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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 $196 million is forecast for 2012-13. This is the difference between forecast revenue of $25.5 billion, and recurrent spending (or expenses) of $25.3 billion. Combined with an affordable level of borrowings, the operating surplus helps fund the Government's investment in economic and social infrastructure, which in 2012-13 totals $7.6 billion.

Table 1

GENERAL GOVERNMENT OPERATING SURPLUS

	2010-11 Actual	2011-12 Estimated Actual	2012-13 Budget Estimate	2013-14 Forward Estimate	2014-15 Forward Estimate	2015-16 Forward Estimate
GENERAL GOVERNMENT SECTOR						
Net Operating Balance ($m)	**1,604**	**484**	**196**	**345**	**836**	**1,404**
Revenue ($m)	23,909	24,749	25,477	27,019	28,376	30,238
Revenue Growth (%)	8.5	3.5	2.9	6.1	5.0	6.6
Expenses ($m)	22,306	24,266	25,281	26,674	27,540	28,833
Expense Growth (%)	5.2	8.8	4.2	5.5	3.2	4.7

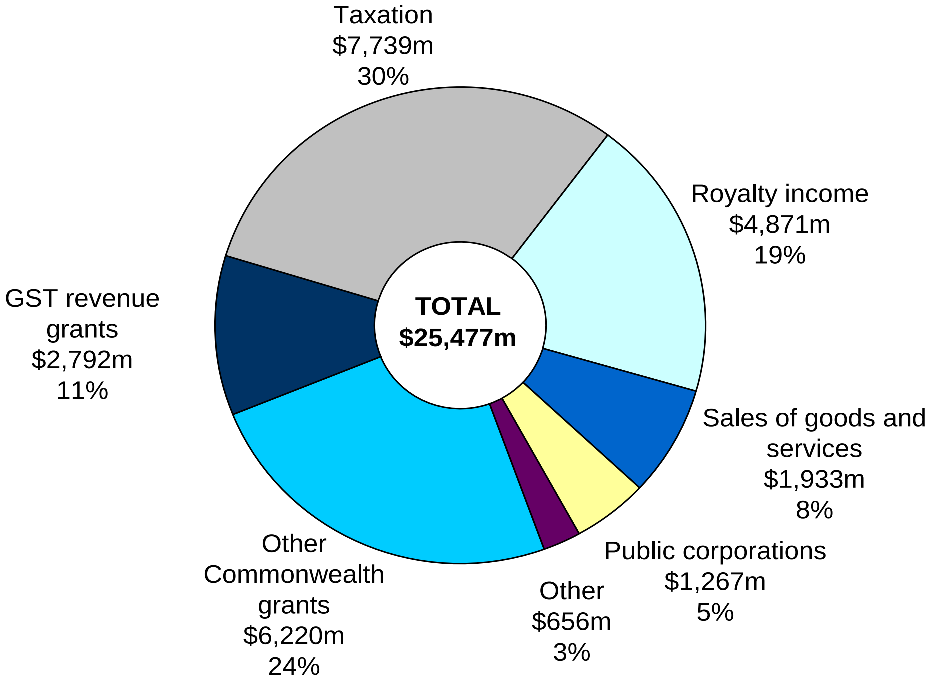
Revenue

General government revenue is forecast to be $25.5 billion in 2012-13, an increase of 2.9 per cent on 2011-12. The major sources of revenue in 2012-13 are shown in the following chart.

Figure 1

2012-13 REVENUE

General Government



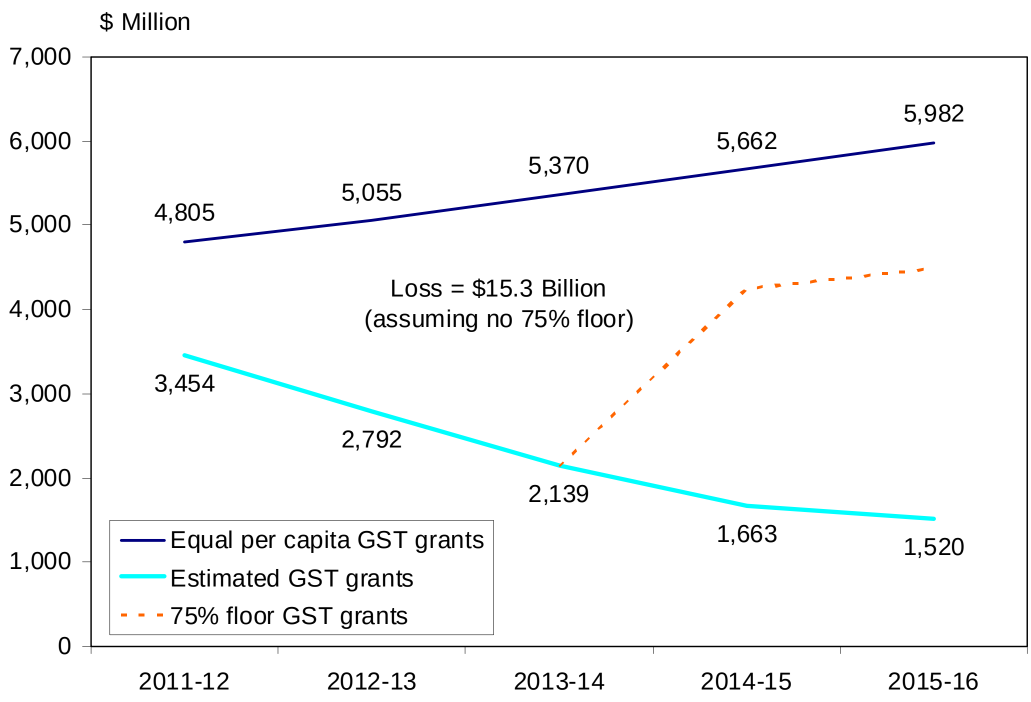
The growth in the State's revenue in 2012-13 is projected to be just 2.9 per cent following expected low growth of 3.5 per cent in 2011-12. This is much lower than the 16.3 per cent recorded in 2005-06 and 11.5 per cent in 2004-05, recorded under the previous Government.

The low rate of revenue growth forecast for 2012-13 reflects the loss of an unprecedented $662 million through the Federal Government's GST grants process.

State taxation is up $783 million on 2011-12, reflecting the impact of the State's strong labour market on payroll tax forecasts and the expected recovery in the property market which flows through to transfer duty. Royalty income is expected to be $378 million higher in 2012-13, largely driven by a projected increase in iron ore royalties, however the State looses approximately 70 per cent of royalty revenue through the GST grants process.

