16 Budget (refer to Table 8.4).

Generally TEPs move in line with earnings. TEPs are forecast to decrease to $687 million in 2016–17 and then decline to $558 million in 2019–20.

Table 8.4 Tax equivalent payments[1]

	2014–15 Actual $ million	2015–16 Budget $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Electricity Networks	497	514	491	463	366	333	310
Electricity Generation	29	84	66	91	92	105	112
Transport	124	113	126	116	98	114	116
Water	19	20	21	9	14	11	11
Other	4	1	5	9	9	9	10
Total PNFC Sector tax equivalents	**672**	**733**	**710**	**687**	**579**	**573**	**558**

Notes:

1. Numbers may not add due to rounding.

Competitive neutrality fees

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

Total forecast PNFC sector CNF payments for 2015–16 are estimated to be $202 million, down from $232 million at the time of the 2015–16 Budget (refer to Table 8.5).

Changes in CNF payments reflect movements in borrowing amounts, interest rate spreads and the entity's stand–alone credit rating. CNF payments are forecast to decrease to $156 million in 2016–17 before increasing to $294 million in 2019–20.

Table 8.5 Competitive neutrality fee payments[1]

	2014–15 Actual $ million	2015–16 Budget $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Electricity Networks	150	155	134	94	138	199	223
Electricity Generation	28	30	26	21	18	17	16
Transport	47	42	38	37	45	47	50
Water	7	4	4	5	5	5	5
Other	..	..	..	..	..	..	..
Total PNFC Sector CNF payments	**232**	**232**	**202**	**156**	**206**	**268**	**294**

Note:

1. Numbers may not add due to rounding.

8.2.4 Community service obligation and Rail Transport Service Contracts payments

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

TSC payments are made to Queensland Rail to provide rail passenger services at non–commercial (subsidised) prices for the commuter and tourism markets. Before the 2015–16 Budget, these payments were reported as CSOs.

Total forecast PNFC sector CSO and TSC payments for 2015–16 are estimated to be $2.084 billion, slightly up from $2.042 billion at the time of the 2015–16 Budget (refer to Table 8.6).

In 2016–17, it is estimated that the Government will provide CSO and TSC payments to PNFC Sector entities of $2.250 billion. This is forecast to increase to $2.505 billion in 2019–20. The increase is attributable to the TSC and is due to a mix of factors such as growth in patronage, escalation of service delivery costs and forecast growth in services.

Table 8.6 Community service obligations and Transport Service Contracts revenue[1]

	2014–15 Actual $ million	2015–16 Budget $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Electricity Networks	617	432	497	558	483	532	569
Electricity Generation	..	..	..	..	..	..	..
Transport	1,525	1,598	1,574	1,680	1,665	1,719	1,933
Water	17	12	12	12	2	2	3
Other	..	..	..	..	..	..	..
Total PNFC Sector CSO and TSC	**2,159**	**2,042**	**2,084**	**2,250**	**2,150**	**2,252**	**2,505**

Notes:

1. Numbers may not add due to rounding.

In line with the Queensland Government's uniform electricity tariff policy, a CSO payment is provided to Ergon Energy to compensate the retail subsidiary for the increased costs of operating in regional Queensland. This subsidy is provided to ensure that Queenslanders, regardless of their geographic location, pay a similar price for their electricity. The estimated actual electricity CSO for 2015–16 is $497 million, up from $432 million at the time of the 2015–16 Budget. This increase is largely due to changing customer load expectations.

Net flows, as shown in Table 8.7, represent the net value of flows to and from the PNFC Sector (the positive effect of dividends and TEPs less the negative effect of CSO and TSC payments).

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

	2014–15 Actual $ million	2015–16 Budget $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Net Flows	244	281	233	(28)	(259)	(407)	(681)

Note:

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

8.2.5 Equity movements

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

Total forecast PNFC equity movements for 2015–16 are estimated to be $1.088 billion (refer to Table 8.8), above the $97 million allocated in the 2015–16 Budget, reflecting Debt Action Plan measures identified in the 2015–16 MYFER. This large equity movement across the network, generation, transport and water sectors is primarily a response to the State's Debt Action Plan, which increases the gearing ratios as the government targeted an efficient level of gearing for government–owned businesses.

Table 8.8 Equity movements[1]

	2014–15 Actual $ million	2015–16 Budget $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Electricity Networks	(3,133)	(156)	(510)	(160)	(86)	(318)	(406)
Electricity Generation	..	..	(150)	..	..	..	..
Transport	(18)	59	(335)	(26)	50	25	..
Water	7	..	(130)	(130)	..	..	..
Other	15	..	37	12	..	..	..
Total PNFC Sector equity movements	**(3,128)**	**(97)**	**(1,088)**	**(305)**	**(36)**	**(293)**	**(406)**

Note:

1. Bracketed numbers represent equity returns from the PNFC Sector to the General Government Sector.

9 Uniform Presentation Framework

9.1 Context

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

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

In addition, the chapter provides:

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

9.2 Uniform Presentation Framework financial information

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

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

Table 9.1 General Government Sector Operating Statement[1]

		2014–15 Outcome $ million	2015–16 Budget $ million	2015–16 Est.Actual $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
	Revenue from Transactions							
	Taxation revenue	12,575	12,926	12,660	13,150	13,794	14,622	15,460
	Grants revenue	23,594	24,555	23,696	27,116	28,147	26,834	27,194
	Sales of goods and services	5,250	5,430	5,409	5,423	5,764	5,752	5,934
	Interest income	2,470	2,372	2,427	2,296	2,302	2,243	2,105
	Dividend and income tax equivalent income	2,554	2,395	2,438	2,307	1,997	1,970	1,965
	Other revenue	3,322	3,509	3,346	3,156	3,345	3,676	4,017
	Total Revenue from Transactions	**49,765**	**51,186**	**49,976**	**53,449**	**55,349**	**55,097**	**56,674**
Less	**Expenses from Transactions**							
	Employee expenses	18,593	19,937	19,956	20,930	21,643	22,126	23,065
	Superannuation expenses							
	Superannuation interest cost	878	803	778	810	852	870	888
	Other superannuation expenses	2,319	2,553	2,548	2,628	2,615	2,629	2,657
	Other operating expenses	14,519	14,980	14,895	16,220	16,743	15,864	15,592
	Depreciation and amortisation	3,154	3,264	3,367	3,501	3,681	3,777	3,897
	Other interest expenses	2,328	2,115	2,193	1,693	1,672	1,637	1,547
	Grants expenses	7,433	6,320	6,088	6,799	6,917	7,873	8,288
	Total Expenses from Transactions	**49,224**	**49,973**	**49,824**	**52,582**	**54,123**	**54,775**	**55,934**
Equals	**Net Operating Balance**	**542**	**1,213**	**152**	**867**	**1,225**	**321**	**741**
Plus	Other economic flows - included in operating result	3,535	(139)	397	(629)	(181)	12	114
Equals	**Operating Result**	**4,076**	**1,074**	**549**	**239**	**1,044**	**333**	**855**
Plus	Other economic flows - other movements in equity	(5,159)	2,619	(1,647)	2,404	2,107	1,881	1,713
Equals	**Comprehensive Result - Total Change In Net Worth**	**(1,083)**	**3,693**	**(1,098)**	**2,642**	**3,152**	**2,214**	**2,568**
	KEY FISCAL AGGREGATES							
	Net Operating Balance	**542**	**1,213**	**152**	**867**	**1,225**	**321**	**741**
Less	**Net Acquisition of Non-financial Assets**							
	Purchases of non-financial assets	4,779	5,374	4,173	5,452	6,590	5,840	5,983
	Less Sales of non-financial assets	417	305	216	341	406	377	409
	Less Depreciation	3,154	3,264	3,367	3,501	3,681	3,777	3,897
	Plus Change in inventories	(57)	25	(29)	33	(37)	(49)	(100)
	Plus Other movements in non-financial assets	(29)	545	529	1,231	872	798	205
	Equals **Total Net Acquisition of Non-financial Assets**	**1,122**	**2,375**	**1,091**	**2,873**	**3,339**	**2,436**	**1,782**
Equals	**Fiscal Balance**	**(581)**	**(1,162)**	**(940)**	**(2,006)**	**(2,114)**	**(2,115)**	**(1,042)**

Note:

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

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

		2014–15 Outcome $ million	2015–16 Budget $ million	2015–16 Est.Actual $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
	Revenue from Transactions							
	Grants revenue	763	649	719	716	615	667	708
	Sales of goods and services	10,230	10,477	10,336	10,869	10,816	10,907	11,285
	Interest income	68	53	58	40	37	37	36
	Dividend and income tax equivalent income	10	..	14	14	14	14	14
	Other revenue	342	191	183	137	126	136	142
	Total Revenue from Transactions	**11,413**	**11,370**	**11,310**	**11,776**	**11,608**	**11,761**	**12,186**
Less	**Expenses from Transactions**							
	Employee expenses	1,534	1,691	1,630	1,720	1,701	1,714	1,759
	Superannuation expenses							
	Superannuation interest cost	(5)	..	..	..	..	..	..
	Other superannuation expenses	199	221	218	218	222	226	230
	Other operating expenses	3,115	3,095	3,054	3,271	3,352	3,482	3,608
	Depreciation and amortisation	2,358	2,380	2,365	2,458	2,585	2,647	2,742
	Other interest expenses	1,898	1,907	1,897	2,038	1,937	1,944	2,031
	Grants expenses	11	15	15	15	16	16	16
	Other property expenses	678	738	715	693	584	577	563
	Total Expenses from Transactions	**9,788**	**10,047**	**9,894**	**10,414**	**10,397**	**10,606**	**10,949**
Equals	**Net Operating Balance**	**1,625**	**1,323**	**1,416**	**1,362**	**1,210**	**1,155**	**1,237**
Plus	Other economic flows - included in operating result	121	26	(81)	(12)	(71)	(73)	(103)
Equals	**Operating Result**	**1,746**	**1,349**	**1,335**	**1,350**	**1,140**	**1,083**	**1,134**
Plus	Other economic flows - other movements in equity	(5,133)	(1,216)	(2,383)	(1,354)	(846)	(1,047)	(1,136)
Equals	**Comprehensive Result - Total Change In Net Worth**	**(3,387)**	**133**	**(1,049)**	**(4)**	**294**	**35**	**(2)**
	KEY FISCAL AGGREGATES							
	Net Operating Balance	**1,625**	**1,323**	**1,416**	**1,362**	**1,210**	**1,155**	**1,237**
Less	**Net Acquisition of Non-financial Assets**							
	Purchases of non-financial assets	3,173	3,201	2,745	2,812	2,862	2,847	2,855
	Less Sales of non-financial assets	124	46	45	17	70	25	32
	Less Depreciation	2,358	2,380	2,365	2,458	2,585	2,647	2,742
	Plus Change in inventories	(12)	(11)	(20)	(18)	(18)	27	21
	Plus Other movements in non-financial assets	102	45	17	16	17	17	17
	Equals **Total Net Acquisition of Non-financial Assets**	**781**	**809**	**331**	**335**	**205**	**219**	**118**
Equals	**Fiscal Balance**	**844**	**513**	**1,085**	**1,027**	**1,005**	**936**	**1,119**

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

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

		2014–15 Outcome $ million	2015–16 Budget $ million	2015–16 Est.Actual $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
	Revenue from Transactions							
	Taxation revenue	12,227	12,584	12,345	12,879	13,472	14,235	15,044
	Grants revenue	23,683	24,698	23,845	27,197	28,231	26,921	27,284
	Sales of goods and services	13,709	14,022	13,863	14,383	14,680	14,694	15,039
	Interest income	2,537	2,426	2,485	2,336	2,339	2,280	2,142
	Dividend and income tax equivalent income	161	72	135	99	121	139	155
	Other revenue	3,655	3,699	3,530	3,294	3,471	3,811	4,159
	Total Revenue from Transactions	**55,973**	**57,501**	**56,203**	**60,188**	**62,313**	**62,080**	**63,822**
Less	**Expenses from Transactions**							
	Employee expenses	20,030	21,531	21,483	22,546	23,239	23,733	24,715
	Superannuation expenses							
	Superannuation interest cost	873	803	778	810	852	870	888
	Other superannuation expenses	2,518	2,775	2,766	2,847	2,837	2,855	2,887
	Other operating expenses	15,841	16,183	16,063	17,577	18,190	17,374	17,012
	Depreciation and amortisation	5,511	5,644	5,732	5,959	6,266	6,423	6,638
	Other interest expenses	3,994	3,791	3,888	3,575	3,403	3,312	3,284
	Grants expenses	6,769	5,829	5,533	6,179	6,402	7,309	7,685
	Total Expenses from Transactions	**55,537**	**56,556**	**56,242**	**59,494**	**61,189**	**61,876**	**63,110**
Equals	**Net Operating Balance**	**436**	**946**	**(39)**	**694**	**1,124**	**204**	**712**
Plus	Other economic flows - included in operating result	522	(268)	(529)	(801)	(338)	(380)	(395)
Equals	**Operating Result**	**959**	**678**	**(568)**	**(106)**	**787**	**(176)**	**317**
Plus	Other economic flows - other movements in equity	(2,042)	3,016	(530)	2,749	2,365	2,390	2,251
Equals	**Comprehensive Result - Total Change In Net Worth**	**(1,083)**	**3,693**	**(1,098)**	**2,642**	**3,152**	**2,214**	**2,568**
	KEY FISCAL AGGREGATES							
	Net Operating Balance	**436**	**946**	**(39)**	**694**	**1,124**	**204**	**712**
Less	**Net Acquisition of Non-financial Assets**							
	Purchases of non-financial assets	7,954	8,574	6,918	8,264	9,453	8,688	8,837
	Less Sales of non-financial assets	542	351	261	358	476	403	442
	Less Depreciation	5,511	5,644	5,732	5,959	6,266	6,423	6,638
	Plus Change in inventories	(69)	14	(49)	15	(55)	(22)	(79)
	Plus Other movements in non-financial assets	72	590	546	1,247	888	815	223
	Equals **Total Net Acquisition of Non-financial Assets**	**1,905**	**3,184**	**1,422**	**3,208**	**3,545**	**2,655**	**1,901**
Equals	**Fiscal Balance**	**(1,469)**	**(2,238)**	**(1,462)**	**(2,514)**	**(2,420)**	**(2,451)**	**(1,189)**

