

40TH PARLIAMENT



Report 4

PUBLIC ACCOUNTS COMMITTEE

Budget Briefing 2018-19

Presented by
Dr A.D. Buti, MLA

June 2018

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Public Accounts Committee

Budget Briefing 2018-19

Report No. 4

Presented by

Dr A.D. Buti, MLA

Laid on the Table of the Legislative Assembly on 28 June 2018

Contents

1	Budget Briefing 2018-19	1
	Background	1
	Appendices	3
1	Treasury's Budget Briefing: 2018-19 Budget	3
2	Response to questions taken on notice during the briefing	33
3	Committee's functions and powers	35

Chapter 1

Budget Briefing 2018-19

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 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 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 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 Twenty members attended the 2018-19 Budget Briefing, which took place on Tuesday, 15 May 2018 and was delivered by the following Treasury officials:
 - Mr Michael Barnes, Under Treasurer
 - Mr Michael Court, Deputy Under Treasurer
 - Ms Kaylene Gulich, Executive Director, Infrastructure and Finance
 - Mr Alistair Jones, Executive Director, Strategic Policy and Evaluation
 - Ms Helen Ensikat, Senior Analyst, Strategic Policy and Evaluation

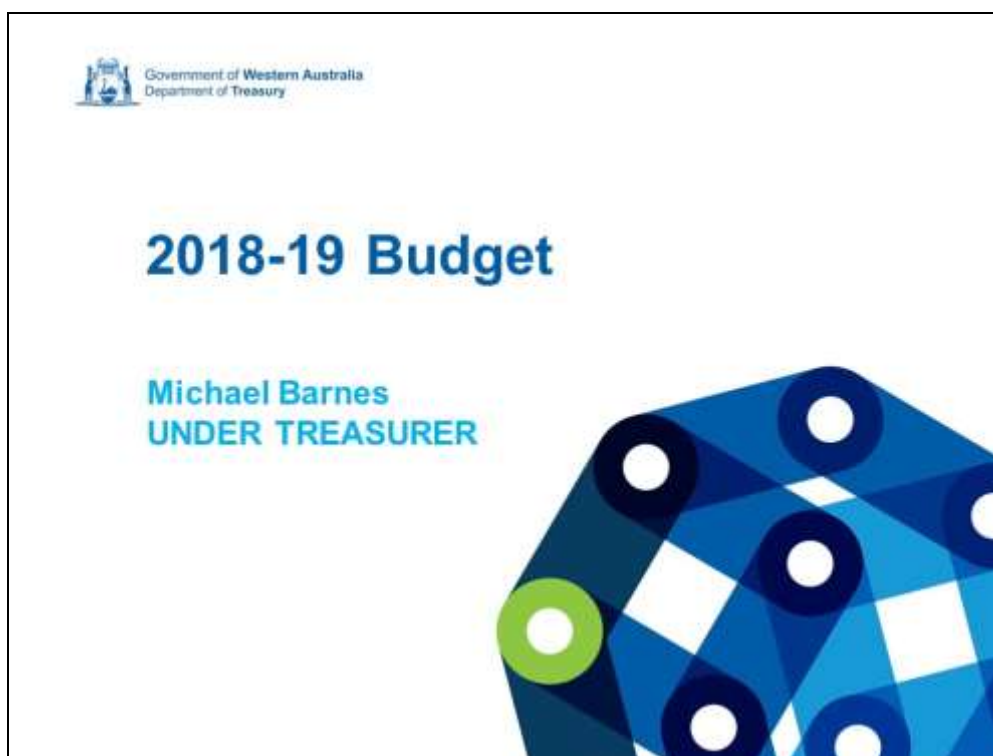
Chapter 1

- 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.

