

Sustainability of a State Budget

A Queensland Treasury Perspective

Glenn Miller, A/Deputy Under Treasurer
Queensland Treasury



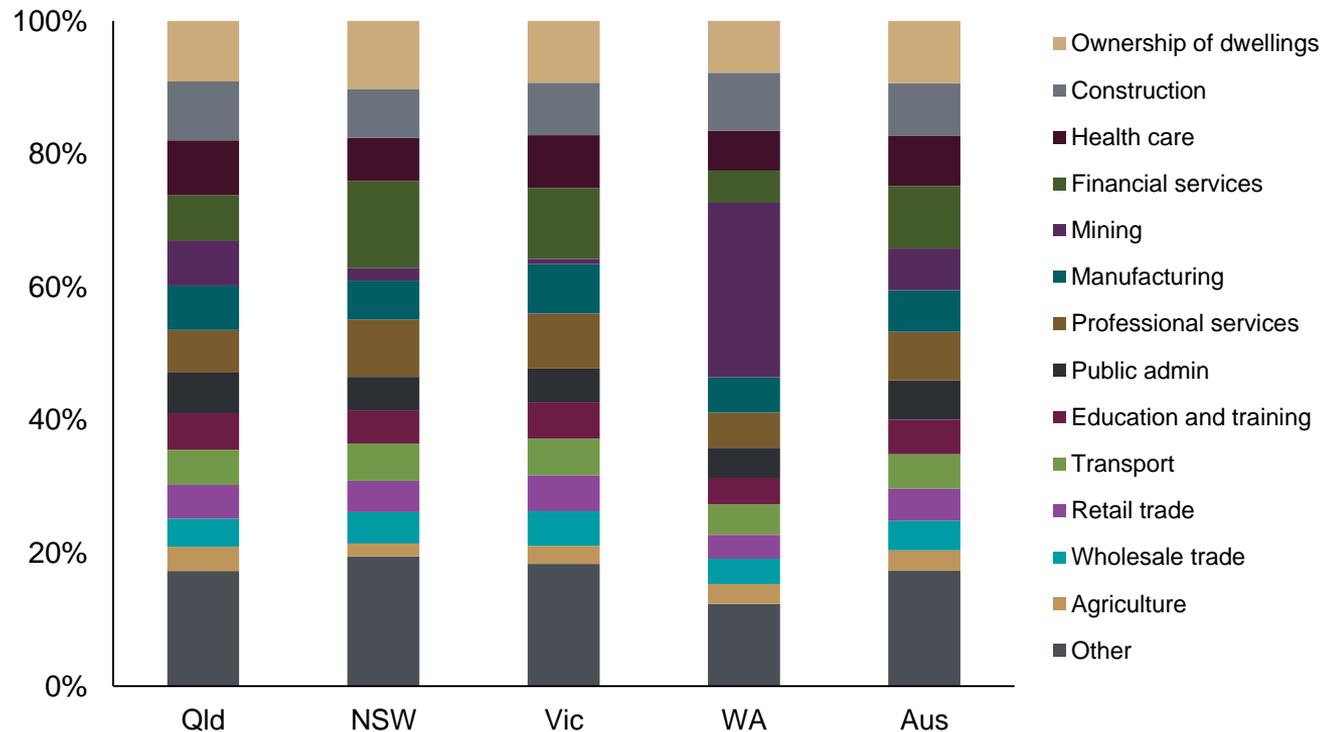
Economic Overview



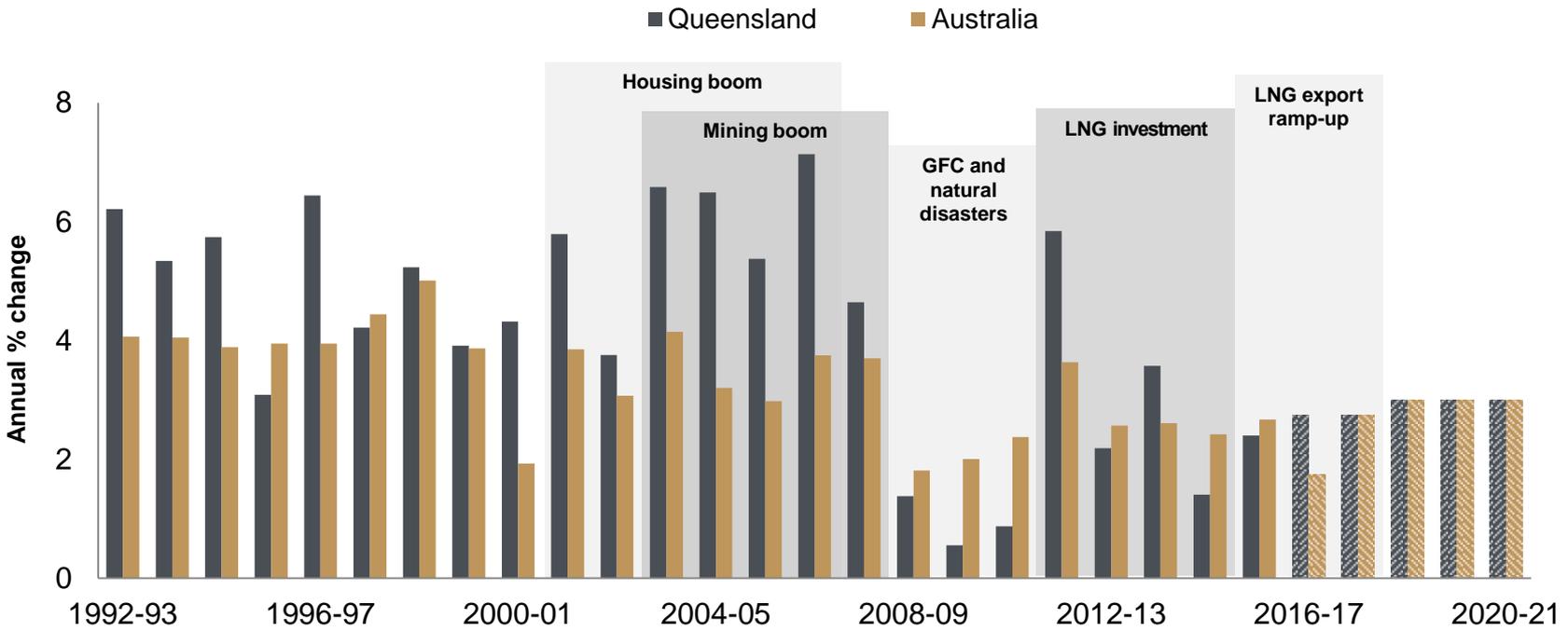
Queensland overview

- A \$300 billion economy – third largest in Australia
- Around two thirds of Queensland's economic output is in the services sector
- Population of 4.9 million, 20% of Australia's population
- Approximately 70% of the population lives in South East Queensland

