6 Balance sheet and cash flows

Features

- Total borrowing at 30 June 2020 for the General Government Sector and Non-financial Public Sector (NFPS) was $44.267 billion and $84.96 billion respectively, in line with the projections in the 2020-21 COVID-19 Fiscal and Economic Review (C19-FER).
- In 2020-21, total borrowing for the General Government Sector is forecast to be $61.263 billion, comprising $53.501 billion in borrowing with QTC and $7.762 billion in leases and other similar arrangements and securities and derivatives. NFPS total borrowing for 2020-21 is projected to be $102.22 billion, with $93.467 billion of borrowing with QTC, $8.033 billion of leases and other similar arrangements and $720 million of securities and derivatives.
- As the government implements the Economic Recovery Plan in response to the coronavirus (COVID-19) pandemic, borrowing will continue to increase across the forward estimates.
- In the C19-FER, the government committed to maintaining a $51.8 billion infrastructure investment program. The total capital program for this 2020-21 Budget is $56.031 billion.
- The Non-financial Public Sector capital program for the period 2020-21 to 2023-24 comprises $45.373 billion of purchases of non-financial assets (PNFA) and $6.98 billion of capital grant expenses as well as acquisitions of non-financial assets under finance leases and similar arrangements of $3.678 billion.
- As the state recovers from the pandemic, positive NFPS operating cash flows of $11.618 billion projected from 2021-22 to 2023-24 will contribute to the deployment of the record capital program by partially funding $34.342 billion of PNFA over the same period.
- Non-financial assets and other liabilities will increase significantly from 2019-20 to 2020-21 due to the first-time adoption of the new accounting standard AASB 1059 *Service Concession Arrangements*. This adjustment does not have any economic impact on the state's finances.

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. The government's ability to respond to the financial and economic pressures brought about by the COVID-19 pandemic reinforces the importance of a strong and flexible balance sheet, with the capacity to deal with such crises and to provide a strong foundation for economic recovery and 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 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]

	2019-20 Outcome $ million	2020-21 Budget $ million	2021-22 Projection $ million	2022-23 Projection $ million	2023-24 Projection $ million
Financial assets	58,278	63,745	64,446	66,700	68,558
Non-financial assets	230,207	242,503	248,653	254,271	259,174
Total assets	**288,485**	**306,247**	**313,099**	**320,971**	**327,732**
Borrowings with QTC	37,570	53,501	64,525	73,924	80,653
Leases and similar arrangements	6,499	7,565	7,408	7,484	7,768
Securities and derivatives	198	198	198	198	198
Total borrowing	**44,267**	**61,263**	**72,130**	**81,605**	**88,619**
Advances	1,845	1,506	1,333	1,196	1,324
Superannuation liability	27,808	27,475	26,784	25,583	22,859
Other provisions and liabilities	20,834	24,464	23,699	23,600	23,240
Total liabilities	**94,754**	**114,708**	**123,947**	**131,985**	**136,042**
Net worth	**193,731**	**191,539**	**189,152**	**188,987**	**191,689**
Net financial worth	**(36,476)**	**(50,963)**	**(59,500)**	**(65,285)**	**(67,484)**
Net financial liabilities	**58,036**	**72,815**	**82,389**	**89,072**	**92,231**
Net debt	**14,046**	**25,499**	**35,511**	**44,228**	**50,782**

