



Public Accounts Committee

Budget Briefing 2017-18

Report No. 1
October 2017

Legislative Assembly
Parliament of Western Australia

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Budget Briefing 2017-18

Report No. 1

Presented by

Dr A.D. Buti, MLA

Laid on the Table of the Legislative Assembly on 12 October 2017

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Chapter 1

Budget Briefing 2017-18

Background

- 1.1 The Public Accounts Committee (the committee) has hosted a briefing on the Western Australian State Budget each year since 2001. Senior officials from the Department of Treasury deliver the briefing to all interested members of the Western Australian Parliament.
- 1.2 The annual briefing takes place in the week immediately following the Treasurer's presentation of the Appropriation Bills in the Legislative Assembly and the delivery of his Budget speech. Nowadays, the briefing includes a PowerPoint presentation that outlines key elements of the Budget and provides an opportunity for all members to acquire detailed knowledge of the economic forecasts for the year ahead and the impact of the Government's income and expenditure proposals on the State's bottom line. It also presents an opportunity for members to question the Treasury officials about the Budget's underlying assumptions.
- 1.3 The committee of the previous Parliament started the practice of tabling a short report containing this highly informative PowerPoint presentation so that it would be publicly accessible. The committee of the 40th Parliament has resolved to continue with this practice. Hence this report, which includes the slides from this year's briefing at Appendix One.
- 1.4 This 2017-18 Budget Briefing took place on Tuesday, 12 September 2017 and was delivered by the following officials from the Department of Treasury:
 - Mr Micheal Barnes, Under Treasurer
 - Ms Kaylene Gulich, Executive Director, Infrastructure and Finance
 - Mr Alistair Jones, Executive Director, Strategic Policy and Evaluation
- 1.4 There was strong interest in the briefing with 30 members of Parliament attending (see Figure 1 below).
- 1.5 On behalf of the committee and all other members present on the day, I would like to thank Mr Barnes and his team for the ongoing quality of service they provide to members of the Parliament.

Chapter 1

Figure 1 Budget Briefing 2017-18



DR A.D. BUTI, MLA
CHAIR

Appendix One

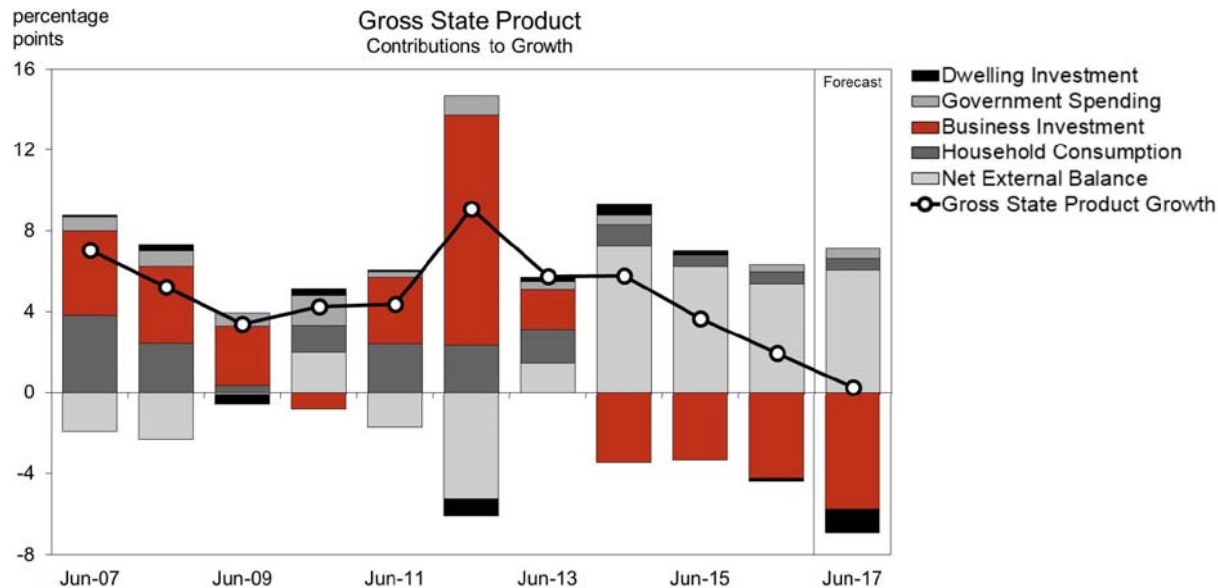
Treasury's Budget Briefing: 2017-18 Budget



