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THE BUDGET

WHERE THE MONEY COMES FROM AND WHERE IT GOES

A general government operating surplus of $409 million is forecast for 2009-10 following an estimated surplus of $647 million in 2008-09. A small surplus is also forecast in 2010-11, with deficits currently projected in the last two years of the forward estimates period (2011-12 and 2012-13).

The Government's objective is to ensure the budget remains in surplus. On current projections, there is ample time for further action, should it be warranted, to achieve surplus outcomes in future years.

Revenue

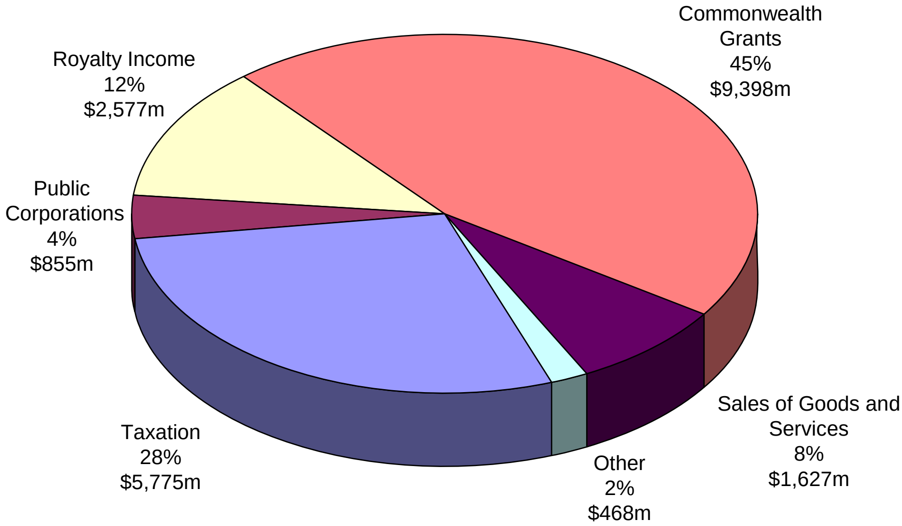
General government revenue is forecast to grow by $1.0 billion (or 5.2%) in 2009-10 to an estimated $20.7 billion. The main source of growth is a temporary rise in grants under the Commonwealth Government's *Nation Building and Jobs Plan*, which is offset by matching expenditure.

Growth in other sources of State revenue is forecast to be very weak (increasing only 0.3% in 2009-10), mainly reflecting a weaker labour market, an expected reduction in iron ore prices and declining GST revenue grants.

Figure 1

2009-10 REVENUE

General Government



Total Revenue = $20,700 million

Note : Components may not add to 100% due to rounding.

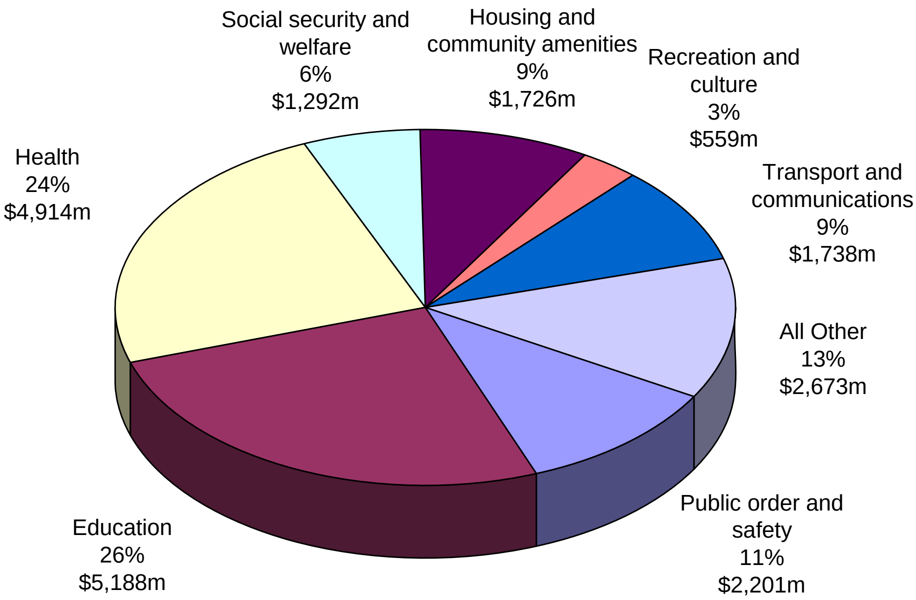
Expenses

General government expenses are forecast to be $20.3 billion in 2009-10, an increase of $1.3 billion (or 6.6%) on 2008-09. Almost two thirds of this increase is in the key service delivery areas of health, education and training, and law and order.

Figure 2

2009-10 EXPENSES

General Government



Total expenses = $20,291 million

The difference between revenue ($20.7 billion) and expenses ($20.3 billion) is the operating surplus ($409 million). This surplus will be used to help fund the Government's record investment in infrastructure, although declining surplus projections mean that the Government will need to increasingly use borrowings to fund the investment in infrastructure that is necessary to support our economy and expand service delivery.

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HOW CREDIT RATINGS WORK

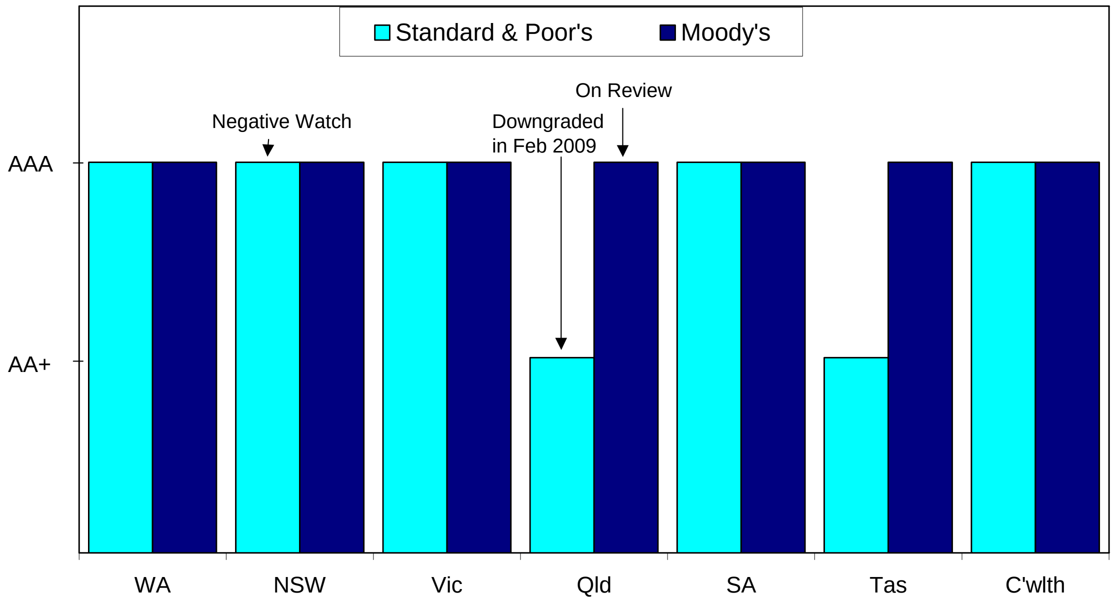
Credit rating assessments are undertaken by private sector organisations who advise investors of the level of financial risk associated with an entity, including governments. Western Australia is currently assessed on an annual basis by two credit rating agencies, Moody's Investors Services (Moody's), and Standard and Poor's.

