



Government of **Western Australia**
Department of **Treasury**

2023-24 Budget Briefing

Institute of Public Administration Australia WA

Michael Court, Deputy Under Treasurer

Summary

Economic outlook

- ▶ Global economic headwinds, but Western Australian economy remains strong
- ▶ Conservative revenue forecasts remain prudent as economic growth moderates

Fiscal outlook

- ▶ Operating surpluses over the forward estimates provides a non-debt source of funding for the State's record \$39 billion investment in infrastructure

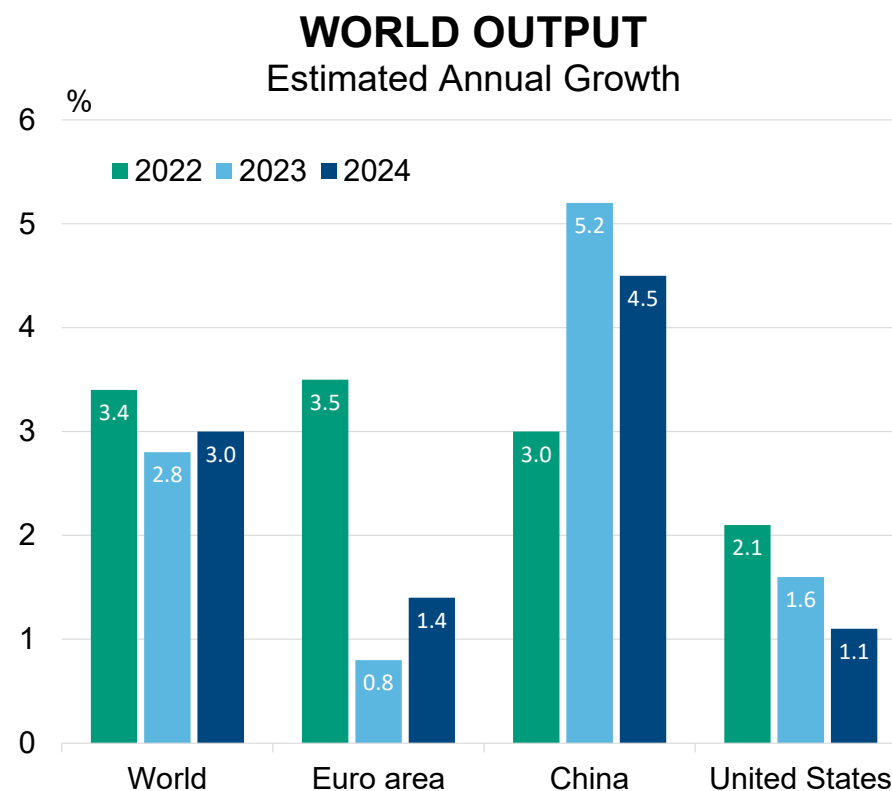
Budget initiatives respond to economic and fiscal outlook

Economic and Revenue Outlook



Global economic outlook

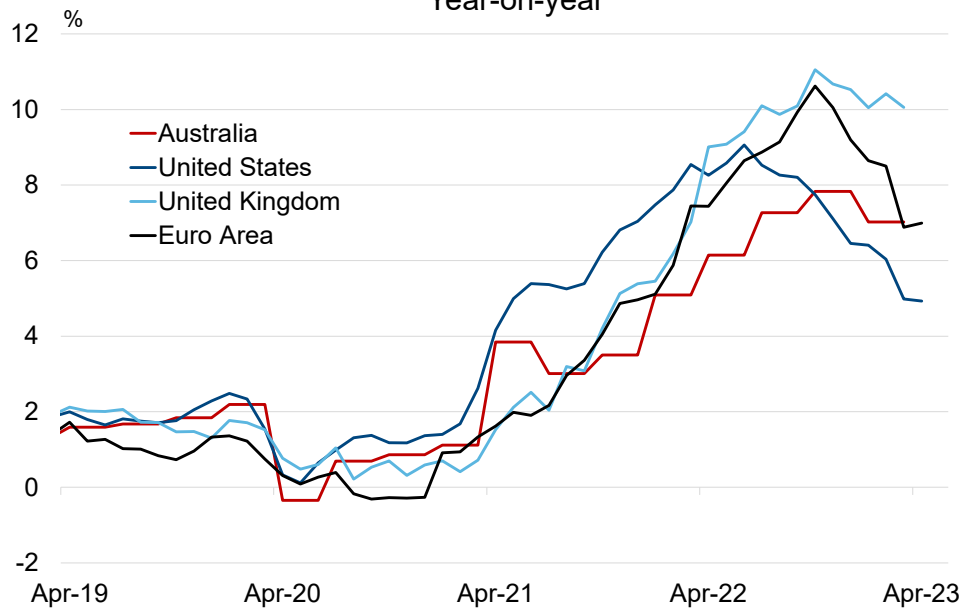
- ▶ Global economic growth is slowing with rising interest rates
- ▶ Global risks remain tilted towards the downside
 - ▷ Full effects of the rapid rises in interest rates are yet to flow through to economic activity
 - ▷ To reduce core inflation interest rates may need to continue to rise and/or stay high for longer
- ▶ Recent instability in global financial sector due to bank closures/liquidity issues, although contained to date



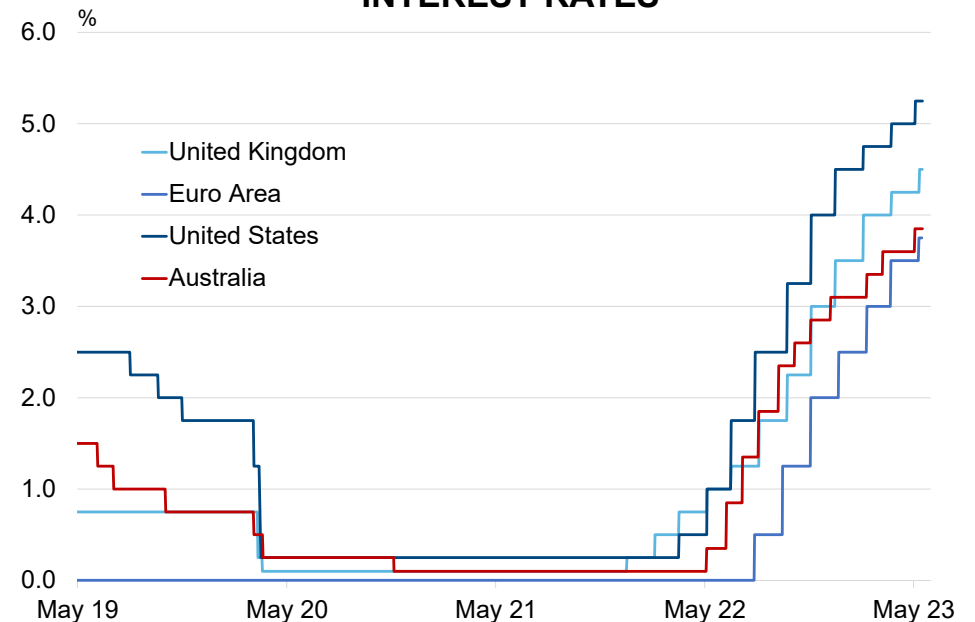
Global inflation and rising interest rates

- ▶ Global increases of interest rates in response to high inflation are expected to slow global growth this year
- ▶ Headline inflation has peaked, but to contain core inflation, interest rates may rise further

