2014
BUDGET BRIEFING

@ipaawa #2014BudgetBriefing

Institute of Public Administration Australia WA

Budget Strategy in Tougher Times

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Grattan Institute

@ipaawa #2014BudgetBriefing

Institute of Public Administration Australia WA

Overview

Budgets are under pressure, and it will get worse

- Commonwealth has had a structural deficit of 2% of GDP for the last 6 years
- Australian government budgets will get worse, driven by health
- Both revenue AND expenditure are behind historic averages

WA has benefited from revenue windfalls, which it has largely spent

Spending growth was driven by health and infrastructure

- Health spending was driven by servicing, not ageing
- A large increase in capital spending is now crimping recurrent budgets

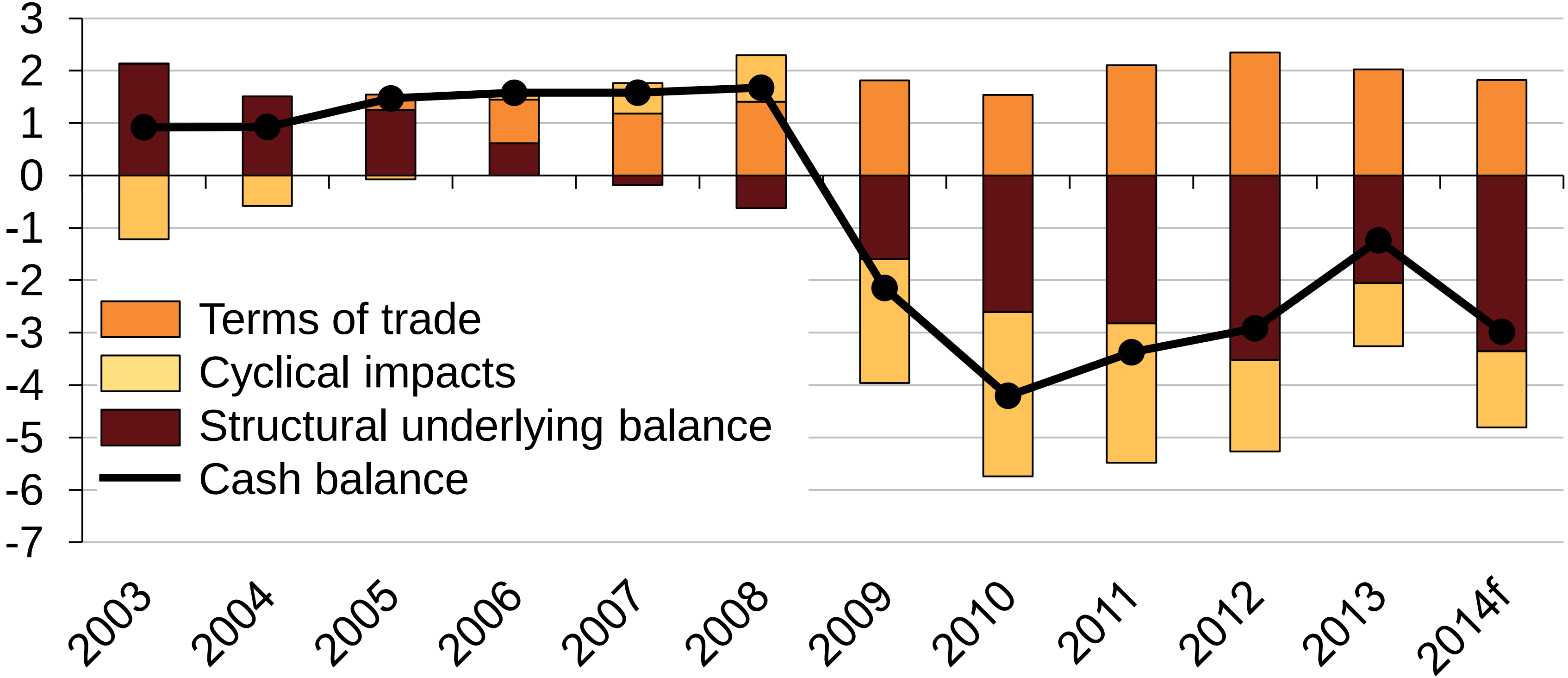
Budget repair will be difficult

- The planned slowdown in spending is unprecedented
- Budget repair requires tough choices
- State options are particularly unattractive

Underlying Commonwealth budget deficit

Commonwealth budget balance

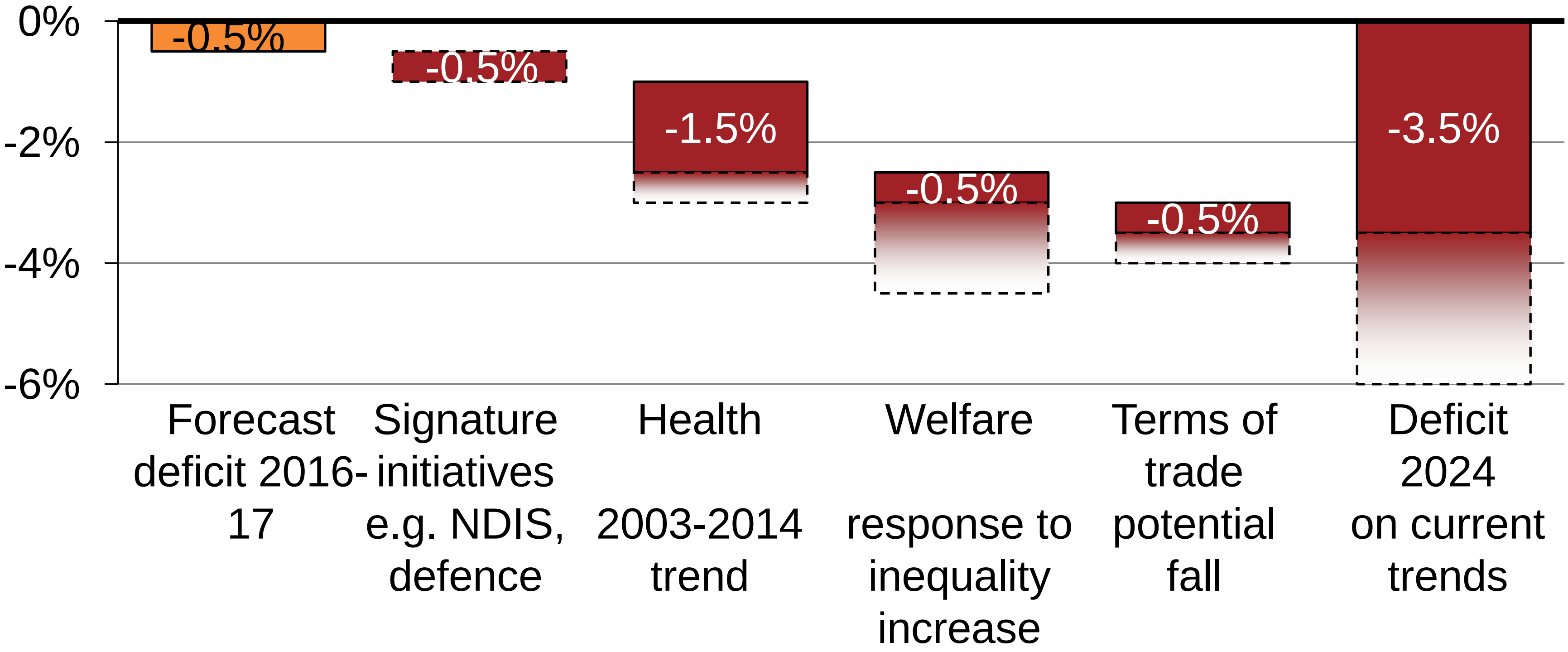
per cent of nominal GDP



Note: Cash balance is equal to receipts minus payments, minus Future Fund income, (under 0.25 per cent of GDP)
Source: *Budget Pressures 2014*