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

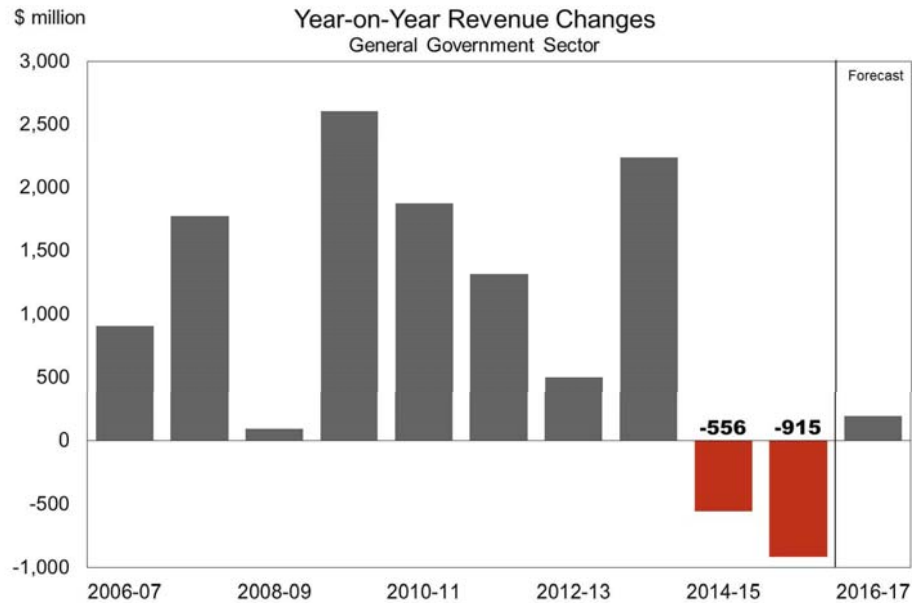


WESTERN AUSTRALIA
STATE BUDGET
2017-18

STATE OF THE STATE

GENERAL GOVERNMENT REVENUE

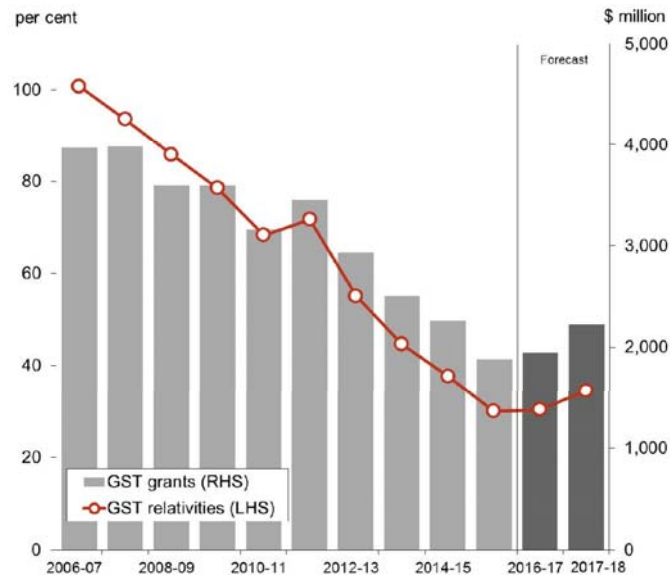
The unwinding of the mining investment boom has resulted in a significant reduction in revenue



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

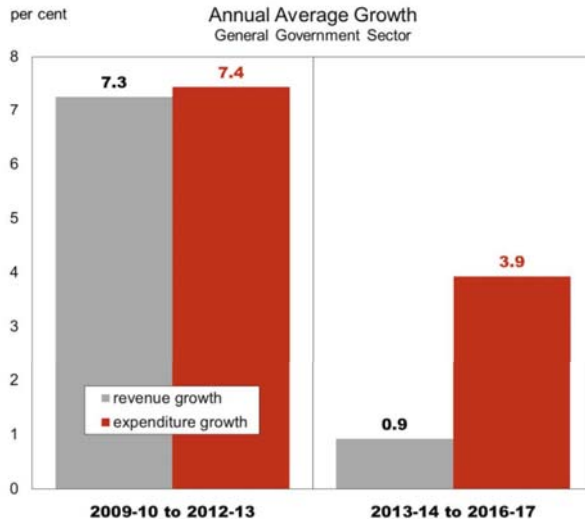


In 2017-18, WA will receive just 34.4% of its population share of GST – a subsidy to the other States of around \$4.4B

