

40TH PARLIAMENT



Public Accounts Committee

Report 18

BUDGET BRIEFING 2020-2021

Presented by
Dr A.D. Buti, MLA
November 2020

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Budget Briefing 2020-2021

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Laid on the Table of the Legislative Assembly on 12 November 2020

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Chapter 1

Budget Briefing 2020-2021

Background

- 1 Each year since 2001, the Public Accounts Committee (the committee) has hosted 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. In this unusual year we carried that tradition into its 20th iteration.
- 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. This year that occurred in early October. The briefing 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.
- 3 In keeping with recent practice, the committee has resolved to publish the PowerPoint presentation that accompanied this year's presentation. The committee believes there is significant merit in making such documents public, as they provide a useful reference point for anyone who is interested in the State's current fiscal position and policy.
- 4 Eleven members attended the 2020-21 Budget Briefing, which took place on Tuesday, 13 October 2020 and was delivered by the following Treasury officials:
 - Michael Barnes, Under Treasurer
 - Michael Court, Deputy Under Treasurer
 - Alistair Jones, Executive Director Economic Business Unit
 - Richard Watson, Executive Director Infrastructure and Finance
 - Michael Andrews, A/Executive Director Strategic Policy and Evaluation.
- 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

The presentation: 2020-2021 Budget

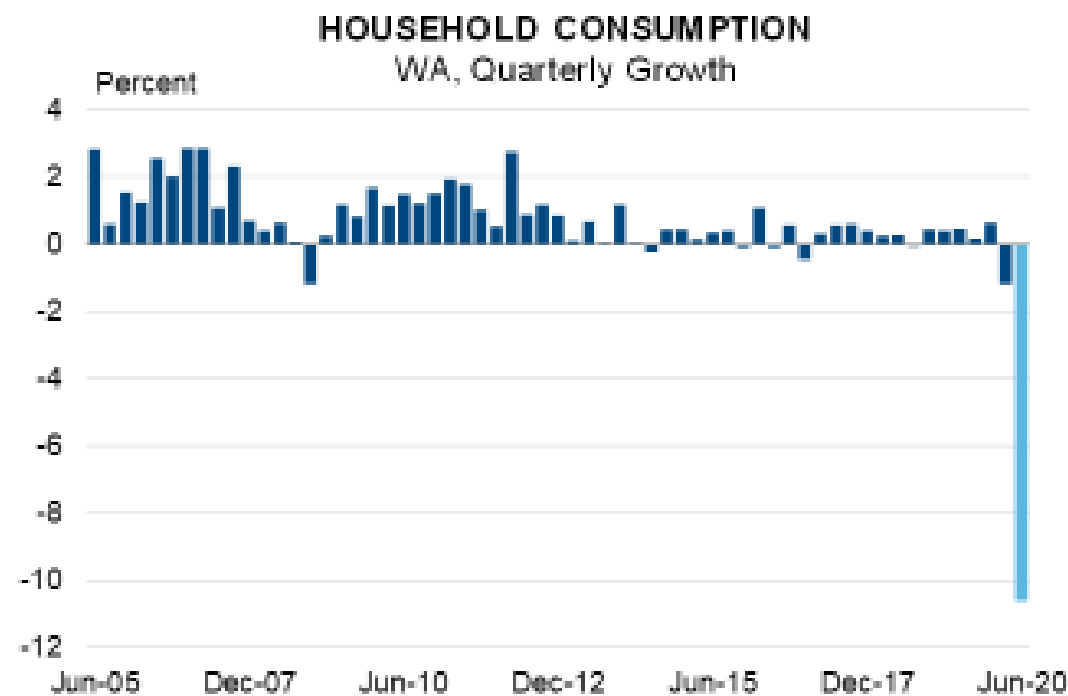


Highlights

- ▶ Budget fully funds \$5.5b WA Recovery Plan
- ▶ Key additional initiatives in the Budget include:
 - ▷ \$600 Household Electricity Credit
 - ▷ Additional 800 police officers
 - ▷ Significant investment in mental health and remote Aboriginal communities
- ▶ Fiscal strategy redirected from paying down debt to supporting economic recovery and jobs
 - ▷ Operating surpluses reduced by \$6.6b since MYR
 - ▷ Remaining surpluses partially fund \$27.1b infrastructure investment program, but additional borrowings are required
 - ▷ Net debt projected to rise over the forward estimates period

Impact of COVID-19 on WA Economy

COVID-19 has had a significant impact on the WA economy, with household consumption falling a record 10.6% in the June quarter, and the domestic economy contracting by 6%



Impact of COVID-19 on WA Economy Cont.

However, WA economy proving more resilient than most, reflecting earlier easing of restrictions and the structure of our economy

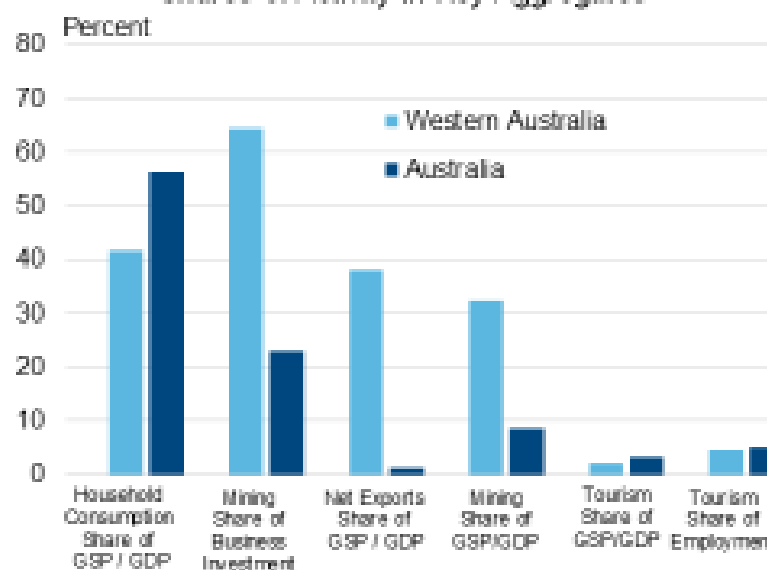
State Final Demand, 2019-20

	June Quarter	Annual
	%	%
NSW	-8.6	-1.8
Vic	-8.5	-1
Qld	-5.9	-0.1
WA	-6	1.1
SA	-5.8	-1.6
Tas	-7.4	-0.1

SFD growth in 2019-20 was supported by the first increase in business investment in 7 years