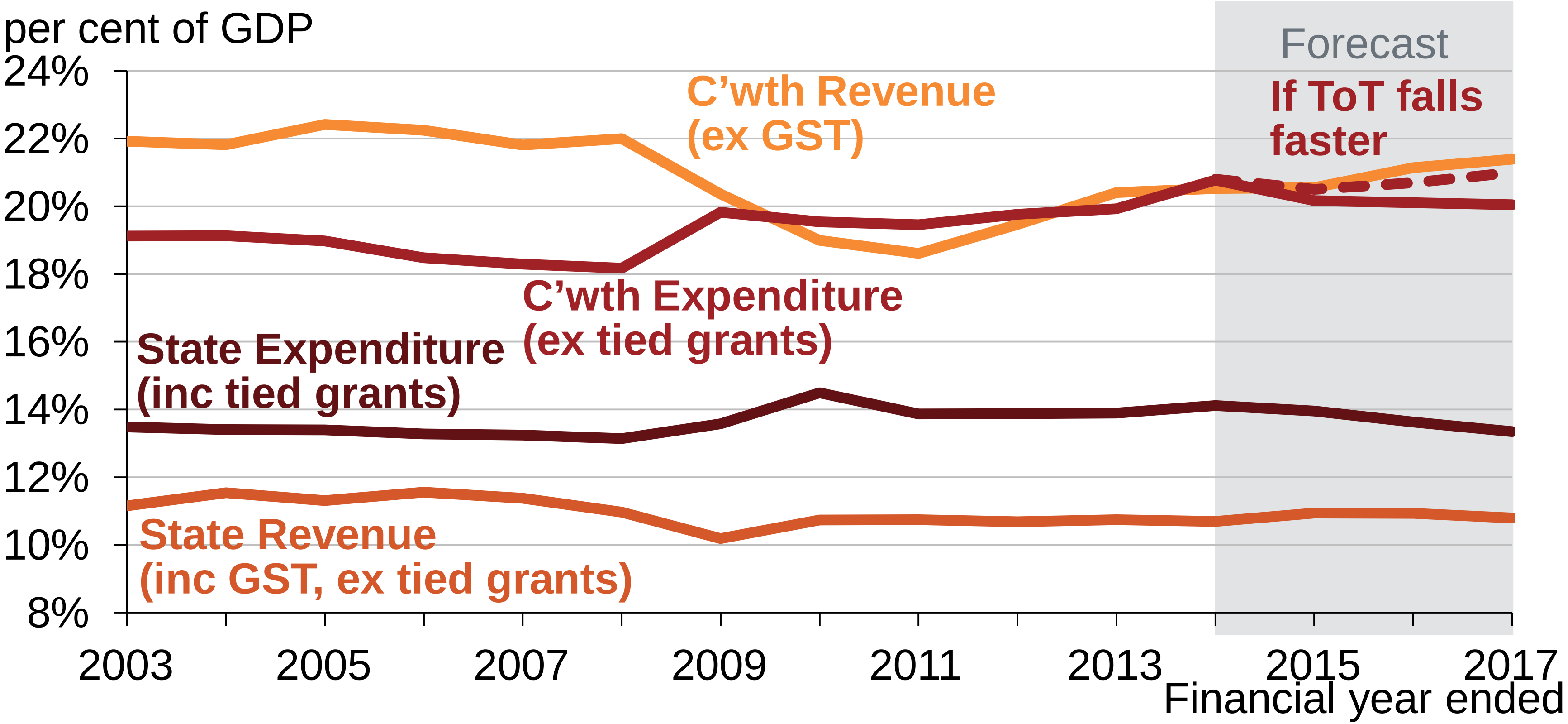
On current trends, a decade of deficits

Potential annual deficit of Australian governments' budgets by 2024
(Percent of GDP)



Underlying revenue and expenses

Commonwealth and State expenditures and revenues



Note: Revenue collected by the Commonwealth and transferred to states is shown as Commonwealth revenue only.
Source: *Budget Pressures 2014*

C’wth budget repair is primarily bracket creep

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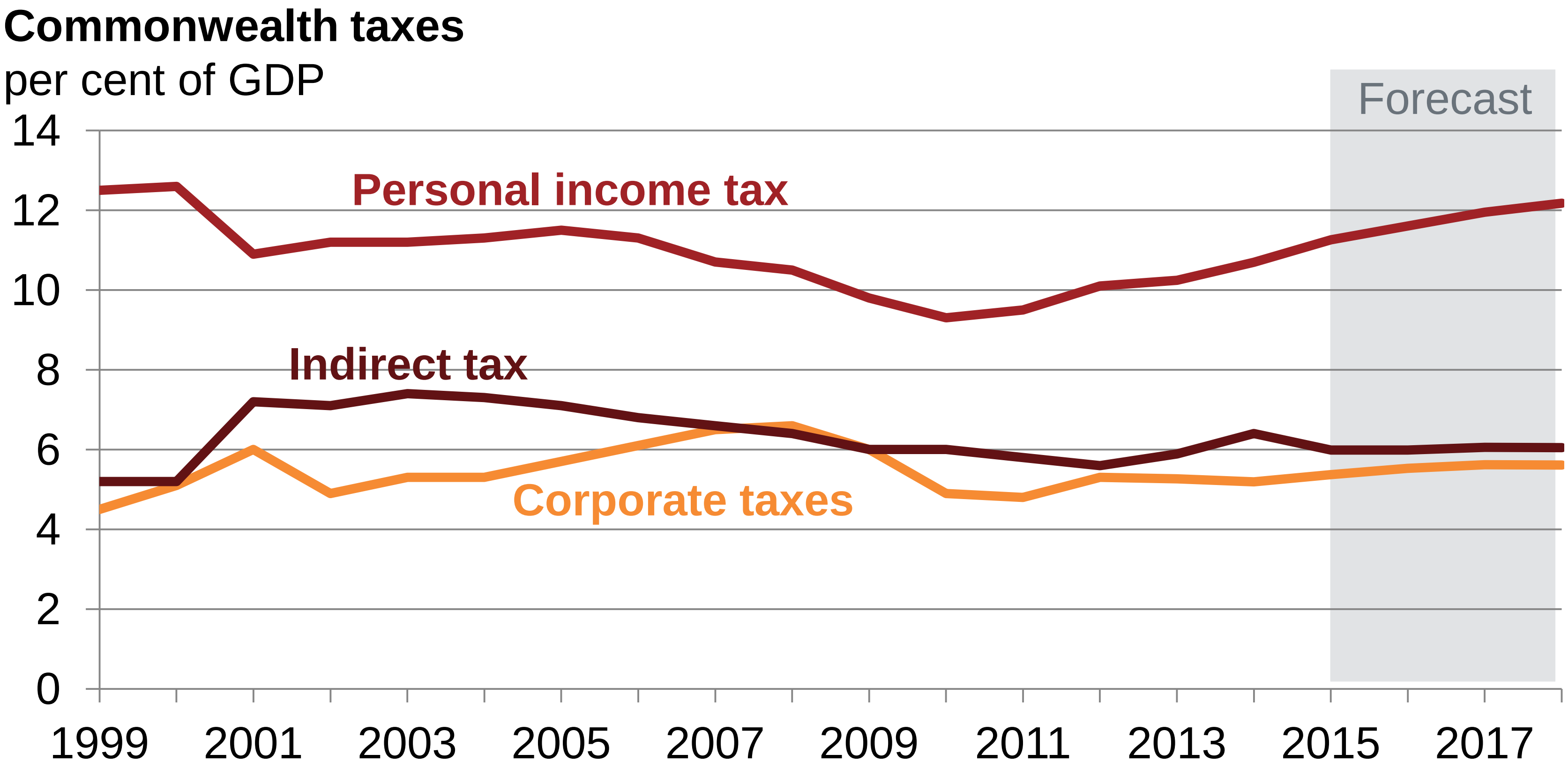