DR A.D. BUTI, MLA
CHAIR

Appendix One

Treasury's Budget Briefing: 2018-19 Budget

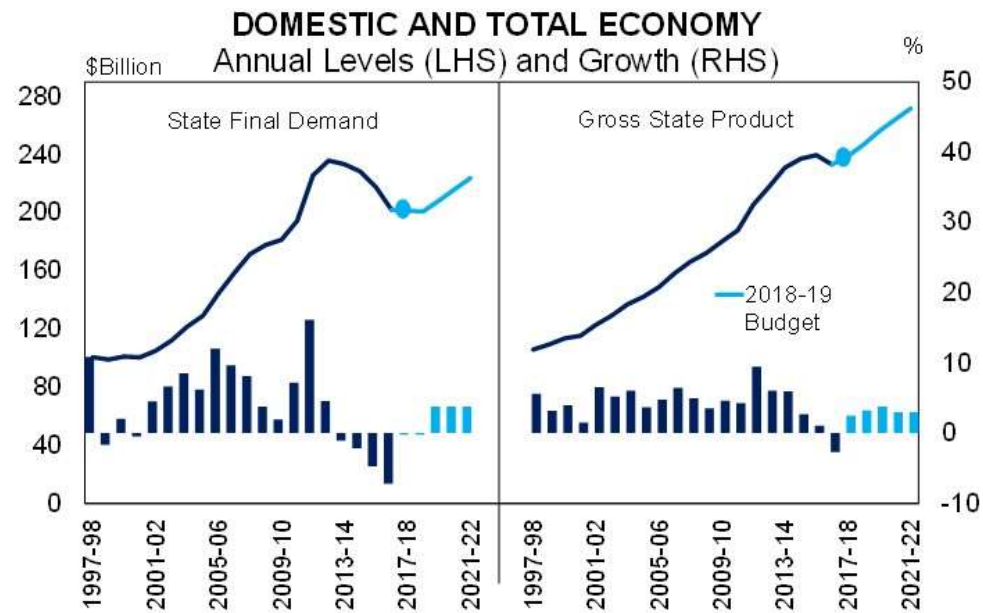


SUMMARY

- State's economy and revenues appear to have bottomed
- Budget on track for return to surplus by 2020-21, underpinned by low expense growth
- Most Budget repair measures from 2017-18 Budget on track
- Significant investment in this Budget in:
 - Public transport and roads
 - Social and affordable housing
 - Fire and emergency services
- A range of other spending initiatives funded by improved cost recovery

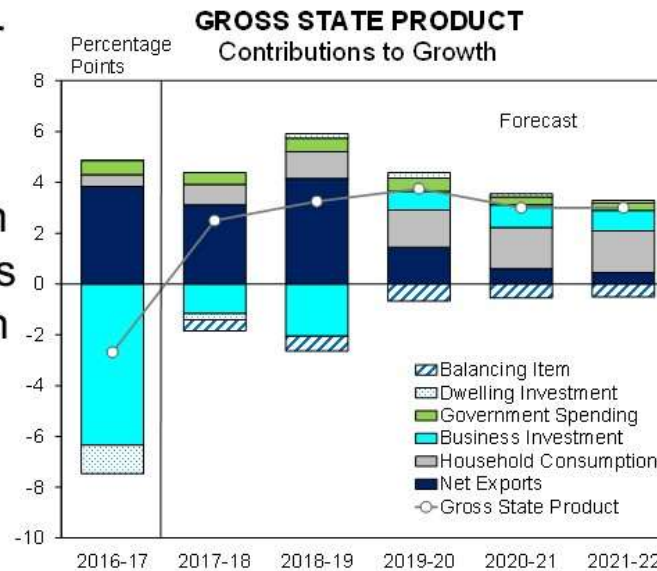
WA ECONOMY

► Overall economic activity (GSP) has troughed, while domestic activity (SFD) is approaching its trough



WA ECONOMY – COMPOSITION OF GROWTH

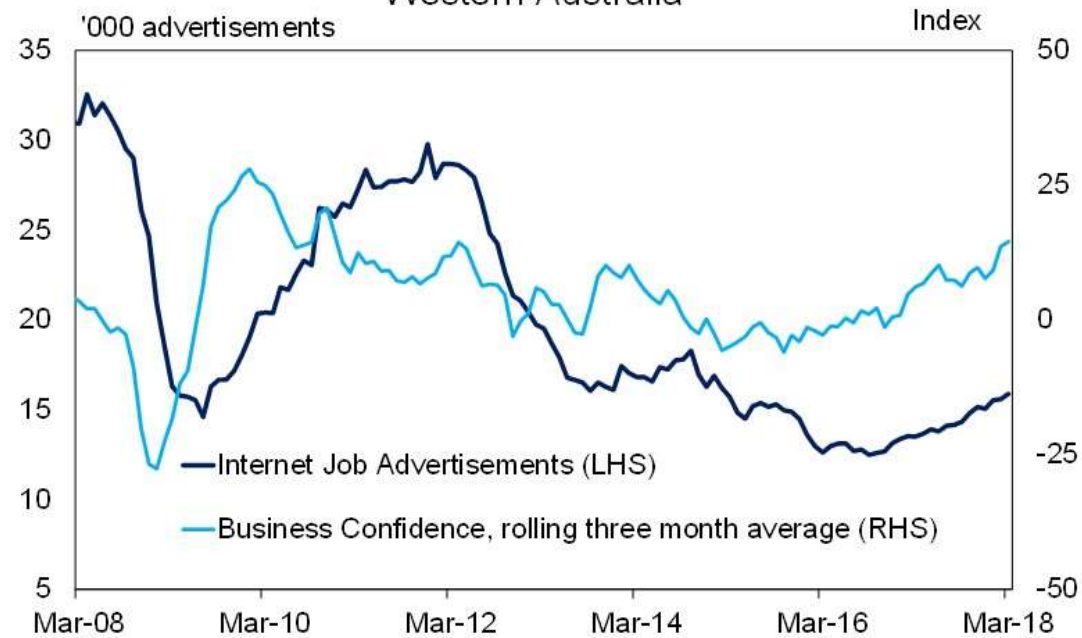
- Exports to remain major driver of growth in short term
- Household consumption expected to take over as major driver of growth in medium term
- Business investment projected to return to growth from 2019-20



