Public Accounts Committee

Report 18

BUDGET BRIEFING 2020-2021

Presented by
Dr A.D. Buti, MLA
November 2020
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Public Accounts Committee

Budget Briefing 2020-2021

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

1. Budget Briefing 2020-2021 Background ........................................... 1
2. The presentation ............................................................................. 3
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

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
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

<table>
<thead>
<tr>
<th>State Final Demand, 2019-20</th>
<th>June Quarter</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>NSW</td>
<td>-8.6</td>
<td>-1.8</td>
</tr>
<tr>
<td>Vic</td>
<td>-8.5</td>
<td>-1.1</td>
</tr>
<tr>
<td>Qld</td>
<td>-5.9</td>
<td>-0.1</td>
</tr>
<tr>
<td>WA</td>
<td>-6</td>
<td>1.1</td>
</tr>
<tr>
<td>SA</td>
<td>-5.8</td>
<td>-1.6</td>
</tr>
<tr>
<td>Tas</td>
<td>-7.4</td>
<td>-0.1</td>
</tr>
</tbody>
</table>

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

Percent

- Household Consumption Share of GSP/GDP
- Mining Share of Business Investment
- Nat Exports Share of GSP/GDP
- Mining Share of GSP/GDP
- Tourism Share of GSP/GDP
- Tourism Share of Employment

Western Australia
Australia
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
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

**Table: Scenario Forecasts**

<table>
<thead>
<tr>
<th></th>
<th>2019-20 Actual</th>
<th>2020-21 Budget Estimate</th>
<th>2020-21 Second Wave Scenario</th>
<th>Percentage Point Difference</th>
<th>Level difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Final Demand</td>
<td>1.1</td>
<td>0.5</td>
<td>-2.25</td>
<td>-2.75</td>
<td>-$5.6 billion</td>
</tr>
<tr>
<td>Gross State Product</td>
<td>2.0</td>
<td>1.25</td>
<td>0.0</td>
<td>-1.25</td>
<td>-$3.3 billion</td>
</tr>
<tr>
<td>Employment</td>
<td>0.3</td>
<td>-0.25</td>
<td>-2.5</td>
<td>-2.25</td>
<td>-30,300 persons</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>6.1</td>
<td>8.0</td>
<td>8.75</td>
<td>0.75</td>
<td>9,100 persons</td>
</tr>
</tbody>
</table>
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.
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.

<table>
<thead>
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</thead>
<tbody>
<tr>
<td><strong>GENERAL GOVERNMENT SECTOR</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Operating Balance ($m)</td>
<td>1,669</td>
<td>1,204</td>
<td>363</td>
<td>1,067</td>
<td>1,474</td>
</tr>
<tr>
<td>Revenue ($m)</td>
<td>32,162</td>
<td>34,139</td>
<td>31,618</td>
<td>32,466</td>
<td>33,547</td>
</tr>
<tr>
<td>Revenue Growth (%)</td>
<td>5.9</td>
<td>6.1</td>
<td>-7.4</td>
<td>2.7</td>
<td>3.3</td>
</tr>
<tr>
<td>Expenses ($m)</td>
<td>30,483</td>
<td>32,935</td>
<td>31,254</td>
<td>31,399</td>
<td>32,073</td>
</tr>
<tr>
<td>Expense Growth (%)</td>
<td>5.0</td>
<td>8.0</td>
<td>-5.1</td>
<td>0.5</td>
<td>2.1</td>
</tr>
<tr>
<td>Net Debt at 30 June ($m)</td>
<td>23,758</td>
<td>25,576</td>
<td>27,870</td>
<td>29,235</td>
<td>29,491</td>
</tr>
<tr>
<td><strong>TOTAL PUBLIC SECTOR</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Debt at 30 June ($m)</td>
<td>35,449</td>
<td>39,259</td>
<td>41,723</td>
<td>42,900</td>
<td>42,836</td>
</tr>
<tr>
<td>Net Debt as a Share of GSP (%)</td>
<td>11.3</td>
<td>11.9</td>
<td>14.0</td>
<td>14.6</td>
<td>14.1</td>
</tr>
<tr>
<td>Asset Investment Program ($m)</td>
<td>5,188</td>
<td>7,549</td>
<td>7,458</td>
<td>6,279</td>
<td>5,768</td>
</tr>
<tr>
<td>Cash Surplus/Deficit ($m)</td>
<td>2,217</td>
<td>-3,391</td>
<td>-2,060</td>
<td>-985</td>
<td>201</td>
</tr>
</tbody>
</table>
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
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

Representative Household Expenditure Increase

- Historical average = 4.4%
- Including one-off $600 credit
- -1%
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