3 Fiscal strategy and outlook

Features

- The Queensland Government is deploying its fiscal capacity to support Queenslanders with additional spending measures that strike the right balance between providing strong responses to immediate, but temporary challenges and delivering on long-lived transformational recurrent and capital spending programs.
- In 2024–25, the Queensland Government will provide record cost-of-living support and continue to progress delivery of the Big Build investment in economic and social infrastructure to strategically position the state to maintain a strong and diverse economy into the future and meet the needs of a growing population.
- The Queensland Government is also increasing infrastructure and service investment to respond to record demand arising from stronger than expected population growth.
- An operating surplus of $564 million is expected in 2023–24, compared to the $2.182 billion deficit forecast in the 2023–24 Budget. This is being delivered through careful management of revenue improvements, some of which has been prioritised to fund the government's cost-of-living relief measures.
- The 2023–24 estimated actual represents the third consecutive operating surplus of this term of Government and follows a record surplus of $13.9 billion in 2022–23.
- The net operating balance profile across the period from 2023–24 to 2025–26 reflects the interaction of a number of years where annual revenue growth is fairly flat combined with a temporary elevation in cost-of-living support, and additional support for priority services.
- In 2024–25, a deficit of $2.631 billion is forecast, compared to a surplus of $135 million in the 2023–24 Budget. The change reflects a very significant response from government to prioritise the provision of elevated cost-of-living support when the community most needs it, as well as boosting health, housing, and community safety measures in response to strong demand arising from stronger than expected population growth.
- From 2025–26, as temporary relief measures are wound back, Queensland's net operating position is expected to improve. Compared to 2024–25, the deficit improves to a forecast $515 million in 2025–26. Surpluses of $0.9 billion and $2.0 billion are then forecast for 2026–27 and 2027–28 as revenue growth returns and expenses are managed within available revenues.
- The recovery of the net operating position is also underpinned by a targeted $3 billion savings plan over 4 years to 2027–28.
- The 2024–25 Budget increases investment in the capital program to support transformative infrastructure investments boosting the health system capacity, decarbonising the state's energy system, preparing for the 2032 Olympic and Paralympic Games, building homes for Queenslanders, and delivering major transport infrastructure investment such as Direct Sunshine Coast Rail.

- The total capital program is now projected to be $107.3 billion over the 4 years to 2027–28 compared to the projected $96.2 billion over the 4 years to 2026–27 as at the 2023–24 Budget Update.
- The capital program is expected to peak in 2025–26 at $29.4 billion before moderating to $23.7 billion by 2027–28, a 19 per cent reduction over that period. The moderation reflects several factors, but as population growth returns to normal, there is a greater degree of flexibility with medium term capital program scheduling given the spending profile of significant programs such as the Hospital Capacity Expansion Program, the completion of large projects such as Cross River Rail and the decline in capital works being funded under the disaster recovery arrangements. The capital spend in 2025–26 also reflects the delivery schedule of early phase energy projects as part of the longer-term plan for decarbonisation of the energy system.
- The increase in the 4-year capital program means the government's debt profile has shifted up since the 2023–24 Budget Update. General government borrowings are now expected to reach around $103.2 billion in 2026–27, which is $6.5 billion higher than in 2023–24 Budget Update. However, as the peak in capital spending in 2025–26 passes the General Government's debt burden trajectory moderates.
- Queensland continues to be well positioned to meet its recurrent and capital spending objectives. The projected net debt to revenue metric for 2023–24 has fallen materially over recent budgets. Queensland's 2024–25 estimated net debt to revenue ratio of 31 per cent compares favourably to its peers at 88 per cent for New South Wales and 163 per cent for Victoria.

3.1 Fiscal outlook

The government's fiscal strategy continues to balance responding to immediate challenges, such as assisting households to manage cost-of-living pressures and responding to demand arising from stronger than expected population growth with delivering long-term transformational recurrent and capital spending programs within fiscally sustainable parameters.

A major factor in framing the 2024–25 Budget, which has also been apparent in the previous two budgets, has been managing significant revenue volatility. Exceptional revenue growth in recent years was primarily driven by increased royalties, due to the very high global prices being received by Queensland's coal producers over the period from late 2021 to late 2023, combined with the impact of the new progressive coal royalty tiers introduced in the 2022–23 Budget. As expected, these temporarily high commodity prices have since fallen substantially, and will likely continue to decline to align more with historical levels across 2024–25 and 2025–26.

The expected decline in royalties is expected to outweigh strong near-term growth in taxation revenue. Total key revenues (taxation, GST and royalties) decline materially in 2023–24 and again in 2024–25 before remaining flat in 2025–26. This is the inevitable adjustment from the unprecedented upside in coal royalties enjoyed in 2021–22 and 2022–23 that delivered record surpluses. While a return to solid revenue growth is expected from 2026–27, total key revenues are not forecast to exceed 2022–23 levels until 2027–28.

Near-term challenges with the revenue outlook occur at a time when the government is committed to additional and critical limited-life recurrent spending programs focussed on helping households manage temporary cost-of-living impacts, easing current housing pressures, and responding to ongoing service demands arising from stronger than expected population growth.

In 2023–24, the net operating position has improved from a deficit of $138 million forecast in the 2023–24 Budget Update to a surplus of $564 million. This estimated outcome is the result of careful management of revenue improvements, including royalties and taxes, such that a surplus is expected to be delivered at the same time as providing an additional $2.267 billion in electricity bill support for Queenslanders. The 2023–24 estimated actual represents the third consecutive operating surplus and follows a record surplus of $13.9 billion in 2022–23.

The Queensland Government is providing an additional $3.739 billion in cost-of-living support in 2024–25 to help Queenslanders tackle cost-of-living challenges. Relief is headlined by additional electricity bill rebates, slashing public transport fares to a flat fare of 50 cents per trip for six months as well as a 20 per cent reduction in vehicle registration costs for all light vehicles for a 12-month period. The cost of new spending measures as well as a boost for health growth funding has exceeded upwards revisions to royalties and tax in 2024–25, resulting in a $2.631 billion operating deficit in 2024–25.

From 2025–26, as temporary relief measures are wound back, Queensland's net operating position is expected to improve rapidly. An improved deficit of $515 million is forecast in 2025–26 compared to 2024–25 as temporary relief measures end. Substantial surpluses of $887 million and $2.027 billion are forecast for 2026–27 and 2027–28 as demand backlogs are cleared, population pressures ease and expenses are managed within available revenue.

A targeted savings plan will be applied to ensure the state's limited resources are being managed responsibly and to ensure the state meets its Charter of Fiscal Responsibility. Savings of $3 billion over 4 years to 2027–28 will be delivered.

The 2024–25 Budget also sees further increases in the cost of the capital program compared to recent budget updates. The critical objectives are unchanged — responding to priority areas and strategically positioning Queensland to maintain a strong and diverse economy into the future and meet the needs of a growing population.

