6 Balance sheet and cash flows

Features

- Borrowing with QTC in 2018-19 for the General Government and Non-financial Public Sectors (NFPS) is forecast to be $29.933 billion and $68.141 billion respectively. These estimates are lower than projections in the 2018-19 Mid Year Fiscal Economic Review (MYFER) mainly due to improved operating cash flows.
- In 2019-20, QTC borrowing for the General Government Sector is forecast to be $32.781 billion, which is lower than expected at MYFER and the 2018-19 Budget. NFPS is $71.954 billion, $1.011 billion lower than MYFER and $345 million lower than the 2018-19 Budget. The increase in QTC borrowing from 2018-19 to 2019-20 arises from the funding of capital purchases.
- Borrowing for leases and similar arrangements increases significantly from 2018-19 to 2019-20 due to the adoption of the new lease accounting standard ($2.2 billion for the General Government Sector and $2.6 billion for NFPS at 1 July 2019). This adjustment largely relates to accommodation leases and does not have any economic impact on the State's finances.
- The increase in borrowing across the forward estimates arises from the funding of essential infrastructure.
- The State's net worth, the amount by which its assets exceed its liabilities, is forecast to increase from $196 billion in 2018-19 to $209.8 billion in 2022-23, primarily reflecting expected asset revaluations.
- At the time of the 2018-19 Budget, net cash inflows from operating activities for 2018-19 were expected to cover 60% of net investments in Non-financial Assets (NFAs) for the General Government Sector. The estimated actual coverage is now expected to be nearly 79% due to improved operating cash flows.
- Non-financial Public Sector capital expenditure totals $45.458 billion for the period 2019-20 to 2022-23, which comprises $40.519 billion of Purchases of Non-financial Assets (PNFA), and $4.938 billion of capital grant expenses. In addition, acquisitions of NFAs under finance leases and similar arrangements of $4.087 billion bring the total capital program for 2019-20 Budget to $49.544 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 stability, flexibility and capacity to deal with emerging financial and economic pressures, and to provide a strong foundation for future economic growth. Due to expected changes required by the new accounting standard, AASB 16 *Leases*, more detail has been disclosed of the State’s Borrowing, separating out QTC borrowing, Leases and similar arrangements), and securities and derivatives.

The cash flow statement shows the expected cash flows of the General Government Sector during each financial year of the forward estimates. 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 defined benefit superannuation. Differences due to the timing of receipt or payment of amounts are recorded as either a receivable or payable in the balance sheet.

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]

	2018-19 Budget $ million	2018-19 Est. Act. $ million	2019-20 Budget $ million	2020-21 Projection $ million	2021-22 Projection $ million	2022-23 Projection $ million
Financial assets	59,460	61,769	60,945	60,475	61,106	62,001
Non-financial assets	214,752	211,814	219,256	225,107	231,165	235,219
Total assets	**274,212**	**273,583**	**280,202**	**285,582**	**292,271**	**297,220**
Borrowings with QTC	29,735	29,933	32,781	35,218	40,174	42,589
Leases and similar arrangements	2,556	2,623	5,824	7,071	6,943	6,966
Securities and derivatives	19	122	122	122	122	122
Advances and deposits	1,816	2,272	1,618	1,443	1,212	1,257
Superannuation liability	23,414	26,739	25,567	24,107	22,409	20,660
Other provisions and liabilities	14,034	15,696	15,393	15,494	15,674	15,847
Total liabilities	**71,575**	**77,386**	**81,306**	**83,455**	**86,533**	**87,441**
Net worth	**202,636**	**196,197**	**198,896**	**202,126**	**205,738**	**209,778**
Net financial worth	**(12,115)**	**(15,617)**	**(20,361)**	**(22,980)**	**(25,428)**	**(25,441)**
Net financial liabilities	**35,928**	**39,568**	**44,796**	**48,098**	**50,760**	**51,226**
Net debt	**2,815**	**1,661**	**8,001**	**12,306**	**16,961**	**19,562**

Note:

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

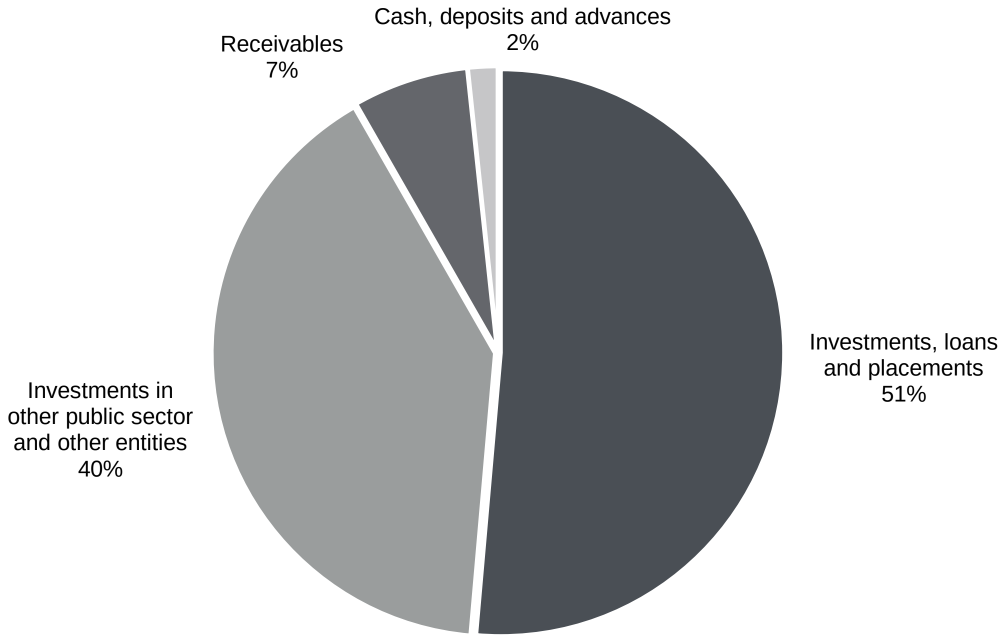
6.2.1 Financial assets

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 $61.769 billion are estimated for 2018-19, $2.309 billion higher than originally budgeted for 2018-19 mainly due to the reprofiling of repatriations from surplus assets in the defined benefit scheme and lower levels of beneficiary payments.

Chart 6.1 shows forecast General Government Sector financial assets by category at 30 June 2020. Investments held to meet future liabilities, including superannuation and insurance, comprise the major part of the State's financial assets.

Chart 6.1 Forecast General Government Sector financial assets by category, at 30 June 2020



6.2.2 Non-financial assets

General Government Sector non-financial assets are estimated to total $211.814 billion at 30 June 2019, $2.938 billion lower than forecast at 2018-19 Budget due to revaluation decrements on road infrastructure at 30 June 2018.

Non-financial assets in 2019-20 are expected to be $7.442 billion higher than the 2018-19 estimated actuals, to be $219.256 billion at 30 June 2020. These assets consist primarily of land and other fixed assets of $212.382 billion, the majority of which are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets of $6.874 billion held by the State include prepayments and deferred income tax assets relating to GOCs.

General Government Sector capital expenditure for 2019-20 is forecast to be $8.335 billion, which comprises $6.727 billion of PNFA, and $1.609 billion of capital grant expenses. In addition to these, acquisitions of non-financial assets under finance leases are forecast to be $1.119 billion, bringing the total General Government Sector capital program for 2019-20 to $9.454 billion This is over $1 billion higher than in the 2018-19 Budget.

Over the four years to 2022-23, General Government Sector capital expenditure is forecast to be $32.971 billion, which comprises $27.993 billion of PNFA, and $4.978 billion of capital grant expenses. Acquisitions of non-financial assets under finance leases and similar arrangements are forecast to be $4.087 billion, bringing the total General Government Sector capital program over the period to $37.058 billion. This is over $3.8 billion higher than the capital program in the 2018-19 Budget.

General Government Sector PNFA are forecast to increase from $6.060 billion in the 2018-19 estimated actual to $7.963 billion in 2021-22. This increase reflects the Government's commitment to providing essential infrastructure and capital works to deliver productivity enhancing infrastructure, strengthening local economies and supporting local jobs.

One of the Government's fiscal principles targets net operating surpluses to ensure General Government Sector PNFA are funded primarily through recurrent revenues rather than borrowing. Forecast net operating cash flows from 2018-19 to 2022-23 of $21.168 billion are funding net investments in NFAs of $32.697 billion.

