3 Fiscal strategy and outlook

Features

- The Queensland economy has strengthened during the last 12 months, with growth estimated to rise by 3½% in 2015–16. This growth is expected to increase to 4% in 2016–17. While the economy is transitioning, there are continuing growth and revenue challenges facing the Queensland and national economies and persistent volatility in global markets. Softer global growth prospects and weak commodity prices are weighing on royalty revenues and mining investment. In contrast, services exports such as tourism and education services, which are supported by a lower exchange rate, are performing strongly.
- The 2016–17 Budget balances sustainable fiscal management with supporting the transition of the Queensland economy from the resource investment peak associated with building the State's new liquefied natural gas (LNG) export industry towards a more diversified economy.
- The 2016–17 Budget focuses on innovation, investment and infrastructure as the necessary elements of job creation and to advance the Queensland economy to a more diversified and robust base. In line with the Advance Queensland agenda, the Queensland Government has a key role to play in helping support and position the State's businesses, industries and communities to respond to current and future challenges, as well as capitalising on opportunities. Innovative policies and approaches that drive productivity growth will help grow the State's businesses, improve employment opportunities for current and future generations of Queenslanders and boost incomes.
- Accordingly, the 2016–17 Budget includes initiatives to: foster innovation, encourage entrepreneurship and grow the State's human capital; encourage investment in the efficient and sustainable delivery of productivity–enhancing infrastructure; develop innovative approaches to providing essential government services; optimise the use of our land and natural resources; and promote business investment and exports. As a result of the challenging revenue outlook and demonstrating the Government's commitment to expenditure control, these new initiatives are partly funded through reprioritisations. The most significant of these new measures include a $405 million Advance Queensland package, a $100 million Regional Back to Work package and a $2 billion State Infrastructure Fund.
- For rural and regional communities particularly affected by a transitioning economy, the Budget includes support such as the Rural Assistance Package, extensions to the Building our Regions Program and drought assistance measures.
- In the 2015–16 Budget the Government embarked on a responsible path to reduce Queensland's debt. The 2016–17 Budget provides for further debt reduction and, at the same time, targeted initiatives to boost productivity through infrastructure investment, including the $2 billion State Infrastructure Fund. This will support delivery of the transformational infrastructure that Queenslanders need today to prepare for the challenges of tomorrow. The fund will provide $300 million towards the Priority Economic Works and Productivity Program, $180 million towards the Significant Regional Infrastructure Projects Program, and $20 million

towards Maturing the Infrastructure Pipeline. The balance of $1.5 billion for the next phase of priority infrastructure needs, to be informed by independent advice from Building Queensland, including the Building Queensland infrastructure pipeline of priority projects.

- Non–financial Public Sector capital expenditure totals $9.634 billion for 2016–17, which comprises $8.264 billion of purchases of non–financial assets (PNFA), and $1.370 billion of capital grants expenses. In addition to these, acquisitions of non–financial assets under finance leases of $1.032 billion brings the total capital program in 2016–17 to $10.666 billion.
- The total Non–financial Public Sector capital program is $40.836 billion for the period 2016–17 to 2019–20. This comprises capital expenditure of $38.461 billion (which itself is comprised of $35.242 billion of PNFA and $3.220 billion of capital grants expenses) and acquisitions of non–financial assets under finance leases of $2.375 billion.
- The Government is continuing to manage General Government Sector debt, while also optimising its investment in infrastructure, by leveraging the State's balance sheet. General Government Sector debt is estimated to be $38.662 billion in 2019–20, which is $4.443 billion lower than the 2014–15 peak of $43.105 billion. Importantly, the debt to revenue ratio is declining significantly over the forward estimates to reach 68% in 2019–20 compared to 87% in 2014–15. General Government Sector debt in 2016–17 is expected to be $37.775 billion, a reduction of $10.441 billion compared with the 2014–15 Budget projection.
- Interest on General Government Sector borrowings is an estimated $906 million less than projected at the time of the 2015–16 Mid Year Fiscal and Economic Review (MYFER) for the period 2015–16 to 2018–19, largely as a result of the Debt Action Plan and lower interest rates.
- At MYFER, a General Government Sector net operating surplus of $1.175 billion was forecast for 2015–16. Around $1.1 billion in Natural Disaster Relief and Recovery Arrangements (NDRRA) funding has been deferred from 2015–16 to 2016–17 and 2017–18. This has occurred as a result of the Commonwealth Government's 2016–17 Budget, which deferred Queensland's NDRRA funding without prior consultation, contributing to a reduced forecast net operating surplus of $152 million in 2015–16.
- The net operating surplus of $867 million for 2016–17 is forecast to be the largest surplus since 2006–07. Net operating surpluses are expected each year of the forward estimates, despite royalty revenue forecasts being revised down by $2.713 billion across the period 2015–16 to 2018–19 since the MYFER, and further downward revisions to State tax revenue of around $350 million (net of measures) over the same period.
- Additional expense measures averaging $394 million per year are being provided over the period 2015–16 to 2018–19, including for support to the regions, biosecurity and Biofutures, community and disaster resilience, enhanced Advance Queensland measures and support for small business.
- Operating expenses are forecast to grow at a sustainable rate, averaging 2.9% per annum over the four years to 2019–20. This is less than the forecast rate of revenue growth of 3.2% per annum over the same period.

- The Government is building on its budget strategy from the 2015–16 Budget through the Debt Action Plan, retaining and delivering on the fiscal principles introduced in that budget. The strategy will be further strengthened through the introduction of an additional fiscal principle which ensures that growth in the public service, on average over the forward estimates, will be aligned with population growth.

3.1 Context

In its first Budget, the Palaszczuk Government delivered on a number of key policy positions taken to the January 2015 Election. The 2016–17 Budget builds on the 2015–16 Budget, progressing the Government's election commitments and new, aligned policy measures to support future economic growth.

The Government continues to face significant weakness in royalties and key tax revenues and as a result has identified further responsible measures to refocus the balance sheet to lower debt, while enabling prudent infrastructure investment, such as committing $2 billion for the State Infrastructure Fund.

