



The Western Australian State Budget for 2019-20 (9 May 2019) forecasts a general government operating surplus of \$553 million in 2018-19 (the first surplus since 2013-14) and \$1.5 billion in 2019-20. This reflects expenditure restraint, a boost in iron ore royalty income and GST top-up payments.

WA Budget 2019-20: measures for business and industry

Changes to WA Government programs that affect business and industry include:

- \$182 million for a new **Employer Incentive Scheme** which will provide a base payment of up to \$8,500 to Western Australian businesses who employ an apprentice or trainee. \$182.4 million has been allocated for this scheme effective from July 1, 2019, including more than \$45 million for regional businesses. For larger businesses, the new scheme will replace the payroll tax exemption for new entrant trainees;
- \$60.1 million for the **Collie Industry Attraction and Development Fund**, with \$8 million of this money allocated to a new multipurpose bushfire facility in Collie;
- \$52 million towards the **Future Health Research and Innovation Fund**;
- \$48.4 million to upgrade **port facilities** across WA;
- \$19.5 million in additional funding for the **Forrestdale Business Park**;
- \$12.0 million for 'international destination' (i.e. exports) **marketing**;
- \$10 million towards the new **LNG Futures Facility**; and
- \$7 million to build and operate a **state-of-the art marine finfish nursery** facility in Geraldton.

Temporary changes to the **Keystart stimulus package** (aimed at providing low-deposit home loans to West Australians who can't meet the requirements of the major lenders) will see Keystart's existing income limits increase by \$15,000 for singles and couples and by \$20,000 for families from 1 July 2019 to 31 December 2019. This is intended to boost demand for new housing during this period.

Table 1: Largest WA industry sectors¹

Industry output shares of Gross State Product 2017-18	
1. Mining	29.7
2. Construction	8.4
3. Education	5.3
4. Health services	5.3
5. Professional services	5.1
6. Manufacturing	4.9

Table 2: WA Government industry programs: additional funding²

Additional funding	\$mn,
New Employer Incentive Scheme	182.4
Support for agriculture industry	131.5
Collie Industry Attraction and Development Fund	60.1
Future Health Research and Innovation Fund	52.0
Upgrade of Port Facilities across WA	48.4
Forrestdale Business Park	19.5
International Destination Marketing	12.0
LNG Futures Facility	10.0
Geraldton Marine Finfish Nursery	7.0

WA Government infrastructure investment program

This year's Western Australian Budget provides infrastructure funding of \$5.6 billion in 2019-20 and a total of \$22.8 billion from 2019-20 to 2022-23 (see chart 1). Roads, public transport and utilities (electricity and water) account for around 72% of total investment spending (see chart 2). Investment in roads and public transport will total \$2.5 billion in 2019-20 (up from an estimated \$1.7 billion in 2018-19) and \$9.1 billion over the four years to 2022-23 (40% of the total).

Perth's **METRONET** public transport program (road and rail) receives an additional \$266 million. This brings total **METRONET** investment to \$4.1 billion over the next four years including:

- \$1.2 billion for projects in detailed planning stages, notably the Byford Rail Extension, Morley-Ellenbrook Line, Midland Station project and the new Karnup Station;
- \$536 million to construct the Thornlie-Cockburn Link;
- \$520 million for the Yanchep Rail extension; and
- \$207.5 million to remove level crossings on the Armadale Line at Oats Street, Mint Street and Welshpool Road.

\$1.3 billion will be allocated to **road infrastructure projects** over the next four years, jointly funded by the Federal and State Government. Significant road upgrade investments over the next four years include:

- \$1.2 billion for the **Tonkin Highway Transformation Project**;
- \$230 million for the **Fremantle Traffic Bridge replacement project**; and
- \$180 million for the **Great Eastern Highway Bypass**.

The Budget also includes the following major four-year infrastructure spending commitments:

- \$6.3 billion for **power and water infrastructure** including:
 - \$1.1 billion for Western Power to improve network security, reliability and quality;
 - \$1.1 billion for the replacement and maintenance of key assets including poles, conductors, overhead service connections and transformers; and
 - \$30m towards the redevelopment of the East Perth Power Station.

