

BRIEFING NOTE: WA STATE BUDGET 2017/18 BUDGET ROUNDUP

Friday, 8 September 2017

Introduction

The WA [State budget](#) was handed down in parliament yesterday by Treasurer, Ben Wyatt.

This year's budget is, like last year, set against a backdrop of falling State revenue, a budget deficit and increasing public sector debt. State Government forecasts suggest that it believes the worst is over in terms of the post mining boom slump. However, only modest growth is forecast in terms of State final demand, employment and Government revenue. WA's population growth has slowed sharply since 2014 and low population growth is expected to continue according to the forward estimates.

Table 1: Key Budget Assumptions

KEY BUDGET ASSUMPTIONS						
Western Australia						
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual	Estimated Actual	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
Real Gross State Product growth (%)	1.9	0.25	3.0	3.25	3.0	3.0
Real State Final Demand growth (%)	-4.0	-7.0	-1.5	1.0	3.25	4.0
Employment growth (%) ^(a)	-0.4	-0.8	1.5	1.5	2.0	2.25
Unemployment rate (%) ^{(b)(c)}	6.0	6.2	6.0	6.0	5.5	5.5
Wage Price Index growth (%) ^(c)	1.9	1.4	1.5	1.75	2.75	3.0
Perth Consumer Price Index growth (%) ^(c)	1.0	0.6	1.0	1.5	2.0	2.5
Iron ore price, \$US/t, CFR ^{(b)(c)(d)}	50.9	68.5	67.2	61.0	57.2	59.2
Iron ore volumes (million tonnes)	748	795	817	827	830	835
Crude oil price (\$US per barrel) ^{(b)(c)}	43.4	49.7	51.6	53.1	53.8	54.8
Exchange rate \$US/\$A (US cents) ^{(b)(c)}	72.8	75.4	79.0	78.7	78.3	77.8
Population growth (%)	0.7	0.7	1.0	1.2	1.5	1.8
Interest rate assumptions (%): ^(b)						
- Public Bank Account interest earnings	2.4	2.1	1.9	1.8	1.8	1.8
- Consolidated Account borrowings	3.5	3.1	3.0	3.1	3.2	3.4

(a) Employment actuals for 2015-16 and 2016-17 differ from those published by the ABS as they include Treasury's estimate of the impact of the downward revision to Western Australia's population as a result of the 2016 Census. The ABS is not expected to include the Census impact into the labour force estimates until late 2018.

(b) Data expressed as annual average during the financial year.

(c) Actual value for 2016-17.

(d) The benchmark (62% Fe) iron ore price delivered to north China inclusive of cost and freight (CFR).

Although the State Government, does announce a suite of budget repair measures this is not an austerity budget. The forward estimates project that net public sector debt will continue to rise and not peak until 2019/20 at just under \$44 billion dollars. In addition, total government spending is estimated to increase by 3.7% in 2017/18 with revenue expected to increase by 6.7% in the same year before falling sharply (to 1%) in 2018/19. (See Table 2 for more details).

Table 2: Key Budget Aggregates

KEY BUDGET AGGREGATES							Table 3
Western Australia							
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	
	Actual	Estimated Actual	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate	
GENERAL GOVERNMENT SECTOR							
Net Operating Balance (\$m)	-2,021	-3,039	-2,340	-1,666	-1,114	1,260	
Revenue (\$m)	26,485	26,672	28,457	28,743	30,103	33,272	
Revenue Growth (%)	-3.3	0.7	6.7	1.0	4.7	10.5	
Expenses (\$m)	28,506	29,710	30,797	30,408	31,218	32,012	
Expense Growth (%)	2.4	4.2	3.7 ^(a)	-1.3	2.7	2.5	
Net Debt at 30 June (\$m)	13,717	19,377	24,105	27,613	29,779	29,259	
General Government Net Debt as a Share of Total Public Sector Net Debt (%)	50.2	59.6	63.8	66.7	68.0	67.0	
TOTAL PUBLIC SECTOR							
Net Debt at 30 June (\$m)	27,347	32,500	37,810	41,425	43,784	43,638	
Asset Investment Program (\$m)	5,237	5,181	6,001	5,949	5,348	5,021	
Cash Surplus/Deficit (\$m)	-4,731	-4,491	-4,682	-3,434	-2,176	271	

(a) Underlying expense growth of 2.4%.

