3 Fiscal strategy and outlook

Features

- The Queensland Government continues to prioritise the ongoing recovery from COVID-19 through targeted expenditure and capital measures. This includes continued frontline health support as well as initiatives to improve Queensland's productive capacity and competitiveness in support of jobs and ongoing growth.
- A new Charter of Fiscal Responsibility supports the Government's strategy to drive recovery, address fiscal repair and restore the state's fiscal buffers. A renewal of Fiscal Principles supports the government's post-COVID-19 fiscal repair strategy, including a return to operating surpluses and stabilising net debt.
- The immediate impact of COVID-19 on Queensland's fiscal position has been significant, with revenues reduced and expenses increased through the broad range of support and stimulus measures implemented by the government.
- In line with improving economic conditions, revenue rebounded strongly in the second half of 2020–21, and is expected to be stronger across the forward estimates.
- The recovery in revenues is allowing the government to balance additional funding for priority service needs, including the evolving COVID-19 response, with improved operating balances and significantly lower net debt and borrowings relative to the 2020–21 Queensland Budget.
- A General Government operating deficit of $3.803 billion is forecast in 2020–21, an improvement compared to the $8.633 billion deficit forecast in the previous Budget.
- Improvements in the operating balance are forecast to continue across the forward estimates, with a return to surplus forecast in 2024–25. Achieving ongoing operating surpluses in the medium term, combined with net operating cashflows from operating activities primarily funding the General Government sector capital program, will allow the government to stabilise debt levels and reduce debt as a proportion of revenue over time.
- As part of the 2020–21 Budget, the government introduced key measures to manage the fiscal impact of COVID-19, including the Savings and Debt Plan and the establishment of the Queensland Future Fund (QFF) – Debt Retirement Fund (DRF) to be funded with contributions totalling $7.7 billion by 30 June 2021.
- General Government net debt in 2020–21 is expected to be $9.69 billion lower than forecast in the 2020–21 Budget. This is driven by a combination of higher revenue, targeted expenses and a material increase in the anticipated value of investments contributed to seed the DRF. The balance of the DRF is estimated to improve the rating agencies' assessment of the state debt to revenue ratio by around 11 percentage points to 13 percentage points when assessing Queensland's debt burden and credit rating.
- Historically low interest rates mean the cost of borrowing remains low, with Queensland's interest expense forecast to be 2.6 per cent of revenue in 2021–22, well below the peak of 4.7 per cent in 2013–14.

- Queensland, like other Australian jurisdictions, is prioritising support for economic recovery over accelerating fiscal repair. However, the fiscal position is expected to also recover from the impacts of COVID-19, with revenue growing more strongly than expenses. Significantly, net cash flows from operating activities are expected to primarily fund the general government sector capital program from 2024–25.

3.1 Update on fiscal recovery

The 2021–22 Queensland Budget maintains the government's focus on supporting jobs and continuing the economic recovery. The government's targeted expenditure, capital prioritisation and initiatives such as the $3.34 billion Queensland Jobs Fund position the economy for ongoing growth and support the rebuilding of fiscal capacity.

Since the 2020–21 Budget, the economy has recovered sooner and stronger than forecast, translating to higher-than-expected increases in key revenue streams. The improvements in revenues, along with expenditure restraint and the continued implementation of the government's Savings and Debt Plan, has ensured that operating deficits are lower than were estimated at the 2020–21 Budget, and a return to an operating surplus is forecast in 2024–25.

Australian governments at all levels increased borrowings to combat the COVID-19 crisis. Queensland was no exception, but the government's borrowings have increased by less than estimated in the 2020–21 Budget. Lower borrowings will enable to state to stabilise debt sooner and restore its capacity to invest in infrastructure and respond to external shocks. Unlike other states, Queensland has maintained its credit rating through the crisis, which has kept debt servicing costs manageable.

The government has developed a new Charter of Fiscal Responsibility (Charter) to inform the 2021–22 Budget strategy. The Charter includes new Fiscal Principles to support the delivery of net operating surpluses and the stabilisation of net debt.

3.1.1 Fiscal Principles

Fiscal Principle 1 – Stabilise the General Government Sector net debt to revenue ratio at sustainable levels in the medium term, and target reductions in the net debt to revenue ratio in the long term.

