

40TH PARLIAMENT



Public Accounts Committee

Report 11

BUDGET BRIEFING 2019-20

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Presented by  
Dr A.D. Buti, MLA

June 2019

## Committee Members

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Chair	Dr A.D. Buti, MLA Member for Armadale
Deputy Chair	Mr D.C. Nalder, MLA Member for Bateman
Members	Mr V.A. Catania, MLA Member for North West Central
	Mr S.A. Millman, MLA Member for Mount Lawley
	Mrs L.M. O'Malley, MLA Member for Bicton

## Committee Staff

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328.365

## **Public Accounts Committee**

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# **Budget Briefing 2019-20**

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Report No. 11

Presented by

**Dr A.D. Buti, MLA**

Laid on the Table of the Legislative Assembly on 27 June 2019



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# Chapter 1

## Budget Briefing 2019-20

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### Background

- 1.1 Each year since 2001, the Public Accounts Committee (the committee) has played host to a briefing on the Western Australian State Budget. Officials from the Department of Treasury deliver the briefing, which is available to all interested members of the State 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. The briefing includes a PowerPoint presentation outlining 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 In keeping with recent practice, the committee has resolved to append the PowerPoint presentation that accompanied this year's briefing as well as the response from the Under Treasurer's office to a question taken on notice from the floor. The committee believes there is significant merit in making such documents public, as they provide a useful reference point for anyone with an interest in the State's current fiscal policy.
- 1.4 Sixteen members attended the 2019-20 Budget Briefing, which took place on Tuesday, 14 May 2019 and was delivered by the following Treasury officials:
- Michael Barnes, Under Treasurer
  - Michael Court, Deputy Under Treasurer
  - Kirsty Lawrie, A/Executive Director, Economic
  - Mike Andrews, A/Executive Director, Strategic Policy and Evaluation
- 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 quality of their presentation and their continuing support of this event. We very much appreciate the level of preparation that clearly goes in to this work.



DR A.D. BUTI, MLA  
CHAIR

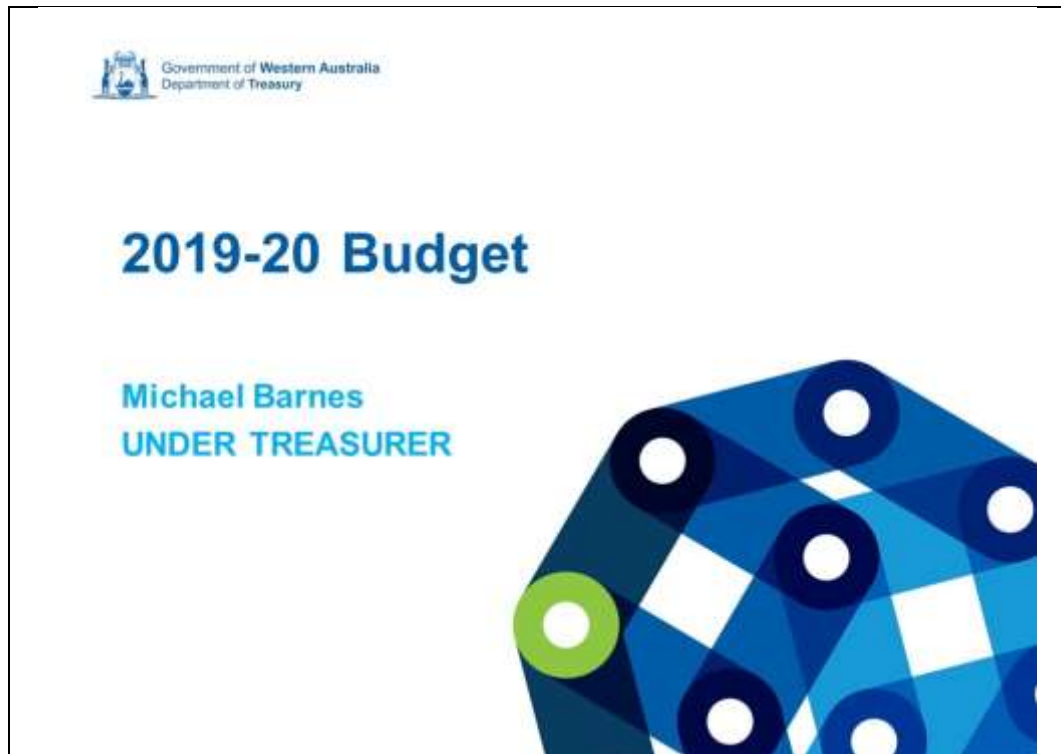




## Appendix One

### Treasury's Budget Briefing Presentation: 2019-20 Budget

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## KEY POINTS

- Economic growth (GSP) in 2018-19 revised down from 3% to 2%
  - Mainly due to weaker than expected household consumption
  - Lower than previously planned increase in household fees and charges
- GSP growth forecast to lift to 3.5% in 2019-20
  - Mainly due to rebound in business investment
  - Increase in Government investment also contributing
- Housing (both new construction and established) remains weak
  - Temporary relaxation of Keystart eligibility criteria

## KEY POINTS CONT.

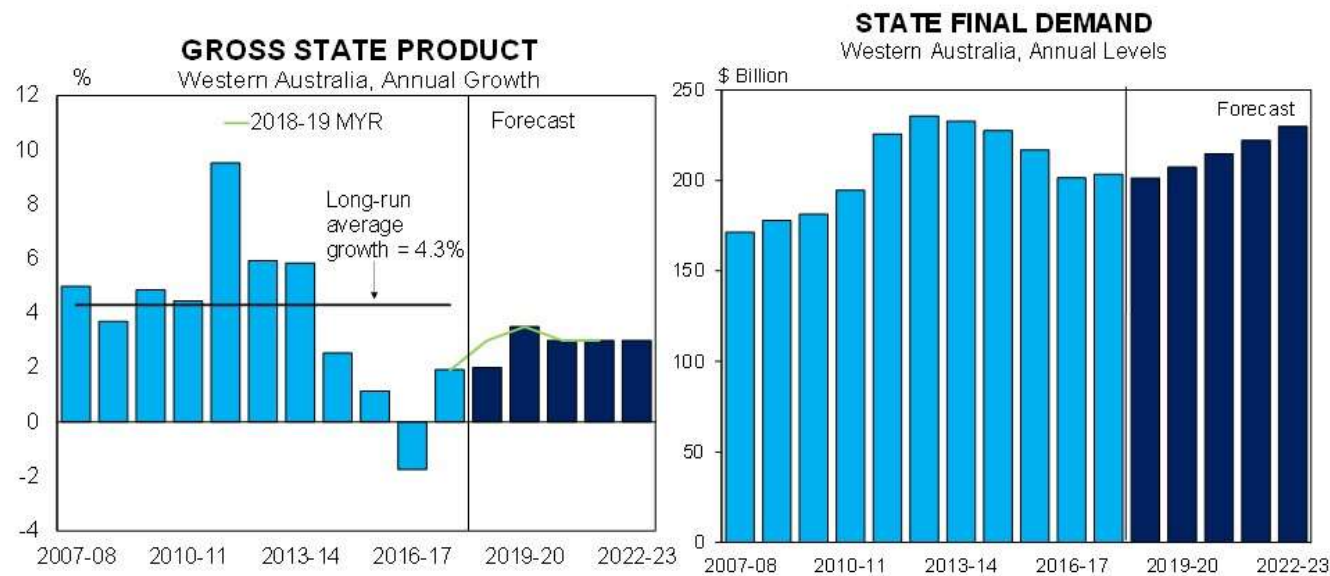
- Estimated operating surplus of \$553m in 2018-19
  - \$1.2b turnaround from \$674m deficit forecast in the MYR
- Operating surpluses forecast across forward estimates period
  - Including \$1.5b surplus in 2019-20
  - Based on continuation of low expense growth, including \$1,000 wages policy
- Net debt forecast to peak at 30 June 2020 and then gradually decline
  - Underpinned by expected return to cash surplus position from 2020-21



