

Local Government

Economic Briefing



Federal Budget Edition - 3 April 2019

BUDGET AT A GLANCE – KEY ISSUES FOR LOCAL GOVERNMENT

- WA to receive \$151.3 million in Financial Assistance Grants in 2019-20, with \$91.4 million allocated for general purpose assistance and the remaining \$59.9 million in untied road funding.
- Increased funding for Roads to Recovery, Blackspot and Bridges Renewal Programs as part of a \$2.2 billion Road Safety and Upgrade Package.
- Funding for a range of WA transport infrastructure projects under the Urban Congestion fund and Roads of Strategic Significant program, as well as other identified priority projects.
- Economy on track for modest growth of 2.75% in coming years; Budget to return to \$7.1 billion surplus in 2019-20 – bringing to an end 12 years of deficit.

Treasurer Josh Frydenberg's first budget has brought to an end more than a decade in the red, predicting a return to surplus in 2019-20.

The expected return to surplus is certainly welcome news, and the Government has claimed that it reflects their responsible fiscal management. While the Government deserves credit for the efforts it has made to rein in spending, the return to surplus has also been helped along by other factors such as reduced spending on the National Disability Insurance Scheme compared to previous forecasts; changes to the point at which excise is applied to tobacco, along with stronger than expected tax collections.

Nonetheless, the return to surplus is positive news that will allow the Government to begin reducing its record levels of debt – which is expected to be paid off within a decade.

However it is important to bear in mind that the surplus still remains a projection – it has yet to be delivered.

With the election expected to be called in a matter of days, it is not surprising that the other budget highlights were election “sweeteners” focussed on large personal income tax cuts and a \$1 billion infrastructure package.

For Local Governments, there were some positive announcements, including the increases to funding for the Roads to Recovery, Roads Safety Federal Blackspots and Bridges renewal programs, as well as additional funding for regional airports and community sports facilities.

This will allow the sector to make progress in addressing the infrastructure backlog.

However, the timing of this year's budget means that these benefits for the sector are not guaranteed, and Councils should be careful about factoring any new initiatives into their forward planning. Rather than pushing ahead to pass the budget through Parliament, the Government has indicated that it will take it to the election – which could be called as soon as this weekend. If there is indeed a change of Government, many of these initiatives may not come to fruition.

ECONOMIC AND FISCAL OUTLOOK

The key budget aggregates reflect the Government's commitment to return the budget to surplus.

While the underlying cash balance is expected to remain in deficit in 2018-19 (-\$4.2 billion), the nation's finances are expected to return to surplus of \$7.1 billion in 2019-20. The budget is expected to remain in surplus over forward estimates.

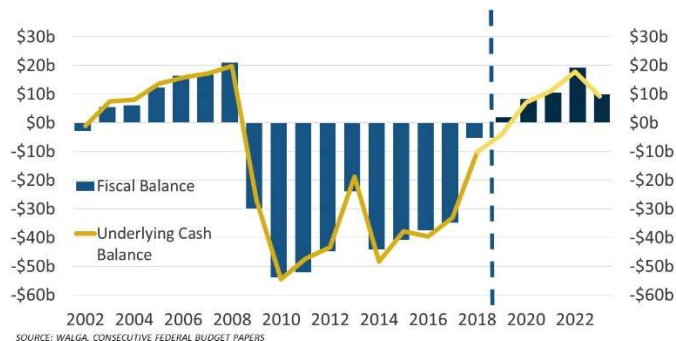
The return to surplus reflects in part the Government's efforts to rein in spending, with payments as a proportion of Gross Domestic Product (GDP) expected to fall below the historical average of 24.7% from 2019-20, and real spending growth on track to average 1.9% between 2013-14 and 2022-23.

On the revenue side, the budget shows that expected tax receipts have been revised up by \$1.2 billion in 2018-19, but have been revised down by \$250 million in 2019-20 and by \$18.2 billion over the four years to 2022-23. However, it should be noted that this includes the impact of new policy decisions such as the personal income tax cuts which will reduce revenues in years to come.

