



2026-27 WA State Budget Briefing Note

May 2026

KPMG Australia



Acknowledgement of Country

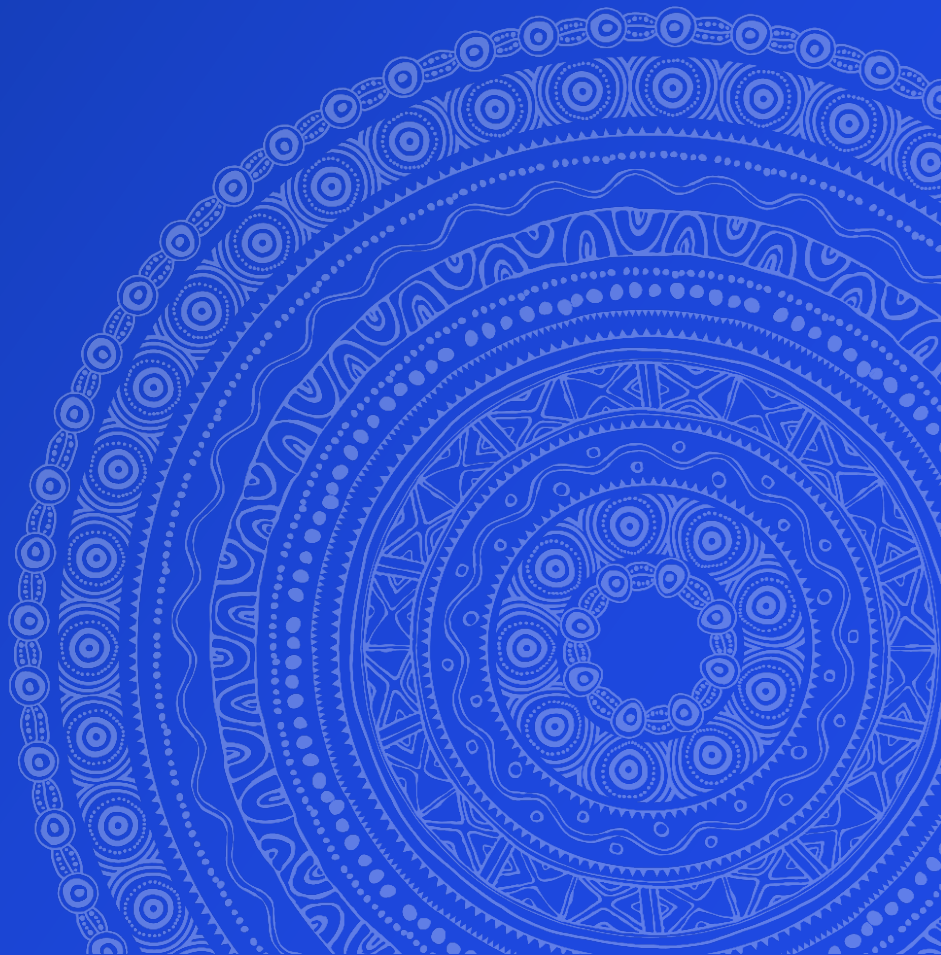
KPMG acknowledges Aboriginal and Torres Strait Islander peoples as the First Peoples of Australia. We pay our respects to Elders past, present, and future as the Traditional Custodians of the land, water and skies of where we work.

At KPMG, our future is one where all Australians are united by a shared, honest, and complete understanding of our past, present, and future. We are committed to making this future a reality. Our story celebrates and acknowledges that the cultures, histories, rights, and voices of Aboriginal and Torres Strait Islander People are heard, understood, respected, and celebrated.

Australia's First Peoples continue to hold distinctive cultural, spiritual, physical and economical relationships with their land, water and skies. We take our obligations to the land and environments in which we operate seriously.

We look forward to making our contribution towards a new future for Aboriginal and Torres Strait Islander peoples so that they can chart a strong future for themselves, their families and communities. We believe we can achieve much more together than we can apart.

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Budget at a Glance

Western Australia enters 2026–27 in a strong fiscal position, with the principal constraint shifting from funding to the ability to deliver what has been committed.

The Cook Labor Government handed down the 2026–27 Western Australian Budget on 7 May 2026, its tenth Budget since taking office in 2017.

WA's fiscal strength is real and well-earned. A forecast \$2.4 billion operating surplus in 2026–27 marks the eighth consecutive year in the black, a record built on strong royalty income and a buoyant labour market.

