

Local Government Economic Briefing



Federal Budget Edition - 9 May 2018

BUDGET AT A GLANCE – KEY ISSUES FOR LOCAL GOVERNMENT

- WA to receive \$146.7 million in Financial Assistance Grants in 2018-19, with \$89.0 million allocated for general purpose assistance and \$57.8 million in untied road funding.
- Roads to Recovery and Bridges Renewal Programs funded through to 2021-22
- Funding for WA infrastructure, including \$1 billion for Metronet, \$1.5 billion to upgrade key freight routes, and \$944 million to address congestion.
- \$6.3 million for WA in 2018-19 for the National Partnership on Natural Disaster resilience
- \$206.5 million over four years for the Building Better Regions Fund
- Economy on track to improve in coming years; Budget surplus expected in 2019-20

With the Government behind in the polls and the next Federal election around the corner, it's not surprising that Treasurer Scott Morrison's budget focussed on "sweeteners" such as tax cuts and infrastructure spending.

In handing down his third budget, the Treasurer has claimed that these measures are about strengthening the economy, guaranteeing essential services, and ensuring the Government lives within its means.

Elections aside, the budget was on balance a sensible one. While the centrepiece of the budget - personal income tax cuts - is certainly a bid to win over voters, it is well-targeted. Tax cuts aimed at low to middle income earners will go some way to address the continued softness in household consumption that has been driven by low wages growth and low confidence, and acted as a drag on economic growth in recent years.

The tax cuts can also be achieved while delivering on the promise to return the budget to the black, with a small \$2.2 billion surplus expected in 2019-20 – a year earlier than expected. It will be essential that the Government delivers on this commitment in order to begin the long and hard task of paying off the record levels of debt that have been accumulated after an extended period of budget deficits.

For Local Governments, the budget contained no major surprises, with a continued commitment to Financial Assistance Grants (FAGs), and confirmation that the essential Roads to Recovery and Bridges Renewal programs will continue.

The budget also contained welcome funding for the Building Better Regions Fund, Safer Communities Fund, and provided an additional \$29.7 million in grant funding to support local community sporting facilities.

For Western Australia, the \$3.2 billion infrastructure boost that the budget provided will also be critical for our economy and local communities. In particular, the state will receive \$1.5 billion to upgrade key freight routes. While focus on freight is critical to our future economic and productivity growth, the Government has missed the opportunity to address the critical and ongoing issues around the first and last mile of freight routes.

More needs to be done to ensure that Councils have capacity to support infrastructure maintenance and development.

ECONOMIC AND FISCAL OUTLOOK

The key budget aggregates reflect the Government's pledge to return the budget to balance as part of its medium term fiscal strategy.

While the underlying cash balance is expected to remain in deficit in 2018-19 (-\$14.5 billion), the nation's finances are expected to return to surplus a year earlier than expected, with a small surplus of \$2.2 billion projected in 2019-20. The surplus is then expected to grow in magnitude over forward estimates, rising to \$16.6 billion by 2021-22.

The improvement in the budget is position largely reflects upward revisions to tax revenues. Compared with the 2017-18 Mid-Year Economic and Fiscal Outlook (MYEFO), the 2018-19 Budget

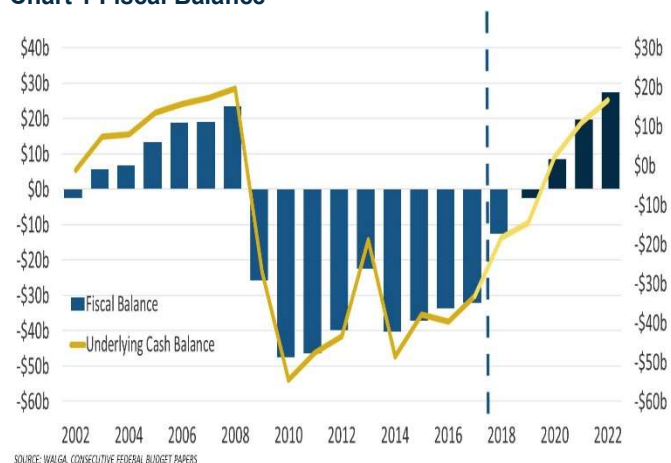
forecasts for tax receipts have been revised up by \$12 billion over the four years from 2018-19 to 2021-22, driven by an improvement in the economy which has underpinned higher GST, personal and company income tax revenues.