Table 1 Key Budget Aggregates

	2018-19 Act.	2019-20 Est.	2020-21 Proj.	2021-22 Proj.	2022-23 Proj.
Revenue (\$bn)	495.8	513.8	534.3	564.7	580.5
Expenses (\$bn)	487.3	500.9	516.1	535.9	559.9
Underlying cash balance (\$bn)	-4.2	7.1	11	17.8	9.2
Net Debt (\$bn)	373.5	361.0	349.5	333.2	326.1
Real GDP (%)	2.25	2.75	2.75	3.0	3.0

Chart 1 Fiscal Balance



The return to surplus has meant that there is now capacity in the budget to begin paying down debt. As a result, net debt is expected to decline each year across the forward estimates, from 18% of GDP in 2019-20, to zero by 2029-30.

The national economy still is expected to continue its recovery across the forward estimates, on the back of continued strong growth in our major trading partners in Asia.

Real GDP is expected to grow by 2.25% in 2018-19, before picking up to 2.75% in 2019-20 and 2020-21. These forecasts are considered to be realistic, and are consistent with the Reserve Bank's forecasts for the national economy. The unemployment rate is expected to remain stable at 5% across the forward estimates.

The Government's fiscal strategy remains focussed on responsible budget management through expenditure constraint and improving the balance sheet.

KEY ISSUES FOR LOCAL GOVERNMENT

Finances

The 2019-20 Budget maintains the system of payments to support Local Government, through Financial Assistance Grants (FAGs).

In the 2019-20 year, the Australian Government will allocate \$1.275 billion in FAGs for Local Government services to the community. It should be noted that \$1.275 billion was also brought forward from 2019-20 into the 2018-19 financial year.

FAGs continue to comprise two components: general purpose assistance grants; and untied local roads grants.

Table 2 Financial Assistance Grant Program

	2018-19 Act.	2019-20 Est.	2020-21 Proj.	2021-22 Proj.	2022-23 Proj.
General purpose (\$m)	1,734.4	883.1	1,839.5	1,914.8	1,996.9
Local roads (\$m)	769.6	391.9	816.3	849.6	886.1
Total FAGs (\$m)	2,504.0	1,275.0	2,655.8	2,764.4	2,883.0

*Note \$1.275bn was brought forward into the 2018-19 financial year

Western Australia will receive \$151.3 million in FAGs in 2019-20, with \$91.4 million allocated for general purpose assistance and the remaining \$59.9 million in untied road funding.

Infrastructure

Local Road Funding

Roads to Recovery

An additional \$1.1 billion over 10 years was announced for the Roads to Recovery (R2R) program. Funding will increase from \$364.5 million in 2018-19 to \$499.6 million in 2019-20, and remain at this level across the forward estimates.

Of this, WA is expected to receive \$58.3 million in 2018-19, and \$73.1 million per annum in the remaining forward estimate years.

Blackspot Program

An additional \$550 million over 10 years was also announced for the Black Spot Program, for projects

which improve the safety of road sites that have been identified as high-risk areas for serious crashes.

WA will receive \$9.6 million in Black Spot funding in 2018-19, which will increase to \$14.4 million in 2019-20, and \$12.7 million thereafter across the forward estimates.

Bridges Renewal Program

The Bridges Renewal Program will receive an additional \$275 million over 10 years. In 2019-20, WA will receive funding of \$11.9 million, with total funding received by the state between 2018-19 and 2022-23 standing at \$47.4 million.

Table 3 Road Funding Allocation, WA, 2019-20

	Roads to Recovery	Bridges renewal	Identified local road grants	Black spots	Total
Total funding (\$m)	73.1	11.9	59.9	14.4	159.3

Transport

Urban Congestion Fund

The Urban Congestion Fund will receive an additional \$3 billion from 2019-20, including a new Commuter Car Park fund of \$500 million. The Fund supports projects to remediate pinch points, improve traffic safety and flow and increase network efficiency for commuter and freight movements in major urban areas.