HEADLINE INFLATION RATES
Year-on-year

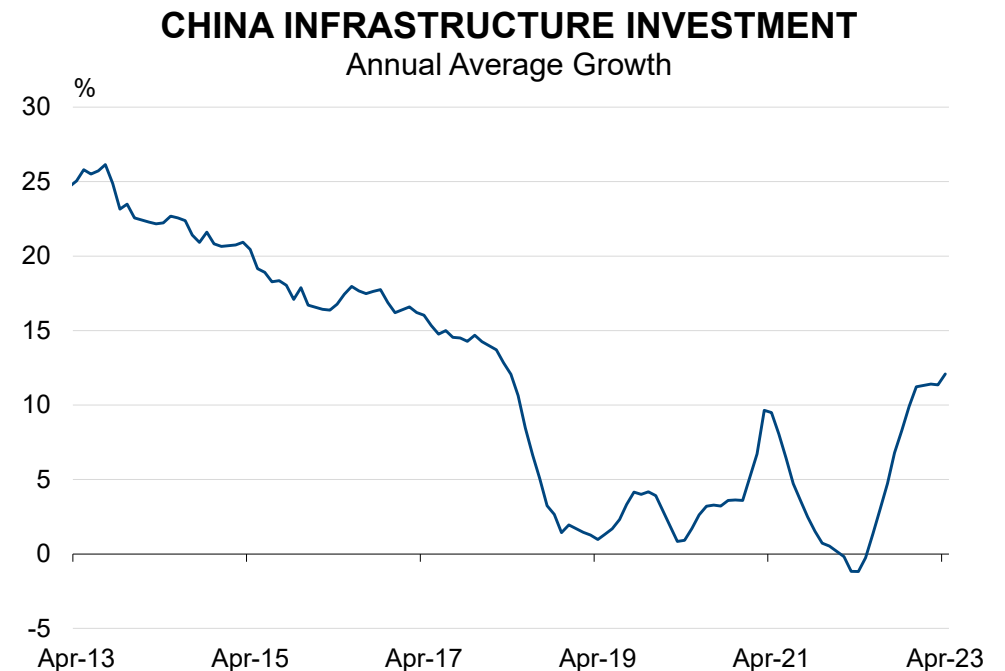


INTEREST RATES



Growth in China

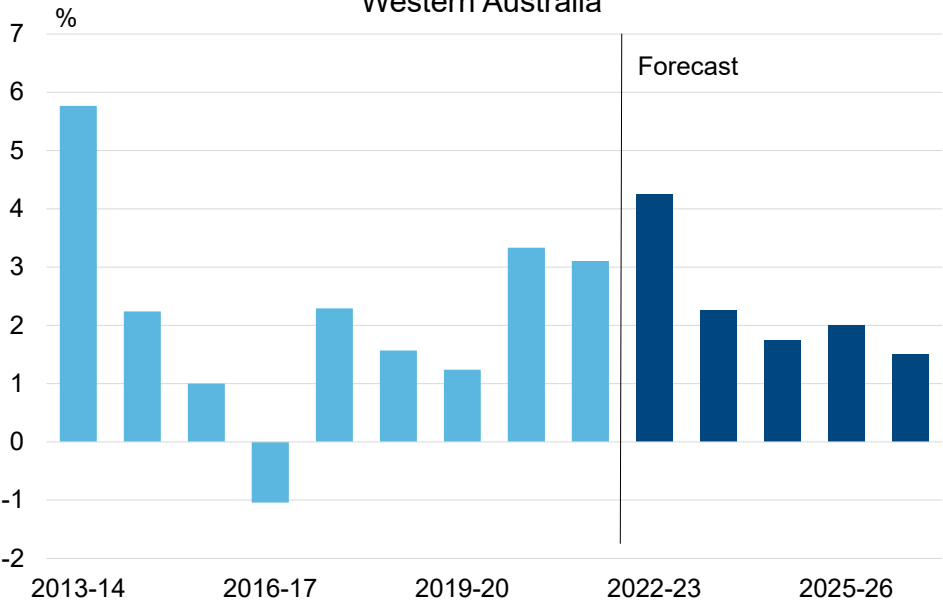
- ▶ Growth in China's economy slowed from 8.5% in 2021 to 3% in 2022, primarily due to frequent COVID lockdowns in major cities and a property market downturn
- ▶ IMF expects growth to increase from to 5.2% in 2023, before easing to 4.5% in 2024



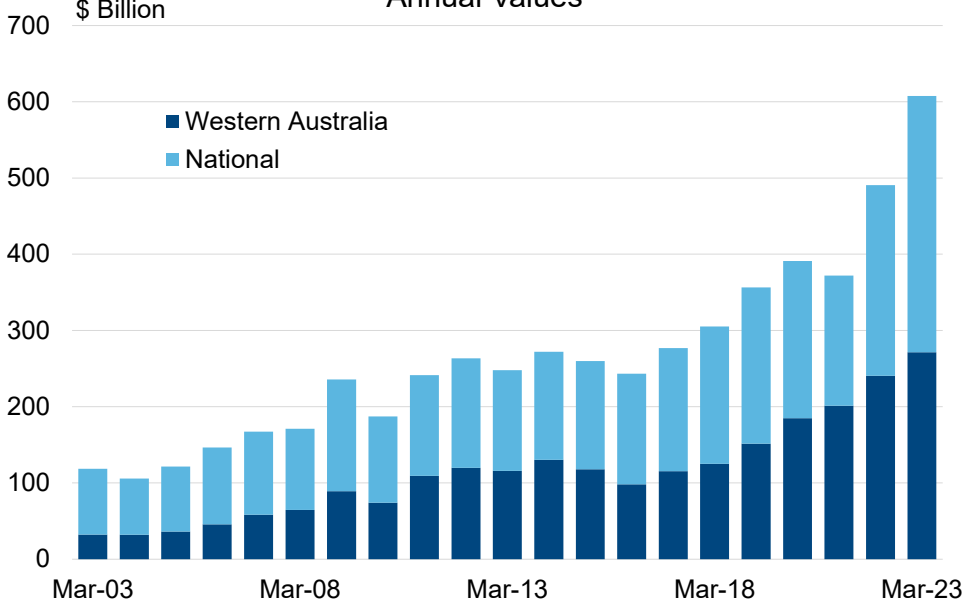
Economic growth – Gross State Product

- ▶ Gross State Product is forecast to reach 4.25% in 2022-23
- ▶ Strong growth supported by merchandise exports including iron ore, LNG, lithium, wheat and canola

ECONOMIC GROWTH
Western Australia

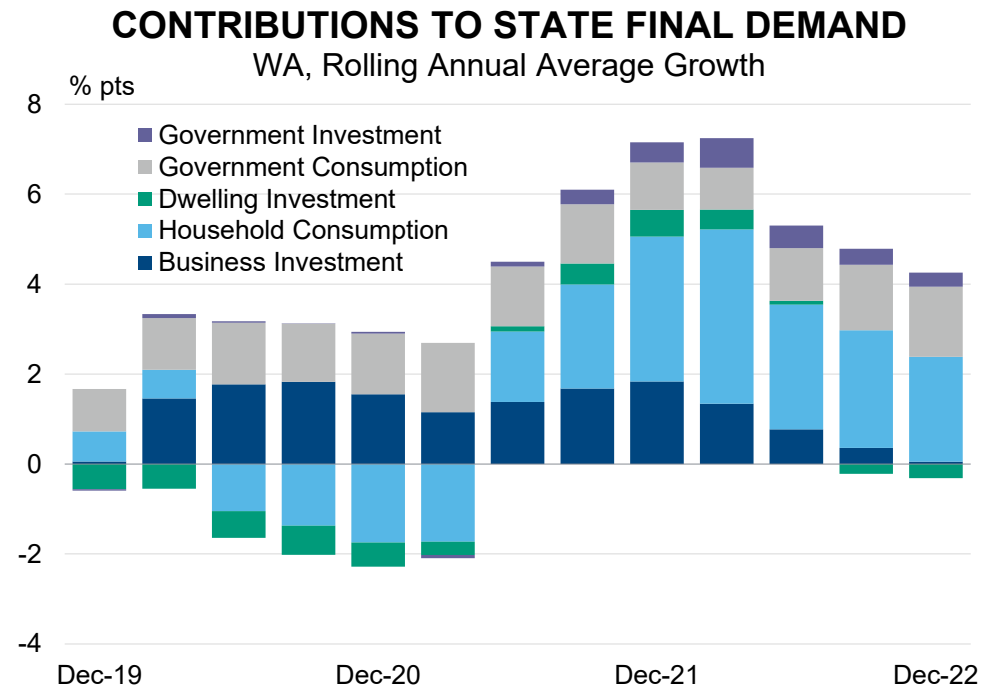
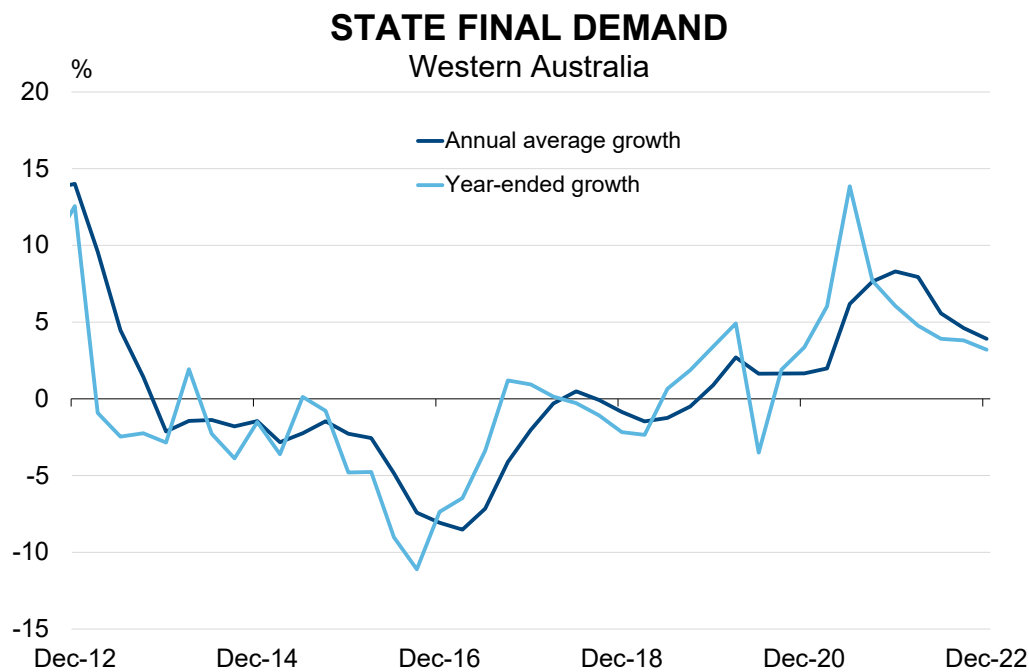


