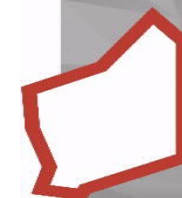




WESTERN AUSTRALIA
STATE BUDGET 2018-19

Hon Ben Wyatt, MLA
TREASURER

11 May 2018



SUMMARY

- ▶ **State's finances getting back on track**
 - ▷ Net operating surplus of \$1.8b over forward estimates period
 - ▷ Lowest expense growth in over 20 years forecast for 2018-19
 - ▷ Total net debt down \$3.2b relative to 2017-18 Budget
- ▶ **WA economy turning the corner**
 - ▷ GSP growth of 3.25% forecast for 2018-19
 - ▷ Forecast employment growth of 50,000 over two years
- ▶ **Significant new investment in this Budget to deliver the McGowan Labor Government's election commitments**
 - ▷ Public transport and roads
 - ▷ Social and affordable housing
- ▶ **Still a lot more work to do**
 - ▷ Fair share for WA
 - ▷ Ongoing surpluses needed to pay down debt



RESPONSIBLE FINANCIAL MANAGEMENT

- ▶ Government's clear focus remains on constraining recurrent expenditure growth while delivering our election commitments
- ▶ In 2017-18, underlying expense growth revised down to just 1.6%
 - ▷ Follows actual expense growth of 0.3% in first half of 2017-18
- ▶ Expense growth of just 1.2% p.a. across the forward estimates, compared to average of 6.4% p.a. under previous Government
 - ▷ Equates to \$17b difference over forward estimates period