Western Australia was upgraded to triple-A (Aaa) by Moody's in December 1996, following a downgrade to Aa1 in January 1992. Standard and Poor's upgraded the State to triple-A (AAA) in December 1998 following the downgrade to AA+ that occurred in October 1991. Western Australia's triple-A status was last confirmed by Moody's on 22 January 2009 and by Standard and Poor's on 18 December 2008.

For the State of Western Australia, a triple-A credit rating provides an easily identifiable signal to the public and potential investors that the Government is managing the State's finances and economy in a responsible way, and that in terms of risk, the State represents a stable investment destination.

Figure 1

CREDIT RATINGS BY JURISDICTION



In a stable financial environment, a high credit rating also means lower borrowing costs for the State, reflecting the lower risk premium demanded by lenders.

Assessment Methodology

The ratings agencies use a range of factors in their annual ratings assessment. In this regard, Standard and Poor's utilise around 22 different financial ratios, and an unspecified number of economic factors, in assessing jurisdictions. Similarly, Moody's utilise around 35 different indicators of both a financial and economic nature in their assessments.

It should be noted that particular issues affecting Western Australia's assessment may not be as important or critical for another jurisdiction, reflecting different circumstances between jurisdictions, the structure of their finances, performance of the local economy, etc.

Net Financial Liabilities as a Share of Revenue

In an effort to increase transparency, as part of its recent credit rating assessment activities Standard and Poor's has begun using 'trigger ratios'. These triggers include identified levels for net financial liabilities as a share of revenue (for the total non-financial public sector, which comprises the general government sector and major trading enterprises like Western Power and the Water Corporation).

The premise behind these triggers is that, with all other factors being equal, a breach in the threshold could trigger a re-assessment of risk ratings. Standard and Poor's has specified a trigger of 90% for Western Australia. Table 1 outlines the current forecasts for each State relative to the trigger ratio.

Table 1

STANDARD AND POOR'S NET FINANCIAL LIABILITIES[(a)] AS A SHARE OF REVENUE

Total Non-Financial Public Sector

	2008-09 %	2009-10 %	2010-11 %	2011-12 %	2012-13 %	Rating Threshold %
Western Australia [(b)]	**59.7**	**73.6**	**79.1**	**85.6**	**85.4**	**90**
New South Wales	100.7	99.6	97.1	98.8	n.a.	120-130
Queensland	79.2	99.6	109.5	111.6	n.a.	100-110
Victoria [(b)]	85.6	97.4	111.4	120.0	118.5	130
South Australia	86.7	94.4	91.2	85.6	n.a.	80-90
Tasmania	99.5	101.6	101.5	96.1	n.a.	60-70

(a) Department of Treasury and Finance estimate of Standard and Poor's Net Financial Liabilities.

(b) Estimates for Western Australia and Victoria are 2009-10 Budget estimates. For all other jurisdictions, estimates are 2008-09 mid-year review estimates.

The corrective measures implemented in this budget, totalling around $7.6 billion over the period 2008-09 to 2012-13, have been instrumental in keeping Western Australia's net financial liability ratio below Standard and Poor's 90% trigger threshold. In the absence of these measures, it is estimated that the net financial liabilities ratio would have reached around 108% by 2012-13 – a level which would be inconsistent with a triple-A credit rating.

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TAX RELIEF

OVERVIEW

The 2009-10 Budget delivers $123 million of tax relief, mainly in 2009-10, providing support for employers and reducing volatility in the State's land tax system.

The balance of the $250 million tax relief election commitment will be considered in future budgets in the context of economic and fiscal developments.

The 2009-10 tax relief measures are as follows:

Table 1

TAX RELIEF MEASURES IN THE 2009-10 BUDGET

	2009-10 Estimate $m	2010-11 Estimate $m	2011-12 Estimate $m	2012-13 Estimate $m	Four Year Total $m
Payroll Tax					
Small business rebate (payable in 2010-11 based on 2009-10 payroll)	-	-100.0	-	-	-100.0
Exemptions for parental leave and volunteer emergency service work	-0.5	-0.5	-0.5	-0.5	-2.0
Land Tax and MRIT					
50% cap on unimproved valuation growth	-6.9	-	-2.3	-2.3	-11.5
Instalment options - extension of time to pay and reduction in the flat charge	n.a.	n.a	n.a.	n.a	n.a.
Reintroduction of developers' englobo concession	-2.3	-2.3	-2.3	-2.3	-9.2
TOTAL	**-9.7**	**-102.8**	**-5.1**	**-5.1**	**-122.7**

PAYROLL TAX

$100 Million Rebate for Small and Medium Sized Businesses

The 2009-10 Budget will help support employment by small and medium businesses through a one-off payroll tax rebate.

Employers with payrolls of up to $1.6 million will be paid a one-off rebate to fully offset their 2009-10 payroll tax liabilities. The maximum amount of the rebate, on a payroll of $1.6 million, will be $46,750. The rebate will be phased down for employers with payrolls between $1.6 million and $3.2 million. It is estimated that around 33% of employers registered for payroll tax will receive a full rebate of their payroll tax, with a further 20% eligible for a partial rebate.

Examples of rebates payable at various annual payrolls are provided in Attachment A.

The rebate will be paid after the annual payroll tax reconciliation process has been completed in August/September 2010. This is to ensure that the rebates are based on final 2009-10 payroll tax liabilities, rather than the provisional monthly or quarterly payments made by most employers during the course of the year.

Eligibility for the rebate will be based on employers' nationally grouped payrolls, with a group of related employers being eligible for only one rebate payment, consistent with the operation of the existing payroll tax exemption threshold.

The estimated cost of the rebate is $100 million in 2010-11.