STATE OF THE STATE

STRUCTURAL IMBALANCE

Over the last four years, general government expenditure slowed but did not match the decline in revenue – resulting in a structural imbalance

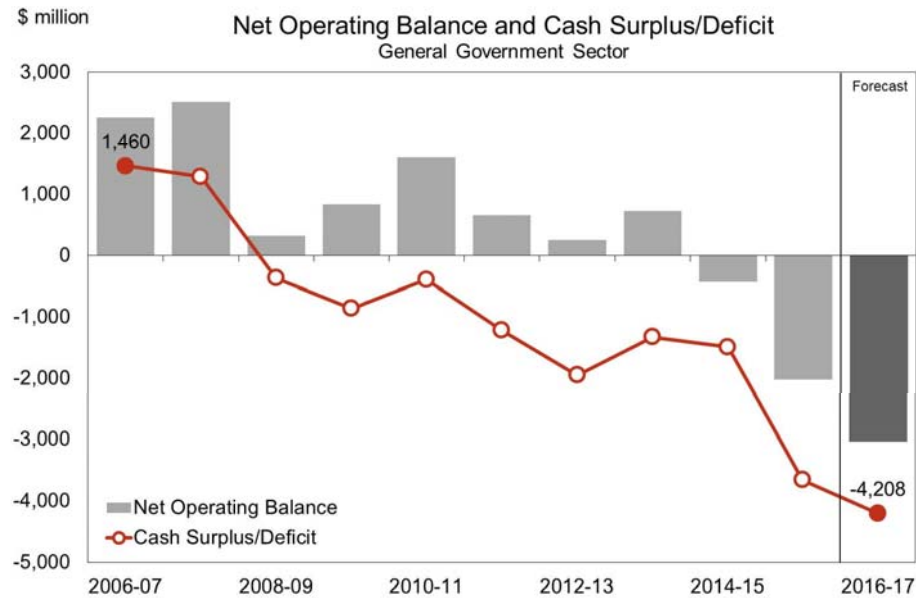


Over the last four years, expenditure increased by \$4.2B, while revenue grew by less than \$1B

STATE OF THE STATE

GENERAL GOVERNMENT DEFICITS

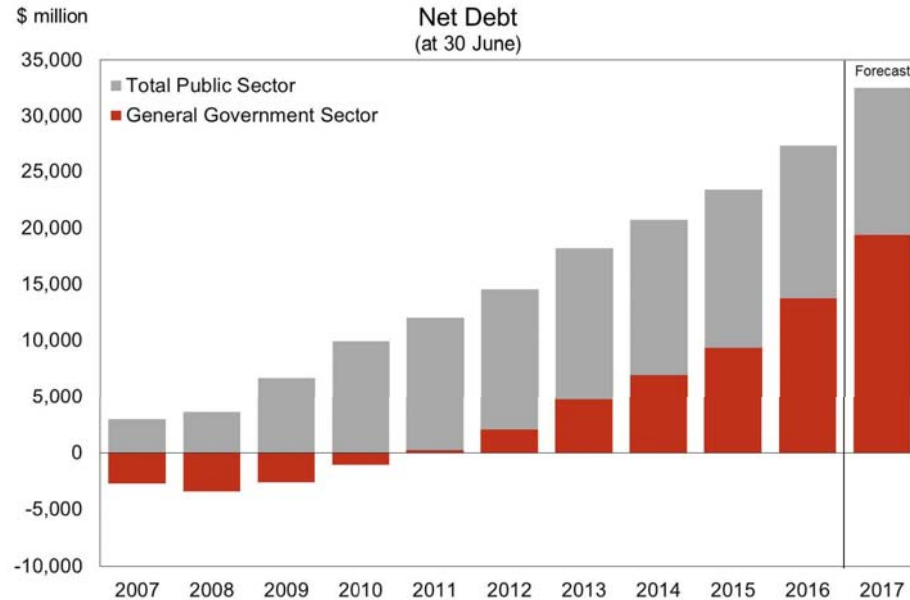
This structural imbalance, combined with significant infrastructure spending, has resulted in steadily growing cash and operating deficits



