

During 2007-08, the department recorded a surplus of \$0.6 million and maintained a strong asset base.



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Finance

Chief Finance Officer's overview

This overview summarises the key changes in financial results over the 2007–08 period, making it easier to understand the big picture of the department's financial performance. It strengthens our commitment to accountability and transparency.

Economic and fiscal environment

The State's economic environment continued to strengthen in 2007–08 with increased investment and jobs growth as a result of strong demand for Queensland's natural resources. This strength has, in turn, driven the need for record levels of infrastructure development, while also revealing some critical skills gaps in the State's workforce. These gaps provide opportunities for the department to provide education and training services, as well as pressure when retaining and expanding the number of service delivery and support staff.

Towards the later half of 2007–08, inflationary pressures and interest rate increases started to noticeably impact on Queenslanders' discretionary income. As a result, client expectations and demand for some departmental services may change.

Developments in the broader economic and fiscal environment, including a reduction in Queensland's relative share of GST revenue, fluctuations in the investment market, and the reform of various State taxes also underline the need to ensure the department prioritises and effectively monitors expenditures to achieve agreed outcomes that benefit Queensland.

Within the department, a significant number of business operations were reviewed to determine how to better integrate education, training and the arts services. At the same time, the agency has been moving from the implementation phases of significant reforms such as the *Education and Training Reforms for the Future* and the



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Queensland Skills Plan into a continuous improvement environment. Other significant changes include:

- negotiating with the Commonwealth on the next quadrennium funding agreement
- engaging with the Council of Australian Governments on proposed strategic targets and other arrangements
- implementing new commercial governance arrangements within TAFE, representing another key step in reforming the vocational education and training (VET) sector.

Summary of financial performance

Surplus	=	Total income	-	Total expenses
\$0.6 million		\$6.121 billion		\$6.120 billion

Our income – where the funds come from

In 2007-08, the department received \$6.121 billion for its operations, an increase of \$542 million from the previous year. This revenue supported the growing number of enrolments in state schools and in the VET sector, as well as the implementation of a number of new education, training and arts projects across the State. (see Figure 57)

Figure 57: Income

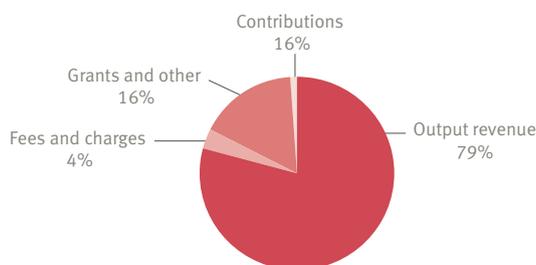


Figure 58: Value of intangible assets, property, plant and equipment

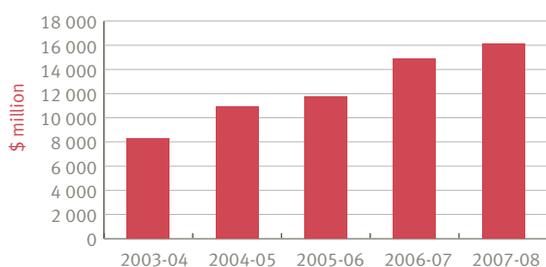
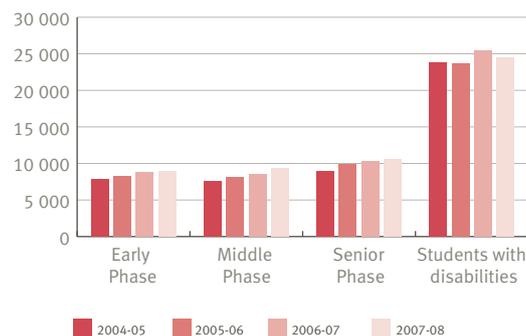


Figure 59: Average cost per student in state schools



State Government output revenue increased by \$384 million to meet the costs associated with delivering additional services and enterprise bargaining commitments.

Fees and charges increased by \$52 million or 31 per cent, reflecting the full year of TAFE revenues, higher TAFE fee income, and the full year of operation of the new Gallery of Modern Art and the Millennium Library.

Grants received from the Australian Government increased by \$81 million for targeted programs. The new Australian Government quadrennium funding agreement should be finalised in 2008-09.

The department also received \$3.26 billion in administered funding, an increase of \$132 million from 2006-07. Administered funding is distributed as grants to statutory authorities, peak bodies for non-state schools and other entities enabling them to deliver agreed services to Queenslanders.

