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2011-12 Budget Fact Sheet

\$1 BILLION SOCIAL SERVICES PACKAGE

The State Government will make real changes to improve support services to vulnerable and disadvantaged people in the Western Australian community. The 2011-12 State Budget provides an additional \$1 billion for social services, including the biggest ever injection of funding into the not-for-profit sector.

Sustainable Funding and Contracting with the Not-For-Profit Sector

- Additional funding of \$604 million over five years to ensure a sustainable Not-for-Profit (NFP) sector.
- \$18 million over five years for education, training and support to the public and NFP sectors.
- \$96 million dedicated to the application of the Non-Government Human Services Sector Indexation Policy for payments to NFP organisations, recognising the ongoing growth in costs to the sector.

Families

- \$6.1 million for the Hardship Utilities Grant Scheme (HUGS) to assist people in financial hardship to maintain connection to essential services, including electricity, water and gas. This brings total spending on the HUGS scheme in 2011-12 to \$10.1 million.
- Additional \$51 million over four years to address increases in demand for child protection services and more early intervention and prevention services.
- \$1.4 million on maintenance services for the 71 childcare, family and neighbourhood centres and community houses managed by the Department for Communities.
- \$687,000 in *Royalties for Regions (RfR)* funding from 2010-11 to 2012-13, to enable the continuation of support to the Occasional Childcare Program in regional Western Australia.

Seniors

- The Seniors Cost of Living Rebate will be increased to \$150 for singles and \$225 for couples (who both hold a Seniors Card). This will cost an estimated \$40 million over four years.
- The Seniors card working hours criterion has been increased from an average of 20 hours per week to 25 hours per week. This will result in an estimated additional 4,500 seniors becoming eligible for the Seniors Card, at a cost of \$10.5 million over the next four years.

Social Housing

- \$150.7 million over three years for 284 homes for the high need clients of the Disability Services Commission, Mental Health Commission and the Drug and Alcohol Office.
- \$45.4 million over four years support services to the high-need clients allocated housing by the Disability Services Commission, Mental Health Commission and the Drug and Alcohol Office.
- \$5.4 million to build an acute overnight homeless shelter in Perth.

- \$25 million in *RfR* funding to build 39 houses in regional locations for use by NFP organisations.
- \$25.3 million in 2011-12 to continue the provision of power, water and wastewater services to remote Indigenous communities under the Remote Area Essential Services Program.
- \$6 million in 2011-12 to continue the upgrade of essential services (power, water and wastewater) infrastructure, including the provision of a level of essential services to town-serviced Indigenous communities.
- \$12.2 million in *RfR* funding to upgrade and expand existing water infrastructure in up to 16 remote Aboriginal communities.
- \$20 million in 2011-12 for the Housing Authority to pursue strategic purchases of development land for affordable housing.
- \$12.8 million for the construction of intermediate care units in Joondalup and Rockingham to assist the transition of mental health clients from inpatient facilities in public hospitals into community living.

Disability Services

- \$41 million over four years to meet the growth in demand for preventative and other disability services.
- \$1.6 million over four years to fund the purchase and maintenance of 40 modified vehicles with wheelchair hoists by the Western Australian Motor Industry Foundation.

Mental Health

- \$1.2 million provided to Youth Focus over four years to expand the provision of early intervention and prevention services to vulnerable young people.
- A grant of \$500,000 in 2011-12 to Lifeline WA to expand the delivery of suicide telephone crises support.

Drug and Alcohol Services (Included in Health Budget)

- \$1.5 million over two years for an additional 244 treatments to be provided by the Fresh Start Recovery Program to assist patients with alcohol and drug addiction using Naltrexone implants.
- \$1 million over four years to expand the Prospect Lodge residential rehabilitation service in the Goldfields.
- \$16.4 million over four years in *RfR* funding to increase the capacity of prevention and treatment services in the Kimberley and Pilbara.
- \$2.9 million in total over four years from *RfR* funding, to build and operate a dual purpose counselling and sobering-up centre in Carnarvon.