Source: Treasury, *Budget Paper 1*; Grattan Institute analysis

Many groups contribute to Cwth budget repair

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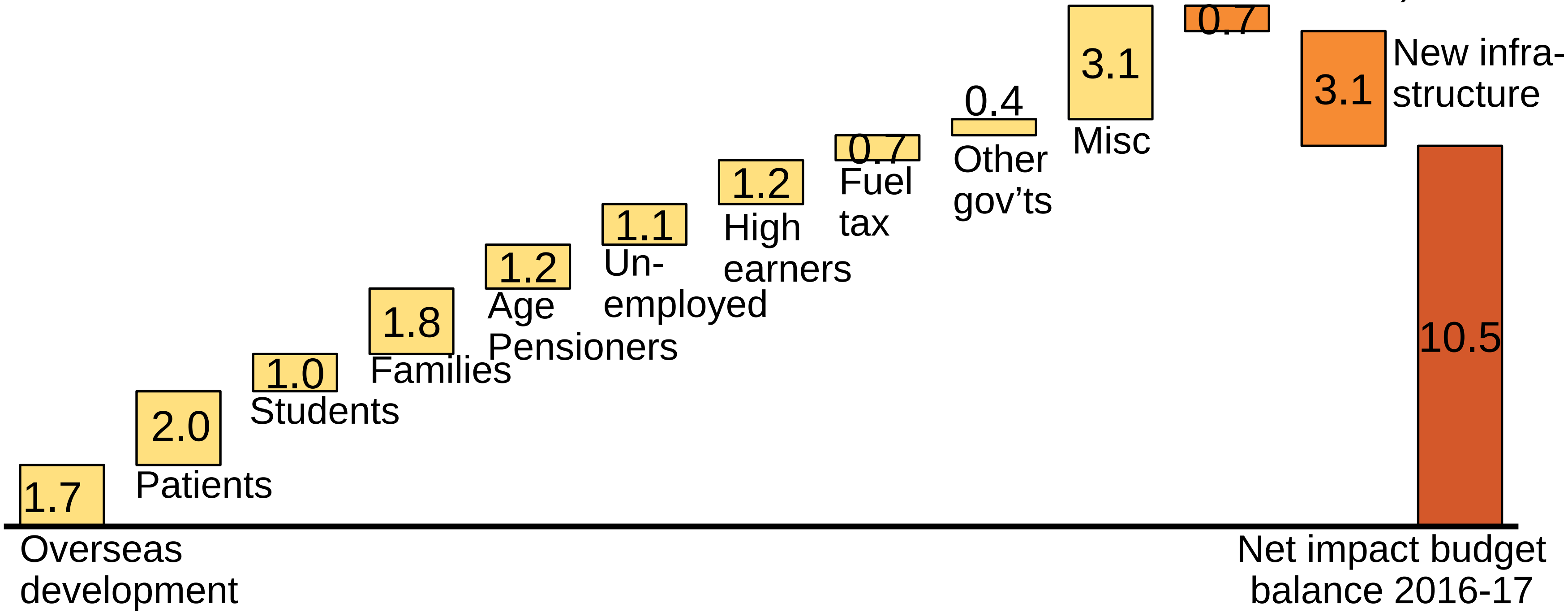
Budget measures, impact on 2016-17 budget

Annual impact, 2017$b



Source: Treasury, *Budget Paper 2;* Grattan Institute analysis

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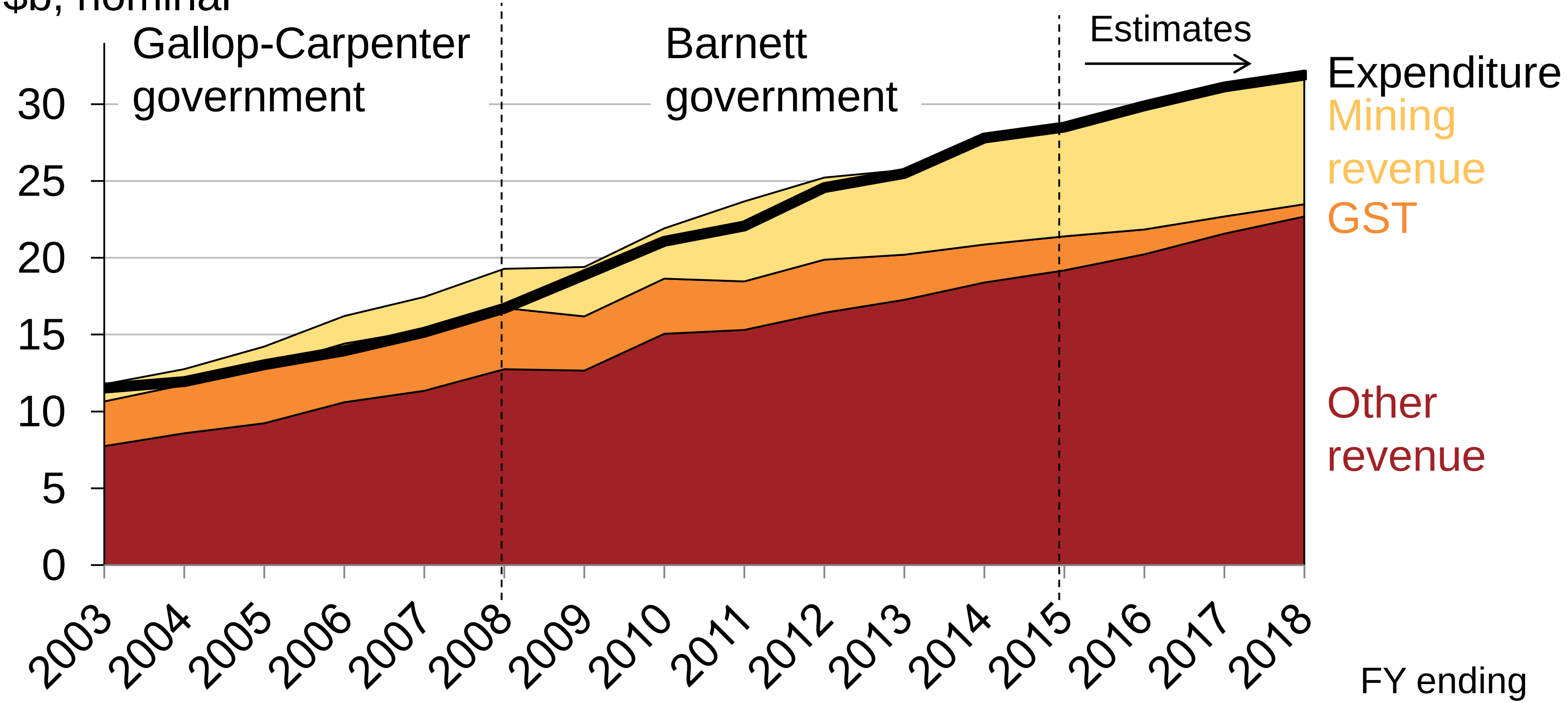
WA government revenue and expenditure

$b, nominal



Note: ‘Mining revenue’ includes royalties and North West Shelf payments from Commonwealth. All figures are General Government.
Sources: WA State Budget Paper 3 (various years); WA Overview of State Taxes and Royalties 2012-13; ABS Cat No. 5512.0 Table 235.

