3 Fiscal strategy and outlook

Features

- Improving economic conditions since mid-2020 are expected to lead to a strong rebound in revenue in 2021–22, with revenue remaining elevated over the forward estimates compared to the 2021–22 Budget Update.
- The government is directing this additional revenue towards measures that address the increasing demand for key services, including a significant boost to funding of the health system and investment in strategies to unlock the growth potential of the Queensland economy to support job creation.
- Additional funding to support service delivery and economic priorities are being managed within the revenue uplift. Revenue uplifts arising from short-term factors, such as unusually high commodity prices and housing activity, are being directed to the restoration of fiscal buffers and investment in longer-term growth initiatives.
- A General Government Sector operating surplus of $1.915 billion is forecast in 2021–22, an improvement of $5.4 billion compared to the $3.485 billion deficit forecast in the previous Budget.
- The financial recovery from the impact of COVID-19 remains on track, with the operating position expected to regain a surplus in 2024–25.
- The General Government Sector ratio of net debt to revenue has improved with a drop to 16 per cent in 2021–22, a 10 percentage point reduction compared to the 2021–22 Budget Update. This follows progressive reductions in forecasts of the net debt to revenue ratio since the 2021–22 Budget.
- General Government Sector borrowings are expected to be $3.618 billion lower by 2024–25 than forecast in the 2021–22 Budget Update, and $4.480 billion lower than forecast in the 2021–22 Budget.
- Queensland is expected to deliver a lower General Government Sector net debt to revenue ratio than New South Wales or Victoria in 2022–23. Queensland's ratio of 27 per cent compares to 78 per cent for New South Wales and 145 per cent for Victoria.
- Steady improvements towards medium-term fiscal goals will limit the legacy impacts of the COVID-19 crisis and ensure debt levels remain sustainable.
- Throughout the pandemic crisis and recovery, Queensland's credit ratings with S&P Global (AA+) and Moody's (Aa1) have remained stable while Fitch has upgraded Queensland's rating (from AA to AA+). 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.
- Queensland experienced significant flood events during the 2021–22 disaster season. Disaster related expenditure over the 5 years to 2025–26 is significant but will be partially offset by Commonwealth payments under disaster funding arrangements.

3.1 Fiscal outlook

The improving economic conditions since mid-2020 are expected to lead to a strong rebound in revenue in 2021–22, particularly from royalties and transfer duty. While some components of the revenue uplift are expected to be temporary, resulting from exceptionally high commodity prices and housing activity, revenue is expected to remain elevated over the forward estimates compared to the 2021–22 Budget Update.

In the 2022–23 Queensland Budget, the government has ensured that additional funding generated from the economic recovery is targeted to meet increasing demand for key services. This Budget provides a significant investment to boost the health system including record funding for health services and a transformative capital injection to grow the system's bed capacity. Increased funding is also provided in response to significant, ongoing pressures arising from an increase in demand in the child protection system.

The government also remains committed to initiatives to support jobs and economic growth, with this 2022–23 Budget continuing to invest in initiatives to unlock the potential of the Queensland economy.

While additional funding is needed to support service delivery needs and economic priorities, expense requirements are being managed within the envelope of revenue increases, in line with fiscal principles. Over the 4 years to 2024–25, revenue has increased by $20.764 billion since the 2021–22 Budget Update, compared to increased expenses of $16.533 billion. The General Government Sector operating position has improved significantly in 2021–22 since the 2021–22 Budget Update and remains on track to regain an operating surplus in 2024–25.

In turn, General Government Sector borrowings are expected to be $3.618 billion lower by 2024–25 than forecast in the 2021–22 Budget Update, and $4.480 billion lower than forecast in the 2021–22 Budget. Forecast borrowings have been progressively revised downwards since the 2020–21 Budget as a result of prudent management of revenue improvements from unusually high commodity prices and the economic recovery. Compared to 2020–21 Budget estimates, forecast borrowings in 2023–24 have been revised down by $14.395 billion.

Reflecting the significant opportunities to improve the mental health and wellbeing of Queenslanders, as identified by the Mental Health Select Committee, the 2022–23 Budget is also supported by the introduction of the mental health levy on large businesses which will provide an ongoing sustainable mental health funding mechanism. At the same time, payroll tax relief will be provided to support small and medium businesses.

In addition, further progressive rates will be introduced for coal royalties to ensure the State receives an appropriate return on the State's resources during periods of extremely high prices. Chapter 4 provides further detail on new revenue measures.