01	<p>Surplus is royalty-sensitive. Iron ore remains the dominant revenue driver, contributing around 17% of total General Government Sector (GGS) revenue. Each US\$1/tonne movement in the iron ore price changes revenue by around \$93 million. Consistent with this risk, royalties are projected to decline by \$1.4 billion in 2026–27 as price assumptions normalise.</p>	<p>\$3.5B 2025-26 revised operating surplus</p> <hr/> <p>8.9% by 2029-30 Net debt-to-GSP ratio – lowest of all states.</p> <hr/> <p>\$44.3B Asset Investment Program over 4-years</p> <hr/> <p>1.8% Population growth actual (2025) – compared to 1.6% nationally</p>
02	<p>Spending growth outpaces the surplus. Expense growth at 6.9% in 2026-27 against GGS revenue growth of 4.4%. By 2028-29 this will significantly reduce discretionary spending on new initiatives.</p>	
03	<p>Debt is rising, but from a low base. Net debt is projected to reach \$44 billion by 2029–30, at 8.9% of Gross State Product (GSP), the lowest of any Australian state. The increase is predominantly driven by borrowing to fund the Asset Investment Program (AIP).</p>	
04	<p>Introduction of the Voluntary Targeted Separation Scheme (VTSS). The government's primary fiscal strategy lever will have a \$445m total projected savings over forward estimates, with approximately 1,500 FTE targeted for redundancy across government.</p>	

The fiscal position entering 2026-27 is stronger than projected 12 months ago.

The 2025-26 surplus has been revised upward by approximately \$1 billion from the Mid-Year Review forecast, driven primarily by iron ore royalties holding above assumed levels, payroll tax outperformance and a more active property market than anticipated.

Against this backdrop, the Budget prioritises housing supply and affordability, health system capacity, and targeted cost-of-living relief, while continuing to invest in major infrastructure, workforce capability and the energy transition.

The general government operating surplus reflects a healthy revenue position, indicating that the State is generating sufficient revenue to fund the delivery of day-to-day services within each financial year. The Budget projects operating surpluses of \$3.5 billion in 2025–26 and \$2.4 billion in 2026–27, which provide government with a valuable non-debt source of funding to support the Asset Investment Program (AIP). However, the operating surplus does not capture the full scale of the AIP, and additional borrowings are still required, meaning net debt can increase even while operating surpluses are recorded. This is a common approach to funding long-term assets, but it means the surplus alone does not fully reflect changes in the State's balance sheet.

Importantly, the operating surplus should not be viewed as spare capacity within agency budgets. It is the outcome of a tightly managed whole-of-government fiscal framework, not a pool of unallocated funds. Looking ahead, while revenue remains strong, the financial outlook is increasingly shaped by normalising royalty income, higher cost pressures and growing capital commitments, reinforcing the need for Budget discipline going forward.

ECONOMIC OUTLOOK

2026-27 Budget - Budget Paper No.3

Exceptional performance gives way to more normal conditions over forward estimates.

The Budget forecasts real economic growth of 2.3% in 2026–27, above the long-run average, and conditions will gradually normalise following a period of exceptional performance.

What to expect as conditions normalise:

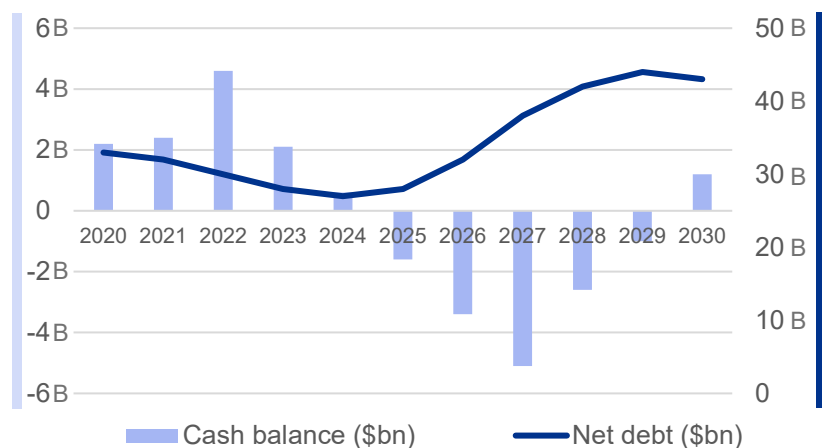
- **Revenue growth moderates.** The Budget adopts more conservative revenue assumptions amid global uncertainty, following several years of unusually strong outcomes.
- **Surpluses narrow over time.** Operating surpluses remain, but trend down from recent peaks as conditions move back toward a more typical fiscal cycle.
- **Operating conditions tighten.** While the State can continue investing in housing, health, infrastructure and cost-of-living support, agencies may face a tighter operating environment than headline surpluses suggest, especially if the expanded asset base is not prepared for operating expenditure uplift over time.

