

# Budget Briefing



# Professor David Gilchrist

President

WA Institute of Public Administration

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# Michael Barnes

Deputy Under Treasurer  
Department of Treasury and Finance



# Budget

2011-12

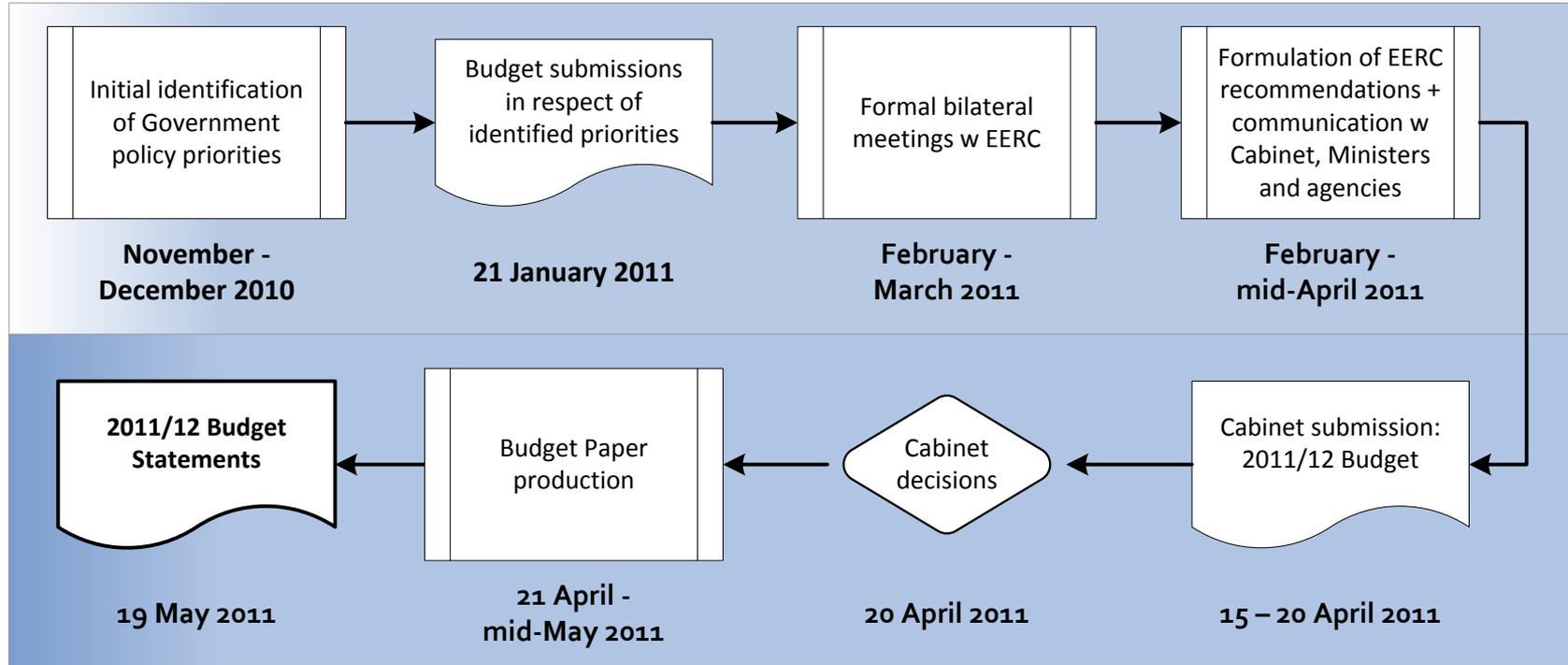
Western Australia

20 May 2011



Supporting Our Community  
**Building the State**

# 2011-12 Budget Process

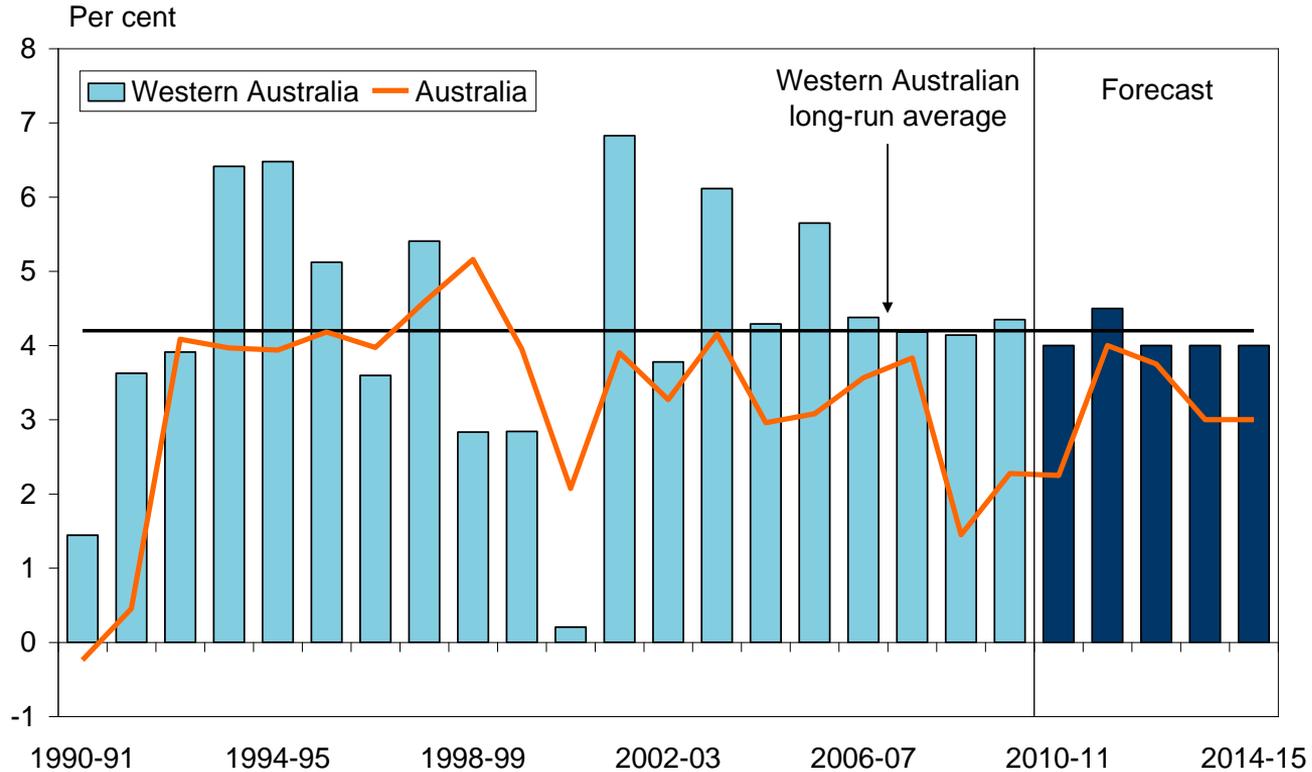


# 2011-12 Budget

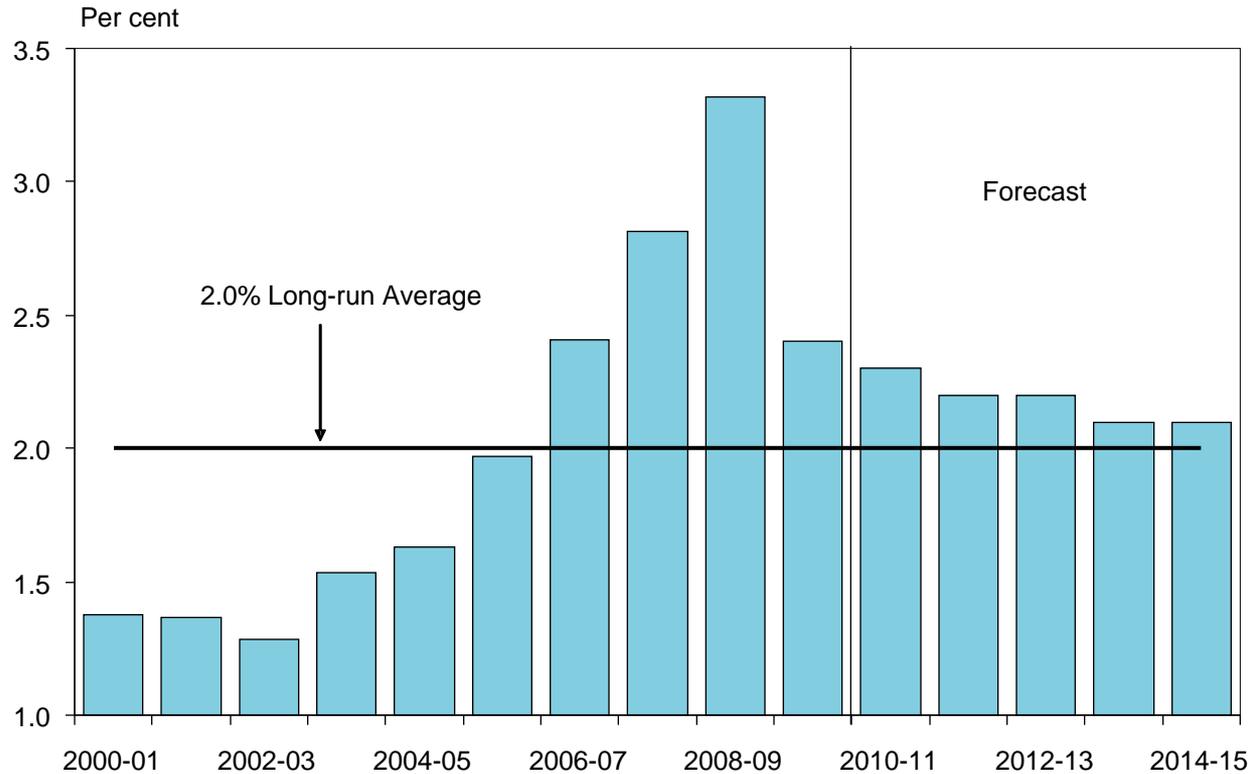
## Economic and Revenue Conditions

- **Economic conditions mixed**
  - Strong resource sector and business investment
  - Subdued housing market and retail spending
  - Reflected in revenue performance
  - Moderating but still solid population growth
- **Declining GST grants**
  - Major structural challenge
  - Around 70% of WA's royalty revenue redistributed to other States

