Builders, battlers, bottom line?
Queensland Business Outlook
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Budget Highlights

Builders, battlers, bottom line?
This ‘builders, battlers, bottom line?’ Palaszczuk Government budget aims to boost business confidence while looking after the battlers in Queensland.

Builders: It is good to see the debate over who will fund the Cross-River Rail project finally settled, as the Treasurer's announced the Palaszczuk Government will fully fund the project to a total $5.409bn. This capital works investment is projected to create 1500 jobs each year over construction.

Battlers: The $770m additional cost-of-living concessional this year is part of an overall $5bn concessional budget package, adding to the $1.8bn housing strategy which is clearly aimed at supporting Queensland's battlers.

Bottom line: The budget remains adequately conservative, with the Palaszczuk Government intent on delivering a surplus while remaining fair.

Job creation: There will be some job creation out of this budget but whether it meets the magic number of 40,000 jobs – time will tell.

Looking back: Queensland's State Final Demand grew by 0.4% in the March quarter to be 1.8% higher over the year, which is a solid improvement over previous quarters of performance. But the economy and the State’s financial position took a $1.1 billion hit to the bottom line from Cyclone Debbie and the cost of recovery, including an impact on the economy likely to exceed $2 billion.
Economic outlook

Despite the economic hit we received from Cyclone Debbie, the economy will continue to grow under the 2017-18 budget. Gross State Product (GSP) is expected to exceed reported growth in 2015-16 to reach 2.7% for both 2016-17 and 2017-18. It is anticipated this position will increase to 3% in 2018-19. We also expect exports to grow solidly over the forecast period as they recover from Cyclone Debbie. This growth broadly reflects Deloitte Access Economics’ estimates for Queensland GSP.

Unemployment is expected to fall over the forecasted years and has a projected flat rate of 6% across the forward estimates.

It is important to remember this aggregate figure is not consistent across Queensland regions. The important measure to remember over the forecast period will be the distribution of employment by region.

Source: Queensland Treasury Budget Paper No.2
Fiscal Strategy

There are a few constraints the government had set – no new taxes, no asset sales and no job losses. Despite this, the past two budgets have produced surpluses. In the face of the natural disaster delivered by March/April Cyclone Debbie, the 2017-18 budget manages to deliver another surplus.

Operating surplus is down – a paper thin general Government net operating surplus of $146m is estimated for 2017-18 (Chart 1.1). This modest surplus is a $2.6bn reduction over last year’s budget – largely due to the cost of recovery from Cyclone Debbie and the state taking a $1.1bn hit to its bottom line.

The state’s key tax revenue has also been revised down by $258m in 2017-18. Across the forward estimates, this modest operating surplus position is expected to continue in line with a reduced coal price outlook and increased government spending.

Chart 1.3 General Government net operating balance
Borrowing is up – in both the general government and non-financial public sectors (NFPS) (including government-owned corporations) across the forward estimates (Chart 1.2). This increase in borrowing generally reflects the Government’s increased spending program and the ramping up of capital works across Queensland.

The general government debt to revenue ratio will increase by 10 percentage points over the forecast period to 70% in 2020-21. While the ratio is up, it remains below the 2016-17 Budget forecasts and 2016-17 MYFER. The NFPS debt to revenue ratio – of particular interest to Queensland’s credit rating – is estimated at 114% in 2017-18, and rises in the forward estimates. The 114% NFPS ratio is close to the magic number needed for Queensland to regain its AAA credit rating, however the rise across the forward estimates will likely keep it out of reach.
Infrastructure

Cross River Rail
The Palaszczuk Government has boldly resolved the long standing debate over Cross River Rail, committing to fully fund the project in this budget.

With an allocated $2.8bn over the forward estimates, the Government is holding out hope that the Federal Government might step up to the plate with further funding as well as any possible commercial funding sources to help foot the bill.

The Palaszczuk Government’s commitment provides the green light for the Cross River Rail Delivery Authority to undertake early works.

Education
The government will fund $500m under the Building Future Schools Fund to build new schools including two new schools in inner-city Brisbane and significantly expand another to cater for enrolment growth. The Advancing Queensland schools program includes $200m to secure land in Queensland’s fastest growing regions as well as refurbishing schools. Also $250m is set aside to account for six full cohort intakes in 2020 of a total of 17,000 additional students.

