



**Hon Ben Wyatt, MLA
TREASURER**



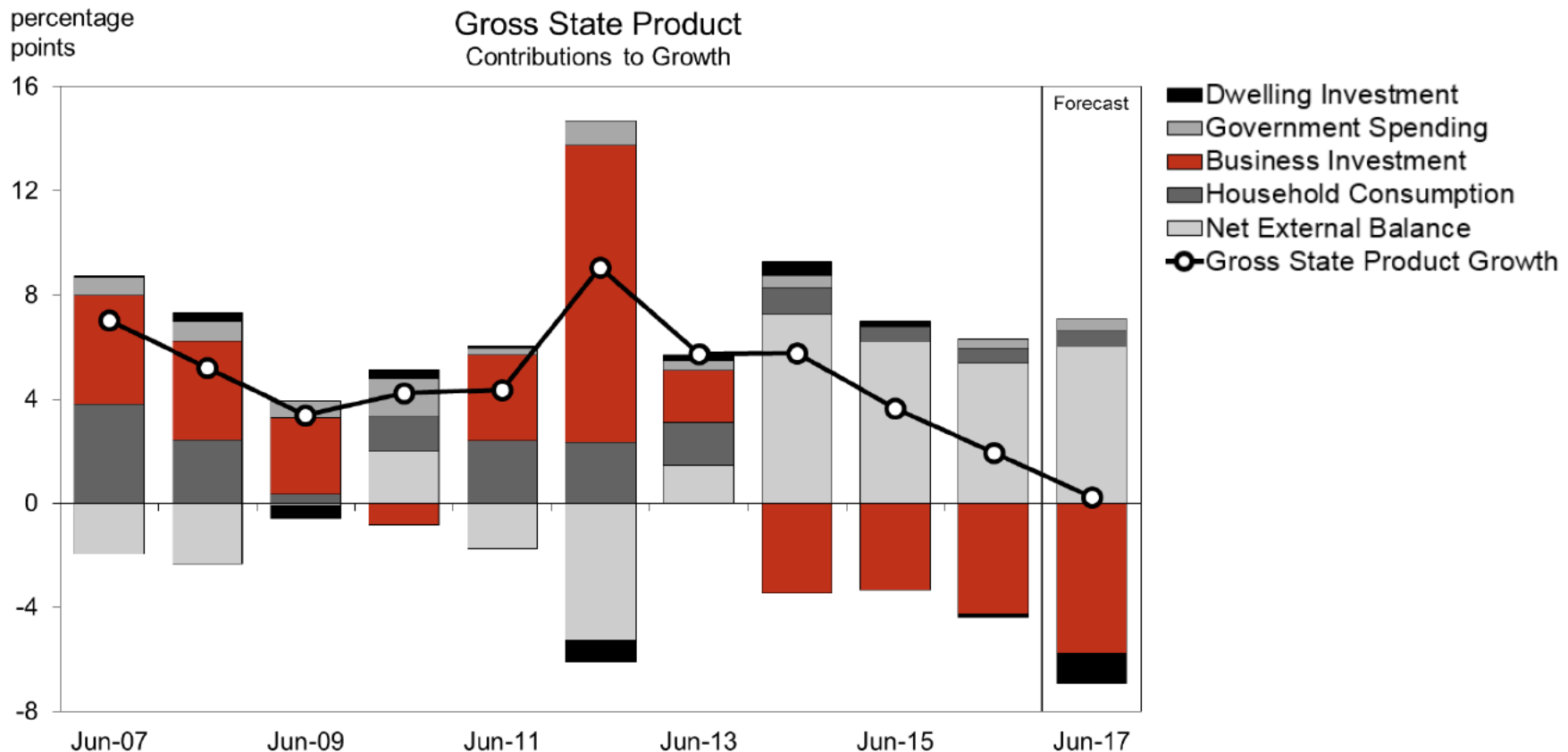
**WESTERN AUSTRALIA
STATE BUDGET 2017-18**

