

WALGA Economic Briefing

2020-21 Budget Edition



Contents

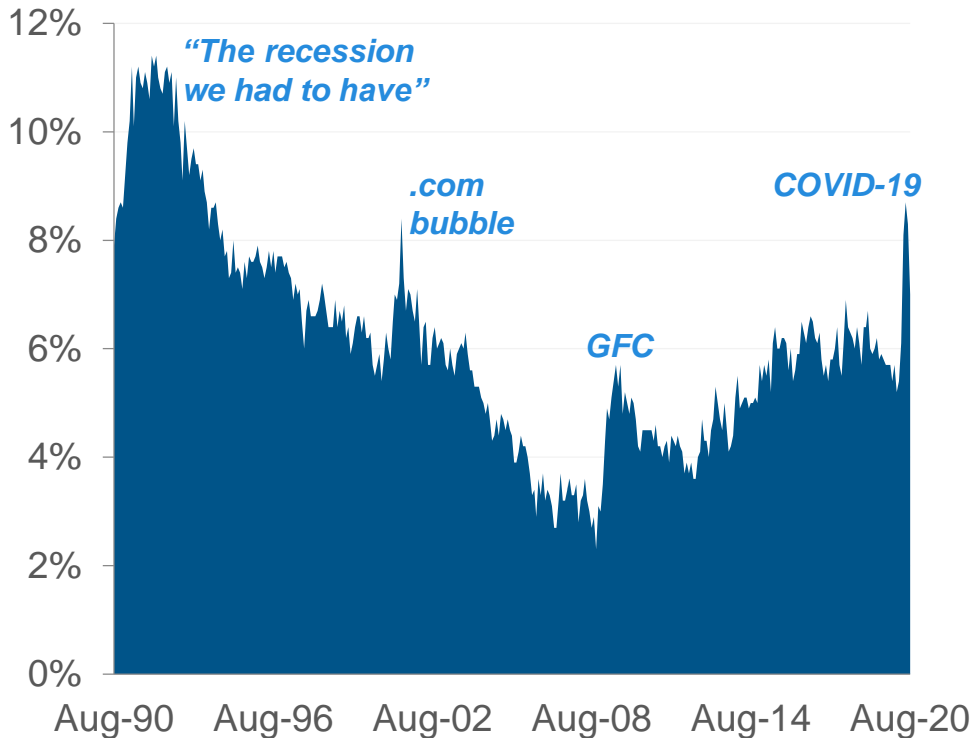


- Pages [3](#) to 6 outline the economic and labour market impacts of COVID-19 on WA
- Pages [7](#) to 9 outline the impact of COVID-19 on the State and Federal Budgets
- Page [10](#) outlines the State Government's economic forecasts for 2020-21 to 2022-23
- Pages [11](#) to 13 outline the information in the State and Federal Budgets that will impact on the Local Government sector, including funding announcements for Local Government, Local Government grant income and forecasts for key Local Government cost drivers
- Page [14](#) provides WALGA's overall comments on the State and Federal Budgets
- Page [15](#) outlines who to contact if you have any questions on the information in this report
- [Appendix A](#) provides the State Government's economic forecasts for 2020-21 to 2023-24 in table form
- [Appendix B](#) provides the 2020-21 WA Local Government grant funding amounts in table form

The immediate impact of COVID-19 was felt on the labour market...

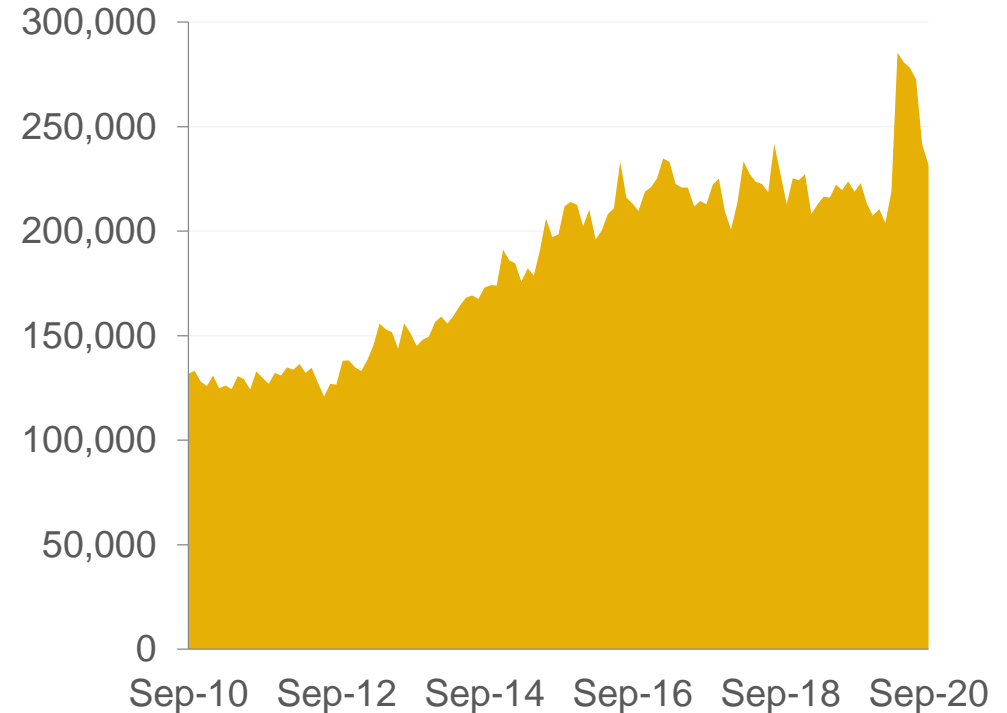


WA Unemployment Rate



SOURCE: ABS CAT 6202

WA Total Number of Underutilised People (Unemployed and underemployed)