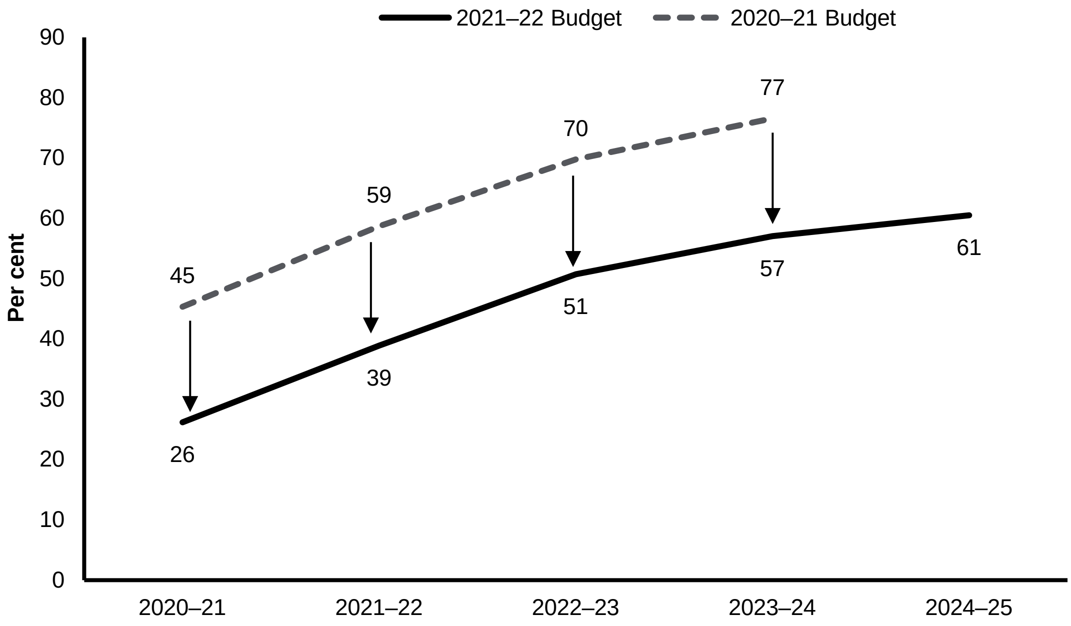
The new Fiscal Principles provide objective measures supporting the government's medium-term strategy for fiscal recovery. A renewal of Fiscal Principles was needed for this Budget to ensure they are fit for purpose and provide a balanced and sensible path to restore Queensland's fiscal buffers as the economic recovery continues. The new Fiscal Principles retain the targeting of full funding of long-term liabilities and maintaining tax competitiveness. In the medium term, net debt will be stabilised and operating surpluses restored by managing growth in general government expenditure to be below average revenue growth.

A key component of the fiscal strategy is to stabilise debt at a sustainable level in the medium term. Queensland's strong public health response and decision to prioritise health and economic recovery during the crisis increased borrowings.

As revenues recover and expenditure growth is managed, the net debt to revenue ratio is forecast to moderate towards the end of the forward estimates, increasing from 57 per cent to 60.5 per cent between 2023–24 and 2024–25.

Continued prudent budget management will reduce the net debt to revenue ratio in the longer term, restoring Queensland's fiscal capacity to help manage future crises.

Chart 3.1 Ratio of General Government net debt/revenue



Net operating deficits over the forward estimates are lower than were forecast in the 2020–21 Budget. As a result, the increase in net debt has also been less than anticipated. Net debt is now expected to moderate at a lower level than previously forecast, additionally offset by an increase in the value of assets being contributed to the Queensland Future Fund (QFF) – Debt Retirement Fund (DRF). Queensland's financial assets are detailed further in Chapter 6.

Box 3.1 Queensland Future Fund – Debt Retirement Fund

The *Queensland Future Fund Act 2020* provides the legislative framework for establishing Queensland Future Funds, including the first such fund, the Debt Retirement Fund (DRF).

The DRF is created with the sole purpose of debt reduction and will hold state investments for future growth to be used to offset state debt to support Queensland's credit rating. Moody's has indicated that the QFF will play a material role in the state's management of its debt.

Assets contributed or being contributed to the DRF in 2020–21 include:

- $6 billion in seed funding from the transfer of the Queensland Titles Registry operations
- $1.5 billion from the surplus assets held to support the Defined Benefit Scheme (DB scheme surplus)
- $206 million in securities held by the State.

Based on the contribution of these investments, the estimated balance of the Debt Retirement Fund as at 30 June 2021 is $7.7 billion.

This balance is greater than the $5.67 billion estimated when first announced in the COVID-19 Fiscal and Economic Review, driven primarily by an uplift in the value of Queensland Titles Registry and an increase in the contribution from the DB Scheme surplus. The DB Scheme remains in a strong surplus position. It remains the only fully funded superannuation liability across Australian state governments.

Separate to the contribution to the DRF, the government is retaining approximately $1.8 billion from the transfer of the Titles Registry to support a number of long-term government priorities, including the establishment of the $1 billion Housing Investment Fund, the $300 million Path to Treaty Fund and a $500 million Carbon Reduction Investment Fund. The returns will be used to support these priorities, with the original funding remaining invested to deliver sustainable and ongoing returns.

Development rights associated with the Cross River Rail (CRR) development lots within the CRR Precincts, the land surrounding the 4 new underground train stations, have also been identified for transfer to the Debt Retirement Fund when construction of the rail tunnel and stations is completed.

Queensland's net debt to revenue ratio of 39 per cent in 2021–22 compares favourably with that of its peers. The net debt to revenue ratio in 2021–22 is 75 per cent for New South Wales (2020–21 Half-Yearly Review) and 137 per cent for Victoria (2021–22 Budget).

The balance of the DRF is estimated to improve the rating agencies' assessment of the state debt to revenue ratio by around 11 percentage points to 13 percentage points when assessing Queensland's debt burden and credit rating.