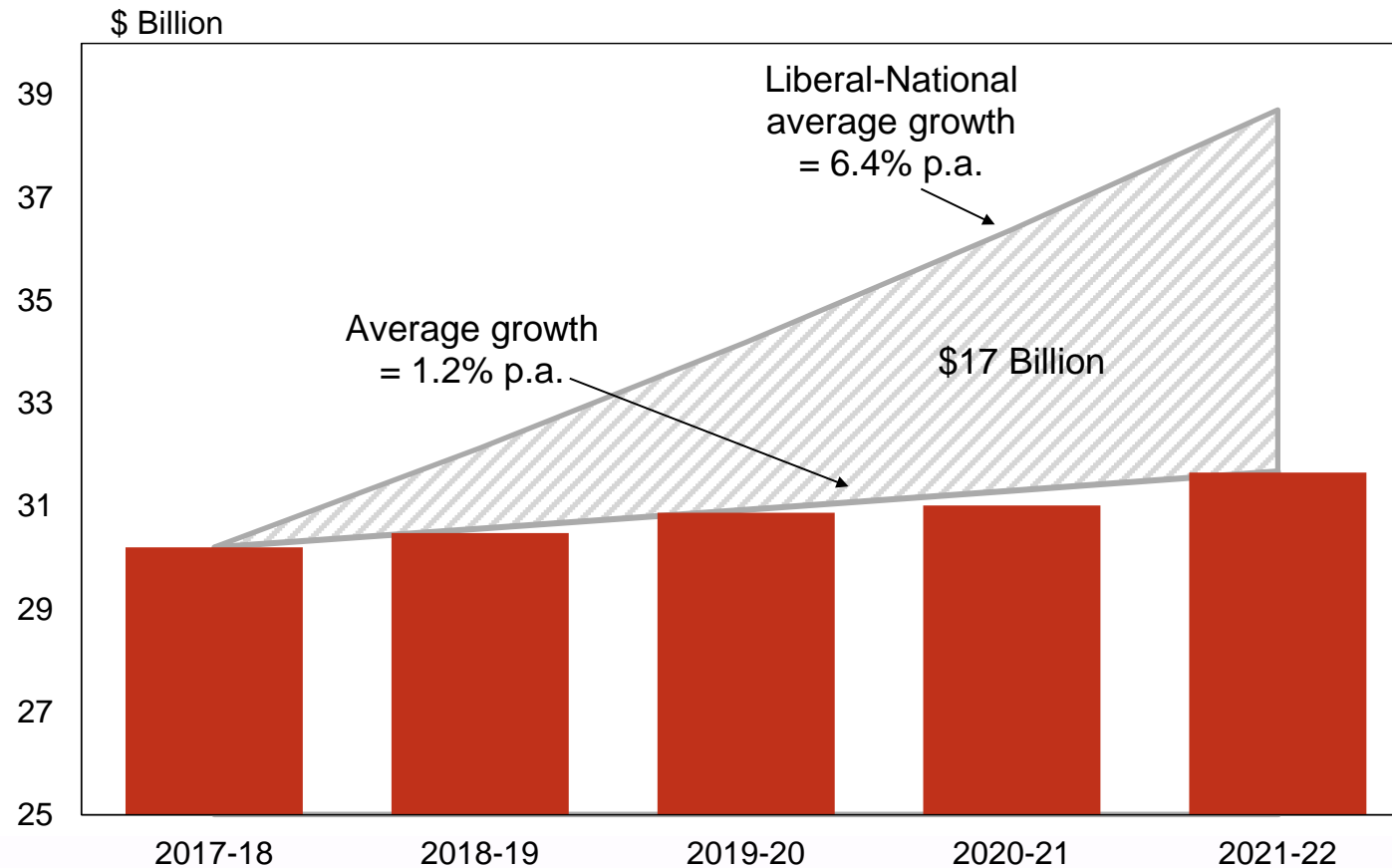


STATE FINANCES BACK ON TRACK

THE GOVERNMENT'S PLAN IS WORKING

► Constrain expense growth

GENERAL GOVERNMENT SECTOR EXPENSES



RECORD LOW EXPENSE GROWTH

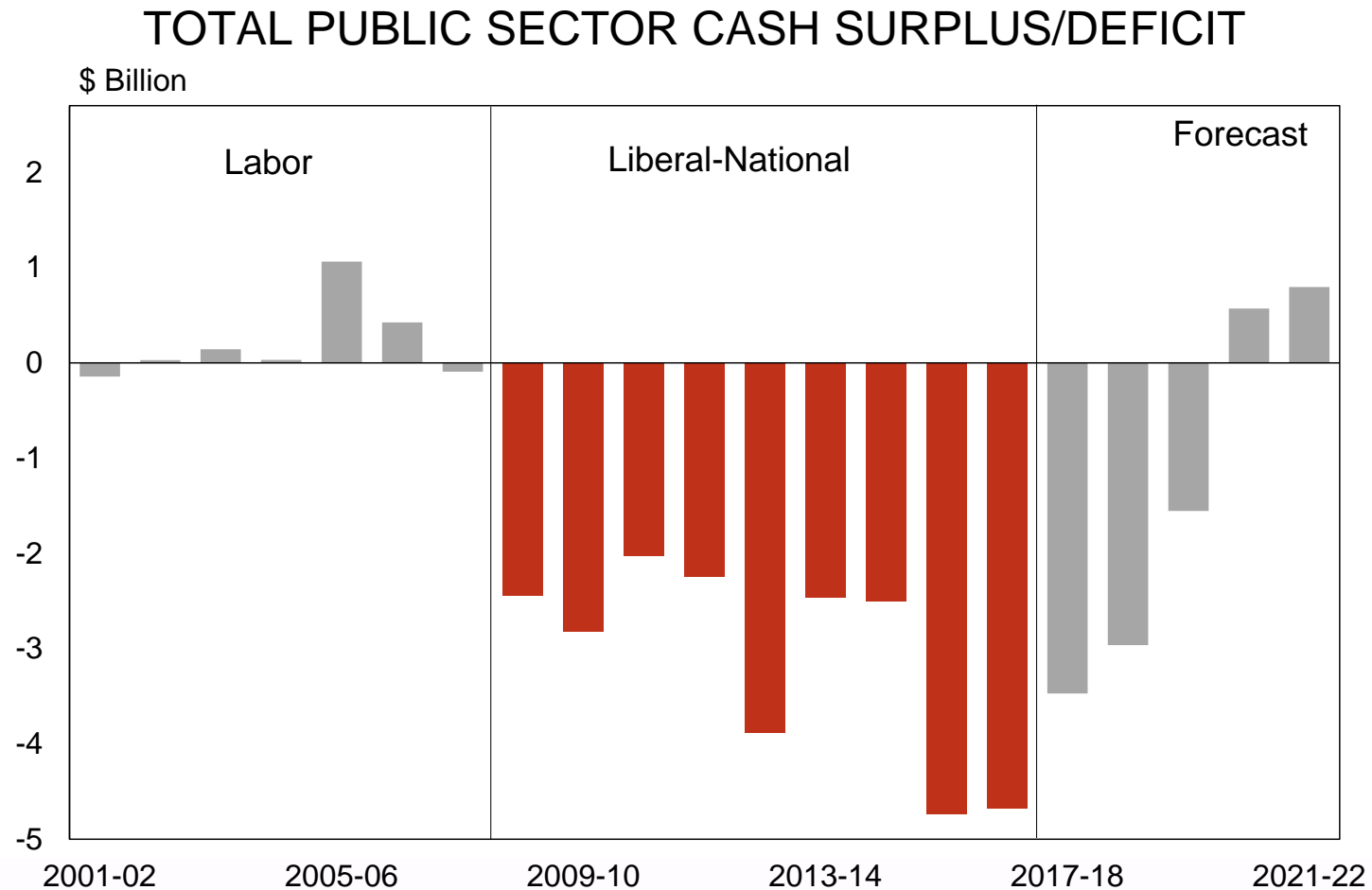
- ▶ Low expense growth achieved through:
 - ▷ a reinvigorated ERC process and Cabinet
 - ▷ significant reprioritisation of existing expenditure
 - election commitments mostly funded from reprioritised spending
 - new programs find new funding sources
 - ▷ 2017-18 Budget repair measures
 - largely successfully implemented
 - embedded low cost growth
 - reduced size and/or duplication in the public sector



STATE FINANCES BACK ON TRACK

THE GOVERNMENT'S PLAN IS WORKING

► Low expense growth delivers cash surpluses

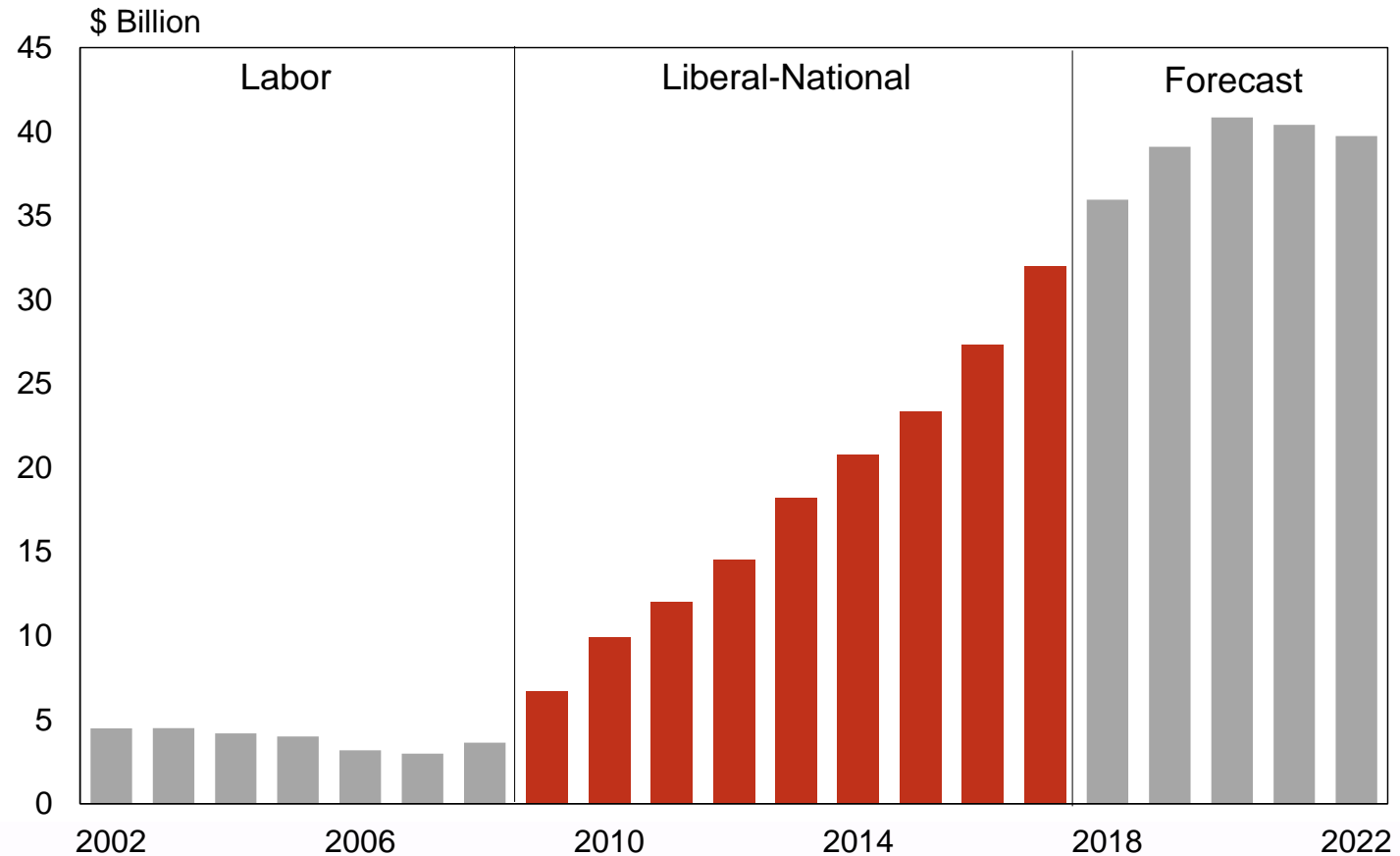


STATE FINANCES BACK ON TRACK

THE GOVERNMENT'S PLAN IS WORKING

▶ Cash surpluses pay down State debt

TOTAL PUBLIC SECTOR NET DEBT AT 30 JUNE



RECORD LOW EXPENSE GROWTH

MORE EFFICIENT DELIVERY OF HEALTH SERVICES

- ▶ Improved efficiency in the delivery of hospital services has seen the unit cost of hospital activity fall in 2017-18, bringing WA closer to the national average cost



- ▶ More work to do
 - ▷ Final report of Sustainable Health Review due in Nov 2018