Capital investment

Our Capital Acquisitions Program is critical in maintaining and enhancing our \$16.15 billion asset base that includes over 20 000 buildings in 1 251 state schools, 13 TAFE institutes, as well as arts and cultural centres across Queensland. The program includes:

- construction of new physical facilities
- refurbishment of existing facilities
- disposal of excess properties (\$52.1 million for 2007-08)
- significant information and communications technologies (ICT) investments.

Property, plant and equipment and intangible assets increased by 8.7 per cent to \$16.15 billion from the previous financial year, mainly due to the effects of the capital works program and increased asset valuations, as required under accounting standards. (see Figure 58)

In 2007-08, capital outlays were approximately \$675 million. Some projects that the department invested in included:

- Prep facilities expenditure (\$49.8 million)
- new state schools (\$32.3 million)
- SkillsTech Australia (trade training facilities) (\$43.7 million)
- Southbank Institute of Technology's PPP buildings (\$179.2 million)
- investment in operating equipment and ICT-related projects (\$88.9 million).

Our expenses – how the funds are spent

Overall expenses increased by \$590 million in 2007-08 to a total of \$6.12 billion. At 72 per cent of total expenses, salaries and wages are the agency's major expense component, of which only 2 per cent is attributable to corporate services. This means that the majority of the agency's expenses are incurred to retain service delivery staff, including teachers and trainers supporting the learning needs of students and clients. (see Figure 60)



Employee expenses

Employee expenses increased in 2007–08 by \$494 million, to a total of \$4.43 billion. This increase is largely due to:

- increased salary rates of around 4 per cent in line with enterprise bargaining agreements
- increased staff numbers to support increased student enrolments in both state schools and TAFE institutes at a cost of \$283 million.

Supplies and services

Expenditure in supplies and services during 2007–08 were reduced by \$3.4 million, to a total of \$1.101 billion. The reduction is mainly due to a re-categorisation of school purchased salaries, and higher capital purchases being funded from school bank accounts as part of the Investing in Our School program.

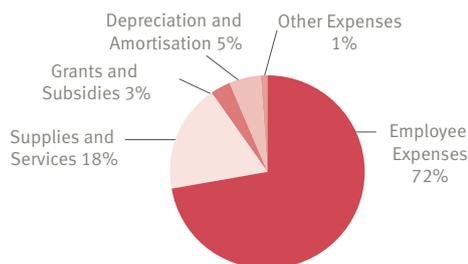
Depreciation and amortisation

Depreciation and amortisation expense increased in 2007–08 by \$39 million, to a total of \$323 million. The increase was mainly due to the increase in the value of assets resulting from asset revaluation (refer to note 20 within the financial statements for more details)

Our liabilities – what we owe

At 30 June 2008, the department’s liabilities totaled \$938 million, an increase of \$216 million on 2006–07. The increase in liabilities reflects the finance lease liabilities associated with the Government’s investment in the Public Private Partnership within the Southbank Education and Training precinct.

Figure 60: Expenses



Equity	= What the department owns	- What the department owes
\$15.933 billion	\$16.871 billion	\$938 million

The total equity of the department was \$15.933 billion, an increase of \$1.2 billion from the previous financial year. The increase was mainly due to the revaluation of assets. The department continues to maintain a strong financial position, with total liabilities representing less than 6 per cent of total assets.

Finance systems

Statewide financial information is maintained through the whole-of-Government SAP system which was upgraded to a new version during 2007–08. Schools use the School Information Management System (Finance Module) for locally managed funds such as school grants and locally raised revenues. School financial data is collected and recorded in the SAP system annually.

Future direction

In 2008–09, the department’s total revenue is expected to increase to \$7.03 billion, with a further \$833.8 million for capital infrastructure.

There are a number of challenges ahead which will continue to test our ability to be innovative and to deliver balanced budgets.

Our challenges include:

- Commonwealth/State negotiations and subsequent outcomes from the national quadrennium funding agreements
- the transition of TAFE institutes into statutory institutes of TAFE and the impacts on the governance model for the TAFE system as a whole
- further financial governance requirements resulting from the Queensland Treasury review of the *Financial Administration and Audit Act 1977* and *Financial Management Standard 1997*
- the unpredictability of changes in the labour market, and the emergence of new industries
- maintaining service delivery standards while achieving productivity increases
- the continued consolidation of the education and training finance functions to provide more comprehensive business analysis including sophisticated analytical techniques and models that include identification of risks, dependencies and contingencies.