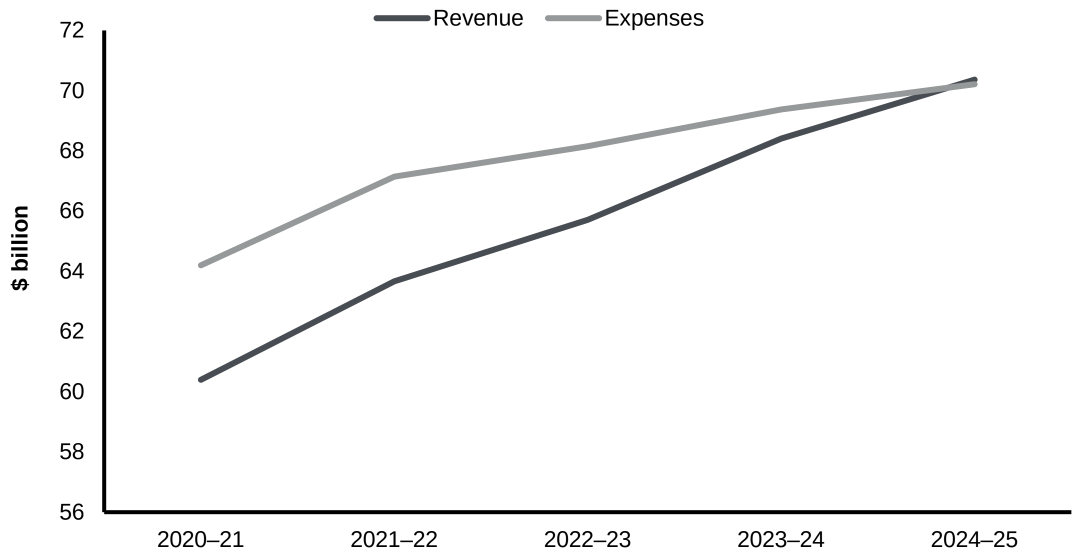
Fiscal Principle 2 – Ensure that average annual growth in General Government Sector expenditure in the medium term is below the average annual growth in General Government Sector revenue to deliver fiscally sustainable net operating surpluses.

The new Fiscal Principle 2 is designed to provide a broad measure of expenditure growth management. It replaces the previous Fiscal Principle 6, which aimed to ensure growth in employee expenses was sustainable through measuring full-time equivalent employee (FTE) growth.

While employee expenses are a large component of overall expenses growth, the monitoring of FTE growth as the sole expenditure-related principle was considered too narrow to guide fiscal recovery from the impact of COVID-19. Frontline services have been pivotal to ensuring the state was protected from COVID-19 and, therefore, critical to ensuring the state's economic recovery. A narrow focus on FTEs could also create perverse incentives for agencies to outsource services at higher cost to the state. A broader principle related to overall expenditure growth ensures all components of expenditure are considered by the fiscal principles. FTE management remains an important part of expenditure management and will continue to be reported in detail in Chapter 5.

Maintaining a lower rate of expenditure growth than revenue growth will deliver an operating surplus by 2024–25 and assist debt stabilisation. Over the forward estimates, revenues are forecast to grow by an average of 3.9 per cent per annum, relative to average expenditure growth of 2.3 per cent with an operating surplus forecast to be achieved in 2024–25 (Chart 3.2).

Chart 3.2 Comparison of revenue and expenditure



Fiscal Principle 3 – Target continual improvements in net operating surpluses to ensure that, in the medium term, net cash flows from investments in non-financial assets (capital) will be funded primarily from net cash inflows from operating activities. The capital program will focus on supporting a productive economy, jobs, and ensuring a pipeline of infrastructure that responds to population growth.

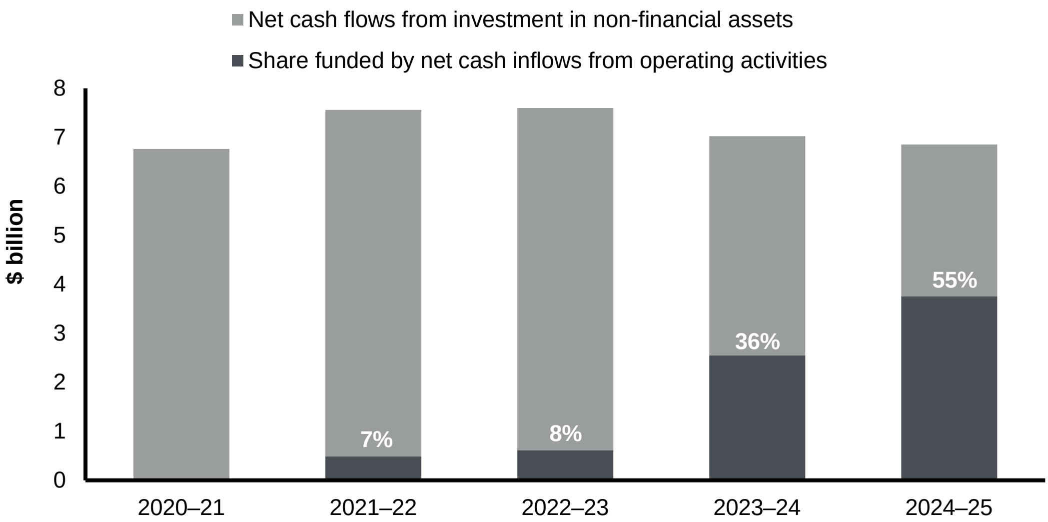
Maintaining a capital program that will support jobs and enhance the productive capacity of the economy remains a government priority. The government's $50 billion Infrastructure Guarantee has ensured the maintenance of a substantial capital program through the COVID-19 crisis and a capital program of $52.216 billion is planned over the 4 years to 2024–25, taking the total infrastructure investment from 2015–16 to 2024–25 to over $110 billion.

