2010-11 Budget Fact Sheets

CONTENTS

BUDGET AGGREGATES

REVENUE

ECONOMY

PORTFOLIO ISSUES

WHERE THE MONEY COMES FROM AND WHERE IT GOES

A general government operating surplus of $286 million is forecast for 2010-11 – a significant improvement on the $336 million deficit forecast in December's Mid-year Review. A surplus of $290 million is expected in 2009-10, up from the $51 million surplus forecast in the Mid-year Review.

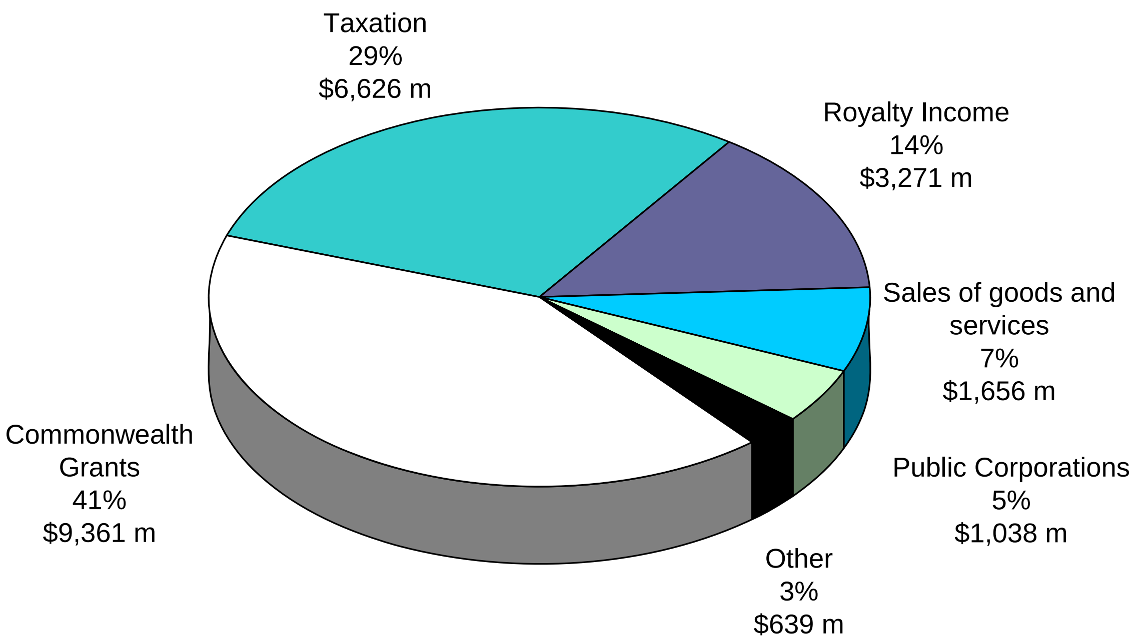
REVENUE

Relative to 2009-10, general government revenue is forecast to grow by $839 million (or 3.9%) in 2010-11 to an estimated $22.6 billion. Revenue from the State's own sources (mainly State taxes and mining royalties) is projected to increase by $1.5 billion (or 13.0%), mainly due to strong growth in royalty income resulting from a surge in iron ore prices.

Commonwealth grants are forecast to decline by $681 million (or 6.8%) in 2010-11, reflecting the winding down of the Commonwealth's stimulus programs and lower GST grants (with Western Australia's share of the national GST pool falling from 8.1% in 2009-10 to 7.1%, at a cost of $503 million).