3.1.1 Fiscal Principles

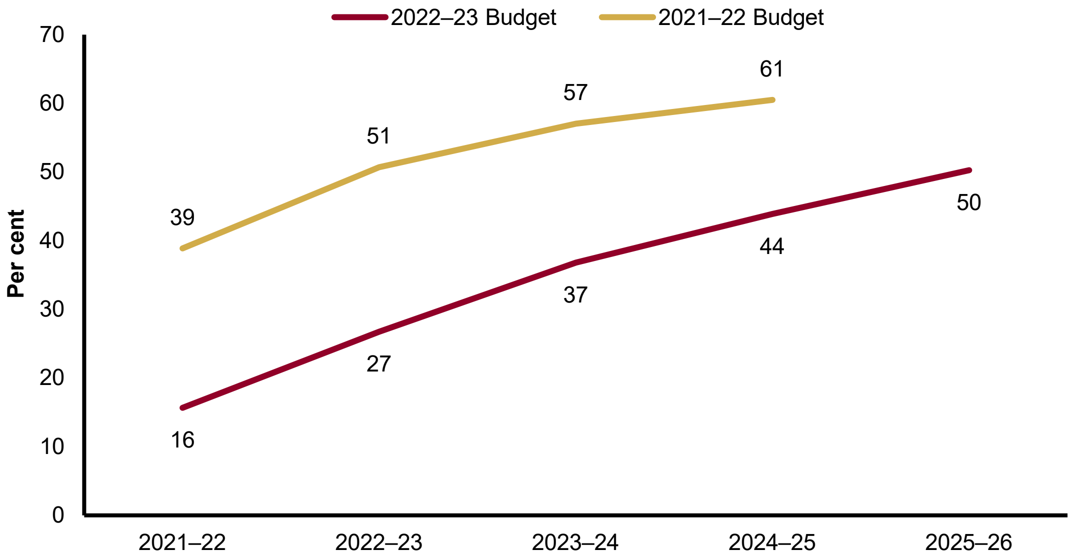
In the 2021–22 Queensland Budget, the government set out its medium-term strategy for fiscal recovery, including a new Charter of Fiscal Responsibility (the Charter) which set out renewed fiscal principles and objective measures to support the restoration of fiscal buffers. An update on progress towards achievement of medium-term goals is outlined below.

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.

Ensuring debt is stabilised at a sustainable level is key to restoring the state's capacity to invest in infrastructure and respond to future external shocks.

Since the development of the new Charter, significant progress has been made against the objective measure of fiscal recovery in Fiscal Principle 1. The general government ratio of net debt to revenue has been revised down to 16 per cent in 2021–22, a 10 percentage point reduction compared to the 2021–22 Budget Update. By 2024–25, the ratio is forecast to reach 44 per cent, compared to 50 per cent in the 2021–22 Budget Update and 61 per cent in the 2021–22 Budget (Chart 3.1). This follows a steady reduction in forecasts for the General Government net debt to revenue ratio in successive budget updates since the 2020–21 Budget.

Chart 3.1 Ratio of general government net debt to revenue



The progressive reduction in net debt forecasts has resulted from the prudent management of revenue increases. This includes ensuring that short-term revenue uplifts from factors such as exceptionally high commodity prices support the restoration of fiscal buffers and investment in longer-term growth initiatives, while increased demand for key government services is managed within the broader trajectory of the economic recovery.

The government's commitment to investing in social and economic infrastructure to support the state's growing population and the ongoing recovery from COVID-19 and recent flood events, means the ratio increases over the forward estimates. Continued prudent management will ensure the debt increases resulting from the pandemic are minimised and the level at which net debt is stabilised in the medium term is sustainable.

Queensland's net debt to revenue ratio of 27 percent in 2022–23 compares favourably with that of its peers. The net det to revenue ratio in 2022–23 is 78 per cent for New South Wales (2021–22 Half-Yearly Review) and 145 per cent for Victoria (2022–23 Budget).

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 operating surpluses.

Fiscal Principle 2 provides a broad measure of expense growth management. Maintaining a lower rate of expenses growth than revenue growth will ensure the restoration of an operating surplus and assist debt stabilisation.

Revenue growth over the forward estimates is forecast to be relatively volatile, with a large increase (15.9 per cent) expected in 2021–22 driven by a substantial increase in royalties and transfer duty. Growth is expected to moderate in 2022–23 to 1.6 per cent as key commodity prices and housing activity return to more normal levels.

Over the 5 years to 2025–26, revenue is expected to grow at 4.5 per cent on average per annum, compared to 4.1 per cent for expenses. An operating surplus is expected to be regained in 2024–25, consistent with previous forecasts.

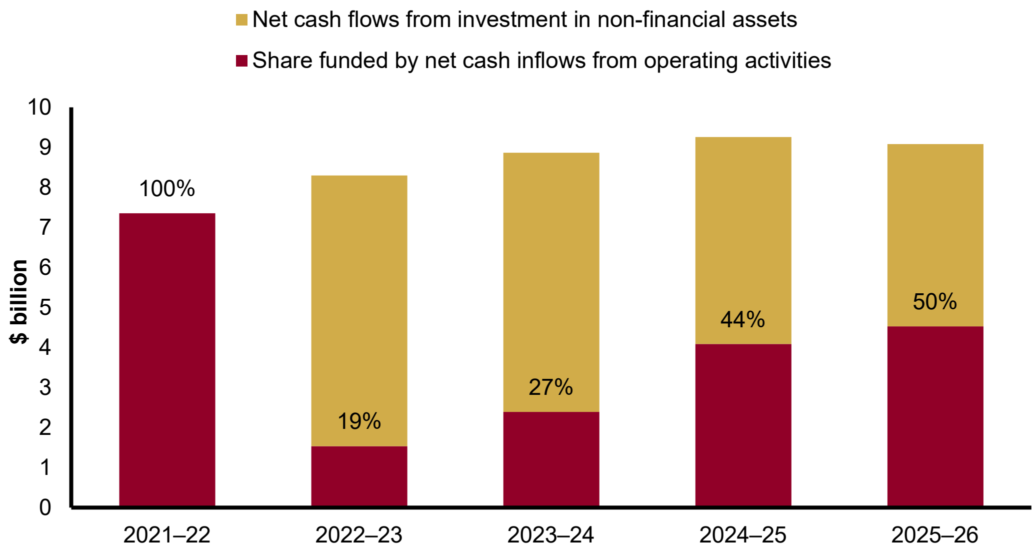
Fiscal Principle 3 – Target continual improvements in net operating surpluses to ensure that, in the medium term, net cash flows from investments in non-financial assets (capital) will be funded primarily from net cash inflows from operating activities. The capital program will focus on supporting a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

Maintaining a capital program that will support services and jobs and enhance the productive capacity of the economy remains a government priority. The government continued a substantial capital program through the pandemic and its $50 billion infrastructure guarantee will ensure a continual pipeline of key priority projects. A capital program of $59.126 billion is planned over the 4 years to 2025–26. A commitment to a large capital program while stabilising debt at a sustainable level will require the capital program to be largely funded through operating cash surpluses rather than borrowings.