A commitment to a large capital program at the same time as stabilising net debt will require the capital program to be primarily funded through operating cash surpluses rather than borrowings. From 2021–22, new capital investment is expected to be increasingly funded from net cash inflows from operating activities. By 2024–25, 55 per cent of the investment in non-financial assets is expected to be funded from operating cash.

This positions Queensland well for continued improvement beyond the forward estimates period, towards the medium-term goal of funding capital primarily through operating cash surpluses.

This is also a substantial improvement compared to the 2020–21 Budget.

Chart 3.3 Share of General Government investments in non-financial assets funded from operating cash surpluses



Fiscal Principle 4 – Maintain competitive taxation by ensuring that, on a per capita basis, Queensland has lower taxation than the average of other states.

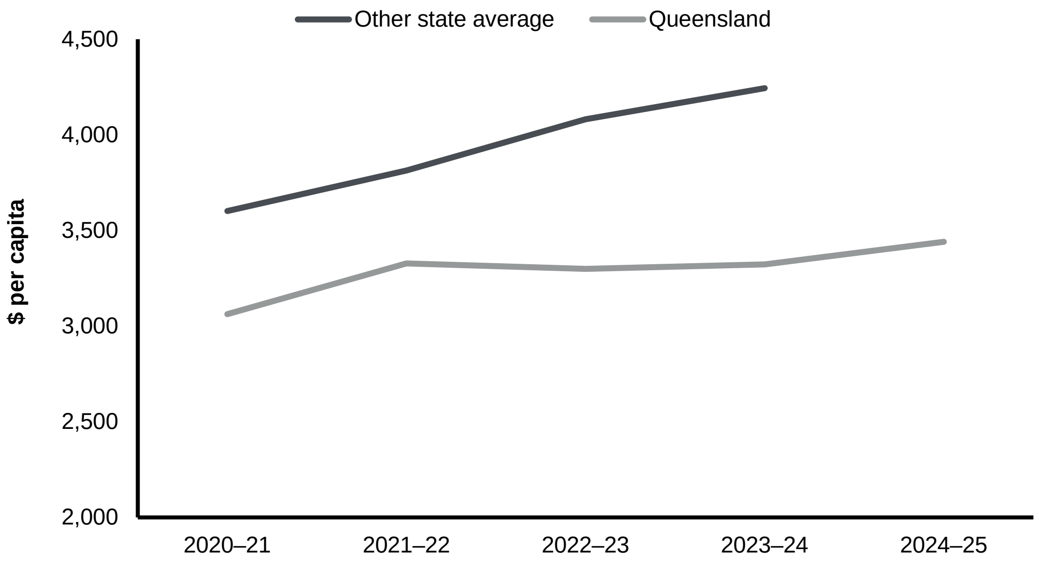
The fiscal principles will ensure that Queenslanders continue to pay less tax than Australians in other states and territories. Compared to the previous Charter, this principle has been adjusted to directly measure Queensland's competitiveness relative to other jurisdictions, rather than as a fixed proportion of GSP. This will provide a more meaningful indication of the comparative impact of Queensland's tax regime and policies.

Based on the latest available outcomes, Queensland's taxation per capita was $771 less than the average of other jurisdictions in 2019–20. On average, Queenslanders paid $1,078 less tax than New South Wales residents and $761 less than Victorian residents.

Using the latest forecasts, Queensland's taxation per capita of $3,328 in 2021–22 compares favourably to an average of $3,814 per capita across the other jurisdictions.

Chart 3.4 demonstrates that Queensland is expected to maintain a highly competitive taxation environment.

Chart 3.4 Taxation per capita, Queensland and other jurisdictions



Sources: 2021–22 budgets for Queensland, Victoria and NT. 2020–21 mid-year updates for NSW and WA, April 2021 pre-election update for Tasmania. 2020–21 budgets for SA and ACT. Population data from 2021–22 Federal Budget.

Fiscal Principle 5 – Target the full funding of long-term liabilities such as superannuation and workers' compensation in accordance with actuarial advice.

The full funding of superannuation and other long-term liabilities is a long-standing Queensland Government priority and a key element of Queensland's financial management. A commitment to this principle will continue through the economic and fiscal recovery from the COVID-19 crisis, and it will remain part of the long-term fiscal strategy.

3.2 Key fiscal aggregates

The key fiscal aggregates for the 2021–22 Budget are outlined in Table 3.1 and are discussed in detail in this chapter.

Table 3.1 Key fiscal aggregates[1]

	2019–20 Outcome $ million	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
Revenue	57,764	56,249	60,396	63,664	65,711	68,408	70,367
Expenses	63,498	64,881	64,199	67,148	68,151	69,376	70,214
Net operating balance	(5,734)	(8,633)	(3,803)	(3,485)	(2,440)	(968)	153
PNFA[2]	6,291	7,572	6,965	7,800	7,786	7,275	7,041
Fiscal balance	(9,158)	(13,440)	(8,159)	(7,965)	(6,379)	(3,630)	(2,079)
Borrowing with QTC	37,570	53,501	47,102	57,240	67,110	73,265	77,761
Leases and other similar arrangements	6,499	7,565	7,779	7,603	7,471	7,780	7,623
Securities and derivatives	198	198	198	198	198	198	198
Net debt	14,046	25,499	15,808	24,750	33,326	39,019	42,573

Notes:
1. Numbers may not add due to rounding.
2. PNFA: Purchases of non-financial assets.