Note:

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

Table 9.4 General Government Sector Balance Sheet[1]

	2014–15 Outcome $ million	2015–16 Budget $ million	2015–16 Est.Actual $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Assets							
Financial Assets							
Cash and deposits	1,172	875	648	658	586	615	667
Advances paid	643	820	708	812	869	869	802
Investments, loans and placements	36,146	33,229	33,317	33,589	32,778	30,843	29,731
Receivables	7,557	4,177	3,678	3,907	3,852	3,979	4,131
Equity							
Investments in other public sector entities	23,441	22,528	21,323	21,320	21,613	21,648	21,646
Investments - other	158	170	166	176	186	196	196
Total Financial Assets	**69,117**	**61,798**	**59,841**	**60,462**	**59,883**	**58,150**	**57,172**
Non-financial Assets							
Land and other fixed assets	173,143	180,775	175,269	178,628	181,843	185,645	188,216
Other non-financial assets	6,520	6,283	6,582	7,058	7,375	6,927	7,169
Total Non-financial Assets	**179,663**	**187,058**	**181,851**	**185,686**	**189,218**	**192,572**	**195,385**
Total Assets	**248,779**	**248,856**	**241,691**	**246,148**	**249,101**	**250,722**	**252,557**
Liabilities							
Payables	3,188	3,328	2,962	3,209	3,242	3,286	3,332
Superannuation liability	25,869	24,278	27,219	25,891	24,807	23,584	22,447
Other employee benefits	4,725	5,204	5,001	5,179	5,339	5,506	5,585
Deposits held	3	1	..	..	..	..	..
Advances received	625	682	566	809	1,303	1,270	1,179
Borrowing	43,105	38,151	35,698	37,775	38,000	38,365	38,662
Other liabilities	3,082	3,512	3,161	3,559	3,532	3,619	3,692
Total Liabilities	**80,597**	**75,155**	**74,607**	**76,421**	**76,223**	**75,630**	**74,897**
Net Worth	**168,182**	**173,701**	**167,084**	**169,726**	**172,878**	**175,092**	**177,660**
Net Financial Worth	(11,481)	(13,357)	(14,766)	(15,960)	(16,340)	(17,480)	(17,725)
Net Financial Liabilities	34,922	35,885	36,090	37,279	37,953	39,128	39,371
Net Debt	5,772	3,910	1,590	3,525	5,072	7,309	8,641

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

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

	2014–15 Outcome $ million	2015–16 Budget $ million	2015–16 Est.Actual $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Assets							
Financial Assets							
Cash and deposits	2,001	1,257	1,278	539	196	116	163
Advances paid	41	33	33	275	768	760	753
Investments, loans and placements	312	415	361	333	327	326	324
Receivables	1,377	1,527	1,432	1,634	1,675	1,747	1,784
Equity							
Investments - other	284	271	226	226	226	226	226
Total Financial Assets	**4,013**	**3,502**	**3,330**	**3,008**	**3,192**	**3,175**	**3,250**
Non-financial Assets							
Land and other fixed assets	60,021	59,978	60,753	61,675	63,189	64,041	64,813
Other non-financial assets	1,373	1,421	1,371	1,342	1,360	1,372	1,352
Total Non-financial Assets	**61,393**	**61,399**	**62,124**	**63,017**	**64,549**	**65,413**	**66,165**
Total Assets	**65,407**	**64,901**	**65,454**	**66,026**	**67,741**	**68,588**	**69,415**
Liabilities							
Payables	6,160	2,652	2,312	2,407	2,240	2,220	2,260
Superannuation liability	(304)	(131)	(252)	(242)	(232)	(222)	(212)
Other employee benefits	658	720	669	681	690	699	705
Deposits held	27	26	21	24	24	24	24
Advances received	9	8	8	7	6	6	5
Borrowing	32,128	35,962	37,018	37,496	38,938	39,610	40,208
Other liabilities	7,505	7,597	7,503	7,482	7,609	7,750	7,927
Total Liabilities	**46,182**	**46,834**	**47,278**	**47,854**	**49,275**	**50,087**	**50,917**
Net Worth	**19,225**	**18,067**	**18,176**	**18,172**	**18,466**	**18,501**	**18,498**
Net Financial Worth	(42,169)	(43,332)	(43,948)	(44,845)	(46,083)	(46,912)	(47,667)
Net Financial Liabilities	42,169	43,332	43,948	44,845	46,083	46,912	47,667
Net Debt	29,810	34,292	35,374	36,378	37,678	38,438	38,996

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

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

	2014–15 Outcome $ million	2015–16 Budget $ million	2015–16 Est.Actual $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Assets							
Financial Assets							
Cash and deposits	3,172	2,131	1,926	1,197	782	730	830
Advances paid	675	846	733	830	880	874	800
Investments, loans and placements	36,457	33,643	33,679	33,922	33,104	31,168	30,055
Receivables	3,484	3,704	3,436	3,780	3,953	4,144	4,303
Equity							
Investments in other public sector entities	4,217	4,462	3,148	3,148	3,148	3,148	3,148
Investments - other	442	441	392	402	412	422	422
Total Financial Assets	**48,448**	**45,226**	**43,315**	**43,280**	**42,279**	**40,487**	**39,558**
Non-financial Assets							
Land and other fixed assets	233,162	240,752	236,021	240,303	245,031	249,685	253,028
Other non-financial assets	1,084	473	1,137	1,541	1,742	1,121	1,176
Total Non-financial Assets	**234,247**	**241,225**	**237,158**	**241,844**	**246,773**	**250,806**	**254,204**
Total Assets	**282,694**	**286,451**	**280,473**	**285,124**	**289,052**	**291,294**	**293,763**
Liabilities							
Payables	3,947	4,029	3,648	3,909	3,964	3,982	4,039
Superannuation liability	25,566	24,147	26,967	25,649	24,575	23,362	22,235
Other employee benefits	5,383	5,925	5,670	5,860	6,029	6,205	6,290
Deposits held	29	27	21	24	24	24	24
Advances received	625	682	566	559	553	520	429
Borrowing	75,233	74,113	72,715	75,270	76,939	77,976	78,869
Other liabilities	3,730	3,829	3,801	4,127	4,092	4,134	4,216
Total Liabilities	**114,512**	**112,751**	**113,388**	**115,397**	**116,174**	**116,202**	**116,103**
Net Worth	**168,182**	**173,701**	**167,084**	**169,726**	**172,878**	**175,092**	**177,660**
Net Financial Worth	(66,065)	(67,524)	(70,074)	(72,118)	(73,895)	(75,715)	(76,544)
Net Financial Liabilities	70,282	71,986	73,222	75,266	77,043	78,863	79,692
Net Debt	35,582	38,201	36,964	39,903	42,749	45,747	47,637

Notes:

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

Table 9.7 General Government Sector Cash Flow Statement[1]

	2014–15 Outcome $ million	2015–16 Budget $ million	2015–16 Est.Actual $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Cash Receipts from Operating Activities							
Taxes received	12,540	12,924	12,660	13,140	13,793	14,620	15,458
Grants and subsidies received	23,507	24,650	23,725	27,054	28,086	26,771	27,130
Sales of goods and services	5,737	5,565	5,662	5,721	5,819	5,855	6,048
Interest receipts	2,476	2,372	2,427	2,296	2,302	2,243	2,105
Dividends and income tax equivalents	2,091	2,740	3,729	1,652	2,191	1,992	1,955
Other receipts	4,388	4,605	4,326	4,279	4,423	4,748	5,093
Total Operating Receipts	**50,738**	**52,856**	**52,528**	**54,142**	**56,612**	**56,230**	**57,789**
Cash Payments for Operating Activities							
Payments for employees	(21,531)	(23,113)	(22,870)	(24,366)	(25,221)	(25,834)	(27,074)
Payments for goods and services	(15,918)	(16,289)	(16,107)	(17,443)	(17,921)	(17,001)	(16,690)
Grants and subsidies	(6,450)	(6,506)	(6,268)	(6,731)	(6,852)	(7,755)	(8,237)
Interest paid	(2,327)	(2,115)	(2,193)	(1,693)	(1,672)	(1,637)	(1,547)
Other payments	(282)	(348)	(311)	(349)	(374)	(386)	(386)
Total Operating Payments	**(46,507)**	**(48,372)**	**(47,749)**	**(50,581)**	**(52,040)**	**(52,612)**	**(53,935)**
Net Cash Inflows from Operating Activities	**4,230**	**4,485**	**4,779**	**3,561**	**4,572**	**3,618**	**3,854**
Cash Flows from Investments in Non-Financial Assets							
Purchases of non-financial assets	(4,779)	(5,374)	(4,173)	(5,452)	(6,590)	(5,840)	(5,983)
Sales of non-financial assets	417	305	216	341	406	377	409
Net Cash Flows from Investments in Non-financial Assets	**(4,362)**	**(5,069)**	**(3,958)**	**(5,111)**	**(6,185)**	**(5,463)**	**(5,573)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**22**	**3,100**	**3,403**	**911**	**36**	**293**	**406**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(1,283)**	**3,061**	**2,817**	**(214)**	**818**	**1,940**	**1,128**
Receipts from Financing Activities							
Advances received (net)	33	(41)	(137)	197	480	(41)	(40)
Borrowing (net)	1,626	(5,514)	(7,465)	665	206	(319)	278
Deposits received (net)	3	..	..	..	..	..	..
Net Cash Flows from Financing Activities	**1,661**	**(5,555)**	**(7,602)**	**862**	**687**	**(360)**	**238**
Net Increase/(Decrease) in Cash held	**269**	**22**	**(561)**	**10**	**(72)**	**29**	**52**
Net cash from operating activities	4,230	4,485	4,779	3,561	4,572	3,618	3,854
Net cash flows from investments in non-financial assets	(4,362)	(5,069)	(3,958)	(5,111)	(6,185)	(5,463)	(5,573)
Surplus/(Deficit)	**(131)**	**(584)**	**821**	**(1,550)**	**(1,613)**	**(1,845)**	**(1,719)**
Derivation of ABS GFS Cash Surplus/Deficit							
Cash surplus/(deficit)	(131)	(584)	821	(1,550)	(1,613)	(1,845)	(1,719)
Acquisitions under finance leases and similar arrangements	(470)	(385)	(350)	(1,032)	(682)	(661)	..
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	**(601)**	**(968)**	**471**	**(2,582)**	**(2,294)**	**(2,506)**	**(1,719)**

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

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

	2014–15 Outcome $ million	2015–16 Budget $ million	2015–16 Est.Actual $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Cash Receipts from Operating Activities							
Grants and subsidies received	743	665	698	693	589	619	673
Sales of goods and services	11,408	11,954	11,455	11,861	11,926	11,992	12,391
Interest receipts	68	53	58	40	37	37	36
Dividends and income tax equivalents	10	..	14	14	14	14	14
Other receipts	248	148	205	96	102	133	151
Total Operating Receipts	**12,477**	**12,821**	**12,430**	**12,704**	**12,668**	**12,795**	**13,264**
Cash Payments for Operating Activities							
Payments for employees	(1,707)	(1,879)	(1,829)	(1,919)	(1,906)	(1,922)	(1,975)
Payments for goods and services	(3,934)	(3,853)	(3,775)	(3,904)	(3,917)	(4,135)	(4,208)
Grants and subsidies	(9)	(13)	(13)	(14)	(14)	(14)	(14)
Interest paid	(1,791)	(1,787)	(1,747)	(2,059)	(1,939)	(1,953)	(2,033)
Other payments	(1,054)	(1,582)	(1,512)	(1,461)	(1,114)	(1,101)	(1,087)
Total Operating Payments	**(8,496)**	**(9,115)**	**(8,877)**	**(9,356)**	**(8,890)**	**(9,124)**	**(9,318)**
Net Cash Inflows from Operating Activities	**3,981**	**3,706**	**3,553**	**3,347**	**3,777**	**3,671**	**3,947**
Cash Flows from Investments in Non-Financial Assets							
Purchases of non-financial assets	(3,173)	(3,201)	(2,745)	(2,812)	(2,862)	(2,847)	(2,855)
Sales of non-financial assets	124	46	45	17	70	25	32
Net Cash Flows from Investments in Non-financial Assets	**(3,049)**	**(3,155)**	**(2,700)**	**(2,795)**	**(2,792)**	**(2,822)**	**(2,822)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**..**	**(3,159)**	**(3,383)**	**(755)**	**(86)**	**(318)**	**(406)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**51**	**..**	**(61)**	**(2)**	**..**	**..**	**..**
Receipts from Financing Activities							
Advances received (net)	(1)	(1)	(1)	(251)	(501)	(1)	(1)
Borrowing (net)	962	3,828	4,553	540	743	677	602
Dividends paid	(1,375)	(1,651)	(2,659)	(670)	(1,535)	(1,312)	(1,273)
Deposits received (net)	1	..	(6)	3	..	..	..
Other financing (net)	(138)	59	(20)	(156)	50	25	..
Net Cash Flows from Financing Activities	**(551)**	**2,235**	**1,868**	**(535)**	**(1,243)**	**(611)**	**(671)**
Net Increase/(Decrease) in Cash held	**432**	**(373)**	**(722)**	**(739)**	**(344)**	**(80)**	**47**
Net cash from operating activities	3,981	3,706	3,553	3,347	3,777	3,671	3,947
Net cash flows from investments in non-financial assets	(3,049)	(3,155)	(2,700)	(2,795)	(2,792)	(2,822)	(2,822)
Dividends paid	(1,375)	(1,651)	(2,659)	(670)	(1,535)	(1,312)	(1,273)
Surplus/(Deficit)	**(443)**	**(1,100)**	**(1,806)**	**(118)**	**(550)**	**(463)**	**(148)**
Derivation of ABS GFS Cash Surplus/Deficit							
Cash surplus/(deficit)	(443)	(1,100)	(1,806)	(118)	(550)	(463)	(148)
Acquisitions under finance leases and similar arrangements	(9)	..	..	..	..	..	..
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	**(452)**	**(1,100)**	**(1,806)**	**(118)**	**(550)**	**(463)**	**(148)**

