

Government measures for business and industry

The Queensland Treasurer, Jackie Trad delivered the Palaszczuk Government's fourth Budget on 12th June 2018. The Budget delivers an operating surplus in 2017-18 of \$1.5 billion. Modest operating surpluses averaging \$277 million per annum are expected over the forward estimates to 2021-22.

As announced in the November 2017 election, the Budget adopts the following new revenue measures:

- a 0.5% increase in the land tax rate for aggregated holdings above \$10 million (from 1 July);
- an increase in the Additional Foreign Acquirer Duty from 3% to 7% (from 1 July);
- an increase of \$2 per \$100 on the dutiable value of vehicles valued above \$100,000 (from 1 July); and
- a 15% consumption tax on the net wagering revenue of betting operators (from 1 October).

Also on the revenue side, the government will:

- introduce a **Waste Disposal Levy** of \$70 per tonne of general waste from the first quarter of 2019 as part of the Queensland Government's recently announced waste management strategy. The levy will increase by \$5 per annum. The proceeds will be used for waste programs, environmental priorities and community purposes; and
- extend the 50 per cent **payroll tax rebate for apprentices and trainees** for an additional 12 months until 30 June 2019.

Additional Queensland Government funding support that affect business and industry includes:

- \$73 million increased investment over four years in the **Advance Queensland Foundations for the Future initiative** which offers support for entrepreneurs through the Ignite Ideas program, Industry Research Fellowships and the Backing Queensland Entrepreneurs program;

Table 1: Largest Queensland industry sectors

<i>Industry output shares of Gross State Product 2016-17</i>	
1. Construction	8.3
2. Health services	7.7
3. Mining	6.4
4. Financial services	6.4
5. Manufacturing	6.2
6. Professional services	6.0

Source: ABS

Table 2: Queensland Government industry programs: major funding

<i>Additional funding</i>	<i>\$mn,</i>
Building Future Schools Fund– 6 years	308.0
Back to Work Regional Program	155.0
Skilling Queenslanders for Work – 3 years	180.0
Growing Tourism Jobs Program – 5 years	94.6
Advance Queensland Foundations for the Future – 4 years	73.0
Programs in support of innovation – 5 years	50.0
Advance Queensland Industry Attraction Fund – 2 years	40.0
Business Development Fund program – 2 years	40.0

Source: 2018-19 Queensland Government Budget

- \$50 million of additional funding over five years to support a range of programs to drive and scale innovation in Queensland, including the expansion of ‘The Precinct’, Queensland’s flagship hub for start-ups in Fortitude Valley;
- \$40 million over two years to extend the **Advance Queensland Industry Attraction Fund** aimed at attracting interstate and overseas businesses considering moving to Queensland or Queensland-based businesses interested in expanding;
- \$40 million over two years to continue the **Business Development Fund program** which involves an investment by the State in innovative businesses to promote their growth and facilitate the development of a sustainable private market for venture capital finance in Queensland; and
- \$94.6 million over five years to progress programs under the **Growing Tourism Jobs initiative** including \$48.6 million for the Attracting Tourism Fund to provide incentives to attract new international airline routes and cruise ships to Queensland.

Queensland Government Infrastructure Program

The Budget provides for \$6.8 billion in infrastructure spending (purchases of non-financial assets by the general government sector plus finance leases) in 2018-19 and \$29.1 billion over the four years to 2021-22. This represents an increase of \$2.4 billion compared with the four-year funding allocation in last year’s Budget.

The total capital program which includes the non-financial public sector (public utilities and other government owned corporations) provides for spending of \$11.58 billion in 2018-19 and \$45.8 billion over the four years to 2021-22.

Research undertaken by Infrastructure Partnerships reveals that infrastructure spending in Queensland as a share of total expenditure is projected to be around 11.6% between 2018-19 and 2021-22. This is above the 11.1% average in last year’s Budget, although still well below Queensland’s ten-year average of 13.6% (see chart 2).