The capital program continues to include key transformative infrastructure investment such as boosting health system capacity, decarbonisation of the state's energy system and preparing for the Brisbane 2032 Olympic and Paralympic Games. The total capital program is now projected to be $107.3 billion over the 4 years to 2027–28. The current program is expected to peak in 2025–26 at $29.4 billion before moderating to $23.7 billion by 2027–28, representing a 19 per cent reduction over that period.

The tapering of the expected annual levels of capital spending across the forward estimates reflects multiple factors including population growth and the spending profile of significant programs such as the Hospital Capacity Expansion Program, the completion of large projects such as Cross River Rail and the decline in capital works being funded under the disaster recovery arrangements as projects are finished. The capital spend in 2025–26 also reflects the delivery schedule of early phase energy projects as part of the longer-term plan for decarbonisation of the energy system.

The further increase in the 4 year capital program means the government's debt profile has shifted up since the 2023–24 Budget Update. General government borrowing is now expected to reach around $103.2 billion in 2026–27, which is $6.5 billion higher than in 2023–24 Budget Update. However, with the peak of capital spending occurring in 2025–26 and tapering down by 2027–28, there is a very clear moderation in the General Government Sector debt burden trajectory.

3.1.1 Fiscal principles

The government's medium-term fiscal strategy is guided by the Charter of Fiscal Responsibility (the Charter) with fiscal principles and objective measures to support the restoration of fiscal buffers. An update of progress towards achievement of medium-term goals is outlined below.

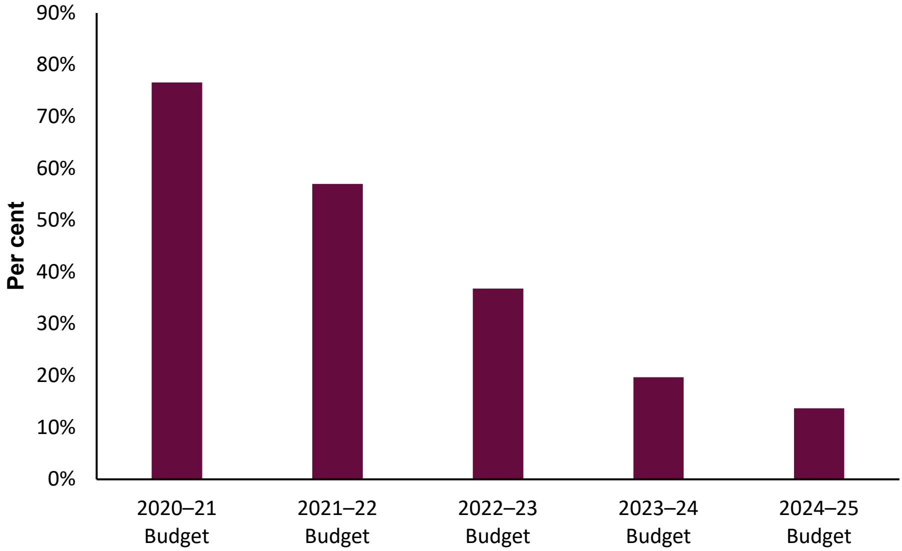
Fiscal Principle 1 — Stabilise the General Government Sector net debt to revenue ratio at sustainable levels in the medium term, and target reductions in the net debt to revenue ratio in the long term.

Stabilising debt at a sustainable level is an essential pre-condition to maintaining capacity to invest in public infrastructure and to respond effectively to future external shocks.

Since the introduction of the Charter in the 2021–22 Budget, Queensland's net debt to revenue outcome has continually outperformed the budget forecasts. The 2022–23 net debt to revenue ratio outcome of 3 per cent was a significant reduction from the 51 and 27 per cent estimates in the 2021–22 and 2022–23 Budgets respectively.

In comparative terms, the projected net debt to revenue metric for the 2023–24 financial year has fallen materially over recent budgets. As reflected in Chart 3.1, the projected metric for the 2023–24 financial year has fallen from 77 per cent in the 2020–21 Budget to an estimated actual of 14 per cent in the 2024–25 Budget. This reflects prudent management of an extraordinary revenue uplift, particularly in 2021–22 and 2022–23, which was driven by higher royalties. These revenues have been used to substantially lower borrowing requirements in the near term, providing the capacity to then fund an expanded infrastructure program over time.

Chart 3.1 Time series of the 2023–24 projected net debt to revenue ratio



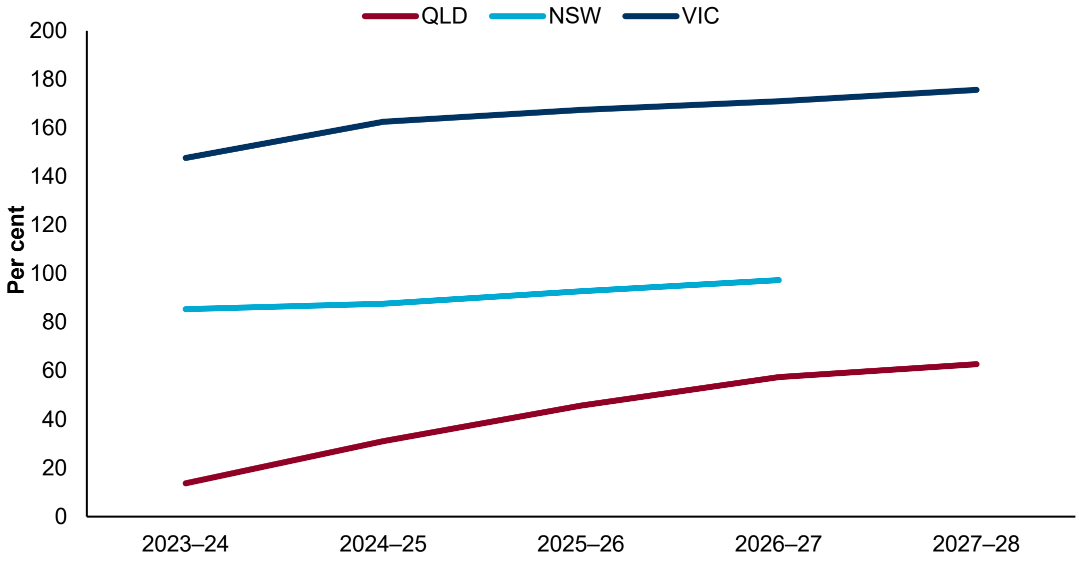
The net debt to revenue ratio is expected to remain broadly consistent with 2023–24 Budget Update forecasts across the forward estimates. In 2024–25, the ratio of 31 per cent is slightly improved from previous forecasts in the 2023–24 Budget and Budget Update.