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

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

	2014–15 Outcome $ million	2015–16 Budget $ million	2015–16 Est.Actual $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Cash Receipts from Operating Activities							
Taxes received	12,194	12,583	12,344	12,878	13,471	14,234	15,043
Grants and subsidies received	23,585	24,778	23,830	27,123	28,158	26,846	27,208
Sales of goods and services	15,404	15,280	14,882	15,316	15,489	15,526	15,902
Interest receipts	2,544	2,426	2,485	2,336	2,339	2,280	2,142
Dividends and income tax equivalents	253	146	201	100	105	125	146
Other receipts	4,627	4,753	4,530	4,375	4,524	4,882	5,243
Total Operating Receipts	**58,606**	**59,966**	**58,274**	**62,129**	**64,086**	**63,892**	**65,684**
Cash Payments for Operating Activities							
Payments for employees	(23,142)	(24,894)	(24,596)	(26,181)	(27,022)	(27,650)	(28,940)
Payments for goods and services	(18,104)	(17,915)	(17,661)	(19,095)	(19,597)	(18,828)	(18,376)
Grants and subsidies	(5,794)	(5,983)	(5,689)	(6,120)	(6,349)	(7,225)	(7,656)
Interest paid	(3,887)	(3,672)	(3,737)	(3,604)	(3,405)	(3,322)	(3,286)
Other payments	(842)	(963)	(918)	(890)	(899)	(891)	(896)
Total Operating Payments	**(51,768)**	**(53,426)**	**(52,601)**	**(55,891)**	**(57,271)**	**(57,915)**	**(59,155)**
Net Cash Inflows from Operating Activities	**6,838**	**6,540**	**5,673**	**6,238**	**6,815**	**5,977**	**6,529**
Cash Flows from Investments in Non-Financial Assets							
Purchases of non-financial assets	(7,954)	(8,574)	(6,918)	(8,264)	(9,453)	(8,688)	(8,837)
Sales of non-financial assets	542	351	261	358	476	403	442
Net Cash Flows from Investments in Non-financial Assets	**(7,413)**	**(8,224)**	**(6,658)**	**(7,906)**	**(8,977)**	**(8,285)**	**(8,396)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**..**	**..**	**..**	**..**	**..**	**..**	**..**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(1,236)**	**3,061**	**2,756**	**(215)**	**818**	**1,940**	**1,128**
Receipts from Financing Activities							
Advances received (net)	32	(41)	(138)	(54)	(20)	(41)	(41)
Borrowing (net)	2,588	(1,686)	(2,911)	1,205	949	358	880
Deposits received (net)	3	..	(6)	3	..	..	..
Other financing (net)	(112)	..	..	..	..	..	..
Net Cash Flows from Financing Activities	**2,511**	**(1,728)**	**(3,055)**	**1,154**	**929**	**317**	**839**
Net Increase/(Decrease) in Cash held	**701**	**(351)**	**(1,283)**	**(729)**	**(416)**	**(51)**	**99**
Net cash from operating activities	6,838	6,540	5,673	6,238	6,815	5,977	6,529
Net cash flows from investments in non-financial assets	(7,413)	(8,224)	(6,658)	(7,906)	(8,977)	(8,285)	(8,396)
Surplus/(Deficit)	**(574)**	**(1,684)**	**(985)**	**(1,667)**	**(2,162)**	**(2,308)**	**(1,867)**
Derivation of ABS GFS Cash Surplus/Deficit							
Cash surplus/(deficit)	(574)	(1,684)	(985)	(1,667)	(2,162)	(2,308)	(1,867)
Acquisitions under finance leases and similar arrangements	(479)	(385)	(350)	(1,032)	(682)	(661)	..
ABS GFS Cash Surplus/(Deficit) Including Finance Leases and Similar Arrangements	**(1,053)**	**(2,068)**	**(1,335)**	**(2,700)**	**(2,844)**	**(2,969)**	**(1,867)**

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

9.3 Reconciliation of net operating balance to accounting operating result

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

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

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

	2015–16 Budget $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million
Net operating balance General Government sector (Table 8.1)	1,213	152	867
Remeasurement/valuation adjustments			
Bad debts and amortisation	(100)	(88)	(88)
Deferred tax equivalents	(19)	(101)	(54)
Dividends received on privatisation sales	..	..	..
Dividends from network GOCs under Debt Action Plan (treated as return of equity for UPF)	156	845	160
Market value adjustments on financial assets and liabilities	23	1	(487)
Revaluation of provisions	66	37	75
Decommissioned infrastructure assets and land under roads	(143)	(143)	(143)
Gain/(loss) on assets sold/written off/impaired	(121)	(153)	(92)
Accounting operating result General Government sector	**1,074**	**549**	**239**

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

9.4 General Government Sector time series

Data presented in Table 9.11 provides a time series from 2003–04 to 2014–15 for the General Government Sector on the key fiscal aggregates used by the Government to measure financial performance. These aggregates have been backcast (as far as is possible) to comply with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Table 9.11: General Government Sector time series

	2003–04 Actual $ million	2004–05 Actual $ million	2005–06 Actual $ million	2006–07 Actual $ million	2007–08 Actual $ million	2008–09 Actual $ million	2009–10 Actual $ million	2010–11 Actual $ million	2011–12 Actual $ million	2012–13 Actual $ million	2013–14 Actual $ million	2014–15 Actual $ million
Revenue from Transactions												
Taxation revenue	6,676	6,952	7,396	8,484	9,546	8,866	9,375	9,981	10,608	10,937	11,845	12,575
Grant revenue	11,528	12,755	13,590	14,378	15,510	17,481	20,205	20,338	22,652	18,322	21,755	23,594
Sales of goods and services	2,105	2,380	2,641	2,909	3,357	3,648	3,961	4,172	5,002	5,087	5,048	5,250
Interest income	2,723	2,972	3,414	3,338	(275)	1,482	2,204	2,368	2,485	2,644	2,460	2,470
Dividend and income tax equivalent income	1,148	1,022	1,059	858	1,244	1,180	949	1,232	1,112	1,351	1,975	2,554
Other revenue	1,035	1,517	1,983	2,032	2,041	4,421	3,033	3,921	3,942	3,415	3,650	3,322
Total Revenue	**25,214**	**27,599**	**30,084**	**31,999**	**31,424**	**37,078**	**39,727**	**42,013**	**45,801**	**41,755**	**46,734**	**49,765**
Expenses from Transactions												
Employee expenses	8,972	9,621	10,615	11,731	13,175	14,310	15,566	16,826	18,250	18,130	17,817	18,593
Superannuation expenses												
Superannuation interest costs	1,040	867	840	1,154	816	858	1,320	1,240	1,216	923	963	878
Other superannuation expenses	1,061	1,238	1,367	1,513	1,865	2,012	2,051	2,171	2,301	2,420	2,277	2,319
Other operating expenses	3,948	4,522	5,236	6,138	6,646	7,300	7,568	8,646	9,497	12,817	13,114	14,519
Depreciation and amortisation	1,460	1,526	1,678	1,764	1,851	2,496	2,501	2,507	2,777	2,902	2,946	3,154
Other interest expenses	213	213	174	180	347	599	803	1,125	1,659	1,940	2,201	2,328
Grant expenses	5,180	5,647	6,467	7,565	8,329	9,525	9,790	10,963	10,327	7,182	6,796	7,433
Total Expenses	**21,873**	**23,634**	**26,378**	**30,046**	**33,030**	**37,099**	**39,599**	**43,479**	**46,028**	**46,312**	**46,115**	**49,224**
Net Operating Balance	**3,341**	**3,964**	**3,707**	**1,953**	**(1,606)**	**(21)**	**128**	**(1,466)**	**(226)**	**(4,558)**	**619**	**542**
OTHER KEY AGGREGATES												
Purchases of non-financial assets	2,415	2,717	3,196	4,412	5,725	6,772	8,959	8,237	7,971	7,001	6,322	4,779
Net acquisition of non-financial assets	521	1,016	1,234	2,157	3,680	4,349	6,665	5,583	5,241	3,389	3,200	1,122
Fiscal Balance	**2,819**	**2,946**	**2,472**	**(204)**	**(5,286)**	**(4,371)**	**(6,537)**	**(7,049)**	**(5,467)**	**(7,947)**	**(2,581)**	**(581)**
Cash Surplus/(Deficit)	3,489	4,635	4,649	2,360	(4,924)	(2,866)	(5,341)	(5,880)	(4,951)	(8,585)	(3,345)	(131)
Net Worth	77,723	92,148	104,446	118,532	193,838	184,277	175,588	177,875	170,745	172,963	169,265	168,182
Net Debt	(14,811)	(19,354)	(23,203)	(26,622)	(22,586)	(19,251)	(13,354)	(9,542)	(5,720)	2,399	5,203	5,772
Borrowing	3,208	2,794	2,084	2,267	6,328	10,308	15,916	24,593	29,517	37,878	41,402	43,105
Borrowing (NFPS)	15,248	15,819	17,314	23,971	30,856	42,645	51,713	53,708	61,542	69,086	72,716	75,233

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

Source: Report on State Finances for Queensland 2003-04 to 2014-15. (Numbers have been recast for changes to UPF presentation.)

9.5 Other General Government uniform presentation framework data

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

9.5.1 Grants

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

Table 9.12 General Government Sector grant revenue[1]

	2015–16 Est. Actual $ million	2016–17 Budget $ million
Current grant revenue		
Current grants from the Commonwealth		
General purpose grants	13,132	14,307
Specific purpose grants	6,338	6,815
Specific purpose grants for on-passing	2,471	2,847
Total current grants from the Commonwealth	21,941	23,969
Other contributions and grants	293	317
Total current grant revenue	**22,234**	**24,286**
Capital grant revenue		
Capital grants from the Commonwealth		
Specific purpose grants	1,389	2,759
Specific purpose grants for on-passing	12	..
Total capital grants from the Commonwealth	1,401	2,759
Other contributions and grants	61	71
Total capital grant revenue	**1,462**	**2,830**
Total grant revenue	**23,696**	**27,116**

Note:
1. Numbers may not add due to rounding.

Table 9.13 General Government Sector grant expense[1]

	2015–16 Est. Act. $ million	2016–17 Budget $ million
Current grant expense		
Private and Not-for-profit sector	1,448	1,415
Private and Not-for-profit sector on-passing	2,254	2,406
Local Government	167	183
Local Government on-passing	225	450
Grants to other sectors of Government	531	725
Other	225	226
Total current grant expense	**4,851**	**5,404**
Capital grant expense		
Private and Not-for-profit sector	326	314
Local Government	764	936
Local Government on-passing	12	..
Grants to other sectors of Government	25	25
Other	110	120
Total capital grant expense	**1,237**	**1,395**
Total grant expense	**6,088**	**6,799**

Note:
1. Numbers may not add due to rounding.

9.5.2 Dividend and income tax equivalent income

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

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

	2015–16 Est. Act. $ million	2016–17 Budget $ million
Dividend and Income Tax Equivalent income from PNFC sector	2,317	2,223
Dividend and Income Tax Equivalent income from PFC sector	121	85
Total Dividend and Income Tax Equivalent income	**2,438**	**2,307**

Note:
1. Numbers may not add due to rounding.

9.5.3 Expenses by function

Data presented in Table 9.15 provides details of General Government Sector expenses by function.

Table 9.15 General Government Sector expenses by function[1]

	2015–16 Budget $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
General public services	1,261	1,520	1,818	1,720	1,685	1,666
Public order and safety	4,566	4,553	4,796	4,875	4,963	5,063
Education	12,076	12,012	12,650	13,312	13,546	14,286
Health	14,272	14,638	15,080	15,619	16,141	16,665
Social security and welfare	2,976	2,973	3,226	3,574	4,225	3,834
Housing and community amenities	1,614	1,512	1,592	1,548	1,564	1,609
Recreation and culture	1,135	1,095	1,263	1,714	923	843
Fuel and energy	482	539	607	521	573	612
Agriculture, forestry, fishing and hunting	674	646	614	569	569	571
Mining, manufacturing and construction	345	316	331	330	336	345
Transport and communications	5,475	5,523	6,007	5,805	5,929	6,152
Other economic affairs	755	668	732	754	723	716
Other purposes	4,341	3,830	3,865	3,781	3,596	3,571
Total Expenses	**49,973**	**49,824**	**52,582**	**54,123**	**54,775**	**55,934**

Note:

1. Numbers may not add due to rounding.

9.5.4 Purchases of non–financial assets by function

Data presented in Table 9.16 provides details of General Government Sector purchases of non–financial assets by function.

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

	2015–16 Budget $ million	2015–16 Est. Actual $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
General public services	40	39	39	82	85	44
Public order and safety	370	251	373	373	265	253
Education	474	419	493	410	510	487
Health	1,159	998	833	939	654	634
Social security and welfare	23	18	30	21	18	18
Housing and community amenities	387	356	400	371	260	253
Recreation and culture	103	89	163	49	86	35
Agriculture, forestry, fishing and hunting	33	21	23	20	23	20
Mining, manufacturing and construction	6	6	5	1	1	2
Transport and communications	2,709	1,925	2,973	4,231	3,867	4,220
Other economic affairs	8	7	7	8	8	8
Other purposes	61	44	112	85	63	8
Total Purchases	**5,374**	**4,173**	**5,452**	**6,590**	**5,840**	**5,983**

Note:

1. Numbers may not add due to rounding.

9.5.5 Taxes

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

Table 9.17 General Government Sector taxes[1]

	2015–16 Est.Actual $ million	2016–17 Budget $ million
Taxes on employers' payroll and labour force	3,753	3,826
Taxes on property		
Land taxes	1,010	1,083
Stamp duties on financial and capital transactions	3,060	3,231
Other	684	698
Taxes on the provision of goods and services		
Taxes on gambling	1,146	1,195
Taxes on insurance	873	921
Taxes on use of goods and performance of activities		
Motor vehicle taxes	2,135	2,195
Total Taxation Revenue	**12,660**	**13,150**

Note:
1. Numbers may not add due to rounding.

9.5.6 Loan Council Allocation

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

Table 9.18 presents the State's revised Budget LCA and the Loan Council endorsed LCA for 2016–17.

