



**Hon Ben Wyatt, MLA  
TREASURER**



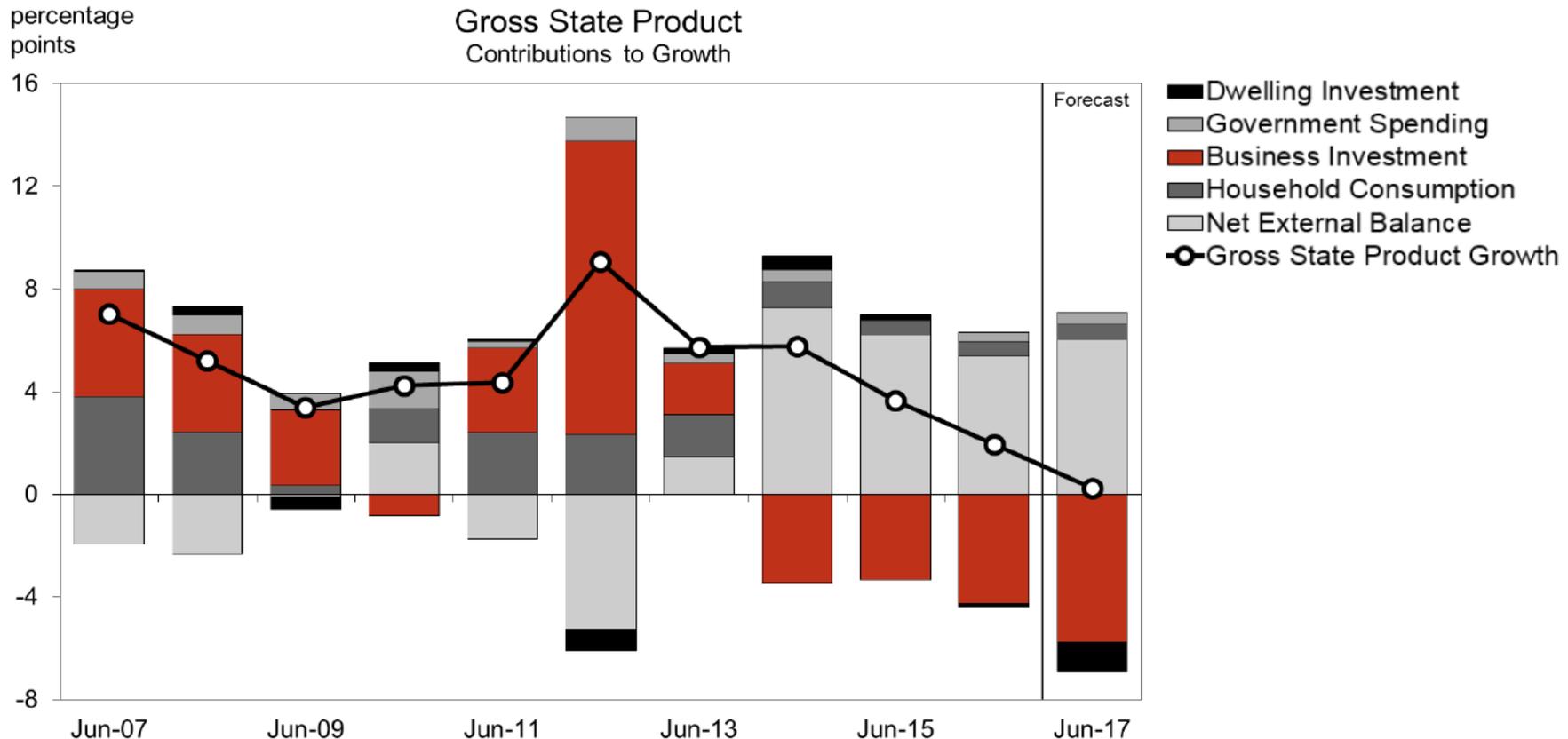
**WESTERN AUSTRALIA  
STATE BUDGET 2017-18**

**7 September 2017**

# STATE OF THE STATE

## GROSS STATE PRODUCT

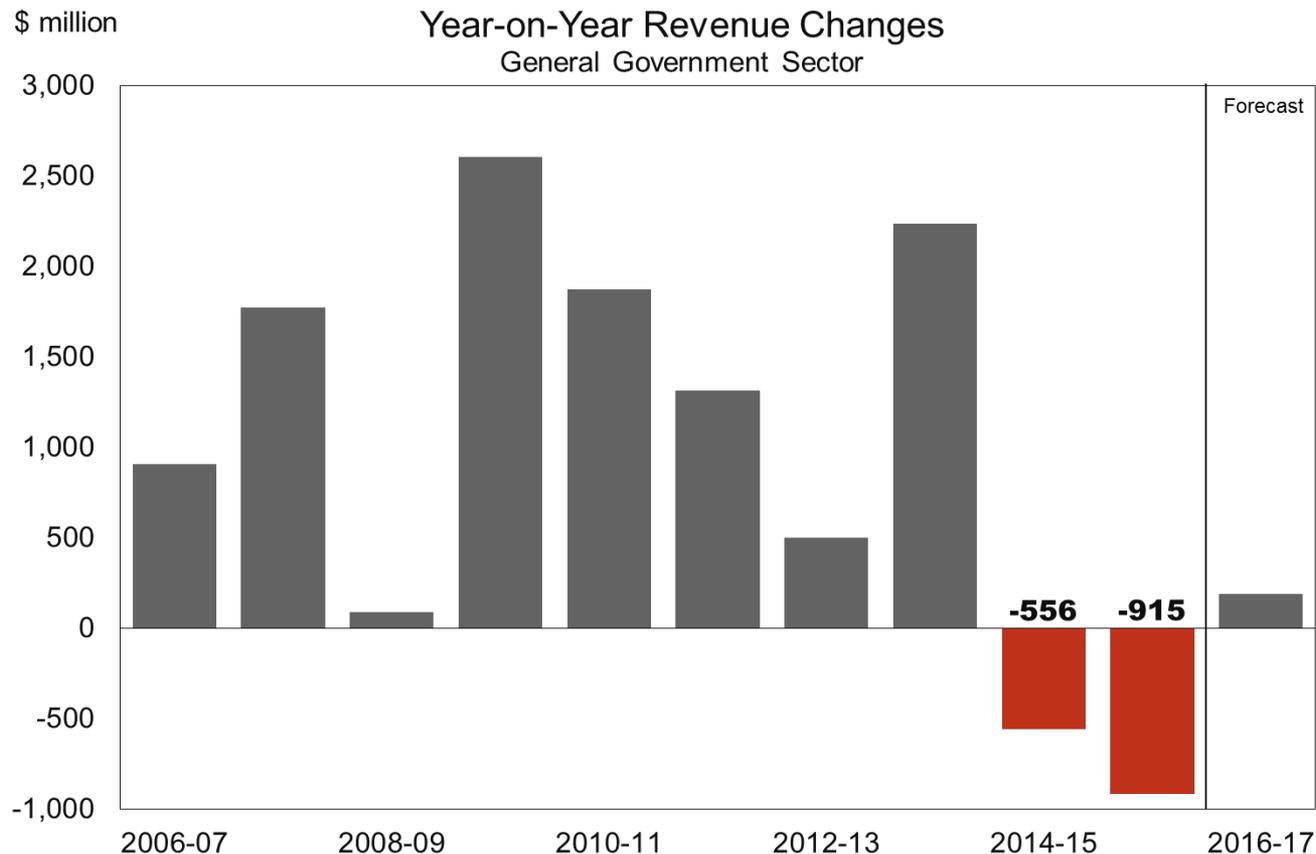
Since peaking in 2012-13, the fall in business investment has driven down WA economic growth to just 0.25% in 2016-17



