

The Queensland Budget and Economy

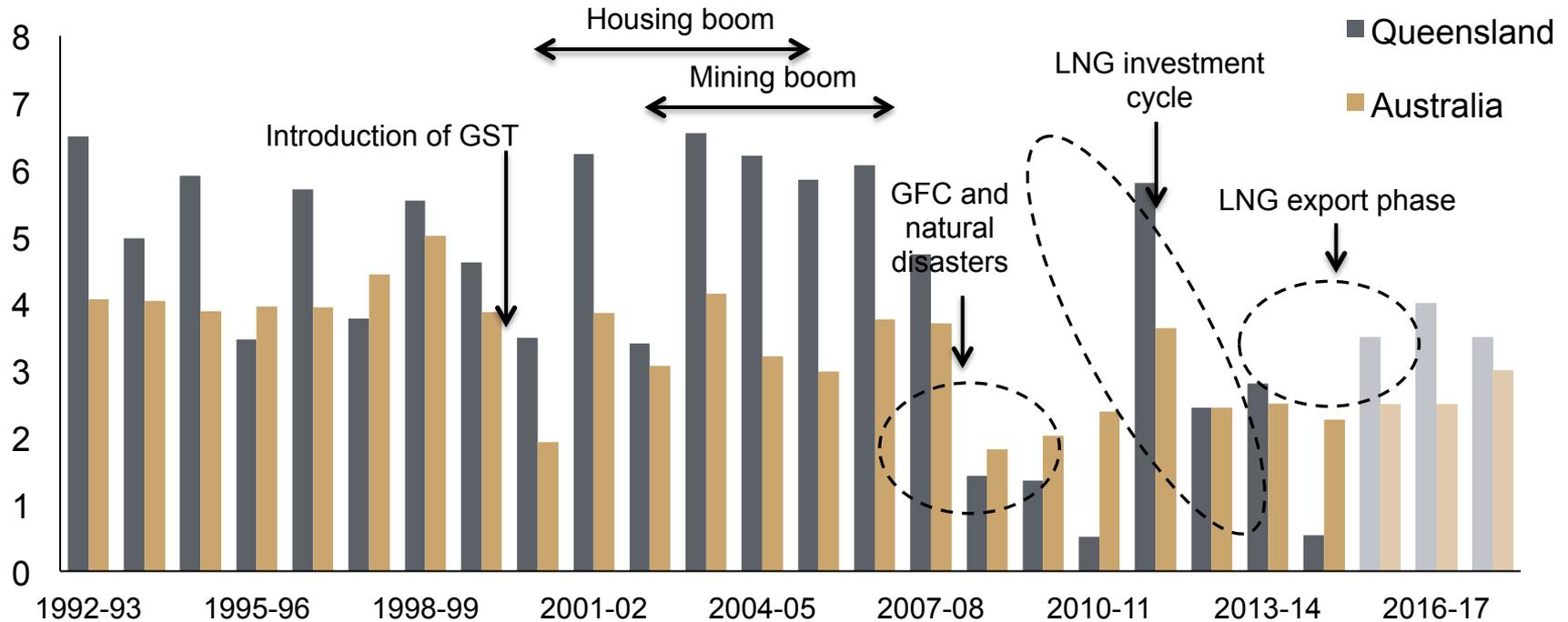
Conditions and Outlook, October 2016

Dennis Molloy, Deputy Under Treasurer, Economic and Fiscal Coordination Group

Overview of Budget and Economic conditions

- Despite challenging national and international conditions, Queensland economy has strengthened over last 12 months, supported by its diversified economy.
- Queensland's economy forecast to be the strongest of all states in 2015-16, 2016-17 and 2017-18.
- Government remains committed to fiscal principles set out in the 2015-16 Budget including reducing General Government sector debt to revenue ratio
- An additional fiscal principle has been adopted in the 2016-17 Budget to limit growth in the size of the public service.
- Further debt reduction measures have been adopted in this budget most notably the repatriation of \$4 billion in surplus funds from the Defined Benefit Scheme.
- At the same time as further debt reductions, the Government has invested in targeted initiatives to boost productivity through infrastructure investment.

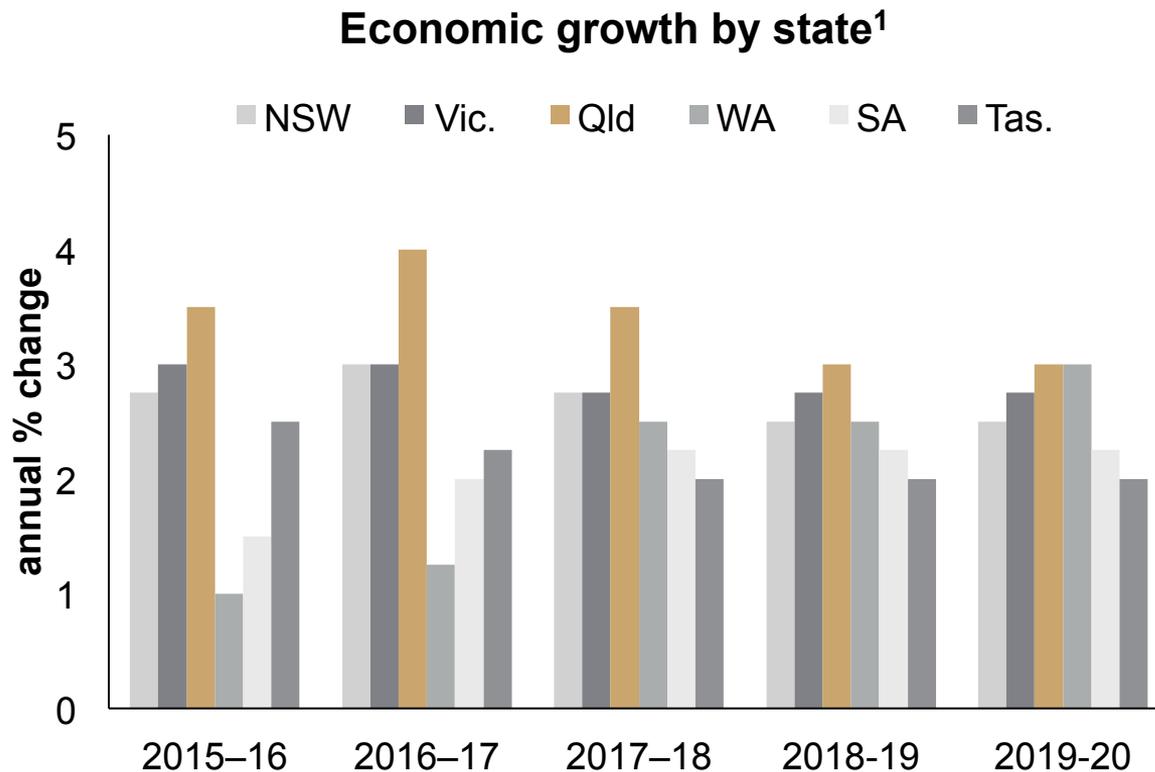
Economic growth, Queensland and Australia¹



1. Annual % change, CVM, 2013-14 reference year. 2015-16, 2016-17 and 2017-18 are forecasts. 2018-19 and 2019-20 are projections.

