3 Fiscal strategy and outlook

Features

- The 2019-20 Budget demonstrates this Government's commitment to sound fiscal management, with operating surpluses projected across the forward estimates, despite significant fiscal pressures.
- A General Government net operating surplus of $841 million is expected for 2018-19, almost $700 million higher than forecast in the 2018-19 Budget ($317 million more than the 2018-19 Mid Year Fiscal and Economic Review estimate). Beyond 2018-19, the fiscal environment remains challenging with reductions in GST and transfer duty.
- The 2019-20 Commonwealth Budget included significant downward revisions in the GST pool forecasts. These revisions have further compounded the impact of changes to Queensland's relativity following the Commonwealth Grants Commission's 2019 Update which now excludes disaster recovery payments to local governments from the GST calculation. This has resulted in Queensland's share of GST revenue being revised down by $2.3 billion since the 2018-19 Budget ($1.5 billion since MYFER), over the period 2018-19 to 2021-22.
- A decline in the volume of residential property transactions since MYFER, particularly for investors, has resulted in forecasts for transfer duty revenues being downgraded by around $1.3 billion since the 2018-19 Budget ($1 billion since MYFER) over the period 2018-19 to 2021-22.
- While significant budget pressures exist, royalty revenue has remained strong. Since MYFER, royalty revenue has been revised upwards by approximately $1.5 billion, excluding new measures, over 2018-19 to 2021-22. The largest factor in upwards revisions to royalties is the continued strength in the hard coking coal price (primarily used for steel production), resulting in an uplift to price assumptions, across the forward estimates.
- The preliminary cost of recovery efforts following the North and Far North Queensland Monsoon Trough is estimated to be around $1.3 billion (operating and capital).
- A new Australian accounting standard, AASB 16 *Leases*, has been adopted in the 2019-20 State Budget. AASB 16 applies to all government and private sector reporting entities. Under AASB 16, operating leases that previously were not recognised on balance sheet will now be included as lease liabilities and lease assets on the State's balance sheet. The reporting change results in a one-off increase to General Government Sector borrowing of over $2.2 billion and an increase for Non-financial Public Sector (NFPS) borrowing of over $2.6 billion, on 1 July 2019.
- General Government and NFPS borrowing with Queensland Treasury Corporation (QTC) will increase over the period to 2022-23 because of ongoing investment in economic and social infrastructure, but remain largely in line with 2018-19 Budget projections. In 2019-20, General Government borrowing with QTC are estimated to be $32.8 billion, which is around $2.7 billion less than projected at the time of the 2016-17 Budget. For the NFPS,

borrowing with QTC in 2019-20 is estimated to be $71.95 billion, which is $3.6 billion lower than projected at the time of the 2016-17 Budget.

3.1 Context

The Queensland Government is committed to delivering the best possible services and infrastructure to all communities.

Building on the successful strategies, initiatives and investment announced in the Government's four previous Budgets, the 2019-20 Budget supports the Government's economic plan to create secure, well-paid jobs and drive sustainable economic growth, including the ongoing growth of strong regional economies.

Another key focus of the 2019-20 Budget is planning for delivery of *Our Future State: Advancing Queensland's Priorities*. Identifying priorities and delivering on them enables us as a government to confront and tackle the major opportunities and challenges facing our state.

Ongoing budget sustainability will be central for delivering on the Government's economic plan, addressing key priority target areas and continuing to deliver enhanced frontline services to the community. Since MYFER, revenue growth has been impacted by significant downward revisions in GST pool forecasts which were included in the 2019-20 Commonwealth Budget. These revisions have further compounded the impact of changes to Queensland's relativity following the Commonwealth Grants Commission's 2019 Update which now excludes disaster recovery payments to local governments from the GST calculation. In total, Queensland's share of GST revenue has been revised down by around $1.5 billion since MYFER, over the period 2018-19 to 2021-22.

A sharp decline in the volume of residential property transactions, particularly for investors, has led to downward revisions to Queensland's transfer duty. The scale of transfer duty revisions in Queensland is much lower than seen in Victoria and New South Wales, partly due to house prices in Queensland remaining relatively stable, compared with significant declines in the southern capitals where house prices had been at unprecedented levels.

North and Far North Queensland endured a record-breaking monsoon flooding event which devastated infrastructure, businesses, primary producers and residents across 39 local government areas around Townsville and Western Queensland through to the far north of Queensland in January/February 2019. The preliminary cost of recovery efforts following the North and Far North Queensland Monsoon Trough is estimated to be around $1.3 billion (operating and capital).

Due to significant reductions in key revenue sources, the 2019-20 Budget implements land tax, petroleum royalty, and payroll tax measures and a reprioritisation target to ensure the Budget remains sustainable over the forward estimates and that Queenslanders continue to receive the best possible services and infrastructure.

3.2 Key fiscal aggregates

The key fiscal aggregates for the 2019-20 Budget are outlined in Table 3.1 and are discussed in detail in this chapter.