RECORD LOW EXPENSE GROWTH EMBEDDED WITH HELP OF BUDGET REPAIR

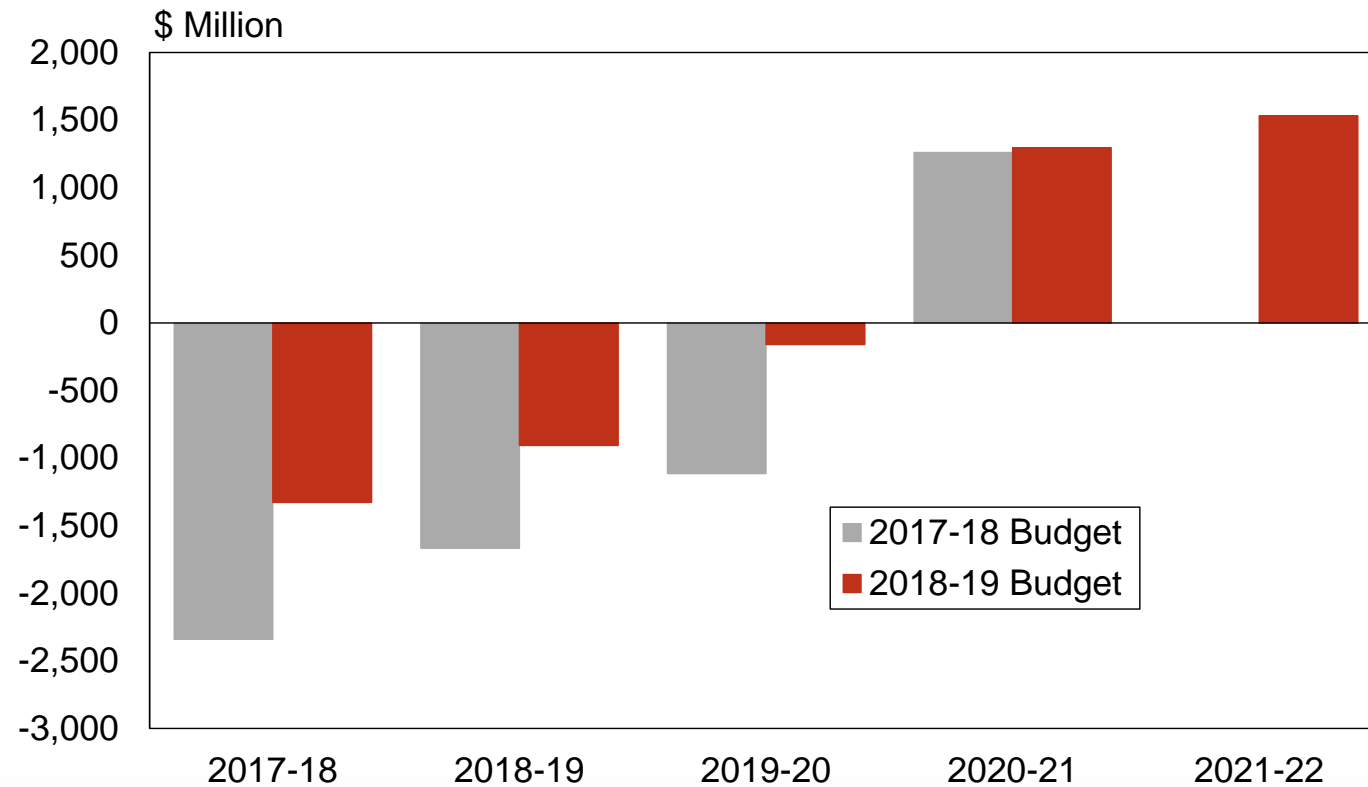
- ▶ Budget repair measures from last year are in progress and on track
 - ▶ \$1,000 wages policy successfully implemented
 - ▶ Legislation passed to freeze pay of Parliamentarians, Judges and senior public servants
 - ▶ 20% reduction in Senior Executive Service achieved
 - ▶ Voluntary Targeted Separation Scheme delivering significant savings
 - ▷ around 2,050 separations expected by 30 June 2018, with remaining 950 separations over forward estimates



STATE FINANCES BACK ON TRACK TURNAROUND SINCE 2017-18 BUDGET

▶ \$2.8b improvement in net operating balance

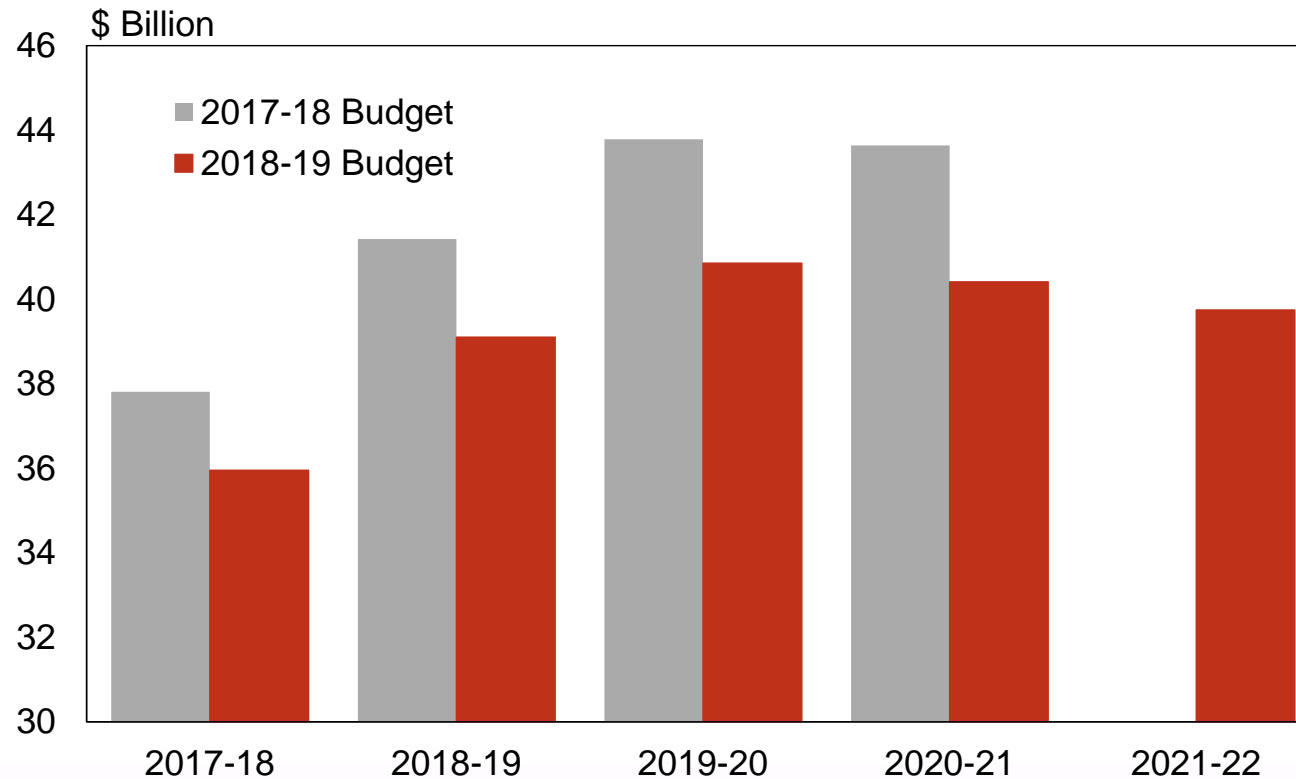
IMPROVEMENT SINCE 2017-18 BUDGET
General Government Net Operating Balance



