6 Balance sheet and cash flows

Features

- General Government Sector net debt at 30 June 2021 is forecast to be nearly $10 billion lower than anticipated at the time of the 2020–21 Queensland Budget. This is primarily due to faster than anticipated improvements in the domestic and national economies leading to a softer impact on gross borrowing requirements, and the contributed valuation for the Titles Registry, being greater than anticipated.
- Net debt in the General Government Sector is expected to be considerably lower in every year of the forward estimates compared to estimates in the 2020–21 Budget and is projected to be $42.573 billion by 30 June 2025. By 2023–24, Queensland's forecast net debt of $39.019 billion compares favourably to Victoria's projected net debt of $138.35 billion and $96.675 billion for New South Wales.
- As the state continues its economic recovery, debt will continue to grow over the forward estimates, but at much lower levels than anticipated in the 2020–21 Budget. Notwithstanding this improvement, debt will remain higher than it was pre-pandemic.
- The Queensland Future Fund (QFF) – Debt Retirement Fund (DRF) is on track to be funded with contributions totalling $7.7 billion by 30 June 2021. In addition, the government is retaining approximately $1.8 billion from the transfer of the Titles Registry to support long-term government priorities to: drive new supply to support current and future housing need; support Path to Treaty action; and create a sustainable funding source for the existing Land Restoration Fund (LRF) to leverage private finance and investment and support financially sustainable carbon markets. The original investment to support the initiatives will remain intact to deliver sustainable and ongoing returns.
- The government is committed to maintaining a $52.216 billion 4-year infrastructure program over the forward estimates to 2024–25. The profile of the capital program over the forward estimates reflects the government's economic response to the pandemic and its focus on maintaining a sustainable program of works through to 2024–25. Over the 10 years to 2024–25, the government will have supported over $110 billion in infrastructure works.
- The Non-financial Public Sector (NFPS) capital program for the period 2021–22 to 2024–25 comprises $43.892 billion of purchases of non-financial assets (PNFA) and $6.29 billion of capital grant expenses as well as acquisitions of non-financial assets under finance leases and similar arrangements of $2.034 billion.
- With the Queensland economy rebounding faster than previously forecast, positive NFPS operating cash flows of $18.725 billion are projected from 2021–22 to 2024–25. This will contribute to job creating infrastructure by partially funding the expected $43.893 billion of PNFA over the same period.
- The government will provide a further $1.5 billion to the Queensland Renewable Energy and Hydrogen Jobs Fund for government investments in commercial renewable energy and hydrogen projects. This brings the total investment in the fund to $2 billion, with $1 billion of this funding to be delivered between 2021–22 and 2024–25.

6.1 Overview

The balance sheet shows the projected assets, liabilities and net worth of the General Government Sector as at 30 June each year. A strong balance sheet provides the government with the ability to respond to financial and economic shocks, such as those brought about by the COVID-19 pandemic and natural disasters.

By leveraging the state's balance sheet in a fiscally responsible and manageable way, the government has been able to deliver targeted, temporary relief to support economic recovery, while providing 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. While the operating statement is reported in accrual terms – that is, when revenue and expenses are recorded – the cash flow statement is reported in cash terms – that is, when revenues are received, and payments are made.

The largest differences between cash and accrual accounting relate to depreciation and defined benefit superannuation.

6.2 Balance sheet

Table 6.1 summarises the key balance sheet aggregates for the General Government Sector.

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

	2020–21 Budget $ million	2020–21 Est. Act. $ million	2021–22 Budget $ million	2022–23 Projection $ million	2023–24 Projection $ million	2024–25 Projection $ million
Financial assets	63,745	66,917	68,047	70,694	72,271	73,605
Non-financial assets	242,503	244,780	250,163	255,259	259,612	263,240
Total assets	**306,247**	**311,697**	**318,210**	**325,953**	**331,883**	**336,845**
Borrowing with QTC	53,501	47,102	57,240	67,110	73,265	77,761
Leases and other similar arrangements	7,565	7,779	7,603	7,471	7,780	7,623
Securities and derivatives	198	198	198	198	198	198
Advances	1,506	1,505	1,432	1,119	1,018	868
Superannuation liability	27,475	23,758	22,686	21,653	20,291	18,505
Other provisions and liabilities	24,464	26,664	25,877	25,639	25,392	25,358
Total liabilities	**114,708**	**107,006**	**115,037**	**123,190**	**127,944**	**130,313**
Net worth	**191,539**	**204,691**	**203,174**	**202,763**	**203,939**	**206,532**
Net financial worth	**(50,963)**	**(40,089)**	**(46,989)**	**(52,496)**	**(55,673)**	**(56,708)**
Net financial liabilities	**72,815**	**61,871**	**69,847**	**76,499**	**80,503**	**82,036**
Net debt	**25,499**	**15,808**	**24,750**	**33,326**	**39,019**	**42,573**