Population growth and demand for services.

Off the back of Western Australia's strong population growth (forecast at 1.8% in 2025–26), and continued growth over the forward estimates, increased demand for government services is evident across a range of sectors, particularly hospitals, school enrolments, vocational education and training, courts and prisons, and related social services.

As conditions normalise and cost pressures rise, a key planning challenge will be maintaining service levels and delivery momentum while managing higher volumes and commissioning new services.

WA Total Public Sector Cash Balance and Net Debt



Geopolitical uncertainty.

The Budget is framed against a highly uncertain global environment, with conflict in the Middle East pushing energy prices higher, adding to inflationary pressures and weighing on global confidence. To date, Western Australia's economy has remained relatively insulated from direct disruption. The domestic economy, measured by State Final Demand, is estimated to grow by 3.5 per cent in 2025–26, driven by strong private demand including a lift in business investment, the strongest growth in dwelling investment since 2013-14, and solid household consumption.

Importance of fiscal discipline over forward estimates.

The 2026–27 **public sector cash deficit** of \$5.1 billion appears well contained and is driven by elevated capital and infrastructure expenditure rather than operating pressures.

However, the **general government cash surplus** declines from \$1.3 billion in 2025–26 to \$323 million in 2026–27 and \$47 million in 2027–28. This reduced fiscal headroom leaves government with less available cash to manage capital delivery risks or absorb shocks, particularly across large infrastructure projects.

REVENUE

Total revenue \$54.9 billion in 2026-27 ↑ +4.4%

Royalties are the Budget’s backbone, but the COVID-era windfall is easing.

The Budget relies on mining royalties, in particular iron ore royalties. Even modest movements in iron ore assumptions materially shift the operating balance, making future surpluses sensitive to movements in iron ore prices.

At an estimated US\$85.2/tonne in 2026-27, the price is already well below the US\$95/t forecast in 2024-25. The weaker AUD/USD (0.689) partially offsets lower prices in royalty calculations, but every \$1/t movement equates to approximately \$93 million in revenue.

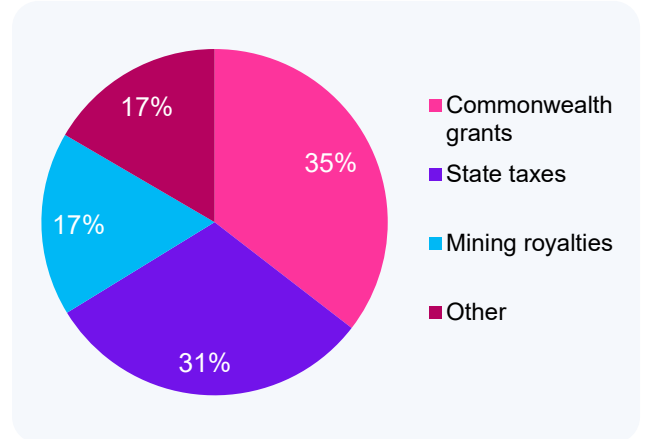
GST has become a more stable, structural revenue source for WA since reform.

WA is expected to receive \$9.3 billion in GST grants in 2026-27, much more than the \$2.7 billion it would have received in pre-reform arrangements. GST is now WA's second-largest revenue stream. Unlike royalties, this improvement is structural and more insulated from commodity price movements.

Strong royalty performance reduces GST relativities, partially offsetting gains. WA’s revenue position is therefore less volatile than pre-reform, but still cyclical.

Payroll tax has outperformed every Budget forecast since 2021-22.

Payroll tax is the largest state-controlled revenue outside royalties, with receipts \$6.5 billion expected in 2026-27, an increase of 5.1% (+\$318m). This makes payroll tax one of WA’s most reliable sources of revenue growth. However, it is affected by the economic cycle, and payroll tax revenue would decline if employment and wage growth weaken.



