

Post Budget Seminar

Kelly Fawke

Principal Communications Officer, Strategic Communications

Welcome

Jim Murphy
Under Treasurer

The Queensland Economy

Greg Uptin

Director, Economic Information, Monitoring and Forecasting Team
Economics Division

Summary of economic forecasts

2015-16 Queensland State Budget: Economic Forecasts¹

	Actual	Estimate	Forecasts		Projection	
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Gross state product	2.3	2	4½	4½	3¾	3¼
Employment ²	1.4	0.5	1¼	1¾	2	2¼
Unemployment rate ²	6.0	6.5	6½	6½	6¼	6
Inflation	2.8	2	2¼	2½	2½	2½
Wage Price Index	2.6	2½	2½	2¾	3	3¼
Population	1.7	1½	1¾	1¾	1¾	1¾

1 . Annual % change, except for unemployment rate.

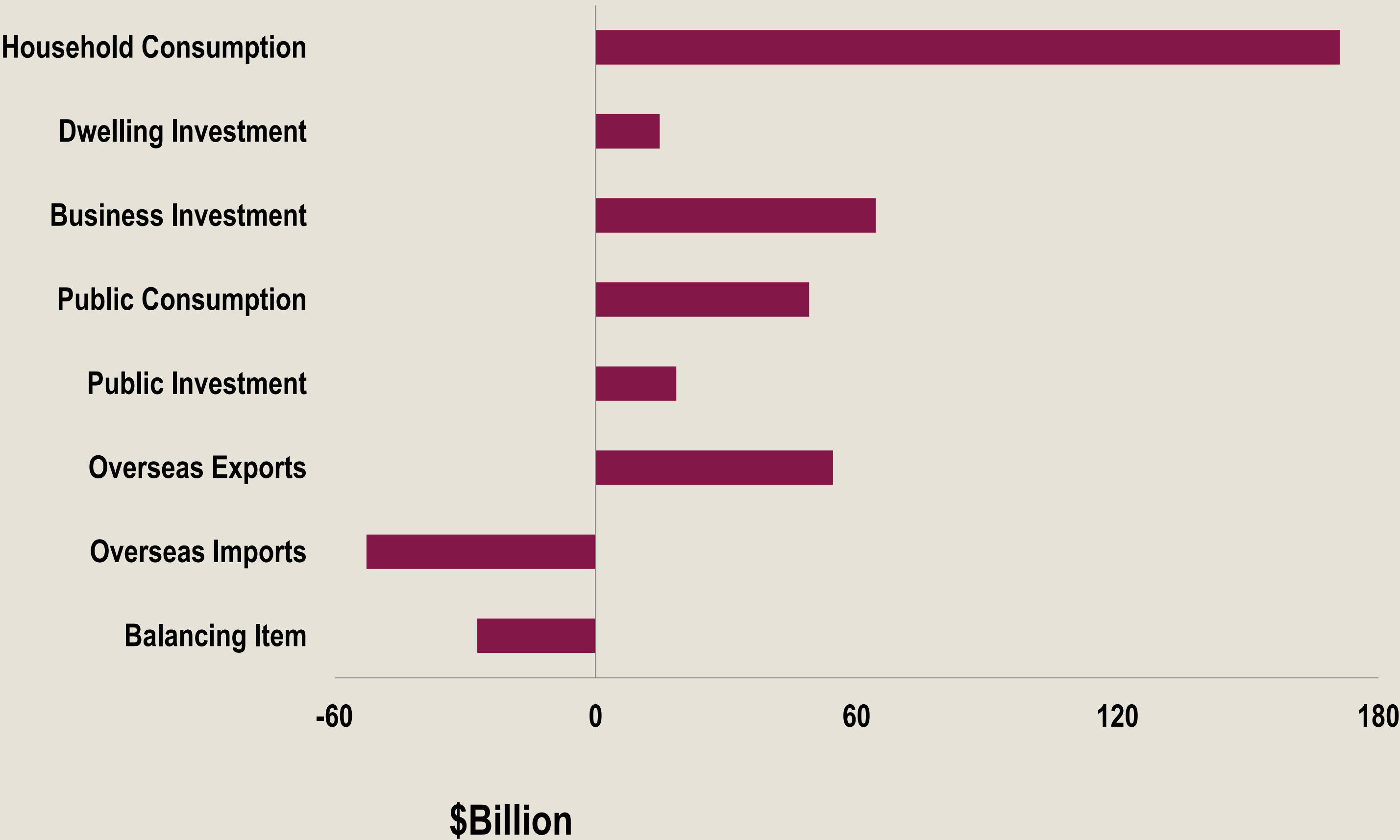
2. Actual outcome for 2014-15.

Sources: ABS 3101.0, 5220.0, 6202.0, 6345.0, 6401.0 and Queensland Treasury.

Structure

Household spending accounts for over half of all economic activity.

Queensland gross state product, by component, 2013-14



Source: ABS 5220.0.



The trade sector plays a key role in the Queensland economy.

Overseas exports as a share of real gross state product¹, 2013-14



1. Percent.
Source: ABS 5220.0.



Exports are closely linked to growth in Emerging Asia.

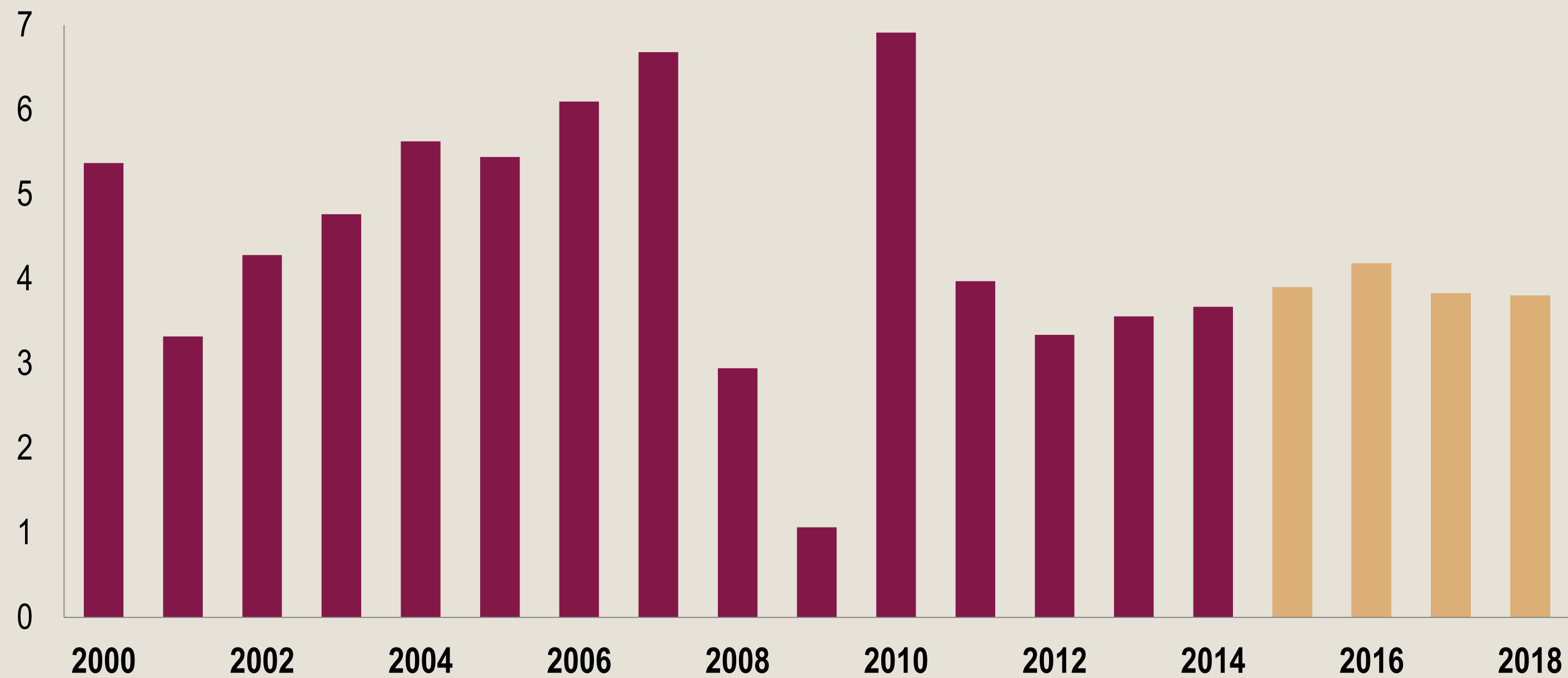


Source: ABS unpublished trade data.

External conditions

While MTP growth is expected to improve in 2015 and 2016...

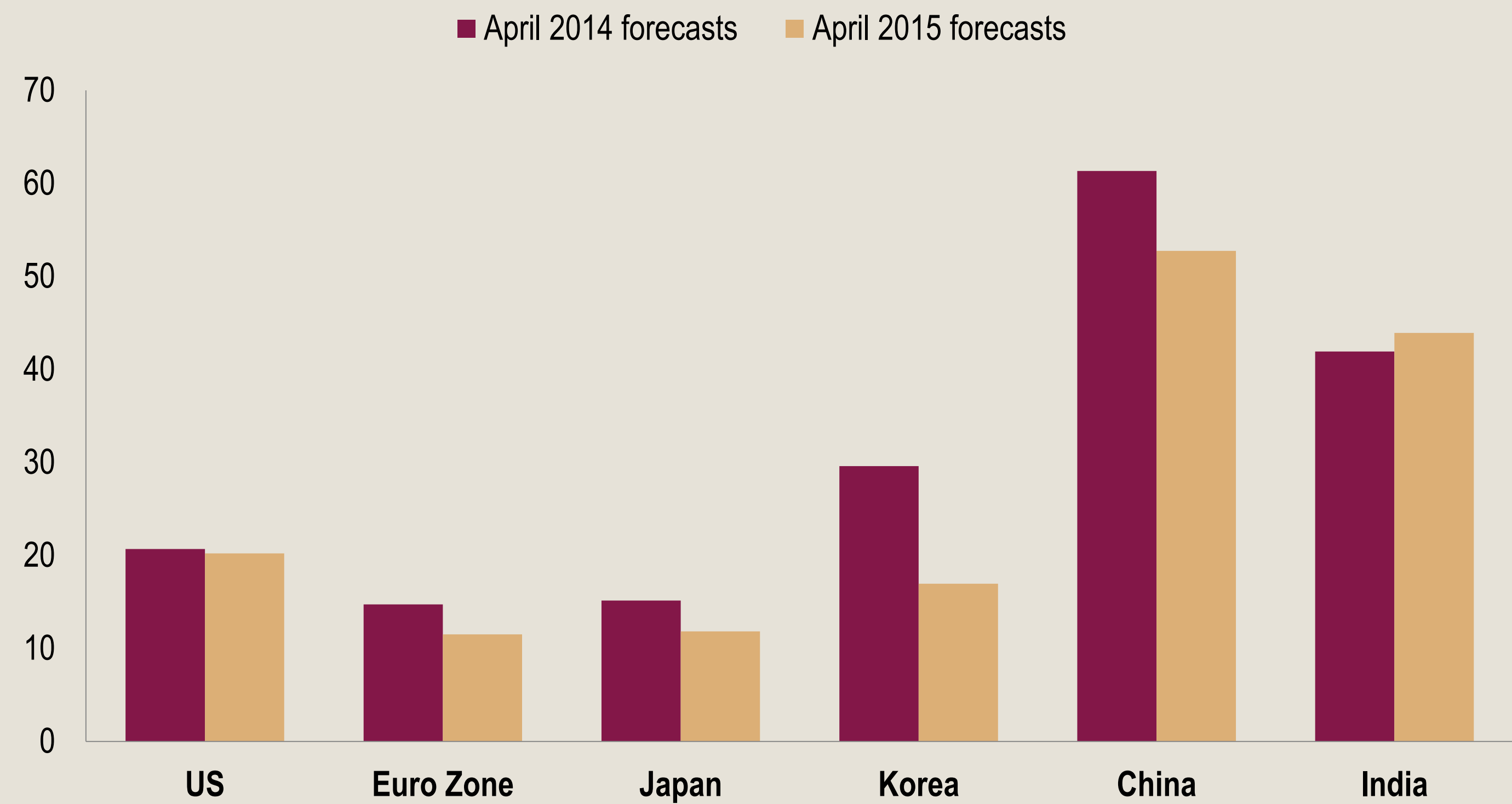
Queensland major trading partner economic growth¹



1. Annual % change. 2015 to 2018 are forecasts
Sources: Consensus Economics and Queensland Treasury.

...medium-term growth for most major Queensland export markets has been revised down over the past year.

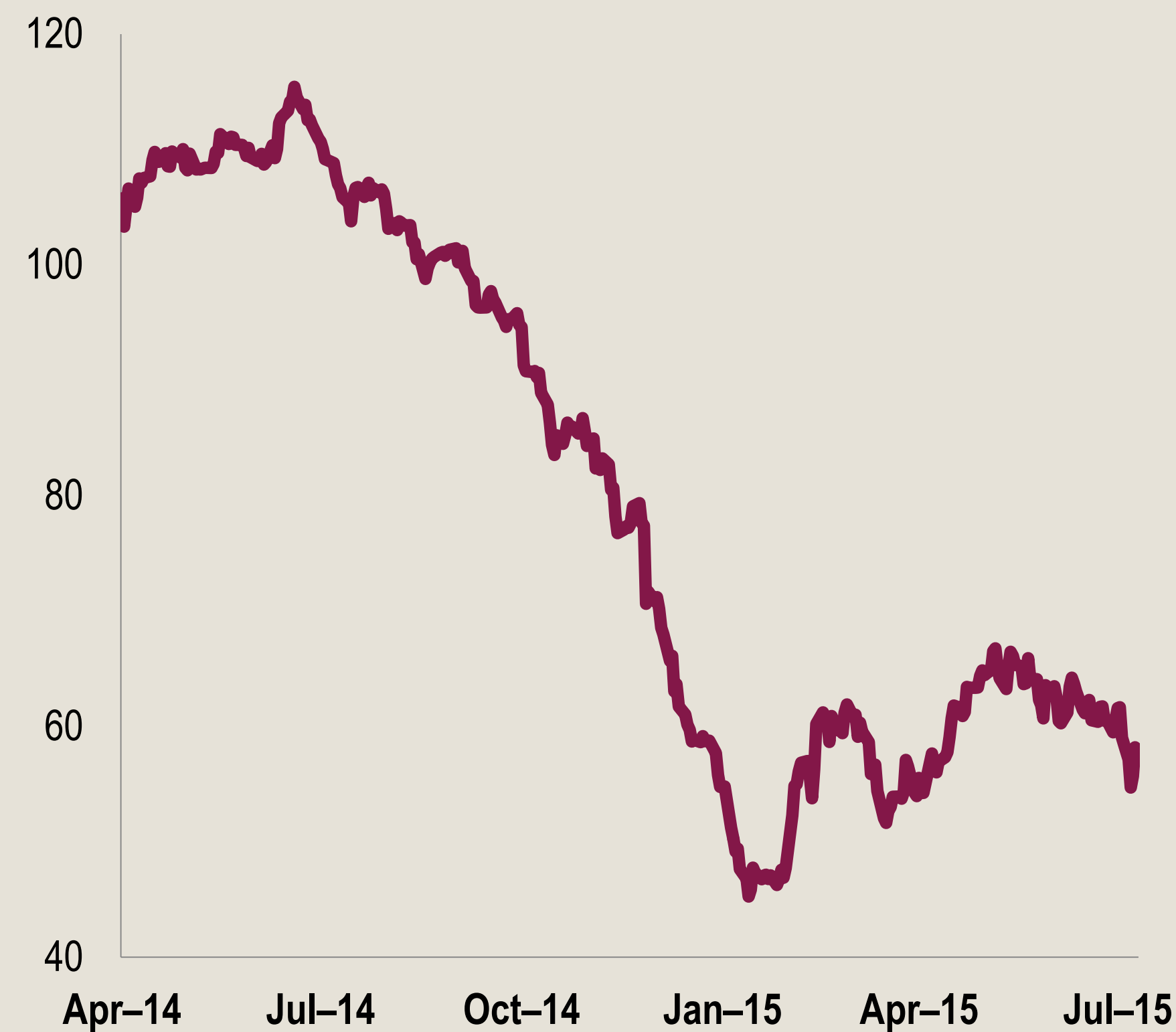
Cumulative industrial production growth¹ 2013 to 2019



1. India's industrial production growth profile is on its fiscal year basis (April to March).
Source: Consensus Economics.