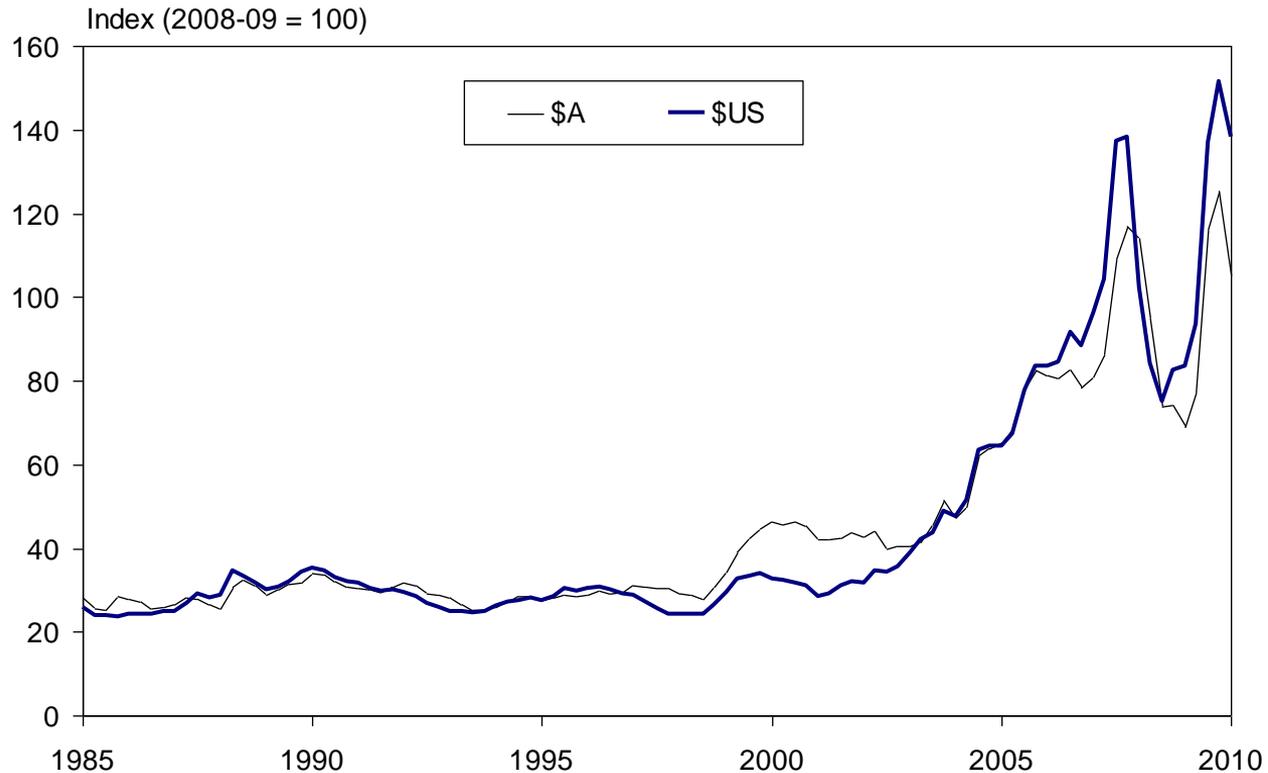
# Economic Growth



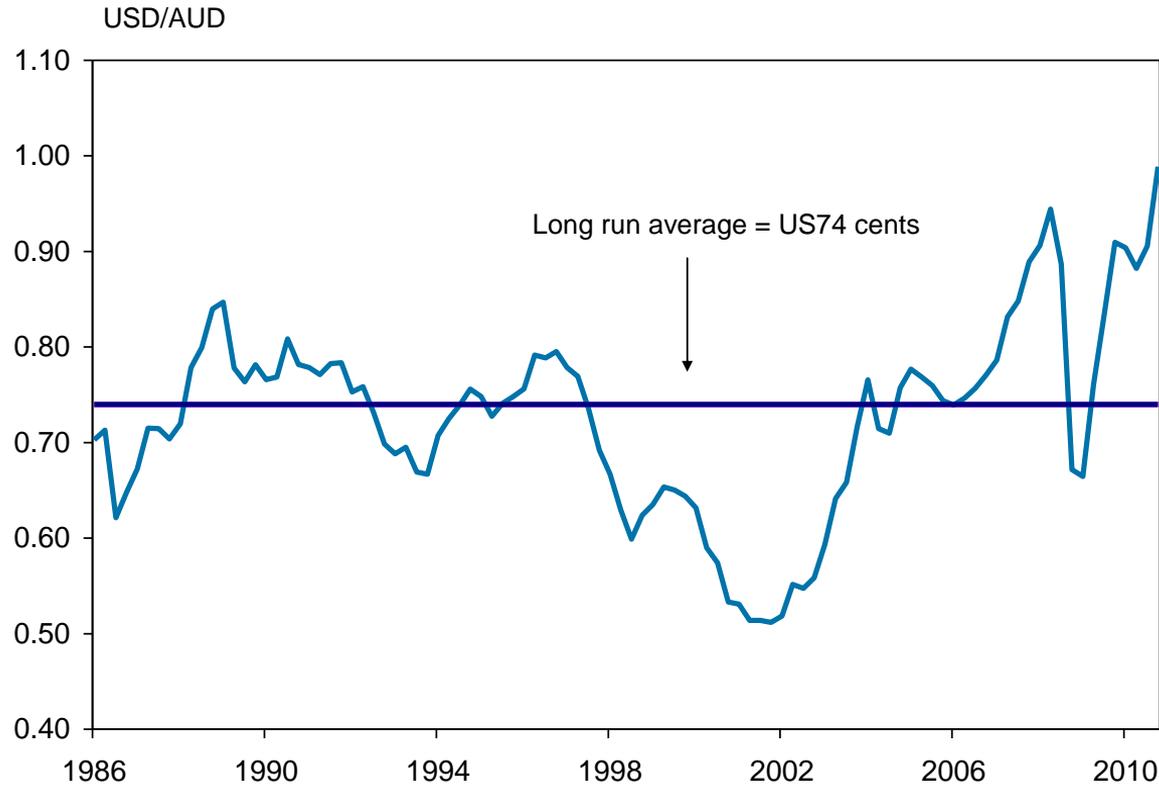
# Population Growth



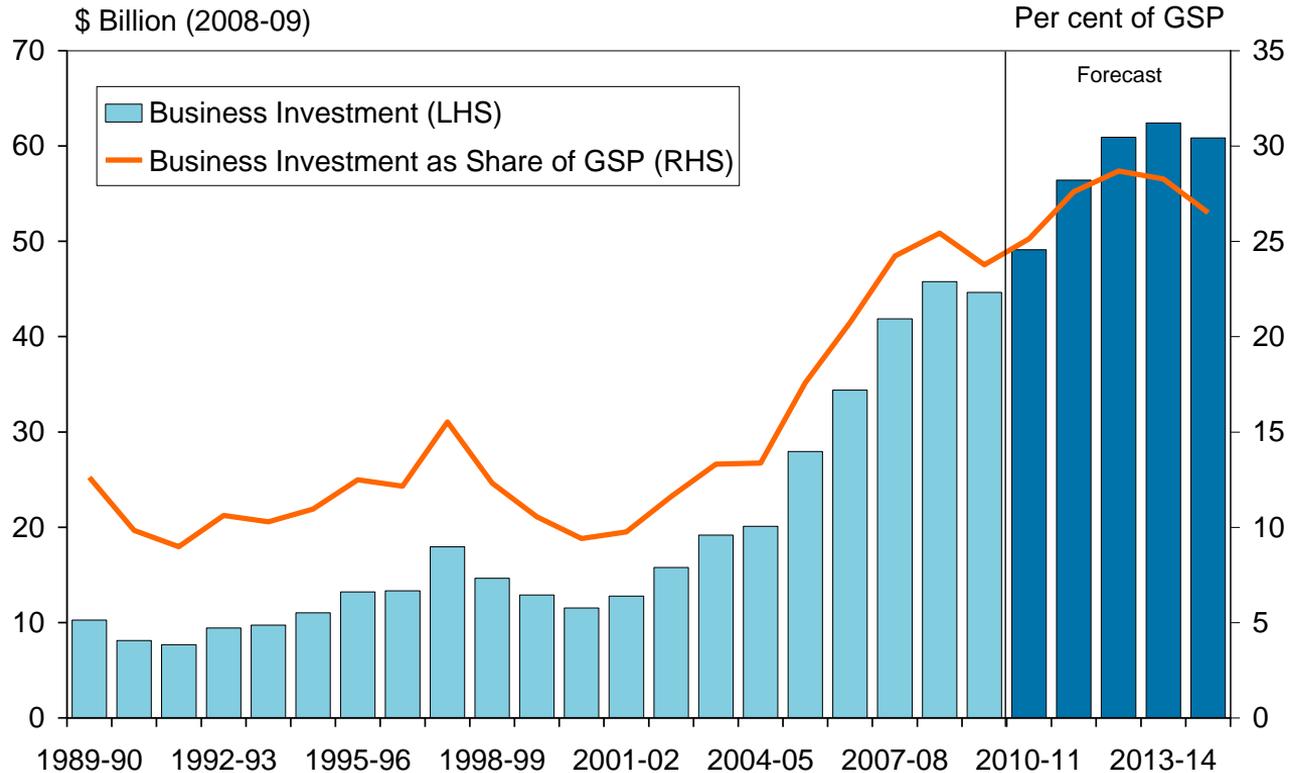
# Commodity Prices



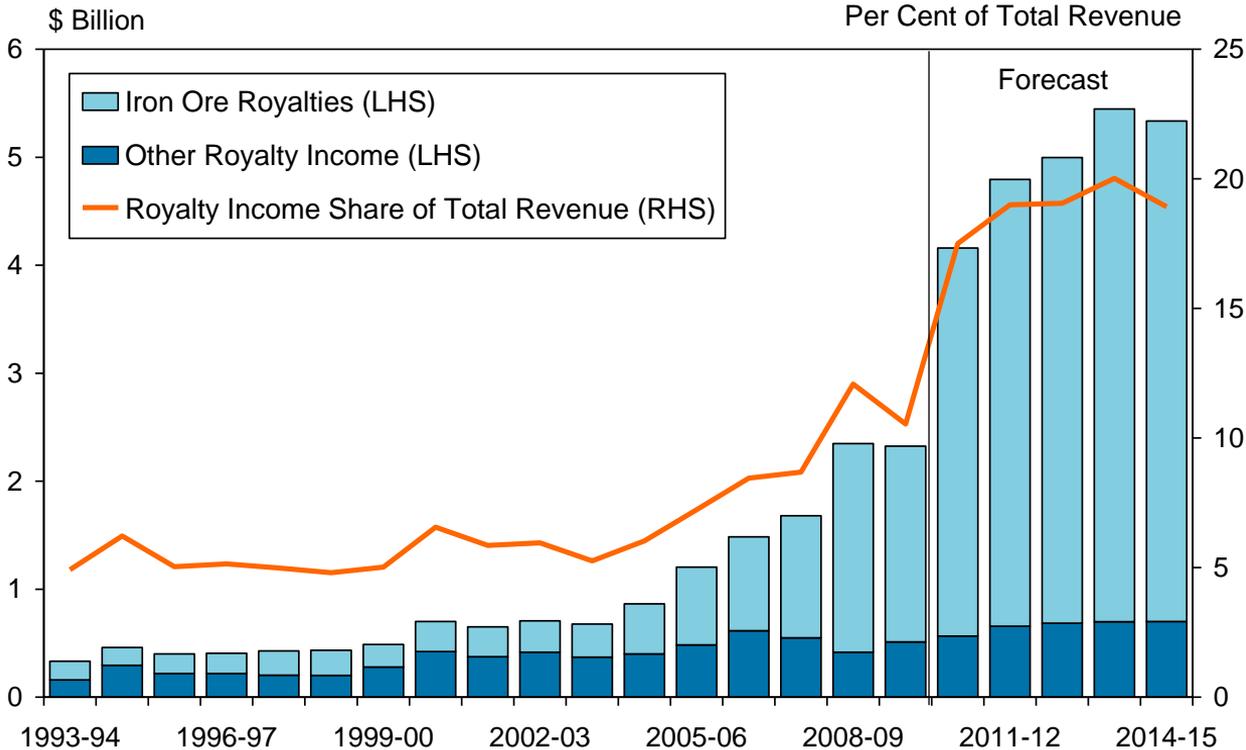
# USD/AUD Exchange Rate



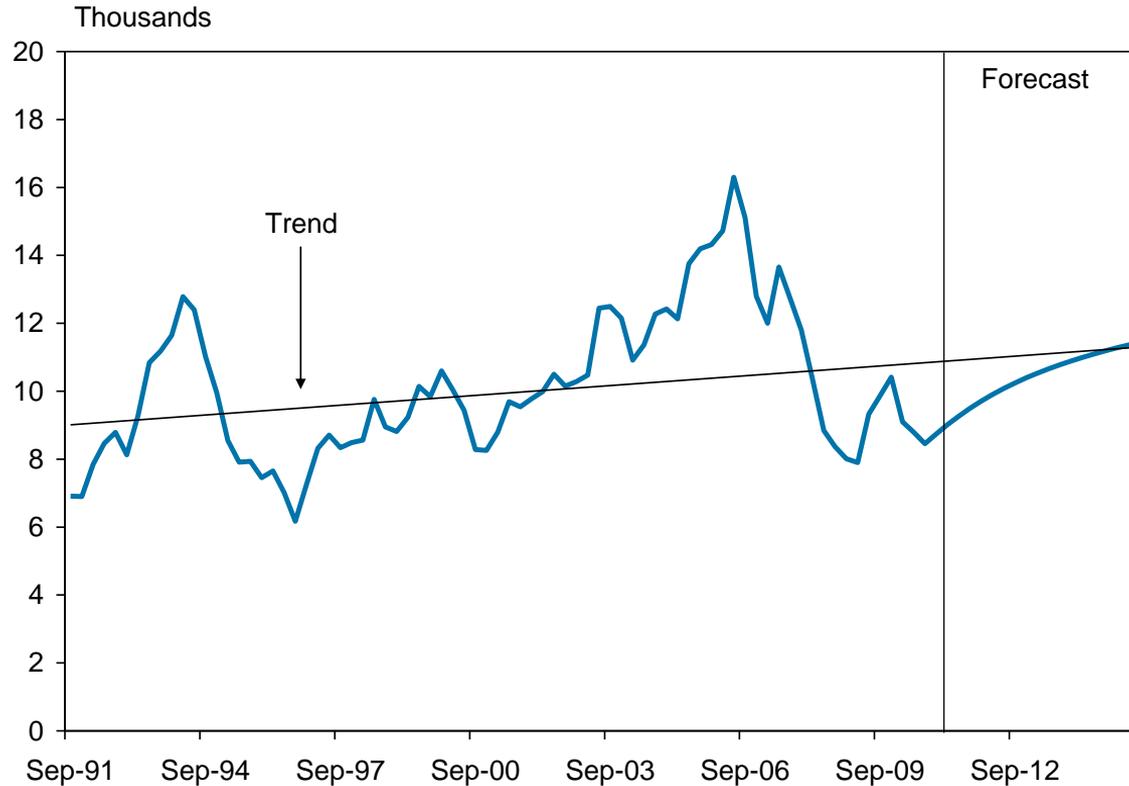
# Real Business Investment



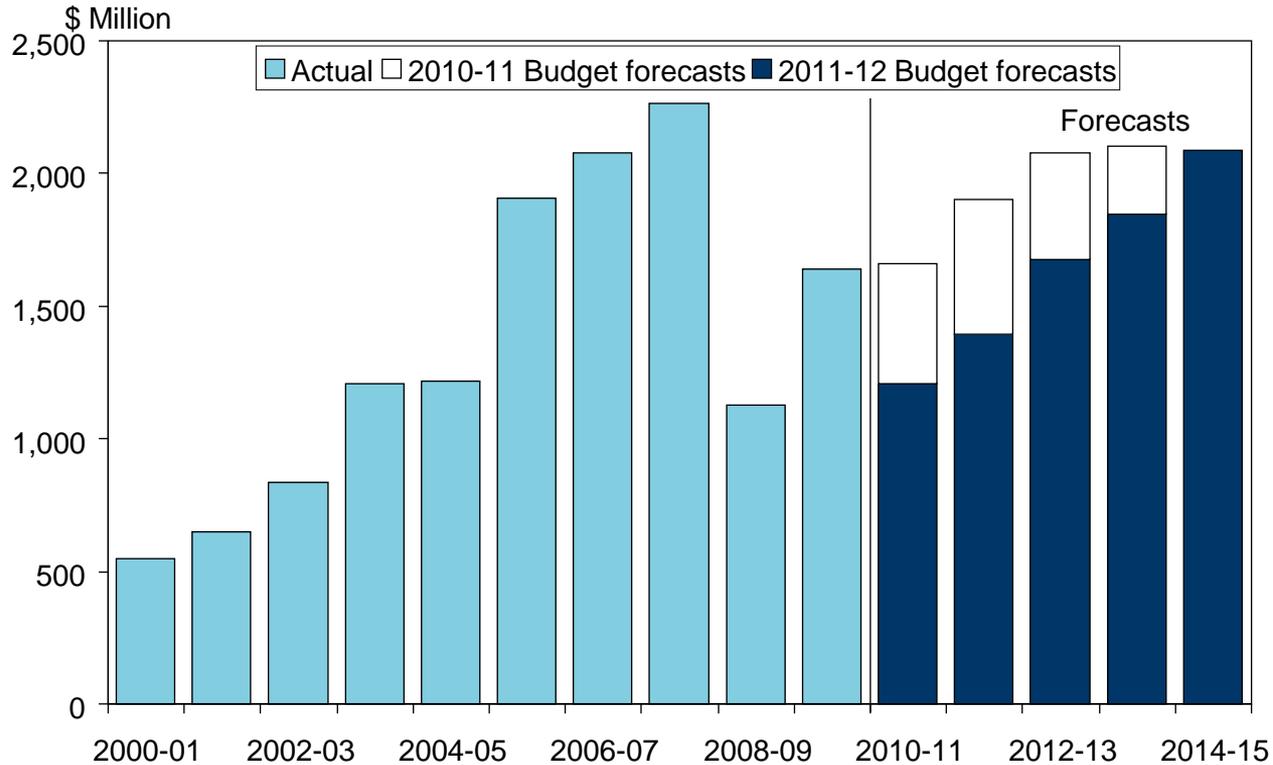
# Royalty Income



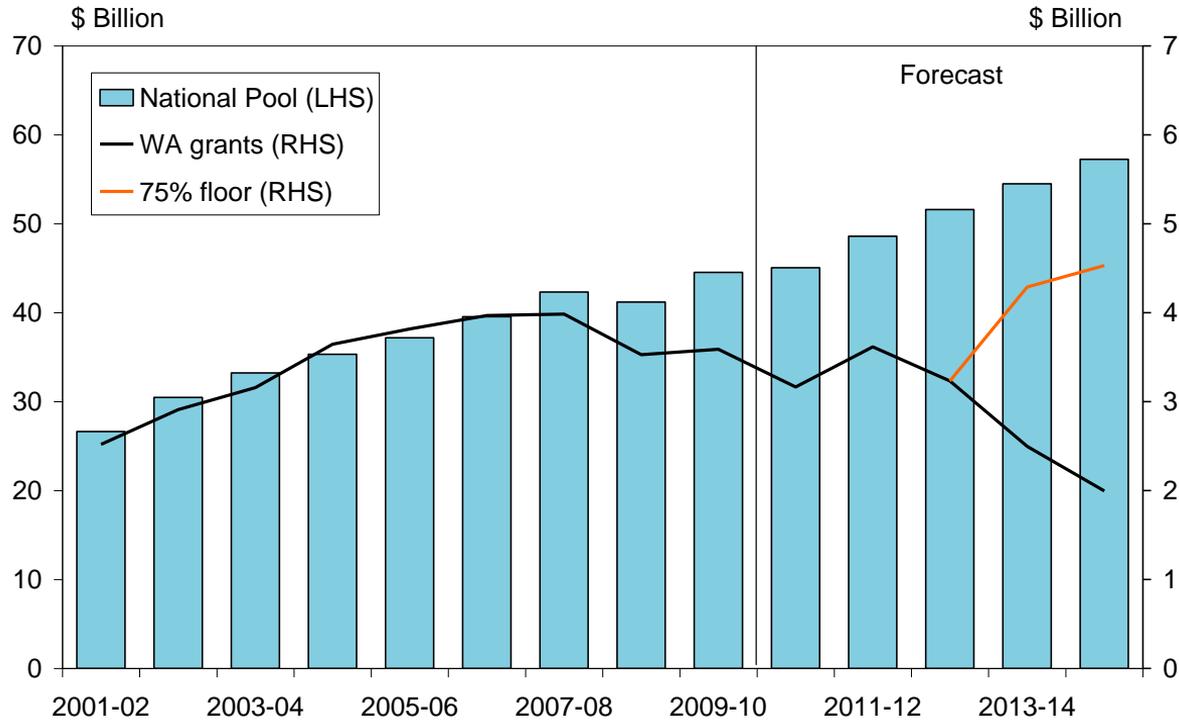
# Housing Finance Commitments



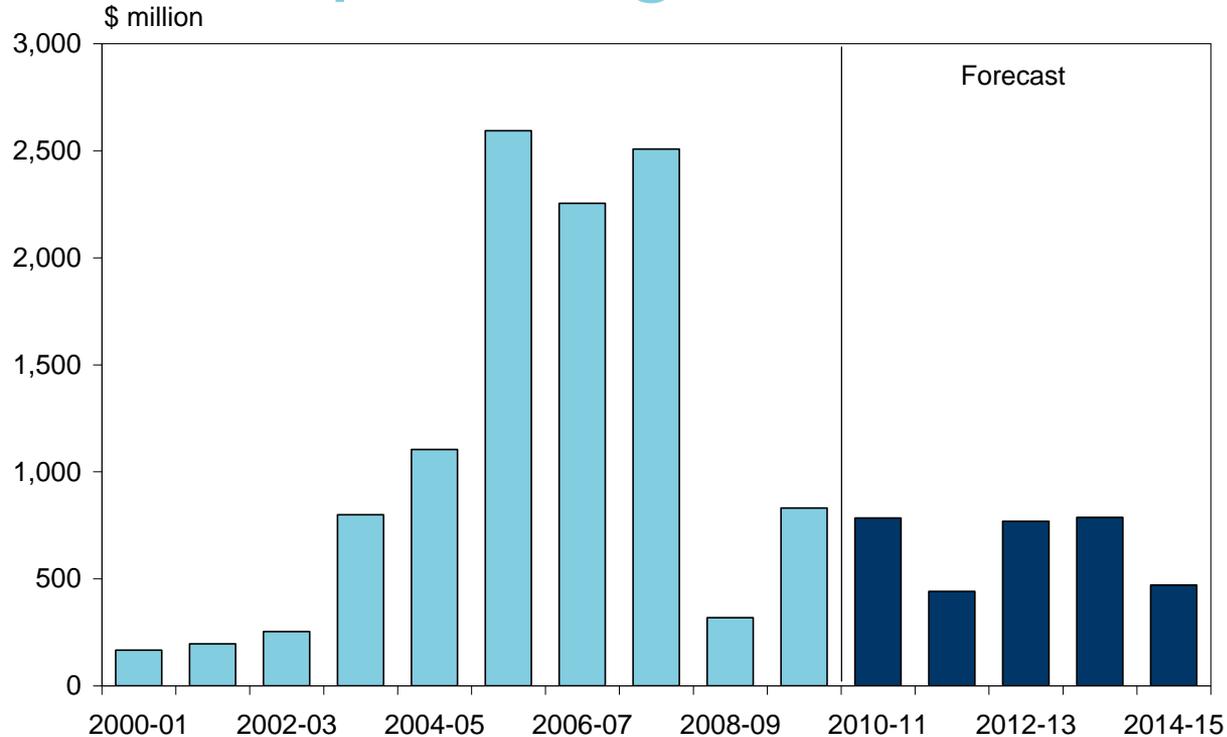
# Total Duty on Transfers



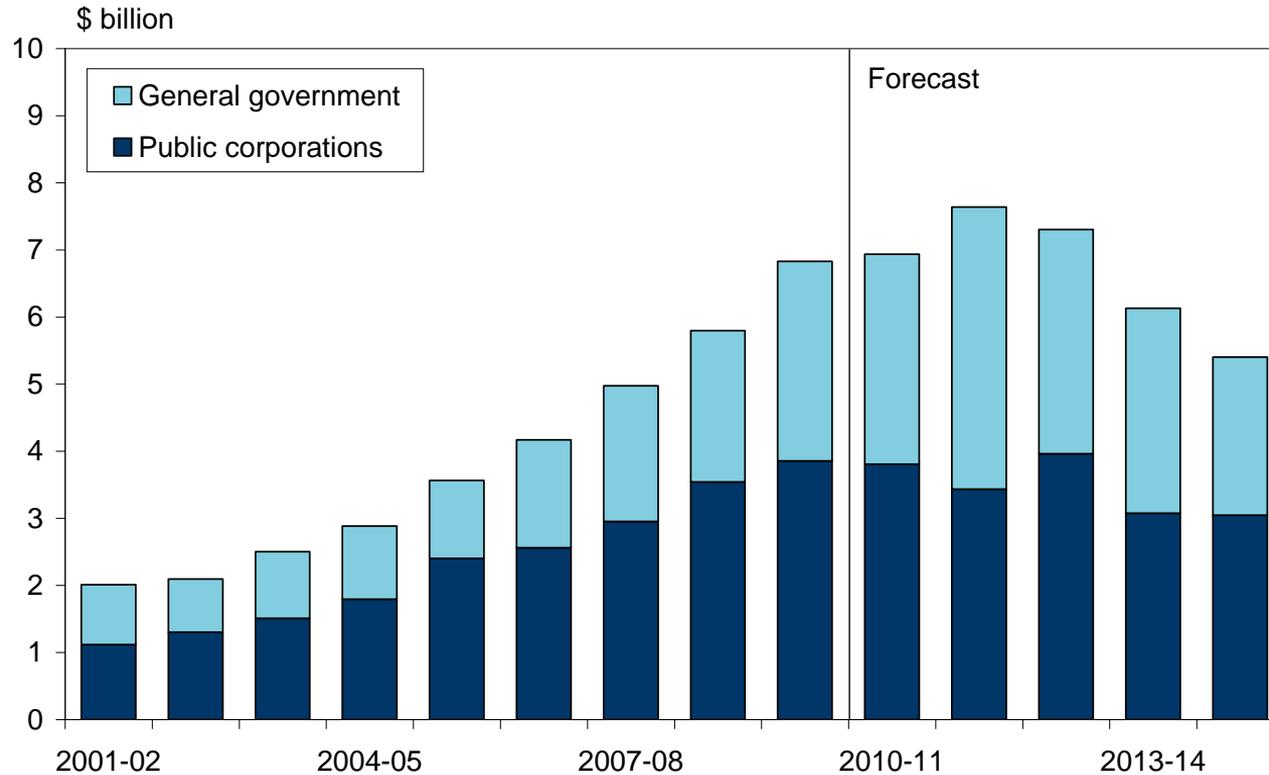
# GST – National Pool and Grants to WA



# General Government Operating Balance



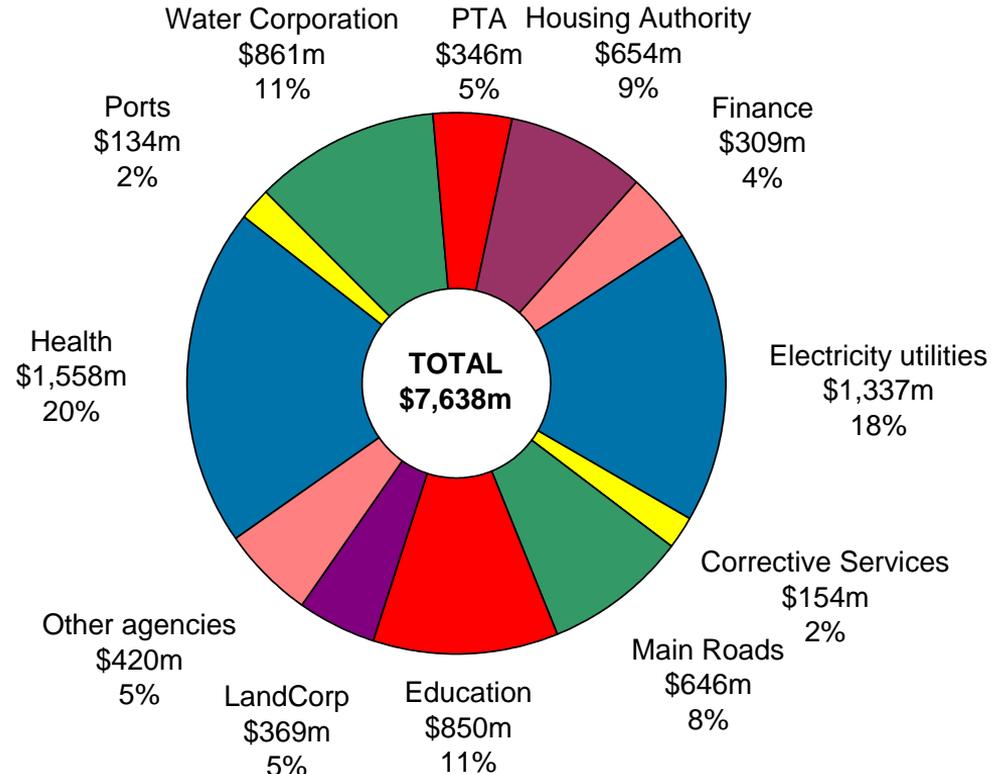
# Asset Investment Program



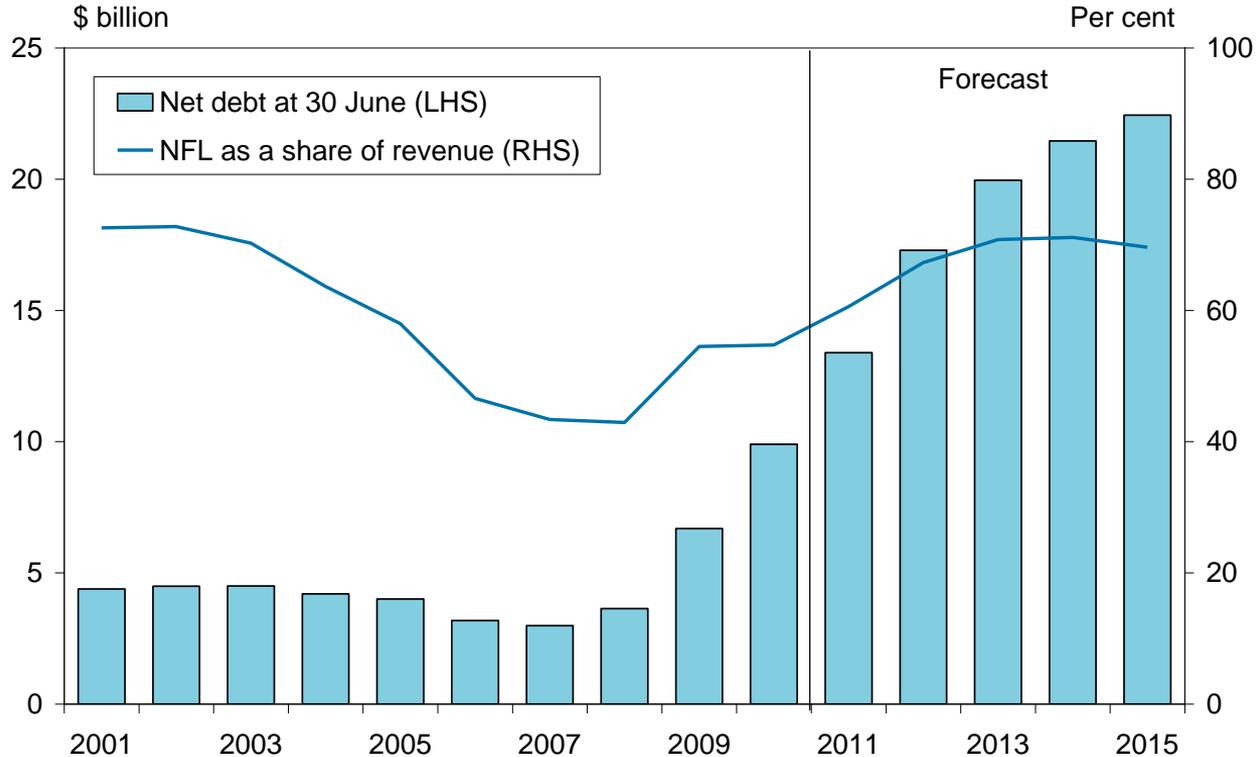
# Asset Investment Program 2011-12 Budget

2011-12

Western Australia



# Net Debt at 30 June Total Public Sector



- \$3.5b package of new measures to ensure that net debt remains affordable
  - Phased increase in the iron ore ‘fines’ royalty rate (5.625%) to 7.5% (\$1.9b)
  - 5% efficiency dividend on GTEs (\$515m)
  - Targeted review of low priority programs (\$300m)
  - Deferred infrastructure spending (\$541m)
  - Reduction in Feed-in Tariff (\$19m)

# Financial Management

- Expenses up \$1.8 billion (or 7.9%) in 2011-12
- Expense growth moderating – down from average of 10.9% over previous three years
- Government has restricted growth in number of full-time equivalent public servants to 1.7% in 2011-12
- Funding a further 400 voluntary separations – bringing total number of separations to over 1,200, for savings of \$57m per year

- **Wages Policy**
  - More flexible rostering
  - Greater use of multi-skilling
  - Greater capacity to move staff across facilities
- **Alternative methods of service delivery**
  - Partnering with the private (for profit) and not-for-profit sectors
  - Examine ways to deliver services other than the employment of permanent staff

- Value for Money Reviews
  - Greater utilisation of existing resources, reduced duplication, making use of economies of scale
  - Already harvesting real savings
  - One round complete, second underway

- Tariffs, fees and charges