Chart 1: WA State Funded Capital Investment Program²

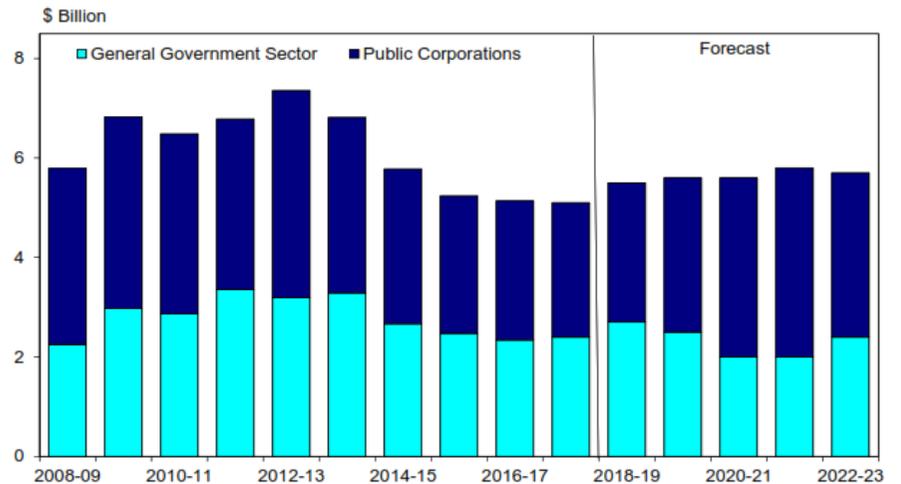
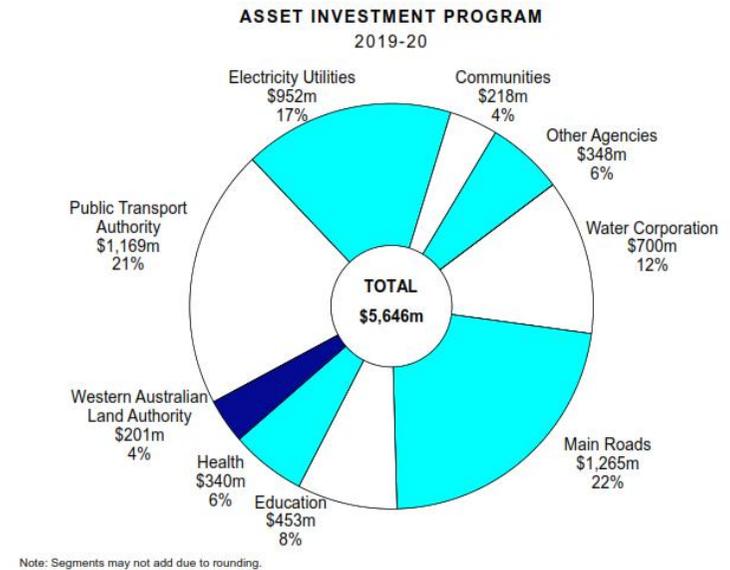


Chart 2: WA State Funded Capital Investment²



- \$6 billion for **health infrastructure**, including
 - \$161 million to redevelop Joondalup Health Campus,
 - \$39.3 million for the replacement of ICT equipment at Fiona Stanley Hospital; and
 - \$38.2 million from 2019-20 to 2021-22 for upgrades to the King Edward Memorial Hospital (\$15.2 million), Royal Perth Hospital (\$22.7 million) and Bentley Hospital (\$7.3 million).
- \$26.4 billion for **education infrastructure** including
 - \$13.2 million towards upgrading ceilings, roofs, security and smoke alarms in schools;
 - \$7.1 million to increase student accommodation at Victoria Park Primary School and
 - \$6.1 million to increase transportable classroom facilities.