Exemptions for Parental Leave and Volunteer Emergency Services Work

From 2009-10, two new exemptions will apply to wages paid to employees on:

- parental leave (including maternity, adoption and paternal leave for fathers); and
- leave to perform volunteer emergency services work (will include volunteers covered by the *Fire Brigades Act*, the *Bush Fires Act* and the *Fire and Emergency Services Act*).

These exemptions will bring Western Australia into line with other States and contribute to incentives for increased workforce participation by women and participation in activities which contribute to community safety.

The estimated cost of these exemptions is $2 million over four years.

LAND TAX

The Government has already taken action to return revenue of around $43 million (mainly from higher than expected land values) to taxpayers in 2008-09 by reducing land tax and MRIT rates by an average of 7%. This budget contains three new measures.

Cap Growth in Land Value at 50%

From 2009-10, a 50% cap on growth in land values will apply for the purposes of assessing land tax and the metropolitan region improvement tax (MRIT). This will help reduce the volatility and unpredictability of growth in individual land tax and MRIT bills.

The cap will apply to each individual lot of land that is owned by a land tax payer, which will then be aggregated (as appropriate) for multiple property owners for assessment purposes.

Around 2,600 land tax payers are expected to benefit from the cap in 2009-10. While the impact of the progressive land tax scale will mean that some land tax bills will still increase by more than 50%, the increases will be significantly mitigated.

Two examples of how the cap will apply are provided in Attachment B.

The revenue foregone (including MRIT) from the 50% cap is estimated at $6.9 million in 2009-10 and $11.5 million over four years.

Extended Time to Pay by Instalments and a Reduction in the Flat Charge

For landowners who wish to pay their bills in instalments, the time for paying land tax in two instalments will be extended from 110 days to 175 days. The time to pay in three instalments will be extended from 175 days to 240 days.

In addition, the flat charge that is applied to the three instalments option will be reduced from 4% to 2%.

Re-introduction of a Concession for Property Developers

From 2009-10, developers will pay land tax and MRIT on the lower undeveloped (or ‘englobo’) value of land holdings, rather than the full subdivided value of lots, for one year after the creation of the lots.

The re-introduction of this concession (which had been abolished by Labor in 2003) is expected to provide benefits for developers and home buyers.

Each year, lot creation declines in the lead up to the assessment of land tax on 30 June, only to rebound through July and August. The reintroduction of the concession will help remove this distortion, as developers will no longer have an incentive to wind down their holdings of subdivided land around 30 June in order to minimise land tax.

By contributing to a smoother pattern of lot creation by the industry, the re-introduction of the concession should also assist in reducing bottlenecks in the approval process for relevant State government agencies and local government.

The estimated cost of this measure is $9.2 million over four years.

Attachment A

PAYROLL TAX REBATE FOR EMPLOYERS WITH PAYROLLS UP TO $1.6 MILLION (PHASING-OUT AT $3.2 MILLION)

Annual Payroll	Payroll Tax	Rebate	Tax Less Rebate	Rebate as a % of Tax Payable
$	$	$	$	
750,000	-	-	0	
1,000,000	13,750	13,750	0	100%
1,100,000	19,250	19,250	0	100%
1,200,000	24,750	24,750	0	100%
1,300,000	30,250	30,250	0	100%
1,400,000	35,750	35,750	0	100%
1,500,000	41,250	41,250	0	100%
1,600,000	46,750	46,750	0	100%
1,700,000	52,250	43,828	8,422	84%
1,800,000	57,750	40,906	16,844	71%
1,900,000	63,250	37,984	25,266	60%
2,000,000	68,750	35,063	33,688	51%
2,100,000	74,250	32,141	42,109	43%
2,200,000	79,750	29,219	50,531	37%
2,300,000	85,250	26,297	58,953	31%
2,400,000	90,750	23,375	67,375	26%
2,500,000	96,250	20,453	75,797	21%
2,600,000	101,750	17,531	84,219	17%
2,700,000	107,250	14,609	92,641	14%
2,800,000	112,750	11,688	101,063	10%
2,900,000	118,250	8,766	109,484	7%
3,000,000	123,750	5,844	117,906	5%
3,100,000	129,250	2,922	126,328	2%
3,200,000	134,750	0	134,750	0%

LAND TAX - EXAMPLES OF BENEFITS OF 50% CAP ON GROWTH IN UNIMPROVED LAND VALUES

EXAMPLE 1

SINGLE PROPERTY OWNER

(where land value has increased by 75%)

	2008-09 $	**2009-10** $	**%** Increase
Unimproved Land Value	5,000,000	8,750,000	75%
Land Tax Payable - No Cap	40,430	93,980	132%
Assessable Value With Cap	5,000,000	7,500,000	50%
Land Tax Payable With Cap	40,430	75,730	87%
	Tax Saving ($)	**18,250**	
	(%)	**-19%**	

EXAMPLE 2

MULTIPLE PROPERTY OWNER

(with different land value increases)

	2008-09 $	**2009-10** $	**%** Increase
Unimproved Land Value - Property 1	2,000,000	3,500,000	75%
Unimproved Land Value - Property 2	1,000,000	1,250,000	25%
Aggregation of Two Properties	3,000,000	4,750,000	58%
Land Tax Payable - No Cap	16,030	37,380	133%
Assessable Value With Cap - Property 1	2,000,000	3,000,000	50%
Assessable Value With Cap - Property 2	1,000,000	1,250,000	25%
Aggregation of Two Properties	3,000,000	4,250,000	42%
Land Tax Payable With Cap	16,030	31,280	95%
	Tax Saving ($)	**6,100**	
	(%)	**-16%**	

Note: Where a property value has had a cap applied in an assessment year, this will be the “base” for determining whether a cap should apply in the following year. Thus, in Example 1 above, a cap would apply in 2010-11 if the property value is more than 50% higher than the capped value of $7,500,000 in 2009-10.

THE GST AND THE COMMONWEALTH GRANTS COMMISSION

CUTS IN WESTERN AUSTRALIA'S GST GRANT SHARE

The Commonwealth Government distributes all GST revenues to the States according to the Commonwealth Grants Commission's recommendations. These recommendations are based on a principle of 'fiscal equalisation', such that a State whose underlying revenue bases are assessed to have grown faster than other States, or whose relative costs of providing a 'standard' level of services have declined, will have its grant share reduced.

The Grants Commission updates its calculation of State grant shares annually, using the latest available data. There is a significant lag between changes in Western Australia's fiscal circumstances and changes in its grant share, as the Grants Commission uses a rolling five year average of States' fiscal circumstances.