7 September 2017

STATE OF THE STATE

GROSS STATE PRODUCT

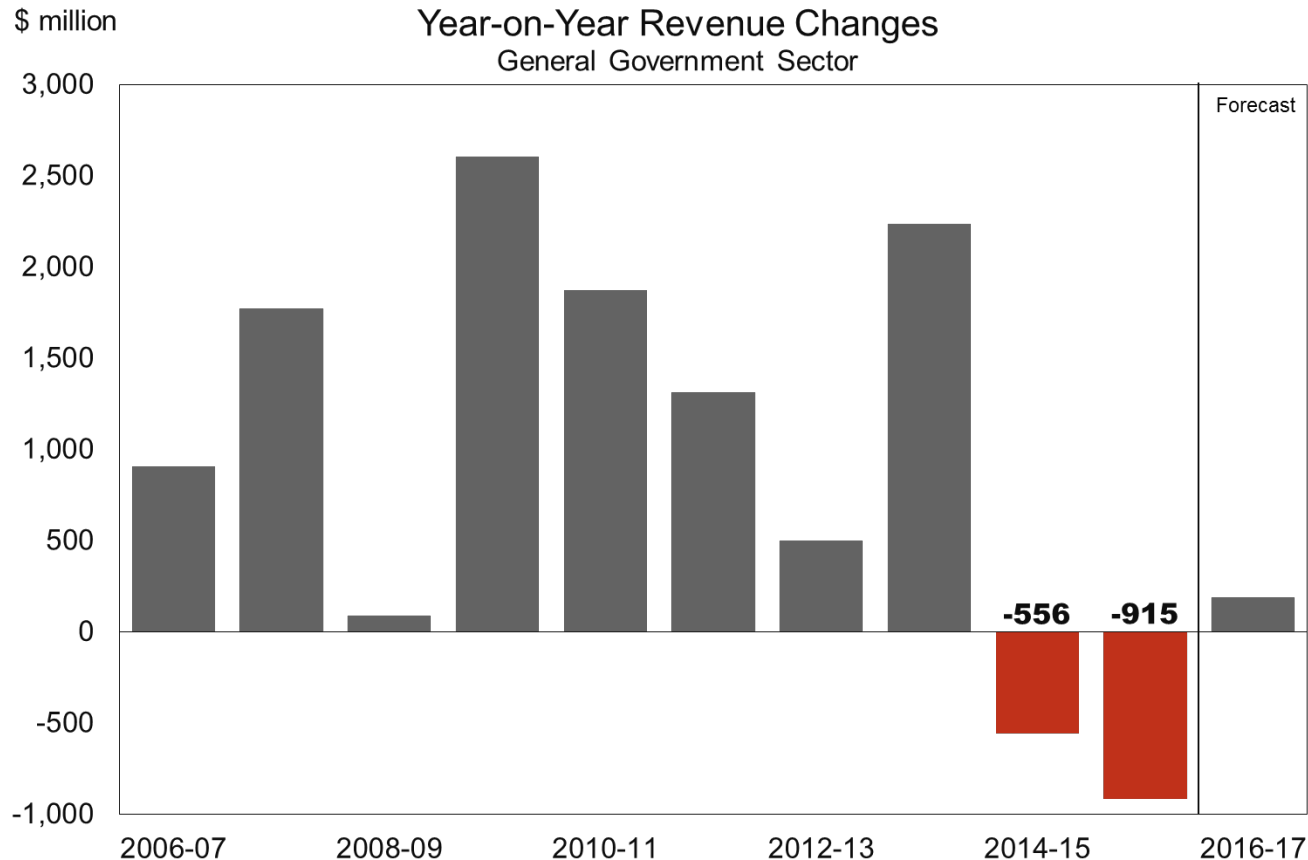
Since peaking in 2012-13, the fall in business investment has driven down WA economic growth to just 0.25% in 2016-17



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GENERAL GOVERNMENT REVENUE

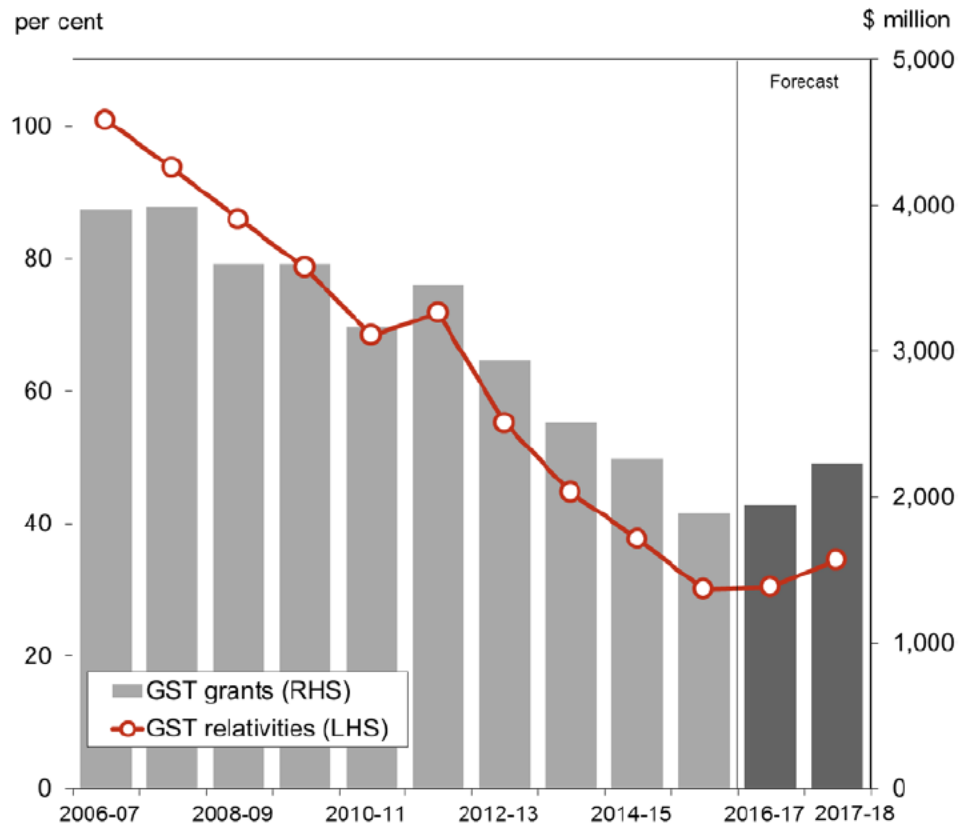
The unwinding of the mining investment boom has resulted in a significant reduction in revenue



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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