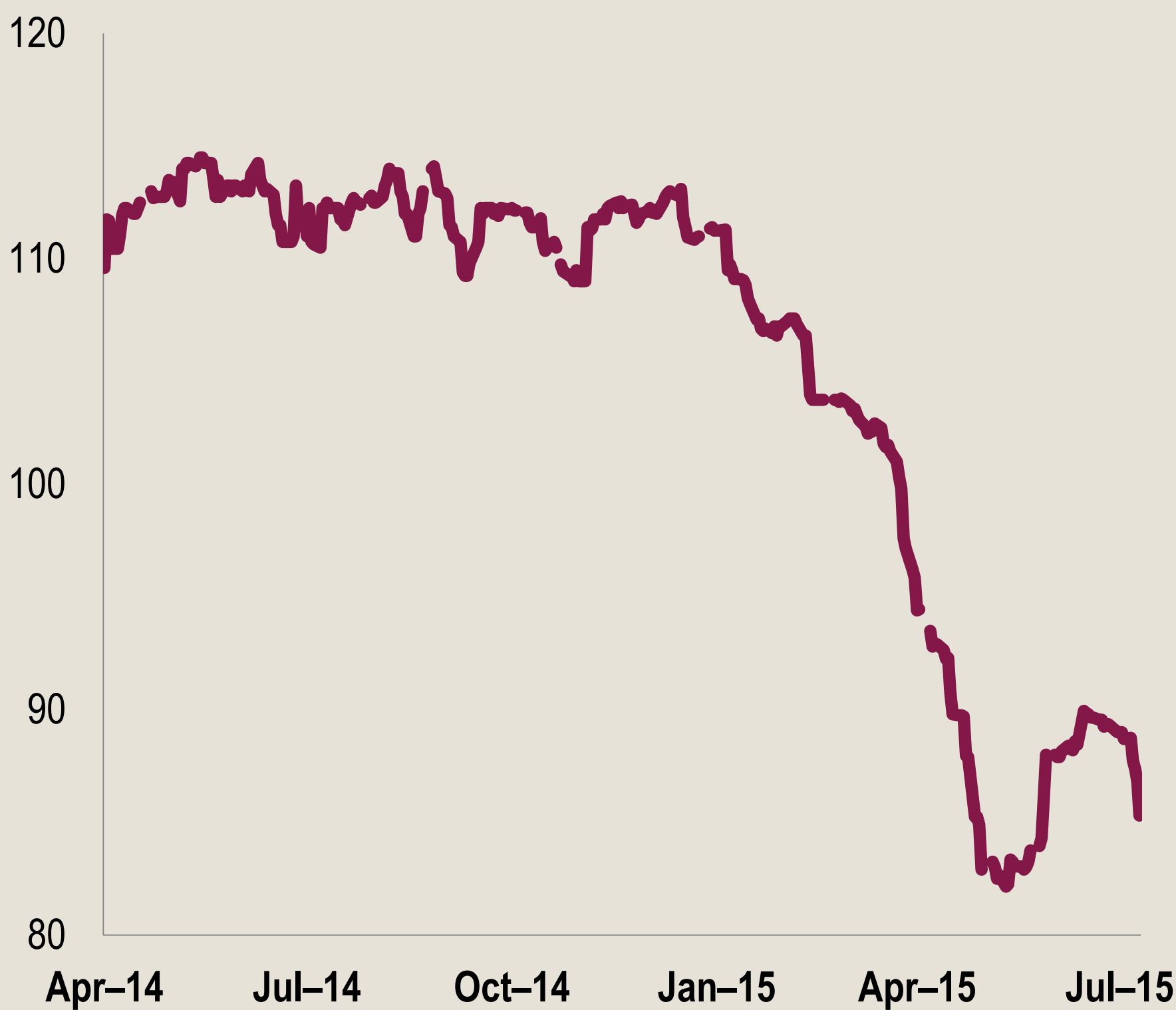
Industrial commodity prices have fallen.

Brent crude oil¹



1. US\$ per barrel.
Source: DataStream.

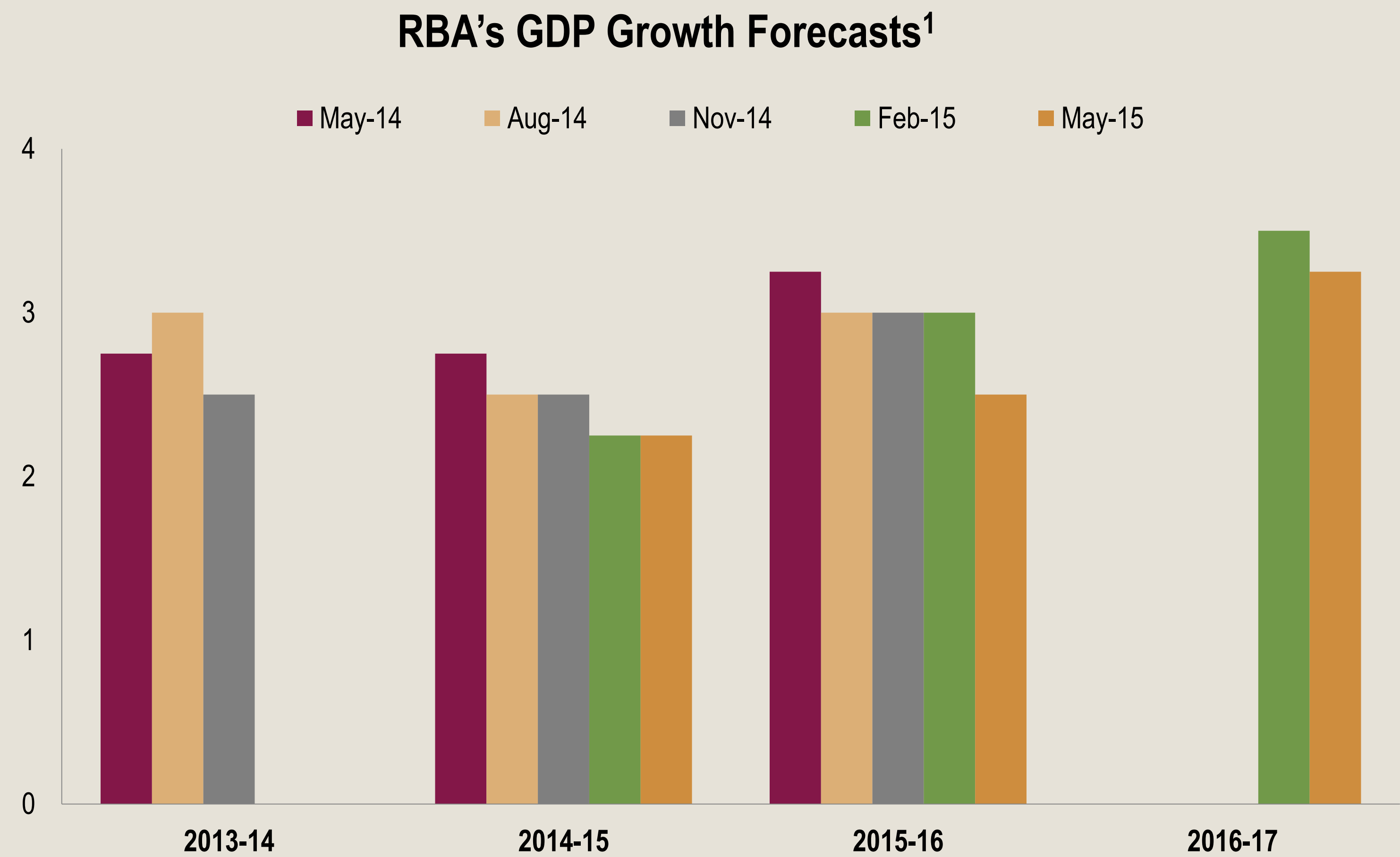
Premium hard coking coal²



2. US\$ per tonne, Peak Downs region.
Source: Platts.

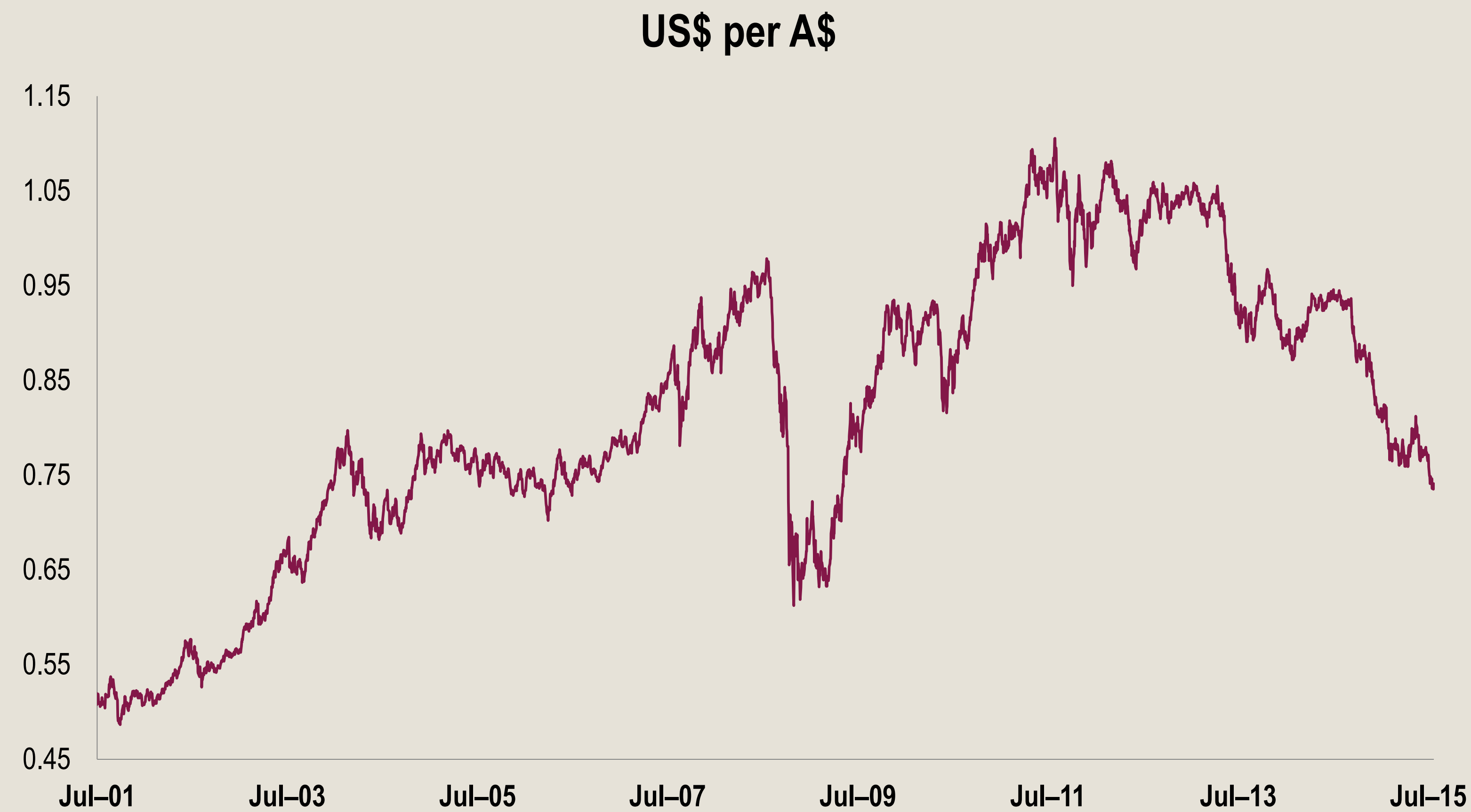
National conditions and outlook

The RBA continue to downgrade Australia's economic growth prospects.



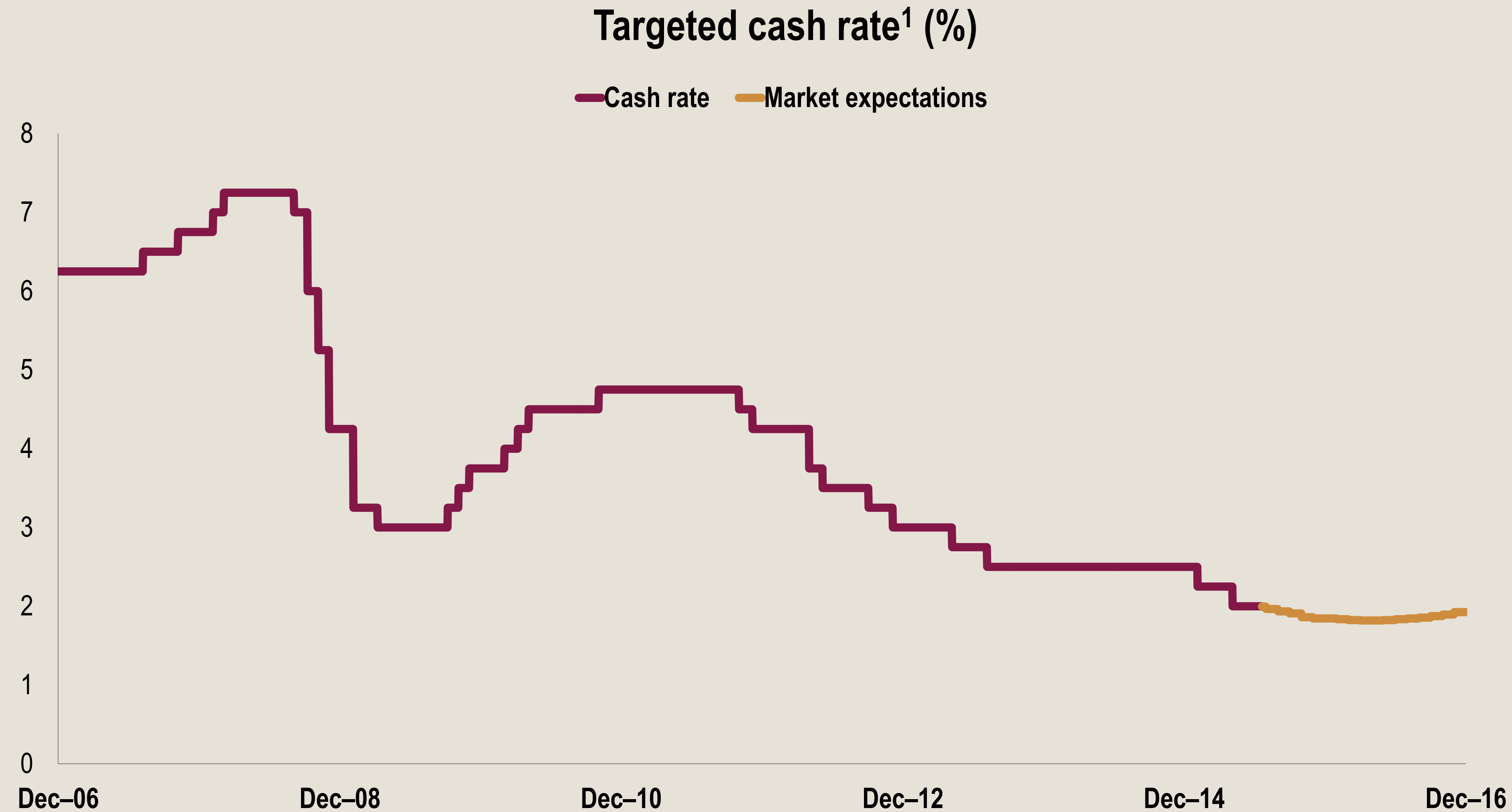
1. Year-average, annual % change.
Source: RBA.

Softer economic conditions have driven down the A\$...



Source: DataStream.

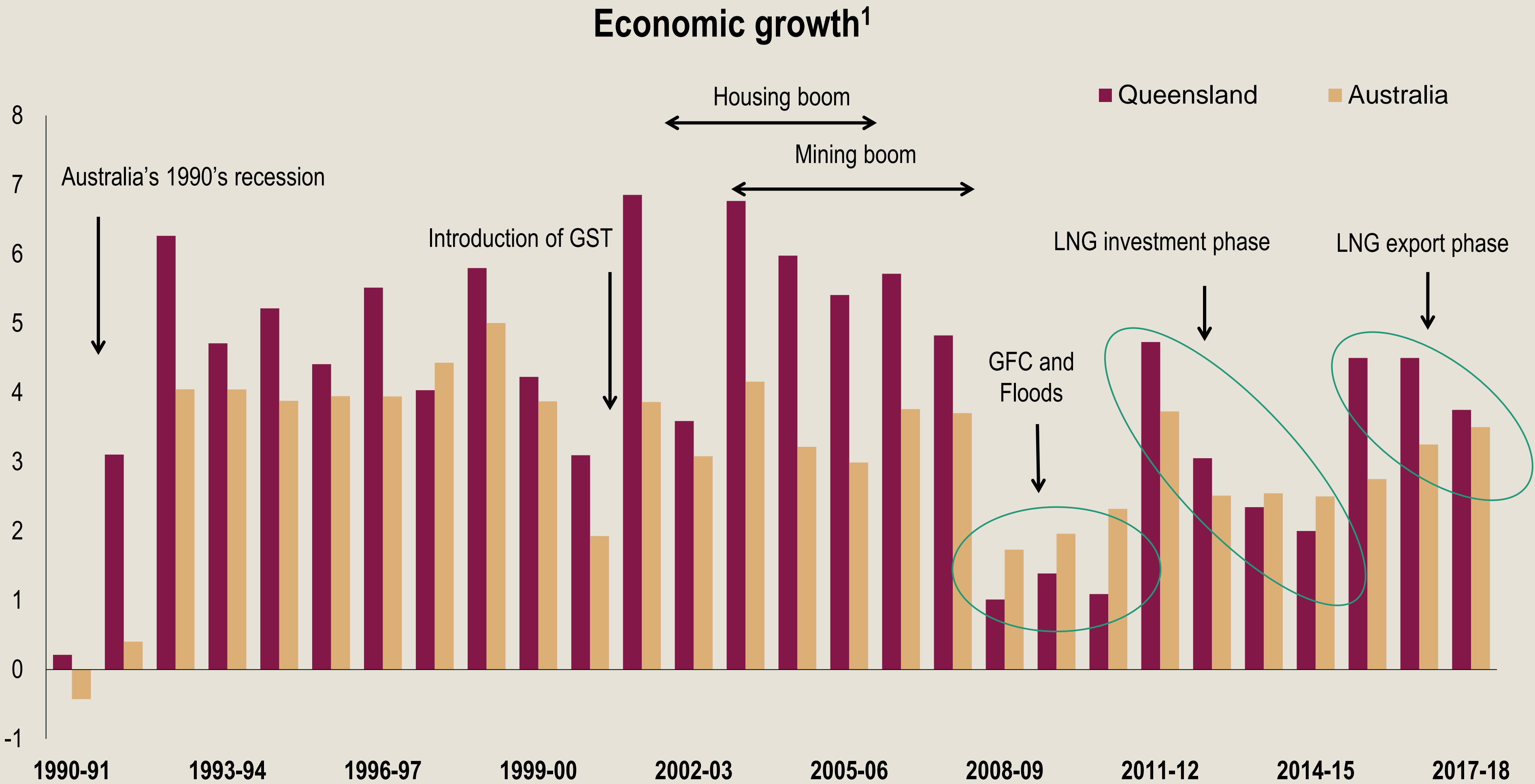
...as well as the cash rate.