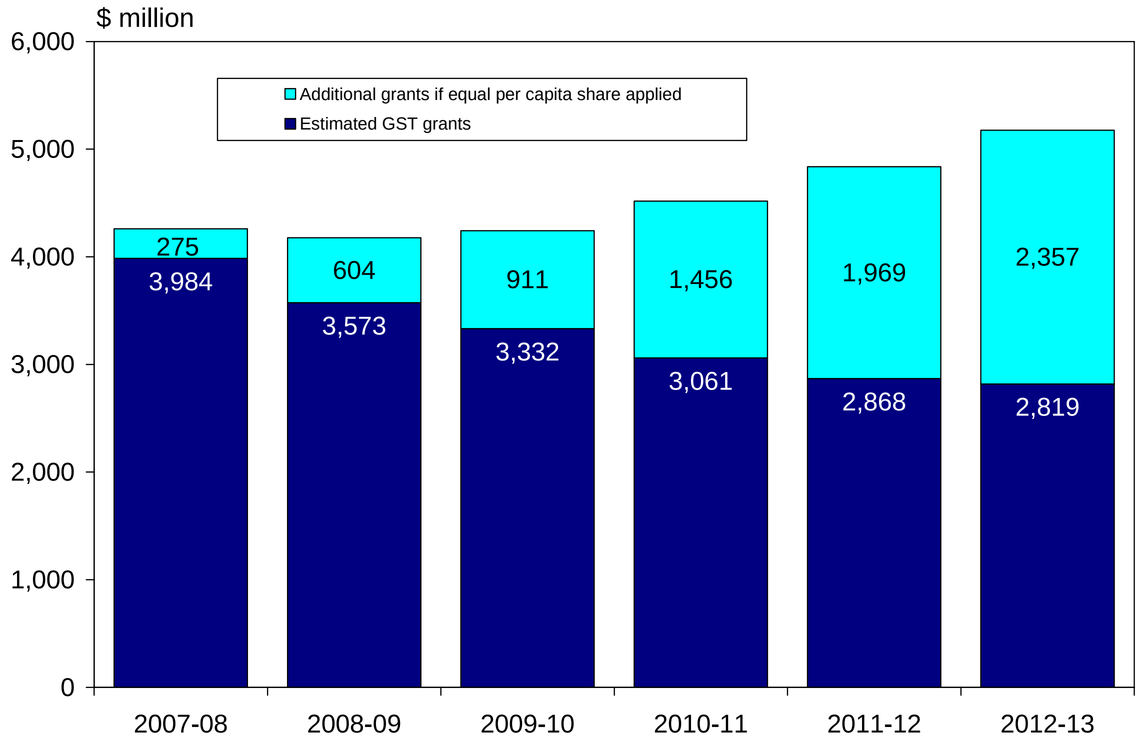
Forecast of Future GST Shares

Using the latest available data, Western Australia's GST grant share is forecast to drop from 9.4% in 2007-08 to 5.7% in 2012-13, reflecting the lagged impact of the strong growth in Western Australia's revenue bases in recent years. This corresponds to a reduction in Western Australia's projected GST grants from $4.0 billion in 2007-08 to $2.8 billion in 2012-13.

Western Australia would receive an additional $6.7 billion over the next four years if it were to receive its population share (around 10%) of the national GST pool – see Figure 1.

Figure 1

FORECAST GST GRANTS



Source: Department of Treasury and Finance estimates.

The reduction in Western Australia's grant share in 2009-10 reflects the Grants Commission's latest (February 2009) annual report. Most of this decrease is due to Western Australia's revenue raising capacity growing faster than that of the other States between 2002-03 and 2007-08 in the areas of mining royalties, conveyance duty, land tax and payroll tax.

Impact of the Commonwealth Budget on Western Australia's GST Estimates

Table 2 shows revisions to Western Australia's GST estimates due to updated GST pool and population estimates, and a shift forward to 2009–10 of the small business deferral compensation clawback, as provided in the Commonwealth budget on 12 May 2009.

Table 2

REVISED ESTIMATES OF WESTERN AUSTRALIA'S GST REVENUE ($M)

	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Total changes	+ 17.1	– 30.0	– 7.9	– 0.6	– 0.3	– 21.7

Source: Department of Treasury and Finance estimates.

THE CASE FOR REFORM

The current horizontal fiscal equalization (HFE) principle used by the Grants Commission reduces incentives for States to grow their economies and, as a result, their revenue bases. This is because a large proportion of revenues from economic growth are effectively redistributed to other States.

The current HFE principle does not consider differences in unmet needs across the States, such as raising the low standard of services for remote indigenous communities.

- HFE only recognises differences in needs across States to the extent that States, on average, are servicing these needs.

The Grants Commission's methods lack transparency, with only a small group of practitioners around Australia able to understand and meaningfully debate them.

Apart from applying HFE to GST revenue grants, a great deal of equalisation in the Australian Federation is already achieved 'automatically' through the Commonwealth Budget at the household/community level.

- States with higher incomes and business profits contribute more to Commonwealth taxes, while those with higher employment and younger, healthier populations draw less on social security and health benefits. The Department of Treasury and Finance estimates that in 2007-08 Western Australia provided a net contribution of $8.2 billion to the Federation (i.e. the Commonwealth took $8.2 billion more out of Western Australia than it put back in).

The Western Australian Government will continue to push the case for reform in this very important area.

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ROYALTY INCOME

The State Government collects royalty income in return for the extraction by mining companies of resources that are owned by Western Australia citizens.

Royalties in Western Australia are generally calculated on an *ad valorem* basis (i.e. according to the Australian dollar value of the resources produced). Royalty rates vary according to the type of commodity and the level of processing that has been undertaken. These rates are generally specified in either the *Mining Act 1978* or Agreement Acts negotiated for individual projects.

Attachment A includes an outline of the principles that underpin the setting of royalty rates in Western Australia.

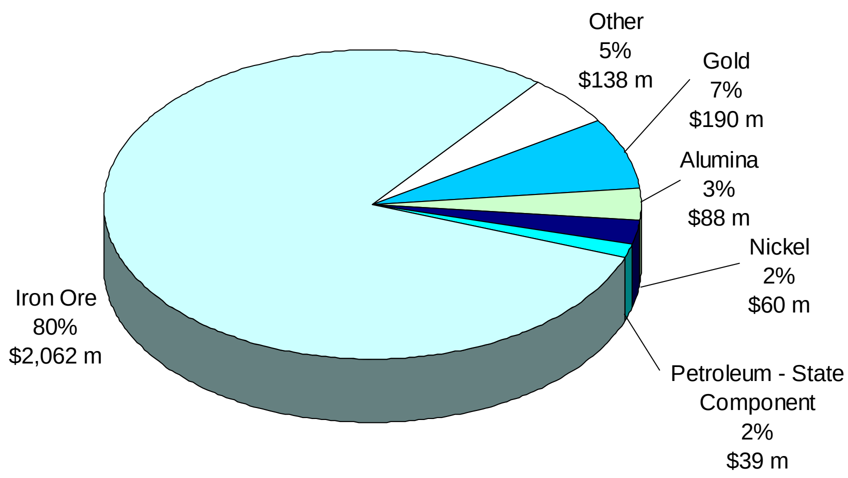
COMPOSITION OF WESTERN AUSTRALIA'S ROYALTY INCOME

Although Western Australia has over 50 different types of commodities being produced, iron ore royalties are expected to account for around 80% of total royalty income in 2009-10. Other key royalties include gold (7%), alumina (3%), nickel (2%) and petroleum (2%).