WA ECONOMY – LABOUR MARKET

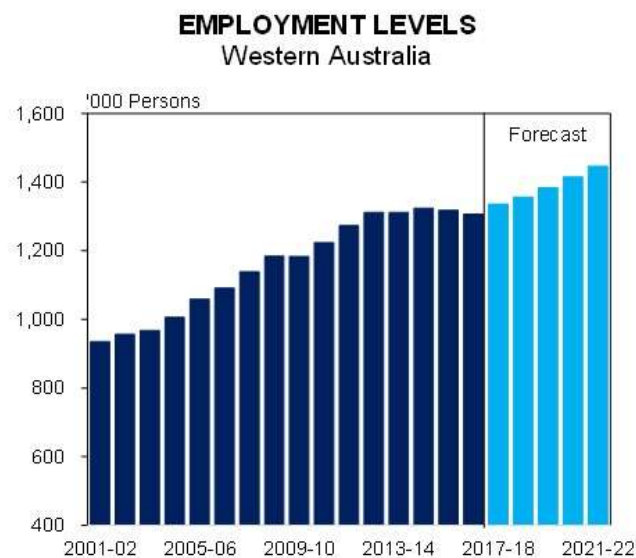
LEADING INDICATORS OF LABOUR DEMAND

Western Australia



WA ECONOMY – LABOUR MARKET

- Following declines over 2015-16 and 2016-17, employment forecast to grow by:
 - 2.25% (almost 30,000 jobs) in 2017-18
 - 1.5% (around 20,000 jobs) in 2018-19
 - average of 2% p.a. over forward estimates period

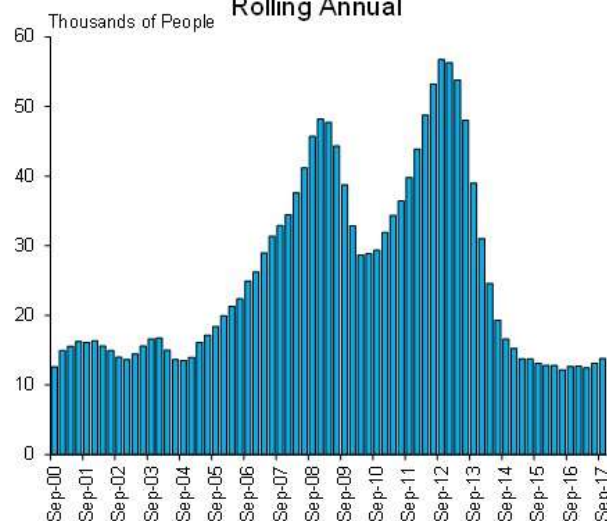


WA ECONOMY – POPULATION GROWTH

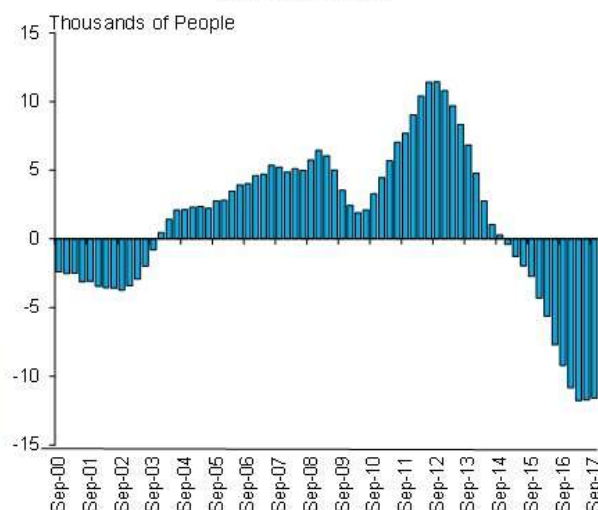


Net overseas migration has stabilised, and net interstate migration appears to have reached a turning point