The Government's actions, consistent with its undertakings at the time of the 2015 State election, will continue to manage General Government Sector debt and provide additional funds for infrastructure investment without requiring the sale of government–owned corporations, without increases in taxes on Queenslanders, without cuts to services, and without redundancies. Further detail on these measures is provided in Box 3.1.

The Review of State Finances, released concurrently with the 2015–16 Budget, confirmed the importance of delivering substantial net operating surpluses to ensure that the General Government Sector capital program can be funded primarily from recurrent revenues, rather than borrowings. The Review also confirmed the importance of managing General Government Sector debt through targeting an ongoing reduction in the ratio of debt to revenue.

In the 2015–16 Budget, following consideration of the Review of State Finances, the Government adopted five fiscal principles aimed at improving the sustainability of the State's finances. The Government remains committed to these principles which are:

- Target ongoing reductions in Queensland's relative debt burden, as measured by the General Government Sector debt to revenue ratio.
- Target net operating surpluses that ensure any new capital investment in the General Government Sector is funded primarily through recurrent revenues rather than borrowing.
- The capital program will be managed to ensure a consistent flow of works to support jobs and the economy and reduce the risk of backlogs emerging.
- 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, across the forward estimates.

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

In the 2016–17 Budget the Government is introducing an additional fiscal principle in relation to the management of growth in the public service. The new principle, which follows the delivery of key commitments to revitalise frontline services, is as follows:

- Maintain a sustainable public sector by ensuring that overall growth in full–time equivalent employees, on average over the forward estimates, does not exceed population growth.

Further discussion of the fiscal principles, and the Government's progress in meeting its targets, is provided in Sections 3.3 and 3.4. Further discussion of the size of the Queensland public sector is in Chapter 5.

The fiscal environment facing the State remains challenging. There has been a further softening of the outlook for the global economy, and in line with this, prospects for growth in industrial production in Queensland's major export markets for energy and mineral products have plateaued in recent months particularly in the key coal export market of China. This has contributed to a decline in the outlook for coal prices. Weaker oil prices are also weighing on the State's coal seam gas royalty revenues (as liquefied natural gas export prices are linked to oil prices).

Reflecting these factors, royalty revenue forecasts have been revised down by $2.713 billion since the 2015–16 MYFER.

Box 3.1 Debt Action Plan

The Queensland Government remains committed to taking action to reduce the level of General Government Sector debt and its associated interest expenses.

The following measures are being undertaken while retaining 100% State ownership of the government–owned corporations and fully funding superannuation entitlements.

The Government continues to explore opportunities to reduce General Government Sector debt.

Surplus repatriation from the defined benefit superannuation scheme

The State Actuary's most recent valuation indicates that as at 30 June 2015 the defined benefit superannuation scheme is in a surplus position of over $10 billion on a funding basis (common actuarial practice focuses on the funding basis when determining the funding strategy for superannuation schemes).

In light of the strong financial position of the scheme, the Government will repatriate $4 billion from the previous over–contribution to the scheme by the Government.

Half of the funds repatriated will be used to fund additional priority infrastructure and the balance to reduce General Government Sector debt.

This measure is a continuation of the debt reduction strategy outlined in the 2015–16 Budget and is consistent with the Government's continuing focus on balance sheet management.

The Government's objectives in managing the defined benefit scheme are to minimise overfunding of the scheme and to manage the scheme based on the Australian Prudential and Regulatory Authority (APRA) funding standards that apply to corporate defined benefit superannuation schemes.

The State Actuary has advised that a repatriation of up to $5 billion could be undertaken while maintaining consistency with APRA funding standards for corporate defined benefit superannuation schemes.

The payment of defined benefit scheme entitlements remains guaranteed by legislation. There will be no change in entitlements for defined benefit scheme members. All defined benefit scheme member entitlements will continue to be paid as they fall due.

Although the defined benefit scheme was closed to new members in 2008, it will continue until the retirement of the last of the current members.

Queensland is still the only Australian jurisdiction to fully fund its defined benefit superannuation liabilities.

The surplus repatriation is consistent with Government's ongoing commitment to the fiscal principle of targeting full funding of long–term liabilities, including superannuation, in accordance with actuarial advice.

Government–owned corporations and cash management arrangements

The cash balances of Government departments are aggregated daily in a set–off bank facility. Any surplus cash is invested until needed or used to reduce General Government Sector debt.

Currently, significant cash balances are maintained in State owned entities, at the same time that the Government has a net borrowing requirement.

In order to make more effective use of available resources, government–owned corporations will be required to make any surplus cash available to the General Government Sector through a modified set–off banking arrangement. Additionally, where Government makes payments to government–owned corporations, these will be paid in the future according to a detailed cash flow forecast rather than a periodic payment schedule.

These revised cash management arrangements will ensure that government–owned corporations are not financially or commercially disadvantaged, but allow any surplus cash to be made available to the General Government Sector and contribute to General Government Sector debt reduction.

This arrangement will be implemented in such a way that government–owned corporations will still be able to meet their required operational cash flows as they fall due and encourage a more disciplined and commercial focus.

The improved cash management arrangements are expected to contribute to General Government Sector debt reduction by an estimated $750 million by 2017–18.

Regearing

As announced in the 2015–16 MYFER, the Government is implementing the regearing strategy for a number of government–owned corporations. These measures contribute approximately $1 billion to debt reduction over the forward estimates. At the same time, the Government continuously assesses the capital structure and gearing levels of all government–owned corporations, making adjustments in accordance with forecast information.

3.2 Key fiscal aggregates

The key fiscal aggregates of the General Government Sector for the 2016–17 Budget are outlined in Table 3.1 and are discussed in detail in this chapter.