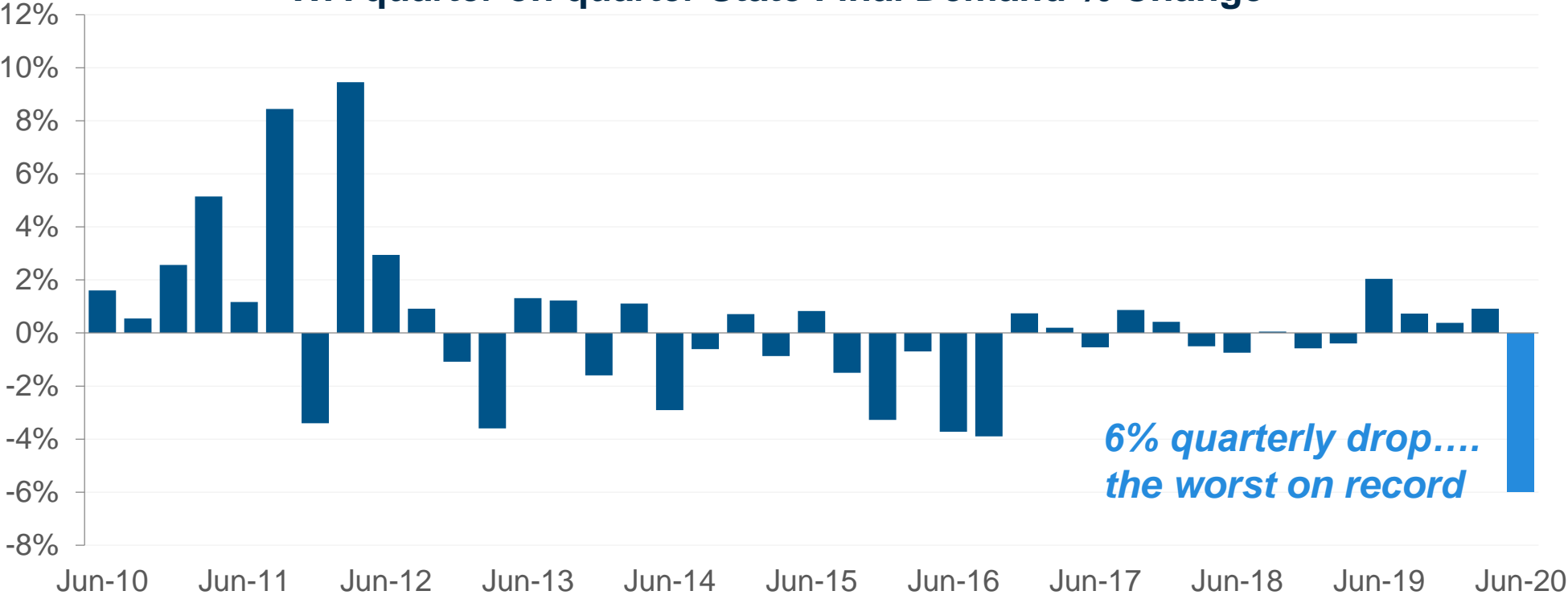
SOURCE: ABS CAT 6202

- COVID-19 had a severe impact on the WA labour market, particularly in those industries affected by the restrictions such as hospitality, retail and arts and recreation.
- Underemployment also surged as a record number of workers were stood down or had their hours reduced.

As a result, our domestic economy had its worst contraction on record in June...