Figure 2

REDUCTION IN WESTERN AUSTRALIA'S GST GRANTS



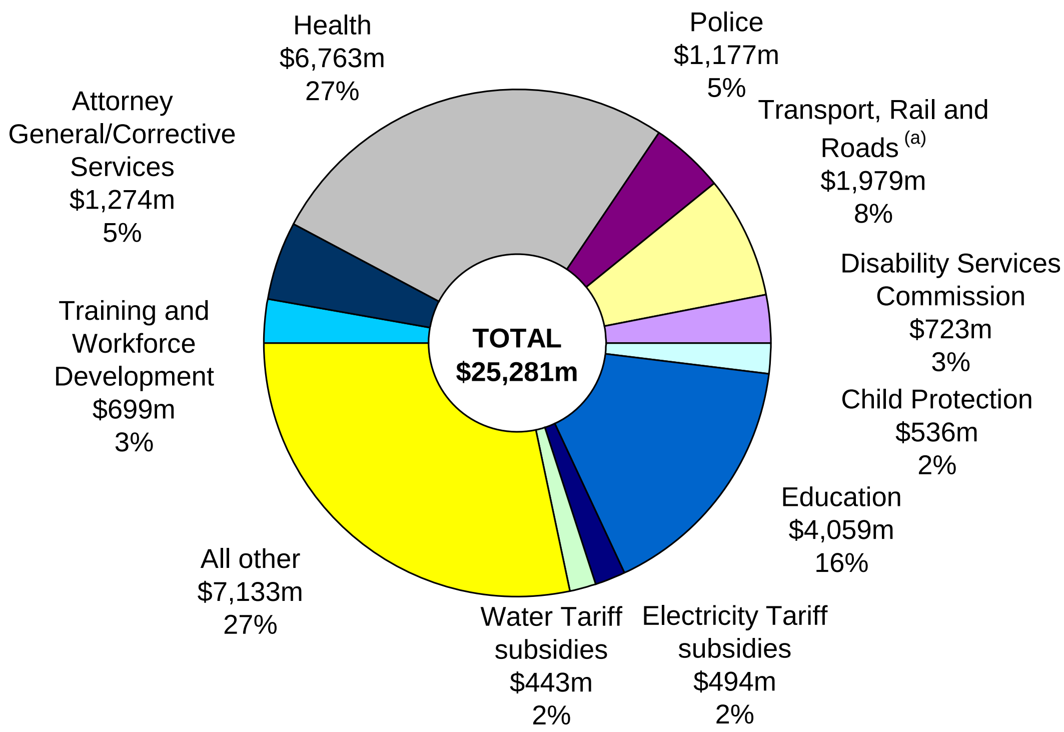
Expenses

General government expenses are forecast to total $25.3 billion in 2012-13, an increase of 4.2 per cent on 2011-12. The following chart provides a breakdown of expenses in 2012-13.

Figure 3

2012-13 EXPENSES

General Government



(a) Includes Department of Transport, Main Roads and subsidies to the Public Transport Authority.

Spending in 2012-13 includes:

- an increase in spending by the Departments of Health (up $462 million or 7.3 per cent) and Education (up $122 million or 3.1 per cent), and by the Disabilities Services Commission (up $67 million or 10.1 per cent);
- an additional $15 million in 2012-13 (and $63 million over four years) to address increasing demand for child protection services;
- $371 million in operating subsidies to Synergy and Horizon Power to cover the difference in the amount paid by electricity consumers and the true cost of production;
- an additional $96 million for the Department of Training and Workforce Development to ensure that training delivery continues to meet the needs of the Western Australian economy;
- an additional $23 million (out of a total $82 million four-year recurrent and capital initiative) for the Fire and Emergency Services Authority and the Department of Environment and Conservation to implement various initiatives in response to the Perth Hills and Margaret River Bushfire Reviews (please refer to the *Response to Keelty Reports* fact sheet for additional information); and

- a new Cost of Living Assistance payment, initially set at $200 for around one-third of all Western Australian households that will be implemented from 1 October 2012, and will replace the existing Supply Charge Rebate (please refer to the *Cost of Living* fact sheet for additional information).

The following table summarises spending increases in key service agencies between 2008-09 and 2012-13.

Table 2

RECURRENT EXPENDITURE – KEY SERVICE DELIVERY AGENCIES

	2008-09 Actual $m	2012-13 Budget Estimate $m	2012-13 Increase $m	2012-13 Increase %
Health	4,854	6,763	1,909	39.3
Education	3,266	4,059	794	24.3
Police	924	1,177	253	27.4
Disability Services	434	723	289	66.5
Mental Health	471	655	184	39.2
Child Protection	353	536	184	52.1

SAVINGS MEASURES

The 2012-13 Budget sees a broad range of new savings measures designed to cut waste, provide efficient government services and allow reprioritisation of government's spending.

General government agencies and Government Trading Enterprises (GTEs) will be required to become more efficient through a range of corrective measures implemented as part of the 2012-13 Budget. Changes to the economic and financial outlook, particularly Western Australia's share of national GST revenue, have had a significant impact on the State's finances, negatively affecting both the general government sector operating balance and the State's net debt position.

The financial impact of the savings measures is shown in the table below.

Table 1

FINANCIAL IMPACT OF CORRECTIVE MEASURES

	2011-12 $m	2012-13 $m	2013-14 $m	2014-15 $m	2015-16 $m	Total $m
General Government Net Operating Balance						
General government efficiency dividend	-	244	394	553	709	1,899
Defer RfR spending	-	140	63	-270	82	15
GTE efficiency dividend	-	24	53	76	92	245
Provison for higher rate of return on ports	-	-	13	34	38	85
Increasing the Loan Guarantee Fee to 0.7%	-	36	16	18	18	88
FTE cap in 2013-14	-	-	72	77	81	230
Assumed outyear FTE growth of 1.5%	-	-	-	58	124	182
Lower debt servicing costs	-	- [(a)]	28	73	115	216
Total General Government Net Operating Balance Impact	**-**	**444**	**639**	**619**	**1,259**	**2,960**
Capital Works Review	-7	-493	-298	-312	-694	-1,805
Total Public Sector Net Debt at 30 June	**-7**	**-933**	**-1,914**	**-2,884**	**-4,876**	**-4,876**

The budget measures build on previous savings initiatives to improve the efficiency of the public sector that have been implemented by the Government since 2008, including a 3 per cent efficiency dividend on the general government sector starting in 2009-10 (which saved an estimated $1.46 billion over four years), the 5 per cent efficiency dividend on GTEs discretionary spending announced in 2011-12 Budget (saving $524 million over the four years to 2014-15), the targeted savings initiatives built into the 2011-12 Budget (expected to now deliver $447 million over the four years to 2015-16), recommendations from stage one of the economic audit implemented in the 2009-10 Budget (saving $979 million), voluntary separation offers (saving an estimated $216 million between 2012-13 and 2015-16), and $3 billion saved through the Capital Works Audit conducted at the time of the Global Financial Crisis.

Further detail on each of the new savings measures is available in the Attachment.

Triple-A credit rating

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

The triple-A credit rating is important for the State, as it:

- provides the Government with a framework in which it can assess and prioritise spending proposals, and frame budgets based on independently validated 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.

The corrective measures included in the 2012-13 Budget demonstrate the Governments’ commitment to strong financial management and will help to ensure that Western Australia retains its triple-A credit rating.

Overview of measures

General government sector efficiency dividend

A 2 per cent efficiency dividend will be applied to general government sector appropriation agencies and the Public Transport Authority in 2012-13. The Department of Education will be subject to a 1 per cent efficiency dividend in 2012-13 given the significant current restructure of the Education Department under this Government.

The dividend will be cumulative, increasing by 1 percentage point in each of 2013-14, 2014-15 and 2015-16.

Government Trading Enterprises efficiency dividend

A cumulative efficiency dividend will be applied to the discretionary expenditure only of Government Trading Enterprises (such as Western Power and Synergy) from 2012-13 to further limit growth in discretionary expenses and salaries.