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

6.2.1 Financial assets

The major categories of financial assets are investments, loans and placements and investments in other public sector entities. Investments loans and placements incorporate investments held to meet future liabilities, including superannuation and insurance, as well as investments relating to the Queensland Future Fund (QFF) – Debt Retirement Fund (DRF). Moody's has indicated that the QFF will play a material role in the state's management of its debt. The General Government Sector holds the equity in the state's public enterprises, principally the 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.

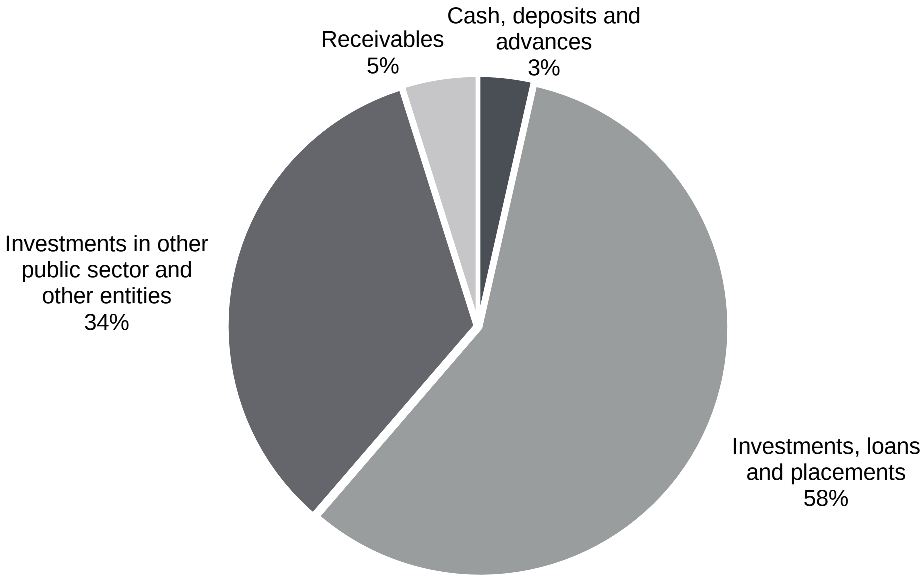
Total financial assets of $66.917 billion are estimated for 2020–21, $3.172 billion higher than published in the 2020–21 Budget. Investments, loans and placements have increased by $3.615 billion, predominantly due to an increase in the value of assets being contributed to the DRF.

The finalisation of the Queensland Titles Registry valuation means the balance of the DRF has increased to over $7.7 billion. In addition, the Queensland Government will retain approximately $1.8 billion from the transfer of the Queensland Titles Registry, held by the government to support the establishment of a Housing Investment Fund, Path to Treaty Fund and Carbon Reduction Investment Fund.

Financial assets are expected to increase by $1.130 billion to $68.047 billion by 30 June 2022, mainly due to increases in the value of investments in GOCs including the expansion of the state's investment in the Queensland Renewable Energy and Hydrogen Jobs Fund, previously the Queensland Renewable Energy Fund. With increases in the value of public enterprises and expected returns on the DRF, financial assets will continue to grow over the forward estimates and are projected to be $73.605 billion by 30 June 2025.

Chart 6.1 shows forecast General Government Sector financial assets by category at 30 June 2022.

Chart 6.1 Forecast General Government Sector financial assets by category, at 30 June 2022



6.2.2 Non-financial assets

General Government Sector non-financial assets are estimated to be $244.78 billion at 30 June 2021, $2.277 billion higher than expected in the 2020–21 Budget. This increase is largely attributable to a revised valuation for service concession arrangements under AASB 1059 *Service Concession Arrangements.*

In accordance with Australian Accounting Standards, AASB 1059 was adopted for the first time in 2020–21 with initial valuation estimates included in the 2020–21 Budget.

Service concession arrangements (SCAs) are agreements where an operator (private sector) is contracted to provide or operate an asset on behalf of the grantor (public sector) of the arrangement. The grantor will typically have a social or community obligation to provide the services delivered to the community. AASB 1059 requires the grantor to recognise SCAs over their economic life and to recognise a matching liability (refer to section 6.2.3 Liabilities below).