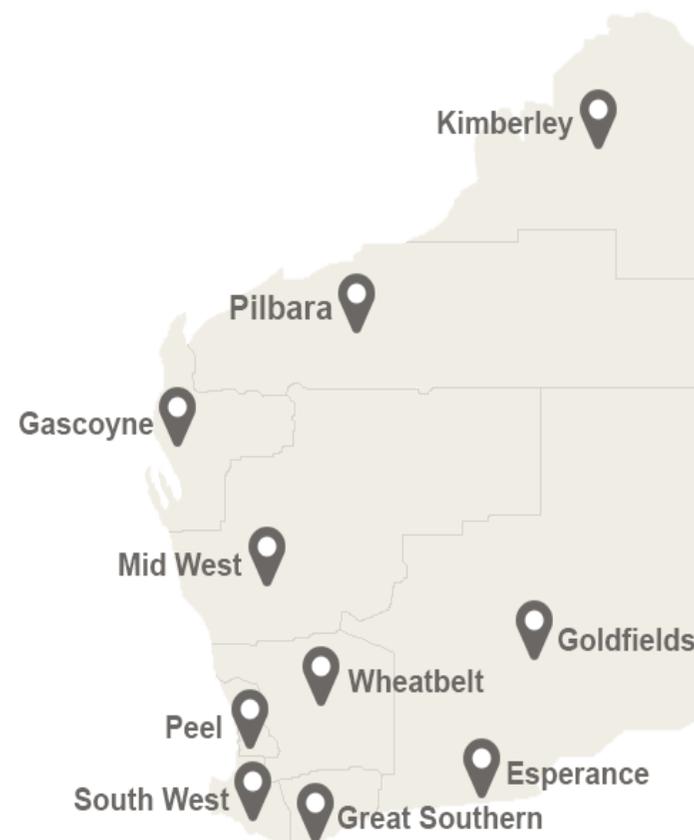
Support for regional development

The Budget confirms \$4.2 billion for **Royalties for Regions funding** to support service delivery and infrastructure provision in Western Australia. More than \$2 billion (an increase of \$685 million) will be invested over the next four years including:

- \$852 million for the **Bunbury Outer Ring Road**, (80% Commonwealth and 20% State funding);
- \$310 million for the ongoing construction of the **Karratha-Tom Price Road**;
- \$275 million for the **Great Northern Highway – Bindoon Pass**;
- \$175 million for the **Albany Ring Road**;
- \$87.5 million to upgrade the **Great Northern Highway** from Broome to Kununurra;
- \$87.5 million for the **Wheatbelt Secondary Freight Route** upgrades;
- \$51 million towards the **Ringer Soak** and **Northern Minerals Access Road** in Browns Range;
- \$131.5 million of additional State-wide expenditure to support **agriculture in WA** grow its export markets including \$39.6 million for ‘Boosting Biosecurity Defences’, ‘Asian Market Success’ and ‘Grains Research and Development’ support programs;

Regional development funds include:
\$5.6 billion in regional infrastructure investment over next 4 years:

- \$4.2 billion in Royalties for the Regions funding
- over \$2 billion in roads infrastructure



- \$24.1 million in on-going funding for the “**WA Open for Business**” program to promote export opportunities for regional businesses;
- \$21.9 million to refurbish and upgrade regional **TAFE campuses**;
- \$12 million for **Tourism Western Australia** to expand promotion of WA overseas; and
- \$10 million over 10 years and the granting of suitable land in the Kwinana industrial precinct to support the development of the **LNG Futures Facility** with the objective of positioning WA as a global leader in the development and testing of new technologies and processes.

Science, Innovation and Skills Development

The Government has committed to various initiatives to encourage new industries and innovation, reduce barriers to business growth and attract investment. The 2018-19 Budget allocates:

- \$7.5 million for the provision of specialist facilities at **Collie Senior High School**;
- \$3 million towards converting 51 primary classrooms across the State into **science laboratories**;
- \$2.4 million towards the new **South Metropolitan TAFE Naval Base Campus in Henderson** to deliver workforce skills for the naval shipbuilding industry and related defence industries;
- \$500,000 towards new facilities for a **Jobs and Skills Centre in Bunbury**;
- \$4.5 million over five years towards the **Study Perth International Education Action Plan** to increase the number of overseas students studying in Perth. This Plan aims to attract an additional 16,000 students and generate up to \$2.5 billion in State annual income.
- \$52 million towards the **Future Health Research and Innovation Fund** over a three-year period, from 2020-21 to 2022-23 to promote medical research and innovation, assist in the retention of health researchers and innovators, and attract research from around the world.