WA will receive \$122 million from the fund for projects including:

- \$50 million for the Kwinana and Mitchell Freeways;
- \$20 million for the Lloyd Street Extension, Hazelmere;
- \$16 million for Mandurah Station Parking Bays;
- \$13.3 million for Abernathy Road, Kewdale;
- \$10 million for Lakelands Station; and
- \$10 million for Thomas and Nicholson Road, Oakford.

Roads of Strategic Importance

An additional \$1 billion will be provided from 2020-21 for the Roads of Strategic Importance Initiative, to support works on regional roads, inter regional and interstate highways that address pinch points and impediments to freight movements.

WA will receive \$535 million for projects specifically identified under this initiative including:

- \$248 million for the Karratha to Tom Price corridor;
- \$75 million for the Alice Springs to Halls Creek corridor;
- \$70 million for the Newman to Katherine corridor;
- \$70 million for the Wheatbelt Secondary Freight Network;
- \$50 million for the Port Augusta to Perth corridor; and
- \$22 million for the Pinjarra Heavy Haulage Deviation.

Other priority road projects

Funding will also be provided for other priority transport infrastructure in WA, including:

- An additional \$348.5 million for upgrades to Tonkin Highway;
- \$207.5 million for the Oats Street, Welshpool Road and Mint Street level crossing;
- \$140 million for Albany Ring Road;
- An additional \$121.6 million for the Bunbury Outer Ring Road; and
- \$115 million to upgrade Fremantle Traffic Bridge.

National Freight and Supply Chain Strategy

From 2019-20, an additional \$16.5 million will be provided for initiatives that comprise the National Freight and Supply Chain Strategy, including:

- \$8 million for the National Heavy Vehicle Regulator to streamline the approval process for road access by heavy vehicles. As the Regulator does not have jurisdiction in WA, this is not likely to impact on the sector;
- \$5.2 million for the design of a freight data hub; and
- \$3.3 million for the establishment of a freight data exchange pilot to allow industry to access freight data in real time.

Regional Airports Program

From 2019-20, \$102.8 million will be provided to establish the Regional Airports Program, that will provide grants to upgrade airport infrastructure and improve safety and aviation access at regional airports.

Communities

- Over the five years from 2018-19, \$1.1 billion will be provided to support primary care and improve frontline health services. This will support a wide range of initiatives including \$28 million over five years for St Johns Hospitals to trial urgent care centres in WA.
- \$527.9 million will be provided over five years from 2018-19 (including \$16.2 million in capital funding over two years from 2018-19) to support the work of the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability.
- The Commonwealth Home Support Programme will be extended for two years.
- From 2018-19, \$724.8 million has been provided across the forward estimates for a range of aged care services including additional residential and home care packages.
- The Government will provide \$453.1 million over two years from 2019-20 to further extend the National Partnership Agreement on Universal Access to Early Childhood Education for the 2020 calendar year, and undertake the related National Early Childhood Education and Care Collection in early 2021.
- \$385.6 million over six years will be provided to support the implementation of the national sport

plan through a range of initiatives. This includes \$42.5 million in 2018-19 for the Community Sport Infrastructure Program.

- Further support has been provided for the National Drug Strategy 2017-2026, with \$337.2 million provided over five years.
- Over the four years from 2018-19, the Commonwealth will provide \$328 million towards initiatives to reduce domestic and family violence against women and children, as its contribution to the Fourth Action Plan to Reduce Violence Against Women and their Children.
- \$229.9 million will be provided over seven years from 2018-19, to improve mental health services in the community through a range of initiatives, including \$114.5 million to trial eight mental health centres focussing on specialised support.
- From 2019-20, \$58.2 million will be provided over four years to increase funding available under the Safer Communities Fund. This includes \$35.1 million to provide grant funding for Local Governments and community organisations to address crime and anti-social behaviour. It also includes \$23.1 million for Round Four of Safer Communities Fund, which provides grants for Local Governments and community organisations to fund crime prevention initiatives to keep children safe.
- A \$27.2 million package will be provided over four years to support initiatives to break down barriers to social and economic participation for immigrants.
- \$7.3 million will be provided for the co-design of options for a Voice to Parliament for Aboriginal and Torres Strait Islander peoples.
- Additional support will be provided for Australia Day, with \$0.8 million over 3 years to provide additional support for activities and review the National Australia Day Council programs.
- \$22.2 million has been allocated over five years from 2018-19 for schools, including a range of initiatives to improve student achievement and wellbeing and build teacher capacity.

