

2018–19 **AASB 1049** **Financial Statements**

Overview and Analysis – 30 June 2019

AASB 1049 - Overview and Analysis

The following analysis compares current year General Government Sector (GGS) and Total State Sector (TSS) performance with last year's balances, restated for changes in accounting policies, presentational and timing differences and errors.

AASB 1049 *Whole of Government and General Government Sector Financial Reporting* aims to harmonise the disclosure presentation to be consistent with the Uniform Presentation Framework disclosed in the Outcomes Report.

Summary of Key Financial Aggregates of the Consolidated Financial Statements

The table below provides aggregate information under AASB1049:

	General Government Sector		Total State Sector	
	2019 \$ million	2018 \$ million	2019 \$ million	2018 \$ million
Taxation revenue	14,165	13,244	13,870	12,983
Grants revenue	28,307	27,966	28,239	27,912
Sales of goods and services	5,789	5,884	18,713	18,304
Interest income	2,191	2,389	1,678	1,569
Dividend and income tax equivalent income	2,786	2,920	15	14
Other revenue	6,596	5,685	7,111	6,231
Continuing Revenue from Transactions	59,834	58,087	69,627	67,012
Employee expenses	24,019	22,681	25,877	24,357
Superannuation expenses	3,654	3,409	3,888	3,637
Other operating expenses	16,490	17,259	21,622	21,668
Depreciation and amortisation	3,451	3,326	6,051	5,840
Other interest expense	1,581	1,614	4,177	4,127
Grants expenses	9,647	8,048	9,098	7,469
Continuing Expenses from Transactions	58,842	56,337	70,712	67,099
Net Operating Balance	992	1,750	(1,086)	(86)
Other Economic Flows - Included in Operating Result	(819)	(1,110)	(2,962)	1,432
Operating Result	173	640	(4,048)	1,346
Other Economic Flows - Other Movements in Equity	6,294	(591)	6,331	(594)
Comprehensive Result ¹	6,467	50	2,283	752
Purchases of non-financial assets	5,764	5,126	8,485	7,659
Fiscal Balance	(2,191)	(587)	(4,425)	(2,501)
Borrowing with QTC	29,468	29,256	-	-
Leases and other loans	2,612	2,142	2,965	2,467
Securities and derivatives	121	122	102,786	96,708
Assets	280,750	270,683	355,525	341,879
Liabilities	79,246	75,645	163,777	152,415
Net Worth	201,505	195,038	191,747	189,464

Note:

1. Comprehensive result is different to the Outcomes Report as it reflects the movement from the 2018 recast position, rather than the 2018 published position.

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Net Operating Balance

The General Government Sector (GGS) net operating balance was a surplus of \$992 million compared to a restated surplus of \$1.75 billion in 2017-18.

GGS revenue grew by around 3% (\$1.746 billion) while expenses grew by around 4% (\$2.505 billion) over the year.

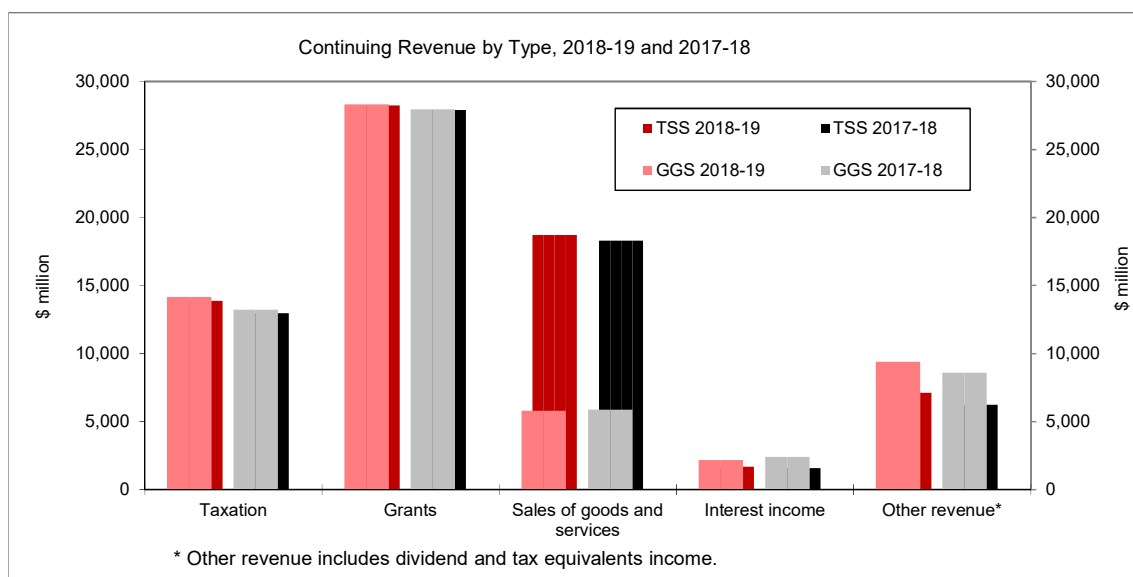
The Total State Sector (TSS) net operating balance showed a deficit of \$1.086 billion compared to a restated deficit of \$86 million in 2017-18.

