

Local Government Economic Briefing



Federal Budget Edition - 10 May 2017

BUDGET AT A GLANCE – KEY ISSUES FOR LOCAL GOVERNMENT

- Indexation of Financial Assistance Grants to be restored from 2017-18.
- Roads to Recovery funded through to 2020-21, with annual budget of \$400 million from 2019-20.
- State and Territory Governments to claim reimbursement on behalf of councils for eligible use of their own plant and equipment under the Natural Disaster Relief and Recovery Arrangements.
- Extension of the National Partnership on universal access to early childhood education to 2018-19.
- \$500,000 in 2017-18 for national climate adaptation work – National Climate Adaptation Research Facility not renewed.
- \$1 billion National Housing Infrastructure Facility to provide financial assistance to Local Government from 2018-19 for infrastructure that supports affordable housing.

The 2017-18 Federal Budget represents a significant shift from the budgets of recent years.

Rather than a raft of savings measures and cuts to spending to address the Nation's financial challenges, the 2017-18 Budget centres on big increases to infrastructure spending funded by "good debt" and higher taxes on some sectors in an attempt to return the budget to surplus.

For Local Government, the budget was a positive one, with the restoration of Financial Assistance Grants (FAGs) indexation from 1 July 2017 after a three year freeze. According to the Government's own estimates, the freeze to indexation cost local communities more than \$600 million worth of services and was felt most acutely in regional and remote areas.

The Roads to Recovery program will also be funded through to 2020-21, with confirmation that the program's annual funding will be \$400 million from 2019-20.

While these announcements were positive news for the sector, there is still a long road ahead before councils recover from the freeze as it permanently reduced the base level of the Financial Assistance Grants payments. More still needs to be done to address the funding shortfall that still exists to ensure that Councils have capacity to support infrastructure maintenance and development.

ECONOMIC AND FISCAL OUTLOOK

The key budget aggregates reflect the Government's intention to deliver sustainable budget surpluses, building to at least one per cent of GDP as soon as possible.

The underlying cash deficit is projected to be \$29.4 billion in 2017-18, and improve over the forward estimates to a surplus of \$7.6 billion in 2019-20 and \$17.5 billion in 2020-21.

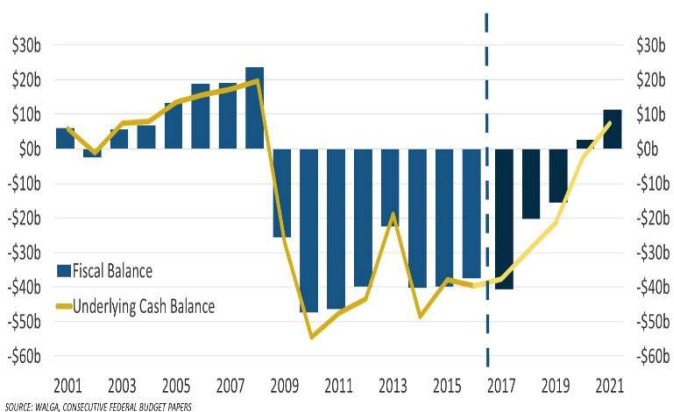
Although the surplus is not in sight for another four years, Australia is on track to return to the black well ahead of any other major advanced economy.

Treasurer Morrison has been quick to clarify that the surplus is a 'projection' and not a 'promise'. This is because the improvements in the budget position are still fragile as they are built upon growing revenue, rather than cutting back spending to address the structural imbalances in the Budget.

Table 1 Key Budget Aggregates

	2016-17	2017-18	2018-19	2019-20	2020-21
	Est.	Est.	Proj.	Proj.	Proj.
Revenue (\$bn)	412.1	444.4	476.1	510.8	540.4
Expenses (\$bn)	450.8	464.3	486.9	503.2	522.9
Underlying cash balance (\$bn)	-37.6	-29.4	-21.4	-2.5	7.4
Net Debt (\$bn)	325.1	354.9	375.1	374.7	366.2
Real GDP (%)	1.75	2.75	3	3	3

Chart 1 Fiscal Balance



The improvement in revenue is underpinned by tax receipts, which have been revised up \$6.4 billion over the next four years.

This reflects an expected strengthening in the national economy, as well as policy measures announced in the budget including the increase to the Medicare Levy, the introduction of a Bank Levy, and the Skilling Australians Fund Levy.

Maintaining budget surpluses on average over the economic cycle is not just important to ensure that the government is 'living within its means', but these retained surpluses are also used to pay down debt.

Net debt is projected to be \$354.9 billion in 2017-18, and stand at 19.5% of GDP in 2017-18. It is projected to peak in 2018-19 at \$375.1 billion (or 19.8%).

While it is positive that net debt will begin to fall over the coming years, it will take some time to reduce it from the current 40 year high levels.

The national economy is expected to improve across the forward estimates, as the impact of the mining downturn starts to recede and the global economy strengthens.

