3 Fiscal strategy and outlook

Features

- The Queensland Government has prioritised its response to the coronavirus (COVID-19) health crisis and economic recovery efforts. Like all jurisdictions, Queensland's fiscal position has been impacted by the COVID-19 pandemic – but a strong response has been necessary to secure strong public health outcomes for Queensland and in doing so position for an earlier economic recovery.
- The impact of the crisis on Queensland's operating position has been significant, with a General Government operating deficit of $5.734 billion expected in 2019-20, peaking in 2020-21 at $8.633 billion. As the economy recovers the operating deficit progressively decreases over the forward estimates. The government is balancing the need to return to surplus with ensuring the recovery of the economy.
- The nature and impact of the pandemic means increased borrowings are unavoidable without austerity measures. Falls in key revenues such as GST, coupled with increased expenditure in response to the pandemic has led to General Government Sector borrowing with QTC rising to an estimated $53.501 billion by 30 June 2021. Despite rising borrowings, Queensland's interest expense, the cost of servicing this debt, is forecast to be around 3.1% of revenue in 2020-21, well below the peak of 4.7% in 2013-14.
- Queensland entered this crisis with a robust fiscal position. The 2019-20 MYFER forecast increasing net operating surpluses across the forward estimates. The strong pre-crisis position allowed the government to respond quickly to the crisis, and to maintain the support necessary to ensure Queensland's economic recovery.
- As the economy strengthens through the recovery phase, revenues will rise, and temporary support measures will be wound back. The budget position will strengthen, and borrowings will stabilise. Once the budget returns to surplus, fiscal buffers will be restored and debt reduced.
- Due to the impact of the pandemic, some fiscal principles are not being met. A new Charter of Fiscal Responsibility will include renewed, longer-term fiscal principles. Progress on development of these principles will be reported in the 2021-22 Budget.

3.1 Context

Global, national and sub-national economies are enduring unprecedented public health and economic impacts from the COVID-19 pandemic. The Queensland Government's strategy for responding to this crisis is to safeguard the health of Queenslanders as the foremost priority, while implementing strategies to help industries and businesses adapt and recover.

Like all governments, significant increases in expenditure has been required for health services and for community and business support to help Queensland through this crisis. Initial fiscal stimulus of more than $7 billion, as outlined in the government's *Unite and Recover:*

Queensland's Economic Recovery Plan, was targeted at short term measures to support demand. The strategy will now transition to measures which support longer-term recovery by enhancing productivity, competitiveness and private sector growth.

Queensland remains committed to its substantial infrastructure investment program, with the largest 4-year capital spend in over a decade of $56.031 billion in the 2020-21 Budget. Infrastructure is a major driver of economic growth and job creation and the government's infrastructure investment commitment gives industry confidence to invest and generate jobs.

Key elements of the government's Economic Recovery Plan and overall economic strategy are set out in Chapter 1.

The decision to prioritise the health crisis response and economic recovery has meant that Queensland's fiscal position has been substantially impacted. However, a strong response to the pandemic was necessary, and Queensland entered this crisis with a robust fiscal position. Prior to the crisis, the government had delivered consecutive years of operating surpluses which has allowed the budget to weather the crisis and be positioned for recovery as the immediate pandemic pressures ease and productivity initiatives take effect. In the current climate, supporting the economy and driving future growth remains the priority.

Risks to the fiscal outlook remain elevated, flowing from risks to the macroeconomic outlook. These risks include another substantial or elevated wave of the pandemic further reducing global demand for Queensland exports, escalating geopolitical tensions and trade disputes hindering global economic recovery, delays in the availability of an effective vaccine, and abrupt unwinding of Australian Government fiscal stimulus measures affecting demand and activity.

3.2 Strategy for fiscal recovery

Queensland's fiscal position has been severely impacted by the pandemic requiring a reset of the fiscal strategy.

The updated fiscal outlook captures the substantial impact of COVID-19 on the Queensland economy, the significant response measures supporting business and households through the recovery and funding for election commitments. The government has committed a package of election commitments totalling $4.3 billion over four years. These measures provide essential support for government service delivery as well as continued resources for COVID-19 support and recovery. These measures are necessary to support the Queensland economy and to protect jobs, but also limit the state's fiscal capacity to respond to future crises. The government remains committed to budget repair, restoring fiscal buffers and stabilising debt but recognises the strategy must ensure the economy first recovers from the pandemic.