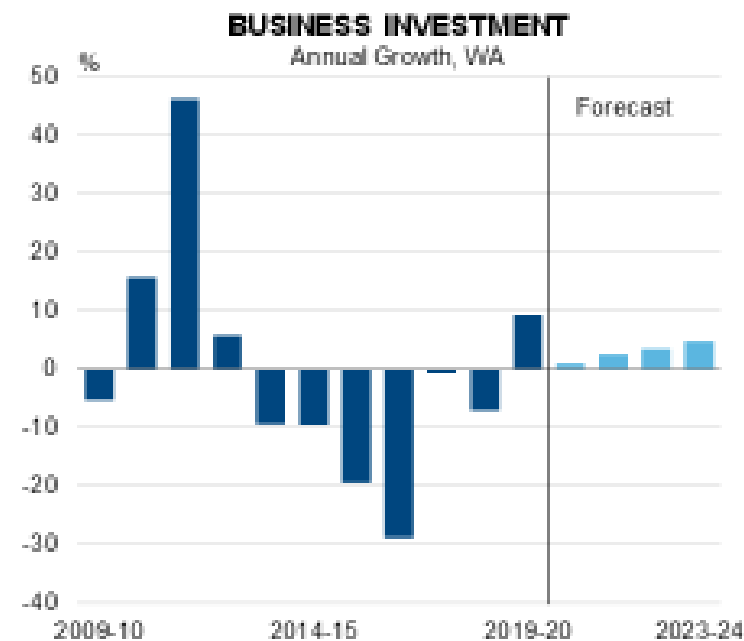
WESTERN AUSTRALIA AND AUSTRALIA

Shares of Activity in Key Aggregates



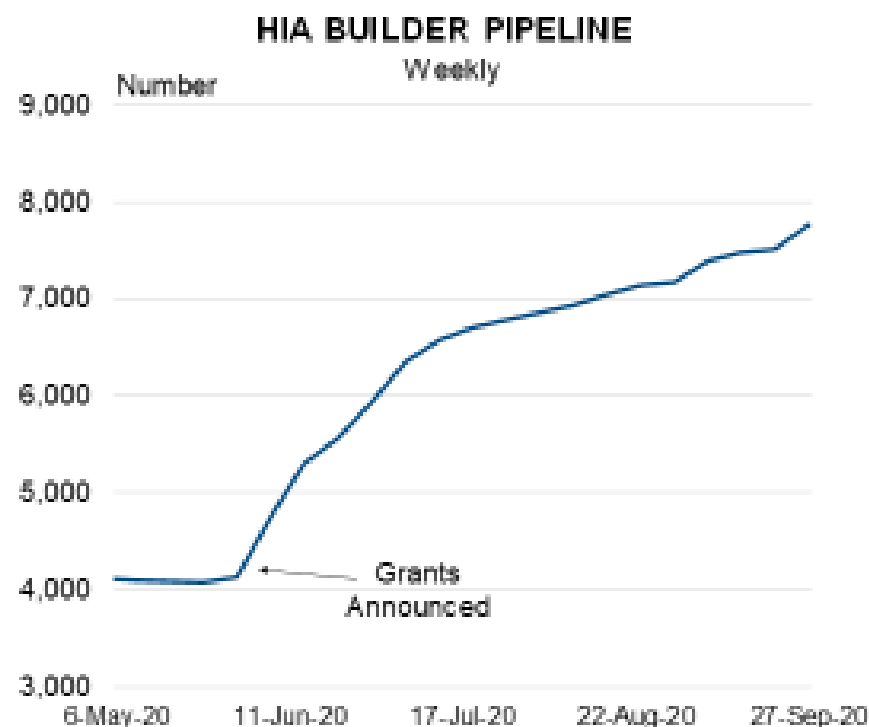
Business Investment and Exports

Continued operation of mining sector allowed construction activity and exports to remain strong, providing significant support to WA and national economies



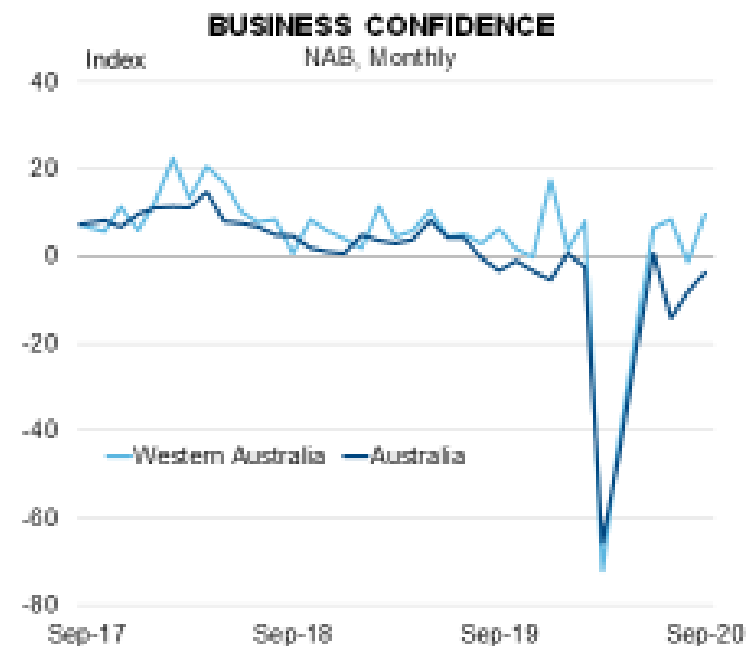
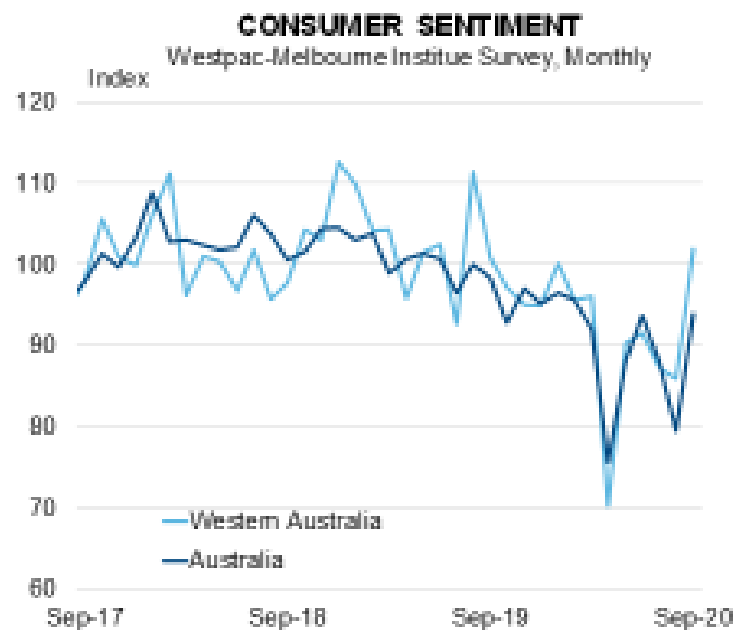
Government Stimulus – Housing Construction