This dividend will commence at a rate of 2.5 per cent, increasing to 4 per cent in 2013-14, 5.5 per cent in 2014-15 and 6 per cent in 2015-16. Port authorities will be subject to a 1.5 per cent efficiency dividend in 2012-13, increasing by a further 1.5 percentage points per annum until 2015-16.

Port authority rates of return

The Minister for Transport will conduct a review of State port authorities later this year, which is expected to deliver higher returns on the State's investment in ports over time. A provision for higher rates of return for port authorities has been included in the 2012-13 Budget, commencing in 2013-14. The review will aim to achieve a more appropriate rate of return for the significant investment in the State's ports.

Loan guarantee fee increase

The Western Australian Treasury Corporation collects loan guarantee fees in exchange for an explicit Government guarantee on liabilities incurred in raising loan funds for agencies, local governments and universities (in accordance with the *Western Australian Treasury Corporation Act 1986*). The loan guarantee fee charged by the Corporation on lending to selected agencies will be increased from 0.2 per cent to 0.7 per cent from 2012-13.

Capital Works Review savings

A range of adjustments totalling $1.8 billion from 2011-12 to 2015-16 have been made to agency infrastructure spending plans. For example:

- deferral of the start date for the redevelopment of the Department of Agriculture and Food's headquarters from 2012-13 to 2014-15, which will generate a $135 million reduction in net debt over the forward estimates period;
- deferral of the Fremantle Port Outer Harbour project, saving a total of $133 million over the outyears; and
- deferral of the Marble Bar Road (Coongan Gorge) project, saving $21 million.

Key projects such as the new Perth Major Stadium, Perth City Link and the new Perth Waterfront will remain unchanged.

Recashflowing *Royalties for Regions* funding

Approximately $300 million of *Royalties for Regions* (RfR) budgeted recurrent expenditure is to be reallocated across the forward estimates period, with $270 million of this expenditure proposed to now be spent in 2014-15. This will not significantly reduce the overall RfR program, but will deliver a net debt saving of $15 million by 30 June 2016.

Managing Full Time Equivalent staff growth

As part of the 2011-12 Budget initiative to achieve general government savings of $300 million, a cap on growth in Full Time Equivalent (FTE) staff numbers will be implemented in 2012-13 that is equivalent to the approved FTE ceiling levels for 2011-12. This measure does not apply to operational staff in the key areas of health, education and police.

The savings measures in this Budget extend this staff management initiative to also apply in 2013-14, resulting in an estimated $230 million net debt benefit over the forward estimates period. Further restrictions on FTE growth in 2014-15 and 2015-16 will also be implemented to generate savings through lower salary and related employee costs. By limiting FTE growth for the general government sector to 1.5 per cent per annum from 2014-15, it is expected that savings of around $182 million can be achieved over the forward estimates period, while still accommodating increases approved as 2012-13 Budget initiatives.

$135 MILLION TAX RELIEF PACKAGE

Overview

The 2012-13 Budget delivers $135 million of payroll tax relief over four years to reduce the tax burden for nearly half of all taxable employers and enhance the participation of Indigenous or disabled Western Australians in the workforce.

Together with tax relief measures included in previous budgets, this tax relief package delivers the Government's election commitment to allocate a minimum additional $250 million to tax cuts in its first term.

The 2012-13 tax relief measures are as follows:

Table 1

SUMMARY OF TAX RELIEF MEASURES IN THE 2012-13 BUDGET

	2012-13 Budget Estimate $m	2013-14 Forward Estimate $m	2014-15 Forward Estimate $m	2015-16 Forward Estimate $m	**Four Year Total $m**
Payroll Tax					
One-off small business rebate (payable in 2013-14 based on 2012-13 payroll tax liabilities)	-0.5	-127.6	-	-	**-128.1**
Targeted relief for wages paid in the first two years of employment of new employees with a disability and new indigenous employees of small to medium employers	-1.6	-1.6	-1.7	-1.9	**-6.7**
TOTAL	**-2.0**	**-129.2**	**-1.7**	**-1.9**	**-134.8**

Note: Columns may not add due to rounding.

$128 Million Payroll Tax Rebate for Small Businesses

The 2012-13 Budget will ensure a supportive environment for small businesses in Western Australia through a one-off payroll tax rebate, estimated to cost $128 million. The rebate will:

- fully offset the 2012-13 payroll tax liabilities of an estimated 3,100 employers who have Australia-wide group payrolls of up to $1.5 million (around 20 per cent of all taxable employers). This will benefit those businesses by up to $41,250 (for an employer with a payroll of $1.5 million);
- partially offset the 2012-13 payroll tax liabilities of a further 3,600 employers (around a further 24 per cent of taxable employers) who have Australia-wide group payrolls between $1.5 million and $3 million (the benefits for employers at different annual payrolls are outlined in Attachment 1); and
- be calculated and paid in the first half of the 2013-14 financial year after employers have completed the annual payroll tax reconciliation process. This will ensure the rebate is based on employers' final 2012-13 payroll tax liabilities, rather than their monthly or quarterly payments during the course of the year (the sum of which will often vary from the final full-year liability for a range of reasons).

Payroll Tax Exemption for Wages Paid to New Employees with a Disability

From 1 July 2012, a payroll tax exemption will apply to wages paid in the first two years of employment of new employees with a disability to encourage ongoing employment of people with a disability.

The exemption is estimated to cost $5 million over the four years to 2015-16. It will apply to businesses that hire new employees with a disability (on or after 1 July 2012) for whom they are in receipt of a Commonwealth Disability Employment Services (DES) wage subsidy, or who are eligible for any form of Western Australian Disability Services Commission support.

Eligible employees will be those who have an intellectual, psychiatric, sensory and/or physical impairment which results in a substantially reduced capacity to, for example, obtain unsupported paid employment or live independently. Eligibility will also be restricted to new employees who have not previously been employed by the employer (or group of employers).

The payroll tax exemption will be an ongoing measure with payroll tax relief capped at the tax payable on wages paid to each eligible new employee in the two year period following the date they first commence employment.

This exemption is estimated to save employers a total of around $2,700 for each new employee with a disability, and is currently estimated to provide benefits with respect to around 2,100 new employees over the four year budget period.

100 Per Cent Payroll Tax Rebate for Wages Paid to New Indigenous Employees of Small to Medium Businesses

Also from 1 July 2012, small to medium businesses will be eligible for a 100 per cent payroll tax rebate for wages paid in the first two years of employment to new Indigenous employees for whom they also receive a Commonwealth Indigenous Wage Subsidy (IWS). This will save eligible employers a total of around $3,800 for each new Indigenous employee.

Eligible employers must have Australia-wide group annual payrolls of $15 million or less (exclusive of wages paid in Western Australia to eligible new Indigenous employees).

Similar to the DES wage subsidy, the Commonwealth's IWS requires that the new employee is hired under the applicable industrial arrangement and guaranteed a regular weekly wage. This subsidy scheme also requires that the new employee must previously have been unemployed or participating in a Community Development Employment Project.

The rebate will be paid to eligible employers after the end of each financial year.

The design of both targeted payroll tax relief schemes will have regard to potential future changes in the Commonwealth's wage subsidy schemes.