3.2.1 Net operating balance

Table 3.2 compares the General Government Sector net operating balance forecasts for the previous budget with the 2021–22 Budget forecasts.

Table 3.2 General Government Sector – net operating balance forecasts

	2020–21 $ million	2021–22 $ million	2022–23 $ million	2023–24 $ million	2024–25 $ million
2020–21 Budget	(8,633)	(4,303)	(2,480)	(1,389)	na
2021–22 Budget	(3,803)	(3,485)	(2,440)	(968)	153

The 2021–22 Budget projects improving net operating balances across the forward estimates, reaching a surplus of $153 million by 2024–25, as revenues continue to improve alongside moderate expenditure growth.

A deficit of $3.803 billion is estimated for 2020–21, an improvement of $4.8 billion from the previous budget forecast of $8.633 billion. This improvement has been underpinned by an uplift to revenue since the 2020–21 Budget, particularly from GST and taxes. At the same time, expense measures since the last budget have been modest and focused on key priorities.

This prudent approach has allowed the revenue uplift to flow through to improved operating balances and reduced the need to increase borrowings compared to previous estimates. In the 4 years to 2023–24, total general government revenue has increased by $11.706 billion, compared to expense increases of $5.598 billion over the same period.

Table 3.3 provides a breakdown of the changes in the net operating balance since the 2020–21 Budget.

Table 3.3 Reconciliation of net operating balance, 2020–21 Budget to 2021–22 Budget[1]

	2020–21 $ million	2021–22 $ million	2022–23 $ million	2023–24 $ million
2020–21 Budget net operating balance	**(8,633)**	**(4,303)**	**(2,480)**	**(1,389)**
Taxation revisions[2]	1,577	2,052	1,268	765
Royalty and land rent revisions	36	(175)	(334)	(285)
GST revisions	2,108	1,729	1,687	1,628
Expense measures[3]	(3)	(1,889)	(811)	(545)
Net flows from PNFC and PFC entities[4]	(244)	(60)	(102)	(336)
Natural Disaster Revisions (DRFA)[5]	(8)	134	40	(156)
Australian Government funding revisions[6]	252	(542)	(548)	(213)
Other parameter adjustments[7]	1,112	(431)	(1,160)	(437)
2021–22 Budget net operating balance	**(3,803)**	**(3,485)**	**(2,440)**	**(968)**

Notes:

1. Numbers may not add due to rounding. Numbers indicate the impact on the operating balance. A number in brackets indicates a negative impact on the operating balance.
2. Represents parameter adjustments to taxation revenue. Includes measure to extend Apprentice Rebate Scheme in 2021–22 of $31.2 million.
3. Reflects the operating balance impact of Government decisions since the 2020–21 Budget (refer to Chapter 7 – Budget Measures for details).
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, net of CSO and TSC expense measures.
5. Disaster Recovery Funding Arrangements.
6. Represents the net impact of funding provided by the Australian Government primarily for Specific Purpose Payments and National Partnership payments and excludes funding for disaster recovery expenses.
7. Refers to adjustments largely of a non-policy nature, primarily changes in interest paid on borrowings, depreciation, swaps, lapses and deferrals.

3.2.2 Revenue

The COVID-19 pandemic and the resulting economic downturn substantially reduced the state's revenues, particularly across 2019–20 and 2020–21. However, the beginning of economic recovery resulted in stronger revenues in the second half of 2020–21 than previously anticipated, with 2020–21 revenues now expected to be $4.148 billion (7.4 per cent) higher than forecast in the previous budget (see Chart 3.5).

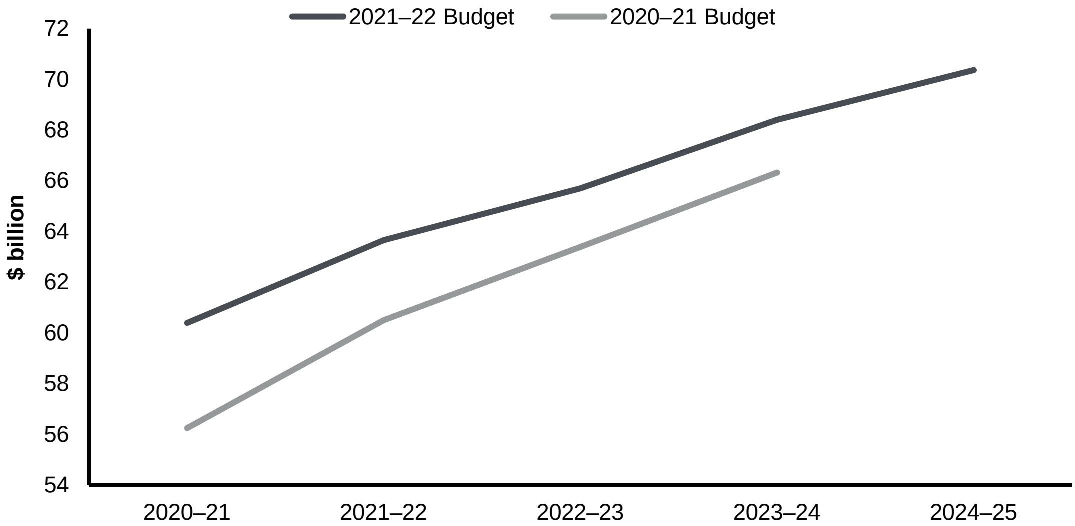
Taxation revenue is forecast to be $1.492 billion (9.4 per cent) higher in 2021–22, primarily driven by continued strength in transfer duty and a rebound in payroll tax as employment and business conditions improve.