MERCHANDISE EXPORTS
Annual Values



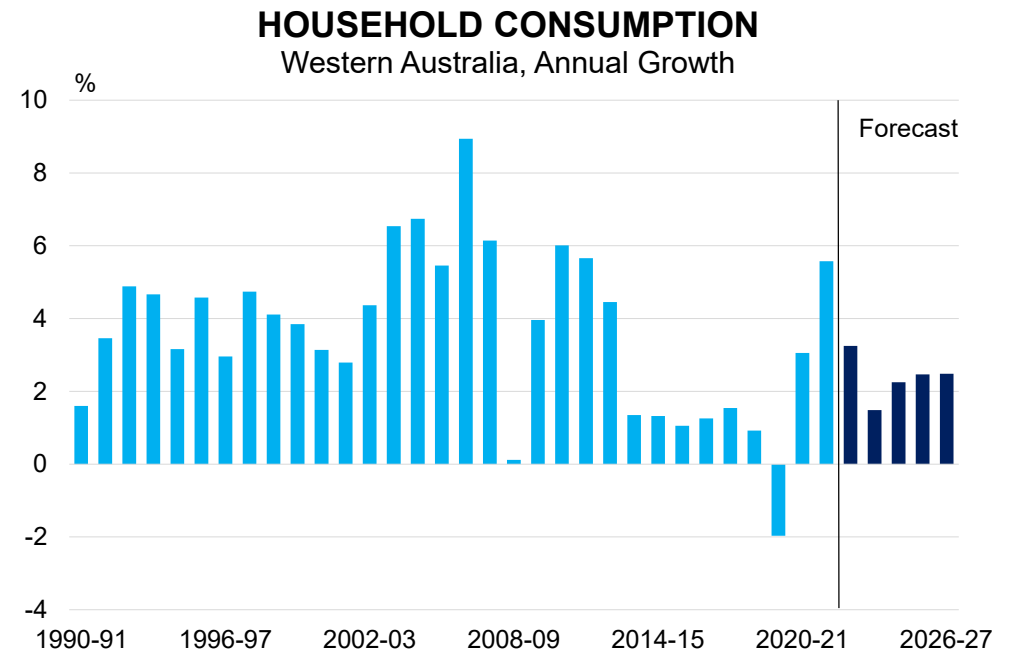
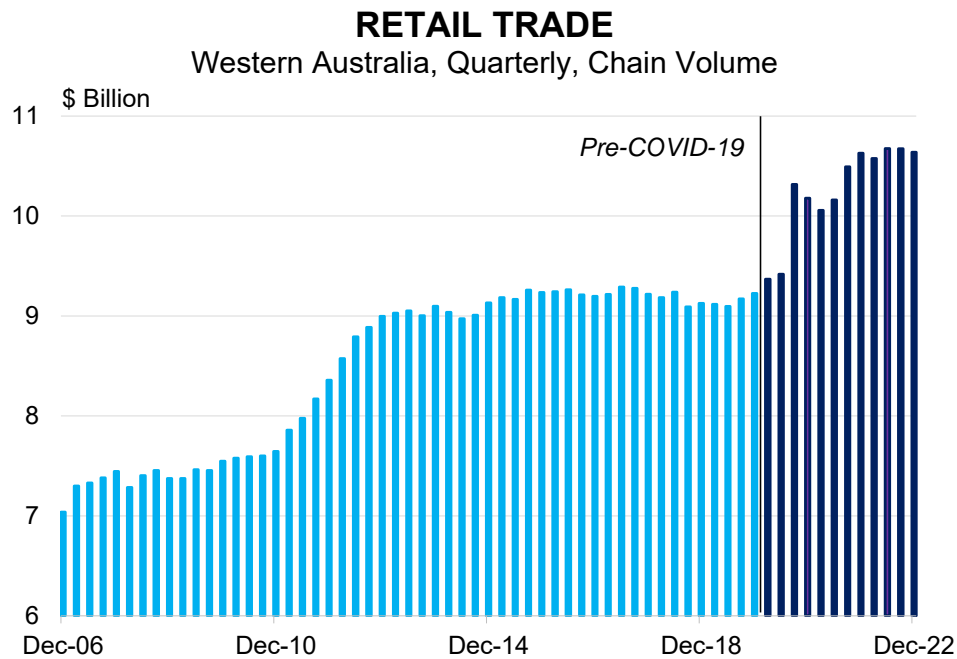
Economic growth – State Final Demand

- ▶ The Western Australian domestic economy is starting to slow, particularly in interest-rate sensitive sectors like household consumption and housing



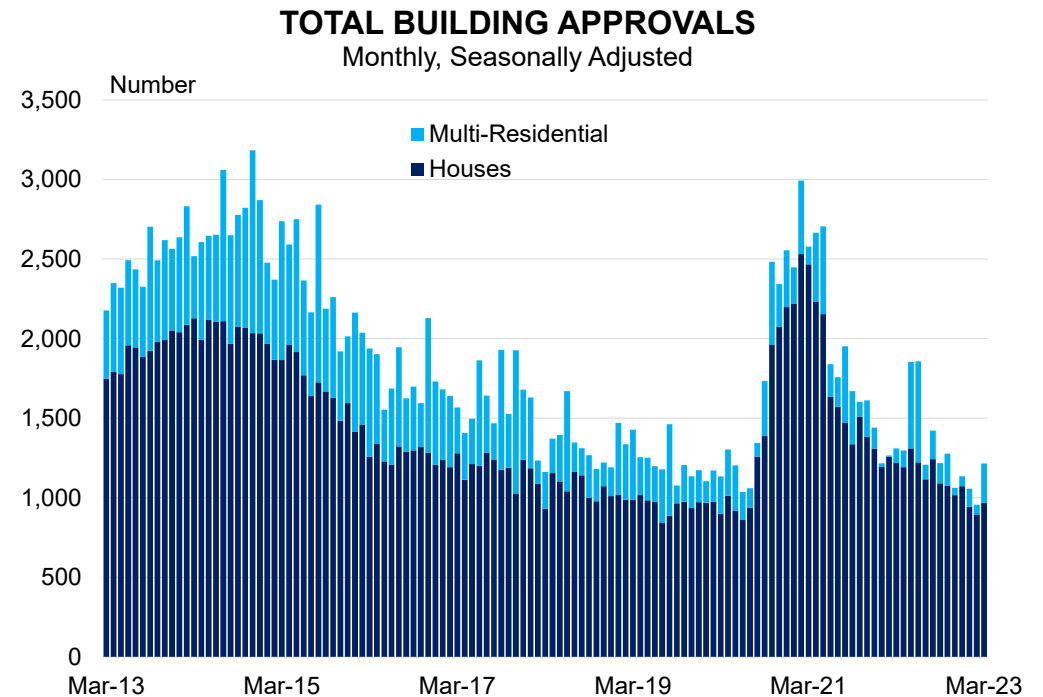
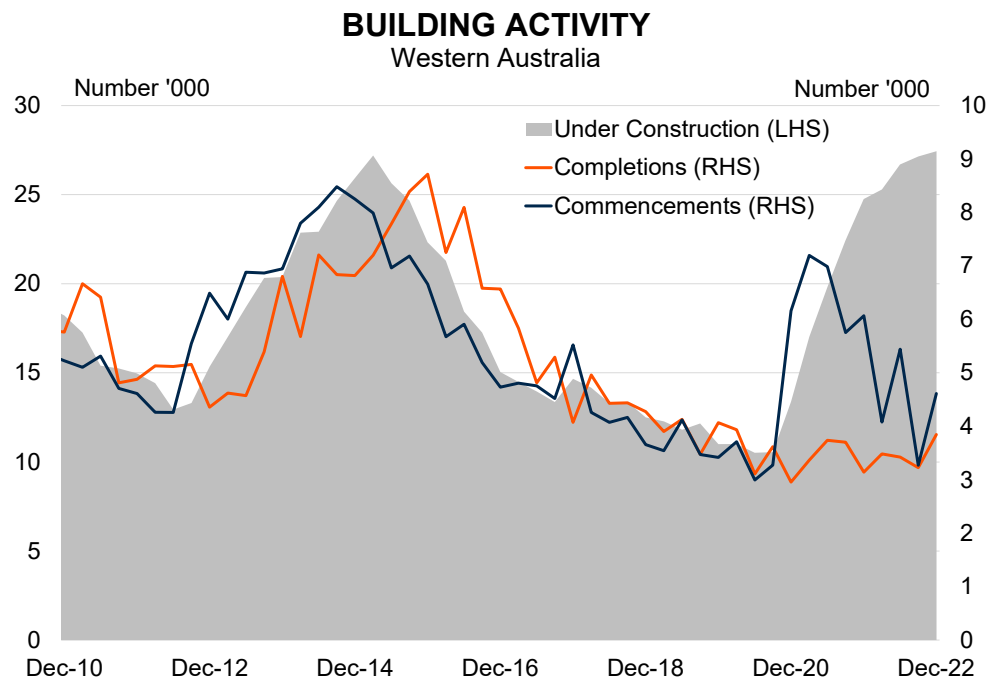
Retail trade and household consumption

- ▶ Consumer spend is slowing as rising interest rates and elevated prices weigh on income
- ▶ Household consumption growth forecast to ease to 1.5% in 2023-24, as a large portion of fixed-rate loans expire



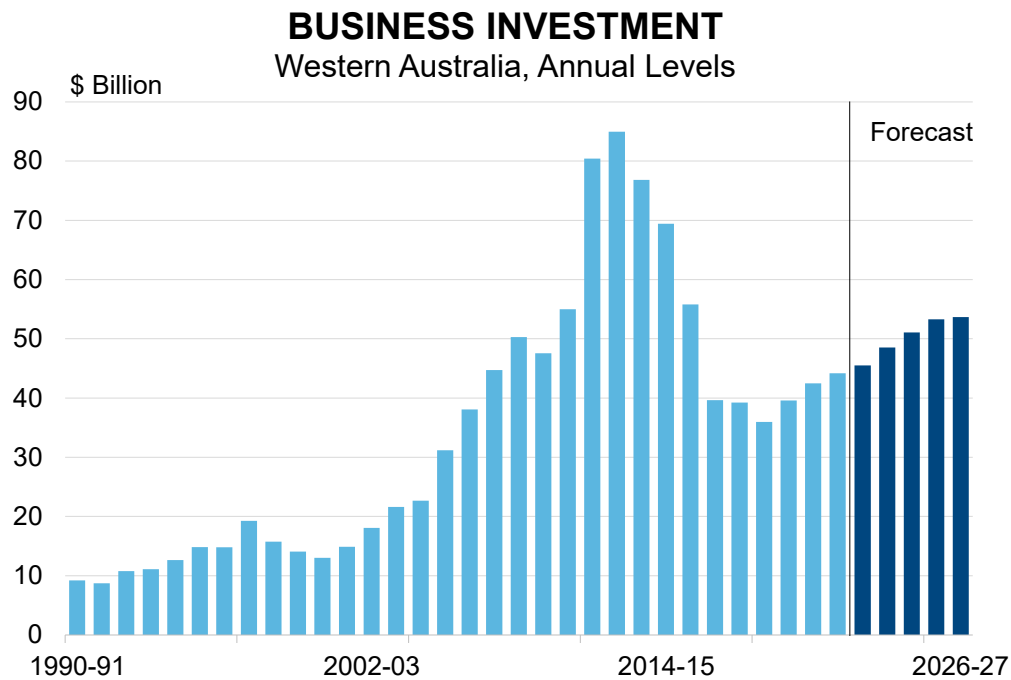
Residential construction

- ▶ Record volume of work under construction, but completions yet to pick up materially given extended building times
- ▶ New building approvals are softening