Table 1

2012-13 PAYROLL TAX REBATE

Annual Payroll	Current Tax	Rebate	Tax Less Rebate	Rebate as a % of Tax Payable
$	$	$	$	
750,000	-	-	-	-
800,000	2,750	2,750	-	100%
900,000	8,250	8,250	-	100%
1,000,000	13,750	13,750	-	100%
1,100,000	19,250	19,250	-	100%
1,200,000	24,750	24,750	-	100%
1,300,000	30,250	30,250	-	100%
1,400,000	35,750	35,750	-	100%
1,500,000	41,250	41,250	-	100%
1,600,000	46,750	38,500	8,250	82%
1,700,000	52,250	35,750	16,500	68%
1,800,000	57,750	33,000	24,750	57%
1,900,000	63,250	30,250	33,000	48%
2,000,000	68,750	27,500	41,250	40%
2,100,000	74,250	24,750	49,500	33%
2,200,000	79,750	22,000	57,750	28%
2,300,000	85,250	19,250	66,000	23%
2,400,000	90,750	16,500	74,250	18%
2,500,000	96,250	13,750	82,500	14%
2,600,000	101,750	11,000	90,750	11%
2,700,000	107,250	8,250	99,000	8%
2,800,000	112,750	5,500	107,250	5%
2,900,000	118,250	2,750	115,500	2%
3,000,000	123,750	-	123,750	0%

Note: Numbers are rounded to nearest dollar amount. Rebate is payable after the end of the 2012-13 year.

THE WESTERN AUSTRALIAN FUTURE FUND

Future generations of Western Australians will benefit from a redistribution of a portion of the State's royalty revenue derived from finite mineral resources, through the creation of the Western Australian Future Fund (Future Fund). It is conservatively estimated that after 20 years, the Future Fund, established as part of the 2012-13 Budget, will have a balance of around $4.7 billion.

Contributions to the Future Fund

The Future Fund will be created by the transfer of over $1 billion in seed capital (over the period 2012-13 to 2015-16) being monies from the *Royalties for Regions* (RfR) Fund, which has previously been announced would not be spent as part of the RfR program. These monies are comprised of:

- 3 per cent efficiency dividend and other savings previously agreed to and applied to the RfR Fund between 2009-10 and 2013-14 totalling $223 million; and
- 25 per cent of the revenue achieved through the 2011-12 Budget decision to remove the concessional royalty rate for iron ore 'fines'. This 25 per cent is estimated at $820 million by 2015-16 and was previously agreed by the National leader would not be spent but would be be quarantined in the RfR Fund for debt reduction purposes.

Once the seed capital is in place in 2016-17; for each of the 16 years thereafter, the Fund will receive at least one per cent of the State's annual royalty revenue – estimated at between $65 million to $70 million per annum. Furthermore, the interest earnings on the principal will also be diverted back into the Future Fund each year.

Through legislation to be introduced in the spring sittings of this Parliament, the Future Fund's principal and interest will be quarantined from spending for a period of 20 years.

Application of the Fund

Quarantining a portion of royalty revenue earned now will contribute to the financial security of the State and benefit future generations of Western Australians, allowing Governments-of-the-day to respond to future infrastructure requirements with an accumulated revenue reserve.

The Future Fund will earn annual interest of approximately $230 million a year by 2031-32. In 20 years' time, the State will be able to apply a minimum of $230 million in interest earnings to industrial infrastructure, technology infrastructure, science and education infrastructure, health or research infrastructure – whatever is in the best interests of the State at that time.

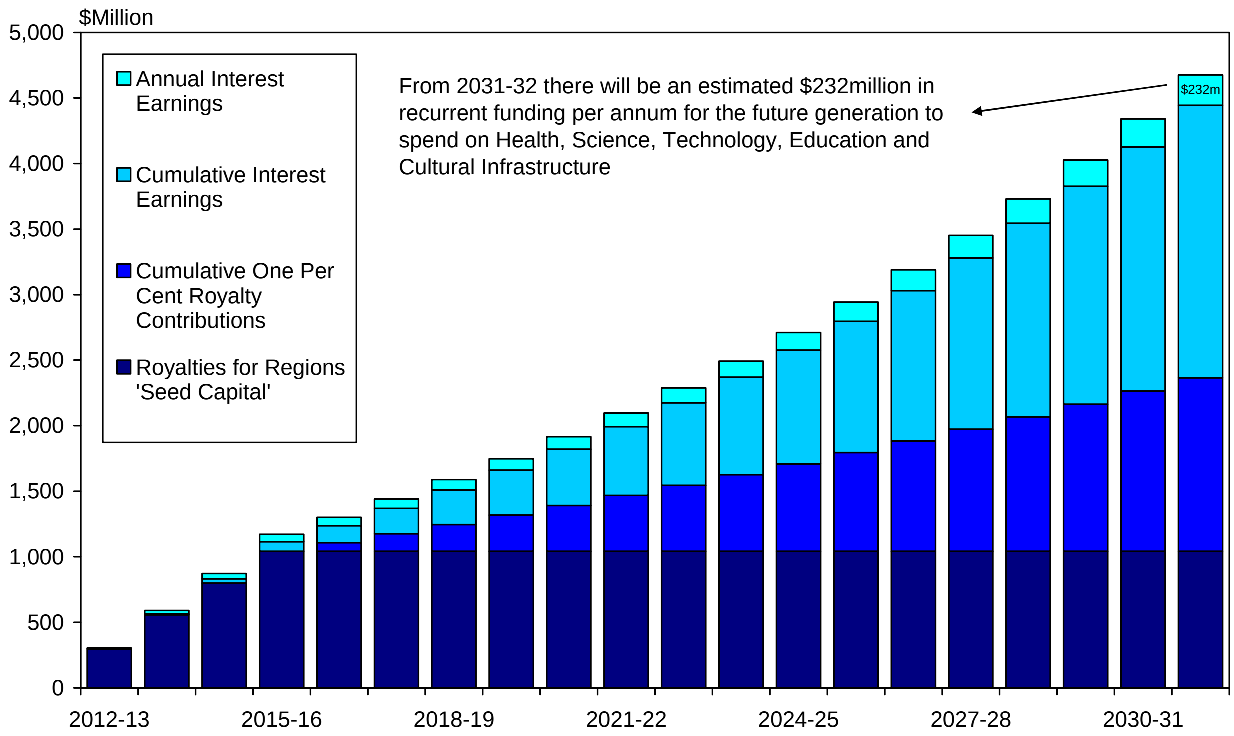
Management of the Fund

The Future Fund will be managed by the Department of Treasury and the Western Australian Treasury Corporation, and will form part of the State's Public Bank Account being invested in the same classes of assets as other public monies. This is a more cost-effective fund management option than establishing a new Government agency to manage the fund and diverse assets. For example, the Commonwealth's Future Fund model, which invests in more diverse assets than the State's Public Bank Account is permitted to, in 2010-11 included a staffing compliment of 79 and management costs of $444 million. Over the last decade, the State's Public Bank Account has earned an average return of approximately 5.2 per cent per annum, which is in line with the average return earned by the Commonwealth's Future Fund since its establishment in 2006.

Figure 1

WESTERN AUSTRALIAN FUTURE FUND

Estimated Balance



COST OF LIVING ASSISTANCE PAYMENT AND ELECTRICITY TARIFFS

Electricity Tariffs

The State Government has kept electricity tariff increases to a minimum in 2012-13 and in line with forecast CPI (3.5 per cent) for residential and small business customers.

This results in an increase to the 'representative' household of 95 cents per week.