Table 3.1 Key fiscal aggregates[1]

	2017-18 Actual[2] $ million	2018-19 MYFER $ million	2018-19 Est. Act. $ million	2019-20 Budget $ million	2020-21 Projection $ million	2021-22 Projection $ million	2022-23 Projection $ million
General Government Sector							
Revenue	58,087	59,002	60,068	60,387	61,729	63,583	65,540
Expenses	56,335	58,478	59,226	60,198	61,416	63,101	64,753
Net operating balance	**1,753**	**524**	**841**	**189**	**313**	**483**	**787**
PNFA[3]	5,127	5,981	6,060	6,727	7,125	7,963	6,179
Fiscal balance	(586)	(2,632)	(2,677)	(3,527)	(3,667)	(4,280)	(1,731)
Borrowing with QTC[4]	**29,256**	**30,609**	**29,933**	**32,781**	**35,218**	**40,174**	**42,589**
Leases and similar arrangements[5]	2,152	2,557	2,623	5,824	7,071	6,943	6,966
Securities and derivatives	122	75	122	122	122	122	122
Non-financial Public Sector							
Borrowing with QTC[4]	**66,964**	**68,774**	**68,141**	**71,954**	**75,413**	**80,645**	**82,972**
Leases and similar arrangements[5]	2,152	2,557	2,623	6,217	7,430	7,266	7,254
Securities and derivatives	405	278	671	544	502	492	492

Notes:

1. Numbers may not add due to rounding (Bracketed numbers represent negative numbers).
2. Reflects published actuals.
3. PNFA: Purchases of non-financial assets.
4. Queensland Treasury Corporation.
5. This includes adoption of new accounting standard AASB 16 Leases.

Box 3.1 Impact of AASB 16 *Leases* on borrowing

A new Australian accounting standard, AASB 16 *Leases*, has been applied to the 2019-20 Budget. AASB 16 applies to all government and private sector reporting entities. Under AASB 16, operating leases that previously were not recognised on balance sheet will now be included on the State's balance sheet as lease liabilities and lease assets. The reporting change results in a one-off increase to the General Government Sector borrowing of over $2.2 billion and an increase for NFPS borrowing of over $2.6 billion, on 1 July 2019.

Despite the change in reporting of operating leases, there is no material change to the State's financial obligations or the underlying financial sustainability of Queensland from the new standard, because the obligations already existed prior to implementation of the standard.

Because of the change required by the new standard, additional details are disclosed on the State's borrowing in the 2019-20 Budget, to distinguish between borrowing with QTC, leases and similar arrangements, and securities and derivatives. Further details are provided in Chapter 6.

The majority of leases now required to be reported on balance sheet under the new standard relate to office accommodation, with 1 William Street being the largest. Leases and similar arrangements also increases in 2019-20 due to the recognition of new finance leases on the New Generation Rollingstock and Toowoomba Second Range Crossing contracts, and activity on the Cross River Rail PPP. Leases and similar arrangements stabilises at around $7 billion over the out years following the adoption of AASB 16 as new liabilities are largely set off by contractual repayments.

3.2.1 Net operating balance

Table 3.2 compares the General Government Sector net operating balance forecasts for the 2018-19 Budget and MYFER with 2019-20 Budget forecasts.

Table 3.2 General Government Sector - net operating balance forecasts

	2018-19 $ million	2019-20 $ million	2020-21 $ million	2021-22 $ million	2022-23 $ million
2018-19 Budget	148	160	110	690	n.a.
2018-19 MYFER	524	193	145	119	n.a.
2019-20 Budget	**841**	**189**	**313**	**483**	**787**

The 2019-20 Budget projects net operating surpluses in each year of the forward estimates.

For 2018-19, a net operating surplus of $841 million is expected which is a $317 million improvement on the MYFER estimated surplus of $524 million. Since MYFER, royalty revenue has exceeded estimates, mainly due to coal prices remaining higher than previously expected.

For 2019-20, the estimated General Government Sector operating surplus of $189 million is in line with the MYFER projection of $193 million.

In 2019-20, General Government Sector revenue is forecast to be 0.5% higher than the 2018-19 estimated actual. Significant reductions in GST and transfer duty revenue contribute to the low rate of growth. Expenses growth is forecast to be 1.6% higher than the 2018-19 estimated actual, and has been impacted by support for disaster recovery efforts in North and Far North Queensland.

Net operating surpluses will be achieved across the forward estimates with revenue growth expected to increase and exceed expense growth from 2020-21. The widening gap between revenue and expense growth provides increasing support for the net operating balance in the later years of the forward estimates.

Additional measures, detailed in Budget Paper 4 *Budget Measures*, support the Government's ongoing commitment to improve service delivery across the State.

Table 3.3 provides a breakdown of the movements in the net operating balance since MYFER.

Table 3.3 Reconciliation of net operating balance, 2018-19 MYFER to 2019-20 Budget[1]

	2018-19 $ million	2019-20 $ million	2020-21 $ million	2021-22 $ million
2018-19 MYFER net operating balance	**524**	**193**	**145**	**119**
Taxation revisions[2]	(188)	(228)	(299)	(334)
Royalty revisions[2]	72	850	259	275
GST revisions	(268)	(560)	(434)	(237)
Measures[3]				
Expense	5	(615)	(291)	(182)
Revenue	..	387	333	387
Net	5	(228)	42	205
Net flows from PNFC and PFC entities[4]	320	167	10	96
Natural Disaster Revisions[5]	142	(245)	300	(187)
Australian Government funding revisions[6]	47	(151)	(4)	596
Other parameter adjustments[7]	187	391	294	(50)
2019-20 Budget net operating balance	**841**	**189**	**313**	**483**

Notes:

1. Numbers may not add due to rounding.
2. Represents parameter adjustments to revenue forecasts, excluding revenue measures.
3. Reflects the operating balance impact of Government decisions since MYFER. This differs from the revenue and expense measures listed in Budget Paper 4 due to the timing of some decisions previously held centrally (such as the National Schools Reform Agreement) and policy matters not yet finalised.
4. Represents revisions to dividends and tax equivalent payments from, and community service obligations (CSOs) and Transport Service Contract (TSC) payments to, Public Non-financial Corporations and Public Financial Corporations.
5. Impact of disaster expenses net of Disaster Recovery Funding from the Australian Government.
6. Represents the net impact of funding provided by the Australian Government primarily for Specific Purpose Payments and National Partnership payments, excluding funding for disaster recovery.
7. Refers to adjustments largely of a non-policy nature, including changes in interest, superannuation, depreciation, swaps, lapses and deferrals.