NET OVERSEAS MIGRATION
Rolling Annual



NET INTERSTATE MIGRATION TO WA
Rolling Annual



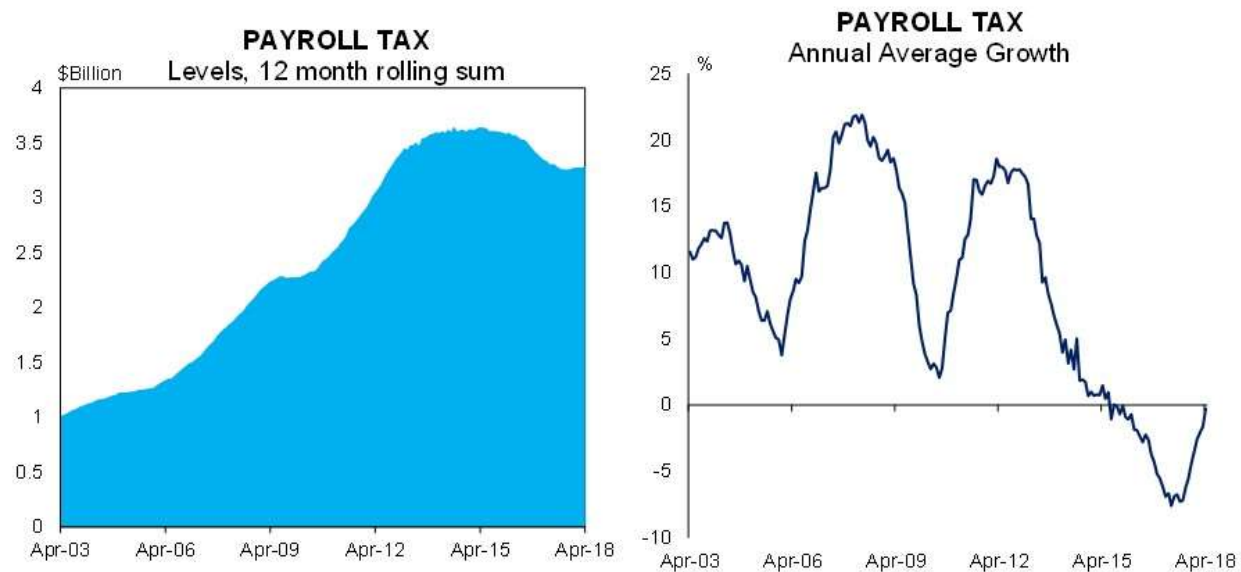
WA ECONOMY – KEY FORECASTS

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 (\$US/tonne, CFR)	68.3	61.9	60.8	68.1	63.2	63.2

REVENUE – PAYROLL TAX

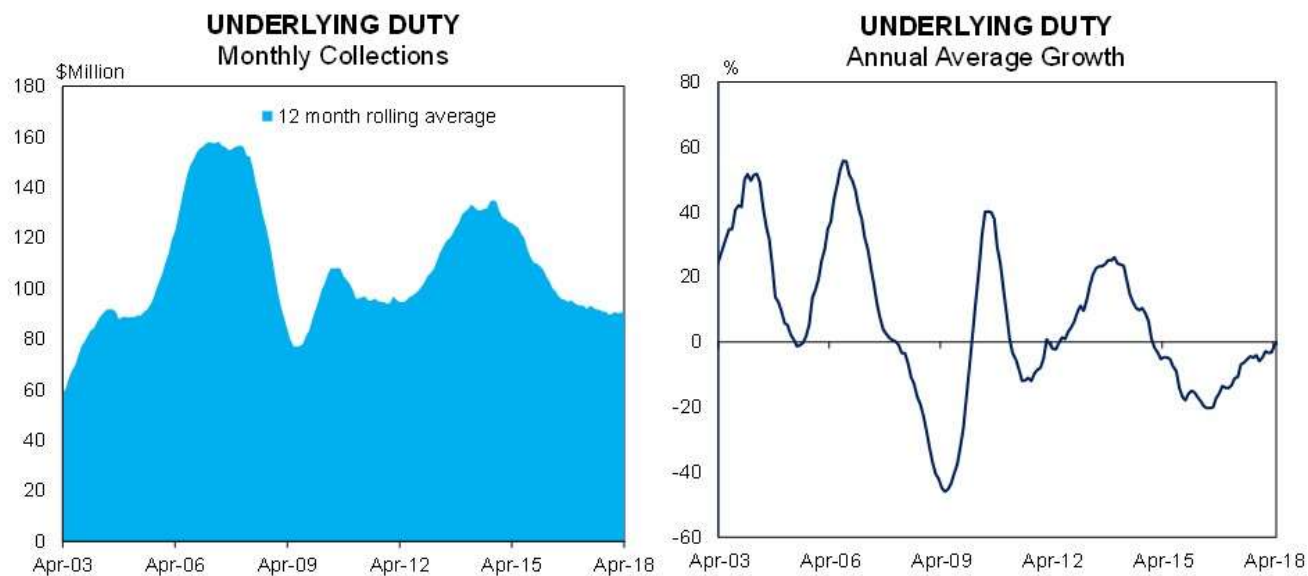
▶ Payroll tax revenue has fallen from \$3.6b in 2014-15 to an estimated \$3.2b in 2017-18, but collections appear to have bottomed



REVENUE – TRANSFER DUTY



Property transfer duty collections also appear to be stabilising

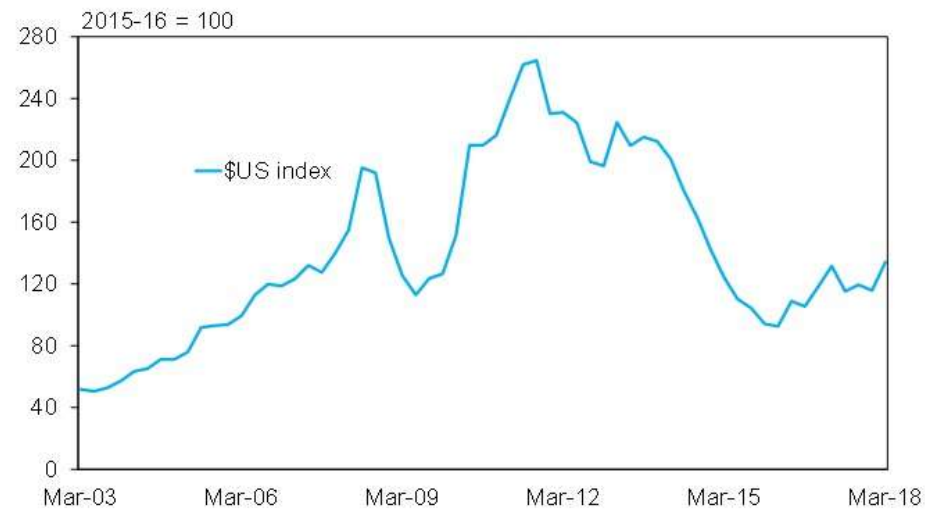


10

MINING REVENUE – COMMODITY PRICES

▶ Commodity price index has improved since early 2016, although it remains below high levels of recent years