# STATE OF THE STATE

## GENERAL GOVERNMENT REVENUE

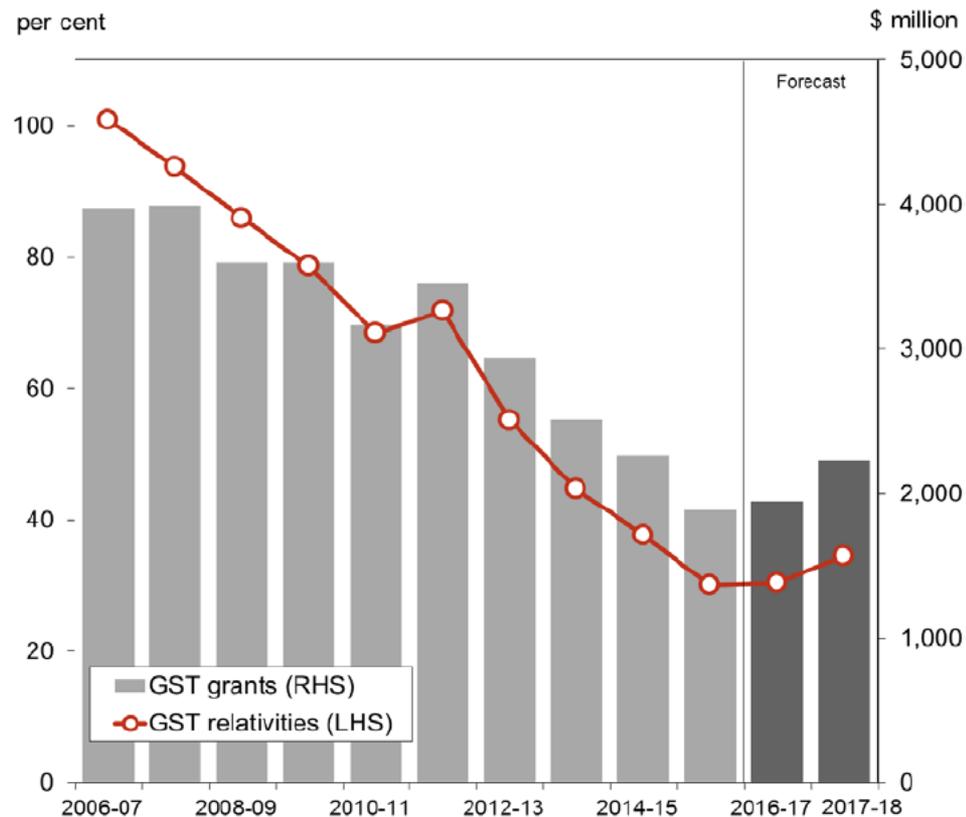
The unwinding of the mining investment boom has resulted in a significant reduction in revenue



# STATE OF THE STATE

## GST – WORSENING WA'S REVENUE DROP

WA's 2017-18 GST grant is forecast to be around half the \$4B grant received in 2006-07

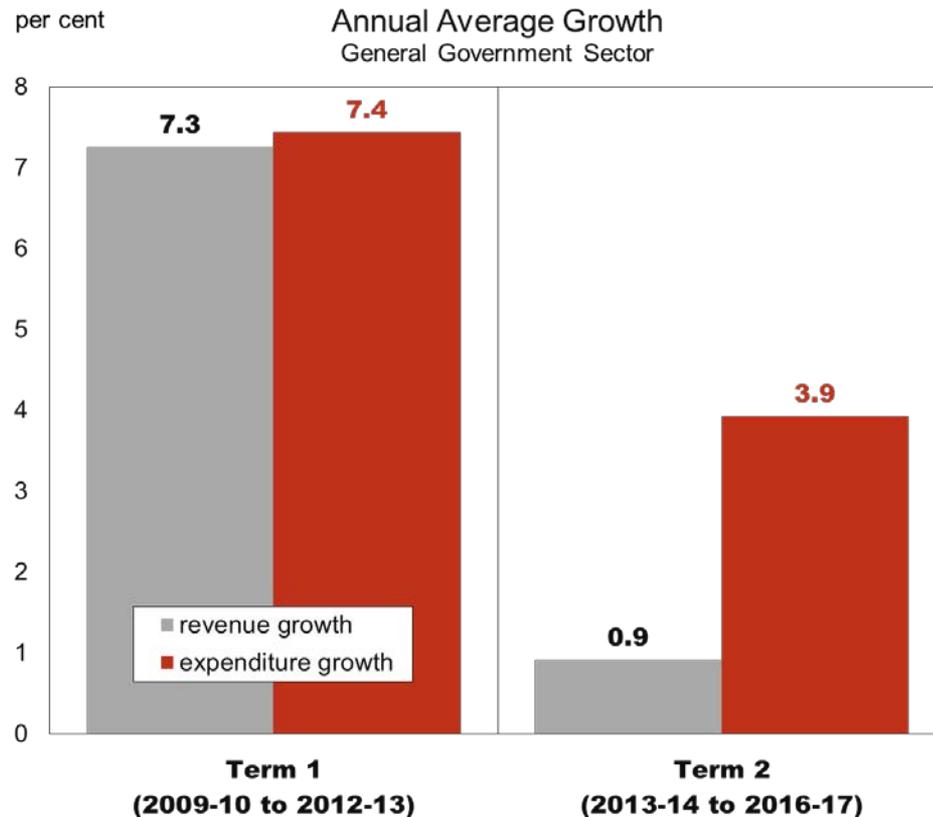


In 2017-18, WA will receive just 34.4% of its population share of GST – a subsidy to the other States of around \$4.4B

# STATE OF THE STATE

## STRUCTURAL IMBALANCE

Over the previous Government's second term, general government expenditure failed to respond to the decline in revenue – resulting in a structural imbalance

