2014
BUDGET BRIEFING

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Institute of Public Administration Australia WA

2014 – 2015 WA State Budget

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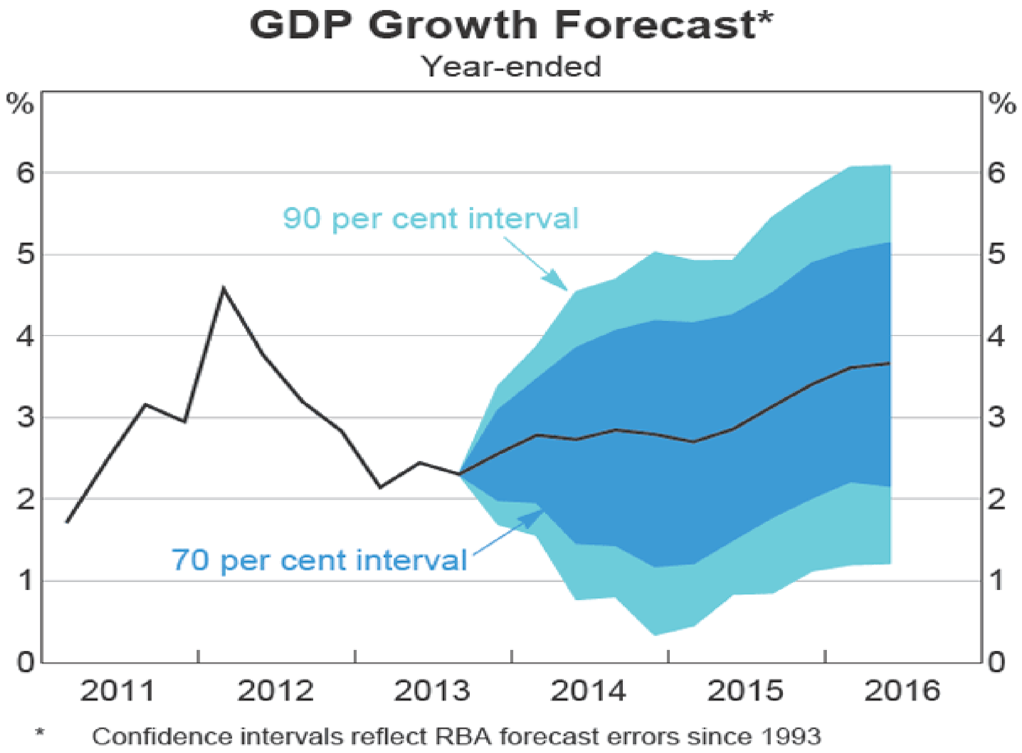
Institute of Public Administration Australia WA

Context – A long view of the WA economy

Total Australian population divided by WA population				
1900	1930	1960	1985	2014
21	15	14	11	9

Source: ABS

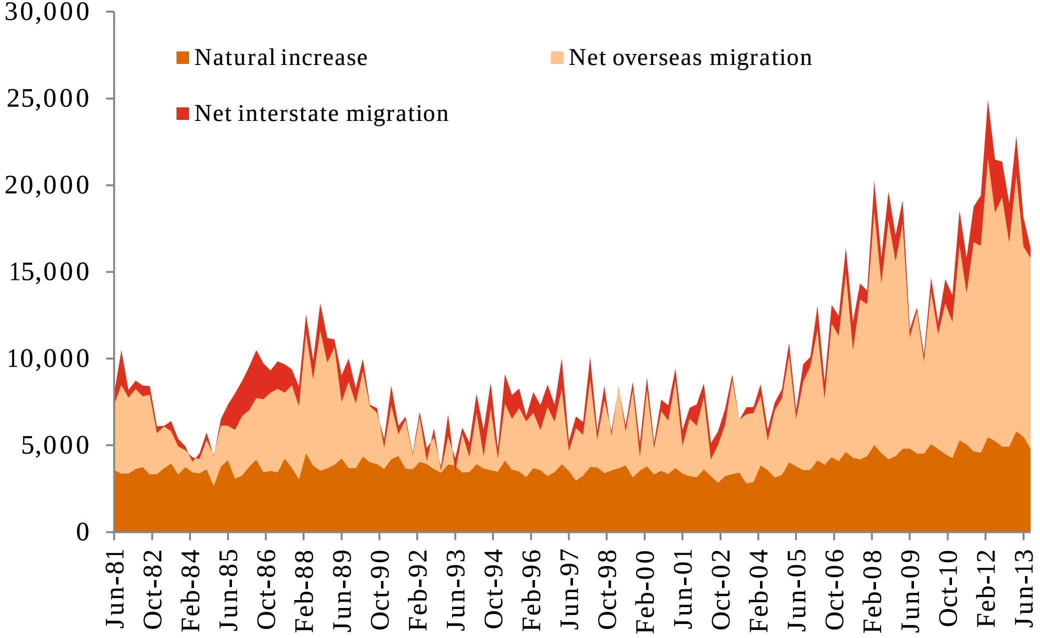
Context – Projections for economic growth are bullish



