2013-14 BUDGET Fact Sheets

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WHERE THE MONEY COMES FROM AND WHERE IT GOES

A general government sector operating surplus (i.e. a surplus on the day-to-day or recurrent operations of the general government sector, excluding capital expenditure on new infrastructure) of $386 million is forecast for 2013-14. This is the difference between forecast revenue of $28 billion and recurrent spending (i.e. expenses) of $27.6 billion for 2013-14.

The outlook for the general government operating surplus is shown in the following table. As a share of revenue, these surplus projections are small (e.g. the $386 million surplus forecast for 2013-14 equates to just 1.4% of general government revenue). The surplus provides a buffer against unexpected movements in revenue and/or expenses (for example, the forecast surplus for 2013-14 is equivalent to an approximately US5 cent appreciation in the exchange rate, or a $US8.50 fall in the iron ore price). The operating surplus also provides a non-debt source of funding for infrastructure, reducing the rate at which net debt would otherwise increase. This in turn helps to maintain Western Australia's triple-A credit rating, which is a key factor in supporting investment confidence in the State.

Table 1

GENERAL GOVERNMENT OPERATING SURPLUS

	2011-12 Actual	2012-13 Estimated Actual	2013-14 Budget Estimate	2014-15 Forward Estimate	2015-16 Forward Estimate	2016-17 Forward Estimate
GENERAL GOVERNMENT SECTOR						
Net Operating Balance ($m)	**649**	**239**	**386**	**-147**	**128**	**16**
Revenue ($m)	25,220	25,696	27,978	27,917	29,165	30,348
Revenue Growth (%)	5.5	1.9	8.9	-0.2	4.5	4.1
Expenses ($m)	24,571	25,457	27,592	28,065	29,036	30,332
Expense Growth (%)	10.2	3.6	8.4	1.7	3.5	4.5

Revenue

Total general government revenue is forecast to be $28 billion in 2013-14, an increase of 8.9% or $2.3 billion compared to the estimated actual for 2012-13 (of $25.7 billion).

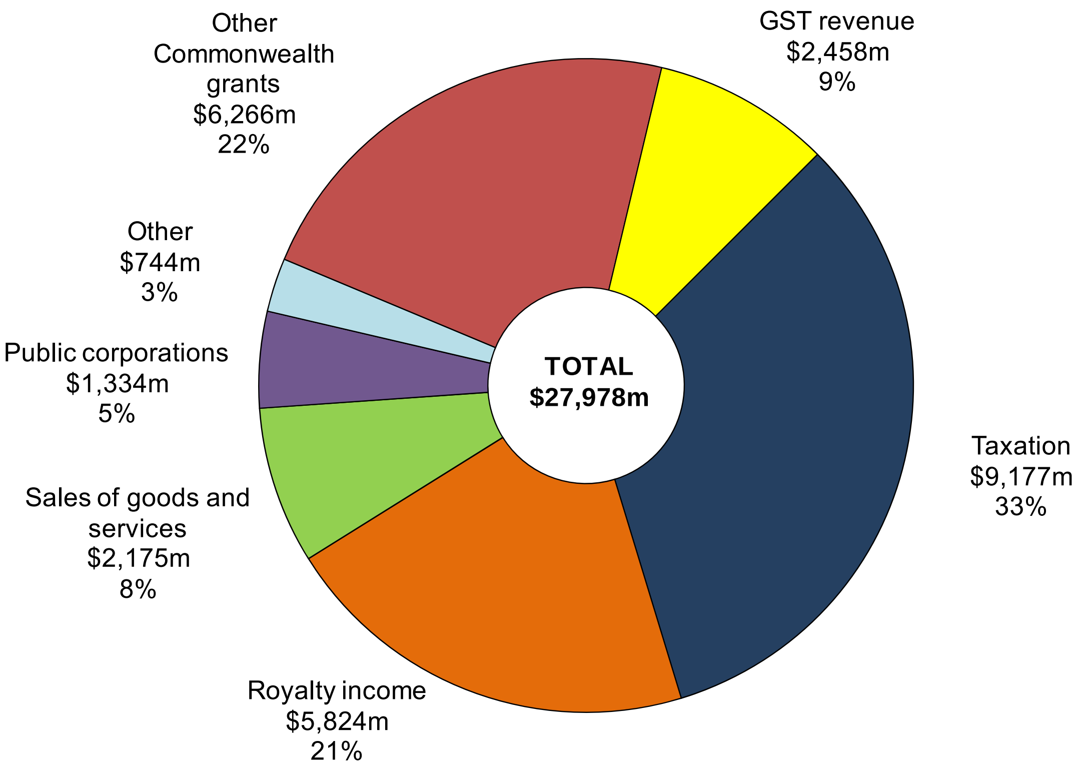
This increase is based on an expectation of strong growth in own source revenue (predominantly State taxes and mining royalties) and is boosted by several new revenue measures contained in the Fiscal Action Plan, as well as the previously scheduled increase in the iron ore 'fines' royalty rate from 6.5% to 7.5% from 1 July 2013. The strong growth in own source revenue is partially offset by a further decline in the contribution to total revenue from Commonwealth grants. In particular, the State's GST revenue is expected to fall by a further $477 million (or 16.2%) in 2013-14, with Western Australia's share of national GST revenue falling to just 44.6% of our population share.