Queensland's diversified economy



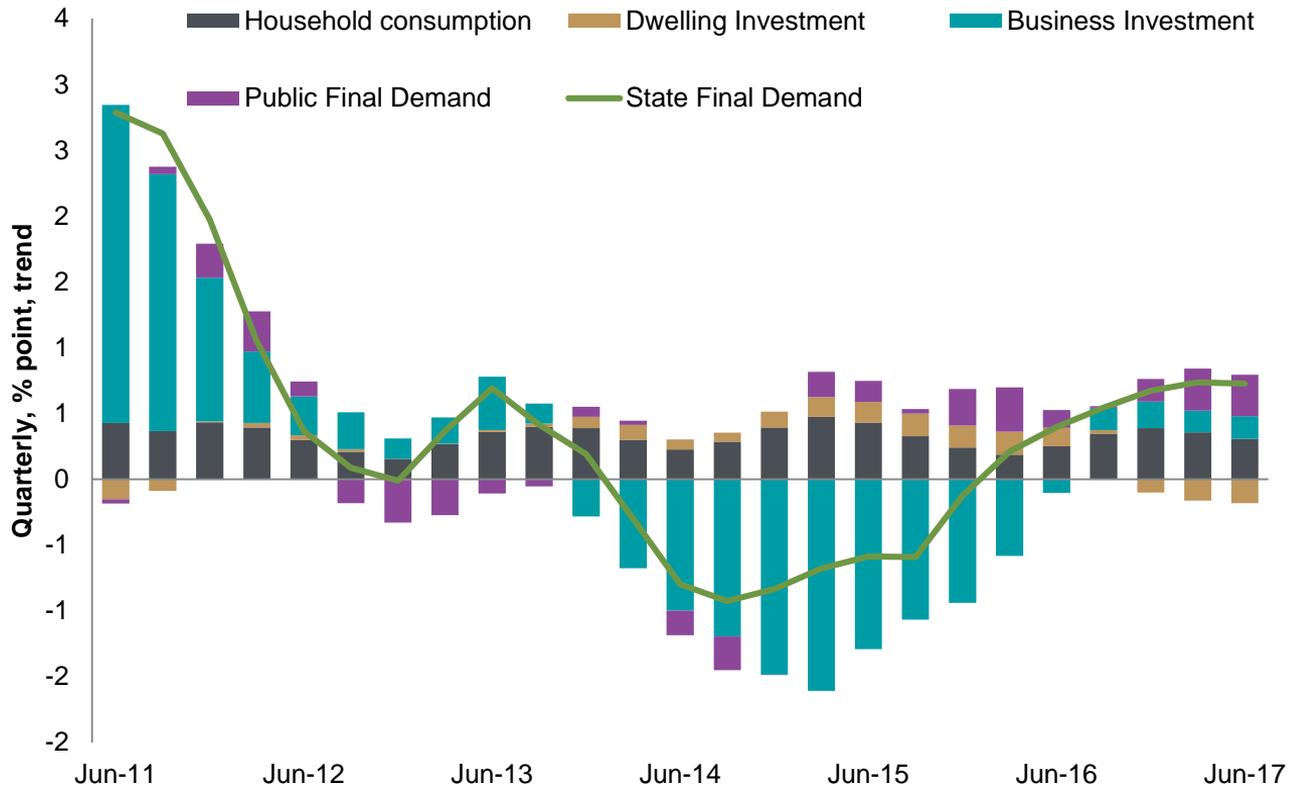
Economic growth - GSP



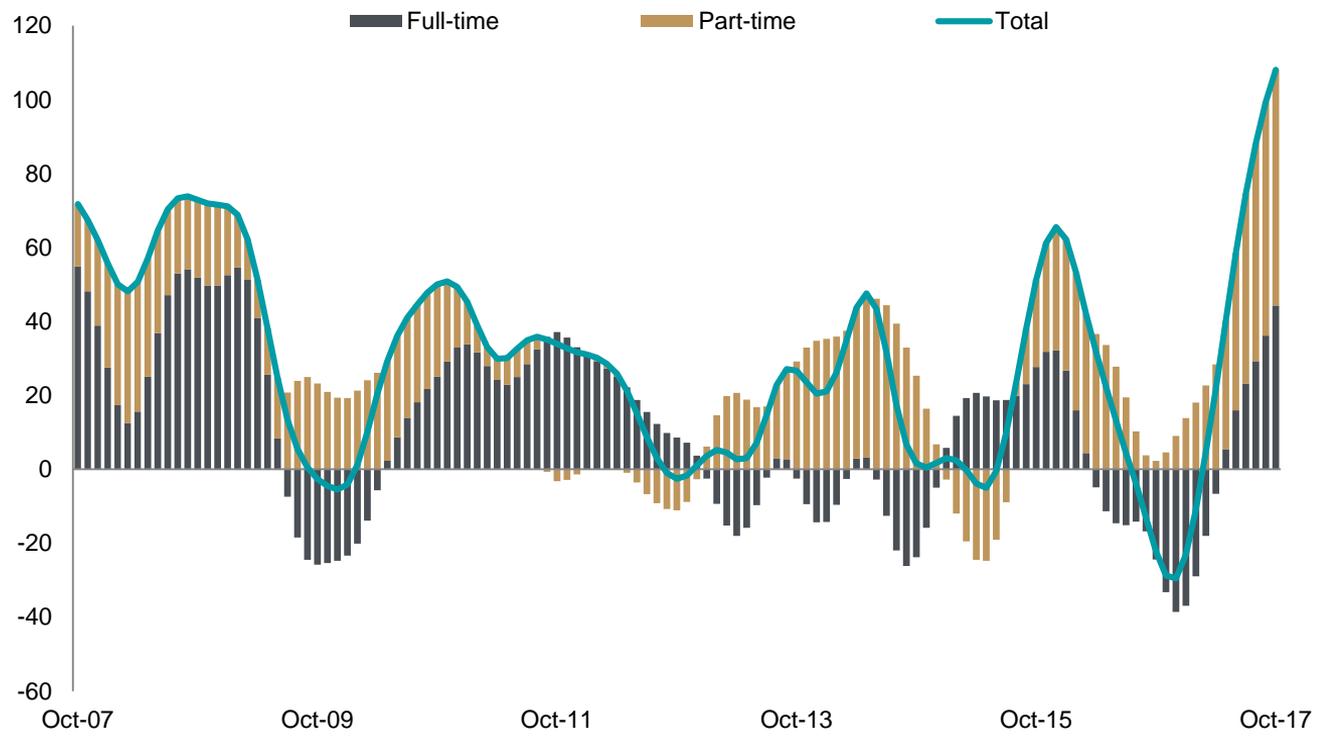
Sources: ABS 5206.0 and Queensland Treasury.