3.2.2 Disaster Recovery Funding Arrangements

The Disaster Recovery Funding Arrangements (DRFA), and the previous National Disaster Relief and Recovery Arrangements (NDRRA) provide a cost sharing formula between the Queensland and Australian Governments, as well as a range of pre-agreed relief measures which may be activated by the Queensland Government immediately following a disaster event, once a need has been established.

The timing of expenditure in relation to natural disasters, and the anticipated DRFA reimbursements from the Australian Government, will impact Queensland's budget position.

Box 3.2 North and Far North Queensland Monsoon Trough

Queensland is the most disaster impacted state in Australia, which underscores our need to continually invest in disaster preparedness and resilience to help save lives, minimise economic loss and enable communities to recover faster.

Queensland's expertise in disaster management, recovery and mitigation is built upon experience managing more than 84 disaster events in the past decade. The Queensland Government is supporting resilience building initiatives as part of the 2019–20 State Budget. Rebuilding after a disaster is important, but increasing the resilience of our infrastructure to lessen the impacts of natural disasters means that communities can recover more quickly, and with less cost, after a natural disaster strikes.

North and Far North Queensland endured record-breaking monsoon flooding in 2019. The trough wreaked havoc across 39 local government areas and had a catastrophic impact on communities, businesses and primary producers from the Torres Strait in the far north to the South Australian border in the south west.

The preliminary cost of recovery efforts following the disasters is estimated to be $1.3 billion, comprising around $270 million worth of state infrastructure remediation works and around $1 billion worth of operating expenses, the bulk of which is capital grants to local governments.

The direct negative impact of the floods on economic output is estimated at around ¼ percentage point of GSP, spread across 2018-19 and 2019-20. This compares with previously estimated losses of around ¾ percentage point of GSP for Severe Tropical Cyclone (STC) Debbie and 2¼ percentage points of GSP for the 2010-11 Floods and STC Yasi.

Under current Disaster Recovery Funding Arrangements, which apply to this event, the bulk of Commonwealth funding is currently expected in the 2020-21 financial year with a net fiscal balance cost to the State of the monsoon event expected to be around $480 million over the forward estimates.

3.3 Fiscal strategies

The Palaszczuk Government is committed to the sound management of the State's finances, while delivering high quality services to all Queenslanders. This includes managing within the State's means and budgeting for a positive operating position in each year of the forward estimates.

Ongoing budget sustainability is central for delivering on the Government's economic plan, addressing key priority target areas and achieving public sector reform. To ensure Budget sustainability, revenue and expenditure measures have been introduced in the 2019-20 Budget.

3.3.1 State's operating capacity

As outlined in Chapter 7, almost half of Queensland's revenue is from the Australian Government. This means Queensland's fiscal position is exposed to decisions made by the Australian Government, such as not renewing expiring funding agreements, which leads to a lack of certainty about the funding that will be received each year and limits the Government's ability to respond to emerging service delivery pressures.

Despite the reliance on Commonwealth funding, the measures introduced in the 2019-20 Budget, together with a focus on expenditure discipline, will ensure the gap between revenue and expenditure growth widens across the forward estimates.

While the Government is delivering on its commitment to provide sound fiscal management, at any given time, issues exist with potentially significant adverse impacts. Until these issues have been considered by Government or formal agreements are in place, it remains unclear if or when these issues will impact the net operating balance. Until there is greater certainty, the potential fiscal impacts of such issues are not included in the forward estimates. These include:

- Native Title Compensation Settlement: The Government is potentially exposed to compensation liability arising from native title claims. At this stage it is not possible to quantify the potential liability.
- Removal of Statutory Limitation on Physical Abuse: The Government is actively considering the removal of the statutory limitation period of serious child physical abuse and connected psychological abuse, consistent with stakeholder views expressed in response to the Issues Paper: The civil litigation recommendations of the Royal Commission into Institutional Responses to Child Sexual Abuse: Redress and Civil Litigation Report – understanding the Queensland context. The Government acknowledges Queensland's potential liability that would arise from the removal of the statutory limitation.
- Share of future GST revenue: The Commonwealth Grants Commission may propose to amend its assessments in consultation with the States as part of its 2020 Methodology Review. The quantum of these impacts cannot be determined at present. If they are incorporated into the assessment methodology, they will impact on Queensland's GST Revenue from 2020-21.
- The National Partnership on Remote Housing finished on 30 June 2018, with no additional funding to Queensland provided in the Commonwealth Budget. There will be significant additional investment required to meet the growing housing needs in remote Indigenous communities.
- Following the January 2011 Queensland flood events, certain property owners commenced a class action making claims against the State. This class action commenced trial in December 2017. At the time of Budget preparation, a judgement is yet to be handed down.
- National Partnership on Universal Access to Early Childhood Education: The Australian Government has not committed to providing funding to support universal access to kindergarten for children in the year before school beyond 2020, resulting in uncertainty for Queensland, including service providers and parents.

Revenue

Ensuring Queensland remains a competitive taxation environment which supports business and jobs growth, and ensuring cost of living pressures do not place undue strain on Queensland households, are key priorities of this Government.

