



Queensland Budget Announcement 2021-22

A review of the Queensland Budget's
major business implications

June 2021

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Executive summary

The principal feature of the 2021-22 Queensland Budget is the government's continued economic support for employment growth.



Michael Hiller

Partner,
Queensland Chairman



Grant Wardell-Johnson

Lead Tax Partner,
Economics & Tax Centre

The Budget projects an operating deficit of \$3.8 billion for 2020-21 (more than \$4.8 billion lower than forecast in the previous Budget) and a deficit of \$3.5 billion for 2021-22. This represents a considerable improvement in the government's financial position in the space of six months. There is even a projection of a small surplus for 2024-25.

The Budget includes the announcement of the expansion of the Queensland Jobs Fund to a total capacity of more than \$3.3 billion. This is intended to support business in creating new roles in Queensland. \$2 billion of this support (which is a \$1.5 billion increase on the previous \$500 million commitment) will go to the Queensland Renewable Energy and Hydrogen Jobs Fund. This includes the natural resources sector's role in extracting the raw materials necessary for constructing the renewable energy generation and transmission infrastructure.

The government is committing an aggregate \$460 million over four years to the Skilling Queenslanders for Work and Back to Work programs. The Back to Work program provides eligible small businesses with a financial incentive to hire previously unemployed workers.

A handwritten signature in black ink, appearing to read 'MHiller'.

Michael Hiller
Partner,
Queensland Chairman

We are pleased to see the investment in further measures to protect the Great Barrier Reef. In addition to addressing the ecological challenge, this expenditure should support the state's ability to maintain its tourism industry once international borders reopen.

We also welcome the additional resourcing for the Housing Investment Fund, which should increase the supply of affordable housing across the community.

There is a strong case for this Budget's focus to be on investing to support the employment priorities in the near term. The Budget also turns an eye to the future repayment of government debt with the confirmation of the initial \$7.7 billion asset allocation to the Queensland Future Fund – Debt Retirement Fund.

However, there is a need for broader consideration of what will be required for robust and sustainable state finances in Queensland, as is the case in other states.

We hope that tax reform measures will feature among the options. These have the potential to boost productivity growth for the benefit of the community at large.

A handwritten signature in black ink, appearing to read 'G. Wardell-Johnson'.

Grant Wardell-Johnson
Lead Tax Partner,
Economics & Tax Centre

Economic analysis

Queensland has weathered the pandemic-induced economic downturn better than anticipated, despite the initial sharp falls in employment and the state's exposure to international tourism.

Good management and good fortune have combined to see Queensland emerge from the depths of the COVID-induced economic downturn faster and, to some extent, stronger than most other jurisdictions in Australia.

Household consumption expenditure in the state is now higher than it was prior to the onset of the pandemic, with the single largest positive contribution to this turnaround being the decline in net interstate expenditure. With border restrictions, Queenslanders have not been able to spend their income in other Australian jurisdictions, which has traditionally represented a leakage of around 1 percent to 1½ percent of household consumption spending. However, the most influential factor impacting the economic recovery in Queensland has been the positive contribution made by net interstate migration.

During 2020 Queensland received an additional net 30,000¹ residents through interstate migration, most of which can be accounted for by population losses from New South Wales (-18,800) and Victoria (-12,700), which underpinned growth in spending on household furnishing and equipment (+15 percent)², dwelling alterations and additions (+12 percent) and ownership transfer costs (+17 percent). The forward estimates contained in the Budget documents anticipate the continuation of strong population growth over the next few years which, combined with the Commonwealth Government's fiscal stimulus targeting the residential construction sector, sees dwelling investment grow by a massive 20 percent during the coming financial year. The projected population growth will provide the Queensland economy with opportunities and challenges.

The Budget papers reveal an expected operating deficit of \$3.5 billion for 2021-22, down from \$3.8 billion in 2020-21 and \$5.7 billion in 2019-20.



Brendan Rynne

Chief Economist

While the deficit is falling during the forward estimates, its decline could be sharper if the Queensland Government chose to manage employee expenses in a more conservative manner. For more than a decade public sector wages in Queensland have risen faster than private sector wages and considerably faster than inflation. Total employee costs, including superannuation, represent around 46.3 percent of total expenses for the Queensland Government, which is around 3 percent higher than the equivalent cost benchmark for Victoria (which also has a marginally higher ratio of public sector employees to population compared to Queensland).