1. Expectations based on ASX Rate Tracker, as at market close on 22 July 2015.
Sources: Reserve Bank of Australia and ASX.

Queensland conditions and outlook

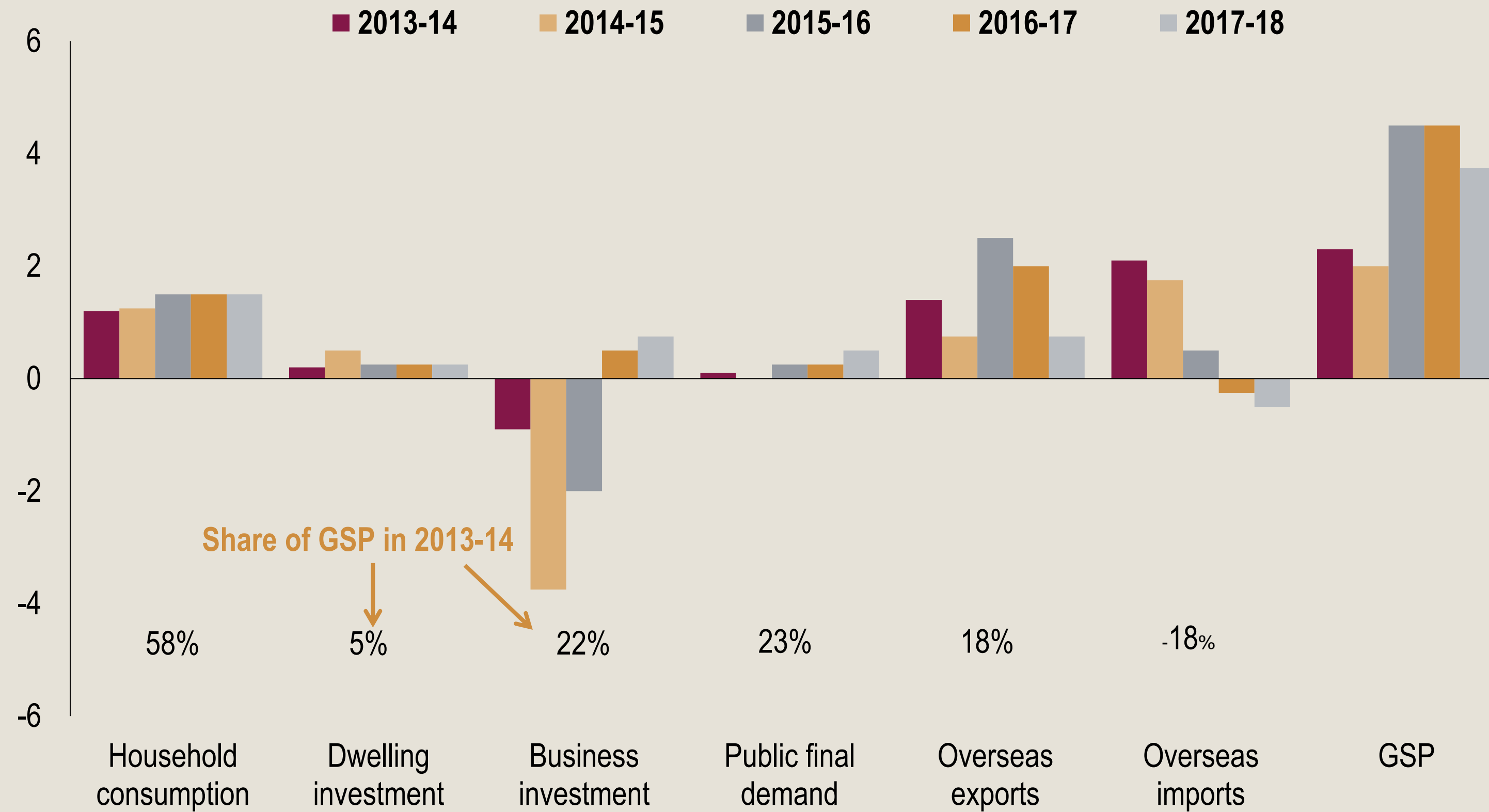
Growth profile driven by the transition of LNG projects from construction to production...



1. Annual % change, CVM, 2012-13 reference year.
Sources: ABS 5220.0 and Queensland Treasury.

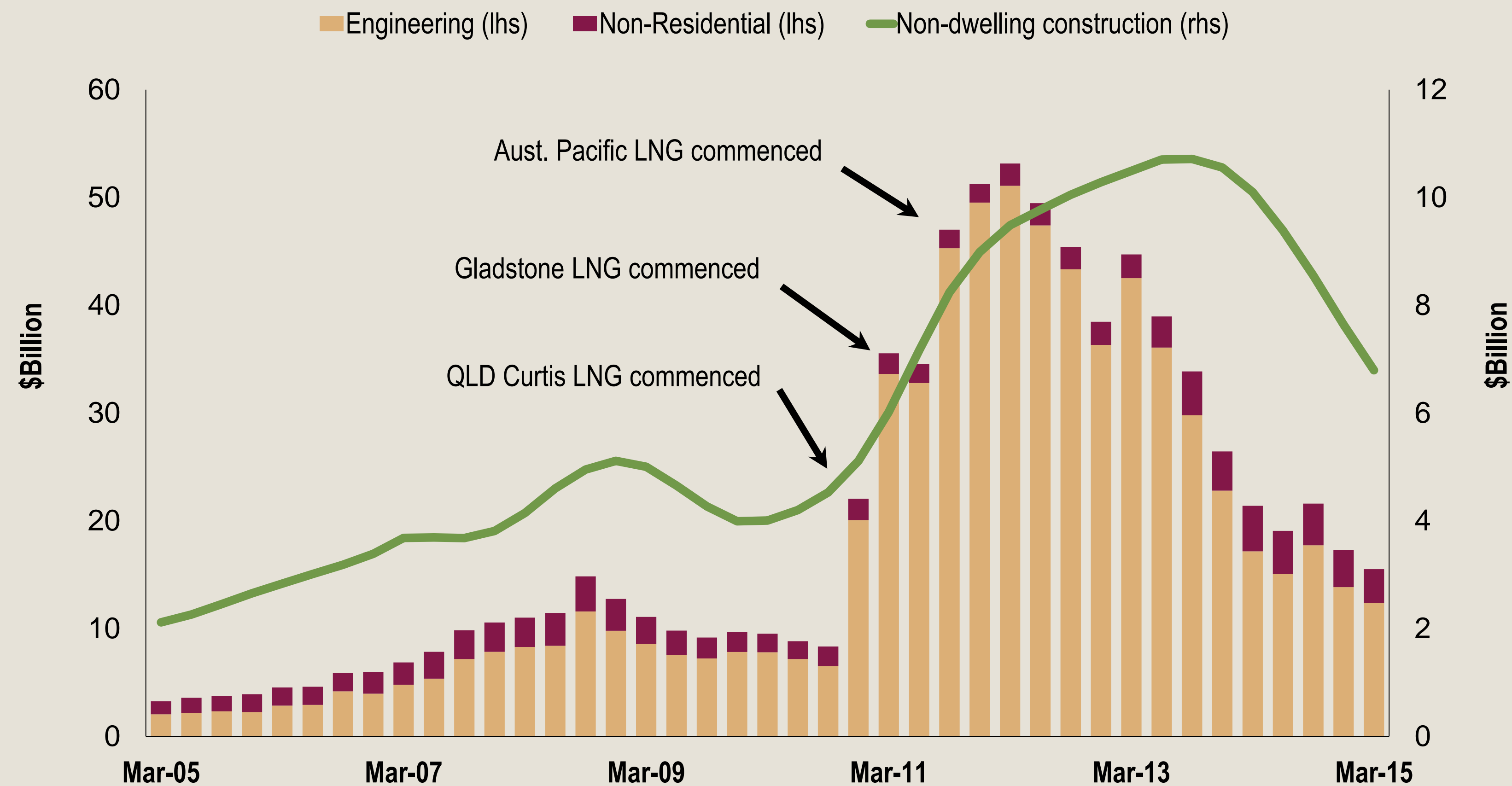
...driving a rebalancing of growth across the economy.

Contributions to growth in Queensland gross state product¹



LNG construction peaked in 2013.

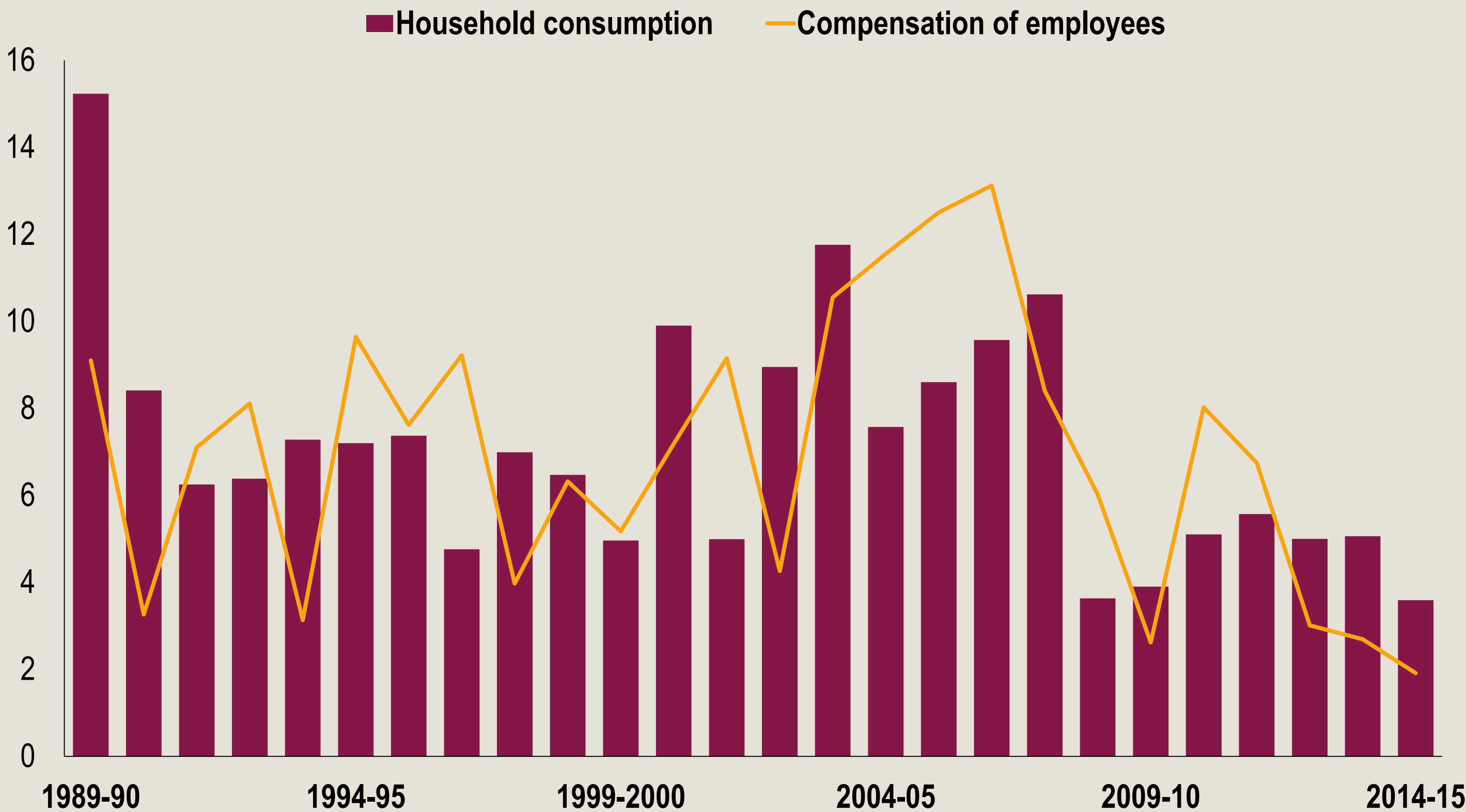
Non-dwelling construction and work yet to be done, by sector¹



1.Nominal. Private sector work yet to be done in stacked bar, original. Non-dwelling construction in line, trend.
Sources: ABS 8752.0, 8762.0 and 5206.0.

Household consumption to recover, but remain below average,
constrained by subdued income growth.

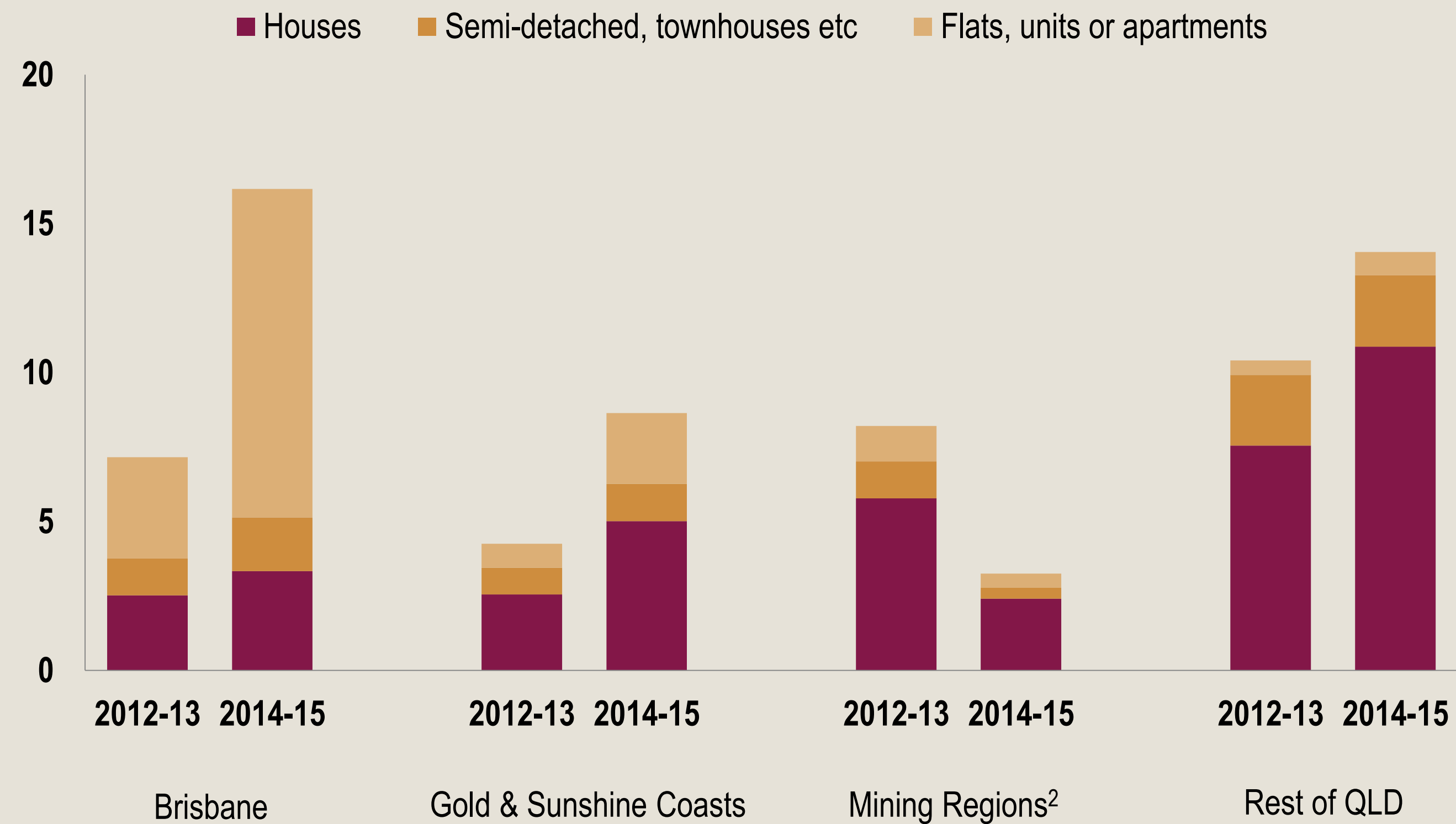
Nominal household consumption and employee income, Queensland¹



1. Growth for 2014-15 reflects first three quarters.
Sources: ABS 5206.0 and Queensland Treasury.

Recovery in dwelling construction driven by apartments.