The Government's fiscal strategy is also contributing to projected surpluses, including its commitment to offset new spending decisions with savings. Expenses as a proportion of GDP are expected to peak at 25.7% in 2018-19, falling back to 24.9% in 2021-22. Spending growth is expected to average 3.8% across the forward estimates, compared to revenue growth of 6.5%.

Table 1 Key Budget Aggregates

	2017-18	2018-19	2019-20	2020-21	2021-22
	Act.	Est.	Proj.	Proj.	Proj.
Revenue (\$bn)	456.2	486.1	512.8	537.9	568.2
Expenses (\$bn)	468.8	488.6	504.2	518.2	540.8
Underlying cash balance (\$bn)	-18.2	-14.5	2.2	11.0	16.6
Net Debt (\$bn)	341.0	349.9	344.0	334.3	319.3
Real GDP (%)	2.75	3.0	3.0	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 projected to peak in 2017-18 at 18.6% of GDP, which is lower than the forecast peak of 19.2% outlined in the MYEFO.

While it is good news that net debt will begin to fall over the coming years, this will take some time to come under control given that debt is currently at 40 year high levels. This is highlighted by the fact that the net debt to GDP ratio will not fall below double digits until 2025-26.

The national economy is expected to continue its recovery across the forward estimates, in line with the continued improvements in the global economy. Real GDP is expected to grow by 2.75% in 2017-18, before picking up to 3% in 2018-19. Growth is expected to average 3% across the forward estimates. These forecasts are considered to be realistic, and slightly lower than the Reserve Bank's

forecasts for the national economy. The unemployment rate is expected to improve slowly, falling from 5.25% in 2018-19, to 5% by 2021-22.

Given that the boost to revenue is predicated on improvements in the national economy, there will be some challenges for the Government in delivering on its fiscal plan if these forecasts are not met.

KEY ISSUES FOR LOCAL GOVERNMENT

Finances

The 2017-18 Federal Budget papers maintain the system of payments to support Local Government through Financial Assistance Grants (FAGs).

In the 2018-19 year, the Australian Government will allocate \$1.229 billion in FAGs for Local Government services to the community. It should be noted that \$1.2 billion was also bought forward from 2018-19 into the 2017-18 financial year.

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

Table 2 Financial Assistance Grant Program

	2017-18	2018-19	2019-20	2020-21	2021-22
	Act.	Est.	Proj.	Proj.	Proj.
General purpose (\$m)	1,671.7	851.3	1,772.9	1,842.7	1,918.9
Local roads (\$m)	741.8	377.7	786.7	817.7	851.5
Total FAGs (\$m)	2,413.4	1,229.0	2,559.6	2,660.4	2,770.3

*Note \$1.2B was bought forward into the 2017-18 financial year

Western Australia will receive \$146.7 million in FAGs in 2018-19, with \$89 million allocated for general purpose assistance and the remaining \$57.8 million in untied road funding.

Infrastructure

The 2018-19 Budget contains a number of major spending commitments for new projects across the country.

Some \$24.5 billion is provided in the budget for new transport projects, which forms part of a \$75 billion transport infrastructure investment over the next decade aimed at reducing congestion, improving road safety and underpinning productivity. Despite this commitment, the Government has not addressed the issues with first and last mile freight connectivity.

Of interest to Local Government, the Roads to Recovery (R2R) program and the Bridges Renewal Program have been funded through to 2021-22, in line with the sector's understanding that the program is now a permanent budget fixture.