- ▶ \$20,000 Building Bonus has significantly boosted the residential construction sector
- ▶ Pipeline of works has almost doubled
- ▶ Additional \$30m allocated, lifting total to \$147m
- ▶ Secures industry workforce of 65,000
- ▶ Extra \$319m investment in social housing across WA



Consumer and Business Confidence

Consumer and business confidence in WA stronger than nationally, and back in positive territory



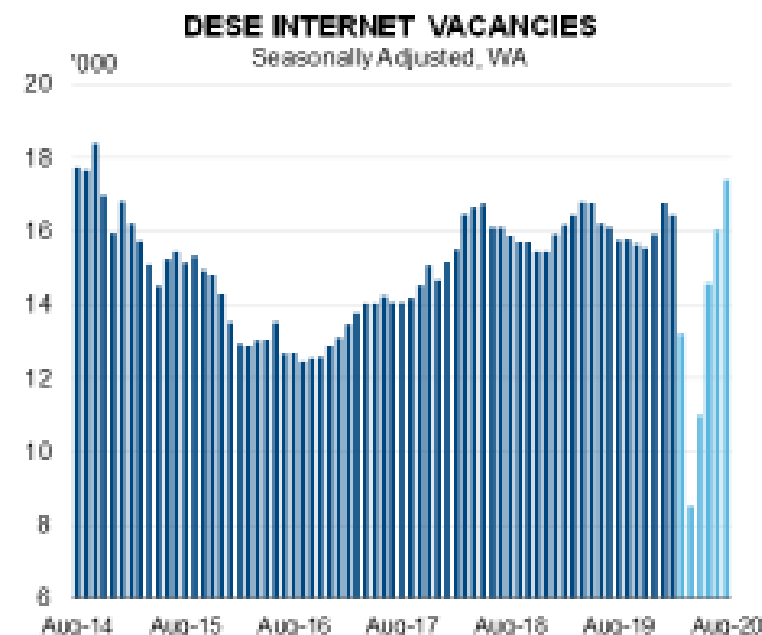
Retail Trade

Improved consumer confidence and Government stimulus have flowed through to strong growth in retail spending, with retail trade growing by 7.5% in annual terms in August – the strongest in 7 years



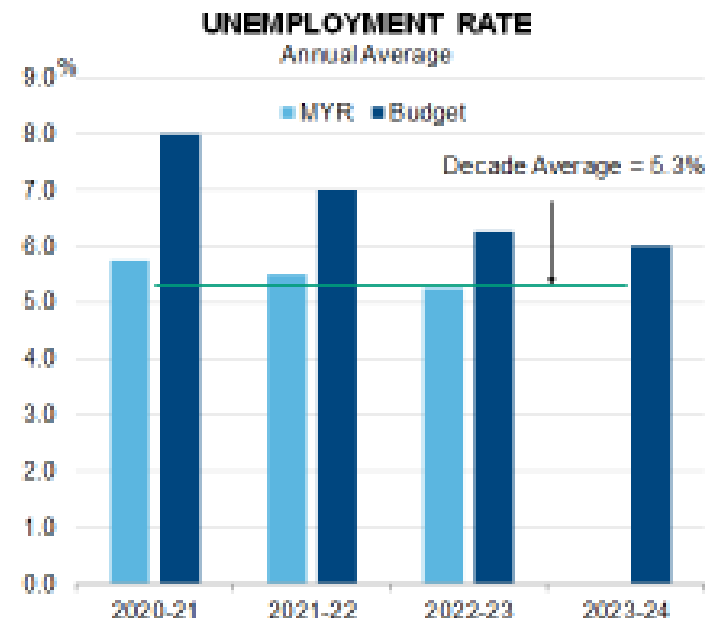
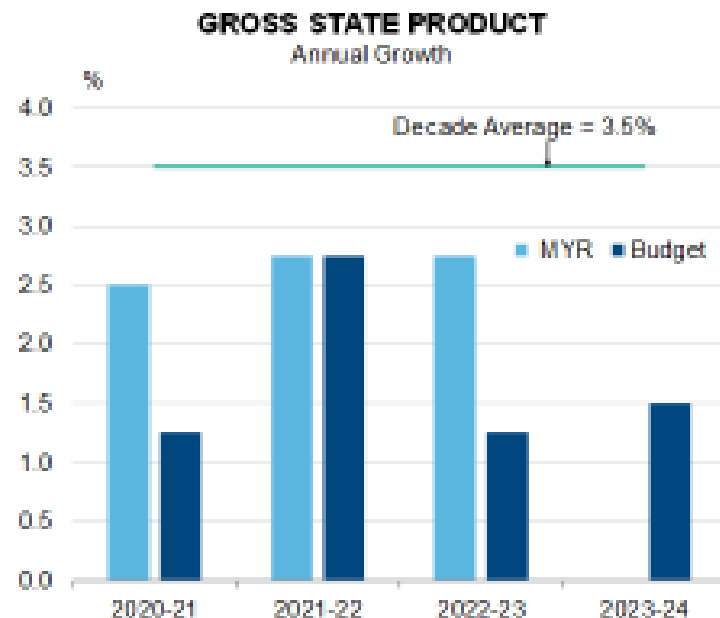
Employment

Employment fell heavily as COVID-19 hit, but is now recovering with over 70% of initial jobs lost – and almost 90% of initial hours lost – now recovered (as at August). Leading indicators suggesting further recovery



Key Economic Forecasts

WA economy now forecast to grow by 1.25% in 2020-21 (compared to 2.5% at MYR), with the unemployment rate expected to average 8% over 2020-21