Emergency Management

- The Government will establish a new \$3.9 billion Emergency Response Fund, through legislation as a Commonwealth Investment Fund, to allocate up to \$150 million per annum for natural disaster recovery and response initiatives above and beyond existing funding for severe and catastrophic disasters. The application of the Fund will not interfere with the DRFA (Disaster Recovery Funding Arrangements). The Fund will commence on 1 October 2019.
- \$130.5 million will be provided across the forward estimates to reduce the risk and impact of natural disasters. This includes \$104.4 million for a five year national partnership agreement to support the states and territories in reducing disaster risks and \$26.1 million to deliver initiatives that reduce disaster risk at the national level.
- \$5.5 million will be provided over four years from 2018-19 for additional mental health services and support for communities impacted by natural disasters in Victoria, Queensland and Tasmania.

Environment and Energy

- To deliver on Australia's 2030 climate commitments, the Government will allocate \$3.5 billion over 15 years for a Climate Solutions Package. This includes a wide range of initiatives such as:
 - \$2 billion over 15 years from 2019-20, including \$189.1 million over four years to 2022-23, to establish a Climate Solutions Fund that will allow for expanded investments in low-cost abatement currently underway through the Emissions Reduction Fund;
 - \$61.2 million over four years from 2019-20 to establish the Energy Efficient Communities Program, which will provide grants to businesses and community organisations to improve energy efficiency practices and technologies to better manage energy consumption;
 - \$18 million over six years from 2019-20 for households and businesses to improve energy efficiency and lower energy bills; and

- \$0.4 million in 2019-20 to develop a National Electric Vehicle Strategy.

Economic and Regional Development

- The budget contained personal income tax relief for low and middle income earners. This measure will reduce revenue by \$19.5 billion across the forward estimates, and includes doubling the low and middle income tax offset to \$1,080 for low and middle-income earners; increasing the top threshold of the 19% tax bracket to \$45,000 and cutting the 32.5% tax bracket to 30% by 2024.
- A cross portfolio package of initiatives has been developed to ease population pressures in cities and ensure that regions can benefit from population growth. The centrepiece of this initiative is \$2 billion for the delivery of a fast train between Melbourne and Geelong, but also includes \$23.4 million from 2019-20 to establish a Centre for Population to inform and coordinate policy across Government; and \$93.7 million to establish Destination Australia to support domestic and international students to study in regional Australia through scholarships.
- \$525.3 million will be provided over five years as part of a Skills Package to improve the quality of Vocational Education and Training through a wide range of initiatives including the establishment of a National Skills Commission.
- \$220 million will be provided over the forward estimates to improve regional telecommunications. This includes \$160 million for grants under the Mobile Black Spot Program, and \$60 million for a Regional Connectivity program to provide grants to improve mobile and broadband services in regional areas, provide advice to regional users and support the development of the Universal Service Guarantee.
- \$49.6 million will be provided over five years from 2018-19 to introduce new visas for regional Australia. From November 2019, two new regional visas will be implemented: the Skilled Work Regional (Provisional) visa, and the Skilled Employer Sponsored Regional (Provisional) visa, which will replace the existing Regional Sponsored Migration Scheme (subclass 187) visa, and the Skilled Regional (Provisional) visa

(subclass 489). The new visas will permit skilled migrants to stay and work in regional Australia for a period of five years. From November 2022, the Government will also introduce a new Permanent Residence visa for regional Australia.

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