The composition of State revenue has changed significantly in recent years. For example, the share of total revenue attributable to royalty income has increased from 5% in 2003-04 to 21% in 2013-14. Conversely, Commonwealth grants are shrinking rapidly as a proportion of total State revenue. After reaching a peak of almost 50% in 2001-02, Commonwealth grants are expected to account for just 31% of total revenue in 2013-14. A key factor driving changes to Commonwealth grants is the significant penalty for Western Australia associated with the Commonwealth Grants Commission process for distributing national GST collections.

The major sources of revenue in 2013-14 are shown in the following chart.

Chart 1

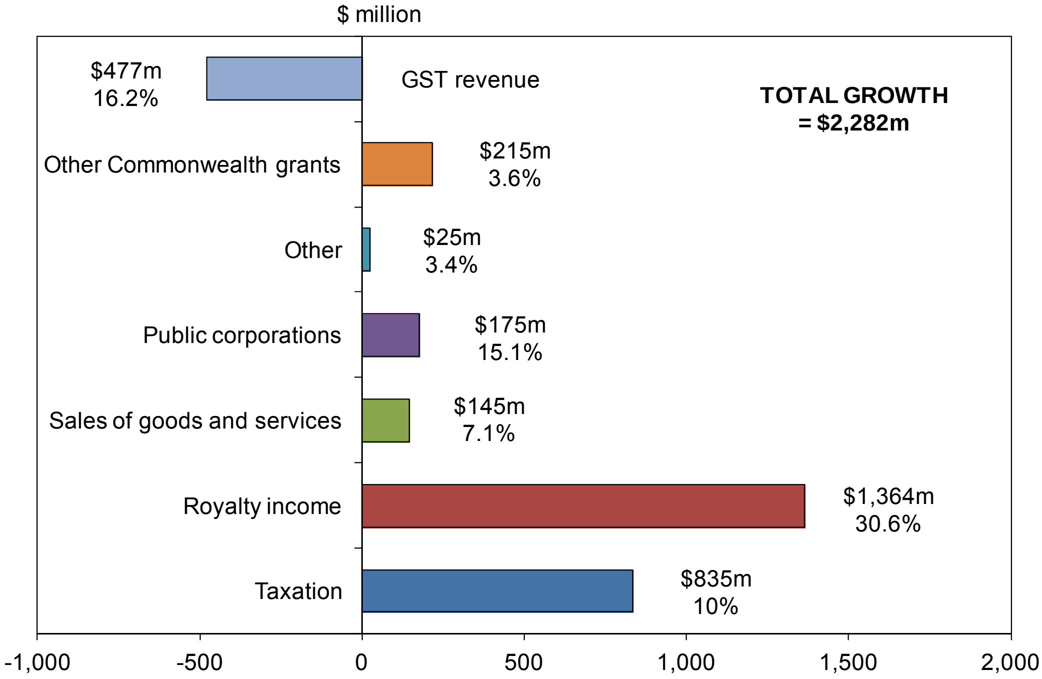
2013-14 REVENUE



Source: Department of Treasury estimates.

Chart 2

CHANGES IN REVENUE, 2013-14



Source: Department of Treasury estimates.

Total revenue is forecast to grow by an average of just 2.7% per annum over the period 2014-15 to 2016-17, with forecast growth in the State's own source revenue continuing to be offset by further declines in GST revenue.

Growth in taxation revenue over the forward estimates period is forecast to average 4.9% per annum. This is lower than the long-run average rate of growth of 6.9% and reflects an anticipated moderation in domestic economic conditions as business investment peaks and major resource projects move from the construction to the production phase.

Royalty income is projected to grow by an average of 5.9% per annum over the forward estimates period. This assumes that a tapering-off in commodity prices will be offset by increased production and the impact of a gradual decline in the $US/$A exchange rate. The royalty income estimates also incorporate a provision of $180 million in 2015-16 and $187 million in 2016-17 for additional royalty income from the 2012-13 Budget decision to undertake an analysis of existing royalty rates.