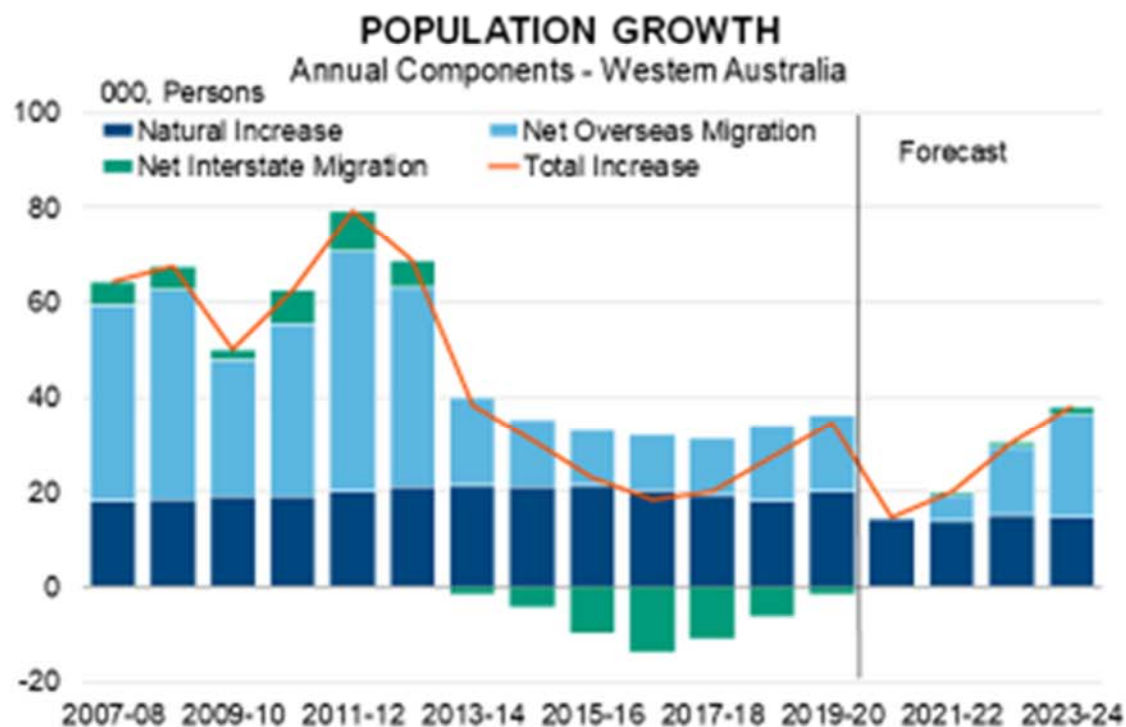
Illustrative Second Wave Impacts

Largest risk to the economy remains a second wave, with a 6-week lockdown estimated to reduce domestic economy by \$5.6b and employment by more than 30,000

SCENARIO FORECASTS					
Western Australia, Annual Growth (%)					
	2019-20 Actual	2020-21 Budget Estimate	2020-21 Second Wave Scenario	Percentage Point Difference	Level difference
State Final Demand	1.1	0.5	-2.25	-2.75	- \$5.6 billion
Gross State Product	2.0	1.25	0.0	-1.25	- \$3.3 billion
Employment	0.3	-0.25	-2.5	-2.25	- 30,300 persons
Unemployment Rate	6.1	8.0	8.75	0.75	9,100 persons

