8 BALANCE SHEET AND CASH FLOWS

FEATURES

- **Queensland's balance sheet is expected to remain strong in 2009-10 with State net worth projected to rise by $1.344 billion through the year to $151.1 billion.**
- **Total borrowings and advances are expected to increase by $7.996 billion in 2009-10, primarily as a result of increased investment in public infrastructure assets. The increase in borrowings is the major contributor to the projected $8.141 billion decrease in net financial worth of the General Government sector in 2009-10.**
- **The General Government sector is forecast to record a cash deficit of $6.838 billion in 2009-10, after allowing for $9.020 billion in net asset purchases.**

INTRODUCTION

The 2009-10 balance sheet shows the projected assets, liabilities and net worth of the General Government sector as at 30 June 2010. It is important for the Government to maintain a strong balance sheet to provide it with the stability, flexibility and capacity to deal with any emerging financial and economic pressures.

The assets and liabilities in the balance sheet are defined according to the Uniform Presentation Framework (UPF).

Detailed balance sheet and cashflow information for the General Government sector and the other sectors is contained in Chapter 10.

BALANCE SHEET

Table 8.1 provides a summary of the key balance sheet measures for the General Government sector.

Table 8.1
General Government sector: summary of budgeted balance sheet[1]

	2008-09 Budget [2] $ million	2008-09 Est. Act. $ million	2009-10 Budget $ million	2010-11 Projection $ million	2011-12 Projection $ million	2012-13 Projection $ million
Financial assets	54,811	47,544	49,056	51,214	53,312	56,190
Non-financial assets	113,399	146,987	156,471	164,372	170,026	173,588
Total Assets[3]	**168,209**	**194,531**	**205,527**	**215,586**	**223,337**	**229,778**
Borrowings and advances	9,311	11,250	19,246	28,357	35,154	39,670
Superannuation liability	21,874	23,949	25,303	26,580	27,766	28,854
Other provisions and liabilities	8,461	9,532	9,833	9,852	10,208	10,586
Total Liabilities	**39,646**	**44,731**	**54,382**	**64,789**	**73,128**	**79,110**
Net Worth	**128,563**	**149,800**	**151,144**	**150,797**	**150,209**	**150,668**
Net Financial Worth	**15,164**	**2,814**	**(5,327)**	**(13,575)**	**(19,816)**	**(22,920)**
Net Financial Liabilities	**5,504**	**12,391**	**20,999**	**29,691**	**36,555**	**40,525**
Net Debt	**(21,928)**	**(17,808)**	**(10,672)**	**(2,796)**	**2,749**	**5,901**

Notes:
1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.
3. For UPF purposes, the State's assets are classed as either financial or non financial assets.

Financial assets

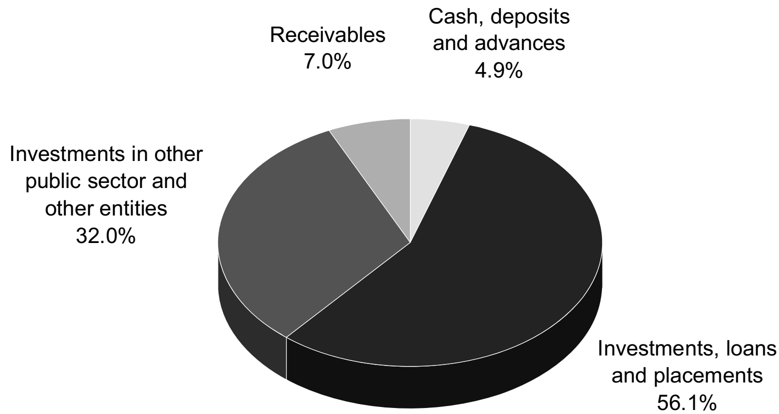
The General Government sector holds the full equity of the State's public enterprises, principally its shareholding in Government-owned corporations (GOCs) but also Public Financial Corporations like Queensland Treasury Corporation (QTC), in much the same manner as the parent or holding company in a group of companies. The estimated net investment in public enterprises ($15.672 billion at 30 June 2010) is included in the General Government sector's financial assets.