Even after this, the price consumers pay for electricity will be well below the cost of production. As a result, the Government is expecting to pay an operating subsidy to Synergy and Horizon Power of $1.4 billion over the next four years, from general revenue. Western Australia will still have the fourth lowest electricity prices of any State in Australia.

Cost of Living Assistance Payment

The 2012-13 Budget also introduces a new energy subsidy payment, which will reduce electricity bills for a large number of Western Australian households in need. A total of $286 million will be devoted to this new electricity payment; the Cost of Living Assistance (CoLA) payment.

The CoLA payment will replace and increase the existing base concession that currently exists in the form of the Supply Charge Rebate (SCR).

The way in which relevant subsidies are presently provided to households for electricity costs is as follows.

The base subsidy is presently the SCR. Western Australian households that hold any one of the following concession cards are entitled to the SCR:

- Western Australian Seniors Card;
- Department of Veterans Affairs Gold Card;
- Pensioner Concession Card;
- Health Care Card; or
- Commonwealth Seniors Health Card.

For these households the SCR is presently a yearly rebate of $147 which is deducted off the year's total electricity bills for each eligible household.

Those households that hold a Health Care Card, Pensioner Concession Card or a Department of Veterans Affairs Gold Card (and are thereby entitled to the SCR) are also entitled to a further rebate if they have dependent children. A household that has one of the above concession cards **and** has one or more children in the household is additionally entitled to a Dependent Child Rebate (DCR) which operates on a sliding scale determined by the number of dependent children in the household.

By way of example, an eligible family with two dependent children will presently receive the base rebate being the SCR (a rebate of $147) and receive a DCR (a rebate of $297).

The new CoLA payment will replace the SCR and see the base yearly rebate to eligible recipients increase over 35 per cent from $147 to $200 per annum.

The new CoLA payment will be indexed to take account of any future price increases.

On top of the CoLA payment, all eligible families that also have dependent children will still continue to receive the DCR (in addition to the new CoLA).

By way of example of the operation of the new system:

- an eligible family with two dependent children would previously receive the base SCR of $147 per year – they will now receive the new CoLA payment of $200 per year and then receive the DCR payment (for two children) of $307. Taking the total annual rebate payments to $507. **This means that for an eligible family with two children they will now receive a yearly rebate equalling approximately one third of the average household's spending on electricity per annum**;
- an eligible family with three dependent children will receive the new CoLA payment of $200 per year plus the DCR payment (for three children) of $371 per year, taking the total annual rebate payments to $571. **This means that for an eligible family with three dependent children they will now receive a yearly rebate equalling over one third of the average household's spending on electricity per annum**; and
- an eligible family with four dependent children will receive the new CoLA payment of $200 per year plus the DCR payment (for four children) of $434 per year, taking the total annual rebate payments to $634. **This means that for an eligible family with four dependent children they will now receive a yearly rebate equalling over 40 per cent of the average household's spending on electricity per annum.**

The funding for the CoLA payment sees existing funding for the SCR and DCR supplemented by new funding of $24.7 million and the addition of $52.5 million in funding redirected from the Hardship Efficiency Program (HEP). The Government will end the HEP scheme having concluded that the HEP scheme had been largely unsuccessful in substantially mitigating against the effects of electricity price increases (HEP provided home energy audits and gave energy advice). The Government has determined that the HEP funding could be better spent assisting directly in reducing families' electricity bills than on conducting home energy audits or providing energy advice.

The final result is a further $77.1 million in additional money going directly to reducing the electricity bills of those most in need.

The Government expects that once rolled out in October 2012, the CoLA payment will reach over 340,000 Western Australian households.

In total, State government social concessions are now expected to be around $900 million in 2011-12 and to approach $1 billion in value in 2012-13 (see Appendix 5: State Government Social Concessions Expenditure Statement).

Existing recipients of the SCR will automatically be transferred to the CoLA payment from 1 October 2012. New applicants must register their details with their electricity retailer (Synergy or Horizon Power) as they would have been required to do under the previous system.

Hardship Utilities Grants Scheme

A total of $11.7 million has been allocated in 2012-13 to assist households in financial hardship pay their utilities' bills – an increase of $7.6 million over the previous 2012-13 allocation to the program. Under the Hardship Utilities Grants Scheme (HUGS), the State Government pays up to 85 per cent of a household's gas, electricity or water bill, where the individual is assessed as being in financial hardship. Together with the new CoLA payment, the increased allocation to HUGS reflects the Government's commitment to assisting disadvantaged and vulnerable households with their cost of living expenses.

WESTERN AUSTRALIA'S GST REVENUE

Western Australia's GST relativity will fall from 72 per cent in 2011-12 to only 55 per cent in 2012-13 and is expected to continue falling to 25 per cent by 2015-16. Growth in mining revenues is the major factor driving down Western Australia's GST share. The Commonwealth Grants Commission (CGC) process comprehensively redistributes this growth among all States, acting as a 100 per cent tax on any above-average fiscal capacity.

The chart and table in Attachment 1 compare Western Australia's projected GST grants to our population share. They indicate that, over the period 2011-12 to 2015-16, Western Australia will lose $15.3 billion – a massive penalty for Western Australia's economic success.

Table 1 in Attachment 2 summarises the changes in Western Australia's projected GST grants from the 2011-12 Budget, the 2011-12 MYR and the 2012-13 Budget. It encompasses downward revisions over that period to both the national pool of GST revenues (reflecting *inter alia* weakness in national consumption and dwelling investment) and Western Australia's share.

Western Australia's 2012-13 GST grant is expected to be $662 million lower than in 2011-12 (see details in Table 2 in Attachment 2). This is an unprecedented loss for one year and has meant the Western Australian Government has needed to pursue a range of savings measures to offset the money being taken off them by the Federal Government and CGC.

Review of the GST Distribution

On 30 March 2011, the Prime Minister announced a review into the GST distribution arrangements, to be conducted by the Hon Nick Greiner, the Hon John Brumby and Mr Bruce Carter. The review panel is to provide a final report to the Federal Treasurer, who will present the results to the Council of Australian Governments for consideration, before a final decision is made on new arrangements by the end of 2013. Subject to the timing of the Commonwealth Government's response to this review, there could be a significant impact on States' GST grant shares from 2014-15 onwards.

The Review Panel's interim report was released on 23 April 2012.

Encouragingly, the report acknowledges the need for reform and some of the Review Panel's interim views are consistent with those put forward in Western Australia's submission to the review, including:

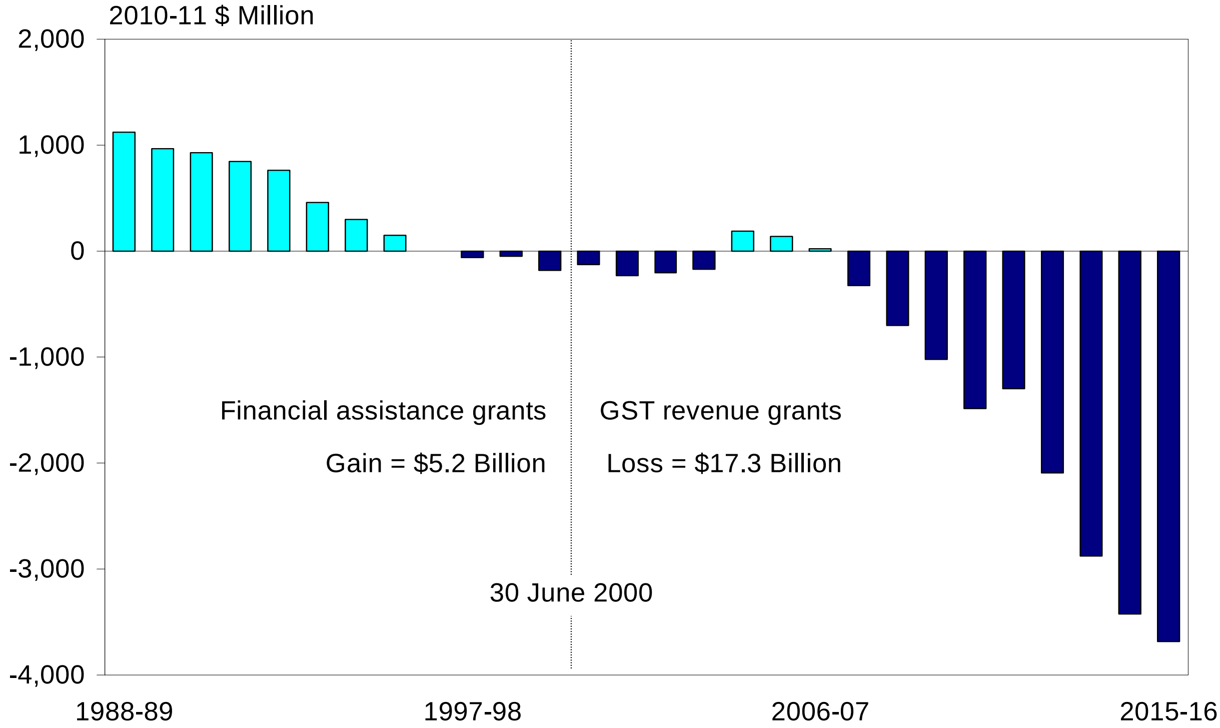
- not all mining related public infrastructure and other economic development costs are being appropriately recognised under current arrangements;
- discounting the CGC's mining revenue assessment could potentially address concerns relating to inadequate recognition of infrastructure needs, while also addressing efficiency concerns;
- there is a case for limiting the decline in a State's grant share in any one year, by ensuring grants are at least maintained in nominal terms (a payment floor); and
- new arrangements could be introduced for the donor States, with support still being provided to the recipient States.

However, the Review Panel's interim view that there is no compelling case for adopting a relativity floor at present is disappointing. The Western Australian Government will continue to push the case for a 75 per cent 'floor' as part of its drive for a fairer share of the GST for the State. A 75 per cent 'floor' would add an estimated $2.6 billion to Western Australia's GST grants in 2014-15 and a further $3.0 billion in 2015-16.

Parties opposed to reforming fiscal equalisation have suggested that Western Australia has historically been a beneficiary. However, as shown in the following graph, Western Australia has been an overall net contributor to fiscal equalisation since the beginning of major tariff reforms in 1988-89 (a major reason for the introduction of fiscal equalisation in the 1930s was to compensate States such as Western Australia for the costs imposed by tariffs).

Figure 1

FISCAL EQUALISATION SUBSIDY RECEIVED BY WESTERN AUSTRALIA SINCE TARIFF REFORM [(a)]



(a) Difference from equal per capita share of GST/financial assistance grants, budget balancing assistance and special revenue assistance, in net present value terms.

Source: Department of Treasury estimates.

Current GST Distribution Methodology

The Commonwealth Government distributes GST revenue among the States according to the 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. For example:

$$\text{WA's GST relativity} = \frac{\text{WA's share of national GST grants}}{\text{WA's share of national population}}$$

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:

$$\text{2012-13 GST relativity} = \frac{\text{2008-09 data-year relativity} + \text{2009-10 data-year relativity} + \text{2010-11 data-year relativity}}{3}$$

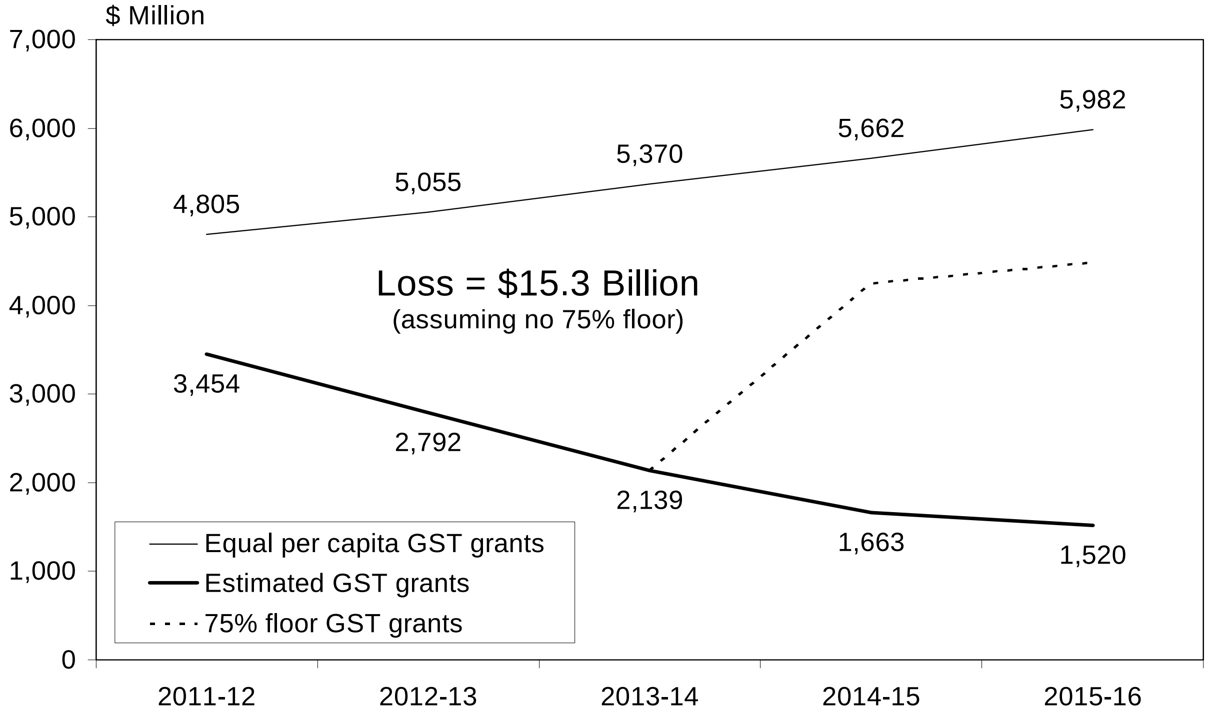
For Western Australia, the above calculation is:

$$55\% = \frac{76\% + 60\% + 30\%}{3}$$

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.

Figure 1

REDUCTION IN WESTERN AUSTRALIA'S GST REVENUE GRANTS



Source: Department of Treasury estimates.

Table 1

GST REVENUE LOSS AGAINST EQUAL PER CAPITA SHARE

	2011-12 $m	2012-13 $m	2013-14 $m	2014-15 $m	2015-16 $m	Total $m
2012-13 Budget	3,453.6	2,791.5	2,138.5	1,663.0	1,520.4	11,567.0
100% Population Share	4,804.7	5,055.2	5,370.1	5,661.6	5,982.4	26,874.0
Loss	1,351.1	2,263.7	3,231.6	3,998.6	4,462.0	15,307.0

Source: Department of Treasury estimates.