The Queensland Government is expecting to see borrowings with the Queensland Treasury Corporation increase by about \$30 billion over the forward estimates, lifting net debt per capita from about \$3,000 in 2020-21 to nearly \$7,900 in 2024-25. While this represents a substantial increase in net debt per capita over current levels, it is still relatively modest compared to Victoria where the recently released Budget shows its borrowings are expected to increase by more than \$80 billion over the same period, with Victorian net debt per capita growing from \$11,500 in 2020-21 to \$22,100 in 2024-25.

Key Insights

- Net interstate migration has been a key positive influence in returning the Queensland economy to pre-pandemic activity levels.
- Government finances show an operating deficit for the next few years. Much of the improvement in taxation revenue is consumed by higher employee expenses, which appear out of step with other state governments.
- Net debt is forecast to worsen by \$30 billion over the forward estimates, however on a per capita basis debt levels still appear reasonable.

¹ 12 months to 31 December 2020

² 12 months to 31 March 2020 compared to the 12 months to 31 March 2020

Employment

The Queensland Government has extended the 50 per cent payroll tax rebate for apprentices and trainees until 30 June 2022, at a cost of \$32 million. With a \$320 million investment in the Skilling Queenslanders for Work program, the Budget is targeted at increasing employment.

As expected, the Budget has allocated funding to support skill development and continued job creation. The Budget has extended the payroll tax rebate for apprentices and trainees and committed \$320 million to the Skilling Queenslanders for Work program and \$140 million to the Back to Work program.

The 50 percent apprentice and trainee rebate for payroll tax, first introduced in the 2016-17 year, will be extended once more for another 12 months until 30 June 2022. The rebate operates such that if a business pays apprentice or trainee wages that are exempt from payroll tax in Queensland, the business can claim an additional rebate to reduce its payroll tax liability on the wages of other Queensland employees. Generally, exempt wages include a valid apprenticeship/ trainee contract under the *Further Education and Training Act*, where wages are paid in the course of the agreement. Trainees have an additional requirement of having not been previously employed by the employer for three months or more (full time), or 12 months or more (part-time or casual).

Payroll tax revenue for 2020-21 is estimated to decline by 0.5 percent compared to 2019-20. This reflects the payment holidays, payment deferrals and payroll tax exemptions for JobKeeper payments that the government implemented to support businesses in response to the pandemic.



Hayley Lock

Partner, Specialist Tax & Reward

However, a majority of the deferred liabilities due in January and April 2021 have already been paid. This indicates business cash flows have improved during the recovery phase of the COVID-19 crisis. Payroll tax revenue is expected to grow 7 per cent in 2021- 22, and 5.5 per cent from 2022 onwards in line with expected employment and wage growth.

The Skilling Queenslanders for Work program will now be permanently funded and embedded into core business of the state, receiving \$320 million over 4 years. This program aims to assist Queenslanders facing disadvantage in the labour market.

The Back to Work program will be refreshed with an additional \$140 million of funding aimed at providing an incentive for businesses to employ Queenslanders who have experienced a period of unemployment. The revitalised Back to Work program will be available from 1 July 2021.

Key Insights

- The extension of the payroll tax rebate for apprentices and trainees continues a now well-known employment incentive in Queensland (first introduced in 2016-17 and now extended to 30 June 2022). The rebate will ultimately lower payroll tax liabilities if businesses decide to hire apprentices and trainees who are paid 'exempt wages'.
- Additional investment in employment related programs such as the Skilling Queenslanders for Work program and the Back to Work program are targeted towards driving skill acquisition and employment within disadvantaged groups.

Summary of key expenditure/revenue items

The items shown in this summary include some of the larger government expenditure and revenue items decided on since the 2020-21 Budget. The figures cover the forward estimates period to 2024-25 and do not include items stated as being funded from future returns.

Key expenditure items	\$millions
Building Future Schools program, maintaining and enhancing school infrastructure	1,300
Health system investments including continuing the COVID-19 response	1,000
Queensland Renewable Energy and Hydrogen Jobs Fund	500
Continuation of the Skilling Queenslanders for Work initiative and enhancing the Back to Work program	460
Waste management and resource recovery strategy	250
State kindergarten funding	200

Key revenue items*	\$millions
12-month extension of the 50 percent Apprentice and Trainee Payroll Tax Rebate	31

*Taxation revenue is expected to increase by 9.4 percent, reflecting a combination of increased economic activity and the substantial tax relief measures provided in 2020-21 by the Queensland Government to support businesses in response to COVID-19.

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