Financial assets of $47.544 billion are forecast for 2008-09, or $7.267 billion lower than originally budgeted, reflecting lower than forecast returns on investments held for former defined benefit members and a decline in investments in public sector entities. The reduction in the value of the Public Non-financial Corporations sector is primarily due to market value adjustments to their loans with QTC. The reduction in the value of the Public Financial Sector is due to negative returns on investments held by QTC and WorkCover.

In the year to 30 June 2010, financial assets are projected to increase by $1.512 billion, attributable principally to increased investment in assets set aside to meet future employee liabilities.

Chart 8.1 shows projected General Government sector financial assets by category at 30 June 2010. Investments held to meet future liabilities including superannuation and long service leave comprise the major part of the State's financial assets.

Chart 8.1
Projected General Government financial assets by category at 30 June 2010



Non-financial assets

General Government non-financial assets are projected to total $156.5 billion at 30 June 2010. These assets consist primarily of land and other fixed assets of $149.9 billion, the majority of which are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets of $6.583 billion held by the State include prepayments and deferred tax assets relating to income tax equivalents collected primarily from GOCs.

Changes in non-financial assets occur for a number of reasons including:

- construction and purchase of assets, either to replace existing assets or provide additional capacity for the State to deliver services
- revaluations of assets required under accounting standards
- depreciation and disposals of assets.

Non-financial assets in the year ending 30 June 2010 are expected to grow by $9.484 billion over the 2008-09 estimated actual. Of this increase, $9.270 billion represents the acquisition of non-financial assets.

The Government has traditionally funded new infrastructure at levels well beyond that of the other states. General Government purchases of non-financial assets per capita have far exceeded the average of the other states and territories for well over a decade (see chart 4.1 in chapter 4).

Liabilities

The largest accruing liability in the General Government sector is currently employee entitlements (principally superannuation and long service leave) which are projected to total $29.374 billion at 30 June 2010. The other major component of liabilities is borrowings and advances received.

Total liabilities are budgeted to increase by $9.651 billion in 2009-10, largely on account of increased borrowing to support the State's capital program and growth in the General Government superannuation liability.

State public sector superannuation liabilities include defined benefit liabilities for current employees and the balance of former scheme members (retirement, resignation, etc.) who choose to retain their funds within QSuper.

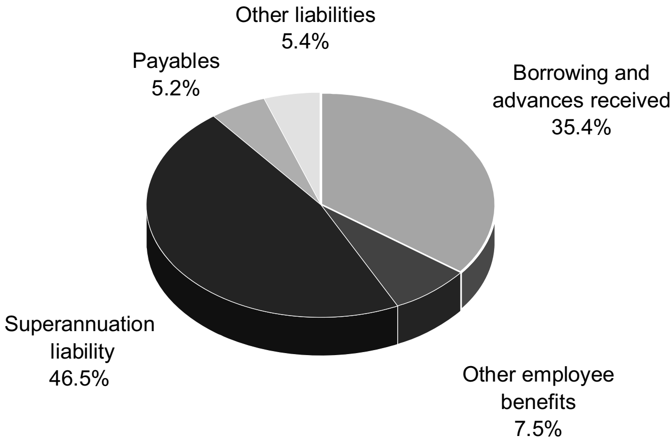
The proportion of the State's total superannuation liability relating to former scheme members is expected to increase over the forward estimates period as these investment balances grow.

Over the Budget and forward estimates period, total additional General Government net borrowings and advances of $28.302 billion are planned to fund the $28.282 billion worth of capital projects in the General Government sector and $1.191 billion worth of equity injections to the Public Non-financial Corporations sector to support expansion of the State's water, ports, energy and rail infrastructure.

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

The composition of the General Government sector's liabilities is illustrated in Chart 8.2.

Chart 8.2
Projected General Government liabilities by category at 30 June 2010



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.