The Government’s highest priority is the \$5.41 billion Cross River Rail with \$733 million allocated in 2018-19 to continuing to progress the planning, procurement and development of this project, bringing total funding to \$3.73 billion over the four years to 2021-22. The Government has also committed to fully funding the project beyond the forward estimates. In addition to the delivery of Cross River Rail, the 2018-19 capital works program includes:

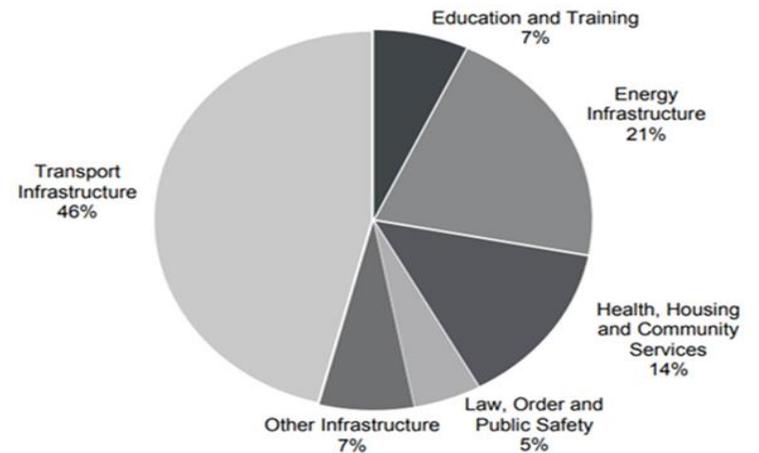
\$45.8 billion

CAPITAL PROGRAM OVER 4 YEARS

\$3.7 billion

TO FUND CROSS RIVER PROJECT OVER 4 YEARS

Chart 1: Capital Purchases by Purpose 2017-18



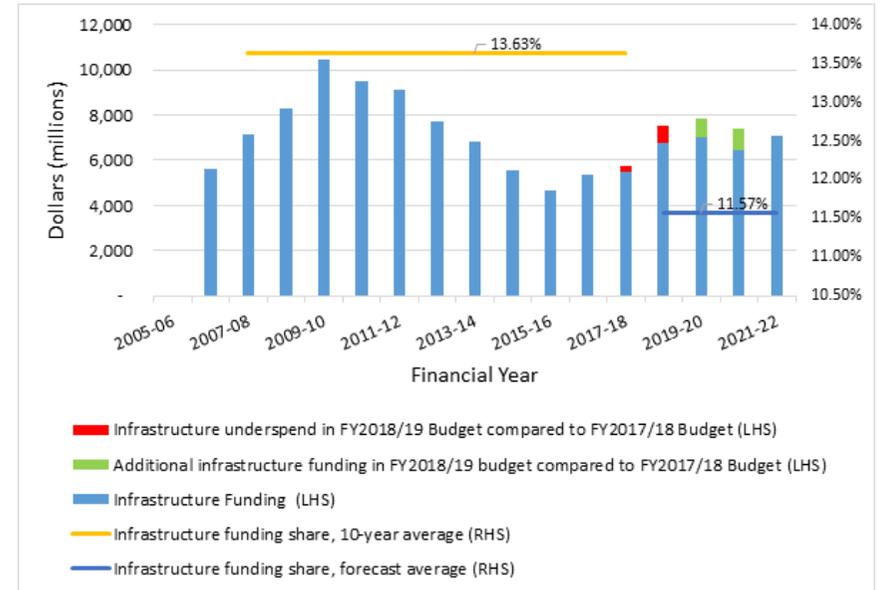
Source: 2018-19 Queensland Government Budget

- \$534.3 million to continue the Toowoomba Second Range Crossing;
- \$339.1 million for the construction of new social housing dwellings and upgrades to existing properties;
- \$237.4 million for rail network investment including track infrastructure, civil structures, signalling and other network assets;
- \$200 million to duplicate the Bruce Highway from four to six lanes;
- \$164.2 million for information and communication technology (ICT) purchases in the health sector;
- \$160.8 million over the forward estimates for the Beerburrum to Nambour rail upgrade;
- \$147 million towards M1 Pacific Motorway upgrades;
- \$115 million to construct the Mackay Ring Road;
- \$84.8 million as part of the Enhancing Regional Hospitals Program to continue upgrades to the Hervey Bay and Gladstone Emergency Departments, repurpose the Caloundra Health Service and redevelop the Roma Hospital; and
- \$83.5 million towards ongoing development of the Port of Gladstone and additional works at the Port of Bundaberg and the Port of Rockhampton.