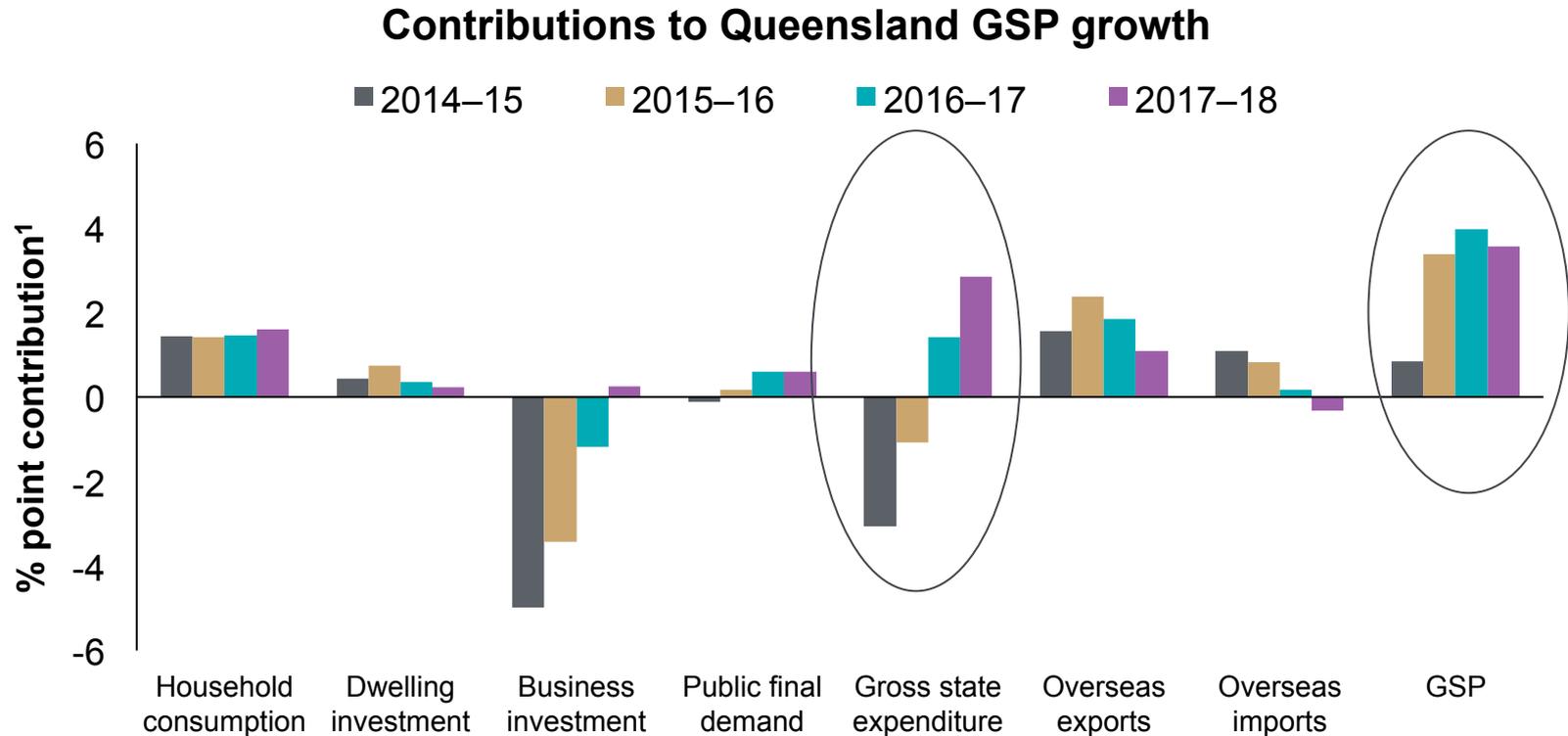
Sources: ABS 5220.0, Queensland Treasury Budget and Australian Treasury Budget.

Queensland is forecast to be the fastest growing state...



1. CVM, 2013-14 reference year. 2015-16 are estimates; 2016-17 onwards are forecasts.

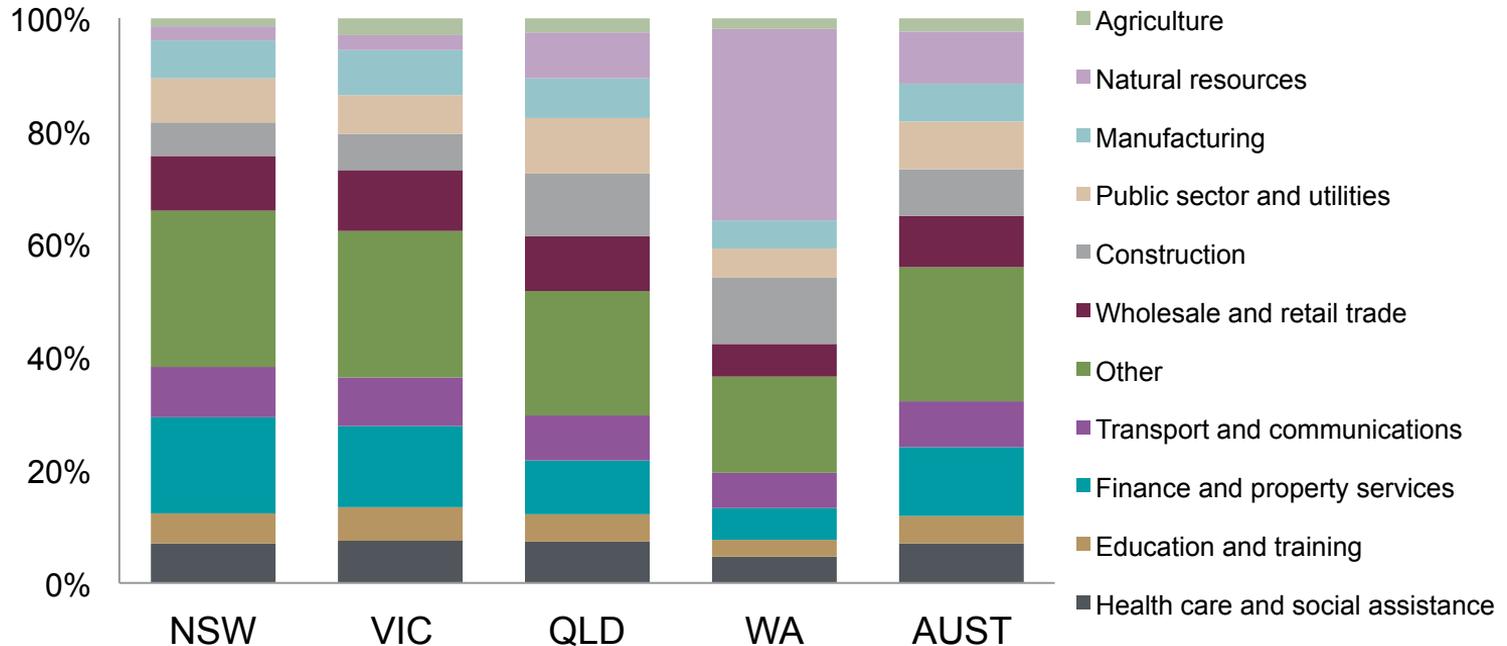
Source: Queensland Treasury and various state budgets.