The fiscal strategy in the short to medium term emphasises the importance of economic recovery while ensuring spending remains well-targeted and focused on driving competitiveness and productivity. Economic recovery is the key priority which a disciplined approach to fiscal management will position the state well for the future.

The 2020-21 Budget forecasts detail the impacts of recent events and expectations for revenue recovery. Decision making for additional commitments and developments from this point forward will be underpinned by the fiscal strategy:

- Economic recovery will be prioritised over budget repair during the near-term recovery period, after which improved fiscal targets including debt stabilisation will be pursued. Prioritising economic recovery alongside targeted expenditure and capital prioritisation will position Queensland well for fiscal repair.
- As revenues improve, increases will be directed towards economic recovery priorities and then a return to operating surpluses.
- Spending will be maintained to support jobs and the economy during the recovery period, while ensuring expenditure restraint by working to ensure new spending measures are met from the re-prioritisation of existing funding.
- The capital program will be rigorously assessed to ensure planned infrastructure investment meets changing needs and that government is achieving value for money.

3.2.1 Fiscal Principles

Queensland's current fiscal principles aim to provide specific, objective measures for the government to assess the success of its fiscal strategies. Prior to the crisis, the government's fiscal principles underpinned the state's fiscal strategy. The government's current Charter of Fiscal Responsibility detailing six fiscal principles, was tabled in Parliament on 14 June 2016.

Queensland, like other Australian jurisdictions, is prioritising support for economic recovery over existing fiscal targets. Given this, some targets underpinning Queensland's fiscal principles will not be achieved in the short and medium term.

Reporting against the existing fiscal principles will continue but remain under review ahead of the 2021-22 Budget.

The current Fiscal Principle 5 (Targeting full funding of long-term liabilities such as superannuation and WorkCover in accordance with actuarial advice) is a long-standing Queensland Government priority and a key element of Queensland's financial management. Despite the impact of the crisis, commitment to this principle will continue through the economic recovery period, and it will continue to be part of the long-term fiscal strategy.

Fiscal principles

Principle 1 – Target ongoing reductions in Queensland's relative debt burden, as measured by the General Government debt to revenue ratio

The trajectory of the debt burden has shifted significantly due to the impact of COVID-19. The ratio of General Government debt to revenue was 76.6% in 2019-20 and expected to be 108.9% in 2020-21. After 2020-21, the growth in Queensland's General Government debt burden will moderate. Queensland's debt to revenue ratio compares favourably to peer jurisdictions whose debt to revenue measures in 2020-21 are 120% and 156.7%, for NSW and VIC respectively.

In August 2020, the government passed legislation to establish the first of the Queensland Future Funds – the Debt Retirement Fund. The Debt Retirement Fund is a long-term sustainable plan to alleviate the debt burden on future generations of Queenslanders. The purpose is to reduce the State's borrowings. Assets totalling $5.67 billion have been included in the Debt Retirement Fund as at C19-FER for 2020-21. The debt to revenue ratio is estimated to shift from 108.9% to 98.8%.

Principle 2 – Target net operating surpluses that ensure any new capital investment in the General Government Sector is funded primarily through recurrent revenues rather than borrowing.

Having forecast an operating surplus prior to the COVID-19 pandemic, a General Government operating deficit of $8.633 billion is forecast for 2020-21. The size of this deficit is forecast to reduce substantially across the forward estimates to be $1.389 billion by 2023-24.

New capital investment across the period from 2020-21 to 2023-24 will be funded from increased borrowings.

Principle 3 – 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.

The government's infrastructure investment commitment continues to be significant and gives industry confidence to invest and generate jobs.

The budget sees the capital program including purchases of non-financial assets (capital purchases), acquisitions through finance leases, and capital grants expenses will increase to $14.835 billion in 2020-21. In the COVID-19 Fiscal and Economic Review (C19-FER), the government committed to maintaining a $51.8 billion infrastructure investment program. The total capital program over the four years to 2023-24 is $56.031 billion.

Principle 4 – Maintain competitive taxation by ensuring that General Government Sector own-source revenue remains at or below 8.5% as a proportion of nominal gross state product, on average, across the forward estimates.

At 8.3% for 2019-20 and 7.7% for 2020-21, this is lower than typically targeted reflecting revenues being materially affected due to the COVID-19-induced hit to the economy and government's commitment to a range of revenue relief measures to help support Queenslanders.

Principle 5 – Target full funding of long-term liabilities such as superannuation and WorkCover in accordance with actuarial advice

This fiscal principle continues to be a central principle for the government's Charter of Fiscal Responsibility and the associated fiscal strategy and objectives.