Business investment

- ▶ Has been constrained by labour market shortages and delays in sourcing materials
- ▶ Growth forecast on the back of major project investment (such as Scarborough LNG) and decarbonisation

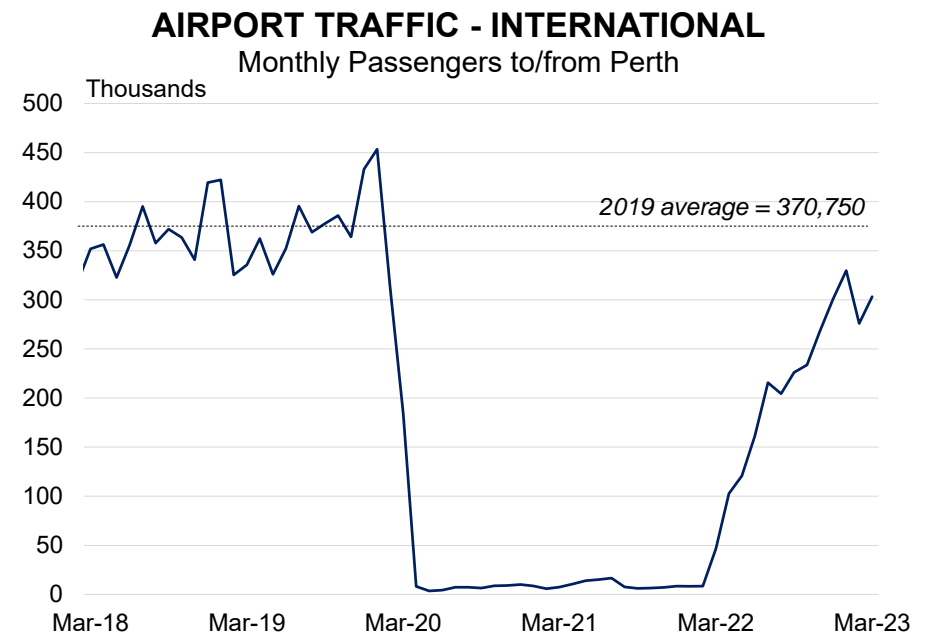
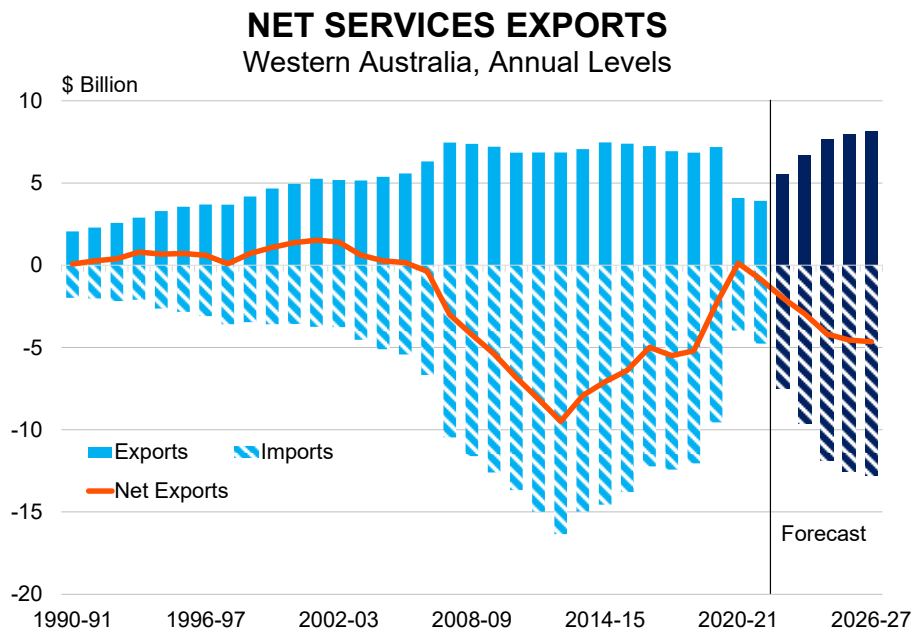


BIGGEST PROJECTS AS AT 17 MAY 2023
Under construction or Committed

Project Name	Capex \$m
Scarborough/Pluto 2	16,500
Jansz-lo	6,000
Burrup Urea Plant	6,000
Gorgon Stage 2	5,000
CBH network infrastructure and assets	4,000
Crux	3,500
Onslow Iron	3,000
Western Range	2,805

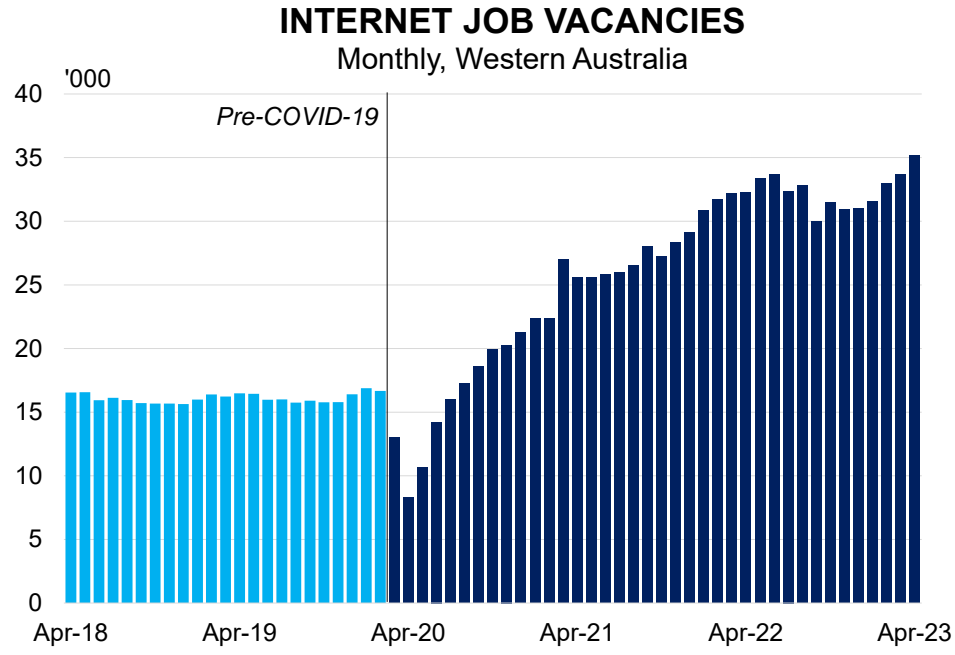
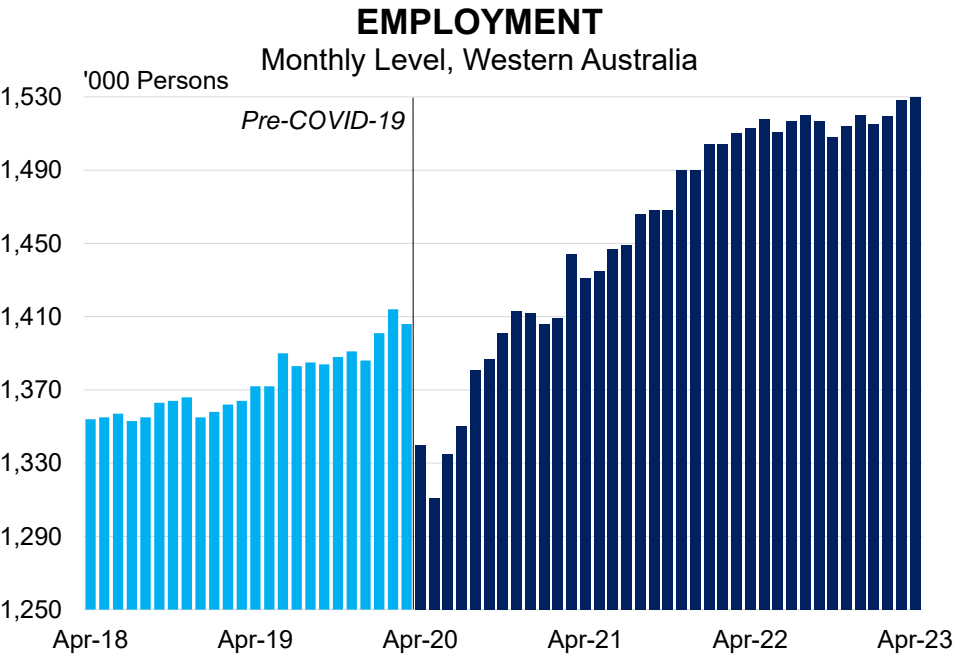
Services trade

- ▶ Service imports and exports expected to grow significantly in 2022-23 driven by continued recovery in international tourism, education and business travel (both to and from Western Australia)