Figure 1

ROYALTY INCOME 2009-10

Western Australia



TOTAL = $2,577 MILLION

North West Shelf grants

Under a long-standing agreement with the Commonwealth Government, Western Australia also receives grants that are linked to the value of petroleum production (gas, oil, condensate and LNG) from the North West Shelf gas fields in Commonwealth waters. These are valued at an estimated $990 million in 2009-10 (including compensation for changes in Commonwealth crude oil excise arrangements).

Western Australia is not entitled to royalties from this project as it is located outside the State's jurisdiction. Accordingly, these payments are classified as a grant from the Commonwealth.

The State will receive no grants, royalties or petroleum resource rent taxes from the Pluto or potential Gorgon LNG projects, reflecting that the Commonwealth has not been prepared to enter into new revenue sharing arrangements since the time of the North West Shelf project. However, the current Commonwealth Government gave an election commitment to pay a total of up to $100 million per annum from these projects into a Western Australian infrastructure fund, quarantined from the Commonwealth Grants Commission process.

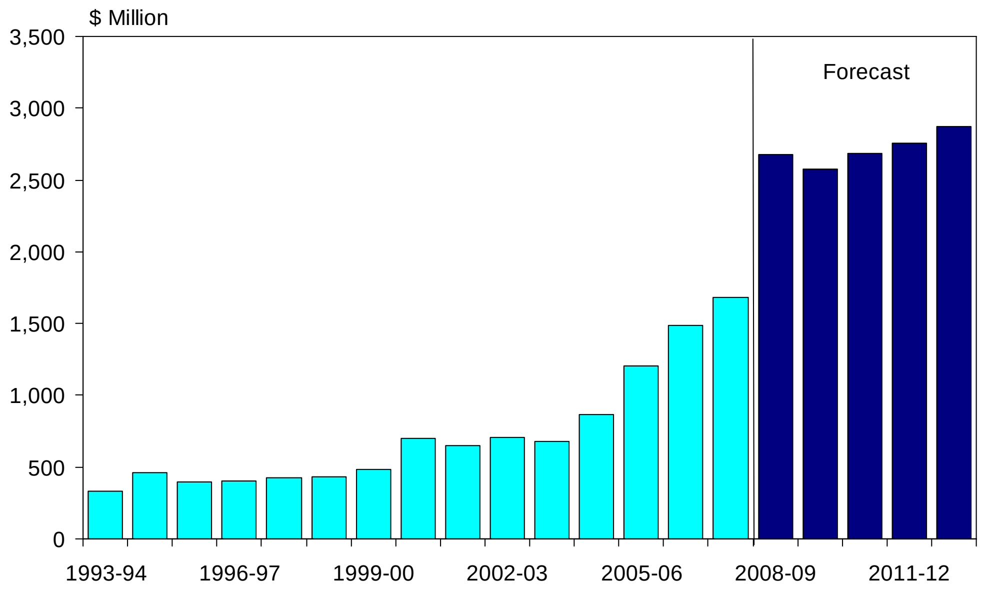
2009-10 BUDGET ROYALTY ESTIMATES

Despite the deterioration in global economic activity and commodity markets, royalty income has soared by almost 60% during 2008-09. Growth has been underpinned by the hike in contract iron ore prices (of 85%), while the rapid depreciation of the $A has helped to cushion the impact of lower $US commodity prices since the global financial crisis began to bite.

Figure 2

ROYALTY INCOME

Western Australia



In 2009-10, royalty income is expected to fall slightly (by 3.7% or $98 million) to $2,577 million. This mainly reflects an assumed reduction in iron ore prices in the 2009-10 Japanese fiscal year, which is expected to more than offset a modest improvement in other commodity prices (including nickel, copper and zinc), and continued expansion in iron ore production.

Over the period 2010-11 to 2012-13, royalty income is expected to grow at an average of around 3.7% per year, mainly on the back of assumed continued growth in iron ore output.

Estimating assumptions

The royalty estimates are determined by the underlying price and volume assumptions.

The commodity price forecasts are generally calculated with reference to futures markets, long-term price averages and private sector forecasts.

The mining production forecasts are based on an annual survey undertaken by the Department of Mines and Petroleum. Only those new mining projects or project expansions assessed as having a strong likelihood of proceeding have been included in the estimates (in most cases this will involve the new project or project expansion having received both final investment approval by the company and formal government approvals).

As many commodities are traded in $US terms, the royalty estimates are also sensitive to the assumed level of the $US/$A exchange rate. Each US1 cent increase in the $US/$A exchange rate (holding all other factors constant) reduces royalty income (including North West Shelf grants) by about $55 million per annum.

ROYALTY INCOME AND THE GRANTS COMMISSION PROCESS

Western Australia effectively only retains a fraction (around 40%) of the royalty income it collects.

Under the Grants Commission process, the national pool of GST revenue is distributed among the States according to the principle of 'horizontal fiscal equalisation'. To the extent that Western Australia's own-source revenue raising capacity is greater than other States (e.g. due to its strong royalty income base), then it will receive a smaller share of national GST revenue.

PRINCIPLES UNDERPINNING ROYALTY RATES IN WESTERN AUSTRALIA

Most mineral and petroleum royalties in Western Australia are designed to return to the community about 10% of the wellhead or minehead value of the resource – this is the purchase price paid by the producer to the people of Western Australia for the resource (producers are also subject to all the usual State and Commonwealth taxes).

- An ad valorem royalty applies to petroleum (both oil and gas) produced onshore and in offshore areas within the State's jurisdiction, based on the value of petroleum at the wellhead.
- An ad valorem royalty applies to most minerals produced in Western Australia, designed broadly to apply to the value of the mineral at the minehead (although a set rate royalty per tonne is applied to low-value, bulk commodities).

Accordingly, certain deductions from the sales value of minerals and petroleum are permitted under Western Australia's ad valorem royalty schemes. For petroleum, these include the cost of processing, storing and transporting the petroleum, where these costs are incurred post-wellhead by the producer.