Principle 6 – 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.

A more subdued rate of population growth in the near term has been brought on by the spread of COVID-19 constraining international and interstate migration to Queensland. Consequently, the average growth in public sector FTEs will exceed population growth. Growth in the health sector continues to be the largest driver of FTE growth. Excluding health and education FTEs, growth in FTEs for the rest of the sector remains lower than population growth.

3.3 Key fiscal aggregates

The key fiscal aggregates for the 2020-21 Budget are outlined in Table 3.1 and are discussed in detail in this chapter.

Table 3.1 Key fiscal aggregates[1]

	2018-19 Outcome $ million	2019-20 MYFER $ million	2019-20 Actual $ million	2020-21 Budget $ million	2021-22 Projection $ million	2022-23 Projection $ million	2023-24 Projection $ million
General Government Sector							
Revenue	59,828	59,914	57,764	56,249	60,504	63,394	66,326
Expenses	58,843	59,763	63,498	64,881	64,806	65,874	67,715
Net operating balance	**985**	**151**	**(5,734)**	**(8,633)**	**(4,303)**	**(2,480)**	**(1,389)**
PNFA[2]	5,764	7,223	6,291	7,572	8,136	8,078	7,762
Fiscal balance	(2,207)	(4,068)	(9,158)	(13,440)	(9,085)	(6,647)	(4,370)
Borrowings with QTC	29,468	31,774	37,570	53,501	64,525	73,924	80,653
Leases and similar arrangements[3]	2,612	6,071	6,499	7,565	7,408	7,484	7,768
Securities and derivatives	121	121	198	198	198	198	198
Net debt	(198)	7,030	14,046	25,499	35,511	44,228	50,782
Non-financial Public Sector							
Borrowings with QTC	67,576	70,832	76,464	93,467	104,626	114,217	121,039
Leases and similar arrangements[3]	2,612	6,481	6,991	8,033	7,843	7,884	8,135
Securities and derivatives	720	544	1,505	720	618	567	549
Net debt	34,196	44,123	50,592	63,467	73,770	82,624	88,906

Notes:
1. Numbers may not add due to rounding. Bracketed numbers represent negative amounts.
2. PNFA: Purchases of non-financial assets.
3. Reflects the ‘Leases and similar arrangements’ and ‘Securities and derivatives’ line items in the balance sheet.

3.3.1 Net operating balance

Table 3.2 compares the General Government Sector net operating balance forecasts for the 2019-20 Budget and MYFER with the 2020-21 Budget forecasts.

Table 3.2 General Government Sector - net operating balance forecasts

	2019-20 $ million	2020-21 $ million	2021-22 $ million	2022-23 $ million	2023-24 $ million
2019-20 Budget	189	313	483	787	n.a.
2019-20 MYFER	151	234	595	1,142	n.a.
2020-21 Budget	**(5,734)**	**(8,633)**	**(4,303)**	**(2,480)**	**(1,389)**

The 2019-20 MYFER confirmed that Queensland was on track to achieve a General Government net operating surplus in 2019-20. This position prevailed despite a royalty reduction of $677 million since the 2019-20 Budget, with a savings plan providing a buffer against revenue revisions. Queensland's operating balance was forecast to steadily increase over the forward estimates.

The impact of the crisis on Queensland's operating position has been significant, driven by the impact of the economic downturn on revenues as well as the cost of support and recovery measures. Consistent with the C19-FER, the operating deficit in 2019-20 was $5.734 billion. The pandemic impact on the operating balance is expected to peak in 2020-21, with an estimated deficit of $8.633 billion. The operating deficit progressively decreases over the forward estimates as the economy recovers and temporary support measures are wound back. The operating position is expected to continue to strengthen beyond the forward estimates to surplus.

The government's focus is ensuring the economy recovers.

Table 3.3 provides a breakdown of the movements in the net operating balance since the 2019-20 MYFER.