WA collects – and spends - more

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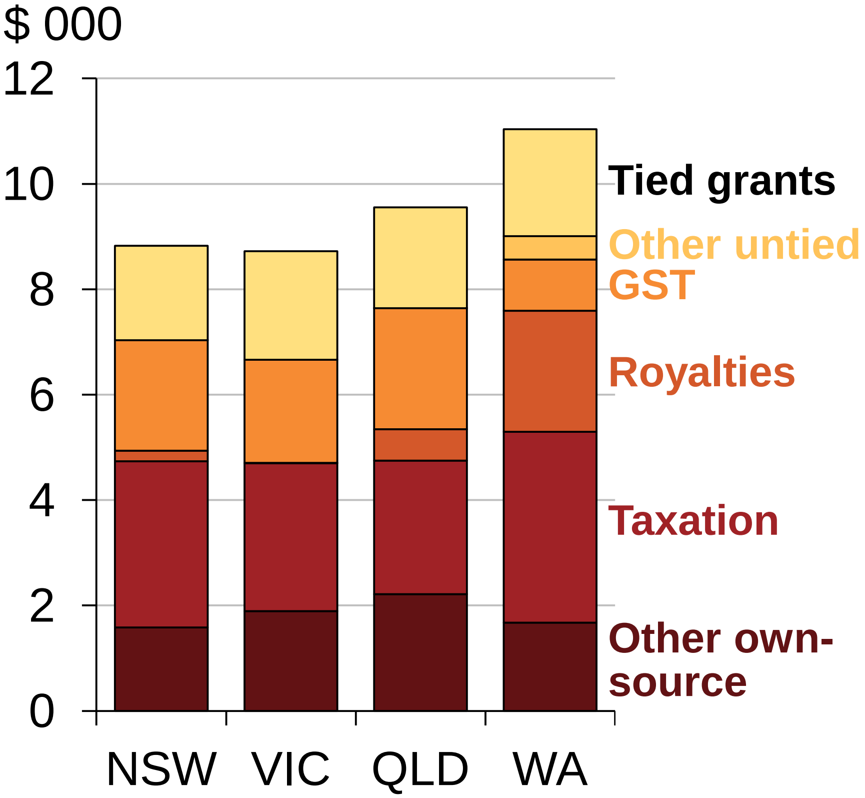
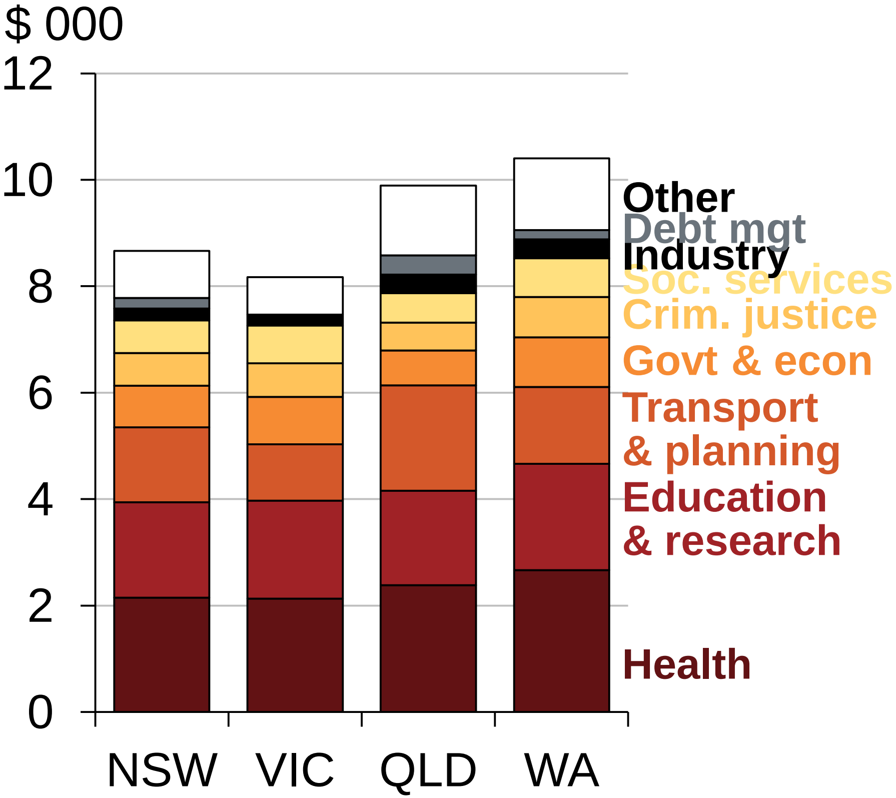
Large State revenue per capita



Large State spending per capita



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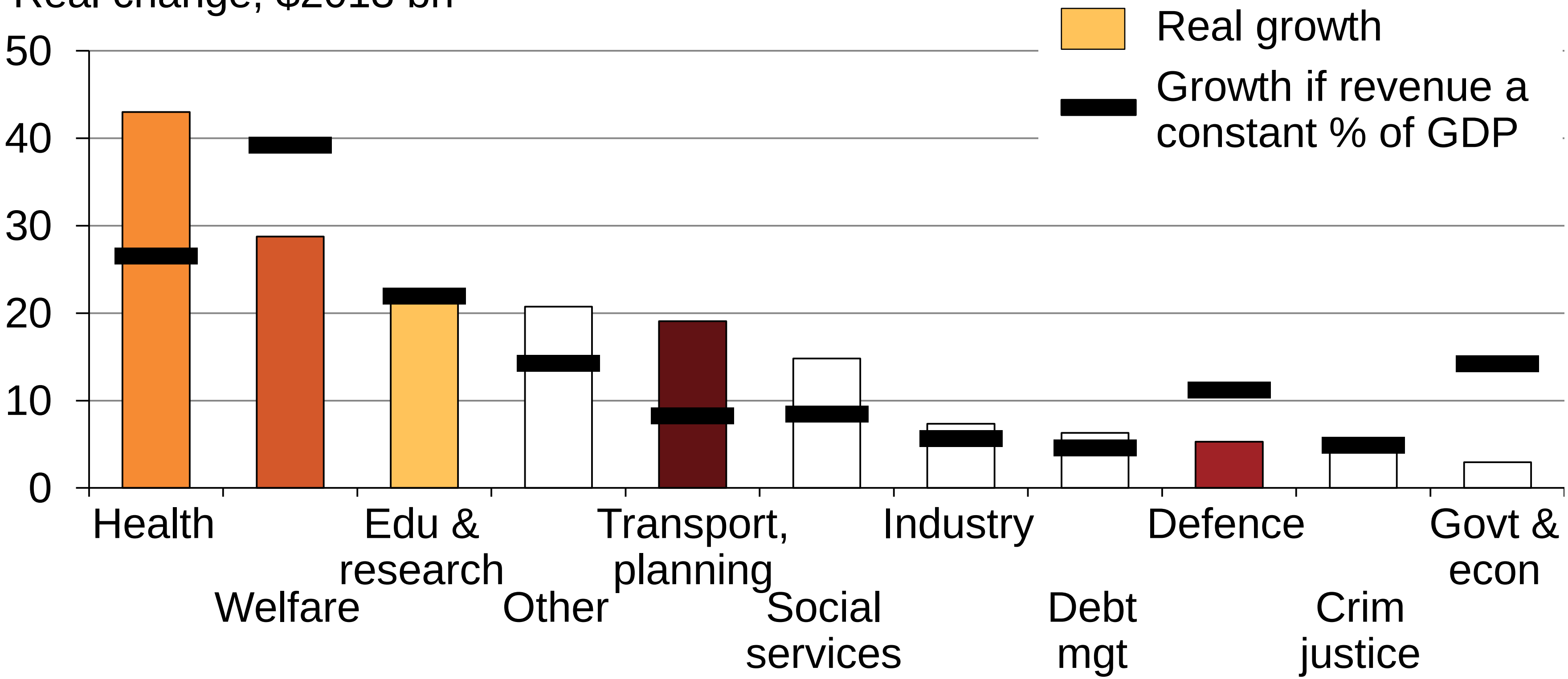
Nationally, health and infrastructure grew