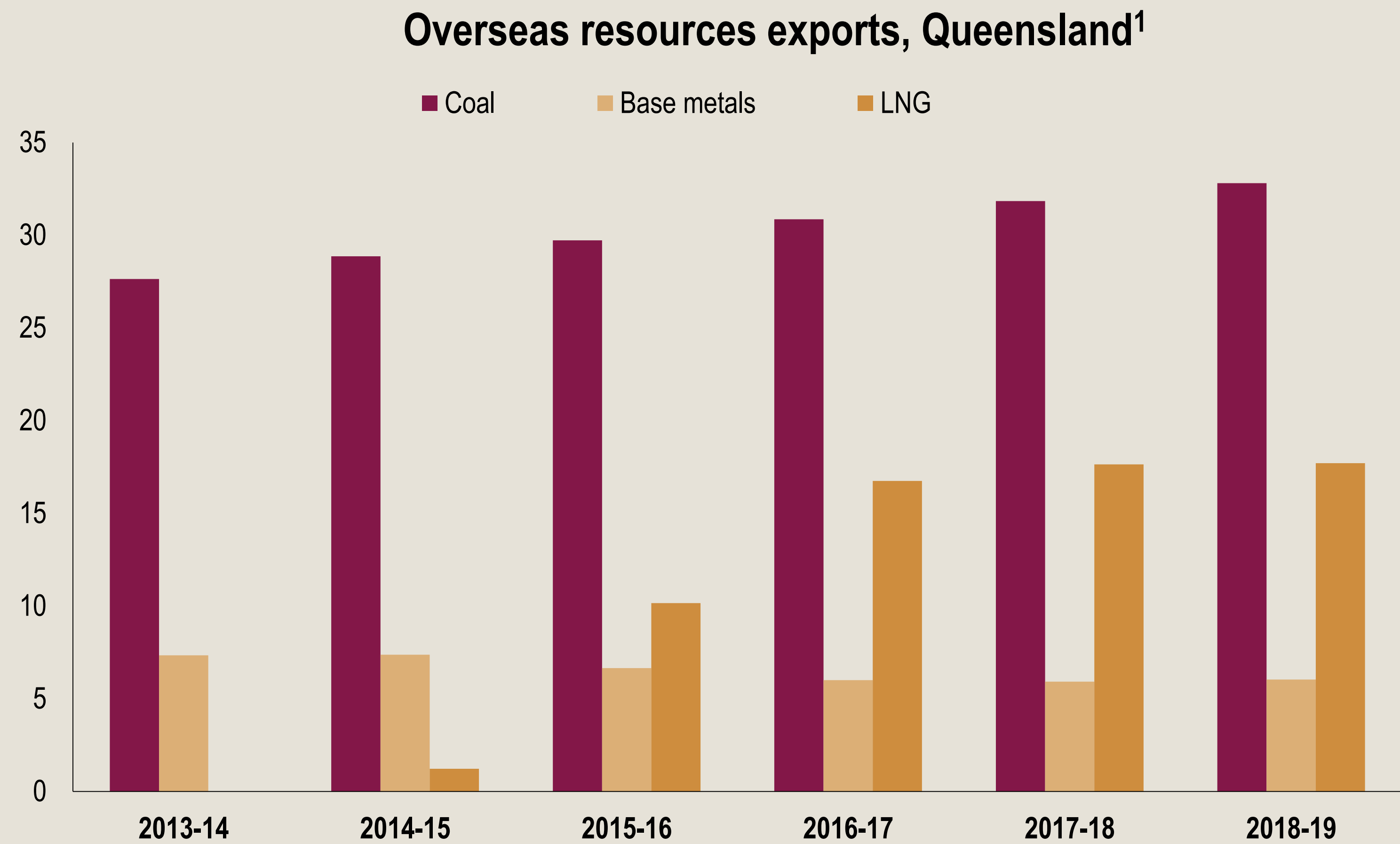
Dwelling approvals¹ by type, Queensland



1. 12 months to May 2013 and May 2015.
2. Mining regions are Fitzroy, Mackay, Queensland Outback and Townsville.
Sources: ABS 8731.0 and Queensland Treasury.



LNG to drive a surge in overseas exports.

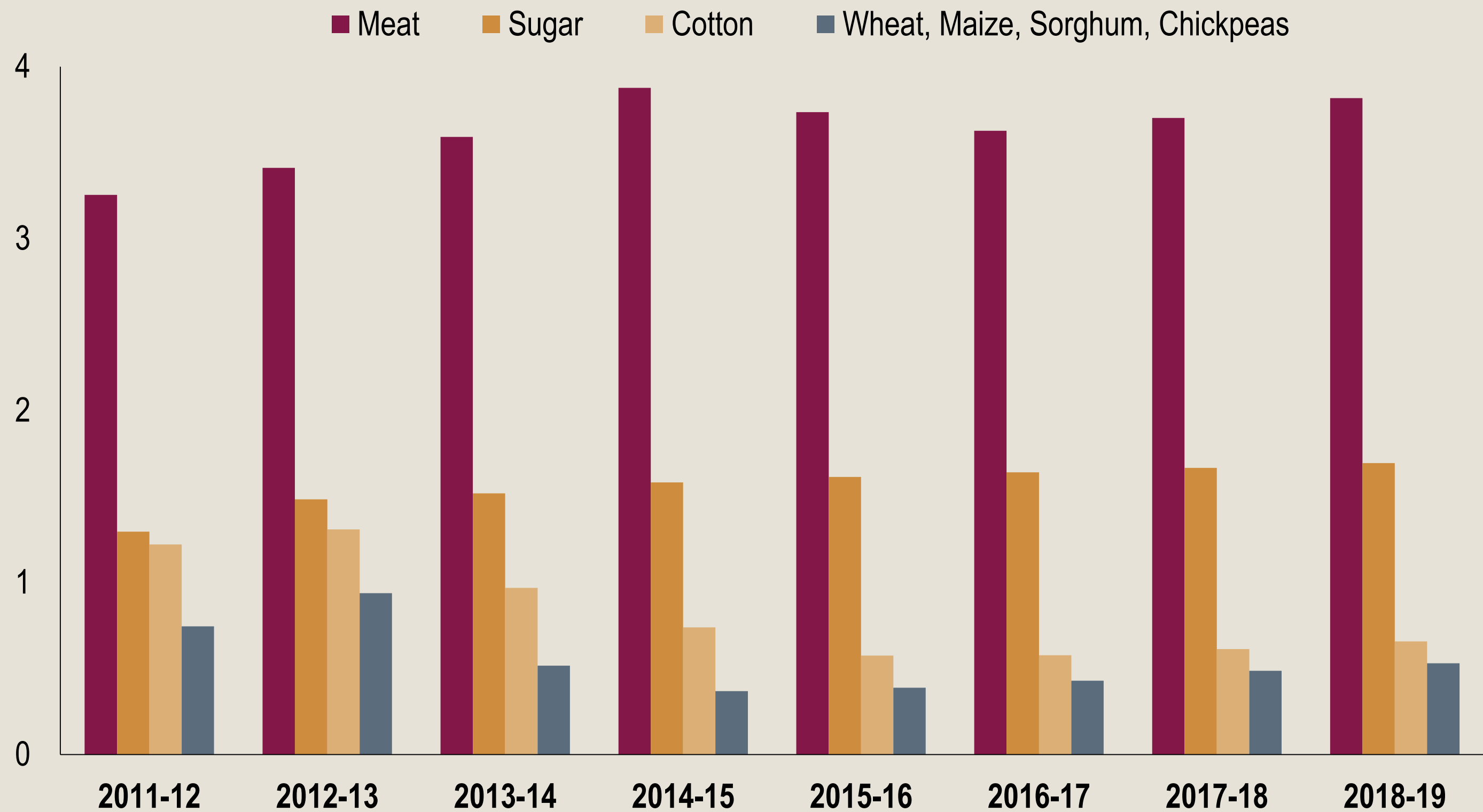


1.\$billion, CVM, 2012-13 reference year. 2014-15 are estimates, 2015-16 onwards are forecasts.
Source: Queensland Treasury.



Agricultural exports are hindered by prolonged drought.

Overseas agricultural exports Queensland¹



1.\$billion, CVM, 2012-13 reference year. 2014-15 are estimates, 2015-16 onwards are forecasts.
Source: Queensland Treasury.



Improvement in household sectors supporting some recovery in the labour market.



1. Year average. 2014-15 are actual outcomes, 2015-16 to 2017-18 are forecasts and 2018-19 are projections.
Sources: ABS 6202.0 and Queensland Treasury.



Summary: Global and domestic conditions

- The global and national economic outlook has softened over the past year.
- A more subdued global outlook, combined with stronger global supply, has contributed to sharp declines in commodity prices, including coal and oil.
- Despite a lower A\$, weaker prices have seen coal producers cut costs, reduced prospects for new investment and led to softer household income growth.
- Growth in household spending to recover, but remain below average, tempered by slower income growth, subdued labour market conditions and ongoing consumer caution.
- The wind-down in LNG construction and soft investment outside the resources sector to see business investment fall further in 2015-16, before returning to a more sustainable growth path from 2016-17 onwards.
- Lower interest rates, solid house price growth and rising investor interest are driving a sustained recovery in dwelling investment, particularly in medium-to-high density housing in Brisbane City.

Summary: Trade sector and labour market.

- The growth boost from LNG exports now expected to be spread more evenly across 2015-16 and 2016-17, driving economic growth of 4½% in both years.
- As growth in China slows, coal exports volumes to grow moderately from 2015-16. Weaker global demand and increased supply to keep coal prices subdued.
- Sustained drought to constrain agricultural exports.
- Tourism exports to grow at a healthy pace in coming years, reflecting increased outbound tourism from China, the rising popularity of working holidays in the wider Asian tourism market and lower A\$ exchange rates.
- Employment growth to improve from a low base, reflecting the forecast acceleration in domestic activity, including the household and dwelling sectors and a lower A\$ improving the competitiveness of tourism and education sectors.
- Modest recovery in employment to see the unemployment rate stabilise around 6½% over the next two years, before easing to 6% by 2018-19 as domestic activity strengthens.

Thank you

Greg Uptin

Email: greg.uptin@treasury.qld.gov.au

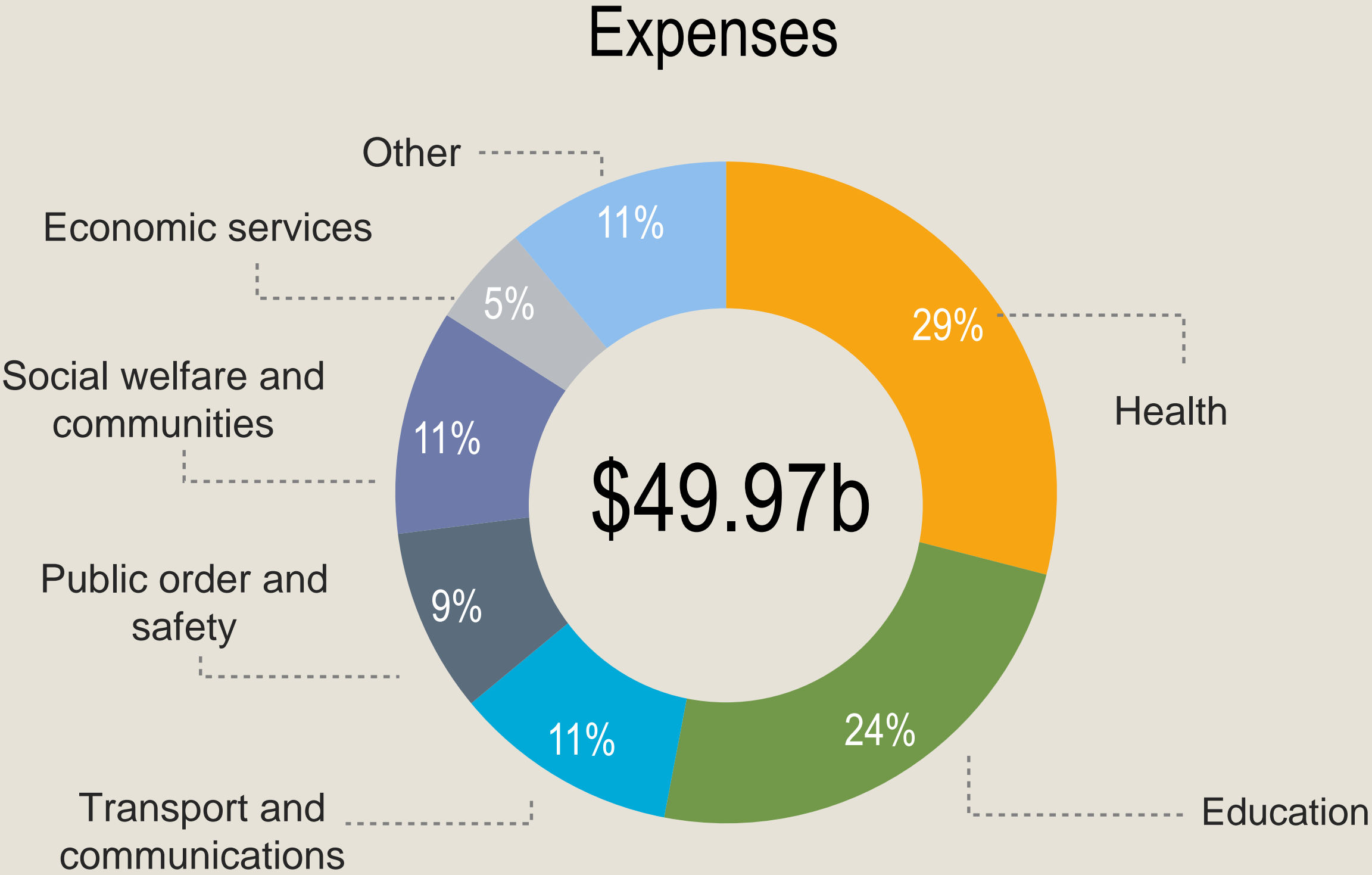
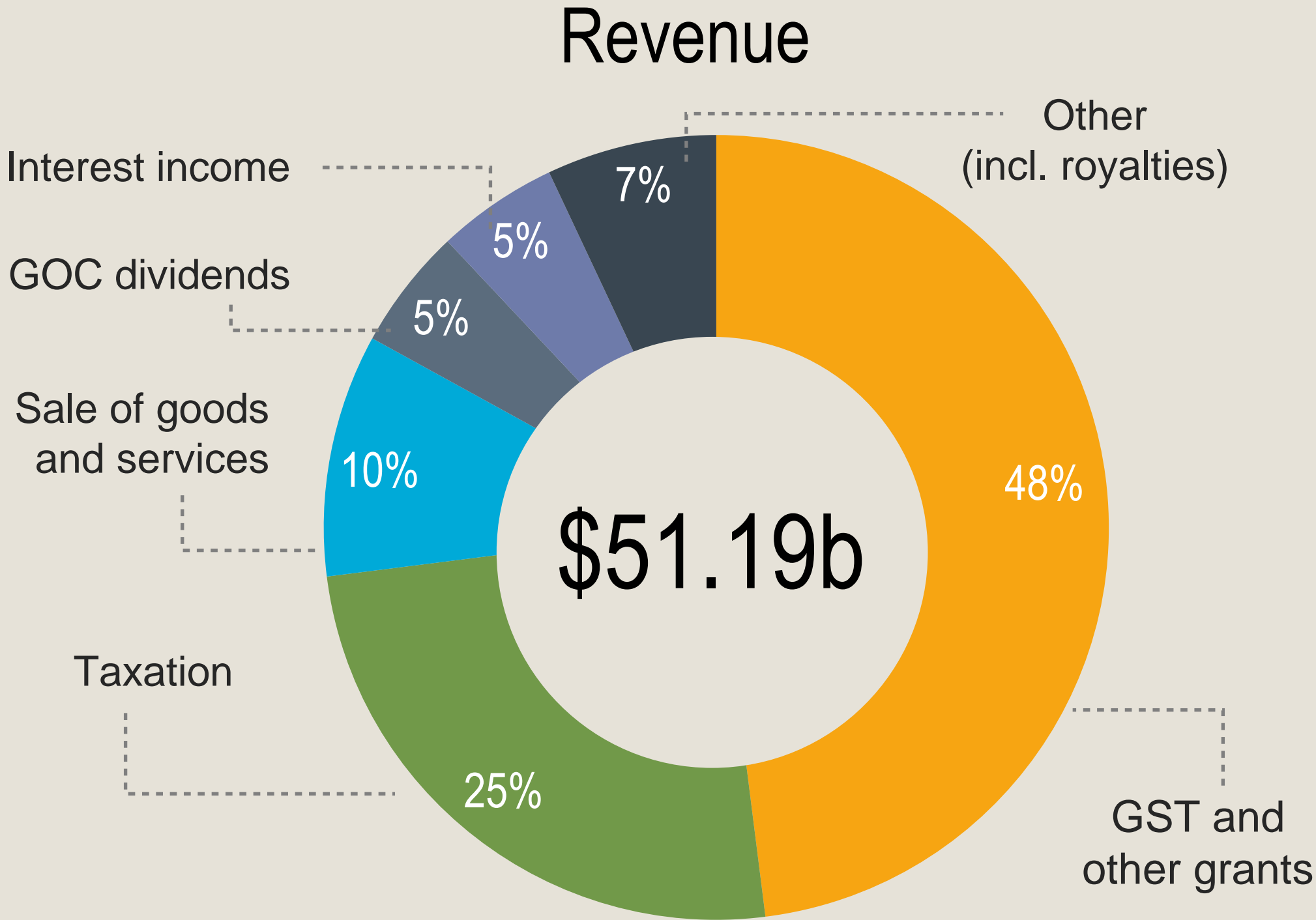
Queensland Budget

