6 Balance sheet and cash flows

Features

- Due to a stronger than expected 2017-18 operating surplus, borrowing in 2017-18 is expected to remain below projections in the 2017-18 MYFER and be nearly $2.4 billion lower than projected in the 2017-18 Budget.
- General Government Sector debt is expected to increase slightly from $31.367 billion in 2017-18 to $32.311 billion in 2018-19. This is $1.6 billion lower than the projection for 2018-19 at the time of the 2017-18 MYFER and over $4 billion lower than 2017-18 budget.
- The reduction in General Government debt in 2017-18 has provided the Government with the capacity to fund essential infrastructure and capital works over the forward estimates, while General Government debt and Non-financial Public Sector (NFPS) debt remains lower each year than predicted in the 2017-18 Budget.
- The State's net worth, the amount by which its assets exceed its liabilities, is forecast to be over $208 billion by 2020-21, $2.35 billion higher than at the time of the 2017-18 MYFER. The increase since the 2017-18 MYFER predominantly reflects lower than expected borrowing as a result of the strong 2017-18 operating surplus.
- At the time of 2017-18 MYFER, net cash inflows from operating activities for 2017-18 were expected to cover 68.9% of net investments in Non-financial Assets (NFAs) for the General Government Sector. The estimated actual coverage is now expected to be nearly 100%.
- The total capital program for 2018-19 Budget of $45.769 billion for the period 2018-19 to 2021-22 is comprised of $40.543 billion of Purchases of Non-financial Assets (PNFA), $4.074 billion of capital grant expenses and acquisitions of non-financial assets under finance leases of $1.151 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.

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 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]

	2017-18 Budget $ million	2017-18 Est. Act. $ million	2018-19 Budget $ million	2019-20 Projection $ million	2020-21 Projection $ million	2021-22 Projection $ million
Financial assets	60,814	61,544	59,460	58,581	58,642	58,458
Non-financial assets	212,407	210,900	214,752	219,987	224,570	229,016
Total assets	**273,222**	**272,443**	**274,212**	**278,568**	**283,213**	**287,474**
Borrowings	**33,758**	**31,367**	**32,311**	**35,861**	**39,588**	**42,290**
Advances and deposits	1,544	2,231	1,816	1,533	1,367	1,384
Superannuation liability	23,355	25,294	23,414	21,334	19,946	18,877
Other provisions and liabilities	12,642	13,865	14,034	14,065	14,211	14,407
Total liabilities	**71,299**	**72,757**	**71,575**	**72,793**	**75,112**	**76,958**
Net worth	**201,922**	**199,686**	**202,636**	**205,775**	**208,101**	**210,515**
Net financial worth	**(10,485)**	**(11,213)**	**(12,115)**	**(14,211)**	**(16,470)**	**(18,501)**
Net financial liabilities	**33,273**	**34,216**	**35,928**	**38,362**	**40,540**	**42,462**
Net debt	**1,622**	**(267)**	**2,815**	**7,336**	**11,018**	**13,707**

Note:

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

6.2.1 Financial assets

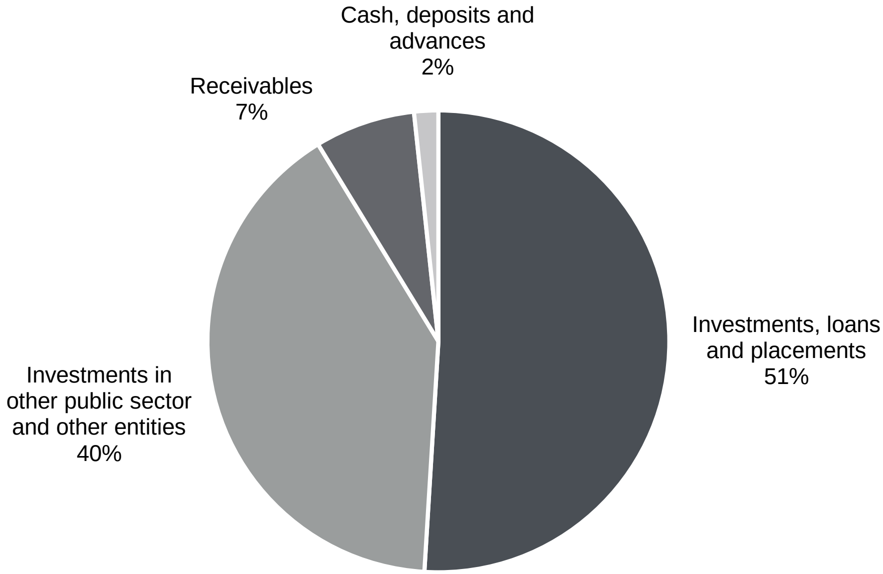
The General Government Sector holds the equity of the State's public enterprises, principally its shareholding in government-owned corporations (GOCs) but also Public Financial Corporations like Queensland Treasury Corporation (QTC), in much the same manner as the parent or holding company in a group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

Financial assets of $61.544 billion are estimated for 2017-18, $730 million higher than originally budgeted for 2017-18. Receivables are $333 million higher than budgeted, which includes dividends from other sectors.