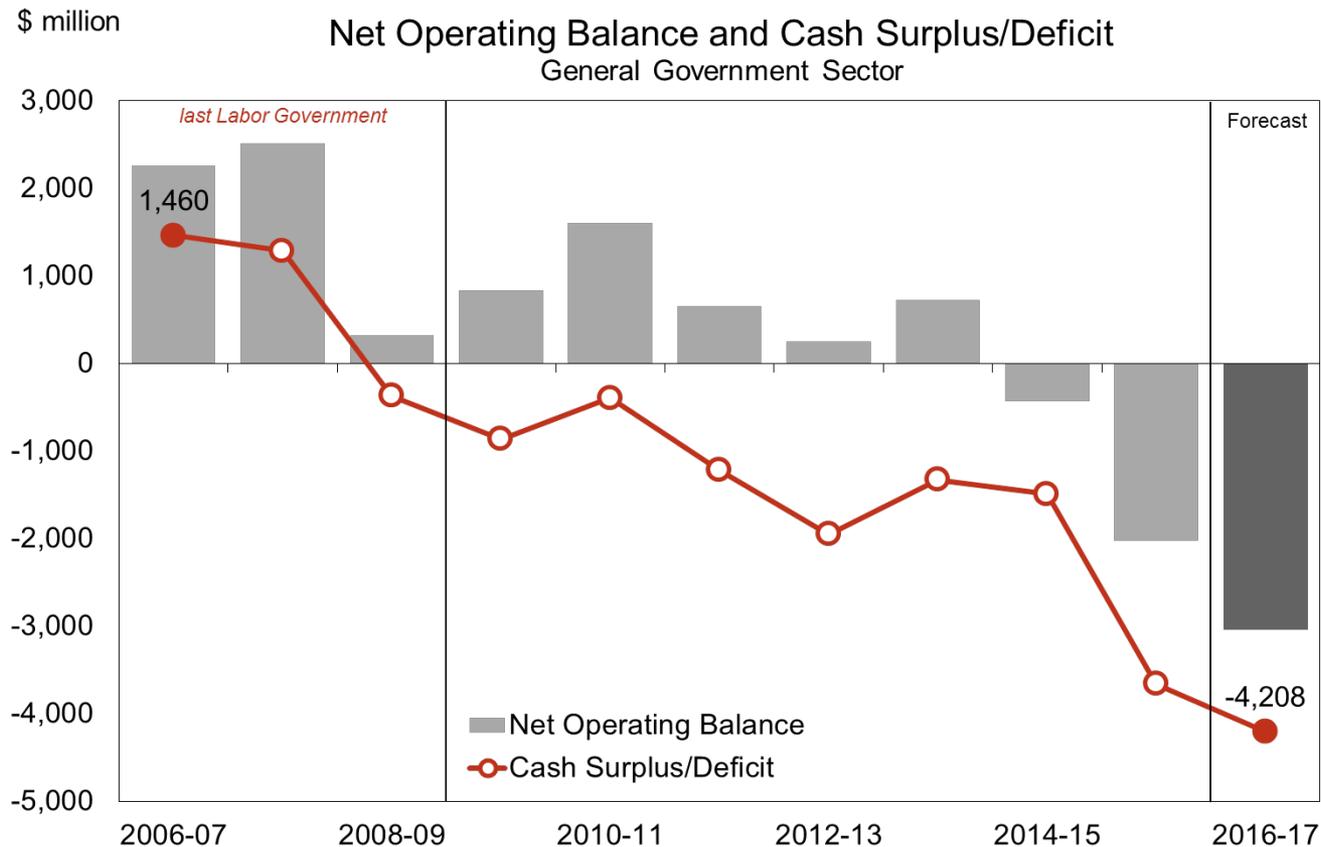


Over the last four years, expenditure increased by \$4.2B, while revenue grew by less than \$1B

# STATE OF THE STATE

## GENERAL GOVERNMENT DEFICITS

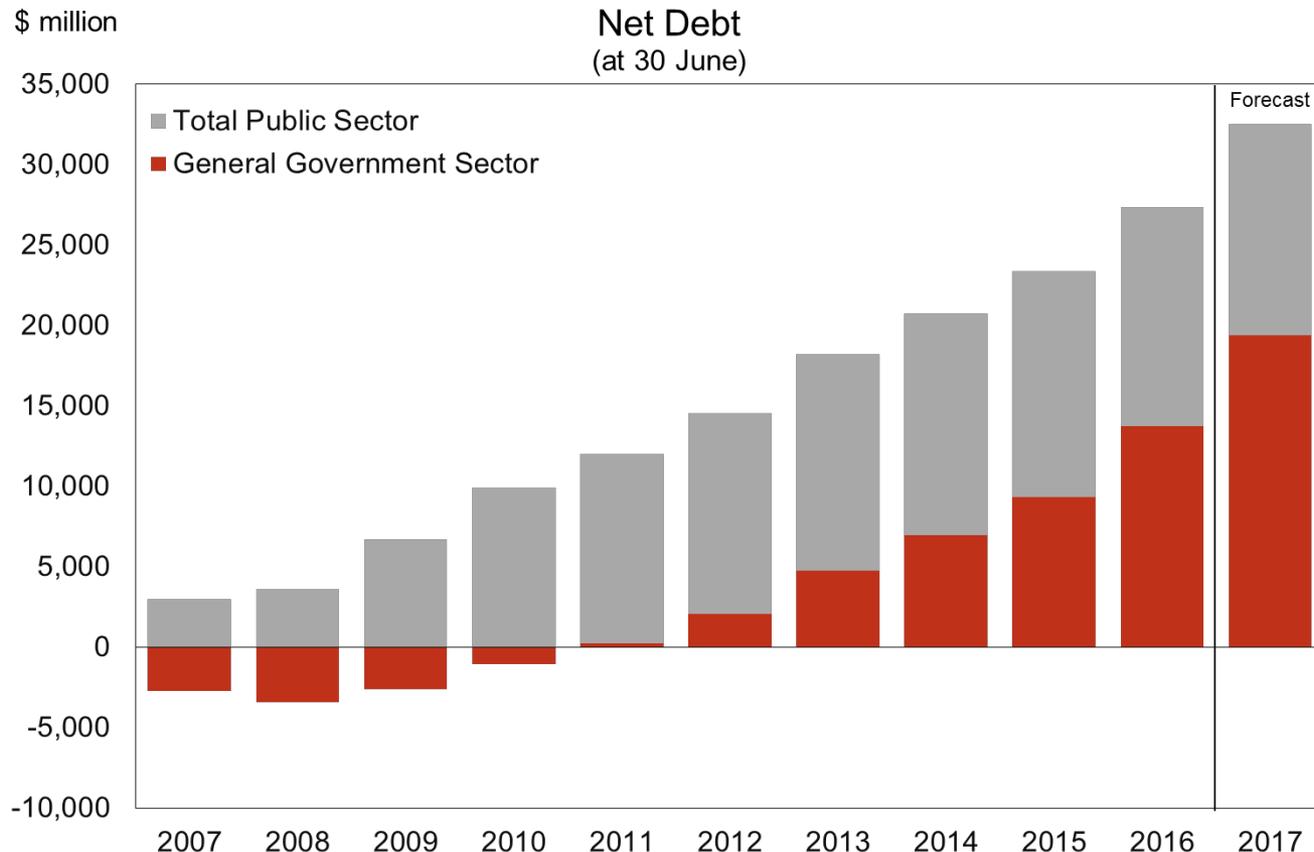
This structural imbalance, combined with significant infrastructure spending, has resulted in steadily growing cash and operating deficits