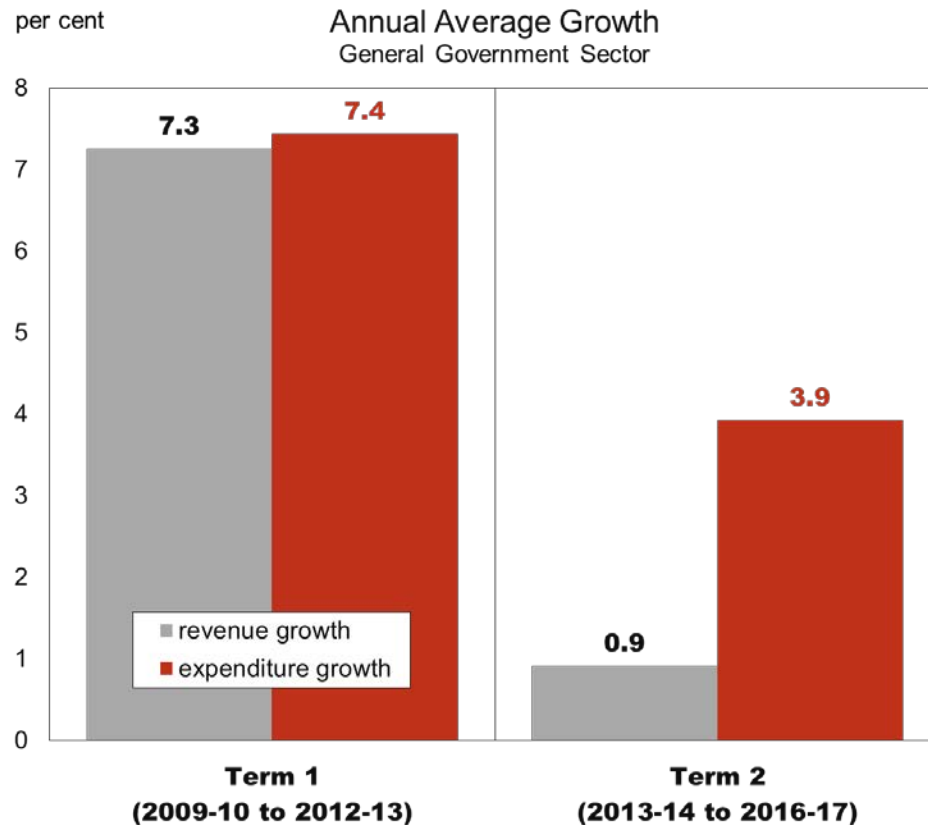


In 2017-18, WA will receive just 34.4% of its population share of GST – a subsidy to the other States of around \$4.4B

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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

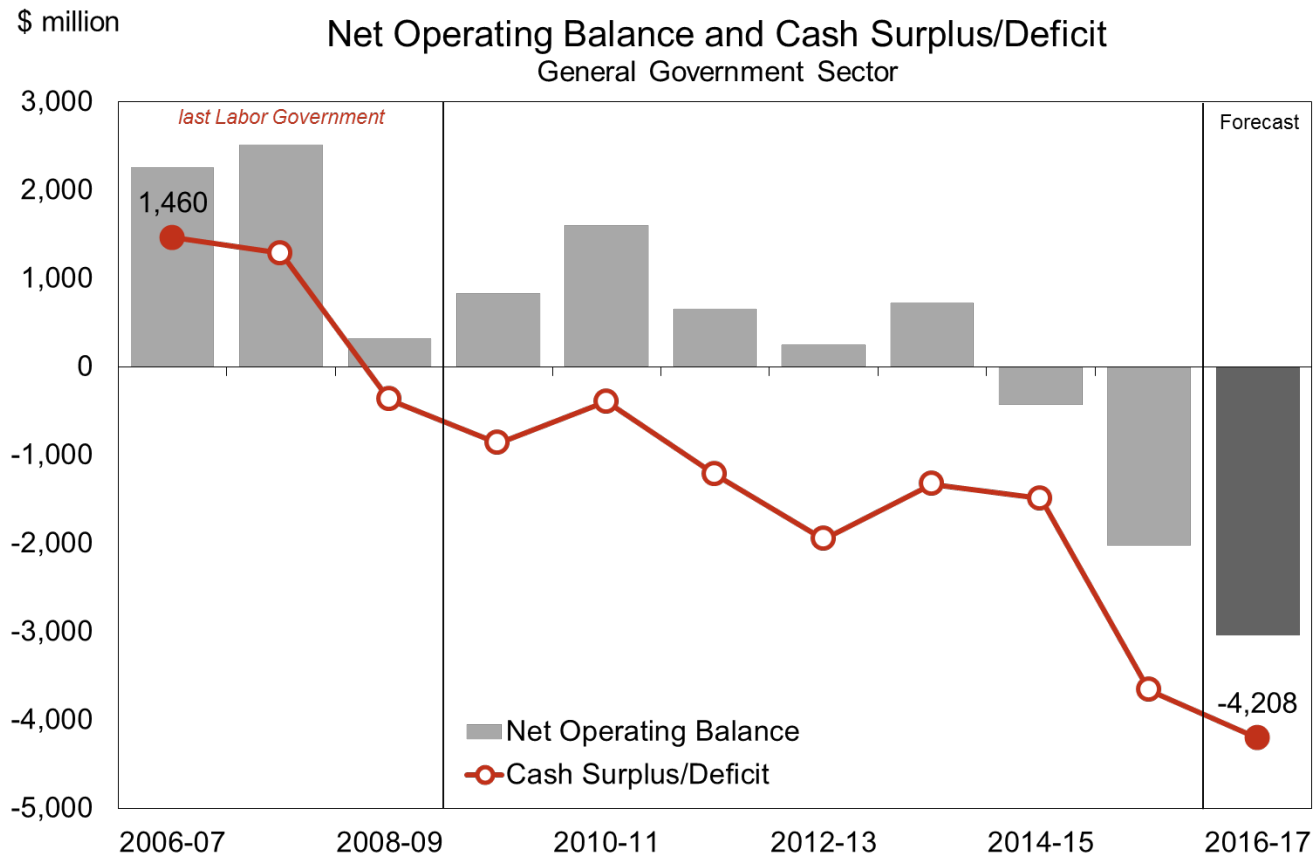


Over the last four years, expenditure increased by \$4.2B, while revenue grew by less than \$1B