Note:
1. Numbers may not add due to rounding

6.2.1 Financial assets

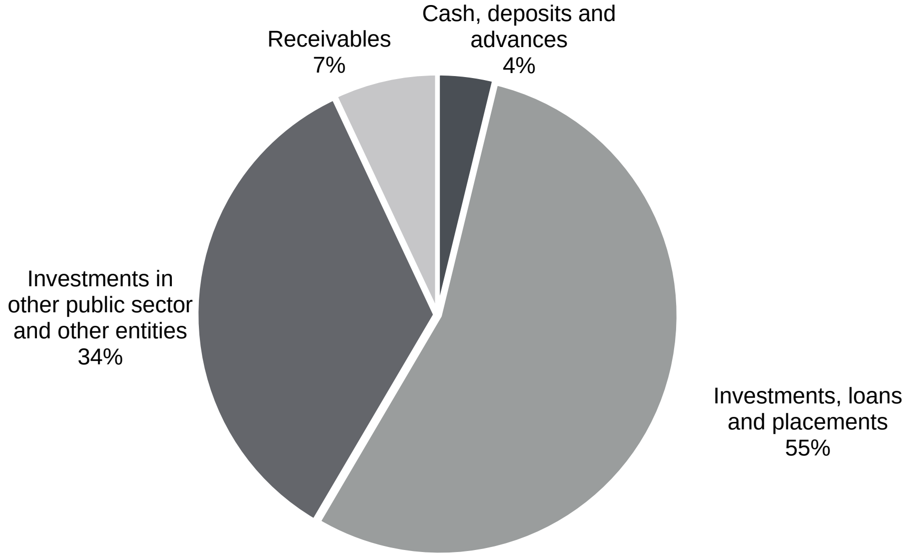
The General Government Sector holds the equity of the state's public enterprises, principally the shareholding in government-owned corporations (GOCs) but also Public Financial Corporations like Queensland Treasury Corporation (QTC), in much the same manner as the parent or holding company in a group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

The estimated investment in public enterprises is included in the General Government Sector's financial assets. Other material financial assets include investments, loans and placements which incorporate investments held to meet future liabilities including superannuation and insurance, as well as investments relating to the Queensland Future Fund (QFF) established in August 2020 as part of the government's Savings and Debt Plan.

Total financial assets of $58.278 billion were held on the balance sheet at 30 June 2020 in line with expectations published in the C19-FER. Financial assets are expected to increase to $63.745 billion by 30 June 2021, an increase of $5.467 billion, mainly due to the seed funding for the QFF's first sub-fund, the Debt Retirement Fund (DRF), which will be offset against the state's debt for credit rating agency metrics. Financial assets will continue to grow over the forward estimates and are projected to be $68.558 billion by 30 June 2024.

Chart 6.1 shows forecast General Government Sector financial assets by category at 30 June 2021.

Chart 6.1 Forecast General Government Sector financial assets by category, at 30 June 2021



6.2.2 Non-financial assets

General Government Sector non-financial assets were $230.207 billion at 30 June 2020, in line with expectations published in the C19-FER.

Non-financial assets will increase by $12.296 billion during 2020-21 to be $242.503 billion at 30 June 2021. Part of this increase is attributed to the first-time adoption of AASB 1059 *Service Concession Arrangements.*

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).

Total non-financial assets of $6.5 billion were recognised in 2020-21 on the initial adoption of AASB 1059.

Total non-financial assets at 30 June 2021 consist primarily of land and other fixed assets of $235.537 billion, the majority of which are roads, schools, hospitals and other infrastructure used to provide services to Queenslanders. Other non-financial assets of $6.965 billion held by the state include prepayments and deferred income tax assets relating to GOCs.

General Government Sector capital expenditure for 2020-21 is forecast to be $9.81 billion, which comprises $7.572 billion of PNFA and $2.238 billion of capital grant expenses. In addition, acquisitions of non-financial assets under finance leases and similar arrangements are forecast to be $1.571 billion, bringing the total General Government Sector capital program for 2020-21 to $11.381 billion.

This is $814 million higher than the 2019-20 MYFER, predominantly due to higher capital grant expenses to local government and industry including over $324 million for COVID-19 response and economic recovery, $142 million for disaster recovery and resilience, and $66 million for grants in relation to the Resource Community Infrastructure Fund.

Over the four years to 2023-24, General Government Sector capital expenditure is forecast to be $38.619 billion, which comprises $31.549 billion of PNFA and $7.07 billion of capital grant expenses. Acquisitions of non-financial assets under finance leases and similar arrangements are forecast to be $3.647 billion, bringing the total General Government Sector capital program over the period to $42.266 billion.