Table 3.3 Reconciliation of net operating balance, 2019-20 MYFER to 2020-21 Budget[1]

	2019-20 $ million	2020-21 $ million	2021-22 $ million	2022-23 $ million
2019-20 MYFER net operating balance	**151**	**234**	**595**	**1,142**
Taxation revisions[2]	(561)	(1,405)	(1,208)	(1,344)
Royalty revisions	(258)	(1,917)	(1,175)	(712)
GST revisions	(1,251)	(1,291)	(830)	(425)
Expense measures[3]	(1,211)	(2,511)	(687)	(702)
Net flows from PNFC and PFC entities[4]	(252)	(398)	(507)	(742)
Natural Disaster Revisions (DRFA)[5]	(75)	(165)	57	(229)
Australian Government funding revisions[6]	(453)	(148)	(482)	348
Other parameter adjustments[7]	(1,824)	(1,032)	(66)	184
2020-21 Budget net operating balance	**(5,734)**	**(8,633)**	**(4,303)**	**(2,480)**

Notes:
1. Numbers may not add due to rounding. A number in brackets indicates a negative impact on the operating balance.
2. Represents parameter adjustments to taxation revenue and revenue measures providing payroll tax and land tax relief.
3. Reflects the operating balance impact of government decisions since the 2019-20 MYFER and includes COVID-19 immediate stimulus, Economic Recovery Plan measures and 2020 Election Commitments. In 2020-21 and 2021-22, policy expense measures are net of public service wage deferrals savings.
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. In 2019-20, other parameter adjustments include providing for serious historical physical child abuse claims, an increase in historical sexual abuse claims and other pending litigation.

3.3.2 Revenue

Revenue has been significantly impacted by the pandemic, both from the impact of the downturn on industry, and the substantial package of relief measures developed to help businesses weather the crisis.

Since the 2019-20 MYFER, revenue has been revised down by $12.3 billion over the four years to 2022-23, with the pandemic impact being felt across all key revenue lines:

- Taxation revenue forecasts are $4.5 billion lower, impacted by the economic downturn and foregone revenue from support measures, though to a lesser extent in 2020-21 than estimated in the C19-FER.
- The downturn in national economic activity as well as social distancing and travel restrictions have impacted national consumption and dwelling investment, reducing GST revenue by $3.8 billion.

- The impact of the pandemic on commodity prices and global demand for key commodities has reduced royalty revenues by $4.0 billion, with royalties estimated to fall by 45.2% in 2020-21, following a 13.2% fall in 2019-20.

Ensuring Queensland provides an environment which supports businesses and jobs, growth has always been a key priority of this government. With the onset of the pandemic, substantial revenue relief has been provided to support businesses through the crisis and into a period of recovery. This include the provision of a range of significant tax relief measures to assist Queensland businesses and taxpayers, including:

- Payroll tax refunds or holidays for eligible small to medium businesses, and payroll tax deferrals for eligible businesses regardless of their size, supporting job security. No Queensland business eligible for deferral will need to make a payroll tax payment this calendar year and deferred liabilities may be paid as instalments throughout 2021.
- A payroll tax exemption for wages subsidised by the Australian Government's JobKeeper payment, to ensure this support flows through to businesses where it is needed.
- Land tax rebates for eligible taxpayers either providing necessary rent relief or where the pandemic has affected the securing of tenants during 2019-20 and 2020-21, and a 3-month deferral of land tax liabilities for all land taxpayers for the 2020-21 assessment year.
- A deferral of gaming machine tax and lottery tax liabilities to assist the cashflow of eligible businesses.

A rebound in key revenues is expected in 2021-22, followed by a gradual recovery. Forecast revenue growth of 7.6% in 2021-22 is driven by a 9.3% growth in GST revenue as national consumption recovers, a 7.1% growth in taxation revenue as economic conditions improve, and a rebound in royalty revenue.

Consistent with its election commitments, the Queensland Government remains committed to retaining a competitive taxation environment to support businesses in the longer term.

Further information on revenue forecasts is provided in Chapter 4.

3.3.3 Expenses

In response to the COVID-19 pandemic, the government provided significant additional expenditure, both to support the health sector and the economy. Queensland's Economic Recovery Plan has provided substantial immediate stimulus as well as longer-term recovery initiatives, focused on improving competitiveness and productivity to support Queensland jobs. The Economic Recovery Plan is discussed in more detail in Chapter 1.

Expenses increased by 7.9% in 2019-20 and are estimated to increase by a further 2.2% in 2020-21 from an already high base, driven by the response to the pandemic.

Expense growth is then expected to moderate significantly, with growth of 1.4% expected on average over the three years to 2023-24. Over the same period, revenue is expected to grow by an average of 5.6%.