WA quarter on quarter State Final Demand % Change



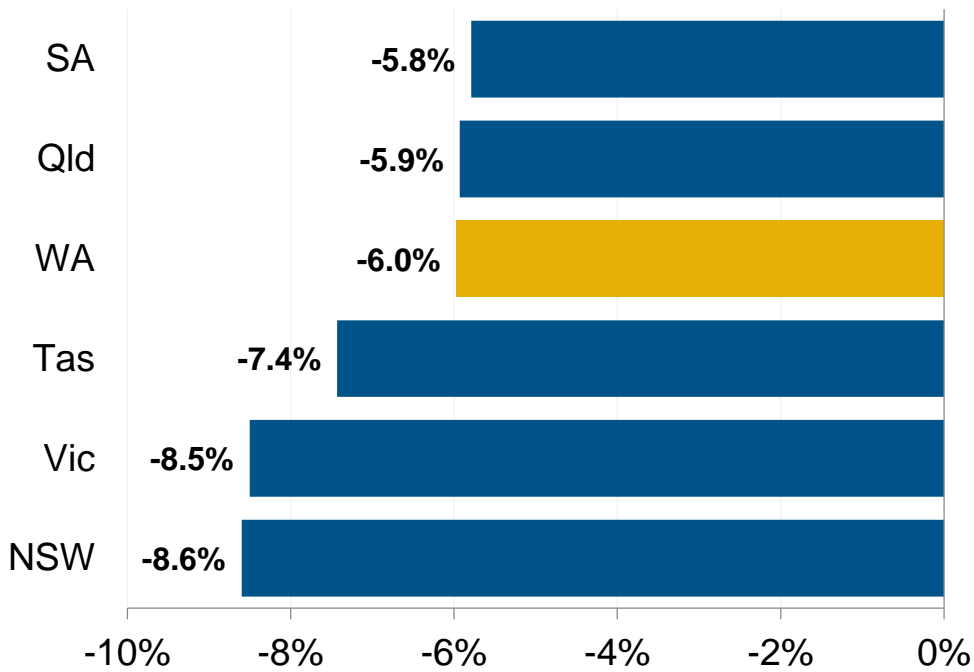
SOURCE: ABS CAT 5242

- WA State Final Demand, which represents the domestic economy (no imports or exports into/out of WA), experienced its worst quarterly drop on record in June, falling by 6%.
- The drop in State Final Demand during the June quarter was primarily due to a 10.6 decline in household expenditure, which is the largest component of State Final Demand.

Despite this, the WA Economy is still faring better than other States...