Western Australian Budget: revenue, expenditure and balance

The Government expects an **operating surplus** of \$553 million in 2018-19, the first surplus since 2013-14 and a large turnaround from the \$674 million deficit forecast in the 2018-19 Mid-Year Review. This is due to additional royalty income from iron ore and an early payment of WA's 2019-20 GST top-up payments. The operating surplus is forecast to increase to \$1.5 billion in 2019-20 with further surpluses averaging \$1.2 billion p.a. expected over the three years to 2022-23. Total **net debt** is projected to peak at \$39.5 billion at 30 June 2020 before declining to \$37.8 billion by June 2023.

Revenue to the Western Australian Government is expected to increase by 4.7% in 2019-20. Mining royalty income is expected to increase by 2.4% in 2019-20. Revenue from taxation is expected to grow by 4.7% in 2019-20. Payroll tax collections are forecast to increase by 5.3% in 2019-20, largely reflecting ongoing activity in the resources and related services sectors which is being offset to some extent by reduced tax collections from the construction industry. Total property transfer duty is forecast to increase by 6.8% in 2019-20, reflecting the impact of the Foreign Buyers Surcharge and higher transactions due to slightly higher population growth. Looking further ahead, revenue growth is expected to increase at an average rate of around 2.2% p.a. over the three years to 2022-23, largely due to an increase in GST revenue and an expected acceleration in the local economy.

Government expenses are expected to rise by 1.5% in 2019-20 at an annual average rate of 1.2% over the three years to 2022-23, down from the decade average of 5.9%.

Table 3: WA Budget Key Estimates²

	2018-19 <i>Estimated</i>	2019-20 <i>Budget Estimate</i>	2020-21 <i>Forward Estimate</i>	2021-22 <i>Forward Estimate</i>	2022-23 <i>Forward Estimate</i>
Operating revenue, % chg.	8.9	4.7	3.4	-0.4	3.6
Operating expenses, % chg.	3.4	1.5	0.1	1.0	2.4
Budget Result, \$mn	553	1,533	2,579	2,133	2,544
Net Debt, \$mn	39,106	39,531	38,816	38,289	37,799
Net debt % of GSP	13.1	13.0	12.8	12.3	11.6