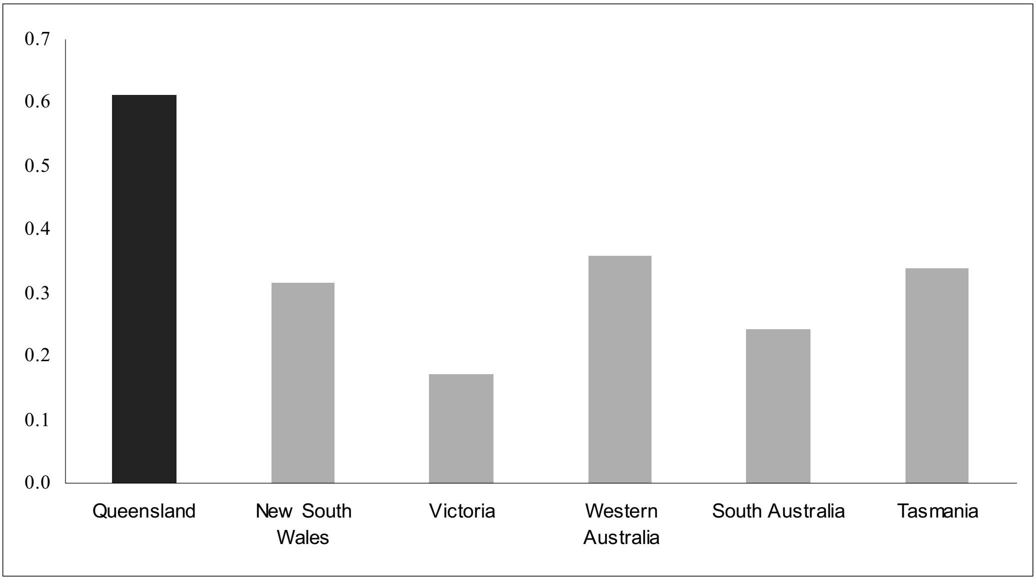
The net financial worth of the General Government sector for 2009-10 is forecast at negative $5.327 billion. Net financial worth is expected to decrease over the forward estimates period as the sector increases borrowings to fund infrastructure assets (which are not included in the calculation of net financial worth).

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 significant liabilities, other than borrowings (for example, accrued employee liabilities such as superannuation and long service leave entitlements). The net financial liabilities of the General Government sector for 2009-10 are forecast at $20.999 billion.

Queensland's level of liquidity continues to be in excess of the other states as illustrated in Chart 8.3.

Chart 8.3
Projected ratio of financial assets to liabilities
(excluding investments in public enterprises) at 30 June 2010
General Government sector



Source: *State Budget Papers for QLD, Vic, WA, SA and Tas. Half Yearly Review for NSW.*

Net worth

The net worth, or equity, of the State is the amount by which the State's assets exceed its liabilities (which is equivalent to General Government net worth). 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. Most financial liabilities are revalued on a regular basis. For example, the Government's

accruing liabilities for employee superannuation and long service leave are determined by actuarial assessments

- movements in the net worth of the State's investments in the Public Non-financial Corporations and Public Financial Corporations sectors
- gains or losses on disposal of assets. Government agencies routinely buy and sell 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 2008-09 is forecast to be $149.8 billion. This exceeds growth forecasts in the 2008-09 Budget by $21.237 billion primarily as a result of revaluations of major assets at 30 June 2008 as part of the State's asset revaluation cycle.

Net worth is forecast to grow by $1.344 billion to $151.1 billion in 2009-10.

Chart 8.4 shows the State's strong net worth compared with the other states and territories. Queensland's per capita net worth is 72.7% greater than the average per capita net worth of the other states and territories.

Chart 8.4
Interjurisdictional comparison of projected per capita net worth at 30 June 2010

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

Source: *State Budget Papers for QLD, Vic, WA, SA, Tas, ACT and NT. Half Yearly Review for NSW. Population data from Australian Government Budget Paper No.3, 2009 10.*

Net debt

Net debt is the sum of advances received and borrowings less cash and deposits, advances paid and investments, loans and placements. The extent of accumulated net debt is used to judge the overall strength of a jurisdiction's fiscal position. High levels of net debt impose a call on future revenue flows to service that debt and meeting these payments can limit government flexibility to adjust outlays. Excessive net debt can call into question the ability of government to service that debt.