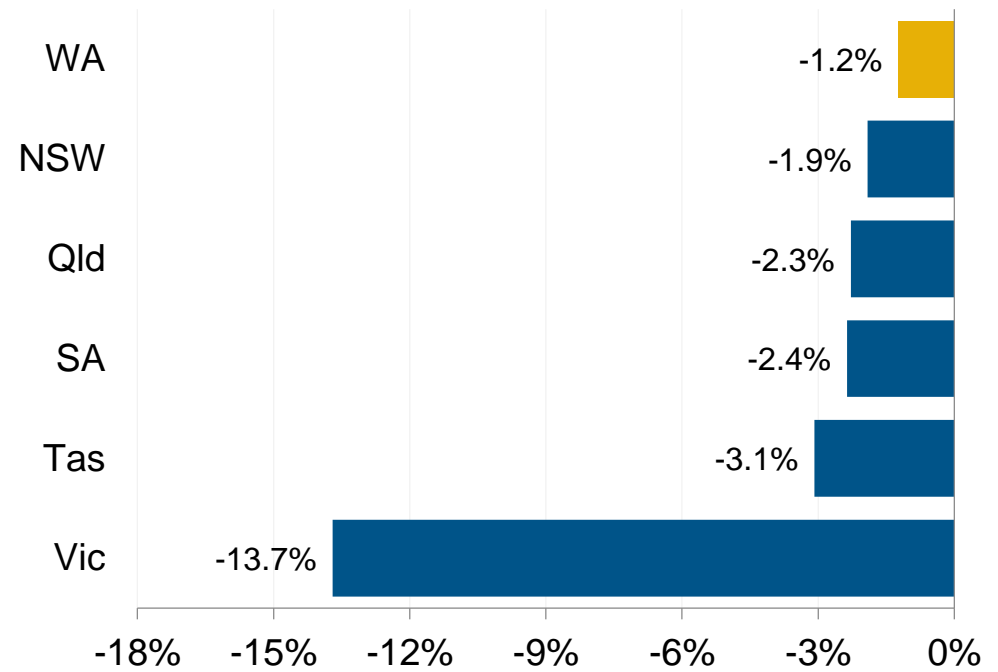


% Change in State Final Demand by State, March Quarter to June Quarter



SOURCE: ABS CAT 5242

% Change in Total Monthly Hours Worked, March to September



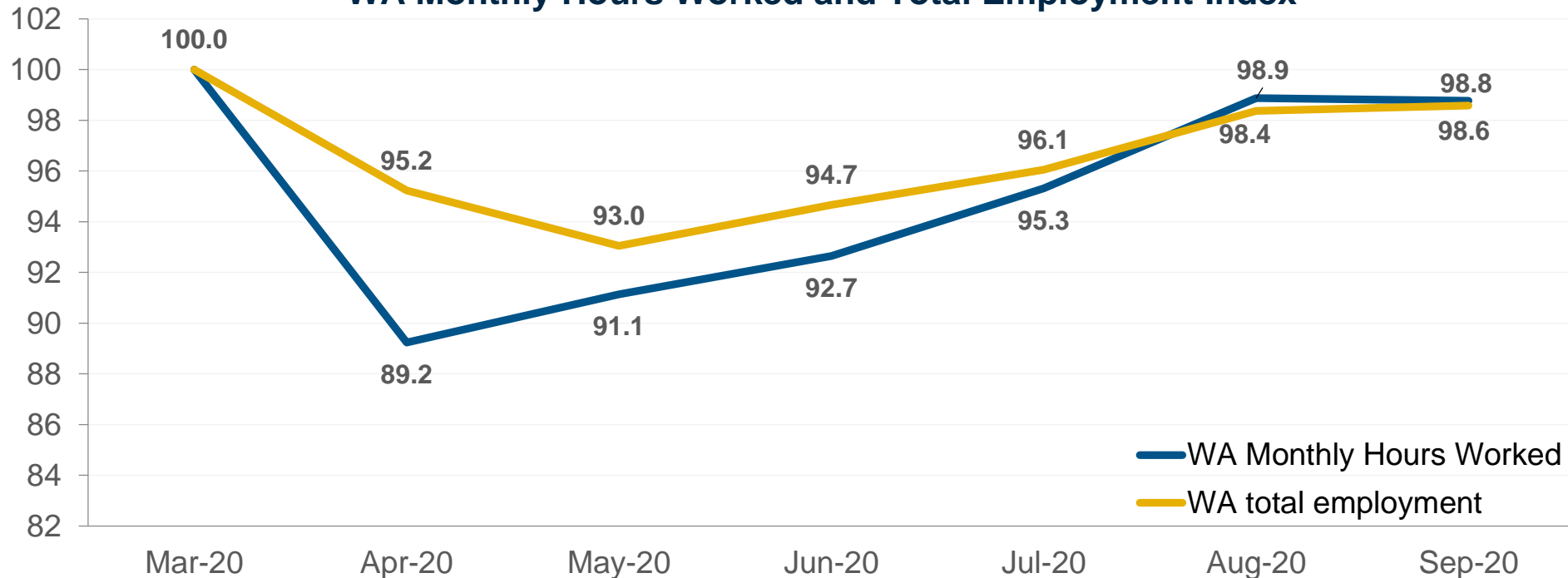
SOURCE: ABS CAT 6202

- WA's economy has, and is expected to continue to, perform better than other states as a result of the State's dominant mining industry which has driven export earnings, as well as the containment of the virus which allowed for the easing of restrictions.

But the labour market rebound has slowed in the past 2 months...



WA Monthly Hours Worked and Total Employment Index



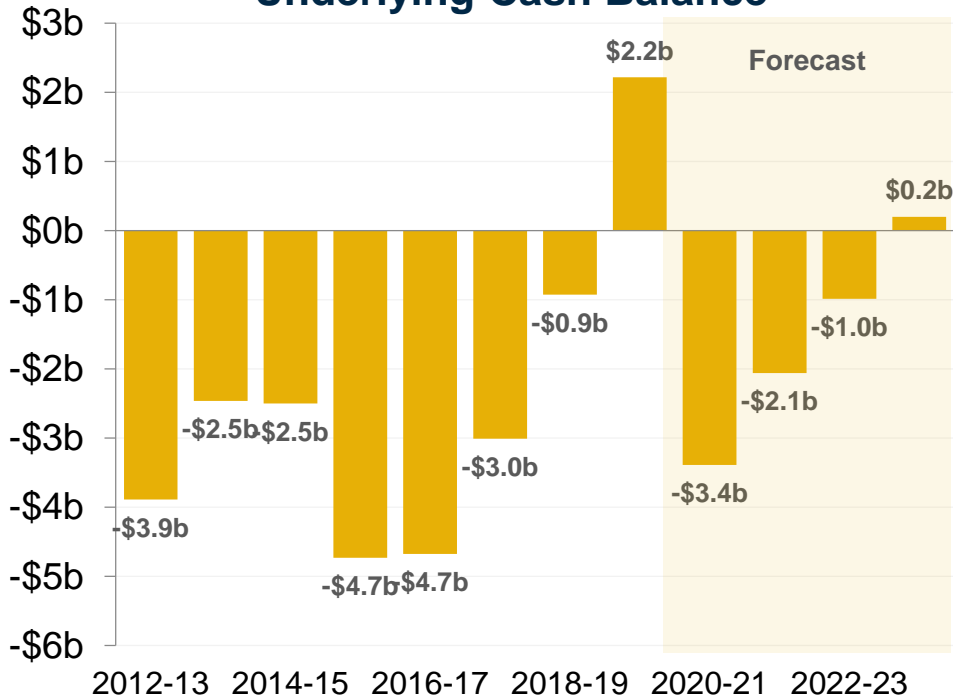
SOURCE: ABS CAT 6202

- The State's labour market rebound was rapid when restrictions first eased but has now slowed, with employment and hours worked in the State still yet to reach pre-pandemic levels.
- There is expected to be slack in the WA labour market for some time, as Job Keeper and Job Seeker eligibility criteria tightens and the rate of hiring fails to offset the number of jobs lost.

The State & Federal Budgets revealed that debt will be used to kickstart recovery...