Aboriginal Services

- \$2 million in 2011-12 to increase the number of beds being built at the Clontarf College from 80 to 120.
- \$1.3 million in 2011-12 to provide additional community patrols in several key regional areas.
- \$10 million in *RfR* funding to enable 'time critical' responses to emerging crises and critical infrastructure needs in regional and remote communities.
- \$2.3 million in *RfR* funding over two years for the development of a program to improve corporate and community governance and leadership.

SUSTAINABLE FUNDING AND CONTRACTING WITH THE NOT-FOR-PROFIT SECTOR

Improving services and support for disadvantaged and vulnerable people in the Western Australian community is a major priority of the 2011-12 State Budget. Additional funding of more than \$600 million over five years has been allocated to ensure a sustainable not-for-profit (NFP) sector and address a shortfall in the amount paid to NFP organisations for the services they provide.

This funding will assist NFP organisations to attract and retain quality people who provide valuable care and assistance to the vulnerable and disadvantaged in Western Australia. The funding also recognises the need to ensure the ongoing viability and quality of community services in regional and remote Western Australia. The additional funding will be used in three areas, outlined below.

SUSTAINABLE FUNDING AND CONTRACTING WITH THE NOT-FOR-PROFIT SECTOR
Western Australia

Table 1

	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
Building Capacity – Uniform 15% Increase in Contracts	–	87.9	91.6	95.5	99.5
Building Capacity – Contract Reviews	–	–	–	50.1	66.4
Contracting Reforms	0.4	3.6	3.6	4.7	5.4
Additional Indexation	3.4	7.6	11.2	27.2	46.3
TOTAL	3.8	99.1	106.4	177.5	217.6

Building Capacity

Of the additional funding provided in this year's budget, \$491 million over four years will be used to provide an average 25% increase in funding for service agreements with NFP organisations by 2014-15. This money will fund:

- an upfront, across the board, 15% price adjustment for human services contracts from 1 July 2011; and
- a second increase averaging 10% to apply from 1 July 2013 as human service contracts are reviewed, linked to the roll out of contracting reforms.

It is expected that most of the funding will be used to increase the salaries of the many thousands of workers in NFP organisations. They are the people who care for: the deaf and blind; children and adults with profound intellectual and physical disabilities; those who have been injured in accidents; those who suffer debilitating mental illness; and families and children in crisis. Further examples of the key services provided by the NFP sector and the organisations that provide them are outlined in the table below.

EXAMPLES OF SERVICES AND ORGANISATIONS

Service Areas	Example NFP Organisations Delivering These Services
Accommodation, including: <ul style="list-style-type: none"> • Accommodation support for people with disabilities • Supported accommodation for homeless adults and youth • Community transitional accommodation and support • Accommodation for families in crisis. 	Activ Foundation Rocky Bay Nulsen Haven Association Albany Halfway House Association The Centre for Cerebral Palsy Autism Association of WA Richmond Fellowship of WA Geraldton Resource Centre
Financial Counselling for families and youth.	Anglicare WA Pilbara Community Legal Service Salvation Army Carnarvon Family Support Centre
Youth Services, including: <ul style="list-style-type: none"> • Mental health services • Youth diversion services (Department of Corrective Services) • Youth counselling • Youth health services • Indigenous youth services 	Geraldton Streetwork Aboriginal Corporation YMCA Mercy Community Services Joondalup Youth Support Services Parkerville Children and Youth Care Jacaranda Community Centre
Family Support Services, including: <ul style="list-style-type: none"> • Prison family support centres • Family crisis centres • Domestic violence counselling and case management • Family counselling 	Centrecare Agencies for South West Accommodation Wanslea Family Services Outcare Southern Cross Care

Contracting Reforms

As well as providing additional funding to improve services and support, the Government is implementing a number of other reforms to ensure the NFP sector can be more flexible and responsive in the way they provide care. This includes less onerous and cumbersome reporting requirements on the sector, and standardising contracting practices across government agencies.