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GENERAL GOVERNMENT DEFICITS

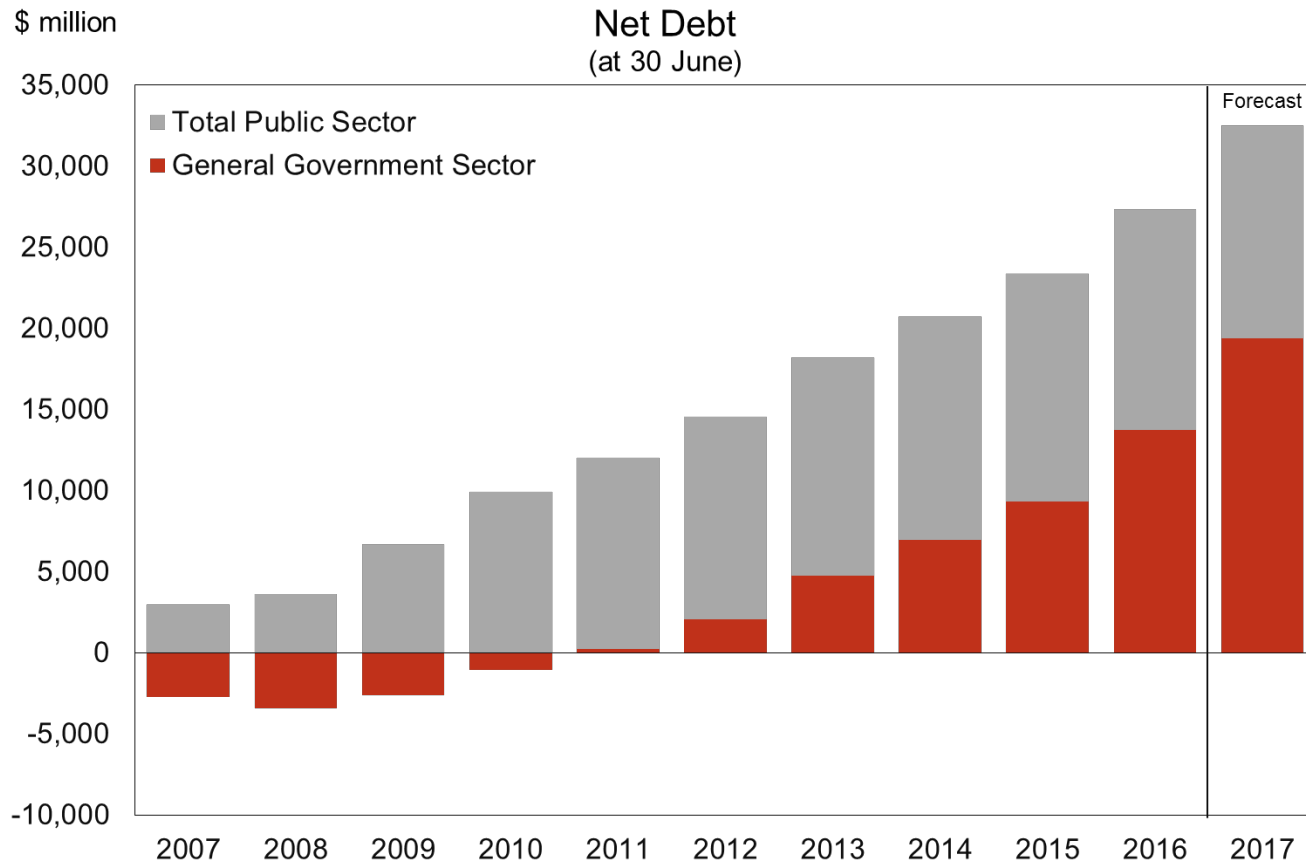
This structural imbalance, combined with significant infrastructure spending, has resulted in steadily growing cash and operating deficits



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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)

