



WALGA

WORKING FOR LOCAL GOVERNMENT

WA STATE BUDGET 2018

IMPLICATIONS FOR LOCAL GOVERNMENT



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AT A GLANCE

- Budget focussed on improving the State's finances, strengthening the economy, service delivery and investing in communities.
- Budget deficit of \$906 million expected in 2018-19, with forecast return to surplus of \$1.295 billion in 2020-21.
- Record \$128.5 million investment in Emergency Services, funded by an increase in the Emergency Services Levy.
- \$21.5 billion asset investment program
- WA economy expected to grow by 2.5% in 2017-18, and 3.25% in 2018-19.
- 50,000 new jobs to be created across 2017-18 and 2018-19.

WALGA COMMENT



Premier Mark McGowan welcomed industry representatives to the budget lock up by reflecting on the magnitude of the Government's task in trying to turn around the state's fiscal challenges. This was the entrée for Treasurer Ben Wyatt to set out their continuing path to surplus as he assessed the outcomes from a year in charge of the government purse strings.

Gross State Product reached a historic low in 2016-17, falling by 2.7%. In a stark turnaround, it is expected to lift by 2.5% this year and continue to climb by 3.25% in 2018-19. Continued stabilisation of the economy is expected to result from the transition to household consumption as the major driver of growth, and business confidence, at its highest level in seven years, will continue to improve, seeing better employment outcomes across the budget period.

This improving scenario reflects favourably on the Treasurer's commitment to budget repair and WALGA's own call for the Government to get the economic settings for WA on track. However, initiatives to improve fiscal conditions also include household cost increases and a number of these will impact Local Government.

Electricity charges will increase by 7% - marketed as "30 cents per household per day" - while increases have also been announced for water (5.5%), vehicle licences (5.8%), and the Emergency Services Levy (10.1%).

There were also some positive announcements, with a number of Local Governments receiving grants for road projects, and funding directed towards a range of infrastructure and other local community projects.

The Budget notes the ongoing negotiation of a new State Road Funds to Local Government Agreement. Continuation of the existing 20% of vehicle licencing fees is shown as the funding basis for the out years. However, vehicle licence revenue across the forward estimates is now expected to be \$32.5 million (1.1%) lower than projected by Treasury in last year's budget - despite the decision to increase vehicle licencing charges. If these projections are to eventuate, this would mean that Local Governments' 20% share of this revenue pool would be \$7 million lower across the next three years compared with previous estimates.

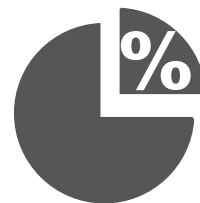
Capital expenditure on new and upgraded roads will be a record high \$3.2 billion over the budget and forward estimates, largely funded by the Commonwealth Government. However, expenditure on maintenance of existing State roads has been reduced by \$323.4 million over the coming four years, compared with the previous budget. The impact of this decision on the condition of the State's highways will be seen in coming years. Road funding grants to Local Governments are operating expenditure from the State's perspective and are considered alongside other operating expenditure decisions, including maintenance.

This doesn't meet our expectations for the sector and highlights the need for continued advocacy to the Government.

In coming weeks, WALGA will work through the detail of the budget and keep the sector informed of any changes that will impact the sector.

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WA ECONOMIC AND FISCAL OUTLOOK

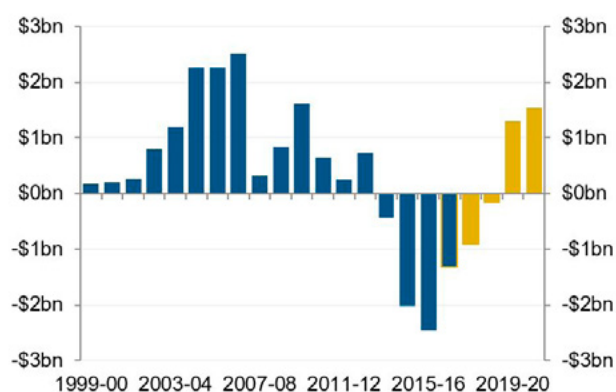


“ The expected return to surplus means that the Government will begin to commence the process of paying down debt. ”

The State's financial position is expected to improve across the forward estimates, with the budget on track to return to surplus by 2020-21.