Figure 1

2010-11 REVENUE
General Government



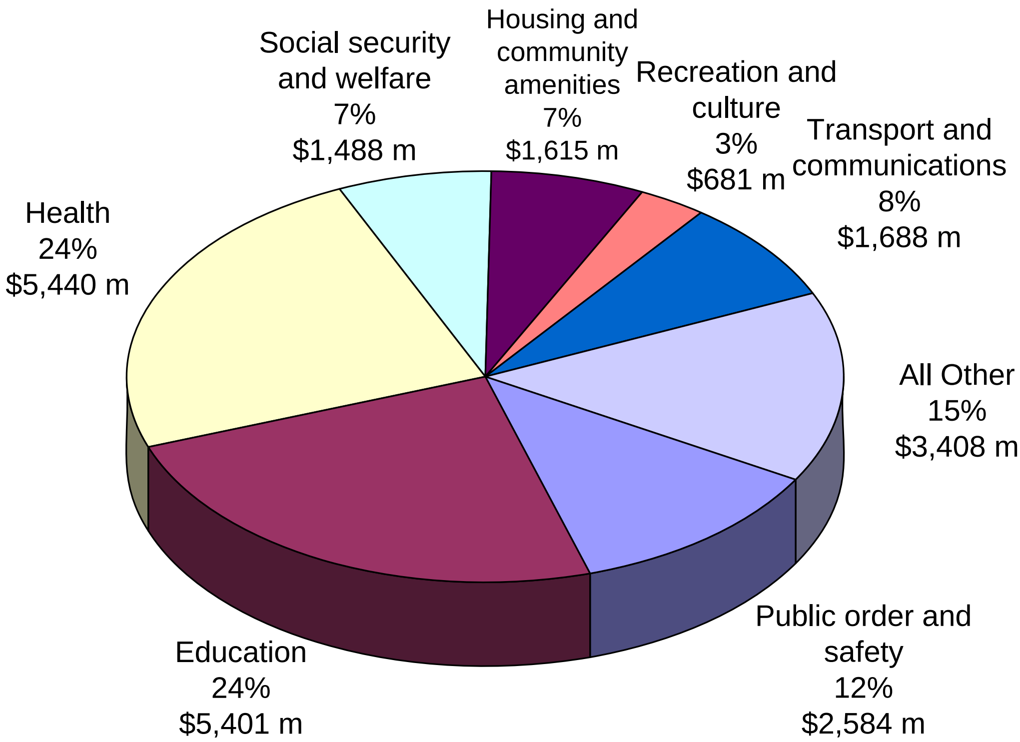
TOTAL = $22,591 MILLION

EXPENSES

General government expenses are forecast to be $22.3 billion in 2010-11, an increase of $843 million (or 3.9%) on 2009-10. Around 87% of this increase is in health, public order and safety, and social security and welfare.

Figure 2

2010-11 EXPENSES [(a)]
General Government



TOTAL = $22,305 MILLION

(a) Spending categories are consistent with Australian Bureau of Statistics Government Purpose Classifications. These differ from Departmental spending aggregates quoted elsewhere in the Budget Papers.

The difference between revenue ($22.6 billion) and expenses ($22.3 billion) is the operating surplus ($286 million). This surplus will be used to help fund the Government's $7.6 billion investment in infrastructure in 2010-11, which is necessary to support our economy and expand and improve service delivery.

IMPORTANCE OF THE TRIPLE-A CREDIT RATING

The Government actively seeks to maintain Western Australia's triple-A credit rating, which is a key indicator of responsible financial management and low investment risk. The triple-A credit rating also enables the Government to borrow money to build the State's infrastructure (electricity upgrades, new hospitals, schools etc) at the lowest possible rate of interest.

WHAT IS THE TRIPLE-A CREDIT RATING?

The triple-A credit rating means that Western Australia is assessed as having the highest possible creditworthiness. Our credit rating is assessed by two major international ratings agencies, Moody's Investors Services (Moody's) and Standard and Poor's (S&P's).

Apart from utilising financial ratios and economic factors, both ratings agencies assess the range of different factors affecting Western Australia such as the structure of the State's finances, the Government's fiscal management, and the performance and outlook of the local economy. Triple-A is the highest rating conferred by Moody's and S&P's, and was most recently confirmed by Moody's in August 2009 and by S&P's in September 2009.

Benefits of the Triple-A Credit Rating

The triple-A credit rating:

- provides the Government with a responsible financial management framework in which it can assess and prioritise spending proposals;
- signals to the public and potential investors that the Government is managing the State's finances and economy in a responsible way and that Western Australia is a stable, safe and low risk investment destination. Potential investors will place a smaller risk premium on the State relative to lower rated jurisdictions, meaning that projects become more affordable, supporting business investment and economic growth; and
- allows the Government to borrow funds at a lower rate of interest (other factors being equal), reflecting the lower risk premium on funds lent to the State.