The slight increases in the net debt to revenue ratio in 2025–26 and 2026–27 compared to the 2023–24 Budget are impacted by the temporary operating deficits in 2024–25 and 2025–26 as well as stepping up the capital program to invest in economic and social infrastructure to meet the needs of Queensland's growing population and accelerate regional economic development.

Growth in the ratio is expected to slow appreciably as the capital program moderates from the peak expected in 2025–26, with the ratio reaching 63 per cent in 2027–28. The rate of increase in net debt slows in 2026–27 and more so in 2027–28. This is an important precursor to stabilising and then reducing this ratio.

Queensland's 2024–25 estimated net debt to revenue ratio of 31 per cent compares favourably to its peers at 88 per cent for New South Wales (2023–24 Half-yearly Review) and 163 per cent for Victoria (2024–25 Budget). Relative to revenue, Queensland's net debt forecast of 57 per cent in 2026–27 compares favourably to 97 per cent for New South Wales and 171 per cent for Victoria.

Chart 3.2 State comparison of General Government Sector net debt to revenue



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.

Maintaining a lower rate of expenses growth than revenue growth will in general support the achievement of an operating surplus and assist debt stabilisation. Revenue and expenses growth in the 2024–25 Budget is affected by near-term challenges such as stronger than expected population growth and cost-of-living relief on the expenses side, and royalty volatility on the revenue side. Over the 4 years to 2027–28, average annual revenue growth of 1.7 per cent is stronger than average expenses growth of 1.3 per cent.

Revenue growth over the forward estimates continues to reflect volatility underpinned by some temporary factors such as high commodity prices, which have fallen substantially since late 2023. As extraordinary and short-term high coal prices normalise, royalty revenue is expected to decline in 2024–25 to less than half of the 2022–23 level and remain at more moderate levels across the later years of the forecast period.

An adjusted measure removing royalties is included to better reflect underlying growth. Excluding royalties, average revenue growth is expected to be 4.0 per cent over the 4 years to 2027–28. Over the 5 years to 2027–28, average revenue growth excluding royalties of 4.5 per cent compares to average expenses growth of 4.2 per cent. This is a useful underlying comparison as it abstracts from both the volatility of royalty revenue and the very large cost-of-living energy rebates that are expensed in 2023–24.

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)

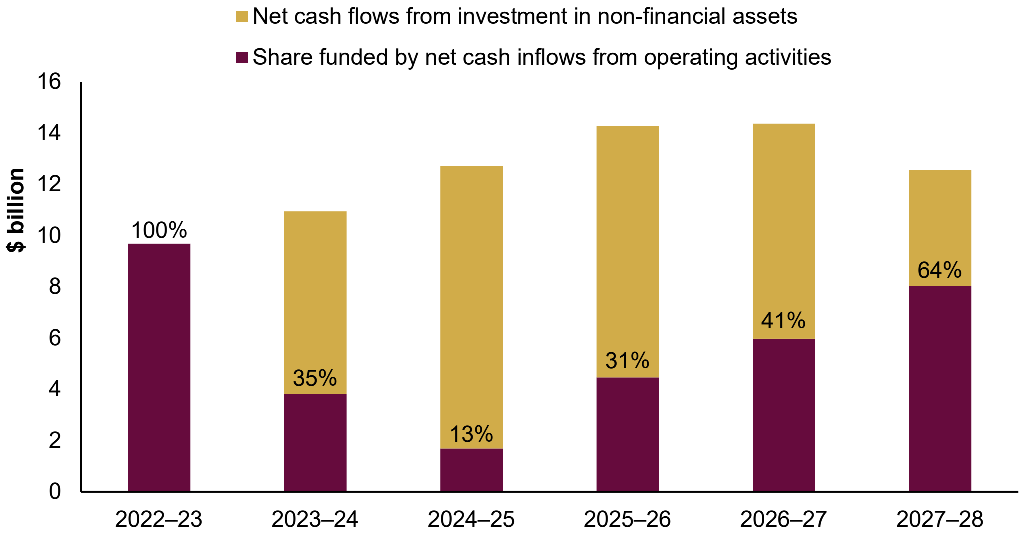
will be funded primarily from net cash inflows from operating activities. The capital program will focus on supporting a productive economy, jobs, and ensuring a pipeline of infrastructure that responds to population growth.

Capital investment is essential to support jobs, to maintain a strong and diverse economy into the future and to meet the needs of a growing population. The 2024–25 Budget's capital program of $107.262 billion over the 4 years to 2027–28 includes a large component of unavoidable infrastructure that is required to respond to population growth as well as decarbonisation of the state's energy system through the *Queensland Energy and Jobs Plan*.

Funding a large capital program primarily through operating cash surpluses rather than additional borrowings is key to stabilising net debt. However, volatility in revenue growth combined with the profile of capital expenditure, which is uneven by nature, provides a degree of volatility in the outcomes for Fiscal Principle 3 on an individual year basis.

Queensland's 2022–23 record surplus enabled investments in non-financial assets to be more than fully funded by net cash inflows from operating activities. However, with the temporary surge in coal prices unwinding at the same time as cost-of-living support is provided and capital investment increases, the ratio is expected to fall to 35 per cent in 2023–24 and 13 per cent in 2024–25. The metric will trend up to 64 per cent by 2027–28 as revenue growth outpaces growth in expenses and the government's capital program moderates.

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



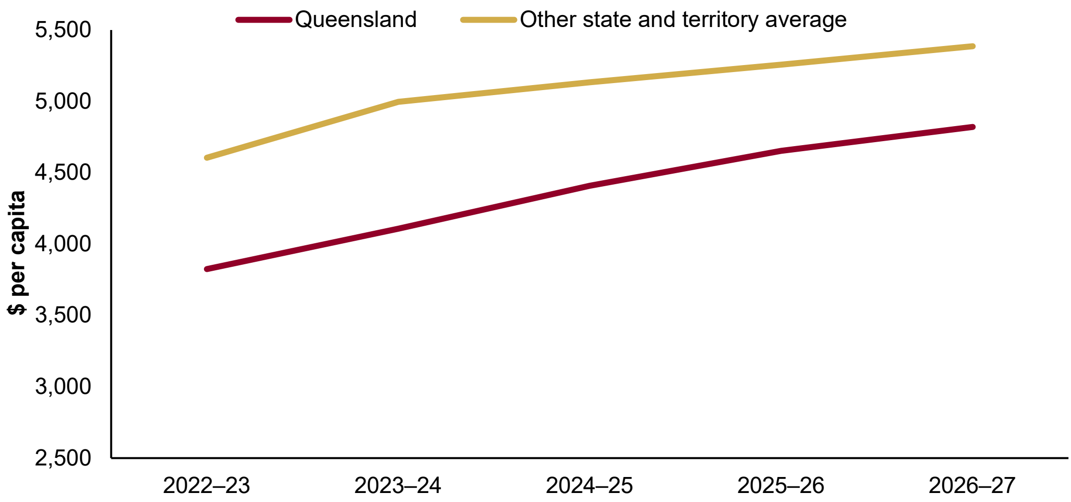
Fiscal Principle 4 — Maintain competitive taxation by ensuring that, on a per capita basis, Queensland has lower taxation than the average of other states.