Queensland businesses and households benefit from one of the most competitive tax environments out of all states in Australia, and will continue to do so under the Palaszczuk Government. Policy and taxation settings are being balanced against appropriate management of the State's operating position. For the 2019-20 Budget, revenue measures have been introduced which promote jobs and support business while ensuring the continued delivery of high quality services:

Revenue Measures

- From the 2019-20 financial year, a payroll tax rate of 4.95% will apply to employers with total annual taxable wages above $6.5 million. This rate remains lower than New South Wales (5.45%), Western Australia (5.5%), Tasmania (6.1%), Australian Capital Territory (6.85%) and Northern Territory (5.5%), and comparable to South Australia (4.95%) and Victoria (4.85%). This revenue measure will fund the payroll tax package.

  Payroll Tax Package

  The Government is increasing the exemption threshold for payroll tax from $1.1 million to $1.3 million of annual wages from 1 July 2019. This change will reduce the payroll tax paid by businesses with annual wages up to $6.5 million by either keeping them below the threshold, or reducing the amount payable due to increasing the deduction threshold.

  The Government is extending the 50% payroll tax rebate on the exempt wages of apprentices and trainees until 30 June 2021.

  To further encourage regional employment, from 1 July 2019, the Government is introducing a 1% discount on the relevant payroll tax rate for businesses who have more than 85% of their employees outside South-East Queensland. This will benefit regional payroll tax paying businesses.

  From 1 July 2019 until 30 June 2021, the Government is introducing a rebate of the payroll tax on additional employees that businesses can demonstrate they have employed over and above their level of full time employees.

- The petroleum royalty rate will increase by 2.5% to 12.5% from 2019-20 onwards. The Government will review design settings of the petroleum royalty regime during 2019-20. The review is discussed further in Chapter 4, Section 4.4.2.
- From 1 July 2019, the Government will increase land tax rates for companies, trusts and absentees by 0.25 cents for each dollar above $5 million, and 0.25 cents for each dollar above $10 million.
- From 2019-20, the land tax absentee surcharge rate will be harmonised with Victoria and New South Wales with a 0.5% increase, and application of the surcharge widened to include foreign corporations and trustees of foreign trusts.

- The Government will increase resourcing for Treasury to undertake a program of additional targeted tax compliance activities to ensure all Queenslanders are paying their fair share of taxes.

Further detail on these measures and more information on Queensland's revenue outlook are provided in Chapter 4.

Fiscal principle supporting revenue management

Taxation per capita in Queensland remains significantly lower than the average of other Australian states and territories. In 2019-20, Queensland's taxation per capita of $2,952 will be $666 per capita less than the average of the other jurisdictions.

In addition to comparing Queensland's competitive taxation status across jurisdictions, the Government also aims to support businesses and households by ensuring that own-source revenue in the General Government Sector, including user charges and royalties, remains at or below 8.5% of nominal gross state product (GSP), on average, across the forward estimates. Own-source revenue is derived from total State revenue less any grants received from external sources, mainly the Australian Government.

This principle is expected to be met over the forward estimates period, with revenue falling as a percentage of GSP. For 2019-20, General Government own-source revenue is forecast to be 8.5% of nominal GSP. This falls to 7.9% by 2022-23.

Expenditure

For the 2019-20 Budget, the government has introduced several savings measures to maintain budget sustainability, and to ensure service delivery remains high quality and provides the outcomes Queenslanders need.

Reprioritisation Target

Ongoing budget sustainability is central to delivering the Queensland Government's economic plan, addressing key priority target areas and achieving public sector reform.

Reprioritisation targets have been factored into the 2019-20 Budget of $200 million in 2019-20 and $500 million per annum from 2020-21 onwards.

Service Priority Review Office

From 1 July 2019, a new Service Priority Review Office (the Office) will be established in Queensland Treasury. In partnership with the Department of the Premier and Cabinet, the Office will drive the realisation of the reprioritisation targets, by conducting reviews of Queensland public sector agencies and programs.

The review of an agency's operations, programs and administration (both internal and contracted out), will identify how functions align with government's priorities, and consider how to optimise the alignment of functions and public resources against these priorities.

The Office will draw on expertise in service delivery from outside Government including from the business and community sectors.

Consistent with Government's employment security policy there will be no forced redundancies in realising these targets.

More information on Queensland's expenditure outlook is provided in Chapter 5.

Fiscal principle supporting expenditure management

In the General Government Sector, employee expenses equate to approximately 42% of total expenses in 2019-20. Increases in employee expenses reflect changes in the number of public sector employees as well as wages growth.

A key focus is to ensure a balance between high-quality service delivery, and the discipline that underpins the Government's commitment to fiscal sustainability.

To manage employee expenses growth, the Palaszczuk Government adopted a fiscal principle to maintain a sustainable public service by ensuring that overall growth in full-time equivalent (FTE) employees, on average over the forward estimates, does not exceed population growth.

One of the recommendations from the Coaldrake Review (discussed further in Chapter 5 in Box 5.1) was to nuance the representation of Fiscal Principle 6 to expand disclosure to show health and education growth separately from the rest of the sector. The Government accepted this recommendation in principle. This is now available in Chapter 5, Chart 5.3.

FTEs are estimated to increase by around 4,392 in 2019-20, with approximately 89% of this increase attributable to growth in health and education.

Average FTE growth over the forward estimates period from 2018-19 to 2022-23 is 1.68%, refer Table 3.4. This compares to an estimated Queensland population growth of 1¾% annually.

Further details are provided in Chapter 5, with Table 5.2 listing in-scope agencies and their FTE estimates for 2018-19 and 2019-20.