The 2020-21 Budget targets initiatives that drive job creation, business-led growth and sustainable public investment; supporting the next wave of innovation and ensuring

Queenslanders have the skills for the future. Expense measures in the 2020-21 Budget incorporate the commitments made by the government during the recent election period, and include:

- Additional funding of $624 million for 2,025 new police personnel over five years.
- $20 million over four years for the Tourism Activation Fund, $15 million for the Regional Tourism Organisation Fund and $15 million to promote Queensland as a tourist destination. Together with the $20 million to boost major events in Queensland, these initiatives will provide needed support for the tourism industry, which has experienced a substantial impact from the pandemic.
- 357 additional firefighters will be recruited to strengthen Queensland fire services across the state.
- $50 million over three years for the South East Queensland Community Stimulus Package.
- $40.5 million to support jobs through building a stronger manufacturing sector in Queensland.
- $42.5 million towards a new levee to protect Bundaberg homes and businesses from major flooding, as part of the government's 10-year plan to protect the city from flood events.
- $100 million over three years for the Wellbeing Workforce for Queensland Schools, to provide every Queensland state school student with access to mental health professionals and to trial the placement of general practitioners in up to 20 schools.
- $18.5 million over three years for the Rural and Regional Renal Program, providing 33 additional renal dialysis treatment spaces. This initiative has an additional capital component of $9.3 million.

Further measures that may become necessary though the economic recovery will be considered within existing funding established in the 2020-21 Budget. Departments will work to maximise services and outcomes within current fiscal settings and in line with government priorities.

Savings and Debt Plan

To support Queensland's COVID-19 economic recovery, the government is implementing a Savings and Debt Plan within government services to deliver savings of $3 billion over four years to 2023-24. The government has achieved 47%, or $352.2 million, of its savings target for 2020-21 through a range of measures.

Savings will continue to be achieved by focussing on core tasks, ensuring government resources are directed to where they are needed most.

Six workstreams have been established to progress measures under the Savings and Debt Plan, with a focus on Government Advertising, Accommodation, Data and ICT, Workforce, Structural Reform opportunities and Agency Functional Reviews.

Agency functional reviews seek to ensure that government activities are being delivered efficiently and effectively and remain aligned to government priorities.

Short, medium, and long-term savings opportunities are being identified and progressed through measures under the workstreams.

Focussing on Core Business

- Programs that are time-limited will be either integrated into core business or ceased.
- Departments' staff levels to be maintained within approved caps, excluding frontline staff requirements.
- No marketing other than public and road safety, tourism promotion, investment attraction or Queensland Economic Recovery Plan initiatives.

Sustaining effective frontline services

- Reinforce the frontline by limiting secondments of frontline workers to back-office roles and identifying opportunities for roles to be reallocated to frontline tasks.
- Examine all uses of non-public servants in roles and move to end contracts.
- Strengthen oversight of non-frontline recruitment, and a natural reduction of senior executive service roles.
- Initiate a six month freeze on new ICT projects, except those related to critical safety or cybersecurity.
- Greater utilisation of existing government buildings to encourage public servants to work closer to home.

3.3.4 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. This role is particularly vital in the context of the pandemic, with the $56.031 billion capital program funding the critical infrastructure needed to facilitate business-led growth, directly supporting employment across all regions of the state and forming a key component of the Economic Recovery Plan.

Consistent with the fiscal principles, the capital program seeks to target investment to areas of most need and adopt a cost-effective approach to addressing infrastructure requirements. The Queensland Government has established an infrastructure planning framework to underpin and inform the prioritisation of the state's capital works, including the State Infrastructure Plan.

Key capital initiatives include:

- A $6.267 billion investment in transformative transport infrastructure in 2020-21, including $1.514 billion for continued Cross River Rail construction and substantial ongoing investment to fund major upgrades to the M1 Pacific Motorway and the Bruce Highway.
- An investment of $2.745 billion in 2020-21 across the state to maintain and upgrade energy and water assets, enhancing the productive capacity of Queensland's businesses, industries and communities.

- To support the delivery of health services, capital expenditure of $1.625 billion will be invested in 2020-21. The government is investing $979 million for the Building Better Hospitals commitment to help address growing demand and $265 million to build seven satellite hospitals to enable acute hospitals to continue safely managing patients via alternative models of care across South East Queensland.
- To ensure Queensland's state schools and training assets are world-class and continue to meet demand, $1.917 billion will be invested in 2020-21. Investment in new schools is being facilitated through the $1.687 billion Building Future Schools Fund, while the Great Schools, Great Future commitment worth around $1 billion is helping provide new classrooms and facilities at existing schools to meet growing enrolments.
- Ongoing investment in social housing, including $526.2 million in 2020-21 to construct new dwellings, upgrade existing properties, and provide housing services including in Indigenous communities.
- A $590.4 million investment in key infrastructure to support the delivery of enhanced justice and public safety services, including $178 million over three years from 2019-20 on additional youth justice infrastructure.