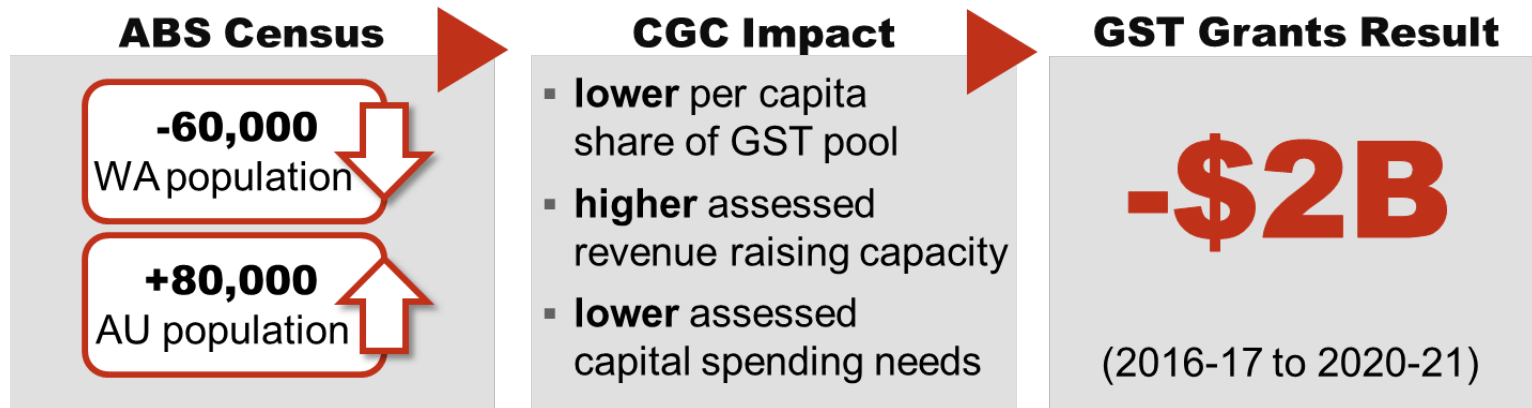
key revisions 2016-17 to 2019-20 (\$M)	
	-1,758
	-1,708
	-777
	-572

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

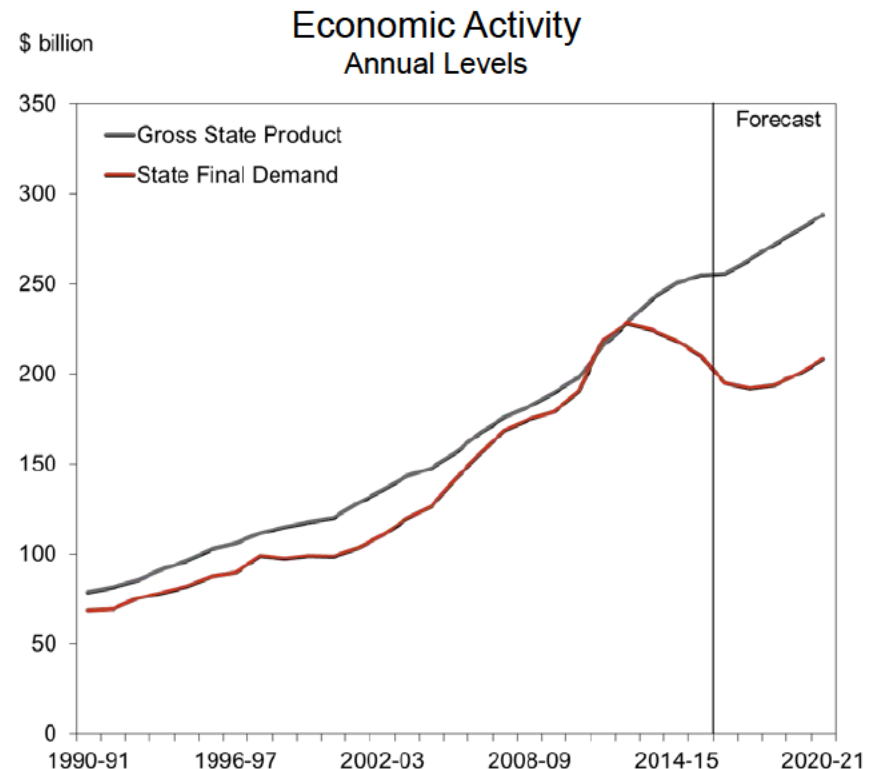
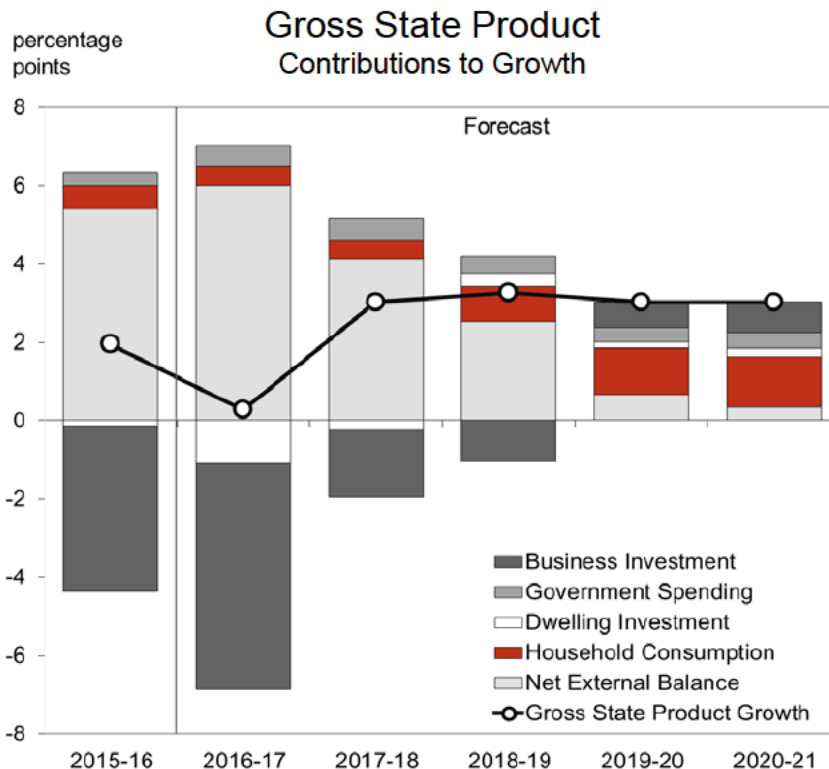