Table 3.1 General Government Sector – key fiscal aggregates[1]

	2014–15 Actual[2] $ million	2015–16 MYFER $ million	2015–16 Est. Act. $ million	2016–17 Budget $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Revenue	49,765	51,354	49,976	53,449	55,349	55,097	56,674
Expenses	49,224	50,180	49,824	52,582	54,123	54,775	55,934
Net operating balance	**542**	**1,175**	**152**	**867**	**1,225**	**321**	**741**
PNFA[3]	4,779	5,325	4,173	5,452	6,590	5,840	5,983
Fiscal balance	(581)	(1,140)	(940)	(2,006)	(2,114)	(2,115)	(1,042)
Borrowing	**43,105**	**37,973**	**35,698**	**37,775**	**38,000**	**38,365**	**38,662**
Borrowing (NFPS)[4]	75,233	73,878	72,715	75,270	76,939	77,976	78,869

Notes:

1. Numbers may not add due to rounding. Bracketed numbers represent negative amounts.
2. Reflects published actuals.
3. PNFA: Purchases of non–financial assets.
4. NFPS: Non–financial Public Sector.

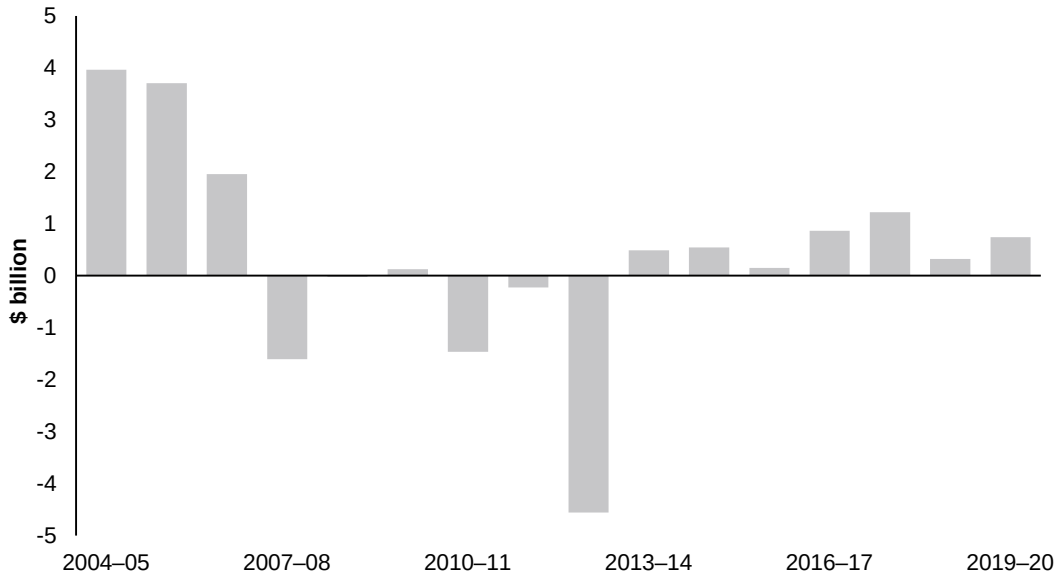
3.2.1 Net operating balance

Consistent with the Government's fiscal principles, operating surpluses are projected in each year of the forward estimates, despite the continuing deterioration in key revenue lines, particularly royalties. This will ensure that the General Government Sector capital program is primarily funded from recurrent revenues, rather than borrowings.

As identified in Table 3.1, the anticipated 2015–16 operating surplus of $152 million compares with a forecast surplus of $1.175 billion expected in the 2015–16 MYFER. This $1.023 billion deterioration is largely the result of the Commonwealth Government's decision to defer reimbursement for NDRRA expenses already incurred by the State.

While there is continuing weakness in revenue outlooks, the lower net operating surplus in 2015–16 relative to previous forecasts is primarily driven by timing in Commonwealth funding for disaster recovery expenditure. As shown in Chart 3.1, the operating surplus in 2016–17 is estimated to be the largest operating surplus since 2006–07 and surpluses are forecast across the remainder of the forward estimates.

Chart 3.1 Net operating balance



The estimated 2016–17 General Government Sector operating surplus of $867 million is weaker than the forecast surplus of $1.413 billion in the 2015–16 MYFER. This is primarily a result of reduced royalty revenues. Royalty revenue estimates have been revised down by $639 million in 2016–17 since MYFER, primarily because of substantially lower coal prices, and revisions to coal seam gas royalties.

Taxation revenue has been revised down by $154 million in 2016–17 relative to MYFER. This is primarily because of reductions in the rate of growth in payroll tax, offset, to some extent, by transfer duty. Goods and services tax (GST) revenue has been revised up by $390 million since MYFER, reflecting an increase in Queensland's share of GST, as recommended by the Commonwealth Grants Commission (CGC).

Since the 2015–16 MYFER, additional expense measures of $497 million have been provided for 2016–17. These will improve service delivery and support economic transition and future employment in the regions, enhance Advance Queensland and continue with the Government's commitment to restore frontline services in Health and Education. The 2016–17 Budget continues implementation of the Government response to the *Not Now, Not Ever* Report on domestic and

family violence and provides additional funding for legal services, including court and tribunal workloads.

Downward revisions to operating surpluses in 2017–18 and 2018–19 compared to the 2015–16 Budget primarily reflect substantial revisions to royalty revenue and to a lesser extent taxation and new policy measures. These are partly offset by reprioritisation measures, increases to GST revenue and changed timing for the receipt of Commonwealth funding in relation to disaster expenditure.

Table 3.2 General Government Sector – net operating balance forecasts

	2014–15 $ million	2015–16 $ million	2016–17 $ million	2017–18 $ million	2018–19 $ million	2019–20 $ million
2015–16 Budget	962	1,213	2,226	2,132	1,327	n.a.
2015–16 MYFER	542	1,175	1,413	1,640	1,145	n.a.
2016–17 Budget	**542**	**152**	**867**	**1,225**	**321**	**741**

Despite the deterioration in the operating position since the 2015–16 Budget and MYFER, Queensland's operating position remains sound with operating surpluses expected each year of the forward estimates.

Table 3.3 provides a breakdown of the movements in the net operating balance since the 2015–16 MYFER.