## **WA Economic Outlook**

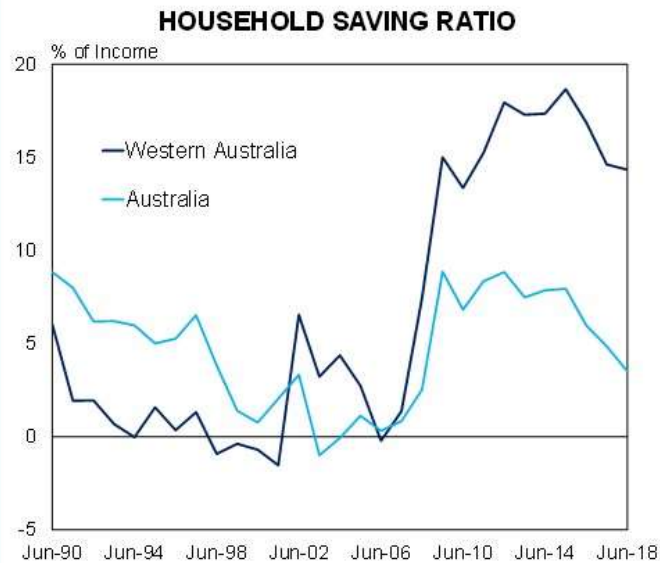
## WA ECONOMY

▶ Economy forecast to grow by 3.5% in 2019-20 and 3% p.a. out to 2022-23, underpinned by a stronger domestic economy



## CAUTIOUS CONSUMERS

- WA households have been cautious over the last decade – reflected by a high savings rate, well above the national average
- This has been acting as a drag on household consumption



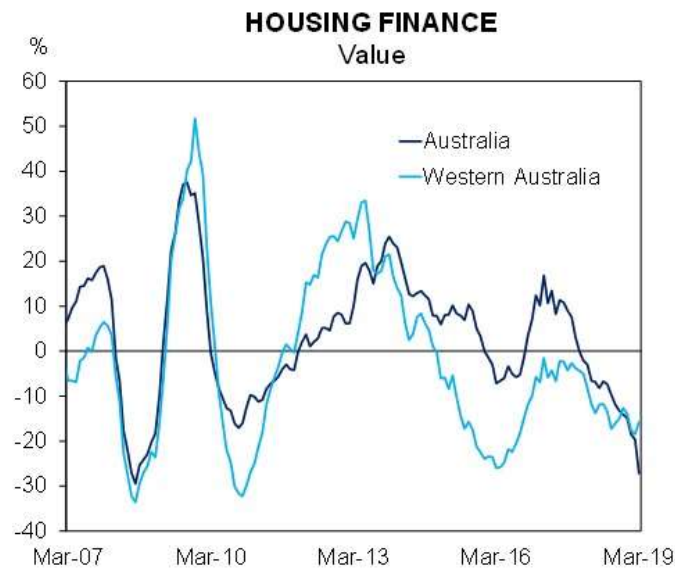
## HOUSEHOLD TARIFFS, FEES AND CHARGES

▶ Basket of household tariffs, fees and charges to rise by 2% in 2019-20 – \$301m net debt impact relative to previous assumptions

	% change	\$ change
<b>Motor Vehicles</b>		
Vehicle licence charge	3.0	10.88
Recording fee	-6.4	-0.70
Drivers licence	0.0	0.00
Motor Injury Insurance	3.1	12.15
<b>Utility Charges</b>		
Electricity	1.75	30.81
Water, sewerage and drainage	2.5	43.39
<b>Public Transport</b>		
Student fares	0.0	0.00
Standard fares	2.0	23.04
<b>Emergency Services Levy</b>	2.7	8.21
<b>Stamp Duty</b>	0.0	0.00
<b>Total Expenditure</b>	<b>2.0</b>	<b>127.77</b>

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## KEYSTART STIMULUS PACKAGE TO SUPPORT HOUSING SECTOR

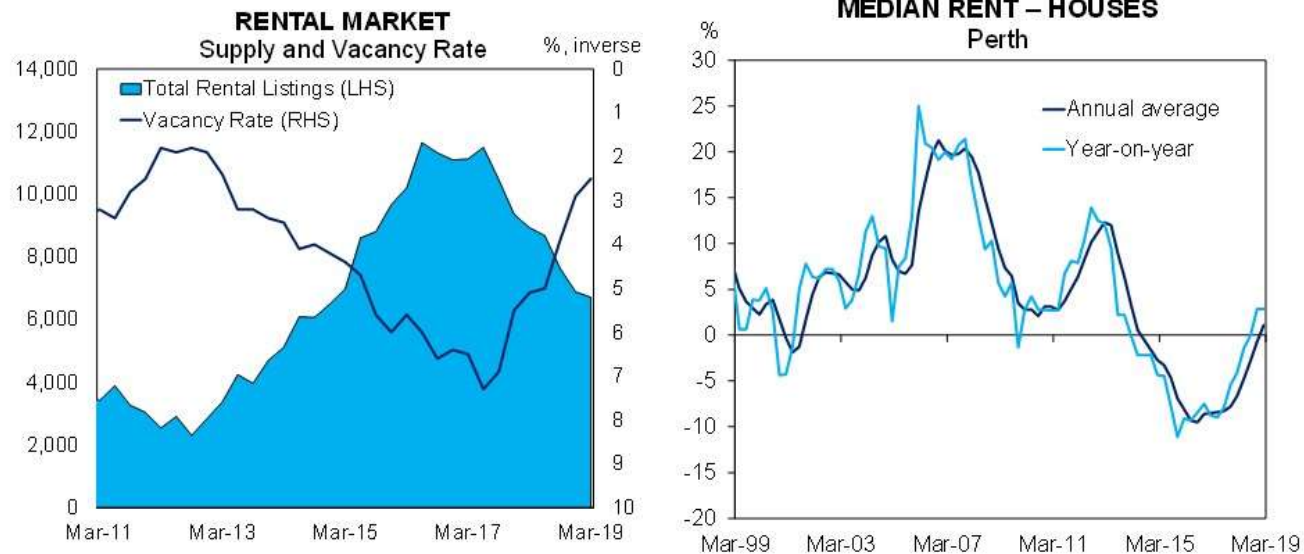


- Banks tightening access to credit in response to the Royal Commission is limiting access to home ownership and has weighed on construction activity
- In response, Keystart income limits have been temporarily increased by \$15-20k (1 July to 31 December 2019)



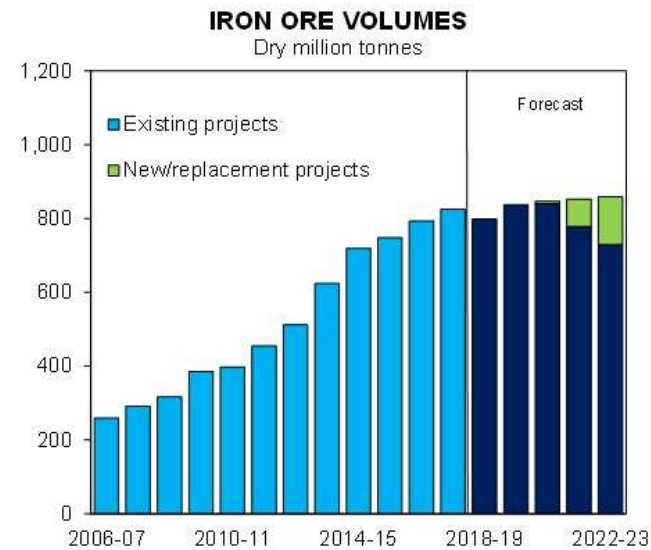
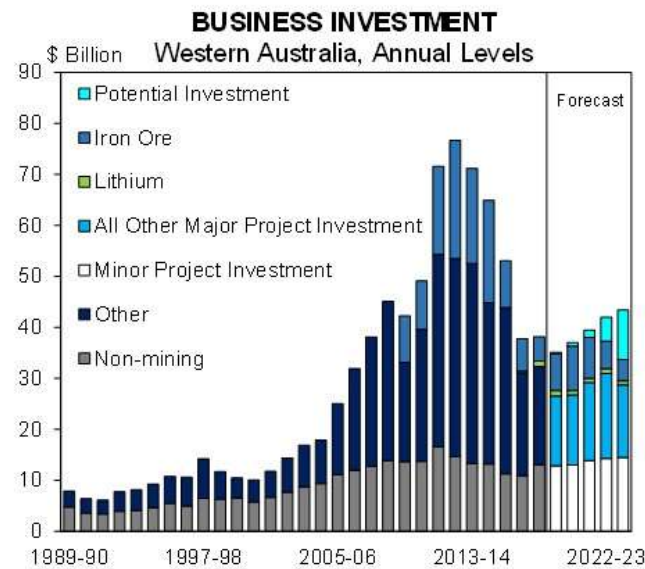
## TIGHTENING RENTAL MARKET

- ▶ The rental vacancy rate has declined sharply (suggesting that supply has tightened), which has increased rents and is expected to support construction and prices as renters look to build



