
Western Australian Budget 2016-17

13 May 2016

In brief

- The Western Australia (WA) 2016-17 Budget (Budget) was delivered on 12 May 2016 by the Treasurer, Dr Mike Nahan MLA.
 - The Budget came in the context of significant challenges to State finances, owing largely to a rapid decline in State revenue. This will result in an estimated deficit of \$3.9 billion for 2016-17, culminating in a net State debt of \$33.8 billion.
 - The only change to WA state taxes was the confirmed commitment to an increase in the tax-free threshold for payroll tax, from \$800,000 to \$850,000, effective from 1 July 2016.
 - WA remains committed to various sales of major State assets. This is estimated to raise around \$16 billion, and to bring debt 'to a manageable level'.
 - State asset sales will also assist in funding some major infrastructure projects across the State, many of which are required owing to a significant increase in the WA population during the 'mining boom'.
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In detail

Context and Financial Outlook

- WA faces a budget deficit of \$3.9 billion for 2016-17, culminating in a net debt of \$33.8 billion.
- Projected annual growth in Gross State Product has declined from a 2011-2012 peak of 6% to 1.25%, although this is up from 1% projected in the 2015-16 State Budget.
- Revenues are significantly lower, largely reflecting a slow-down in the mining industry, a decline in levels of major investment, lower commodities prices, and resulting decreases in State revenue from taxes and royalties.
- Total revenue is estimated to be \$25.7 billion for 2016-17; down from \$28.7 billion in 2014-15, and significantly down from the WA Treasury's forecasts of 2016-17 revenue of \$31.2 billion, made two years previously.
- 2016-17 State revenue includes \$8.9 billion in taxes, and \$3.8 billion in royalty income. This is down significantly from \$9.3 billion and \$6.2 billion respectively in the 2014-15 Budget.

- WA has experienced a significant population increase, and has committed to a range of public spending projects to ensure that public facilities are expanded to facilitate this increase and further projected increases. This financial context provides limited scope for major reform to the State's tax system.

State Tax Changes

- The only change to WA state taxes is a minor increase in the tax-free threshold for payroll tax, from \$800,000 to \$850,000, effective 1 July 2016 (which had already been legislated). No other tax cuts have been introduced (although there is a rebate for the three years beginning 2015-16 of up to 50% for magnetite royalties paid during the period).

Major Announcements

Asset sales

- The Government will continue with its plan to sell mature assets to pay down debt and fund capital works going forward.
- Progress on recent major asset sales in WA includes:
 - \$135.5 million from the sale of the Perth Market Authority
 - \$142.6 million sale of Land to date
 - *Pilbara Port Assets (Disposal) Bill 2015 (WA)* introduced to Parliament
 - Fremantle Port due diligence on the proposed lease undertaken and
 - Consultation with the racing industry on the sale of TAB.
- The Government also proposes the sale of Western Power; and Horizon Power's transmission and distribution assets in the Pilbara.
- The current and proposed asset sales programmes are estimated to result in proceeds of around \$16 billion (8.4% of the State's \$190 billion asset base).
- The proceeds will be used to retire up \$11 billion of State debt (30% reduction in net debt) and create a \$5 billion Infrastructure Fund.

Asset Investment Program (AIP) 2016-17

- In 2016-17, the AIP will invest \$5.9 billion into State infrastructure projects, distributed as follows:

Infrastructure	Spending (\$m)	AIP (%*)
Transport	1,817	31
Electricity Utilities	1,048	18
Water Corporation	782	13
Housing Authority	602	10
Health	526	9
Land Authorities	436	7
Education	300	5
Other Agencies	232	4
Finance	119	2

*approximate due to rounding

- Major transport infrastructure projects over the next four years include:
 - \$2 billion for the Forrestfield-Airport Link project
 - \$1.5 billion towards the \$1.9 billion Perth Freight Link

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- \$1 billion for the NorthLink WA project and
 - \$427 million for the \$1.9 billion MAX Light Rail project.
 - Major electricity utilities infrastructure projects over the next four years include:
 - \$1.7 billion to ensure Western Power's network is safe and reliable
 - \$763 million provision for Western Power's customer-driven works
 - \$347 million for Horizon Power to maintain adequate regional electricity supplies and
 - \$141 million to maintain Synergy's generation assets across the South West Interconnected System.
 - Other major State infrastructure projects include:
 - \$782 million upgrade to the Water Corporation's wastewater treatment plants and country water sources and distribution
 - \$428.3 million towards construction of the New Perth Museum
 - \$206.9 million towards construction of the Karratha Health Campus Site and
 - \$91.8 million further spending on the Perth Children's Hospital.

Goods and Services Tax (GST) Allocation

- A particular focus of the WA Budget was WA's share of GST revenue.
- Currently, WA contributes \$2,497 per capita (\$6.7 billion in total) towards Australia's total GST receipts, but receives only \$760 per capita (\$2 billion in total) back; the remainder being distributed disproportionately to other Australian jurisdictions.
- This \$4.7 billion discrepancy between per capita GST expenditure and per capita receipts was emphasised by the Treasurer, to contextualise (or potentially distract from) the \$4 billion revenue deficit.
- The WA Government strongly emphasise the difficulties that this raises from a budgetary perspective, and politically capitalise on the short term inequality associated with WA residents receiving a fraction of GST revenue relative to other Australian jurisdictions.
- Very broadly, this disparity arises because the Commonwealth Grants Committee assesses GST allocation between States and Territories based on their economic need to ensure a roughly equal *total* government spending per person across Australia, and offset the impact of jurisdiction's varying expenditures, and varying ability to raise revenue.
- This is achieved by calculations based on projections of their average revenues over the previous three years. During the boom years, WA revenues significantly exceeded that of other jurisdictions, owing largely to significant royalty receipts.
- As WA's revenue has declined rapidly from formerly high revenues during the mining boom, and because the GST allocation is subject to a degree of lag in its allocation mechanism, WA now receives a comparatively small share of the GST allocation.

The takeaway

- The potential privatisation of Western Power (and other State assets) is highly contentious in WA and the State election in 2017 may turn on this issue.
- There have been no significant changes to the State tax mix in WA.

Let's talk

For a deeper discussion of how these issues might affect your business, please contact:

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