# STATE OF THE STATE

## NET DEBT

These deficits have necessitated additional borrowings, with the majority of net debt now held by the (non-income producing) general government sector



# REVENUE OUTLOOK

## REVENUE CHANGES SINCE PFPS

The State's revenue base remains under considerable pressure, with the general government revenue estimates written down by \$5B since the PFPS

- **royalty income** (lower iron ore price, higher exchange rate)
- **GST grants** (see next slide)
- **taxation revenue** (mainly land tax, insurance duty and payroll tax)
- **other Commonwealth grants** (mainly schools and hospital funding)

**key revisions**  
2016-17 to 2019-20  
(\$M)

**-1,758**

**-1,708**

**-777**

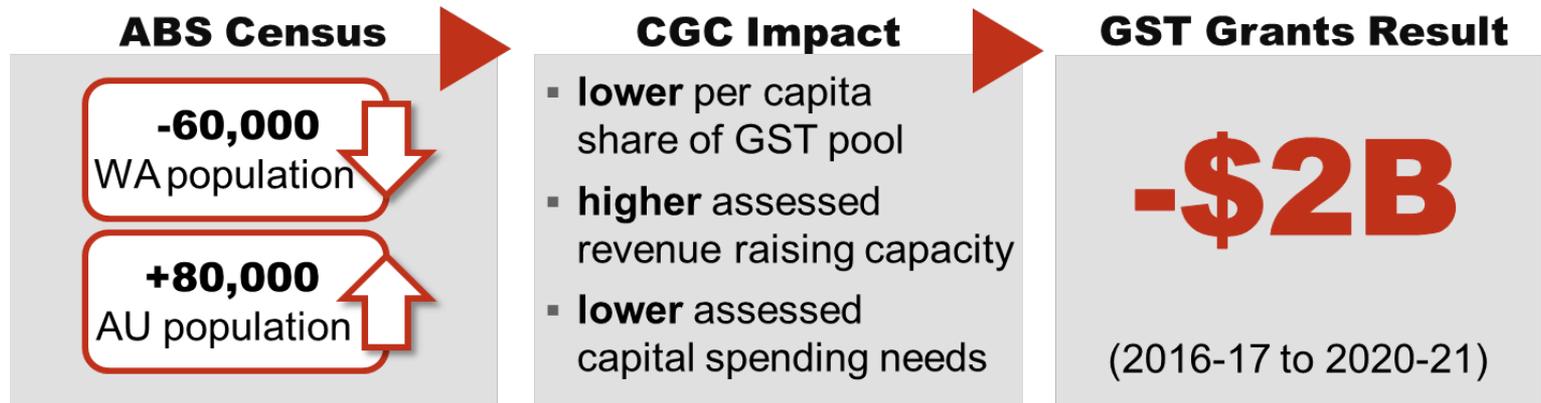
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# REVENUE OUTLOOK

## GST GRANT CHANGES SINCE PFPS

GST grants have been revised down by \$1.7B (2016-17 to 2019-20) since the PFPS

- ABS 2016 Census population changes
  - -\$1.4B impact over the period 2016-17 to 2019-20

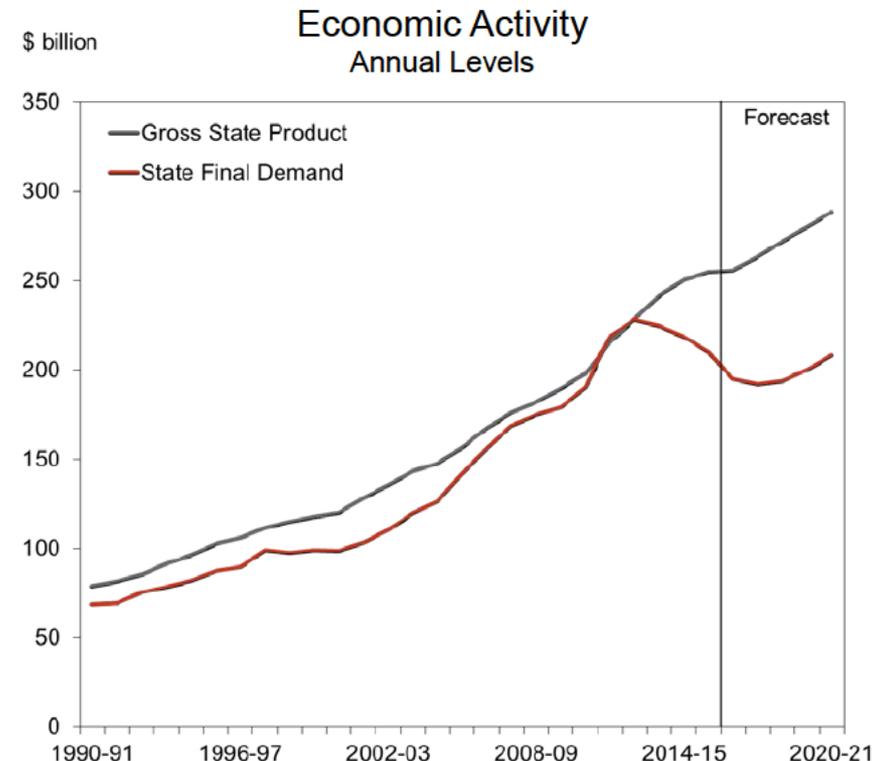
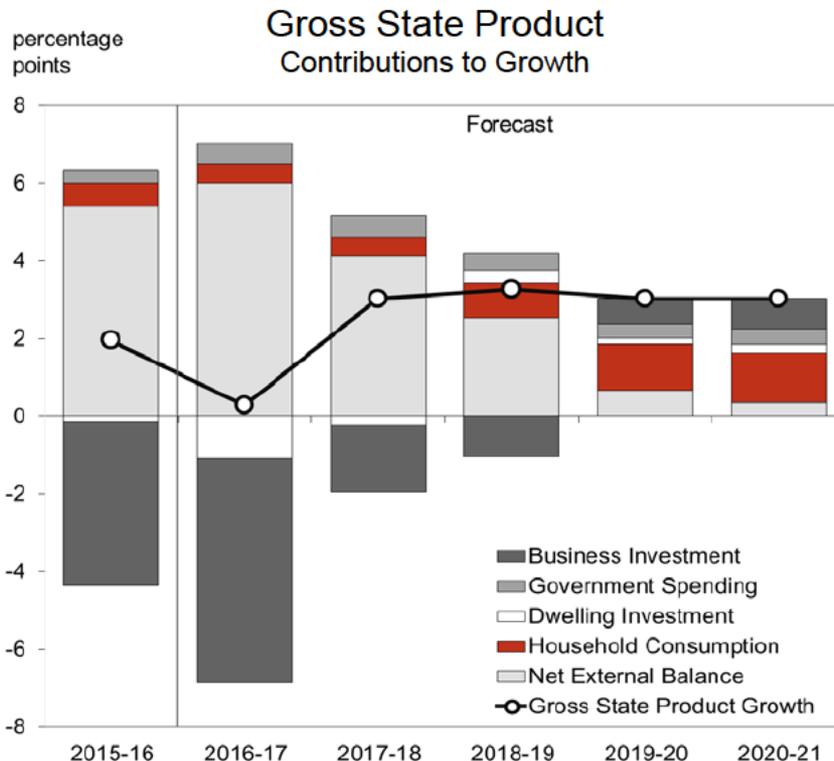