Following the strong growth in both 2020–21 and 2021–22, total taxation revenue is forecast to grow by 2.3 per cent per annum on average across the subsequent 3 years.

Following an estimated fall of 44.4 per cent in 2020–21, royalty revenues are forecast to partially rebound by 25.6 per cent in 2021–22, reflecting the expected improvement in global economic activity, as well as the impact of the new volume-based petroleum royalty model. More moderate growth is forecast in subsequent years, however, the timing and extent of the unwinding of China’s import ban on Australian coal is still uncertain and remains a key risk to the outlook.

With stronger than expected national consumption and dwelling investment, GST revenue is estimated to be 16 per cent higher in 2020–21 compared to 2019–20. Queensland’s GST revenue is expected to grow by 5.4 per cent in 2021–22 and is forecast to continue to grow on average by 4.9 per cent per annum over the forward years.

Chart 3.5 Comparison of revenue forecasts



Further information on revenue forecasts is provided in Chapter 4.

3.2.3 Expenses

The 2020–21 Budget estimated expenses would increase by 7.9 per cent in 2019–20, 2.2 per cent in 2020–21 and 1.6 per cent over the 4 years to 2023–24, reflecting the health response to the pandemic and the assistance provided to businesses and industry to stimulate economic recovery. A smaller increase in general government expenses of 1.1 per cent is now expected in 2020–21.

Modest expenses growth has been achievable due to the government implementing strategies to contain increases, while maintaining the expenditure needed to deliver frontline services, targeted support for jobs and the economy, and measures to enhance longer-term productivity.

On average, annual general government expenses are forecast to increase by 2.3 per cent over the 4 years to 2024–25. This is lower than the forecast average annual increases in revenue of 3.9 per cent over the same period, and consistent with Fiscal Principle 2.

The $3 billion Savings and Debt Plan is a key component of managing expenditure growth, with progress towards achieving savings targets detailed in Box 3.2.

Further detail on expense initiatives is provided in Chapter 7.

Box 3.2 Savings and Debt Plan

The Queensland Government's Savings and Debt Plan, announced on 9 July 2020, targeted savings of $3 billion over 4 years to 2023–24. Savings of $750 million in 2020–21 have been achieved under the Savings and Debt Plan. Workstreams established under the Savings and Debt Plan are continuing to identify cross-government savings opportunities and will support agencies to achieve remaining savings through to 2023–24.

Workstreams include Accommodation, Advertising and Marketing, Data and ICT, Workforce, Government Corporate Support Services, Grants Administration, and Procurement. In addition, Government is working to assess how it can deliver its functions more effectively, including through structural reform opportunities and review of agency functions.

$750 million of savings has been achieved in 2020–21, as shown in Table 3.4. Agencies have achieved these savings without reducing services, and in line with the Queensland Government's commitment to employment security.

Examples of savings made in 2020–21 include:

- Reduction of 101 social media accounts across government
- Net reduction of 33 (4.6%) of the Senior Executive Service via natural attrition between July 2020 and May 2021
- Accommodation savings, including $14.2 million in savings associated with a renegotiation of a Department of Education lease and ongoing savings of $3.5 million per annum
- Reduction of $17.7 million over 4 years in ICT contract costs, including savings in telecommunications contracts.

A further $750 million will be realised in 2021–22 through a combination of savings already realised and agency savings. Savings from the Health and Education portfolios will be managed through existing funding model arrangements.

A range of Savings and Debt Plan measures and workstreams will also support agencies to achieve remaining savings through to 2023–24.

Table 3.4 2020–21 Savings

Department	2020–21 Savings $ 000
Department of Aboriginal and Torres Strait Islander Partnerships	845
Department of Agriculture and Fisheries	9,842
Department of Child Safety, Youth and Women	11,601
Department of Children, Youth Justice and Multicultural Affairs	11,196
Department of Communities, Disability Services and Seniors	534
Department of Communities, Housing and the Digital Economy	3,534
Department of Education	110,502
Department of Employment, Small Business and Training	55,557
Department of Energy and Public Works	3,185
Department of Environment and Science	61,111
Department of Housing and Public Works	34,115
Department of Justice and Attorney-General	12,961
Department of Local Government, Racing and Multicultural affairs	2,787
Department of Natural Resources, Mines and Energy	20,170
Department of Regional Development, Manufacturing and Water	627
Department of Resources	1,406
Department of Seniors, Disability Services and Aboriginal and Torres Strait Islander Partnerships	2,939
Department of State Development, Infrastructure, Local Government and Planning	5,008
Department of State Development, Tourism and Innovation	37,156
Department of the Premier and Cabinet	4,024
Department of Tourism, Innovation and Sport	653
Department of Transport and Main Roads	80,923
Department of Youth Justice	1,622
Electoral Commission Queensland	1,333
Inspector-General of Emergency Management	61
Legislative Assembly	500
Ombudsman	130
Public Safety Business Agency	2,951
Public Service Commission	1,060
Queensland Audit Office	176
Queensland Corrective Services	15,728
Queensland Fire and Emergency Services	9,238
Queensland Health	177,475

Queensland Police Service	32,073
Queensland Treasury	7,059
Trade and Investment Queensland	903
Whole-of-Government	29,015
Total Savings	**750,000**

Notes:

1. Table includes all savings achieved in 2020–21, including those achieved by entities which were impacted by machinery-of-government changes announced on 12 November 2020. Savings have been reported against the entity which achieved these savings.

