

### 3 BUDGET PERFORMANCE AND OUTLOOK

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#### FEATURES

- The economic conditions outlined in Chapter 2 have had a significant impact on Queensland's fiscal outlook.
- The General Government net operating balance is expected to be a deficit of \$574 million in 2008-09 compared to a forecast deficit of \$1.573 billion at the time of the Economic and Fiscal Update in February 2009 and a \$54 million surplus anticipated in the Mid Year Fiscal and Economic Review in December 2008.
- The decline in the forecast net operating balance since the Mid Year Fiscal and Economic Review primarily reflects the sharp deterioration in economic conditions and the resulting significant downward revisions to taxation, royalty and GST revenue.
- The General Government sector is forecast to incur a net operating deficit (\$1.954 billion) in 2009-10 and across each of the forward estimate years.
- Cash deficits in the General Government sector are projected for each year across the forward estimates, reflecting the State's significant capital program and the cash impact of the net operating deficit position.
- The State's capital program is an estimated \$18.2 billion, a 12.8% increase on 2008-09 estimated outlays. The capital outlays of Public Non-financial Corporations (commercial) sector entities constitute approximately 39% of total outlays in 2009-10.

As outlined in both the Mid Year Fiscal and Economic Review and the Economic and Fiscal Update, Queensland's fiscal outlook has deteriorated substantially since the publication of the 2008-09 Budget. This is due to the sharp downturn in the world economy that has significantly impacted the international and Australian economic environment. As a result, jurisdictions around the globe have suffered substantial reductions in revenue and Queensland is no exception. A temporary increase in Australian Government funding to Queensland under the *Nation Building and Jobs Plan* has offset some of this reduction in revenue.

This chapter provides a summary of financial aggregates for the General Government sector for the 2009-10 Budget. A discussion of the Public Non-financial Corporations (PNFC) sector can be found in Chapter 5.

## SUMMARY OF KEY FINANCIAL AGGREGATES

Table 3.1 provides aggregate actual outcome information for 2007-08, estimated actual outcome information for 2008-09, forecasts for 2009-10 and projections for the outyears.

<b>Table 3.1 General Government sector – key financial aggregates<sup>1</sup></b>						
	2007-08 Actual <sup>2</sup> \$ million	2008-09 Est. Act. \$ million	2009-10 Budget \$ million	2010-11 Projection \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million
Revenue	31,430	35,874	37,192	37,029	38,100	40,431
Expenses	32,989	36,447	39,146	40,488	42,191	43,720
Net operating balance	(1,559) <sup>3</sup>	(574)	(1,954)	(3,459)	(4,090)	(3,290)
Cash surplus/(deficit)	(4,922)	(4,144)	(6,838)	(7,516)	(5,335)	(2,924)
Capital purchases	5,716	7,137	9,270	8,540	6,151	4,321
Net borrowing	4,175	4,014	7,954	9,079	6,792	4,540
Gross borrowing	6,328	10,765	18,775	27,898	34,707	39,234
Net worth	155,178	149,800	151,144	150,797	150,209	150,668
Net debt	(22,598)	(17,808)	(10,672)	(2,796)	2,749	5,901

Notes:

1. Numbers may not add due to rounding.
2. Reflects published actuals. Does not include any recasting of data that may have occurred subsequently.
3. Reflects the Uniform Presentation Framework net operating balance. The underlying net operating result was a surplus of \$339 million in 2007-08. With the transfer of superannuation and other long term assets to Queensland Treasury Corporation, the calculation of an underlying balance is no longer relevant.

## BUDGET OUTCOMES 2008-09

### Key financial aggregates

	2008-09 Budget \$ million	2008-09 MYFER \$ million	2008-09 EFU \$ million	2008-09 Est. Act. \$ million
Revenue	36,582	37,063	N/A	35,874
Expenses	35,772	37,009	N/A	36,447
Net operating balance	809	54	(1,573)	(574)
Cash surplus/(deficit)	(1,970)	(3,013)	(4,647)	(4,144)
Capital purchases	6,651	7,094	7,068	7,137
Net borrowing	2,915	3,424	4,852	4,014
Gross borrowing	8,781	9,859	11,287	10,765
Net worth	128,563	160,386	N/A	149,800
Net debt	(21,928)	(19,316)	N/A	(17,808)

Notes:  
1. Numbers may not add due to rounding.