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

3.3.5 Borrowing

Ensuring the health of all Queenslanders through this pandemic as well as laying the foundations for our economic recovery has had a substantial impact on Queensland's fiscal position. The pandemic led to sharp falls in key revenues, as well as a necessary increase in expenditure to respond to the crisis. In Queensland, as with all other jurisdictions, borrowings will be higher than forecast prior to the emergence of COVID-19.

The strong response to the pandemic was necessary, and Queensland was fortunate to enter this crisis in a robust fiscal position – with operating surpluses and debt reductions as a proportion of revenue and in absolute terms delivered through consecutive pre-crisis state budgets.

The government is focused on economic recovery and will deliver a growing infrastructure investment program which supports economic growth across Queensland and provides long-term employment opportunities.

Box 3.1 Borrowing Reporting

The Uniform Presentation Framework (UPF) provides financial information in a consistent and comparable way. The UPF groups financial reporting into the key institutional subsectors: General Government Sector; Public Non-financial Corporations sector; and Public Financial Corporations Sector. The Public Financial Corporations Sector does not form part of State Budget reporting.

General Government Sector primarily comprises government-funded departments such as the Departments of Health, Education and Transport and Main Roads. Queensland Treasury undertakes borrowings on behalf of General Government Sector entities through its financing arm Queensland Treasury Corporation (QTC). General Government Sector borrowing is estimated to be $61.263 billion by 30 June 2021.

Public Non-financial Corporations (PNFC) comprise various statutory authorities, government business enterprises and marketing bodies which provide goods and services on a commercial basis. Examples include the government-owned corporations (GOCs), Queensland Rail and Stadiums Queensland. Debt held by GOCs and other PNFC Sector entities is supported by their commercial activities. PNFC Sector borrowing is estimated to be $40.964 billion by 30 June 2021.

The Non-financial Public Sector (NFPS) is the consolidation of the General Government and PNFC sectors, with transactions between these sectors eliminated. NFPS borrowing is estimated to be $102.220 billion by 30 June 2021.

Net debt for each sector (reported in the UPF tables in Chapter 9) comprises interest bearing liabilities less selected financial assets, such as investments, and provides a measure of the overall strength of a jurisdiction's fiscal position.

While the nature and impact of the COVID-19 pandemic means increased borrowings are unavoidable, serviceability of borrowings remains strong. The government has benefited from interest rates trending lower over recent years reflecting an easing bias in central banks' monetary policy. The government is actively managing its borrowings by refinancing maturing higher cost debt at record low interest rates.

To better position the government in an environment of record-low interest rates, Treasury is actively reducing refinancing and interest rate risk by extending the duration of its debt maturities.

Through a combination of debt reductions and low interest rates Queensland General Government Sector interest expense as a proportion of revenue has declined over successive budgets with a smaller portion of state revenue required to service Queensland's debt.

General Government Sector interest expenses have fallen from a peak of $2.33 billion in 2014-15 to $1.49 billion in 2019-20, while the yields on Queensland Government bonds are comparable to those of our AAA related state peers.

Chart 3.1 shows that Queensland's interest expense is forecast to be around 3.1% of revenue in 2020-21, well below the peak in 2013-14 of 4.7%.