Real GDP is expected to grow by 2.75% in 2017-18, and 3% in 2018-19. The unemployment rate is expected to remain at 5.75% in 2017-18, before tracking down to 5.25% across the forward estimate period.

If these forecasts are not met, this will create challenges for Government revenue and the ability to return to surplus.

KEY ISSUES FOR LOCAL GOVERNMENT

Finances

The 2017-18 Federal Budget papers reveal that indexation of Financial Assistance Grants (FAGs) will be restored from 1 July 2017.

In the 2017-18 year, the Commonwealth Government will allocate \$2.37 billion in FAGs for

Local Government services to the community. However, half of that allocation will be paid in the 2016-17 year, but will be identified as 2017-18 funding.

Table 2 Financial Assistance Grant Program

	2016-17	2017-18	2018-19	2019-20	2020-21
	Est.	Est.	Proj.	Proj.	Proj.
General purpose (\$m)	2,405.0	819.7	1,701.1	1,784.5	1,795.4
Local roads (\$m)	1,067.2	363.7	7,54.8	791.8	796.7
Total FAGs (\$m)	3,472.2	1,183.5	2,455.9	2,576.3	2,592.0

Western Australia will receive \$145.3 million in FAGs in 2017-18, with \$89.7 million allocated for general purpose assistance and the remaining \$55.6 million in untied road funding.

The Government has also again committed to a further GST top-up payment to WA of \$226 million to effectively maintain its GST relativity at the 2014-15 level.

Infrastructure

The 2017-18 Budget boasted a number of major spending commitments for new projects across the country. The Commonwealth will increase funding to infrastructure projects to \$70 billion from 2013-14 to 2020-21 and to \$75 billion by 2026-27, with a focus on rail projects.

For Local Government, the key funding announcement related to the Roads to Recovery (R2) program, which will be funded through to 2020-21. The Bridges Renewal Program will also be funded through to 2020-21.

The Budget confirmed that the annual funding for R2R will be \$400 million from 2019-20. From this total allocation, WA will receive \$102.4 million in 2017-18, \$63.3 million in 2018-19, and \$58.5 million respectively in both 2019-20 and 2020-21.

Table 3 Road Funding Allocation, WA, 2017-18

	Roads to Recovery	Identified local road grants	Black spots	Total
Total funding (\$m)	102.4	55.6	8.2	166.2

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

- \$1.6 billion in Commonwealth funding for Western Australia towards a \$2.3 billion road and rail infrastructure package in partnership with the Western Australian Government. The package includes a combined \$1.2 billion towards the METRONET rail project and

\$100 million for better road access to the Fiona Stanley Hospital precinct.

- \$17 million over four years from 2017-18 to establish an Infrastructure and Project Financing Agency to assist in the identification, development and assessment of innovative financing options for investment in major infrastructure projects.
- \$12 million over four years to enable Infrastructure Australia to continue to deliver its core functions and to support reform initiatives including an independent inquiry to inform a national freight and supply chain strategy and a study into the potential benefits and impacts of road reform.
- \$472 million to establish a new Regional Growth Fund for regional infrastructure and community projects, including a further \$200 million for the Building Better Regions Fund.
- \$230 million from 2017-18 to 2020-21 for the National Heavy Vehicle Safety and Productivity Program.
- \$7 million over four years from 2017-18 to the Australian Competition and Consumer Commission to establish the Broadband Performance Monitoring and Reporting Program to collect and publish information comparing the speed and reliability of fixed-line retail broadband services delivered over the National Broadband Network.
- The Commonwealth Government remains committed to the construction of the Perth Freight Link, and will provide \$1.2 billion for the project to any future Western Australian (WA) Government in support of the project.

Communities

Ensuring the National Disability Insurance Scheme (NDIS) is fully funded was a key platform of the budget.

The Government will achieve this by increasing the Medicare levy by half a percentage point from 2.5% of taxable income from 1 July 2019. Other tax rates that are linked to the top personal tax rate, such as the fringe benefits tax rate, will also be increased. This measure is estimated to deliver a revenue gain of \$8.2 billion over the forward estimates period.

Other announcements in relation to the NDIS were as follows.

- \$868.2 million over three years from 2017-18 to support the delivery of the WA NDIS under a nationally consistent, locally administered model.

- \$754 million over five years from 2016-17 to extend the revised arrangements for aged care and disability services under the 2011 National Health Reform Agreement (NHRA). Implementing the NHRA in WA will include transitioning Home and Community Care services for people aged 65 years and over to the Commonwealth Home Support Programme from 1 July 2018 and transitioning older people in Specialist Disability Services in WA to the Commonwealth Continuity of Support Program from 1 July 2019.

Other key community announcements in the Budget are as follows.