State Final Demand



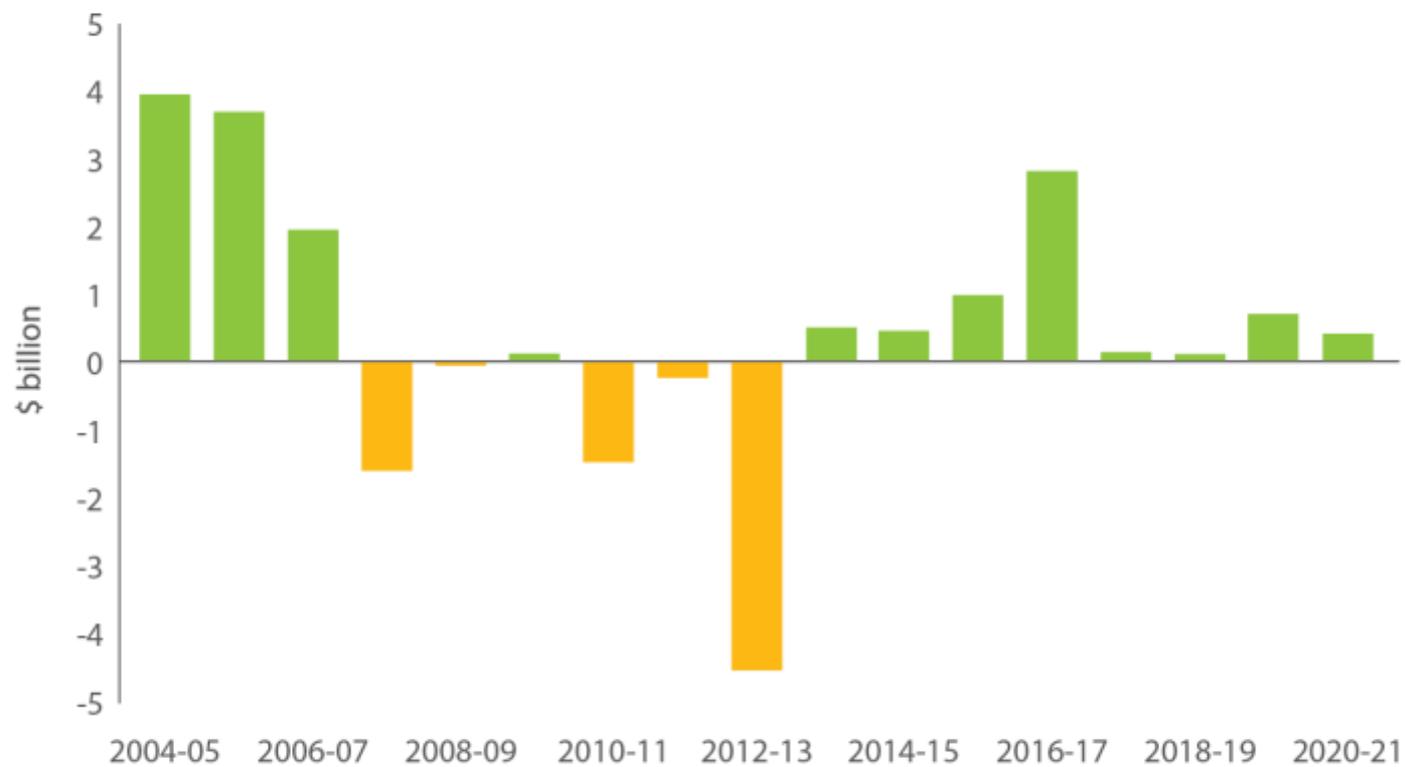
Labour Force

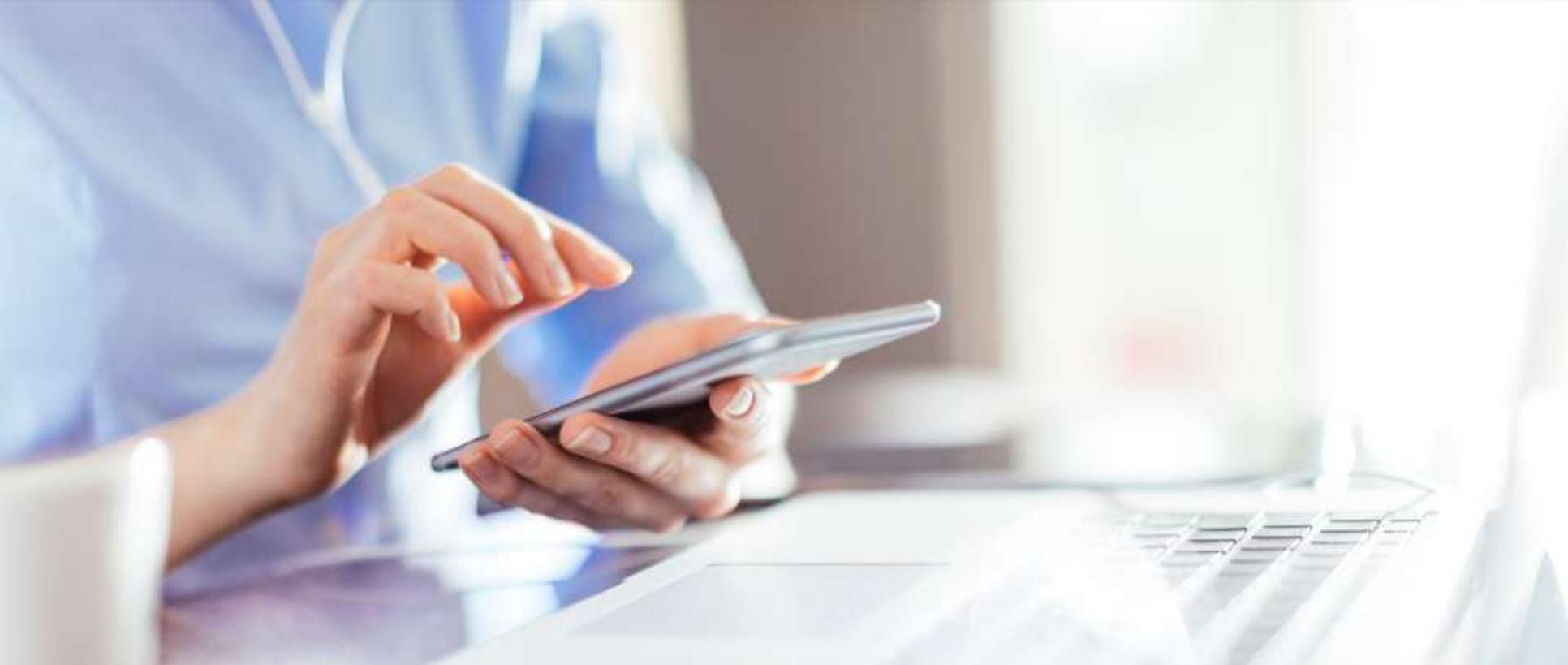


The State Budget