NET INTEREST COSTS AND NET FINANCIAL LIABILITIES

Net debt for the total public sector is projected to rise from an estimated $11.4 billion at 30 June 2010 to a forecast $20.1 billion by 30 June 2014 in support of record levels of infrastructure investment. This growth remains consistent with sustainable and responsible financial outcomes. This is reflected in the ratio of net interest costs as a share of revenue, which is forecast to increase to a maximum 3.0% from 2011-12. This remains well below the Government's 4.5% financial target limit.

The strength of the State's balance sheet is also reflected in the ratio of net financial liabilities[1] as a share of revenue. This ratio is projected to remain below S&P's 90% 'trigger threshold' for Western Australia[2], rising from 61.0% in 2009-10 to a maximum 69.6% in 2013-14.

[1] Essentially net debt and unfunded superannuation liabilities.

[2] S&P's has set a trigger threshold of 90% for Western Australia. This may change later this year when the annual credit rating assessment takes account of the Gold Corporation's recent acquisition of a gold refinery. This event has little impact on State finances in net terms but additional revenue as a result of this change has a material impact on the S&P's ratio.

THE GST AND THE COMMONWEALTH GRANTS COMMISSION

CUTS IN WESTERN AUSTRALIA'S GST GRANT SHARE

The Commonwealth Government distributes GST revenues among the States according to the recommendations of the Commonwealth Grants Commission (CGC). 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 GST share reduced.

The CGC updates its calculation of State GST shares annually, using the latest available data. In addition to annual updates, the CGC undertakes a major review of the methods used to implement fiscal equalisation every five or six years.

In February 2010, the CGC reported on its latest method review (the '2010 Review'). The 2010 Review has resulted in a cut of $503 million ($216 per person) in Western Australia's share of the GST grant pool in 2010-11. In percentage terms, our share of national GST revenue has declined to 7.1% in 2010-11 (from 8.1% in 2009-10). This compares to our 10.3% share of the nation's population.

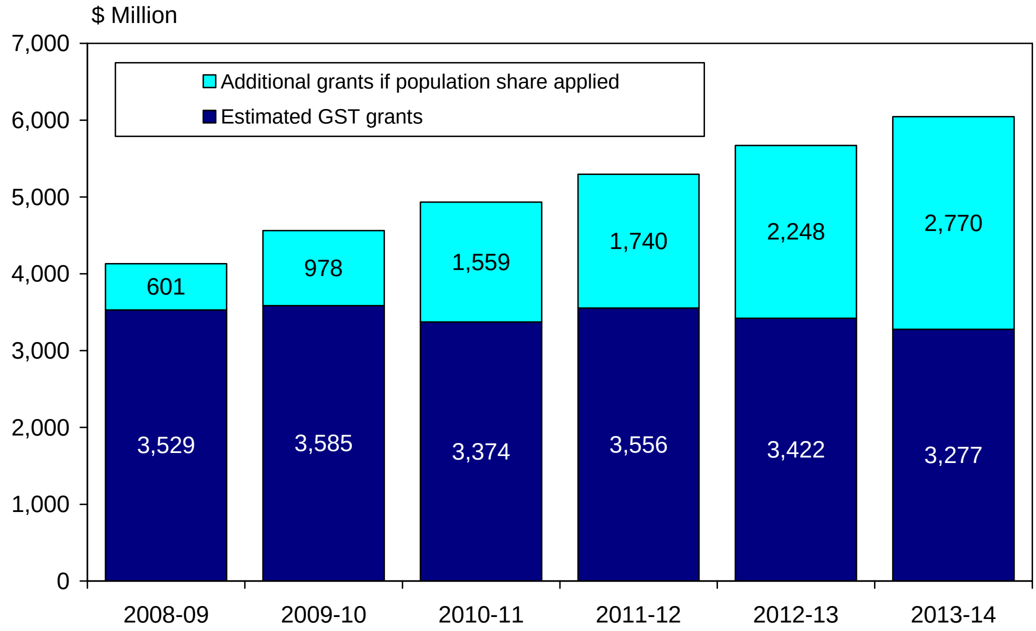
Forecast of Future GST Shares

Western Australia's GST share is forecast (by the WA Department of Treasury and Finance) to continue to decline over the next few years, to just 5.7% by 2013-14 compared to an estimated national population share of 10.6%.