In delivering infrastructure in support of the regions, the capital program in regional Queensland rises to \$5,597 million in 2018-19 from \$4,811 million in 2017-18. Key programs and initiatives for regional Queensland include:

- \$200 million over three years to extend the Works for Queensland program which supports job-creating maintenance and minor infrastructure works across regional Queensland;
- \$176 million over four years to support the construction of the Rookwood Weir on the Fitzroy River, at a total of \$352 million, in partnership with the Australian Government. This will provide drought contingency water supplies for Rockhampton, Gladstone and Yeppoon whilst also enhancing agricultural and industrial development opportunities;
- \$176 million over two years to extend the Cairns Convention Centre; and
- \$120 million in 2018-19 to develop the \$250 million North Queensland Stadium.

Chart 2: Queensland Government Infrastructure Spending, 2005-06 to 2021-22



Source: Infrastructure Partnerships Australia Analysis

Government measures for education, jobs and training

The Government has allocated \$14.1 billion towards education and training in 2018-19, a 2.9% increase on 2017-18. Key education funding initiatives in 2018-19 include:

- \$308 million over six years for the Building Future Schools Fund to deliver world-class learning environments for students and address enrolment growth pressures in state schools;
- \$235 million over three years to refurbish and upgrade 17 state schools across Queensland;
- \$135 million over three years to the non-state schooling sector to support infrastructure to meet the needs of Queensland’s growing student population;
- up to \$85 million over three years for the redevelopment, refurbishment and expansion of key TAFE facilities at Pimlico (Townsville), Cairns, Mount Gravatt, Toowoomba and within regions of the Gold Coast and Redlands; and
- \$20 million over four years to continue the First Five Forever Program aimed at building early year literacy foundations for children up to five years.

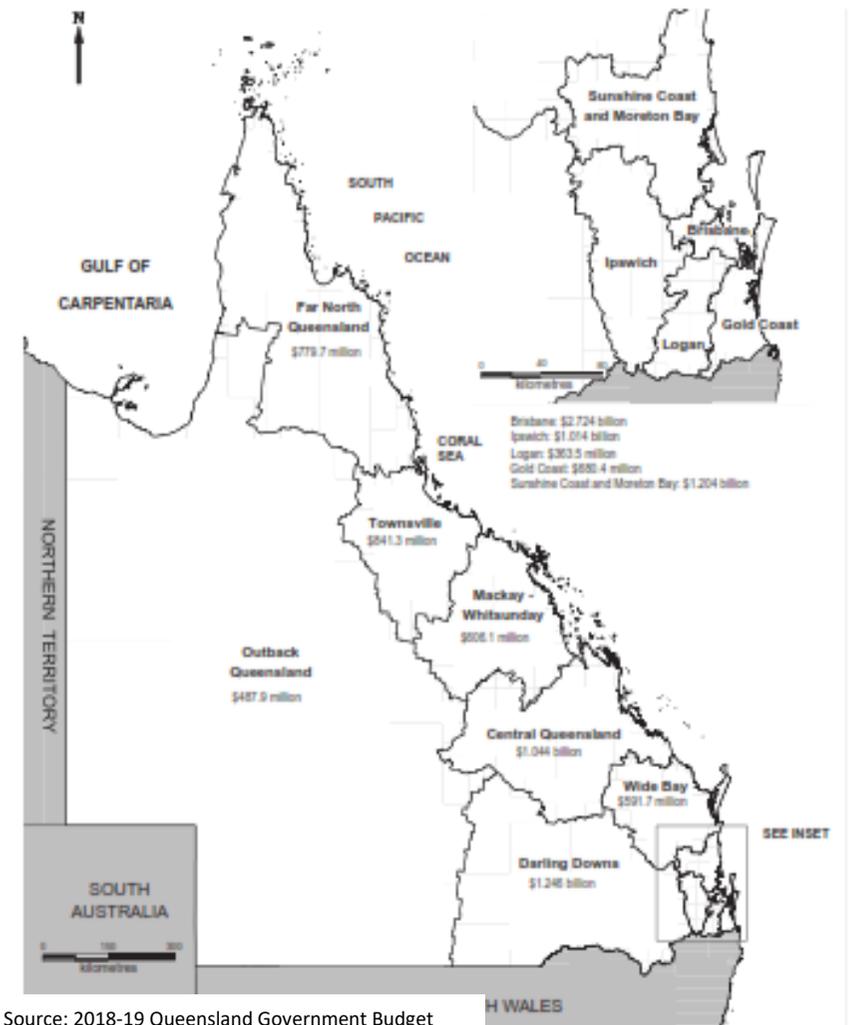
The Government will invest a further \$155 million to extend the **Back to Work regional program** focused on providing employer support payments to employers hiring eligible unemployed jobseekers. A total of \$20.5 million will be targeted to areas of South East Queensland facing significant labour market challenges for support payments to employers hiring those seeking work opportunities. The Budget also delivers \$180 million over three years to boost **Skilling Queenslanders for Work program** to increase workforce participation through a range of targeted skills and training programs, taking total funding to \$420 million over six years.