Table 9.18 Loan Council Allocation[1]

		2016–17 Nomination $ million	2016–17 Budget $ million
	General Government sector cash deficit/(surplus)	752	1,550
	PNFC sector cash deficit/(surplus)	918	118
	Non-financial Public sector cash deficit/(surplus)	**1,670**	**1,667**
	Acquisitions under finance leases and similar arrangements	843	1,032
Equals	**ABS GFS cash deficit/(surplus)**	**2,512**	**2,699**
Less	Net cash flows from investments in financial assets for policy purposes	..	..
Plus	Memorandum items [2]	941	2,057
	Loan Council Allocation	**3,453**	**4,756**

Notes:
1. Numbers may not add due to rounding.
2. Memorandum items include operating leases and local government borrowings.

The State's Budget LCA is a deficit of $4.756 billion, compared to the LCA nomination of $3.453 billion. This deterioration is largely the result of increased borrowing by Universities and Local Governments (included in Memorandum items).

9.6 Contingent liabilities

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

The State's quantifiable and non–quantifiable contingent liabilities are detailed in the *2014–15 Report on State Finances* – whole–of–government financial statements (Note 47).

A summary of the State's quantifiable contingent liabilities as at 30 June 2015 is provided in Table 9.19.

Table 9.19 Contingent liabilities

	2014–15 $ million
Nature of contingent liability	
Guarantees and indemnities	10,235
Other	1,123
Total	**11,358**

9.7 Background and interpretation of uniform presentation framework

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

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

9.7.1 Accrual Government Finance Statistics framework

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

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

9.7.2 Generally Accepted Accounting Principles

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

9.7.3 Harmonisation under AASB 1049

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

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

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

9.7.4 Revisions to the Uniform Presentation Framework

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

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

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

9.8 Sector classification

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

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

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

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

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

9.9 Reporting entities

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

9.9.1 General Government

Departments

Aboriginal and Torres Strait Islander Partnerships

Agriculture and Fisheries

Communities, Child Safety and Disability Services

Education and Training

Electoral Commission of Queensland

Energy and Water Supply

Environment and Heritage Protection

Housing and Public Works

Infrastructure, Local Government and Planning

Justice and Attorney–General

Legislative Assembly

National Parks, Sport and Racing

Natural Resources and Mines

Office of the Governor

Office of the Inspector–General Emergency Management

Office of the Ombudsman

Premier and Cabinet

Public Safety Business Agency

Public Service Commission

Queensland Audit Office

Queensland Fire and Emergency Services

Queensland Health

Queensland Police Service

Queensland Treasury

Science, Information Technology and Innovation

State Development

The Public Trustee of Queensland

Tourism, Major Events, Small Business and the Commonwealth Games

Transport and Main Roads

Commercialised Business Units

Building and Asset Services

CITEC

Economic Development Queensland

QFleet

RoadTek

Shared Service Providers

Corporate Administration Agency

Queensland Shared Services

Statutory Authorities

Anti–Discrimination Commission

Board of the Queensland Museum

City North Infrastructure Pty Ltd

Crime and Corruption Commission

Gold Coast 2018 Commonwealth Games Corporation

Gold Coast Waterways Authority

Hospital and Health Services

- Cairns and Hinterland
- Central Queensland
- Central West
- Children's Health Queensland
- Darling Downs
- Gold Coast
- Mackay
- Metro North
- Metro South
- North West
- South West
- Sunshine Coast
- Torres and Cape
- Townsville
- West Moreton
- Wide Bay

Legal Aid Queensland

Library Board of Queensland

Motor Accident Insurance Commission

Nominal Defendant

Office of the Information Commissioner

Office of the Health Ombudsman

Prostitution Licensing Authority

Queensland Agricultural Training Colleges

Queensland Art Gallery Board of Trustees

Queensland Building and Construction Commission

Queensland Curriculum and Assessment Authority

Queensland Family and Child Commission

Queensland Mental Health Commission

Queensland Performing Arts Trust

Queensland Racing Integrity Commission (commencing 1 July 2016)

Queensland Reconstruction Authority

QRAA

Queensland Training Assets Management Authority (ceased 13 August 2015)

Residential Tenancies Authority

South Bank Corporation

TAFE Queensland

The Council of the Queensland Institute of Medical Research

Tourism and Events Queensland

Trade and Investment Queensland

9.9.2 Public Non–financial Corporations

Brisbane Port Holdings Pty Ltd

CS Energy Limited

DBCT Holdings Pty Ltd

Energex Limited (merging into Energy Queensland 30 June 2016)

Energy Queensland (commencing 30 June 2016)

Ergon Energy Corporation Limited (merging into Energy Queensland 30 June 2016)

Far North Queensland Ports Corporation Limited

Gladstone Area Water Board

Gladstone Ports Corporation Limited

Mount Isa Water Board

North Queensland Bulk Ports Corporation Limited

Port of Townsville Limited

Powerlink Queensland

Queensland Bulk Water Supply Authority (Seqwater)

Queensland Lottery Corporation Pty Ltd

Queensland Rail

Queensland Treasury Holdings Pty Ltd

Stadiums Queensland

Stanwell Corporation Limited

SunWater Limited

Appendices

Appendix A: Concessions statement

Context

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

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

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

Termination of the National Partnership Agreement

In its 2014–15 Budget, the Australian Government announced that it would unilaterally terminate the National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders (the NPA) from 1 July 2014. Through the agreement the Australian Government provided 15% of the total cost of the concessions supported through the NPA for Pensioner Concession Card and Seniors Card holders. The Queensland Government is continuing the guarantee that these concessions remain fully funded. This comes at a cost to the Queensland Government of around $56 million per annum over and above the state's existing contributions to such concessions.

Focus

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

Sections A.2 and A.3 set out the individual concessions by agency and government owned corporation respectively, sorted in descending order. The total value of these concessions is estimated at $4.884 billion in 2016–17. This represents a significant Government and taxpayer commitment to improving the accessibility and affordability of a diverse range of services; and reducing the price paid by consumers of those services to ease cost of living pressures.

Explanation of scope

For the purposes of this document, concessions include:

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

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

To be included in this statement, concessions must meet the minimum materiality threshold of estimated expenditure or revenue foregone of $50,000 in 2016–17.

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

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

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

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

A.1 Concessions summary

Table A.1.1 Concession by entity[1]

Concession by entity	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Agency		
Department of Agriculture and Fisheries	33.0	39.5
Department of Communities, Child Safety and Disability Services	241.2	254.2
Department of Education and Training	541.1	551.8
Department of Energy and Water Supply	571.5	612.7
Department of Housing and Public Works	417.8	387.2
Department of Justice and Attorney–General	69.5	73.2
Department of National Parks, Sport and Racing	1.6	1.9
Department of Natural Resources and Mines	4.1	4.2
Department of Science, Information Technology and Innovation	0.8	0.8
Department of Transport and Main Roads	2,411.5	2,542.9
Department of the Premier and Cabinet	5.3	5.2
Public Safety Business Agency	7.6	9.0
Queensland Fire and Emergency Services	9.1	9.5
Queensland Health	306.4	282.4
Total Agency	**4,620.5**	**4,774.5**
Government–owned corporations		
Energex Limited	14.5	14.9
Ergon Energy Corporation Limited	7.4	7.6
Far North Queensland Ports Corporation Limited	0.8	0.8
Gladstone Ports Corporation Limited	55.2	56.0
North Queensland Bulk Ports Corporation Limited	1.6	1.5
Port of Townsville Limited	5.5	5.6
Queensland Rail Limited	1.6	1.7
SunWater Limited	21.0	21.0
Total government–owned corporations	**107.6**	**109.1**
Total all entities	**4,728.1**	**4,883.6**

Notes:

1. Numbers may not add due to rounding.

A.2 Concessions by agency

Table A.2.1 Department of Agriculture and Fisheries

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Drought Relief Assistance Scheme–Fodder and Water Freight	23.0	22.9
Primary Industry Productivity Enhancement Scheme (PIPES)[1,2]	10.0	16.6
Total	**33.0**	**39.5**

Notes

1. The concession shown represents the fair values of the interest rate concessions pertaining to loans issued in each of the financial years shown.
2. The increase between the 2015–16 estimated actual and 2016–17 estimate is primarily due to the increase in loan limits for the Advancing Queensland Innovation Loan (previously called the Sustainability Loan) from $650,000 to $1.3 million and an increase in the loan limit for the First Start loan from $650,000 to $2 million.

Drought Relief Assistance Scheme

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

Primary Industry Productivity Enhancement Scheme (PIPES)

PIPES is administered by QRAA and provides concessional rates of interest on loans to eligible primary producers in need of financial assistance. First Start Loans of up to $2 million and Advancing Queensland Innovation Loans (previously called the Sustainability Loan) of up to $1.3 million support applicants to enter primary production and to improve productivity and sustainability. The average concessional interest rate for new lending is 3.44%. The amounts shown in the above table represent the fair values of the interest rate concessions pertaining to loans issued in each of the financial years shown.

Table A.2.2 Department of Communities, Child Safety and Disability Services

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Electricity Rebate Scheme[1,2]	158.0	165.5
Pensioner Rate Subsidy Scheme	53.0	53.6
South East Queensland Pensioner Water Subsidy Scheme	19.0	19.2
Home Energy Emergency Assistance Scheme[3]	5.5	10.0
Electricity Life Support Concession Scheme[1]	2.3	2.4
Reticulated Natural Gas Rebate Scheme	2.2	2.2
Medical Cooling and Heating Electricity Concession Scheme[1]	1.2	1.3
Total	**241.2**	**254.2**

Notes

1. Electricity price linked rebates are adjusted annually according to the Queensland Competition Authority's (QCA) price determination for the general household electricity tariff (Tariff 11). For 2016–17, the QCA determined that Tariff 11 will increase by 2.8%.
2. The increase between the 2015–16 estimated actual and the 2016–17 estimate reflects the growth in claimants arising from the increased take up of concession cards in 2016–17.
3. The increase between the 2015–16 estimated actual and the 2016–17 estimate reflects lower take up than was anticipated in 2015–16.

Electricity Rebate Scheme

The Electricity Rebate Scheme provides a rebate of up to $330 per annum to assist with the cost of domestic electricity supply to the home of eligible holders of a Pensioner Concession Card, a Queensland Seniors Card or a Department of Veterans' Affairs Gold Card (and receive the War Widow/er Pension or special rate Totally or Permanently Incapacitated Pension).

Pensioner Rate Subsidy Scheme

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

South East Queensland Pensioner Water Subsidy Scheme

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

Home Energy Emergency Assistance Scheme

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

Electricity Life Support Concession Scheme

The Electricity Life Support Concession Scheme is aimed at assisting seriously ill people who use home based life support systems by providing a rebate of up to $672 per annum for users of oxygen concentrators and a rebate of up to $450 per annum for users of kidney dialysis machines to meet their electricity costs. The concession is paid quarterly and is subject to the patient being medically assessed in accordance with Queensland Health eligibility criteria.

Reticulated Natural Gas Rebate Scheme

The Reticulated Natural Gas Rebate Scheme provides a rebate of up to $70 per annum to assist with the cost of reticulated natural gas supplied to the home of eligible holders of a Pensioner Concession Card, Queensland Seniors Card or a Department of Veterans' Affairs Gold Card (and receive a War Widow/er or special rate Totally or Permanently Incapacitated Pension).

Medical Cooling and Heating Electricity Concession Scheme

The Medical Cooling and Heating Electricity Concession Scheme provides a rebate of up to $330 per annum for eligible concession card holders with a medical condition who are dependent on air conditioning to regulate body temperature.

Table A.2.3 Department of Education and Training

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
User Choice – Apprentice and Trainee Training Subsidy[1]	209.8	220.3
Vocational Education and Training (VET) – Certificate 3 Guarantee Tuition Fee Subsidy[2]	152.1	140.5
VET – Higher Level Skills Tuition Fee Subsidy[3]	54.1	60.0
Textbook and Resource Allowance[4]	56.8	58.9
School Transport Assistance for Students with Disabilities	39.6	41.7
Living Away from Home Allowance Scheme	7.9	8.2
Tuition fee exemptions/waivers – Dependants of international students	6.6	6.6
Non–Government Schools Transport Assistance Scheme	5.8	6.0
Travel and Accommodation Subsidy[5]	3.0	4.5
Dalby State High School – Bunya Campus Residential Facility[6]	2.5	2.6
Spinifex State College – Mount Isa Student Residential Facility	1.0	1.0
Distance Education – Information and Communication Technology Subsidy Scheme	0.9	0.8
Western Cape Student Residential College, Weipa	0.5	0.5
Distance Education – Non–Government Student Fee Subsidy[7]	0.5	0.2
Total	**541.1**	**551.8**

Notes

1. The increase between the 2015–16 estimated actual and 2016–17 estimate is due to a CPI increase on subsidies and the anticipated increase in apprentices and related program activity.
2. The decrease between the 2015–16 estimated actual and 2016–17 estimate is due to the demand driven nature of the courses under the Certificate 3 Guarantee program. The 2016–17 estimate is an increase over the original 2015–16 Budget forecast of $122.6 million.
3. The increase between the 2015–16 estimated actual and 2016–17 estimate is due to the anticipated increase in activity through demand–driven funding arrangements.
4. The increase between the 2015–16 estimated actual and 2016–17 estimate is due to a combination of CPI indexation and student enrolment growth in state and non–government schools.
5. The increase between the 2015–16 estimated actual and 2016–17 estimate is due to a low take up of this subsidy in 2015–16.
6. The increase between the 2015–16 estimated actual and 2016–17 estimate is due to anticipated increased student enrolments in 2017.
7. The decrease between the 2015–16 estimated actual and 2016–17 estimate is due to an anticipated lower uptake of this subsidy in 2017.

User Choice – Apprentice and Trainee Training Subsidy

The User Choice – Apprentice and Trainee Training Subsidy program provides Government funding towards the costs of training and assessment for eligible Queensland apprentices and trainees. The subsidy is available to public and private registered training organisations (pre–approved as pre–qualified suppliers) to subsidise tuition fees to reduce the cost of required accredited, entry level training for apprentices and trainees. The program provides greater flexibility for apprentices, trainees and their employers to select a preferred registered training organisation of their choice and to negotiate the type of training to meet their specific needs.