Table 3.3 Reconciliation of net operating balance, 2015–16 MYFER to 2016–17 Budget[1]

	2015–16 $ million	2016–17 $ million	2017–18 $ million	2018–19 $ million
2015–16 MYFER net operating balance	**1,175**	**1,413**	**1,640**	**1,145**
Taxation revisions[2]	(129)	(131)	(158)	(5)
Royalty revisions	(178)	(639)	(918)	(978)
GST revisions	54	390	177	163
Natural disaster revisions[3,4]				
Change in revenue	*(1,106)*	*501*	*396*	..
Change in expenses	*71*	*(3)*	*(64)*	(8)
Net change	(1,035)	498	332	(8)
Measures[5]				
Expense	(68)	(497)	(683)	(327)
Revenue	..	38	54	55
Net	(68)	(459)	(628)	(272)
Net flows from PNFC and PFC Sector entities[6]	35	(47)	171	92
Australian Government funding revisions[7]	76	(192)	203	141
Other parameter adjustments[8]	222	34	406	43
2016–17 Budget net operating balance	**152**	**867**	**1,225**	**321**

Notes:

1. Numbers may not add due to rounding. Numbers indicate impact on the operating balance. A number in brackets indicates a negative impact on the operating balance.
2. Represents parameter adjustments to taxation revenue.
3. Represents movements in revenue and expense for natural disaster restoration. Largely represents revisions to expected reimbursements from the Australian Government. The reduction in revenue in 2015–16 is in part re–profiled to 2016–17 and 2017–18 and in part an absolute reduction in NDRRA revenue.
4. This table shows changes in NDRRA revenues and expenses since the 2015–16 MYFER and differs from numbers in Table 3.4, which shows budgeted total NDRRA revenue and expenditure.
5. Reflects the value of Government decisions since the 2015–16 MYFER. This number varies from the total figure in Budget Paper 4 – Budget Measures as it excludes some measures funded by the Australian Government.
6. Represents revisions to dividends and tax equivalent payments from, and community service obligation and Transport Service Contracts payments to, Public Non–financial Corporations and Public Financial Corporations.
7. Represents the net impact of funding provided by the Australian Government primarily for Specific Purpose Payments and National Partnership payments (mainly for transport infrastructure) and excluding funding for disaster recovery expenses.
8. Refers to adjustments largely of a non–policy nature, primarily changes in interest paid on borrowings, depreciation, growth funding, swaps, deferrals and administered revenue.

3.2.2 Natural Disaster Relief and Recovery Arrangements

The timing of revenue and expenditure in relation to natural disasters continues to significantly impact Queensland's near–term budget position. Table 3.4 outlines the impact of natural disaster arrangements on Queensland's net operating balance.

Table 3.4 Impact of Natural Disaster Relief and Recovery Arrangements funding on the net operating balance[1]

	2015–16 $ million	2016–17 $ million	2017–18 $ million	2018–19 $ million	2019–20 $ million
Published net operating balance	152	867	1,225	321	741
less Disaster revenue[2]	..	746	596	..	..
add Disaster expenses	425	279	96	8	..
Underlying net operating balance	**577**	**400**	**725**	**329**	**741**
Disaster related capital[2]	121	23	..	..	..

Notes:

1. Numbers may not add due to rounding.
2. Numbers differ from those shown in Table 3.3, as Table 3.3 represents changes since the 2015–16 MYFER and Table 3.4 represents total budgeted revenue and expenditure.

A change to the expected timing of Australian Government reimbursements for previous disasters has deferred revenue from 2015–16 into 2016–17 and 2017–18. Revenue across 2016–17 and 2017–18 is now projected to be $501 million and $396 million higher respectively than forecast in MYFER. Commonwealth NDRRA payments reimburse the State for disaster recovery expenditure already incurred.

From 2018–19 onwards the impact of disasters and the timing of NDRRA reimbursements have a minimal impact on the expected net operating position.

3.2.3 Cash flows and balance sheet

General Government Sector

Cash surplus/(deficit)

The General Government Sector is expected to record a cash surplus in 2015–16 of $821 million, compared to a $655 million deficit forecast in the MYFER. The significant cash surplus, compared to the expected cash deficit primarily reflects slightly higher net operating receipts, re–profiled expenditure, and reduced cash requirements for investments in non–financial assets.

A cash deficit of $1.550 billion is expected for the General Government Sector in 2016–17 with cash deficits in each of the following years. Across the period 2016–17 to 2019–20, cash deficits equate to 28% of purchases of non–financial assets.

Capital purchases

The State's 2016–17 Non–financial Public Sector capital expenditure totals $9.634 billion, which comprises $8.264 billion of purchases of non–financial assets (PNFA), and $1.370 billion of capital grants expenses. In addition to these, acquisitions of non–financial assets under finance leases are forecast to be $1.032 billion, bringing the total capital program in 2016–17 to $10.666 billion.

The leases predominantly relate to Public Private Partnerships which constitute a larger proportion of the State's capital program in 2016–17 than in previous years. Budget Paper 3 – Capital Statement provides details of budgeted 2016–17 capital outlays by portfolio, including acquisitions of non–financial assets under finance leases.

Within the General Government Sector, PNFA in 2015–16 are estimated to be $4.173 billion. This is $1.152 billion less than forecast in the MYFER, largely due to a re–profiling of cash flows across a range of departments and also reclassifications of transport and health expenditure from capital to operating expenses. The reclassified expenditures, while reducing the reported capital program, will continue to be applied to the delivery of infrastructure outcomes.

General Government Sector PNFA of $5.452 billion are budgeted for 2016–17, $370 million less than the $5.822 billion forecast in the 2015–16 MYFER. This primarily relates to the deferral of Commonwealth–funded transport infrastructure, consistent with the 2016–17 Commonwealth Budget, and some reclassification of transport expenditure from capital to operating expenses.

Over the period 2016–17 to 2019–20, PNFA in the General Government Sector of $23.865 billion are planned. Capital grants expenses for the General Government Sector over the same period are expected to total $3.220 billion, bringing capital expenditure for that Sector to $27.085 billion. With acquisitions of non–financial assets under finance leases being $2.375 billion, the total General Government Sector capital program is forecast to be $29.460 billion over the four years to 2019–20. This compares to a total General Government sector capital program at the time of the 2015–16 Budget of $28.535 billion over the four years to 2018–19.