For minerals, deductions are limited to certain transport costs. However, the royalty rates for minerals attempt to recognise the varying levels of processing costs incurred post-minehead – a rate of 7.5% applies to bulk material, 5% for mineral concentrates and 2.5% for minerals in metallic form.

In addition a resource rent royalty applies to petroleum produced on Barrow Island, while until recently a profits-based royalty applied to the Argyle diamond mine (albeit with an ad valorem 'floor'). A petroleum resource rent tax applies to petroleum produced in waters within the Commonwealth's jurisdiction.

IMPACT OF GLOBAL FINANCIAL CRISIS ON THE BUDGET

The 2009-10 Budget has been framed in very challenging circumstances, with international and national economic conditions deteriorating sharply since the second half of 2008. The extent, pace and distribution of the global downturn is still far from clear.

Western Australia's economy and public sector finances are not immune from the global downturn, with our mining and other exports dependent on world markets. In turn, our revenues are linked to commodity prices and volumes, as well as broader economic activity in the State.

Global Economic Outlook

In the last quarter of 2008, the global economy entered its deepest and most synchronised downturn in decades. The USA, UK, Japan, and Euro area are all in recession, and growth forecasts for emerging economies have been revised down substantially. Commodity prices have fallen, and world trade has contracted sharply.

In its April 2009 *World Economic Outlook*, the International Monetary Fund projects world output to contract by 1.3% in 2009, the first such contraction since World War II. This is expected to be followed by a weak recovery in 2010. Output in the advanced economies is expected to contract by 3.8% in 2009, with growth in emerging and developing economies (such as China and India) expected to slow from 6.1% in 2008 to 1.6% in 2009.

Impact on State Finances

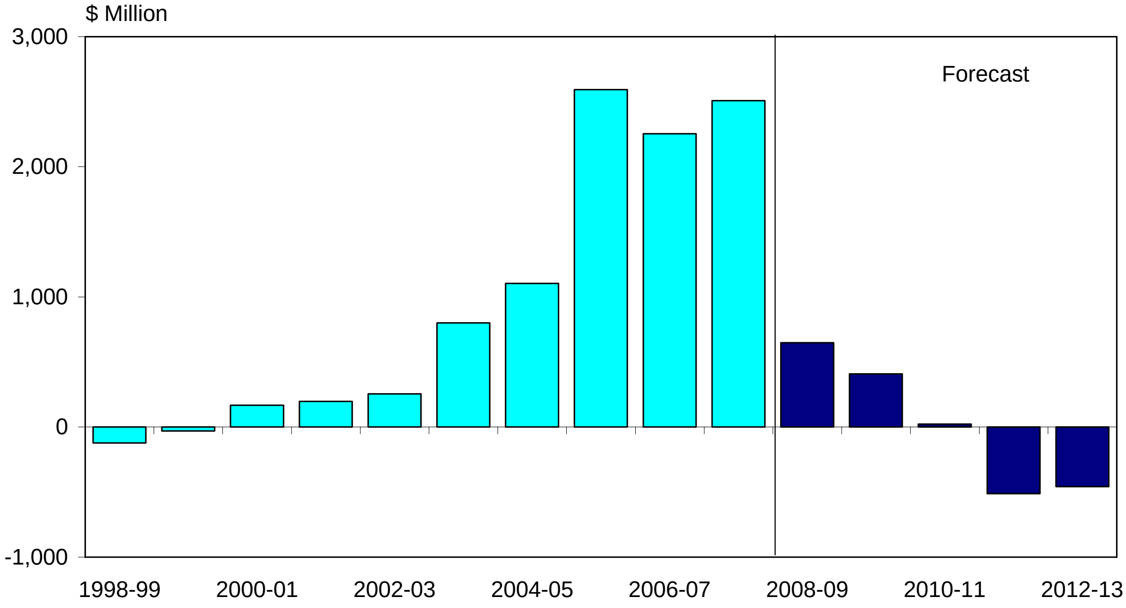
Since the 2008-09 mid-year review (published in December 2008), forecast revenue from State taxes, GST revenue grants, and royalty income – the State's three largest sources of revenue – has been revised down by a massive $4.0 billion over the period 2008-09 to 2011-12.

As a result of these developments (and the State's rapidly declining share of national GST revenue), the record operating surpluses achieved in recent years are projected to unwind dramatically over the forward estimates period.

Figure 1

NET OPERATING BALANCE

General Government Sector

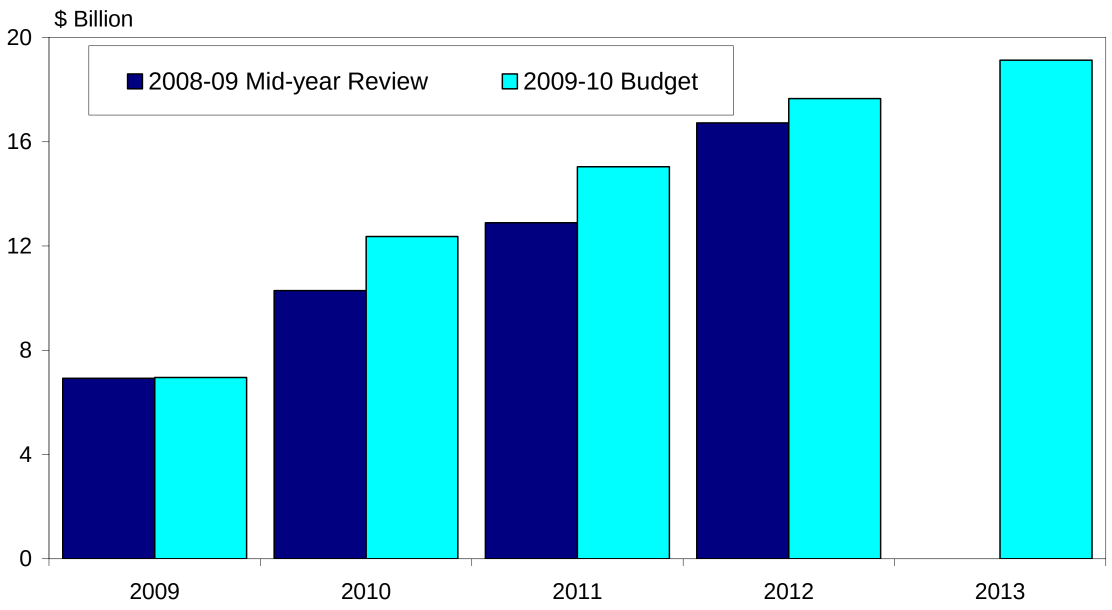


This, in turn, is severely reducing the capacity to fund the Government's infrastructure investment from operating surpluses. As a result, total public sector net debt is expected to be around $0.9 billion higher at 30 June 2012 relative to the 2008-09 mid-year review (see following chart). However, this increase in net debt has been substantially contained by the corrective measures implemented in this budget (see separate fact sheet on *Financial Responsibility*).