STATE FINANCES BACK ON TRACK TURNAROUND SINCE 2017-18 BUDGET

▶ \$3.2b improvement in forecast level of net debt

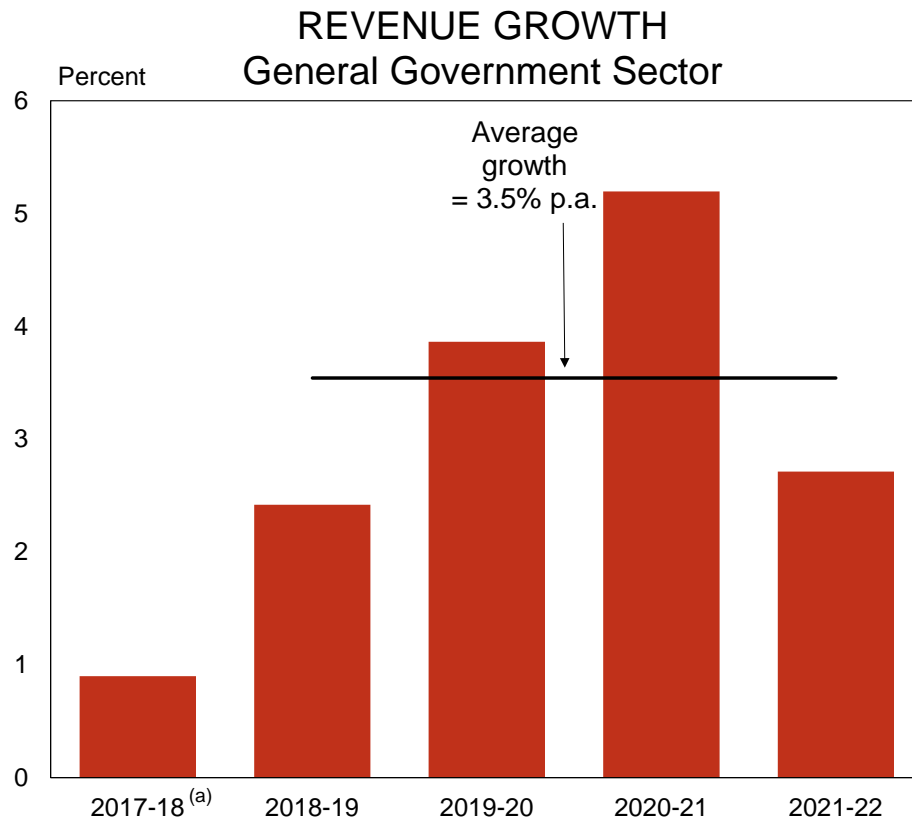
IMPROVEMENT SINCE 2017-18 BUDGET
Total Public Sector Net Debt at 30 June



STATE FINANCES BACK ON TRACK

REVENUE GROWTH HAS STABILISED

▶ Revenue growth remains subdued



- ▶ Moderate revenue growth of 3.5% p.a. forecast over forward estimates
- ▶ Follows underlying revenue growth of just 0.9% in 2017-18
- ▶ Compares to decade-average growth of 4.4% p.a.

^(a) Abstracting from the one-off impacts of the MOG changes, upfront Commonwealth infrastructure funding, and revenue measures announced in the 2017-18 Budget.



RESPONSIBLE FINANCIAL MANAGEMENT

KEY BUDGET AGGREGATES

► Budget remains on track to return to surplus by 2020-21

	2017-18 Estimated Actual	2018-19 Budget Estimate	2019-20 Forw ard Estimate	2020-21 Forw ard Estimate	2021-22 Forw ard Estimate
GENERAL GOVERNMENT SECTOR					
Net Operating Balance (\$m)	-1,327	-906	-160	1,295	1,531
Revenue (\$m)	28,874	29,572	30,715	32,310	33,187
Revenue Growth (%)	7.3 ^(a)	2.4	3.9	5.2	2.7
Expenses (\$m)	30,201	30,478	30,875	31,015	31,656
Expense Growth (%)	2.8 ^(a)	0.9	1.3	0.5	2.1
TOTAL PUBLIC SECTOR					
Net Debt at 30 June (\$m)	35,951	39,103	40,853	40,413	39,745
Net Debt as a Share of GSP (%)	13.7	14.5	14.6	13.9	13.0
Asset Investment Program (\$m)	5,522	6,248	5,449	4,945	4,872
Cash Surplus/Deficit (\$m)	-3,468	-2,961	-1,553	572	798

^(a) Underlying revenue and expense growth of 0.9% and 1.6% respectively.