Volatility in revenue growth over 2021–22 and 2022–23 combined with the profile of capital expenditure, which is uneven by nature, means a degree of volatility can be expected in the outcomes for Fiscal Principle 3 on an individual year basis. As the budget position improves, the proportion of capital funded through operating cash is expected to generally trend upwards, taking year-on-year volatility into account.

This volatility is apparent in current estimates for Fiscal Principle 3, with particularly strong revenue growth in 2021–22 resulting in operating cash exceeding that needed to fund net cash flows from investments in non-financial assets (Chart 3.2). While the proportion will then decrease in 2022–23, it is expected to gradually rise over the forward estimates as the operating position improves.

Chart 3.2 Share of General Government Sector investments in non-financial assets funded from operating cash surpluses



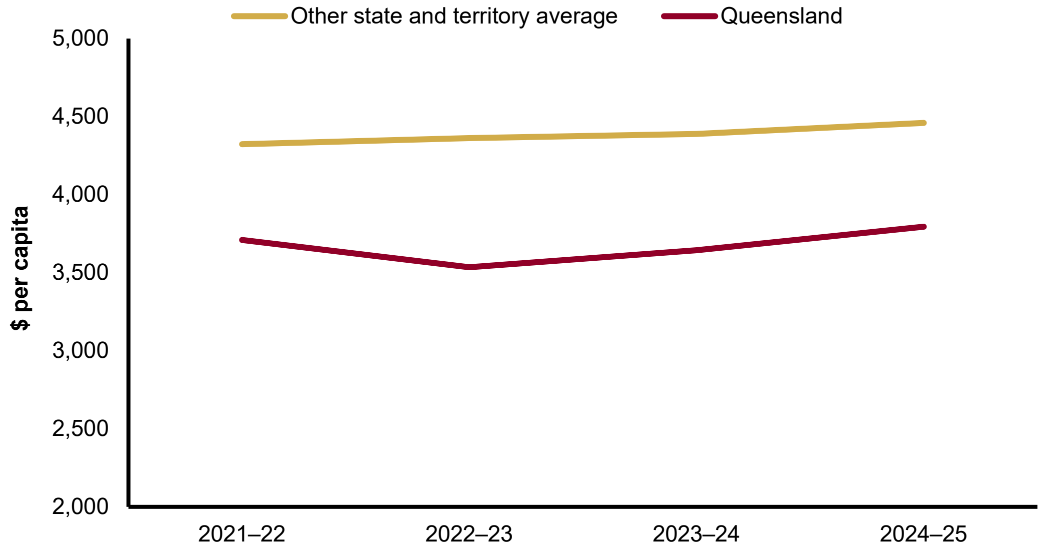
Fiscal Principle 4 – Maintain competitive taxation by ensuring that, on a per capita basis, Queensland has lower taxation than the average of other states.

This principle directly measures Queensland’s competitiveness relative to other jurisdictions, providing a 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 $647 less than the average of other jurisdictions in 2020–21. On average, Queenslanders paid $1,067 less tax than New South Wales residents and $492 less than Victorian residents.

Using the latest forecasts, Queensland’s taxation per capita of $3,535 in 2022–23 compares favourably to the average of other jurisdictions of $4,363 per capita. Chart 3.3 demonstrates that Queensland is expected to maintain a highly competitive tax environment.

Chart 3.3 Taxation per capita, Queensland and other states and territories



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. The commitment to this principle has continued through the economic and fiscal recovery from the COVID-19 crisis, and it remains part of the long-term fiscal strategy.

The actuarial investigation of the Defined Benefit Fund as at 30 June 2021 found it to be in surplus. As at 30 June 2021, WorkCover Queensland was fully funded.

3.2 Key fiscal aggregates

The key fiscal aggregates for the 2022–23 Queensland Budget are outlined in Table 3.1.

Table 3.1 Key fiscal aggregates[1]

	2020–21 Outcome $ million	2021–22 Budget $ million	2021–22 Est. Act. $ million	2022–23 Budget $ million	2023–24 Projection $ million	2024–25 Projection $ million	2025–26 Projection $ million
General Government Sector							
Revenue	62,732	63,664	72,735	73,886	75,034	76,728	78,019
Expenses	63,669	67,148	70,820	74,915	76,116	76,591	77,836
Net operating balance	(937)	(3,485)	1,915	(1,029)	(1,083)	137	183
PNFA[2]	6,835	7,800	7,533	8,478	9,106	9,439	9,264
Fiscal balance	(5,015)	(7,965)	(2,386)	(5,635)	(5,631)	(5,008)	(3,969)
Borrowings	54,078	65,041	58,215	66,459	74,224	81,102	87,284
Net debt	11,360	24,750	11,390	19,772	27,603	33,667	39,214

Notes:
1. Numbers may not add due to rounding. Bracketed numbers represent negative amounts.
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 2022–23 Budget forecasts.