Borrowings

Gross General Government Sector borrowings (the stock of borrowings outstanding as stated in the Balance Sheet) of $35.698 billion at 30 June 2016 are $2.453 billion less than forecast in the 2015–16 Budget and $12.326 billion lower than the $48.023 billion forecast at the time of the 2014–15 Budget. The significant reduction since the 2014–15 Budget is primarily due to measures under the Debt Action Plan.

A net General Government Sector borrowing of $665 million is budgeted for 2016–17, as PNFA are somewhat greater than net cash flows from operating activities.

Net borrowing requirements are modest across the remainder of the forward estimates. This is largely a result of the repatriation of funds from the previous over–contribution to the Defined Benefit Superannuation scheme effectively funding increased capital investment and the reduction in revenue. The benefits of the enhanced Debt Action Plan are apparent particularly in terms of the debt to revenue ratio, as demonstrated in Table 3.5.

Table 3.5 General Government Sector gross borrowings as a proportion of revenue

	2015–16 Est. Act. $ million	2016–17 Projection $ million	2017–18 Projection $ million	2018–19 Projection $ million	2019–20 Projection $ million
Gross borrowings	35,698	37,775	38,000	38,365	38,662
Revenue	49,976	53,449	55,349	55,097	56,674
Borrowings/revenue ratio	71%	71%	69%	70%	68%

Chart 3.2 compares the 2016–17 borrowing projections with those in the 2014–15 Budget and 2015–16 Budget. The chart demonstrates that General Government Sector borrowings are expected to be substantially lower in each year of the forward estimates compared to both prior Budgets, particularly the 2014–15 Budget. The chart also demonstrates that borrowings are expected to be $4.443 billion lower in 2019–20 than 2014–15.

Chart 3.2 General Government Sector borrowings

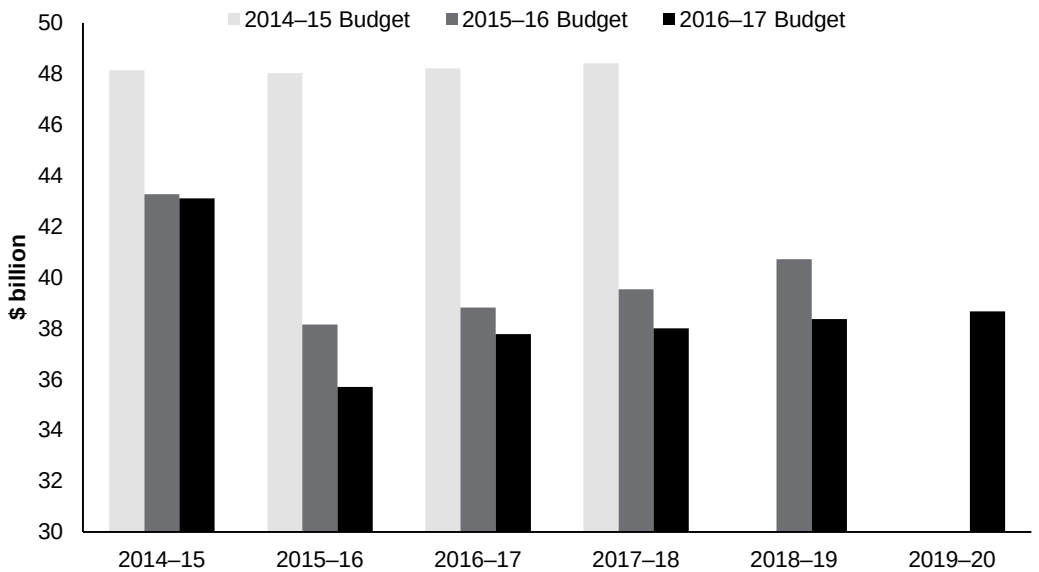


Table 3.6 identifies that General Government Sector borrowings are estimated to be lower than 2014–15 in each year of the forward estimates. In comparison, the 2014–15 Budget projected General Government Sector borrowings would increase each year reaching $48.421 billion in 2017–18.

Table 3.6 Revisions to General Government Sector borrowings[1]

	2014–15 $ million	2015–16 $ million	2016–17 $ million	2017–18 $ million	2018–19 $ million
2014–15 Budget	48,141	48,023	48,216	48,421	n.a.
2015–16 Budget	43,268	38,151	38,818	39,532	40,724
2016–17 Budget	43,105	35,698	37,775	38,000	38,365
Change between 2014–15 Budget and 2016–17 Budget	**(5,037)**	**(12,326)**	**(10,441)**	**(10,420)**	**n.a.**

Notes:

1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

Public Non–financial Corporations Sector

The Public Non–financial Corporations (PNFC) Sector is comprised of the State's commercial entities, such as those that operate in the energy, transport and water industries. Further detail on the PNFC Sector is provided in Chapter 8.

The PNFC Sector is expecting net borrowings of $4.553 billion in 2015–16, an increase from the $3.703 billion 2015–16 MYFER estimate, largely reflecting changes to the timing of dividend payments. Gross borrowings in the PNFC Sector are estimated to be $37.018 billion at 30 June 2016, above the MYFER estimate of $35.905 billion.

Borrowings in this Sector are expected to increase to $40.208 billion in 2019–20, with the increase partly attributable to the Government's decisions under the Debt Action Plan to increase the targeted gearing ratios of the energy network businesses and Gladstone Ports Corporation Limited, North Queensland Bulk Ports Limited and SunWater Limited, acknowledging that these government–owned corporations and their borrowings are self–sustaining and able to be managed commercially.

Purchases of non–financial assets in the PNFC Sector are forecast to be $2.812 billion in 2016–17 and $11.377 billion in the four years to 2019–20.

Non–financial Public Sector

The Non–financial Public (NFP) Sector is the combination of the General Government and PNFC Sectors, with transactions between these sectors being eliminated.