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**
- **GST grants**
- **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

ROYALTY CHANGES SINCE PFPS

Royalty income has been revised down by almost \$1.8B (2016-17 to 2019-20) since the PFPS

- Each \$US1 per tonne decrease in iron ore price reduces royalty income by around \$74M per annum
- Each US1 cent increase in exchange rate reduces royalty income by around \$73M per annum

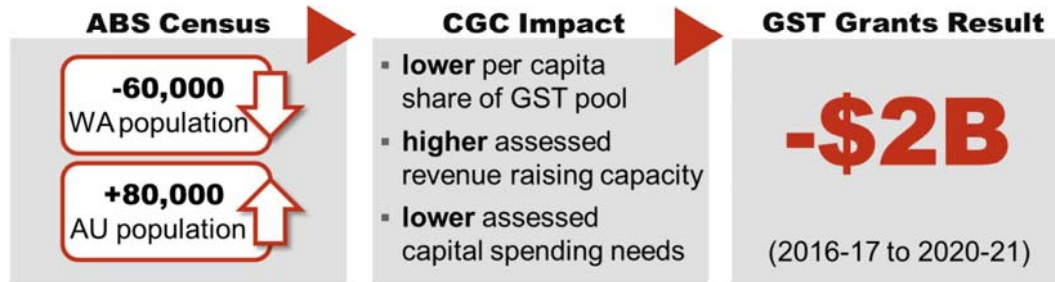
	2017-18 Budget	PFPS	2017-18 Budget	PFPS	2017-18 Budget	PFPS	2017-18 Budget	PFPS
	2017-18		2018-19		2019-20		2020-21	
iron ore price (\$US/tonne CFR)	67.2	66.0	61.0	63.6	57.2	63.7	59.2	-
exchange rate (US cents/\$A)	79.0	75.1	78.7	74.7	78.3	74.3	77.8	-

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

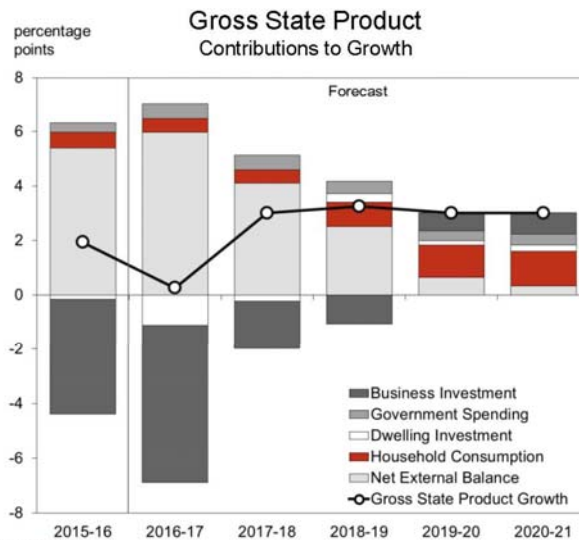


- Lower than forecast GST relativity for 2017-18
(34.4% vs 38%)
 - -\$735M impact over the period 2016-17 to 2019-20