3.2.4 Investment

The Queensland Government provides essential infrastructure and capital works to support productivity, connect industries and meet the state's increasing service needs. Infrastructure investment supports jobs across all regions of the state and is a key component of the Queensland Government's *Economic Recovery Plan*.

Key capital investments in 2021–22 include:

- $6.902 billion investment in transformative transport infrastructure. Highlights of the 2021–22 transport capital program include $1.517 billion to continue construction work on Cross River Rail and substantial ongoing investment to fund major upgrades to the M1 Pacific Motorway and the Bruce Highway
- $1.352 billion to support the delivery of health services, including $283.7 million as part of the Building Better Hospitals program
- $1.521 billion to ensure Queensland's state schools and training assets are world-class and continue to meet demand. Investment in new schools is being facilitated through the $2.6 billion Building Future Schools Fund
- $1.813 billion over 4 years to increase the supply of social housing and upgrade the existing social housing property portfolio, including $502.6 million in capital works and capital grants in 2021–22.

Further information about the government's capital program is provided in Chapter 6 and the Capital Statement (Budget Paper 3).

3.2.5 Borrowing

Australian governments at all levels increased borrowings to combat the COVID-19 crisis. Queensland was no exception, but the government's borrowings have increased by less than estimated in the 2020–21 Budget. General Government net debt is forecast to be $24.75 billion at 30 June 2022, $10.761 billion lower than forecast in the 2020–21 Budget. Box 3.3 discusses improvements in the debt position in further detail.

While additional debt has been necessary to deliver an effective response to the crisis, the government has also implemented a range of measures to limit the legacy impacts of the crisis on Queensland's fiscal position. This includes the Savings and Debt Plan and the creation of the first Queensland Future Fund (QFF) – Debt Retirement Fund (DRF), to safeguard the state's balance sheet.

Box 3.3 Debt management

The 2020–21 Budget prioritised the state's health response and economic recovery from COVID-19. Queensland's decisive response to the pandemic resulted in operating deficits and increased borrowings over the forward estimates.

The 2021–22 Budget continues to focus on protecting the health of Queenslanders. There is a strong correlation between health outcomes and economic outcomes, and Queensland's continued success in containing the spread of the virus will be key to continued economic gains.

The government has taken a disciplined approach to its fiscal strategy to limit the potential legacy impacts of the crisis and ensure borrowings remain contained, and to set a strategy and path to support ongoing growth in the economy. This is particularly important when considering the risk of future increases to borrowing costs from higher interest rates or the need for government responses to future events.

The government is acting prudently to stabilise debt, directing revenue improvements toward economic recovery priorities and a return to operating surplus. The updated fiscal principles support a path to stabilisation of the relative net debt burden in response to the COVID-19-induced fiscal challenges.

With debt now forecast to increase more slowly than anticipated in the 2020–21 Budget, Queensland is well positioned to stabilise its debt burden.

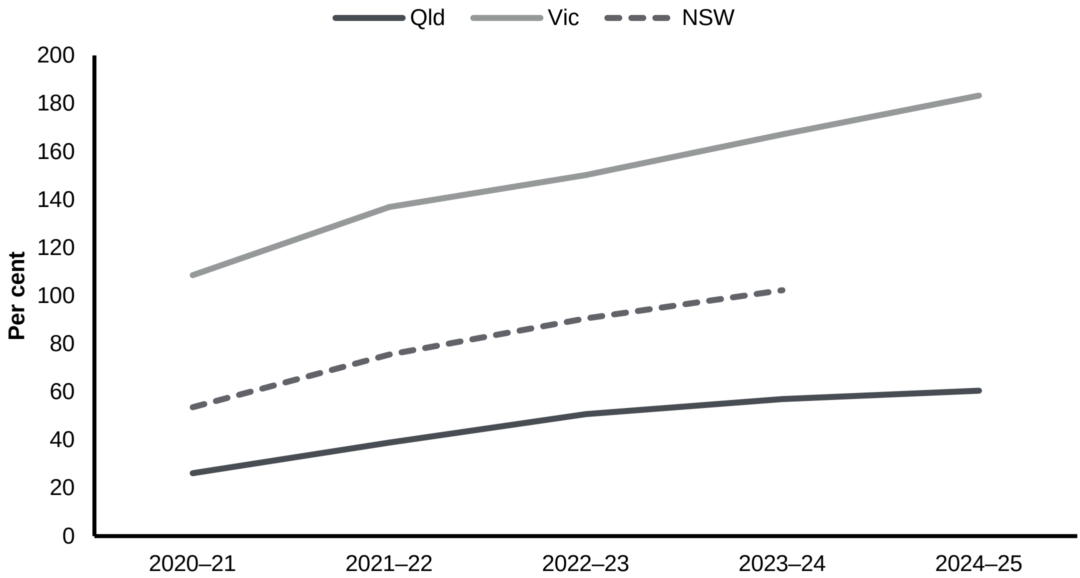
All measures of the debt burden have been revised downwards since the 2020–21 Budget. The forecast level of total general government borrowing has reduced materially. In 2023–24, the level of general government borrowings is expected to be $7.377 billion lower compared to the outlook at the time of the 2020–21 Budget. Since the 2020–21 Budget, net debt has been revised down by $11.762 billion in 2023–24. In 2024–25, net debt is expected to remain much lower than interstate peers. Net debt is the measure broadly emphasised by governments, including the Australian Government.