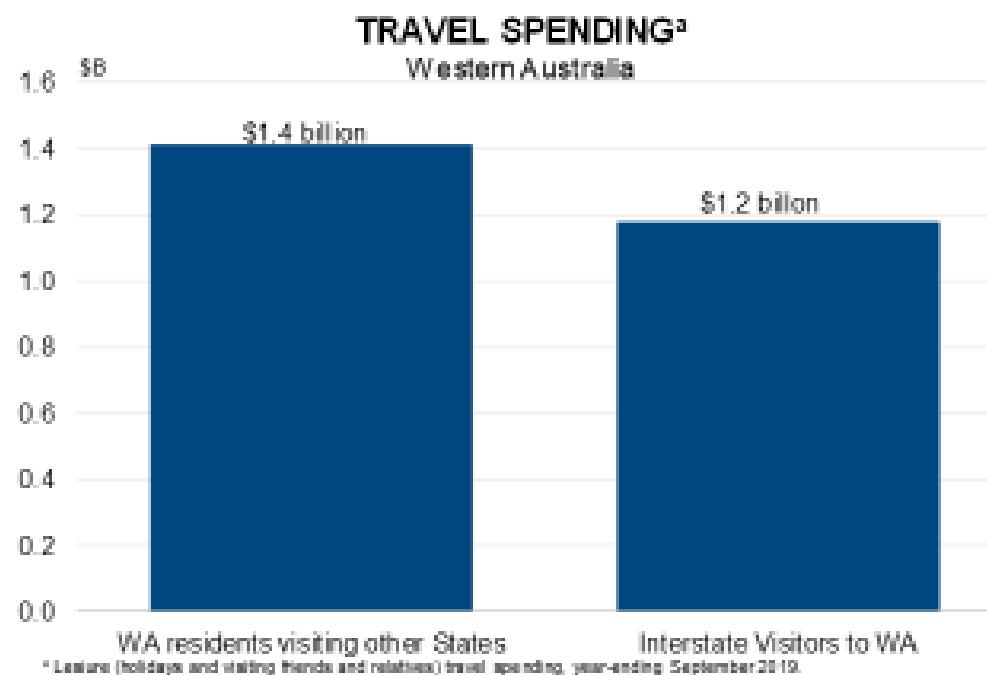
Population Growth

Population growth in 2020-21 (0.8%) is expected to be the lowest since 1960



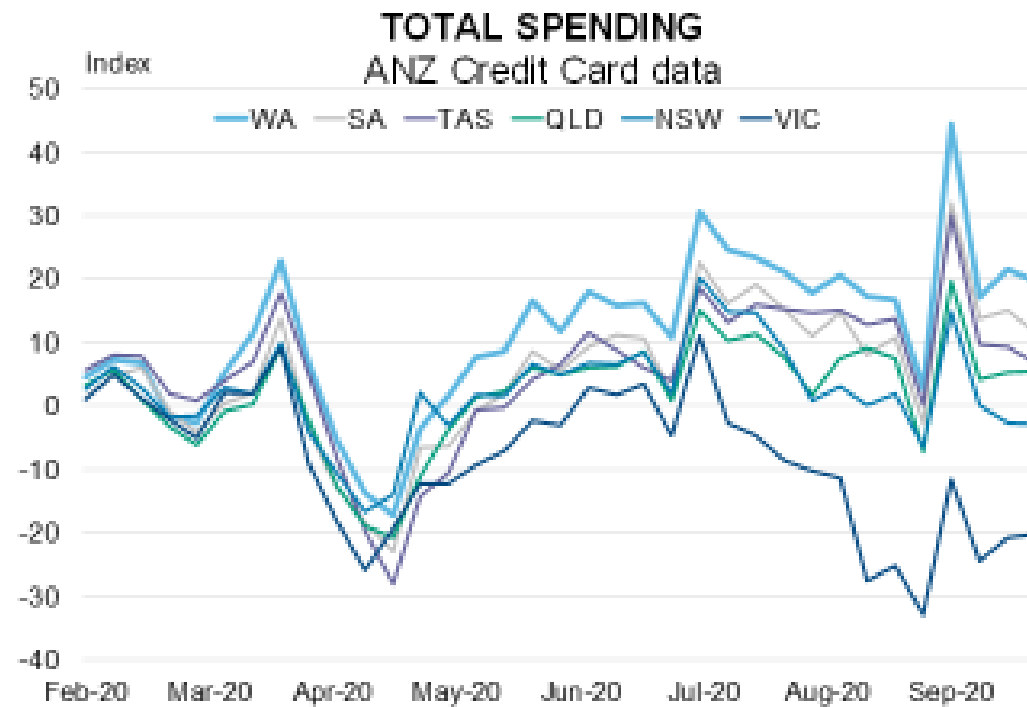
Cross-border Tourism Expenditure

The difference between the amount Western Australians typically spend interstate vs interstate visitor spending in WA is modest in context of \$270b State economy



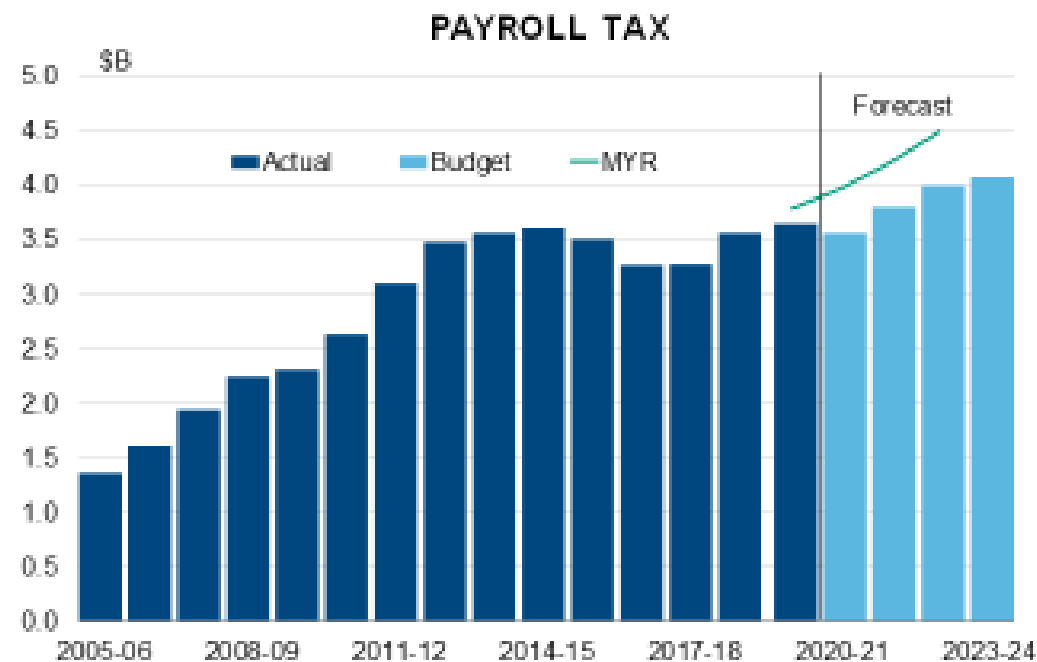
Credit Card Data

Credit card data highlights that Western Australia's rebound across all areas of discretionary spending is the strongest of the States



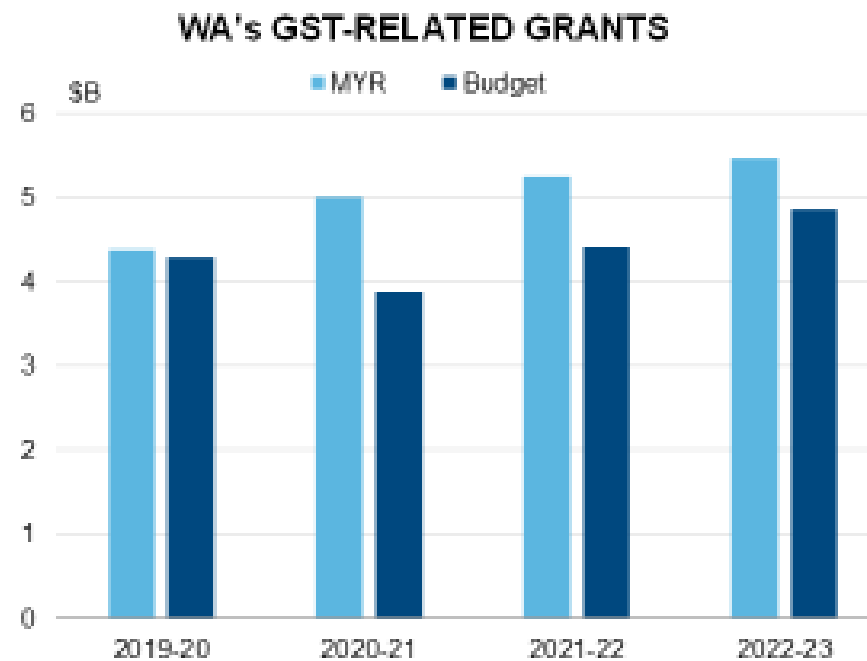
Payroll Tax

Payroll tax revised down by \$1.4b since MYR – includes cost of exempting JobKeeper payments