The variances are explained below.

Revenue

Revenue from transactions increased from \$58.087 billion in 2017-18 to be \$59.834 billion in the GGS and totals \$69.627 billion in the TSS, an increase of \$2.615 billion over 2017-18.

Revenues by type for the GGS and TSS are shown in the following chart:



Taxation revenue increased in 2018-19 by \$921 million for GGS and \$887 million for the TSS. This mainly reflects increased collections in almost all categories. Payroll tax increased \$254 million resulting from improvements in mining and construction activity. Stamp duty collections were \$246 million higher, mainly transfer duty on large transactions.

Commonwealth and other grants comprised 47% of GGS revenue and 41% of TSS revenue. Grant revenue increased \$341 million from 2017-18 for the GGS and \$327 million for the TSS. The increase was primarily due to

- specific purpose payments from the Commonwealth which increased \$824 million, mainly for health and education services;
- National Partnership Payments which increased \$95 million (mainly for NDRRA);
- grants for on-passing were \$239 million higher, mainly to non-state schools.

These increases were partly offset by lower GST of \$797 million (lower relativities).

Dividend and income tax revenue for the GGS was lower in 2018-19 mainly due to the lower returns from the electricity sector.

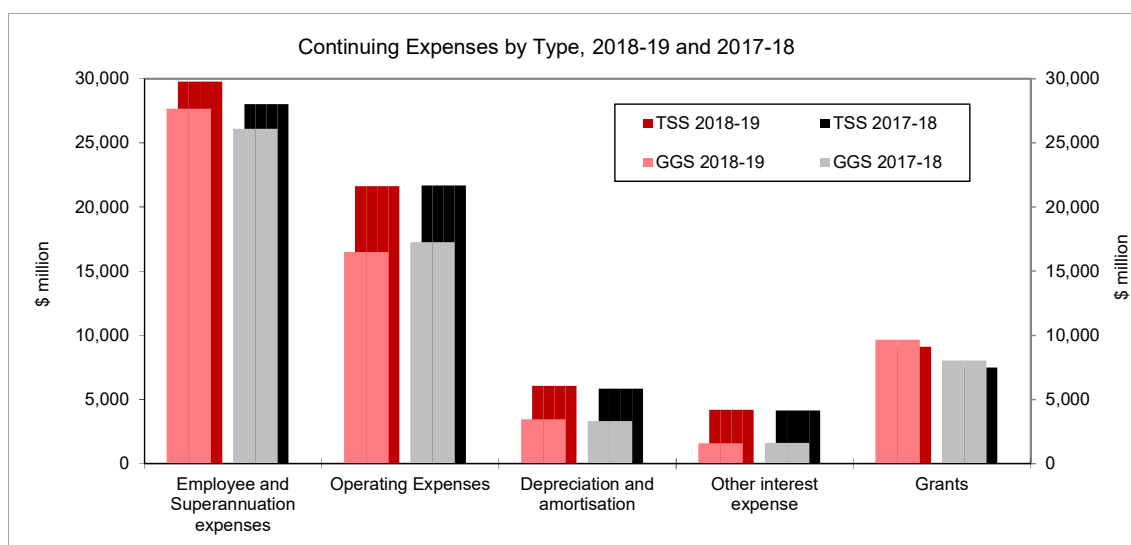
GGS other revenue was \$911 million higher in 2018-19 than 2017-18 mainly due to higher coal royalties. This increase flows through to the TSS.

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Expenses

Total expenses for 2018-19 were \$58.842 billion for the GGS and \$70.712 billion for the TSS, \$2.505 billion and \$3.614 billion more than the previous year respectively.

Expenses by type are shown in the following chart:



Employee and superannuation expenses were 6% higher in 2018-19, consistent with the estimate in the 2019-20 Budget. The increases are mainly in the areas of Health and Education, reflecting the Government's commitment to revitalising frontline services.