### Operating balance

The operating balance expected for 2008-09 is a deficit of \$574 million compared to a forecast deficit of \$1.573 billion at the time of the Economic and Fiscal Update (EFU) and a \$54 million surplus anticipated in the Mid Year Fiscal and Economic Review (MYFER). The decline in the forecast net operating balance since the Mid Year Fiscal and Economic Review primarily reflects the sharp deterioration in economic conditions and the resulting significant downward revisions to taxation, royalty and GST revenue.

Table 3.4 provides a reconciliation of the current net operating balance for 2008-09 to the Mid Year Fiscal and Economic Review estimate.

The improvement in the operating balance for 2008-09 since the Economic and Fiscal Update is a result of additional revenue from the Australian Government for use on specific purposes, including *Nation Building and Jobs Plan* projects, which has no offsetting operating expense in that year.

## Revenue

Revenue in 2008-09 is expected to be lower than the Mid Year Fiscal and Economic Review estimate largely due to:

- lower than expected taxation revenue, particularly transfer duty and motor vehicle duty reflecting weakness in property market activity and motor vehicle sales
- reductions in royalty revenue as a result of lower prices and tonnages for thermal and coking coal, as well as the recent appreciation in the AUD-USD exchange rate
- reduced GST revenue from the Australian Government.

## Expenses

Expenses are also estimated to decrease from the Mid Year Fiscal and Economic Review forecast primarily reflecting lower borrowing costs as a result of lower interest rates, lower depreciation costs and lower superannuation interest costs as a result of lower returns on the remainder of superannuation investments still held in the Consolidated Fund for former defined benefit purposes.

Further details on revenue and expenses projections are contained in Chapters 6 and 7 respectively.

## Cash surplus/(deficit)

The General Government sector is now expected to record a cash deficit in 2008-09 of \$4.144 billion compared to a \$3.013 billion deficit forecast in the Mid Year Fiscal and Economic Review. The larger than expected cash deficit is predominantly the result of the cash impact of the reduction in the net operating balance in 2008-09 and marginally higher capital purchases.

At the time of the Economic and Fiscal Update, a cash deficit of \$4.647 billion was expected in 2008-09 for the General Government sector. The improvement reflects the difference in timing between receipt of cash from the Commonwealth and the associated expense.

## Capital purchases

General Government purchases of non-financial assets (that is, capital expenditure) in 2008-09 are estimated to be \$7.137 billion. This is slightly more than forecast in the Economic and Fiscal Update and the Mid Year Fiscal and Economic Review due to increased spending associated with the Australian Government's *Nation Building and Jobs Plan*, partially offset by a change in timing of cashflows for capital projects.

The total capital program for 2008-09, including capital grants, is expected to be \$16.132 billion, \$876 million lower than expected at the time of the 2008-09 Budget. For further details see Budget Paper 3 – Capital Statement.

## **Borrowing**

Net borrowings (additional borrowings each year as itemised in the Cash Flow Statement) of \$4.014 billion are expected in 2008-09, \$590 million more than forecast in the Mid Year Fiscal and Economic Review largely due to the negative operating position.

At the time of the Economic and Fiscal Update, net borrowings of \$4.852 billion were expected in 2008-09 for the General Government sector, reflecting the larger cash deficit for 2008-09 anticipated at that time.

Similarly, gross borrowings (the stock of borrowings outstanding as stated in the Balance Sheet) of \$10.765 billion are forecast at 30 June 2009, \$522 million less than the Economic and Fiscal Update estimate, reflecting the improvement in the 2008-09 net cash balance since that time.

## **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 entities.

The net worth of the General Government sector at 30 June 2009 is estimated at \$149.800 billion. This is \$21.237 billion higher than the forecast in the 2008-09 Budget, primarily due to the comprehensive revaluation of road infrastructure assets by the former Department of Main Roads, as reflected in the 30 June 2008 audited actual.