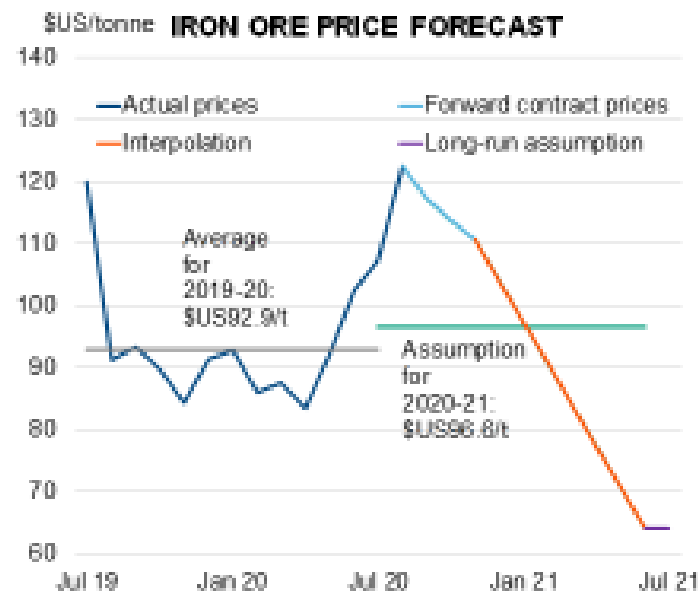
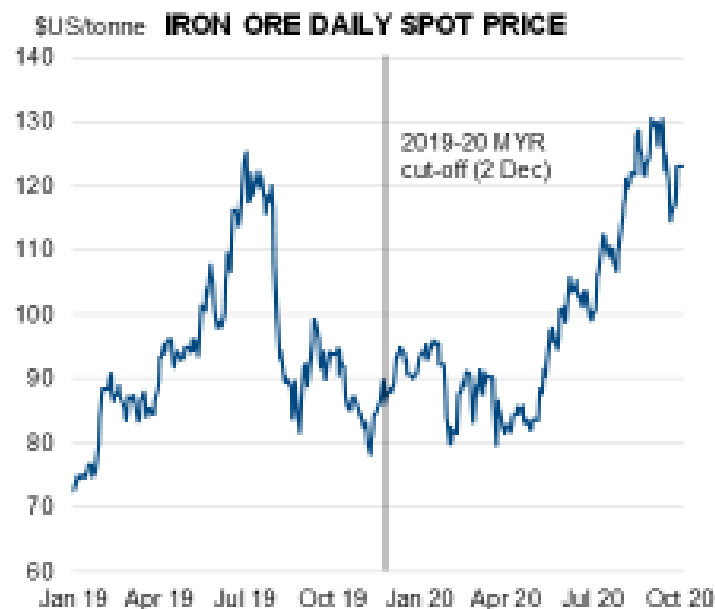
GST Grants

WA's GST-related grants revised down a substantial \$2.7b since MYR – reflecting the impact of lower consumption in all States on the national GST pool



Mining Revenue

Iron ore price has been much stronger than expected, underpinned by a rapid recovery in China and substantial stimulus targeting construction sector – but is assumed to return to its long-run average by June 2021



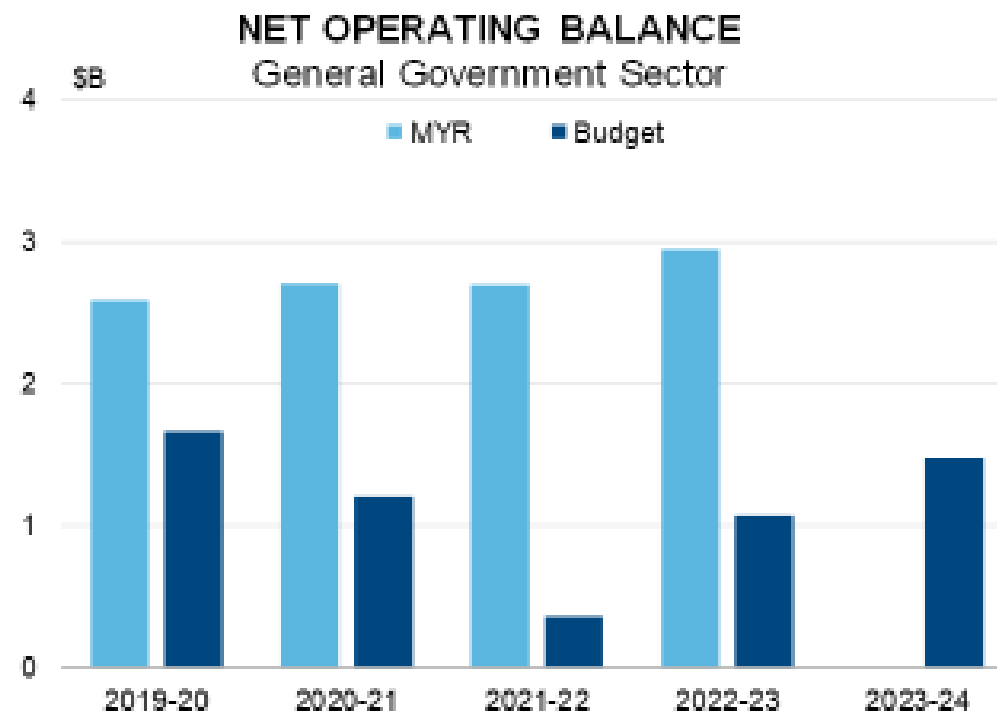
Fiscal Strategy and Aggregates

Prior to COVID-19, the Government's fiscal strategy was focused on paying down debt – now redirected to focus on economic recovery and jobs, necessitating an increase in net debt

	2019-20	2020-21	2021-22	2022-23	2023-24
	Actual	Budget Estimate	Forw and Estimate	Forw and Estimate	Forw and Estimate
GENERAL GOVERNMENT SECTOR					
Net Operating Balance (\$m)	1,669	1,204	363	1,067	1,474
Revenue (\$m)	32,162	34,139	31,618	32,466	33,547
Revenue Growth (%)	5.9	6.1	-7.4	2.7	3.3
Expenses (\$m)	30,493	32,935	31,254	31,399	32,073
Expense Growth (%)	5.0	8.0	-5.1	0.5	2.1
Net Debt at 30 June (\$m)	23,758	25,576	27,870	29,235	29,491
TOTAL PUBLIC SECTOR					
Net Debt at 30 June (\$m)	35,449	39,259	41,723	42,900	42,836
Net Debt as a Share of GSP (%)	11.3	11.9	14.0	14.6	14.1
Asset Investment Program (\$m)	5,188	7,549	7,458	6,279	5,768
Cash Surplus/Deficit (\$m)	2,217	-3,391	-2,060	-985	201

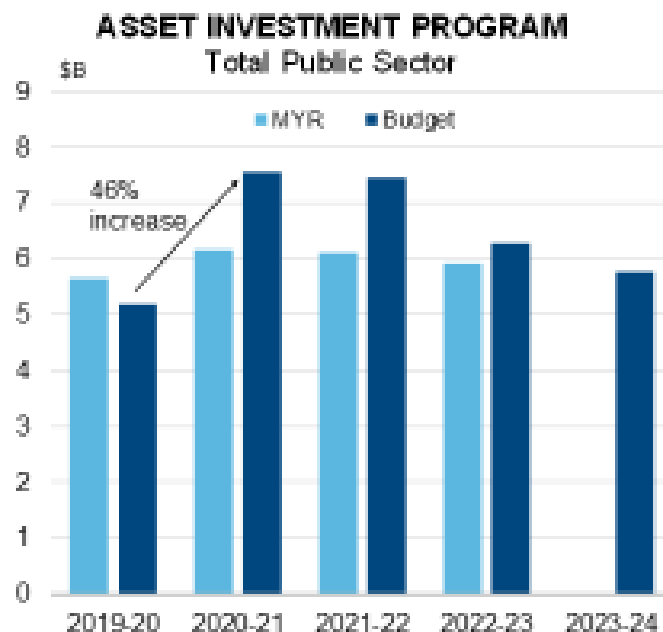
Fiscal Outlook

Operating surpluses still forecast in each year, but down a total \$6.6b since MYR due to increased expenditure (up \$4.9b) and lower revenue (down \$1.7b)