Table 3.2 General Government Sector – net operating balance forecasts

	2021–22 $ million	2022–23 $ million	2023–24 $ million	2024–25 $ million	2025–26 $ million
2021–22 Budget	(3,485)	(2,440)	(969)	153	..
2022–23 Budget	**1,915**	**(1,029)**	**(1,083)**	**137**	**183**

Since the 2021–22 Budget, the General Government Sector net operating balance has improved substantially in 2021–22, from a deficit of $3.485 billion to a surplus of $1.915 billion. This large improvement recognises that a portion of the $9.071 billion revenue uplift since the 2021–22 Budget results from temporary factors and has been responsibly directed towards an improved operating position and the reinstatement of fiscal buffers. While additional expenses are necessary to meet increasing demand for services, these have been managed within the revenue envelope resulting from broader trends in the economic recovery, with expenses increasing by $3.671 billion in 2021–22 compared to the 2021–22 Budget. This ensures increased expenses remain sustainable.

As the impact of temporary factors on revenue begin to unwind in 2022–23 and disaster-related expenses increase, the operating position is expected to return to a deficit but improves by $1.411 billion compared to the 2021–22 Budget estimate. Consistent with previous forecasts, the operating position is expected to regain a surplus in 2024–25 and 2025–26, with average revenue growth of 4.5 per cent per annum over the 5 years to 2025–26 comparing to 4.1 per cent average expense growth.

Table 3.3 provides a breakdown of the changes in the net operating balance since the 2021–22 Budget Update.

Table 3.3 Reconciliation of net operating balance, 2021–22 Budget Update to 2022–23 Budget[1]

	2021–22 $ million	2022–23 $ million	2023–24 $ million	2024–25 $ million
2021–22 Budget Update net operating balance	**(1,492)**	**(2,397)**	**(559)**	**158**
Taxation revisions[2]	1,010	364	173	490
Royalty and land rent revisions[2]	2,879	3,001	790	821
GST revisions	433	1,414	1,109	1,026
Revenue measures[3]	..	929	539	568
Expense measures[4]	(971)	(2,699)	(3,596)	(3,586)
Natural disaster revisions (DRFA)[5]	(117)	(1,081)	543	(76)
Net flows from PNFC and PFC entities[6]	(367)	270	573	302
Australian Government funding revisions[7]	(20)	(225)	(278)	92
Other parameter adjustments[8]	560	(605)	(377)	342
2022–23 Budget net operating balance	**1,915**	**(1,029)**	**(1,083)**	**137**

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. Taxation, Royalty and land rent revisions exclude impact of revenue measures.
3. Reflects the operating balance impact of government revenue measures since 2021–22 Budget Update. Refer to Budget Measures (Budget Paper 4) for details.
4. Reflects the operating balance impact of government expense measures since the 2021–22 Budget Update. Refer to Budget Paper 4 for details. Natural disaster payments are not included in Expense measures above, however these are included in Budget Paper 4 Expense measures.
5. Net impact of Disaster Recovery Funding Arrangements.
6. Represents revisions to dividends and tax equivalent payments from, and community service obligations (CSOs) and Transport Service Contract payments to, Public Non-financial Corporations and Public Financial Corporations, net of CSO and TSC expense measures.
7. 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.
8. Refers to adjustments largely of a non-policy nature, primarily changes in interest paid on borrowings, depreciation, swaps, lapses and deferrals.

The recovery in Queensland's net operating balance compares favourably with continued larger deficits in other states. While Queensland expects net operating deficits in 2022–23 and 2023–24, these are far narrower than the most recent available forecasts for Victoria (2022–23 Budget). Queensland's deficits also follow a surplus in 2021–22, compared to significant deficits of $19.5 billion for New South Wales (2021–22 Half-Yearly Review) and $17.6 billion for Victoria.

Impact of disaster recovery on the net operating balance

With Queensland experiencing significant flood events in the 2021–22 disaster season, related expenses and the impact of Commonwealth payments for Disaster Recovery Funding Arrangements (DRFA) have materially affected the net operating balance. Box 3.1 details the financial impact of the flood events and initiatives to support community recovery and resilience. Table 3.4 details the impact of disaster expenses and DRFA on the net operating balance. This demonstrates that Queensland would have achieved a net operating surplus in 4 of the 5 years of estimates had revenue and expenses not been affected by disasters.

Table 3.4 Impact of disaster funding on the net operating balance[1,2]

	2021–22 $ million	2022–23 $ million	2023–24 $ million	2024–25 $ million	2025–26 $ million
Net Operating Balance	**1,915**	**(1,029)**	**(1,083)**	**137**	**183**
less Disaster revenue	527	517	1,451	361	..
add Disaster expenses	712	1,714	1,172	532	37
Underlying Net Operating Balance	**2,100**	**168**	**(1,362)**	**308**	**220**
Disaster capital expenditure	35	184	282	208	..

Notes:

1. Numbers may not add due to rounding.
2. The disaster revenues and expenditure shown above include estimates from events prior to 2021–22 and so exceed estimates for those occurring in the summer of 2021–22.

Box 3.1 2021–22 Disaster Season

The summer of 2021–22 has seen multiple devastating flood events which impacted more than half the state. Tragically, lives have been lost and thousands of individuals, families, businesses, primary producers, schools and other organisations have been directly affected.

Of Queensland's 77 local government areas, 66 have been activated for the joint State-Commonwealth DRFA assistance in response to these disasters.