The State has also entered into a number of finance leases and similar arrangements, mainly in relation to Public Private Partnerships, totalling in excess of $5 billion over the period 2018-19 to 2022-23, including for the Tunnel, Stations, Development components of Cross River Rail (including returned works), New Generation Rollingstock and the Toowoomba Second Range Crossing.

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 NFPS over the period 2019-20 to 2022-23 are forecast to be $40.519 billion, which is an average of $10.13 billion per annum. With capital grant expenses of $4.938 billion, this brings total capital expenditure to $45.458 billion. In addition to this, acquisitions of non-financial assets under finance leases and similar arrangements of $4.087 billion bring the total capital program over the period to $49.544 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.

6.2.3 Liabilities

General Government Sector

Total estimated General Government Sector liabilities of $77.386 billion in 2018-19 are $5.811 billion higher than the 2018-19 Budget, partly due to an increase of $2.182 billion flowing through from the audited actuals at 30 June 2018. The superannuation liability is expected to be higher than budgeted, impacted by actuarial adjustments such as lower discount rates, as well as lower beneficiary payments. Other provisions and liabilities are $1.662 billion higher than budgeted and include the long service leave liability, which was increased as a result of lower interest rates and a modelling revision. Advances received were higher as more GOCs joined the cash management scheme.

Total liabilities in the General Government Sector in 2019-20 will increase by $3.920 billion from the 2018-19 estimated actual, predominantly due to higher borrowing balances partly offset by lower superannuation liabilities and advances from GOCs.

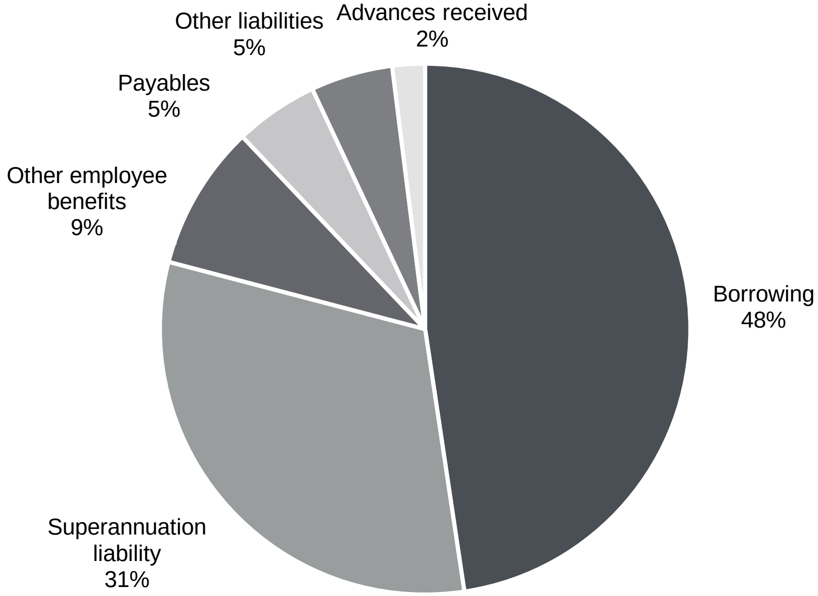
General Government Sector QTC borrowing is expected to increase $2.848 billion, from $29.933 billion in 2018-19 to $32.781 billion in 2019-20, mainly to facilitate capital purchases. General Government Sector QTC borrowing for 2019-20 is $432 million lower than the projection in the 2018-19 Budget and $1.293 billion lower than projected at the time of the 2018-19 MYFER.

Lease liabilities and similar arrangements will increase by $3.2 billion during 2019-20 due to the first-time adoption of AASB 16 *Leases* ($2.2 billion). The recognition of leases for AASB 16 *Leases* largely relates to accommodation leases – for example, the recognition of the lease for 1 William Street increases liabilities by approximately $700 million – but does not have any economic impact on the State's finances. The 2019-20 balance will also increase due to the recognition of new finance leases on the New Generation Rollingstock contract and the costs on the Cross River Rail PPP. Leases and other similar arrangements stabilise at around $7 billion over the outyears following the adoption of AASB 16 as new liabilities are largely set off by contractual repayments.