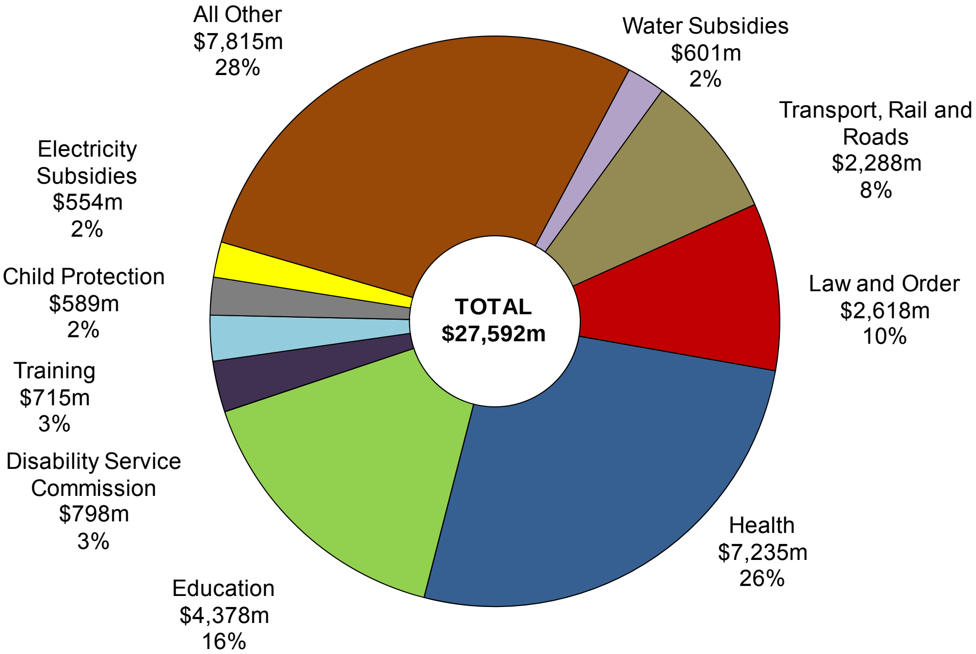
Expenses

General government sector expenses are budgeted to total $27.6 billion in 2013-14, an increase of $2.1 billion or 8.4% relative to the estimated outturn for 2012-13 ($25.5 billion). This rate of growth is below the expected growth in general government revenue in 2013-14 (of $2.3 billion or 8.9%), consistent with the Government's new financial target to contain expense growth to no more than growth in revenue.

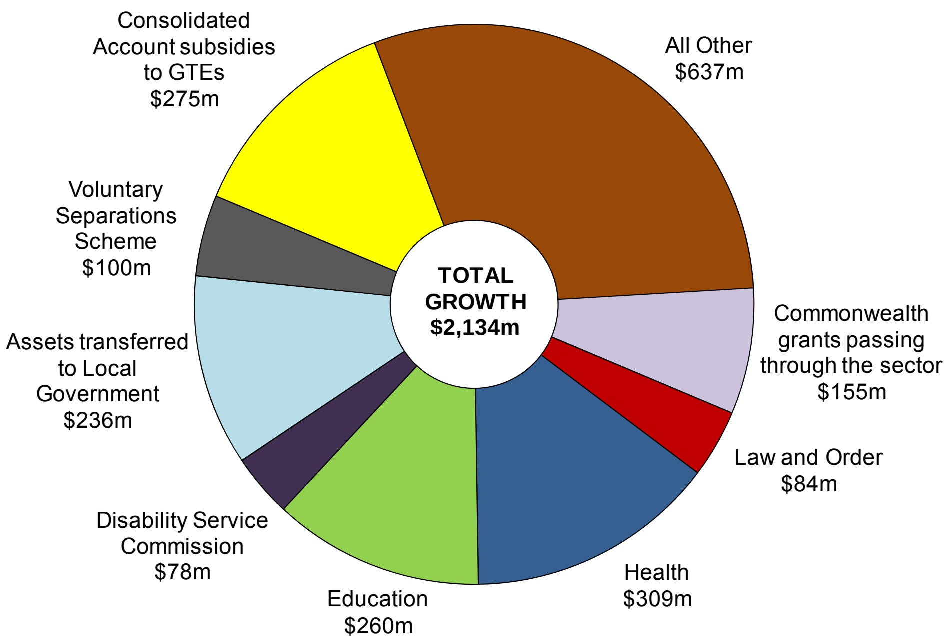
The following chart shows that recurrent expenditure on health, education, and law and order comprises an estimated 52% of total general government expenses in 2013-14. These activities, along with increased operating subsidies to Government Trading Enterprises, account for a significant proportion of the growth in expenditure relative to 2012-13 (refer second image below).

Chart 3

SHARE OF EXPENSES, 2013-14



INCREASE IN EXPENSES, 2013-14



Source: Department of Treasury estimates.

Major recurrent expenditure initiatives in the 2013-14 Budget include:

- an additional $2.5 billion in recurrent health spending over the four years to 2016-17 to:
  - address increasing demand for hospital and health services driven by a growing and ageing population;
  - meet agreed wage increases for registered nurses and midwives;
  - provide an additional 155 school health nurses;
  - expand community-based palliative care; and
  - improve Indigenous health outcomes;
- an additional $1.2 billion across the forward estimates for the Department of Education to:
  - accommodate record growth in student enrolments (arising from local demographics and interstate and international migration) and other cost pressures; and
  - provide additional funding for the expansion of Independent Public Schools;
- a recurrent spending allocation of $215 million to increase police resources by an additional 550 officers from 2013-14 to 2016-17 (including over 80 additional officers in 2013-14 alone);
- an additional $131 million to 2016-17 to meet demand for inpatient mental health services; and
- an additional $29 million over four years to meet expected growth in demand for disability services, plus a further $3.7 million to provide free accessible vehicle bay parking permits to eligible people with disability.

FISCAL ACTION PLAN

The 2013-14 Budget includes a $6.8 billion Fiscal Action Plan over four years, comprising new revenue measures, public sector workforce reforms, targeted program savings and program evaluation, and re-prioritisation of the Government's Asset Investment Program.

The Fiscal Action Plan will enable the Government to inject significant additional resources into health, education, law and order, and other priority areas, and at the same time deliver a forecast general government operating surplus of $386 million in 2013-14.

The Fiscal Action Plan is required to address the significant challenges facing the State's finances, including:

- a moderation in economic growth, as the economy transitions from a peak in business investment to the export phase;
- weaker tax forecasts, particularly for payroll tax, as the economic transition is accompanied by softer demand for labour;
- a softening in commodity prices; and
- continued deterioration in the State's share of national GST revenue, with Western Australia's GST revenue forecast to fall to just $500 million by 2016-17 (down from $2.9 billion in 2012-13).