The following chart compares Western Australia's projected GST revenue to our population share, and indicates that, over the period 2010-11 to 2013-14, Western Australia's GST grants will be $8.3 billion lower than if the State received our population share of GST revenue.

Figure 1

REDUCTION IN WESTERN AUSTRALIA'S GST REVENUE GRANTS



Source: Department of Treasury and Finance estimates.

THE CASE FOR REFORM

The fiscal equalisation principle used by the CGC 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.

Despite an emphasis on simplification during the 2010 Review, the CGC's methods remain complex and continue to lack transparency.

Apart from the redistribution of GST, a great deal of equalisation in the Australian Federation is already achieved 'automatically' through the Commonwealth Budget at the household/community level. The WA Department of Treasury and Finance estimates that in 2008-09 the Commonwealth raised over $10.8 billion more in revenue from Western Australia than it spent on the State.

The Western Australian Government will continue to push the case for reform of the way in which GST revenue is distributed, to ensure that this State is not unfairly punished for its economic success.

REVISED DIVIDEND ARRANGEMENTS FOR PUBLIC CORPORATIONS

Dividend payout ratios have been increased in this budget for many of the State's public corporations. This will bring the payout ratios more into line with public corporations in other jurisdictions, and enable the Government to have more direct control over how the profits of the State's public corporations are re-invested in their activities.

The revised dividend payout ratios are shown in Table 1, while Table 2 shows the estimated impact on the general government sector operating balance.

Table 1

DIVIDEND PAYOUT RATIOS

	Previous payout ratio %	New payout ratio %	Difference (percentage points)
Horizon Power	50	65	15
Synergy	50	75	25
Verve Energy	50	65	15
Western Power	50	65	15
Western Australian Land Authority	50	65	15
Gold Corporation	60	75	15
Western Australian Treasury Corporation	50	65	15
State Port Authorities	50	65	15
Forest Products Commission	50	65	15

Note: The dividend payout ratio for the Water Corporation remains unchanged at 85%.

Table 2

IMPACT ON GENERAL GOVERNMENT OPERATING BALANCE

	2009-10 Estimated Actual ($m)	2010-11 Budget Estimate ($m)	2011-12 Forward Estimate ($m)	2012-13 Forward Estimate ($m)	2013-14 Forward Estimate ($m)
Estimated Total	32.1	95.5	59.8	103.6	111.6

Note: These impacts are subject to revision as the corporations finalise their profit forecasts and calculate the resultant dividend payments, or if any interim dividends are not declared before the end of the financial year.