The finance leases and similar arrangements are mainly in relation to Public Private Partnerships, totalling more than $4.9 billion over the period 2019-20 to 2023-24, including for: the Tunnel, Stations and Development components of Cross River Rail (including returned works); the Surgical, Treatment and Rehabilitation Service (STARS) facility at Herston; and New Generation Rollingstock.

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.

As part of Queensland’s Economic Recovery Plan, the government had committed to maintaining the state infrastructure program at $51.8 billion over the four years to 2022-23.

The current estimate of the capital program over the four years to 2023-24 is now over $56 billion, the largest 4-year capital spend in over a decade. Purchases of non-financial assets by the NFPS over this period are forecast to be $45.373 billion. With capital grant expenses of $6.98 billion, this brings total capital expenditure to $52.353 billion. In addition to this, acquisitions of non-financial assets under finance leases and similar arrangements of $3.678 billion bring the total capital program over the period to $56.031 billion.

As part of the Economic Recovery Plan, capital projects have been fast tracked to immediately support construction jobs and invest in infrastructure that supports Queensland’s recovery, resilience and future economic growth.

6.2.3 Liabilities

General Government Sector

Total General Government Sector liabilities were $94.754 billion at 30 June 2020, an increase of $2.113 billion since the C19-FER, predominantly due to year end actuarial adjustments to superannuation and other employee benefit liability estimates.

Total liabilities are expected to increase by $19.954 billion by 30 June 2021 to be $114.708 billion. General Government Sector borrowing with QTC will increase by $15.931 billion in 2020-21 and steadily grow as the government continues to support Queensland's economic recovery and growth post COVID-19. By 2023-24, total borrowings, including borrowing with QTC, leases and other similar arrangements and securities and derivatives, are expected to reach $88.619 billion. In addition, as discussed above under section 6.2.2, the first-time adoption of AASB 1059 *Service Concession Arrangements* accounts for most of the increase in the other provisions and liabilities.

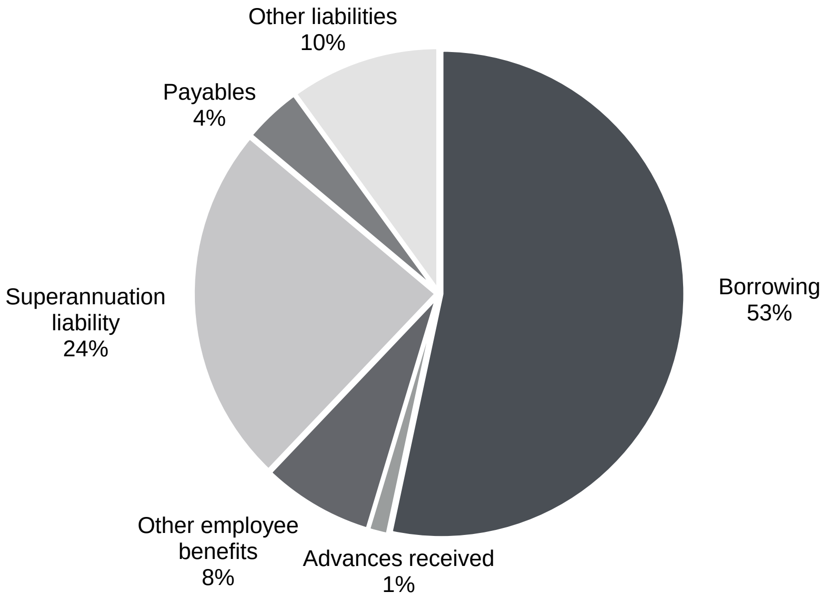
Predominantly due to the impact of the COVID-19 pandemic and election commitments, by 2022-23 General Government Sector borrowing with QTC is expected to be $30.813 billion higher than expected at 2019-20 MYFER.