Source: RBA

Context – Strong recent WA population growth

Western Australia – Contributions to Quarterly Population Change (number)



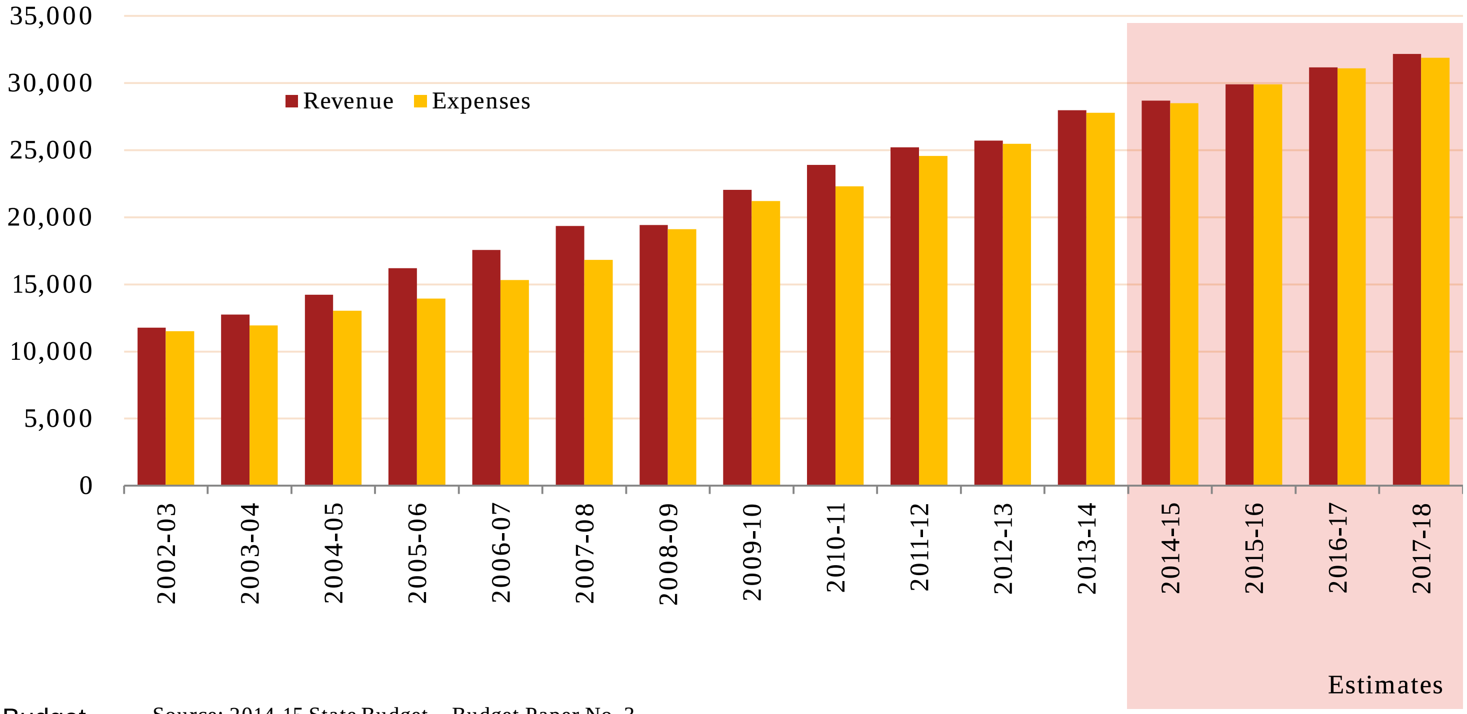
Source: ABS

Western Australia – Population 2008 to 2013