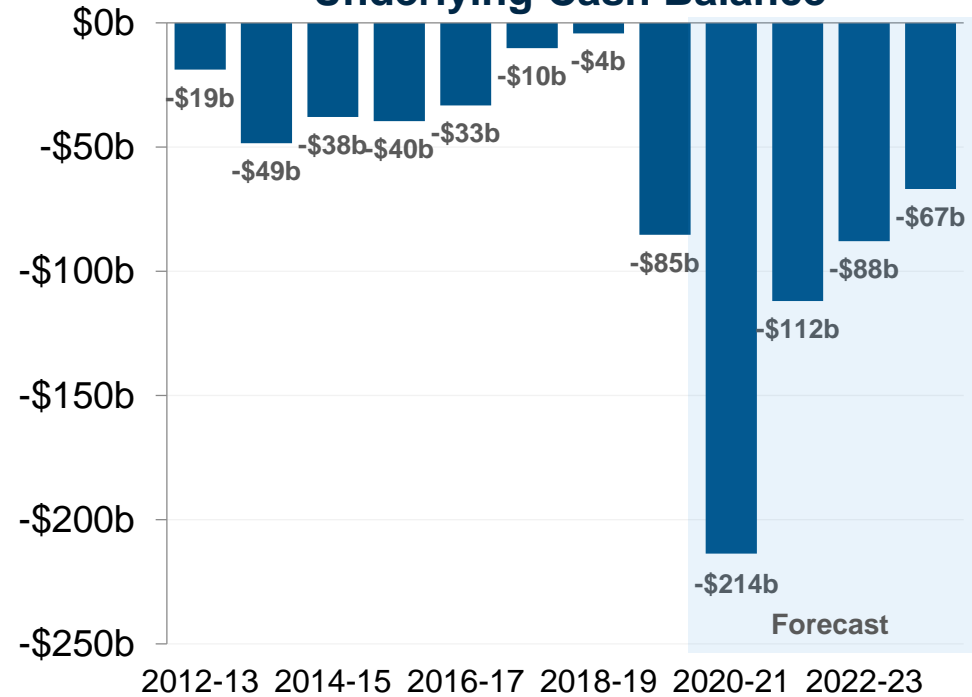


WA Government Underlying Cash Balance



SOURCE: WA 2020-21 STATE BUDGET

Commonwealth Government Underlying Cash Balance



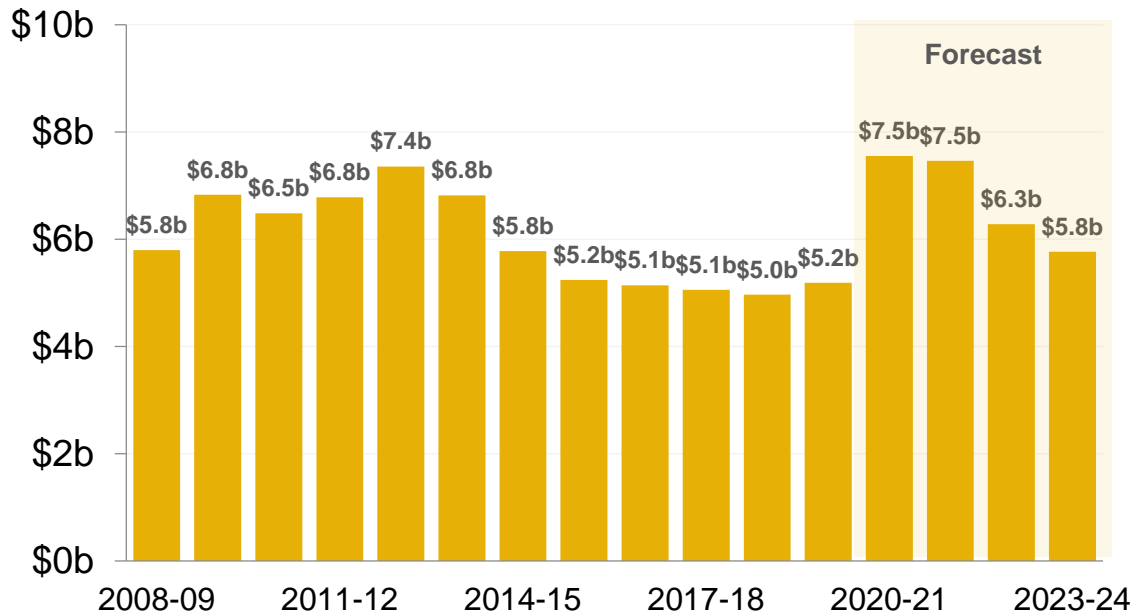
SOURCE: COMMONWEALTH 2020-21 BUDGET

- Both the WA and Commonwealth Governments are expecting significant cash deficits over the forward estimates period due to COVID-19, as opposed to the surpluses that were forecast in the 2019-20 Mid Year Reviews.

But both levels of Governments will use debt for different purposes...