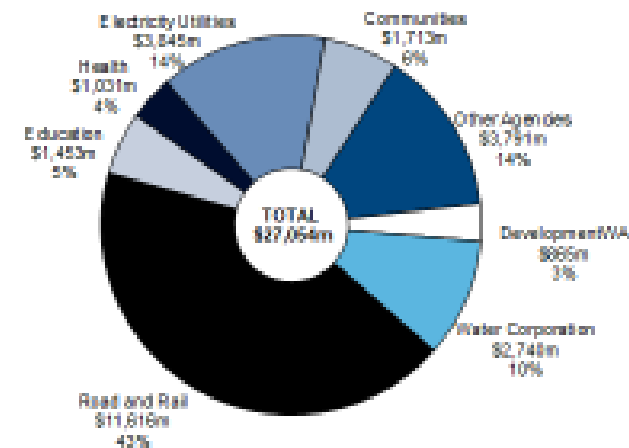


Infrastructure Investment

\$27.1b infrastructure investment program to support recovery and jobs, front-ended over next two years

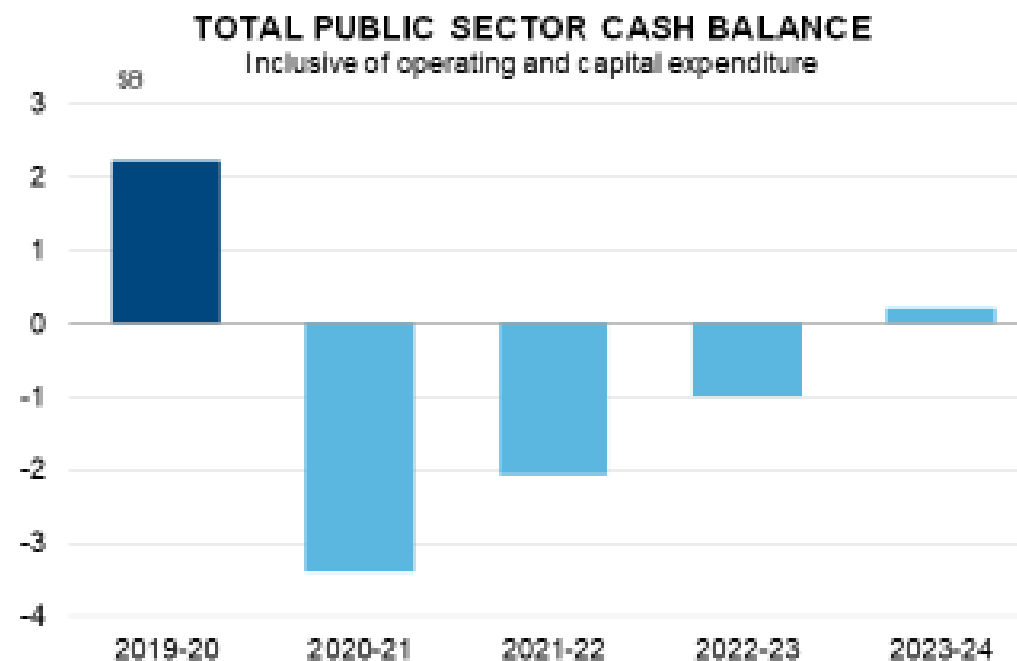


ASSET INVESTMENT PROGRAM
2020-21 TO 2023-24



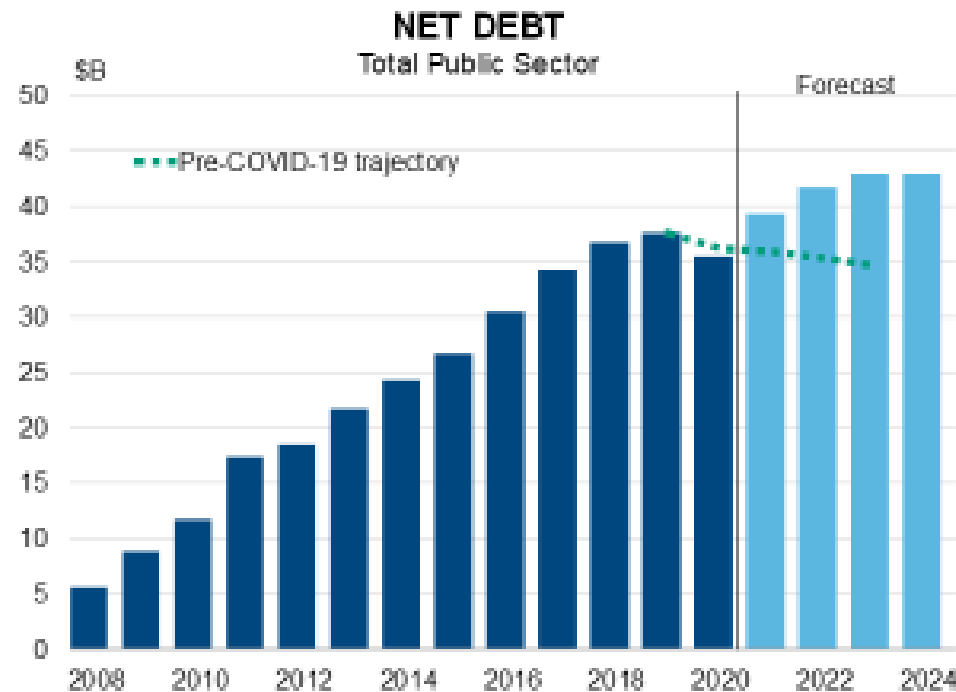
Cash Balance

If the Budget balance was reported in the same terms as the Commonwealth, a deficit of \$3.4b would be projected for 2020-21 – this incorporates both day-to-day operating expenditure and capital expenditure