Energy and the Environment

With the objective of putting downward pressure on energy prices and delivering reliable electricity supply, the Government has pledged its commitment to a range of actions, including:

- \$20 million for the regional **Business Energy Savers Program**, which includes the Energy Savers Plus Program Extension and provides free energy audits for agricultural customers and large business customers, and co-contributions to fund energy efficiency upgrades;

Regional capital works: \$5.6 b. in 2018-19



- \$50 million towards construction of an innovative and regional solar thermal plant to provide clean baseload power and;
- \$97 million over three years for the **Advancing Clean Energy Schools** program which focuses on developing innovative ways to reduce state school energy costs using solar and energy efficiency measures.

The Budget also directs \$330 million over five years for the protection of the Great Barrier Reef.

Queensland Budget: revenue, expenditure, balance and debt

Revenue to the Queensland Government is expected to grow by an average of 2.1% p.a. over the five years to 2021-22 while expenses are expected to increase by 2.9% p.a. (nominal growth).

Revenue growth over the next five years is expected to be supported by moderate average annual growth in current grants (3.0% p.a.) and taxation (5.3% p.a.). However, revenue is expected to be negatively affected by reductions expected over this period in interest income and revenue from royalties as coal prices return to lower levels.

Government expenses are growing due to ongoing demand for health and education services, more infrastructure projects, job creation programs, community services initiatives and expenditure in relation to the final preparation and delivery of the Gold Coast 2018 Commonwealth Games. Direct Government staffing costs will grow by 4.5% p.a. over the five years to 2021-22.

The Government expects an operating surplus of \$1.5 billion in 2017-18, \$1.3 billion higher than estimated in the 2017-18 Mid-Year Fiscal and Economic Review (MYFER). This stronger surplus is expected to be driven by short-term factors including higher coal prices and royalties, increased Commonwealth Government grants due to a larger pool of GST revenue and increased dividends from Government owned corporations.

For 2018-19, the net operating balance is forecast to fall to \$148 million and thereafter average \$320 million per year in each of the three years to 2021-22. This weaker fiscal outlook over the forward estimates is due to anticipated significant reductions in receipts (particularly GST) from the Federal Government, estimated at \$749 million.