Early indications suggest the cost of recovery and reconstruction from the repeated flooding to be funded under the DRFA will be more than $3 billion. The broader impact of the floods on the Queensland economy is discussed in Chapter 2.

To support initial recovery, several extraordinary measures were immediately made available through the jointly funded DRFA, including personal hardship assistance for individuals and families. At the end of May 2022, more than $22 million has been distributed under the hardship scheme, benefiting just over 96,000 people. For lower income earners without insurance, the Structural Assistance Grant has been raised to $50,000 to help make homes safe and secure.

For primary producers, small businesses, non-profit organisations and sporting clubs, $558.5 million in grants were made available following the South East Queensland floods to assist with clean-up and reinstatement. A further $30 million is open for Councils to assist with clean-up in their regions and 23 Councils have each received a $1 million injection to assist with urgent recovery and clean-up works. This will be followed by reimbursements to Councils and agencies across all affected areas for costs incurred in counter-disaster operations, such as sandbagging, and the restoration of essential public assets including roads and bridges.

A $721 million joint State and Australian Government package is assisting ongoing recovery with a focus on the health and wellbeing of communities, accommodation options, sustaining medium size businesses and tourism, restoring the environment, repairing community and recreational assets, supporting community development with flexible funding grants and community and industry officers and ensuring our essential public assets can be built back better.

The innovative $741 million Resilient Homes Fund is jointly funded by the Queensland and Australian Governments through the DRFA. It is available for homeowners to bolster resilience across 37 council areas through providing grants to rebuild with flood resilient materials or home raising, or for the voluntary buy-back of homes at high risk of repeated flooding.

While the impact of the recent flooding events will be felt for many years, efforts to build resilience and support community recovery mean that Queensland will be better placed to handle future disasters.

3.2.2 Revenue

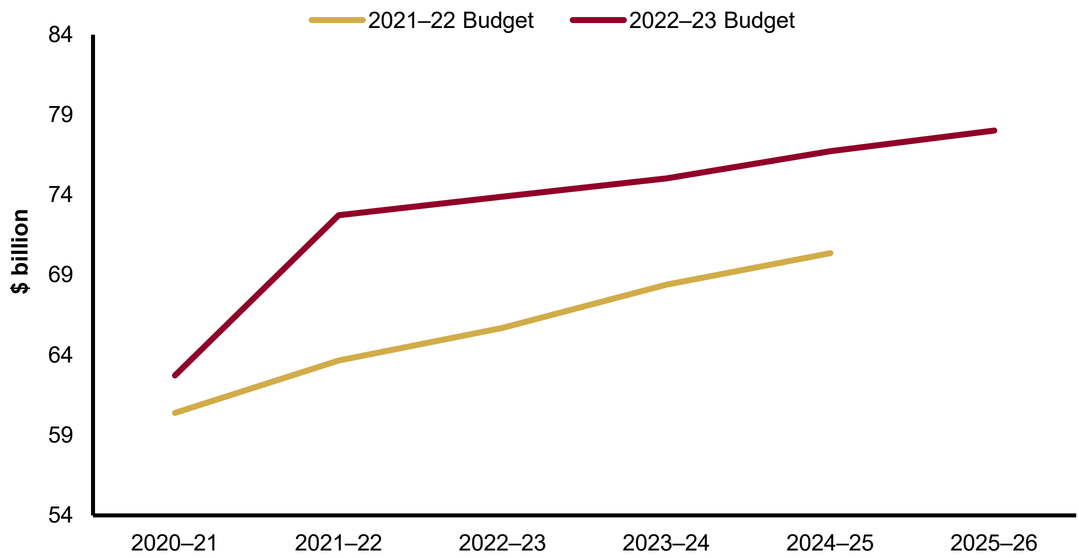
Revenue is expected to rebound strongly in line with the substantially improving economic conditions since mid-2020. In 2021–22, total General Government Sector revenue is expected to be 15.9 per cent higher than 2020–21 and $9.071 billion (14.2 per cent) higher than estimated in the 2021–22 Budget (Chart 3.4). The strong uplift in 2021–22 compared to 2020–21 primarily reflects the impact of a temporary surge in coal and oil prices across 2021, increasing royalties and land rents by $6.472 billion, and a $3.251 billion (20.0 per cent) increase in taxation revenue, driven largely by transfer duty.

More modest revenue growth is expected in 2022–23 of 1.6 per cent. Royalties are expected to decline as coal and oil prices return to more sustainable levels while overall revenue growth is supported by GST revenue, driven largely by growth in the national GST pool. Taxation revenue is expected to decline by 3.4 per cent in 2022–23 due to lower transfer duty as elevated levels of property transactions moderate, then grow by an average of 5.1 per cent per annum over the 3 years to 2025–26.

On average over the 5 years to 2025–26, revenue is expected to grow by 4.5 per cent per annum.

In total over the 4 years to 2024–25, improving economic conditions and the temporary uplift to royalties means that General Government Sector revenue is forecast to be $20.764 billion higher than forecast in the 2021–22 Budget Update.