Figure 2

NET DEBT AT 30 JUNE

Total Public Sector



Supporting the State's Economy

The 2009-10 Budget includes the following initiatives to help support the Western Australian economy during the global downturn:

- a record $8.3 billion investment in infrastructure in 2009-10, supporting around 26,000 jobs in the State's building and construction industry;
- a $100 million one-off payroll tax rebate for small to medium businesses for tax paid in 2009-10;
- a $47 million package of training-related initiatives over the next three years, including a temporary rebate of workers' compensation premiums for first year apprentices and trainees in 2009-10 and 2010-11;
- introduction of a business resilience program (BIZfit) to assist small businesses through seminars/workshops, business coaching/mentoring, and a scholarship program; and
- a $5.7 million boost to tourism marketing in 2009-10, to help protect the 80,000 jobs generated by tourism.

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KEY AGENCIES' RECURRENT APPROPRIATION AND EXPENSE MOVEMENTS

The following tables outline changes in the recurrent appropriations and expenses of key service delivery agencies for 2009-10. The appropriations represent the funding provided by the State Government to assist agencies in providing services to the community. Expenses represent the total cost of providing these services. In addition to appropriations, expenses may also be funded by other sources, such as Commonwealth grants or fees and charges levied on a cost recovery basis.

Table 1

RECURRENT APPROPRIATIONS

	2009-10 $' 000	Change $' 000	Change % nominal	Change % real
Department for Child Protection	325,235	23,781	7.9%	6.6%
Department for Communities	162,231	86,997	115.6%	113.0%
Department of Agriculture and Food	159,961	26,351	19.7%	18.2%
Department of Corrective Services	519,479	1,838	0.4%	-0.9%
Department of Culture and the Arts	104,137	-9,178	-8.1%	-9.2%
Department of Education and Training	3,321,791	246,934	8.0%	6.7%
Department of Environment and Conservation	171,835	-29,666	-14.7%	-15.8%
Department of Health	4,322,038	255,374	6.3%	5.0%
Department of Sport and Recreation	63,453	9,718	18.1%	16.6%
Department of the Attorney General	293,838	8,172	2.9%	1.6%
Department of the Premier and Cabinet	105,163	-7,106	-6.3%	-7.5%
Department of Treasury and Finance	191,300	9,956	5.5%	4.2%
Department of Water	76,724	-9,234	-10.7%	-11.8%
Disability Services Commission	383,405	29,908	8.5%	7.1%
Housing Authority	137,551	-75,071	-35.3%	-36.1%
Main Roads Western Australia	562,563	47,199	9.2%	7.8%
Public Sector Commission	21,150	3,701	21.2%	19.7%
Public Transport Authority	703,773	46,129	7.0%	5.7%
Western Australian Planning Commission	83,897	-3,266	-3.7%	-4.9%
Western Australia Police	914,620	11,856	1.3%	0.1%
Western Australian Tourism Commission	57,320	2,709	5.0%	3.7%

Table 2

EXPENSES

	2009-10 $' 000	Change $' 000	Change % nominal	Change % real
Department for Child Protection	375,882	30,057	8.7%	7.3%
Department for Communities	165,790	87,790	112.6%	109.9%
Department of Agriculture and Food	293,988	21,897	8.0%	6.7%
Department of Corrective Services	557,915	4,151	0.7%	-0.5%
Department of Culture and the Arts	132,056	-13,222	-9.1%	-10.2%
Department of Education and Training	4,100,816	418,942	11.4%	10.0%
Department of Environment and Conservation	308,524	15,757	5.4%	4.1%
Department of Health	5,098,998	282,244	5.9%	4.6%
Department of Sport and Recreation	67,815	-1,562	-2.3%	-3.5%
Department of the Attorney General	411,128	10,401	2.6%	1.3%
Department of the Premier and Cabinet	129,199	-8,702	-6.3%	-7.5%
Department of Treasury and Finance	1,476,603	133,235	9.9%	8.6%
Department of Water	93,574	-7,781	-7.7%	-8.8%
Disability Services Commission	470,666	33,168	7.6%	6.3%
Housing Authority	1,130,679	53,554	5.0%	3.7%
Main Roads Western Australia	1,371,660	-195,914	-12.5%	-13.6%
Public Sector Commission	22,403	3,303	17.3%	15.8%
Public Transport Authority	866,141	26,869	3.2%	1.9%
Western Australian Planning Commission	41,695	-11,088	-21.0%	-22.0%
Western Australia Police	949,459	32,848	3.6%	2.3%
Western Australian Tourism Commission	61,245	-698	-1.1%	-2.3%

Further detail is available in Budget Paper No. 2: Budget Statements.

FINANCIAL RESPONSIBILITY

A key focus for the 2009-10 Budget is ensuring the delivery of the Government's election commitments and providing support to the State's economy, whilst ensuring financial responsibility through the implementation of a range of corrective measures in response to the impact on the State's revenue of the rapid deterioration in international and domestic economic conditions.

Since the 2008-09 mid-year review, forecast revenue from State taxes, GST revenue grants and royalty income has been revised down by $4.0 billion over the period 2008-09 to 2011-12, bringing the total deterioration since the *Pre-election Financial Projections Statement* (August 2008) to around $5.8 billion.

Corrective Measures

A major part of the 2009-10 Budget process has been the implementation in agency budgets of the 3% efficiency dividend. This savings measure was included in the *Pre-election Financial Projections Statement* as a global savings target.

During the course of developing the 2009-10 Budget, the Government has approved specific efficiency dividend measures totalling $1.333 billion over the period 2008-09 to 2011-12 (with a further $424 million of savings in the new outyear, 2012-13). This compares to the mid-year review target of $1.380 billion – meaning that this budget delivers 97% of the efficiency dividend target included in the mid-year review.

All up, this budget includes $7.6 billion in corrective measures to protect the State's finances, as shown in the following table. This includes $3.0 billion from the Government's Capital Works Audit, and $1.1 billion from Stage 1 of the Economic Audit.