  - Electricity 5% (residential and small business)
  - Total water charges 8.5%
  - \$1.1b subsidy over next four years for below cost-reflective electricity tariffs
  - Increasing cost of supplying water – desalinated water 2.5 times more expensive
- Overall 4.6% increase for representative household

# Budget Initiatives

## Sustainable Funding and Contracting with the Not-for-Profit Sector

- \$604m over five years, comprising
  - average funding increase of 25% for human services contracts by 2014-15 (\$491m)
  - additional indexation funding (\$96m)
  - funding for implementation of contracting reforms (\$18m)

# Budget Initiatives

- **Social Housing**
  - \$151m over three years for additional 284 homes for people impaired by disability, mental illness, or alcohol and drug-related difficulties
  - \$45m accommodation support services
- **Disability Services**
  - Additional \$41m over four years to meet expected growth in demand

# Budget Initiatives

- **Seniors**
  - Increase in Cost of Living Rebate from \$104.80 to \$150 for singles, and from \$157.22 to \$225 for couples (\$40m over four years)
  - Allow seniors working up to 25 hours per week to access a Seniors Card (\$10.5m)
- **Families**
  - Additional \$51m over four years for child protection services
  - \$20m *Sport for All* program

# Budget Initiatives

- **Health Services**
  - \$565m Southern Inland Health Initiative
  - Additional \$363m over five years to meet expected increase in demand for hospital services
  - \$75m over five years to employ all graduating domestic junior doctors
- **Health Infrastructure**
  - \$1.6b in 2011-12 alone

# Budget Initiatives

- **Education Services**
  - Additional \$362m over five years for teachers' EBA, IPS, and realignment of budget
  - Additional \$78m for growth in student numbers
- **Education Infrastructure**
  - \$850m in 2011-12
  - Expansion of School Air Conditioning program (\$52m over four years)

# Budget Initiatives

- Additional Training Places
  - \$33m in 2011-12 to fund 12,000 new training places to address critical skills shortages and increase participation
- Skilled Migration Strategy
  - \$4m to speed up applications for State-sponsored skilled migrants