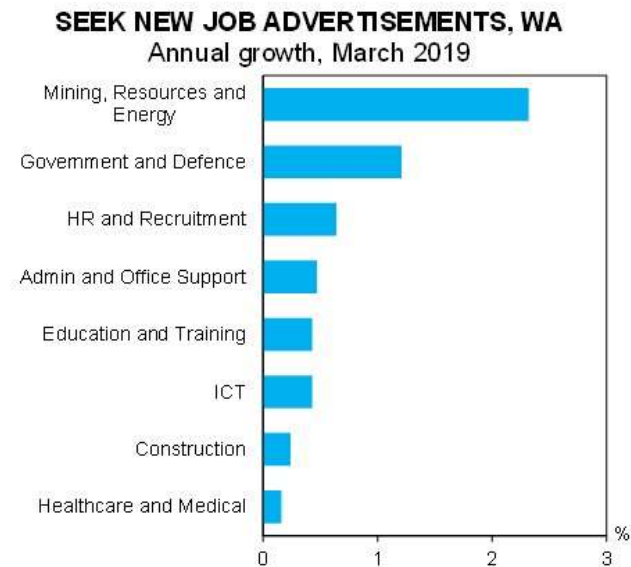
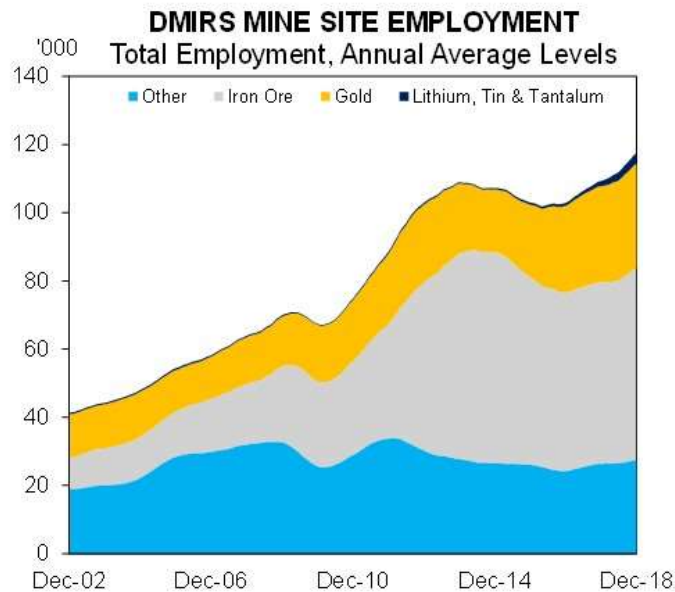
## BUSINESS INVESTMENT RETURNS TO GROWTH

► Last of the mega LNG projects completed in 2018-19, with return to growth from 2019-20 supported by replacement iron ore and new lithium mines

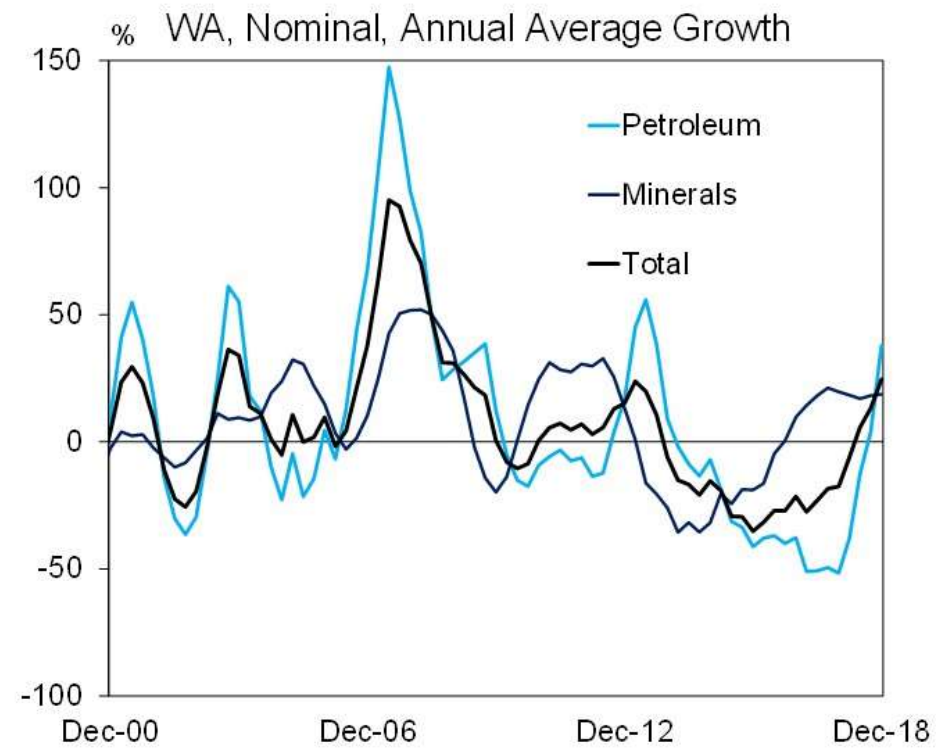


## RECORD MINE SITE EMPLOYMENT AS PROJECTS RAMP UP

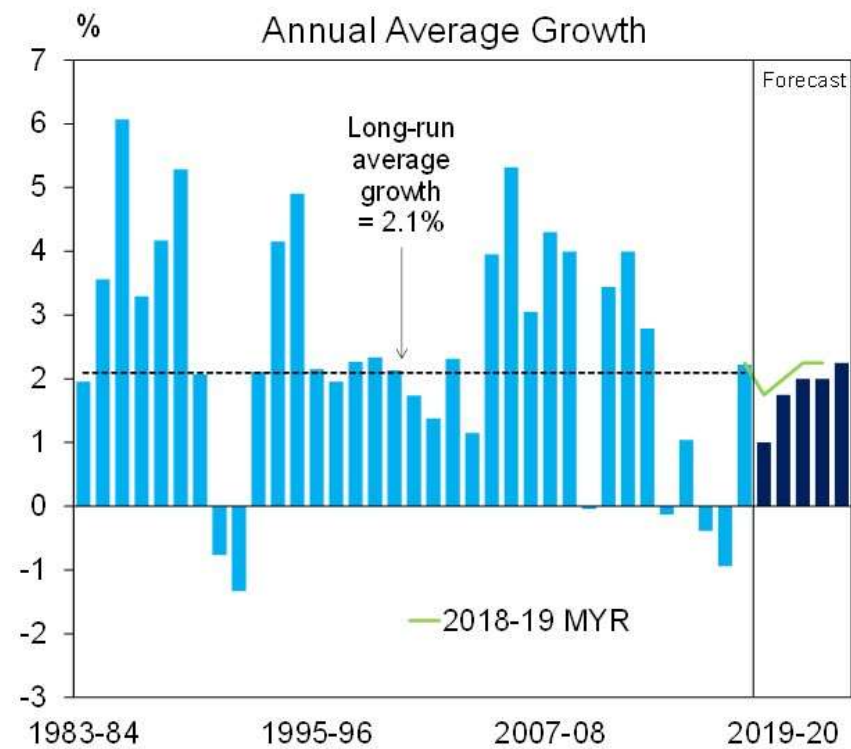
► Upturn in mine site employment across key commodities