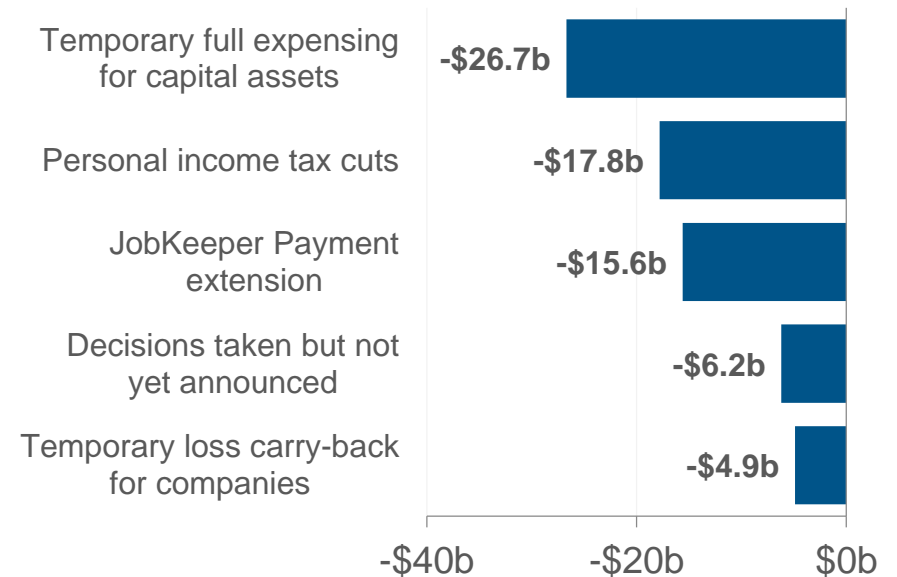


**WA Government
Asset Investment Program**



SOURCE: WA 2020-21 STATE BUDGET

Commonwealth Gov. key expenditure and revenue changes, 2020-21 Budget compared to Mid Year Review



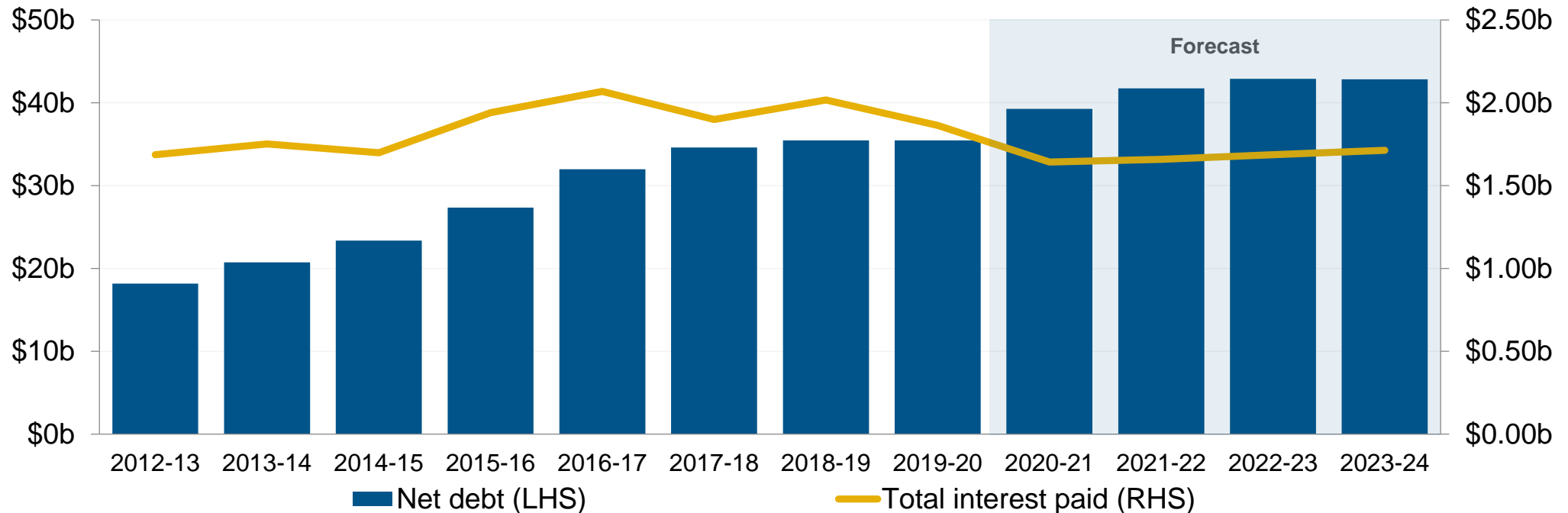
SOURCE: COMMONWEALTH 2020-21 BUDGET

- The State is focussing on Government asset investment to kick-start the economy, with an asset investment program of \$27.1 billion over four years and \$7.5 billion of this in 2020-21.
- In contrast, the Commonwealth is primarily using the tax and transfer system to inject funds to households and encourage a business and household spending led recovery.

With interest rates so low, debt doesn't carry as much of a burden as it once did...