Chart 3.4 Comparison of revenue forecasts



Revenue measures have been introduced in the 2022–23 Queensland Budget to provide sustainable funding to support the delivery of essential government services and to provide appropriate tax relief. In net terms, new measures are expected to increase revenue by $2.620 billion over the 4 years to 2025–26. Key measures include:

- a mental health levy to meet increasing demands for mental health services. The levy, to apply to payroll tax liabilities arising on or after 1 January 2023, will be applied to large employers, or groups of employers, with annual Australian taxable wages over $10 million, including an additional levy applied to taxable wages over $100 million, providing a sustainable funding source for mental health services
- substantial payroll tax relief for small and medium businesses by increasing the payroll tax deductions available for liabilities arising on or after 1 January 2023 and an extension of the 50 per cent payroll tax rebate for wages paid to apprentices and trainees for 12 months to 30 June 2023
- 3 additional progressive coal royalty rates will apply from 1 July 2022, ensuring royalty returns to the state appropriately reflect the use of valuable natural resources during future period of high coal prices
- a 5 per cent racing levy will be applied to the betting tax rate as part of a broader package of changes to funding arrangements for the racing industry
- retirement visa holders will be exempt from additional foreign acquirer duty for purchases of their principal place of residence on or after 1 January 2023.

Further detail on revenues is provided in Chapter 4.

3.2.3 Expenses

Expenses in the 2022–23 Queensland Budget reflect the government's commitment to deliver better services aimed at improving the lives of Queenslanders, supporting the state's growing population and unlocking further economic and employment growth. Improving economic conditions mean that additional expenses can be met well within the envelope of revenue improvements, preserving budgetary performance while meeting service delivery demands.

On average, General Government Sector expenses are forecast to increase by 4.1 per cent per annum over the 5 years to 2025–26. This is lower than the forecast average annual increases in revenue of 4.5 per cent over the same period and is consistent with Fiscal Principle 2.

Key new initiatives in the 2022–23 Budget include:

- increased funding of $6.784 billion over 4 years to support the ongoing growth in demand for health and ambulance services
- additional funding of $1.645 billion over 5 years for Queensland Health's new 5-year plan for Queensland's state funded mental health, alcohol and other drug services as well as the suicide prevention system of care and support. This builds on existing funding for mental health, alcohol and other drugs services in Queensland. While Queensland Health advised the Mental Health Select Committee that it spent an estimated $1.35 billion on mental health in 2020–21 and a further $139 million on alcohol and other drug services, mental health expenditure is complex and a whole of Government responsibility with multiple Government agencies providing mental health services
- funding of $2.2 billion over 5 years and $500 million per year ongoing for out of home care services in response to ongoing pressures arising from an increase in demand in the child protection system

- $964.2 million over 5 years for Queensland's Resource Recovery Sector Transformation, including implementation of the South East Queensland Waste Management Plan, Regional Waste Management Plans, payments to councils to reduce the household impact of the waste levy as well as statewide programs and regulatory activities
- increased funding of $263 million over 4 years and $77 million per annum ongoing to support kindergarten funding reform to reduce out-of-pocket expenses for families, increase disability funding and implement educational need funding for children in Queensland attending a kindergarten.

Salaries and wages form a large proportion of General Government Sector expenses. Increases in salaries and wages are negotiated through enterprise bargaining agreements. With several key public sector enterprise bargaining agreements nominally expiring during 2022, the government is committed to participating in good faith bargaining to establish wage increases for the next period, considering the prevailing economic environment. The 2022–23 Budget and forward estimates reflect growth in full-time equivalent public sector employees and wage increases consistent with existing agreements and expectations of future bargaining agreements where outcomes are yet to be finalised.

The Queensland Government's Savings and Debt Plan, announced on 9 July 2020, targeted savings of $3 billion over 4 years to 2023–24. Through specific measures and agency savings efforts, this target has been fully met and adjustments to agency appropriation made.

Incorporating the achievement of these ongoing savings in the 2022–23 Queensland Budget supports the management of expenses over the forward estimates and the return to surplus by 2024–25. As noted in the Queensland Audit Office's *State Finances 2021* report, individual departments are responsible for identifying and implementing measures to achieve the targeted savings. These savings are being achieved without reducing services and in line with the Queensland Government's commitment to employment security.

Several workstreams were established to identify cross-agency opportunities under the Savings and Debt Plan, including for Accommodation, Advertising, Marketing and Communications, Data and ICT, Workforce, Government Corporate Support, Grants Administration and Procurement. Cross-government work will continue to focus on opportunities for public sector improvement and efficiency in service delivery.

Further detail on expenses is provided in Chapter 5.

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. In the 2022–23 Queensland Budget, the government is investing in the social and economic infrastructure needed to support the state's growing population and ensure the ongoing recovery from COVID-19 and recent flood events. The government continues to deliver on the $50 billion Infrastructure Guarantee, with a total 4-year capital program of $59.126 billion in the 2022–23 Budget.

The 2022–23 Budget continues to put the health of Queenslanders first, with a capital expenditure boost of $9.785 billion over 6 years to expand capacity, delivering around 2,200 additional overnight beds across the Queensland health system.

Key capital investments in 2022–23 include:

- $7.309 billion investment in transport infrastructure. This includes $1.290 billion to continue construction work on Cross River Rail, $270.2 million to commence Stage 3 of Gold Coast Light Rail, and substantial ongoing investment to fund major upgrades to the M1 Pacific Motorway, the Bruce Highway and the rail network through the Logan and Gold Coast Faster Rail project
- $1.555 billion to ensure that Queensland's state schools and training assets are world-class and continue to meet demand. Investment in new schools is being facilitated through the $3 billion Building Future Schools Fund
- $441.3 million in 2022–23 for the delivery of new social homes and upgrades of existing dwellings for vulnerable Queenslanders, as part of the 4 year $1.908 billion *Housing and Homelessness Action Plan 2021–2025*.