Net worth is \$5.378 billion lower than the 30 June 2008 audited actual and \$10.586 billion lower than the net worth forecast at the time of the Mid Year Fiscal and Economic Review due to market value fluctuations, including those relating to investment returns on superannuation and other long term assets now held by Queensland Treasury Corporation and those relating to the State's debt, actuarial adjustments to superannuation and long service leave and declines in property values on Government-owned assets as a result of revaluations.

## **Net debt**

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

In 2008-09, net debt in the General Government sector is estimated to be negative \$17.808 billion, compared to negative \$19.316 billion estimated at the time of the Mid Year Fiscal and Economic Review. The change in net debt reflects the impact of negative investment returns and higher borrowings.

## BUDGET 2009-10 AND OUTYEAR PROJECTIONS

### Key financial aggregates

<b>Table 3.3</b>				
<b>General Government sector – key financial aggregates<sup>1</sup></b>				
	2009-10 Budget \$ million	2010-11 Projection \$ million	2011-12 Projection \$ million	2012-13 Projection \$ million
Revenue	37,192	37,029	38,100	40,431
Expenses	39,146	40,488	42,191	43,720
Net operating balance	(1,954)	(3,459)	(4,090)	(3,290)
Cash surplus/(deficit)	(6,838)	(7,516)	(5,335)	(2,924)
Capital purchases	9,270	8,540	6,151	4,321
Net borrowing	7,954	9,079	6,792	4,540
Gross borrowing	18,775	27,898	34,707	39,234
Net worth	151,144	150,797	150,209	150,668
Net debt	(10,672)	(2,796)	2,749	5,901
Note:				
1. Numbers may not add due to rounding.				

### Operating balance

As outlined in the Economic and Fiscal Update, significant downward revisions to key revenues including taxation (particularly transfer duty and motor vehicle duty), royalty and GST revenue in the wake of the global economic slowdown have resulted in a substantial deterioration in the fiscal position than anticipated at the time of the Mid Year Fiscal and Economic Review. The General Government sector is now expected to record an operating deficit of \$1.954 million in 2009-10, with net operating deficits anticipated each year across the forward estimate years.

The improvement in the net operating balance in 2008-09 and 2009-10 compared with that forecast in the Economic and Fiscal Update is largely due to additional revenue from the Australian Government without an offsetting expense in those years, while the larger operating deficits in 2010-11 and 2011-12 primarily reflect further downward revisions in GST revenue and royalty revenue as a result of lower forecast coal prices and tonnages and appreciation in the AUD-USD exchange rate.

The increase in expenditure relative to 2008-09 mainly relates to service enhancements in key service delivery areas including Australian Government partnerships, increases in wages and borrowing costs, and higher interest costs associated with the remainder of superannuation investments still held in the Consolidated Fund for former defined benefit purposes (as a result of interest income returning to an assumed long run rate of return).

Further details on revenue and expenditure projections are contained in Chapters 6 and 7 respectively.

### **Cash surplus/(deficit) and capital purchases**

A cash deficit of \$6.838 billion is expected in 2009-10 for the General Government sector. The cash deficit is forecast to be \$7.516 billion in 2010-11, reducing to \$2.924 billion by 2012-13. The cash deficits reflect the Government's significant planned capital program and the cash impact of the operating deficit position across the forward estimates.

Total General Government capital purchases of \$9.270 billion are budgeted for 2009-10, \$2.283 billion higher than forecast in the Economic and Fiscal Update as a result of increased capital expenditure flowing from the Australian Government's *Nation Building and Jobs Plan*. Budget Paper No.3 – Capital Statement provides details, by portfolio, of budgeted 2009-10 capital outlays.

Over the period 2009-10 to 2012-13, purchases of non-financial assets (capital purchases) in the General Government sector of \$28.282 billion are planned.

Movements in the cash deficit and capital purchases forecasts since the Economic and Fiscal Update are largely due to the timing and distribution of funding and capital spending associated with the Australian Government's *Nation Building and Jobs Plan*.

### **Borrowing**

Net borrowings of \$7.954 billion are budgeted for 2009-10, an increase of \$3.034 billion on the Mid Year Fiscal and Economic Review estimate mainly due to the larger negative operating position.