1. CVM, 2013-14 reference year. 2015-16 are estimates; 2016-17 onwards are forecasts.

Source: Queensland Treasury.

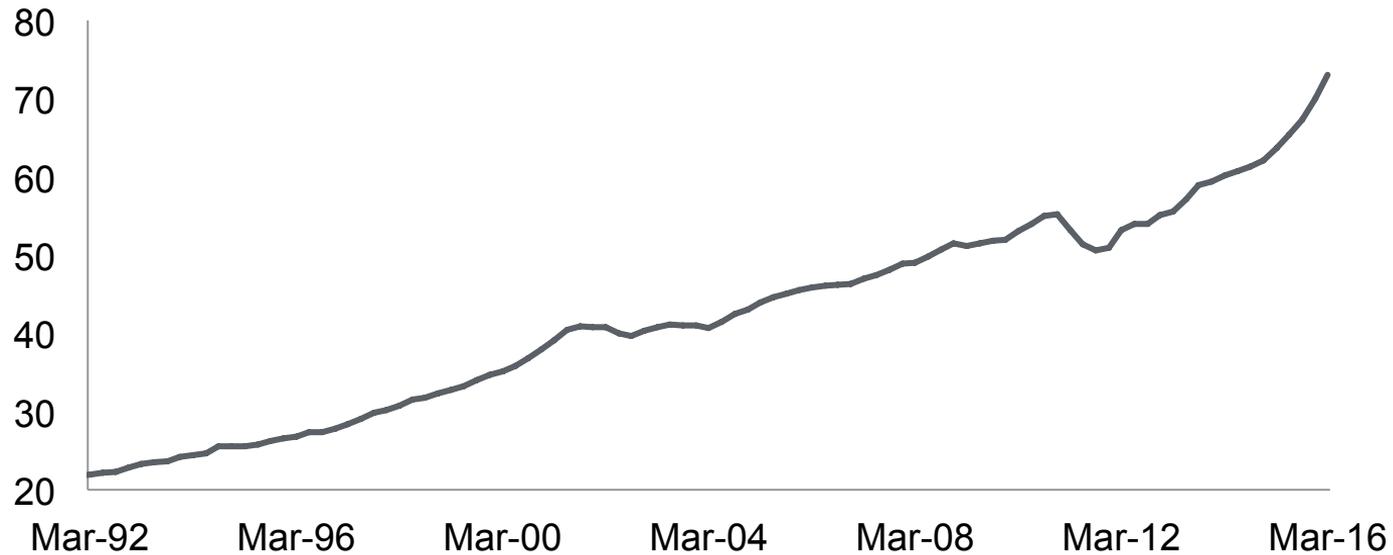
Industry composition, 2014-15¹



1. CVM, 2013-14 reference year. Industry gross value added.

Source: ABS 5220.0.

Overseas exports of goods and services¹ (\$billion)

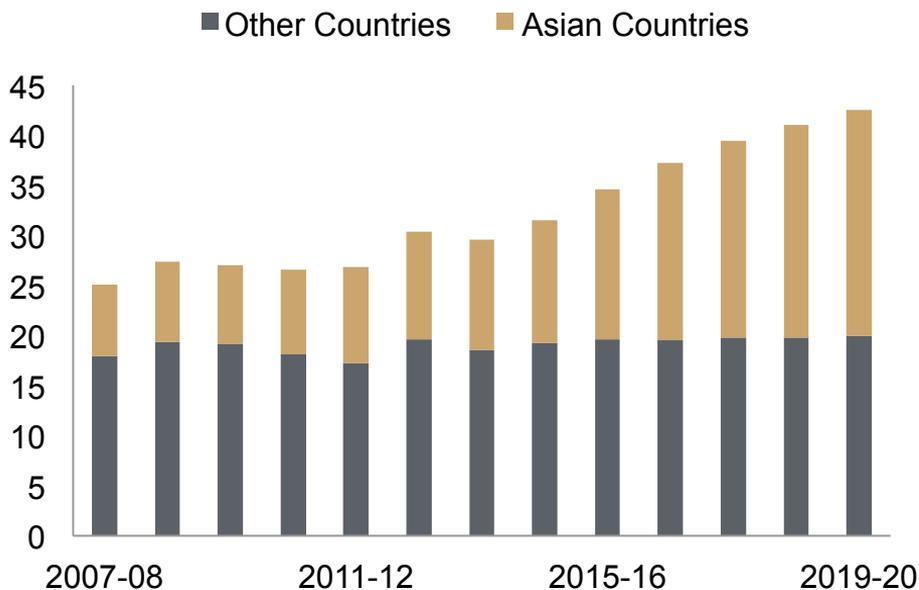


1. CVM, Original (four quarter rolling sum), 2013-14 reference year.

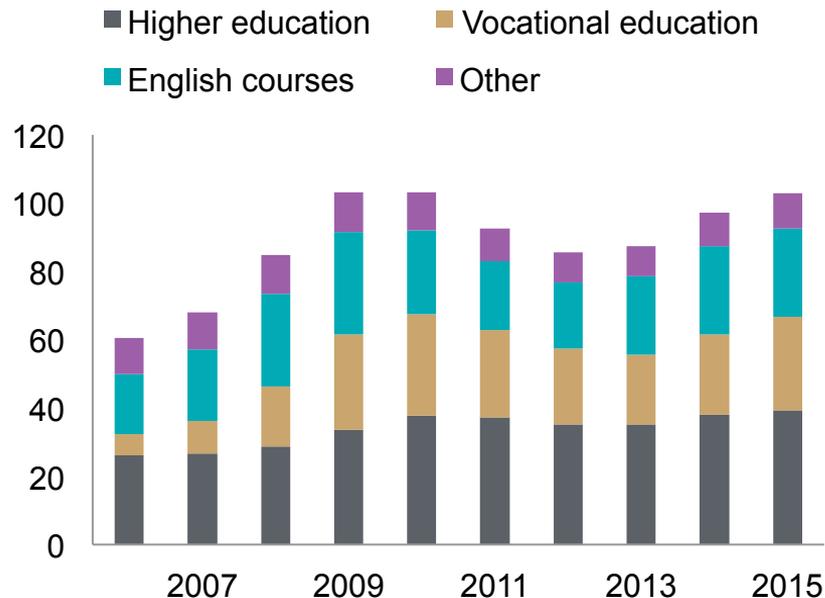
Source: Queensland State Accounts.