As shown in Table 8.2, the General Government sector has negative net debt, that is, a surplus of financial assets over financial liabilities.

Queensland's negative net debt of $2,398 per capita compares to the weighted average net debt of $1,189 per capita in the other states. This indicates the strength of Queensland's financial position relative to the other states.

Table 8.2
Projected net debt per capita at 30 June 2010

	QLD	NSW	VIC	WA	SA	TAS
Net debt per capita ($)	(2,398)	1,102	1,819	331	1,315	(964)

Source: *State Budget Papers for QLD, Vic, WA, SA and Tas.. Half Yearly Review for NSW. Population data from Australian Government Budget Paper No.3, 2009 10.*

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 often records revenues and expenses that do not have an associated cash flow (for example, depreciation expense). The timing of recognition of accrued revenue or expense 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 later in this chapter.

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 beginning of finance leases in the cash surplus (deficit). This measure is also used to derive the Loan Council Allocation nomination, provided in Chapter 10.

A cash deficit of $6.838 billion is forecast in 2009-10 for the General Government sector, with the cash result forecast to remain in deficit in the outyears. Apart from the cash impact of recurrent operating deficits in outyears, the major factor contributing to lower cash results is the planned capital expansion. Total General Government capital purchases of $9.270 billion are budgeted for 2009-10.

Over the period 2009-10 to 2012-13, capital expenditure is expected to total $28.282 billion in the General Government sector. This substantial investment in capital drives the cash deficits.

Table 8.3 provides summary cash flow information for the General Government sector for 2008-09, 2009-10 and the outyears. Detailed cash flow tables are included in Chapter 10.

Table 8.3
General Government sector: summary of budgeted cash flows[1]

	2008-09 Budget[2] $ million	2008-09 Est. Act. $ million	2009-10 Budget $ million	2010-11 Projection $ million	20011-12 Projection $ million	2012-13 Projection $ million
Cash receipts from operating activities	37,297	36,899	38,341	37,844	39,118	41,065
Cash payments for operating activities	(32,955)	(34,250)	(36,160)	(37,086)	(38,509)	(40,027)
Net cash inflows from operating activities	**4,341**	**2,649**	**2,181**	**758**	**609**	**1,038**
Net cash flows from investing activities	(7,786)	(7,458)	(10,665)	(10,099)	(7,606)	(5,563)
Receipts from financing activities	2,897	3,989	7,937	9,063	6,777	4,525
Net increase/(decrease) in cash held	**(548)**	**(821)**	**(546)**	**(278)**	**(219)**	**1**
Derivation of cash surplus (deficit)						
Net cash inflows from operating activities	**4,341**	**2,649**	**2,181**	**758**	**609**	**1,038**
Net cash flows from investments in non-financial assets	(6,311)	(6,793)	(9,020)	(8,274)	(5,944)	(3,962)
Equals cash surplus/(deficit)	**(1,970)**	**(4,144)**	**(6,838)**	**(7,516)**	**(5,335)**	**(2,924)**

Notes:
1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

Cash flows from operating activities

Table 8.4 provides a disaggregation of operating cash flows.

Table 8.4
General Government sector: cash flows from operating activities[1]

	2008-09 Budget[2] $ million	2008-09 Est. Act. $ million	2009-10 Budget $ million
Cash receipts from operating activities			
Taxes received	10,105	8,801	9,286
Grants and subsidies received	15,526	17,122	18,735
Sales of goods and services	3,749	3,910	4,050
Interest receipts	2,197	1,257	2,010
Dividend and income tax equivalents	1,012	1,145	1,042
Other receipts	4,707	4,665	3,219
Total operating receipts	**37,297**	**36,899**	**38,341**
Cash payments for operating activities			
Payments for employees	(15,674)	(15,992)	(16,975)
Payments for goods and services	(7,246)	(8,067)	(8,442)
Grants and subsidies	(8,757)	(8,898)	(9,097)
Interest paid	(540)	(534)	(883)
Other payments	(739)	(759)	(762)
Total operating payments	**(32,955)**	**(34,250)**	**(36,160)**
Net cash inflows from operating activities	**4,341**	**2,649**	**2,181**

Notes:
1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

Cash inflows from operating activities include receipts from taxes, grants from the Australian Government, fees and charges levied on the provision of goods and services, interest receipts from investments and dividend and income tax receipts from public non-financial and financial corporations.