Chart 3.1 General Government Sector ratio of borrowing costs to revenue

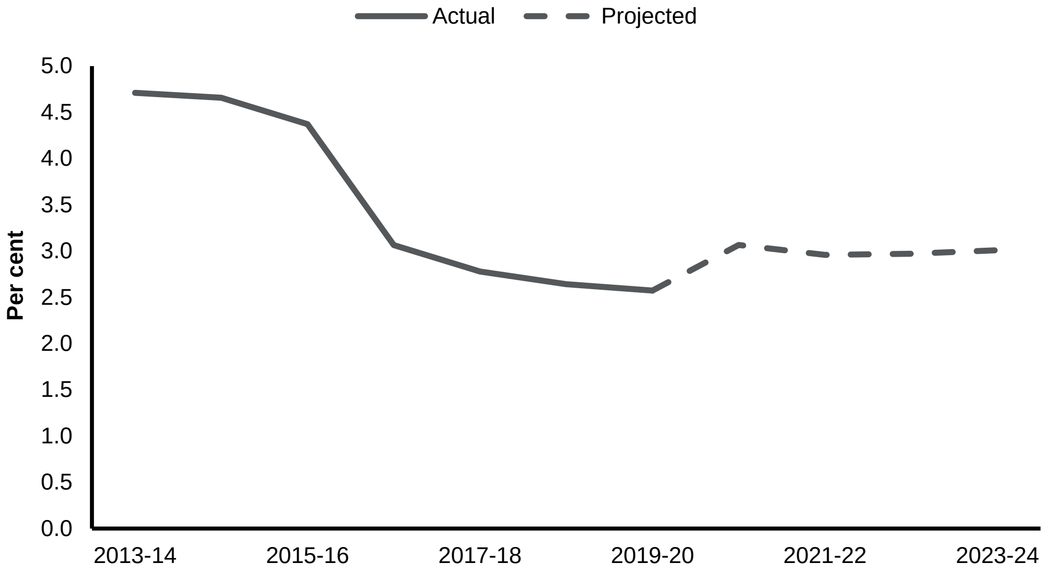
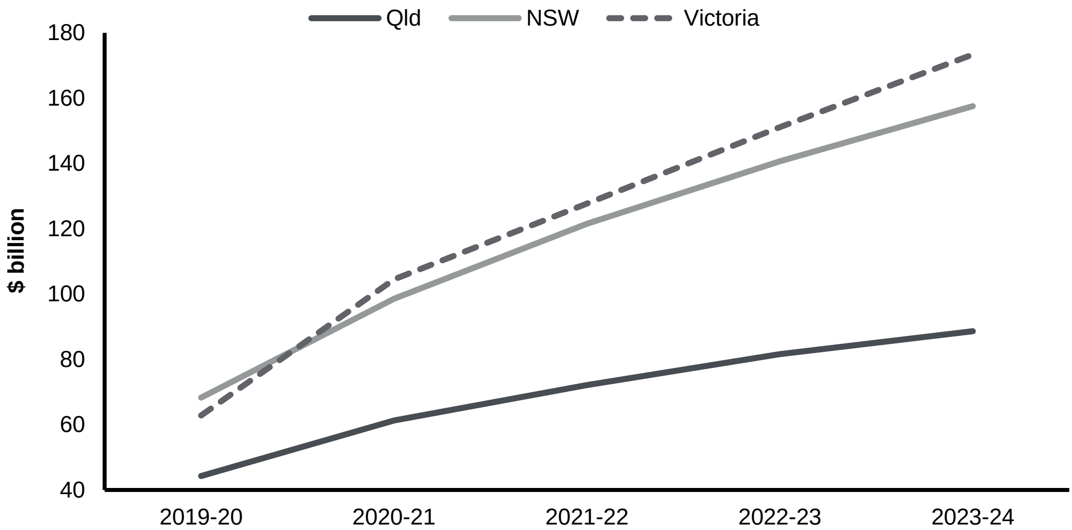


Chart 3.2 shows Queensland's borrowings compared to NSW and Victoria. While borrowings in Queensland will increase in response to the pandemic, they are expected to remain below that of New South Wales and Victoria and are also expected to increase by less over the forward estimates period.

Chart 3.2 State comparison of General Government Sector borrowing



Charts 3.3 and 3.4 show Queensland's ratio of debt to revenue compared to NSW and Victoria. The General Government ratio of debt to revenue in Queensland is expected to remain below that of New South Wales and Victoria across the forward estimates period, and the Non-financial Public Sector ratio of debt to revenue is expected to be lower from 2021-22 onwards.