Sept 2008	2.19m
Sept 2013	2.54m
Increase	16%
CAGR	3%

Expense growth is placing pressure on the Budget

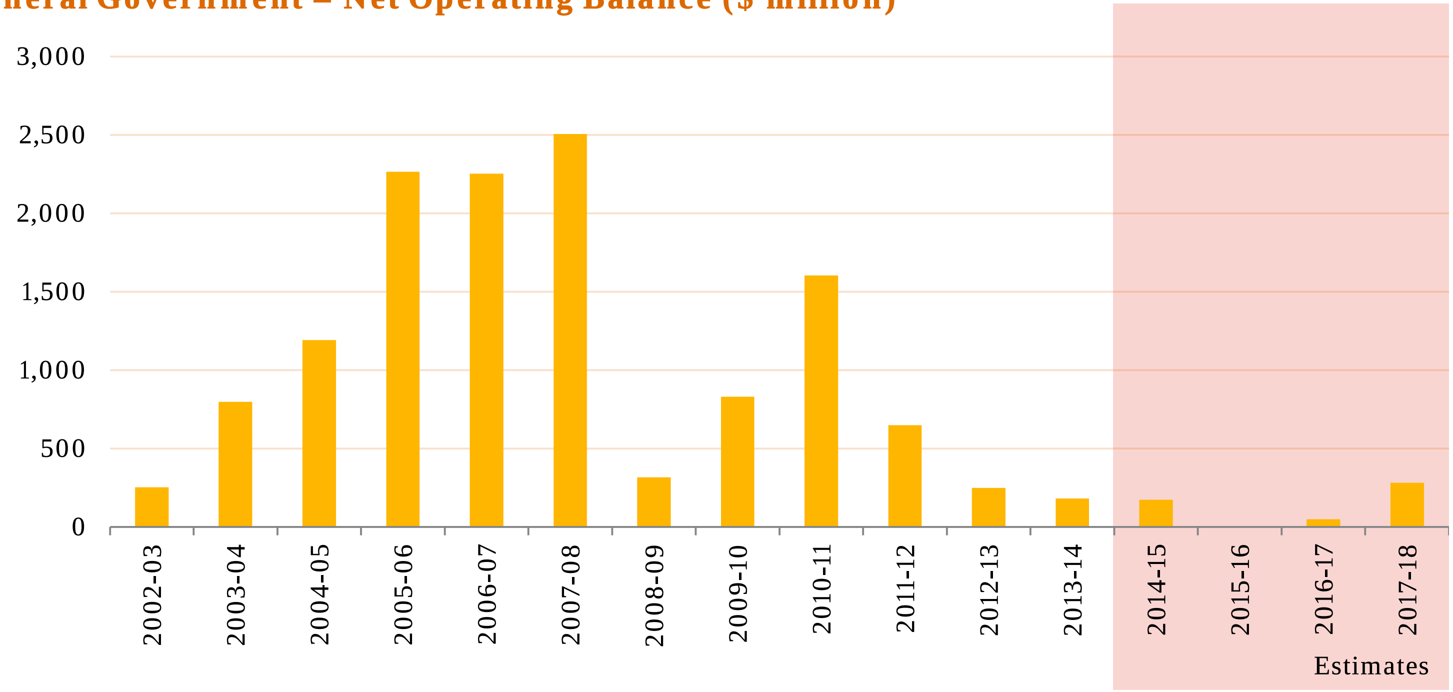
General Government – Revenue and Expenses ($ million)



