



Our 2012 [Towards a Bright Future](#) report contained 20 recommendations that, if implemented, we believe will create the brightest future possible for our region. Recommendation 9 stated that we should:

9. Build a diverse and resilient economic future

Build on the state and region's resource and energy driven economic strengths to establish a diverse and resilient economic future founded on innovation and entrepreneurialism: innovation in the resource and energy sectors (by investing in science and technology); in renewable energy and resource efficiency (through targeted investment and enabling access to funding); and by encouraging and assisting the establishment of new creative and innovative industries.

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Creating a diverse and resilient economy for WA

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The Government has committed to continued investment in infrastructure, with a focus on transport, while signalling a strong reform agenda to build a more productive and efficient public sector.

Some commentators have recognised the tough but necessary decisions made by the Government and others have presented criticisms for the forecast deficit in 2014-15; the projected debt potentially impacts WA's credit rating status and the uncertain degree of private investment there will be in key infrastructure projects.

Constrained Growth with Cost-Revenue Pressures

The Treasurer confirmed continued growth in the State's economy with a forecast of 3.25% in 2013-14, which is a reduction of 2.5% from the estimate of 5.75% last financial year. Business investment in resource projects has reached its peak and is expected to decline as these projects move to production and increased exports.

The State's economy is particularly sensitive to commodity prices and fluctuations in the exchange rate. GST revenues have fallen to 45% of the State's population share and are predicted to fall to 7.5%.

Record growth in the State's population (approximately 50,000 per year), has resulted in unprecedented demand for services and infrastructure. This growth has not been reflected in increases to Government revenue.

This combination of constrained growth, increasing cost pressures and reducing revenues has necessitated the Government taking strong action in the form of a fiscal action plan, including:

- Targeted program rationalisation measures
- Opportunities in the public sector workforce including:
 - Requiring voluntary redundancies of 1,000 full-time equivalent employees
 - Introducing involuntary redundancies
 - Capping growth in general government agencies' salaries to the project growth in Perth CPI
- A new approach to program evaluation, targeting savings of \$350 million over the forward estimates
- A 12.5% increase in land tax rates from 2013-14
- This has resulted in a predicted operating surplus of \$386 million for 2013-14, reducing over the forward estimates.

Improving Efficiency and Productivity

The fiscal action plan sets a foundation for improved productivity and efficiency but will need to be supported by effective operating models, strong management and performance improvement. EY's Australian Productivity Pulse (Wave 4) found that workers ranked the top 4 productivity focus areas as:

- Effective organisational model, structure and process
- Developing and utilising the full capabilities of the workforce
- Being more ambitious and effective in process automation and technological change
- Being deliberate and audacious with an innovation agenda and enablement

The Treasurer said productivity improvement must be at the fore of service delivery planning for Government, particularly as demand for services increases with the population growth. Operating in an increasingly tight fiscal environment requires a review of models of delivery, headcount and leaner ways of delivering services across the whole sector.

Priority Investments

The Government has detailed a continued focus on investment in economic and social infrastructure to meet the needs of the growing population. A balanced portfolio of rail and road investment has been proposed with a strong intent to access private investment. Major transport projects include:

- Airport rail line with an estimated total cost of \$2 billion
- MAX light rail with construction to finish in 2019 and a predicted total cost of \$1.9 billion
- A 40 kilometre section of the Perth to Darwin Highway with estimated capital expenditure of \$325 million

The State continues its biggest investment yet in health infrastructure and services, by bringing new facilities on-line, reconfiguring services and at the same time continuing to meet the health needs of today. With rising demand, cost of care, and reform in hospital funding, increasingly health services need to account for optimising revenue and minimising costs.

Education remains a focus for the Government, with substantial continued investment through the funding of five new primary schools and \$230 million for secondary schools in 2013-14. A total of \$1.5 billion in education infrastructure investment is provided for over the forward estimates.

Despite the Government's significant asset investment program, State net debt remains manageable in the near term at \$21.9 billion for 2013-14, rising to \$28.4 billion by 2016-17.

However, risks do exist regarding the Government's credit rating in meeting asset investment requirements driven by population growth, and the need for fiscal conservatism to minimise funding costs

The next horizon

At EY, we are seeing huge developments in globalisation, demographics, technology, regulation and competitive landscape. We understand the challenges this can present at an international, national and local level; but more so, we see an opportunity — an opportunity for building a better working world. With this commitment EY has released its report Ensuring Australia's economic sustainability – Government Agenda 2014, calling for Government's to action major reforms to ensure the Australian economy remains sustainable for the long term. The report includes key recommendations in the areas of COAG, carbon, defence, economic management, education, health, human services, infrastructure, productivity and tax.

WA's economic transition presents challenges to all sectors and requires a review of the way Government procures and delivers its services. Opportunities for public sector reform and innovative approaches such as the use of private sector capital and partnerships need to be examined with a view to minimising fiscal impact upon Government. The commitment of the Government to implement a more productive and efficient public sector to manage expenditure effectively will be an important signal for business confidence in the State.

Western Australia now needs to look towards the Federal election, and be ready to respond to the changing economic landscape, evolving public policies and new priorities for reform.

This article was submitted by Heidi Riddell, Lead Client Service Partner, WA Government and Public Sector, Advisory, Risk, EY. We believe thinking like this will help realise our bright future vision for Perth.

If your organisation is involved in a project that reinforces our Bright Future vision, get in touch.

This article was submitted by Heidi Riddell, Lead Client Service Partner, WA Government and Public Sector, Advisory, Risk, EY and was originally published in Committee for Perth Insight e-newsletter, September 2013, 'Towards a Bright Future' column. We believe initiatives like this will help realise our bright future vision for Perth.