3.3.2 Investment

The Queensland Government has an important role in providing essential infrastructure and capital works to meet the State's increasing service needs and to promote increased productivity and efficiency for the State's industries. The Queensland Government also recognises that building infrastructure benefits local communities, strengthens local economies and supports local jobs.

Through the 2019-20 Budget, the Government continues to invest in health, education and roads that Queenslanders need. Key measures include:

Education

- Through the $1.3 billion Building Future Schools Fund, the Government is building seven new secondary schools, two new special schools, and three new primary schools. For existing state schools, the Government's Renewing Our Schools Program provides $235 million over four years to 2021-22 to enhance and upgrade facilities in identified state schools across Queensland. The Government is also providing increased funding of $251 million over three years from 2018-19 for the provision of additional facilities at existing state schools experiencing enrolment growth.

Hospitals

- The Government's *Building Better Hospitals* commitment is a key priority for Queensland Health which will help address growing demand by enhancing public hospital capacity and services in the South East Queensland growth corridor. The program includes projects at three major South East Queensland hospitals including Caboolture, Logan and Ipswich with a combined value of $957 million.

Roads

- The Queensland Government is investing $898 million to deliver major projects on the M1, including the Varsity Lakes to Tugun and Eight Mile Plains to Daisy Hill projects. A safe, efficient and reliable M1 Pacific Motorway plays an important role in driving productivity and competitiveness across South East Queensland.
- The Government is also investing in several Bruce Highway upgrades through the 2019-20 Budget. Many Queenslanders are dependent on the Bruce Highway for their livelihood and lifestyle. With the Bruce Highway connecting cities and towns over a distance of almost 1,700 kilometres from Brisbane to Cairns, it is essential to maintain and upgrade the Bruce Highway to ensure freight, travel and commuter traffic is safe and efficient. The Queensland Government will continue to work with the Australian Government to deliver the Bruce Highway Upgrade Program, aimed at improving safety, flood resilience and capacity along its length.

Community Safety

- The Government has also committed around $620 million, held centrally, towards an expansion of the Southern Queensland Correctional Precinct. The Stage 2 Expansion will deliver a correctional facility with a focus on health and rehabilitation, to reduce reoffending. This expanded facility, with its therapeutic health-centred operating model, will help address substance addiction and mental health issues. Further, it will enable Queensland Corrective Services and Queensland Health to provide rehabilitation and treatment in a world-class correctional facility. The Stage 2 Expansion will ease overcrowding across the correctional services system, helping keep correctional officers and prisoners safe.

Youth Justice

- The Government is committed to preventing offending and reoffending, and keeping young people out of courts and custody, supported by the development and upkeep of appropriate infrastructure facilities. This includes increasing capacity in Youth detention facilities by an additional 48 beds, with $178 million for the completion of these projects over the next three years

Further information about the Government’s capital program is provided in Chapter 6 and Budget Paper 3 *Capital Statement*.

Borrowing

The Government is committed to managing borrowings in a sustainable way. To achieve this, the government is focused on growing the net operating balance across the forward estimates to reduce future borrowing requirements, while allowing the Government to continue to invest in the infrastructure projects needed for Queensland’s growing population.

The revenue and expense measures identified in Section 3.3.1 are supporting an ongoing improvement in the net operating balance, by ensuring that there is a widening gap between revenue growth and expenses growth. Expenditure control will be achieved without reducing services, with the Government boosting frontline staff in education and health while maintaining total public sector FTE growth at a rate below population growth. This ensures the government delivers the services Queenslanders need while reducing the State’s borrowing requirements.

There are also a range of initiatives and development activities that are either planned, or are underway, that will further support the State’s net operating balance and reduce borrowing requirements, which have not yet been factored into the Budget. These include:

<u>Asset and Liability Management</u>

A new board will be established to oversee the economic and financial risks to the State’s Balance Sheet. This will provide the Government with central oversight of the identification and management of risks associated with whole-of government assets and liabilities.

This approach to managing the State’s assets and liabilities will ensure the Government effectively manages its financial assets to achieve the best outcomes for government as a whole.

<u>Projects that support revenue growth</u>

While the forward estimates period is critical to the Budget planning, ensuring growth prospects are being planned now, for the future, is also important. To support future economic growth, which in turn drives revenue growth, the Government is providing support for the projects of the future. These include:

- North West Minerals Province
- Hydrogen industry development
- Releasing gas tenure to support domestic supply
- Export Hubs

- expansion of Port of Townsville and the Cairns Port
- further funding of Port of Gladstone
- Global tourism Gold Coast and Cairns.