Measurement of Queensland's taxation against other jurisdictions provides a meaningful comparative indication of the state's tax regime and policies.

Based on the latest available outcomes, Queensland's taxation per capita continues to show the state's competitive tax environment. Queenslanders paid $780 less tax than the average of other jurisdictions in 2022–23. On average, Queensland's taxation per capita was $1,052 less than New South Wales's and $1,061 less than Victoria's.

This trend is expected to continue using the latest forecasts. The state's taxation per capita of $4,410 in 2024–25 compares favourably to the average of other jurisdictions of $5,134 per capita. Chart 3.4 projects Queensland to maintain a highly competitive tax environment over the forward estimates.

Chart 3.4 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 triennial actuarial investigation of the Defined Benefit Fund as at 30 June 2021 found it to be in a large surplus, which is expected to remain the case after allowing for suspending investment of defined benefit employer contributions from 2026–27. In accordance with established processes the next full actuarial investigation of the Defined Benefit Fund will be available in December 2024.

As at 30 June 2023, WorkCover Queensland was fully funded.

3.2 Key fiscal aggregates

The key aggregates for the 2024–25 Queensland Budget are outlined in Table 3.1.

Table 3.1 Key fiscal aggregates[1]

	2022–23 Outcome $ million	2023–24 Budget $ million	2023–24 Est. Act. $ million	2024–25 Budget $ million	2025–26 Projection $ million	2026–27 Projection $ million	2027–28 Projection $ million
Revenue	89,810	82,079	89,059	88,107	88,717	90,670	95,332
Expenses	75,880	84,261	88,495	90,738	89,232	89,783	93,305
Net operating balance	13,930	(2,182)	564	(2,631)	(515)	887	2,027
PNFA[2]	9,899	9,347	11,061	12,831	14,485	14,577	12,763
Fiscal balance	8,092	(6,716)	(5,717)	(10,790)	(9,547)	(7,341)	(4,054)
Borrowings[3]	53,726	65,479	61,958	77,118	91,507	103,221	111,383
Net debt	2,615	16,190	12,223	27,407	40,552	52,076	59,831

Notes:
1. Numbers may not add due to rounding.
2. PNFA: Purchases of non-financial assets.
3. Comprised of borrowing with QTC, leases and similar arrangements and securities and derivatives line items in the Balance Sheet.

3.2.1 Net operating balance

Table 3.2 compares the General Government Sector net operating balance forecasts for the previous budget with the 2024–25 Budget forecasts.

Table 3.2 General Government Sector — net operating balance forecasts

	2023–24 $ million	2024–25 $ million	2025–26 $ million	2026–27 $ million	2027–28 $ million
2023–24 Budget	(2,182)	135	206	377	..
2023–24 Budget Update	(138)	122	91	621	..
2024–25 Budget	**564**	**(2,631)**	**(515)**	**887**	**2,027**

Since the 2023–24 Budget, the General Government Sector net operating balance has improved from a deficit of $2.182 billion to a surplus of $564 million. Stronger revenue, primarily driven by higher commodity prices, improved the 2023–24 outlook in the 2023–24 Budget Update to a deficit of $138 million.

Since then, improvements in royalties and taxation revenue have been directed towards providing $2.267 billion in electricity bill rebates for households and small businesses to assist with the cost of living, and improving the operating position.

In 2024–25, the net operating position temporarily moves to a deficit of $2.631 billion, compared to a surplus of $135 million in the 2023–24 Budget. This change is driven largely by additional measures, including further cost-of-living support, with reductions in motor vehicle registrations and public transport fares.

Health services receive a significant boost in 2024–25 to continue to meet the needs of Queensland's growing population, and additional resourcing is being provided to support the delivery of a high performing state education system, ease housing pressures and respond to community safety priorities.

Revisions due to expense measures as well as downward revisions to net flows from government owned entities and Australian Government funding are only partially offset by upwards revisions to forecasts of royalties and land rents and taxation revenue.

The deficit is expected to reduce to $515 million in 2025–26 as temporary relief measures end and forecast savings from the *Smarter Spending, Better Jobs Plan* increase.

Substantial surpluses are forecast in 2026–27 and 2027–28 as revenue strengthens and expenses are managed within available revenue.

Table 3.3 Reconciliation of net operating balance, 2023–24 Budget Update to 2024–25 Budget[1]

	2023–24 $ million	2024–25 $ million	2025–26 $ million	2026–27 $ million
2023–24 Budget Update net operating balance	**(138)**	**122**	**91**	**621**
Taxation revisions[2]	460	1,379	1,321	1,339
Royalty and land rent revisions	1,381	2,128	563	382
GST revisions	185	287	40	(57)
Revenue measures[3]	(1)	(384)	212	276
Expense measures[3]	(3,640)	(4,233)	(2,803)	(2,118)
Savings	..	300	750	1,000
Natural disaster revisions (DRFA)[4]	224	..	(376)	(158)
Net flows from PNFC and PFC entities[5]	65	(666)	(314)	(428)
Australian Government funding revisions[6]	241	(774)	329	198
Other parameter adjustments[7]	1,787	(790)	(328)	(168)
2024–25 Budget net operating balance	**564**	**(2,631)**	**(515)**	**887**

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 revisions exclude impact of revenue measures contained in Budget Paper 4 (BP4).
3. Reflects the operating balance impact of government revenue and expense measures since the 2023–24 Budget Update (refer to BP4 Chapter 2 Budget Measures for details) except for Natural disasters and Transport Service Contract measures which are included elsewhere in the reconciliation, as per footnotes 4 and 5.
4. Net impact of Disaster Recovery Funding Arrangements.
5. 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 TSC expense measures.
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.

Impact of disaster recovery on the net operating balance

Over the 2023–24 summer, parts of the state were impacted by severe weather events, which inflicted major flooding and storm damage on homes, businesses and infrastructure. This followed significant flood events in the 2021–22 and 2022–23 disaster seasons.

Table 3.4 details the impact of disaster expenses and Australian Government payments for Disaster Recovery Funding Arrangements (DRFA) on the net operating balance. Abstracting from disasters, the net operating balance is stronger in each year, and significantly on this basis, close to balance in 2025–26.

While disaster expenses are estimated to reach $5 billion over the 5 years to 2027–28, the majority is offset by $3.8 billion in disaster-related revenue. Including disaster capital expenditure, the combined cost of disasters over the period 2023–24 to 2027–28 is $6.7 billion compared to $4.1 billion in the 2023–24 Budget.