Funding of \$18 million over five years has been allocated to support the implementation of these reforms and ensure genuine benefits for the NFP sector, and the Western Australian community more generally. This will be used to provide appropriate education, training and support to the public and NFP sectors to ensure the delivery of significant ongoing benefits through streamlined administrative arrangements.

Additional Indexation

Further funding of \$96 million will be provided to continue the Non-Government Human Services Sector (NGHSS) Indexation Policy for payments to NFP organisations, recognising the ongoing growth in costs for the sector.

The NGHSS Indexation Policy aims to ensure not-for-profit organisations' contract payments are indexed in line with cost increases in the delivery of human services. The NGHSS indexation rate is a composite of the Perth Consumer Price Index (CPI) (20%) and the Wage Price Index (WPI) (80%), in recognition of the labour intensive nature of human services. Adjustments to indexation funding are made on an annual basis. This year, the adjustments reflect both revised CPI and WPI forecasts and updated information regarding existing contracts.

2011-12 Budget Fact Sheet

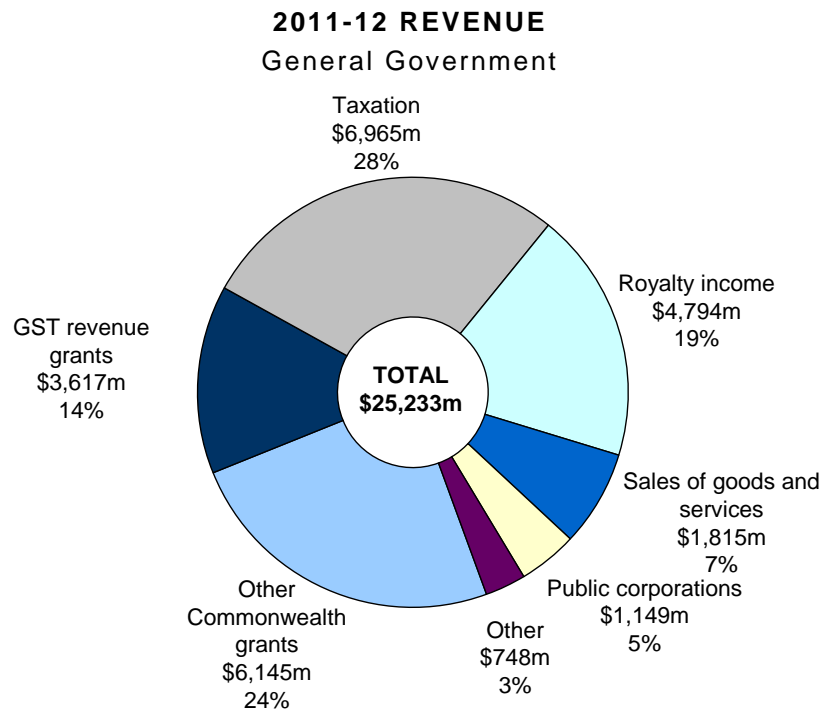
WHERE THE MONEY COMES FROM AND WHERE IT GOES

A general government operating surplus (i.e. a surplus on the day-to-day or recurrent operations of the general government sector) of \$442 million is forecast for 2011-12. This is the difference between forecast revenue of \$25.2 billion, and recurrent spending (or expenses) of \$24.8 billion. Combined with an affordable level of borrowings, the operating surplus helps fund the Government's investment in economic and social infrastructure, which in 2011-12 totals a record \$7.6 billion.

Revenue

General government revenue is forecast to be \$25.2 billion in 2011-12, an increase of \$1.5 billion (or 6.2%) on 2010-11. The major sources of revenue in 2011-12 are illustrated in the following chart.