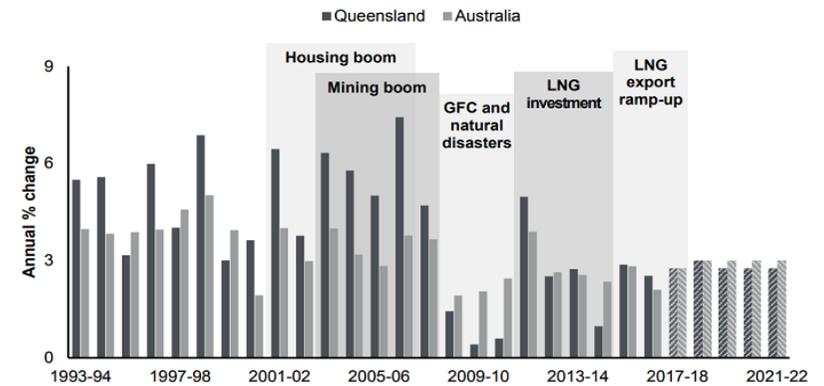
On Government's Debt, General Government borrowings are expected to increase by more than 30% over the forward estimates from \$32.3 billion in 2018-19 to \$42.3 billion in 2021-22 - driven by funding investment in infrastructure.

Table 3: General Government Fiscal Position

	2017-18 <i>estimate</i>	2018-19 <i>budget</i>	2019-20 <i>estimate</i>	2020-21 <i>estimate</i>	2021-22 <i>estimate</i>
Revenue growth, %	3.7	-0.9	1.9	1.9	3.9
Expenses growth, %	6.3	1.5	1.9	2.0	2.9
Operating balance, \$mn	1,512	148	160	110	690
General borrowings, \$mn	31.4	32.3	35.9	39.6	42.3
Govt debt to revenue, %	54.0	56.0	61.0	66.0	68.0

Source: 2018-19 Queensland Government

Chart 3: Economic Growth: Queensland and Australia



Source: Queensland Government

For the non-financial Public Sector (which combines the general government with state-owned corporations) debt is expected to increase from \$70.9 billion in 2018-19 to \$83.1 billion in 2021-22.

Queensland economy: outlook, opportunities and risks

The Queensland Government expects growth in real state output (GSP) will strengthen to 3.0% p.a. in 2018-19 from an estimated 2.75% p.a. in 2017-18, supported by a lift in household consumption spending and a positive contribution from net exports as LNG exports ramp up. From 2019-20 to 2021-22, Queensland GSP is expected to ease back to a rate of 2.75% per annum, consistent with the State’s long-run potential. This reflects a moderation in exports growth and a boost to imports (from higher domestic activity) which is expected to constrain the overseas trade sector’s contribution to state growth.

Queensland employment is forecast to increase at a relatively solid 2.75% p.a. in 2017-18, driven largely by the health, construction, transport and education sectors. However, jobs growth is expected to ease to 1.5% p.a. in 2018-19, followed by increases of 1.75% p.a. in both 2019-20 and 2021-21.

The ongoing softening in levels of activity in labour-intensive residential construction is expected to be a key factor in the moderation in employment growth over this period.

Business investment is expected to rebound in 2017-18 and continue to pick-up over the four years to 2021-22, buoyed by increased spending on machinery and equipment consistent with positive business conditions and elevated capacity utilisation rates. Support is also expected from stronger non-residential construction and engineering construction, including investment in wind and solar farms.

Key risks to this growth outlook for Queensland are:

- uncertainties surrounding global trade conflicts which may impair demand for key industrial commodities;
- uncertainty around the extent of oversupply in the apartment market and the potential for a sharper than expected downturn; and
- a continuation of drought conditions which could impact negatively on rural investment, production and exports.

Table 4: Queensland Economic Performance and Outlook

% change p.a.	2017-18 Estimated Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
Real GSP	2.75	3.0	2.75	2.75	2.75
Employment	2.75	1.5	1.75	1.75	2.0
Unemployment %	6.25	6.25	6.0	6.0	5.75
Brisbane CPI	1.75	2.0	2.5	2.5	2.5
Wage Price Index	2.25	2.5	3.0	3.0	3.0
Population	1.75	1.75	1.75	1.75	1.75

Source: 2018-19 Queensland Government Budget

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