Table 3.4 Impact of disaster funding in the net operating balance[1]

	2023–24 $ million	2024–25 $ million	2025–26 $ million	2026–27 $ million	2027–28 $ million
Net Operating Balance	**564**	**(2,631)**	**(515)**	**887**	**2,027**
less Disaster revenue	1,399	1,347	874	176	..
add Disaster expenses	1,620	1,551	1,301	411	158
Underlying Net Operating Balance	**785**	**(2,427)**	**(88)**	**1,122**	**2,185**
Disaster capital expenditure	426	649	438	145	..

Notes:
1. Numbers may not add due to rounding.

3.2.2 Revenue

General Government Sector revenue is estimated to total $89.059 billion in 2023–24, $751 million lower than 2022–23, but $6.98 billion higher than estimated in the 2023–24 Budget. Most of this difference is because of higher 2023–24 coal royalty estimates compared to the 2023–24 Budget. Although commodity prices have fallen significantly and royalty revenue in 2023–24 will be 30 per cent lower than the peak in 2022–23, the adjustment has not been as rapid as expected in the 2023–24 Budget.

Primarily as a result of high coal and oil prices declining more slowly than expected, ongoing strength in property prices and activity and the exceptional performance of the state's labour market, general government revenue is forecast to be $23.924 billion, or 7.2 per cent, higher than forecast in the 2023–24 Budget over the 4 years to 2026–27.

On an annual basis across the forward estimates, revenue is expected to decline slightly in 2024–25 before modest growth in 2025–26 that gathers momentum in later years. These movements are largely explained by the outlook for the key state revenue sources of taxation, GST and royalties.

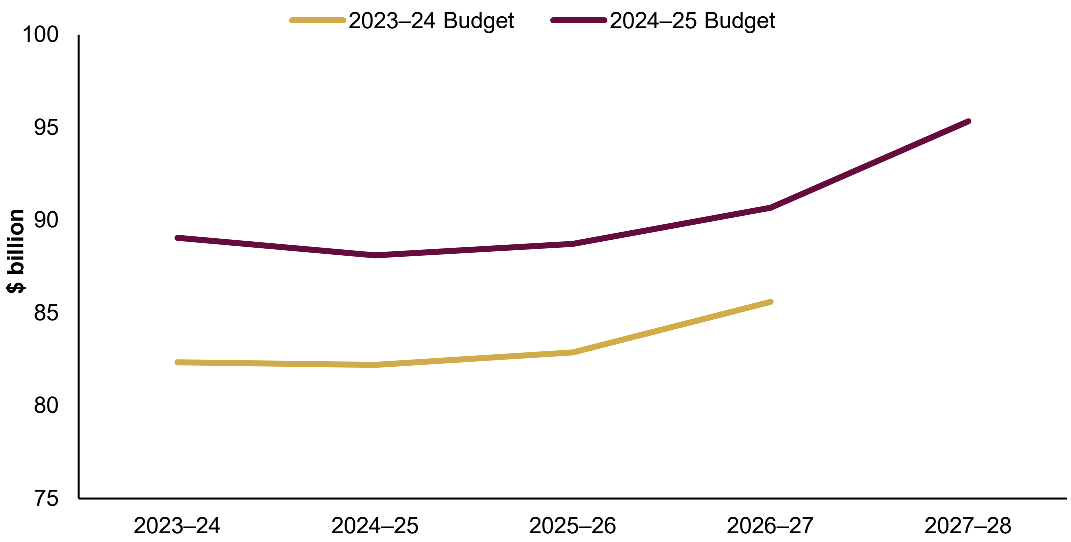
Exceptional strength in royalty revenue in 2022–23 was temporary, with coal prices expected to continue adjusting to more sustainable levels. The decline in royalties in 2023–24 compared with 2022–23 more than offsets strength in taxation and GST revenue in 2023–24.

A further large decline in royalties of $4.366 billion is expected in 2024–25 as coal and oil prices continue to moderate, accompanied by a $934 million decline in GST revenue resulting from the Commonwealth Grants Commission's recommendation that Queensland receive a smaller share of the GST pool in 2024–25. These declines in royalty and GST revenue are expected to be partially offset by increases in taxation revenue ($2.129 billion) and other Australian Government grants ($1.556 billion).

Revenue growth is forecast to remain relatively flat in 2025–26, as coal prices continue to moderate, and return to solid growth in 2026–27 and 2027–28, driven by growth in taxation revenue and GST, supported by the impacts of recent and ongoing population growth.

The 2024–25 Budget also includes revenue measures to provide cost-of-living relief for households and first home buyers. These are discussed in Chapter 4 which also provides more detail on revenue estimates.

Chart 3.5 Comparison of revenue forecasts



3.2.3 Expenses

Expenses in the 2024–25 Budget provide for additional limited-life recurrent programs focussed on alleviating cost-of-living impacts, easing current housing pressures, and responding to strong demand for government services arising from stronger than expected population growth.

General government expenses are 7.2 per cent higher than forecast in the 2023–24 Budget over the 4 years to 2026–27, primarily because of new spending measures to address community demand.

General Government Sector expenses are estimated to be $88.495 billion in 2023–24, which is $12.615 billion or about 16.6 per cent higher than 2022–23. The 2023–24 expenses are also $4.234 billion higher than estimated in the 2023–24 Budget.

A key driver of this increased spending is the delivery of significant cost-of-living relief for Queensland households and small businesses, which includes meeting the cost of both the 2023–24 and 2024–25 energy rebates in 2023–24.

As limited-life spending programs conclude, disaster-related expenses wind down and agency savings increase, expense growth moderates significantly.

It should be noted that as major funding agreements with the Australian Government relating to health and education are renegotiated in the next 12 months, it is expected that expense growth will become stronger, supported by additional funding from the Australian Government.

Average expense growth of 4.2 per cent over the 5 years to 2027–28 compares to average revenue growth of 4.5 per cent excluding the extraordinary impact of volatile royalty revenue.

As well as cost-of-living relief, other key new initiatives in the Budget include:

- an uplift to Queensland Health's operating funding envelope of $4.393 billion to address emerging population growth and cost pressures, improve the flow of patients through hospitals and provide more timely access to care as well as boosting First Nations' health and women's health care
- significant investments in education and training, and prevention and early support initiatives. This includes the $502 million *Putting Queensland Kids First* early support package to deliver stronger outcomes to support positive lift trajectories for Queensland children and families
- committing an extra $1.28 billion over 5 years for the *Community Safety Plan for Queensland*.
- $3.1 billion, including expenses and capital funding, towards *Homes for Queenslanders*, which responds to key housing pressures and represents a significant uplift on top of the already major investment into social and affordable housing.

Further information on expense initiatives is provided in Budget Paper 4.

Salaries and wages are a large proportion of General Government Sector expenses. Increases in salaries and wages are negotiated through certified agreements. Outcomes reflect maintaining an effective public service through attraction and retention strategies offering competitive remuneration and employment conditions balanced with prudent management of growth in operating expenses.