Change in Australian governments' recurrent expenditure, 2003 to 2014

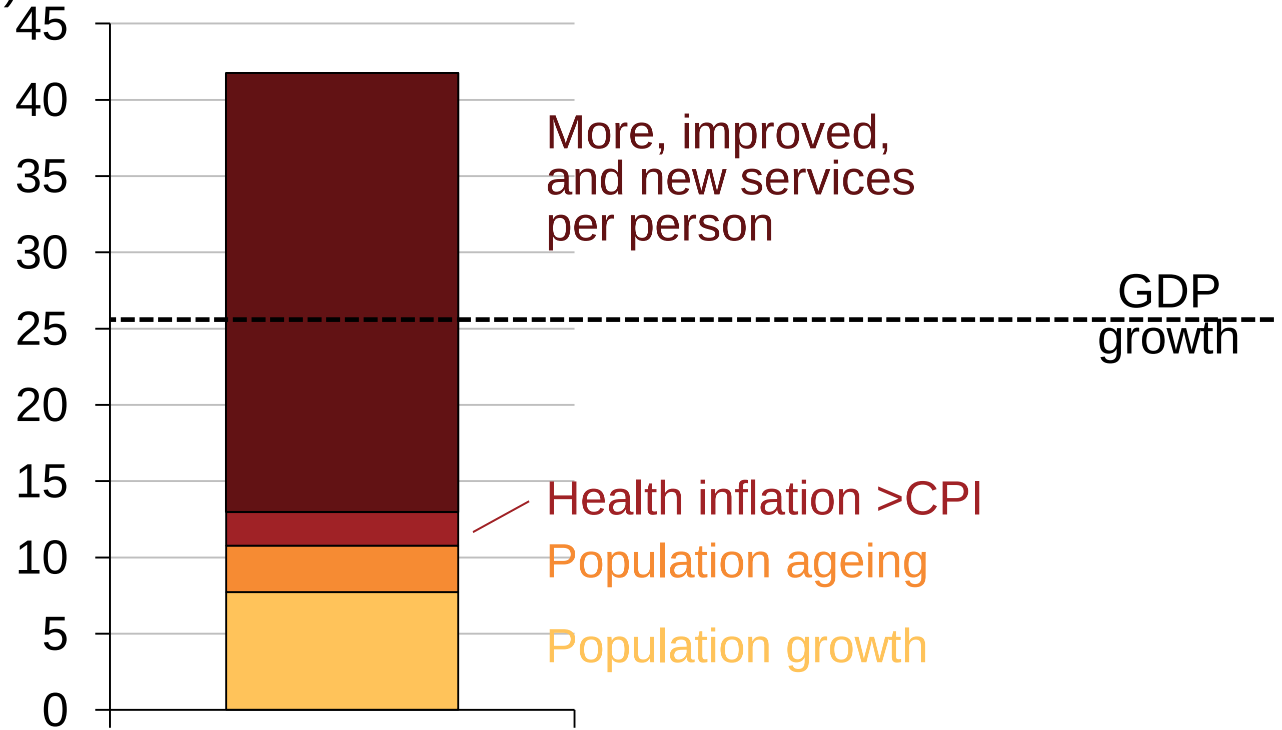
Real change, $2013 bn



Note: 'Other' comprises all expenditure not elsewhere included. 'Social services' comprises ageing and aged care services, disability services, and community services. 'Govt & econ' comprises government operations and economy and finance. Source: *Balancing Budgets 2014 Supporting Materials*

Health spending is driven by servicing

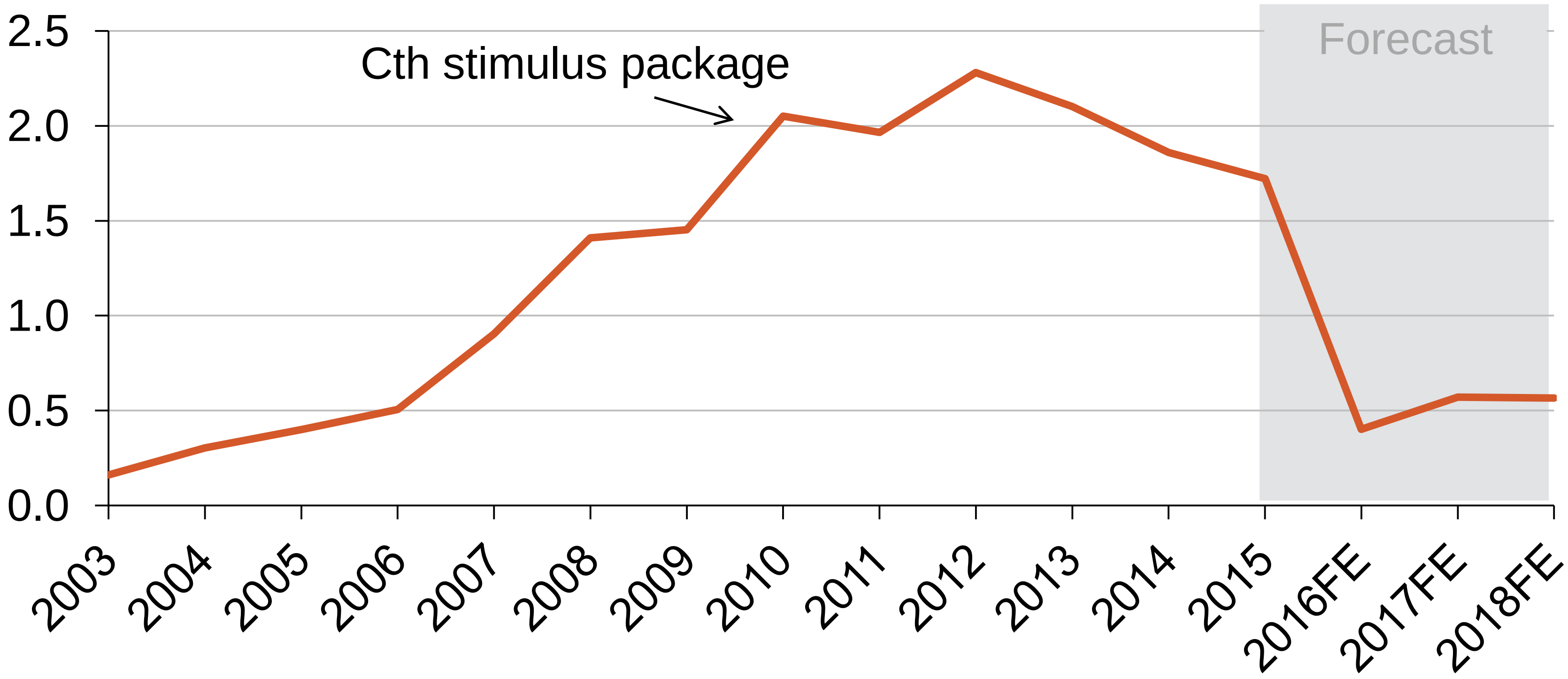
Real increase in expenditure 2003-2013
($2012 billion)



WA capex has been unusually high

Capital expenditure

Net acquisition of non-financial assets, $ billions ($2013)



Note: Total net investment in fixed assets (excludes PPP payments)
Source: ABS (2013) cat 5512.0, WA Government 2013-14 Budget Paper 3 (2013)