# Budget Initiatives

- Redevelopment of the Perth foreshore (net cost of \$270m over 10 years)
- Accelerating the City Square development in Perth City Link (\$57m over four years)
- Planning money for a new Major Stadium (\$13m)
- Planning money for a new Museum in Perth Cultural Centre precinct (\$5m)

# Budget Initiatives

- **Transport**
  - Additional 15 three-car train sets (\$164m over five years) – 8,400 additional passengers
  - Additional bus services (\$134m)
  - 78 new buses over four years (\$40m)
- **Roads**
  - \$1.2b spent on the State's road system in 2011-12
  - \$30m to widen the northbound lanes of the Mitchell Freeway (between Hepburn Avenue/Hodges Drive)

# Budget Initiatives

- Kimberley Science and Conservation Strategy
  - \$41m over four years
  - New marine parks in Camden Sound and Eighty Mile Beach
  - Increase in area of marine parks and reserves from 1.5m hectares to 2.4m hectares
- Additional \$60m over four years for tourism events

# Budget Initiatives

- **ICT Investment**
  - WA Police – \$113m over four years for replacement and upgrade of ICT systems and infrastructure
  - eCourts – \$10 million over three years to upgrade and replace ageing core business systems and extend the Integrated Courts Management System

# Where to from here?

- GST review
- MRRT/royalties interaction
- Impact of carbon tax
- Implementation of budget savings measures
- Greater focus on 'base' spending
- Cost and demand modelling
- Better performance information



# Budget

2011-12

Western Australia

20 May 2011



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**Building the State**



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Administration Australia  
WA

*Advancing Excellence in the Public Sector*

# Professor Alison Preston

Director  
Curtin Graduate School of Business

# Budget Briefing

Comment on the 2011/2012

State Budget

20 May 2011



Professor Alison Preston  
Curtin Graduate School of Business (CGSB)  
&  
WiSER  
(Women in Social & Economic Research)  
Curtin University



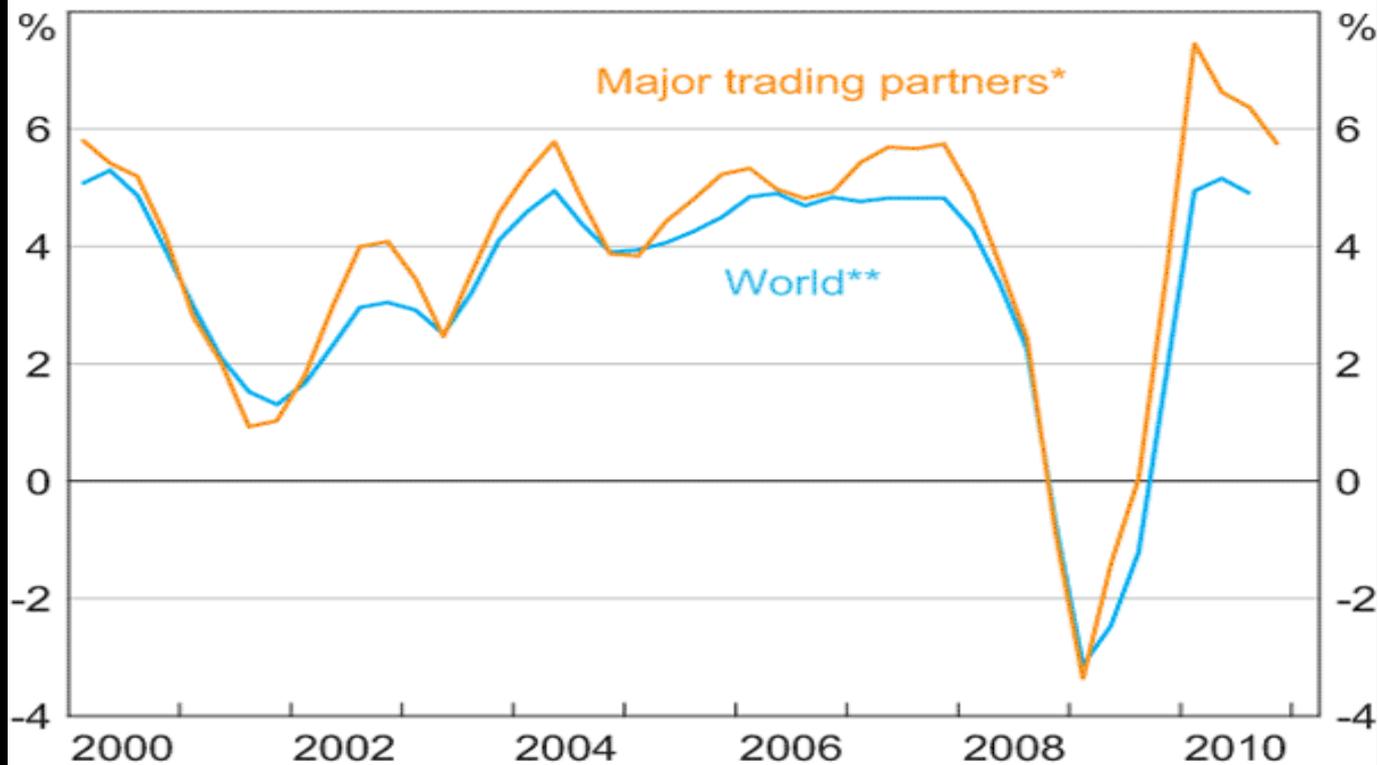
Curtin University

# Aim of presentation

- Review Economic Context
- Budget Pros
- Budget Cons
- Putting the Public First?