REVENUE GROWTH

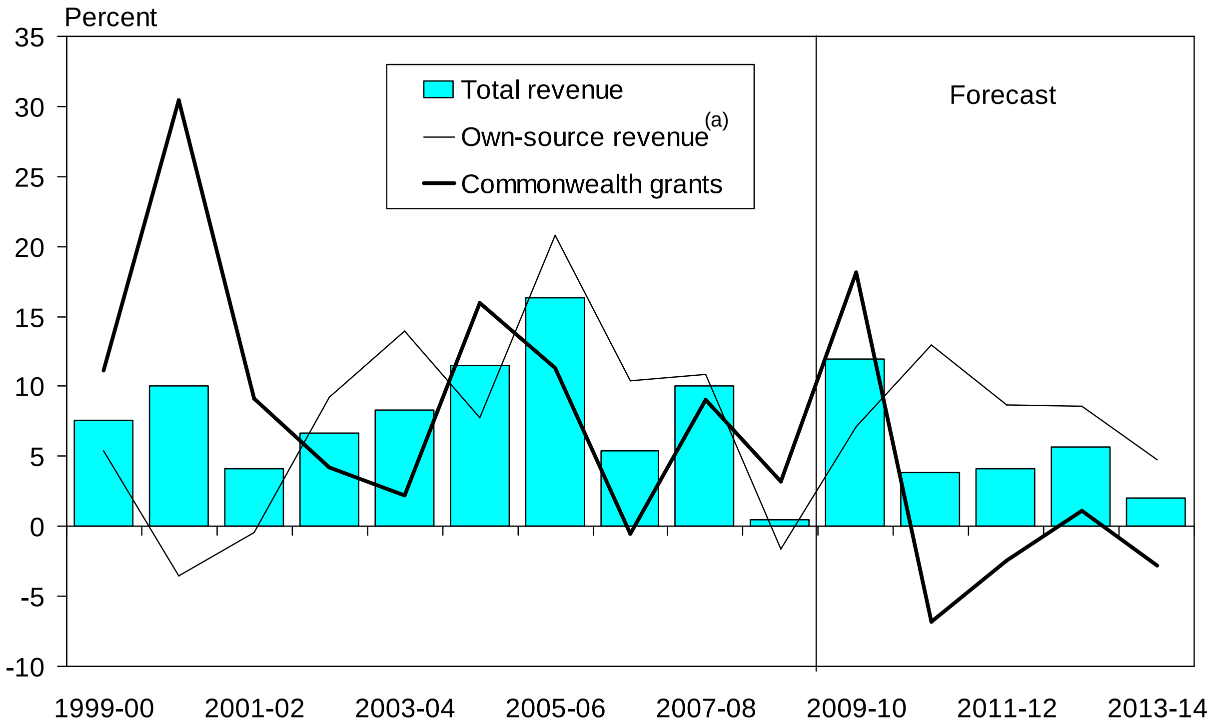
The State's revenue outlook has improved significantly since the 2009-10 Mid-year Review (released in December 2009), with total revenue revised up by $5.3 billion (or 6.1%) over the four years to 2012-13. This reflects the net impact of:

- taxation revenue starting to return to more normal rates of growth as the domestic economy continues to recover;
- royalty income being bolstered by renewed strength in global commodity markets, especially from iron ore; and
- falling Commonwealth grants due to withdrawal of Federal Government stimulus funding and a continued decline in Western Australia's share of national GST revenue (see separate Fact Sheet on 'The GST and the Commonwealth Grants Commission').

Figure 1

REVENUE GROWTH

General Government Sector



(a) Own-source revenue mainly comprises State taxes and mining royalties.

2010-11

Total revenue is forecast to grow by $839 million (or 3.9%) to $22.6 billion in 2010-11.

Revenue from the State's own sources (mainly State taxes and mining royalties) is set to increase by $1.5 billion in 2010-11, mainly due to sharply escalating iron ore prices and a strong rise in the volume of iron ore shipments.

In contrast, Commonwealth payments to Western Australia will fall in 2010-11, reflecting the withdrawal of Commonwealth stimulus funding and a further cut to Western Australia's share of national GST revenue. Based on the latest review by the Commonwealth Grants Commission, the State's share of GST revenue will fall to 7.1% in 2010-11, relative to our population share of 10.3%. Total Commonwealth grants are set to fall by $681 million in 2010-11.

2011-12 AND BEYOND

Total revenue is projected to grow at a moderate pace of 3.9% per annum over the period 2011-12 to 2013-14. Although growth in own-source revenue is likely to be solid (underpinned by strong economic activity), growth in total revenue will be constrained by a continued reduction in the State's share of national GST revenue. It is projected that Western Australia's GST share will fall to just 5.7% by 2013-14 compared to a national population share of 10.6%, which represents a shortfall of $1,112 per person.

Table 1

OPERATING REVENUE

General Government Sector

	2008-09 Actual $m	2009-10 Estimated Actual $m	2010-11 Budget Estimate $m	2011-12 Forward Estimate $m	2012-13 Forward Estimate $m	2013-14 Forward Estimate $m
Taxation	5,706	6,316	6,626	7,259	7,909	8,536
GST revenue grants	3,529	3,585	3,374	3,556	3,422	3,277
Other Commonwealth Grants	4,971	6,457	5,987	5,580	5,817	5,705
Sales of goods and services	1,410	1,552	1,656	1,740	1,821	1,906
Interest Income	285	200	253	259	255	246
Revenue from public corporations	821	1,061	1,038	1,126	1,555	1,738
Royalty income	2,348	2,217	3,271	3,598	3,673	3,535
Other	364	365	386	399	397	401
TOTAL	**19,435**	**21,752**	**22,591**	**23,517**	**24,850**	**25,343**
Growth (%)	***0.5***	***11.9***	***3.9***	***4.1***	***5.7***	***2.0***

Note: Columns may not add due to rounding.