A budget deficit of \$906 million is expected for 2018-19, following a \$1.3 billion deficit in 2017-18. The budget is expected to return to a surplus position of \$1.3 billion by 2020-21.

WA Net Operating Balance



Improvements in the budget position reflect the State's commitment to its fiscal repair strategy, which aims to bring expenditure under control and address the structural imbalance in the budget. These measures included a new wages policy, voluntary severance scheme, progressive payroll tax scale and the implementation of a point of consumption wagering tax. Reflecting the efforts to reprioritise spending and other budget repair measures, expenditure growth is expected to remain contained across the forward estimates, averaging just 1.2% per annum.

The return to surplus will also be supported by an improvement in the state's revenue outlook. After declining in 2016-17, revenues are expected grow by 4.2% in 2018-19, and average growth of 3.5% across the forward estimates. The pick-up in revenue will be driven by Commonwealth grants, which are expected to grow by 6.7% per annum across the forward estimates, underpinned by an improvement in the State's GST relativity from 34.4% in 2017-18,

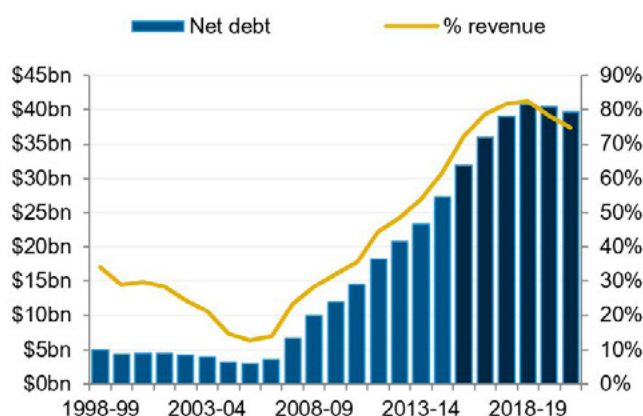
to 64.9% in 2021-22. Tax revenues are also expected to increase on average by 4.8% across the forward estimates as the economy gathers pace, and help to boost the budget bottom line.

The Government has also announced a new revenue measure to assist with the task of budget repair, with an increase to the Foreign Buyers Surcharge from 1 January 2019 from 4% to 7%. This will raise an additional \$50 million across the period to 2020-21.

The expected return to surplus means that the Government will begin to commence the process of paying down debt. General Government net debt is forecast to increase from \$22.4 billion at 30 June 2018, to \$27.5 billion by 30 June 2020, before falling back to \$25.7 billion by the end of the forward estimate period. This is a \$2.6 billion improvement in the expected level of net debt compared to the Mid-Year Review. Total public sector net debt is also expected to decline from a peak of \$40.9 billion in 2019-20, to \$39.7 billion in 2021-22.

It is pleasing that the Government's fiscal repair strategy appears to be translating into improved budget outcomes, and the ability to begin the long and hard task of paying down record debt levels. It will be important that the Government remains firm on these commitments to ensure that these outcomes are delivered.

WA Total Public Sector Net Debt



KEY ISSUES FOR LOCAL GOVERNMENT - INFRASTRUCTURE



Infrastructure remains a focus of the Budget as the Government looks to deliver on its election commitments. In 2018-19, the State's investment program will total \$6.2 billion, with \$21.5 billion in total to be spent on capital works across the forward estimate period.

Some new projects were announced in the 2018-19 Budget, although these were in large part funded by the Commonwealth Government.

- \$750 million over the forward estimates for METRONET projects under development, including the Morley-Ellenbrook line and extension of the Armadale line to Byford.
- \$276 million to upgrade and redevelop WA's hospitals and health services.
- \$233 million for the Bunbury Outer Ring Road and infrastructure projects to support road safety.
- \$76 million for new primary and secondary schools.
- \$41 million for the METRONET Social and Affordable Housing and Jobs Package, which will include 1,390 new homes, including 320 social housing dwellings, 400 affordable homes, and 800 high density METRONET oriented mixed tenure developments.

- \$27 million to upgrade fire stations and emergency equipment.