# GDP Growth

Year-ended



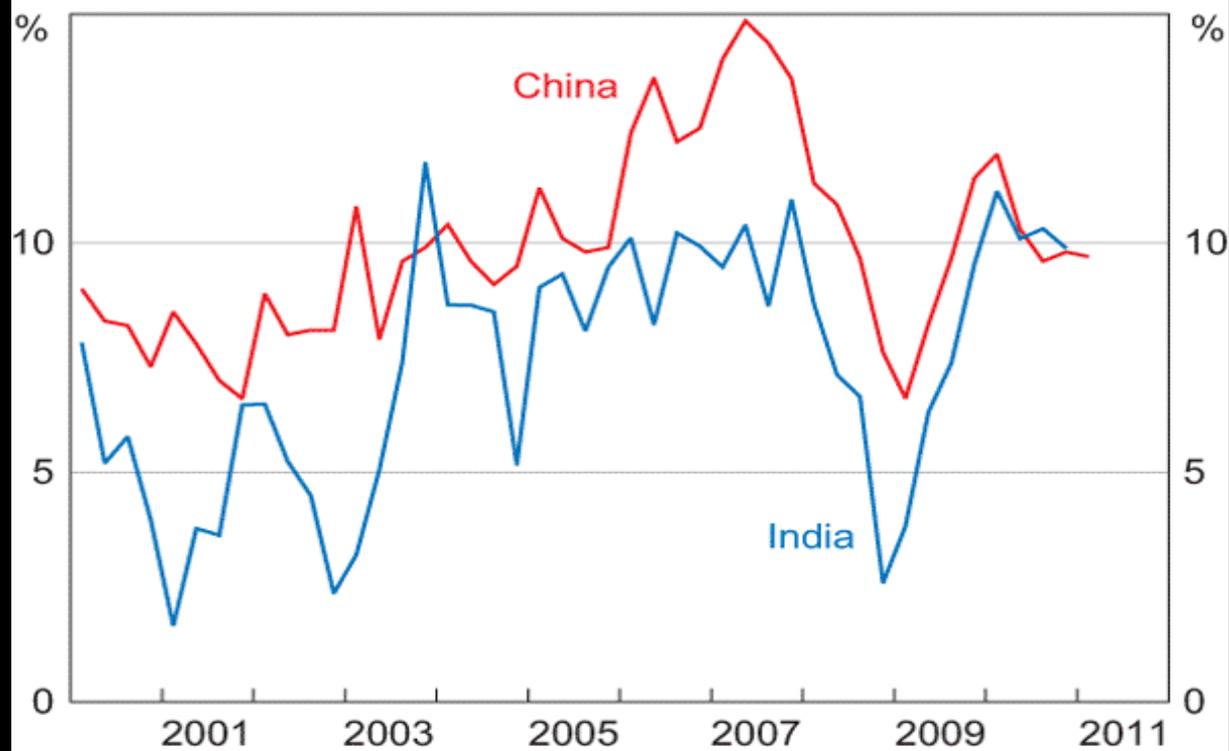
\* Weighted using export shares at market exchange rates

\*\* PPP-weighted; accounts for 88 per cent of world GDP

Sources: CEIC; IMF; RBA; Thomson Reuters

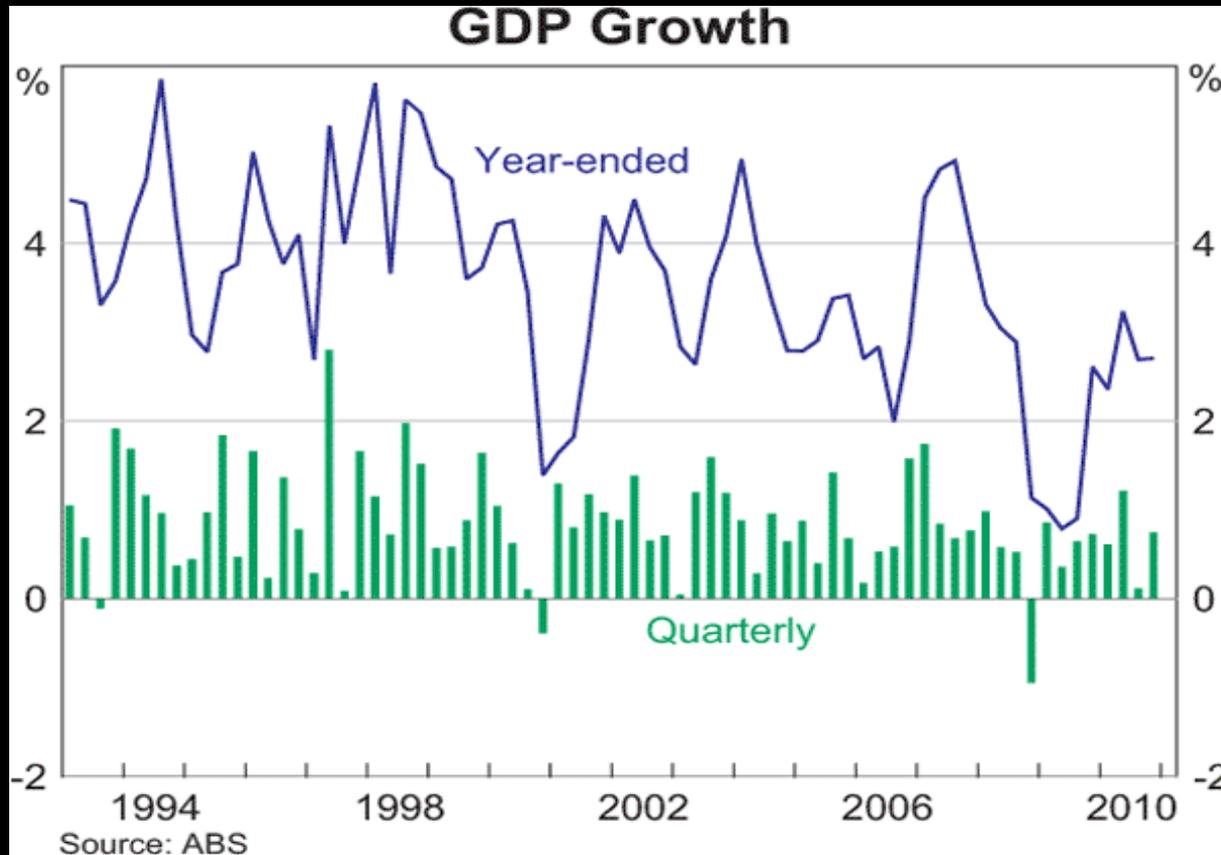
# GDP Growth

Year-ended

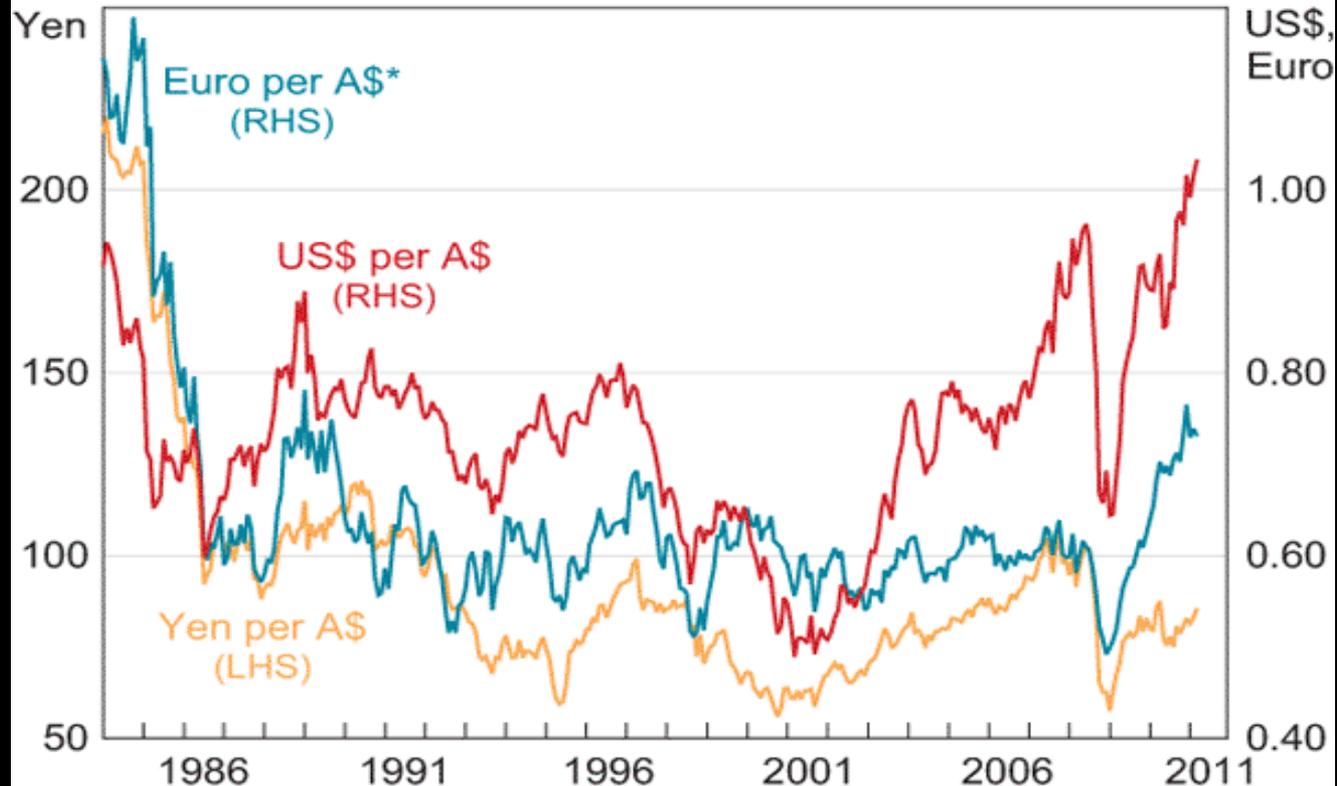


Sources: CEIC; RBA

# GDP Growth Australia



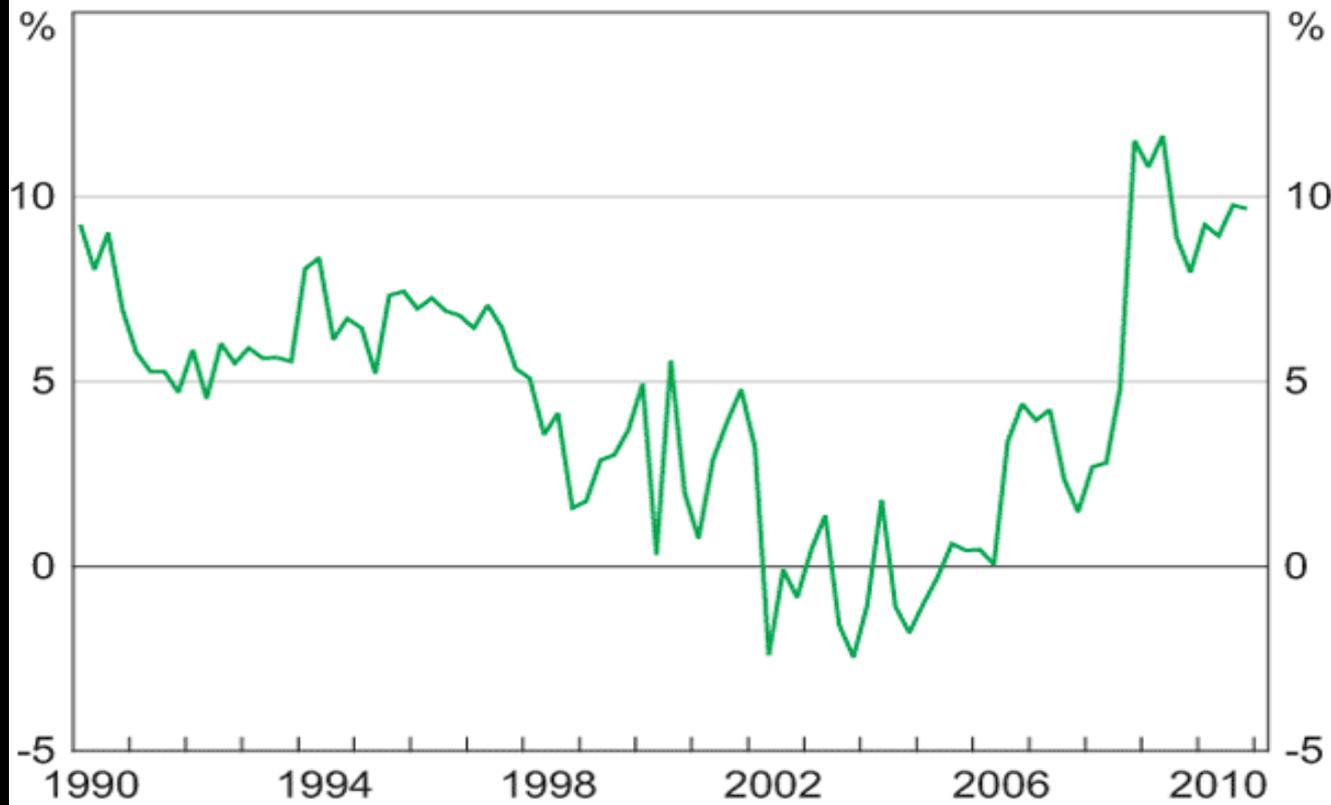
# Australian Dollar against US Dollar, Euro and Yen