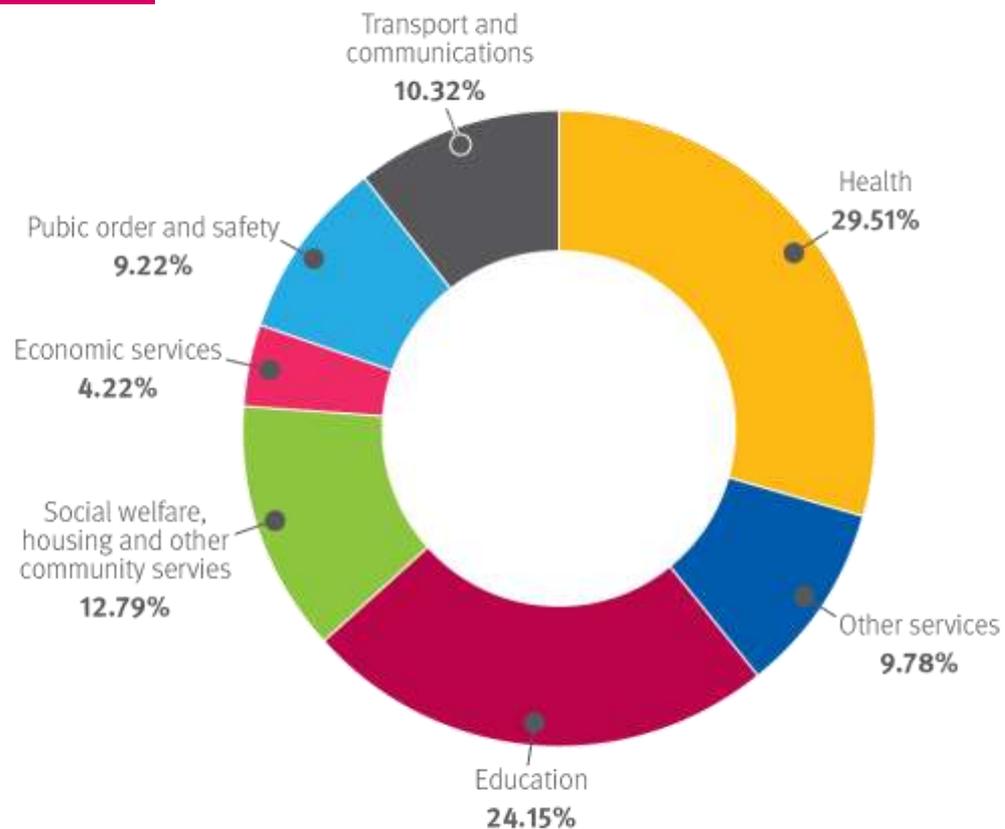
Net operating balance



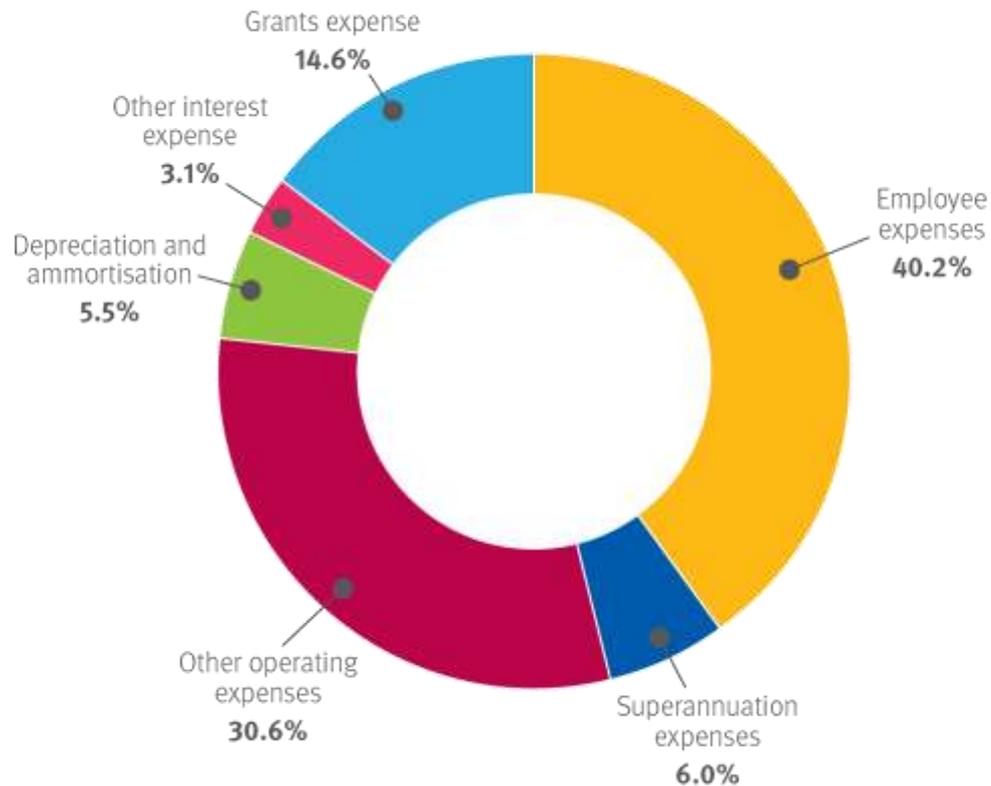


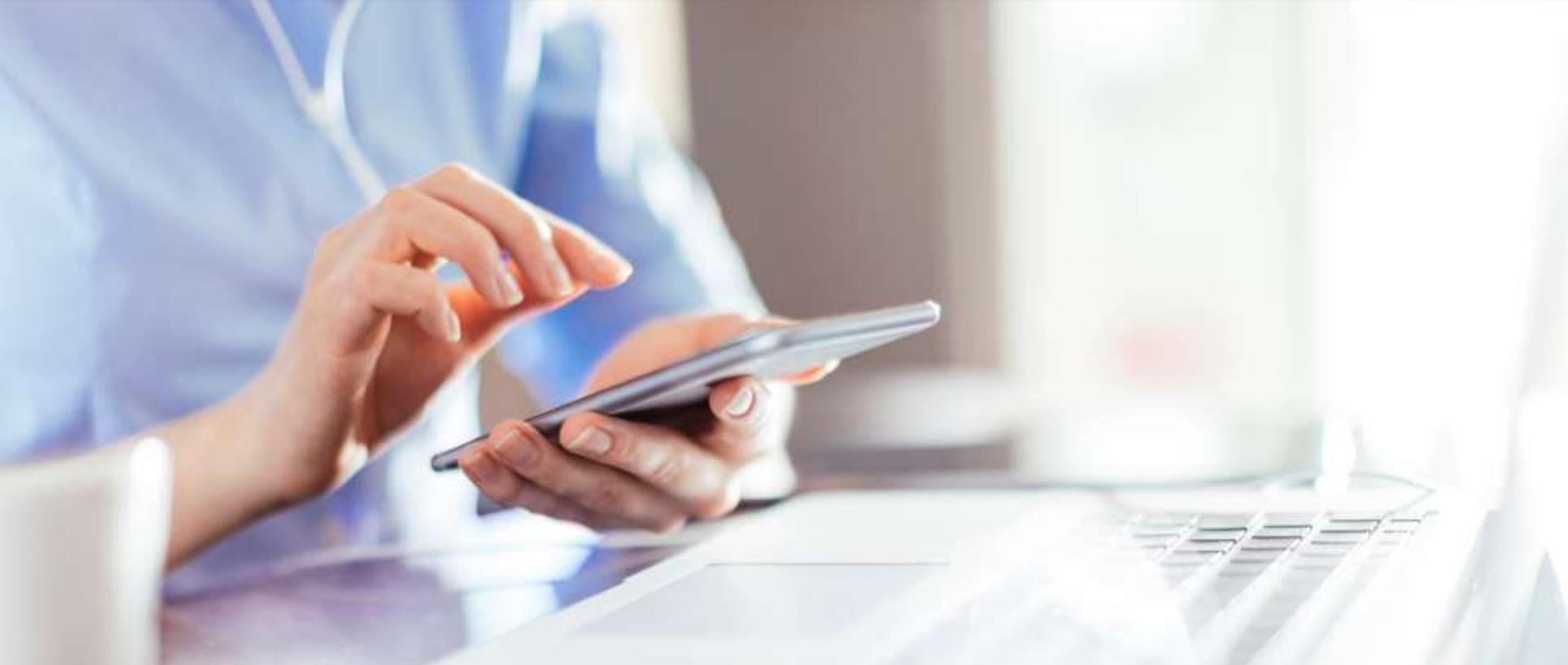