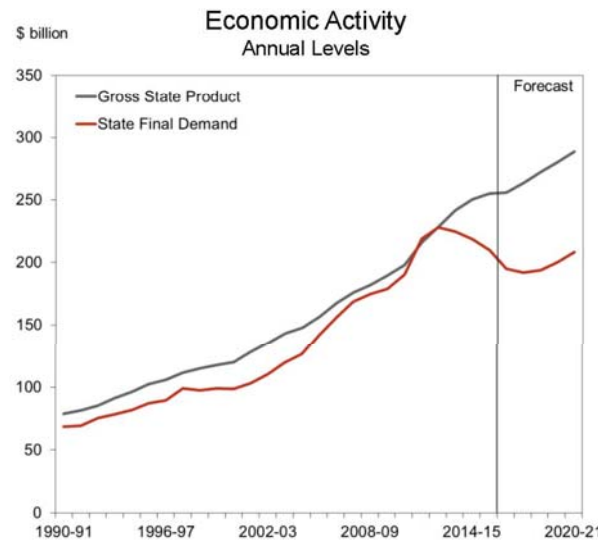
ECONOMIC OUTLOOK

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



WESTERN AUSTRALIA
STATE BUDGET
2017-18

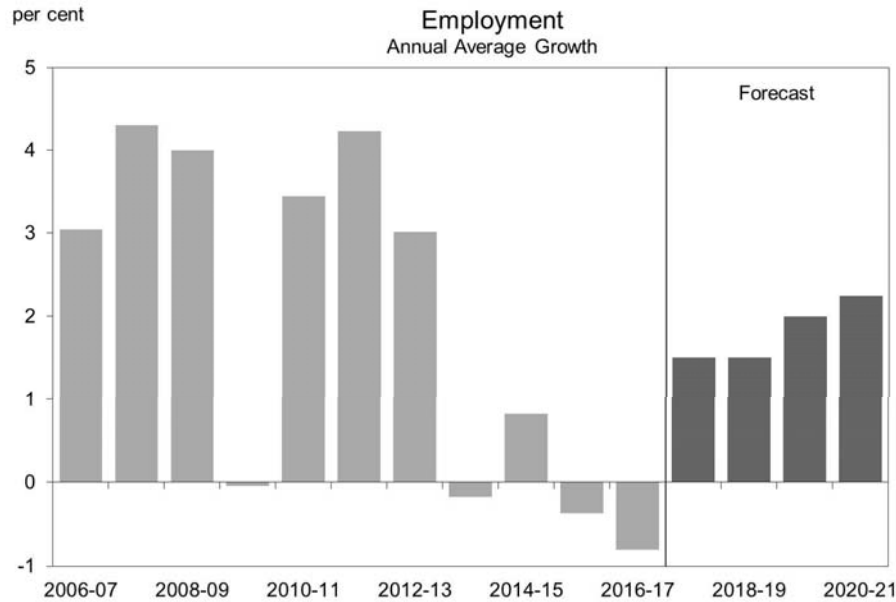


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ECONOMIC OUTLOOK

EMPLOYMENT

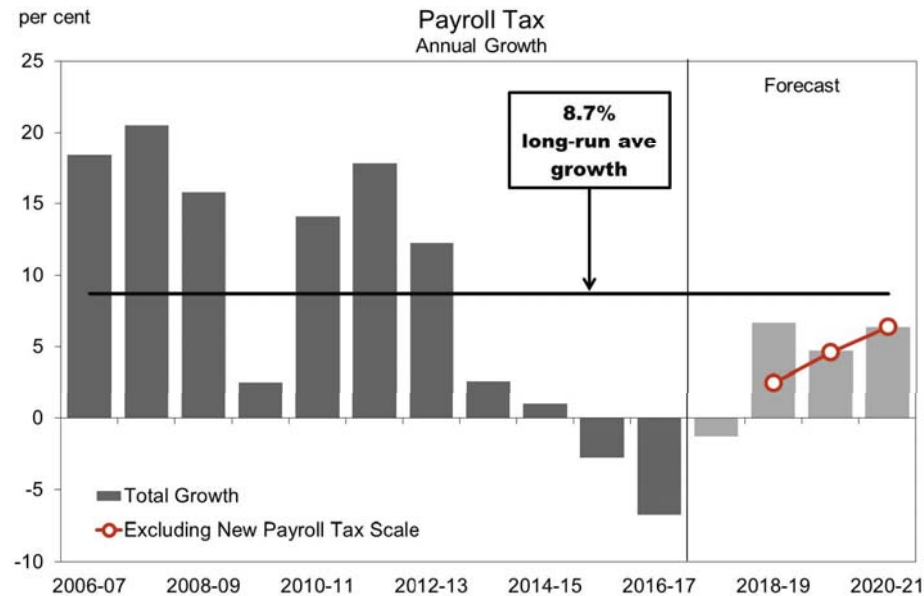
WA's unemployment rate appears to have peaked in 2016-17, with around 20,000 jobs expected to be created in 2017-18