RESPONSIBLE FINANCIAL MANAGEMENT

KEY BUDGET AGGREGATE ASSUMPTIONS

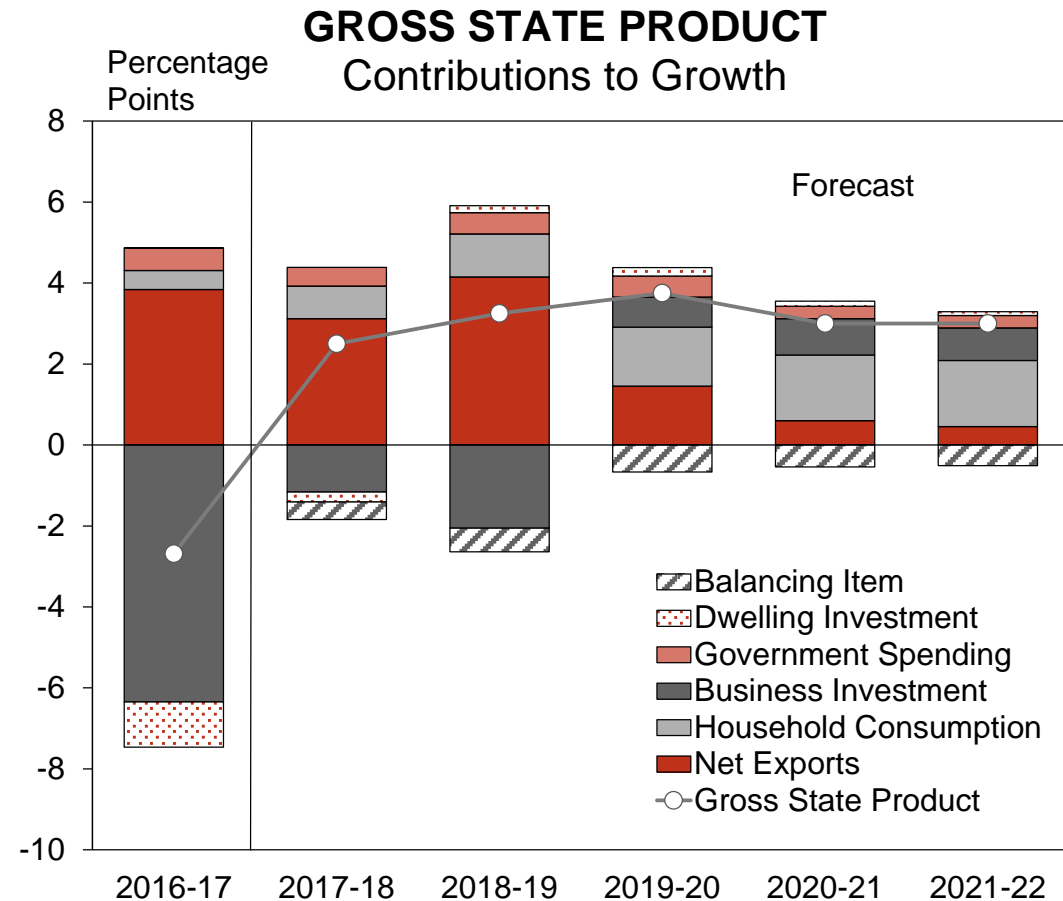
Forecasts of Major Economic Parameters

	WA 2018-19 Budget			Commonwealth 2018-19 Budget		
	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20
	%	%	%	%	%	%
GSP/GDP (real growth)	2.5	3.25	3.75	2.75	3.0	3.0
Exports (real growth)	5.5	7.5	3.5	2.5	4.0	2.5
Employment (growth)	2.25	1.5	2.0	2.75	1.5	1.5
Unemployment rate	5.75	5.75	5.5	5.5	5.25	5.25
Wage Price Index growth	1.5	1.75	2.75	2.25	2.75	3.25
CPI growth	1.0	1.5	2.0	2.0	2.25	2.5
Iron ore price (CFR)	68.3	61.9	60.8	68.1	63.2	63.2



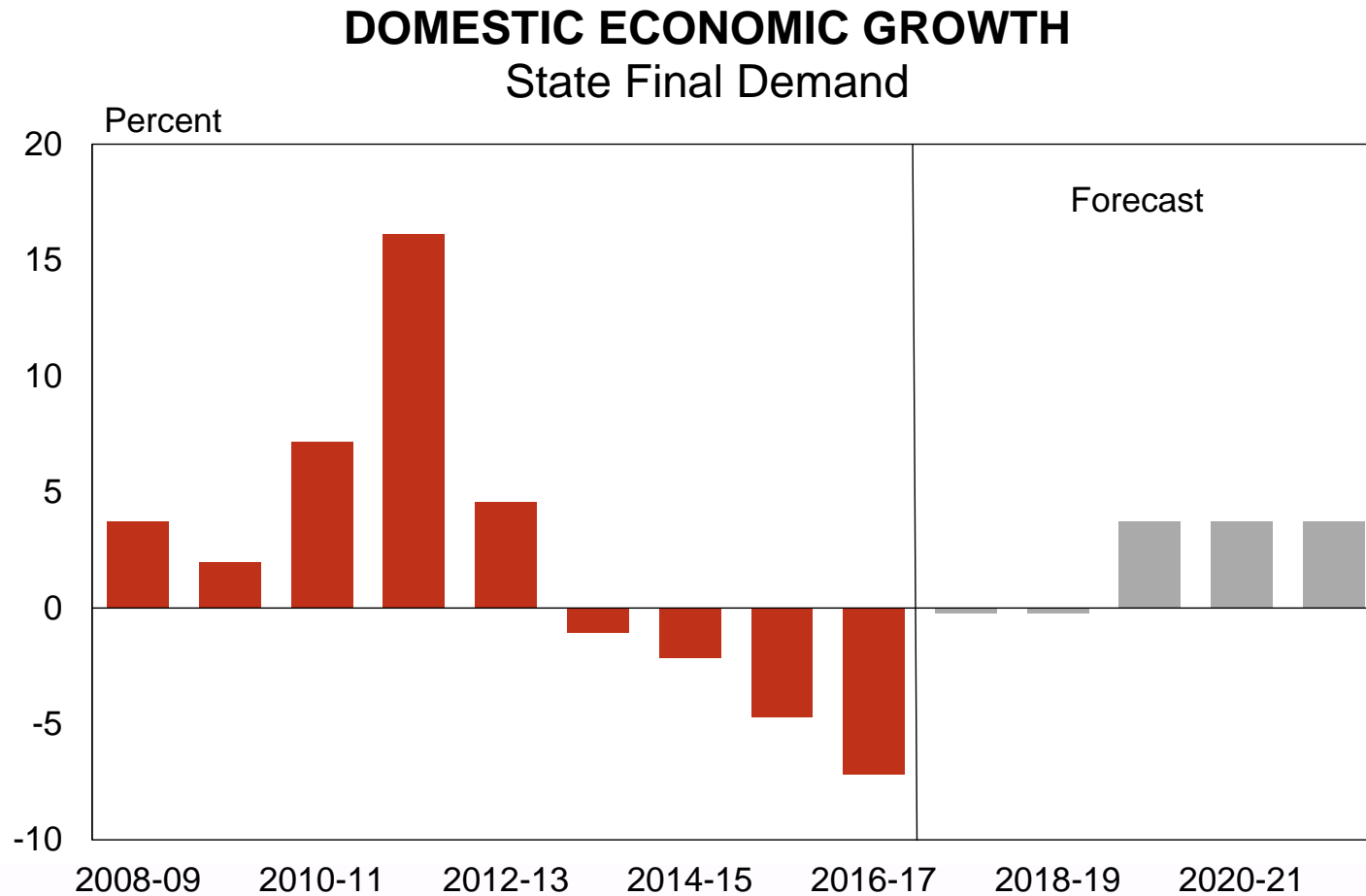
CREATING JOBS & STRENGTHENING THE ECONOMY

- ▶ Exports to remain major driver of growth in short term
- ▶ Household consumption expected to take over as major driver of growth in medium term
- ▶ Business investment projected to return to growth from 2019-20