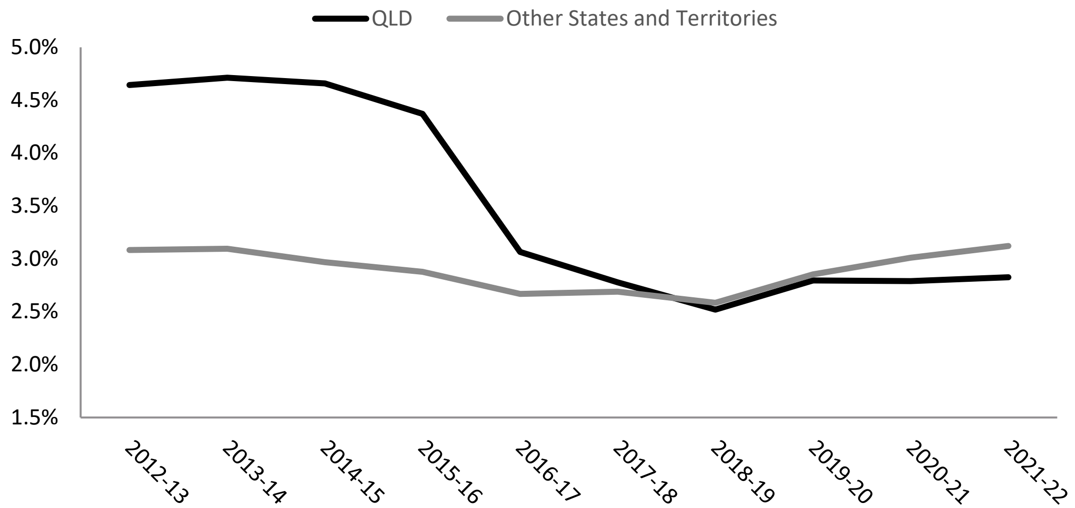
Borrowing costs have reduced

In addition to the improvement in the net operating balance from the measures outlined above, the State is benefitting from significant increased capacity to service its borrowing costs. As shown in Chart 3.1, the State's interest expense as a proportion of revenue has reduced substantially, reflecting both the reduction in the level of borrowings achieved since 2015 and reductions in interest rates.

While an increase in borrowings is projected across the forward estimates in support of the capital program, the serviceability of existing borrowings has dramatically improved since 2014-15. This means a smaller portion of state revenue is now required to service Queensland's debt. This provides greater capacity to reduce borrowings across the forward estimates.

From its peak in 2013-14 of 4.7%, Queensland's interest expense as a proportion of revenue has declined over successive budgets and is projected to remain relatively flat across the forward estimates. From 2020-21, Queensland's relative cost is below the average of the other states and territories, and is expected to be 2.8% of revenue in 2021-22.

Chart 3.1 General Government Sector – interest expense to total revenue



Note: 2022-23 not reported because some jurisdictions have not released their 2019-20 Budgets. AASB 16 *Leases* increases QLD annual interest expense by around $60 million per annum.

Infrastructure funding

To deliver a sustainable capital program, the Government has adopted two fiscal principles which ensure a consistent flow of capital works; and seek to limit the borrowings required to fund capital investment. The two principles (reported in Table 3.4) are:

- Target net operating surpluses to ensure any new capital investment in the General Government Sector is funded primarily through recurrent revenues rather than borrowing.
- The capital program will be managed to ensure a consistent flow of works to support jobs and the economy and reduce the risk of backlogs emerging.

Fiscal principles supporting capital investment management

The General Government Sector Cash Flow Statement (refer Chapter 9, Table 9.7) provides details of the sources of funding for capital investment.

It shows that in 2018-19, recurrent revenues (General Government cash inflows from operating activities) are expected to provide 79% of the funding required for new capital investment (General Government net investments in non-financial assets). This is a significant improvement from the 2018-19 Budget estimate of 60%.

The improved ratio means a greater share of capital investment is funded from recurrent revenues rather than borrowings.

General Government net operating cash flows as a proportion of net investment in non-financial assets will average 62% over the 2019-20 budget and forward estimates. This is also a significant improvement from the 2018-19 Budget which estimated an average ratio of 49% over four years. This improvement has been achieved despite the challenging fiscal environment which has seen significant downward revisions to transfer duty and GST revenues.

While the value of the capital program can fluctuate across financial years, the 2019-20 Budget provides for an average General Government Sector Purchase of Non-financial Assets (PNFA) of $7 billion across the budget and forward estimates. By maintaining the annual capital spend near the average, a consistent flow of works can be maintained which supports jobs and the economy and reduces the risk of backlogs emerging.

Fiscal principles supporting liabilities management

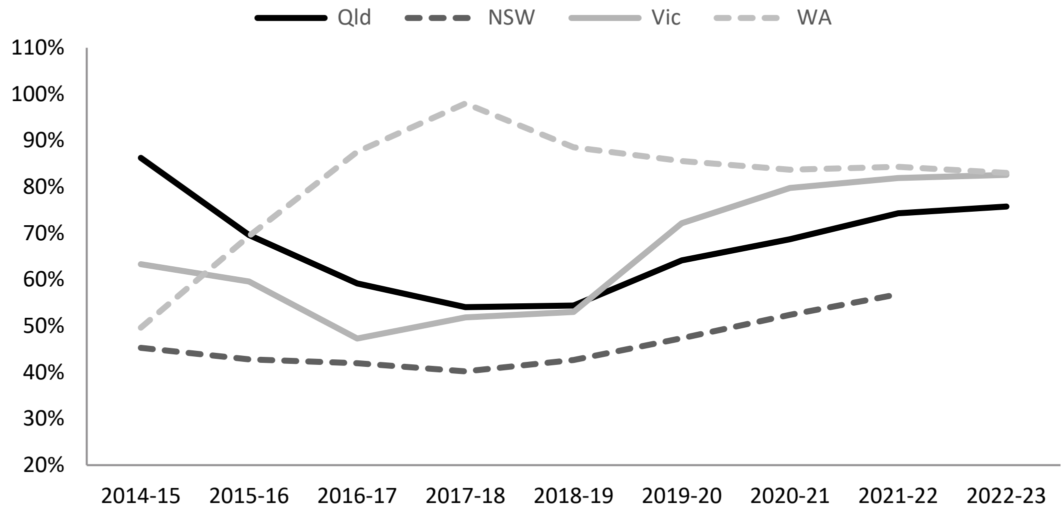
A primary objective of the Queensland Government in recent years has been to reduce General Government Sector debt.

Since 2015-16, the Queensland Government has achieved debt reductions both as a proportion of revenue and in real terms. This has allowed the Government to prioritise major infrastructure spending for all Queenslanders whilst keeping debt levels lower than the previous peak.