As a result, revenue growth is expected to remain well below historical levels over the four years to 2016-17. At the same time, population growth is driving unprecedented demand for government services and infrastructure, and this is placing pressure on expenditure growth and net debt levels.

The Fiscal Action Plan demonstrates the Government's commitment to the principles of sound financial management by ensuring the State's finances remain on a sustainable footing, and by limiting growth in net debt to affordable levels. The financial impact of the Fiscal Action Plan measures is shown in Table 1 below.

Table 1

FINANCIAL IMPACT OF 2013-14 BUDGET FISCAL ACTION PLAN

	2012-13 $m	2013-14 $m	2014-15 $m	2015-16 $m	2016-17 $m	**Total $m**
General government operating impact						
Revenue						
Revenue measures						
Defered abolition of transfer duty on non-real property	-	125	122	134	147	**527**
Land tax (12.5% increase in rates)	-	73	80	88	97	**338**
Halve private vehicle concession	-	21	43	45	46	**155**
School fees for children of 457 visa holders	-	17	34	34	34	**120**
Tax administration package	-	235	73	73	73	**454**
Program-level savings measures	-	4	10	15	15	**44**
Total revenue impact	-	*475*	*362*	*389*	*413*	***1,639***
Expense						
Public sector workforce reform(a)	-	15	-511	-928	-1,445	**-2,869**
Program evaluation	-	-	-50	-50	-50	**-150**
Program-level savings measures	-	-52	-106	-142	-122	**-422**
Public transport cost recovery	-	-	-8	-26	-50	**-84**
Temporary procurement and advertising freeze	-84	-	-	-	-	**-84**
Interest savings	-	-4	-29	-84	-170	**-286**
Total expense impact	*-84*	*-41*	*-705*	*-1,229*	*-1,836*	***-3,895***
Total operating impact	**84**	**516**	**1,067**	**1,617**	**2,249**	**5,534**
Other savings impacting net debt at 30 June						
Infrastructure spending audit	-3	-181	-159	-294	-400	**-1,037**
Program evaluation	-	-	-	-100	-100	**-200**
Program-level savings measures	-4	-18	-15	-13	-10	**-60**
Total other net debt impact	**-7**	**-200**	**-174**	**-407**	**-511**	**-1,297**
Total annual impact	**-91**	**-716**	**-1,241**	**-2,024**	**-2,760**	**-6,831**

(a) Includes the cost of voluntary separations in 2013-14 (estimated at $100m).

Overview of Fiscal Action Plan measures

Revenue measures

The Fiscal Action Plan includes the following revenue measures:

Deferred abolition of transfer duty on non-real property

- The abolition of transfer duty on non-real business assets (such as goodwill and intellectual property) has been deferred indefinitely, with the necessary legislation having recently been passed by the Parliament. This measure is expected to save $125 million in 2013-14 and a total of $527 million across the four years to 2016-17.

Land tax (12.5% increase in rates)

- Land tax rates are to increase by 12.5% from 2013-14, raising an estimated $73 million in 2013-14 and a total of $338 million over the four years to 2016-17. Despite the increase, land tax in Western Australia will remain significantly below that of other jurisdictions.

Halve private vehicle concession

- The private vehicle concession for motor vehicle registration fees ($72 per vehicle in 2013-14), which is available to anyone who drives a vehicle for non-business purposes, will be halved from 1 January 2014. This measure will raise an estimated $21 million in 2013-14 and a total of $155 million over the four years to 2016-17.

School fees for children of 457 visa holders

- School fees of $4,000 per annum per student will apply from January 2014 for children of 457 visa holders. The number of dependents of 457 visa holders attending government schools has increased from 290 in 2005 to 8,600 in 2013, imposing a significant impost on the public purse. This measure will raise an estimated $17 million in 2013-14 and a total of $120 million over the four years to 2016-17.

Taxation Administration Package

- A Taxation Administration Package will be implemented from 2013-14, which includes initiatives to:
  - improve the timely follow-up of outstanding payroll tax returns;
  - undertake more payroll tax desk audit work;
  - increase the timeliness of mid-complexity duty assessment processing; and
  - issue interim assessments for complex, high value transactions where duty is often delayed for up to five years due to the need to finalise all aspects of the assessment, even though much of it may not be in dispute.
- This measure is expected to raise an estimated $235 million in 2013-14 and a total of $454 million over the four years to 2016-17. Of this total amount, $443 million is a bring-forward of revenue (from beyond the forward estimates period) that would have been raised anyway.

Expenditure measures

The Fiscal Action Plan also includes a range of general government expense measures:

Public Sector Workforce Reforms

- General government sector salaries costs have been specifically targeted through a package of public sector workforce reforms. This package is expected to save an estimated $2.9 billion across the four years to 2016-17 and includes:
  - a cap on general government agencies' salaries budgets at 2012-13 estimated outturn levels, with increases from 2013-14 onwards limited to projected growth in the Perth Consumer Price Index (CPI), unless explicitly approved otherwise by Cabinet;
  - introduction of a new Public Sector Wages Policy from November 2013, capping wage and conditions increases to projected growth in the CPI;
  - amendments to the *Industrial Relations Act 1979* and *Salaries and Allowances Act 1975* to ensure decisions by the Western Australian Industrial Relations Commission and Salaries and Allowances Tribunal have appropriate regard to the Government's fiscal strategy and wage determination settings; and
  - implementation of an integrated package of management tools to increase public sector workforce flexibility. This entails an enhanced voluntary separation program for up to 1,000 Full Time Equivalent (FTE) staff over 2013-14, and enhanced redeployment arrangements that may ultimately end with the (involuntary) retrenchment of employees that are surplus to an agency's requirements and cannot be effectively redeployed.