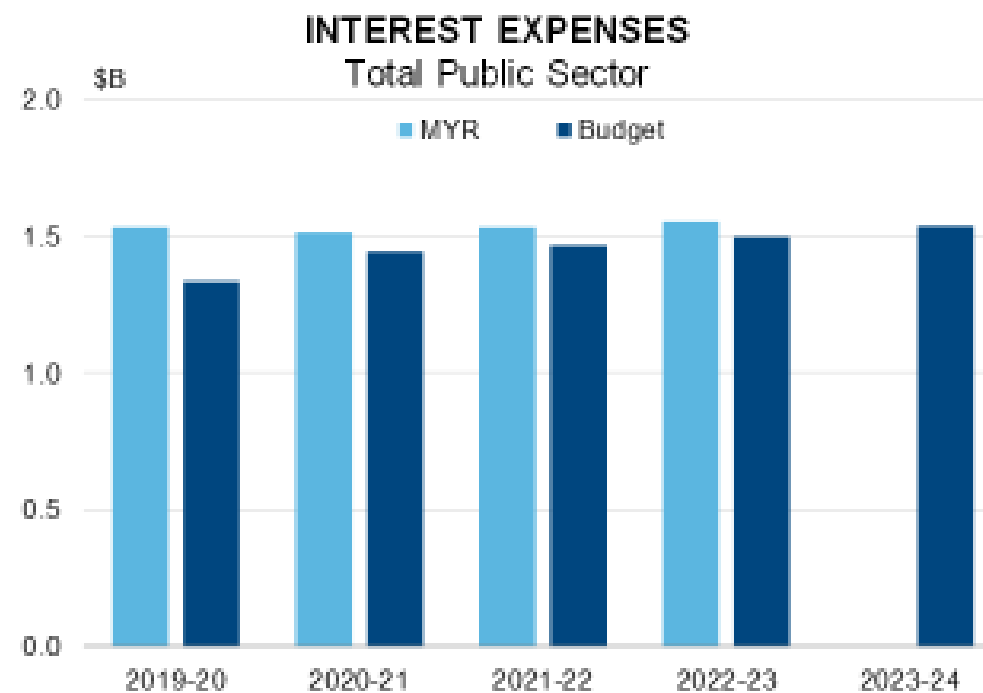
Net Debt

Pre-COVID, net debt was expected to decline. Recovery spending and infrastructure investment will now see net debt increase over the forward estimates



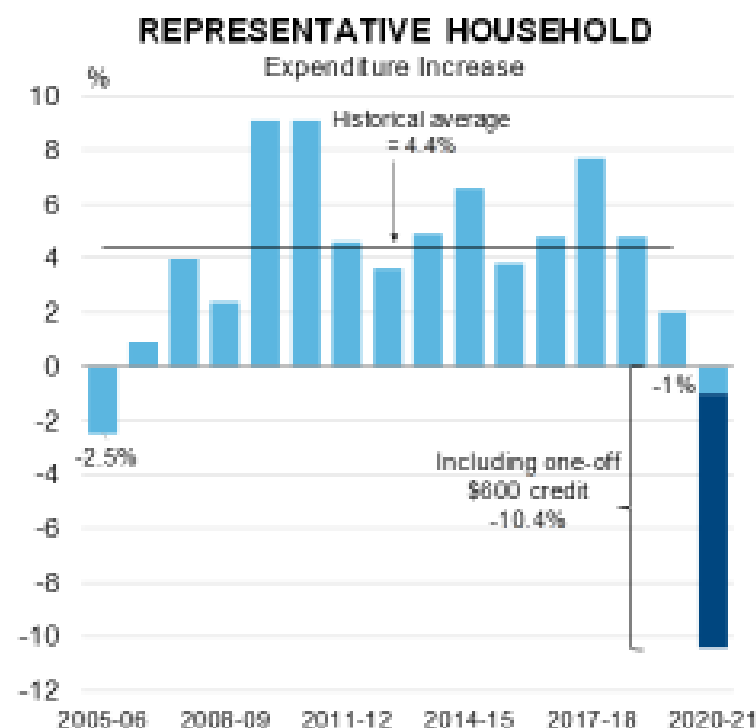
Interest Expenses

Despite increased net debt projections, interest costs are projected to be lower than in the MYR, reflecting historically low interest rates



Household Fees and Charges

- ▶ More than \$1b in cost of living relief for WA households
- ▶ \$600 Household Electricity Credit issued from 1 November
- ▶ In addition to freeze of household charges and lower GRV charges
- ▶ Average household to save \$663.52 or 10.4% compared to 2019-20
- ▶ EAP recipients receive total assistance of \$1,210



Additional Police Officers

- ▶ 800 additional police officers, with 200 to be recruited per annum (\$257m)
- ▶ In addition to 150 police officers to assist with COVID-19 response included in WA Recovery Plan (\$73m)
- ▶ Additional \$57m to recognise flow-on impacts through the criminal justice system
 - ▷ \$31m to Dept of Justice (courts)
 - ▷ \$15m to Legal Aid Commission of WA
 - ▷ \$11m to Office of the Director of Public Prosecutions

Mental Health

- ▶ Record investment in mental health in this Budget
 - ▷ Additional \$69m on mental health hospital services
 - ▷ \$57m on suicide prevention initiatives
 - \$37m for Suicide Prevention Action Plan 2021-2025
 - \$10m for regional-specific Aboriginal Suicide Prevention Plans
 - \$10m commitment to Aboriginal Youth Wellbeing package
 - ▷ \$25m for a new 16-bed Youth Mental Health and Alcohol and Other Drug Homelessness Service
 - ▷ \$24.5m for a new 20-bed Adult Community Care Unit
 - ▷ Additional \$24.5m to increase Fremantle Mental Health Beds project from 20 to 40 new beds

Other Key Spending Decisions

▶ Disability Services

- ▶ Additional \$237.5m for the continuation of State-administered disability services outside of the NDIS

▶ Remote Aboriginal communities

- ▶ \$201m to provide essential services in remote Aboriginal communities, including repairs and maintenance for housing, tenancy support, and delivery of essential and municipal services

▶ Perth City Deal

- ▶ New State funding of \$170.5m towards establishing inner-city university campuses, CBD Transport Plan and rejuvenation of Perth Cultural Centre Precinct

Conclusion

- ▶ COVID-19 brought WA economic momentum to a halt in June quarter
- ▶ Economy is now recovering solidly, although uncertainty and risks remain elevated
- ▶ Fiscal strategy redirected from paying down debt to supporting recovery and jobs
- ▶ Budget remains in an operating surplus position, albeit significantly reduced from MYR
- ▶ Net debt projected to increase in support of \$5.5b WA Recovery Plan and \$27.1b infrastructure investment program



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