Queensland Housing Strategy 2017-2027
The Queensland Housing Strategy delivers $1.8 billion to drive key reforms and target investment across social and affordable housing. This is made up of additional funding of $676.4m over the four year estimates to delivery 4,522 social housing and 1,034 affordable homes state wide. This will be delivered through stronger partnerships to grow supply, increasing affordability to make housing more accessible.
Powering Queensland Plan
The Queensland Government delivering a plan to provide downward pressure on electricity prices. This includes investing $386 million to strengthen and diversify North Queensland's energy supply.

This includes:
• $150 million reinvestment of Powerlink dividends for the development of strategic transmission infrastructure to support a clean energy hub
• $100 million reinvestment of Stanwell dividends to help fund the proposed hydro-electric power station at Burdekin Falls Dam
• $100 million equity injection and reinvestment of dividends towards improvement works to ensure that the Burdekin Falls Dam continues to meet design standards
• commissioning a hydro-electric study to assess options for deploying new hydro in the state, including North Queensland.

These budget measures are tied together by the establishment of a Queensland Energy Security Taskforce designed to ensure the short and long term energy security throughout the state. The state government has allocated $8.4 million for the creation of the taskforce. Another $1.6 million will be set aside to implement the recent recommendations of the Renewable Energy Expert Panel which considered credible pathways to the government's 50 percent renewable target.

Jobs
With a Budget titled 'Jobs for Queensland', the vast majority of the jobs stimulus is going to come through the capital works pipeline. Of the 40,000 jobs the 2017-18 Budget is expected to support, 29,000 are from capital works. The only additional significant investment in jobs creation is the Back to Work program, with a further $50m committed for the existing program in regional Queensland (total $150m) and a $27.5m expansion to SEQ.
Cost of living
Wage growth is sluggish and while inflation remains low, Queenslanders have felt hip pocket pressure for some time.

This FY18 budget focuses on easing cost of living pressures for those with the greatest need – youth, pensioners and families.

Concessions
The budget includes a focus on reducing the cost of living for Queenslanders with an extra $771 million in concessions allocated for FY17-18.

Access to the electricity rebate scheme will be extended, which is great news for struggling families and households. But the smartest part of this announcement is making access to cost of living subsidies clearer and easier to navigate with the creation of the Smart Savings website. Although many of these concessions already exist, this website will make it easier to access and understand what is available. This is a clever and cost effective budget move. The clincher will be getting the message out and generating activity through the site. The question is whether the process of application will be smooth? Let's hope so. The next step will be to have an integrated application process for households, maybe in the next budget.

Queensland Housing Strategy 2017-2027
Access to housing is vital to economic participation and to the creation of vibrant and sustainable communities. The $1.8b housing strategy is a great step forward in supporting housing access and providing stability and security to our most vulnerable Queenslanders. Over the next 10 years the strategy is to support the development of new social and affordable housing across the state with a focus on youth and Aboriginal and Torres Strait Islanders. Alongside this infrastructure investment, there will also be a focus on improving service delivery through more holistic and people-centred approaches.

This strategy is an investment in the future prosperity and inclusiveness of our state; which if executed well has the potential to remove barriers to housing access and improve the lives of thousands of Queenslanders. But implementation is key.

To deliver on this strategy there must be a clear and transparent plan that includes application processes to access redevelopment opportunities as well as a clear articulation of the benefits that will be generated from each investment.

Service delivery transformation should focus on applying what works, and scaling where appropriate. We need to hold to account the benefits we expect from this investment to achieve the vision to deliver access to a safe, secure and affordable home for all Queenslanders and enable them to fully participate in the social and economic life of our state.
Portfolio synopsis

Health
The real challenge that will emerge this year is how to fund the growth in health expenditure. Management of Health and Hospital Service budgets will be critical.

There are a variety of investments within health to support delivery of services, including:

- An additional $56.7m of the continued roll out of the electronic medical records program.
- $208.4m for upgrades to Kingaroy, Blackhall and Sarina hospitals, the redevelopment of the breast screen clinic at Townsville Hospital, the refurbishment of the emergency department and specialist outpatient facilities at Maryborough, and mental health unit in Cairns.
- $122.8m to enhance public hospital capacity in South East Queensland including the emergency Department in Caboolture.
- $68.2m for a new adolescent extended mental health facility.