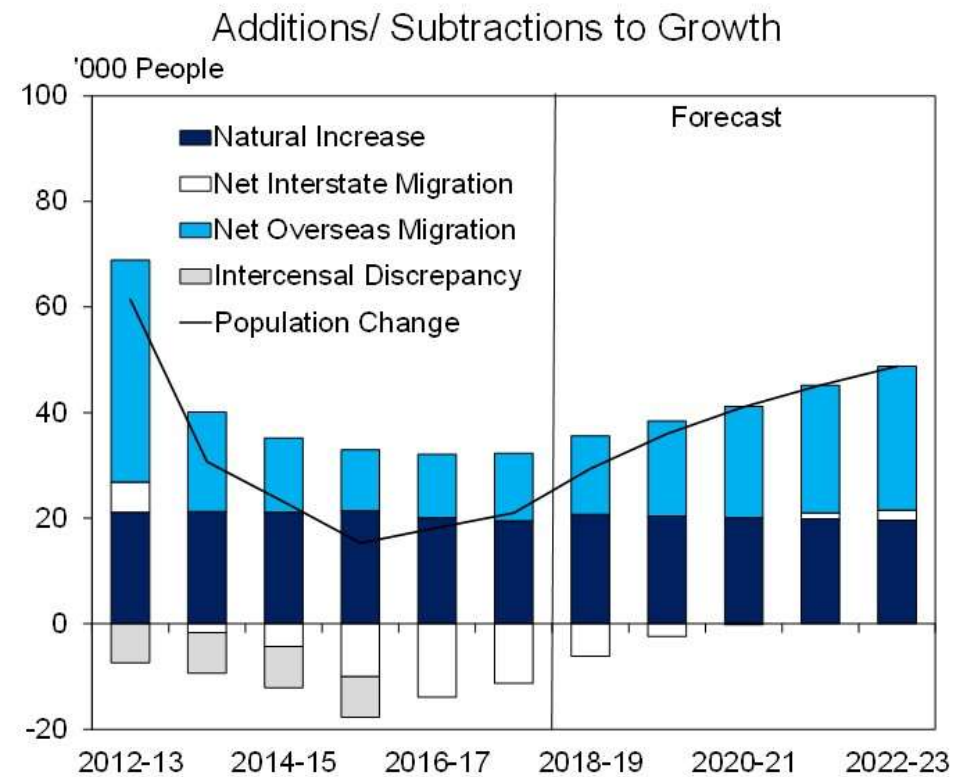
## EXPLORATION EXPENDITURE



## EMPLOYMENT GROWTH



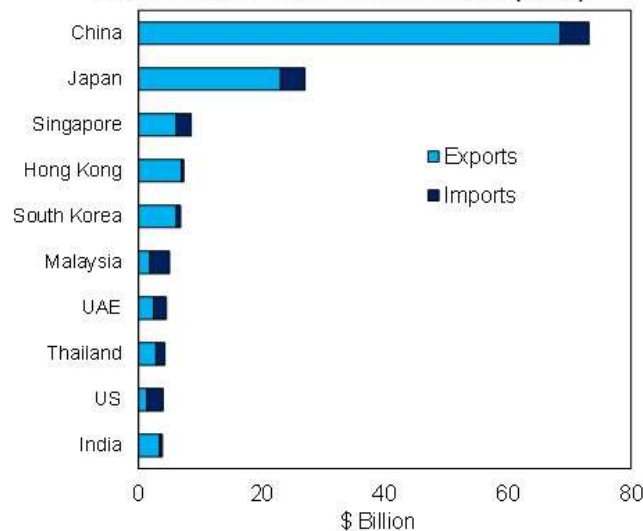
## POPULATION GROWTH



## OUTLOOK FOR WA'S KEY TRADING PARTNER

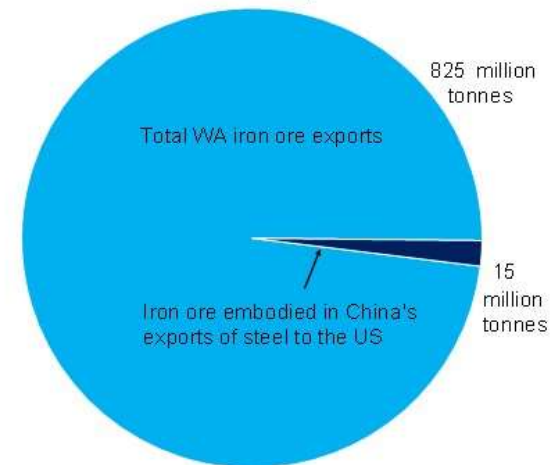
▶ China remains by far Western Australia's most important trading partner, with exports to China accounting for around one quarter of the total value of the WA economy

WA'S MAJOR TRADE PARTNERS (2018)