Table 1

GST REVENUE ESTIMATES

	2011-12 $m	2012-13 $m	2013-14 $m	2014-15 $m	2015-16 $m
2011-12 Budget	3,617.1	3,232.7	2,497.1	1,996.5	1,703.3
2011-12 MYR	3,572.8	3,188.4	2,527.2	2,134.4	1,872.0
2012-13 Budget	3,453.6	2,791.5	2,138.5	1,663.0	1,520.4
2012-13 Budget GST Relativity	***72%***	***55%***	***40%***	***29%***	***25%***
Change from					
2011-12 Budget to 2011-12 MYR	-44.3	-44.3	+30.1	+137.9	+168.7
2011-12 MYR to 2012-13 Budget	-119.2	-396.9	-388.7	-471.4	-351.6
Total	-163.5	-441.2	-358.6	-333.5	-182.9

Source: Department of Treasury estimates. Commonwealth projections of Western Australia's GST relativity for the forward years differ due to its use of a less precise methodology, but are much closer to Western Australia's estimates than has been the case in previous Budgets.

Table 2

ESTIMATED CHANGE IN WESTERN AUSTRALIA'S GST GRANT

2011-12 to 2012-13

	$m
Estimated 2011-12 GST grant	**3,454**
Take off increase in 2011-12 for underpayment in 2010-11	-34
Increase in the national GST pool	187
Increase in population share	27
Decrease in GST relativity	-843
Total Change	**-662**
Estimated 2012-13 GST grant	**2,792**

Source: Department of Treasury estimates.

RESPONSE TO KEELTY REPORTS

Perth Hills Bushfire Review and Margaret River Bushfire Review

Responsibility for fire management is shared between the Department of Environment and Conservation (DEC), the Fire and Emergency Services Authority (FESA) and local governments. DEC is responsible for all aspects of fire management on DEC-managed land and for fire prevention on unmanaged reserves and unallocated Crown land (UCL) outside gazetted fire districts, rural towns and regional centres. FESA is responsible for fire management in gazetted fire districts, including most rural towns, regional centres and the majority of the metropolitan area. Local government volunteer Bushfire Brigades are responsible for fire management on land outside gazetted fire districts that is not managed by DEC.

The Perth Hills Bushfire Review contained recommendations that broadly covered the risks of and from bushfires, and the ability to collect data and inform Government and communities on bushfire threats and mitigation. It also considered the adequacy of current preventative measures including prescribed burning, shortcomings in the response to, coordination of and communication across agencies about bushfires, and governance around critical decision making, resource allocation and the policy framework on bushfire mitigation and response.

The Margaret River Bushfire Review recommendations further reinforced the need for major improvements around response operations, particularly in the use of local knowledge and engagement with Volunteer Bushfire Brigades. It also made a number of recommendations for the review of DEC's policies, practices and operational guidelines on prescribed burns.

The following funding totalling $81.9 million was approved, as detailed below:

Table 1

BUSHFIRE REVIEW INITATIVES

Initiative	2012/13 $'000	2013/14 $'000	2014/15 $'000	2015/16 $'000	Total
Fire Preparedness [(a)]	7,300	8,270	8,516	8,772	32,858
Response to the 2011 Margaret River Bushfire [(b)]	5,000	5,000	5,000	5,000	20,000
Response to the 2011 Roleystone-Kelmscott Bushfire [(c)]	5,000	5,000	5,000	5,000	20,000
Margaret River Financial Assistance Scheme	5,000				5,000
Crisis Incident Management System	2,464	494	512	530	4,000
	24,764	18,764	19,028	19,302	81,858

(a) Funding to supplement DEC's full-time fire management staff, improve its capacity to undertake prescribed burning, enable it to purchase weather forecasting services and allow DEC to inspect, maintain and replace ageing bridges in its strategic road network that are vital to DEC's fire management program.

(b) Global provision to enable FESA to establish an Office of Bushfire Risk Management, improve response measures in the South West Cape region, increase the State's commitment to train and support volunteers, and to adequately resource the State Emergency Management Committee to assist in its formal assessment of the State's overall preparedness for large-scale emergencies.

(c) Global Provision to enable FESA to improve community information and awareness, incident intelligence, change management and governance and structural reform.

SOCIAL AND AFFORDABLE HOUSING

The State Government is investing $971 million in 2012-13 for the provision of social and affordable housing assets in Western Australia. In addition, $1.55 billion will be spent on the delivery of social and affordable housing services and programs. Total spending includes:

- $450 million under the Affordable Housing Expression of Interest Program including the SharedStart shared equity program to secure a range of affordable, entry-level properties across the State;
- $343.8 million on leasing costs for the provision of Government Regional Officers Housing (GROH) the operating costs for Indigenous housing including support tenancy services through non-government organisations and other supplies and services;
- $176.2 million for the purchase and development of land to produce 3,130 lots for sale and to enable the continued delivery of social and affordable housing initiatives;
- $140.2 million on other affordable housing initiatives for Western Australians on low to moderate incomes, key workers in regional communities and GROH;
- $137.8 million for accommodation expenses including the maintenance and repair of GROH and public houses;
- $135.7 million on the provision of social housing to those Western Australians in most need;
- $81.2 million for the final stage in the transfer of $600 million worth of public housing dwellings to Community Housing Organisations; and
- $47 million for the construction of dwellings for high needs clients of the Disability Services Commission and the Mental Health Commission.

Social Housing

The 2012-13 Budget places a high priority on providing more social housing for the most needy and vulnerable groups in the community.

The Housing Authority has been allocated capital funding of $138.7 million over three years for the construction of 449 dwellings which will comprise:

- 433 dwellings for people with high needs on the priority social housing waitlist ($130 million over two years); and
- 16 dwellings for individuals with mental health illnesses who are high need clients of the Mental Health Commission ($8.7 million over three years).

To assist the high need clients of the Mental Health Commission, the Disability Services Commission and the Drug and Alcohol Office to transition to independent community living, additional recurrent funding of $17.5 million over four years has also been provided.

This is in addition to the allocation of capital funding of $150.7 million over three years in the 2011-12 Budget for the construction of 284 dwellings for individuals who are high need clients of the Disability Services Commission ($95.7 million), the Mental Health Commission ($46.5 million) or the Drug and Alcohol Office ($8.5 million).

A total of $12 million additional funding over four years from 2012-13 ($3 million per annum) will be spent supporting the implementation of the Disruptive Behaviour Management Policy targeting unacceptable behaviour by public housing tenants, including managing and investigating complaints from the public.

In total, the Housing Authority is forecast to spend $182.7 million in 2012-13 and a total of $322 million over the next four years on the construction and purchase of social housing for low income clients and complex need clients. This investment, combined with the additional funding for special need clients and community housing sector partnerships, will see an estimated 419 new social housing dwellings commenced in 2012-13, and a total of 917 new dwellings commenced over the forward estimates period.

Affordable Housing

The Government has committed $389.4 million over five years under the *Royalties for Regions* Housing for Workers Program to deliver increased affordable housing opportunities for key workers in regional communities who are unable to access affordable housing options. The program will see the provision of affordable purchase and rental opportunities, with an additional 712 houses expected to be constructed from the initial investment. It will also support private sector development to help grow local businesses and assist in sustaining the delivery of key services by increasing the number of households living in regional areas.

