

BCEC Policy Briefing - Western Australia State Budget 2022-23

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2021-22 results

- **\$5.7 billion operating surplus**
- **Net debt down \$3 billion to \$29.9 billion**
- **5.25% growth in WA's domestic economy**
- **3.75% growth in Gross State Product (including international trade)**
- **Record \$240 billion in merchandise exports**
- **Unemployment rate of 3.4% in March 2022**
- **Labour force participation rate up 1.2ppt to 69.2% in 2021-22**
- **6% growth in retail spending**

Key measures for 2022-23

- **\$400 electricity credit for all WA households**
- **Household charges to increase by 2.5%**
- **100% stamp duty rebates for residential units below \$500,000 tapering to 50% rebate for units valued at \$600,000 and above**
- **50% land tax concession for new build-to-rent residential projects**
- **\$2.5 billion investment in health, mental health and COVID-19 response measures**
- **\$1.3 billion to diversify the WA economy**
- **\$33.9 billion investment towards new infrastructure, including \$12 billion in projects targeted at regional WA**
- **\$652 million on climate action and environmental protection initiatives**
- **\$350 million for remote Aboriginal communities**

Economic outlook

- **WA's domestic economy expected to grow by 4% in 2022-23**
- **An operating surplus of \$1.6 billion is expected in 2022-23**
- **Further surpluses are forecast each year through to 2025-26, despite conservative projections of \$US66 per tonne for iron ore prices from 2023-24 onwards**
- **Consumer price inflation to ease to 2.75% from 2022-23 onwards**
- **Wage growth to rise from 2.75% in 2022-23 to 3% from 2023-24**

Budget summary

WA Premier and Treasurer Mark McGowan took advantage of the state's strong economic performance to hand down a measured budget that balances extra investment in health services, infrastructure, diversification and climate action with debt reduction.

State finances

WA's domestic economy is expected to grow by 5.25% in 2021-22, driven by strong consumer spending, strengthening business investment and a 12.75% increase in dwelling investment compared to 2020-21. Revenues have been boosted by payroll tax receipts that grew by 16.2% in 2021-22, and royalties revenues that improved by \$2.8 billion to \$11.5 billion compared to those forecast in the in 2021-22 Mid-Year Review.

Merchandise exports reached a record \$240 billion for 2021-22, supported by iron ore prices averaging \$US139.5 per tonne over the year.

The state's strong economic performance has resulted in an operating surplus of \$5.7 billion for 2021-22, and motivated the government's decision to pay down \$1.2 billion of existing debt and save \$132 million in interest payments.

Cost of living

The centrepiece of the budget is a \$400 electricity credit for all WA households as a contribution to cost of living pressures at a cost of \$445 million. Household charges for electricity and water will increase by 2.5% from 2022-23, which is below the forecast for price inflation. Budget measures also include the provision of free Rapid Antigen Tests to all Western Australian households, worth around \$150 over the year.

The budget papers estimate the combined impact of the \$400 household electricity credit and changes to household fees, charges and tariffs to deliver savings worth \$243.59 for a 'representative' household – a reduction of 3.8%.

Housing

Measures to support increased housing supply include a 100% stamp duty rebate for off-the-plan apartments and multi-residential units below \$500,000 from June 2022, tapering to the current 50% stamp duty rebate for units valued at \$600,000 or more. There is also a 50% land duty concession for build-to-rent developments from 2023. Keystart income eligibility will be extended by 50% to \$105,000 for single people and \$150,000 for couples.

Financial incentives have been introduced to encourage the development of social and community housing in high density areas. To access these high density bonuses, developers must reserve at least 5% of new units for social housing.

Community support

A total of \$450 million in funding has been committed to community services and initiatives. These include funding of \$160 million towards community service providers and the not-for-profit sector, \$95.7 million in additional funding to support people with disabilities and \$34.4 million for family and domestic violence prevention and support measures. The budget also provides an extra \$114 million to support the state's child protection services, including \$13.2 million over four years to implement recommendations from the Royal Commission into Institutional Responses to Child Sexual Abuse.

Health and mental health services

An extra \$2.5 billion in funding has been announced for WA's health and mental health services over the four years to 2025-26. This includes \$995 million in new spending for COVID-19 response initiatives between 2021-22 and 2022-23, and \$252 million towards an Emergency Department Reform Package.

New investment worth \$223 million has been provided to support new and improved health infrastructure, with mental health services receiving \$181 million in extra funding.

Economic diversification

Economic diversification initiatives worth \$1.3 billion include nearly \$70 million in tourism, \$41.2 million for international education, an extra \$80 million for the Investment Attraction Fund to support proposals that

develop new and emerging industries, and an extra \$50 million for the Industrial Land Development Fund.

The agriculture sector will be supported through a \$25 million investment to establish the WA Agriculture Collaboration. This initiative will support partnerships between CSIRO, universities, and sector businesses in the development of new technologies and processes. Other investments will support the development of a new LNG decommissioning industry, and defence and space sector expansions.

Infrastructure investment

The budget commits a total of \$33.9 billion over the next four years towards new infrastructure investment. This includes \$9 billion for road infrastructure, \$6 billion for METRONET over the next four years and \$400 million towards a Digital Capability Fund to support the development of enhanced digital services across government.

A third of the 2022-23 infrastructure investment budget goes towards projects in regional areas, including \$5.6 billion for regional road developments and upgrades, additional investment in ports including a major upgrade to the Port of Geraldton worth \$332 million and \$15 million towards the expansion of the port at Port Hedland. Port Hedland also benefits from \$78 million investment to develop cargo facilities and a logistics hub at Lumsden Point.