Live polling question

Government expenses \$55.7 billion



Government expenses \$55.7 billion

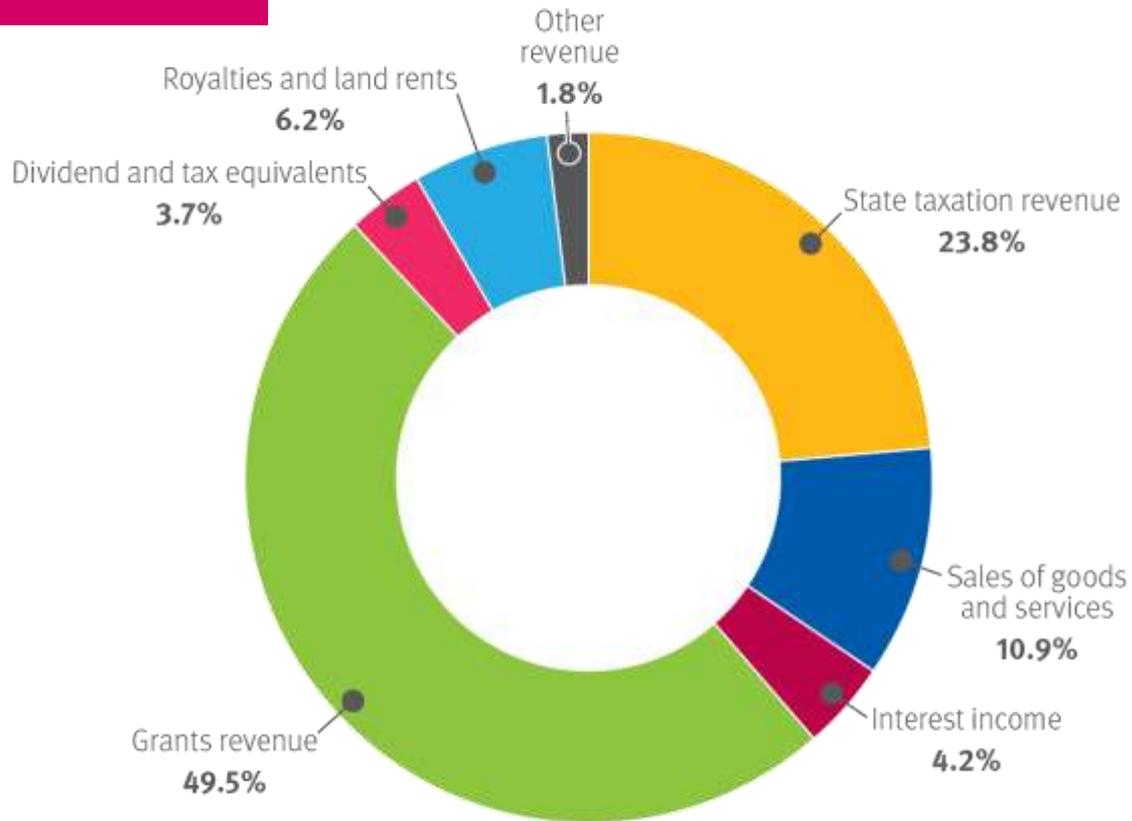




Live polling question

Government revenues

\$55.9 billion



Commonwealth-State Financial Relations

Two key terms:

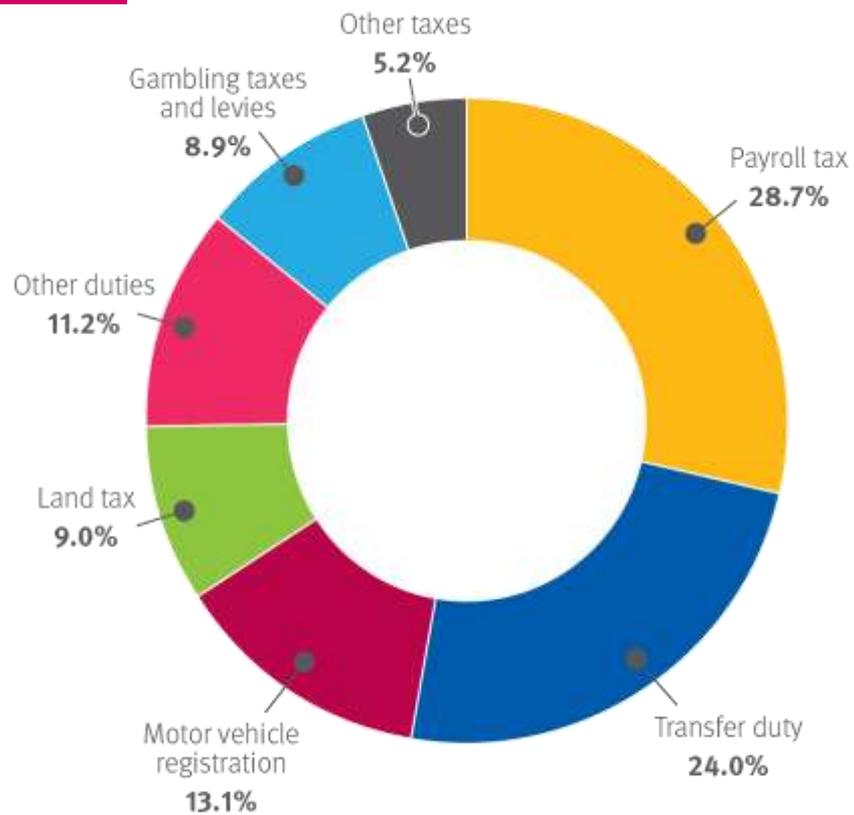
Vertical Fiscal Imbalance

- The Commonwealth collects the majority of the taxation revenue but the States deliver the majority of services

Horizontal Fiscal Equalisation

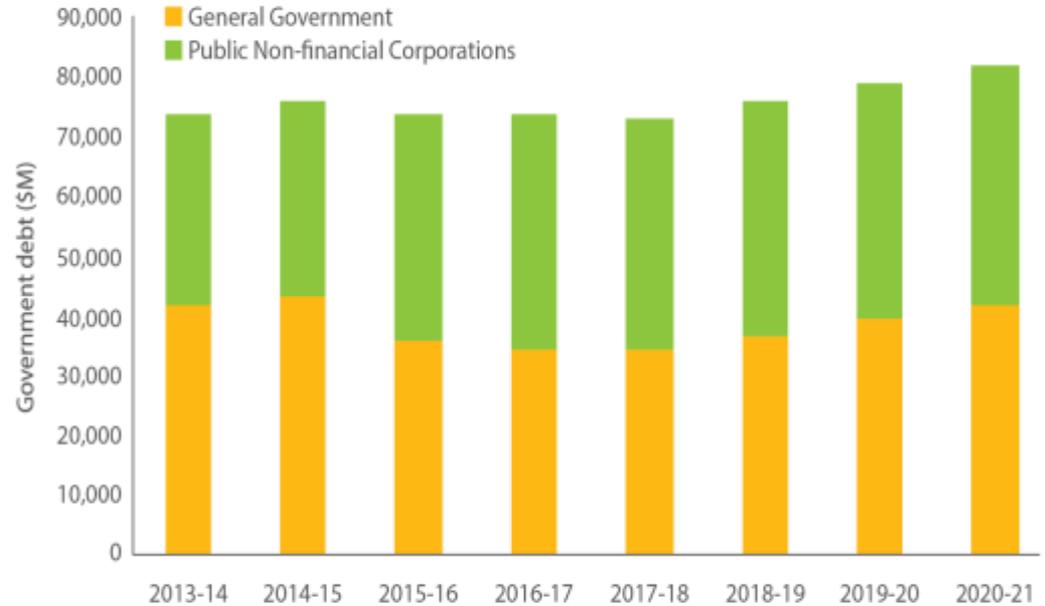
- CGC recommends the share of GST revenue each State needs, based on an assessment of the relative cost of providing services and the relative capacity to raise own-source revenue