The Housing Authority will also continue to increase the supply of affordable private rental properties through its strong participation in the National Rental Affordability Scheme, in conjunction with the Commonwealth Government. In Western Australia, 6,000 new affordable rentals will be built by June 2016, with 435 homes completed by 31 March 2012 and 5,000 expected to be completed by 30 June 2014. These properties will provide a significant rent discount of at least 20 per cent for people on low to moderate incomes struggling in the rental market, including in the State's North West.

Under the Affordable Housing Expression of Interest Program, the Housing Authority is securing a range of affordable, entry-level properties across the State. Up to 2,000 new properties are being built for low to moderate income earners, including regional key workers, through the SharedStart shared equity loan program.

The Housing Authority has budgeted to transfer 1,181 dwellings, to the value of $328 million, to Community Housing Organisations over two years from 2011-12. This is in addition to 1,041 dwellings already transferred during 2010-11, taking the total value of public housing transferred to $600 million. This is expected to enable the community housing providers with demonstrated capacity to fund and procure additional social housing stock to leverage a further 298 dwellings over the forward estimates. This strategy aims to increase the scale of the providers, enabling them to own and manage a sizeable housing portfolio, mobilise their revenue, taxation and other benefits from their charitable status and use these assets to raise capital to provide ongoing growth in social and affordable housing.

ROYALTY RATE ANALYSIS

The Government commits to undertake an analysis of existing royalty rates in Western Australia over the next three years, intended to:

- examine the ongoing efficacy and appropriateness of the long-standing and still prevailing 1981 policy position that the revenue actually returned from the royalties applied to any mineral resource is to be an amount broadly equivalent to one tenth of the total mine head value of the mineral resource in question; and
- examine the extent to which present actual rates of royalties produce revenue amounts which differ from the present target amount of one tenth of the total mine head value of mineral resources and identify appropriate instances where, in consultation with the industry, royalty rates may be adjusted so that future actual royalty rates will produce revenue amounts more closely correlated to the present target amount of one tenth of the total mine head value of the mineral resource in question.

The analysis will involve a three year period of consultation with potentially affected industries to end before 1 July 2015.

The Department of State Development will play a key role in coordinating this process and in negotiations with industry, while the Department of Mines and Petroleum will play a key role in the analysis of the correlation (in different mineral categories) between revenue returned pursuant to present actual royalty rates and the present target amount of one tenth of the total mine head value.

It is not expected that eventual revenue gains from the process described above will be substantial in budgetary terms and it will not be the case that eventual increased revenue will be comparable to the quantum achieved by the recent removal of the discounted royalties applied to fines iron ore (which in 2015-16 is estimated to generate additional royalty revenue of $975 million, as indicated in the table below). Rather the analysis is designed, over time and in consultation with industry, to achieve a marginally improved return of revenue to the Western Australian community from the sale of the mineral products that the community owns.

Importantly it must be noted that the longstanding and still prevailing target of a tenth of the total mine head value of a mineral resource does not mean and is not achieved by a 10 per cent rate of royalty. And further, the Government does not intend to pursue any thoroughgoing change of all relevant royalty rates to actual royalty rates which would produce revenue to meet the prevailing target of an amount broadly equivalent to one tenth of the total mine head value. This is because the Government's present best estimates are that the actual royalty rates needed to produce revenue equivalent to the prevailing target of an amount equivalent to one tenth of the total mine head value of a mineral resource are presently unlikely to be achievable. The Government at all times will have regard to the changing economic viability of commodity sectors.

The budget papers contain one figure, representing an estimate of revenue resultant from changes that may be made after the analysis and consultation described above; being an amount of revenue in the fiscal year 2015-16 of $180 million. It should be noted that:

- the amount of $180 million represents a maximum figure of expected revenue, which, based on best present estimates, is less than one quarter of the estimated additional royalty revenue that would be required to meet the still prevailing 1981 policy of a target rate of return broadly equivalent to one tenth of the mine head value of all minerals; and

- the estimated amount of $180 million thereby acknowledges that any changes to royalty rates made after the analysis and consultation described above would be unlikely, based on a maximum estimated amount of revenue of $180 million, to be significantly greater than 0.5 per cent of present actual royalty rates applying in any sector and in some instances may be less. It also anticipates the necessity to allow for a range of potential exemptions for either entire mineral classes or specific projects, from any decisions which changed actual royalty rates in a way designed to achieve greater correlation between royalty revenue actually returned and the prevailing target amount of one tenth of the total mine head value.

The *Royalties for Regions* (RfR) component of this additional royalty revenue will be quarantined from spending out of the RfR Fund.

Consideration of potential royalty rates for magnetite iron ore is not part of this process.

The following table outlines the royalty income and GST loss associated with the 2011-12 Budget measure to implement a phased increase in the royalty rate for iron ore fines, along with the $180 million increase in royalty income associated with the royalty rate analysis announced in the 2012-13 Budget.

Table 1

ROYALTY INCOME

Revenue Estimate

	2011-12 $m	2012-13 $m	2013-14 $m	2014-15 $m	2015-16 $m
Royalty rate – iron ore 'fines'[a]	5.625%	6.5%	7.5%	7.5%	7.5%
Royalty income ($m)	–	399	939	966	975
Royalty Rate Analysis ($m)	–	–	–	–	180
GST impact ($m)[b]	–	–	–	-86	-298
TOTAL	**–**	**399**	**939**	**880**	**857**

Source: Department of Treasury and Department of Mines and Petroleum estimates.

(a) In 2010-11 the royalty rate for iron ore 'fines' under State Agreement Acts increased from 3.75 per cent to 5.625 per cent (the same as under the *Mining Act 1978*), resulting in additional royalty revenue of $397 million (excluding any adjustment for GST).

(b) The GST impacts shown relate to the removal of the royalty concession for iron ore fines in the 2011-12 Budget. The royalty rate analysis is not expected to impact on GST grants until 2017-18.

CHANGES IN MAJOR AGENCIES' BUDGETS

The following table outlines the total change in expenditure of key service delivery agencies between 2008-09 and 2012-13. The expenditure represents the total cost of providing services to the community. In addition to appropriations (funding provided by the State Government), expenses may also be funded by other sources, such as Commonwealth grants or fees and charges for services.

Table 1

GROWTH IN EXPENDITURE

Western Australia

	2008-09 $ m	2012-13 $ m	Total Growth of the Period %	Annual Average Growth %
Department of Health	4,854	6,763	39.3	8.6
Department of Education	3,266	4,059	24.3	5.6
Main Roads Western Australia	1,446	1,723	19.2	4.5
Western Australia Police	924	1,177	27.4	6.2
Public Transport Authority	840	1,152	37.1	8.2
Department of Corrective Services	579	773	33.5	7.5
Disability Services Commission	434	723	66.5	13.6
Department of Training and Workforce Development	542	699	28.9	6.6
Mental Health Commission[1]	471	655	39.2	8.6
Department for Child Protection	353	536	52.1	11.1
Department of the Attorney General	449	501	11.6	2.8
Department of Transport	249	361	44.8	9.7
Department of Environment and Conservation	329	360	9.5	2.3
Fire and Emergency Services Authority	224	310	38.1	8.4

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

[1] 2008-09 figures have been adjusted to reflect transfer of responsibilities to the Mental Health Commission – including total cost of specialised mental health, community mental health and residential mental health services.