As expected, the lower A\$ is helping services exports

Overseas tourist nights¹ (million)



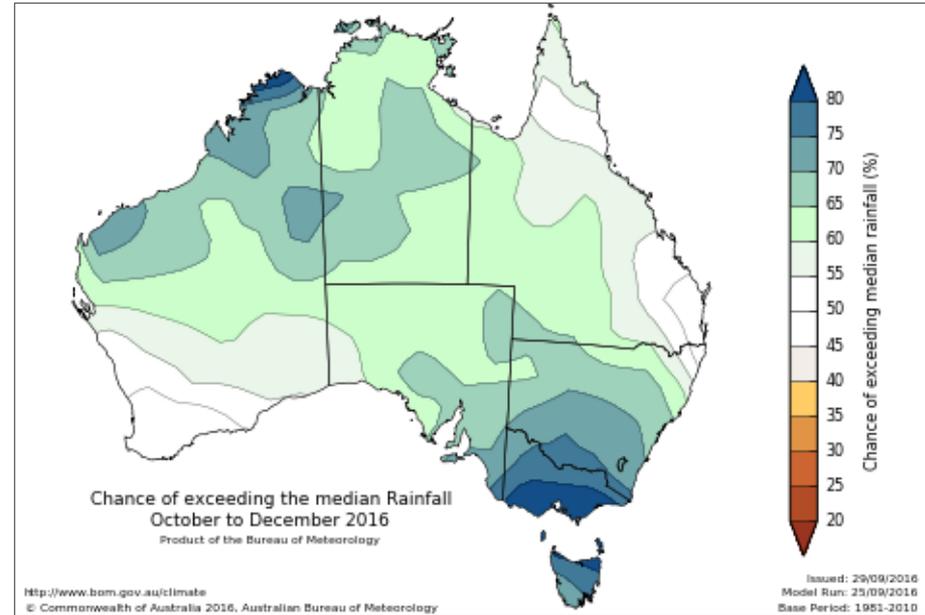
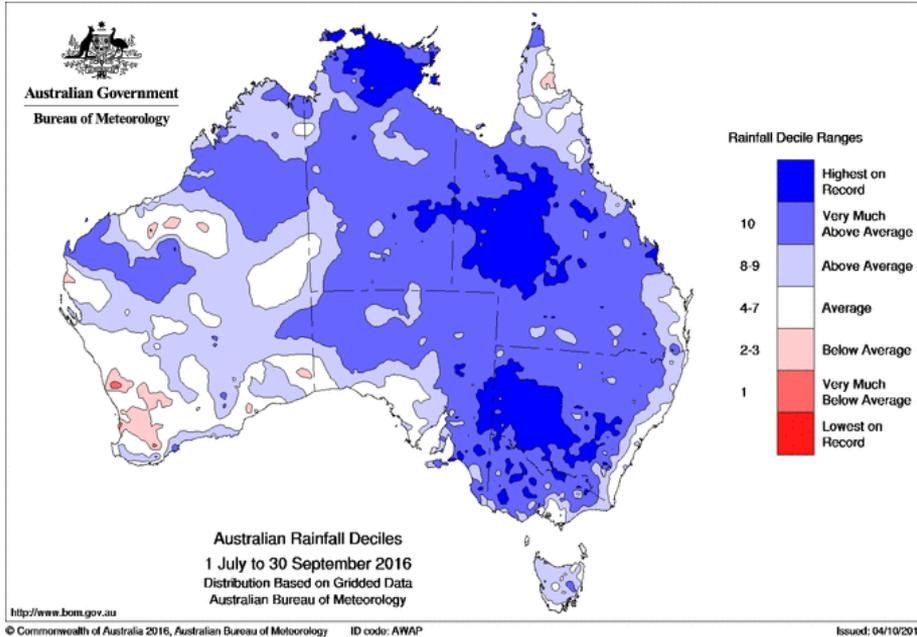
Education enrolments (‘000)



1. 2016-17 onwards are forecasts.

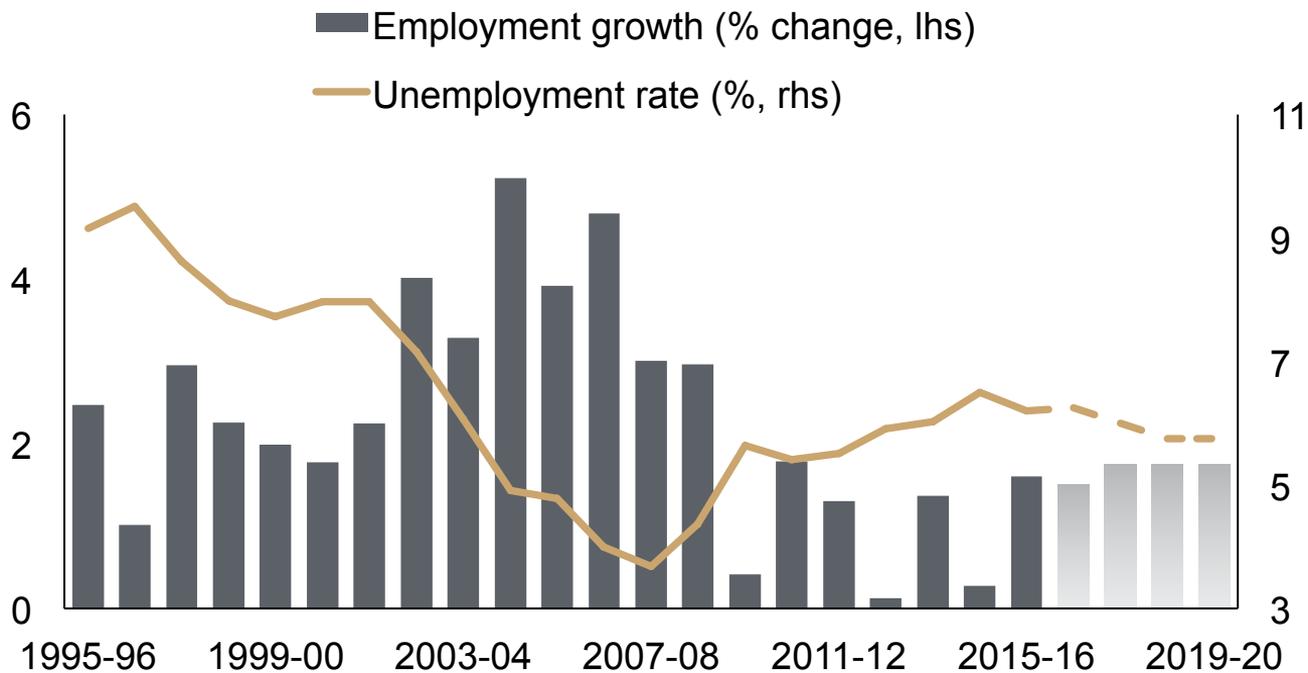
Sources: Tourism Research Australia, Department of Education & Training and Queensland Treasury .