Taxes received by the General Government sector are forecast at $9.286 billion in 2009-10, an increase of 5.5% or $485 million on the 2008-09 estimated actual of $8.801 billion. This primarily reflects the impact of taxation measures announced in the Mid Year Fiscal and Economic Review.

Grants and subsidies received are forecast at $18.735 billion in 2009-10, an increase of $1.613 billion or 9.4% on the 2008-09 estimated actual of $17.122 billion primarily as a result of increased grant funding from the Commonwealth.

Sales of goods and services are forecast at $4.050 billion for 2009-10, an increase of 3.6% on the 2008-09 estimated actual of $3.910 billion, and include fines and regulatory fees, user charges and rental income.

Interest receipts are expected to increase in 2009-10 by $753 million or 60%, to $2.010 billion. This reflects earnings of 7.5% on the debt instrument issued by QTC and the return to long term expected earnings on investments held on behalf of former defined benefit members and statutory bodies.

Dividends and income tax equivalents received from public non-financial and public financial corporations are expected to decrease in 2009-10 by $103 million to $1.042 billion.

Other receipts are forecast at $3.219 billion in 2009-10 a decrease of 31% primarily as a result of decreased coal royalties.

Operating cash outflows represent payment for goods and services, wages and salaries, finance costs and grants and subsidies paid to households, businesses and other Government agencies. In 2009-10 the largest cash disbursement is payments for employees at $16.975 billion or 46.9% of total cash payments from operating activities.

In 2009-10, payments for goods and services are expected to increase 4.6% to $8.442 billion primarily as a result of expanded service delivery.

Cash payments for grants and subsidies are expected to increase by $199 million in 2009-10 to $9.097 billion. This figure includes recurrent grants paid by the Australian Government through the State to non-state schools, grants paid to industry and grants to non-profit institutions. This item also includes community service obligation payments to the energy sector and QR Limited, and capital grants which are largely paid to local government authorities to fund capital works.

Interest paid is expected to increase by $349 million reflecting higher borrowings for the capital program.

Other payments mainly comprise sundry expenditure such as insurance claims and Goods and Services Tax (GST) remitted to the Australian Taxation Office.

Cash flows from investments

Cash flows from investments include both financial and non-financial assets. Table 8.5 provides a disaggregation of investment cash flows into the different types.

Table 8.5
General Government sector: cash flows from investing activities

	2008-09 Budget [1] $ million	2008-09 Est. Act. $ million	2009-10 Budget $ million
Cash flows from investments in non-financial assets	(6,311)	(6,793)	(9,020)
Net cash flows from investments in financial assets for policy purposes	(389)	(229)	(307)
Net cash flows from investments in financial assets for liquidity purposes	(1,086)	(436)	(1,338)
Net cash flows from investing activities	**(7,786)**	**(7,458)**	**(10,665)**

Note:
1. Numbers have been restated where subsequent changes in classification have occurred.

The largest cash disbursement for the Government, outside of recurrent operations, is for investments in non-financial assets. This represents the Government's capital works program which provides for infrastructure such as schools, hospitals and roads.

Cash outflows from investments in non-financial assets are expected to increase to $9.020 billion in 2009-10 from $6.793 billion in 2008-09, an increase of 32.8%.

The cash expenditure on investments in non-financial assets differs from the estimates of capital works expenditure in Budget Paper 3 – Capital Statement. The estimates contained in that paper are on a gross basis and incorporate both departmental agencies and the Public Non-financial Corporations sector. In addition, Budget Paper 3 only includes capital expenditure (including capital grants) within Queensland and does not offset proceeds from asset sales.