In addition, the government's Queensland Future Fund (QFF) - Debt Retirement Fund (DRF) has been established to hold state investments for future growth, which will be used to offset state debt to support Queensland's credit rating.

By prudently managing expenditure, while continuing to protect the health of Queenslanders and delivering high-quality services, the government will ensure Queensland's fiscal capacity improves and target debt reduction in the longer term.

Queensland's net debt has seen a significant improvement. By 2023–24, Queensland's forecast net debt of $39.019 billion compares to $96.675 billion for New South Wales and $138.35 billion for Victoria. As shown in Chart 3.6, general government net debt as a share of revenue is also expected to be far lower in Queensland than in New South Wales and Victoria across the forward estimates.

Chart 3.6 State comparison of general government sector net debt to revenue



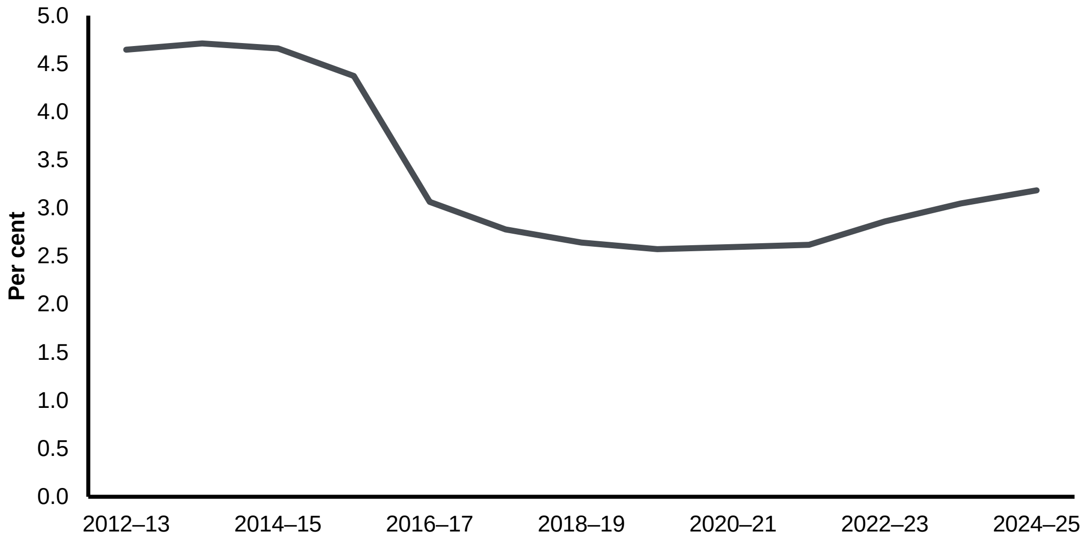
Sources: 2021–22 budgets for Queensland and Victoria, 2020–21 Half-Yearly Review for NSW.

Debt servicing costs remain manageable. As a share of revenue, Queensland's general government sector interest expenses have declined over successive budgets.

General government sector interest expenses have fallen from a peak of $2.328 billion in 2014–15 to $1.567 billion in 2020–21, despite the impact of the pandemic on borrowings.

Chart 3.7 shows that Queensland's interest expense is forecast to be around 2.6 per cent of revenue in 2021–22, well below the peak of 4.7 per cent in 2013–14. A reduction in overall debt levels in this Budget helps to reduce the impact of future interest rate rises.

Chart 3.7 General Government Sector ratio of borrowing costs to revenue



Queensland's Credit Rating

In April 2021, Moody's reaffirmed Queensland's Aa1 credit rating, noting the state's strong financial management. S&P Global also noted Queensland's strong financial management and diverse economy in reaffirming Queensland's AA+ credit rating in October 2020.

The ratings outlook for Queensland is stable, supported by the government's commitment to improving budgetary performance and stabilising the level of borrowings. The establishment of the Queensland Future Fund (QFF) – Debt Retirement Fund (DRF) and the roll-out of the Savings and Debt Plan demonstrate a commitment to active debt management and improving budgetary performance, which support the state's strong credit rating.

The credit rating of the state impacts the rate at which new and refinanced borrowings are made, which affects the overall cost of borrowing. Sound financial management supports the credit rating and provides the capacity to respond to future economic and financial shocks, including the long-term impact of the pandemic.

3.2.6 Emerging Fiscal Pressures

Beyond ongoing uncertainties related to the COVID-19 pandemic, including the higher risk of outbreaks and associated need for fiscal support if the vaccination program takes longer than expected, key emerging fiscal issues include:

- Native Title Compensation Settlement: the government has a potential liability with respect to compensation arising from acts that have extinguished or impaired native title since 1975
- expiring agreements: Queensland's fiscal position is exposed to decisions made by the Australian Government, including not renewing funding for National Partnership payments (NPs) where there are ongoing community service needs that must be met. Further information on expiring agreements is provided in Chapter 8
- the need to work with Games Partners, including the Australian Government and local governments, to ensure fair funding contributions for required expenses and investment associated with Queensland's bid to host the 2032 Olympic and Paralympic Games
- provisions have been made for a regional quarantine facility in Queensland if the Australian Government decides to support the detailed submission provided by the Queensland Government.