- Lower than forecast GST relativity for 2017-18 (34.4% vs 38%)
 - -\$735M impact over the period 2016-17 to 2019-20

ECONOMIC OUTLOOK

GROSS STATE PRODUCT

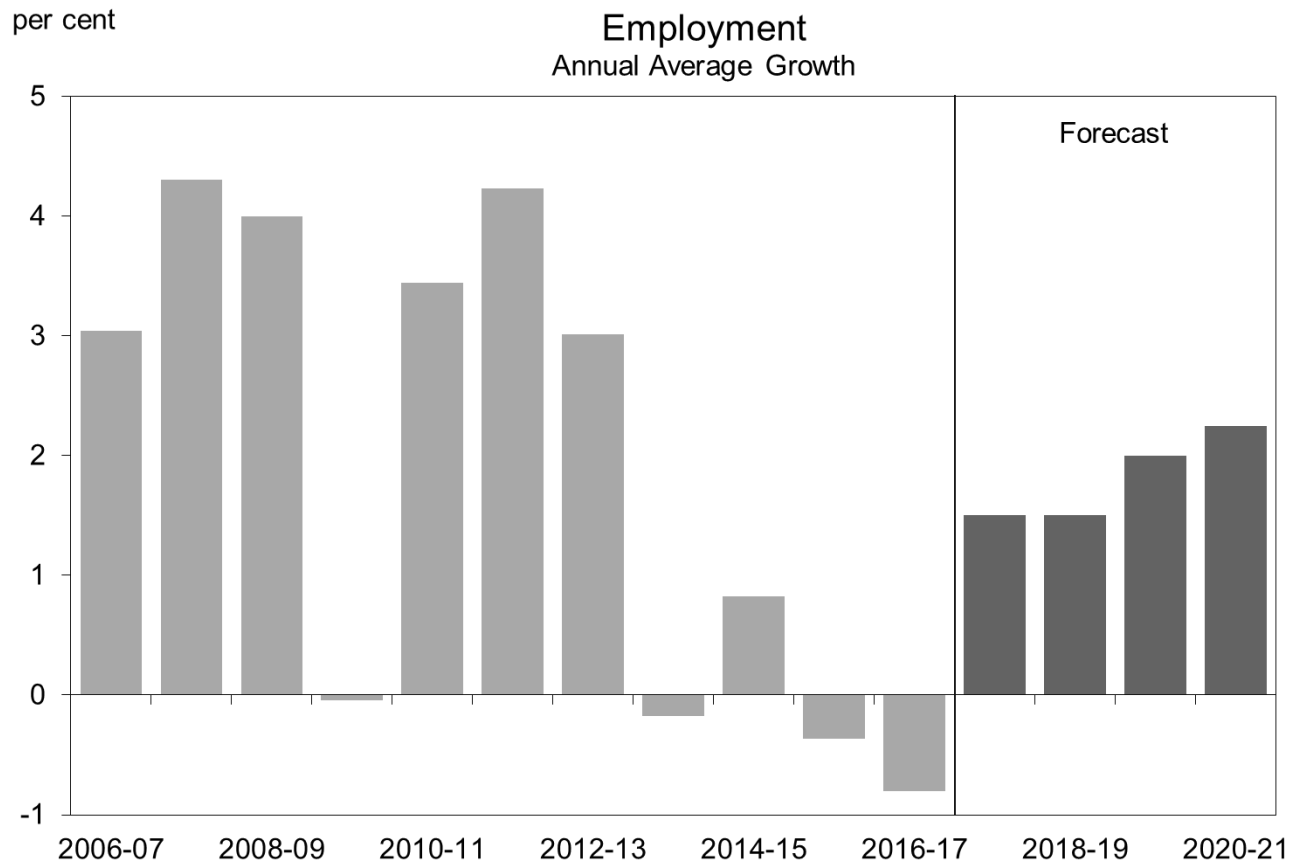
Underpinned by strong growth in net exports, the WA economy (as measured by GSP) is forecast to grow by 3% in 2017-18 – with the domestic economy (as measured by SFD) forecast to expand from 2018-19



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
General Government					
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 ^(a)	-1.3	2.7	2.5
Net operating balance (\$m)	-3,039	-2,340	-1,666	-1,114	1,260
Total Public Sector					
Net debt at 30 June (\$m)	32,500	37,810	41,425	43,784	43,638
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