WA IRON ORE EXPORTS

contained in Chinese exports to US

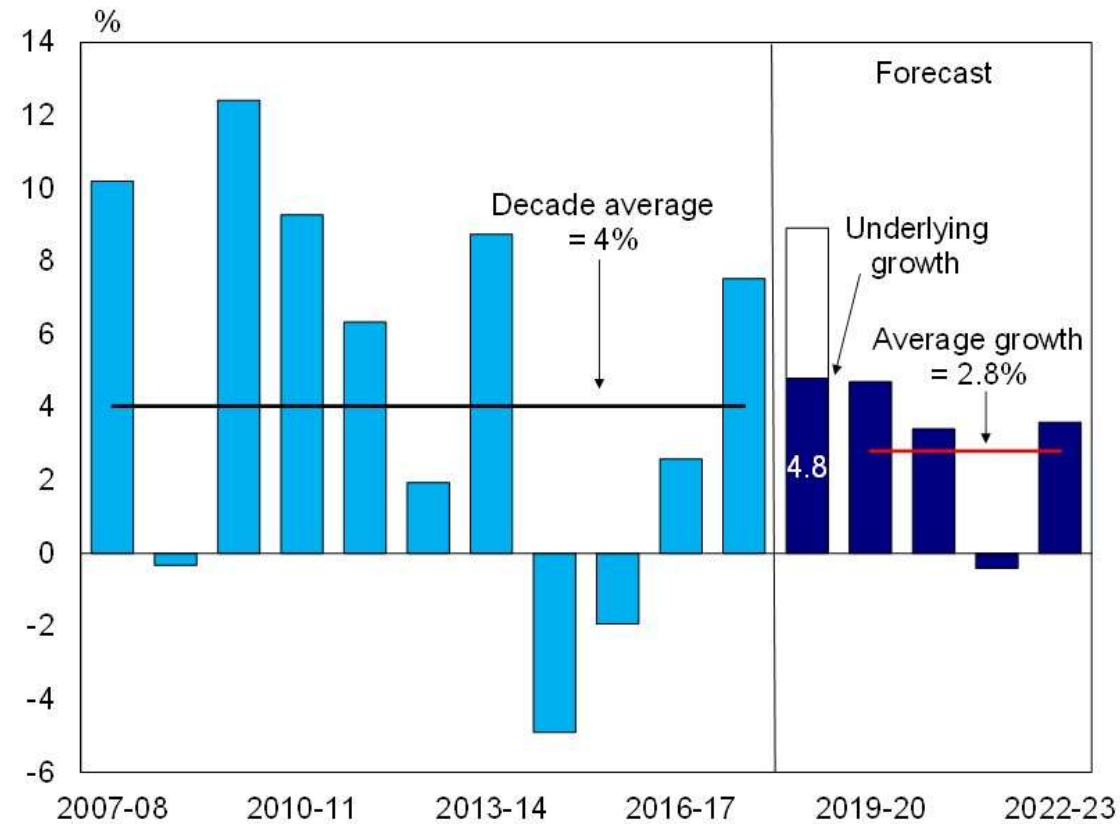




## Revenue Outlook

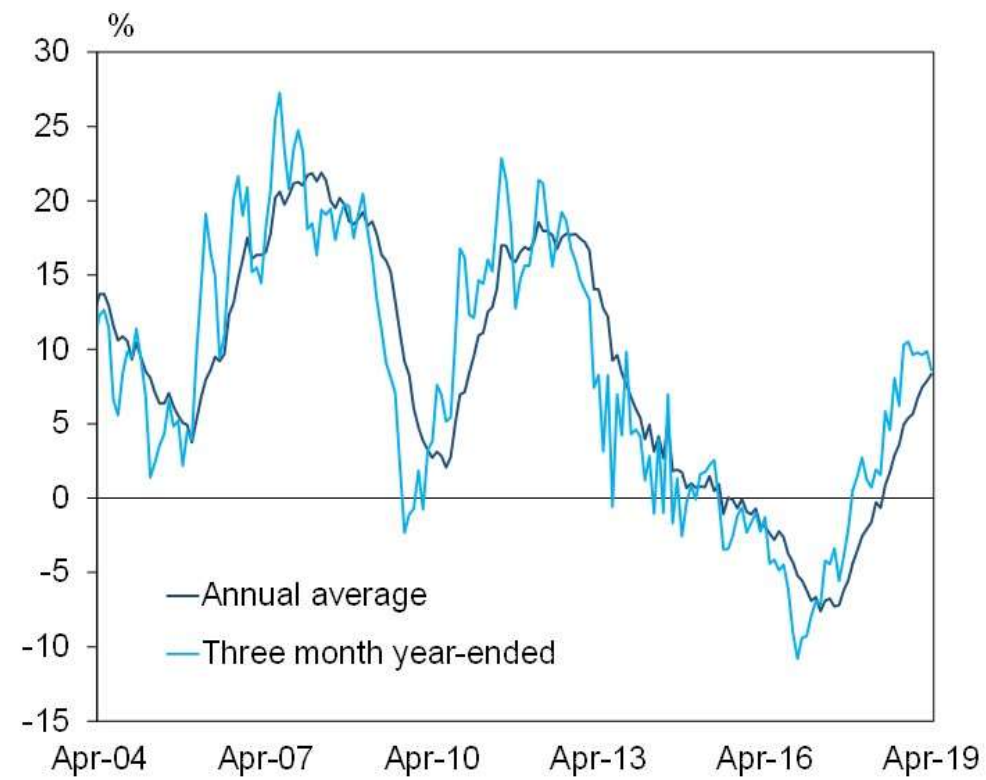


## GENERAL GOVERNMENT REVENUE

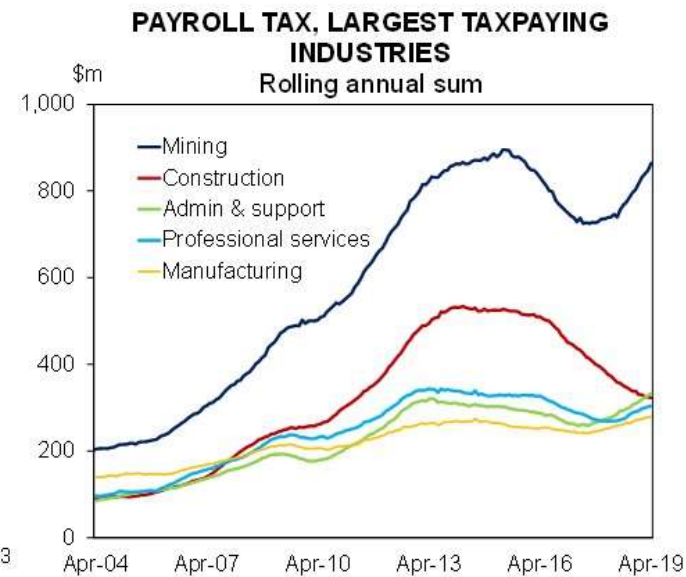
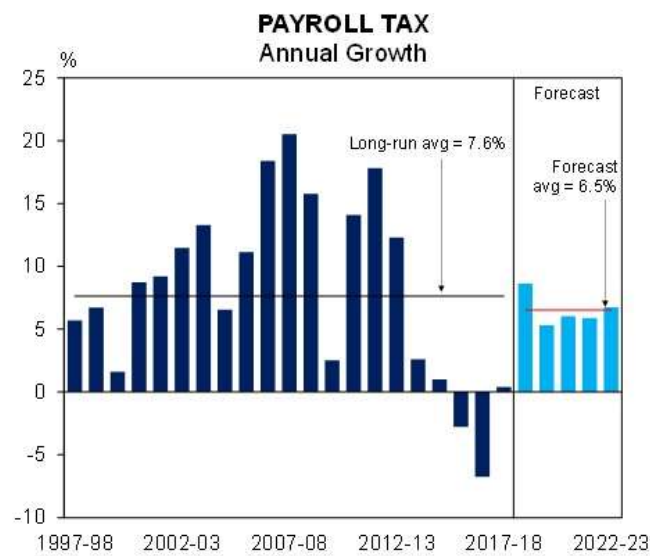


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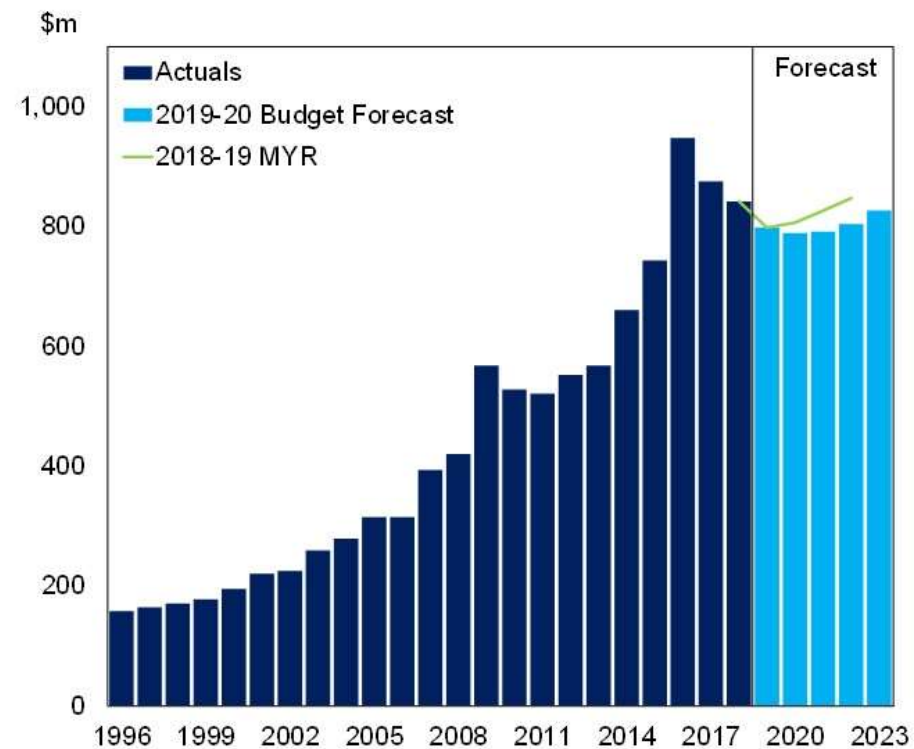
## PAYROLL TAX HAS REBOUNDED



## PAYROLL TAX SUPPORTED BY HIRING IN RESOURCES SECTOR

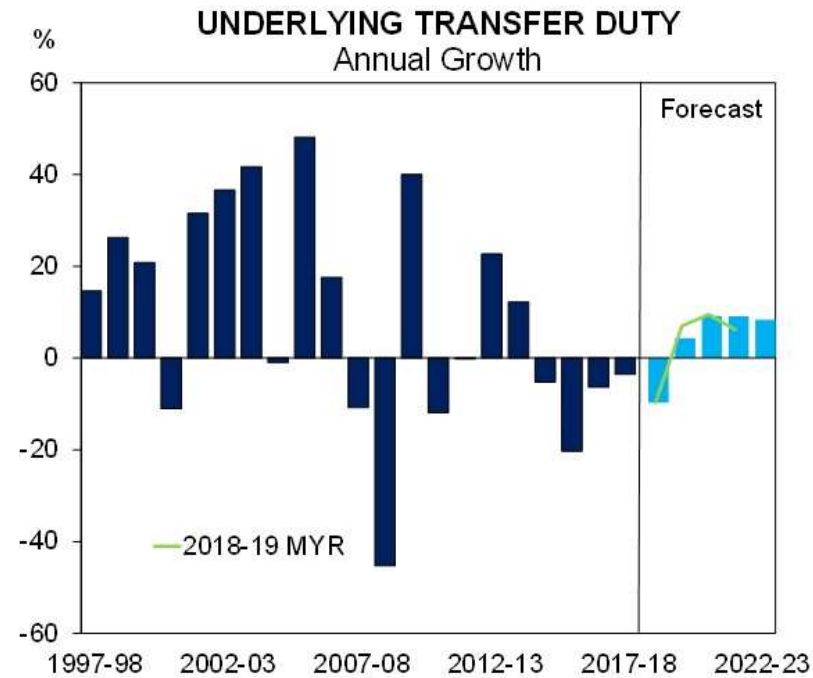


## LAND TAX EXPECTED TO REMAIN RELATIVELY FLAT



## TRANSFER DUTY

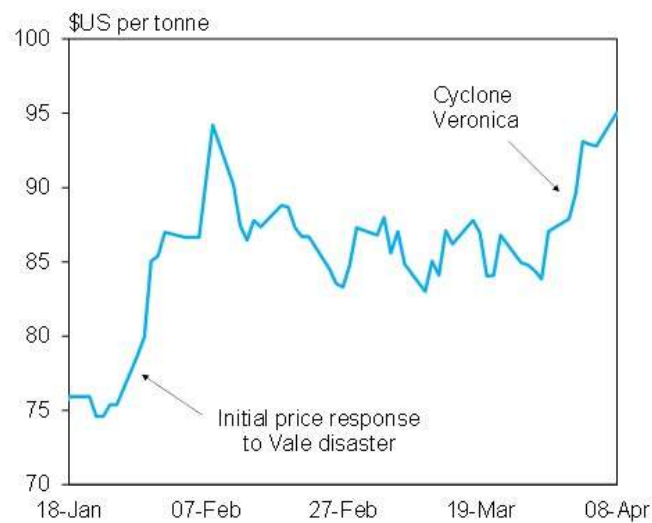
- ▶ Transfer duty expected to recover from 2019-20, but at modest rates of growth



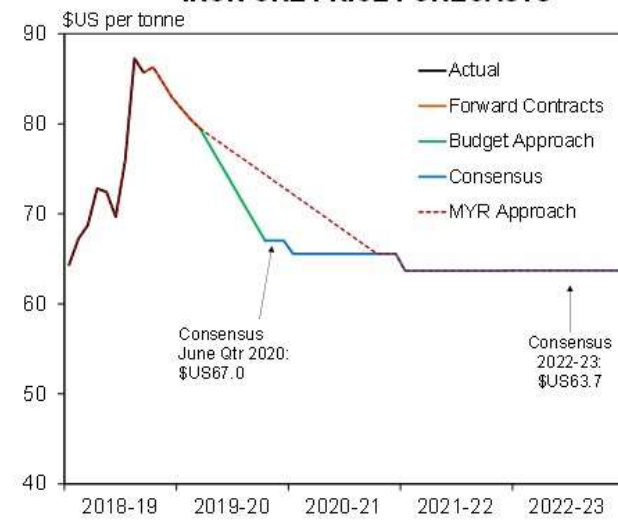
## IRON ORE PRICE VOLATILITY

- Prices higher in the short-term due to Brazilian tragedy reducing supply, but these prices are not assumed to last