Source: 2014-15 State Budget – Budget Paper No. 3

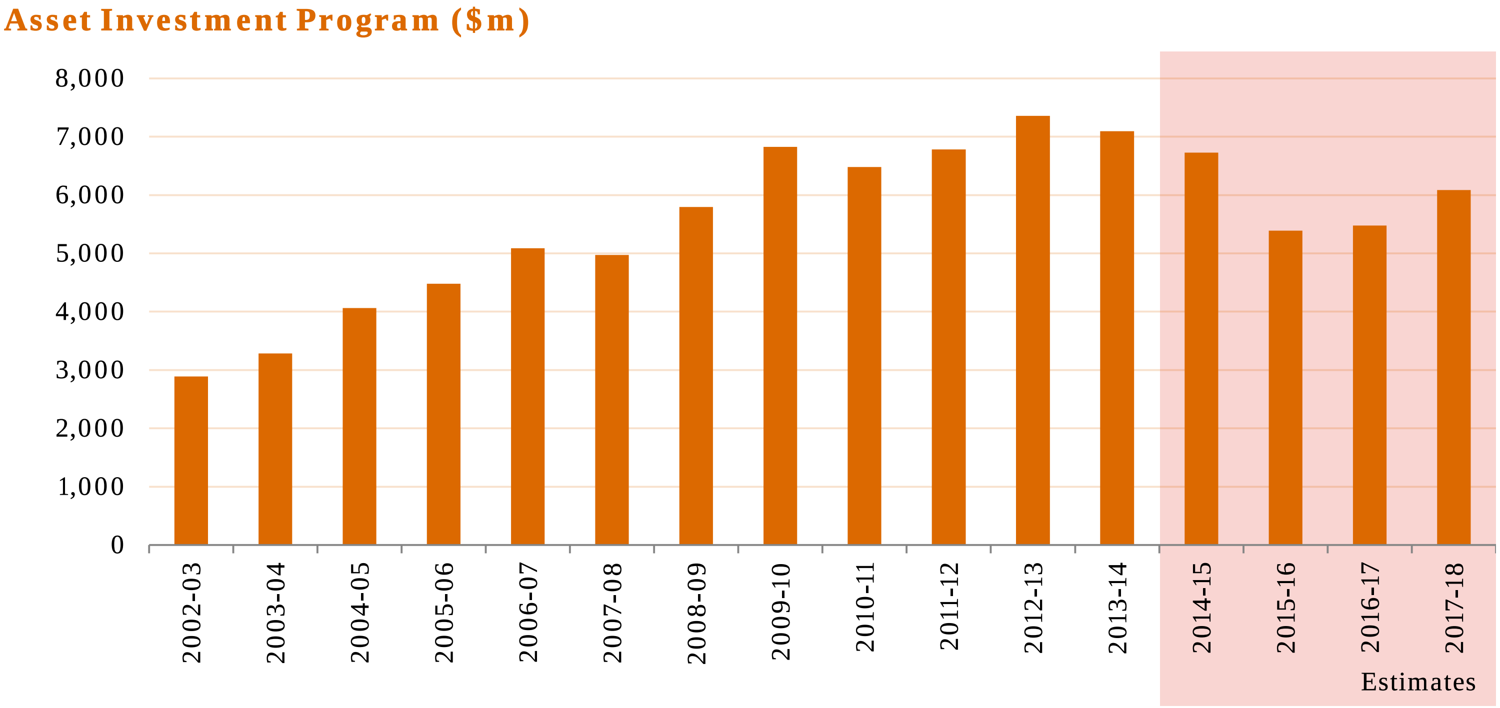
Net operating balance flat

General Government – Net Operating Balance ($ million)



Source: 2014-15 State Budget – Budget Paper No. 3

… and the need for infrastructure is driving increasing debt



Source: 2014-15 State Budget – Budget Paper No. 3

Capital expenditure changes

- AIP lower due to completion of major projects, project delays
- A 5% reduction in the infrastructure programs of most agencies
- Additional AIP spending approved as part of the Budget includes:
  - $147 million on school and State Training Provider infrastructure
  - $113 million for Western Power in 2013-14 and 2014-15 to address safety priorities
  - $85 million for major health infrastructure
- There is also the $1.6bn Roe Highway extension announced in the Commonwealth budget to be funded three ways, Federal, State and private

Source: 2014-15 State Budget – Budget Paper No. 3

Revenue side changes

Revenue measure include:

- End to private motor vehicle registration fee concession ($189m)
- The Perth Parking Levy will increase by $365 ($73m)
- First home buyer transfer duty concession adjustments ($222m)
- An increase in land tax rates ($334m)
- Interim dividend for the State's port authorities (FY15 $93m)
- Landfill levy increase ($202M)