HOW ROYALTIES FOR REGIONS FUNDING IS CALCULATED

The *Royalties for Regions* program continues to provide a framework to support and maintain strong and vibrant regions through improved infrastructure and headworks, across-government strategic regional and community services projects, and the provision of contestable grant funding.

Under the *Royalties for Regions Act 2009* the annual contribution to the Royalties for Regions Special Purpose Account (the Account) is to reflect the forecast royalty income for the budget year.

Funding for the new budget year is based on royalty estimates in the respective budget. However, outyear estimates are revised in line with movements in the royalty income forecasts included in each round of published forward estimates until the relevant year's budget.

Accordingly, the amount allocated in 2009-10 is $644 million, representing 25 per cent of the royalty estimate for 2009-10 at the time of the 2009-10 Budget. For 2010-11, the funding allocation is $817.8 million, which is 25 per cent of forecast royalty revenue of $3,271.3 million for 2010-11.

The table below shows *Royalties for Regions* funding across the 2010-11 Budget forward estimates period.

Table 1

ROYALTIES FOR REGIONS FUNDING

	2009-10 Budget Estimate [(a)] $m	2010-11 Budget Estimate $m	2011-12 Forward Estimate $m	2012-13 Forward Estimate $m	2013-14 Forward Estimate $m
Royalty Income	2,576.9	3,271.3	3,598.1	3,672.8	3,534.7
Appropriation [(b)]	**644.0**	**817.8**	**899.5**	**918.2**	**883.7**

(a) Estimate at the time of the 2009-10 Budget (May 2009).

(b) 25 per cent of annual royalty revenue.

The Account may also carry forward unspent monies from one year to another such that additional resources may be available for spending in any year of the estimates. With carryovers, an amount of $897 million is budgeted to be spent for Royalties for Regions programs in 2010-11.

ECONOMIC OUTLOOK

The Western Australian economy appears to have turned the corner following the impact of the global financial crisis in 2008-09. Nonetheless, recovery in the global economy remains fragile. For Western Australia, a sustained global recovery is critical to maintaining demand for exports and providing a suitable environment for business investment.

Western Australia's economy is forecast to grow by 3.75% in 2009-10, following growth of just 0.7% in 2008-09. Growth is expected to accelerate to 4.5% in 2010-11 and 4.75% in 2011-12, slightly above the long-run average. This pick-up in growth will be underpinned by a ramping up of construction on the $43 billion Gorgon LNG project – the largest investment in a resources project in Australia's history.

Employment growth is expected to be relatively flat in 2009-10. However, as the economic recovery gains traction, employment is forecast to grow by 1.75% in 2010-11. The unemployment rate is expected to peak at 5.25% in 2009-10, gradually falling to 4.5% by 2013-14.

Table 1

MAJOR ECONOMIC AGGREGATES

Western Australia

	2008-09 Actual %	2009-10 Estimated Actual %	2010-11 Budget Estimate %	2011-12 Forward Estimate %	2012-13 Forward Estimate %	2013-14 Forward Estimate %
Real Gross State Product Growth	0.7	3.75	4.5	4.75	3.0	3.0
Real State Final Demand Growth	4.4	3.5	6.0	5.75	3.0	3.0
Employment Growth	3.2	0.25	1.75	2.25	2.5	2.75
Unemployment Rate	3.7	5.25	5.0	4.75	4.75	4.5
Wage Price Index Growth	5.2	3.5	3.75	4.0	4.5	4.5
Consumer Price Index Growth	3.0	2.25	2.75	3.0	3.25	3.25

RISKS TO THE OUTLOOK

These forecasts were finalised prior to the Commonwealth Government's announcement of its proposed 40% Resource 'Super Profits' Tax (RSPT). There is a risk that the RSPT – and the uncertainty leading up to its planned introduction – could deter investment in the State's resources sector.