Support for Aboriginal communities

Remote Aboriginal communities have been provided with \$350 million in funding for new and refurbished housing, and improved electricity and water services. The budget also includes \$19.7 million to develop a short-stay accommodation facility for Aboriginal people in Perth, \$16.6 million to fund early intervention services for Aboriginal people in regional areas, and \$15 million for residential facilities that provide an alternative to detention.

Action on climate change

Additional investment worth \$652 million has been directed towards a series of measures that address climate change and environmental protection. These include an extra \$500 million for the Climate Action Fund, and \$30 million towards the Just Transition Plan to support businesses to transition away from logging in the state's native forests by 2024.

The budget includes a provision of nearly \$60 million to increase the use of zero emission vehicles, including \$36.5 million to fund 10,000 rebates of \$3,500 on purchases of battery electric and hydrogen-powered vehicles. Rottnest Island will benefit from investment of \$65 million to support a transition to 75% renewable energy and improvements to the island's water assets.

Budget reflections

- + Impressive state finances**
- + Strong economic growth**
- + Conservative revenue assumptions**
- + Hits the right balance between new spending measures and debt reduction**
- + Responses to cost of living pressures**
- + Health and community focus**
- + Investment in diversification**
- + Regional infrastructure spending**

- Responses to skills shortages**
- Absence of a gender lens**
- Short-term protections against rising rents and lack of affordable rental properties**

- ? Future projections for CPI and wages**
- ? Implementation of infrastructure commitments**

Measured budget that strikes a good balance between spending and debt repayment

WA Premier Mark McGowan delivered a budget that struck the right balance between new spending commitments and debt recovery. WA's strong economic performance and healthy financial position has provided opportunities for a raft of targeted budget measures, but with space left to pay down \$1.2 billion in existing debt. This reduces the state's exposure to rising costs of debt, builds confidence and raises the hope that WA's credit rating will improve further and lead to lower costs of borrowing.

Diversification agenda is taking shape

The budget puts some flesh on the bones of WA's diversification strategy, with \$1.3 billion invested in new initiatives in tourism, climate change, defence, space, agriculture technologies and international education. Diversification is also supported by new road, rail, and transport infrastructure investment and

an extra \$80 million towards the Investment Attraction Fund.

Overall, the measures in this year's budget have provided greater clarity to the state's diversification strategy, which is welcome.

Cost of living support relieves some financial pressures, but not for everyone...

The \$400 electricity credit combined with increases to household fees and charges that have been kept below inflation will provide some relief to WA families. The budget estimates that these combine to reduce the costs of household fees, charges and tariffs for a 'representative household' by 3.8%.

These savings will certainly offer some relief from cost of living pressures, but the projections are only designed with household fees and charges in mind. However, they won't offset the financial pressures for many Western Australian families in other areas of spending from increases in grocery prices, rising fuel costs, and especially the acceleration of rental costs.

Absence of a gender lens on budget measures

The budget includes important commitments that address women's health and safety through extra funding for family and domestic violence initiatives, respect and safety in the mining sector, obstetric care for Aboriginal women, planning towards the new Women and Babies Hospital, and support for the Rural, Regional and Remote Network program for women in regional WA.

But there is no reference to the gendered impacts of cost of living measures, nor any statements in the WA Jobs Plan on how jobs growth to date, or projections for future employment growth, break down between women and men.

The WA Budget Paper Number 3 references the word 'women' 17 times, on measures relating to health, children, family and domestic violence, safety at work and regional women's networks.

Yet improving women's economic opportunities in WA, and promoting equality of access to careers across all of the state's industry sectors, speaks directly to strategies for diversification, education and training, innovation and future skills.

It would have been good to see a greater emphasis in the budget on measures that encourage more women into STEM occupations and more men to pursue careers in health and the care economy. Breaking down gendered perceptions and barriers to entry across industry sectors would assist businesses to meet skills demands, improve job mobility, and attract more women to consider WA as a career destination.

The state should follow the Commonwealth Government's lead by introducing a Women's Economic Statement among the budget papers. Consideration should also be given to the introduction of gender impact assessments on key budget measures to ensure that policy initiatives combine to meet the different needs of women and men.

Limited direct measures to respond to WA's skills shortages

Overseas migration has been a cornerstone of WA's economic progress. Yet the budget offered few direct measures to incentivise workers to consider WA as a destination. The budget has sought to incentivise the construction of new homes, but ironically that in itself could be delayed through shortages of building materials and construction skills.

A global marketing campaign, pushing the Federal government on the Skilled Occupation List, and the proposed expansion of the state's overseas presence with four new offices in Germany and Asia feels too gentle a response to WA's skills shortages.

The market for skilled workers is fiercely competitive, and WA is competing not just with other states in Australia but with other jurisdictions around the world. It feels like the state could be doing more, and should at least consider putting money towards relocation cost subsidies to assist overseas and interstate migrants in moving to WA.

Forecasts for CPI and wages growth

Wages growth is at the centre of the Federal election campaign, and for WA, real wages were reported to fall in 2021-22 by 2% in real terms due to nominal wages growth of 2% against average CPI growth of 4% over the year. Wages and prices are both forecast to grow by 2.75% in 2022-23 with real wages growth returning from 2023-24.

Whether wage and price inflation will follow budget forecasts depends on a range of factors related to the role of skills shortages in pushing private sector wages higher over the next year, supply challenges, global trends, and the extent to which rising business costs will endure and carry over to price inflation. The household electricity credit will help to mitigate price inflation to a degree, but there remain uncertainties on how these factors will play out in 2022-23.