Stamp duty becomes a quiet star of WA’s strong fiscal position.

Transfer duty is forecast to reach a record \$4.9 billion in 2025–26, reflecting stronger-than-expected house price growth and an unusually high level of commercial property transactions. These factors delivered revenue well above Treasury assumptions.

From 2026–27, duty revenue is forecast to decline by around 19 per cent as commercial transaction volumes normalise and residential price growth moderates, with overall activity returning closer to longer-term per-capita norms.

Policy changes further moderate stamp duty revenue, with expanded First Home Owner Grant thresholds, higher caps and the off-the-plan extension expected to reduce revenue by \$71 million in 2026–27.

EXPENSES

Total general expenses \$52.5 billion in 2026-27 ↑ +6.9%

Operating cost growth is largely demand-driven.

Higher-than-expected operating costs since the 2025–26 Mid-Year Review largely reflect additional expense pressures arising from population growth, service utilisation and legislative changes, rather than new spending initiatives, such as:



Health service delivery (\$58.0 million): To support higher hospital activity, ambulance and patient transport contractual obligations, and immediate Silverchain contract costs.



Schools (\$68.5 million): Primarily driven by higher student enrolments (\$42.5 million) and the need to maintain an expanding school asset base to accommodate growth (\$16mil).



Justice services (\$117.3 million): Largely to address cost and demand pressures associated with growth in the prisoner and offender population.



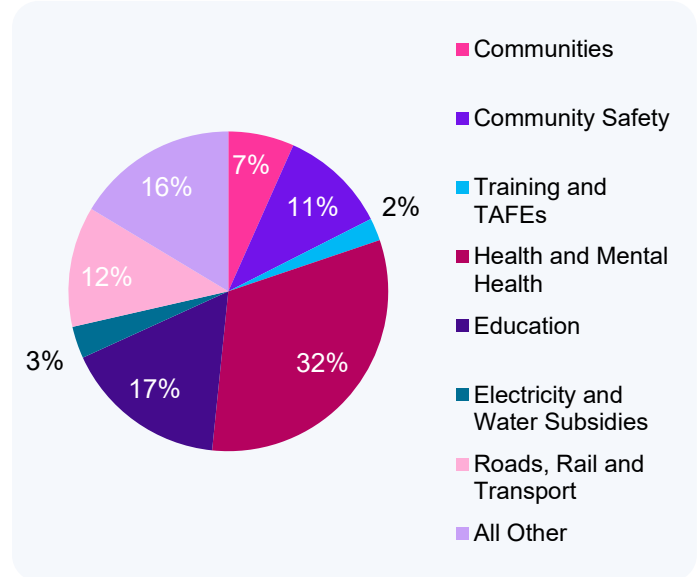
Community services (\$25.9 million): To respond to unavoidable service demand and operating cost pressures, particularly out-of-home care reforms.

Relationship between capital investment and operating cost growth.

Operating cost pressures are expected to persist over the forward estimates, as service demand must continue to be met through existing facilities and service models while major new health, education and justice infrastructure projects are still under construction or transitioning to operation.

As new facilities come online, operating costs can rise temporarily because services must be run in parallel, older capacity is not yet reduced, and additional capacity can draw forward previously unmet demand, particularly in health.

Over time, the combination of new infrastructure and system reforms is expected to moderate demand growth and improve efficiency. However, these benefits are unlikely to materially reduce operating cost pressures before 2030.



State expenses continue to rise, driven primarily by The 2024 Wages Policy.

Public sector wages, salaries and superannuation continue to grow steadily, rising by around 7.6% from \$22.4 billion in 2025–26 to \$24.1 billion in 2026–27, and reaching \$25.1 billion by 2029–30. While this indicates the wages policy is broadly holding and delivering predictable cost growth, industrial relations pressure is heavily front-loaded into 2026–27, when a large number of major agreements expire. The scale and concentration of bargaining in a single year heightens delivery, reputational and arbitration risks, with the \$2.2 billion wages provision acting as both a fiscal buffer and pressure valve.

The Voluntary Targeted Separation Scheme (VTSS) further offsets these pressures, with total implementation cost of \$229 million, with projected cost savings of \$445m over forward estimates. This reduces the wages base from 2027–28 onward, though it carries upfront costs in 2025–26 and 2026–27. Given participation is voluntary, the agencies most likely to see departures are those with the most mobile, in-demand staff.