Non-financial assets in 2021–22 are expected to increase by a further $5.383 billion to be $250.163 billion at 30 June 2022.

Total non-financial assets at 30 June 2022 consist primarily of land and other fixed assets of $243.243 billion, the majority of which are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets of $6.92 billion held by the state include prepayments and deferred income tax assets relating to GOCs.

General Government Sector capital expenditure for 2021–22 is forecast to be $9.932 billion, which comprises $7.8 billion of PNFA and $2.132 billion of capital grant expenses. In addition, acquisitions of non-financial assets under finance leases and similar arrangements are forecast to be $1.088 billion, bringing the total General Government Sector capital program for 2021–22 to $11.02 billion.

Over the 4 years to 2024–25, General Government Sector capital expenditure is forecast to be $36.273 billion, which comprises $29.903 billion of PNFA and $6.37 billion of capital grant expenses. Acquisitions of non-financial assets under finance leases and similar arrangements are forecast to be $1.977 billion, bringing the total General Government Sector capital program over the period to $38.25 billion.

The finance leases and similar arrangements are mainly in relation to Public Private Partnerships (PPPs), totalling more than $3.609 billion over the period 2020–21 to 2024–25. This includes major PPPs relating to the Tunnel, Stations and Development components of Cross River Rail (including returned works) and the Surgical, Treatment and Rehabilitation Service (STARS) facility at Herston.

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 so there are no cash impacts on the commencement of the lease.

The current estimate of the capital program over the 4 years to 2024–25 is over $52 billion. PNFA by the NFPS over this period are forecast to be $43.892 billion. With capital grant expenses of $6.29 billion, this brings total capital expenditure to $50.182 billion. In addition to this, acquisitions of non-financial assets under finance leases and similar arrangements of $2.034 billion bring the total capital program over the period to $52.216 billion.

6.2.3 Liabilities

General Government Sector

Total General Government Sector liabilities are estimated to be $107.006 billion at 30 June 2021, a decrease of $7.702 billion since the 2020–21 Budget, predominantly due to lower than expected borrowing and superannuation liability estimates, offset in part by an increase in other liabilities due to revised valuations for service concession arrangements under AASB 1059 *Service Concession Arrangements* (refer to section 6.2.2 Non-financial assets above). This adjustment does not have any economic impact on the state's finances.

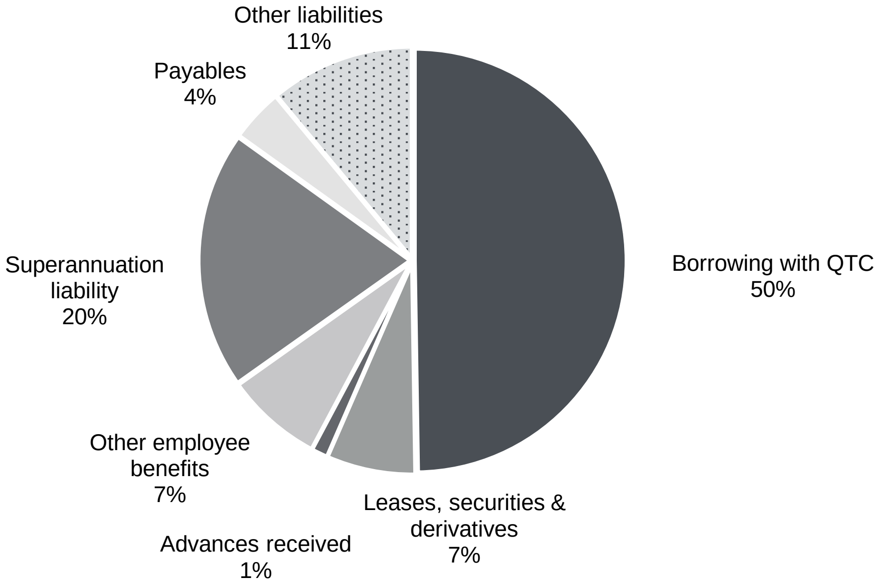
Total liabilities are expected to increase by $8.031 billion by 30 June 2022 to be $115.037 billion. General Government Sector borrowing with QTC will increase by $10.138 billion in 2021–22, to be $57.240 billion. This is $7.285 billion lower than the comparable 2020–21 Budget estimate for 2021–22. General Government Sector borrowing with QTC is then forecast to grow over the forward estimates as the economy returns to sustainable growth post the recovery from COVID-19.