- Lower than forecast GST relativity for 2017-18 (34.4% vs 38%)
  - -\$735M impact over the period 2016-17 to 2019-20

# ECONOMIC OUTLOOK

## GROSS STATE PRODUCT

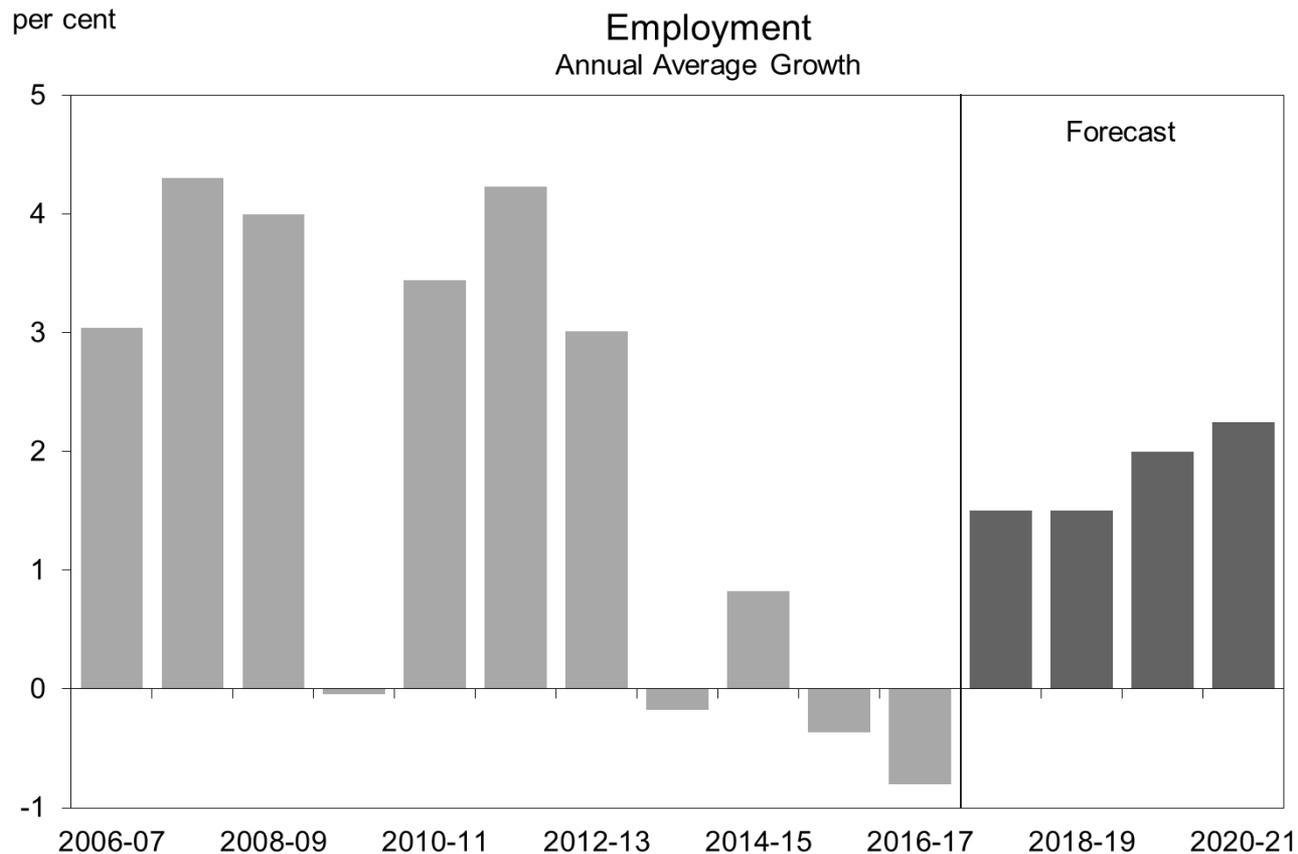
Underpinned by strong growth in net exports, the WA economy (as measured by GSP) is forecast to grow by 3% in 2017-18 – with the domestic economy (as measured by SFD) forecast to expand from 2018-19



# ECONOMIC OUTLOOK

## EMPLOYMENT

WA's unemployment rate appears to have peaked in 2016-17, with around 20,000 jobs expected to be created in 2017-18



# 2017-18 BUDGET

- Bringing the finances under control
- Reforming and controlling expenditure
- Delivering on election commitments



# BRINGING FINANCES UNDER CONTROL

## KEY AGGREGATES

Reducing general government operating deficits are forecast each year to 2019-20, with an expected return to surplus in 2020-21

	2016-17	2017-18	2018-19	2019-20	2020-21
<b>General Government</b>					
Revenue (\$m)	26,672	28,457	28,743	30,103	33,272
Growth (%)	0.7	6.7	1.0	4.7	10.5
Expenses (\$m)	29,710	30,797	30,408	31,218	32,012
Growth (%)	4.2	3.7 <sup>(a)</sup>	-1.3	2.7	2.5
<b>Net operating balance (\$m)</b>	<b>-3,039</b>	<b>-2,340</b>	<b>-1,666</b>	<b>-1,114</b>	<b>1,260</b>
<b>Total Public Sector</b>					
<b>Net debt at 30 June (\$m)</b>	<b>32,500</b>	<b>37,810</b>	<b>41,425</b>	<b>43,784</b>	<b>43,638</b>
Asset Investment Program (\$m)	5,181	6,001	5,949	5,348	5,021

(a) Underlying expense growth of 2.4%.