\* ECU per A\$ until 31 December 1998  
Sources: Thomson Reuters; WM/Reuters

# Household Saving Ratio\*

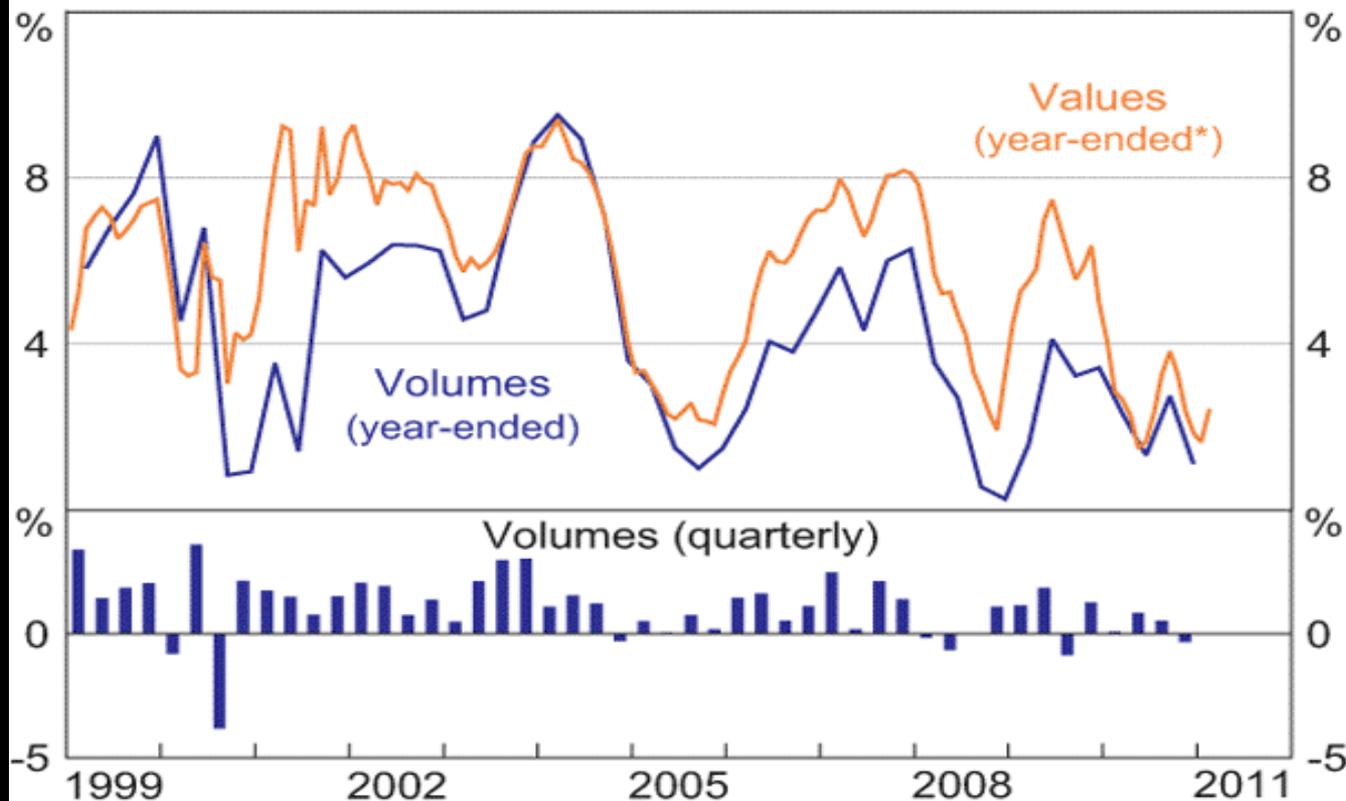
Per cent of household disposable income



\* Net of depreciation

Source: ABS

# Retail Sales Growth

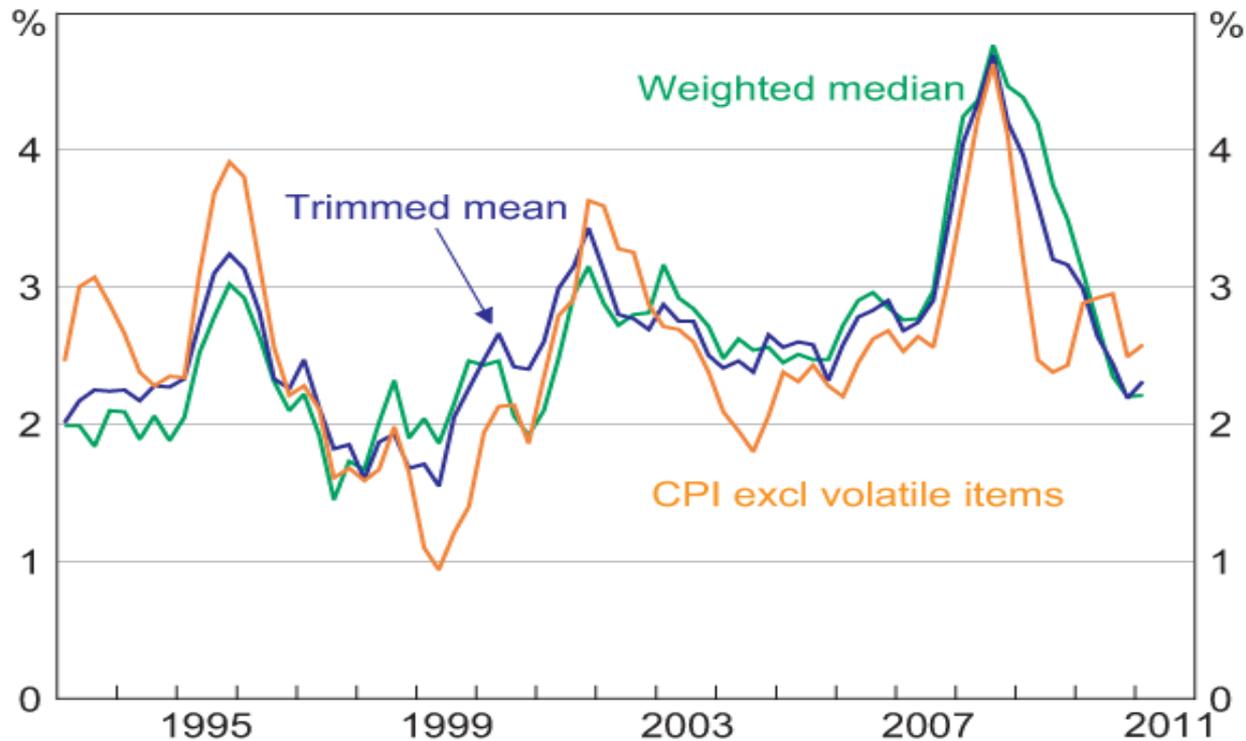


\* Percentage change over year to latest three months

Source: ABS

# Underlying Inflation\*

Year-ended

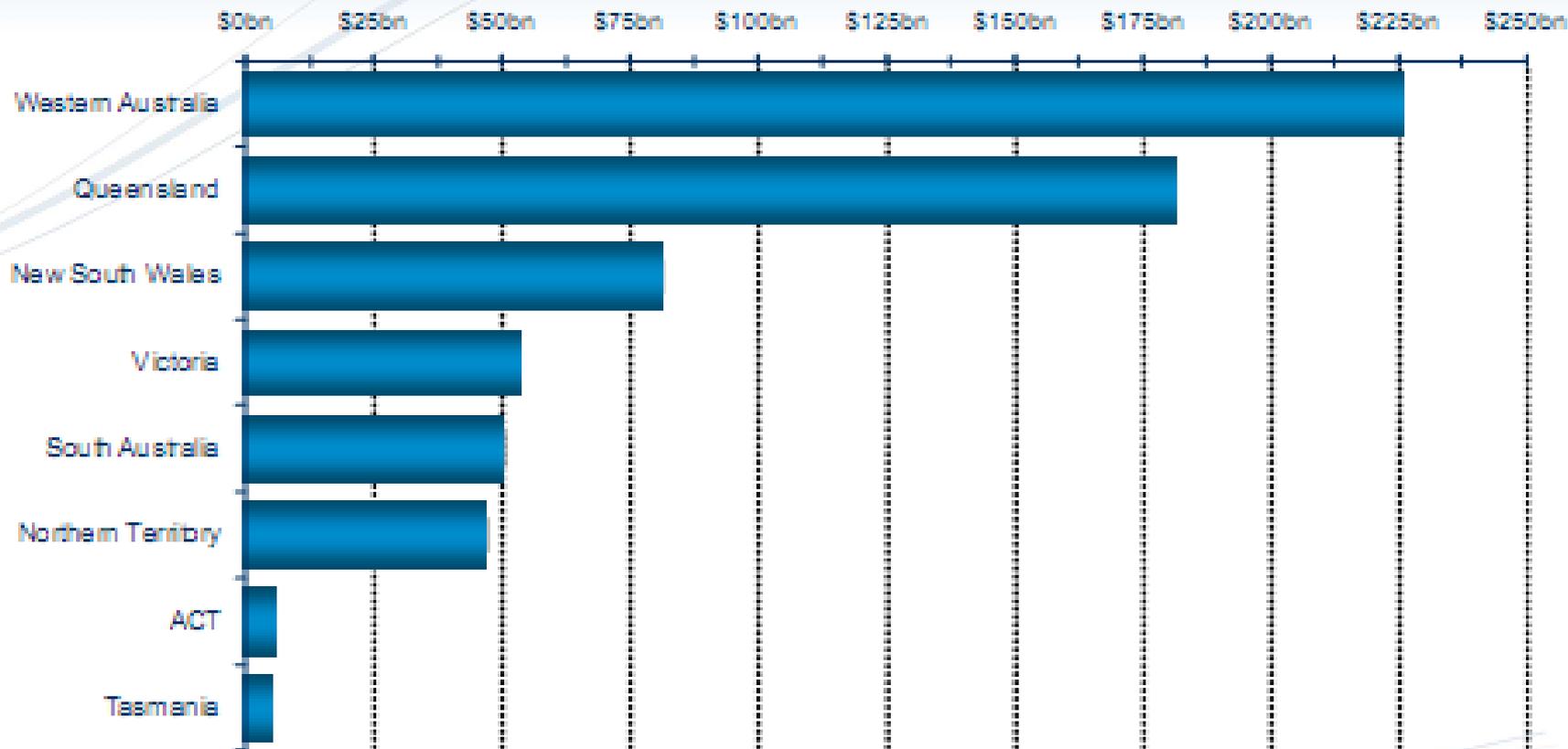


\* Excluding interest charges prior to the September quarter 1998 and adjusted for the tax changes of 1999–2000