However, funding for the R2R program is expected to fall from \$699.6 million in 2017-18, to \$364.5 million in 2018-19; and \$399.7 million per annum in the subsequent years.

Of this, WA is expected to receive \$63.3 million in 2018-19, and \$58.5 million per annum in the remaining forward estimate years.

Table 3 Road Funding Allocation, WA, 2018-19

	Roads to Recovery	Bridges renewal	Identified local road grants	Black spots	Total
Total funding (\$m)	63.3	8.3	57.8	10.6	166.2

The Federal Budget also contained funding for several key infrastructure projects in WA.

- \$1.05 billion additional funding for Metronet, to provide for future stages including \$500 million for the Ellenbrook line; \$241 million for the extension of the Armadale line to Byford; \$83 million for the relocation of Midland station; and \$2 million for the Lakelands business case.
- \$560 million for the Bunbury Outer Ring Road, to reduce travel time for commuters.
- \$32 million over three financial years for investment in essential infrastructure in Christmas Island and the Cocos (Keeling) Islands. This will be used for the replacement of the Flying Fish Cove port wharf and moorings, and to strengthen asset management.

Other key infrastructure announcements of interest for Local Government are as follows.

- The Government is establishing a \$3.5 billion Roads of Strategic Importance Initiative to upgrade key freight routes to improve road safety and better connect key sectors. \$220 million has been provided under this program for the Great Northern Highway Bindoon Bypass. WA will also receive funding from the \$1.5 billion for Northern Australia roads provided under this program.
- A \$1 billion Urban Congestion Fund will be established to address congestion in cities. From this fund, WA has been allocated \$3.4 million in both 2019-20 and 2020-21, and \$6.7 million in 2021-22.

- \$944 million has been allocated for a Perth congestion package, including \$581 million for the Tonkin Highway.
- \$250 million will be provided to a newly established Major Project Business Case Fund for development and planning of nationally significant projects.
- \$28.3 million has been provided over 4 years to provide a further three funding rounds for the Remote Airstrip Upgrade component of the Regional Aviation Access Program.

Communities

Aged Care funding and support was a focus area of the budget. A number of measures were announced.

- \$1.6 billion to support an additional 14,000 home care packages by 2021-22.
- A new independent Aged Care Quality and Safety Commission will be established from 1 January 2019, and regulatory settings will be strengthened and made more transparent.
- \$22 million to protect older Australians from abuse, including trials of specialist elder abuse support services.
- \$61.7 million to improve the My Aged Care website, and \$14.8 million to streamline the assessment process for aged care services.
- \$82.5 million for mental health services for people in residential aged care facilities; \$20 million to pilot services for older Australians to help them remain connected to their communities; and \$22.9 million to boost physical activity of older Australians.

Funding was also provided for a range of other community programs.

- \$440 million to extend the National Partnership Agreement on Universal Access to Early Childhood Education.
- \$30 million in additional funding for a new five year public hospital agreement with the States and Territories from 2020-21 to 2024-25.
- A new childcare subsidy will commence from 2 July 2018, to ensure financial support is provided to families that most need to access child care. This will replace the two current child care payments.
- \$2 million in 2018-19 to extend the Get the Facts About Immunisation program for child vaccinations.

- \$11.8 million to expand the Local Sporting Champions program to support youth participation in sporting competitions.
- \$41.7 million will be invested to extend the reach of the Sporting Schools Program. The program will expand delivery to 500 secondary schools from the 300 secondary schools currently involved, and continuing to provide funding for 5,200 primary schools each year
- \$29.7 million in 2018-19 to deliver up to 500 local community sporting infrastructure grants of up to \$500,000 to improve community sporting facilities.
- \$5.3 million per year delivered through a new Australian Heritage Grants Program, support owners and managers of heritage places to protect and promote the heritage values for which places are listed.
- \$92.1 million to ensure ongoing support for those that are not eligible for the National Disability Insurance Scheme (NDIS), but are in programs that are transitioning to the NDIS. A \$64.3 million NDIS Jobs and Market Fund will also be established to growth the NDIS workforce and service providers.
- \$30 million over two years for the Safer Communities Fund. This is open to Local Governments to fund crime prevention measures.