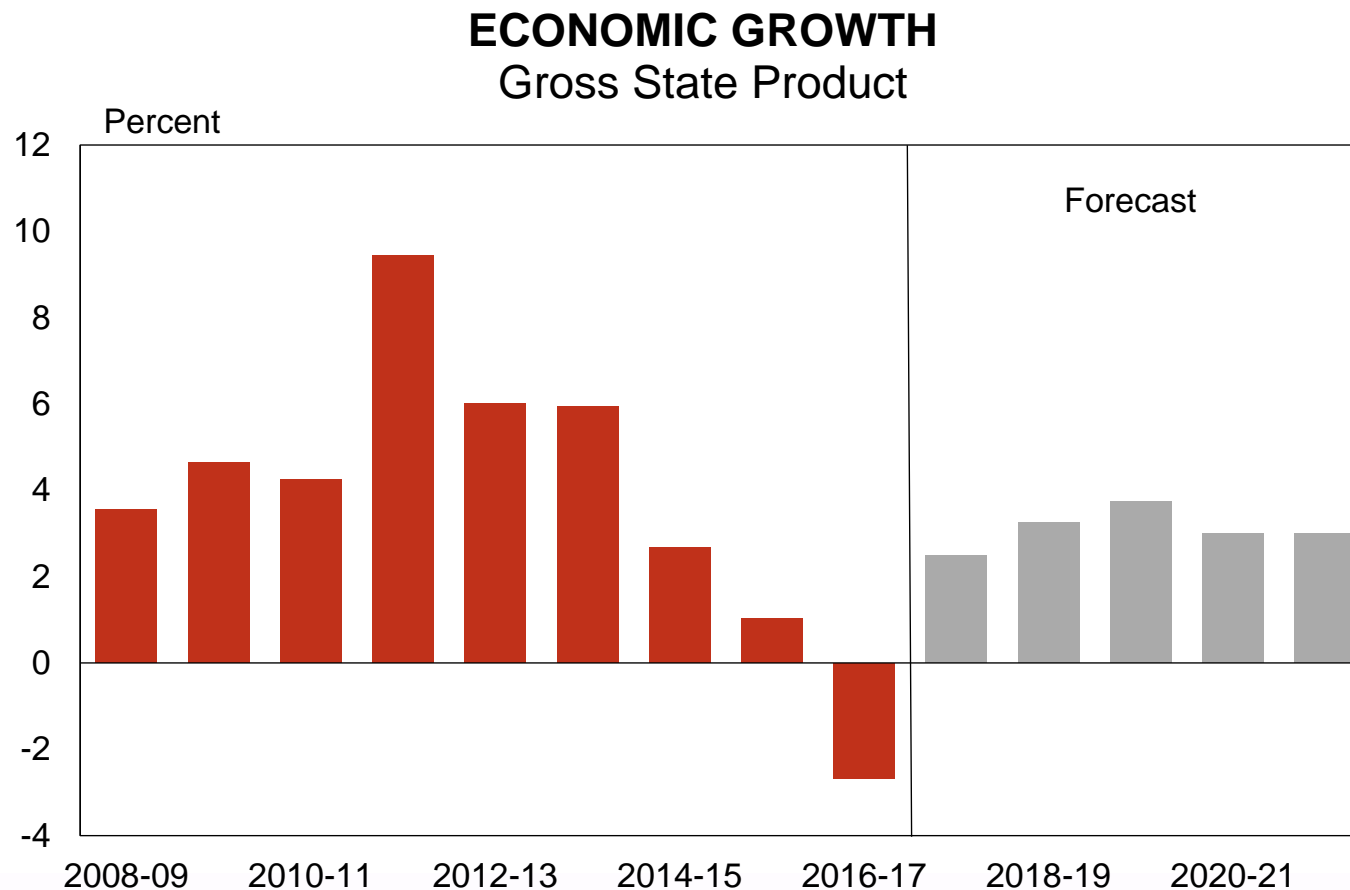
WA ECONOMY HAS **TURNED THE CORNER**

▶ Domestic economic activity is approaching its trough



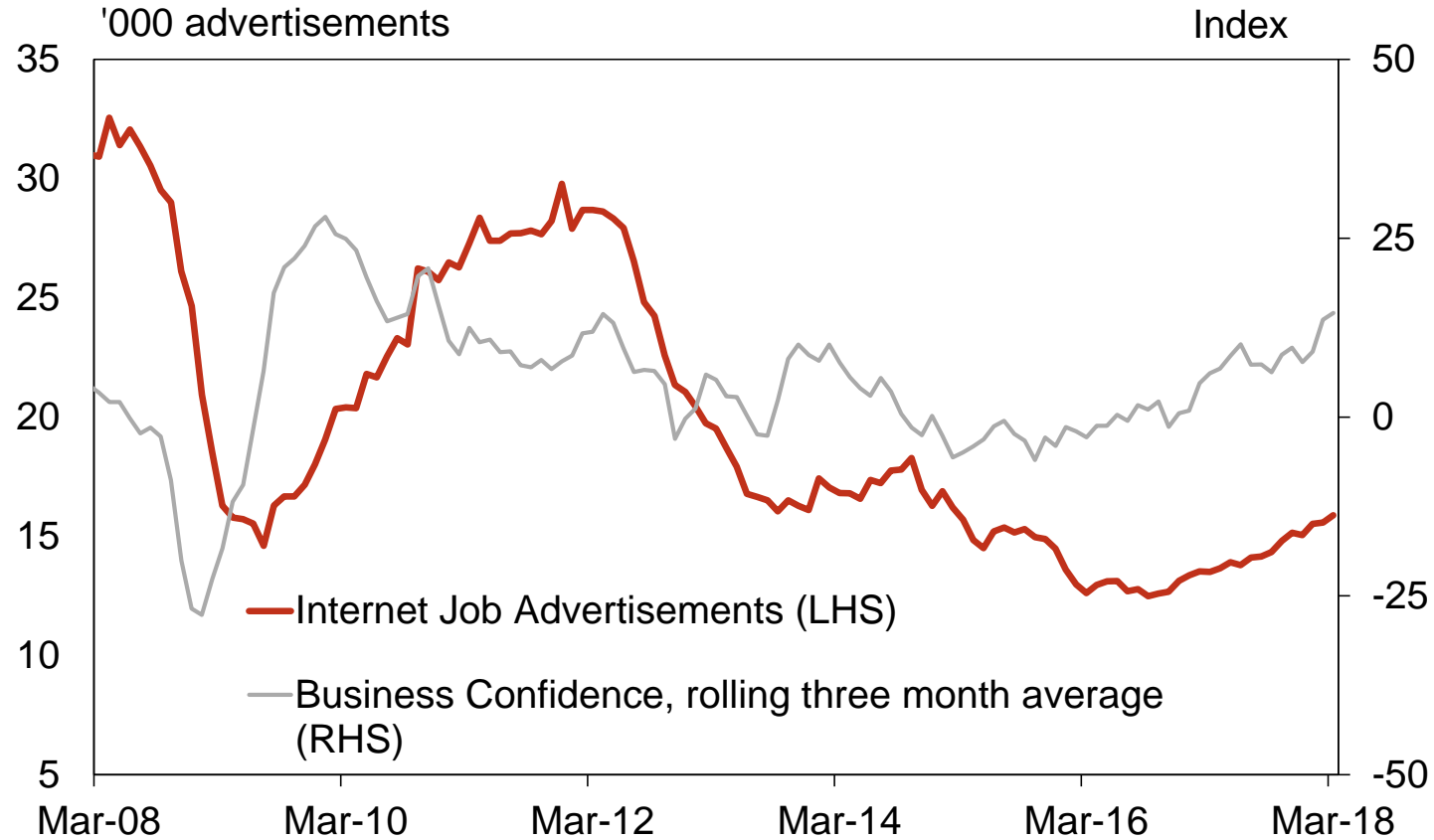
WA ECONOMY HAS **TURNED THE CORNER**

- ▶ Overall activity (GSP) has troughed and is on an upwards trajectory



WA ECONOMY HAS TURNED THE CORNER

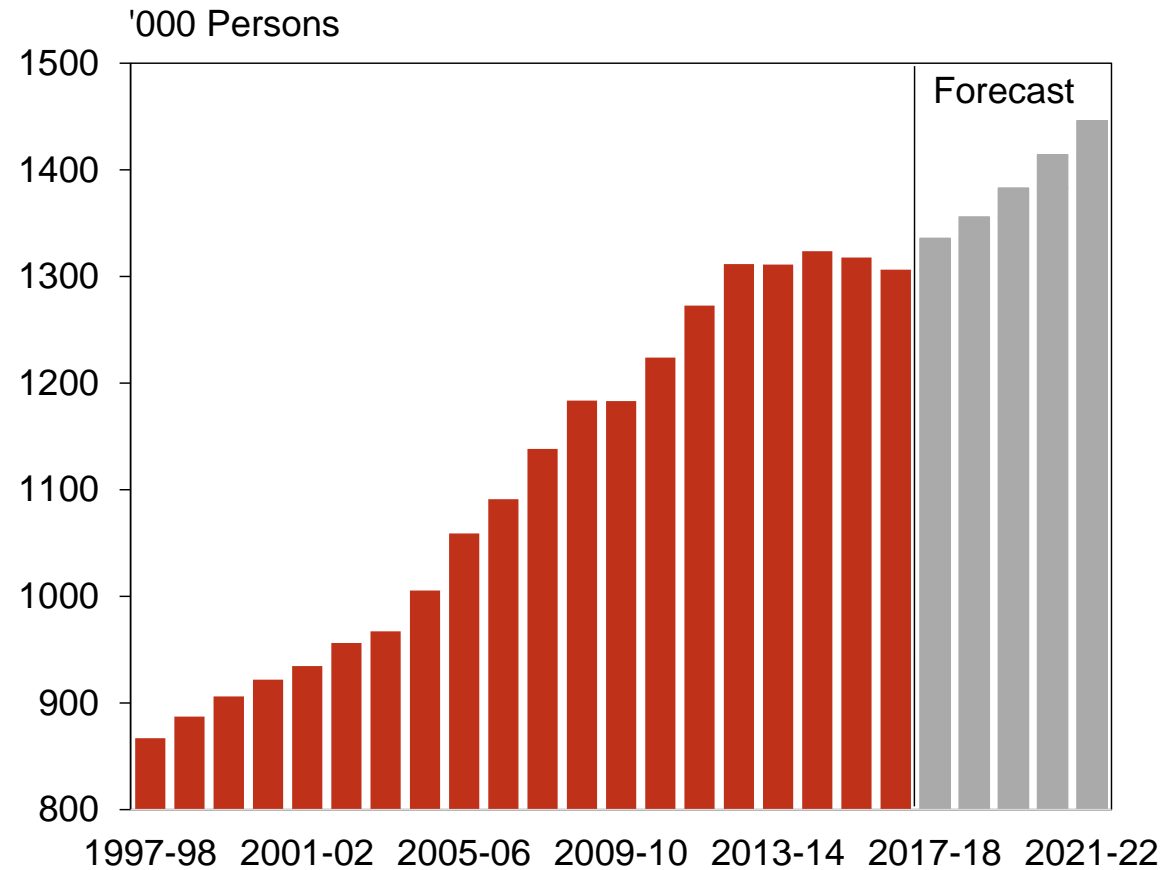
LEADING INDICATORS OF LABOUR DEMAND Western Australia