**BENCHMARK IRON ORE PRICE**

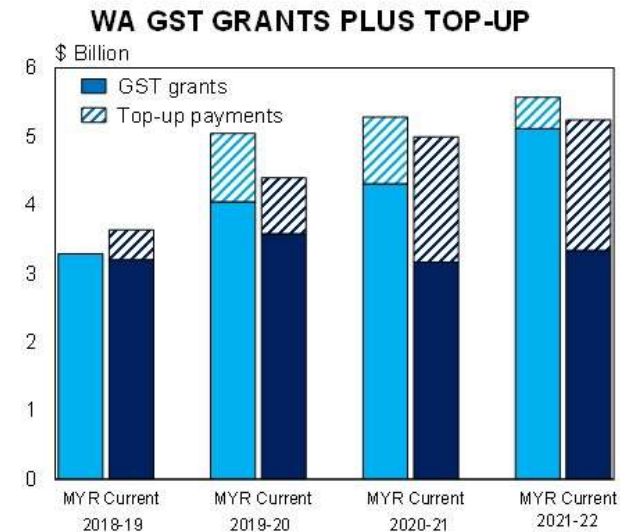


**IRON ORE PRICE FORECASTS**



## GST REFORM

- \$5b of GST top-up payments over 2018-19 to 2021-22 (inc. \$434m pre-payment in 2018-19)
- But not immune from movements in national GST pool
  - Net \$921m downward revision since MYR





## **Fiscal Outlook**

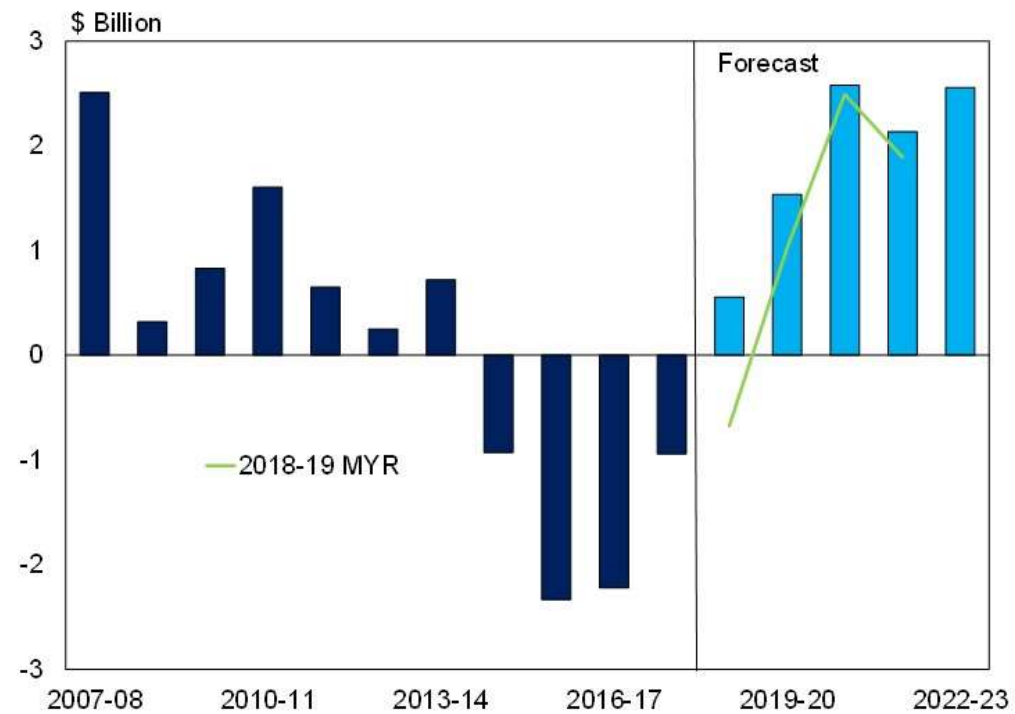


## KEY BUDGET AGGREGATES

	2018-19 Estimated Actual	2019-20 Budget Estimate	2020-21 Forward Estimate	2021-22 Forward Estimate	2022-23 Forward Estimate
<b>GENERAL GOVERNMENT SECTOR</b>					
<b>Net Operating Balance (\$m)</b>	<b>553</b>	<b>1,533</b>	<b>2,579</b>	<b>2,133</b>	<b>2,554</b>
Revenue (\$m)	29,925	31,334	32,402	32,270	33,427
Revenue Growth (%)	8.9 <sup>(a)</sup>	4.7	3.4	-0.4	3.6
Expenses (\$m)	29,372	29,801	29,823	30,136	30,873
Expense Growth (%)	3.4 <sup>(a)</sup>	1.5	0.1	1.0	2.4
<b>TOTAL PUBLIC SECTOR</b>					
<b>Net Debt at 30 June (\$m)</b>					
- before AASB 16	36,281	36,970	36,384	35,983	35,604
- impact of AASB 16	2,824	2,560	2,432	2,306	2,195
<b>Net Debt at 30 June</b>	<b>39,106</b>	<b>39,531</b>	<b>38,816</b>	<b>38,289</b>	<b>37,799</b>
Net Debt as a Share of GSP (%)	13.1	13.0	12.8	12.3	11.6
Asset Investment Program (\$m)	5,519	5,646	5,592	5,802	5,737
Cash Surplus/Deficit (\$m)	-1,438	-248	954	747	729

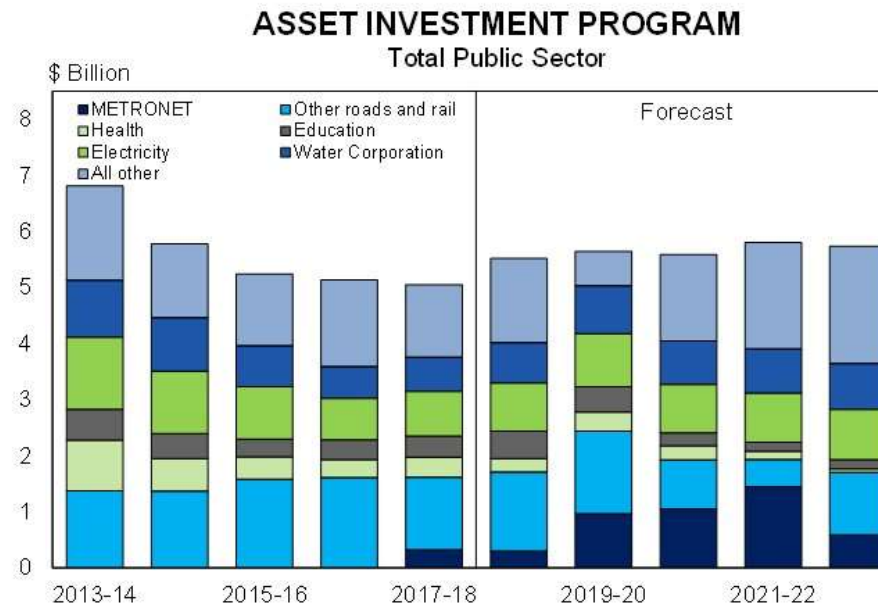
<sup>(a)</sup> Abstracting from the impact of accounting standards changes implemented in this Budget and Commonwealth funding changes, growth in revenue and expenses in 2018-19 is 4.8% and 2.4% in underlying terms respectively.