WA Government Total Public Sector Net Debt and Total Interest Paid



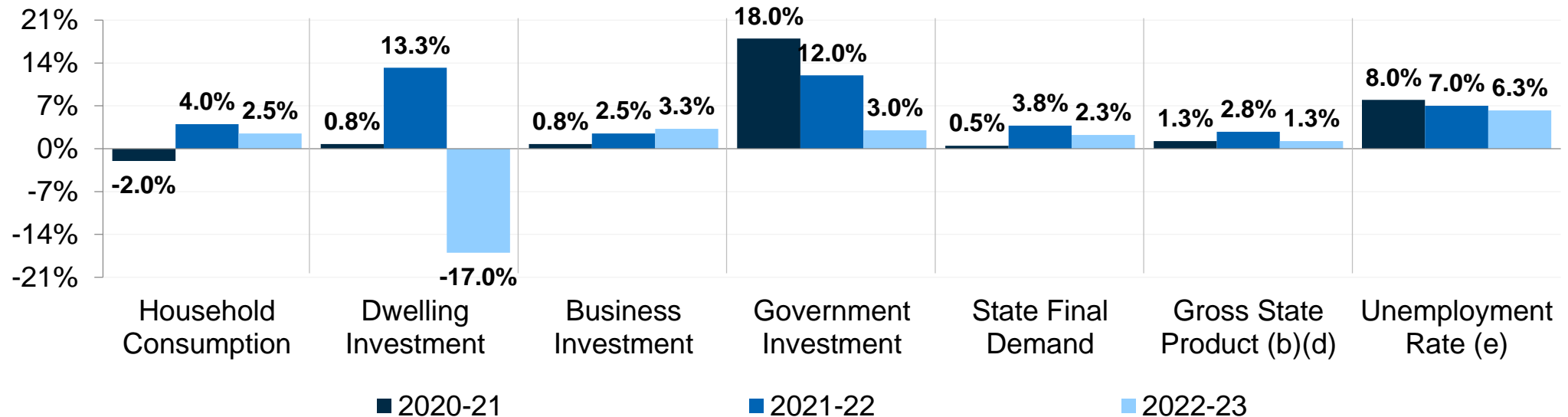
SOURCE: WA 2020-21 STATE BUDGET

- Despite WA public sector net debt forecast to increase to \$43 billion in the forward estimates, the interest payments on this debt are expected to be lower than when net debt totalled \$20.8 billion in 2013-14. This is due to the interest rates on consolidated borrowings forecast to be between just 2.5% and 2.1% over the forward estimates period (see [Page 13](#) for future interest rate forecasts).

Looking forward, artificial demand will prop up WA's economy for some time...



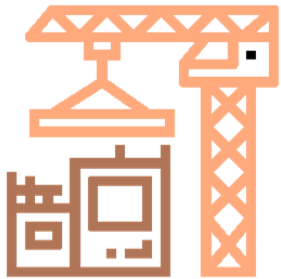
WA Government Economic Forecasts, 2020-21 to 2022-23



SOURCE: WA 2020-21 STATE BUDGET

- The outlook for the WA economy has been revised downward because of COVID-19, with Gross State Product Growth expected to increase by just 1.25% in 2020-21 and average 1.7% over the forward estimates (see [Appendix A](#) for more information).
- In 2020-21, the WA economy will be supported by the WA Government's Asset Investment Program, while in 2021-22 it will be supported by dwelling investment induced from building grants, and increased household consumption and business investment as a result of the Commonwealth's tax reductions and investment incentives.
- The WA Government's forecasts are underpinned by the assumption that there will be no second wave of COVID-19 in WA.

For Local Government, the Budgets revealed funds for community initiatives...



\$1 billion additional investment across Australia in the Local Roads and Community Infrastructure Program



\$15 million for priority bushfire risks on Crown land in WA, including Crown reserves under Local Government care



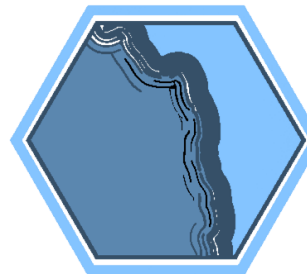
\$256.8 million for 800 additional police officers in WA



\$18.4 million of targeted support for regional aviation in WA, including funding to secure regional WA air routes and lower airfares



\$16.1 million for high risk intersections on Local Government Roads in the Metro Area

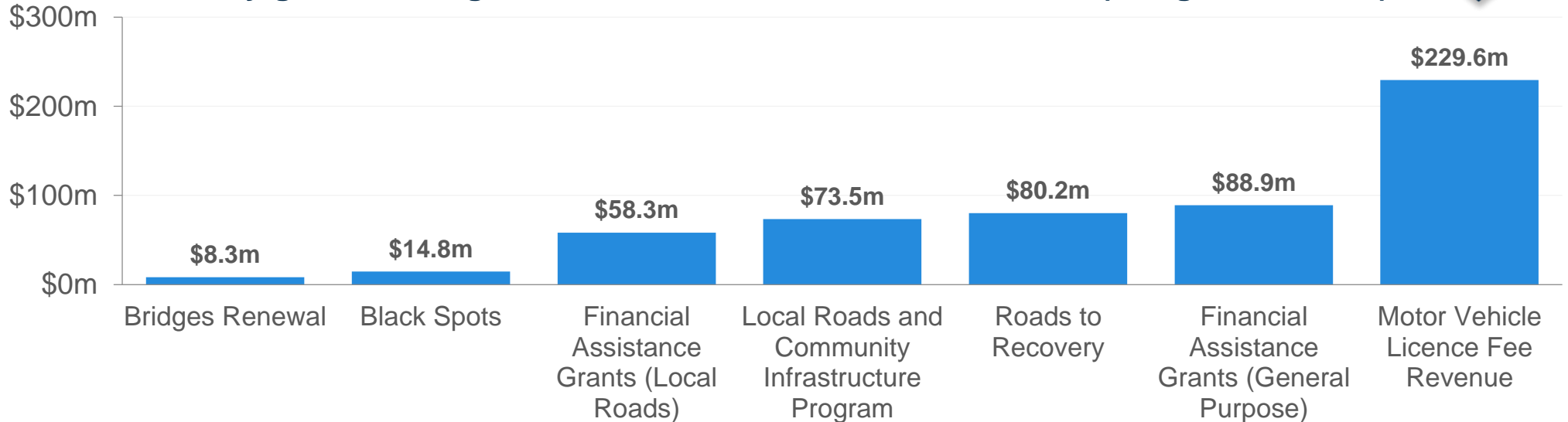


\$5 million for Local Government and community groups to protect coastal erosion hotspots