The current bargaining cycle established certified agreements based on a public sector wages policy of 4 per cent headline wage increases in the first 2 years and 3 per cent in year 3 plus a Cost of Living Adjustment payment where inflation exceeds headline wage increases established in those certified agreements, capped at 3 per cent of base wages.

Smarter Spending, Better Jobs Plan

To enable delivery of new measures to address cost-of-living pressures and enhance service delivery, the Queensland Government is implementing the *Smarter Spending, Better Jobs Plan* to deliver savings of $3 billion across the next 4 years. These savings will ensure that the budget returns to surplus as economic pressures ease.

Savings have been incorporated into the budget aggregates. Queensland Treasury will chair a new Smarter Spending taskforce to guide agencies in implementation through the budget cycle.

While savings need to be broad based in application, agencies will be required to ensure savings are delivered in line with the below guidelines to ensure service delivery is not impacted.

Protect public sector jobs

Queensland Treasury will continue to ensure wage outcomes are fully funded for public servants across the sector in line with government wages policy, including for approved growth in employees. Agencies should seek savings in non-wage expenses, which typically represent over half of total government expenditure.

Reduce travel and advertising expenditure

Departments and agencies should reduce and phase down travel for meetings, which should be conducted by video or teleconference wherever possible.

No new advertising to be commenced from 1 August 2024, other than public safety and recruitment campaigns.

Reduce accommodation expenditure.

Departments and agencies should ensure any approved growth in staffing is managed within the existing accommodation footprint. Departments should explore greater use of flexible work arrangements to manage growth and reduce the need for office accommodation and explore opportunities for greater regionalisation.

Reduce the use of external consultants, contractors and labour hire

Agencies should reduce reliance of contractors and external consultants, in line with Coaldrake Review report recommendations. Queensland Treasury Corporation (QTC) will be given a revised mandate to work with agencies to build public sector capability, and reduce external consultant use, including through the direct provision of independent reviews and evaluations, commercial and strategic advisory, financial and risk analysis, and modelling.

Maximise the state's financial and liquidity position

The state will continue to fully fund its defined benefit liability. Given the defined benefit fund is expected to remain in a strong funding surplus, the state will suspend contributions from 2026–27 to maximise liquidity and support the credit rating. The position will be reviewed annually to meet the states legislated requirement to fully fund the states defined benefit liability.

Since 1 July 2022, the state has also increased funding superannuation based on ordinary times earnings. That is an increase of over $980 million to 2025–26 to provide for shift allowances, weekend penalties and all forms of leave.

Funding decisions in budget process

Funding submissions will only be accepted by Government as part of annual budget processes, unless approved by the Chair of CBRC.

3.2.4 Investment

Queensland's record level of investment in economic and social infrastructure aims to respond to unprecedented population growth, and strategically position Queensland to maintain a strong and diverse economy into the future.

The capital program underpins the development of the state, creation of new industries, delivery of more jobs, and building better and stronger communities and regions.

The capital program includes major components related to addressing record demand for health services, decarbonising the state's energy system and preparing for the Brisbane 2032 Olympic and Paralympic Games.

Queensland's total capital program has increased from an estimated $88.729 billion over the 4 years to 2026–27 in the 2023–24 Budget, to $107.262 billion over the 4 years to 2027–28.

Key areas of focus in the forward estimates period and over the medium term include:

- the *Queensland Health Capacity Expansion Program* to deliver around 2,200 additional overnight beds at 15 facilities across Queensland
- Stage 1 of the Direct Sunshine Coast Rail Line
- M1 Pacific Motorway upgrades, Coomera Connector and major upgrades to the Bruce Highway
- new school infrastructure through the *Building Future Schools Program* providing new and upgraded learning environments
- Q*ueensland Energy and Jobs Plan* including renewable energy projects, new pumped hydro infrastructure and CopperString 2032
- major water infrastructure projects for dam improvements and future water security
- infrastructure investment for successful hosting of the Brisbane 2032 Olympic and Paralympic Games

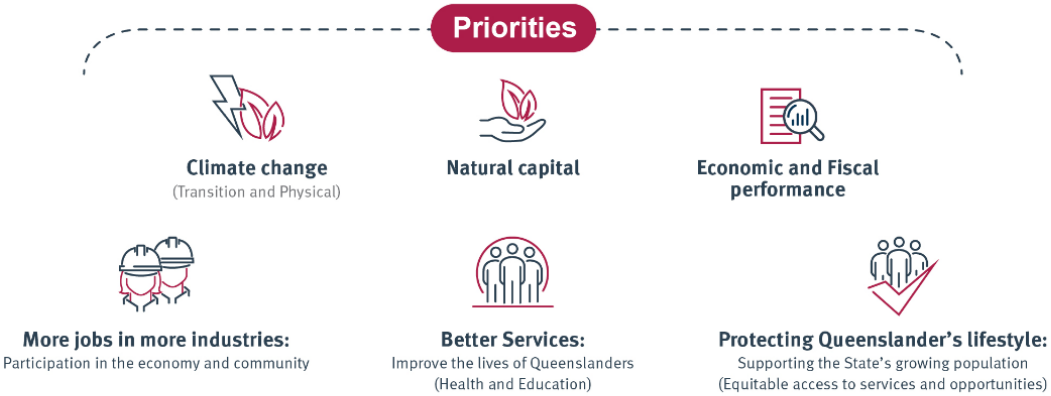
Further information about the government's capital program is provided in the Capital Statement (Budget Paper 3).

3.2.5 Environmental, Social and Governance

Establishing and maintaining strong ESG credentials is central to driving the future competitiveness of Queensland business and industry.

The Queensland Government has embedded sustainability considerations into policy settings to promote sustainable economic growth and development for better communities now and into the future. At the centre of this are Queensland's sustainability priorities (Figure 3.1).

Figure 3.1 Queensland's Sustainability Priorities



Sound financial and risk management requires the government to recognise and manage all issues that can materially impact the Queensland economy and the government's fiscal position. Queensland is taking positive action by implementing policy measures to manage material sustainability risks.

ESG Risk Factor	Policy initiatives taken to —
Climate Change	Move to a low carbon future, by lowering Greenhouse Gas emissions. Address the physical impacts arising from climate change by embedding adaption and resilience
Natural Capital	Manage the balance of resources used between industry, the community and safeguarding the natural environment. This includes surface and underground water management, biosecurity, aquaculture, forestry management and environmental protection.
Social	Support an educated, healthy, and skilled community, through education, health services, social welfare, public order, diversity and opportunity, cyber security and safety.
Governance (Economic and Fiscal)	Provide robust frameworks that support Ministers and accountable officers to provide oversight and discharge their obligations. Strong economic and fiscal management is fundamental to achieving government's objectives and good governance.