The global economic environment also remains a key risk. The recent Dubai, Greek and Portuguese sovereign bond duress are clear signs of the fragility of the global economic and financial recovery. At the same time, while stimulus measures have played a key role in the recoveries of many countries, the scaling back of these measures will need to be carefully managed.

KEY AGENCIES' RECURRENT APPROPRIATION AND EXPENSE MOVEMENTS

The following tables outline changes in the recurrent appropriations and expenses of key service delivery agencies for 2010-11. 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 for services.

Table 1

RECURRENT APPROPRIATIONS

	2009-10 $m	2010-11 $m	Change $m	Change %nominal	Change %real
Department of Agriculture and Food	147.4	157.0	9.6	6.5	4.2
Department of Child Protection	345.1	394.3	49.2	14.2	11.7
Department of Commerce	122.1	113.0	-9.1	-7.4	-9.5
Department of Corrective Services	585.7	594.6	8.9	1.5	-0.7
Department of Culture and the Arts	112.6	118.7	6.1	5.4	3.1
Department of Education	2994.0	3,020.2	26.2	0.9	-1.3
Department of Environment and Conservation	200.9	183.5	-17.4	-8.7	-10.7
Department of Health	4,068.5	4,322.6	254.1	6.2	3.9
Department of Regional Development and Lands	31.2	17.2	-14.0	-44.8	-46.0
Department of the Attorney General	316.2	374.2	58.0	18.4	15.8
Department of Training and Workforce Development	413.5	426.0	12.5	3.0	0.8
Department of Transport	133.0	139.8	6.8	5.0	2.7
Department of Treasury and Finance	193.1	210.4	17.3	9.0	6.6
Disability Services Commission	390.3	435.0	44.7	11.4	9.0
Housing Authority	98.6	17.0	-81.6	-82.8	-83.2
Fire and Emergency Services Authority	24.6	24.5	-0.1	-0.2	-2.4
Commissioner of Main Roads	581.5	551.1	-30.4	-5.2	-7.3
Mental Health Commission	445.7	506.6	60.9	13.6	11.1
Public Transport Authority	701.3	754.2	52.9	7.5	5.2
Western Australia Police	937.4	1,003.7	66.3	7.1	4.7

Table 2

EXPENSES

	2009-10 $m	2010-11 $m	Change $m	Change %nominal	Change %real
Department of Agriculture and Food	282.8	276.0	-6.8	-2.4	-4.6
Department for Child Protection	398.6	442.1	43.5	10.9	8.5
Department for Commerce	168.2	165.2	-3.0	-1.8	-3.9
Department of Corrective Services	628.3	650.5	22.2	3.5	1.3
Department of Culture and the Arts	137.4	158.5	21.1	15.3	12.8
Department of Education	3,610.3	3,613.9	3.6	0.1	-2.1
Department of Environment and Conservation	310.9	319.7	8.8	2.8	0.6
Department of Health	5,219.8	5,567.9	348.1	6.7	4.3
Department of Regional Development and Lands	87.5	251.5	164.0	187.4	181.1
Department of the Attorney General	447.1	497.2	50.1	11.2	8.8
Department of Training and Workforce Development	654.6	663.6	9.0	1.4	-0.8
Department of Transport	285.5	313.0	27.5	9.6	7.2
Department of Treasury and Finance	2,229.9	1,925.1	-304.8	-13.7	-15.6
Disability Services Commission	488.4	540.2	51.8	10.6	8.2
Housing Authority	1,089.0	1,105.1	16.1	1.5	-0.8
Fire and Emergency Services Authority	238.0	271.4	33.4	14.0	11.5
Commissioner of Main Roads	1,362.5	1,241.9	-120.6	-8.9	-10.9
Mental Health Commission	445.7	508.2	62.5	14.0	11.5
Public Transport Authority	881.6	929.6	48.0	5.4	3.1
Western Australia Police	970.7	1,039.2	68.5	7.1	4.7

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