ECONOMIC OUTLOOK

EMPLOYMENT FLOW-ON TO PAYROLL TAX

Despite the forecast employment growth, payroll tax is expected to decline for a third consecutive year in 2017-18



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
<i>General Government</i>					
Revenue (\$m)	26,672	28,457	28,743	30,103	33,272
Growth (%)	0.7	6.7 ^(a)	1.0	4.7	10.5
Expenses (\$m)	29,710	30,797	30,408	31,218	32,012
Growth (%)	4.2	3.7 ^(b)	-1.3	2.7	2.5
Net operating balance (\$m)	-3,039	-2,340	-1,666	-1,114	1,260
<i>Total Public Sector</i>					
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 revenue growth of 2.4%.

^(b) Underlying expense growth of 2.4%.

BRINGING FINANCES UNDER CONTROL

NEW FINANCIAL TARGETS

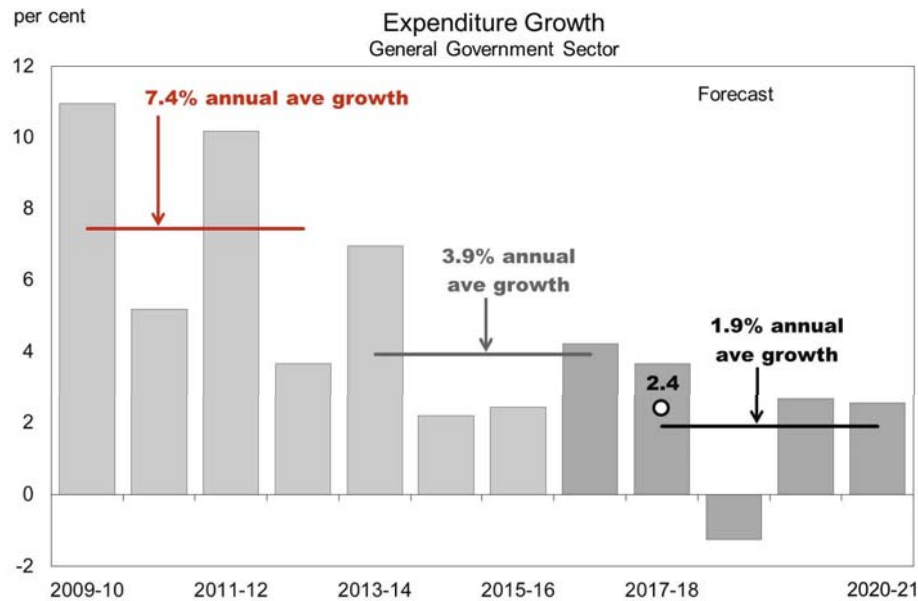
All of the Government's new financial targets are expected to be met by 2020-21

	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

BRINGING FINANCES UNDER CONTROL

EXPENSE GROWTH

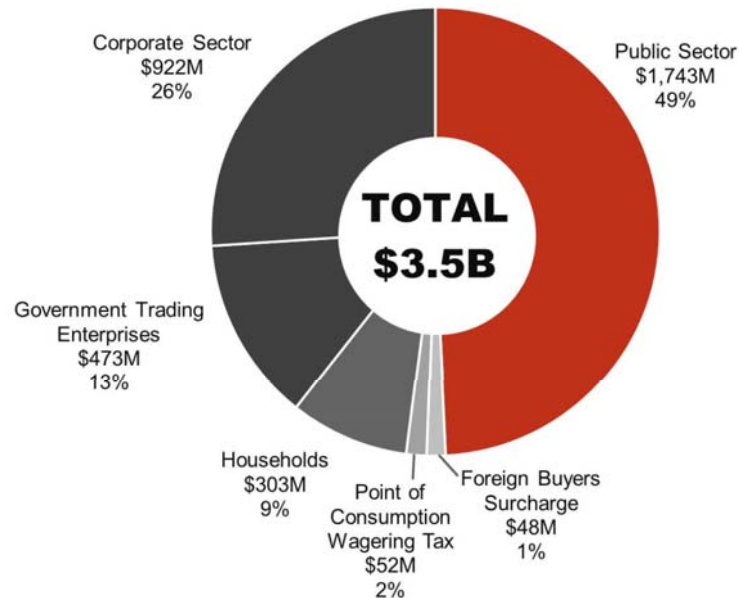
Average expense growth of just 1.9% per annum over the forward estimates period, including underlying growth of 2.4% in 2017-18