Total impact

- $289 million in FY15
- $1,136 million across FY15 to FY18

Source: 2014-15 State Budget – Budget Paper No. 3

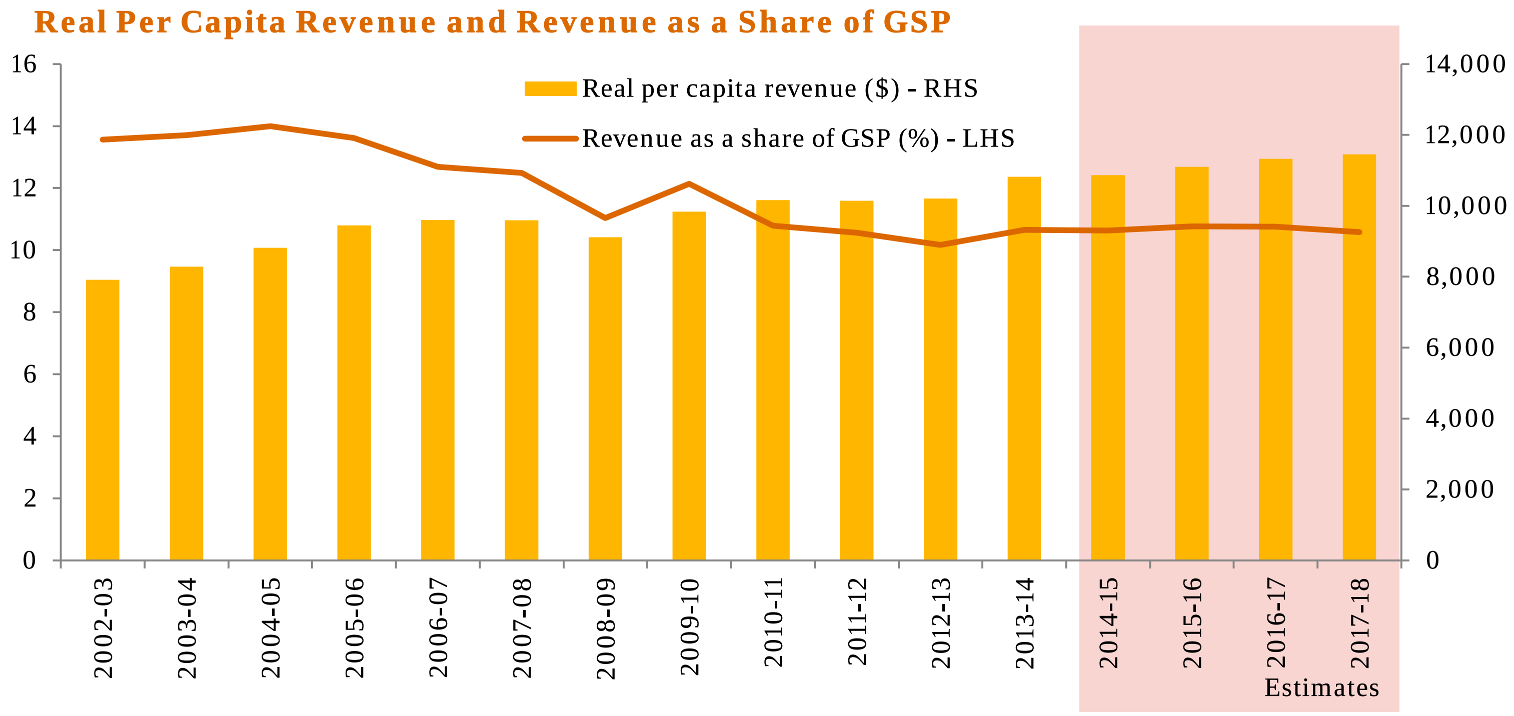
Large agency expenditures grow in this budget