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

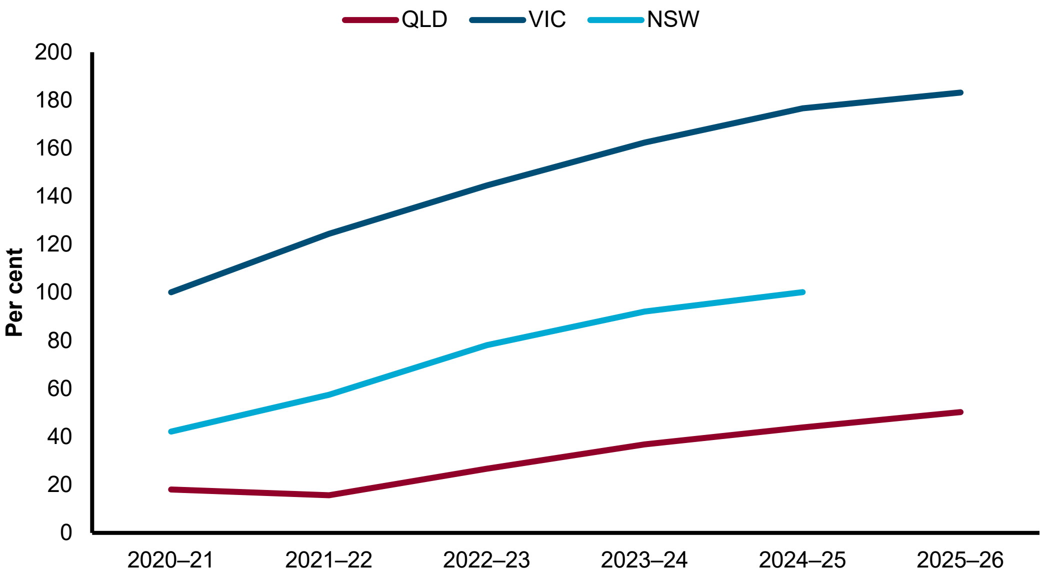
3.2.5 Borrowings

Australian governments at all levels increased borrowings to combat the COVID-19 crisis, as did Queensland's. However, progressive reductions in forecast debt will limit legacy impacts in Queensland and ensure debt levels remain sustainable. The Queensland Government has acted prudently to limit debt increases. Temporary revenue uplifts in 2021–22 and 2022–23, largely driven by factors such as the surge in commodity prices, have assisted in improving the debt position. The Queensland Future Fund (QFF) – Debt Retirement Fund (DRF) has also been implemented to strengthen the state's balance sheet.

General Government Sector net debt is forecast to be $19.772 billion at 30 June 2023, $13.555 billion lower than forecast in the 2021–22 Budget. The net debt to revenue ratio in that year is estimated at 27 per cent and is expected to reach 50 per cent by 2025–26. In comparison, 2020–21 Budget forecasts suggested a net debt burden of 50 per cent would be reached during 2021–22.

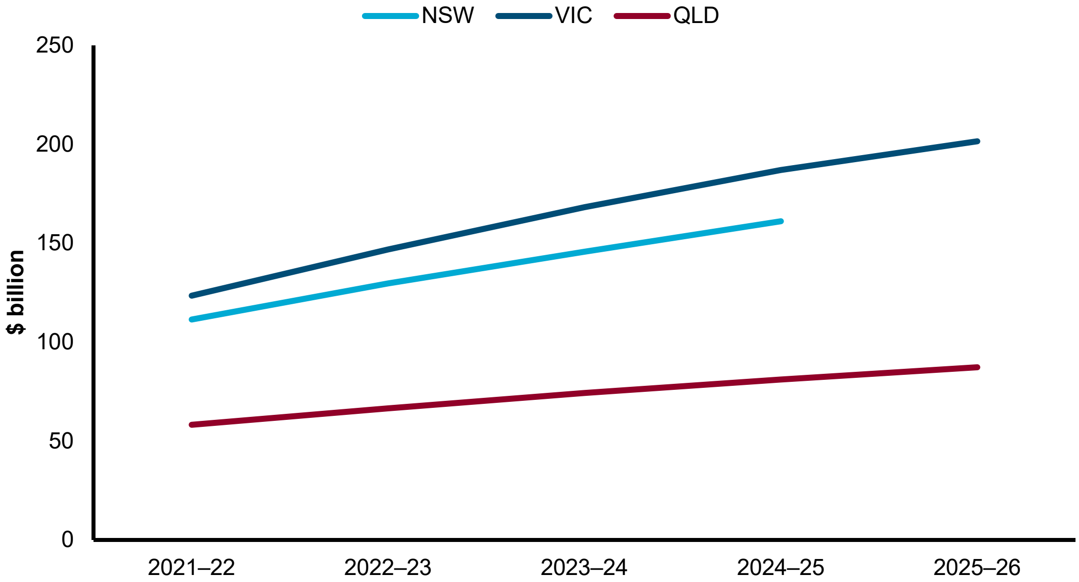
By 2024–25, Queensland's forecast net debt of $33.667 billion compares to $103.008 billion for New South Wales (2021–22 Half-Yearly Review) and $154.844 billion for Victoria (2022–23 Budget). As shown in Chart 3.5, general government net debt as a share of revenue is also expected to be far lower in Queensland than in New South Wales and Victoria across the forward estimates.