While also providing details on funding for long-standing Local Government grants...



Key grant funding for WA Local Governments in 2020-21 (Budget forecasts)



SOURCE: WA AND COMMONWEALTH 2020-21 BUDGETS

- When carry over provisions are taken into account, motor vehicle licence fee revenue provided to WA Local Governments from the State Government is expected to be close to \$9 million less than previously expected.
- Note: The FAGs shown in the above chart do not reflect the FAGs that was brought forward for COVID-19 stimulus purposes in May 2020.
- Note: The Local Roads and Community and Community Infrastructure amount shown in the above chart does not reflect the additional \$1 billion allocated to this fund across Australia by the Commonwealth. The distribution for this additional allocation has not yet been determined.

The Budgets also provided forecasts for key Local Government cost drivers...



	2020-21	2021-22	2022-23	2023-24
	%	%	%	%
<i>Electricity Tariffs</i>				
Medium Business (L3/L4)	2.9	3.5	3.5	3.5
Medium Business Time of Use (R3)	3.5	3.5	3.5	3.5
Street lighting (Z) (SWIS)	2.3	2.3	2.3	2.3
Street lighting (Z)(Horizon)	10.6	9.6	8.7	8.0
Unmetered supply	2.3	2.3	2.3	2.3
<i>Water Tariffs</i>				
Water	2.5	Not available	Not available	Not available
Wastewater	2.5	Not available	Not available	Not available
Drainage	2.5	Not available	Not available	Not available
<i>Economic forecasts</i>				
WA Wages	1.5	1.75	2.0	2.25
Perth Consumer Price Index (Inflation)	1.5	1.75	1.75	2.0
Interest rates on consolidated State Government borrowings	2.5	2.3	2.2	2.1

SOURCE: WA 2020-21 BUDGET

WALGA's overall comment on the Federal and State Budgets



- The Federal Budget was welcome news for local communities.
- \$1 billion investment in local roads and community infrastructure is a vote of confidence in the sector's ability to drive local economic prosperity
- Local governments that rely heavily on domestic and international visitors will also benefit from a \$50 million Regional Tourism Recovery initiative, and a new \$200 million round of the Building Better Regions Fund.



- The headline of the WA Budget was the previously announced \$5.5 billion COVID recovery plan, and an Asset Investment Program worth \$27 billion.
- There were a number of initiatives that were positive for Local Government, including funding for regional tourism, coastal erosion and to improve road safety.
- The Government missed the opportunity to invest in programs that could quickly boost jobs and provide lasting benefits to WA communities such as a permanent extension of the Community Sporting and Recreation Facilities Fund.
- It was also disappointing that there will be significant increases in some key Local Government fees and charges, including street lighting tariffs for Horizon power customers.

Questions



If you have any question on the contents of this report, please direct them to WALGA's economics team:

- Nebojsa Franich - nfranich@walga.asn.au or 0417 917 748.
- Dana Mason – dmason@walga.asn.au or 0429 220 925.

Appendices

Appendix A: Treasury Economic forecasts



	2019-20	2020-21	2021-22	2022-23	2023-24
	%	%	%	%	%
Gross State Product	2.0	1.25	2.75	1.25	1.5
Household Consumption	-2.0	-2.0	4.0	2.5	2.5
Business Investment	9.3	0.75	2.5	3.25	4.75
Dwelling Investment	-13.1	0.75	13.25	-17.0	2.75
Exports	0.7	0.0	1.5	1.0	0.25
Imports	1.4	-2.5	2.25	2.25	2.5
Unemployment Rate	6.1	8.0	7.0	6.25	6.0

Appendix B: Key WA Local Government Grant Funding in 2020-21



Key Grant Funding Area	2020-21
Motor Vehicle Licence Fee Revenue	\$229.6 million
Financial Assistance Grants (General Purpose)	\$88.9 million
Roads to Recovery	\$80.2 million
Local Roads and Community Infrastructure Program	\$73.5 million
Financial Assistance Grants (Local Roads)	\$58.3 million
Black Spots	\$14.8 million
Bridges Renewal	\$8.3 million

- Note: The FAGs shown in the above table do not reflect the FAGs that was brought forward for COVID-19 stimulus purposes in May 2020.
- Note: The Local Roads and Community and Community Infrastructure amount shown in the above table does not reflect the additional \$1 billion allocated to this fund across Australia by the Commonwealth. The distribution for this additional allocation has not yet been determined.