Table 1

NET DEBT IMPACT OF CORRECTIVE MEASURES

	2008-09	2009-10	2010-11	2011-12	2012-13	Total
	$m	$m	$m	$m	$m	$m
2009-10 Budget Measures						
Capital Works Audit Savings	-212	-265	-510	-879	-1,157	-3,019
Economic Audit Savings	-	-194	-298	-315	-317	-1,125
Electricity Tariff Changes	-	-59	-160	-200	-126	-546
Provision for Land Sales	-	-20	-55	-75	-100	-250
Election Commitment Savings	-10	-25	-25	-25	-67	-152
Lower Tax Relief Measures	-	-67	20	-85	5	-127
Capping the FHOG	-	-1	-1	-1	-1	-5
Interest Savings on above measures	-	-9	-39	-103	-208	-358
TOTAL 2009-10 BUDGET MEASURES	**-222**	**-640**	**-1,068**	**-1,680**	**-1,972**	**-5,583**
Plus						
Efficiency Dividend Savings	-156	-381	-391	-405	-424	-1,757
Media, Marketing, Advertising and Consultancies Savings	-6	-16	-17	-18	-18	-75
Interest Savings on above measures	-	-7	-26	-53	-85	-170
TOTAL SAVINGS FROM CORRECTIVE MEASURES	**-384**	**-1,044**	**-1,503**	**-2,155**	**-2,498**	**-7,585**

If the above measures had not been implemented, the State's financial outlook would have been significantly weaker (see following charts).

Figure 1

NET OPERATING BALANCE

Impact of Corrective Measures

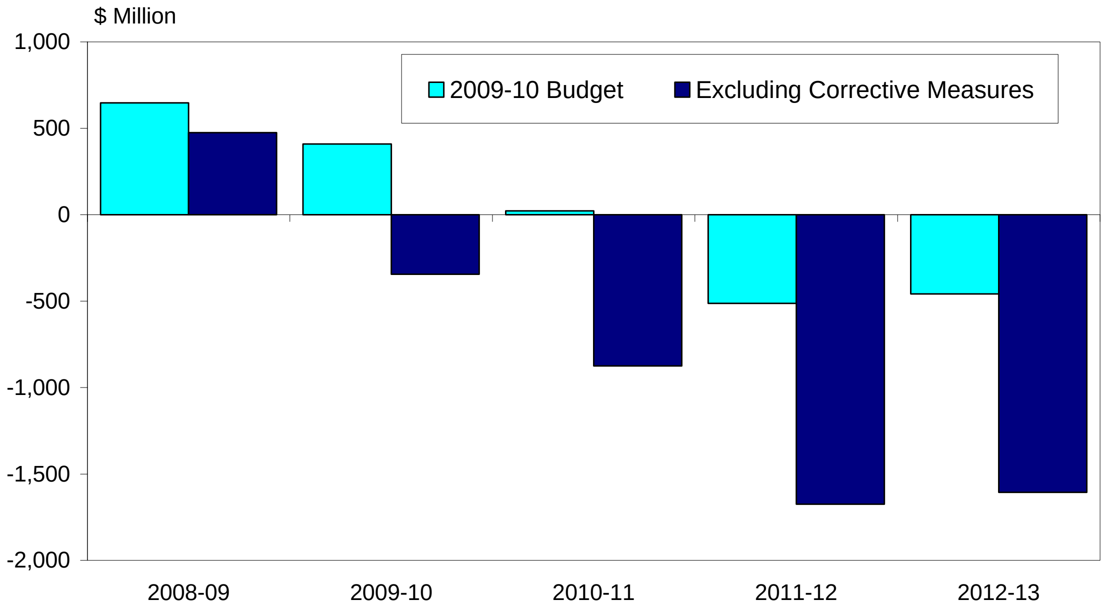
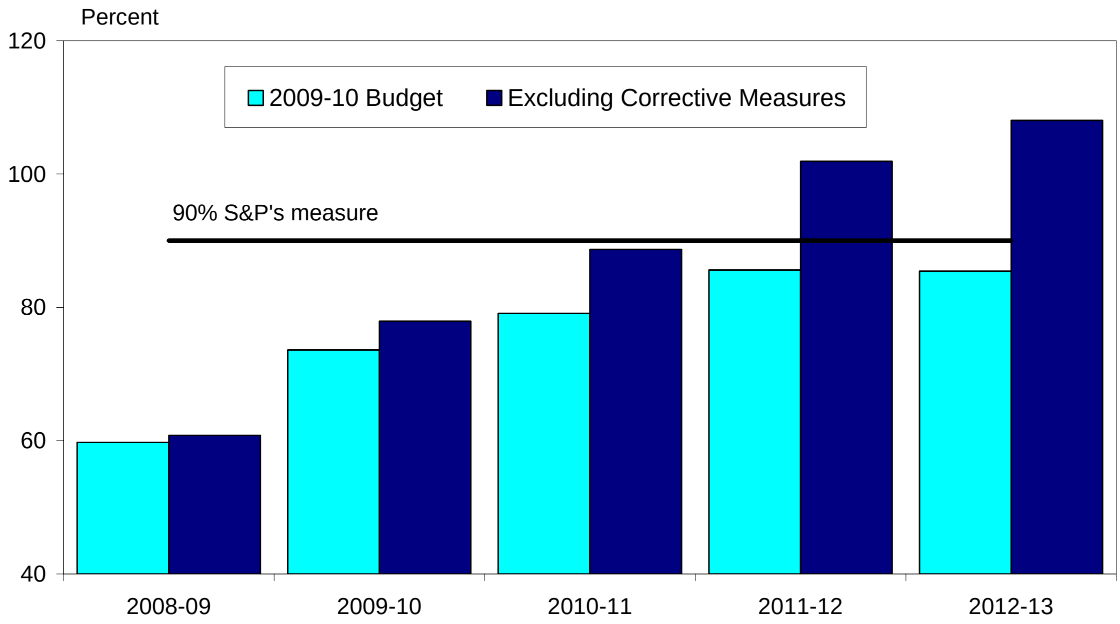


Figure 2

NET FINANCIAL LIABILITIES AS A SHARE OF REVENUE[(a)]

Impact of Corrective Measures



(a) As defined by Standard and Poor's.

These outcomes would be inconsistent with maintaining a triple-A credit rating and would put significant pressure on the sustainability of the State's finances going forward.

Managing Expenses - Public Sector Employment and Wage Costs

To ensure that public sector growth is managed responsibly and the performance of the workforce is optimised, a ceiling on Full-Time Equivalent staffing levels in general government agencies has been introduced, together with a $48 million provision for voluntary severance packages.

The Government has also implemented a new public sector wages policy, which incorporates a base increase in wage outcomes equal to projected growth in the Perth Consumer Price Index, with total wage increases (incorporating base growth plus any efficiency and workplace reform-related elements) capped at projected growth in the Western Australian Wage Price Index. This policy seeks a fair balance for both employees and taxpayers.

Works Reform

The Government is implementing a Works Reform Program to improve the planning and delivery of the State's Asset Investment Program (particularly the non-residential building program).

The reform program will focus on three key areas:

- better strategic management of the Asset Investment Program for non-residential buildings;
- effective maintenance of government buildings; and
- more efficient coordination of public sector accommodation.