Chart 3: General Government Net Operating Balance²

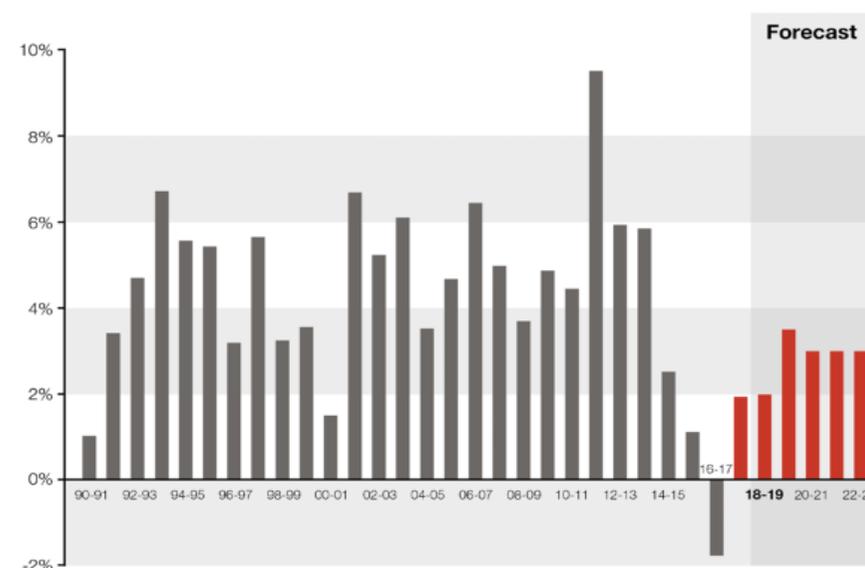


Table 4: Western Australian Economic Performance and Outlook²

	2018-19 <i>Estimated Actual</i>	2019-20 <i>Budget Estimate</i>	2020-21 <i>Forward Estimate</i>	2021-22 <i>Forward Estimate</i>	2022-23 <i>Forward Estimate</i>
Real GDP	2.0	3.5	3.0	3.0	3.0
Real SFD	-1.0	3.0	3.5	3.5	3.5
Employment	1.0	1.75	2.0	2.0	2.25
Unemployment %	6.25	6.0	5.75	5.5	5.25
Perth CPI	1.25	1.75	2.25	2.5	2.5
Population	1.0	1.3	1.5	1.6	1.7

Western Australian economy: outlook, opportunities and risks

The Western Australian Government expects growth in **Gross State Product (GSP)** of 3.5% p.a. in 2019-20 following estimated growth of 2.0% p.a. in 2018-19. This reflects an expected expansion in business investment due to the construction of new and replacement iron ore projects and new lithium projects. Growth is then expected to average 3.0% p.a. over the three years to 2022-23. Over this period, export volumes are expected to stabilise as iron ore and LNG projects reach output capacity.

State Final Demand (SFD) is expected to increase at a rate of 3.0% p.a. in 2019-20 and an average annual rate of 3.0% p.a. over the three years to 2022-23. A gradual improvement in household income and a steady increase in population growth is expected to support an acceleration in local consumption growth, from an estimated 0.75% p.a. in 2018-19 to 1.75% p.a. in 2019-20 and 3.5% p.a. by 2022-23.

Business investment is expected to grow by 6.0% p.a. in 2019-20 and to expand solidly through to 2022-23, underpinned by investment in the iron ore and oil and gas sectors.

These large resources infrastructure projects plus the Government's major transport infrastructure projects are expected to see WA employment grow by 1.75% p.a. in 2019-20 (up from an estimated 1.0% p.a. rate in 2018-19) and at an average annual rate of 2.1% p.a. over the three years to 2022-23.

Key risks to the economic outlook for WA include:

- A lower number of prospective resource projects being realised over the forecast period;
- Slower than expected growth in household spending due to risks associated with elevated levels of household debt and slow wages growth; and
- Weaker than expected growth in population, with negative implications for the expected forecast recovery in household consumption and dwelling investment.

Data Sources:

¹ ABS, Labour Force, Australia Detailed, Quarterly Feb 2019

² Western Australia - 2019-20 Budget

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Chart 4: Western Australia Gross State Product Forecast²

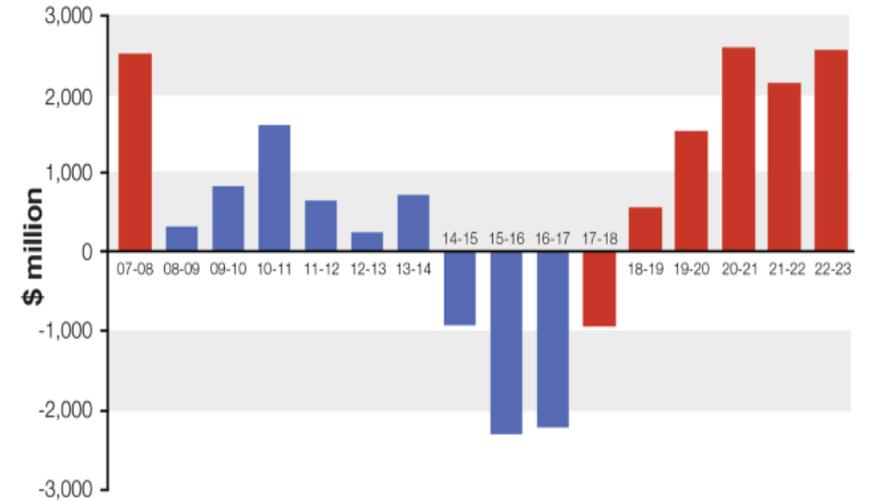


Chart 5: Western Australian Employment Growth Forecast²