COMMODITY PRICE INDEX (a)
Western Australia

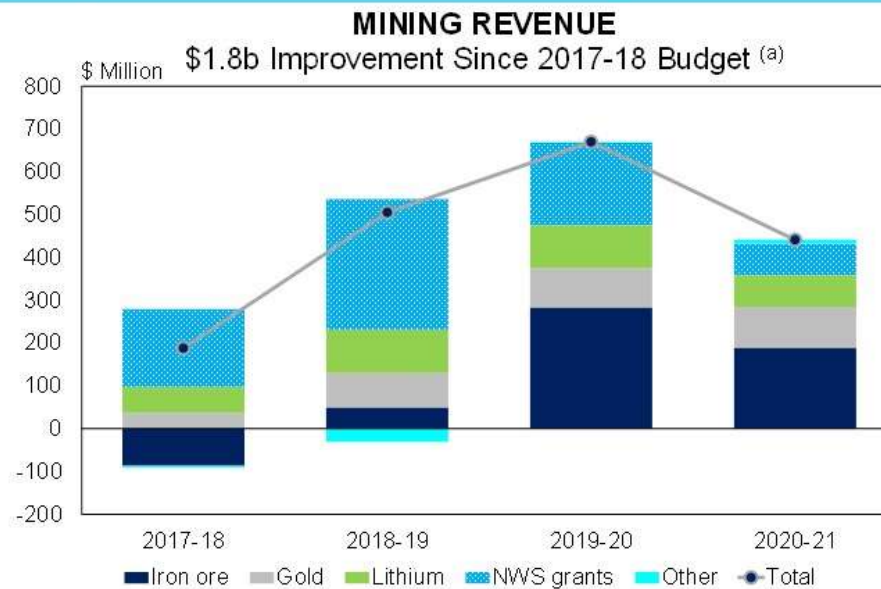


(a) A weighted index of prices of iron ore, gold, oil, LNG, copper, nickel, zinc, alumina and lithium.

11

MINING REVENUE – IMPROVEMENT SINCE 2017-18 BUDGET

► Improved commodity prices (and volumes) have flowed through to higher mining revenue



(a) Excluding disallowance of gold royalty increase announced in 2017-18 Budget.

12

REVENUE – COMMONWEALTH INFRASTRUCTURE FUNDING

- Additional Commonwealth infrastructure funding reflected in the forward estimates (to 2021-22) totals \$1.2b
 - Of this, \$702m will be received in 2017-18
- Funding comprises:
 - \$729m for METRONET projects (e.g. Morley-Ellenbrook Line)
 - \$189m for hospitals (Joondalup, Osborne Park, Royal Perth)
 - \$140m for roads (Bunbury Outer Ring Rd, Stephenson Ave)
 - \$140m for Myalup-Wellington water project (plus \$50m concessional loan)

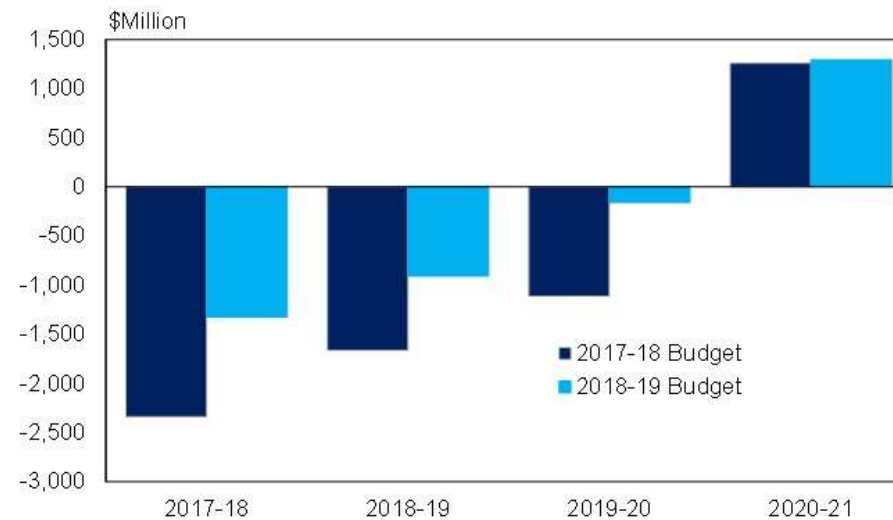
GST REVENUE

- WA will receive 47.3% of its population share of the GST in 2018-19 (\$3.3b), up from 34.4% in 2017-18 (\$2.2b)
- But WA's GST will still be around \$3.6b lower than our population share in 2018-19
- WA's GST relativity forecast to reach 64.9% by 2021-22
 - Still \$2.8b below our population share
 - No other State's population share has ever been below 83.4%