State taxation \$13.3 billion



State debt

- Growth in Government debt has stabilised
- General Government debt – reduction from a peak of \$43 billion, due to improved operating results and targeted balance sheet measures
- Total Government debt continues to grow, with debt forecast to surpass \$80 billion by 2021



Treasury's role



Queensland Treasury Strategic Plan

- Vision - Grow the Queensland economy and improve the wellbeing of all Queenslanders
- Objectives
 - Enable sustainable growth that supports current and future government objectives
 - Partner proactively to facilitate better outcomes for the community
 - Ensure our services are tailored, fit-for-purpose and easy to access
 - Develop a capable and flexible workforce that can lead policy development and service delivery

Our Partnership Vision

To partner with agencies for the prosperity of Queensland

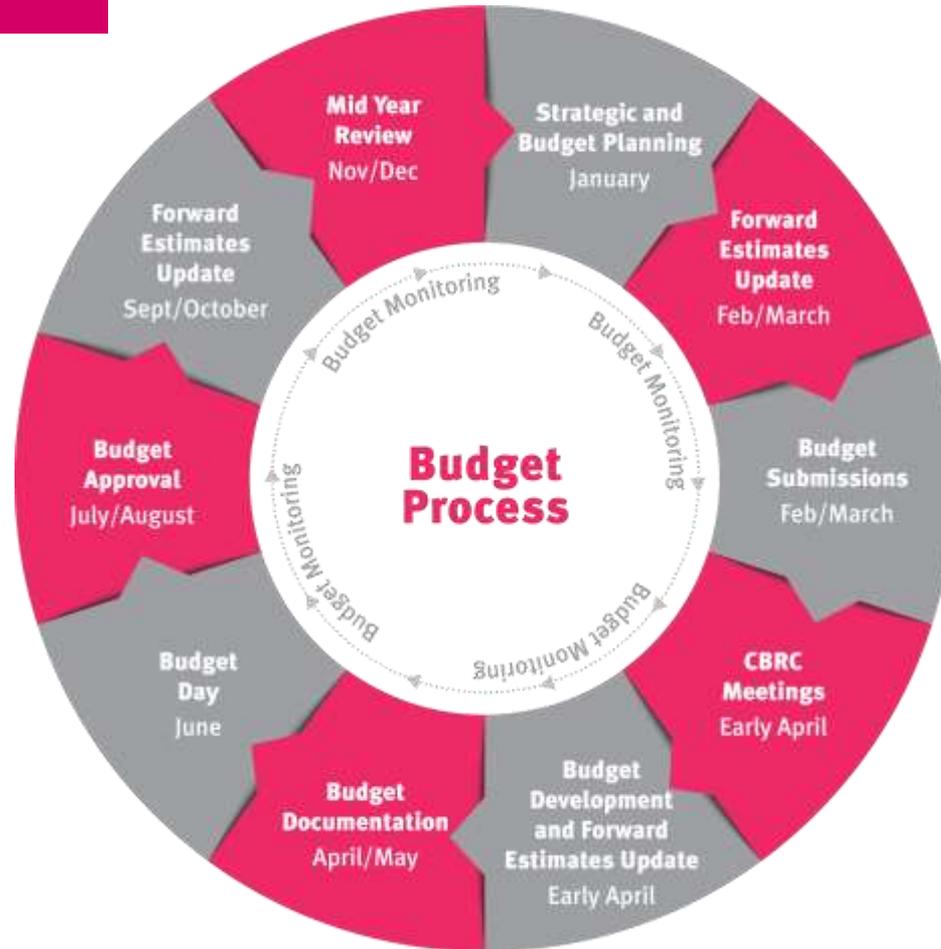
- Strategic
- Tactical
- Operational

Treasury's role in the Budget process



The Budget process

Process is flexible and timeframes may change...



Treasury's assessment of funding submissions

- Consideration of alignment of proposal with objectives of government
- Evidence to support proposal
- Financial impacts
- Not only immediate impacts, but also whole of life impacts

Fiscal sustainability



What is fiscal sustainability

2015 Independent Review of State Finances:

- Government's revenue and expenditure policy should be set at a level that promotes stability, to minimise the need for disruptive corrective action and support long term economic growth.
- Sufficient financial capacity to absorb shocks
- Intergenerational equity
- Operate efficiently

Financial Accountability Act

- High level financial accountability requirements
- Requires a charter of fiscal responsibility – structure for fiscal decision making
- Principles contained in the charter are generally quite high level, and may cover issues such as:
 - Debt management for the State
 - Targeting surpluses
 - Being competitive regarding state taxation
 - Funding long term liabilities

Ratings agencies

- 20 April 2017 – Moody's affirmed Aa1 and revised the outlook from negative to stable. The negative outlook had been in place since November 2012
- 30 August 2017 – Fitch confirmed AA rating and revised the outlook from stable to positive
- 19 October 2017 – S&P Global affirmed AA+ (stable) rating

Ratings agencies

- Key considerations:
 - Budgetary performance/Government finances
 - Debt
 - Liquidity and risk management
 - Institutional arrangements
 - Government's commitment

Why are credit ratings important for Queensland?

- Credit ratings impact the cost of debt
- Influences access to markets
- Independent assessment

Questions?