## GENERAL GOVERNMENT NET OPERATING BALANCE

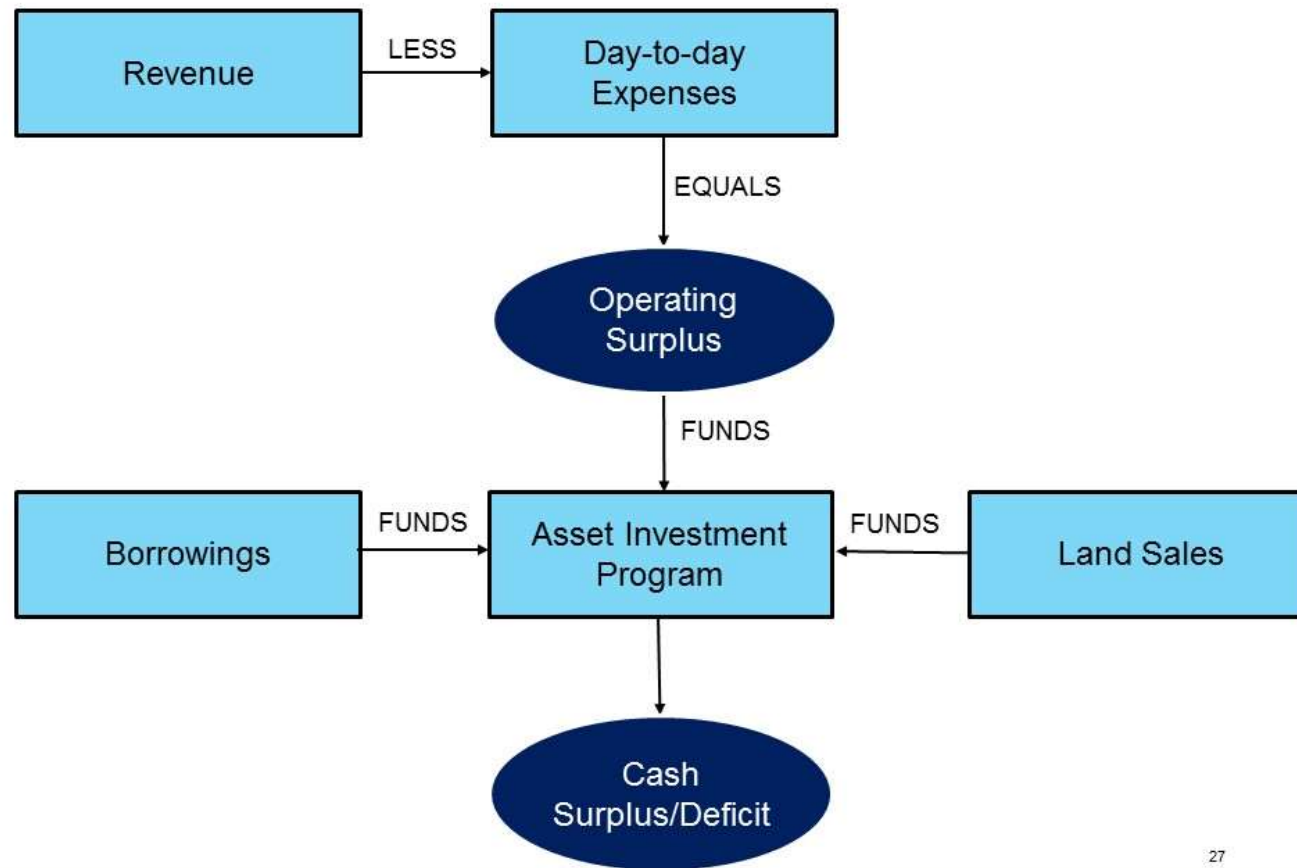


## INFRASTRUCTURE INVESTMENT

▶ The Asset Investment Program totals \$22.8b over next four years, with over \$8b of this on METRONET and roads

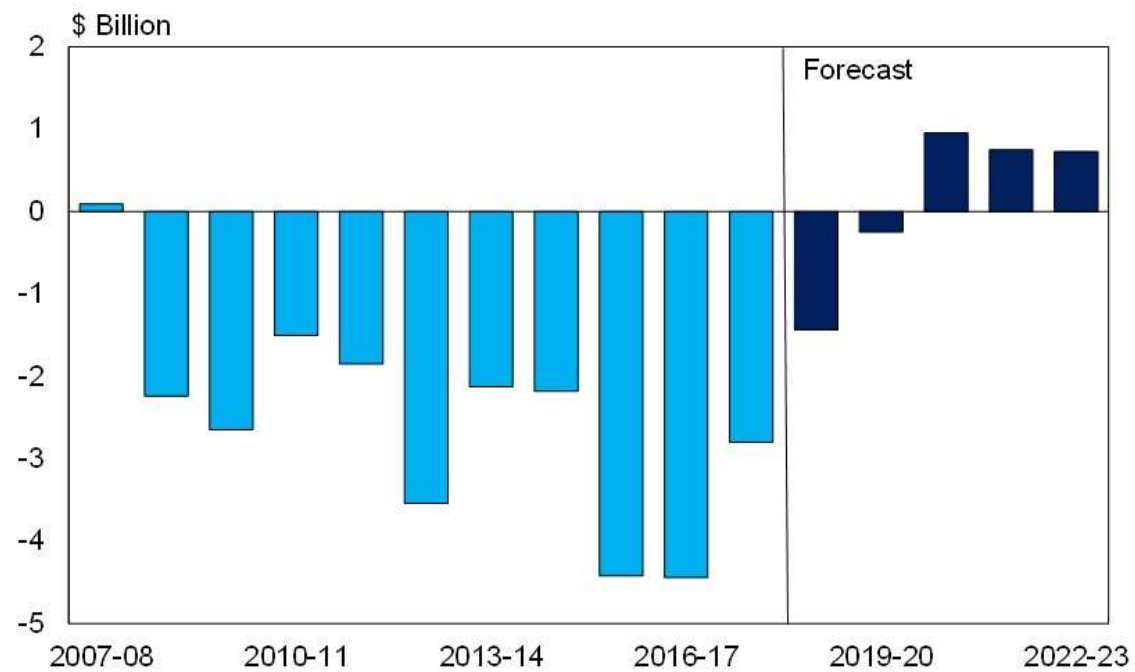


## OPERATING VS CASH SURPLUS/DEFICIT



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## TOTAL PUBLIC SECTOR CASH SURPLUS/DEFICIT

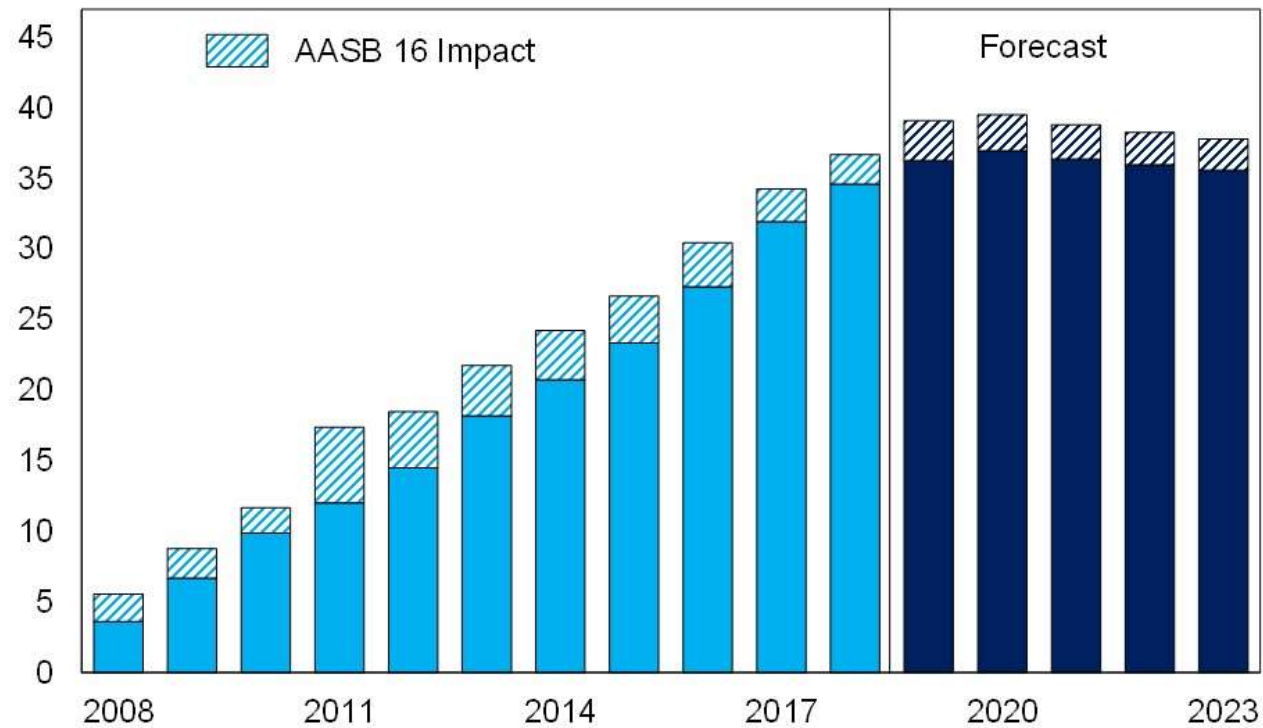


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## TOTAL PUBLIC SECTOR NET DEBT