Agriculture to benefit from improved rainfall outlook



Source: Bureau of Meteorology.

Labour Market, Queensland



Note: Year-average. 2016-17 onwards are forecasts/projections.

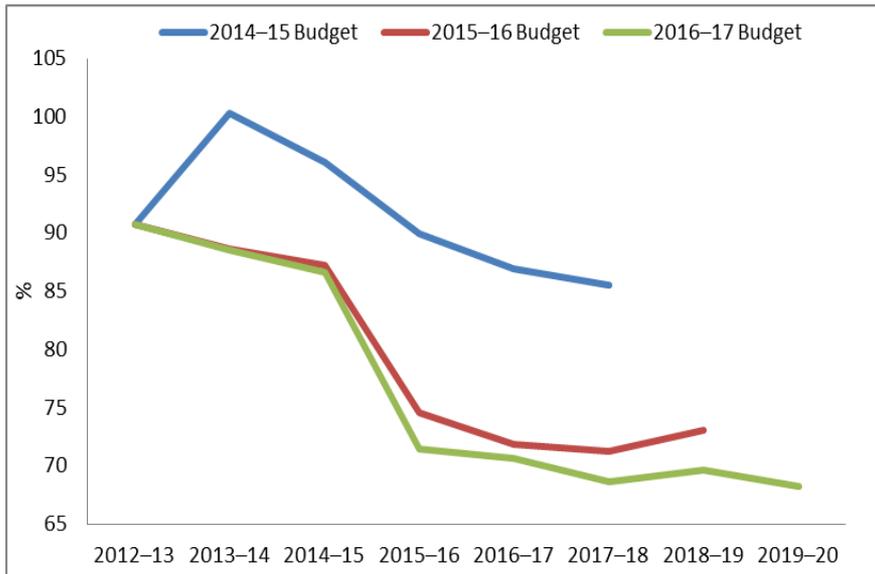
Sources: ABS 6202.0 and Queensland Treasury.

- Operating surpluses of \$3.2 billion over forward estimates
- Operating surplus of \$867 million for 2016-17 – largest in a decade
- Revenue growth (3.2%) outpacing expenses growth (2.9%)
- General Govt debt \$10.4 billion lower than 2014-15 Budget projection
- Debt to revenue ratio down from 87% in 2014-15 to 71% in 2015-16

- The Government will target ongoing reductions in Queensland's relative debt burden, as measured by the General Government debt-to-revenue ratio.
- The Government will target a net operating surplus that ensures any new capital investment is funded primarily through recurrent revenues rather than borrowing.
- The General Government 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.
- Maintain competitive taxation by ensuring that General Government sector own-source revenue remains at or below 8.5% of nominal gross state product, on average, over the forward estimates.
- Target full funding of long-term liabilities such as superannuation and WorkCover Queensland (WorkCover) in accordance with actuarial advice.
- Maintain a sustainable public service by ensuring overall growth in full-time equivalent employees does not exceed population growth from 2017-18.

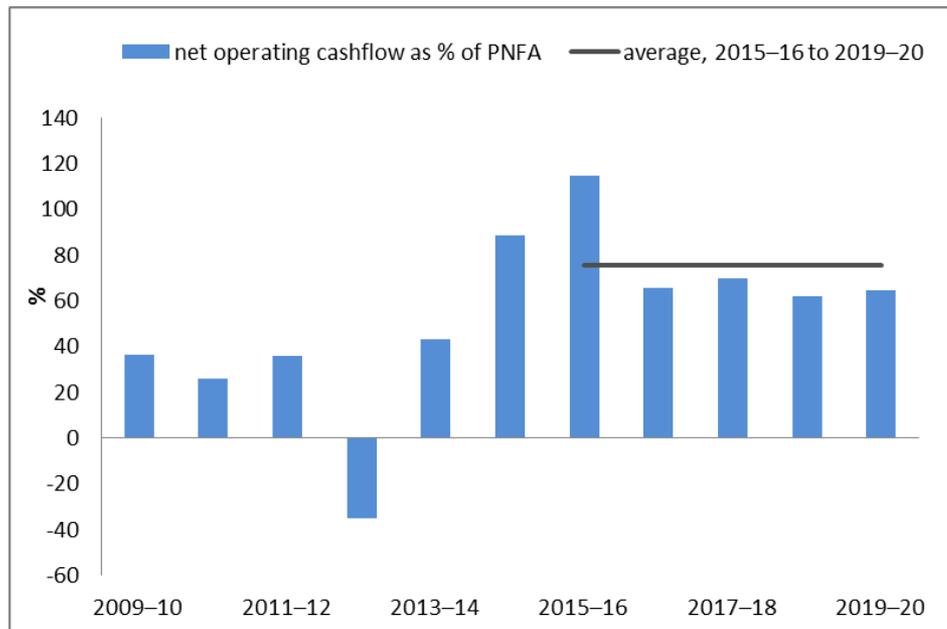
Fiscal Principle - falling debt to revenue ratio

General Government debt to revenue ratio



- Continued improvement in State's fiscal sustainability.
- Debt to revenue ratio declining significantly over the forward estimates.
- Expected to reach 68% in 2019-20 compared to 87% in 2014-15.