Other operating expenses were \$769 million lower than 2017-18 for the GGS, mainly due to the Commonwealth Games in 2017-18 and the transition of provision of disability services to the NDIS, which is expensed as a grant to the Commonwealth from the State. TSS other operating expenses were \$46 million lower for the TSS due to higher costs in the electricity sector and for WorkCover, offsetting the lower expenses in the GGS.

Depreciation and amortisation increased by \$125 million for the GGS and \$211 million for the TSS, due to increases in infrastructure.

Interest costs decreased by \$33 million to \$1.581 billion for the GGS in 2018-19, due to lower interest rates on QTC debt, partly offset by interest on new finance leases.

Grant expenses increased \$1.599 billion in the GGS, mainly due to the transition of disability services to the NDIS, increases in the on-passing of Commonwealth grants for education and grants to councils for the Waste Levy, Houghton Pipeline, disaster relief and returned works.

Operating Result

The operating result is the surplus or deficit for the year under the Australian Accounting Standards framework. Valuation and other adjustments such as deferred tax, capital returns and market value interest are shown as other economic flows and are included in the operating result.

The GGS operating result for the 2018-19 year was a surplus of \$173 million (2017-18: \$640 million). The difference in the result compared to 2017-18 is due to the lower net operating balance, discussed above, partly offset by lower actuarial adjustments to the long service leave liability and the market value adjustment to the fixed rate notes with QTC.

The TSS operating result was a deficit of \$4.048 billion compared to a surplus of \$1.346 billion in 2017-18. The lower result in 2018-19 arose mainly from the lower net operating balance as well as the net effect of realised and unrealised market value adjustments to derivatives, investments and borrowings.

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Fiscal Balance

The GGS fiscal deficit was \$2.191 billion for 2018-19 compared to a deficit of \$587 million for 2017-18. The TSS fiscal deficit was \$4.425 billion for 2018-19 compared to a deficit of \$2.501 billion for 2017-18 due to the lower net operating balance and higher purchases of non-financial assets.

Assets

Assets controlled by the GGS at 30 June 2019 totalled \$280.75 billion, an increase of \$10.067 billion on 2017-18, while assets controlled by the TSS at 30 June 2019 totalled \$355.525 billion (2018: \$341.879 billion), an increase of \$13.645 billion.

Financial assets in the GGS were \$85 million lower than 2017-18, with higher cash balances offset by the lower balance on the fixed rate notes.

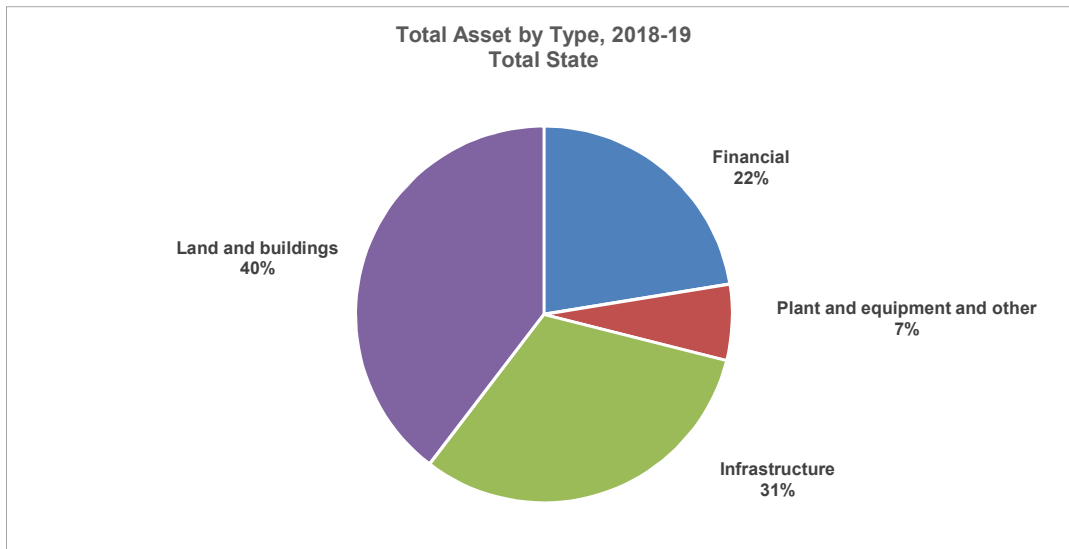
Financial assets of the State increased by \$2.552 billion, mainly reflecting higher cash balances (\$1.086 billion) and securities and bonds invested by QTC from forward funding and client deposits.