Chart 3.5 State comparison of General Government Sector net debt to revenue



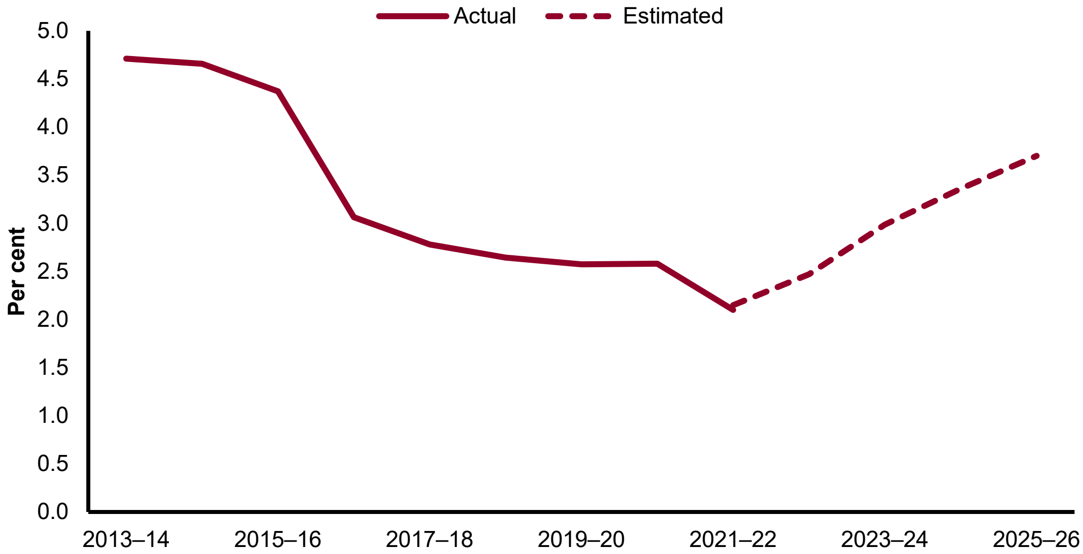
Total General Government Sector borrowings are expected to be $8.321 billion lower at 30 June 2023 than forecast in the 2021–22 Budget and remain $4.480 billion lower by 30 June 2025. General Government Sector borrowings also compare well to interstate peers (Chart 3.6). Queensland's forecast borrowings of $81 billion in 2024–25 are far lower than those of New South Wales ($161 billion, 2021–22 Half-Yearly Review) and Victoria ($187 billion, 2022–23 Budget).

Chart 3.6 Interstate comparison of General Government Sector borrowings



Debt servicing costs are also expected to remain manageable, with General Government Sector interest expenses expected to be around 2.5 per cent of revenue in 2022–23. While General Government Sector interest expenses are expected to rise over the forward estimates period, the 2025–26 estimate of 3.7 per cent remains well below the peak of 4.7 per cent in 2013–14 (Chart 3.7). The continued reduction in overall forecast debt levels 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 ratings

Throughout the pandemic crisis and recovery, Queensland's credit rating has remained stable with S&P Global (AA+) and Moody's (Aa1), while Fitch has upgraded Queensland's rating (from AA to AA+). These ratings outcomes are supported by prudent and effective management of pandemic impacts and the government's commitment to restoring a strong budgetary performance and stabilising the level of borrowings. The establishment of the QFF – DRF demonstrated a commitment to active debt management and supports Queensland's credit continuing to rate strongly.

In December 2021, Moody's affirmed Queensland's rating at Aa1 (stable). Moody's assessment recognises that while Queensland has experienced significant economic and revenue disruptions from the pandemic, its credit profile is underpinned by a strong institutional framework as well as the strong revenue recovery in 2021–22 and resultant lower borrowing requirements.

Fitch upgraded Queensland's rating from AA (stable) to AA+ (stable) in December 2021, reflecting the diversity and underlying strength of Queensland's economy, and Fitch's expectations of Australia's improving macroeconomic environment. Fitch expects strong financial management and the commitment to restore operating surpluses to keep debt levels manageable.

S&P Global affirmed Queensland's AA+ (stable) rating in February 2022, reflecting an expectation that the impact of COVID-19 on Queensland's budgetary performance will be temporary and will improve as the economy continues to recover and the budget is effectively managed. S&P Global also notes that debt levels compare well to similarly-rated peers.

The maintenance or improvement in Queensland's rating contrasts with New South Wales and Victoria, which have both had credit rating downgrades over the course of the pandemic. Victoria's Aaa rating with Moody's was downgraded to Aa1 in 2021, then Aa2 in 2022, and their AAA rating with S&P Global was downgraded 2 notches to AA in 2020. New South Wales have also been downgraded by S&P Global, from AAA to AA+ in 2020.

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 general uncertainties related to budget parameter assumptions and the ongoing impact of the COVID-19 pandemic, 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
- impacts of Australian Government changes to state shares of GST: risks to the longer-term outlook for Queensland's GST revenue resulting from the changes made to the system of GST revenue distribution by the Australian Government in 2018. Further information on GST arrangements is provided in Chapter 4
- 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 7
- adverse weather events are likely to occur in future with the resulting damage expected to impact on the delivery of State initiatives, noting disaster-related expenses are shared with the Australian Government under DRFA
- challenges arising from the transformation of Queensland's energy system away from a reliance on coal-fired generation, requiring significant new investment in renewable generation, storage and network infrastructure to support a secure and reliable electricity system
- additional water infrastructure, and upgrades to existing infrastructure, will be required over the next decade to meet future water demand, provide drought contingency, and ensure the safety and reliability of Queensland's dams in line with dam safety guidelines into the future.