STATE FINANCES – IMPROVEMENT SINCE 2017-18 BUDGET

▶ \$2.8b improvement in net operating balance over
2017-18 to 2020-21

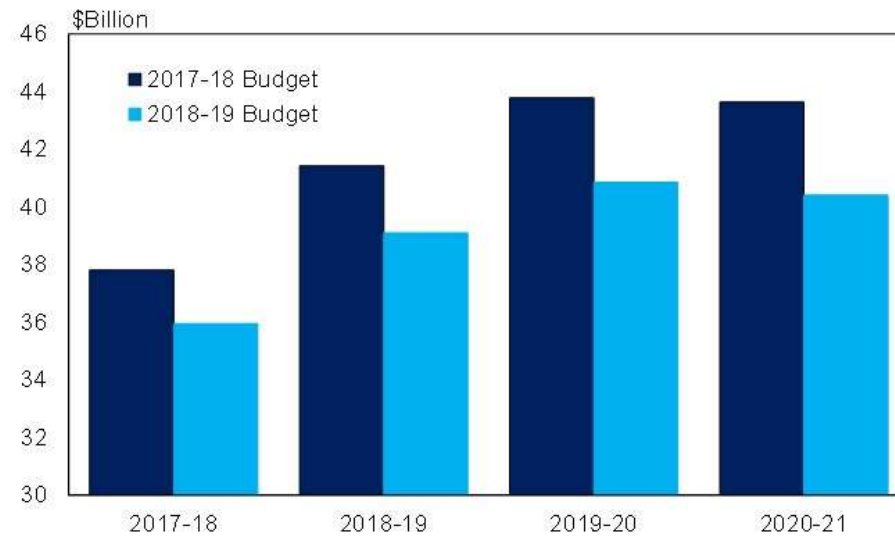
IMPROVEMENT SINCE 2017-18 BUDGET
General Government Net Operating Balance



STATE FINANCES – IMPROVEMENT SINCE 2017-18 BUDGET

► \$3.2b improvement in forecast level of net debt at
30 June 2021

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



16

STATE FINANCES – KEY BUDGET AGGREGATES

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

	2017-18 Estimated Actual	2018-19 Budget Estimate	2019-20 Forward Estimate	2020-21 Forward Estimate	2021-22 Forward 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.

PROGRESS WITH BUDGET REPAIR MEASURES

► Budget repair measures from 2017-18 Budget on track

- \$1,000 wages policy successfully implemented (\$700m)
- Legislation passed to freeze pay of Parliamentarians, Judges and senior public servants (\$23m)
- 20% reduction in Senior Executive Service achieved (\$104m)
- Voluntary Targeted Separation Scheme delivering significant savings (\$456m, net of up-front costs and retained savings)
 - 1,943 separations finalised as at 7 May 2018
 - around 2,050 separations expected by 30 June 2018
 - a further 620 in early 2018-19, with remaining 330 over forward estimates period

18

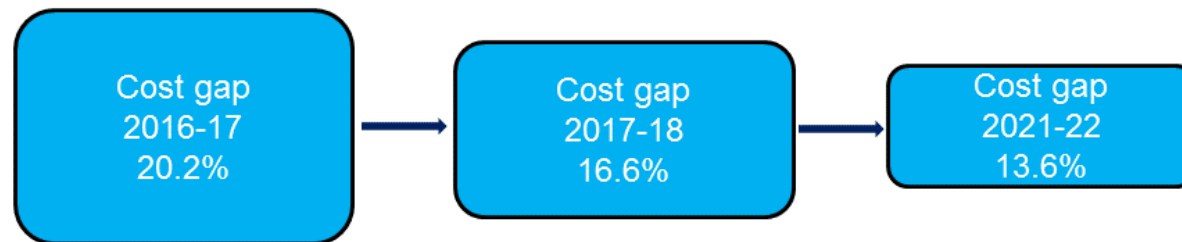
PROGRESS WITH BUDGET REPAIR MEASURES – CONT.