Capex has driven increase in debt

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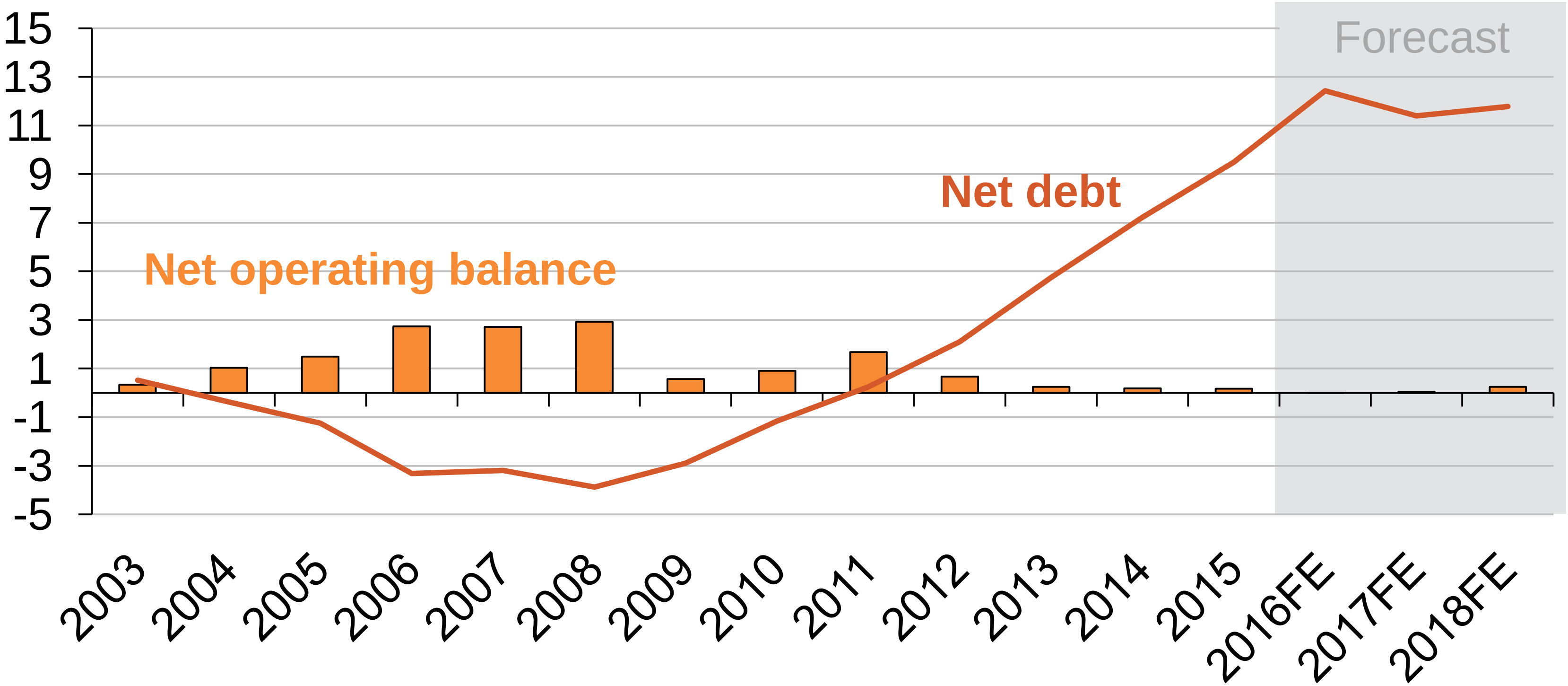
Net debt and operating balance

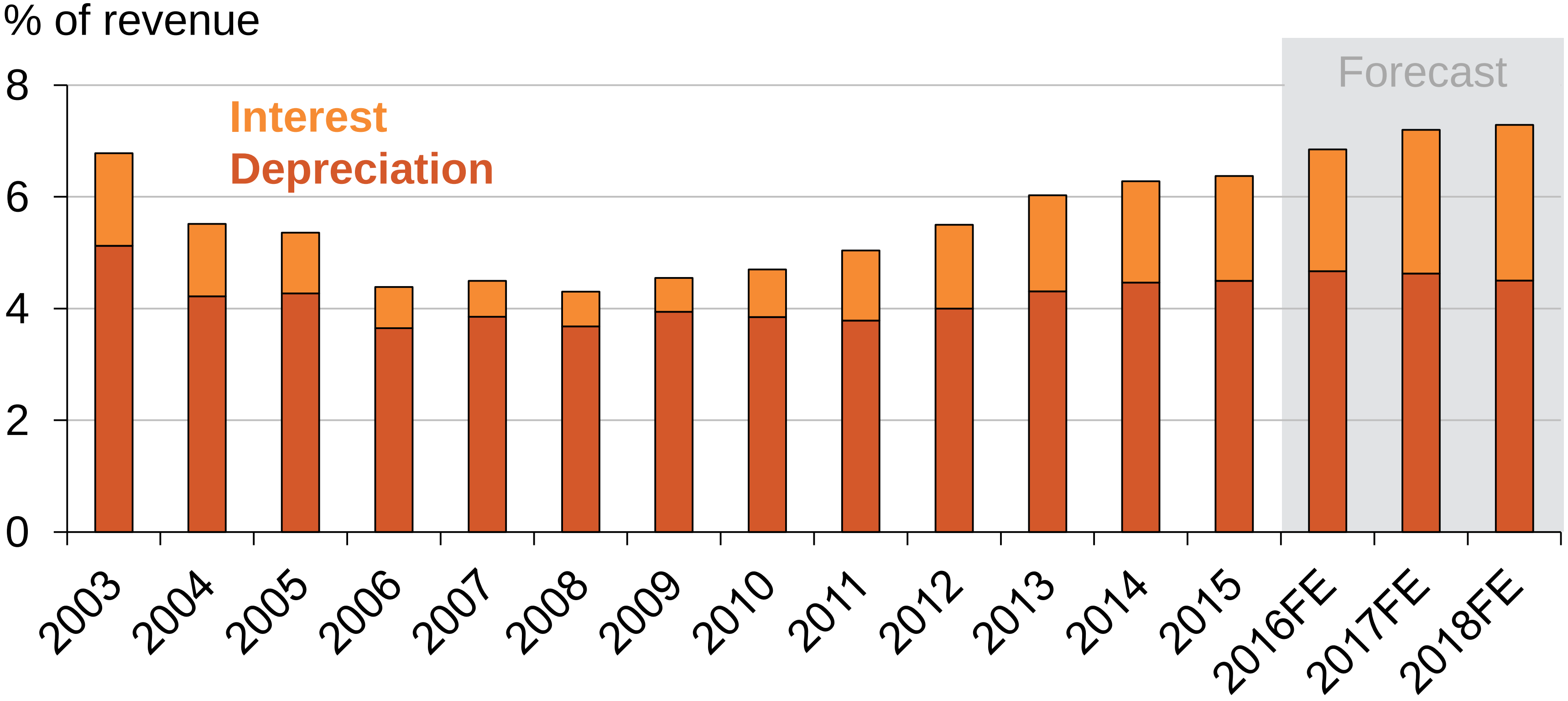
$ billions ($2013)



Note: Net operating balances for 2014 are estimates and subsequent years are forecasts
Source: ABS (2013) cat 5512.0, WA Government 2013-14 Budget Paper 3 (2013)

Recurrent budgets pay for past capex

Depreciation and interest expense as a percentage of revenue



Source: ABS (2013) cat 5512, WA State Budget Paper 3 (2013-14)