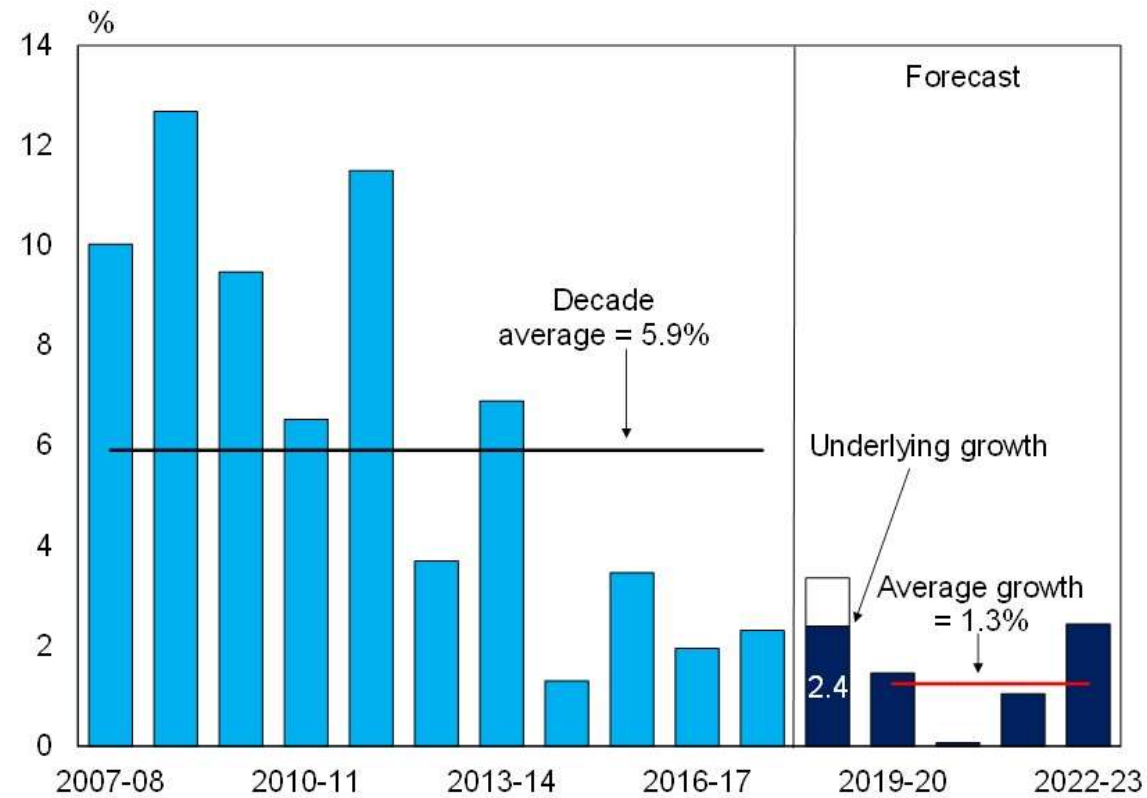
At 30 June

\$ Billion



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## GENERAL GOVERNMENT EXPENSES

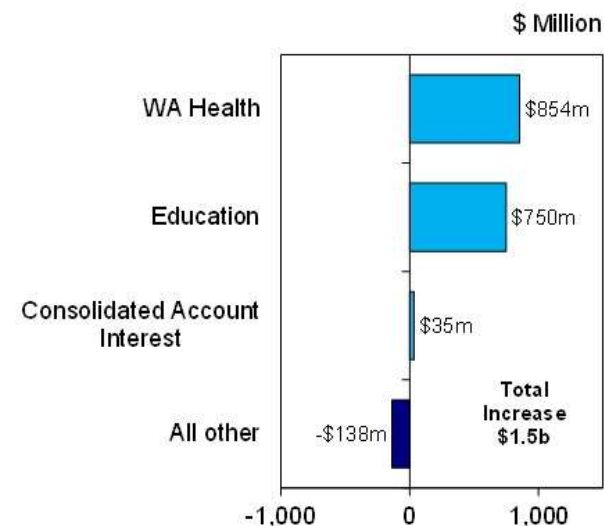


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## GENERAL GOVERNMENT EXPENSES CONT.

- General government expenses forecast to increase by average of 1.3% p.a. over next four years
- Largest increases in WA Health (up \$854m) and Education (up \$750m)

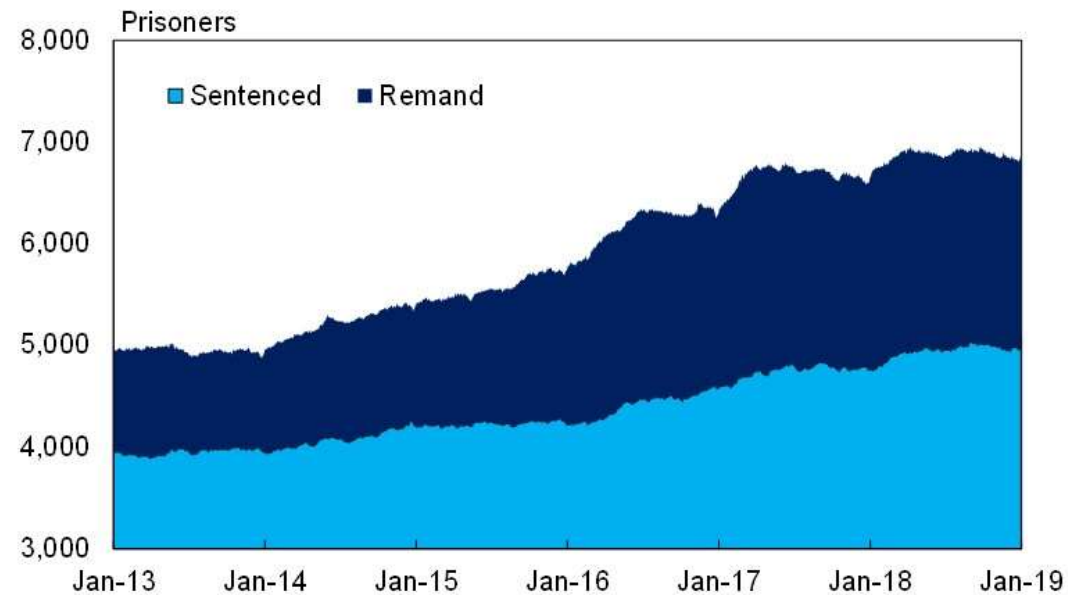
Increase 2019-20 to 2022-23





## JUSTICE – CUSTODIAL ESTATE PRESSURES

### GROWTH IN PRISONER POPULATION



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**QUESTIONS?**

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## Appendix Two

### Response to question taken on notice during the briefing

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**Admin, LACO**

**Subject:** FW: PAC Post-Budget Briefing 2019-20: Question taken on notice

**From:** Hird, Deborah [REDACTED]  
**Sent:** Wednesday, 15 May 2019 8:55 AM  
**To:** Committee, Public Accounts <[lapac@parliament.wa.gov.au](mailto:lapac@parliament.wa.gov.au)>  
**Subject:** RE: PAC Post-Budget Briefing 2019-20: Question taken on notice

Morning Tim

Thanks again to you and the Public Accounts Committee for the opportunity to brief members on the 2019-20 Budget.

In response to the question from Mr Shane Love, MLA, the average rate of operating expenditure growth for the Departments of Health and Education over the budget period are as follows:

- Department of Health - 2.8%\*
- Department of Education – 3.5%

\*(Adjusted for time-limited expenditure)

I can also confirm that I have no concerns regarding the publication of either the presentation or the above response by the Committee.

Thank you

Deborah Hird  
Executive Officer to the Under Treasurer | Office of the Under Treasurer  
Department of Treasury  
David Malcolm Justice Centre  
28 Barrack Street, PERTH WA 6000  
[REDACTED]  
Innovative Thinking | Committed People | Working Collaboratively

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**From:** Committee, Public Accounts [<mailto:lapac@parliament.wa.gov.au>]  
**Sent:** Tuesday, 14 May 2019 5:17 PM  
**To:** Hird, Deborah [REDACTED]  
**Cc:** Barnes, Michael [REDACTED]  
**Subject:** PAC Post-Budget Briefing 2019-20: Question taken on notice

Good afternoon Deborah

Thank you again for all your help with the briefing. It went very smoothly and was well-received by the members present.

The Under Treasurer undertook to provide some further information in response to the following question from Mr Shane Love, MLA:

1. What is the average rate of operating expenditure growth for the Department of Education and the Department of Health?

Once received, the committee will distribute a copy of the Under Treasurer's response to the members who were present at the Briefing. The committee is also likely to publish the response, along with a copy of today's Powerpoint presentation, in a report to Parliament in June. If the Under Treasurer has any concerns regarding the publication of these materials by the committee, could you please have him articulate those as part of his response.

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## Appendix Three

### Committee's functions and powers

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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.



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