Other expenses make up 16% of total spending

The 'Other' category totals \$8.58 billion and captures spending outside the main service delivery portfolios. Cost-of-living support is the largest new component, which includes the \$100 Fuel Support Payment, a third round of the Student Assistance Payment, higher energy and rent concessions, and the continuation of Fare-Free Sundays on Transperth.

ASSET INVESTMENT

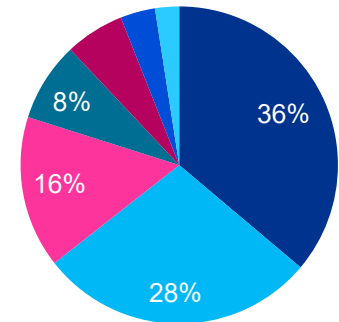
The largest capital program in WA history

\$13.2 B

Capital spend in 2026-27 alone, the largest single-year total on record

\$9.5 B

Regional WA infrastructure (21% of total program)



The 2026-27 Budget set the Asset Investment Program at \$44.3 billion over four years, with \$9.5 billion directed to regional WA.

WA's 2026-27 single-year capital spend of \$13.2 billion is the largest capital program in the state's history. The program is front-loaded, reflecting a large number of projects moving into peak construction simultaneously, before declining across the forward estimates, which is common given the planning cycle of infrastructure projects. This profile is partially moderated by the Asset Investment Program Smoothing Provision, which reduces forecast spend in 2026–27 by around \$2.75 billion to account for expected timing slippage, with major deferrals including Ocean Reef Marina, Westport, selected sporting infrastructure projects and the Woodman Point Jetty.

- Utilities
- Transport
- Housing and Land
- Health
- All Other
- Education and Training
- Ports
- Community Safety

Expenditure in 26-27

Key expenditure to 2030



Transport

\$4.3 billion

Stirling Bus Interchange (\$47 million); Westport Anketell Road construction (\$18.4 million); Westport land acquisitions (\$24 million); Murdoch Health Precinct Stage 2 transport works (\$29 million); Great Northern Highway upgrades (\$31.8 million); Port of Port Hedland bypass channel (\$50 million)



Health

\$2.5 billion

Building Hospitals Fund (\$1.3 billion); public hospital maintenance and critical asset replacement (\$214.1 million); Lawley Hospital acquisition and commissioning (\$168.3 million); WA Health Digital Capability Fund (\$90.2 million); Albany Health Campus Expansion (\$45.1 million); Sir Charles Gairdner major capital works (\$32.5 million); Tom Price Hospital redevelopment (\$19.3 million); Meekatharra Hospital works (\$22 million); medical equipment replacement program (\$14.2 million)



Education

\$900 million

Four new primary schools (\$104.3 million); new secondary schools (\$56.6 million); major upgrades across eight schools (\$25.7 million); expansion of four high-demand schools (\$23.7 million); four new primary schools opening in 2028 at Eglinton North, Yanchepp East, Treeby East and Vasse West (\$140 million); permanent accommodation at four high-demand schools (\$96.2 million); school maintenance and minor works including Cool the Schools (\$189.6 million)



Housing

\$2.1 billion

New social housing dwellings (\$248 million); DevelopmentWA residential developments and METRONET precinct preparation (\$570 million); Housing Enabling Infrastructure Fund for power, water and drainage (\$522 million); Seven Cities government worker housing initiative (500+ homes, \$399 million); affordable homes for first-home buyers via Keystart (500 homes, \$375 million); maintenance of government housing assets (\$234 million); social housing delivery and refurbishment (\$218 million); Broome North and South Hedland Western Edge developments (232 lots, \$116 million)

KEY GOVERNMENT PRIORITIES

Where government is investing



Housing

- \$47.5 million to establish two Housing and Infrastructure Advanced Manufacturing Facilities at Neerabup (Built Living) and Kwinana (Atlas Precast).
- First home buyer transfer duty full exemption threshold increased to \$600,000, with concessional rates up to \$800,000. The off-the-plan duty concession is extended to June 2028 and expanded to include units and villas.
- \$522 million Housing Enabling Infrastructure Fund to deliver power, water, wastewater and drainage to unlock housing in North Ellenbrook, East Wanneroo and METRONET station precincts.
- \$250 million First Home Buyer Commercial Financing Facility (via Keystart) to reduce presales financing barriers for multi-unit developments and improve feasibility for affordable housing.
- \$13 million additional funding for the WA Rent Relief Program, providing grants of up to \$5,000 for renters under financial pressure.
- \$419 million Seven Cities initiative for government worker housing and Closing the Gap community housing upgrades across the Pilbara, Kimberley, Goldfields and Murchison–Gascoyne through Royalties for Regions.