By 2023–24, borrowing with QTC is expected to reach $73.265 billion, $7.388 billion lower than expected in the 2020–21 Budget. In 2024–25, total borrowing with QTC will increase by $4.496 billion to be $77.761 billion as the government continues to invest in vital infrastructure to drive sustainable economic growth.

The defined benefit superannuation liability is projected to be $23.758 billion at 30 June 2021, $3.717 billion lower than expected in the 2020–21 Budget. This is predominantly due to recent increases in 10-year bond yields which are used to value the liability. By 30 June 2022 the superannuation liability is projected to be $22.686 billion and is expected to continue to decline over the forward estimates as bond rates continue to recover, and members of the defined benefit fund retire. The fund has been closed to new entrants since 2008.

The composition of the General Government Sector's forecast liabilities at 30 June 2022 is illustrated in Chart 6.2.

Chart 6.2 Forecast General Government Sector liabilities by category, at 30 June 2022



6.2.4 Net debt

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

Net debt excludes certain assets and liabilities, such as superannuation and insurance liabilities. However, it still indicates the soundness of the government's fiscal position, as high levels of net debt will require servicing through interest payments and limit flexibility to adjust expenditure.

Net debt for the General Government Sector in 2020–21 is estimated to be $15.808 billion, $9.691 billion lower than expected in the previous budget. The lower net debt is predominantly the result of a reduction in gross borrowing of $6.185 billion largely associated with the improved operating position in the sector, and an increase of $3.615 billion in investments, loans and placements, mainly representing the contribution valuation for the Titles Registry on transfer to the Queensland Future Fund (QFF) – Debt Reduction Fund (DRF), being greater than anticipated.

General Government Sector net debt is budgeted to be $24.75 billion in 2021–22, with expected returns on the DRF partially offsetting increases in gross borrowing which will be employed to support the state's economic recovery.

6.2.5 Net financial liabilities

Net financial liabilities are total liabilities, less financial assets other than equity instruments 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 2020–21 are estimated to be $61.871 billion and are estimated to increase to $69.847 billion by 30 June 2022. This increase is commensurate with the expected increase in borrowing as operating deficits continue to 2023–24, offset in part by a reduction in the superannuation liability.

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 entities.

Changes in the state's net worth occur for several 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 PNFC 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.

General Government Sector net worth was $193.731 billion at 30 June 2020. It is expected to increase to $204.691 billion in 2020–21, over $13 billion higher than expected in the 2020–21 Budget.

Contributing to the improvement in net worth, total financial assets have increased by $3.172 billion, predominantly due to an increase in the value of assets being contributed to the DRF and other funds, borrowings have decreased by $6.185 billion in line with the improved operating position, and the superannuation liability has decreased by $3.717 billion, predominantly due to an increase in 10-year bond yields.

The net worth of the state is projected to steadily grow over the forward estimates to be $206.532 billion by 2024–25, an increase of 6.6 per cent over the period 2019–20 to 2024–25.

6.3 Cash flows

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

The General Government Sector cash deficit for 2020–21 is estimated to be $8.033 billion, which is $5.865 billion lower than forecast at the time of the 2020–21 Budget. This is largely due to an improved operating position driven by the faster than anticipated economic recovery and the resulting positive impact on state revenues.

After net investments in non-financial assets of $7.561 billion, a cash deficit of $7.067 billion is forecast for 2021–22. As revenues continue to improve in line with the forecast economic recovery, net cash flows from operating activities increase over the forward estimates, contributing to the government's investment in non-financial assets and alleviating the need to fund these investments completely through borrowing. In the 2020–21 Budget, positive operating cash flows were first forecast for 2022–23, while in this Budget they are forecast to occur in 2021–22.

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 injection of equity to the PNFC and Public Financial Corporations sector are the primary driver of net outflows of $1.396 billion over the period from 2021–22 to 2024–25. This includes $1 billion of the government's $2 billion commitment to the Queensland Renewable Energy and Hydrogen Jobs Fund.

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.

Total General Government Sector PNFA of $7.8 billion are budgeted for 2021–22. Over the period from 2021–22 to 2024–25, General Government Sector PNFA are expected to total $29.902 billion as Queensland continues to deliver key elements of the Queensland Government's *Economic Recovery Plan* to support jobs and invest in the productivity-enhancing and essential social infrastructure that supports the state's ongoing recovery and future economic growth.