Program Evaluation

- A new, systematic approach to program and service evaluation will be embedded across the public sector, with recurrent savings of $150 million targeted over the forward estimates period (and further net debt savings of $200 million also targeted). More information on this measure can be found in the Fact Sheet: *Program Evaluation.*

Program-level savings measures

- Rationalisation of existing programs and activities that are no longer considered a priority or do not provide value for money have been identified across portfolio agencies. This measure is expected to save $52 million in 2013-14 and a total of $422 million in recurrent expenditure across the four years to 2016-17 (and a further $60 million in capital expenditure savings). More information can be found in the Fact Sheet: *Program Rationalisation*.

Public transport cost recovery

- Savings are to be achieved by improving the level of cost recovery on public transport, with a target cost recovery rate of 40% by 2016-17 (up from the current 31%). This measure is expected to save $8 million in 2014-15 and a total of $84 million across the three years to 2016-17.

Re-prioritisation of the Government's Asset Investment Program

- The Government has completed a review of its Asset Investment Program and identified around $1 billion worth of net debt savings over the period to 2016-17. These savings are largely associated with revised timeframes for the delivery of projects.

PUBLIC SECTOR WORKFORCE REFORM

The public sector workforce reform package was announced in June 2013 and comprises the following measures:

- a cap on growth in general government agencies' salaries expenditure equal to projected growth in the Consumer Price Index (CPI);
- a new public sector wages policy that caps wage and conditions increases to projected growth in the CPI;
- a voluntary severance scheme targeting 1,000 positions across the general government sector; and
- enhanced redeployment arrangements, supported by legislative amendments, to provide for involuntary redundancy as a measure of last resort.

The measures reduce net debt levels by an estimated $2.9 billion over the four years to 2016-17.

CPI Cap on Salaries Expense Growth

Over the four years to 2011-12, general government salaries expense growth averaged 8.6% per year. In response to this unsustainable trend, growth in general government agencies' salaries expenditure has been capped at projected growth in the Perth CPI. Agencies reporting above-CPI growth have had their salary expense budgets re-based accordingly. In this respect, CPI growth is forecast at 2.5% per annum from 2013-14.

Total salaries expenditure across the general government sector is budgeted to increase by $689 million or 6.8% in 2013-14. This includes a provision of $100 million for the estimated up-front cost of 1,000 voluntary severances in 2013-14. Abstracting from this, salaries expenditure is estimated to grow by 5.8% – well down on the 8.6% average growth over the four years to 2011-12. The above-CPI growth in salaries expenditure reflects the impact of discrete policy measures in the 2013-14 Budget, such as the police boost, as well as additional resources in Health and Education to meet unprecedented levels of demand generated by Western Australia's rapidly growing population.

Public Sector Wages Policy

A new public sector wages policy will come into effect from 1 November 2013. The new public sector wages policy caps increases in wages and associated conditions for Enterprise Bargaining Agreements at the projected growth in the Perth CPI (currently 2.5% per annum).

Legislative amendments will be introduced to ensure that decisions made by the Western Australian Industrial Relations Commission and the Salaries and Allowances Tribunal have appropriate regard for the Government's fiscal strategy, including the public sector wages policy.

Voluntary Severance Scheme

The enhanced voluntary severance scheme commenced on 1 July 2013, targeting 1,000 positions across the general government sector. The scheme is set to close in December 2013 and allows for a temporary increase in the maximum payment in lieu of notice – from 12 weeks' pay to 20 weeks' pay. Employees who have the necessary past service may therefore qualify for a maximum separation package equivalent to 72 weeks' pay.

Agencies that seek to use the enhanced voluntary severance scheme as a tool to achieve their re-based salaries expense limit, have priority access to the scheme.

Enhanced Redeployment Arrangements

Urgent legislative amendments will be introduced to establish involuntary redundancy as a measure of last resort for managing surplus employees. For public sector employees who are surplus to requirements, cannot be redeployed effectively, and choose not to accept a voluntary separation offer, involuntary redundancy will be introduced as a clear end-point to the redeployment process.

The enhanced redeployment process provides for a 12 week career transition process, followed by ongoing employment for a period consistent with the surplus employee's length of service payment (to a maximum of 40 weeks). If, at the end of this process (a maximum of 52 weeks), the employee has not been successfully redeployed, they will be made redundant.

It is anticipated that the enhanced redeployment arrangements will take effect from 2014-15.

UTILITY CHARGES AND THE HOUSEHOLD MODEL

Utility Charges

The Government has implemented modest increases in utility charges to strike a balance between reducing impacts on households, ensuring utility prices better reflect the cost of service provision, and responsibly managing the State's finances. These changes, which took effect from 1 July 2013, include:

- a 4% increase in residential electricity tariffs;
- a 6% increase in the Water Corporation's total water tariffs (water, wastewater and drainage);
- a 5% increase in public transport fares, with the exception of the 50 cent student fare, which is unchanged;
- a 5% increase in drivers licence fees;
- a 13% effective increase in motor vehicle registration fees (this includes reducing the private vehicle concession by half from 1 January 2014, which forms part of the Government's Fiscal Action Plan);
- a 4.1% increase in compulsory third party insurance premiums; and
- a 7.3% increase in the Emergency Services Levy.