WA ECONOMY HAS TURNED THE CORNER

- ▶ Around 50,000 jobs expected to be created over 2017-18 and 2018-19
- ▶ Following decline of 17,000 over 2015-16 and 2016-17

EMPLOYMENT LEVELS Western Australia

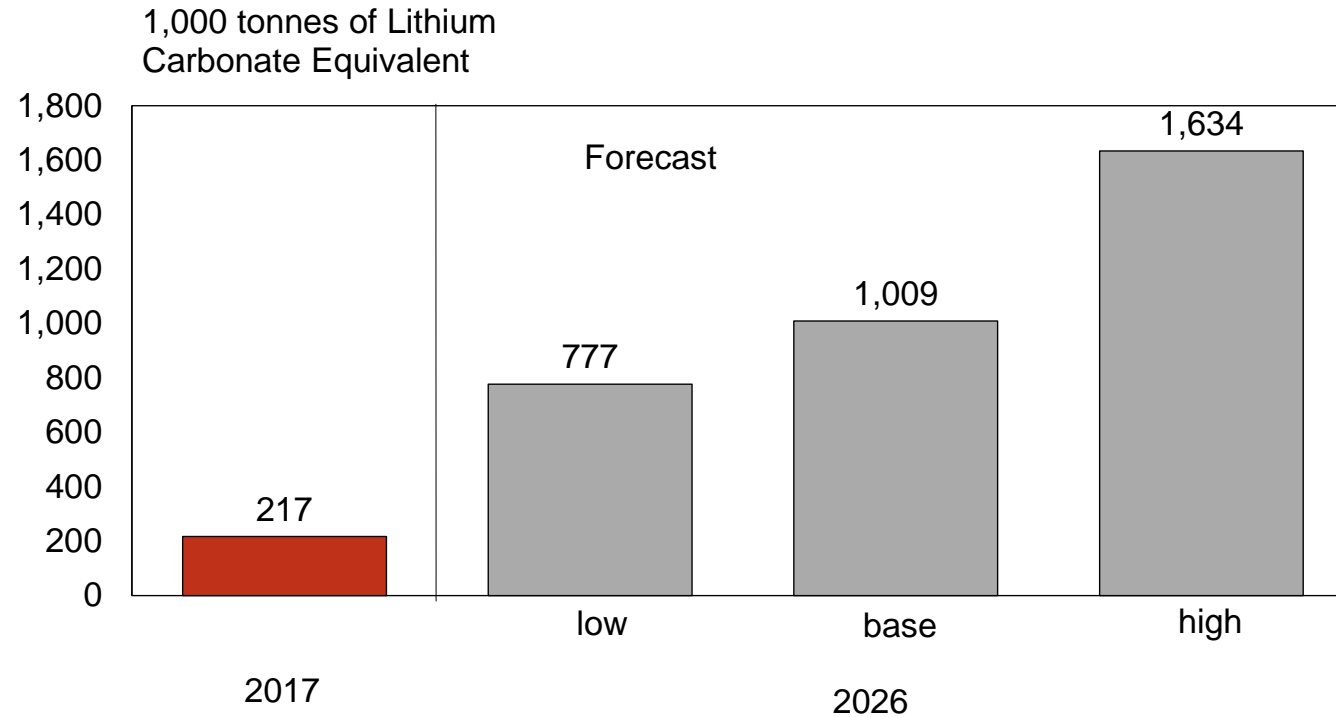


CREATING JOBS

LITHIUM DEMAND

- ▶ The State's lithium industry is expanding in response to increases in global lithium demand