Gross borrowings of $72.715 billion are estimated at 30 June 2016 in the NFP Sector, $7.904 billion less than the 2014–15 Budget estimate primarily as a result of the improvement in General Government Sector debt. By 2017–18, borrowings are expected to reach $76.939 billion, $5.131 billion less than projected in the 2014–15 Budget as demonstrated in Chart 3.3.

Chart 3.3 Non–financial Public Sector gross borrowings

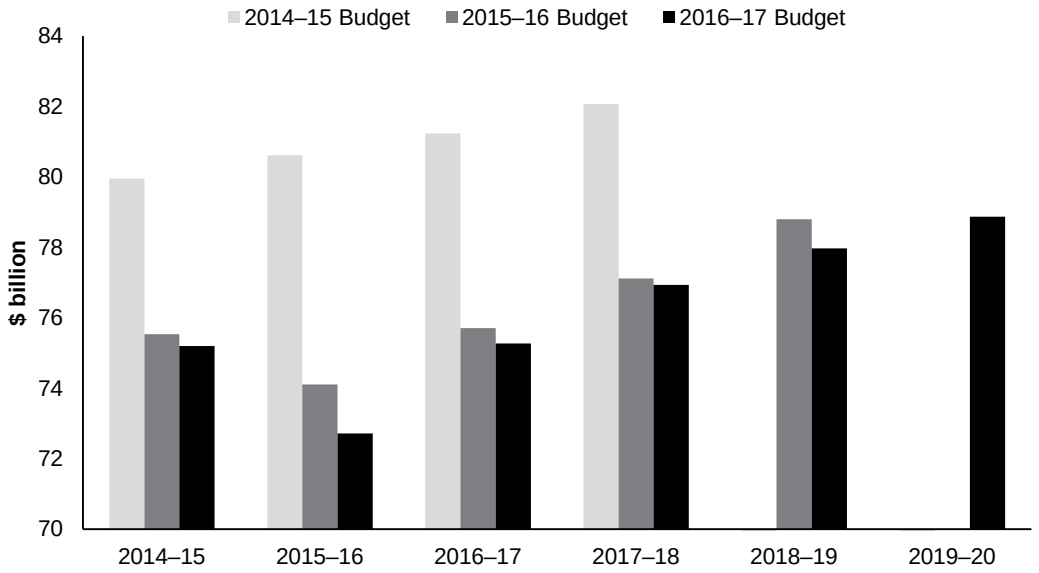


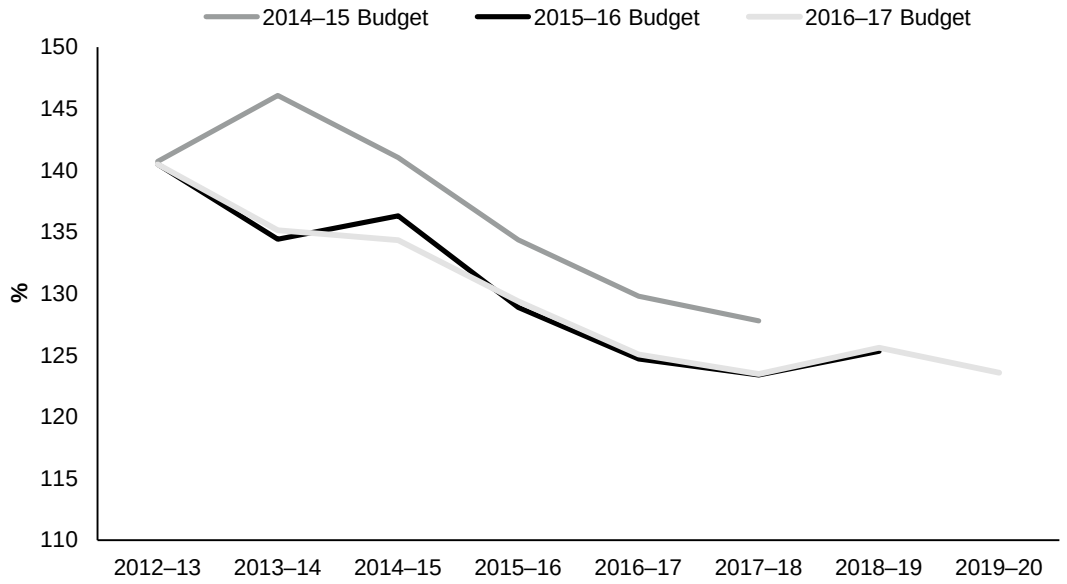
Table 3.7 identifies the revisions to NFP Sector borrowings since the 2014–15 Budget.

Table 3.7 Revisions to Non–financial Public Sector borrowings

	2014–15 $ million	2015–16 $ million	2016–17 $ million	2017–18 $ million	2018–19 $ million
2014–15 Budget	79,956	80,619	81,234	82,070	n.a.
2015–16 Budget	75,535	74,113	75,714	77,119	78,802
2016–17 Budget	75,233	72,715	75,270	76,939	77,976
Change between 2014–15 Budget and 2016–17	**(4,723)**	**(7,904)**	**(5,963)**	**(5,131)**	**n.a.**

The NFP Sector debt to revenue ratio is estimated at 129% in 2015–16 (unchanged from MYFER). This ratio is forecast to decline to 124% in 2019–20 as shown in Chart 3.4.

Chart 3.4 Non–financial Public Sector debt to revenue ratio



Purchases of non–financial assets of $6.918 billion are estimated in the NFP Sector in 2015–16, $1.556 billion less than the 2015–16 MYFER estimate. This decrease is largely due to deferred capital expenditure particularly in the areas of transport and health and by government–owned corporations.

Over the period 2016–17 to 2019–20, PNFA in the NFP Sector of $35.242 billion are planned. Capital grants over the same period are expected to total $3.220 billion, bringing capital expenditure to $38.461 billion. Finance leases over this period are also expected to total $2.375 billion, bringing the total capital program to $40.836 billion.