Apart from investing in infrastructure, governments also manage financial assets in order to finance overall expenditures. In addition, Queensland manages financial assets set aside to provide for future employee benefits (for example, superannuation and long service leave). The Government manages its financial assets through a combination of borrowing or investing funds and reducing or increasing equity in government or private sector entities. Investments in financial assets include activities relating to both policy and liquidity.

Investments in financial assets for policy purposes include net equity injections into Government and other business enterprises and the net cash flow from disposal or return of equity in Government business enterprises.

Cash outflows from investments for policy purposes in 2008-09 of $229 million reflect equity transactions by the General Government sector with public non-financial and public financial corporations. In 2008-09, this is partially offset by the return of proceeds on the long term lease of the Cairns and Mackay airports and the sale of the Port of Brisbane Corporation's remaining share in the Brisbane Airport Corporation Pty Ltd.

Cash outflows from investments in financial assets for policy purposes for 2009-10 of $307 million reflect net equity injections into public enterprises.

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 2008-09 estimated net cash outflow from investments in financial assets for liquidity purposes of $436 million is substantially lower than the forecast outflow in the 2008-09 Budget due to the lower than forecast return on investments held for former defined benefit members and their subsequent reinvestment, as well as the liquidation of investments to make beneficiary payments.

Net cash outflows from investments in financial assets for liquidity purposes are estimated to be $1.338 billion in 2009-10. The increased outflow compared to 2008-09 reflects the reinvestment of interest earnings based on the earnings at the long term rate.

Cash flows from financing activities

Cash flows generated from financing activities are outlined in Table 8.6 below.

Table 8.6
General Government sector: cash flows from financing activities[1]

	2008-09 Budget [2] $ million	2008-09 Est. Act. $ million	2009-10 Budget $ million
Advances received (net)	(18)	(24)	(17)
Borrowing (net)	2,915	4,014	7,954
Other financing (net)	..	(1)	..
Net cash flows from financing activities	**2,897**	**3,989**	**7,937**

Note:
1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

Net cash flows from financing activities include cash flows from net borrowing (increase in borrowing less redemption), net advances (gross investment in new loans less redemption of loans issued) and other financing.

In 2008-09 net cash inflows from financing activities are estimated at $3.989 billion. This mainly represents borrowings for the State's capital program.

Net cash inflows from financing activities for 2009-10 are estimated at $7.937 billion, reflecting borrowings to partially fund the General Government's capital program of $9.270 billion.

RECONCILIATION OF OPERATING CASH FLOWS TO THE OPERATING STATEMENT

Table 8.7 provides a reconciliation of the cash flows from operating activities to the operating result for the General Government sector.

Table 8.7
General Government sector: reconciliation of cash flows from operating activities to accrual operating activities [1]

	2008-09 Budget [2] $ million	2008-09 Est. Act. $ million	2009-10 Budget $ million
Revenue from transactions	**36,582**	**35,874**	**37,192**
Plus/(less) movement in tax equivalent and dividend receivables	(40)	88	(109)
Plus GST receipts	980	1,245	1,355
Plus/(less) movement in other receivables	(226)	(308)	(97)
Equals cash receipts from operating activities	**37,297**	**36,899**	**38,341**
Expenses from transactions	**35,772**	**36,447**	**39,146**
(Less) non-cash items			
Depreciation and amortisation expense	(2,665)	(2,551)	(2,773)
Accrued superannuation expense	(2,030)	(2,268)	(2,381)
Accrued employee entitlements	(422)	(462)	(471)
Other accrued costs	(285)	334	(228)
Plus superannuation benefits paid defined benefit	419	339	381
Plus/(less) movement in employee entitlement provisions	239	280	394
Plus/(less) GST paid	1,018	1,282	1,386
Plus/(less) movement in other provisions and payables	910	848	706
Equals cash payments for operating activities	**32,955**	**34,250**	**36,160**

Notes:
1. Numbers may not add due to rounding.
2. Numbers have been restated where subsequent changes in classification have occurred.

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 difference is on the expenses (expenditure) side, with large non-cash expenses associated with depreciation and superannuation. Differences due to the timing of receipt or payment of amounts are recorded as either a receivable or payable in the balance sheet.