Figure 1

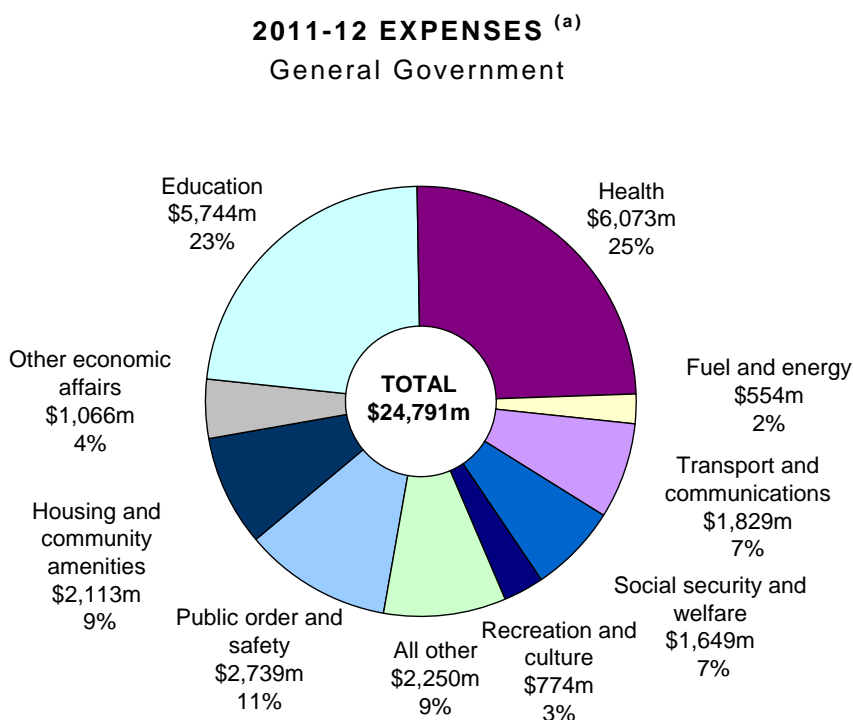


The major driver of growth in the State's revenue is mining royalties. Following exceptional growth of 79% in 2010-11, royalties are forecast to rise by a further \$635 million or 15.3% in 2011-12 (to \$4.8 billion), mainly on the back of rising iron ore prices. However, under the current Commonwealth Grants Commission process, about 70% of Western Australia's royalty revenue is redistributed to other States (through reduced GST grants to Western Australia).

Expenses

General government expenses are forecast to total \$24.8 billion in 2011-12, an increase of \$1.8 billion (or 7.9%) on 2010-11. The following chart provides a breakdown of expenses in 2011-12.

Figure 2



(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.

Spending in 2011-12 includes:

- an increase in health spending of \$470 million (or 8.2%);
- an increase in spending by the Department of Education of \$186 million (or 4.9%);
- an additional \$99 million to support the development of a sustainable not-for-profit sector (as part of the Government's total commitment of \$604 million over five years);
- \$72 million for higher operating subsidies to Synergy and Horizon Power as a result of below cost-reflective electricity tariffs;
- \$71 million for roads and irrigation assets associated with the Ord-East Kimberley Expansion Project being transferred to the local government sector;
- increased spending on disability services (up \$69 million or 12.6%);
- \$40 million to fund the latest round of public sector voluntary separations, partially offset by \$15 million in savings per annum;
- higher spending on child protection and related services to meet increased demand (up \$39 million or 8.8%); and
- \$33 million to provide 12,000 additional training places to address critical skill shortages and increase participation in the State's workforce.

IMPORTANCE OF THE TRIPLE-A CREDIT RATING

The Government actively seeks to maintain Western Australia's triple-A credit rating, which provides an easily identifiable signal that the Government is managing the State's finances in a responsible way, and that the State represents a stable investment destination. A high credit rating also means lower borrowing costs for the State.

What is the Triple-A Credit Rating?

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

The credit rating agencies assess a range of factors in their annual ratings assessment, such as the structure of the State's finances, the Government's fiscal management policies, 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 on 22 February 2011 and by S&P's on 20 December 2010.

Benefits of the Triple-A Credit Rating

The triple-A credit rating:

- provides the Government with a framework in which it can assess and prioritise spending proposals, and frame budgets based on responsible financial management outcomes;
- 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 public sector to borrow funds at a lower rate of interest (other factors being equal), reflecting the lower risk premium on funds lent to the State. This means the State can invest available funds in services rather than paying higher debt costs.