3.3 Fiscal principles

In the lead–up to the January 2015 Election, the Government set out five fiscal principles for the responsible and measured management of the State's finances. Following consideration of the Review of State Finances, prepared by Queensland Treasury, the Government refined the principles that relate to General Government Sector debt and the size of the net operating surplus. These refinements were intended to ensure the fiscal principles present a consistent strategy to underpin the development of the State Budget and financial decision–making. The fiscal principles provide the framework for the 2016–17 Budget.

Fiscal principles

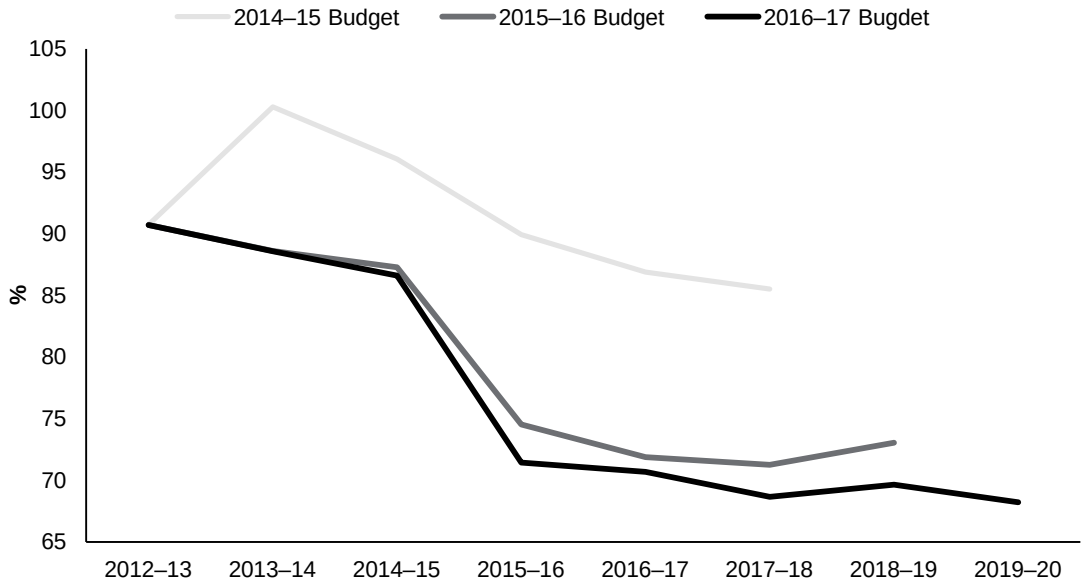
Principle 1 – Target ongoing reductions in Queensland's relative debt burden, as measured by the General Government debt to revenue ratio

The Government has consistently identified that its primary fiscal focus is on managing the debt of the General Government Sector, which must be serviced from General Government Sector revenues such as taxes (either state or federal), charges and royalties. In contrast, the debt of government–owned corporations is serviced from the operating cash flows of these businesses.

For the purposes of General Government Sector debt, a debt to revenue ratio is a key measure of the sustainability of a jurisdiction's debt levels. It is important to seek reductions in the ratio to continue to improve the State's fiscal sustainability.

Queensland's debt to revenue ratio peaked at 91% in 2012–13. This ratio is expected to fall substantially in 2015–16, to 71%, as a result of the Debt Action Plan, and then fall gradually across the forward estimates as shown in Chart 3.5. Despite the deterioration in key revenue items, the improvement in the General Government Sector debt to revenue ratio delivered through the 2015–16 Budget has been maintained, and slightly improved in the 2016–17 Budget.

Chart 3.5 General Government Sector debt to revenue ratio



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

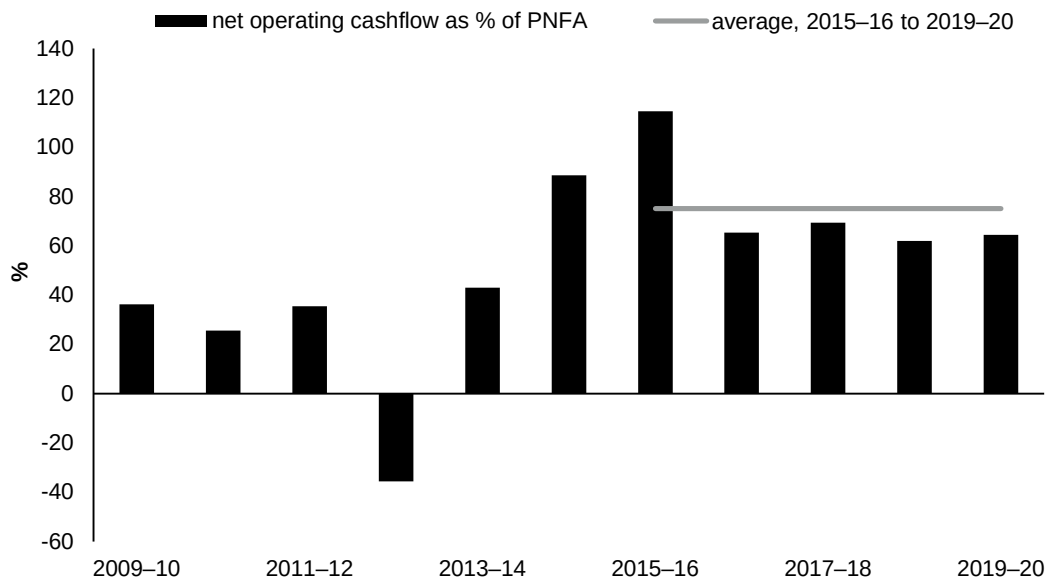
Consistent with other states and territories, the Queensland Government considers that the net operating balance is the appropriate measure of the State's annual operating position. Further, the Government recognises that the size of the operating surplus must be large enough that recurrent revenues, rather than borrowings, are the primary funding source for capital investment in the General Government Sector.

The most direct way of identifying the sources of funding of capital investment is in the General Government Sector Cash Flow Statement (refer to Table 9.7). This statement identifies that net cash inflows from operating activities equate to 65% of the funding required for the 2016–17 General Government Sector PNFA. Across the period 2016–17 to 2019–20, this proportion remains relatively constant as shown in Chart 3.6.