# BRINGING FINANCES UNDER CONTROL

## NEW FINANCIAL TARGETS

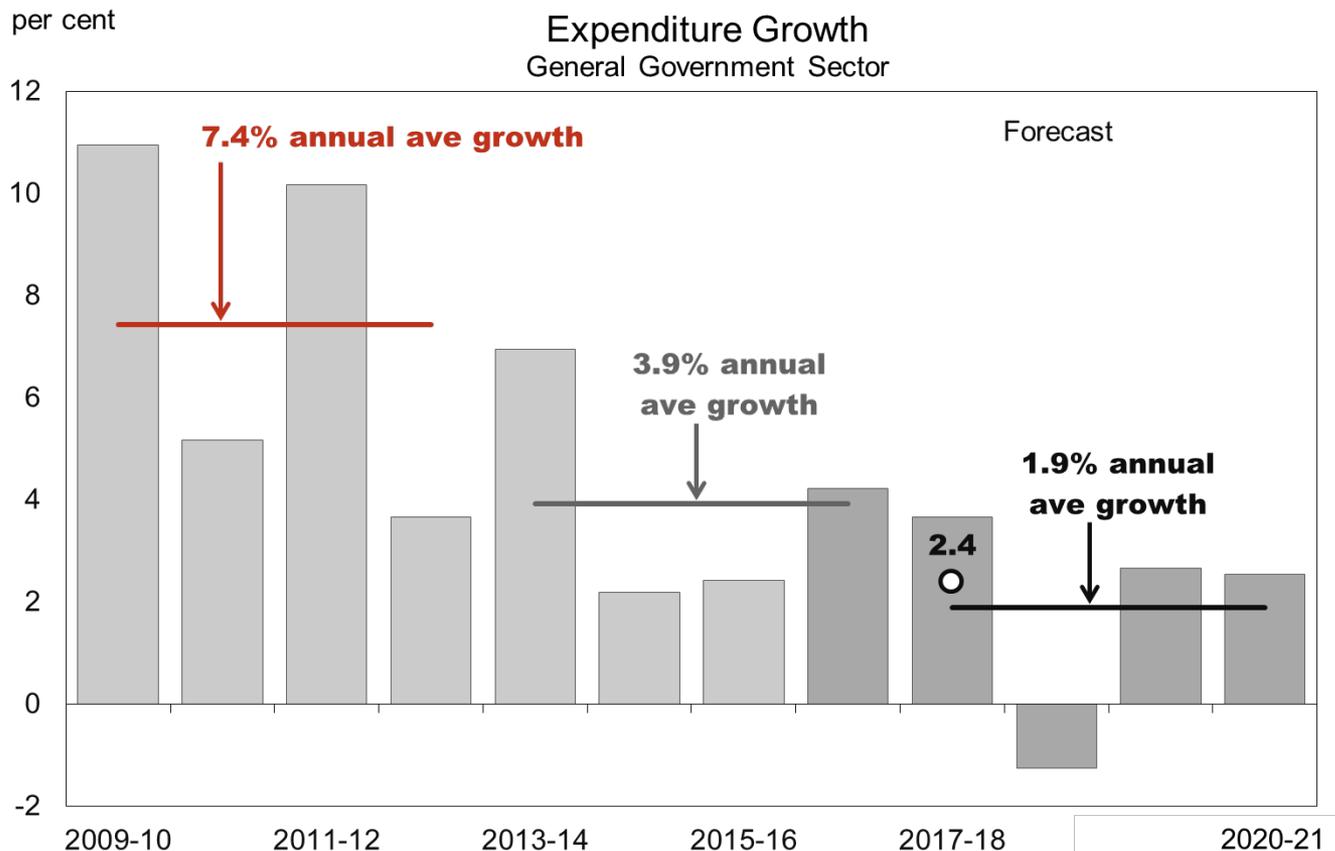
All of the Government's new financial targets are expected to be met by 2020-21

	2017-18 Forecast	2018-19 Forecast	2019-20 Forecast	2020-21 Forecast
1. Progress towards a net operating surplus for the general government sector				
- General government net operating balance (\$m)	-2,340	-1,666	-1,114	1,260
- <b>2017-18 Budget compliance</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
2. Progress towards a cash surplus for the total public sector				
Total public sector cash surplus/deficit (\$m)	-4,682	-3,434	-2,176	271
- <b>2017-18 Budget compliance</b>	<b>No</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
3. Maintain disciplined general government expense management through:				
a. delivering public sector wages outcomes in line with Government wages policy	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
b. ensuring key service delivery agency recurrent spending outcomes are in line with budgeted expense limits	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
4. Reduce the proportion of total public sector net debt held by the general government sector				
- General government net debt as a share of TPS net debt (%)	63.8	66.7	68.0	67.0
- <b>2017-18 Budget compliance</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Yes</b>

# BRINGING FINANCES UNDER CONTROL

## EXPENSE GROWTH

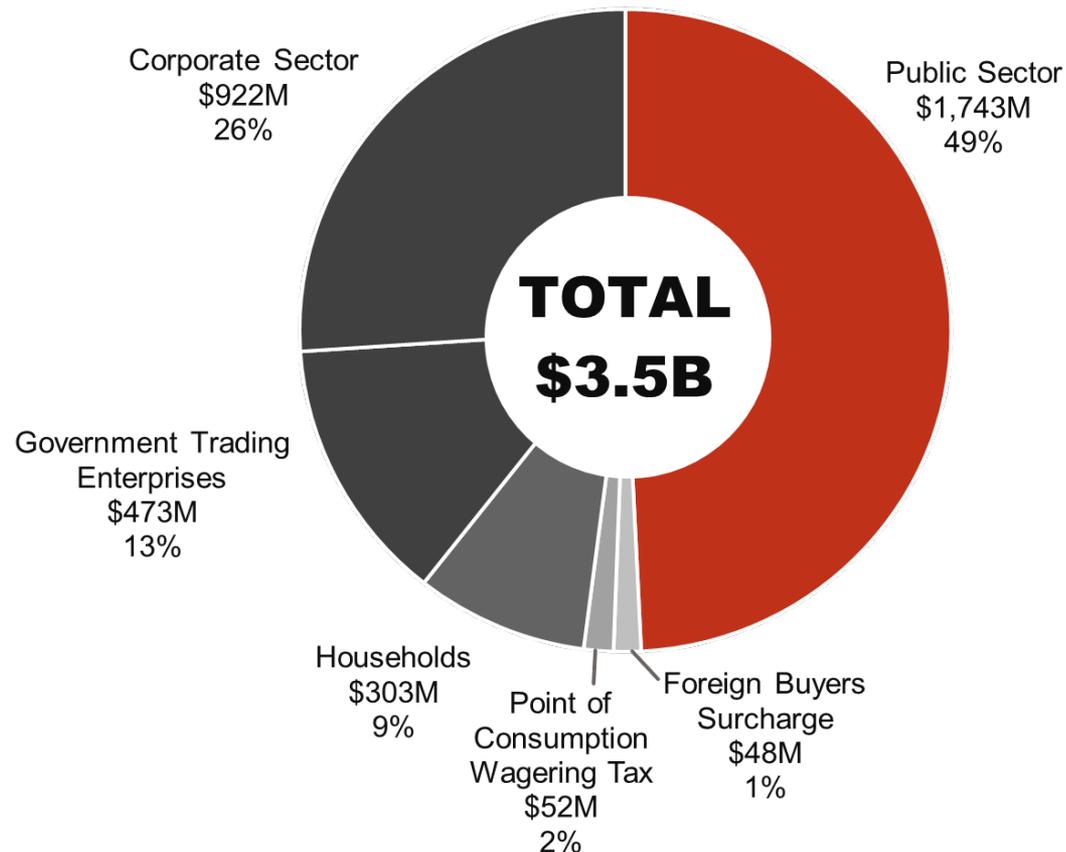
Average expense growth of just 1.9% per annum over the forward estimates period, including underlying growth of 2.4% in 2017-18



# BRINGING FINANCES UNDER CONTROL

## BUDGET REPAIR PACKAGE

The 2017-18 Budget repair measures improve net debt by \$3.5B over four years, with the repair task shared across the community