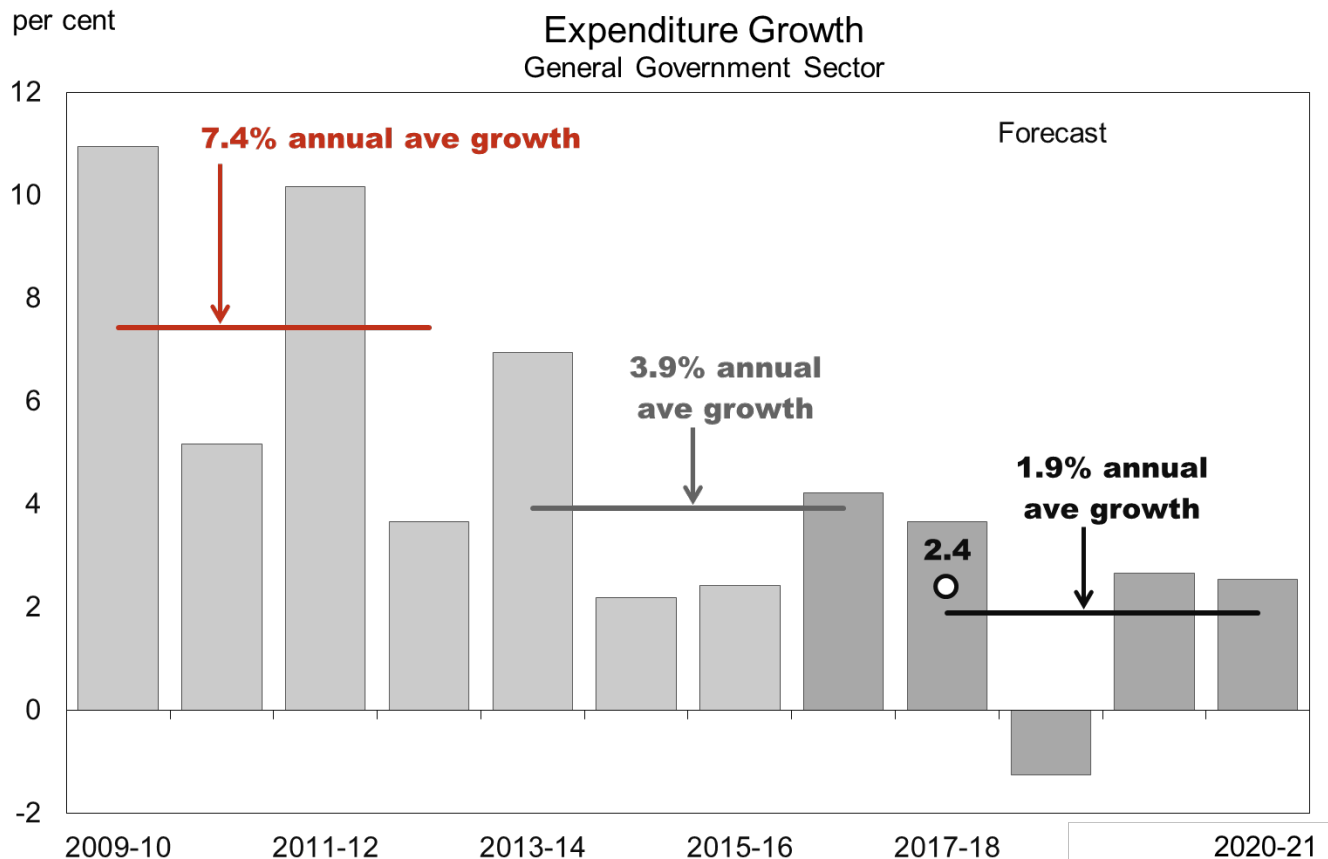
All of the Government's new financial targets are expected to be met by 2020-21

	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
- 2017-18 Budget compliance	Yes	Yes	Yes	Yes
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
- 2017-18 Budget compliance	No	Yes	Yes	Yes
3. Maintain disciplined general government expense management through:				
a. delivering public sector wages outcomes in line with Government wages policy	Yes	Yes	Yes	Yes
b. ensuring key service delivery agency recurrent spending outcomes are in line with budgeted expense limits	Yes	Yes	Yes	Yes
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
- 2017-18 Budget compliance	No	No	No	Yes

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EXPENSE GROWTH

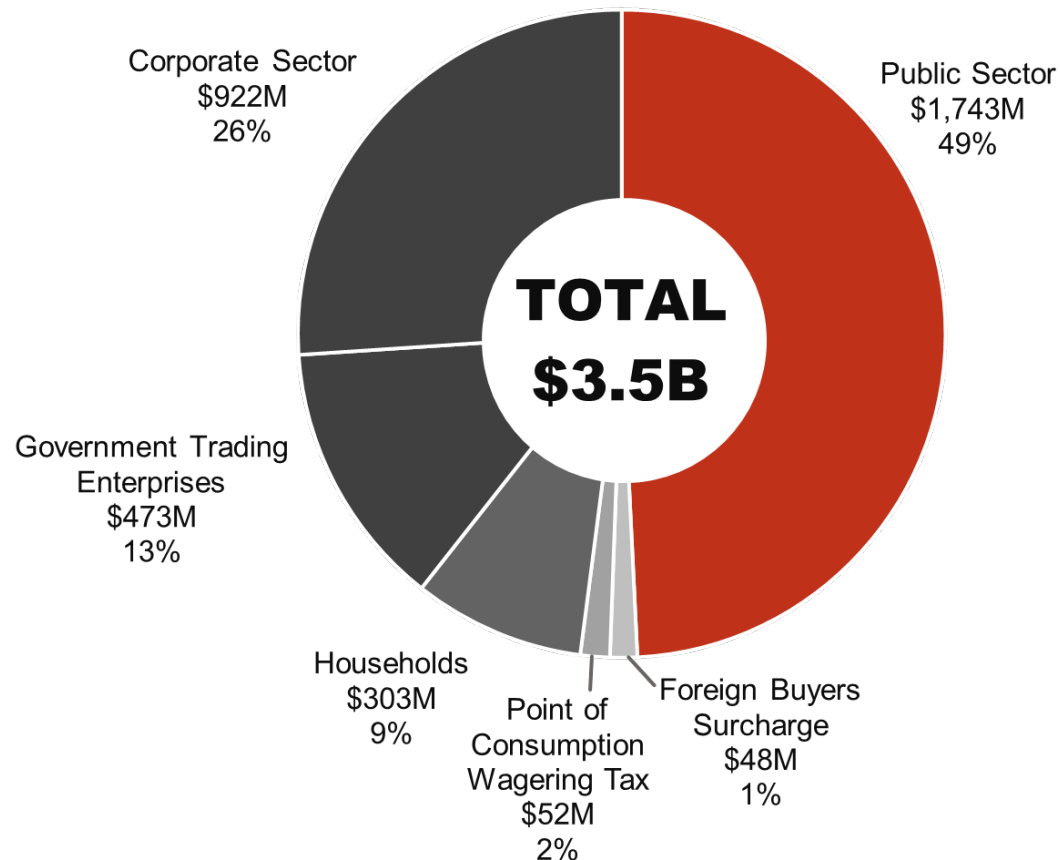
Average expense growth of just 1.9% per annum over the forward estimates period, including underlying growth of 2.4% in 2017-18