Impact on the Household Model

Total expenditure by the 'representative household' on this basket of Government goods and services in 2013-14 is $5,004.31. This represents an increase of $234.98, or 4.93%, on 2012-13 levels.

Even after the increases outlined above, the representative household in Western Australia has amongst the lowest expenditure on State Government goods and services when compared to expenditure in other jurisdictions. For example:

- Western Australians will still spend less on electricity than comparable households in Tasmania, South Australia and New South Wales;
- public transport fares will remain significantly lower than those in Queensland and New South Wales, and will remain competitive with other jurisdictions; and
- motor vehicle charges will remain amongst the lowest in Australia, particularly with respect to compulsory third party insurance premiums.

Assistance for Households

The Government recognises that some individuals and families need assistance to pay utility bills. The Government funds the Hardship Utilities Grants Scheme (HUGS) to help people in financial difficulty to pay water, gas and electricity bills so that supply is not cut off. To apply for HUGS, customers can contact their electricity, gas or water supplier.

In addition, in last year's State Budget, the Government introduced a new Cost of Living Assistance (CoLA) payment to help low income Western Australian families pay electricity bills. The CoLA payment increased to $208 from 1 July 2013, in-line with the tariff increases outlined above.

WESTERN AUSTRALIA'S GST REVENUE

Western Australia's population share of the GST will fall from 55% in 2012-13 to only 45% in 2013-14 and is expected to continue falling to 7% by 2016-17. 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% tax on any above-average fiscal capacity.

Over the period 2012-13 to 2016-17, Western Australia will lose $21.1 billion in GST grants compared to receiving its population share of the national GST pool – a massive penalty for Western Australia's economic success (see Attachment A).

In 2013-14 Western Australia's GST grant is expected to be $477 million lower than in 2012-13 (see Table 2 in Attachment B). Western Australia will receive less GST than the Northern Territory in 2013-14, despite the Northern Territory having less than one tenth of Western Australia's population.

Estimated 2013-14 GST grants		
	Western Australia	Northern Territory
Population share	10.9%	1.0%
Share of national GST	4.9%	5.5%
Estimated GST grant ($m)	2,458	2,755
GST per capita ($pc)	967	11,524

The continued loss of GST grants means that the Western Australian Government needs to pursue a range of savings and revenue-raising measures to ensure the sustainability of the State's finances.

GST Forecasts

Forecasts of Western Australia's GST relativities from 2014-15 to 2016-17 are based on the 2013-14 Commonwealth Budget estimates of the national GST pool and populations and the Department of Treasury's assessments of Western Australia's revenue capacity and expenditure requirements relative to other States.[1]

By contrast, the Commonwealth has published essentially 'mechanical' projections, which assume little change in States' relative fiscal capacities after 2011-12. As a result, Western Australia's forecasts are generally more accurate than the Commonwealth's. For example, the Commonwealth's average forecasting errors for Western Australia's GST relativity for 2012-13 and 2013-14 have been around three times higher than Western Australia's average forecasting errors.

The GST relativities have been projected by the Department of Treasury on a 'no methodology change' basis, apart from changing the present CGC treatment of iron ore 'fines' royalties.

The CGC currently measures States' relative capacities to collect royalty revenue from onshore minerals under 'low rate' and 'high rate' categories, with iron ore 'fines' classified to the 'low rate' category.

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[1] In line with the CGC's methodology, these assessments are based on a rolling three year average of our assessments of Western Australia's revenue capacity and expenditure requirements (relative to other States) for preceding years. For example, the relativity projections for 2016-17 are based on the Department of Treasury's projected assessments of States' revenue capacities and expenditure requirements for the years 2012-13 to 2014-15.

For its 2014 Update Report (which will determine States' shares of GST grants in 2014-15), the CGC is reviewing this classification in light of Western Australia's decision to align the 'fines' royalty rate with the 'lump' iron ore rate. The State Government has received no assurance from the Commonwealth Treasurer that he will direct the CGC to keep iron ore 'fines' in its 'low rate' category.

Consequently, for the purposes of the 2013-14 Budget forward estimates, it is considered that there is no choice but to assume that the CGC will reclassify iron ore 'fines' to its 'high rate' royalty category from 2014-15, notwithstanding that this will be vigorously contested by Western Australia. This results in a loss of revenue of $1.6 billion over the forward estimates. In this regard, the independent GST Distribution Review,[2] commissioned by the Commonwealth Government, strongly criticised the CGC's 'high rate'/'low rate' royalty assessment methodology, and it is expected that a new method for measuring States' relative mining revenue capacities will be introduced through the 2015 Methodology Review.

Table 3 in Attachment B quantifies, relative to the 2013-14 Budget forward estimates, some of the other options the CGC has advised that it is considering in its 2014 Update (noting that a broader range of options is likely to be considered in the CGC's 2015 Methodology Review).

Commonwealth Grants Commission 2015 Methodology Review

In June 2013, the Commonwealth Government issued its terms of reference for the CGC's 2015 Methodology Review, which is due to provide a draft report for consideration by the Standing Council of Commonwealth and State Treasurers within 12 months and a final report by 28 February 2015.