Net Interest Costs and Net Financial Liabilities

Net debt for the total public sector is projected to rise from an estimated \$13.4 billion at 30 June 2011 to \$22.4 billion by 30 June 2015¹ in support of record levels of infrastructure investment. This level of net debt remains sustainable and affordable, as reflected in:

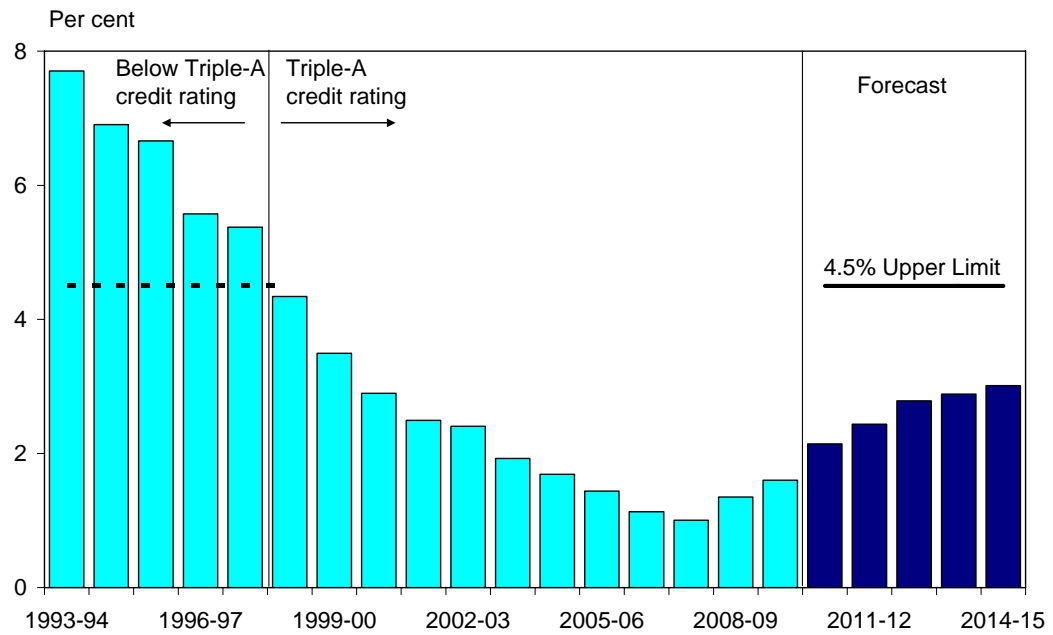
- the ratio of net interest costs as a share of revenue, which is forecast to increase to a maximum 3.0% in 2014-15, well below the Government's 4.5% financial target limit; and

¹ If a 75% 'floor' in Western Australia's GST relativity were to apply from 2013-14 (the financial year the Federal Treasurer has nominated as potentially the first baseline year of a new GST redistribution system), an additional \$1.8 billion in GST grants in 2013-14 and \$2.5 billion in 2014-15 would see total public sector net debt peak in 2012-13 and reduce to below \$18 billion by 30 June 2015.

- the ratio of net financial liabilities² as a share of revenue, which is set to peak at 71.1% in 2013-14 before declining to 69.6% in 2014-15. This is well below S&P's 90% 'trigger' threshold that would result in a credit rating review for Western Australia.

Figure 1

NET INTEREST COSTS AS A SHARE OF REVENUE
Total Non-Financial Public Sector



² Essentially, net debt and unfunded superannuation liabilities.

2011-12 Budget Fact Sheet

STRONG FINANCIAL MANAGEMENT

This budget delivers a \$442 million general government operating surplus for 2011-12, following an estimated surplus of \$784 million in 2010-11. Operating surpluses (i.e. surpluses on day-to-day or recurrent operations, excluding capital expenditure) are also projected across the forward estimates period to 2014-15.