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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

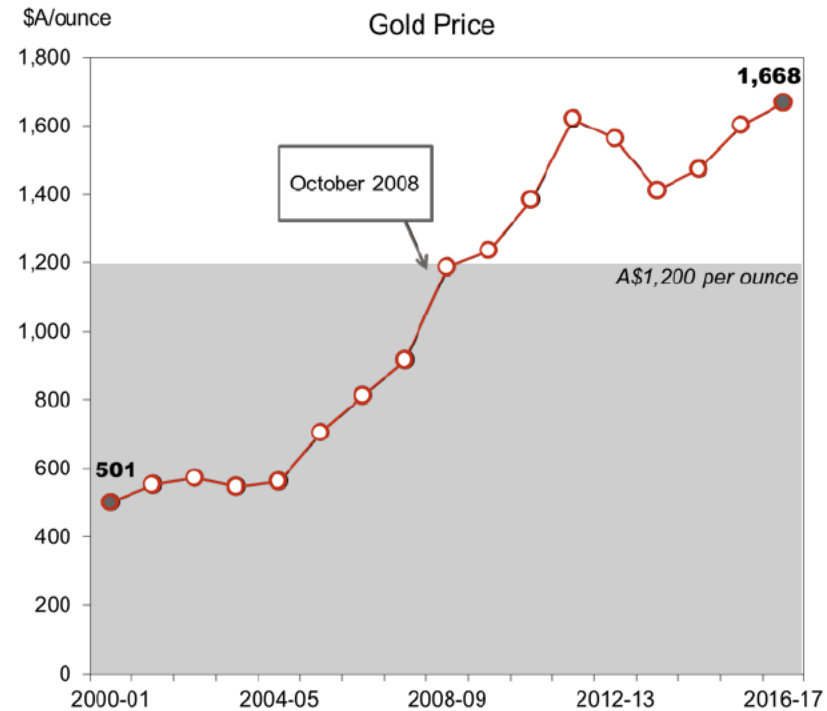
- Expected to impact less than 1% of businesses in WA:
 - employers with a payroll between \$100M and \$1.5B will face a marginal tax rate of 6%
 - employers with a payroll above \$1.5B will face a marginal tax rate of 6.5%
- For an employer with a payroll of \$2B this equates to additional payroll tax 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

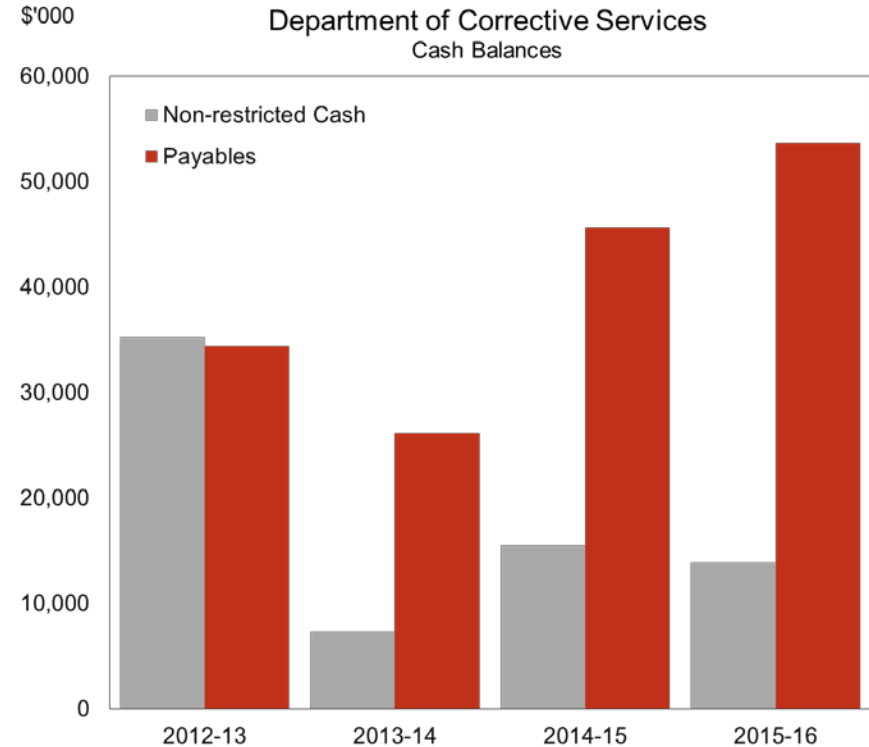
- \$338M in debt to be repaid over the next four years, including \$230M in 2017-18
- Initial funds for the Debt Repayment Account comprise:
 - one-off commercial property stamp duty assessment (\$169M)
 - surplus RiskCover funds (\$169M)

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

