Western Australian Budget Announcement 2021-22

A review of the Western Australian Budget's major business implications

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Executive summary

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The 2021-22 Western Australia Budget has a focus on health, social housing and climate as the state looks towards a sustainable future. A projected 2021-22 surplus of $2.8 billion shows that WA is in a relatively healthy financial position compared to many jurisdictions at this time.

The 2021-22 WA Budget presents a robust financial picture, with a predicted net operating surplus of $2.8 billion for the current financial year and the state's economy projected to grow by 3.5 percent during this time. Further surpluses are projected over the remainder of the forward estimates period to 2025. State government net debt is projected to level off at around 11.5 percent of gross state product from 2022 to 2025.

Interestingly, the forward estimates for the period 2022 to 2025 include an estimate of the iron ore price at USD 66 per tonne (closer to its long-run average), compared to the estimate of USD 121 for 2021-22.

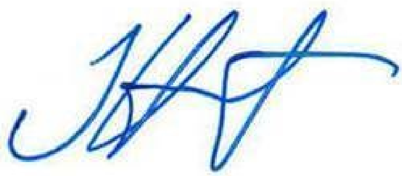
Against this backdrop, the WA government has chosen not to make any significant changes to the state's tax regime.

As many would expect on the expenditure side, the state's healthcare system receives significant additional funding of $1.9 billion towards additional beds, COVID-19 measures and mental health initiatives.

We welcome the additional commitment of $875 million to social housing programs, taking the budgeted spend over the forward estimates to more than $2.1 billion. This is expected to produce around 3,300 new homes and is an important element in restricting the number of people at risk of being left behind as Australia adjusts to the more highly vaccinated phase of the pandemic.

The government's creation of a $750 million Climate Action Fund includes more than $250 million for renewable energy initiatives. One of these initiatives is hydrogen-based energy research and technology, demonstrating prioritisation of how the supply of the state's energy needs, and indeed future energy export opportunities, can occur more sustainably.

The state's current relatively healthy financial position presents an opportunity to take stock and consider the options that may be available for productivity-enhancing tax reform in the future. We look forward to engaging in the public discussion on this topic over the coming months.



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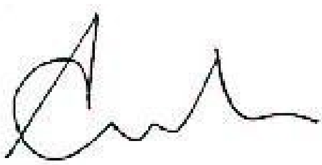

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Economic analysis

The Western Australian government has delivered the largest budget surplus in history during a global pandemic. How much of this is from good fiscal management, and how much from the benefit of natural endowments?

Brendan Rynne
Chief Economist

The Western Australian government has estimated a budget surplus of $5.6 billion will be achieved for the 2020-21 financial year, with a further $2.8 billion surplus forecast for the current financial year.

Last year's budget result is more than twice the previous largest surplus, which was achieved in 2005-06, and at $5.6 billion represents about 1.9 percent of forecast GSP.

This represents an astounding result for WA and is even more so given the fact it was delivered in the middle of a global pandemic.

WA's budget outcome was $2.5 billion higher than the Pre-election Financial Projections Statement (PFPS) due to two major factors.

Firstly, while iron ore royalties had been expected to contribute a staggering $9.9 billion towards total general government revenue for the state (or about one-quarter of forecast total state general government revenue), they actually contributed $11.3 billion as a consequence of extremely high prices for iron ore. Secondly, the budget includes a revenue charge of $1.4 billion for roads and bridges transferred to the state government from the local government sector in June 2021.

Even without these two extraordinary revenue items, WA would have achieved a budget surplus at least as high as its previous record. It could only have done this by protecting the iron ore 'golden goose' from COVID, which it did do and Brazil did not. This means the WA government now has financial buffers to help it protect the economy and the health of the population when it is time to open the borders again and expose the state to the pandemic risk.

In addition to the revenue side of the budget what is also important to understand is how the government is managing the operating costs of service provision for the state.

While WA is endowed with great natural assets, they are found in geographically remote and diverse locations across the state. This brings with it the challenges of providing hard and soft services to the state's population at a reasonable cost.