Projected expense growth in 2011-12 is 7.9%, down from average growth in expenses over the previous three years of 10.9%. Importantly, the Government has restrained growth in the number of full-time equivalent public servants to just 1.7% in 2011-12.

To ensure that the State's net debt levels remain affordable and consistent with a triple-A credit rating, this budget includes a \$3.5 billion package of new measures to decrease the borrowing component of the State's social and economic infrastructure program, including:

Enhanced Revenue Measures

The budget includes a phased increase in the royalty rate applying to iron ore 'fines', rising from the current rate of 5.625% to 6.5% from 1 July 2012 and then to 7.5% from 1 July 2013, equal to the rate on 'lump' iron ore. It is envisaged that the additional revenue from this measure over the forward estimates period, estimated at \$1.9 billion, will be quarantined for debt reduction purposes.

Savings Initiatives

The budget includes:

- a 5% efficiency dividend on the discretionary operating expenditure of Government Trading Enterprises (GTEs) from 1 July 2011. This is expected to reduce net debt by \$515 million over the next four years, and will ensure that GTEs are operating as efficiently as possible as tariffs for electricity and water move towards cost-reflective levels over coming years;
- further savings of \$300 million over the period 2012-13 to 2014-15 to be achieved through a targeted review (to be led by Treasury) of specific programs and activities that are not delivering the Government's priorities or providing value for money; and
- deferral of infrastructure spending on specific projects (the West Pilbara Desalination Plant and the Eastern Goldfields Regional Prison), which will save \$541 million in net debt over the four years to 2014-15.

The budget also funds a third round of voluntary separations for up to 400 surplus public servants, which is expected to realise annual savings of \$15 million. This will bring the total number of voluntary separations since the Government came to office to over 1,200, resulting in full-year savings of \$57 million per annum.

The above measures not only enable the delivery of the economic and social infrastructure that Western Australians need and deserve, but build on the State Government's commitment to disciplined and accountable financial management.

WESTERN AUSTRALIA'S GST SHARE

The Commonwealth Government distributes GST revenue among the States according to the Commonwealth Grants Commission's (CGC's) recommendations, which are based on a principle of 'fiscal equalisation'. The starting point is an equal per capita share for each State (i.e. each State's share of the national population), but adjustments are then made for States' differing capacities to raise revenue from their own sources, and differing costs of providing services.

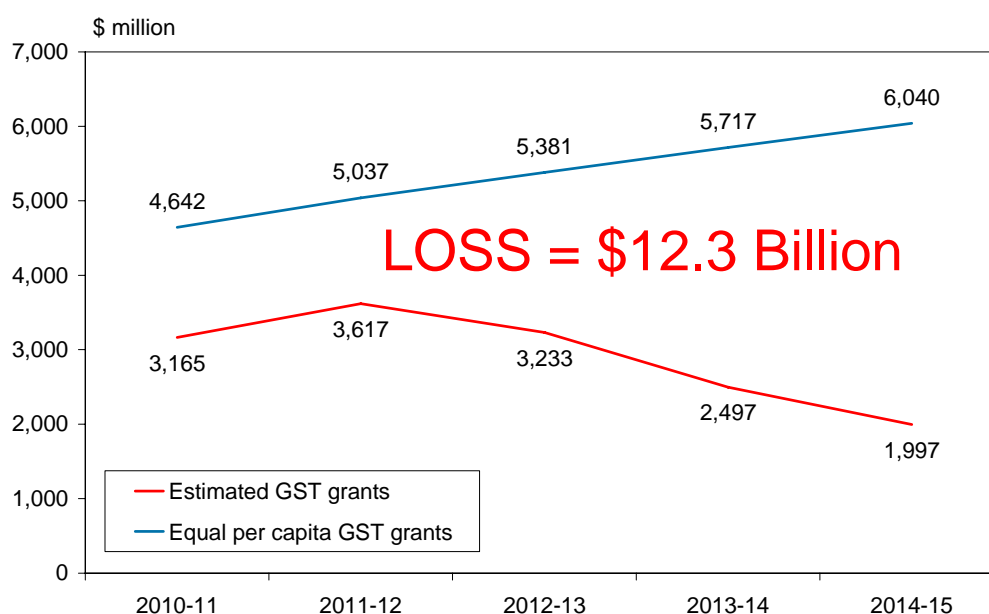
The CGC's results are expressed in the form of GST 'relativities'. A State's GST relativity is its share of national GST grants divided by its population share. The CGC updates its calculation of State GST relativities annually, using the latest available data on populations, revenue bases and cost drivers. It also undertakes a major review of the methods used to implement fiscal equalisation every five or six years.