Revenue write downs in excess of $12 billion and the government's pandemic response, economic recovery measures and election commitments totalling more than $9 billion are the major contributors to this increase. Increases in borrowing since MYFER also arise from non-COVID-19-related decisions, the reinstatement of defined benefit superannuation contributions from 2020-21, and the planned repatriation of $2 billion in surplus defined benefit superannuation investments no longer being allocated to repay debt. Instead, $1 billion of the defined benefit fund surplus has been redirected to the QFF. The Defined Benefit Fund remains in surplus over the forward estimates and all benefits remain guaranteed by legislation.

The defined benefit superannuation liability is projected to be $27.475 billion at 30 June 2021, a $333 million decrease on the 2019-20 outcome. The state's defined benefit fund has been closed to new entrants since 2008. Given the age profile of the employees still in that fund, retirements are also increasing. Accordingly, the state's superannuation liability continues to decline over the forward estimates, although at a slower pace than expected at the time of the 2019-20 MYFER mainly because of more subdued bond rate recovery over the forward estimates.

The composition of the General Government Sector's forecast liabilities at 30 June 2021 is illustrated in Chart 6.2.

Chart 6.2 Forecast General Government Sector liabilities by category, at 30 June 2021



Non-financial Public Sector borrowing

The NFPS is a consolidation of the General Government and the PNFC sectors, with transactions between these sectors eliminated.

PNFC debt is primarily held by government-owned corporations and is supported by income-generating assets including key pieces of economic infrastructure.

NFPS borrowing with QTC of $93.467 billion is expected for 2020-21, in line with expectations at the C19-FER, and reflecting the increase in borrowings in the General Government Sector.

By 30 June 2024, NFPS borrowing with QTC is expected to reach $121.039 billion. With leases and other similar arrangements of $8.135 billion and securities and derivatives of $549 million, total NFPS borrowing is expected to be $129.723 billion by 30 June 2024.

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 at 30 June 2020 were $58.036 billion and are estimated to increase to $72.815 billion by 30 June 2021. The increase is commensurate with the increase in borrowing with QTC and the increase in other liabilities, because of the first-time adoption of AASB 1059 discussed above, offset by increases to Investments, loans and placements, predominantly because of the seed funding for the DRF.

Net financial liabilities increase across the forward estimates as borrowings are secured to fund the state's economic recovery following the impact of the COVID-19 pandemic.

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 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.

6.2.6 New accounting standards

As referred to above, AASB 1059 *Service Concession Arrangements* applies to public sectors in Australia from 1 July 2020 and has significantly impacted on the state's balance sheet, increasing assets and liabilities.

The State, as a grantor, has recognised an asset and matching liability included in other liabilities. The adoption of this new standard has been included in the 2020-21 Budget in relation to transactions the State has previously entered into, such as the granting of concessions on the Gateway and Logan Motorways, Airport Link Tunnel and Port Drive, where the State has recognised 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 and Toowoomba Second Range Crossing are already on the state's balance sheet.

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 General Government Sector cash deficit for 2019-20 of $6.241 billion was $3.172 billion higher than forecast at the time of the 2019-20 MYFER, largely due to the government's COVID-19 response.

After net investments in non-financial assets of $7.316 billion, a cash deficit of $13.898 billion is forecast for 2020-21 in line with expectations at C19-FER. As revenues improve with the projected 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 borrow 100% for these investments.

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 Sector and Public Financial Corporations Sector are the primary driver of net outflows of $742 million over the period from 2020-21 to 2023-24.

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, which was fully drawn down in 2019-20.

Total General Government Sector PNFA of $7.572 billion are budgeted for 2020-21 and, over the period from 2020-21 to 2023-24, PNFA are expected to total $31.548 billion in the General Government Sector as Queensland implements the Economic Recovery Plan to support jobs and invest in infrastructure that supports the state's recovery and future economic growth.