At the time of the 2015–16 Budget, net cash inflows from operating activities were expected to cover 83% of the funding required for the 2015–16 PNFA. In the 2015–16 MYFER this was revised down slightly to 82%. The 2015–16 estimated actual coverage is now expected to be 115%. This is primarily due to early receipt of cash related to dividends recognised as operating revenue in 2015–16, as well as reclassifications of capital expenditure to operating expenses or finance leases since the MYFER.

Purchases of non–financial assets funded from net operating cash flows averages 75% across the period 2015–16 to 2019–20.

Chart 3.6 General Government Sector net operating cash flow as a proportion of purchases of non–financial assets



Principle 3 – The capital program will be managed to ensure a consistent flow of works to support jobs and the economy and reduce the risk of backlogs emerging

General Government Sector purchases of non–financial assets peaked in 2009–10, reflecting a significant State infrastructure program bolstered by the Australian Government's stimulus program in response to the Global Financial Crisis. Purchases of non–financial assets are expected to increase somewhat across the forward estimates, but not return to the extraordinarily high levels of 2009–10 to 2011–12.

While the value of the total capital program can fluctuate across individual years, due to the lumpy nature of large projects and the timing of Commonwealth–funded projects, the 2016–17 Budget provides for an increase in General Government Sector PNFA from $4.173 billion estimated in 2015–16 to an average of $6 billion across 2016–17 to 2019–20.

Principle 4 – 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, across the forward estimates

Government has a clear role in providing an economic environment that supports business and jobs growth and does not place undue strain on households. In addition to measures of interstate tax competitiveness (as discussed in Chapter 4), there are a range of other own–source revenues, such as user charges and royalties, which are relevant for businesses and households.

General Government Sector own–source revenue is forecast to be 7.8% of nominal gross state product in 2016–17 and an average of 7.5% across the period 2016–17 to 2019–20.

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

Consistent with the long–standing practice of successive governments, the Queensland Government is committed to ensuring that the State sets aside assets to meet long–term liabilities such as superannuation and WorkCover, in accordance with actuarial advice.

The State Actuary's most recent valuation indicates that as at 30 June 2015 the defined benefit superannuation scheme is in a surplus position of over $10 billion on a funding basis. As set out in the enhanced Debt Action Plan (see Box 3.1), the Government will repatriate $4 billion from the over–contributions made by Government to the scheme to reduce General Government sector debt and fund additional priority infrastructure.

The repatriation is consistent with the Government's objectives in managing the scheme to minimise overfunding and based on the APRA funding standards that apply to corporate defined benefit superannuation schemes. The State Actuary has advised that a repatriation of up to $5 billion could be undertaken while maintaining consistency with the APRA funding standards.

As at 30 June 2015, the most recently available assessment, the WorkCover scheme was also fully funded.

New Principle

Principle 6 – Maintain a sustainable public service by ensuring that overall growth in full–time equivalent (FTE) employees, on average over the forward estimates, does not exceed population growth

The Government has a clear role in providing high quality and appropriate frontline services that keep pace with growth in the population while maintaining fiscally responsible and affordable levels of expenditure.

Accordingly, the Government has decided to adopt a new fiscal principle. The Government will work towards a sustainable public service by ensuring that growth in FTEs for in–scope agencies, on average over the forward estimates, does not exceed population growth. This will ensure a balance between delivery of high–quality services, and the discipline that underpins the Government's commitment to fiscal sustainability.

In–scope agencies are the agencies and staff identified in Table 5.2. Population growth will be measured as the growth in estimated resident population.

3.4 Achievement of fiscal principles

Table 3.8 demonstrates that the 2016–17 Budget projections are consistent with achieving the Government's fiscal principles. In addition, a new fiscal principle in relation to the size of the public service has been introduced.

Table 3.8 The fiscal principles of the Queensland Government

Principle	Indicator		
Target ongoing reductions in Queensland's relative debt burden, as measured by the General Government debt to revenue ratio.	General Government debt to revenue ratio		
		2015–16 MYFER %	**2016–17 Budget %**
	2015–16	74	71
	2016–17	72	71
	2017–18	72	69
	2018–19	74	70
	2019–20	n.a.	68
Target net operating surpluses that ensure any new capital investment in the General Government Sector is funded primarily through recurrent revenues rather than borrowing.	General Government operating cash flows as a proportion of purchases of non–financial assets		
		2015–16 MYFER %	**2016–17 Budget %**
	2015–16	82	115
	2016–17	83	65
	2017–18	85	69
	2018–19	80	62
	2019–20	n.a.	64
The capital program will be managed to ensure a consistent flow of works to support jobs and the economy and reduce the risk of backlogs emerging (measured as PNFA).	General Government purchases of non–financial assets		
		2015–16 MYFER ($ million)	**2016–17 Budget ($ million)**
	2015–16	5,325	4,173
	2016–17	5,822	5,452
	2017–18	5,935	6,590
	2018–19	5,188	5,840
	2019–20	n.a.	5,983
Maintain competitive taxation – own–source revenue to remain at or below 8.5% as a proportion of nominal gross state product.	General Government own–source revenue to GSP		
	2016–17:		7.8%
	Average across the forward estimates:		7.5%

Principle	Indicator
Target full funding of long–term liabilities such as superannuation and WorkCover in accordance with actuarial advice.	As at last actuarial review (as at June 2015), the scheme was fully funded. The State Actuary has advised that repatriation can be undertaken while maintaining consistency with APRA funding standards for corporate defined benefit schemes. The State Actuary undertakes a comprehensive review of the scheme at least every three years. The WorkCover scheme was fully funded as at 30 June 2015.
Maintain a sustainable public service by ensuring that overall growth in full–time equivalent employees, on average over the forward estimates, does not exceed population growth.	Growth in FTEs
	FTE growth Average across the forward estimates: 1½% *Population growth* Average across the forward estimates: 1½%