In 2011-12, Western Australia's GST relativity is only 72%. The long term downward trend in our GST relativity is expected to resume in 2012-13, hitting an unsustainable 33% by 2014-15.

Unlike GST relativity projections prepared by the Commonwealth, Western Australia's projections take into account published estimates of States' future own source revenues. Growth in mining revenues is a major factor driving down Western Australia's GST share.

The following chart compares Western Australia's projected GST grants to our population share. It indicates that, over the period 2010-11 to 2014-15, our GST grants are projected to be \$12.3 billion lower than if the State received its population share of GST revenue – a massive penalty for Western Australia's economic success.

REDUCTION IN WESTERN AUSTRALIA'S GST REVENUE GRANTS



Source: Department of Treasury and Finance estimates.

The relativities are based on a lagged three year average of the CGC's assessments of States' relative revenue capacities and expenditure requirements. For example, the 2011-12 relativities reflect the average of data for 2007-08, 2008-09 and 2009-10, and therefore do not reflect the substantial increase in mining royalties from 2010-11. The 2014-15 relativities reflect the average of data for 2010-11, 2011-12 and 2012-13.

Review of the GST Distribution

The fiscal equalisation principle used by the CGC reduces incentives for States to grow their economies – as a large proportion of the revenues from economic growth are effectively redistributed to other States. For example, whereas Victoria will generate only \$50 million in mining royalties in 2014-15, it will receive \$3.0 billion after accounting for the GST redistribution. On the other hand, Western Australia will generate \$6.7 billion¹ in mining royalties in the same year, but receive only \$1.2 billion after GST redistribution².

This means that Victoria will generate \$8 per capita in mining royalties but receive through redistribution \$500 per capita. Western Australia will generate \$2,650 per capita and receive back less than \$480 per capita.

The CGC's methods also remain highly complex, lacking transparency and potentially distorting States' policy choices.

In light of such concerns, on 30 March 2011, the Prime Minister announced a review into the GST distribution arrangements, to be conducted by Hon Nick Greiner, Hon John Brumby and Mr Bruce Carter, with assistance from the Commonwealth Treasury and an Advisory Committee of State Treasuries. It is to report to the Federal Treasurer by August/September 2012, who will present the results to the Council of Australian Governments for consideration.

In considering possible changes to the form of 'equalisation' across the States, the review is to have regard to economic efficiency; equity; simplicity; and predictability and stability in States' GST shares. The Western Australian Government will continue to lead the case for reform, to ensure that this State is not unfairly punished for its economic success. This includes pushing for a 75% 'floor' under any State's GST relativity.

A 75% 'floor' would add an estimated \$1.8 billion to Western Australia's GST grants in 2013-14 and an estimated \$2.5 billion in 2014-15. The following table shows the key budget aggregates adjusted for the 75% 'floor'.

¹ This includes North West Shelf grants.

² Technically, these figures reflect, in 2014-15 net present value terms, the impact on GST grants after 2014-15 from States' royalty capacities in 2014-15.