► Budget repair measures from 2017-18 Budget on track

- Rate of proposed Foreign Buyers' Surcharge increased from 4% to 7% (to apply from 1 Jan 2019)
 - Estimated to raise additional revenue of \$50m over forward estimates (bringing total revenue to \$123m)
- Government accommodation reforms are on track (\$128m) and savings are now assigned at agency level for State Fleet initiatives (\$55m)

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

COST RECOVERY FUNDING ESSENTIAL PROGRAMS

- **Building and Construction Industry Training Fund**
 - Remove resource sector's exemption from BCITF levy (~\$25m)
 - Revenue raised will fund additional apprenticeships and training delivery
- **Exploration Incentive Scheme**
 - 6% increase in Mining Tenement Rents in 2018-19 and 2019-20 (\$10m p.a. once fully implemented) to secure ongoing funding for EIS
- **Additional staff and new online portal to reduce environmental application assessment timeframes**
 - Funded through increases in regulatory fees and charges (\$19.4m)
- **Two additional Magistrates and operation of security screening equipment in courthouses**
 - 7.5% increase in court and tribunal fees in 2018-19 (\$11.2m)
- **Repairs and maintenance for maritime infrastructure**
 - New State-wide fee structure for maritime facilities (\$10.4m)

21

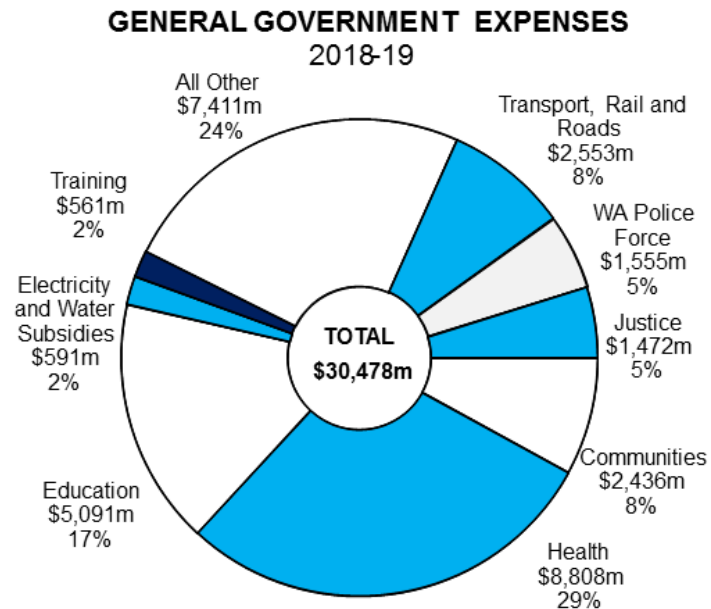
HOUSEHOLD TARIFFS, FEES AND CHARGES

▶ 'Representative' household will face a \$292.07 (4.8%) increase in 2018-19

- 7% increase in **electricity** tariffs (\$120.57)
- 5.5% increase in **water, sewerage and drainage** charges for 'representative' household (\$91.04), comprising:
 - 3% increase to fixed water supply charge
 - 6% increase to consumption charges for first 500kL and for sewerage and drainage charges
- While not affecting the 'representative' household, there will be a 40% increase to the third consumption taper (> 500kL) for metro customers (impacting 5.7% of metro customers)
- 2.1% increase in **public transport** charges (standard 2-zone)
- 5.8% increase in **motor vehicle licence** charge (\$20.48)

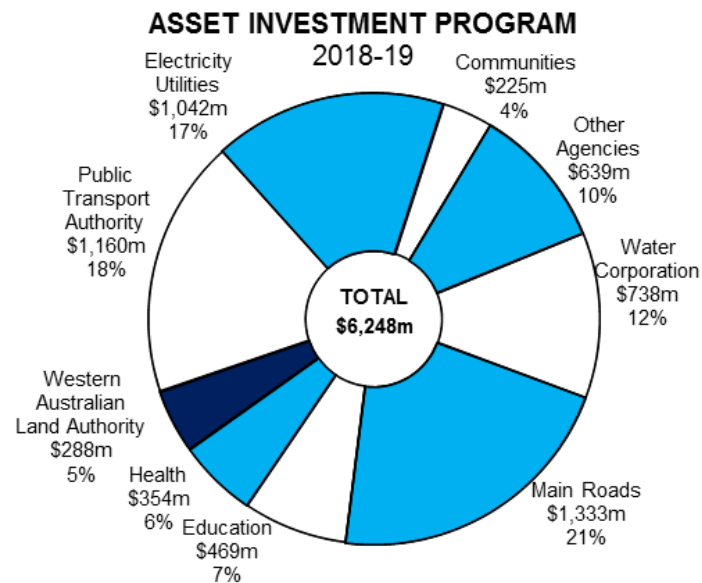
RECURRENT EXPENDITURE

- 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



INFRASTRUCTURE INVESTMENT

- Infrastructure investment will total \$6.2b in 2018-19 (up \$725m on 2017-18)
- \$4.6b or 74% of this in transport (roads, public transport and ports), water and power



METRONET

- Commonwealth has committed \$1,052m (over 2017-18 to 2024-25) to Morley-Ellenbrook Line, extension of Armadale Line to Byford and other METRONET projects, including \$729m to 2021-22
- This Budget includes a \$750m provision over the forward estimates for METRONET projects under development, funded by:
 - \$729m from Commonwealth
 - \$21m from Metropolitan Region Improvement Fund
- Brings total METRONET investment over forward estimates to \$2.2b (on top of \$1.4b for FAL project)