General Government Sector borrowing with QTC of $29.933 billion at 30 June 2019 is forecast to be $676 million lower than estimated at MYFER and around $7 billion lower than projected at the time of the 2015-16 Budget.

The General Government Sector's debt to revenue ratio reduced from its peak in 2012-13 of 91% to a low of 54% in 2017-18 and 2018-19 budget years. The debt to revenue ratio for 2019-20 is estimated to be 64%, significantly lower than the 2012-13 peak. As shown in Chart 3.2, Queensland's General Government Sector debt to revenue ratio is expected to be lower than that in Western Australia and Victoria across the forward estimates period.

Chart 3.2 General Government Sector debt to revenue ratio interjurisdictional comparison



Note: At the time of publication of the Queensland 2019-20 State Budget, NSW had not yet released their 2019-20 Budget. Therefore, the NSW comparator does not include any potential increase in borrowings associated with AASB 16 *Leases* (refer Box 3.1).

The debt to revenue ratio in all states is impacted by changes in reported borrowing under AASB 16. From 2019-20, the debt to revenue ratio is estimated to be on average 3% higher across the budget and forward estimates due to the inclusion of operating leases (refer Box 3.1).

Leases and similar arrangements increase from 1 July 2019 due to the adoption of AASB 16 *Leases* ($2.2 billion for General Government Sector and $2.6 billion for NFPS, and recognition of new finance leases on the New Generation Rollingstock, Toowoomba Second Range Crossing as well as activity on the Cross River Rail PPP.

Across the forward estimates, the expected moderation in revenue growth and the timing of significant capital projects and associated borrowings, as well as the impacts of AASB 16, sees a gradual increase in the forecast debt to revenue ratio before a stabilisation in 2022-23. On average over the budget and forward estimates, the debt to revenue ratio is 71%.

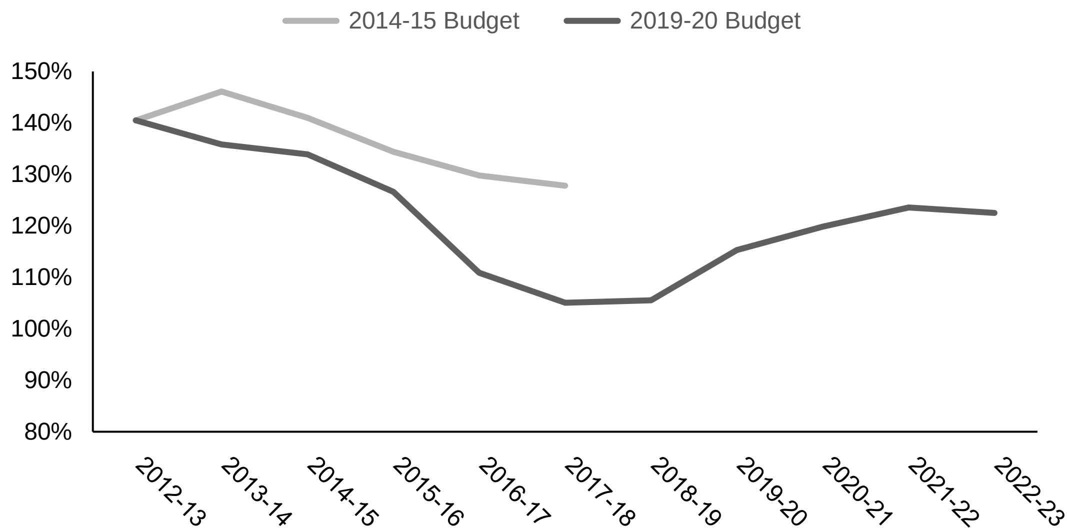
In the NFPS, which comprises the General Government Sector and government-owned corporations, borrowing with QTC is forecast to be $68.141 billion at 30 June 2019. The NFPS debt to revenue ratio reached a peak in 2012-13 of 140.5% (while it had been expected to reach

146% at the time of the 2014-15 Budget, this was not realised). Since then the debt to revenue ratio is forecast to reach 123% in 2021-22 before reducing to 122% in the following year.

Like the General Government Sector debt to revenue ratio, the NFPS ratio will rise across the forward estimates, but remains lower than then estimates made in the 2014-15 Budget, as shown in Chart 3.3.

Through measures taken in the 2019-20 Budget, growth in NFPS borrowing is expected to halve from 6% in 2020-21 to only 3% by 2022-23, such that the NFPS debt to revenue ratio is expected to decline beyond 2021-22, while borrowing costs are at historical lows.

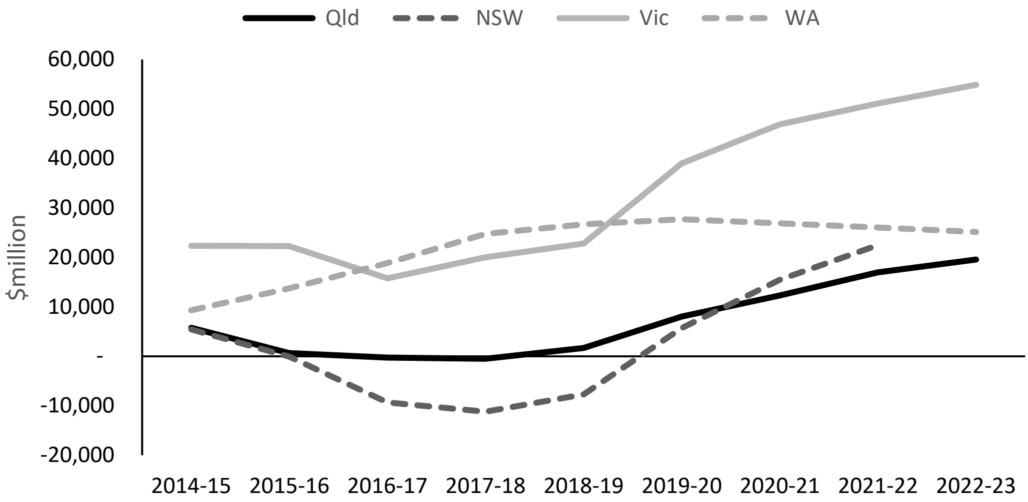
Chart 3.3 Non-financial Public Sector – Debt to Revenue Ratio