KEY BUDGET AGGREGATES
ADJUSTED FOR 75% GST RELATIVITY ^(a) 'FLOOR'
Western Australia

	2010-11 Estimated Actual	2011-12 Budget Estimate	2012-13 Forward Estimate	2013-14 Scenario Estimate	2014-15 Scenario Estimate
Increase in GST grants	-	-	-	1,791	2,534
GENERAL GOVERNMENT SECTOR					
Net Operating Balance (\$m)	784	442	768	2,578	3,124
Revenue (\$m)	23,777	25,224	26,235	29,000	30,736
Revenue Growth (%)	7.9	6.1	4.0	10.5	6.0
Expenses (\$m)	22,994	24,783	25,466	26,422	27,612
Expense Growth (%)	8.4	7.8	2.8	3.8	4.5
TOTAL PUBLIC SECTOR					
Net Debt at 30 June (\$m)	13,387	17,291	19,959	19,660	17,997
Asset Investment Program (\$m)	6,936	7,638	7,303	6,129	5,401
Cash Position (\$m)	-3,492	-3,903	-2,668	299	1,663
KEY FINANCIAL RATIOS					
Net Interest Cost to Revenue (%)	2.1	2.4	2.8	2.8	2.6
Net Financial Liabilities to Revenue (%)	60.5	67.3	70.8	64.3	56.8

(a) Western Australia's relative per capita share of GST grants, which is the ratio of Western Australia's GST grant share to Western Australia's population share.

KEY AGENCIES' RECURRENT APPROPRIATION AND EXPENSE MOVEMENTS

The following tables outline changes in the recurrent appropriations and expenses of key service delivery agencies for 2011-12. 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 APPROPRIATION Western Australia

	2010-11 \$ m	2011-12 \$ m	Change \$ m	Change %
Department of Health	4,351.0	4,846.0	495.0	11.4
Department of Education	3,101.4	3,266.1	164.7	5.3
Western Australia Police	1,005.6	1,114.9	109.3	10.9
Public Transport Authority	733.9	811.1	77.3	10.5
Main Roads Western Australia	551.3	661.7	110.4	20.0
Department of Corrective Services	604.3	636.2	31.9	5.3
Mental Health Commission	486.6	527.9	41.4	8.5
Disability Services Commission	433.2	487.0	53.7	12.4
Department of Training and Workforce Development	427.8	472.3	44.5	10.4
Department for Child Protection	395.8	440.4	44.6	11.3
Department of the Attorney General	337.9	328.9	-9.0	-2.6
Department of Environment and Conservation	171.8	206.6	34.8	20.3
Department of Agriculture and Food	158.3	154.9	-3.4	-2.1
Department of Commerce	113.0	140.0	27.0	23.9
Department of Transport	139.0	132.9	-6.1	-4.4
Department of Culture and the Arts	124.3	132.3	8.0	6.4
Department of Regional Development and Lands	17.2	23.3	6.0	35.1
Fire and Emergency Services Authority	22.8	22.1	-0.7	-3.2

Table 2

EXPENSES
Western Australia

	2010-11 \$ m	2011-12 \$ m	Change \$ m	Change %
Department of Health	5,747.9	6,217.6	469.7	8.2
Department of Education	3,793.0	3,978.6	185.6	4.9
Main Roads Western Australia	1,205.4	1,491.1	285.7	23.7
Western Australia Police	1,086.1	1,130.9	44.8	4.1
Public Transport Authority	1,005.4	1,097.5	92.1	9.2
Department of Training and Workforce Development	695.8	758.3	62.5	9.0
Department of Corrective Services	665.6	715.1	49.5	7.4
Disability Services Commission	542.2	610.8	68.6	12.6
Department of Regional Development and Lands	294.6	559.6	265.0	90.0
Mental Health Commission	490.1	531.2	41.1	8.4
Department for Child Protection	447.9	487.1	39.2	8.8
Department of the Attorney General	463.8	480.4	16.6	3.6
Department of Environment and Conservation	317.4	349.2	31.8	10.0
Department of Transport	316.3	327.4	11.1	3.5
Fire and Emergency Services Authority	276.1	290.1	14.0	5.1
Department of Agriculture and Food	254.3	241.4	-12.9	-5.1
Department of Commerce	175.9	233.1	57.2	32.5
Department of Culture and the Arts	169.6	164.9	-4.7	-2.8

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