# BRINGING FINANCES UNDER CONTROL

## PUBLIC SECTOR SAVINGS

Public sector savings of \$1.7B over the forward estimates

- New public sector wages policy (already implemented):
  - flat \$1,000 per annum wage increase
  - wage freeze for positions with SAT-determined remuneration
- Reducing the public sector by 3,000 FTEs through a new Voluntary Targeted Separation Scheme, with priority given to agencies subject to recent Machinery of Government changes
- Removing indexation for non-salaries expenditure – saving \$300M over the forward estimates
- Changes to office accommodation and vehicle leasing arrangements are expected to save \$127M over four years

# BRINGING FINANCES UNDER CONTROL

## GOVERNMENT TRADING ENTERPRISES (GTEs)

GTE efficiency measures are expected to improve the net operating balance by \$807M, and net debt by \$473M, over the five years to 2020-21

- Establishing a net debt reduction target for most GTEs (totalling \$473M in net debt savings)
- Increasing the GTE dividend payout ratio to 75% (or more), improving the net operating balance by \$440M
- Removing Synergy's Tariff Adjustment Payment from 2018-19, and harvesting a special \$100M dividend

# BRINGING FINANCES UNDER CONTROL

## PAYROLL TAX

A temporary progressive payroll tax scale will be applied for a finite period of 5 years, and is expected to raise \$435M in additional revenue over the forward estimates

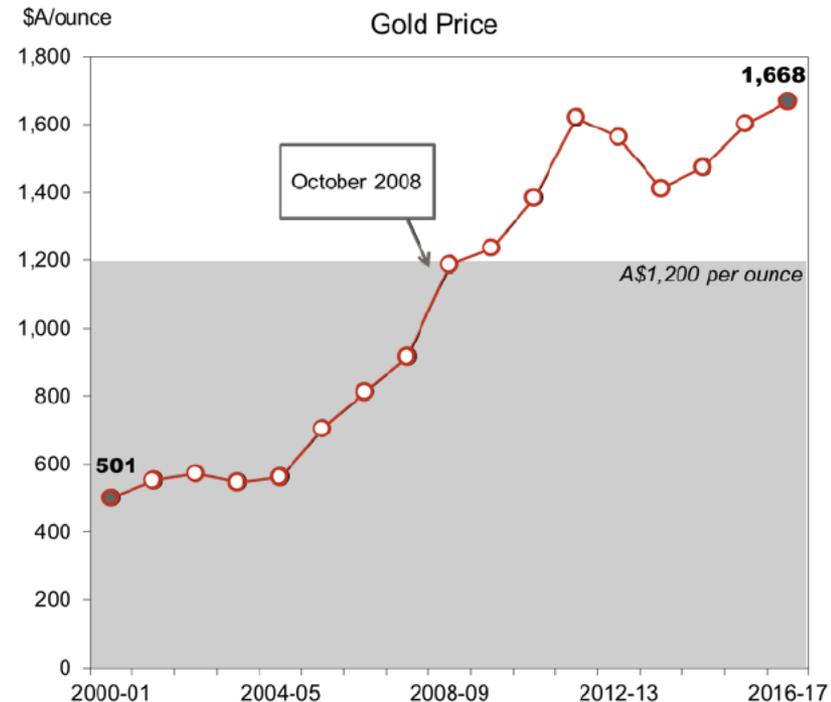
- Expected to impact less than 1% of businesses in WA:
  - employers with a payroll between \$100M and \$1.5B will face a marginal tax rate of 6%
  - employers with a payroll above \$1.5B will face a marginal tax rate of 6.5%
- For an employer with a payroll of \$2B this equates to additional payroll tax of \$12M (0.6% of payroll)
- New payroll tax scale to be in place from 1 July 2018 until 30 June 2023

# BRINGING FINANCES UNDER CONTROL

## GOLD ROYALTY

A tiered gold royalty rate will be introduced, and the first 2,500 ounces of gold will no longer be royalty-free for those miners who produce more than 2,500 ounces

- A new 3.75% royalty rate will apply when the gold price is above A\$1,200/ounce
  - the current 2.5% rate will apply when the gold price is A\$1,200/ounce or less
  - effective from 1 January 2018
  - increased royalty is equivalent to about A\$20/ounce, based on current gold price
- Expected additional revenue of \$392M over the forward estimates



# BRINGING FINANCES UNDER CONTROL

## DEBT REPAYMENT ACCOUNT

A Debt Repayment Account has been established – revenue windfalls will be paid into this Account and used to repay Consolidated Account borrowings

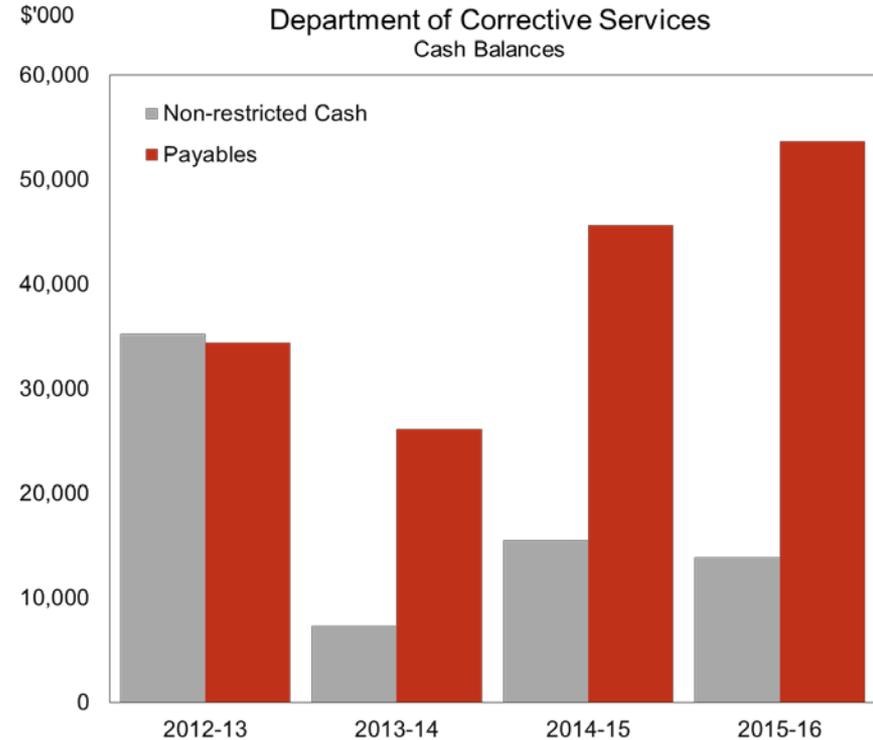
- \$338M in debt to be repaid over the next four years, including \$230M in 2017-18
- Initial funds for the Debt Repayment Account comprise:
  - one-off commercial property stamp duty assessment (\$169M)
  - surplus RiskCover funds (\$169M)