Another way of considering the sustainability of the State's finances is the net debt measure, which factors in investments the State holds, as well as borrowings. Queensland is unique among Australian states in fully funding employee (superannuation) liabilities.

An interstate comparison of net debt shows that Queensland is well placed, with General Government net debt of $1.661 billion expected at 30 June 2019. Across the forward estimates period, Queensland's net debt is expected to be lower than in New South Wales, Victoria and Western Australia, as shown in Chart 3.4.

Chart 3.4 General Government Sector net debt interjurisdictional comparison



Note: At the time of publication of the Queensland 2019-20 State Budget, NSW had not yet released their 2019-20 Budget. Therefore, the NSW comparator does not include any potential increase in borrowings associated with AASB 16 *Leases* (refer Box 3.1).

The Government remains committed to maintaining the long-standing practice of ensuring that the State sets aside assets to meet long-term liabilities such as superannuation and WorkCover, in accordance with actuarial advice.

The State Actuary's most recent valuations indicate that, as at 30 June 2018, both the defined benefit superannuation scheme and the WorkCover scheme were fully funded**.**

3.4 Achievement of fiscal principles

Table 3.4 provides a summary of the Government's progress in meeting its fiscal principles' targets.

Table 3.4 The fiscal principles of the Queensland Government

<table>
<tr><th>Principle</th><th colspan="4">Indicator</th></tr>
<tr><td rowspan="9">Target ongoing reductions in Queensland's relative debt burden, as measured by the General Government debt to revenue ratio.

Note: The debt to revenue ratio includes borrowings from QTC; leases and similar arrangements and securities and derivatives (refer Box 3.1). To allow comparison to MYFER, the 2019-20 Budget is reported as including and excluding the impact of AASB 16 Leases.</td><td colspan="4">General Government debt to revenue ratio</td></tr>
<tr><th rowspan="2"></th><th rowspan="2">2018-19 MYFER %</th><th colspan="2">2019-20 Budget %</th></tr>
<tr><th>Excludes AASB 16 impact</th><th>Includes AASB 16 impact</th></tr>
<tr><td>2018-19</td><td>56</td><td>54</td><td>54</td></tr>
<tr><td>2019-20</td><td>62</td><td>61</td><td>64</td></tr>
<tr><td>2020-21</td><td>65</td><td>65</td><td>69</td></tr>
<tr><td>2021-22</td><td>69</td><td>71</td><td>74</td></tr>
<tr><td>2022-23</td><td>n.a.</td><td>73</td><td>76</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td rowspan="7">Target net operating surpluses that ensure any new capital investment in the General Government Sector is funded primarily through recurrent revenues rather than borrowing.</td><td colspan="4">General Government net operating cash flows as a proportion of net investments in non-financial assets</td></tr>
<tr><th colspan="2"></th><th>2018-19 MYFER %</th><th>2019-20 Budget %</th></tr>
<tr><td colspan="2">2018-19</td><td>70</td><td>79</td></tr>
<tr><td colspan="2">2019-20</td><td>44</td><td>60</td></tr>
<tr><td colspan="2">2020-21</td><td>48</td><td>64</td></tr>
<tr><td colspan="2">2021-22</td><td>44</td><td>55</td></tr>
<tr><td colspan="2">2022-23</td><td>n.a.</td><td>70</td></tr>
<tr><td rowspan="7">The capital program will be managed to ensure a consistent flow of works to support jobs and the economy and reduce the risk of backlogs emerging.</td><td colspan="4">General Government purchases of non-financial assets</td></tr>
<tr><th colspan="2"></th><th>2018-19 MYFER $ million</th><th>2019-20 Budget $ million</th></tr>
<tr><td colspan="2">2018-19</td><td>5,981</td><td>6,060</td></tr>
<tr><td colspan="2">2019-20</td><td>7,420</td><td>6,727</td></tr>
<tr><td colspan="2">2020-21</td><td>7,451</td><td>7,125</td></tr>
<tr><td colspan="2">2021-22</td><td>7,182</td><td>7,963</td></tr>
<tr><td colspan="2">2022-23</td><td>n.a.</td><td>6,179</td></tr>
</table>

Principle	Indicator	
Maintain competitive taxation by ensuring that General Government Sector own-source revenue remains at or below 8.5% of nominal gross state product, on average, across the forward estimates.	**General Government own-source revenue to GSP**	
	2019-20 Budget:	8.5%
	Average across the forward estimates	8.1%
Target full funding of long-term liabilities such as superannuation and WorkCover in accordance with actuarial advice.	As at the last actuarial review (as at June 2018), accruing superannuation liabilities were fully funded. The WorkCover scheme was also fully funded as at 30 June 2018.	
Maintain a sustainable public service by ensuring that overall growth in full-time equivalents (FTE) employees, on average over the forward estimates, does not exceed population growth.	*FTE growth*	
	Average across the forward estimates	1.68%
	Population growth	
	Average across the forward estimates	1¾%