Strong economic outcomes provide government with the fiscal capacity to take positive action on its sustainability priorities and continue targeted investment in climate change adaptation, social services (including health and education) and reforms that strengthen communities and support vulnerable Queenslanders.

Positive action includes:

- Queensland's Economic Strategy to drive economic growth into the future
- maximising opportunities and upside for Queensland's economy and industries — based on Queensland's competitive and comparative advantages

- supporting innovation and new technology through *Low Emissions Investment Partnerships*
- support for climate exposed industries via provision of assistance programs and options for funding assistance or support programs for impacted industries, for our workers and communities
- The creation of a skilled, job ready workforce to deliver Queensland's clean energy transformation via the implementation of *Queensland's Clean Energy Workforce Roadmap*
- The roll out of the *Queensland Energy and Jobs Plan* (QEJP) which outlines the pathway to transform the State's energy system to deliver a clean, reliable and affordable power for generation.

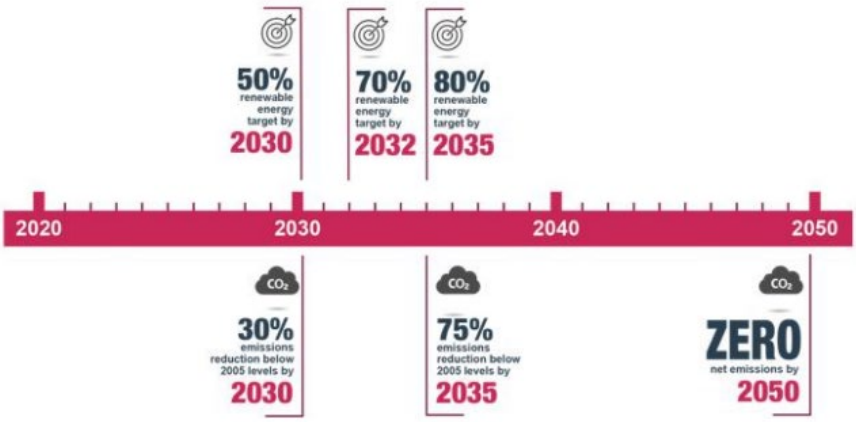
Queensland's economy is more emissions intensive than the rest of Australia due to its economic structure. Despite this, Queensland is successfully reducing emissions while still growing the economy.

The latest emissions data from the Australian Government released in April 2024, shows Queensland's emissions in 2022 were 35 per cent lower than the 2005 level. This means Queensland has not just met its 2030 emissions reduction target of 30 per cent 8 years earlier but has also overachieved by an additional 5 percentage points.

Queensland has been the largest contributor to Australia's emissions reduction. Between 2005 and 2022, Queensland was able to reduce its emissions by 68 million tonnes, with the second largest decline coming from New South Wales (42 million tonnes), followed by Victoria (39 million tonnes) and South Australia (21 million tonnes).

Figure 3.2 sets out Queensland's planned pathway to zero net emissions by 2050.

Figure 3.2 Queensland's emissions pathway



The Queensland Government has set emissions reduction and renewable energy targets with the objectives of achieving net zero emissions and decarbonising the energy sector.

On 18 April 2024 the Queensland Parliament passed the *Clean Economy Jobs Act 2024* and the *Energy (Renewable Transformation and Jobs) Act 2024* to secure Queensland's spot at the centre of a global energy transformation.

The *Energy (Renewable Transformation and Jobs) Act 2024* supports the delivery of the QEJP by entrenching key commitments of the plan in law. The QEJP establishes frameworks to build the necessary infrastructure to transform Queensland to a clean economy future. It also creates the governance and advisory functions for a smooth, coordinated transformation, lays out a vision for Queensland's energy future, and provides a clear pathway to clean, reliable and affordable power.

The *Clean Economy Jobs Act 2024* sets out a pathway to decarbonisation that will support jobs in the state's key traditional industries, including agriculture, resources and manufacturing, and unlocking investment in new industries including renewables, manufacturing, critical minerals, hydrogen and sustainable aviation fuel. The Act provides a critical foundation for the government to protect Queensland communities and mitigate the impacts of climate change by:

- enshrining in law emissions reduction targets of 30 per cent below 2005 levels by 2030, 75 per cent below by 2035 and net zero by 2050
- establishing a requirement to set emissions reduction targets for 2040 and 2045 at least 10 years in advance
- requiring annual reporting to the Queensland Parliament on progress towards achieving Queensland's emissions reduction targets
- providing for the development of emissions reduction plans for sectors
- establishing an expert panel to provide advice on emissions reduction progress, and efficient and cost-effective ways to reduce emissions that best support jobs and growth, without exacerbating cost-of-living pressures.

The legislated emissions reduction targets will work in tandem with the government's renewable energy targets to drive action and give local and international investors the confidence to invest in Queensland.

A strong economy provides the capacity to progress social priorities, consistent with the government's overarching objectives for the community. By investing in the key enablers of economic growth, as identified in economic strategy, the government can support healthy, strong and safe communities and provide opportunities for employment and community participation.

Sustainability risk management is a strategic imperative for the state, with transparency in reporting sitting at its core. The Queensland Government publishes an annual Queensland Sustainability Report which outlines the Queensland Government's approach to managing sustainability risks and opportunities, including the governance structures supporting policy, oversight, and implementation.

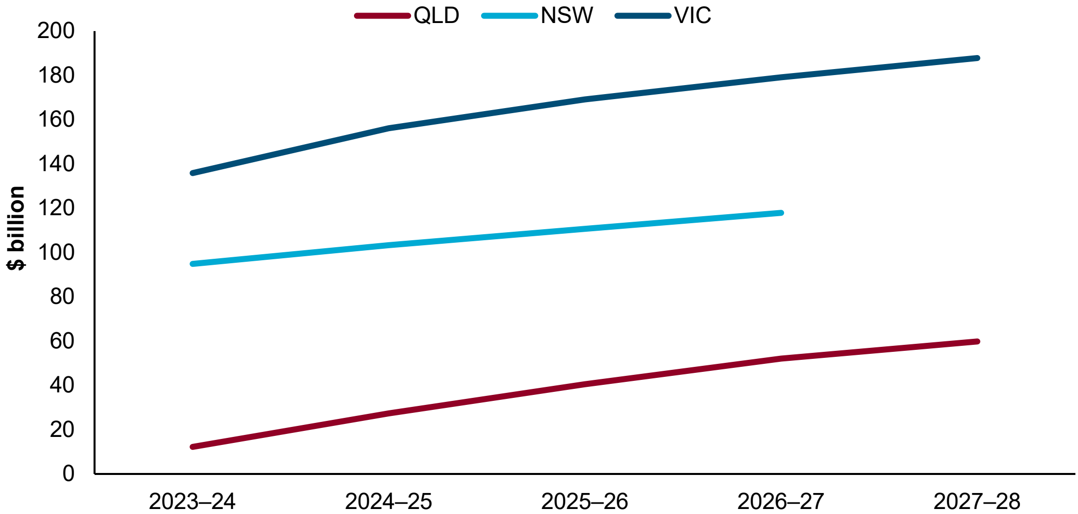
3.2.6 Borrowings and net debt

Elevated levels of public infrastructure investment by governments across Australia responding to the service needs of a growing population, energy transformation and improving transport infrastructure is translating into higher debt levels. However, strong revenue growth in recent years, combined with the government's robust fiscal management have limited increases in Queensland's debt level. Net debt is forecast to be $12.2 billion as at 30 June 2024, $4.0 billion lower than forecast in the 2023–24 Budget.