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 – significant implementation task

- New public sector wages policy (\$498M)
- 3,000 FTE Voluntary Targeted Separation Scheme (\$355M)
- Removing indexation for non-salaries expenditure (\$300M)
- Savings provision for MoG efficiencies and 20% SES reduction (\$249M)
- Changes to office accommodation and vehicle leasing arrangements (\$127M)

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

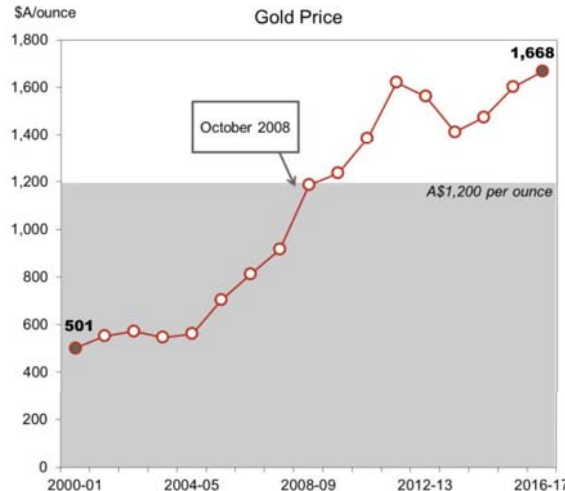
- Expected to impact less than 1% of businesses in WA:
 - employers with a payroll between \$100M and \$1.5B will face a marginal tax rate of 6%
 - employers with a payroll above \$1.5B will face a marginal tax rate of 6.5%
- For an employer with a payroll of \$2B this equates to additional payroll tax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

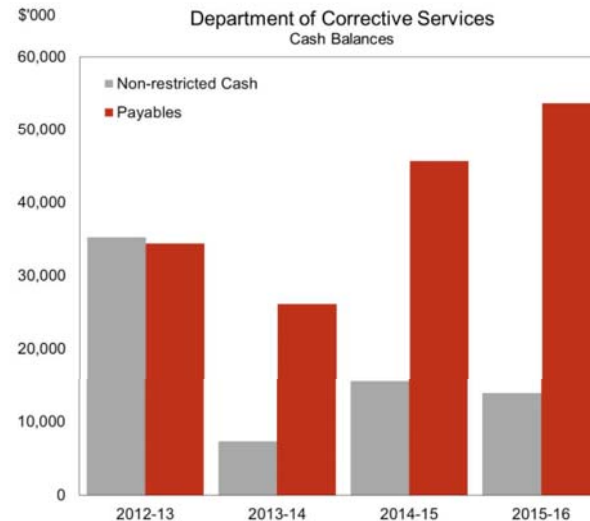


BRINGING FINANCES UNDER CONTROL

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



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

ROYALTIES FOR REGIONS (RfR)

A NEW APPROACH

RfR expenditure totals \$4B over the forward estimates, including \$1B in new 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)

CONCLUSION

- WA economy showing some early signs of recovery
- But revenue environment remains weak
- Budget repair package critical to forecast return to surplus in 2020-21

Appendix Two

Committee's Functions and Powers

The Public Accounts Committee inquires into and reports to the Legislative Assembly on any proposal, matter or thing it considers necessary, connected with the receipt and expenditure of public moneys, including moneys allocated under the annual Appropriation bills and Loan Fund. Standing Order 286 of the Legislative Assembly states that:

The Committee may -

- 1 Examine the financial affairs and accounts of government agencies of the State which includes any statutory board, commission, authority, committee, or trust established or appointed pursuant to any rule, regulation, by-law, order, order in Council, proclamation, ministerial direction or any other like means.
- 2 Inquire into and report to the Assembly on any question which -
 - a) it deems necessary to investigate;
 - b) is referred to it by a Minister; or
 - c) is referred to it by the Auditor General.
- 3 Consider any papers on public expenditure presented to the Assembly and such of the expenditure as it sees fit to examine.
- 4 Consider whether the objectives of public expenditure are being achieved, or may be achieved more economically.
- 5 The Committee will investigate any matter which is referred to it by resolution of the Legislative Assembly.