# BRINGING FINANCES UNDER CONTROL

## UNAVOIDABLE COSTS

The 2017-18 Budget brings to book some unavoidable cost pressures

- \$189M over four years for costs associated with growth in the State's prisoner population
- \$40M over four years to replace and upgrade ageing Police ICT systems
- \$18.3M in 2017-18 for the delayed opening of the Perth Children's Hospital



# IMPROVING SERVICE DELIVERY

## REFORMING EXPENDITURE

Several reviews are underway to reduce the cost of the public sector, and improve service delivery through innovation and collaboration

- Service Priority Review: examination of the functions, operations and culture of the WA public sector
- Sustainable Health Review: reforming the health system to deliver innovative, patient-first services – in a financially sustainable manner
- Special Inquiry into Government Programs and Projects: to identify lessons learned and establish more rigorous procurement processes
- \$600,000 has been allocated to design the Target 120 program, using data analytics to identify at-risk families and divert juvenile offenders from the juvenile justice system

# IMPROVING SERVICE DELIVERY

## JUSTICE PIPELINE MODEL

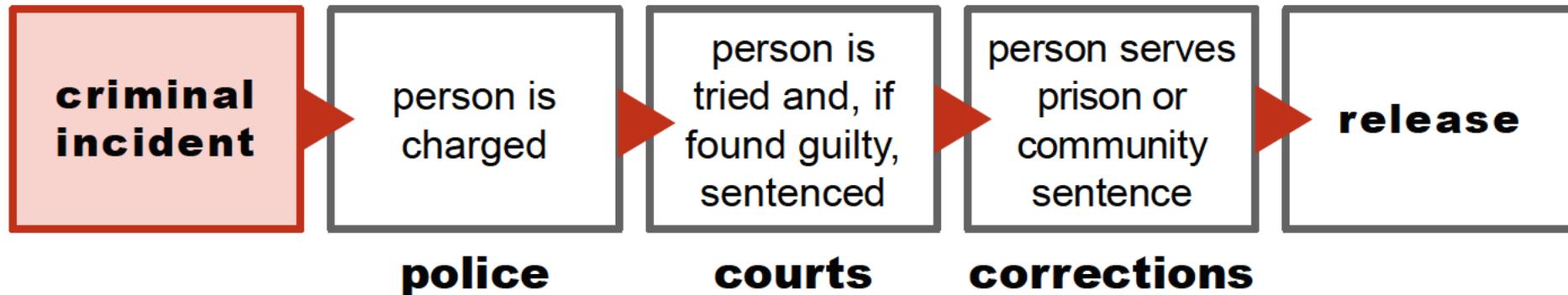
A Justice Pipeline Model will be developed to simulate activity and forecast resourcing needs across the entire criminal justice system

- Additional expenditure of \$850,000 to develop the Justice Pipeline Model
- Using an evidence-based approach to forecast activity and costs across agencies managing the criminal justice system (including Police, ODPP, Legal Aid and Justice)
- Will reform the way policy and spending decisions are made

# IMPROVING SERVICE DELIVERY

## JUSTICE LIFECYCLE

Resourcing must be better coordinated across the justice lifecycle to ensure optimal outcomes for the criminal justice system as a whole



# DELIVERING ELECTION COMMITMENTS IMPLEMENTATION THROUGH REPRIORITISATION

Reprioritised existing funding to fund 83% of the \$3.7B in election commitments included in the 2017-18 Budget

- Total financial impact of election commitments in the 2017-18 Budget:
  - \$3.7B gross expenditure
  - \$603M net debt impact
- A number of remaining election commitments to be considered in 2017-18 MYR and 2018-19 Budget, following further planning and business case development

# DELIVERING ELECTION COMMITMENTS

## METRONET

Investment of \$1.3B over the forward estimates to transform public transport across Perth and create METRONET

- Over the forward estimates, METRONET Stage 1 includes:
  - \$441M to extend the Joondalup train line to Yanchep
  - \$423M for the Thornlie-Cockburn Link
  - \$323M to acquire 102 new railcars
- METRONET Stage 1 is net debt neutral
  - \$1.2B re-allocated funding from cancelled Perth Freight Link
  - \$105M from additional land sales and value capture revenue
- Set to deliver integrated public transport and land-use planning outcomes

# DELIVERING ELECTION COMMITMENTS

## FUTURE JOBS AND SKILLS

This Budget targets investment in tourism, science, defence and international education to create jobs and diversify the WA economy

- Boosting annual expenditure on destination marketing and event tourism by \$87M over the forward estimates
- \$39M on the Local Projects Local Jobs grants program
- \$17M to establish a New Industries Fund and support new and emerging businesses in the high-tech sector

# DELIVERING ELECTION COMMITMENTS

## STRONG COMMUNITIES

Additional funding of \$12.4M over the forward estimates to implement Stopping Family and Domestic Violence initiatives

- Establishment of two new women's refuges in the metro and Peel regions
- Expansion of culturally appropriate support services to Aboriginal and Culturally and Linguistically Diverse victims of family and domestic violence
- Membership of the national Our Watch program – raising awareness of family and domestic violence

# DELIVERING ELECTION COMMITMENTS

## STRONG COMMUNITIES

This Budget includes an additional \$132M to combat methamphetamine and create safer communities

- \$83.5M to create a Meth Border Force and disrupt the supply of meth coming into the community
- \$48.2M for the Methamphetamine Action Plan, including:
  - a specialist rehabilitation centre in the South West
  - continuation of 52 residential rehabilitation beds and 8 low medical withdrawal beds
  - fit-for-purpose rehabilitation prison at Wandoo facility

# DELIVERING ELECTION COMMITMENTS

## INVESTING IN OUR CHILDREN'S EDUCATION

An estimated \$5B will be spent in 2017-18 on education services – with \$1.4B to be invested in school infrastructure over four years

- Over the forward estimates, priority investments in education include:
  - \$58.9M to employ an extra 300 education assistants and 50 Aboriginal and Islander Education Officers
  - \$31.7M to select experienced teachers for mentoring and knowledge sharing activities, and improve overall teacher quality
  - \$17M to convert classrooms into science labs
  - \$2M to upskill teachers and integrate coding into the curriculum

# ROYALTIES FOR REGIONS (RfR)

## A NEW APPROACH

RfR expenditure totals \$4B over the forward estimates, including \$1B in new job-generating RfR projects

- No changes to RfR legislation: 25% of royalties will continue to be paid into the RfR Fund to fund regional projects – subject to the \$1B ceiling not being exceeded
- RfR was due for a financial re-think, to protect its ongoing sustainability
  - majority of royalties is lost to other States, through reduced GST grants
  - where royalties loss exceeded 100%, the State borrowed to fund RfR
- 2017-18 Budget takes a new approach: the RfR program has made room for \$674M in regional election commitments and \$861M for other regional programs (previously centrally funded)

# KEY MESSAGES

The 2017-18 Budget starts the process of:

- Budget repair, and a return to a general government sector operating surplus
- public sector reform: delivering better community services at a lower cost
- implementing election commitments and boosting local jobs