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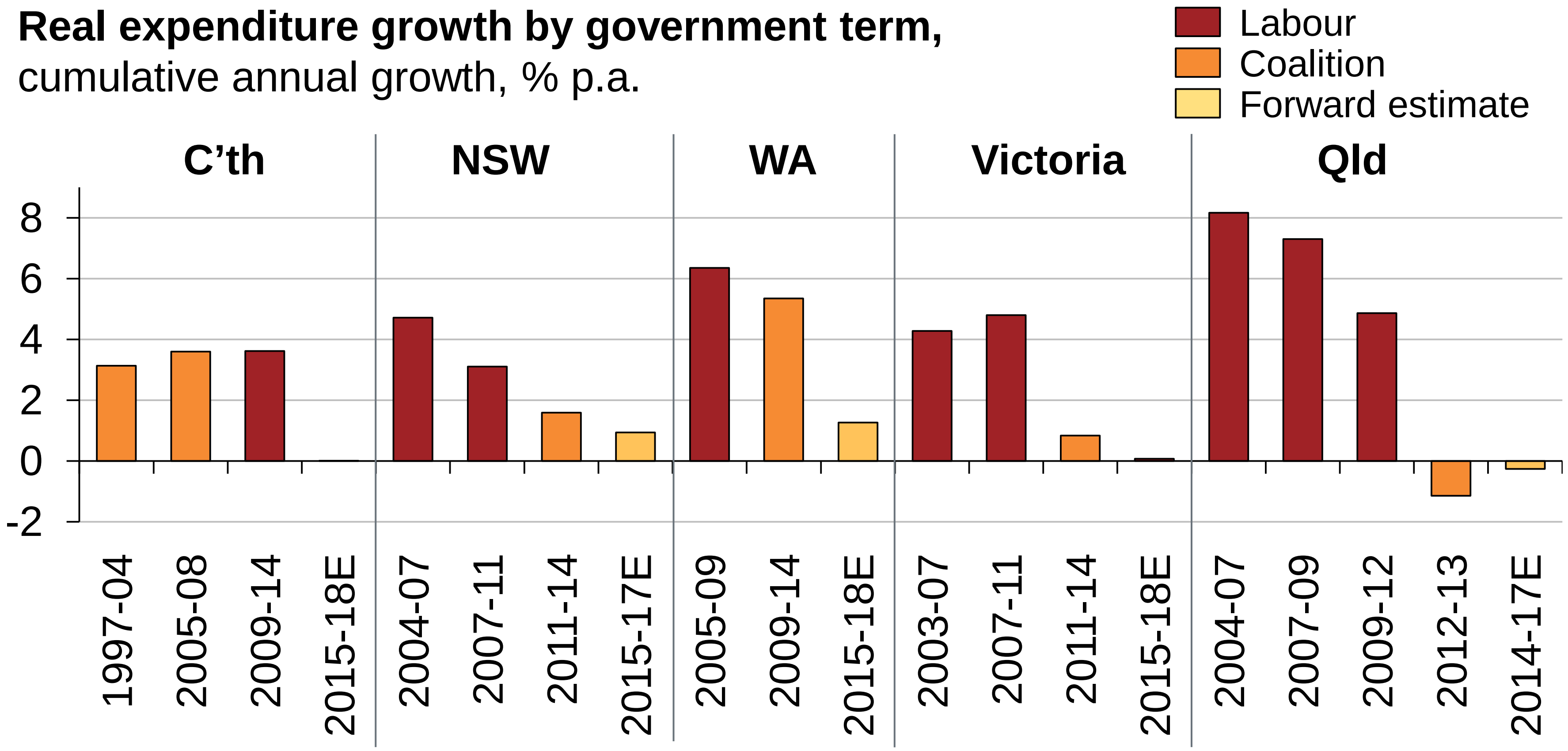
WA has not yet cut hard

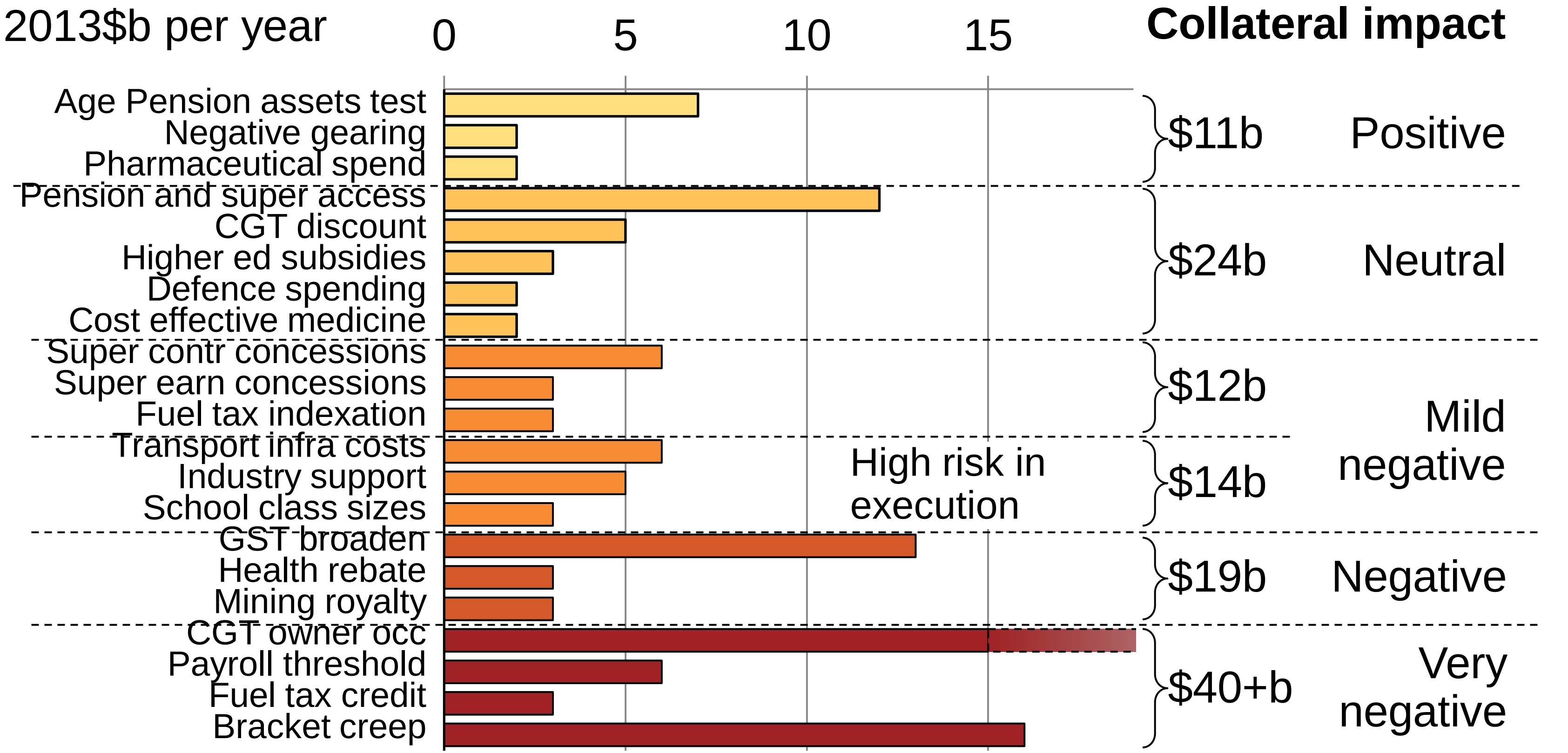
Real expenditure growth by government term, cumulative annual growth, % p.a.



Source: Grattan analysis of Commonwealth and state budget papers.