Whilst the full cost of each training subsidy varies by course, the average annual dollar value of this subsidy per student is $2,532.

Vocational Education and Training (VET) – Certificate 3 Guarantee Tuition Fee Subsidy

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

The annual average dollar value of this subsidy for each qualification ranges from $530 to $7,880 depending on the eligibility and qualification subsidised. The average subsidy value is $2,734.

VET – Higher Level Skills Tuition Fee Subsidy

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

The annual average dollar value of this subsidy for each qualification ranges from $2,130 to $11,060 depending on the eligibility and qualification subsidised. The average subsidy value is $4,281.

Textbook and Resource Allowance

The Textbook and Resource Allowance is for parents/caregivers of secondary school age students attending State and approved non–government schools to assist with the cost of textbooks and learning resources. Parents generally sign over this allowance to the school to reduce the fees associated with participating in the school's textbook and resource scheme. In 2016, the rates per annum are $121 for students in Years 7 to 10 and $262 for students in Years 11 and 12.

School Transport Assistance for Students with Disabilities

School Transport Assistance for Students with Disabilities is provided for students to attend State school programs that meet their individual education needs. This transport assistance includes the provision of taxis or specialised contracted minibuses, payment of fares on regular buses or trains, or an allowance for parents who drive their children to school. The benefit level is to a maximum of $400 per week, per student, however in exceptional circumstances higher amounts may be approved. A separate scheme is in place for students with disabilities attending non–government schools (refer 'Non–Government Schools Transport Assistance Scheme').

The Department of Education and Training is working with the Department of Transport and Main Roads (TMR) to establish a long–term solution for the delivery of school transport assistance for students with disabilities under the National Disability Insurance Scheme (NDIS). TMR is the lead agency for progressing these discussions.

Living Away from Home Allowance Scheme

The Living Away from Home Allowance Scheme provides financial assistance to support Queensland families and targets geographically–isolated families. The scheme meets the costs of children who are required to live away from home to attend schools. This concession is available to Queensland students attending both state and non–government schools.

The benefits available for eligible students in 2016 are:

- Remote Area Allowance – assistance of $2,277 per annum is available to students attending campuses of the Australian Agricultural College Corporation in lieu of Years 11 and 12.
- Remote Area Tuition Allowance – primary students up to $3,623 per annum and secondary students up to $5,217 per annum. Benefit levels are linked to the tuition fees charged by approved boarding schools.
- Remote Area Travel Allowance – available where the distance from the family home to the boarding location is at least 50km. Benefit levels depend on the distance travelled, and range from $133 to a maximum of $1,665 per annum.
- Remote Area Disability Supplement – available to students with disabilities who incur additional costs associated with living away from home to attend school. Benefits are up to $7,412 per student per annum.

Tuition fee exemptions/waivers – Dependants of international students

This concession, available for dependants of international students, allows students who meet the approved exemption criteria and wish to enrol their child in Preparatory (Prep) Year to Year 12 of schooling are exempt from paying dependant tuition fees. The exemption only applies for the duration of the main temporary visa holder's (parent) course of study in Queensland.
A dependant student (Prep to Year 12) of a temporary visa holder may also be eligible for a tuition fee waiver in certain circumstances, including financial hardship.

The estimated average amount exempted or waived per student is $7,154.88.

Non–Government Schools Transport Assistance Scheme

The Non–Government School Transport Assistance Scheme assists families by providing funding towards the transport costs of students attending non–government schools outside of the Brisbane City Council area. Under the scheme, reimbursement is provided for transport expenses above a set weekly threshold amount. In 2016, the threshold is $33 per week for families, or $25 for families with a Health Care Card, Pensioner or Department of Veteran's Affairs Pensioner Card.

The program also assists families of students with disabilities who attend a non–government school. The level of assistance provided is dependent on the type of transport needed and travel assistance already provided by TMR. For families using taxis, assistance is capped at $300 per week.

The Department of Education and Training is working with TMR to establish a long–term solution for the delivery of school transport assistance for students with disabilities under the NDIS. TMR is the lead agency for progressing these discussions.

Travel and Accommodation Subsidy

The Travel and Accommodation Subsidy provides financial assistance to Queensland apprentices and trainees for travel expenses incurred in attending off the job training at a registered training organisation. To be eligible, apprentices must attend the closest registered training organisation that offers the required qualification and travel a minimum of 100 kilometre (km) return from their usual place of residence to the registered training organisation. The subsidy provides for:

- return land travel to the registered training organisation of 15 cents per km for distances between 100 – 649 km, increasing to 19 cents per km for distances between 650 – 1,400 km;
- cost of ferry travel if necessary;
- a return economy air ticket to the location of the registered training organisation if necessary; and
- accommodation assistance of $27 per day, if it is necessary to live away from their usual place of residence to attend training.

Dalby State High School – Bunya Campus Residential Facility

The Dalby State High School – Bunya Campus Residential Facility provides affordable residential accommodation for secondary school students in a boarding facility. The concession particularly targets secondary school students from rural and remote communities, however, any secondary age student is eligible. Students accommodated at the residential facility are enrolled at Dalby State High School and participate in agricultural education programs.

Spinifex State College – Mount Isa Student Residential Facility

The Spinifex State College – Mount Isa Student Residential Facility provides an affordable residential facility in Mount Isa for students from the North Western area of the state whose home community does not provide secondary schooling. The funding meets the cost of wages for the residential college, increasing the affordability of the accommodation rates charged to students.

Distance Education – Information and Communication Technology Subsidy Scheme

The Distance Education – Information and Communication Technology Subsidy Scheme provides assistance to students enrolled in a school of distance education that are geographically isolated or in the medical category.

The scheme provides $250 per annum to assist with purchasing, replacing or upgrading computer hardware for students in the distance/geographically isolated and medical categories, and $500 per annum to assist students in the distance/geographically isolated category to meet the costs of broadband internet access and download charges for the home classroom. Eligible students also receive access to free software licences.

Western Cape Student Residential College, Weipa

The Western Cape Student Residential College, Weipa (formerly Far North Queensland Region – Student Residential College) provides a residential schooling option for students from the Torres Strait and Cape York. This college provides an option that is more familiar for students from remote locations with the intent to increase participation and retention of secondary students in schooling. The concession targets students from the Torres Strait and Cape York seeking secondary education when their home community does not provide secondary schooling. The concession provides wages for the residential college allowing the rates charged to students to be more affordable.

Distance Education – Non–Government Student Fee Subsidy

The Distance Education – Non–Government Student Fee Subsidy is available to students who are enrolled in non–government schools and also choose to access distance education subjects. It provides an average annual subsidy of approximately $1,253.70 per distance education subject enrolment.

This subsidises approximately 50% of the total average cost per annum of providing a subject through distance education for non–government school students. The concession contributes towards the state continuing to make distance education available to non–government schools, ensuring the widest possible subject choice for students, while recovering a proportion of the teaching and overhead costs.

Table A.2.4 Department of Energy and Water Supply

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Ergon Energy – Uniform Tariff Policy (excluding Isolated Systems)[1]	435.2	500.4
Ergon Energy – Uniform Tariff Policy for Isolated Systems[2]	62.0	58.0
Urban Water Price Path[3]	56.8	35.7
Cloncurry Pipeline Water Supply Subsidy	5.5	5.9
Drought Relief Arrangements[4]	4.0	4.1
SunWater Rural Irrigation Water Price Subsidy[5]	4.7	3.7
Origin Energy – Uniform Tariff Policy[6]	1.2	2.8
Seqwater Rural Irrigation Water Price Subsidy	2.1	2.1
Total	**571.5**	**612.7**

Notes

1. The increase between the 2015–16 estimated actual and the 2016–17 estimate is due to Ergon Energy's network charges increasing at a greater rate than Energex's network costs leading to an increase in the concession required.
2. The decrease between the 2015–16 estimated actual and the 2016–17 estimate is due to lower fuel and planned maintenance costs.
3. The decrease between the 2015–16 estimated actual and the 2016–17 estimate reflects a narrowing gap between the cost of supplying water and the price paid by consumers.
4. The increase between the 2015–16 estimated actual and the 2016–17 estimate is due to additional local government areas in Queensland being declared as drought affected.
5. The decrease between the 2015–16 estimated actual and the 2016–17 estimate is a result of the current 2012–17 irrigation price path leading to a reduction in the concession required.
6. The increase between the 2015–16 estimated actual and the 2016–17 estimate is due to an expected increase in the spread between the New South Wales and Queensland tariff rates, resulting from a forecast rise in NSW network pricing.

Ergon Energy – Uniform Tariff Policy (excluding Isolated Systems)

The Ergon Energy – Uniform Tariff Policy (excluding Isolated Systems) ensures that, where possible, all Queensland non–market electricity customers of a similar type pay a similar price for electricity regardless of where they live. As the notified prices do not reflect the full cost of electricity supply for most remote and regional Queenslanders, a subsidy is provided. The community service obligation (CSO) payment to the regional retailer Ergon Energy Queensland Pty Ltd (EEQ) covers the difference between the revenue earned by charging customers notified prices and the actual costs in the regional areas (due to differences in network costs and energy losses).

The increase in the CSO in 2016–17 largely relates to Ergon's network charges increasing at a greater rate than Energex 's network costs. Ergon's forecast increase in network costs is mainly driven by an increase in forecast transmission use of system charges along with previous year's under–recoveries of its network charges.

Ergon Energy – Uniform Tariff Policy for Isolated Systems

The Ergon Energy – Uniform Tariff Policy for Isolated Systems ensures that, where possible, all Queensland non–market electricity customers of a similar type pay a similar price for electricity regardless of where they live. Ergon Energy Corporation Limited owns and operates 33 isolated power stations which supply electricity to remote and isolated Queensland communities. EEQ retails electricity to these customers at the notified prices, and the Government provides funding to the retailer to cover the difference between the revenue earned by charging customers notified prices and the actual cost of supplying electricity to these customers.

The CSO estimate for 2016–17 is lower than 2015–16 estimated actuals due to expected lower generation fuel (i.e. diesel) costs and planned maintenance costs.

Urban Water Price Path

Bulk water price revenues in SEQ are currently set at levels below the cost of supply. This has been the case since the commencement of a 10 year price path in 2008. The difference between revenue received, based on these below cost prices, and the costs to be recovered is due to be repaid from bulk water prices over the period to 2027–28.

This under recovery is not funded through a CSO or consolidated revenue, it is to be recovered through future SEQ bulk water prices. The reduction in the level of under recovery between the 2015–16 estimated actual and the 2016–17 estimate is due to the narrowing gap between the cost of supplying water and the price paid by consumers.

Cloncurry Pipeline Water Supply Subsidy

North West Queensland Water Pipeline Limited (NWQWP), a SunWater Limited (SunWater) subsidiary, owns and operates the Cloncurry Water Pipeline between the Ernest Henry Mine and Cloncurry. The pipeline guarantees Cloncurry Shire Council's long–term water supply and supports industrial development in the region. As the construction and operation of the Cloncurry Water Pipeline is a non–commercial investment, the Government provides funding to NWQWP to ensure that SunWater receives a return on its investment in the pipeline.

Drought Relief Arrangements

Drought Relief Arrangements provide relief to farming customers from fixed charges for electricity accounts that are used to pump water for farm or irrigation purposes during periods of drought.

The increase in the Drought Relief Arrangements for 2016–17 is largely due to additional local government areas in Queensland being declared as drought affected.

SunWater Rural Irrigation Water Price Subsidy

SunWater owns and operates water supply schemes across regional Queensland. As the owner of SunWater, the Government decides how much to recover of SunWater's costs through irrigation prices. Currently, SunWater's irrigation water prices for some schemes are set below the level necessary to recover the cost of supplying water to the irrigators. Government funding is provided to SunWater to offset the reduced revenue and to ensure that increases in water prices paid by rural irrigation customers to recover costs are gradual.

Origin Energy – Uniform Tariff Policy

The Origin Energy – Uniform Tariff Policy ensures that, where possible, all Queensland non–market electricity customers of a similar type pay the similar price for electricity regardless of where they live. Origin Energy retails electricity to approximately 5,450 Queensland non–market customers in the Goondiwindi, Texas and Inglewood areas who are supplied electricity through the New South Wales (NSW) Essential Energy distribution network.

The Government provides a rebate to these customers, via a CSO payment to Origin Energy, to ensure they pay no more for electricity than similar customers in Queensland. Therefore, the CSO amount depends on the relative difference between Queensland and New South Wales retail electricity tariffs for non–market customers.

Since July 2014, there has been a general decrease in the CSO due to a narrower spread between the retail tariff rates in New South Wales and Queensland. However, for 2016–17, the CSO is expected to increase due to the spread between the New South Wales and Queensland tariff rates increasing, resulting from a forecast rise in NSW network pricing.

Seqwater Rural Irrigation Water Price Subsidy

Seqwater owns and operates water supply schemes across SEQ which also supply bulk water services to rural irrigation customers. Currently Seqwater's rural irrigation prices for some schemes are set below the level necessary to recover the cost of supplying water to the irrigators. Government funding is provided to Seqwater to offset the reduced revenue and to ensure that increases in water prices paid by rural irrigation customers to recover costs are gradual.

Table A.2.5 Department of Housing and Public Works

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Government managed housing rental rebate[1]	363.1	330.7
National Rental Affordability Scheme[2]	27.7	29.2
Home Assist Secure[3]	19.1	20.2
Non–residential buildings – subsidised rents	6.0	5.2
Rental Bond Loans	1.9	1.9
Non–government managed housing[4]	n.a.	n.a.
Total	**417.8**	**387.2**

Notes

1. The decrease between the 2015–16 estimated actual and the 2016–17 estimate is primarily due to the delay in the operating model for the Woodridge Housing Service Centre.
2. The increase between the 2015–16 estimated actual and the 2016–17 estimate is due to the expected increase in the number of dwellings delivered.
3. The increase between the 2015–16 estimated actual and 2016–17 estimate reflects a grant indexation adjustment.
4. The value of this concession arrangement cannot be easily quantified.

Government managed housing rental rebate

The Government managed housing rental rebate targets low income families and individuals and represents the difference between the rents that would be payable in the private market and rent that is charged by Government based on household income.

Assistance is provided to approximately 53,000 households. The estimated average yearly subsidy per household for 2016–17 is $6,796.