John O'Connell

Deputy Under Treasurer
Queensland Treasury

Fiscal Outlook

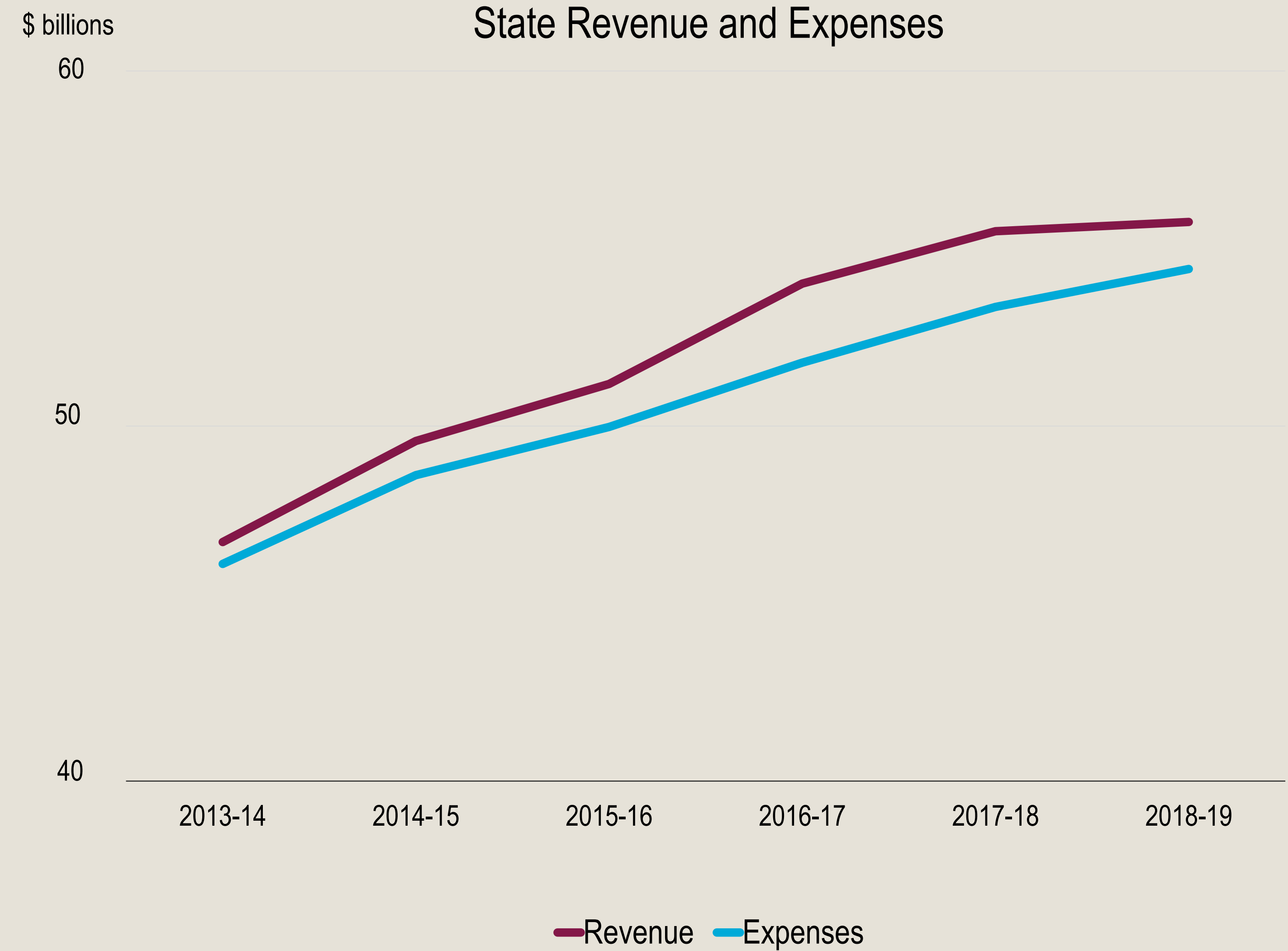
- Revenue growth exceeding growth in expenses
- Enhanced Fiscal Principles
- \$1.2 billion operating surplus in 2015-16
- Strong operating surpluses despite declining royalty forecasts
- First General Government debt reduction forecast across the forward estimates in 16 years



\$1.2 billion surplus in 2015-16



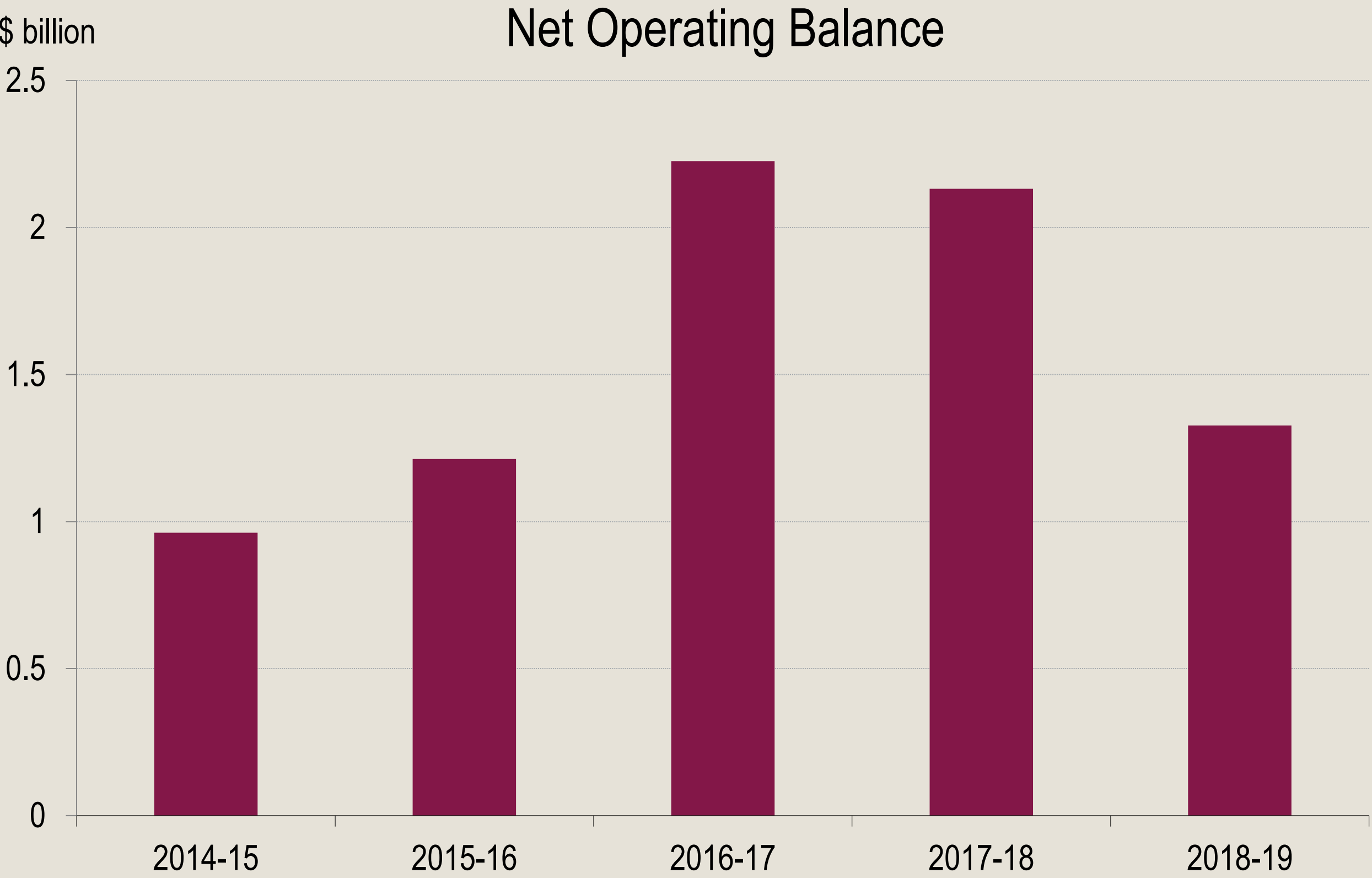
\$6.9 billion in surpluses over four years



Solid surplus projections – expenses under control

- Operating expenses to grow by 4.1% across the forward estimates*
- Offset by revenue growth of 4.3%

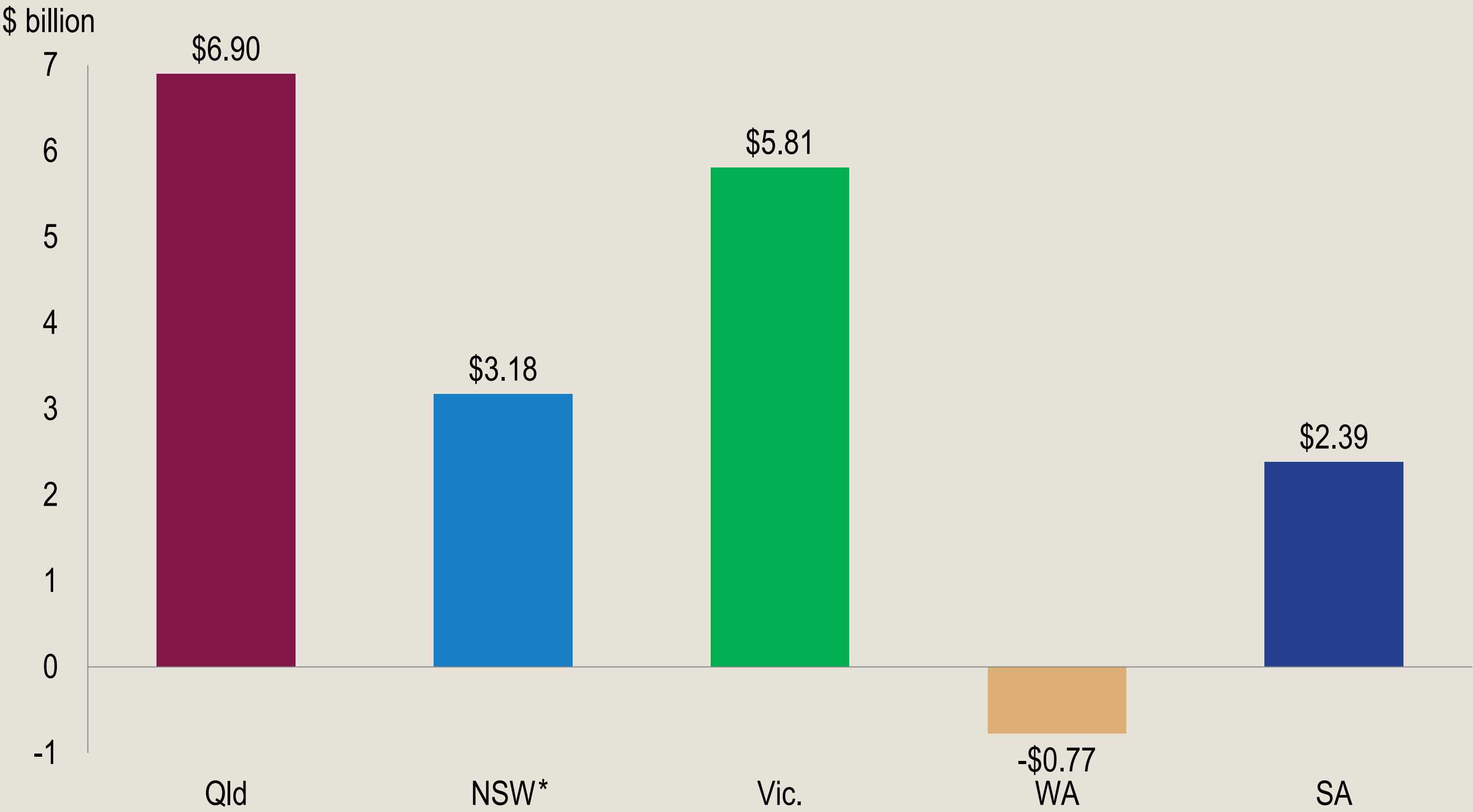
*Excluding NDRRA payments



\$1.2 billion operating surplus in 2015-16

- \$962 million estimated actual 2014-15 surplus
- 2015-16 surplus lower than MYFER forecast due to lower than expected coal prices and revisions to timing and value of LNG exports

Net operating balance – aggregated 2015-16 to 2018-19

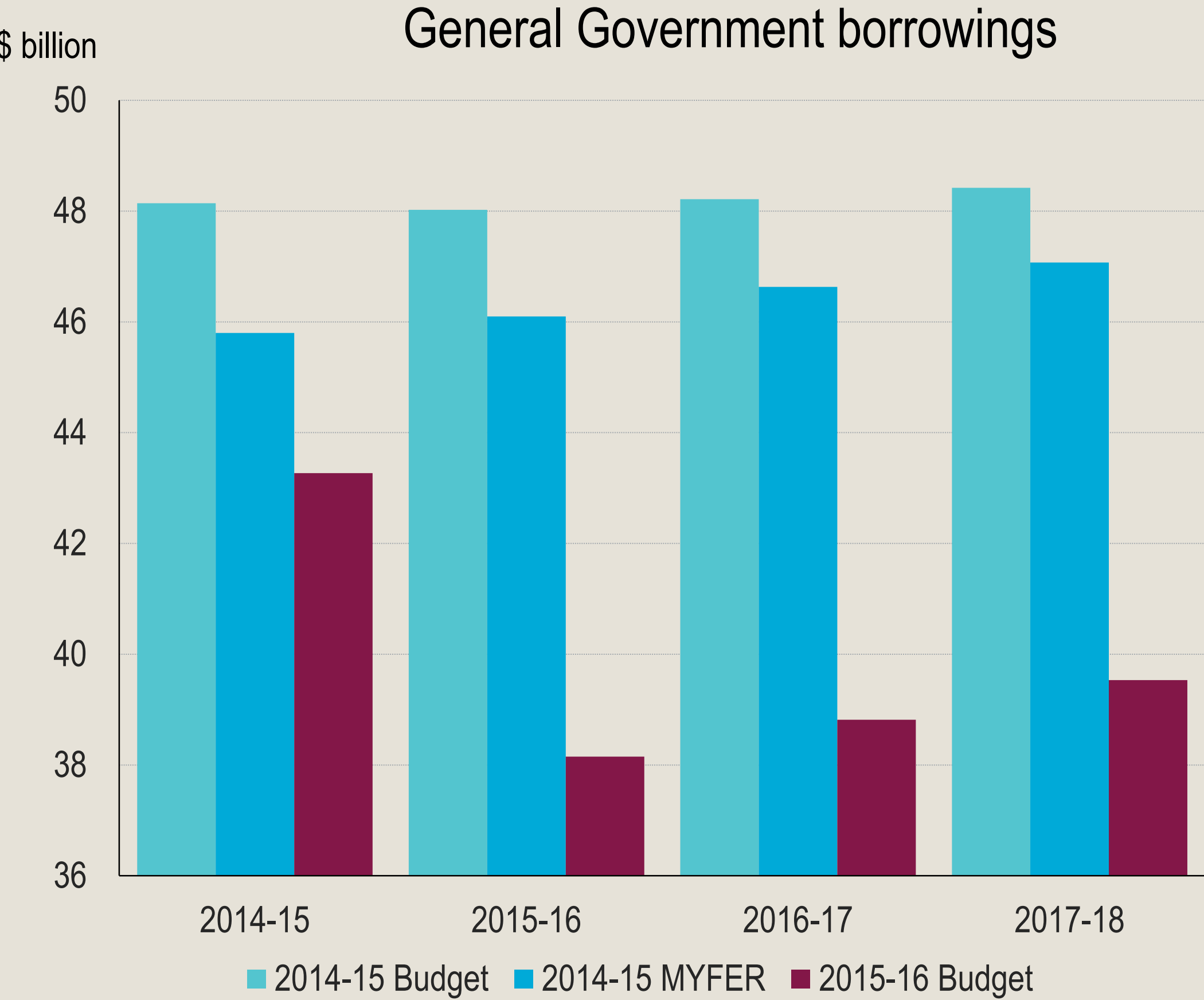


Strong forecast surpluses

- Aggregate surpluses of \$6.9 billion across the forward estimates
- Next best performing state is Victoria with \$5.8 billion aggregate

* excludes the impacts of the Transport Asset Holding Entity

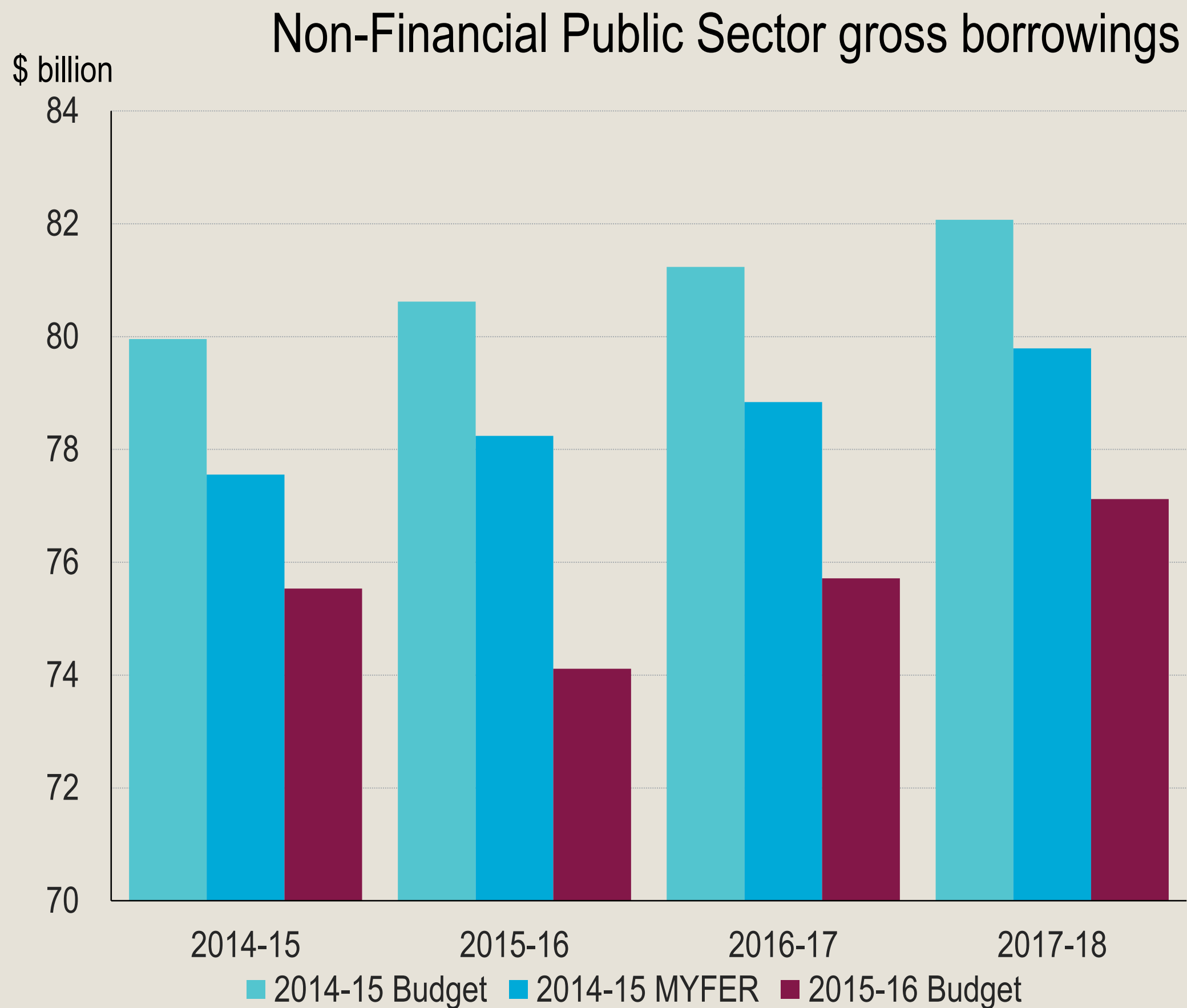




General Government debt

- General Government debt estimated to be \$7.9 billion less in 2015-16 than the 2014-15 MYFER estimate.
- By 2017-18, General Government debt expected to be \$7.5 billion less than at 2014-15 MYFER and \$8.9 billion less than the 2014-15 Budget estimate.