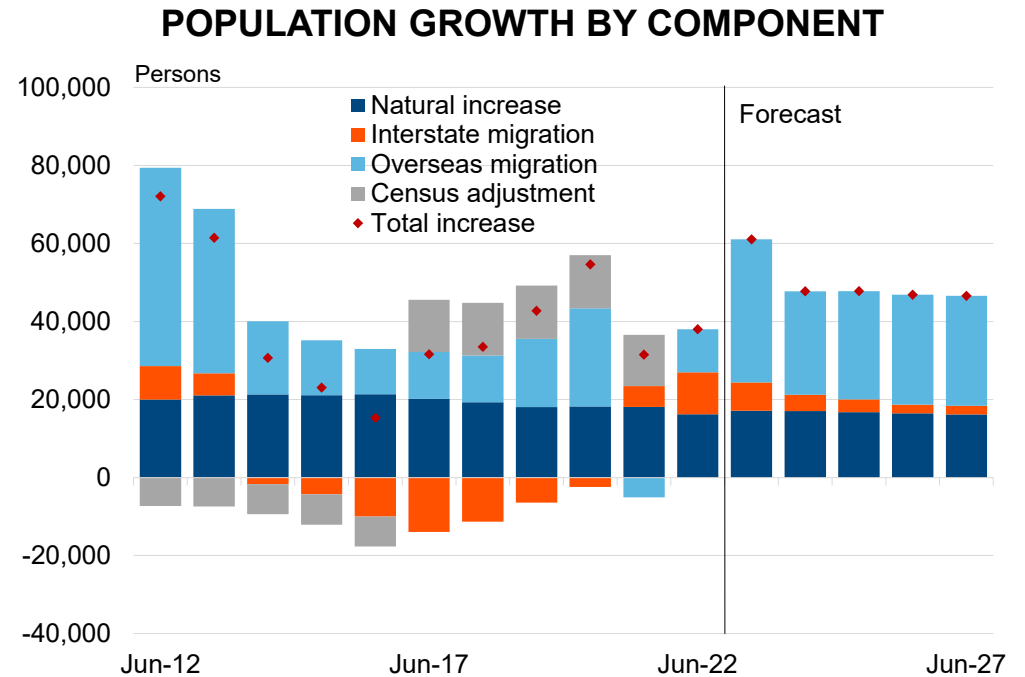
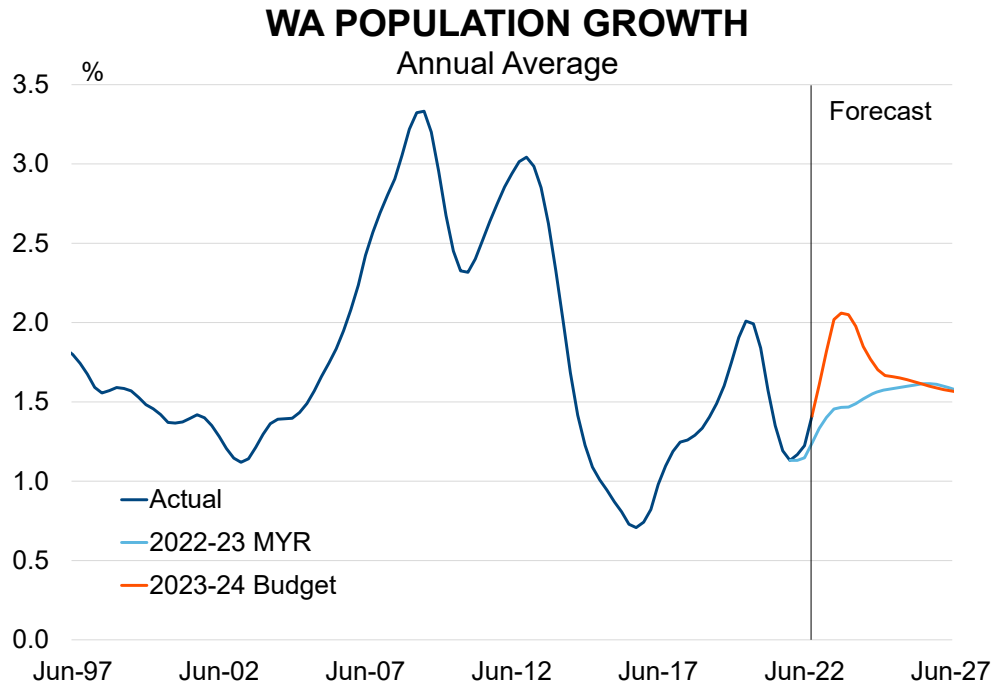
Labour market

- ▶ Labour market remains strong, with employment reaching a record 1.53 million people in March 2023 – increase supported by growth in full-time work for women
- ▶ Internet job vacancies at a record high, indicating strong demand for labour



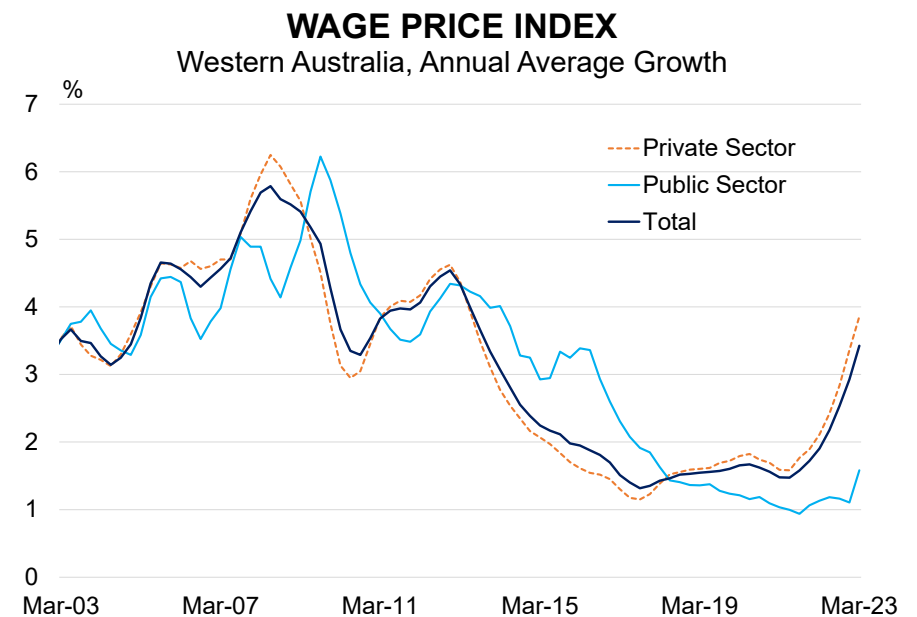
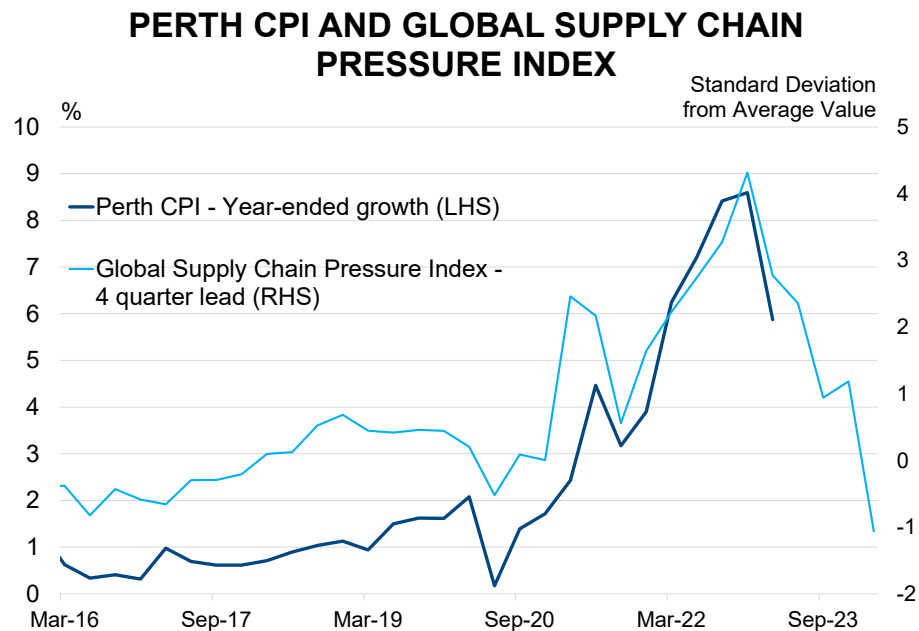
Population growth and migration

- ▶ Strong population growth in 2022-23 (2%) underpinned by net overseas migration, especially international students



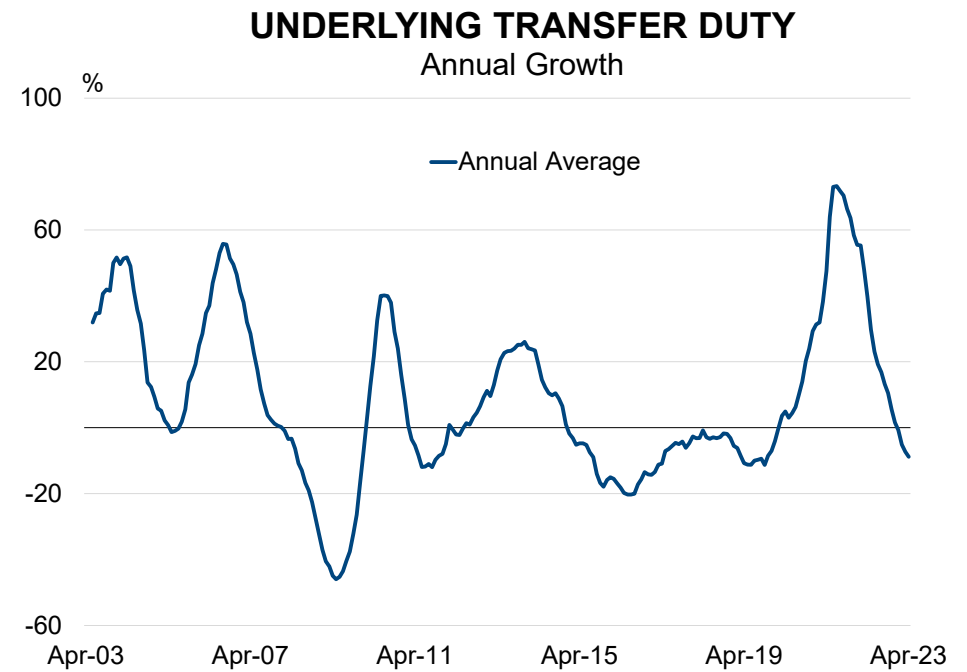
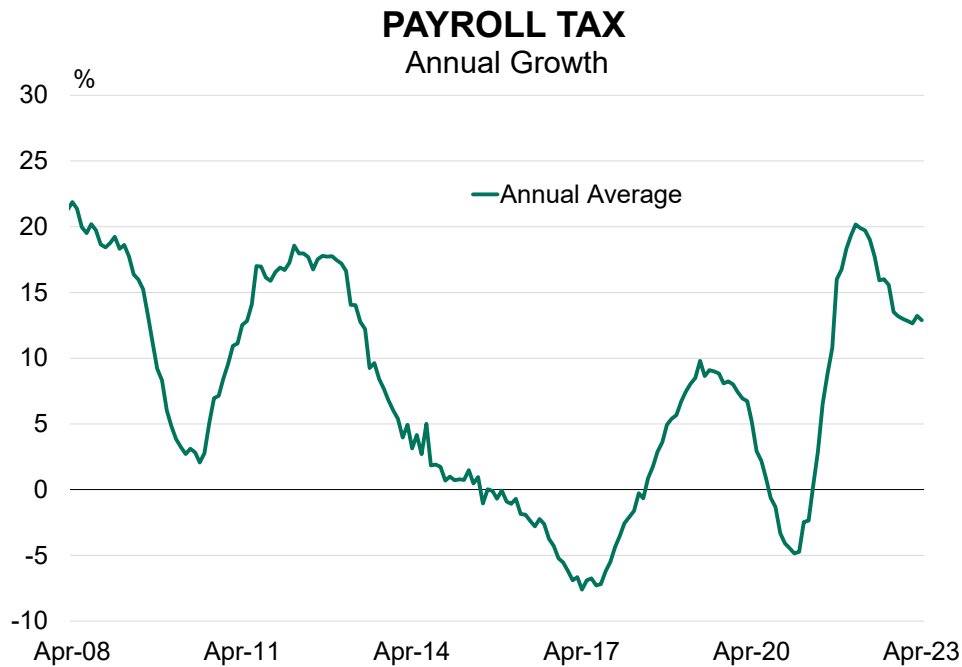
Perth CPI and wages