Emergency Management

Funding for natural disaster resilience and relief is provided in the Budget.

- Contingent payments for the Natural Disaster Relief and Recovery Arrangements totalling \$17.5 million in 2018-19 have been included in the Budget, with \$2.6 million provided for WA. As these are contingent payments to the State, these will only arise if the event occurs.
- \$386.5 million in cash payments under the Natural Disaster and Relief Recovery Arrangements have been included for 2018-19, to reimburse states for costs associated with past disasters. \$87 million is expected to be paid to WA in 2018-19, and \$37 million in 2019-20.
- \$15.1 million is provided for the National Partnership on Natural Disaster resilience. Of this, WA has been allocated \$6.3 million. Funding estimates have not been provided beyond this point as negotiations are yet to be finalised.

Economic Development

The Budget contained a range of measures aimed at generating jobs for Australian workers and strengthening the national economy.

- A seven year Personal Income Tax Plan to improve incentives to participate in the workforce.
 - Tax relief to low and middle income earners of up to \$530 in the 2018-19, 2019-20, 2020-21 and 2021-22 income years through a targeted non-refundable tax offset.
 - Addressing bracket creep by increasing the top threshold of the 32.5 per cent tax bracket from \$87,000 to \$90,000.
 - In 2024-25, the Government will simplify and flatten the personal tax system by abolishing the 37 per cent tax bracket entirely.
- The \$20,000 instant asset write-off will be extended for a further 12 months to 30 June 2019 to improve cash flow for small business.
- An additional \$250 million has been provided for the Skilling Australians Fund aimed at growing the number of apprenticeships and traineeships.
- \$1.3 billion will be invested in a Medical Industry Growth Plan to support Australia as a leader in medical technology, biotechnology and pharmaceuticals. This includes \$500 million over 10 years for the Genomics Health Futures Mission.
- Additional \$1.9 billion over 12 years will be invested in national research infrastructure.
- \$26 million has been provided to establish a national space agency, including \$15 million to provide grants to strategic space projects.
- \$29.9 million to grow Australia's capabilities in artificial intelligence and machine learning.
- \$51.3 million to expand the network of agricultural trade counsellors in Asia, Europe and Latin America.
- \$20 million over four years to help small and medium sized businesses to grow and export by supporting the private sector to develop local and regional business hubs in areas of competitive strength.

Environment

Environment was again not a focus of this year's budget, with limited new announcements.

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- \$102 million for Australia's biosecurity system to strengthen enforcement capacity, trial new diagnostic technologies and build capability to respond to pest and disease incursions.
 - \$1.1 billion over seven years from 2016-17 from the Natural Heritage Trust to continue the National Landcare Programme (NLP).

Regional Australia

There were a number of funding announcements to support communities in regional areas of Australia.

- \$206.5 million over four years for round three of Building Better Regions Fund to support investment in community infrastructure.
- \$25.9 million for Round Four of the Stronger Communities Program, to support small capital projects that deliver social benefits to communities.

- \$1.2 million over four years to the Regional Australia Institute to inquire into issues affecting regional Australia.
- In response to the independent review into regional, rural and remote education \$28.2 million is allocated to expand access to sub-bachelor programs in regional areas, and \$14 million to fund additional places for bachelor students studying at Regional Study Hubs. .
- \$84 million in additional funding to the Royal Flying Doctor service to improve the availability of dental, mental health and emergency services in rural and remote areas.
- \$144.9 million over four years from 2018-19 (plus \$5 million in 2022-23 for capital grants) to enhance the viability of aged care providers in rural, regional and remote Australia.

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