National Rental Affordability Scheme

The National Rental Affordability Scheme (NRAS) is an Australian Government initiative, delivered in partnership with the Queensland Government, to increase the supply of new affordable rental housing. The scheme provides financial incentives to investors to build well located dwellings and rent them to eligible low to moderate income households, at a discounted rate at least 20% below market rent.

Under the scheme the concession to the tenant is provided by the property owner. Due to the nature of the arrangement, the overall value of the concession to the tenant cannot be quantified. In 2016–17, the Government has allocated $29.2 million for the payment of financial incentives to NRAS investors who are then required to discount rents to tenants.

Home Assist Secure

Home Assist Secure provides free safety related information and referrals, and subsidised assistance to eligible clients unable to undertake or pay for critical maintenance services. To be considered for assistance, home owners or tenants with disability or over the age of 60 must hold a Pensioner Concession Card and be unable to complete the work themselves. In addition, they must be unable to access assistance from family or friends or other services. Labour costs (up to

$400 per household per year) for the assistance provided are subsidised by Home Assist Secure while the balance of the costs (including all materials) are met by the client.

Home Assist Secure targets home owners and those in rental housing who are over 60 years of age or have disability, and who require assistance to remain living in their home. In 2016–17, $20.2 million in grants to Home Assist Secure providers will be issued to ensure the ongoing delivery of assistance to those in greatest need. It is estimated that over 52,000 households will be assisted.

Non–residential buildings – subsidised rents

Accommodation is provided to 42 community, education, arts and not–for–profit organisations in Government owned non–residential buildings. Tenures for the occupancies are by way of leases, licences or month to month arrangements. Rents paid by the organisations are often below independently assessed market rent levels. Subsidised rental arrangements are provided to 27 properties comprising a total floor area of approximately 23,700 square metres. The total subsidy is calculated by deducting the actual amount paid by the occupants from the total estimated annual market rent for the office space.

Rental Bond Loans

The Government provides interest–free rental bond loans equivalent to a maximum amount of four weeks rent to people who cannot afford to pay a full bond to move into private rental accommodation reducing the need for more costly, subsidised housing assistance. The concession represents the interest saving for the client on the bond loan. In 2016–17, $26.3 million in bond loans will be advanced to an estimated 24,000 clients.

Non–government managed housing

The Government provides contributions to social housing providers, including capital grants, granted land or properties, or recurrent funding, to assist in increasing housing affordability and access to social housing. Due to the nature of the arrangement, the overall value of the concession provided by the Government cannot be easily quantified.

Rents charged for social housing managed by the providers are based on 25% of a household's assessable income, which substantially reduces accommodation costs for eligible individuals and families.

Table A.2.6 Department of Justice and Attorney–General

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Public Trustee of Queensland – Concessions	31.8	34.2
Court Services – Civil Court	19.0	20.3
Queensland Civil and Administrative Tribunal	16.6	16.6
Body Corporate and Community Management – Dispute Resolution	2.1	2.1
Total	**69.5**	**73.2**

Public Trustee of Queensland – Concessions

The Public Trustee of Queensland (the Public Trustee) is a self–funding organisation and uses a scale of fees which is designed to reflect a fair cost for the services provided.

The Public Trustee has established a safety net limit on the annual fees payable by certain clients. The arrangement provides for a rebate of fees for some clients with limited assets, for example financial administration for clients with impaired capacity, or administration of deceased estates or trusts. The Public Trustee also provides free Will making services for Queenslanders.

The Public Trustee also provides funding to the Public Guardian and financial assistance under the Civil Law Legal Aid Scheme administered by Legal Aid Queensland, to enable these organisations to provide services to the people of Queensland.

Court Services – Civil Court

The Supreme, District and Magistrates Courts hear civil disputes between two or more parties (people or organisations) where one party sues the other, usually to obtain compensation, or seek some other remedy. These disputes may involve anything from defamation to outstanding debts. Civil Court Fees are prescribed under the *Uniform Civil Procedure (Fees) Regulation 2009* for proceedings commenced in civil matters and are set below full cost recovery to ensure that civil remedies are accessible to all Queenslanders.

Queensland Civil and Administrative Tribunal

The Queensland Civil and Administrative Tribunal (QCAT) is an independent tribunal which makes decisions and resolves disputes across a wide range of jurisdictions for the community. Fees for these services are below cost recovery to ensure services are accessible, fair and inexpensive. QCAT provides human rights services with no application fees for matters in guardianship and administration of adults, children and young people and anti–discrimination.

Body Corporate and Community Management – Dispute Resolution

The Office of the Commissioner for Body Corporate and Community Management provides a dispute resolution service to parties unable to resolve disputes themselves. The service consists of conciliation, with the aim of achieving a voluntary agreement, and adjudication, which results in a formal order. The service is delivered below full cost recovery so as to not restrict access to justice due to affordability reasons.

Table A.2.7 Department of National Parks, Sport and Racing

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Tour fee and access permit concessions[1]	1.2	1.6
Queensland Recreation Centres – Concessional usage rates[1]	0.4	0.3
Total	**1.6**	**1.9**

Notes

1. Previously reported as 'Active Recreation Centres – concessional usage rate'.

Tour fee and access permit concessions

Tour fee and access permit concessions are available in specified protected areas including David Fleay Wildlife Park, Mon Repos Conservation Park, St Helena Island National Park, Walk–About Creek Wildlife Centre, Fort Lytton National Park, Cooloola Recreation Area, Moreton Island and Fraser Island.

Queensland Recreation Centres – Concessional usage rates

Queensland Recreation Centres – Concessional usage rates are offered to students and children 17 years and under, for the use of Queensland Recreation Centres, primarily at Currimundi and Tallebudgera. These concessional rates provide discounts of between 4.4% and 34.3%.

Table A.2.8 Department of Natural Resources and Mines

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Drought Assistance Package – Water Licence Fee Waiver and Land Rental Rebates	4.1	4.2
Total	**4.1**	**4.2**

Drought Assistance Package – Water Licence Fee Waiver and Land Rental Rebates

As part of the Government's drought assistance package, the annual water licence fee of $76.55 will be waived for 2016–17 for landholders in Local Government Areas (LGA) that are drought declared and other properties that are individually drought declared.

Category 11 Grazing and Primary Production landholders under the *Land Act 1994* will also be eligible to a rent rebate in 2016–17. The rebate is available to lessees, other than those on minimum rent that are in a drought declared LGA and to individually drought declared properties. In addition to this rebate, drought declared landholders will be granted hardship deferral for required rent payments.

Table A.2.9 Department of Science, Information Technology and Innovation

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
State Library of Queensland – Venue hire rebates	0.8	0.8
Total	**0.8**	**0.8**

State Library of Queensland – Venue hire rebates

State Library of Queensland provides venue hire concessions to targeted community and non–profit groups including cultural and charitable organisations and educational institutions in order to support events and programs directly linked to State Library of Queensland's services, programs and activities.

Table A.2.10 Department of Transport and Main Roads

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
General Public Transport Concessions (South East Queensland)	1,123.3	1,227.6
Rail Network and Infrastructure Funding	537.1	542.8
General Public Transport Concessions (Regional Queensland)	233.6	246.0
Vehicle and boat registration concessions	148.5	161.1
School Transport Assistance Scheme	145.0	149.6
TransLink Transport Concessions (South East Queensland)	99.9	97.6
Livestock and Regional Freight Contracts	47.9	41.5
Rail Concession Scheme	36.5	36.5
Other transport concessions (Regional Queensland) and taxi subsidies	27.1	27.5
Practical Driving Test	4.7	5.0
Commercial ship registration and licensing	4.1	3.9
Designated Public Transport Concessions for Seniors Card Holders	3.8	3.8
Total	**2,411.5**	**2,542.9**

General Public Transport Concessions (South East Queensland)

The General Public Transport Concessions (South East Queensland) represents the direct funding contribution that Government makes towards the cost of operating public transport services within South East Queensland. This contribution effectively reduces the ticket price paid by all public transport users on bus, rail and ferry services, increasing the affordability of these services.

In January 2017, the Government will implement its fare reform package which will provide significant benefits to SEQ customers travelling by bus, rail, ferry or light rail, including a fare reduction across all zones under a new and simplified zonal structure. Customers will also benefit from the continuation of the current fare freeze to the end of 2016.

Rail Network and Infrastructure Funding

Rail network and infrastructure funding ensures that the State supported rail network is safe, reliable and fit for purpose. The contract also provides funding to Queensland Rail to support major capital projects and related asset strategies. The funding provided via this contract directly benefits customers of the State supported rail network, including both freight and passengers. Without this funding, rail access charges (including public transport fares) would be significantly higher for all users of the rail network.

General Public Transport Concessions (Regional Queensland)

The General Public Transport Concessions (Regional Queensland) describes the financial contribution that Government provides across a range of transport services in regional Queensland. The impact of this contribution benefits all public transport users through reduced transport fares. This concession covers:

- TravelTrain (excluding the 'Rail Concession Scheme' for eligible pensioners, veterans and seniors);
- subsidies for Kuranda Scenic Railway;
- subsidies for Heritage Rail Services;
- subsidies for regional bus and ferry operators (excluding concessional top up amounts and School Transport Assistance Scheme related amounts);
- subsidies for the Rail XPT Service (Sydney–Brisbane) and Savannahlander (Atherton Tableland);
- subsidies for air services to remote and rural communities within the State; and
- subsidies for long distance coach services to rural and remote communities within the State.

Vehicle and boat registration concessions

Vehicle and boat registration concessions are provided to holders of the Pension Concession Card, Queensland Seniors Card and to those assessed by the Department of Veterans' Affairs as meeting the necessary degree of incapacity or impairment. The concession is aimed at improving access to travel for pensioners, seniors and persons with disability by providing a reduced rate of registration fees. For most eligible card holders, a concession for a private use four cylinder motor vehicle would reduce the 12 month registration charge from $300.00 to $150.00. For a recreational boat up to and including 4.5 metres in length, the concession reduces the registration charge from $101.70 to $61.20 (based on registration charges at 1 July 2016).

A special interest vehicle (SIV) registration concession is offered for motor vehicles that have low use associated with vintage and historic and street rod car club events. A 12 month registration for a six cylinder SIV concession reduces registration from $475.00 for a private use vehicle to $84.55. Other motor vehicle and boat registration concessions are also provided to primary producers, local governments, charitable and community service organisations, and people living in remote areas without access to the wider road network.

School Transport Assistance Scheme

The School Transport Assistance Scheme assists students that do not have a school in their local area or who are from defined low income groups with travel costs. The scheme provides funding to reduce the cost of travelling to school on bus, rail and/or ferry services, with allowances for private vehicle transport in certain circumstances. A typical concession would be to fully fund the cost of travel from home to the nearest State primary or high school where no local primary or high school is available (for example from Bargara to Bundaberg High School).

TransLink Transport Concessions (South East Queensland)

The TransLink Transport Concessions (South East Queensland) are provided by the Government to ensure access and mobility for Queenslanders who require assistance because of age, disability or fixed low income. Passengers entitled to receive public transport concessions include holders of a Pensioner Concession Card, Veterans' Affairs Gold Card, Seniors Card (all states and territories), Companion Card, Vision Impairment Travel Pass, TPI Veteran Travel Pass, children, as well as secondary and tertiary students.

Livestock and Regional Freight Contracts

The Livestock and Regional Freight Contracts provide funding to support the movement of cattle (via rail only) and freight (via road and rail) to and from regional areas of Queensland. The funding provided directly benefits the cattle industry and enables regional Queensland communities to maintain employment and directly benefits those communities who are reliant on rail freight services by reducing the cost of these freight services for users.

Rail Concession Scheme

The Queensland Rail Concession Scheme improves the affordability of long distance and urban rail services for eligible pensioners, veterans, seniors and current/past rail employees with 25 years of service. Assistance for long distance rail services is provided through discounted fares and free travel vouchers. For TravelTrain (long distance rail) services, depending on the service, the concession may be for free travel for up to four trips per year for Queensland pensioners (subject to availability of seats and payment of an administration fee).

Other transport concessions (Regional Queensland) and taxi subsidies

Other transport concessions (Regional Queensland) and taxi subsidies are provided by the Government to ensure access and mobility for Queenslanders who require assistance because of age, disability or fixed low income. Passengers entitled to receive public transport concessions include holders of a Pensioner Concession Card, Veterans' Affairs Gold Card, Seniors Card (all states and territories), Companion Card, Vision Impairment Travel Pass, TPI Veteran Travel Pass, children, as well as secondary and tertiary students.

The Taxi Subsidy Scheme aims to improve the mobility of persons with severe disabilities by providing a 50% concession fare up to a maximum subsidy of $25 per trip.

Practical Driving Test

As part of the State's driver licensing arrangements, applicants for new licences are required to undertake a practical driving test. The total cost to pre–book driver examinations and to perform the practical driver assessment is not fully recovered by the fee charged ($49.15 (ex GST) as at 1 July 2016), providing a direct concession to applicants.

Commercial ship registration and licensing

The commercial vessel safety program including ship design and inspection standards and ship operator competency standards is funded from commercial ship registration and licensing revenue. The commercial ship registration and licensing concession represents the difference between the cost of supporting the safety of commercial vessels in Queensland waters and revenue collected via commercial registration and compliance fees. The concession represents a benefit to commercial ship owners and operators. Vessels operated by primary or secondary schools used in marine education courses, vessels owned by the emergency services department, volunteer marine rescue associations and surf lifesaving associations are generally exempt from fees. The responsibility for regulation of domestic commercial vessels is now the responsibility of the Australian Maritime Safety Authority (AMSA). The State Government has an interim agreement whereby TMR provides service delivery until 2017 at which time it is planned that AMSA will be responsible for both policy setting, fee collection and service delivery.

Designated Public Transport Concessions for Seniors Card Holders

Designated Public Transport Concessions for Seniors Card Holders allows visitors from interstate, who hold a state or territory Seniors Card, to access public transport concessions within Queensland and is fully funded by the Queensland Government.