- Extension of the National Partnership on universal access to early childhood education to 2018-19.
- \$20.2 million over 10 years from 2017-18 to encourage the development of the Australian market for social impact investments, which brings together governments, service providers, investors and communities to deliver a range of social and environmental outcomes. This measure includes \$12.2 million over 10 years from 2017-18 to partner with State and Territory Governments to trial social impact investing initiatives and \$8 million over 4 years from 2017-18 to establish a Social Impact Investment Readiness.
- The Government will extend current cashless debit card trials in Ceduna (South Australia) and the East Kimberley (Western Australia) until 30 June 2018. The Government will also expand to a further two locations from 1 September 2017.
- \$145.5 million over three years from 2016-17 to extend Income Management in all current locations until 30 June 2019.

Housing

The budget contained a suite of new measures intended to address housing affordability. These primarily focus on increasing housing supply, and creating investment incentives. Some of the key elements of this policy platform are as follows.

- Working with State and Territory Governments to reform the National Affordable Housing Agreement and provide ongoing, indexed funding for a new National Housing and Homelessness Agreement from 2018-19. This will include setting housing supply targets and facilitating planning and zoning reform.
- A \$1 billion National Housing Infrastructure Facility will be established that will provide financial assistance to local government from

2018-19 for infrastructure that supports new housing, particularly affordable housing.

- An online Commonwealth land registry to allow and encourage proposals for higher value land use.
- From 1 July 2017, first homebuyers will be allowed to withdraw voluntary contributions to superannuation for a first home deposit.
- A person aged 65 or over will be allowed to make a non-concessional contribution of up to \$300,000 from the proceeds of selling their home from 1 July 2018. This measure will apply to sales of a principal residence owned for the past ten or more years and both members of a couple will be able to take advantage of this measure for the same home.
- Policy changes around foreign investors, including strengthened Capital Gains Tax rules.
- \$63.1 million over four years from 2017-18 (including \$4.8 million in capital) to establish the National Housing Finance and Investment Corporation to operate an affordable housing bond aggregator to provide cheaper and longer term finance for the community housing sector.

Emergency Management

The Government will adjust funding restrictions under the Natural Disaster Relief and Recovery Arrangements (NDRRA) to allow State and Territory Governments to claim reimbursement on behalf of councils for eligible use of their own plant and equipment (including graders, bulldozers, and excavators) when rebuilding damaged public assets such as roads.

This adjustment to the NDRRA will be available for all eligible disasters that have occurred between the 2013-14 and 2017-18 financial years.

Workforce

The Budget contained a range of measures aimed at generating jobs for Australian workers, and focus on changes to skilled migration arrangements. These will occur in stages between April 2017 and March 2018.

- The Temporary Work (Skilled) (subclass 457) visa will be abolished and replaced with a new Temporary Skill Shortage visa.
- The visa application charges will be increased from the current \$1,060 per primary 457 visa to \$1,150 per primary visa for the short-term stream and \$2,400 per primary visa for the medium-term stream. The skilled occupation lists have also been revised to focus more

sharply on skill shortages. The lists will be updated regularly.

- From March 2018, businesses that employ foreign workers on certain skilled visas will be required to pay a levy that will provide revenue for a new Skilling Australians Fund to support the skilling of Australian workers.
 - Businesses with turnover of less than \$10 million per year will be required to make an upfront payment of \$1,200 per visa per year for each employee on a Temporary Skill Shortage visa and make a one-off payment of \$3,000 for each employee being sponsored for a permanent Employer Nomination Scheme (subclass 186) visa or a permanent Regional Sponsored Migration Scheme (subclass 187) visa.
 - Businesses with turnover of \$10 million or more per year will be required to make an upfront payment of \$1,800 per visa year for each employee on a Temporary Skill Shortage visa and make a one-off payment of \$5,000 for each employee being sponsored for a permanent Employer Nomination Scheme (subclass 186) visa or a permanent Regional Sponsored Migration Scheme (subclass 187) visa.

Business

Supporting small business was a key focus of the Budget, with the extension of some existing arrangements and the announcement of new policy measures.

- \$15 million to the Department of the Treasury over two years from 2016-17 to undertake a campaign to educate the small business community about available support.
- Accelerated depreciation for small businesses will be extended by 12 months to 30 June 2018 for businesses with aggregated annual turnover less than \$10 million. Small businesses will be able to immediately deduct purchases of eligible assets costing less than \$20,000 first used or installed ready for use by 30 June 2018.
- Assets valued at \$20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool (the pool) and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter.
- \$300 million over two years from 2017-18 to establish a National Partnership on Regulatory Reform with the States and Territories to remove regulatory restrictions on small businesses and

competition, including incentive payments to State and Territory Governments.

Environment

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

- \$0.6 million in 2017-18 to the Commonwealth Scientific and Industrial Research Organisation and National Climate Change Adaptation Research Facility to supports existing online
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platforms that inform decision makers seeking to adapt to changes in climate.

- \$1.1 billion over seven years from 2016-17 from the Natural Heritage Trust to continue the National Landcare Programme (NLP).

*For further information or to comment please contact Dana Mason on 9213 2096 or email dmason@walga.asn.au. Current and previous editions of **Economic Briefing** are available at www.walga.asn.au/NewsPublications/Publications/EconomicBriefing.asp*