Budget repair requires tough choices

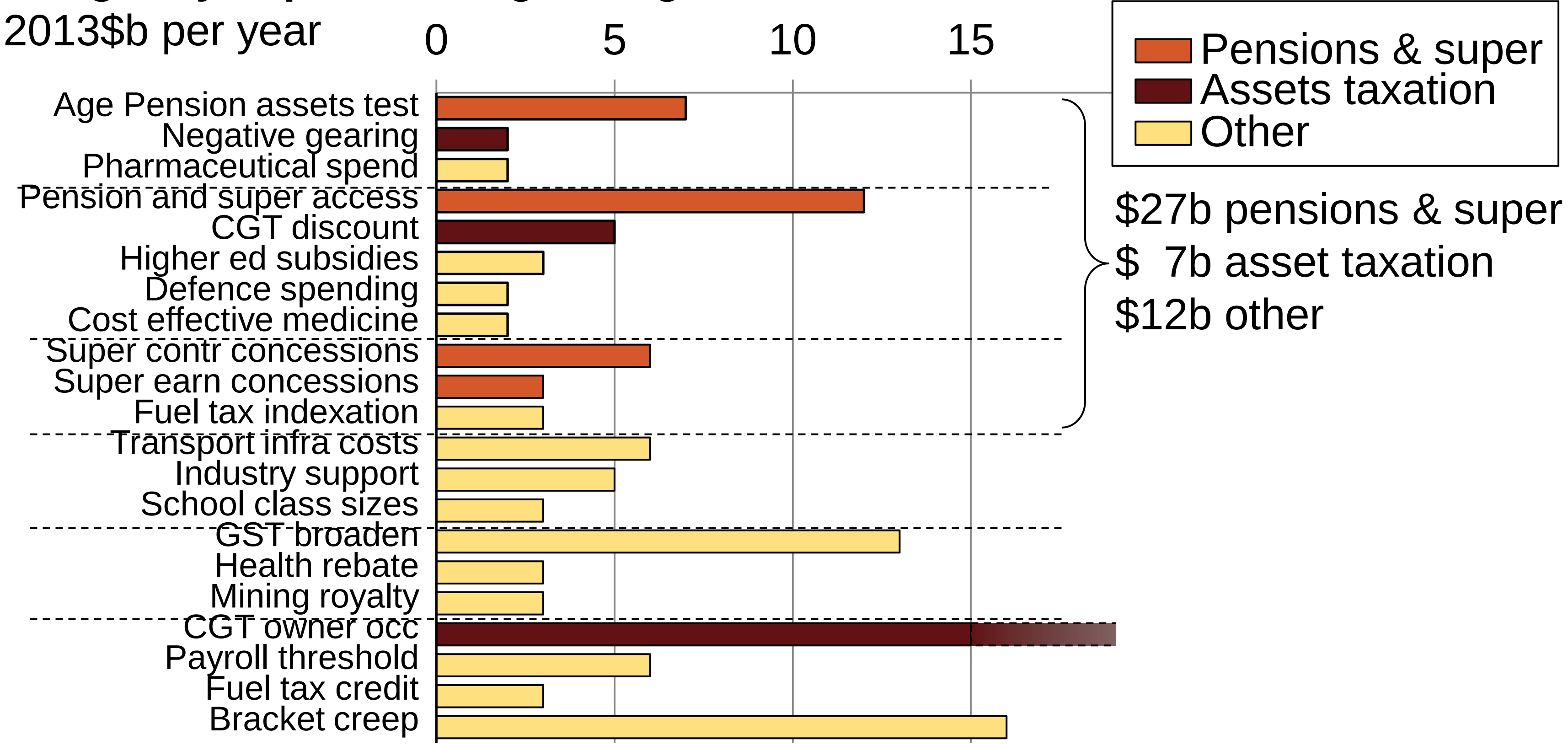
Budgetary impact of tough budget choices



Source: *Budget Pressures on Australian governments*

Pensions, super and asset tax predominate

Budgetary impact of tough budget choices

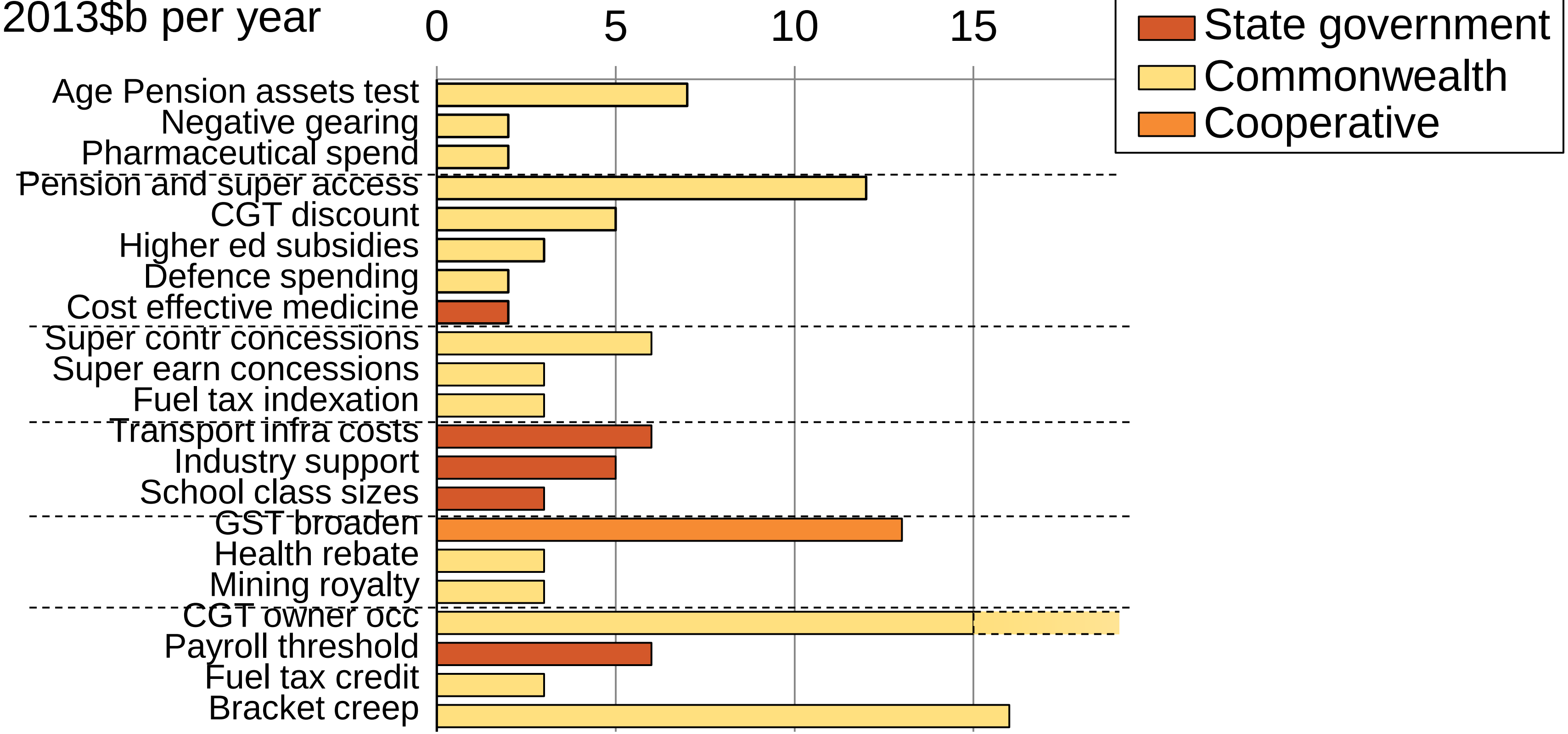


Source: *Budget Pressures on Australian governments*

State government choices are limited

Budgetary impact of tough budget choices

2013$b per year



Source: *Budget Pressures on Australian governments*

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