Net operating cash flow as a proportion of purchases of non-financial assets

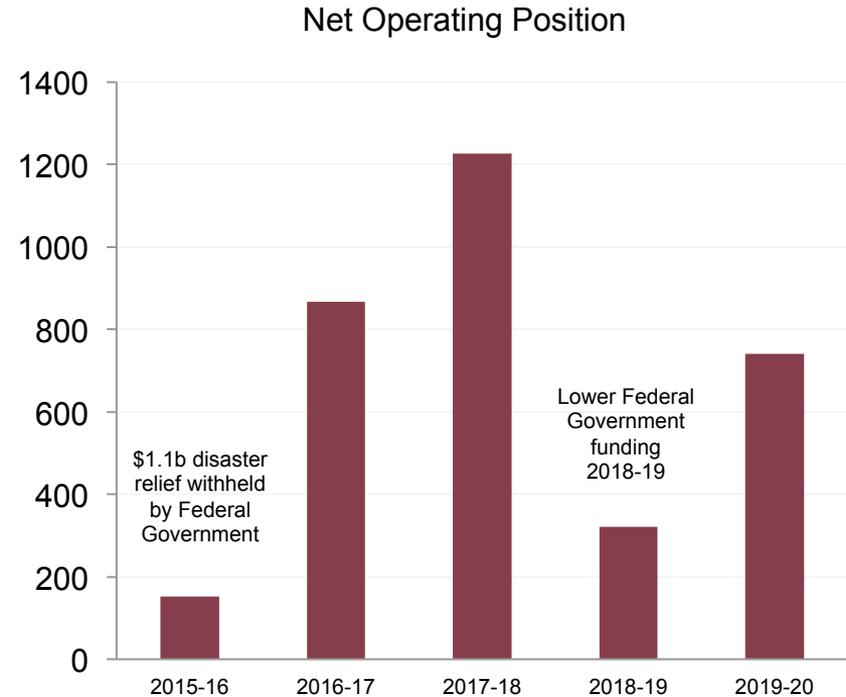


Fiscal Principle

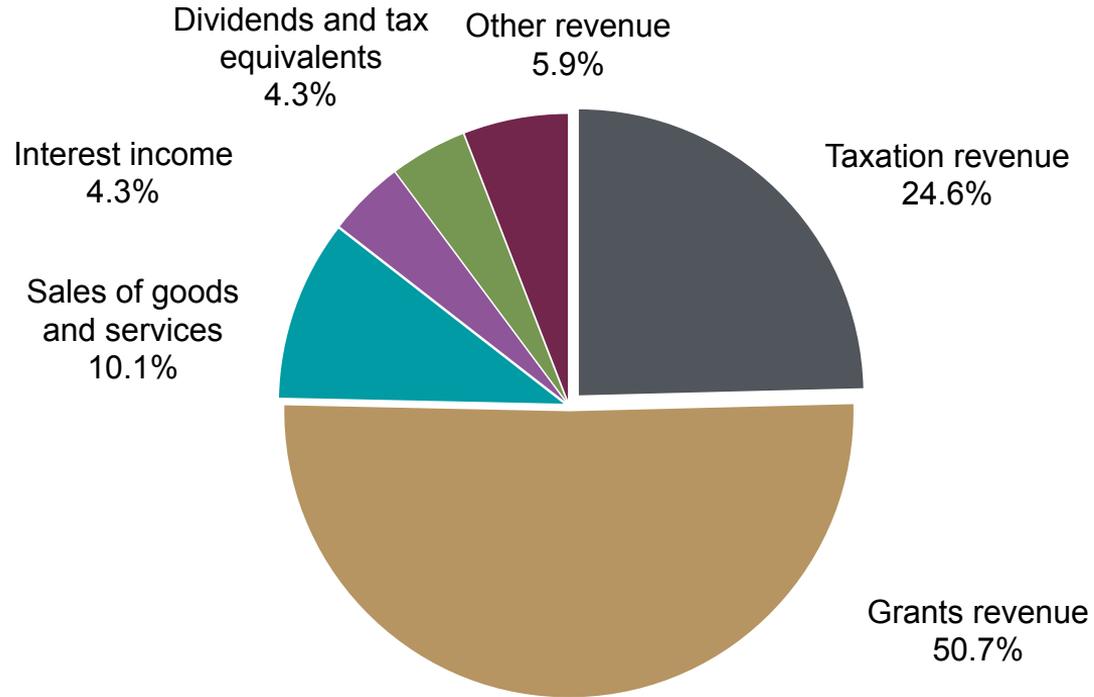
Target net operating surpluses that ensure any new capital investment in the General Government Sector is funded primarily through recurrent revenues rather than borrowing.

- 2015-16 estimated actual coverage now expected to be 115% (compared to MYFER estimate of 82%).
- Purchases of non-financial assets funded from net operating cash flows averages 75% across period 2015-16 to 2019-20.

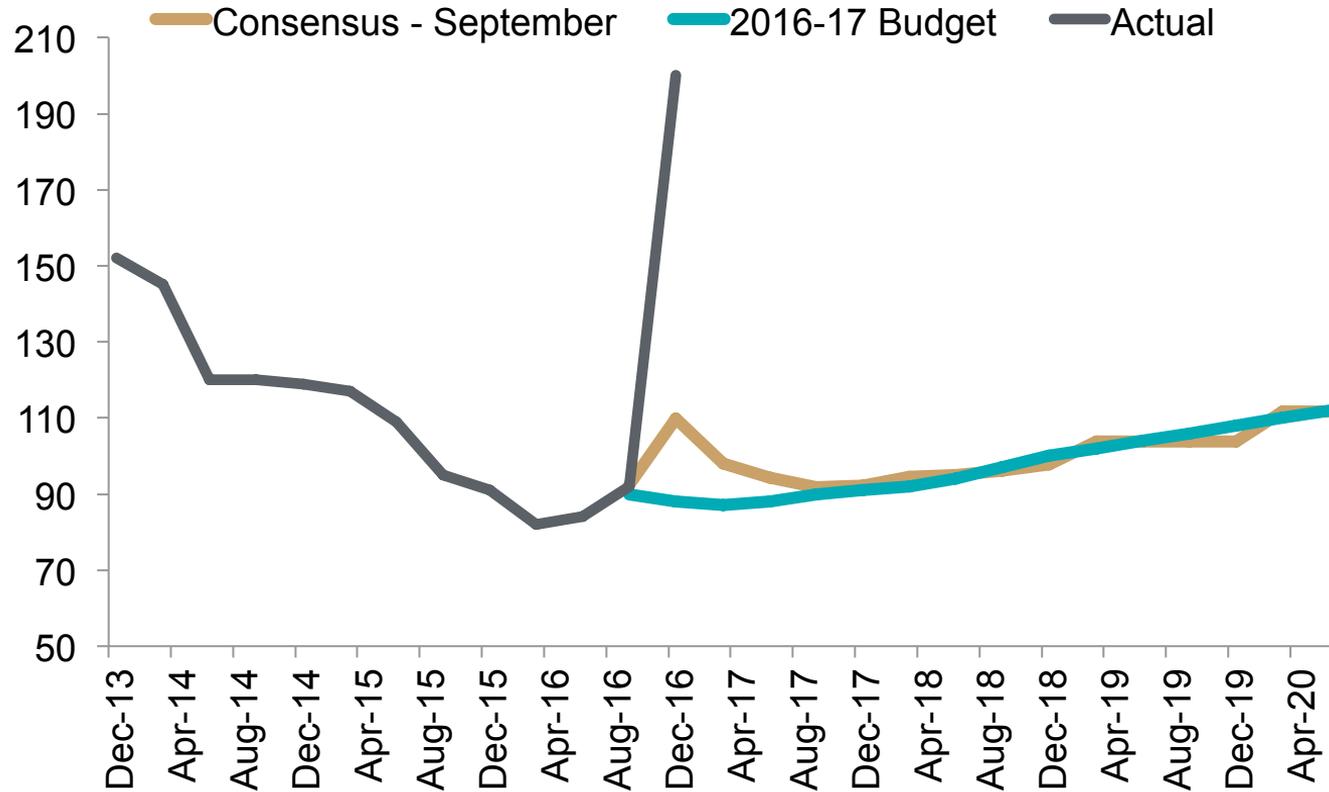
- 2015-16 estimated surplus of \$152 million.
- For 2016-17 Budget forecast surplus of \$867 million – largest surplus for a decade.
- Surpluses forecast in each of the next 4 years – \$3.2 billion