The CGC has been instructed to have regard to a number of the recommendations from the GST Distribution Review final report, including by progressing as a matter of priority:

- the development of a new mining revenue assessment;
  - the GST Distribution Review indicated specifically that the new assessment should avoid excessively large GST share effects, such as when a commodity (e.g. iron ore 'fines') moves between groups under the current assessment (i.e. between 'low rate' and 'high rate' royalty groups); and
- consideration of the appropriate treatment of mining-related expenditure;
  - the GST Distribution Review recommended (effectively) discounting the mining revenue assessment by 3% from 2013-14 in order to compensate for mining-related needs of the resource States that are not fully recognised by the CGC (at least until the CGC had completed its methodology review). However, the Commonwealth Government did not accept this recommendation.

The results of the 2015 Review could have significant impacts on Western Australia's GST grant from 2015-16 onwards.

Longer-Term Reform

The GST Distribution Review final report put forward a long-term vision of an equal per capita distribution of GST grants, with the Commonwealth providing top-up equalisation payments to the smaller States (similar to a joint proposal by Western Australia, New South Wales, Victoria and Queensland).

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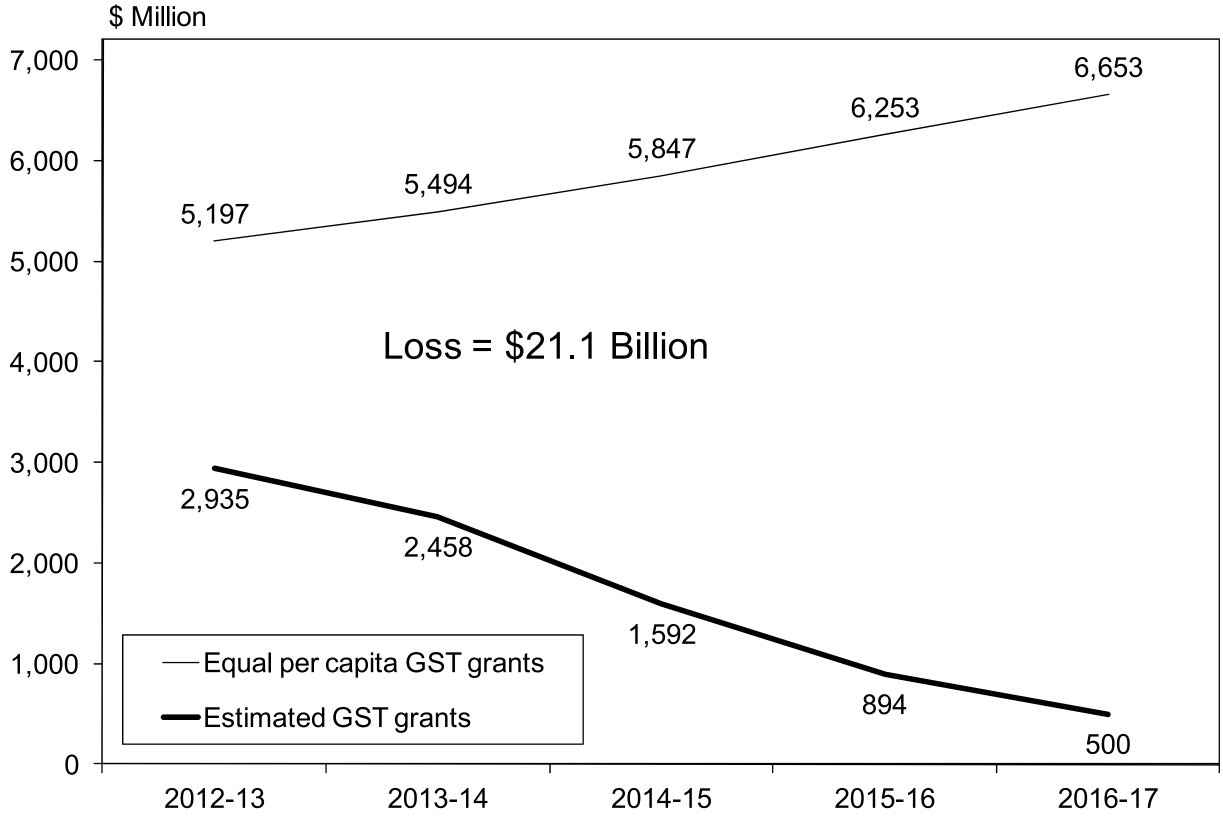
2 On 30 March 2011, the then Prime Minister, the Hon Julia Gillard MP, announced a review of the arrangements for distributing GST revenue grants among the States. The review was conducted by the Hon Nick Greiner, the Hon John Brumby and Mr Bruce Carter, with assistance from the Commonwealth Treasury. The final report was released by the Commonwealth Government on 30 November 2012.

The vision also included a reduction in Australia's vertical fiscal imbalance, which would be achieved by reducing the level of specific purpose funding to the States, and more closely matching revenue raising and expenditure responsibilities.

Such a model would help address many of the problems in Australia's federal financial relations but requires a commitment to reform from the Commonwealth Government that has not been forthcoming.