Non-Financial Public Sector debt

- By 2017-18, gross borrowings are expected to be \$2.7 billion less than at MYFER and \$5 billion less than the 2014-15 Budget estimate.



Budget Strategy

Debt Action Plan

Fiscal Principles

Action 1

Government-owned corporation regearing

\$4.1 billion from energy network companies by restructuring balance sheets to operate more efficiently

Action 2

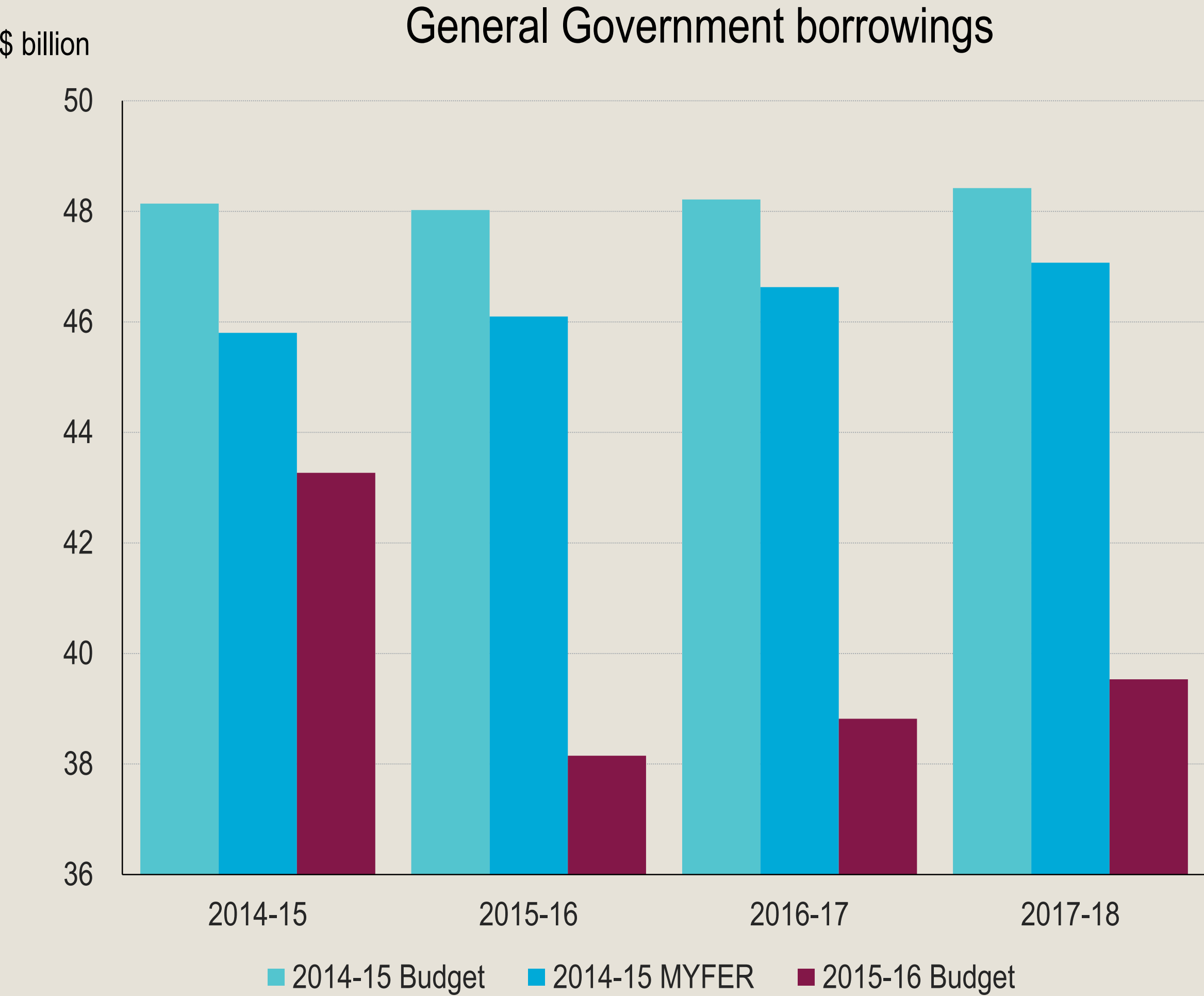
\$3.4 billion debt reduction by funding long-service leave as required, rather than via central pool

Review of State Finances identified returning to the same way of funding long service leave liabilities as our peers. No change for employee entitlements.

Action 3

\$2 billion over five years via time-limited suspension of employer contributions to defined benefit scheme

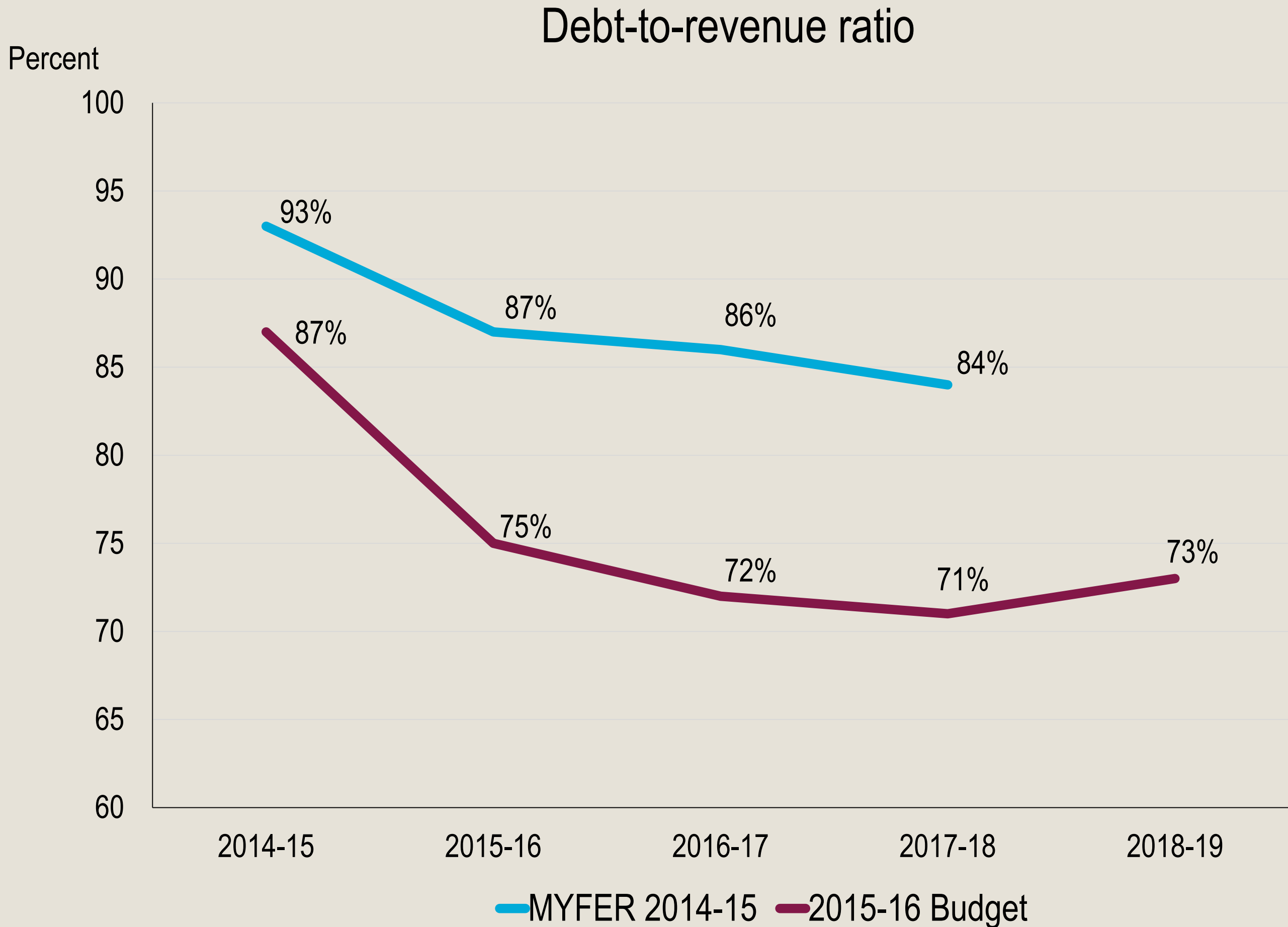
Scheme is already fully funded and will remain so. Currently has an estimated \$10 billion surplus. No change to entitlements



Debt Action Plan

- First reduction in General Government debt forecast over the forward estimates in 16 years
- Debt Action Plan will reduce debt by \$7.5 billion in 2015-16 – compared to the level of debt in the absence of measures
- Reduction of \$9.6 billion by 2017-18
- General Government interest payments almost \$1 billion less over the period 2014-15 to 2017-18

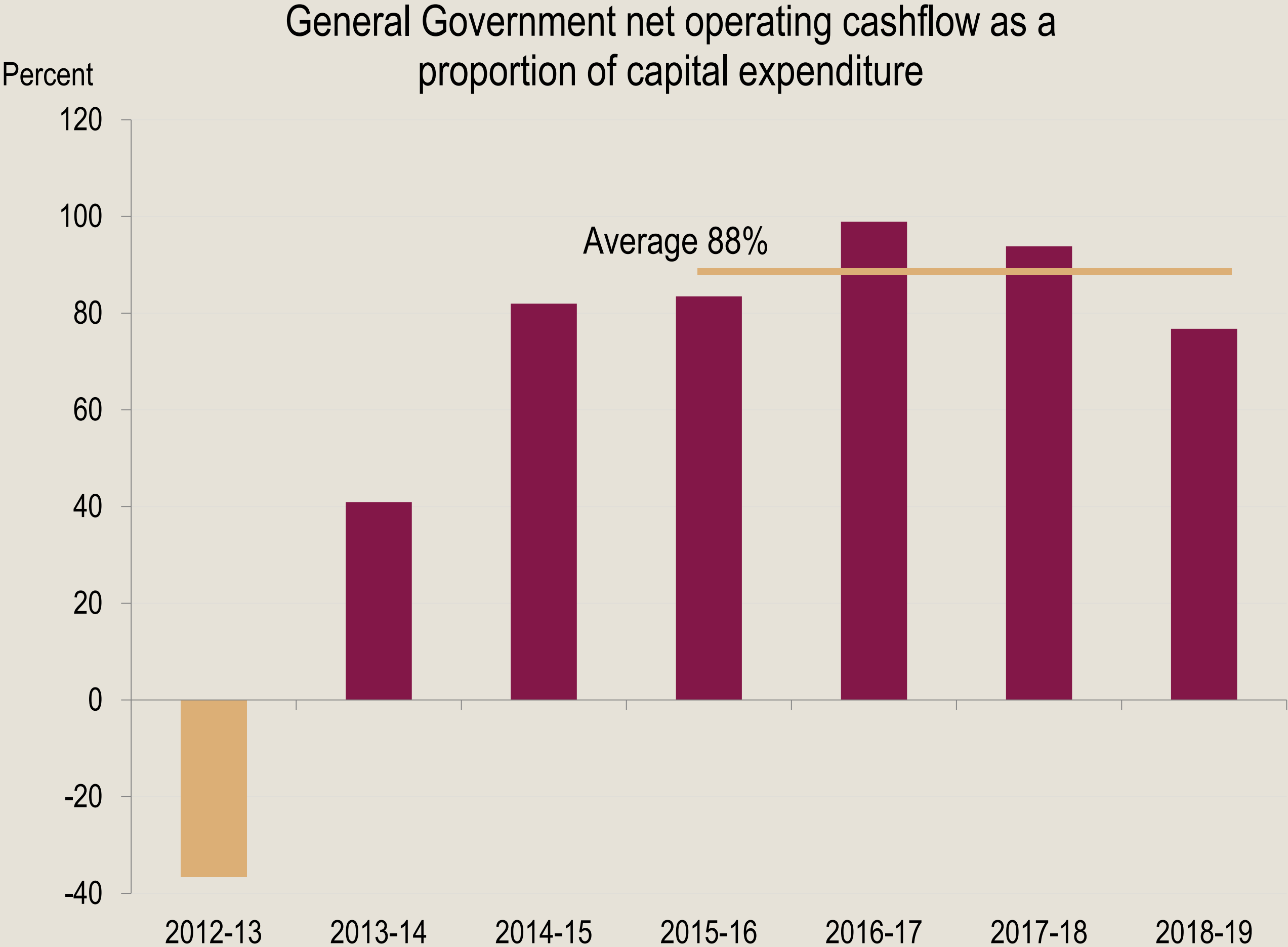




Enhanced fiscal principles

- Ongoing reductions in relative debt burden, as measured by General Government debt-to-revenue ratio
- Debt to revenue ratio is estimated to have peaked at 91% in 2012-13, and is significantly lower than forecast at MYFER

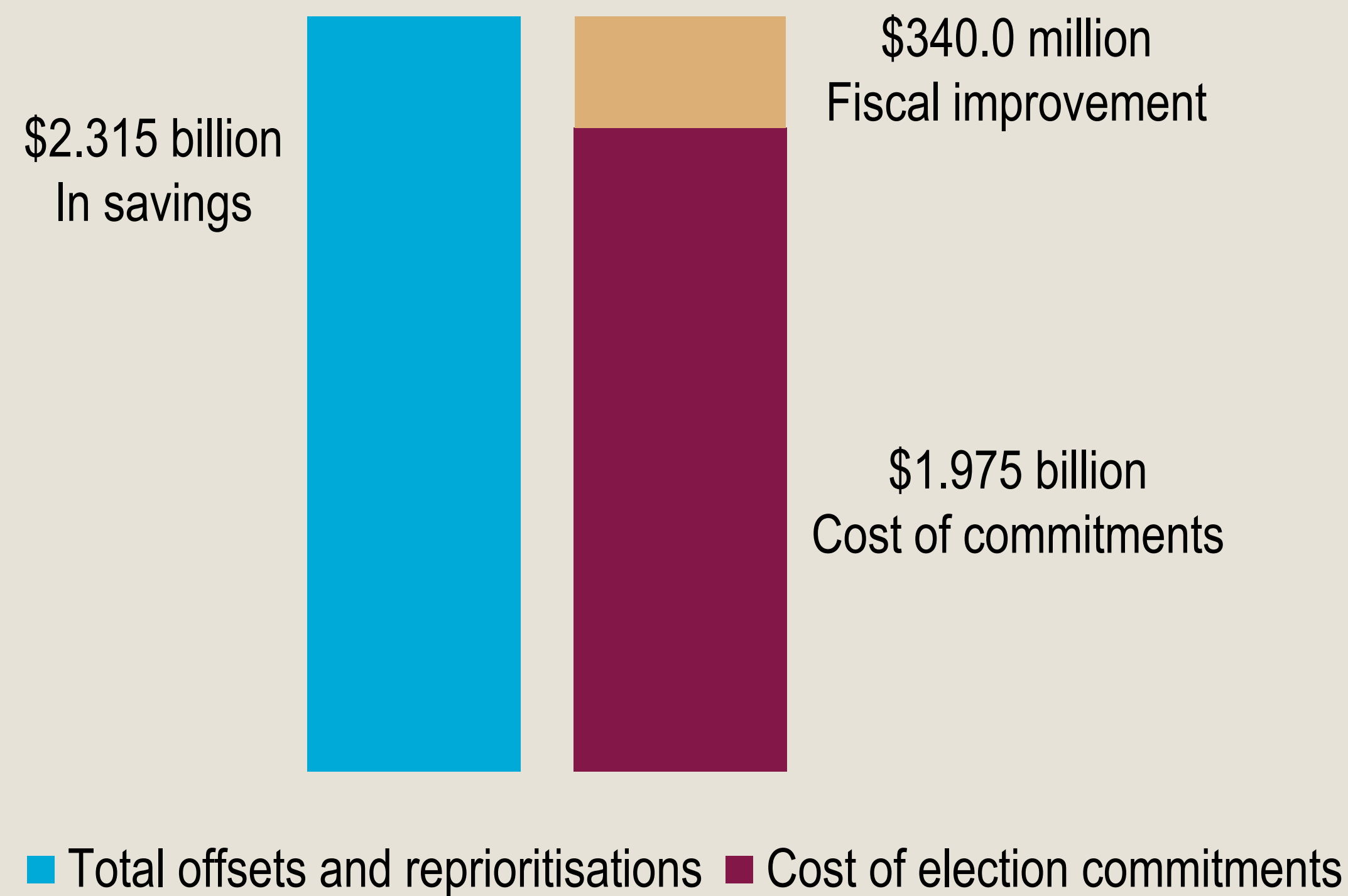




Enhanced fiscal principles

- Net operating surpluses that ensure new capital investment in the General Government sector is funded primarily through recurrent revenue rather than borrowing
- An average 88 per cent of capital purchases will be funded from cashflow across the forward estimates