Diversified sources of revenue

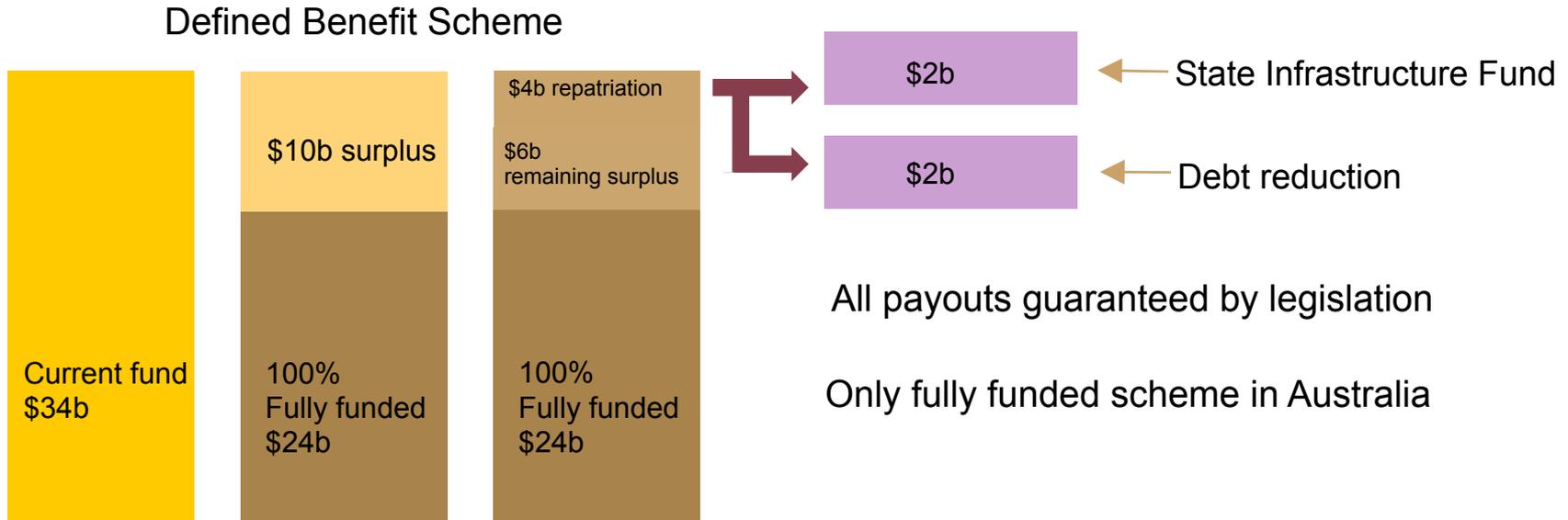


Improving coal contract prices



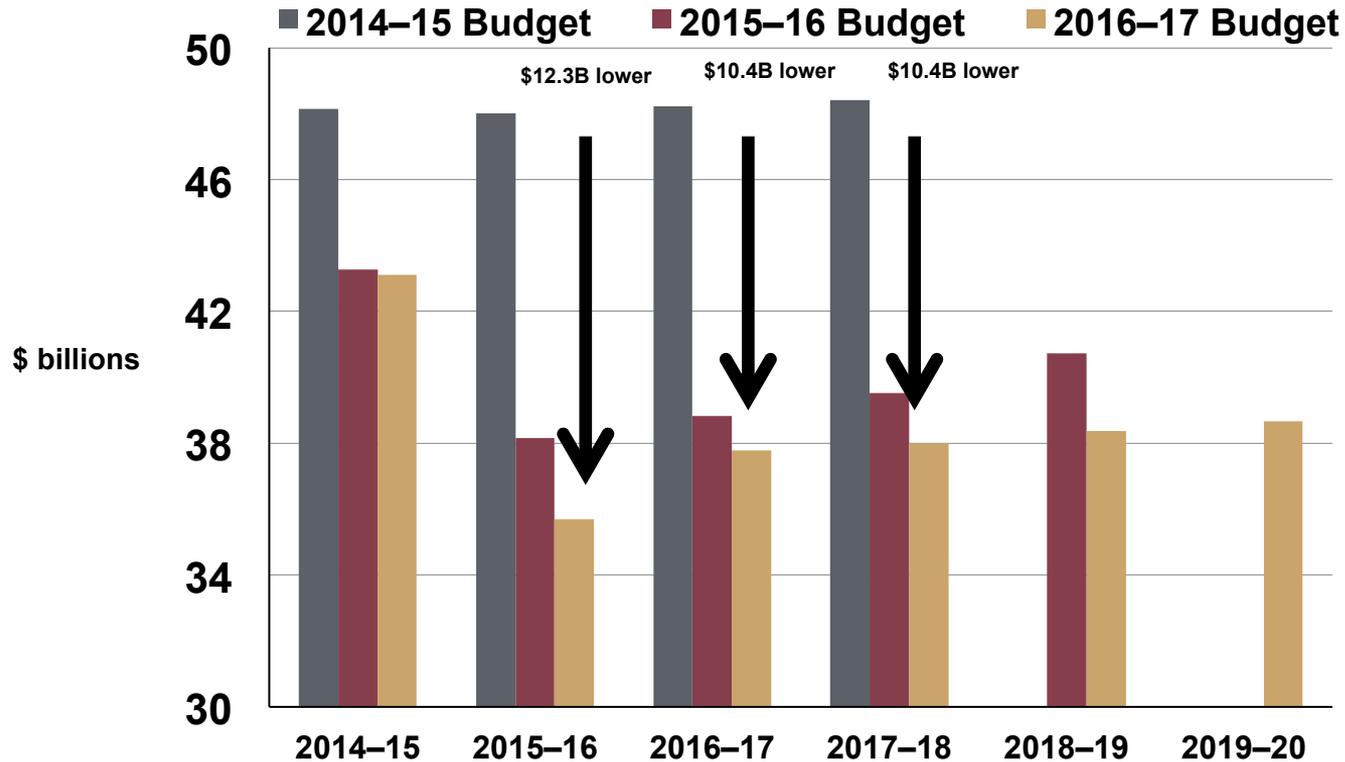
Strategies to manage expenditure growth:

- Reprioritisation
 - \$450 million over 2016-17 to 2018-19 to support whole-of-Government priorities;
 - builds on \$1.125 billion of reprioritisations in the 2015-16 Budget.
- Focus on FTE numbers following a period of service restoration – new fiscal principle to keep FTE growth within population growth.
- Controlled employee expenses growth.
- Strong focus on cost of key services, e.g. health and education.