Between 2017-18 and 2019-20, financial assets are projected to decrease by $2.963 billion as investments are repatriated from the actuarially assessed defined benefit superannuation fund and Queensland Government Insurance Fund (QGIF) surpluses. These repatriations, announced in previous budgets, will be used to fund the State Infrastructure Fund and additional priority capital projects as well as reducing debt.

Chart 6.1 shows forecast General Government Sector financial assets by category at 30 June 2019. 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 2019



6.2.2 Non-financial assets

General Government Sector non-financial assets are estimated to total $210.9 billion at 30 June 2018, $1.507 billion lower than forecast at 2017-18 Budget and $281 million higher than in the 2017-18 MYFER.

The decrease since the 2017-18 Budget reflects the flow through of a net downward revaluation at 30 June 2017 primarily for road infrastructure assets. These revaluations were incorporated into the 2017-18 MYFER.

NFAs in 2018-19 are expected to grow by $3.852 billion over the 2017-18 estimated actuals, to be $214.752 billion at 30 June 2019. These assets consist primarily of land and other fixed assets of $207.985 billion, the majority of which are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets of $6.767 billion held by the State include prepayments and deferred income tax assets relating to GOCs.

General Government Sector capital expenditure for 2018-19 is forecast to be $7.601 billion, which comprises $5.927 billion of PNFA, and $1.674 billion of capital grant expenses. In addition to these, acquisitions of non-financial assets under finance leases are forecast to be $864 million, bringing the total General Government Sector capital program for 2018-19 to $8.465 billion.

Over the four years to 2021-22, General Government Sector capital expenditure is forecast to be $32.078 billion, which comprises $27.961 billion of PNFA, and $4.117 billion of capital grant expenses. Acquisitions of non-financial assets under finance leases are forecast to be $1.151 billion, bringing the total General Government Sector capital program over the period to $33.229 billion.

General Government Sector PNFA are forecast to increase from $4.905 billion in the 2017-18 estimated actual to $7.081 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 that ensure General Government Sector PNFA are funded primarily through recurrent revenues rather than borrowing. Forecast net operating cash flows from 2017-18 to 2021-22 of $17.670 billion are funding net investments in NFAs of $31.414 billion. Net cash inflows from operating activities equate to 59.7% of the funding required for the 2018-19 General Government Sector net investments in NFAs, and averages 59.3% across the period 2017-18 to 2021-22.

The State has also entered into a number of finance leases, mainly in relation to Public Private Partnerships, totalling $1.710 billion over the period 2017-18 to 2019-20, including:

- $1.030 billion for New Generation Rollingstock
- $430 million for the Toowoomba Second Range Crossing
- $195 million for the Gold Coast Light Rail – Stage 2.

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 2018-19 to 2021-22 are forecast to be $40.543 billion, which is an average of $10.136 billion per annum. With capital grant expenses of $4.074 billion, this brings total capital expenditure to $44.618 billion. In addition to this, acquisitions of non-financial assets under finance leases of $1.151 billion bring the total capital program over the period to $45.769 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

Estimated General Government Sector liabilities of $72.757 billion in 2017-18 are $1.458 billion higher than the 2017-18 Budget. The superannuation liability was $1.939 billion higher, mainly from the flow through of actuarial adjustments at 30 June 2017, as well as lower beneficiary payments. Advances received were higher as more GOCs joined the cash management scheme and there was an increase in other liabilities, predominantly the State's commitment to join the National Redress Scheme for Survivors of Institutional Child Sexual Abuse. Partially offsetting these increases was lower debt than expected at the time of the 2017-18 Budget mainly resulting from improved royalty revenue.

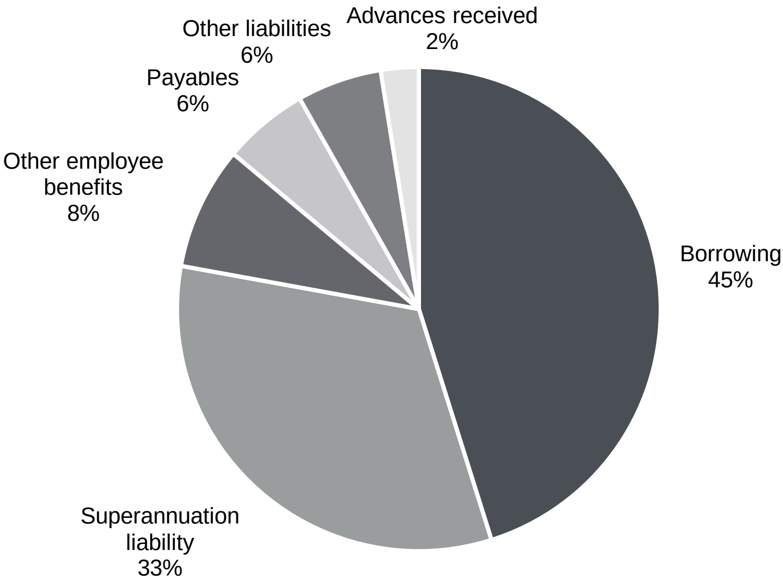
Due to the Government's commitment to sustainable fiscal management, General Government Sector borrowing is expected to fall $1.893 billion from $33.260 billion in 2016-17 to $31.367 billion in 2017-18.