Election commitments



All election commitments met
All offset by savings

Budget Initiatives

Working Queensland

Increased funding
to frontline services

\$10.1 billion capital program

Working Queensland

\$1.6 billion jobs package



Skilling Queenslanders for Work



Advance Queensland



Rescuing TAFE



Supporting business

\$14.2 billion
for health

Up by more than 4%



Up to 1000 new nursing graduates per year and up to 400 new nurse navigators



\$361 million Outpatient Long Wait Strategy



\$180 million Regional Hospitals Package



155 new and replacement ambulance vehicles, 75 new paramedics

\$12.4 billion
for education

Up 7.2%



\$249 million for 875 extra teachers



\$439 million Building Our Schools package



\$6 million Letting Teachers Teach



\$300 million over four years to fix our schools

\$10.1 billion

Capital program

27,500 jobs supported

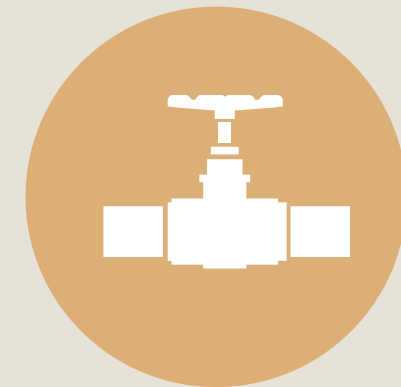
\$35.4 billion across four years



\$4 billion for roads



\$607 million for Education and Training infrastructure



\$2.4 billion for Energy and Water infrastructure



Market-led proposals

Budget Highlights

- **Enhanced Fiscal Principles**
- **\$1.2 billion operating surplus in 2015-16**
- **First General Government debt reduction forecast across the forward estimates in 16 years**
- **Increased funding to frontline services**
- **\$10.1 billion capital program**

Thank you

John O'Connell
www.treasury.qld.gov.au

Commonwealth-State Financial Relations

Robbie Meddick

Inter-Governmental Relations

Economic Group, Queensland Treasury

Key messages to take away

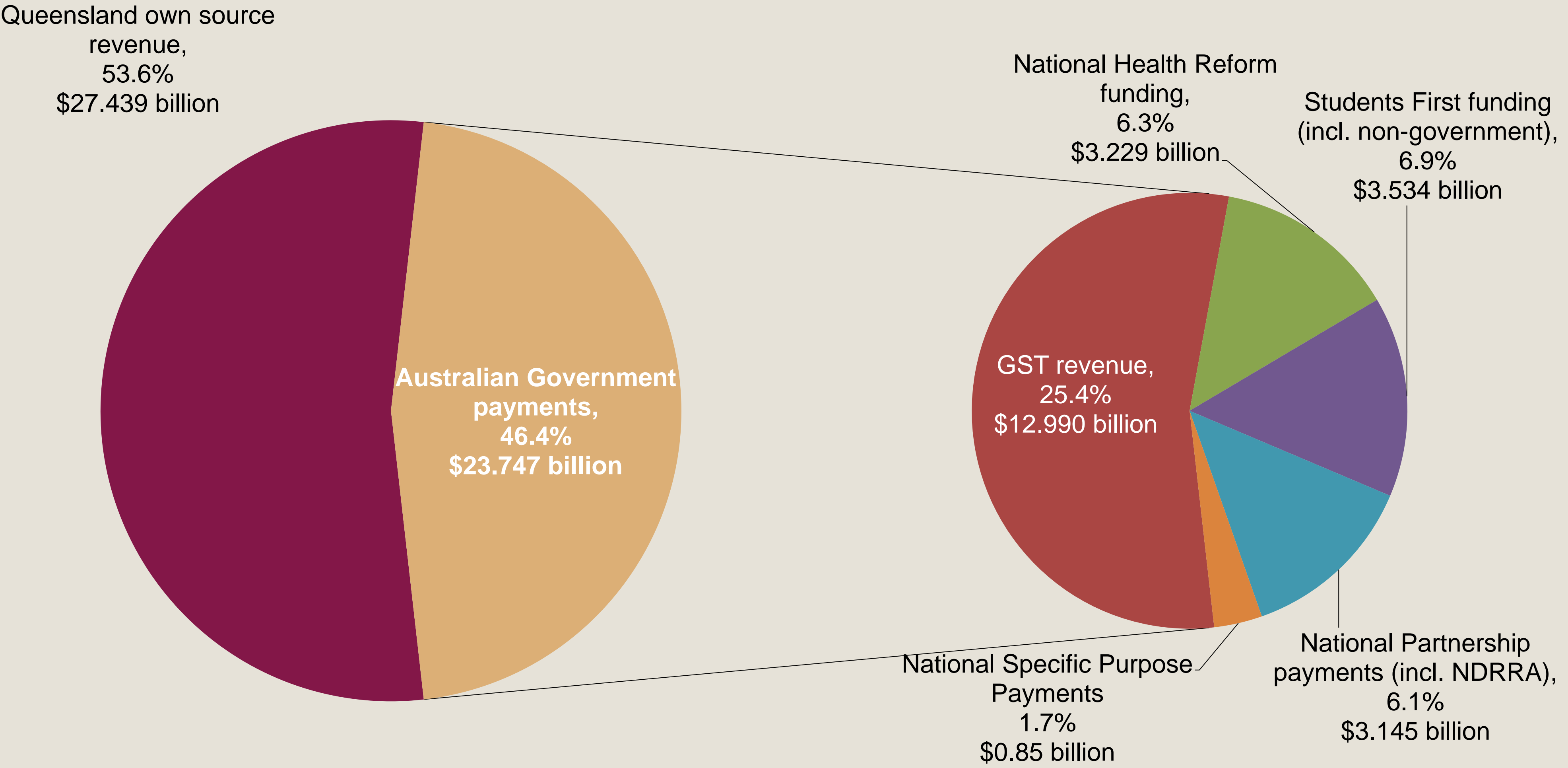
1. Queensland continues to have a heavy reliance on Commonwealth funding (often with conditions) – this is increasing VFI
2. Some additional payment measures in the Commonwealth 2015-16 Budget are welcomed
3. But no respite from the fiscal tightening and uncertainty for states from previous Commonwealth funding cuts (2014-15 health and education)
4. CGC 2015 GST Review – good outcome for Qld; duly recognises natural disaster recovery expenses; but expected to fall back toward EPC
5. Big opportunity for reform – federalism (roles and responsibilities) + tax reform (to address VFI)

Queensland is heavily reliant on Australian Government payments

In 2015-16
\$23.7 billion

- 35 x 1 William St Towers
- 51 x NASA space shuttle launches
- 10 x Fiji's total budget
- \$5,000 one-off grant to every person in Queensland

2015-16 Commonwealth payments - almost half of Queensland's General Government Sector revenue sources



Estimated Australian Government payments to Queensland

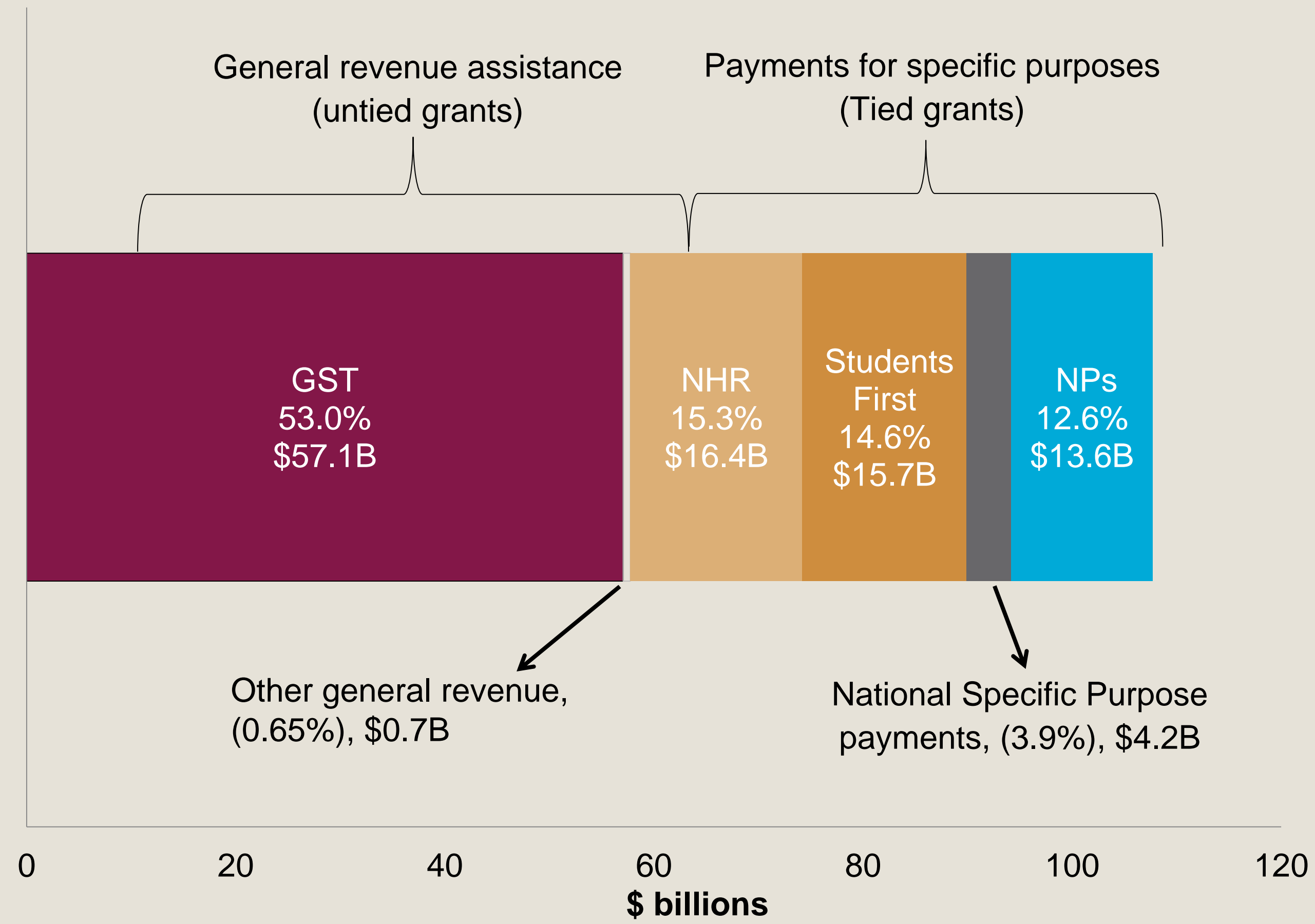
	2013-14 Actual \$ million	2014-15 Est. Act. \$ million	2015-16 Budget \$ million	Change Nominal Terms %	Change Real Terms %	Change Real Per Capita %
GST revenue	10,823	11,746	12,990	10.6	8.2	6.2
GST balancing item ³	73	69	..			
Total payments for general purposes	10,896	11,816	12,990			
<i>Payments for specific purposes</i>						
National Partnership payments	1,889	1,917	2,039			
Natural Disaster Relief & Recovery	1,515	1,163	1,106			
National Specific Purpose Payments	807	831	850			
National Health Reform Funding	2,815	3,057	3,229			
Students First – Education Reform	2,926	3,231	3,534			
Total payments for specific purposes	9,951	10,198	10,757	5.5	3.2	1.3
Total payments	20,847	22,014	23,747	7.9	5.5	3.6

Notes:

1. Numbers may not add due to rounding.
2. Does not include Australian Government funding direct to Local Governments.
3. The balancing adjustment accounts for differences between the GST paid to states and the final GST pool size and population outcomes in the prior year (2012-13 and 2013-14).
4. NDRRA is funding for the Natural Disaster Relief and Recovery Arrangements.

Sources: Commonwealth Budget 2015-16 Paper No. 3 and Queensland Treasury estimates.

Nationally - Australian Government grants to all states, 2015-16



	Share of payments %	Share of population %
New South Wales	30.5	31.9
Victoria	23.0	24.9
Queensland	21.7	20.1
Western Australia	7.0	11.2
South Australia	8.5	7.1
Tasmania	3.2	2.1
Australian Capital Territory	1.8	1.6
Northern Territory	4.3	1.0



Vertical Fiscal Imbalance (VFI)

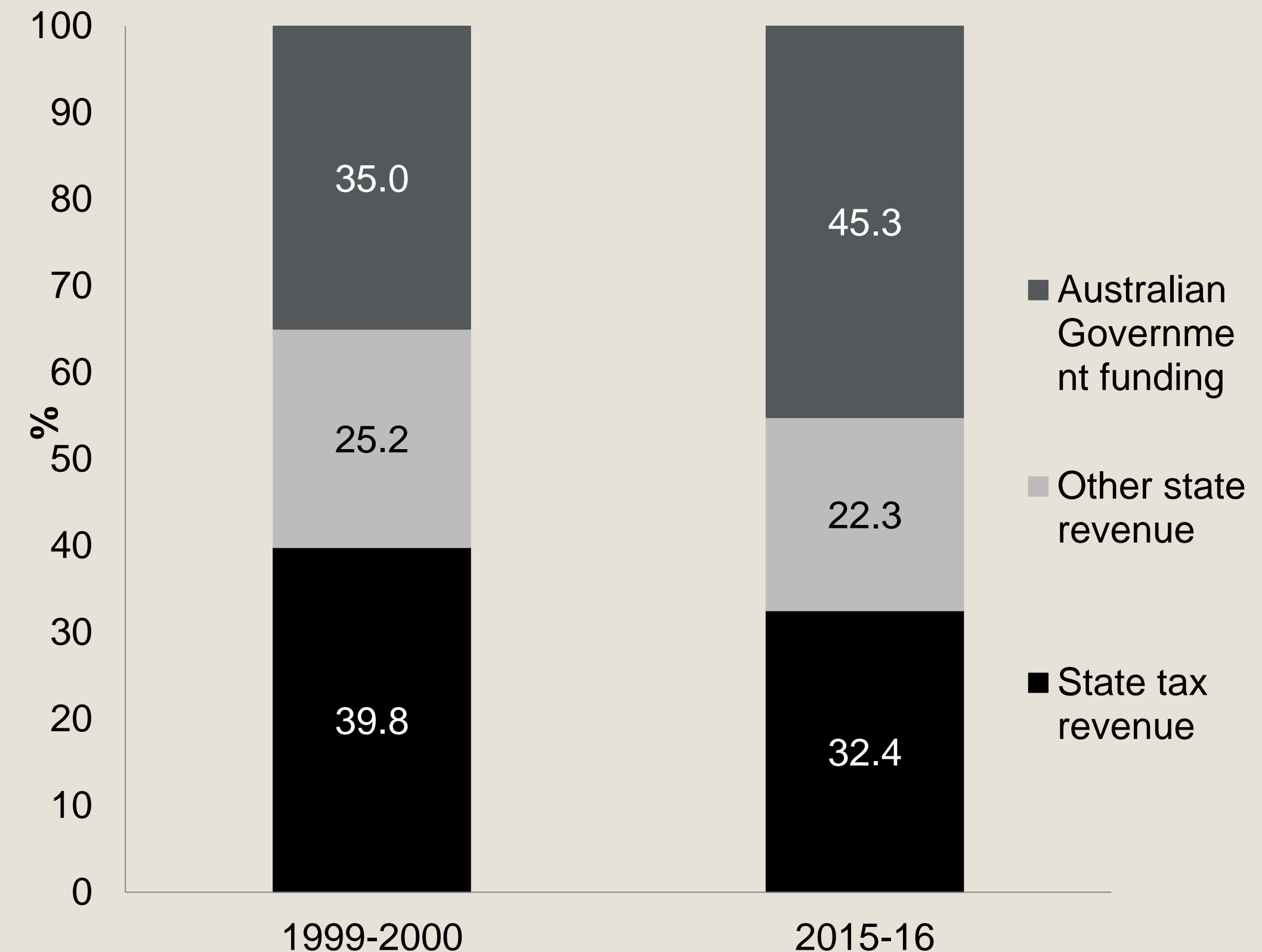
Australia's federal financial relations are marked by a high degree of VFI - Commonwealth collects much more revenue than it spends for its own purposes. In contrast, states do more public spending than their own-source revenues can cover, and depend on Commonwealth grants for the difference.