During 2020-21 employee expenses, including superannuation costs, were around $5,900 per WA resident, which is about 20 percent higher than equivalent costs in New South Wales and Victoria, but only 3 percent higher than Queensland. These per capita expenses seem reasonable when differences in geographic spread of the population are taken into consideration.

WA does however have a larger proportion of its population living within its main city than does Queensland, which is also another decentralised resource state. WA has about one-third the number of (ABS defined) urban centres than does Queensland, which would suggest despite WA's significant land mass it should be able to benefit more from population density advantages.

Those density benefits do not seem to emerge until 2023-24 when per capita expenses decline by about 8 percent over forecast expenditures for 2022-23. By 2024-25 per capita general government expenses in WA are forecast to be about 8 percent lower than the equivalent cost in Queensland. While this represents a good turnaround, it would be reasonable to expect additional cost savings could be achieved without any loss of service quality from population density benefits through performance improvement reforms.

Key Insights

- Western Australia has delivered a massive budget surplus on the back of iron ore royalties, GST receipts and one-off accounting transactions.
- Government operating costs appear reasonable in comparison to other jurisdictions, albeit savings in forward estimate expenditures should be able to be achieved through government sector performance improvement and reforms that allow density benefits to be realised.

Property Tax

The WA Government saw a 57.9 percent ($770 million) increase in total transfer duty collected across 2020-2021, spurred by a strong lift in residential property transactions.

Jenny Lee

Partner, Indirect Tax

Mark Latham

Director, Indirect Tax

Announcing a $5.6 billion net operating surplus for the 2020-2021 financial year, the Treasurer would have felt well-justified in his assertion that "*Western Australia is the strongest State in the country – with the brightest future.*"

The increase to total transfer duty (transfer duty, foreign surcharge duty and landholder duty) in 2020-21 was primarily due to a strong lift in residential property transactions and a moderate pick-up in the median house price over the year.

Total transfer duty is forecast to fall by 16.7 percent (or $350 million) in 2021-22 and a further 11.6 percent (or $203 million) in 2022-23 as consecutive years of restrictions on international migration weigh on underlying property demand, and as the current high level of dwellings under construction begins to translate into additional housing supply from mid-2022.

However, total transfer duty is forecast to then grow by an average of 6.9 percent in 2023-24 and 2024-25 as international migration gradually recovers.

Off-the-plan Transfer Duty

The existing off-the-plan transfer duty rebate for multi-storey developments has been extended at 50 percent for a further two years to October 2023, at a cost of $26 million to the WA Government.

This will assist in smoothing the pipeline of work for the residential construction sector as the impact of recent grants unwinds.

Land Tax Relief

The WA Government will continue to exempt homeowners who had their properties destroyed by the Wooroloo bushfire and Cyclone Seroja disasters until 2023. This is to ensure the homeowners continue to be exempted, even if they were not able to sign a building contract by 30 June 2021. This measure will ensure up to 540 properties remain exempt from land tax.

Key Insights

- Transfer duty remains a relatively volatile revenue source for the government. We encourage the WA Government to consider tax reform options at this time when its financial position is relatively strong.
- The extension of the off-the-plan transfer duty concession will benefit the construction sector through October 2023.

Summary of key expenditure/revenue raising items

The table below shows the value of major expenditure changes since the 2020-21 pre-election statement which have been announced in the Budget. These figures cover the financial years ending 2022-25 and do not include provisions.

Key expenditure items	$millions
METRONET Projects including signalling works	817
Hospital services including mental health	746
Justice services	354
Health response to COVID-19	301
Electricity system security transition payment to Synergy	245
Social Housing Strategy Package	224
Secondary and high schools	210

Key revenue items
Note: No significant revenue measures were announced in the Budget. Taxation revenue was estimated to be up by $1.1 billion for 2020-21, reflecting the flow-through of stronger property market conditions to total transfer duty (up $770 million). Payroll tax increased by 2.9 percent in 2020-21 due to stronger employment and wages growth.

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