State Road Funds to Local Government

Main roads operating expenditure will decrease by a net \$33.2 million to offset a reduction in Motor vehicle licence revenues across the forward estimates, compared to the previous years' forecasts. If the Agreement is finalised as a percentage of Motor Vehicle Licence Fee revenue this means that Local Governments' revenue under the State Road Funds to Local Government Agreement will be \$7 million lower across the forward estimates than previously expected, though the overall share of VLF will still remain at 20%.

The indicative funding is set out below.

Table 1 State Road Funds to Local Government

	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m.	\$m	\$m	\$m	\$.
Indicative funding	196.1	181.6	188.5	193.3	198.5

Main roads expenditure on state initiated local road projects under the State Road Funds to Local Government Agreement has been reduced by \$5.3 million in 2021-22. This has been reallocated to local government cycling grant programs as outlined below.

Key Insights

- \$21.5 billion in total to be spent on capital works across the forward estimate period
- Vehicle licence revenue has been revised down 1.1% over the next four years. However, the implications for Local Government road funding from the State are only indicative as the next State Road Funds to Local Government Agreement is still being negotiated.
- Further investments in cycling infrastructure and road safety initiatives.

KEY ISSUES FOR LOCAL GOVERNMENT - INFRASTRUCTURE (CONTINUED)



Other infrastructure funding of interest to Local Government is as follows.

- \$15.3 million has been provided for the establishment of Infrastructure WA.
- The Principal Shared Path program will receive \$20 million increase over the forward estimates, to accelerate the completion of the network. This will be funded through the reprioritisation of \$20 million from Main Roads operating expenditure between 2020-21 and 2021-22.
- A further \$5.3 million has been allocated in 2021-22 to continue the WA Bicycle Network and Bike Boulevards grant programs to Local Authorities to invest in cycling infrastructure.
- The total value of road transfers from the State to Local Governments has increased by \$30.4 million across 2018-19 and 2019-20.
- \$124.1 million over the four years from 2018-19 on infrastructure projects to improve road safety, including
 - \$70 million on regional roads where there is a high risk of run off road accidents
 - \$13.3 million over four years on safety treatments at high priority metro intersections
 - \$1.2 million over four years to 2021-22 on advanced warning signs at rural intersections.



KEY ISSUES FOR LOCAL GOVERNMENT - COMMUNITIES



The Budget contained funding for a number of initiatives of interest to the sector.

- Expenditure on disability services will **reduce** by **\$3.4 billion** over 2017-18 to 2021-22, as a result of the revised Bilateral Agreement between the Commonwealth and WA.
 - **\$20.3 million** in 2018-19 and 2019-20 for a sector support package to assist the disability services sector to transition to the NDIS. **\$14.5 million** will be spent on workforce costs to assist with the NDIS transition.
 - The Hardship Utilities Grants Scheme has been allocated an additional **\$3.5 million** to meet demand for payments under the scheme, with **\$6 million** to be spent on financial counselling between 2019-20 and 2021-22.
 - **\$4.3 million** to implement the National Domestic Violence Order Scheme to enable family and domestic violence perpetrators to change their behaviour.
 - An additional **\$26.3 million** will be spent across 2018-19 and 2019-20 for existing Home and Community Care clients prior to their transition to the NDIS.
- **\$8.1 million** will be spent over 2017-18 to 2021-22 to provide a police presence at major events. This will be offset by revenue from organisers of major events.
 - **\$128.5 million** record investment towards critical fire and emergency services including:
 - \$19.5 million for 38 volunteer and marine rescue groups that provide emergency service along the WA coastline.
 - \$8 million to replace ageing volunteer fire stations in regional locations, and \$8.7 million to complete the roll out of crew protection measures.
 - \$80 million to enhance rural bushfire capacity through the new Rural Fire Division, including \$18 million for a Bushfire Centre of Excellence; \$34.6 million increase in bushfire mitigation funding and \$15 million towards the Bushfire Risk Management Planning program to assist Local Governments to identify and manage their bushfire risks.
 - \$800,000 boost to finalise remediation works as part of the Yarloop Bushfire clean up.
 - \$600,000 towards rapid response signs on beaches, which provides grants for Local Governments to install signs to assist emergency services in identifying regional beach locations when responding to calls for assistance.
 - \$5.3 million in 2018-19 to complete the rollout of crew protection measures in 111 Local Government owned bushfire appliances, primarily in the North West of WA.