METRONET

- Other key METRONET-related decisions in this Budget:
 - \$1.6b to procure 246 railcars over next 10 years
 - 102 for Stage 1 METRONET expansion
 - 144 to replace existing A-series railcars
 - Seeking at least 50% local content
 - \$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
 - State-funded expenditure of \$184m
 - Plus private sector investment to fund 8 high-density METRONET-oriented mixed-tenure developments
 - Net debt neutral by end of forward estimates

FIRE AND EMERGENCY SERVICES

- An additional \$128.5m over forward estimates period in critical fire and emergency services
 - \$80.3m to establish a dedicated Rural Fire Division, including:
 - \$34.6m for bushfire mitigation
 - \$18.1m to establish a Bushfire Centre of Excellence
 - \$15m for Bushfire Risk Management Planning program
 - \$19.5m to 38 Volunteer and Marine Rescue Service groups
 - \$8.7m for crew cab protection measures
 - \$8m to replace volunteer fire stations across the State
 - \$8m to replace Kensington career fire and rescue station
- Funded by a \$28 increase in the Emergency Services Levy (for average metro household)

OTHER NEW EXPENDITURE

- Other new expenditure in the 2018-19 Budget includes:
 - \$79.2m for Geraldton Health Campus redevelopment, including establishment of Step Up/Step Down Mental Health Facility
 - \$34.8m for a disability workforce transition and sector development package, to assist transition to NDIS
 - \$26.9m to replace WA Police Force helicopter
 - \$20.5m for Target 120 program, to reduce juvenile reoffending and improve community safety
 - \$15.3m for establishment of Infrastructure WA
 - \$11.8m for Mental Health Observation Area and associated Mental Health Unit at RPH

KEY OUTSTANDING ISSUES

- Commonwealth funding agreements (e.g. health, education, housing)
 - Commonwealth funding for remote housing ceases after 30 June 2018
- GST reform
 - Productivity Commission due to report to Federal Treasurer today (15 May 2018)
 - Commonwealth Grants Commission methodology review underway (reporting 28 February 2020)
- Potential State Government participation in National Redress Scheme for Institutional Child Sexual Abuse
 - State working with Commonwealth on design and cost implications



Questions?

Appendix Two

Response to questions taken on notice during the briefing



Government of Western Australia
Department of Treasury

Our ref :
Enquiries :
Telephone :

Dr Anthony De Paulo Buti MLA
Chair
Public Accounts Committee
Parliament House
4 Harvest Terrace
WEST PERTH WA 6005

Dear Dr Buti

**QUESTION ON NOTICE – DEPARTMENT OF TREASURY BRIEFING ON THE
2018-19 BUDGET**

Please find attached a response to the question taken on notice by the Department of Treasury during the briefing to the Public Accounts Committee on 15 May 2018 in respect of the 2018-19 Budget.

Yours sincerely

Michael Barnes
UNDER TREASURER
16 MAY 2018

Enc.

cc: Hon Ben Wyatt MLA, Treasurer

Level 23, David Malcolm Justice Centre, 28 Barrack Street, Perth, Western Australia 6000
Locked Bag 11, Cloisters Square, Western Australia 6850
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**PUBLIC ACCOUNTS COMMITTEE
QUESTION ON NOTICE**

2018-19 Budget Briefing

Date of Briefing: 15 May 2018

Question from Hon David Honey MLA

What would be the impact on the current total Government expenditure growth rate if WA did not transition to the full Commonwealth NDIS?

Answer:

The 2018-19 Budget has been formulated on the basis of the 12 December 2017 agreement between the State and Federal Governments, which will see Western Australia transition to the Commonwealth-run National Disability Insurance Scheme (NDIS) over coming years. Relative to the 2017-18 Mid-year Review (which reflected transition to a State-run scheme), the change in responsibility results in a reduction in State spending and a corresponding reduction in Commonwealth funding to Western Australia.

As the State will no longer administer the scheme, the financial impact relative to the Mid-year Review also avoids significant State-funded administration costs (under the new agreement, the Commonwealth will meet all of the National Disability Insurance Agency's administration costs, consistent with arrangements in all other jurisdictions, equating to approximately \$1.3 billion over 10 years for Western Australia). The estimated financial impact of the revised agreement is detailed in a feature box on pages 95-96 of the 2018-19 Budget Paper No. 3: *Economic and Fiscal Outlook*.

The following table summarises the difference between the 2018-19 Budget, including the impact of moving to the Commonwealth-run NDIS, and general government expenses if the Budget continued to transition to a State-run scheme. As indicated in the table, budgeted expense growth of 0.9% in 2018-19 would have been an estimated 1.8% had the previous agreement for a State-run NDIS remained in place.

	2017-18	2018-19	2019-20	2020-21	2021-22
General Government (GG) Expenses					
2018-19 Budget GG Expenses (\$m)	30,201	30,478	30,875	31,015	31,658
Growth (%)	2.8	0.9	1.3	0.5	2.1
Transition to a Commonwealth-run NDIS	-113	-375	-867	-1,087	-1,197
Adjusted GG Expenses (\$m)	30,313	30,853	31,562	32,102	32,853
Adjusted Growth (%)	3.2	1.8	2.3	1.7	2.3

Appendix Three

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.



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