Non-financial assets increased by \$10.152 billion in the GGS due to revaluations of land under roads and road infrastructure, as well as capital purchases exceeding depreciation. The increase at the TSS level was \$11.093 billion.

Of the TSS assets, GGS assets comprised 79%. Total assets are made up of:

	General Government \$M	Total State \$M
Financial	62,793	79,716
Infrastructure	57,291	111,827
Land and buildings	136,737	140,828
Plant and equipment and other	23,929	23,154
	<u>280,750</u>	<u>355,525</u>

The main types of assets owned by the State are detailed in the following chart:



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Liabilities

Liabilities at 30 June 2019 totalled \$79.246 billion for the GGS and \$163.777 billion for the TSS, an increase of \$3.601 billion over 2017-18 for the GGS and an increase of \$11.362 billion for the State.

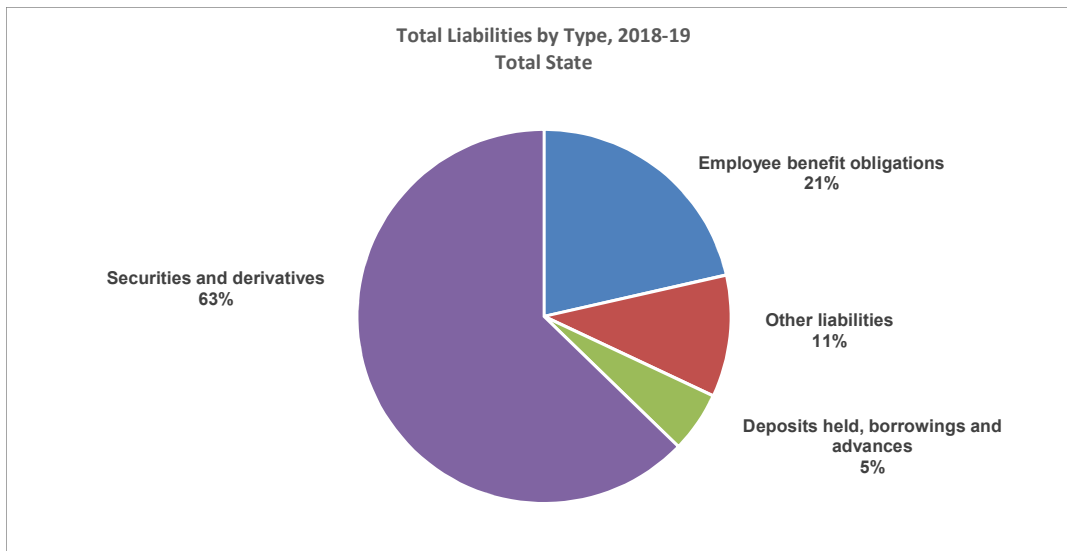
The overall change in liabilities for the GGS arose largely from increases in the superannuation and long service leave liabilities, mainly due to lower discount rates, as well as higher other employee entitlements. Provisions increased for Stolen Wages and compensation of victims of sexual abuse, while operating and capital payables were higher due to timing differences on payments. Debt from QTC was \$212 million higher following withdrawals from the redraw facility, and net new financing of PPPs such as the Toowoomba Second Range Crossing increased leases and other loans by \$470 million.

For the TSS, securities and derivatives, largely held by QTC, have increased \$6.078 billion, mainly due to market value adjustments. Provisions have increased by \$1.85 billion, mainly for WorkCover and the National Injury Insurance Scheme, in addition to the increase in the GGS.

Of the TSS liabilities, GGS liabilities comprised 49%. Total liabilities are made up of:

	General Government \$M	Total State \$M
Securities and derivatives	121	102,786
Deposits held, borrowings and advances	34,772	8,622
Employee benefit obligations	34,414	35,119
Other liabilities	9,938	17,250
	<u>79,246</u>	<u>163,777</u>

The components of State liabilities are shown in the following chart:



Cash Flow Statement

The GGS recorded positive net cash flows from operating activities of \$5.754 billion which were used to fund net investments in non-financial assets of \$5.452 billion, resulting in a cash surplus of \$302 million (2018: \$337 million).

The TSS recorded net cash flows from operating activities for the 2018-19 financial year of \$6.56 billion. This has financed net investments in non-financial assets of \$8.079 billion, resulting in a cash deficit of \$1.52 billion (2018: \$680 million deficit).