Education
On top of the $500 million Building Future Schools Fund, government is funding a number of new initiatives in the education portfolio including:

- $56.9m to maintain senior secondary curriculum offerings for students.
- $150m for Advancing Teaching and Learning for teacher attraction, quality and leadership, as well as staff capability in response to the disability review.

Housing and public works
As part of the Queensland Housing Strategy the government will commit $121.5m to support service delivery reform, including programs such as the youth foyer models and housing support programs. In addition $75m is allocated to progress home ownership in discrete Aboriginal and Torres Strait Islander communities.

Justice
The largest investment in Justice is the Parole Reforms. The government has committed $249m to overhaul the parole system. Additions to this investment are:

- $169.2m for the transition of 17 year olds from the Queensland adult justice system.
- $35.1m for the specialist Domestic and Family Violence court in Southport, as well as a roll out in Beenleigh and Townsville.
- $22.2m for the reintroduction of the Drug Court.
- $26.2m for implementing recommendations from the Review of Youth Detention in Queensland.

This portfolio investment is a typical Labor budget reflecting a focus on social issues and inequity. It is an investment in addressing complex problems and aimed at reducing costs into the future. The question is will it be enough to turn the dial on systemic problems?
Key taxation measures

• The 50% payroll tax rebate for apprentices and trainees has been extended for an additional 12 months until 30 June 2018.

• From 1 July 2017, a 1.5% additional land tax surcharge will be imposed for absentee land tax payers with land holdings of $350,000 or higher. An absentee is an individual who does not ordinarily reside in Australia and includes a person who is absent from Australia at 30 June or has been absent from Australia for more than 6 months ending on 30 June.

• Following the Qld Court of Appeal decision in Vikpro, the Land Tax Act 2010 will be amended to restore the prohibition on lessors directly passing on the cost of land tax to lessees under commercial leases that are still on foot and were entered into after 1 January 1992 and before 30 June 2009.

• The temporary increase of the First Home Owners' grant from $15,000 to $20,000 for the purchase of newly constructed homes will be extended by a further 6 months and will apply to eligible contracts entered into before 31 December 2017.

• Extending Additional Foreign Acquirer Duty (AFAD) to cover certain existing rights, as well as chattels directly linked to, or incidental to, the use and occupation of the AFAD residential land and acquired with the land.

• Amending the Duties Act 2001 (Qld) to ensure that arrangements that will attract the duty concession for agency transactions will also incur AFAD to the extent that it applies.

• The Treasurer also announced that business will pay no WorkCover premiums in respect of apprentices.
Queensland is shifting from a once in a lifetime resources construction boom towards a more diversified and knowledge based economy. However, many Queenslanders – especially those in the regions – are grappling with how best to respond.

Deloitte, together with business, government and communities have come together to co-design an overarching approach to shape a future that will, over the next ten years, further unlock prosperity for all Queenslanders.

We are creating a more confident Queensland, with liveable communities, a diversified economy and inclusive growth.

Pre-register now to receive your copy Deloitte’s Shaping Future Cities Queensland report: www.deloitte.com/au/SFCQ
Contacts

Natasha Doherty
Partner, Deloitte Access Economics
ndoherty@deloitte.com.au
+61 7 3308 7225

John Greig
Managing Partner, Deloitte Queensland
jgreig@deloitte.com.au
+61 7 3308 7108

Graeme Newton
Lead Partner, Queensland Public Sector, Deloitte
gnewton@deloitte.com.au
+61 7 3308 7278

Kelly Heaton
Associate Director
Deloitte Access Economics
kheaton@deloitte.com.au

Claire Atkinson
Senior Economist
Deloitte Access Economics
catkinson@deloitte.com.au

James Petterson
Director, Deloitte
jpetterson@deloitte.com.au

Emily Hayward
Economist, Deloitte Access Economics
ehayward@deloitte.com.au

Mark Gamble
Manager, Deloitte
margamble@deloitte.com.au

Deloitte Access Economics
123 Eagle Street
GPO Box 1463
Brisbane QLD 4001 Australia

+61 7 3308 7000
www.deloitte.com.au