- ▶ Inflation appears to have peaked in the December 2022 quarter, and is projected to ease to 5.75% by June 2023, and 3.5% by June 2024
- ▶ Wages responding to tightness in the labour market and expected to rise further as firms compete for labour



Taxation

- ▶ Payroll tax growth remains strong but is starting to ease
- ▶ Transfer duty collections have declined following very strong growth in 2021-22



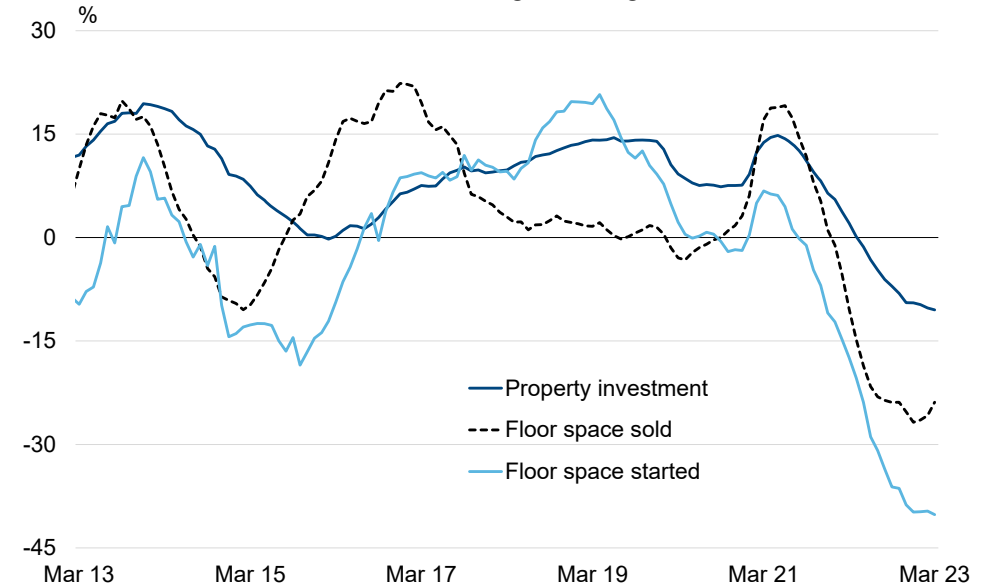
Royalties and iron ore

- ▶ Iron ore prices are inherently volatile and the Budget prudently forecasts that they reach their long run average price by November 2023
- ▶ Despite policy support, the recovery of China's property sector has so far been weak

IRON ORE PRICE VOLATILITY
Daily Spot Price



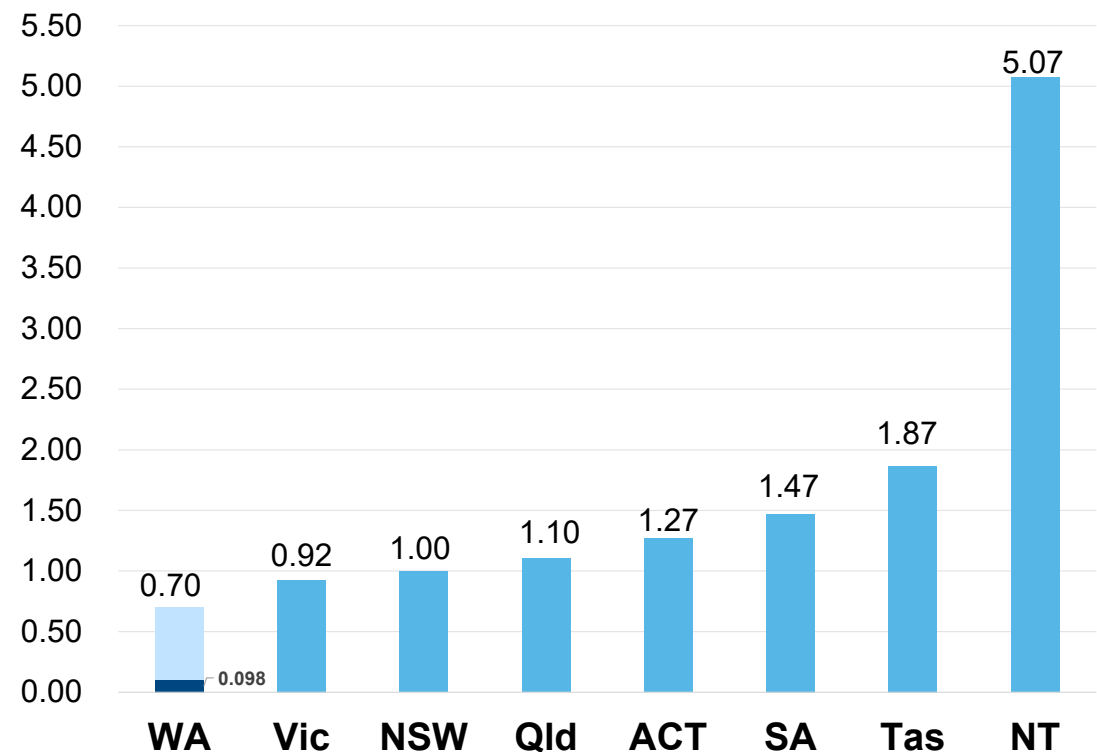
CHINA PROPERTY INDICATORS
Annual Average Change



GST grants

- ▶ Without the 70% floor, Western Australia's relativity would have decreased to just 9.8% (\$0.9 billion) in 2023-24
- ▶ Even with the reforms, Western Australia will receive \$12 billion less than its population share of GST grants over 2022-23 to 2026-27