Table A.2.11 Department of the Premier and Cabinet

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Queensland Museum – Arts concessional entry fees	1.7	1.7
Queensland Art Gallery – Arts concessional entry fees	1.0	1.0
Queensland Performing Arts Trust – Arts concessional entry fees	0.9	1.0
Queensland Performing Arts Trust – Venue hire rebates	0.9	0.9
Arts Queensland – Discounts on property lease rentals	0.6	0.4
Arts Queensland – Venue hire rebates	0.2	0.2
Total	**5.3**	**5.2**

Queensland Museum – Arts concessional entry fees

Concessional entry fees are provided to seniors, students, children, families and a variety of concession card holders for ticketed exhibitions at Queensland Museum & Sciencentre and for general entry to Cobb & Co Museum Toowoomba, The Workshops Rail Museum Ipswich, and Museum of Tropical Queensland Townsville. Concessions are also provided to targeted groups, such as schools, to encourage visits to museums. The level of concession provided varies depending on the venue and the event.

Queensland Art Gallery – Arts concessional entry fees

Queensland Art Gallery's ticket prices are set to ensure that they are affordable and to maximise attendance, with additional concessions provided to seniors, students, children, families and a variety of concession card holders. The purpose of the Queensland Art Gallery – Arts concessional entry fees concession is to contribute to the cultural, social and intellectual development of Queenslanders, and encourage diverse audiences.

Queensland Performing Arts Trust – Arts concessional entry fees

Concessional entry fees are offered for specific Queensland Performing Arts Trust productions and to provide support for other not for profit theatre companies to enable tickets to be sold at concessional prices. The level of concession provided varies depending on the number and size of events being held each year.

Queensland Performing Arts Trust – Venue hire rebates

Venue hire rebates are offered to Government funded cultural organisations, charitable organisations, government departments and educational institutions. Organisations currently receiving discounts are Queensland Symphony Orchestra, Opera Queensland, Queensland Theatre Company and Queensland Ballet.

Arts Queensland – Discounts on property lease rentals

Property lease rentals are provided to arts and cultural organisations at a discount from market rental rates at the Judith Wright Centre of Contemporary Arts, 381 Brunswick Street, Fortitude Valley and the Cairns Centre of Contemporary Arts. Discounts range from 20% to 100% of the market rate (dependent on location) of the commercial office space. Further discounts on specialist rehearsal and gallery space are given as negotiated at the time of entering the lease and dependent on the individual arts or cultural organisation and its funding.

Arts Queensland – Venue hire rebates

Venue hire rebates are provided to support Queensland funded arts organisations and professional artists to create, rehearse and present new productions at the Judith Wright Centre of Contemporary Arts and the Cairns Centre of Contemporary Arts.

Table A.2.12 Public Safety Business Agency

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Blue card assessments – volunteer applicants[1]	7.6	9.0
Total	**7.6**	**9.0**

Notes

1. The increase between the 2015–16 estimated actual and the 2016–17 estimate is due to changing the validity period of blue cards, which was extended from two to three years from April 2010. As a result of this change, there was a significant drop in the volume of renewal applications received in 2015–16.

Blue card assessments – volunteer applicants

Individuals providing child–related services or conducting child–related activities in regulated service environments are required to undergo an assessment of their police and relevant disciplinary information, and if approved, are issued with a blue card. A blue card is valid for three years unless cancelled or suspended earlier. The application fee for a blue card is $84.25 (as at 1 July 2016). Since the inception of the blue card system in 2001, Government has met the cost of blue card assessments for volunteer applicants.

Table A.2.13 Queensland Fire and Emergency Services

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Emergency Management Levy Concession	9.1	9.5
Total	**9.1**	**9.5**

Emergency Management Levy Concession

The Emergency Management Levy applies to all prescribed properties within Queensland. The levy provides a sustainable funding base for all emergency services including emergency management, fire and rescue services. Owners of prescribed properties who are in receipt of an Australian Government pension are eligible to receive a discount of 20% on the levy payable for a property that is their principal place of residence. In addition, community organisation owners of specified properties are exempt from payment of the levy.

Table A.2.14 Queensland Health

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Oral Health Scheme[1]	164.7	142.7
Patient Travel Subsidy Scheme	79.3	81.0
Medical Aids Subsidy Scheme[2]	41.0	39.5
Community Aids Equipment and Assistive Technologies Initiative and Vehicle Options Subsidy Scheme[3,4]	12.2	10.0
Spectacle Supply Scheme	9.2	9.2
Total	**306.4**	**282.4**

Notes
1. The decrease between the 2015–16 estimated actual and the 2016–17 estimate is due to additional funding claimed directly by Hospital and Health Services under the Child Dental Benefits Schedule. The 2016–17 estimate assumes Commonwealth Government funding will continue on the basis of the current agreement until 31 December 2016, however there is no funding certainty beyond this date.
2. The decrease between the 2015–16 estimated actual and the 2016–17 estimate reflects additional non recurrent funding that was provided in 2015–16. It is expected that as clients transition across to the National Disability Insurance Scheme, the Medical Aids Subsidy Scheme will experience reduced demand.
3. The decrease between 2015–16 estimated actual and the 2016–17 estimate reflects the rollout of the National Disability Insurance Scheme in Queensland. It is expected that as clients transition across to the National Disability Insurance Scheme, the Community Aids Equipment and Assistive Technologies Initiative and Vehicle Options Subsidy Scheme will experience reduced demand.
4. The $10 million allocated for 2016–17 will be transferred to Queensland Health from the Department of Communities, Child Safety and Disability Services.

Oral Health Scheme

The Oral Health Scheme provides free dental care to eligible clients and their dependants who possess a current Health Care Card, Pensioner Concession Card, Queensland Seniors Card or Commonwealth Seniors Card. The average value of a course of treatment for eligible clients is approximately $600 for general care, $1,800 for treatment involving dentures, and $265 for emergency dental care. In rural and remote areas where no private dental practitioner exists, access to public dental care for the general public is provided at a concessional rate, generally 15% to 20% less than average private dental fees.

Patient Travel Subsidy Scheme

The Patient Travel Subsidy Scheme provides financial assistance to patients who need to access specialist medical services not available within their local area. The Scheme provides a subsidy towards the cost of travel and accommodation for patients and, in some cases, an approved escort. Patients receive fully subsidised commercial transport if arranged by Queensland Health or alternatively a subsidy of 30 cents per kilometre where a private vehicle is used. The accommodation subsidy is $60 per person per night for commercial accommodation. A subsidy of $10 per person per night is payable to patients and approved escorts who stay in private accommodation.

Medical Aids Subsidy Scheme

The Medical Aids Subsidy Scheme provides access to funding assistance for a range of aids and equipment to eligible Queensland residents with permanent and stabilised conditions or disabilities. Aids and equipment are provided primarily to assist people to live at home to avoid premature or inappropriate residential care or hospitalisation.

Subsidies vary based on service category and clinical criteria and are provided to assist with the costs of communication aids, continence aids, daily living aids, medical grade footwear, mobility aids, orthoses and oxygen. The scheme provides over 72,000 occasions of service to approximately 48,000 clients each year.

Community Aids Equipment and Assistive Technologies Initiative and Vehicle Options Subsidy Scheme

The Community Aids Equipment and Assistive Technologies Initiative (CAEATI) and Vehicle Options Subsidy Scheme (VOSS) provide financial assistance to eligible Queensland residents to support them to be more independent, participate further in social and economic opportunities in the community and contribute to a better quality of life.

CAEATI funding is capped at $10,000 per client over a three year period. CAEATI includes aids equipment and assistive technologies for postural support, communication support, community mobility and active participation.

VOSS funding is capped at $10,000 per client over a five year period. VOSS provides subsidies for a range of vehicle access options, including the subsidy of driving lessons on a suitably modified vehicle, modifications to a vehicle, purchase of a suitably modified vehicle or vehicle suitable for modification.

To receive funding through either of these schemes, an individual must be assessed as eligible for specialist disability support under the *Disability Support Act 2006*. Queensland resident eligibility is determined during the intake process, and confirmed as part of the assessment process.

Spectacle Supply Scheme

The Spectacle Supply Scheme provides eligible Queensland residents with free access to a comprehensive range of basic spectacles every two years including bifocals and trifocals. Applicants must be holders of eligible concession cards and be deemed by a prescriber to have a clinical need for spectacles.

The scheme provides around 82,000 items each year to approximately 68,000 clients (some clients require more than one pair of spectacles due to clinical need). The average cost of services to applicants is approximately $112 per item, including the costs of administering the scheme through the Medical Aids Subsidy Scheme.

A.3 Concessions by entity

Table A.3.1 Energex Limited

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Regulated Service Charges	14.5	14.9
Total	**14.5**	**14.9**

Regulated Service Charges

Under Schedule 8 of the *Electricity Regulation 2006*, service charges for a range of services provided by Energex Limited (Energex) to energy retailers, for example disconnection and reconnection of supply, are capped. The maximum amount Energex is able to charge for these services is, on average, less than 5% of the value which the Australian Energy Regulator ascribes to the provision of these services by Energex, resulting in a concession provided to energy retailers and in turn households.

Table A.3.2 Ergon Energy Corporation Limited

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Regulated Service Charges	7.4	7.6
Total	**7.4**	**7.6**

Regulated Service Charges

Under Schedule 8 of the *Electricity Regulation 2006*, service charges for a range of services provided by Ergon Energy Corporation Limited (Ergon Energy) to energy retailers, for example disconnection and reconnection of supply, are capped. The maximum amount Ergon Energy is able to charge for these services is, on average, less than the value which the Australian Energy Regulator ascribes to the provision of these services by Ergon Energy, resulting in a concession provided to energy retailers and in turn households.

Table A.3.3 Far North Queensland Ports Corporation Limited

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Concessional Leases–Industry/Commercial	0.6	0.6
Concessional Leases–Community	0.2	0.2
Total	**0.8**	**0.8**

Concessional Leases

Far North Queensland Ports Corporation Limited (FNQPC) provides several leases to agricultural industry proponents at below commercial rates. FNQPC also provides leases to various community organisations at below commercial rates. The amounts shown are estimates of the revenue foregone by not charging commercial rates.

Table A.3.4 Gladstone Ports Corporation Limited

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Concessional Port Charges	51.6	52.4
Concessional Leases–Industry/Commercial	2.8	2.8
Concessional Leases–Community	0.8	0.8
Total	**55.2**	**56.0**

Concessional Port Charges

The Gladstone Ports Corporation Limited (GPC) is subject to a number of long–term major industry contracts where port charges are significantly lower than market rates. These historical contracts were entered into to support various industries and government initiatives from time to time. The amounts shown are estimates of the revenue foregone by GPC as a result of being unable to charge commercial rates.

Concessional Leases

GPC has various land and building lease arrangements at non–commercial rates. These contracts relate to incentives to improve utilisation of port land and assets and to establish businesses within port precincts. GPC also provides support to community and not–for–profit organisations through concessional leasing arrangements. The amounts shown are estimates of the revenue foregone by not charging commercial rates.

Table A.3.5 North Queensland Bulk Ports Corporation Limited

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Concessional Leases – Industry/Commercial	1.4	1.1
Concessional Leases – Community	0.2	0.4
Total	**1.6**	**1.5**

Concessional Leases – Industry/Commercial

North Queensland Bulk Ports Corporation Limited (NQBP) provides several long–term leases to agricultural industry proponents at below commercial rates. NQBP also provides leases to various community organisations, local councils and Government departments at below commercial rates. The amounts shown are estimates of the revenue foregone by not charging commercial rates.

Concessional Leases – Community

NQBP provides several long–term leases to agricultural industry proponents at below commercial rates. NQBP also provides leases to various community organisations, local councils and Government departments at below commercial rates. The amounts shown are estimates of the revenue foregone by not charging commercial rates.

Table A.3.6 Port of Townsville Limited

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Concessional Leases–Industry/Commercial	5.4	5.5
Concessional Leases–Community	0.1	0.1
Total	**5.5**	**5.6**

Concessional Leases

Port of Townsville Limited has a number of long–term leases at below commercial rates with the sugar industry, recreational marine businesses and the not–for–profit sector at the Port of Townsville and the Port of Lucinda. The amounts shown are estimates of the revenue foregone by not charging commercial rates.

Table A.3.7 Queensland Rail Limited

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Concessional Leases – Community	1.6	1.7
Total	**1.6**	**1.7**

Concessional Leases – Community

Queensland Rail leases properties, typically to community organisations, at below commercial rates under the continuation of pre–existing arrangements. The properties are generally of historical significance to the local community and the lessee often undertakes beautification works on the property. The amount shown is an estimate of the revenue foregone by not charging commercial rates.

Table A.3.8 SunWater Limited

Concession	2015–16 Est. Act. $ million	2016–17 Estimate $ million
Water Supply Contracts	21.0	21.0
Total	**21.0**	**21.0**

Water Supply Contracts

SunWater Limited has a number of historic non–commercial water supply contracts that benefit specific entities, predominantly local government authorities. The future treatment of these water supply contracts is currently being considered by Government. The amount shown represents the difference between revenue and expenses under a fully costed allocation model.

Appendix B: Tax expenditure statement

Context

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

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

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

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

Methodology

Revenue foregone approach

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

Measuring tax expenditures requires the identification of:

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

Defining the tax benchmark

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

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

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

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

The Tax Expenditure Statement

This year’s statement includes estimates of tax expenditures in 2014–15 and 2015–16 for payroll tax, land tax, duties and gambling taxes. A summary of the major tax expenditures valued on the basis of revenue foregone is presented in Table B.1. Not all expenditures can be quantified at this time. Accordingly, the total value of tax expenditures should be considered as indicative only.

Table B.1 Tax expenditure summary[1]

	2014–15[2] $ million	2015–16 $ million
Payroll Tax		
Exemption threshold	1,171	1,191
Deduction scheme	298	295
Section 14 exemptions		
Local Government	133	135
Education	167	170
Hospitals	306	328
Total payroll tax	**2,075**	**2,119**
Land tax		
Liability thresholds[3]	574	644
Graduated land tax scale	568	585
Primary production deduction	87	82
Part 6 Divisions 2 and 3 exemptions not included elsewhere[4]	99	98
Land developers' concession	17	20
Total land tax	**1,347**	**1,429**
Duties		
Transfer duty on residential		
Home concession	383	339
First home concession	211	178
First home vacant land	20	17
Insurance duty		
Non–life insurance	..	..
Workcover	61	59
Health insurance	375	399
Total duties	**1,051**	**992**
Taxes on gambling		
Gaming machine taxes	113	115
Casino taxes	9	9
Total gambling tax	**122**	**124**
Total	**4,595**	**4,664**

Notes:

1. Numbers may not add due to rounding.
2. 2014–15 estimates may have been revised since the 2015–16 Budget.
3. Land tax is payable only on the value of taxable land above a threshold which depends on the ownership structure.
4. Applicable, but not limited, to religious bodies, public benevolent institutions and other exempt charitable institutions.