VFI is increasing

- State reliance on Commonwealth payments is increasing
- Proportion of State own-source revenue is declining

Excessive VFI can:

- Weaken or blur government accountability
- Produce inadequate or inappropriate funding of services
- High grant administration costs
- Leave states with little policy control over a large proportion of their revenues.
- Commonwealth can extend its policy influence into state functional areas



Commonwealth Grants Commission (CGC) – 2015 GST Methodology Review (April 2015)

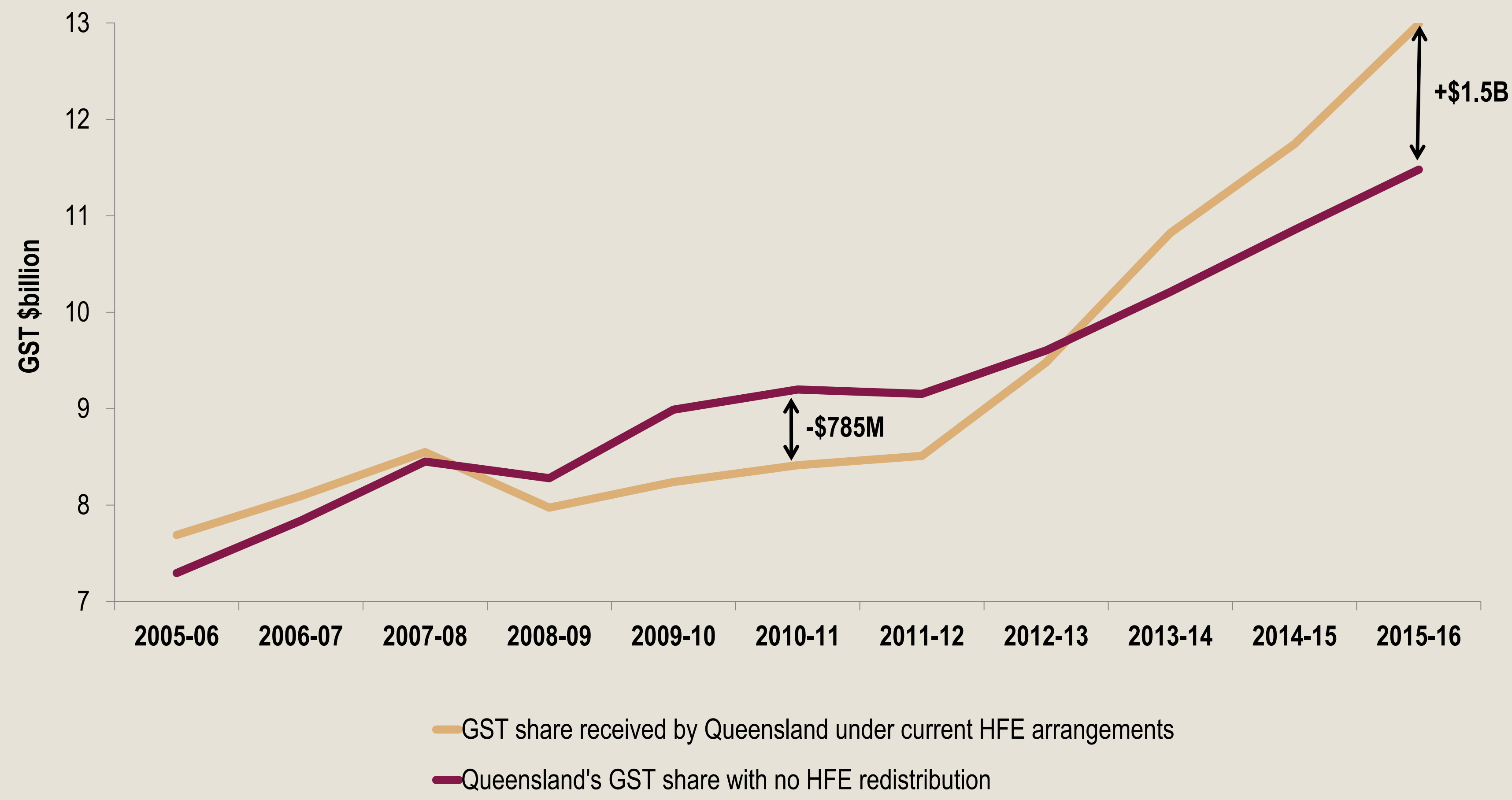
- Affects Queensland's GST share between 2015-16 - 2019-20.
- Distributes \$57B GST pool to achieve horizontal fiscal equalisation (HFE) - so each state has the capacity to provide services and infrastructure at national average levels.
- Queensland's improved position due to changes in state circumstances beyond our control (mainly natural disaster relief expenses and mining revenues)

Impact of:	NSW	Vic	QLD	WA	SA	Tas	ACT	NT
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Methodology change	-105	423	-186	-255	74	89	-93	53
Revised data	-157	-44	-45	202	58	-7	-47	40
States' circumstances	-254	-249	787	-441	152	144	10	-149
Total change	-517	131	556	-494	284	225	-129	-56

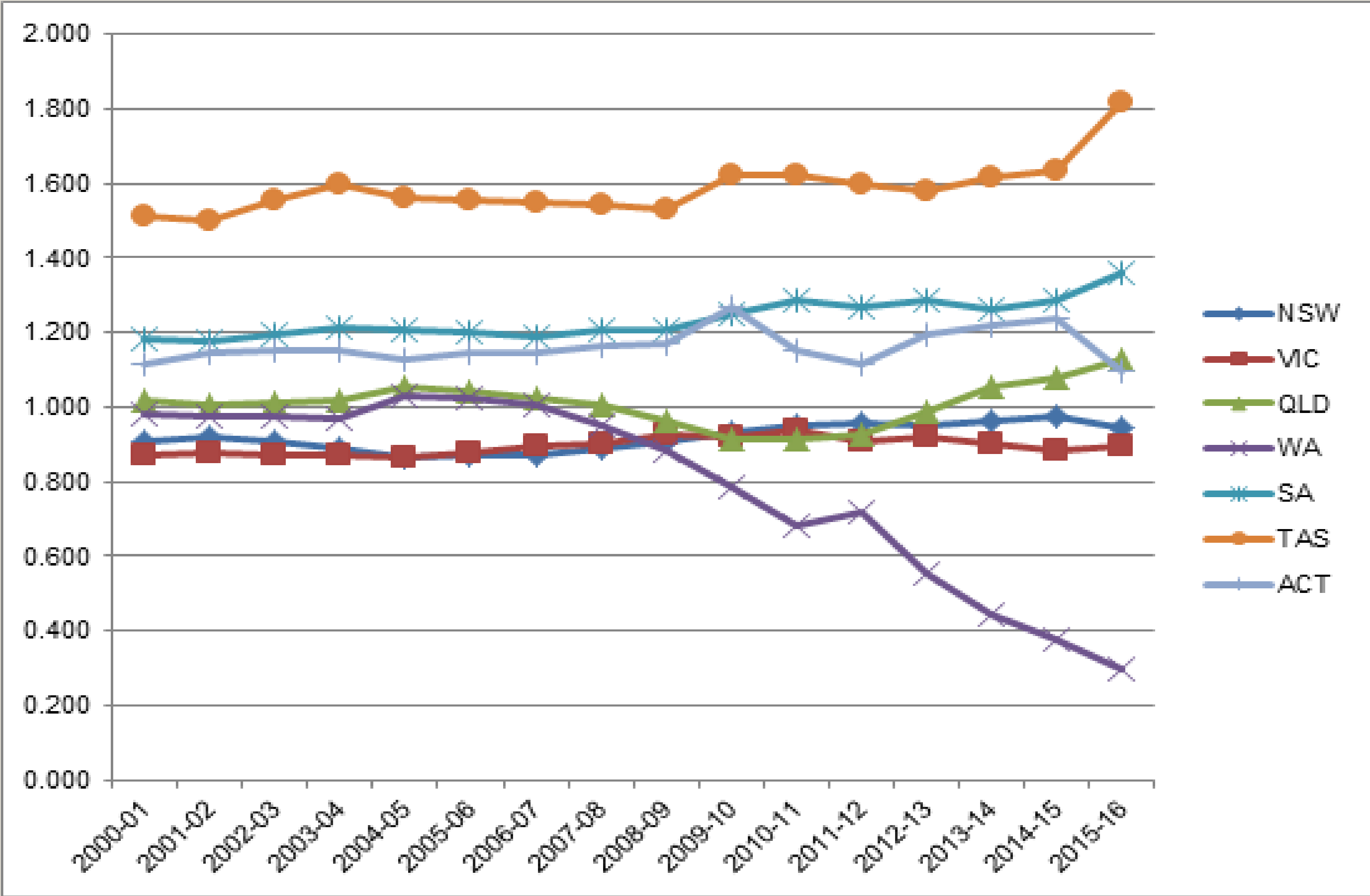
2015 GST Review

- Qld relativity = 1.12753
(up from 1.07876)
- Qld GST share up to 22.8%
(up from 21.8%)

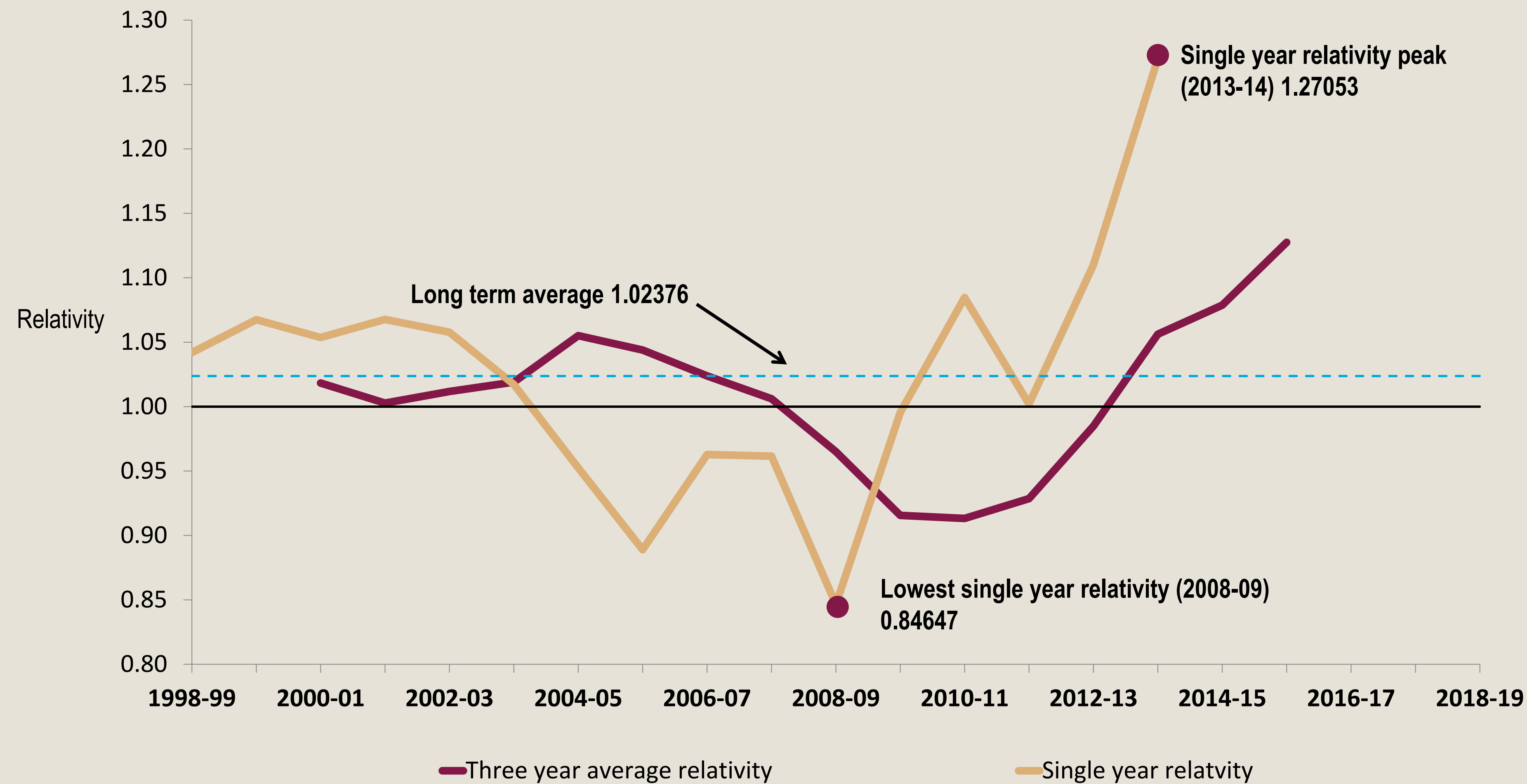
Impact of a HFE-based distribution process on Queensland's GST share



GST relativities over time



CGC – volatility of Queensland’s GST relativity (stamp duty; mining revenues; NDRRA)



2015-16 Commonwealth Budget

Payments for specific purposes to Queensland - \$10.757 billion

- Only short-term increases/extensions to major funding agreements
 - Early childhood (\$175.8M out to 2017-18)
 - Homelessness (\$57.4M out to 2016-17)
 - Legal assistance (\$202M out to 2018-19)
 - Adult public dental (\$30M)
- But no ongoing funding certainty for NPs (e.g. mental health)
- No respite from the Cwth funding decisions in 2014-15 relating to health and education indexation (\$11.8B and \$6B less funding out to 2024-25).
- Infrastructure - \$5B loan scheme for N.Australia; \$800M allocated to *Developing Northern Australia White Paper*; no funding for Qld priority projects (second river rail crossing, GG light rail extension; Sunshine Coast rail duplication)

Consecutive Commonwealth Budgets – emerging implications for States

- Commonwealth funding to the states is undergoing structural change
- increases in funding are only short term
- cuts to hospital and school funding are on-going and compounding
- durability of agreements with the Commonwealth is weakening
- expiring agreements have little State input, and no rollover into SPPs
- ceasing of agreements before expiry
- reversal of major reform agreements (health, education).

White Papers - Federalism and Tax Reform

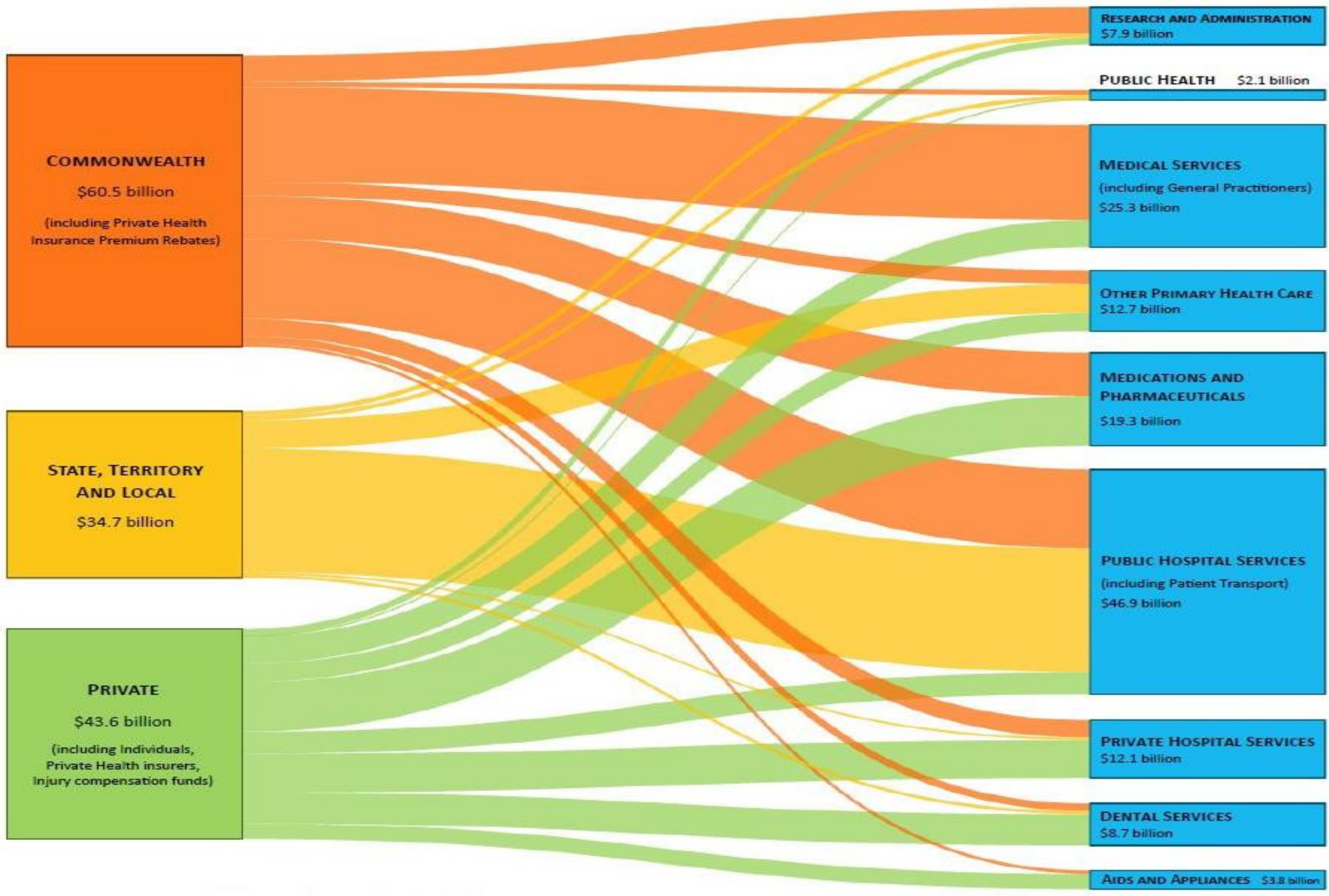
Reform of the Federation (lead by first Ministers with Treasury advice)

- clarify roles and responsibilities to ensure States are sovereign in their own sphere (reform areas - *Health; Education; Housing & Homelessness*)
- reduce waste and duplication between State and Federal levels of government.
- addressing VFI and ensuring States have access to a sustainable, stable revenue base – essential link to Tax White Paper

Leaders Retreat 22 July – work on more developed options for Green Paper
(Qld focus – School education; Revenue; Housing)

White Paper recommendations to be taken to 2016 Federal Election

Current funding flows across the health system



White Paper on Tax Reform

Why?

- Long term fiscal issues/imbalance; current tax system has high economic costs; room to improve efficiency

What?

- Simpler, fairer tax system (with lower taxes?) – supports economic growth / living standards / international competitiveness / adjusts to a changing economy
- Cwth's '*Re:Think*' paper - begins the formal conversation: notes high reliance on income taxes, and taxes that impose high economic costs (e.g. duties). Also notes broad based consumption taxes (e.g. GST) are relatively efficient.
- Treasurers' August Tax Summit – detailed reform options for Green Paper (*...all reasonable and sensible options on the table for discussion*)

Priorities for Queensland

- ✓ Queensland supports a simpler, fairer tax system – but not at the expense of State revenue.
- ✓ Access to sustainable revenue streams to match service delivery responsibilities - a key goal
- ✓ Ideally, better alignment of taxing powers with spending responsibilities
- ✓ Any reduction in inefficient state taxes would need an offsetting revenue source
- ✓ Increasing the control States have over the level of revenue they raise and how they allocate that funding.

Thank you

Robbie Meddick

Email: Robbie.Meddick@treasury.qld.gov.au

Questions