2023-24 EFFECTIVE GST RELATIVITIES

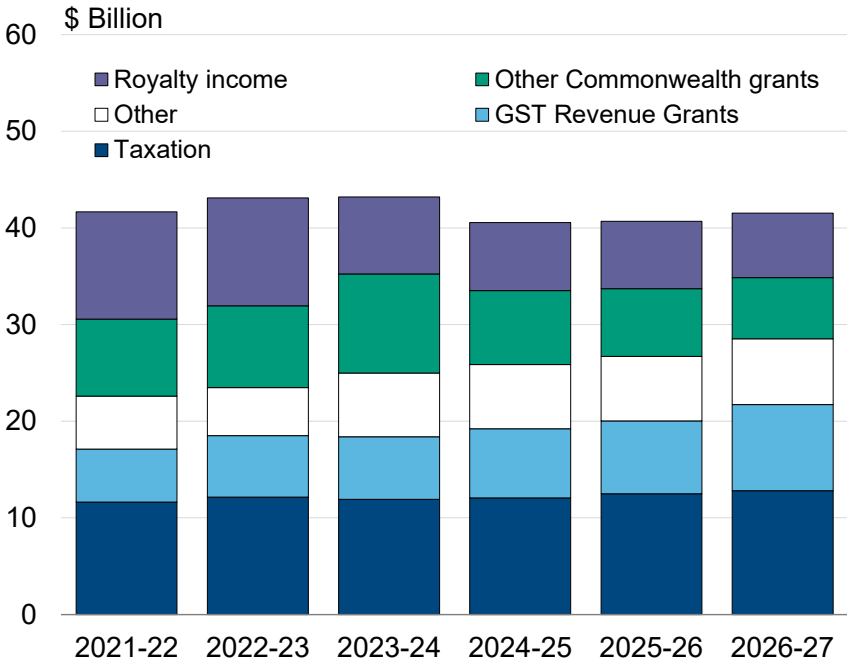


Fiscal Outlook

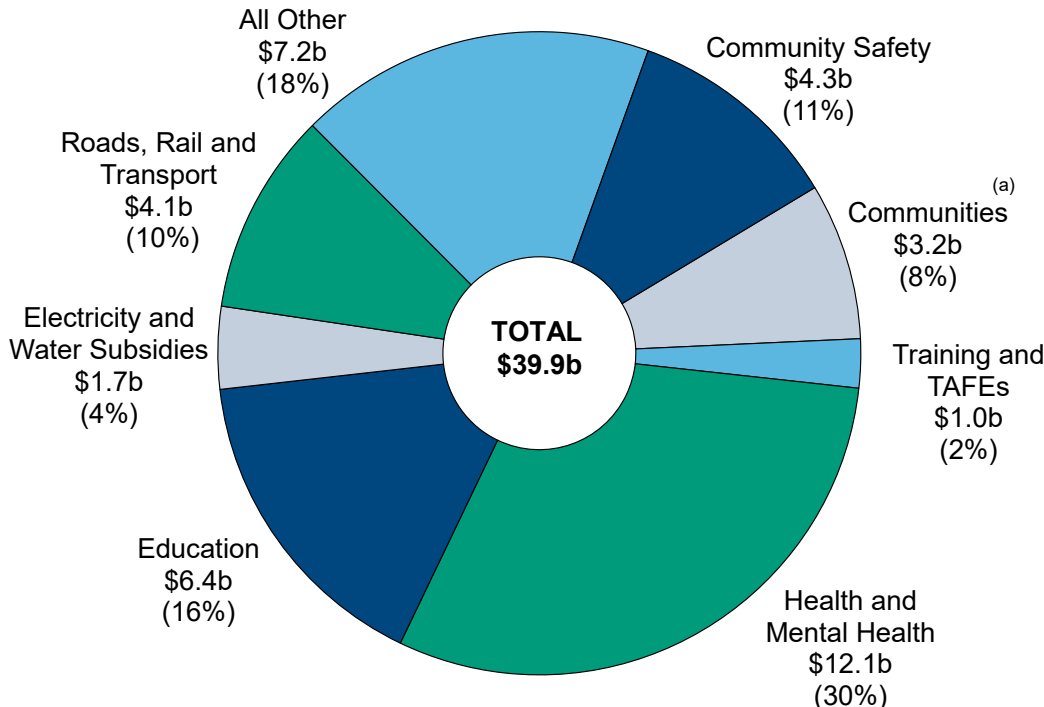


General government revenue and expenses

GENERAL GOVERNMENT REVENUE

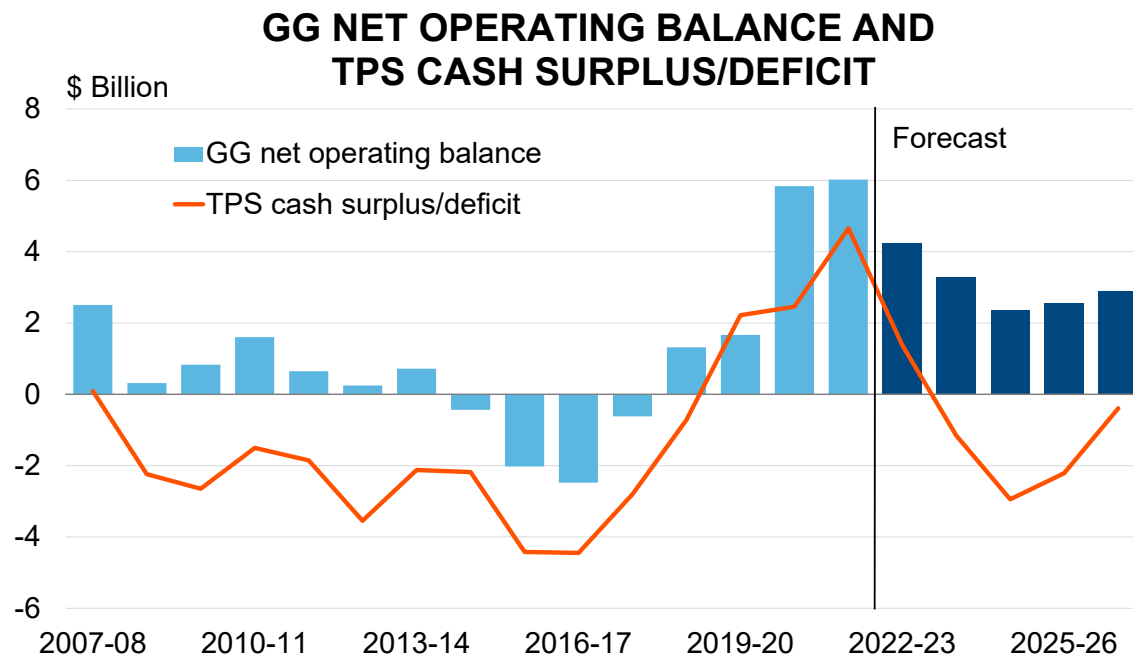


GENERAL GOVERNMENT EXPENSES 2023-24



General government net operating balance

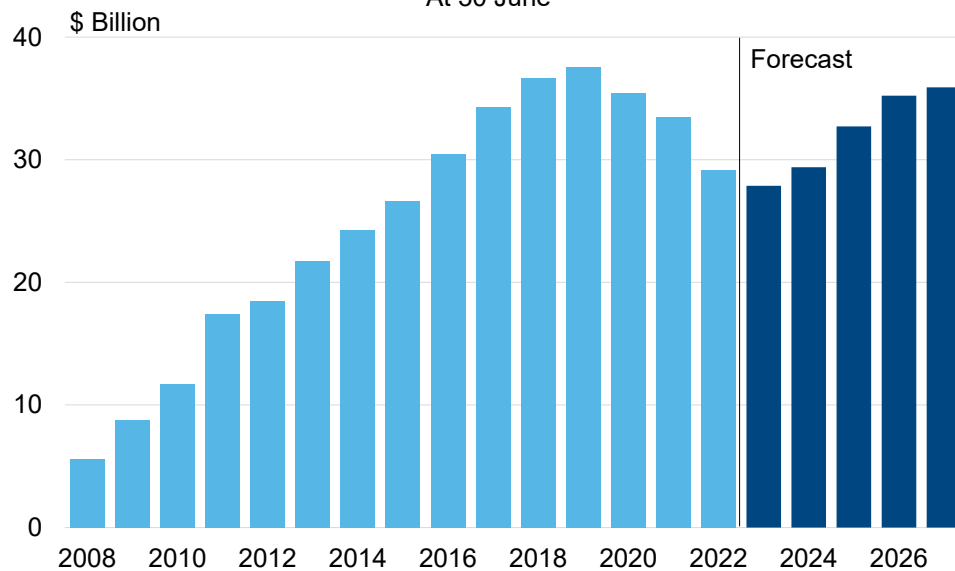
- ▶ \$3.3 billion operating surplus expected in 2023-24, with surplus position maintained over the forward estimates
- ▶ Operating surpluses a critical non-debt funding source for infrastructure investment



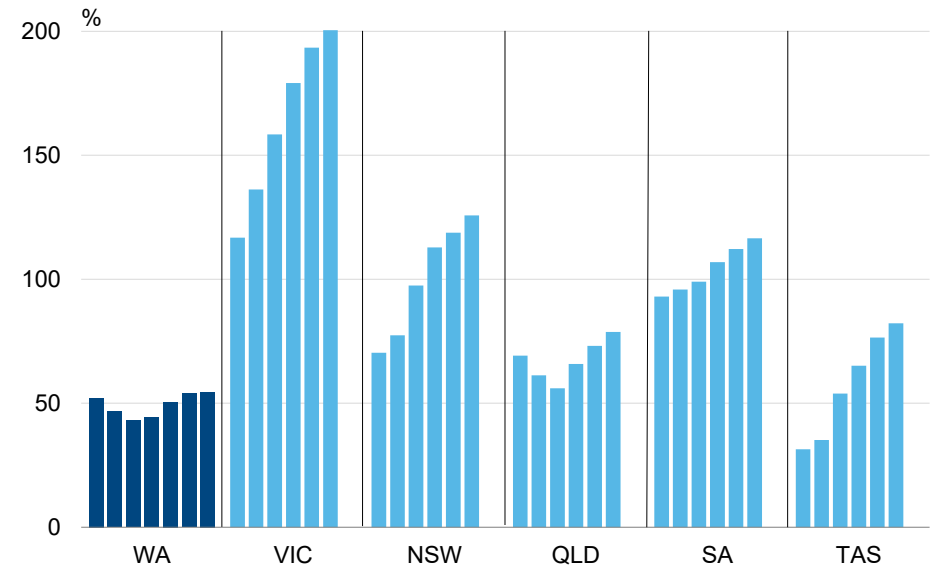
Net debt

- ▶ Net debt expected to decline for a fourth consecutive year to \$27.9 billion
- ▶ Forecast increases over the forward estimates remain affordable
- ▶ Net debt profile compares favourably to other States, and supports our AAA credit rating