Discussion of individual taxes

Payroll tax

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

Payroll tax exemption threshold

Employers who employ in Queensland with an annual Australian payroll of $1.1 million or less are exempt from payroll tax. On the basis of 2014–15 average weekly earnings, this threshold corresponded to approximately 14 full–time equivalent employees. This exemption is designed to assist small and medium sized businesses.

Deduction scheme

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

Section 14 exemptions

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

Land tax

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

Liability thresholds

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

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

Graduated land tax scale

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

Primary production deduction

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

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

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

Land developers' concession

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

Transfer duty concession on residential property

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

Home concession

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

First home concession

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

First home vacant land concession

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

Insurance duty

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

Gaming machine tax concessions for licensed clubs

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

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

Casino tax concessions

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

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

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

Appendix C: Revenue and expense assumptions and sensitivity analysis

The Queensland Budget, like those of other jurisdictions, is based in part on assumptions made about parameters that are uncertain, both internal and external to the State, which can impact directly on economic and fiscal forecasts.

This appendix outlines the assumptions underlying the revenue and expense estimates and analyses the sensitivity of the estimates to changes in the economic and other assumptions. This analysis is provided to enhance the level of transparency and accountability of the Government.

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

The following discussion provides details of some of the key assumptions, estimates and risks associated with revenue and expenditure and, where a direct link can be established, the indicative impact on forecasts resulting from a movement in those variables.

Taxation and royalty revenue

Table C.1 Taxation and royalty revenue[1]

	2014–15 Actual $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Payroll tax	3,782	3,753	3,826	4,040	4,306	4,583
Transfer duty	3,082	3,060	3,231	3,326	3,531	3,750
Other duties	1,366	1,344	1,441	1,504	1,578	1,655
Gambling taxes and levies	1,077	1,146	1,195	1,247	1,301	1,358
Land tax	977	1,010	1,083	1,161	1,231	1,300
Motor vehicle registration	1,571	1,632	1,677	1,742	1,810	1,892
Other taxes	719	715	696	775	865	921
Total taxation revenue	**12,575**	**12,660**	**13,150**	**13,794**	**14,622**	**15,460**
Royalties						
Coal	1,614	1,594	1,531	1,619	1,842	2,062
Petroleum[2]	51	36	68	135	197	271
Other royalties[3]	393	376	343	356	376	405
Land rents	165	168	169	179	185	191
Total royalties and land rents	**2,223**	**2,173**	**2,111**	**2,289**	**2,600**	**2,928**

Notes:

1. Numbers may not add due to rounding.
2. Includes impact of liquefied natural gas (LNG) from 2014–15.
3. Includes base and precious metal and other mineral royalties.

Taxation revenue assumptions and revenue risks

The rate of growth in tax revenues is dependent on a range of factors that are linked to the rate of growth in economic activity in the State. Some taxes are closely related to activity in specific sectors of the economy, whilst others are broadly related to the general rate of economic growth, employment, inflation and wages. A change in the level of economic activity, resulting from economic growth differing from forecast levels, would impact upon a broad range of taxation receipts.

Wages and employment growth – payroll tax collections

Wages and employment growth have a direct impact on payroll tax collections. The Budget assumptions are for an increase in wages of 2¼% and an increase in employment of 1½% in 2016–17. The composition of the payroll tax base is also important. For example, the rate of growth in payroll tax is expected to be lower as businesses in fast growing sectors such as tourism, retail and hospitality are often outside the tax base because they are below the threshold.

A one percentage point variation in either Queensland wages growth or employment would change payroll tax collections by approximately $38 million in 2016–17.

Transfer duty estimates

Transfer duty collections in 2016–17 are expected to increase by 5.6% on the 2015–16 estimated actual. Collections in 2015–16 reflect a decrease of 0.7% compared to 2014–15 mainly as a result of strong transfer duty revenue in 2014–15 supported by a number of large commercial transactions.

Across the forward estimates period, an expectation of moderate growth in residential and non–residential transfer duty, supported by a pipeline of construction works should support growth in transfer duty collections.

A one percentage point variation in either the average value of property transactions or the volume of transactions would change transfer duty collections by approximately $32 million in 2016–17.

Royalty assumptions and revenue risks

Table C.2 Coal royalty assumptions

	2015–16 Est. Act.	2016–17 Budget	2017–18 Projection	2018–19 Projection	2019–20 Projection
Tonnages – crown export[1] coal (Mt)	210	216	220	226	230
Exchange rate US$ per A$[2]	0.73	0.73	0.73	0.73	0.73
Year average coal prices (US$ per tonne)[3]					
Hard coking	88	88	92	101	109
Semi–soft	72	70	72	77	81
Thermal	66	60	59	61	62
Year average oil price					
Brent ($US per barrel)	43	48	52	55	58

Notes:

1. Excludes coal produced for domestic consumption and coal where royalties are not paid to the Government, i.e private royalties. 2016–17 estimate for domestic coal volume is approximately 23 Mt and private coal is 10 Mt.
2. Year average.
3. Price for highest quality coking and thermal coal. Lower quality coal can be sold below this price with indicative average prices for 2016–17 as follows: Hard coking US$83 and thermal US$56.

Royalty Assumptions

Table C.2 provides the 2016–17 Budget assumptions regarding coal royalties, which represent the bulk of Queensland's royalty revenue.

The CSG industry contribution to royalties will increase from 2016–17 onwards as LNG output reaches full production and the oil price recovers.

Exchange rate and commodity prices and volumes – royalties estimates

Estimates of mining royalties are sensitive to movements in the A$–US$ exchange rate and commodity prices and volumes. Contracts for the supply of commodities are generally written in US dollars. Accordingly, a change in the exchange rate impacts on the Australian dollar price of commodities and therefore expected royalties collections.

Coal

For each one cent movement in the A$–US$ exchange rate, the impact on royalty revenue would be approximately $25 million in 2016–17.

A 1% variation in export coking and thermal coal volumes would lead to a change in royalty revenue of approximately $15 million.

A 1% variation in the average price of export coal would lead to a change in royalty revenue of approximately $20 million.

Parameters influencing Australian Government GST payments to Queensland

The Queensland Budget incorporates estimates of GST revenue grants to Queensland based on Australian Government estimates of national GST collections and Queensland Treasury assumptions of Queensland's share. The estimates of collections are primarily determined by the value of consumption subject to GST.

Since the Australian Government payments are based on the amount actually collected, it is Queensland's Budget that bears the risks of fluctuations in GST collections. As with all other tax estimates, there is a risk of lower collections than estimated if economic growth and consumption are weaker than expected.

Due to the complexities associated with the GST base, the information provided in the Australian Government Budget Papers is not sufficient to prepare indicative forecasts of the sensitivity of GST estimates to key variables.

Sensitivity of expenditure estimates and expenditure risks

Public sector wage costs

Salaries and wages form a large proportion of General Government Sector operating expenses. Increases in salaries and wages are negotiated through enterprise bargaining agreements.

The 2016–17 Budget and forward estimates includes funding for wage increases as per existing agreements and reflect the Government's wages policy where outcomes are yet to be finalised.

A general 1% increase in wage outcomes in a particular year would increase expenses by around $200 million in that year. The impact would compound and be much larger in the later years.

Interest rates

The General Government Sector has a total debt servicing cost estimated at $1.693 billion in 2016–17.

The current average duration of General Government Sector debt is just over six years. The majority of General Government Sector debt is held under fixed interest rates and therefore the impact of interest rate variations on debt servicing costs in 2016–17 would be relatively modest, with the impact occurring progressively across the forward estimates.

Actuarial estimates of superannuation and long service leave

Liabilities for superannuation and long service leave are estimated by the State Actuary with reference to, among other things, assumed rates of investment returns, salary growth, inflation and discount rate. These liabilities are therefore subject to changes in these parameters.

Similarly, the long service leave liabilities are subject to the risk that the actual rates of employee retention will vary from those assumed in the liability calculation.

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

Demographic and demand based risks

Unforeseen changes in the size, location and composition of Queensland's population can impact on the demand for goods and services and therefore on the cost of maintaining existing policies. This is particularly evident in the health, education, community services and criminal justice sectors.

State government expenditure is often more closely associated with socio–demographic factors, such as the number of school age children or the number of elderly residents, than with economic activity. Such changes are likely to impact significantly in the medium–term.

For this reason, the composition, size and location of the State's population are more significant in projecting the State's expenditure needs across the forward estimates period than for the current or budget year.

Appendix D: Fiscal aggregates and indicators

Table D.1 Key Fiscal Aggregates[1]

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Est. Act.	Budget	Projection	Projection	Projection
	$ million	$ million	$ million	$ million	$ million	$ million	$ million	$ million	$ million	$ million	$ million	$ million
General Government												
Total revenue	37,078	39,727	42,013	45,801	41,755	46,705	49,765	49,976	53,449	55,349	55,097	56,674
Tax revenue	8,866	9,375	9,981	10,608	10,937	11,840	12,575	12,660	13,150	13,794	14,622	15,460
Total expenses	37,099	39,599	43,479	46,028	46,313	46,217	49,224	49,824	52,582	54,123	54,775	55,934
Employee expenses	14,310	15,566	16,826	18,250	18,130	17,816	18,593	19,956	20,930	21,643	22,126	23,065
Net operating balance	(21)	128	(1,466)	(226)	(4,558)	488	542	152	867	1,225	321	741
Capital purchases	6,772	8,959	8,237	7,971	7,001	6,324	4,779	4,173	5,452	6,590	5,840	5,983
Net capital purchases	4,349	6,665	5,583	5,241	3,389	3,088	1,122	1,091	2,873	3,339	2,436	1,782
Fiscal balance	(4,371)	(6,537)	(7,049)	(5,467)	(7,947)	(2,600)	(581)	(940)	(2,006)	(2,114)	(2,115)	(1,042)
Borrowings	10,308	15,916	24,593	29,517	37,878	41,369	43,105	35,698	37,775	38,000	38,365	38,662
Net debt	(19,251)	(13,354)	(9,542)	(5,720)	2,399	5,208	5,772	1,590	3,525	5,072	7,309	8,641
Non-Financial Public Sector												
Total revenue	43,749	47,883	49,040	52,307	49,181	53,502	55,973	56,203	60,188	62,313	62,080	63,822
Capital purchases	15,101	15,007	13,306	11,980	10,774	9,313	7,954	6,918	8,264	9,453	8,688	8,837
Borrowings	42,645	51,713	53,708	61,542	69,086	72,637	75,233	72,715	75,270	76,939	77,976	78,869

Notes:
1. Bracketed numbers represent negative amounts.

Table D.2 Key Fiscal Indicators[1]

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Est. Act.	Budget	Projection	Projection	Projection
	%	%	%	%	%	%	%	%	%	%	%	%
General Government												
Revenue/GSP	14.3	15.7	15.6	15.8	14.4	15.6	16.3	15.8	15.9	15.5	14.5	14.0
Tax/GSP	3.4	3.7	3.7	3.7	3.8	4.0	4.1	4.0	3.9	3.9	3.8	3.8
Own source revenue/GSP	7.6	7.7	8.1	8.0	8.1	8.4	8.6	8.3	7.8	7.6	7.4	7.3
Expenses/GSP	14.3	15.7	16.1	15.9	15.9	15.5	16.1	15.7	15.7	15.1	14.4	13.8
Employee expenses/GSP	5.5	6.2	6.2	6.3	6.2	6.0	6.1	6.3	6.2	6.0	5.8	5.7
Net operating balance/GSP	(0.0)	0.1	(0.5)	(0.1)	(1.6)	0.2	0.2	0.0	0.3	0.3	0.1	0.2
Capital purchases/GSP	2.6	3.5	3.1	2.8	2.4	2.1	1.6	1.3	1.6	1.8	1.5	1.5
Net cash inflows from operating activities/capital purchases	53.1	37.8	25.5	35.4	(35.5)	43.0	88.5	114.5	65.3	69.4	61.9	64.4
Fiscal balance/GSP	(1.7)	(2.6)	(2.6)	(1.9)	(2.7)	(0.9)	(0.2)	(0.3)	(0.6)	(0.6)	(0.6)	(0.3)
Borrowings/GSP	4.0	6.3	9.1	10.2	13.0	13.9	14.1	11.3	11.3	10.6	10.1	9.6
Borrowings/revenue	27.8	40.1	58.5	64.4	90.7	88.6	86.6	71.4	70.7	68.7	69.6	68.2
Revenue growth	18.0	7.1	5.8	9.0	(8.8)	11.9	6.6	0.4	6.9	3.6	(0.5)	2.9
Tax growth	(7.1)	5.7	6.5	6.3	3.1	8.3	6.2	0.7	3.9	4.9	6.0	5.7
Expenses growth	12.3	6.7	9.8	5.9	0.6	(0.2)	6.5	1.2	5.5	2.9	1.2	2.1
Employee expenses growth	8.6	8.8	8.1	8.5	(0.7)	(1.7)	4.4	7.3	4.9	3.4	2.2	4.2
Non-Financial Public Sector												
Capital purchases/GSP	5.8	5.9	4.9	4.1	3.7	3.1	2.6	2.2	2.5	2.6	2.3	2.2
Borrowings/GSP	16.5	20.4	19.9	21.3	23.8	24.3	24.6	23.0	22.4	21.5	20.5	19.5
Borrowings/revenue	97.5	108.0	109.5	117.7	140.5	135.8	134.4	129.4	125.1	123.5	125.6	123.6
Net financial liabilities[2]/revenue	97.4	112.5	96.2	115.6	133.4	129.8	125.6	130.3	125.1	123.6	127.0	124.9

Notes:
1. Bracketed numbers represent negative amounts.
2. UPF definition, which is equal to total financial assets less investments in other public sector entities less total liabilities.

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