Expenditure program changes – Actual and percentage change from previous year

	FY13 $b (%)	FY14 $b (%)	FY15 $b (%)	FY16 $b (%)	FY17 $b (%)	FY18 $b (%)
Health	6.9 (10.1%)	7.5 (8.7%)	8.0 (5.7%)	8.2 (3.4%)	8.5 (4.2%)	8.6 (0.7%)
Education	6.2 (4.8%)	6.5 (5.8%)	6.8 (5.2%)	7.2 (5.8%)	7.5 (4.0%)	7.9 (4.2%)
Public order and safety	2.9 (-2.4%)	3.1 (4.8%)	3.2 (3.7%)	3.3 (4.4%)	3.5 (4.0%)	3.5 (1.1%)
Other	9.5 (0.5%)	10.7 (12.9%)	10.5 (-1.5%)	11.1 (5.5%)	11.6 (4.0%)	11.9 (3.1%)
Total	25.5 (3.7%)	27.8 (9.1%)	28.5 (2.6%)	29.9 (4.9%)	31.1 (4.1%)	31.9 (2.5%)

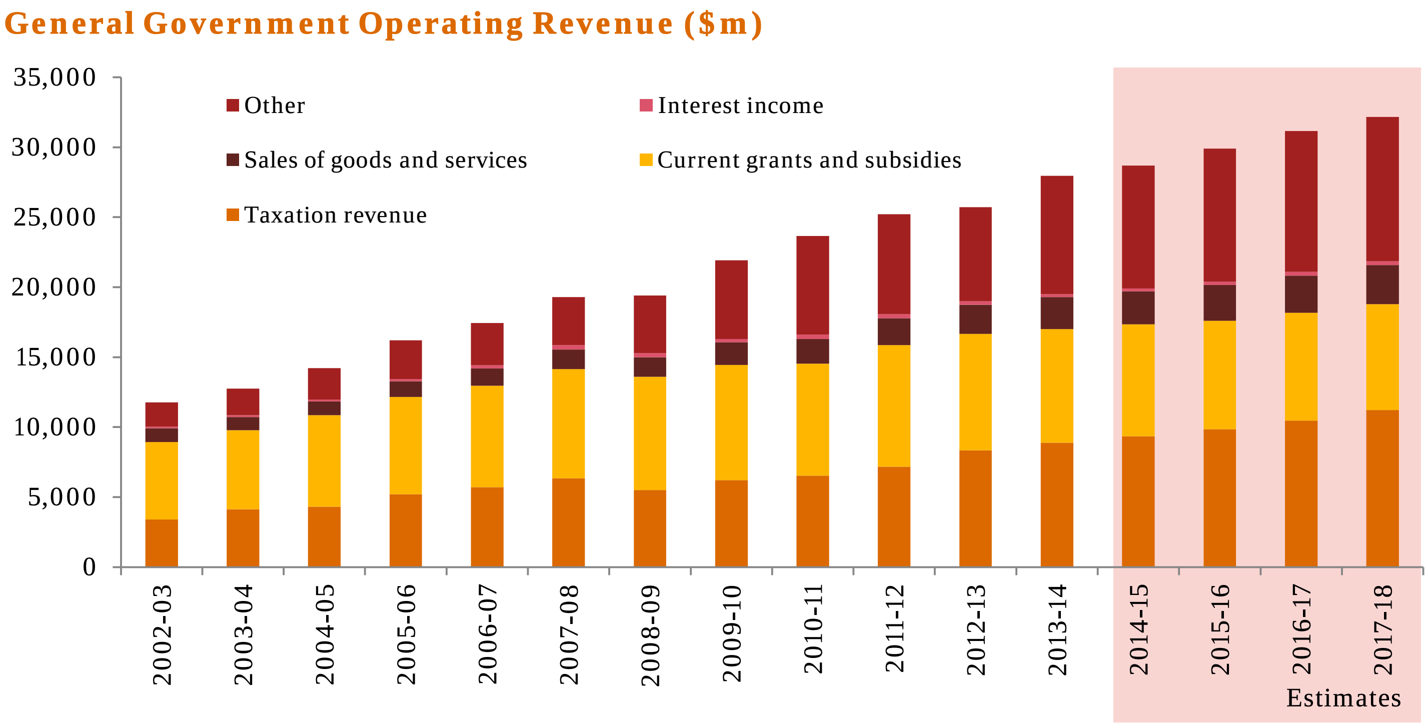
Source: 2014-15 State Budget – Budget Paper No. 3