TOTAL PUBLIC SECTOR NET DEBT
At 30 June



NET DEBT TO REVENUE RATIO
2020-21 to 2026-27

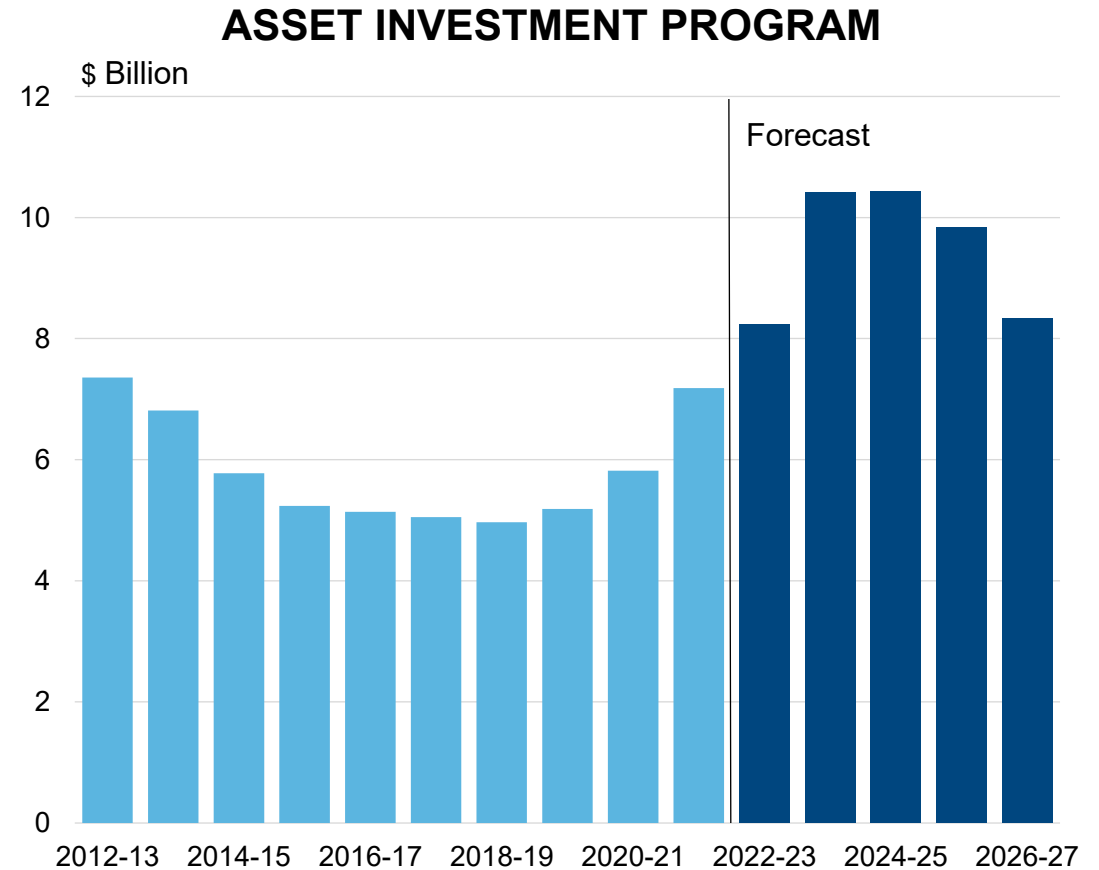


Asset Investment Program

Record \$39 billion infrastructure investment over next four years

Key Budget initiatives include:

- ▶ an additional \$2.5 billion for transport projects over 2022-23 to 2026-27
- ▶ \$227 million for new and upgraded school infrastructure
- ▶ \$544 million to begin construction of the new Women and Babies Hospital over the next four years



Budget Initiatives



Budget initiatives

The 2023-24 Budget responds to economic and fiscal conditions:

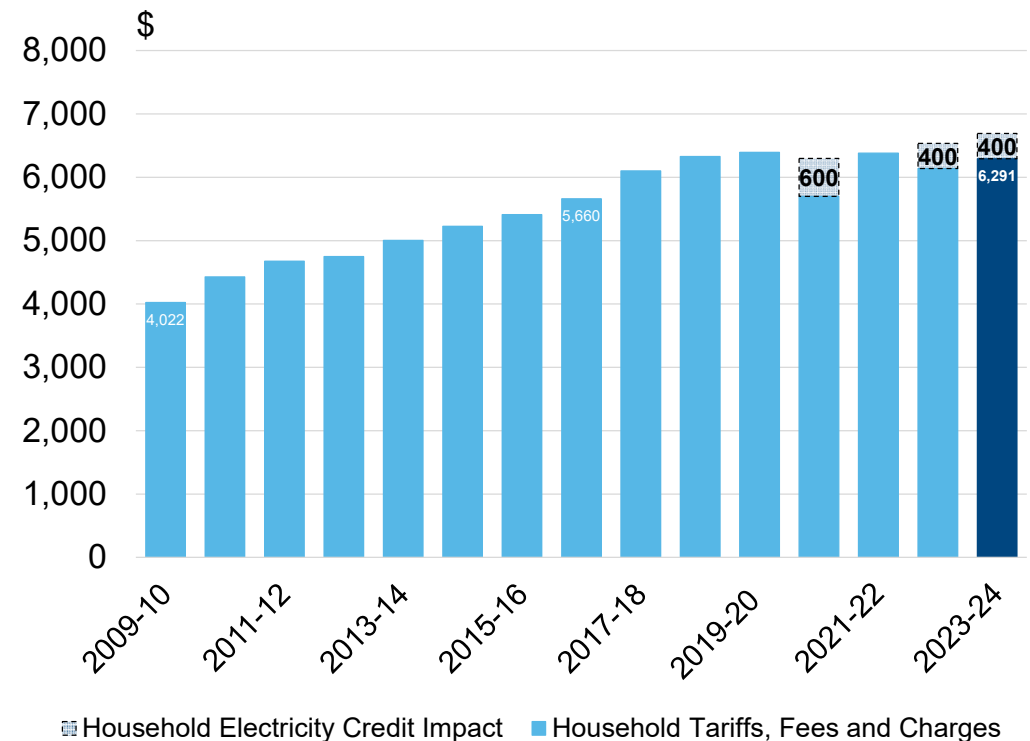
- ▶ Cost of living pressures
- ▶ Social housing and housing supply challenges
- ▶ Responding to climate change
- ▶ Continued investment in health and mental health
- ▶ Continued supported support for vulnerable members of the community
- ▶ The need to diversify the State's economy
- ▶ Debt repayment

Cost of living support

\$715 million support package

- ▶ Minimum \$400 electricity credit for all WA households, and \$650 electricity credit for small businesses
- ▶ Hardship Utilities Grants Scheme and seniors cost of living rebate increased
- ▶ Additional public transport and regional airfare support
- ▶ 2.4% increase in tariffs, fees and charges for 'representative' household

REPRESENTATIVE HOUSEHOLD
TARIFFS, FEES AND CHARGES



Social housing and housing supply

Social housing and homelessness

- ▶ \$511 million for social housing and homelessness

Housing supply and choice

- ▶ \$84 million to commence Bentley Residential Redevelopment and expand infill sewerage program to unlock metro sites
- ▶ \$61 million additional funding for new GROH housing and refurbishments plus freezing rents to attract more essential public sector workers to regional WA
- ▶ \$48m to expand the residential construction workforce, to accelerate construction and expand capacity to deliver new housing supply
- ▶ \$33 million to extend the off-the-plan transfer duty concession and lift thresholds

Climate action and decarbonisation

Investments to make energy generation cleaner, while maintaining reliability and affordability

- ▶ \$2.8 billion to decarbonise the SWIS electricity grid and replace State-owned coal-fired power stations by 2030
 - ▷ 500 MW battery in Collie, and a second 200 MW battery in Kwinana
 - ▷ New King Rocks wind farm and a proposed expansion of the 180 MW Warradarge Wind Farm
 - ▷ \$126 million for network upgrades, planning and ordering long lead-time items
- ▶ \$196 million for a range of climate initiatives, including commencing works for Perth's third desalination plant
- ▶ Working with industry to enable it to decarbonise and facilitate new industries such as hydrogen and critical minerals

Economic diversification

\$463 million in economic diversification initiatives and infrastructure

- ▶ \$294 million of additional investments in road, port and electricity infrastructure that boosts the future economic capacity of Western Australia
- ▶ \$40 million Sustainable Geoscience Investments package to accelerate critical minerals discoveries
- ▶ \$35 million top-up of Industrial Land Development Fund, prioritised towards Pilbara strategic industrial areas
- ▶ \$28 million for additional tourism and business events, and for continued recovery of international education sector
- ▶ \$28 million to support the State's invest and trade initiatives, including establishing a new invest and trade 'hub' in Texas

Health and mental health

\$2.7 billion additional spend for health and mental health, taking total new investment to \$10 billion over last three years

Health

- ▶ \$841 million increase in funding for hospital services
- ▶ \$75 million further boost to address ED pressures and ambulance ramping – total \$453 million
- ▶ \$29 million for workforce attraction and retention, particularly regional WA
- ▶ \$544 million to begin construction of the new Women and Babies Hospital

Mental Health

- ▶ \$219 million for the Stage 1 redevelopment of Graylands Hospital
- ▶ \$201 million for mental health services

Supporting communities

Additional \$1.5 billion for services to support our communities

- ▶ \$1.3 billion for increased State contributions to the NDIS, supporting greater number of WA participants
- ▶ \$126 million for child protection services
- ▶ \$53 million for family and domestic violence initiatives
- ▶ \$55 million to reduce youth and vulnerable people coming into contact with the justice system

\$965 million investment in education and training

- ▶ \$227m for new school infrastructure, including new education support facilities
- ▶ \$93m on training initiatives to enhance our pipeline of skilled workers for the future

Debt repayment

- ▶ Additional \$500 million of existing Consolidated Account borrowings to be repaid this year
 - ▷ Brings total repayments to \$2.1 billion in 2022-23
 - ▷ \$2.1 billion results in average interest savings of ~\$80 million per annum from 2023-24
- ▶ Since 2017-18, repayments total \$4.4 billion, all passed through the Government's Debt Reduction Account

Risks and challenges

- ▶ Inflation and interest rate impact on real economy
- ▶ China growth and 'peak steel'
- ▶ Commonwealth budget and funding agreements
- ▶ GST distribution reviews (Commonwealth Grants Commission and Productivity Commission)
- ▶ Delivery of programs and projects
- ▶ Economic and revenue diversification
- ▶ Decarbonisation transition

Conclusion

Economic Outlook

- ▶ State economy remains strong despite global economic headwinds
- ▶ Economic growth in 2022-23 strongest in nine years, and record employment in Western Australia

Fiscal Outlook

- ▶ Net debt to fall to \$27.9 billion at 30 June 2023, with operating surpluses maintained over the forward estimates
- ▶ Record \$39 billion investment in infrastructure

Budget initiatives and investments

- ▶ 2023-24 Budget includes significant investments on a range of priority initiatives, including cost of living, health, housing, climate change and decarbonisation.