From this position of strength, Queensland's borrowings and net debt position are expected to trend upward as operating cash surpluses for a time fund a smaller percentage of a growing capital program.

The rate of increase in net debt is expected to slow as the capital program moderates from its peak in 2025–26 and operating cash surpluses strengthen. Net debt is expected to reach $59.8 billion by 2027–28, with the net debt to revenue ratio reaching 63 per cent. Queensland's strong starting position means that Queensland is well positioned to meet these challenges, with debt levels continuing to compare favourably to peers. Forecast net debt of $52.1 billion in 2026–27 compares to $117.9 billion for New South Wales (2023–24 Half-Yearly Review) and $179.2 billion for Victoria (2024–25 Budget).

Chart 3.6 State comparison of General Government Sector net debt



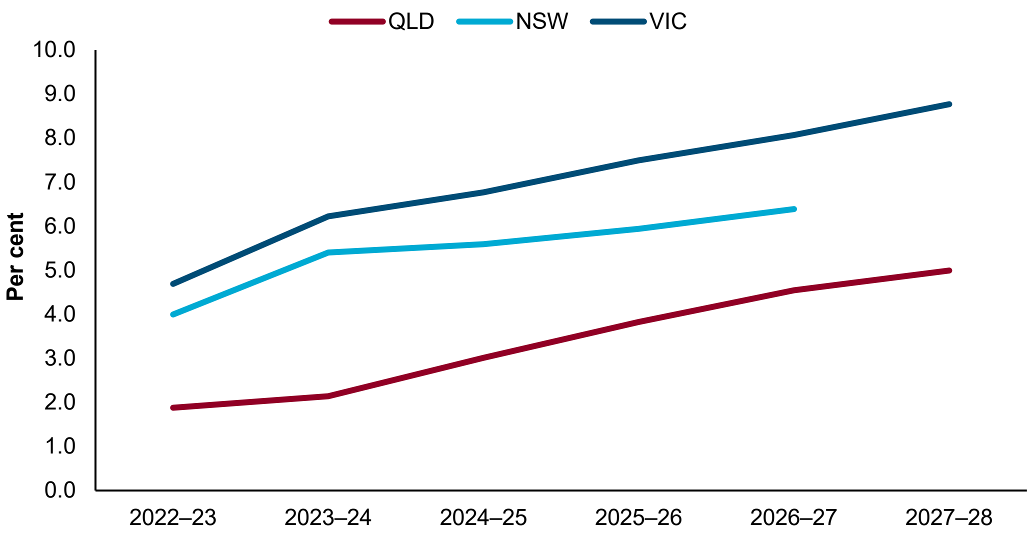
Total General Government Sector borrowings as at 30 June 2024 is forecast to be $62.0 billion, $3.5 billion lower than forecast in the 2023–24 Budget. Borrowing is then projected to be $1.1 billion higher by 30 June 2025 compared to the 2023–24 Budget and $8.4 billion higher by 2026–27 on the same basis.

General Government Sector borrowings compare well to interstate peers. Queensland's forecast borrowings of $103.2 billion in 2026–27 is far lower than those of New South Wales ($189.2 billion) and for Victoria ($216 billion) in both absolute terms and as a percentage of revenue.

Chart 3.7 Interstate comparison of General Government Sector borrowing

Managing debt to ensure debt-servicing costs remain sustainable is crucial to the Queensland Government, considering interest rate risk. The General Government Sector's interest expense is estimated to increase to 5.0 percent in 2027–28 as total borrowings increase. The increase is from a relatively low base and moderates by 2027–28 as operating surpluses are forecast and the capital program also moderates. Similar to levels of debt, Queensland's ratio of borrowing costs to revenue is well below that of New South Wales and Victoria.

Chart 3.8 General Government Sector ratio of borrowing costs to revenue



Queensland's credit ratings

Credit rating agencies assess an issuer's creditworthiness using proprietary methodologies comprising issuer-specific and broader operating environment considerations. A range of quantitative and qualitative assessments covers credit risk factors such as the economy, institutional frameworks, budgetary flexibility and performance, the debt profile, liquidity and financial management and governance.

Particular strengths feature consistently across Queensland's credit ratings such as its strong and diversified economic base, robust liquidity, and effective and experienced financial management. Also, the Queensland Future Fund – Debt Retirement Fund continues to demonstrate a commitment to active debt management and supports Queensland's credit rating.

Queensland's credit ratings are all stable with S&P Global (AA+), Moody's (Aa1) and Fitch (AA+).

In May 2024, Moody's affirmed Queensland's rating at Aa1 (stable), having noted in August 2023 Queensland's credit strengths such as a mature and stable institutional framework underpinning fiscal strength and flexibility and a large and diverse economic base.

The stable outlook reflects an expectation that Queensland's economy will continue to underpin its capacity to service its debt burden.

S&P Global last affirmed Queensland's AA+ (stable) rating in January 2024, reflecting the expectation that projected debt levels will remain consistent with AA+ rated peers.

S&P Global notes Queensland's wealthy and diversified economy and that experienced financial management and Australia's institutional settings support its creditworthiness.

Fitch affirmed Queensland's rating at AA+ (stable) in August 2023. The affirmation reflects Fitch's view that debt should remain manageable given Queensland has a well-structured economy, proactive and disciplined fiscal management, and a conservatism in fiscal projections.

3.2.7 Emerging fiscal pressures

Beyond ongoing uncertainties related to budget parameter assumptions, key emerging fiscal issues include:

- Higher than anticipated population growth — Queensland has experienced a population surge in 2022–23 and 2023–24, which is continuing to drive demand for housing and government services
- 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.
- Challenges arising from delivering significant capital investment in the medium term, including the transformation of the energy system away from a reliance on coal-fired generation, meeting future water demand and providing drought contingency, and preparing to host the Brisbane 2032 Olympic and Paralympic Games.

- Expiring agreements — Queensland's fiscal position is exposed to decisions made by the Australian Government, with a number of very significant National Partnership payments currently being negotiated. Further information on these agreements is provided in Chapter 7.
- Adverse weather events are likely to occur in the future with resulting damage expected to impact on the delivery of state initiatives, noting disaster-related expenses are shared with the Australian Government under the DRFA.