KEY ISSUES FOR LOCAL GOVERNMENT

- FEES AND CHARGES

- Changes were announced to a range of household fees and charges, which will see total expenditure by the “representative household” on public sector goods and service increase by 4.8% in 2018-19 or \$292.07.
- The key changes to household fees and charges are as follows.
 - 5.8% increase in Vehicle Licence Charges
 - 7% increase in electricity
 - 5.5% increase in water, sewerage and drainage
 - 10.1% increase in the Emergency Services Levy (which will be used to fund reforms to the State’s fire and emergency services).
- Street lighting tariffs are expected to rise by 3.2% in 2018-19 and thereafter.

KEY ISSUES FOR

LOCAL GOVERNMENT - REGIONAL WA

\$4 billion in Royalties for Regions funding is guaranteed in the budget, to be invested in a range of different projects and initiatives. A total of \$3.4 billion will be invested in regional infrastructure over the next four years.

Some of the key regional funding areas in the Budget are as follows.

- Community Resource Centres will receive **\$13 million** in 2018-19, but funding will reduce to \$8 million per annum from 2019-20 to 2021-22.
- Spending on Government Regional Officers Housing will be **reduced** by **\$724,000** from 2017-18 to 2021-22.
- Funding for the Community Pools Revitalisation fund has been provided in 2017-18 (**\$0.5 million**), but is **discontinued** thereafter
- **\$795.8 million** for country water, sewerage and drainage operations
- **\$22.5 million** for Regional Economic Development Grants program, which will support small community driven projects with the aim of delivering local jobs and stimulating local economic activity.
- **\$11.7 million** for the Wild Dogs Action Plan
- **\$1.5 million** to support a capacity building program for Aboriginal businesses.
- **\$20.5 million** for the new Target 120 initiative – an early intervention program to reduce juvenile offending in WA.
- **\$21.5 million** to continue the Regional Youth Justice Services in the Kimberley and Pilbara to enable diversion and prevention services.
- **\$10.2 million** over five years to construct and operate a Mid-West community mental health step up/step down service.
- **\$9.3 million** to fast track 33 more alcohol and drug rehabilitation beds in the South West.
- **\$1.1 million** for the Kimberley family violence service
- **\$182.3 million** over four years for the Patient Assisted Travel Scheme
- Independent learning coordinators in 10 schools in 2018, to help senior students studying through the School of Distance and Isolated Education.
- **\$9.3 million** for conservation projects in the Pilbara by implementing the Pilbara Offsets Fund.

OTHER KEY ISSUES FOR LOCAL GOVERNMENT

The Budget also contained funding for a number of other programs and initiatives that are of interest to the sector.

- \$628,000 will be spent in 2018-19 on implementation costs associated with the finalisation of the Resolution of Native Title in the South of Western Australia
- Financial audits of Local Governments to the value of \$21.3 million will be undertaken from 2017-18 to 2020-21 in accordance with the *Local Government Amending (Auditing) Act 2017*, with costs to be fully recovered from Local Government authorities.
- The removal of indexation for the Local Government Rates Rebate cap will generate savings of \$8.5 million, from 2018-19 to 2021-22. These savings will be used to fund an equivalent increase in grants and financial counselling associated with the Hardship Utilities Grant Scheme.
- Additional expenditure has been approved for the Exploration Incentive Scheme of \$10 million per annum from 2019-20, and will be funded by an increase in annual mining tenement rents.
- \$5.5 million to support development and manufacturing of renewable energy technologies.
- \$250,000 will be spent in 2018-19 to progress planning for the implementation of the initiatives to stop puppy farming.
- \$4.1 million will be spent over 2018-19 and 2019-20 to revitalise underutilised State and Local

Government owned heritage assets through the Heritage Revolving Fund. This will be recouped through asset sales.

- Expenditure of \$11 million has been approved over 2018-19 to 2021-22 for additional resources in the Department of Water and Environment Regulation (DWER) regulator areas to increase the efficiency of the environmental assessment process.
- \$2.9 million will be spent over 2018-19 to 2021-22 to support the introduction of additional water licensing requirements, and strengthen DWER compliance and enforcement capabilities.
- \$31 million for the Natural Resource Management Program.
- \$2.5 million to protect the habitat of the endangered Carnaby's cockatoo, by reducing the extent of pine plantation harvesting.