Health

- \$6.5 billion over four years to expand hospital services, supporting continued growth in beds, workforce and infrastructure following the addition of 5,119 nurses and 2,102 doctors since 2021.
- \$414.5 million for mental health, including \$176.1 million for community initiatives such as Active Recovery Teams, CAMHS expansion and a new Crisis Recovery and Intervention Support Service, and \$132.8 million to expand hospital mental health capacity.
- \$224.8 million to the Building Hospitals Fund, including acquiring Mt Lawley, adding 118 beds to the public system.
- \$106.3 million for Family and Domestic Violence (FDV) initiatives, including recommissioning FDV crisis accommodation, continuing Munda Mia and Warlang Bidi therapeutic refuges, and trialling out-of-hours social workers in emergency departments.
- \$1.5 million for QEII Site Planning and the Comprehensive Cancer Centre to progress using matched Commonwealth funding attributed in 2022.



Economic diversification

- \$156 million Made in WA Energy Affordability Investment Program to subsidise industrial electricity costs and attract and retain energy-intensive manufacturing in WA.
- \$85 million to develop the green iron and steel industry, including the NeoSmelt Pilot Project, supporting domestic processing of iron ore rather than exporting raw ore.
- \$91.7 million from the Strategic Industries Fund for land assembly, planning and infrastructure studies at the Western Trade Coast and other priority industrial areas.
- Up to \$45.4 million to extend the Lithium Industry Support Program and establish a new loan facility for distressed nickel producers, supporting industry through the price cycle.
- \$1.4 billion Clean Energy Fund to facilitate renewable energy investment and deliver the Clean Energy Link transmission program, underpinning WA's transition to a post-coal energy system.



Workforce

- \$145.6 million over 2025-26 to 2027-28 to maintain low-fee and Fee-Free TAFE settings and expand VET sector capacity, with priority industries including construction, clean energy and health.
- \$13.1 million Construction Visa Subsidy Program over 2026-27 to 2029-30 and Build a Life in WA incentive to deliver 1,100 additional places for skilled building and construction professionals.
- \$19.6 million Group Training Organisation Wage Subsidy over 2026-27 to 2029-39 to support 330 additional apprentice and trainee places in construction trades, including targeted places for women in electrical trades.
- \$13 million BCITB capital grants to upgrade private training organisation facilities and equipment, directly supporting the trades pipeline required to deliver the housing and infrastructure program.

Not sure what comes next? Reach out to any of our Perth-based team.

Please contact any of our Perth based team members listed below if you would like to discuss further or learn more about our experience and capabilities.

TRANSPORT & INFRASTRUCTURE

- Portfolio and state-wide pipeline sequencing and prioritisation frameworks.
- Integrated cost, schedule and risk visibility across multi-project portfolios.
- Review commercial, procurement and delivery models



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JUSTICE & EMERGENCY SERVICES

- End-to-end system demand modelling
- Portfolio prioritisation
- Operating model and workforce optimisation
- Procurement and service delivery reform
- Digital transformation
- Cost and risk visibility across major reform programs



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Director
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EDUCATION & LOCAL GOVERNMENT

- System-wide reform
- Asset management and maintenance
- Demand modelling
- Digital transformation
- Commercial and procurement model design for capital and services
- Performance frameworks



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HEALTH

- System-wide health reform design and deliver
- Program and portfolio PMO establishment and reform mobilisation
- Redesign of care models and patient journeys
- Digital health enablement and service readiness
- Commissioning and transition to new services



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CENTRAL AGENCIES

- Whole-of-government portfolio prioritisation frameworks
- Data-driven decision platforms
- Business case assurance and investment governance reform
- Procurement reform, contract management
- AI, data and cloud transformation



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HUMAN SERVICES

- Independent program and policy evaluation
- Community services commissioning
- Cost-benefit and options analysis
- Strengthening Outcomes-Based Measurement frameworks



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