The defined benefit superannuation liability is projected to be $25.567 billion at 30 June 2020, a $1.172 billion decrease on the 2018-19 estimated actual. The State's defined benefit fund has been closed to new entrants since 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, an anticipated increase in bond rates across the forward estimates contributes to the expected decline in the liability.

The composition of the General Government Sector's forecast liabilities at 30 June 2020 is illustrated in Chart 6.2.

Chart 6.2 Forecast General Government Sector liabilities by category, at 30 June 2020



Borrowing in 2019-20 is budgeted to be 48% of total liabilities, compared with 53% in 2014-15, reflecting the reduction in borrowings over this period.

Non-financial Public Sector borrowings

NFPS borrowing with QTC of $71.954 billion is expected for 2019-20, $345 million lower than expected at the 2018-19 Budget, and $1.011 billion lower than 2018-19 MYFER. This largely reflects the Government's commitment to fiscally responsible infrastructure investment, without substantially increasing debt.

NFPS leases and similar arrangements for 2019-20 are $3.563 billion higher than forecast at MYFER due to the adoption of AASB 16 *Leases* ($2.6 billion at 1 July 2019).

6.2.4 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 2018-19 are estimated to be $39.568 billion.

Net financial liabilities increase across the forward estimates as investments are repatriated from the actuarially assessed defined benefit superannuation fund surplus and borrowings are made to fund priority infrastructure projects.

6.2.5 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
- 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. 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.

6.2.6 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 2018-19 is estimated to be $1.661 billion, $1.154 billion less than the 2018-19 Budget mainly as a result of the improved operating position.

In the NFPS, net debt is estimated at $37.428 billion in 2018-19, $1.599 billion less than the 2018-19 Budget.

6.2.7 New accounting standards

As referred to above and in Box 3.1 in Chapter 3, AASB 16 *Leases* applies from 1 July 2019 and results in a one-off step up in the State's borrowings and non-financial assets of $2.2 billion for General Government Sector and $2.6 billion for the NFPS. This adjustment largely relates to accommodation leases (including 1 William Street) and does not have any economic impact on the State's finances.

AASB 1059 *Service Concession Arrangements* will apply to public sectors in Australia from 1 July 2020 and will significantly impact the State's balance sheet, increasing assets and liabilities. This standard was meant to take effect in 2019-20 but its implementation was deferred to 1 July 2020 by the Australian Accounting Standards Board.

The State, as a grantor, will recognise an asset and matching liability which may be classified as a borrowing or unearned revenue (included in other liabilities), depending on the individual contract.The adoption of this new standard will be addressed in the 2020-21 Budget. The most significant impact will likely to arise from transactions the State has previously entered into, such as the granting of concessions on the Gateway and Logan Motorways and AirportLink where the State will be required to recognise an infrastructure asset (included in land and other fixed assets on the balance sheet) and unearned revenue (included in other liabilities on the balance sheet).

Other transactions such as Gold Coast Light Rail are already on the State's balance sheet and may only be reclassified within non-financial asset categories.

6.3 Cash flows

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

The estimated General Government Sector cash deficit of $1.224 million in 2018-19 is $1.024 billion lower than that forecast at the time of the 2018-19 Budget. This is largely due to the higher than expected operating cash flows.

After taking into account net investments in non-financial assets of $6.422 billion, a cash deficit of $2.586 billion is forecast for 2019-20, an improvement of $1.381 billion compared to the 2018-19 MYFER and an improvement of $1.709 billion compared to the 2018-19 Budget

Net cash flows from investments in financial assets for policy purposes include net cash flows from disposal or return of equity, net equity injections into GOCs and concessional loans and advances. Cash flows from the return of equity from the PNFC and PFC sectors are the primary driver of net inflows of $295 million over the period 2018-19 to 2022-23.

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 as well as drawdowns from the redraw facility. The repatriation of surpluses in the actuarially assessed defined benefit superannuation fund and the QGIF flow through this line in the Statement of Cash Flows.

Total General Government Sector PNFA of $6.727 billion are budgeted for 2019-20 and, over the period 2019-20 to 2022-23, PNFA are expected to total $27.994 billion in the General Government Sector.