Housing

Significant Issues affecting the Agency

The following is cited in the budget papers as the significant issues in relation to housing and homelessness:

“Affordable housing is still out of reach for many Western Australians on low incomes even though the Western Australian property market has been in a cyclical downswing over the past few years. As at March 2017, the median house price in Perth was \$506,500, with a lower quartile price of \$405,000, and median rents at \$360 per week with lower quartile rents at \$320 per week.

The gap between what people can afford and what it costs means that there is an ongoing demand and need for assistance across the housing continuum. This includes sustained demand and need for social housing (including from people who also have health, disability or complex personal



circumstances in addition to low incomes), with an overall waiting list of 16,516 and a priority waitlist of 1,590 households as at 30 June 2017.

The Commonwealth has proposed changes to funding for social housing and homelessness services to take effect from 1 July 2018. The Commonwealth is seeking to replace both the National Affordable Housing Agreement and NPA on Homelessness with a new National Housing and Homelessness Agreement, which is broader in scope than current agreements but with no additional funding allocated in the Federal Budget. State officials are actively engaged with the Commonwealth and other jurisdictions to progress these negotiations but the scope of the new agreement is not finalised and the timeframe for negotiating the new agreement may be difficult to achieve. In addition, to date, there is no further Commonwealth funding commitment beyond 2017-18 in relation to housing in remote communities after the current National Partnership on Remote Housing concludes on 30 June 2018.

The Commonwealth's proposed National Housing Finance and Investment Corporation, which will look to increase private sector investment into social and affordable rental housing, has potential to alleviate some of the demand pressures for rental housing in the long-term. The Department will continue to work closely with the Department of Treasury to maximise the outcomes for social and affordable housing that can be achieved under this initiative."

Budget Initiatives: Asset Investment Program

335 new public housing homes

The budget papers state that "\$44.1 million for the Construction and Spot Purchase program, including reinvestment of \$20 million proceeds from high value property sales and \$9 million proceeds from Commonwealth stimulus funded property sales into public housing to allow the commencement of 335 public housing homes, which will be completed in the following year" It is not possible to tell from the budget papers what the net uplift in public housing stock will be once the additional 335 public housing dwellings come online.

Cross subsidising the social housing system through development activities

The budget papers state that the State Government will preside over "the development of 1,509 housing lots, including 1,017 lots developed with joint venture partners. Significant land development will support affordable, public and community housing throughout metropolitan and regional areas". CHIA understands this to mean that profits derived from the proposed development activities will be directed, in part, towards supporting the public and community housing sectors. CHIA is not aware of any formal initiatives in respect of new support for or investment in the community housing system.

More investment in Shared Equity housing and other affordable home ownership products.

Despite a general fall in demand, the State Government remains committed to creating affordable home ownership opportunities in WA with "\$21.7 million to secure a range of entry-level properties across the State for low to moderate income earners, through the Affordable Housing Shared Equity

program; and \$58.5 million for the acquisition of suitable land to meet land supply for current and future Government housing programs, and to maintain a stream of affordable land supply for homebuyers.”

Homelessness and public housing expenditure

Expenditure on Homelessness and other support services is budgeted to increase to just under \$86 million dollars in 2017/18 before falling back in the forward estimates. Expenditure on rental housing is also expected to increase in 2017/18 to just under \$898 million before falling year on year across the forward estimates. (See table below).

The public housing system is projected to run at a deficit of \$314 million in 2017/18 down from \$405 million in 2016/17. This is largely attributable to a projected increase in revenue of approximately \$149 million; presumably as a result of changes to public housing rent setting policies which has seen rents for many households increase.