Total liabilities in the General Government Sector in 2018-19 will reduce by $1.182 billion from the 2017-18 estimated actual, predominantly due to lower superannuation liabilities. Liabilities relating to employee entitlements (principally superannuation and long service leave) are projected to total $29.302 billion at 30 June 2019, a 5.6% decrease on the 2017-18 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.

General Government Sector borrowings of $32.311 billion are budgeted for 2018-19, $4.082 billion lower than the projection in the 2017-18 Budget and $1.601 billion lower than projected at the time of the 2017-18 MYFER. Borrowings are expected to increase by $10.923 billion between 2017-18 and 2021-22 in support of PNFA's of $27.961 billion.

The composition of the General Government Sector's forecast liabilities at 30 June 2019 is illustrated in Chart 6.2.

Chart 6.2 Forecast General Government Sector liabilities by category, at 30 June 2019



Borrowing in 2018-19 is budgeted to be 45% of total liabilities, compared with 53% in 2014-15, reflecting the reduction in borrowings over this period.

Non-financial Public Sector borrowings

Non-financial Public Sector borrowings of $69.501 billion are expected for 2017-18, $2.488 billion lower than expected at the 2017-18 Budget, and $1.721 billion lower than 2017-18 MYFER.

Non-financial Public Sector borrowings of $79.750 billion are now expected for 2020-21, $1.093 billion lower than expected at the 2017-18 MYFER and $1.398 billion less than the comparable 2017-18 Budget estimate. This largely reflects the Government's commitment to fiscally responsible infrastructure investment, without substantially 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 2017-18 is estimated at negative $11.213 billion, an improvement of $1.138 billion on the 2017-18 MYFER.

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, in addition to borrowings (for example, accrued employee liabilities such as superannuation and long service leave entitlements).

The net financial liabilities of the General Government Sector for 2017-18 are estimated to be $34.216 billion. Net financial liabilities start increasing from 2018-19 mainly as borrowings increase and investments are repatriated from the actuarially assessed defined benefit superannuation fund and QGIF surplus to assist funding of 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
- 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 2017-18 is estimated to be $199.686 billion. This is $2.236 billion lower than forecast in the 2017-18 Budget primarily due to downward revaluations of road infrastructure assets at 30 June 2017. From 2017-18, net worth is projected to steadily increase, mainly as a result of the growth in purchases of 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 2017-18 is estimated to be negative $267 million, $1.889 billion less than the 2017-18 Budget mainly as a result of improved royalty receipts. Net debt is forecast to increase across the forward estimates to fund priority infrastructure projects.

In the NFPS, net debt is estimated at $34.854 billion in 2017-18, $3.036 billion less than the 2017-18 Budget. Net debt is expected to increase to $39.027 billion in 2018-19 and then grow through to 2021-22 with infrastructure provision partly funded by borrowings and investment drawdowns.

6.2.8 New Accounting Standards

Two new accounting standards will apply to public and private sectors in Australia from 1 July 2019, AASB 16 *Leases* and AASB 1059 *Service Concession Arrangements*, that have the potential to significantly impact balance sheets.

Currently, only finance leases are recognised on the balance sheet (and classified as borrowings for GFS purposes). The intention of the new leasing standard is to also bring operating leases onto the balance sheet of lessees. There will therefore no longer be a distinction between finance leases and operating leases for lessees.

Lessees will be required to recognise a right-of-use asset on balance sheet (representing the right to use the underlying leased asset) and a lease liability (representing the obligation to make future lease payments) for all leases except for short-term leases and leases of low-value assets. Social PPPs (such as schools) are already treated as finance leases and included on the State's balance sheet.

For Service Concession Arrangements, the State, as grantor will recognise an asset and a matching liability which may be classified as a borrowing or unearned revenue (included in other liabilities), depending on the individual contract.

The impact of these new standards will be addressed in the 2019-20 Budget.

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 $47 million in 2017-18 is $1.875 billion lower than that forecast at the time of the 2017-18 Budget. This is largely due to the higher than expected operating cash flows.

After taking into account PNFA of $5.927 billion, a cash deficit of $2.248 billion is forecast for 2018-19, an improvement of $937 million compared to the 2017-18 MYFER.

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 government-owned corporations 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 $1.127 billion over the period 2017-18 to 2021-22.

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 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 $5.927 billion are budgeted for 2018-19 and, over the period 2018-19 to 2021-22, PNFA are expected to total $27.961 billion in the General Government Sector.