GLOBAL LITHIUM DEMAND

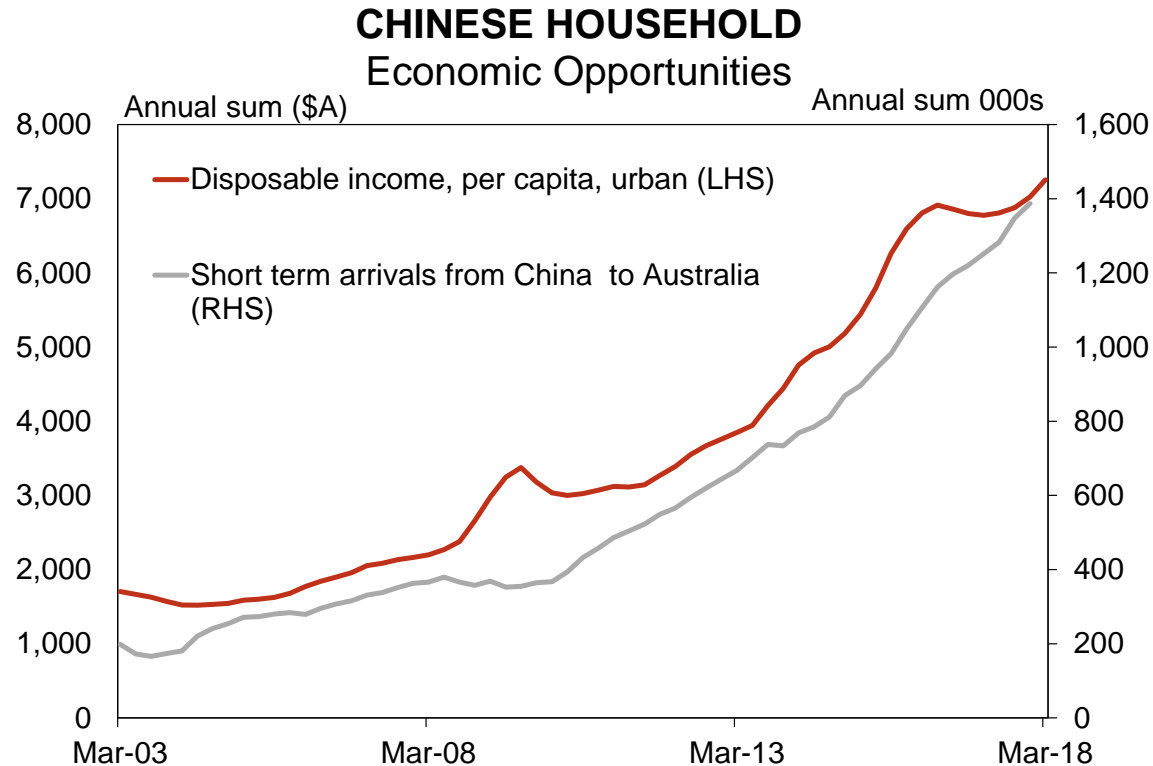


Source: Pilbara Minerals & Roskill



CREATING JOBS OPPORTUNITIES FROM CHINA

► Growth in Chinese household income provides significant opportunities for the WA economy



Source: CEIC & ABS cat no: 3401



CREATING JOBS & STRENGTHENING THE ECONOMY

- ▶ To facilitate more balanced and diversified growth in the economy and create local jobs, the Government has:
 - ▷ allocated \$425m over five years to tourism destination marketing and events
 - ▷ launched WA Industry Link to help local businesses secure work on government contracts
 - ▷ provided \$4.9m to Defence West to champion WA's defence industry
 - ▷ provided \$3.4m to expand the State's STEM strategy
 - ▷ removed the resource industry's exemption from the BCITF levy, with the additional revenue (~\$25m) to help boost apprenticeships and create jobs



CREATING JOBS

METRONET

- ▶ Additional investment of \$750m over forward estimates for METRONET projects under development, including Morley-Ellenbrook Line, funded by:
 - ▷ \$729m from Commonwealth
 - ▷ \$21m from MRIF
- ▶ Brings total METRONET investment over forward estimates to \$2.2b (on top of \$1.4b for FAL project), with **no adverse impact on net debt**
- ▶ \$1.6b to procure 246 railcars over next 10 years
 - ▷ Seeking at least 50% local content
 - ▷ **Creating local jobs**



CREATING JOBS

SOCIAL & AFFORDABLE HOUSING & JOBS PACKAGE

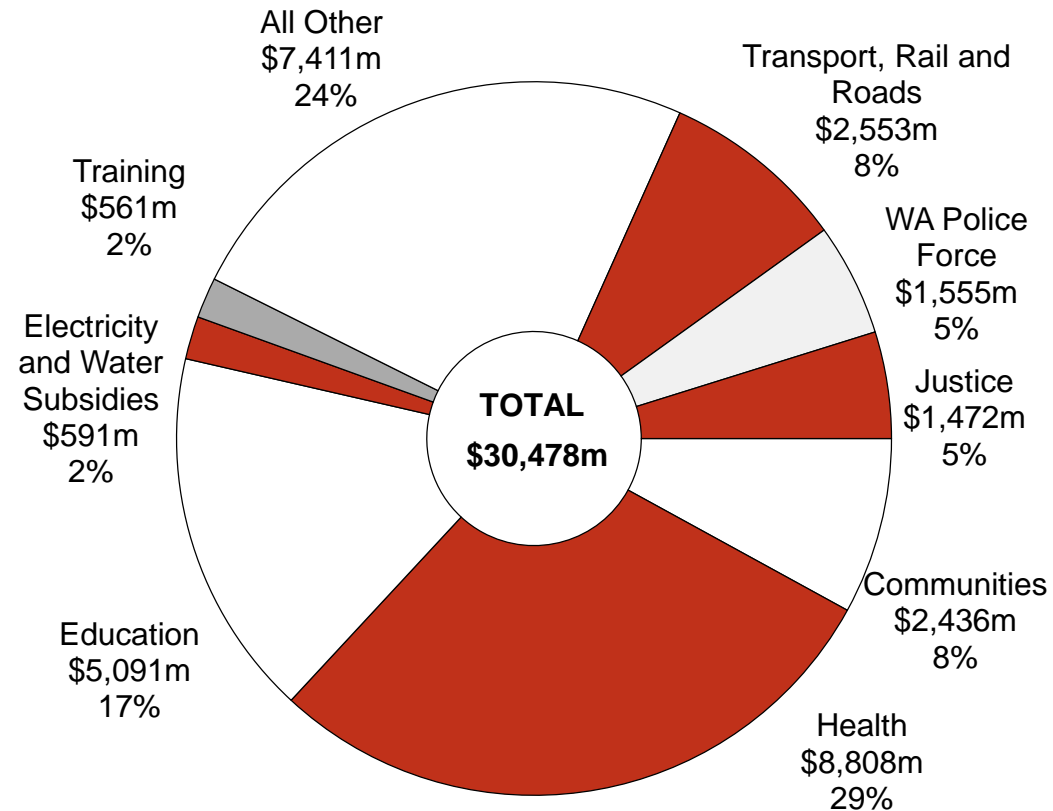
- ▶ Partnering with private sector to deliver \$394m METRONET Social and Affordable Housing and Jobs Package
 - ▷ 1,390 new homes, including up to 320 new social housing dwellings and at least 400 affordable homes
 - ▷ 8 high-density METRONET-oriented mixed-tenure developments
 - ▷ expected to create over 2,350 jobs
 - ▷ net debt neutral by end of forward estimates



DELIVERING QUALITY HEALTH CARE, EDUCATION & COMMUNITY SERVICES

- ▶ Recurrent spending of \$30.5b in 2018-19 (up \$277m or 0.9% on 2017-18)
- ▶ \$16.9b or 56% of this in health, education, and community safety

GENERAL GOVERNMENT EXPENSES 2018-19



FIGHTING FOR A FAIR SHARE FOR WA

- ▶ Over 2017-18 to 2021-22, WA will lose an estimated \$16.7b compared to if we received our full population share of GST

2018-19 WA population
share of GST
47.3%

2021-22 WA population
share of GST
64.9%

No other State's
population share has
ever been below 83.4%

- ▶ We are:
 - ▷ advocating for fundamental reform to the GST distribution system
 - ▷ actively engaging in negotiations on key funding agreements (including health, education, housing)
 - ▷ securing additional Commonwealth infrastructure funding



CONCLUSION

- ▶ Low expense growth is driving the return to surplus
- ▶ The WA economy is turning the corner
 - ▷ business and consumer confidence have returned
- ▶ Seizing Western Australia's unique opportunities
- ▶ Major election commitments achieved with minimal impact on State debt