Table 3 & 4: Public housing and homelessness expenditure

Service Summary							
Expense	2015-16	2016-17	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual \$'000	Budget \$'000	Estimated Actual \$'000	Budget Estimate \$'000	Forward Estimate \$'000	Forward Estimate \$'000	Forward Estimate \$'000
1. Homelessness and Other Support Services.....	76,640	76,234	78,793	85,793	61,132	57,171	53,408
2. Preventing and Responding to Family and Domestic Violence.....	39,783	41,604	43,285	46,064	44,943	43,445	45,149
3. Earlier Intervention and Family Support Services.....	86,845	85,635	74,975	80,648	78,759	79,394	79,655
4. Working with Children Checks.....	13,925	14,079	12,271	12,562	12,448	12,573	12,683
5. Child Protection Assessments and Investigations.....	77,435	77,317	79,392	82,827	83,261	84,287	85,154
6. Care Arrangements for Children in the CEO's Care.....	241,810	258,636	265,352	279,007	288,390	301,132	315,817
7. Support Services for Children in the CEO's Care.....	86,540	88,734	93,797	98,504	100,284	102,326	104,491
8. Regulation and Support of the Early Education and Care Sector.....	14,935	14,075	16,114	17,063	14,685	14,734	14,837
9. Payments to Individuals.....	25,035	26,180	26,234	28,909	29,659	31,335	31,339
10. Delivery of Community Services, Grants and Resources.....	55,037	56,826	58,331	56,000	47,532	49,861	48,757
11. Planning and Coordination.....	47,209	53,376	60,522	99,703	138,759	168,923	183,235
12. Residential Services.....	71,614	80,845	65,185	66,357	67,020	68,425	58,784
13. Community Living Support.....	274,328	272,321	265,320	330,720	368,786	440,423	471,673
14. Independent Living Support.....	245,503	246,506	235,406	303,467	342,238	421,018	446,995
15. Therapy and Specialised Care.....	94,789	99,038	106,223	169,788	209,759	283,808	368,333
16. Community Participation.....	164,662	186,015	194,187	285,014	340,613	447,362	550,053
17. Advocacy, Access and Inclusion.....	6,690	6,126	5,812	6,093	6,196	6,559	5,405
18. Rental Housing.....	827,723	838,617	840,432	897,728	779,748	720,906	702,259
19. Home Loans.....	142,685	124,448	101,277	110,239	128,453	150,443	194,499
20. Land and Housing Supply.....	299,576	487,786	414,567	461,775	403,661	432,355	385,952
21. Government Regional Officers' Housing....	158,792	184,161	164,935	170,120	171,594	164,491	163,661
22. Government Trading Enterprise Efficiency Dividend.....	-	-	-	(16,750)	(22,314)	(26,381)	(32,977)
Total Cost of Services.....	3,051,556	3,318,559	3,202,410	3,671,631	3,695,606	4,054,590	4,289,162

18. Rental Housing

	2015-16 Actual	2016-17 Budget	2016-17 Estimated Actual	2017-18 Budget Target	Note
Total Cost of Service.....	\$'000 827,723	\$'000 838,617	\$'000 840,432	\$'000 897,728	
Less Income.....	544,361	511,378	434,653	583,084	
Net Cost of Service.....	283,362	327,239	405,779	314,644	1
Employees (Full Time Equivalents).....	1,219	1,296	1,334	1,372	
Efficiency Indicator					
Operating Cost per Rental Property.....	\$15,342	\$16,261	\$15,150	\$15,236	

Other Items of Note

Land and Housing sales fall short of budget projections

Last year's budget estimated that revenue from land and housing sales would bring in just under \$642 million in 2016/17. The estimated actual for the year was \$479 million. The budget papers attribute the shortfall to "...to softening market conditions and protracted settlement timeframes resulting in lower inventory sales in 2015-16 for the affordable housing and public housing stock redevelopment." Nevertheless, the budget target for 2017/18 is just over \$582 million.

Keystart makes greater allowances for bad debts

The total cost of service for the State Government's home loan function (Keystart) has increased by approximately \$9million dollars "due to an anticipated increase in the charge for bad and doubtful debts expenses caused by weaker economic conditions." CHIA assumes that these bad and doubtful debts refer to loans on the Keystart mortgage book. The budget papers also show that Keystart profits were directed to the Social Housing Investment Package in 2016/17.

First Home Owners Numbers projected to fall; save Government money on grants.

"The early cessation of the \$5,000 First Home Owner Grant Boost for new homes on 30 June 2017 (as previously announced) is expected to generate savings of around \$21.5 million over the four years to 2019-20. First Home Owner Grant expenditure is expected to reduce by \$26.5 million over the four years to 2019-20, in line with weaker than expected demand for first home purchases. This reflects a broader softening in housing market conditions, a deterioration in labour market conditions, record low wages growth and reduced population forecasts, all of which are expected to weigh on first home buyer activity."



Conclusion

The 2017/18 budget indicates that policies set down by the previous Government and expressed in the State Affordable Housing Strategy are, for now, being continued by the new State Government.

The ongoing negotiations regarding the National Housing and Homelessness Agreement may impact State policy, particularly if the Federal Government succeeds in obliging the States to transfer more public housing properties to the community housing sector as a condition of funding. CHIA is monitoring the situation closely.

Also of interest will be the fate of the State Government's assets sales process which, as detailed, fell short of projections last year. Based on economic fundamentals, CHIA expects that demand will be sub-optimal this year as well which will likely have a corresponding, negative impact, on the capacity of the State government to invest in new social housing dwellings.

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