Sources: ABS; RBA

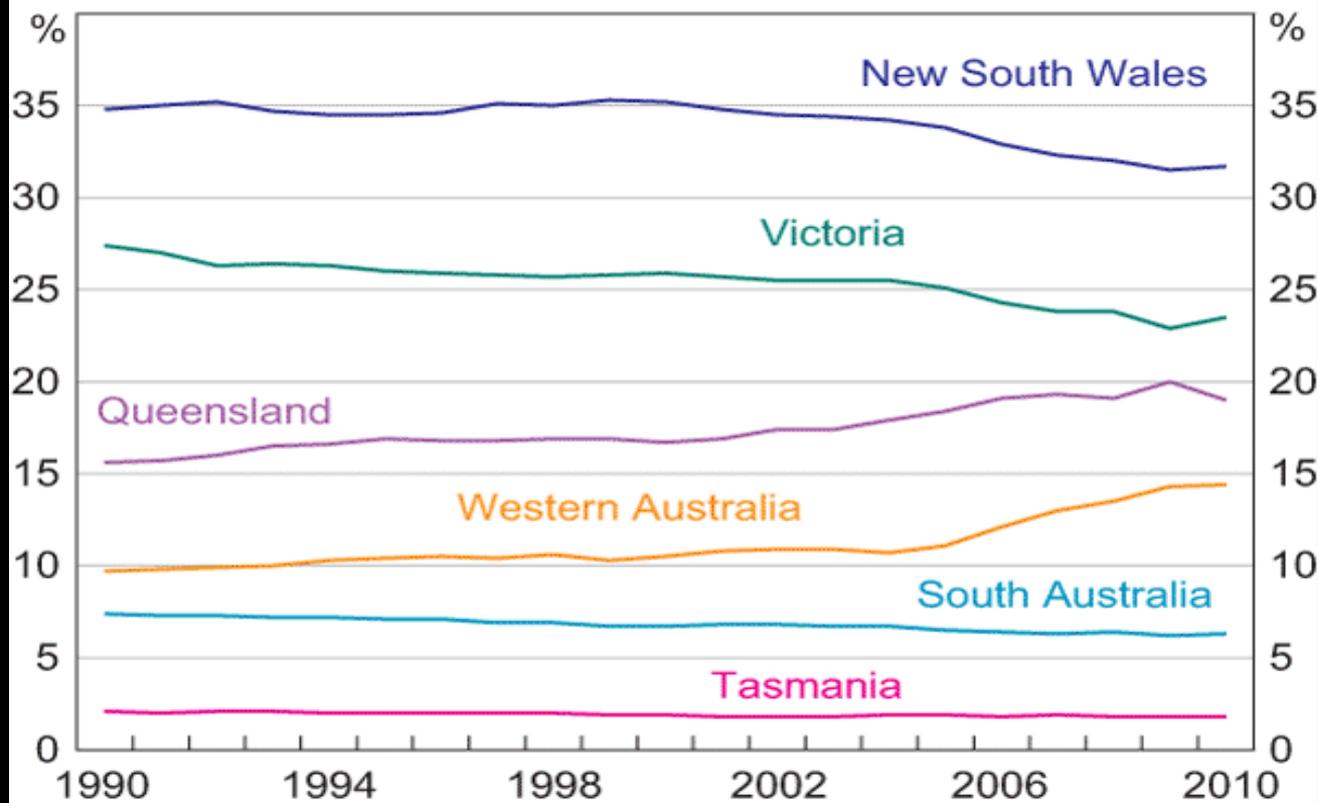
# Current Investment Projects

By State, December 2010



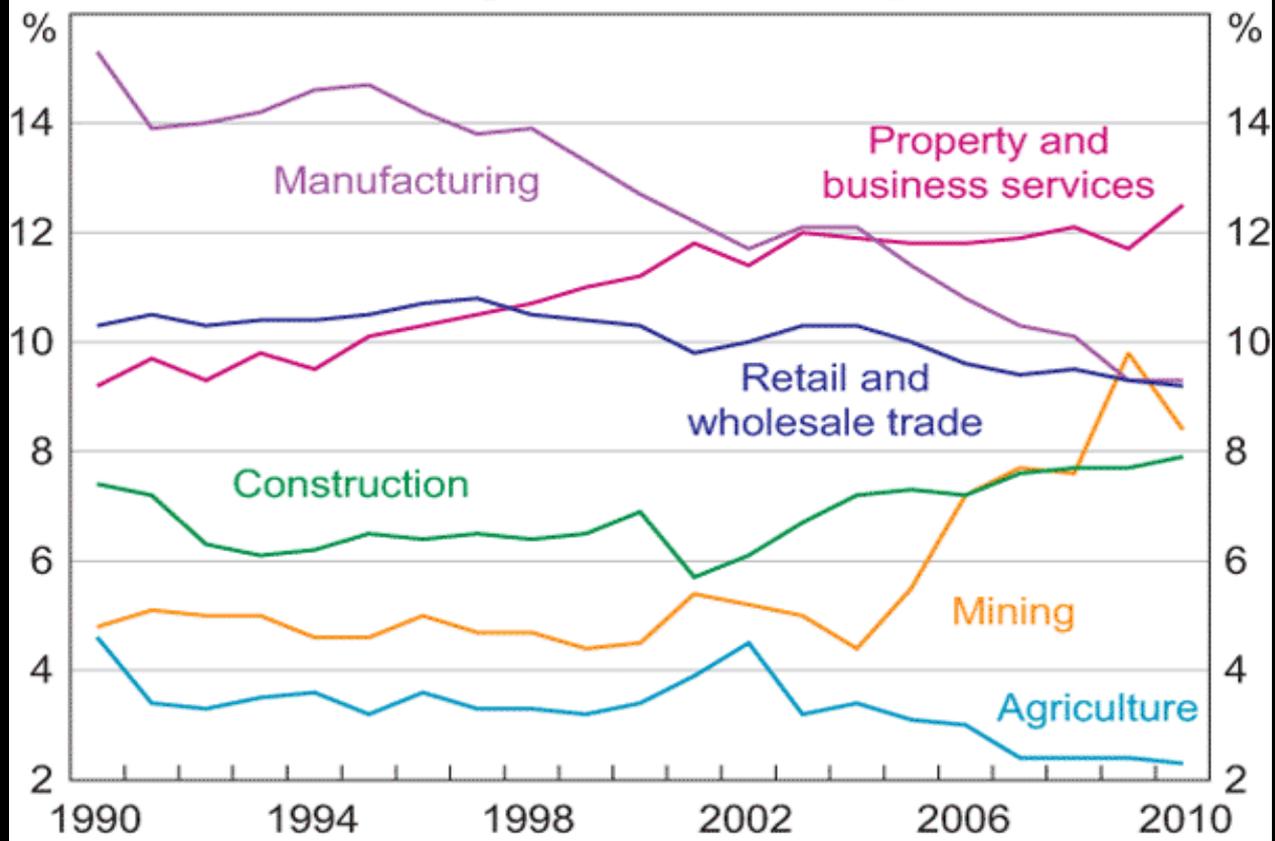
Source: Access Economics

## State Share of Output\*



\* Nominal  
Source: ABS

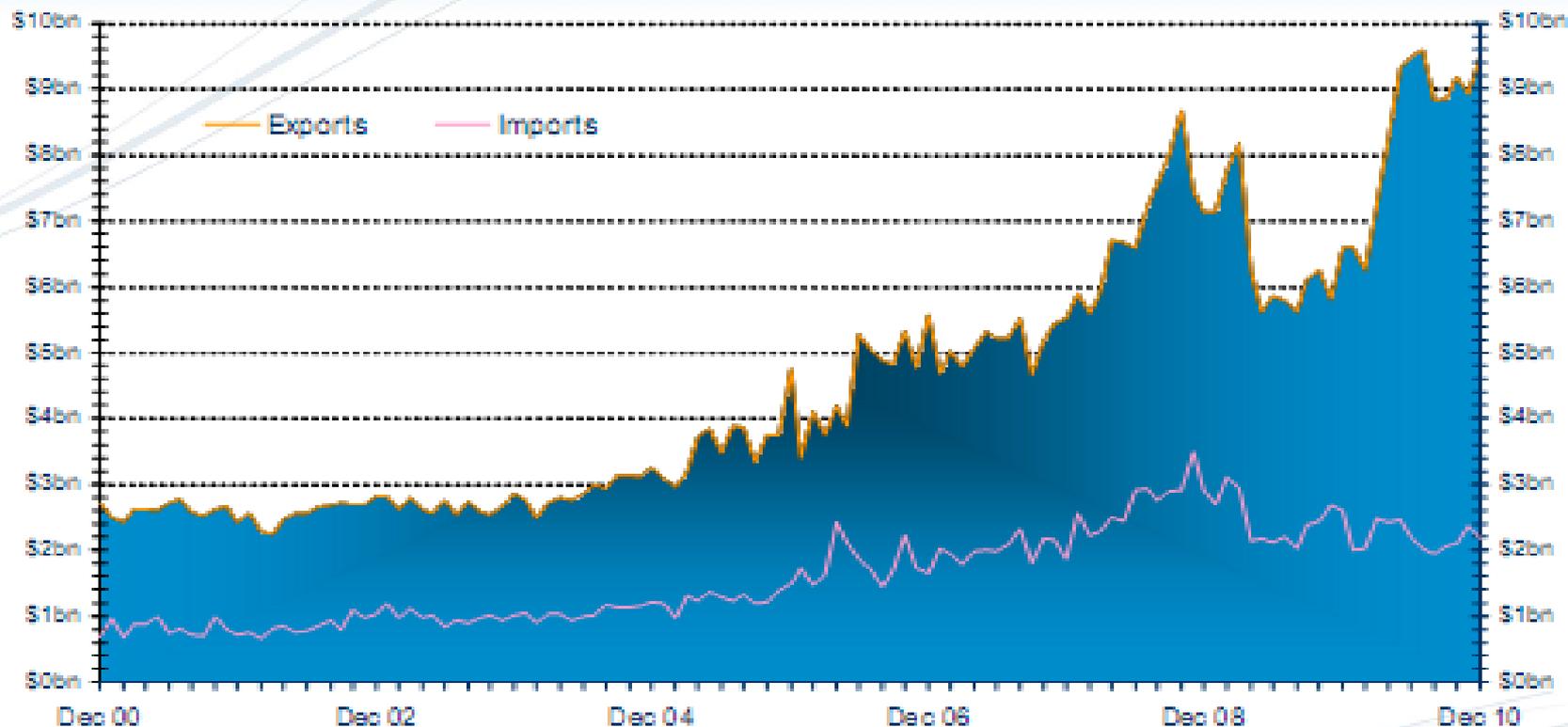
# Industry Share of Output\*



\* Nominal gross value added  
Source: ABS

# Merchandise Trade

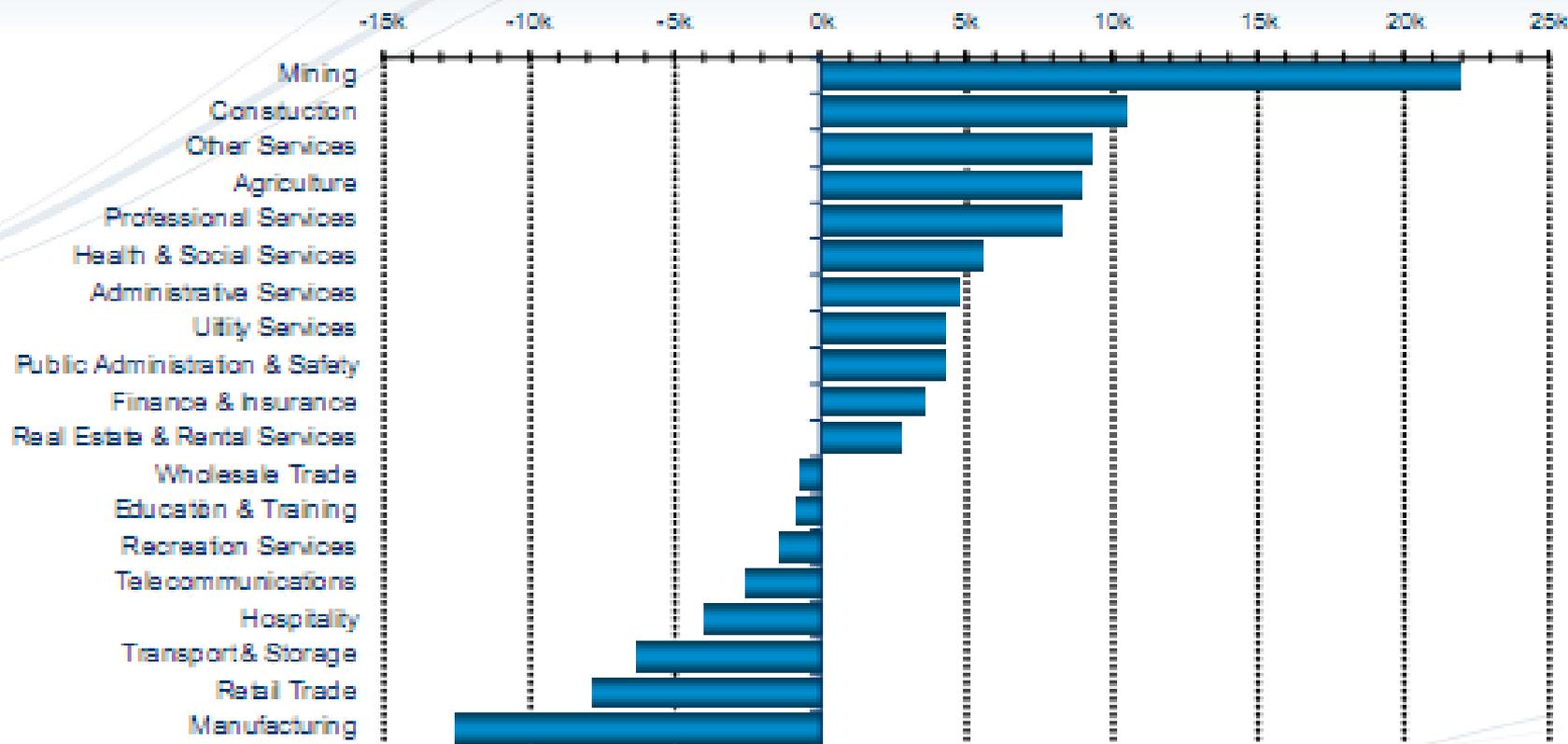
Western Australia, Imports & Exports, \$ Billions



Source: ABS Cat. 5432.0

# Net Employment Growth by Sector

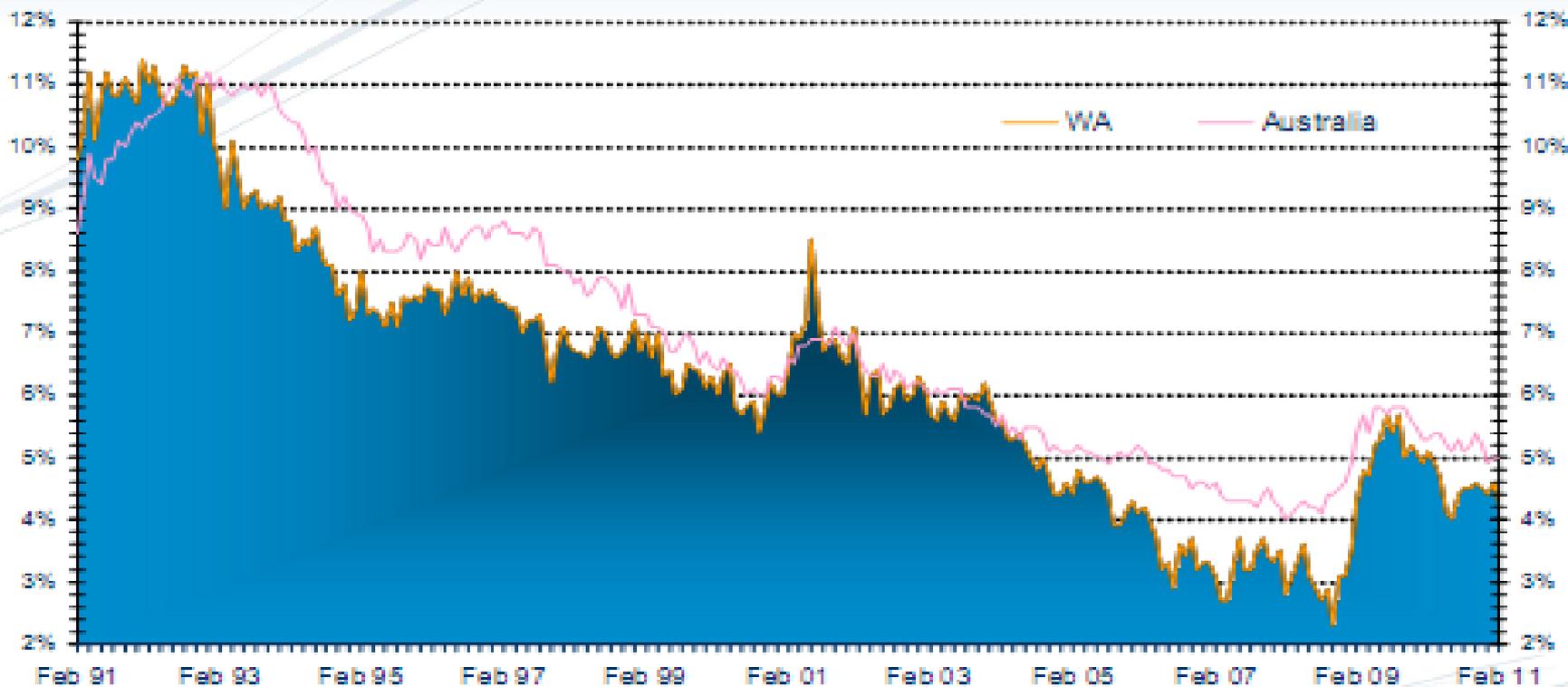
Western Australia, 000s, Year to December 2010