Chart 3.3 State comparison of General Government Sector ratio of debt to revenue

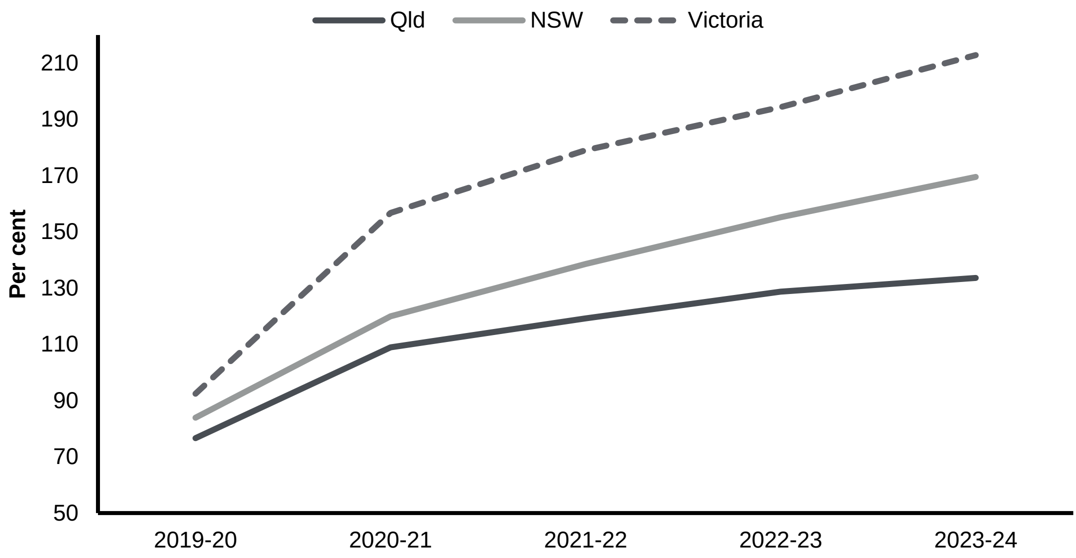
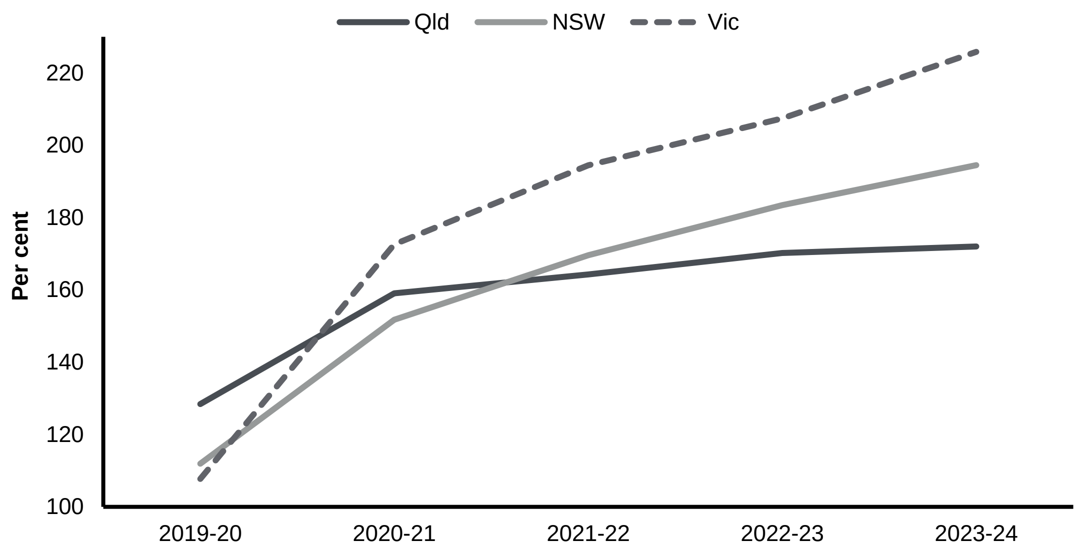


Chart 3.4 State comparison of Non-financial Public Sector ratio of debt to revenue



Box 3.2 Queensland Future Fund – Debt Retirement Fund

The *Queensland Future Fund Act 2020* (QFF Act) was assented to in August 2020. It established a framework for individual Queensland future funds, which the Treasurer is to administer under the *Financial Accountability Act 2009* (FA Act) as special purpose accounts.

The Queensland Future Fund – Debt Retirement Fund will be established under the provisions of the *Queensland Future Fund Act 2020* which requires that amounts withdrawn from the Debt Retirement Fund can only be used for reducing debt. The Queensland Future Fund – Debt Retirement Fund will be reported in Treasury's annual financial statements which are audited under the *Auditor-General Act 2009*.

The Debt Retirement Fund will hold state investments targeted for future growth to support current and future borrowings. This budget factors in over $5 billion of seed funding including the Titles Registry, equities and a contribution sourced from the long-term assets set aside for the Defined Benefit Superannuation Scheme liabilities.

The fund is expected to be established by 30 June 2021.

3.3.6 Emerging Fiscal Pressures

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 state's financial position. Until there is greater certainty, the potential fiscal impacts of such issues are either not included or not fully included in the forward estimates. Other than ongoing uncertainties related to the COVID-19 pandemic, these 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. There are 11 non-infrastructure NPs expected to expire on 30 June 2021. The Australian Government has not allocated any funding beyond 2020-21 for Queensland's expiring agreements except for Essential Vaccines. Further information is provided in Chapter 7.