While Government's capacity to pay for services is static



Source: ABS and 2014-15 State Budget – Budget Paper No. 3

And revenue composition changes introduce volatility risk



Source: 2014-15 State Budget – Budget Paper No. 3

This increases the importance of budget assumptions

	Assumption (FY15)	Current rate	Volatility (last 12 months)
Exchange rate (US cents per AUD)	90.6	94.01	87 to 104
Iron ore price[1] ($US per tonne)	122.70	103.50	103 to 142

[1] Headline spot price minus the cost of freight

Source: 2014-15 State Budget – Budget Paper No. 3; RBA current exchange rate 14 May 2014 and historical data; MacroBusiness iron ore spot price at 14 May 2014 and historical data.

Small changes can make a big difference

For each US1 cent change in exchange rate:

-/+ $80 million revenue change

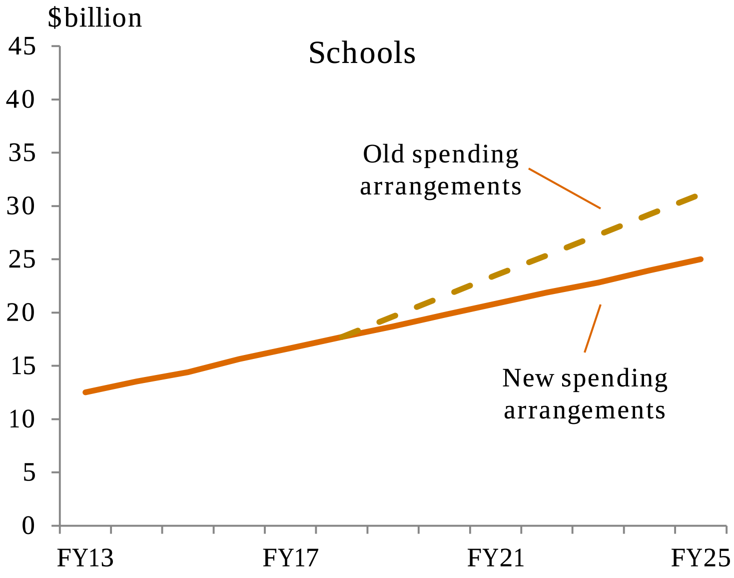
For each $US1 per tonne change in the price of iron ore:

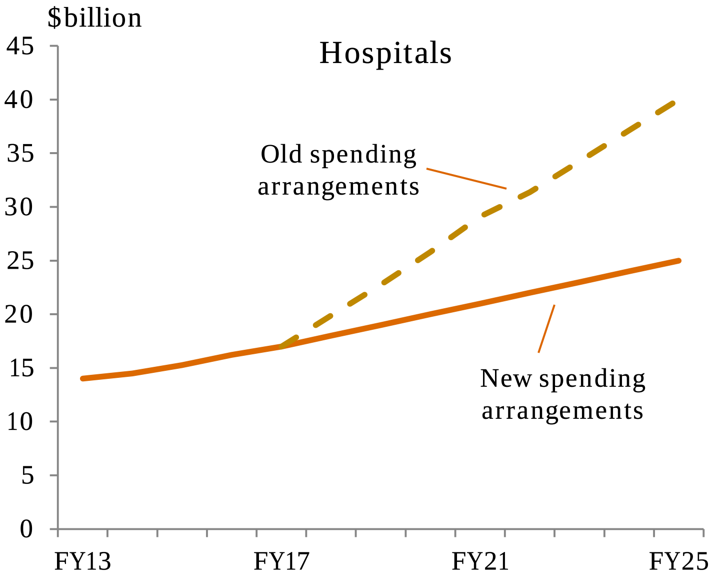
+/- $49 million revenue change

Source: 2014-15 State Budget – Budget Paper No. 3

So can big changes!

Changed Commonwealth spending arrangements for schools and public hospitals





Source: Commonwealth 2014 Budget Overview

Overall …

- Structural issues not yet addressed
- Perhaps positioning to do so
  - Fiscal action plan
  - Redundancy programs
  - New wages policy
  - Asset sales program
- Increased volatility exposure on revenue side
- Interesting times ahead in Commonwealth State relations

Done

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