Source: ABS Cat. 6202.0

# Unemployment Rate

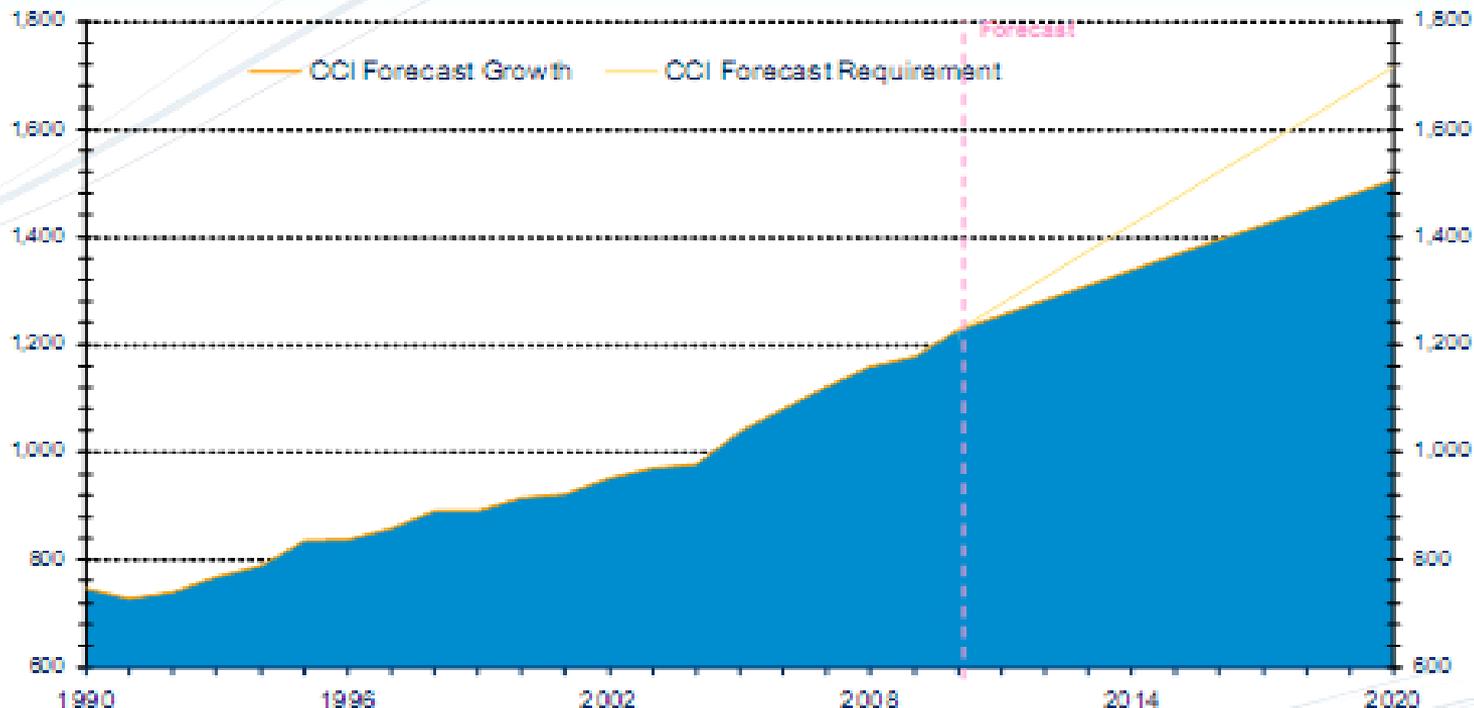
Seasonally Adjusted



Source: ABS Cat. 6202.0

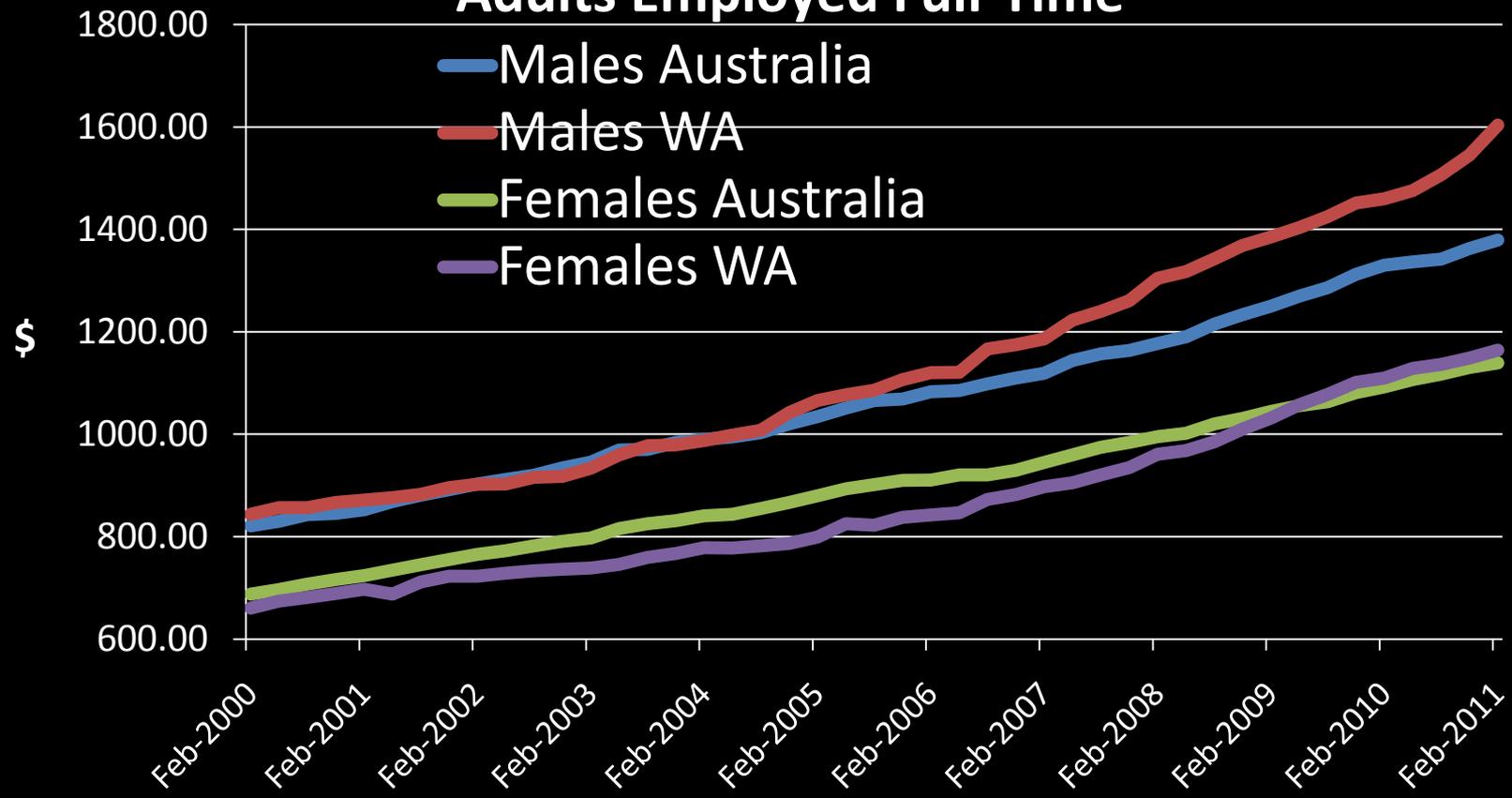
# WA Employment

Actual & CCI Forecasts, 000s



Source: ABS Cat. 6202.0, CCI

# Average Weekly Ordinary Time Earnings (SA) - Adults Employed Full-Time



|      | <b>WA Weekly<br/>Min Wage</b> | <b>% increase<br/>previous<br/>year</b> | <b>AWOTE –<br/>Adults –<br/>W.A. %<br/>change</b> | <b>AWOTE –<br/>Adults –<br/>Australia %<br/>change</b> |
|------|-------------------------------|---|---|--|
| 2006 | \$504.40                      | 4.1%                                    | 6.2%  | 3.2%   |
| 2007 | \$528.40                      | 4.8%                                    | 7.1%  | 5.2%   |
| 2008 | \$557.40                      | 5.5%                                    | 7.9%  | 5.4%   |
| 2009 | \$569.70                      | 2.2%                                    | 7.2%  | 5.9%   |
| 2010 | \$587.20                      | 3.1%                                    | 5.4%  | 3.9%   |

# *Issues and Challenges*

- Positive global outlook amongst our key trading partners – growth prospects strong underpinned by energy and resource sector.
- Patchwork economy- softness in some parts (“2 speed economy”).
- Households displaying fiscal restraint.
- Rising income inequality.
- Falling unemployment but increased under employment.
- Emerging wage pressures.

# *Issues and Challenges*

- Positive global outlook amongst our key trading partners – growth prospects strong.
- Strengthening Australian \$ (projected US\$110).
- Patchwork economy- softness in some parts (“2 speed economy”).
- Consumer uncertainty.
- Falling unemployment but increased under-employment.
- Rising income inequality.
- Emerging wage pressures and skill shortages.
- Limited revenue raising options for State governments .



# Budget Pros

- Extra \$604m in funding for not-for-profit sector.
- Record investment in government capital works program (\$7.6bn).
- Boost for tourism (\$15m for events).
- \$270m for Perth foreshore redevelopment.
- Net Operating Surplus of \$442 in 2011-12 (revenue \$25,233 – expenses \$24791)

# Cons



- Increase in government borrowing to fund its capital works program
  - → Net debt increase 29% to \$17.3bn in 2011-12 and expected to rise to \$22.4bn by 2014-15.
  - This is above govt ceiling of \$20bn
  - [Pros: Net financial liabilities to revenue 67.3% - well within range to keep triple A credit rating].

# Cons



- Package of \$3.5bn new measures to pay back borrowing:
  - \$1.9bn increase in iron-ore royalties.
  - 5% efficiency dividend on discretionary expenditure of Government Trading Enterprises.
  - Deferral spending \$541 on asset investment program (desalination plant).
  - \$300m savings to be achieved from “targeted review” of government programs and activities.
  - Additional 400 voluntary redundancies.

# Cons



- Questionable assumptions
  - Exchange rate \$US/\$A (cents)

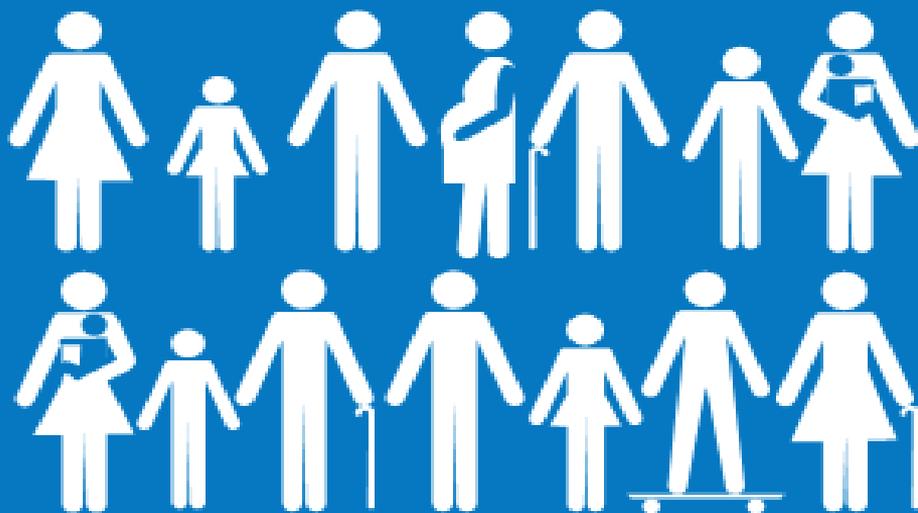
|          | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|----------|---------|---------|---------|---------|
| \$US/\$A | 97.5    | 90.6    | 83.7    | 76.9    |

- Every US1 cent increase in A\$ projected to cut \$60m from revenue; currently around 107 which is 10 cents above 2011-12 rate → lost \$600m already.
- But appreciation → increase iron ore revenue. Guess they hope it will cancel out!



# Outsourcing Human Services

- Extra \$604m in funding for not-for-profit sector; \$491m → 25% increase in contracts that govt has with 550 organisations employing 36,000 staff (mostly women).
- Follows from a September 2009 Economic Audit Committee (EAC) document *Putting the Public First: Partnering with the Community and Business Sector to Deliver Outcomes*
- Many recommendations. One of which 'outsourcing human services'.



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## **Putting the Public First?**

An examination of the implications  
of the 2009 EAC Report

# Putting the Public First?

- Report released 20<sup>th</sup> May 2011.
- Authors Professor Rainnie and Dr Fitzgerald from Curtin Graduate School of Business
- Review evidence from UK, Canada and other jurisdictions.
- Conclude
  - Contracts tend to favour larger organisations (benefits of economies of scale)

# Putting the Public First?

Conclusions continued:

- Public service becomes more focused on process of contract tendering.
- Impacts on advocacy capacity of NFP.
- Competition typically around cost – and with labour costs main cost → downward pressure on wages (mainly women workers).
- → low pay and poor working conditions.
- WA gender pay gap already large; \$439.30pw amongst adults employed full-time (or 27.4%)!

# Budget Conclusion

- Very challenging economic conditions.
- Difficult task given constrained revenue raising powers.
- Big state development/capital works investment essential for state to grow.
- Need soft infrastructure as well (eg. arts).
- Support for community sector welcomed.

**BUT:**

# Budget Conclusion (cont'd)

- Business not likely to be overly joyed (no cuts to payroll tax etc.).
- Public sector likely to be far from happy - \$300m cuts and further 400 redundancies and no knowledge of where cuts will be.
- GTEs will no doubt struggle to produce 5% efficiency saving.
- Does nothing to address fundamental and structural labour market reforms required to enable increased labour market participation amongst women.
- Over longer term likely to see economic position of many women in WA further eroded.

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