Over the Budget and forward estimates period, total General Government borrowings and advances of \$28.302 billion are planned. Of this amount, some \$1.19 billion is to fund net equity injections to Queensland's PNFC sector entities to support expansion of the State's rail and water infrastructure.

The increase in the amount of borrowings to finance the deficit leads to an increase in borrowing costs of \$85 million to \$887 million, in 2009-10, compared to the Mid Year Fiscal and Economic Review estimate. Borrowing costs are forecast to increase to \$2.299 billion in 2012-13.

Gross borrowings of \$18.775 billion are expected in the General Government sector at 30 June 2010, increasing to \$39.234 billion by the end of 2012-13.

## **Net worth**

State net worth is projected to be \$151.144 billion at 30 June 2010 and \$150.668 billion by the end of 2012-13. The decrease in net worth is largely the result of the impact of the operating deficits on the Government's equity.

## **Net debt**

In 2009-10, net debt in the General Government sector is estimated to be negative \$10.672 billion compared to the Mid Year Fiscal and Economic Review estimate of negative \$15.467 billion. This increase in net debt primarily reflects the flow through of lower than forecast investment returns on the estimated value of investments and higher borrowings.

Net debt is expected to increase over the forward estimates to be positive \$5.901 billion in 2012-13 reflecting the increase in borrowing.

More information on the State's net worth, assets and liabilities is provided in Chapter 8.

## RECONCILIATION OF NET OPERATING BALANCE

Table 3.4 provides a reconciliation of the current General Government sector net operating balances for 2008-09 and 2009-10 to the MYFER estimates.

<b>Table 3.4</b>		
<b>Reconciliation of 2008-09 and 2009-10 net operating balance to MYFER estimates<sup>1</sup></b>		
	2008-09 Est. Act. \$ million	2009-10 Budget \$ million
<b>MYFER net operating balance</b>	<b>54</b>	<b>(124)</b>
Expenditure policy decisions <sup>2</sup>	(161)	126
Taxation revisions <sup>3</sup>	(539)	(972)
Royalty revisions <sup>4</sup>	(636)	(1,427)
GST revisions <sup>5</sup>	(472)	(1,009)
Other significant variations impacting on operating balance		
Other Commonwealth funding revisions <sup>6</sup>	1,118	2,415
Net flows from PNFC sector entities	76	(558)
Actuarial revisions <sup>7</sup>	(103)	(100)
Other parameter adjustments <sup>8</sup>	90	(305)
<b>2009-10 Budget</b>	<b>(574)</b>	<b>(1,954)</b>
Notes:		
1. Denotes impact on net operating balance. Numbers may not add due to rounding.		
2. Reflects expenditure policy decisions taken since the MYFER. Budget Paper 4 Budget Measures outlines in detail the policy decisions taken since the 2008 09 Budget. 2009 10 estimate includes the abolition of the Queensland Fuel Subsidy Scheme.		
3. Reflects changes in taxation estimates across a range of state taxes as outlined in Chapter 6, as well as revisions to the First Home Owner Grant estimates and policy changes to land tax and casino taxes announced in the MYFER and detailed in Budget Paper 4 Budget Measures.		
4. Reflects changes to royalty revenue as outlined in Chapter 6.		
5. Represents updated GST revenue estimates as discussed in Chapter 6 and Chapter 9.		
6. Represents the net impact of funding provided by the Australian Government primarily for Specific Purpose Payments, National Partnership Payments and the <i>Nation Building and Jobs Plan</i> . The net impact on the operating balance is the result of funding being provided as revenue but spent as capital (i.e. no offsetting expense in the operating statement) or spent in a different financial year.		
7. Represents actuarial revisions to superannuation and long service leave provisions and revisions to superannuation expense as a result of negative investment returns (as outlined in the Economic and Fiscal Update).		
8. Refers to adjustments of a non policy nature such as movements in expenditure and revenue relating to economic and technical parameters and expenditure lapses in 2008 09. Major contributors to increased spending include growth funding provided to support service delivery in key agencies, movements in agency net operating balances and funding for natural disaster relief.		