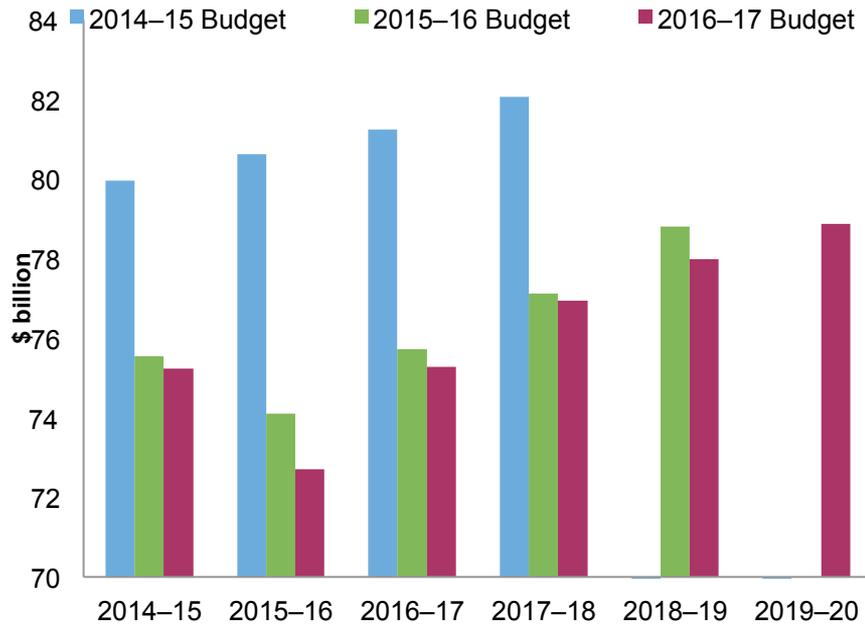


Scheme funding as at 30 June 2015

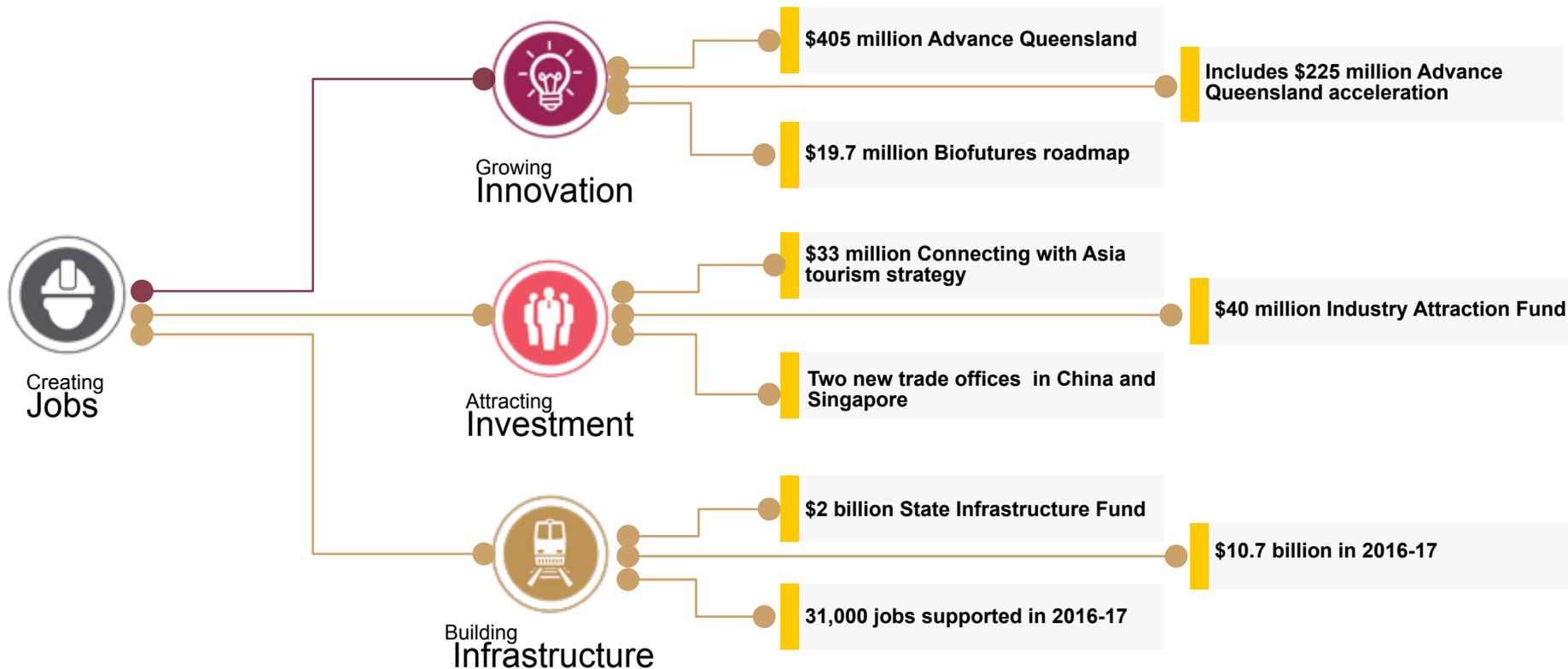
Reduction in General Government Debt



NFPS Debt



- NFPS debt expected to be \$72.7 billion at 30 June 2016 – \$7.904 billion less than 2014-15 Budget estimate.
- By 2017-18, NFPS debt expected to reach \$76.939 billion - \$5.131 billion less than projected in 2014-15 Budget.



Infrastructure Delivery without State funding

Market-Led Proposals

- Strong response – 80 preliminary proposals
- 27 proponents submitted formal stage 1 proposals
- Four proponents have been approved to deliver detailed proposals by late 2016
- These four proposals worth \$665 million

Northern Australia Infrastructure Facility (NAIF)

- \$5 billion in concessional finance from Commonwealth
- Commonwealth legislation to establish NAIF came into effect from 1 July 2016
- Encourage and complement private sector investment in economic infrastructure

Summary: Strong Government Resolve

Queensland Strengths

- Predictable and supportive institutional framework
- Exceptional liquidity
- Strong economy
- Strong financial management
- Fully funded defined benefit superannuation scheme

Effective Budget Strategy

- Budgetary performance continuing to improve
- Spending contained within pace of revenue growth
- Affordable budget measures that target economic strengths and diversification
- Debt Action Plan reducing debt burden
- Fiscal principles drive decision-making.