Chart 1

REDUCTION IN WESTERN AUSTRALIA'S GST REVENUE GRANTS



Source: Department of Treasury Estimates

Table 1

GST REVENUE LOSS AGAINST EQUAL PER CAPITA SHARE

	2012-13 $m	2013-14 $m	2014-15 $m	2015-16 $m	2016-17 $m	Total $m
2013-14 Budget	2,935.3	2,458.4	1,591.7	893.5	500.1	8,379
100% Population Share	5,196.8	5,493.8	5,847.2	6,253.3	6,653.4	29,444.5
LOSS	**2,261.5**	**3,035.4**	**4,255.5**	**5,359.8**	**6,153.3**	**21,065.5**

Source: Department of Treasury Estimates

Table 2

ESTIMATED CHANGE IN WESTERN AUSTRALIA'S GST GRANT

2012-13 to 2013-14

	$m
Estimated 2012-13 GST grant	**2,935**
Exclude adjustment for underpayment in 2011-12	-91
Increase in the national GST pool	+152
Increase in population share	+42
Decrease in GST relativity	-580
Total Change	**-477**
ESTIMATED 2013-14 GST GRANT	**2,458**

Source: Department of Treasury estimates.

Table 3

INDICATIVE IMPACT OF CGC MINING ASSESSMENT CHANGES POSSIBLE SCENARIOS, RELATIVE TO STATE BUDGET

Western Australia

	2014-15 $m	2015-16 $m	2016-17 $m
Iron ore 'fines' remains 'low rate'	+230	+527	+877
Separate iron ore component [(a)]	+146	+321	+534
50% iron ore 'fines' reclassified to 'high rate'	+122	+297	+500
Separate iron ore 'fines' category [(b)]	+104	+199	+326

(a) Not explicitly identified as an option to date by the CGC for the 2014 Update but used by the CGC as a 'reference method'.

(b) In practice, this would apply only in 2014-15.

Source: Department of Treasury estimates

KEY AGENCIES' RECURRENT APPROPRIATION AND EXPENSE MOVEMENTS

The following tables outline changes in the recurrent appropriations and expenses of key service delivery agencies for 2013-14. Appropriations represent State Government funding (provided from the central pool of State tax revenue, royalties and 'untied' Commonwealth grants) to assist agencies to provide 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 specific-purpose Commonwealth grants or agency fees and charges.

Because expenses comprise all funding sources, they are considered to provide a more comprehensive view of agencies' activities.

Table 1

RECURRENT APPROPRIATION

Western Australia

	2012-13 $m	2013-14 $m	Change $m	Change %
WA Health	3,838.5	4,196.3	357.8	9.3
Education	3,483.6	3,600.3	116.7	3.3
Western Australia Police	1,136.4	1,181.5	45.1	4.0
Commissioner of Main Roads	713.0	855.3	142.3	20.0
Corrective Services	737.2	754.6	17.4	2.4
Public Transport Authority of Western Australia (a)	646.5	684.1	37.6	5.8
Disability Services Commission	577.9	636.8	58.9	10.2
Mental Health Commission	475.8	556.9	81.1	17.0
Child Protection and Family Support	496.8	526.7	29.9	6.0
Training and Workforce Development	473.3	459.3	-14.0	-3.0
Attorney General	332.5	339.6	7.1	2.1
Parks and Wildlife	205.1	202.0	-3.1	-1.5
Transport	140.3	149.0	8.7	6.2
Fire and Emergency Services	50.5	36.4	-14.1	-27.9

(a) Comprises the operating subsidy provided along with the appropriation for salaries and allowances.

Table 2

RECURRENT EXPENSES

Western Australia

	2012-13 $m	2013-14 $m	Change $m	Change %
WA Health	6,925.8	7,234.9	309.1	4.5
Education	4,117.9	4,377.9	260.0	6.3
Commissioner of Main Roads	1,855.0	2,155.6	300.6	16.2
Western Australia Police	1,206.5	1,262.9	56.4	4.7
Public Transport Authority of Western Australia	1,157.8	1,217.9	60.1	5.2
Corrective Services	815.2	828.5	13.4	1.6
Disability Services Commission	719.9	797.7	77.8	10.8
Mental Health Commission	678.4	734.0	55.6	8.2
Training and Workforce Development	705.0	714.9	9.8	1.4
Child Protection and Family Support	559.1	589.4	30.4	5.4
Attorney General	512.2	526.3	14.1	2.7
Transport	339.7	367.9	28.2	8.3
Fire and Emergency Services	306.8	325.9	19.1	6.2
Parks and Wildlife	284.6	290.8	6.2	2.2

Further detail on the budget outlook for agencies is available in Budget Paper No. 2: *Budget Statements*, available at www.ourstatebudget.wa.gov.au

HOUSING SUPPLY PACKAGE

Western Australia's annual average population growth **of 3.4% in the year to December** 2012 was the highest of all States and Territories and double the national rate of 1.7%. This rate of population growth has placed considerable pressure on the existing stock of housing in the State.

The Housing Supply Package is designed to help alleviate the gap between housing demand and supply by increasing the number of affordable rental properties in Western Australia; targeting the first home owner grant to new homes; and streamlining the State's residential building and approvals processes.

National Rental Affordability Scheme (NRAS)

The Government has committed to bid for a further 1,000 NRAS incentives from the Commonwealth Government. The total cost of these incentives to the State is estimated to be $47.8 million over 13 years from 2015-16.

The NRAS stimulates the supply of new affordable rental dwellings across Australia by providing investors with an incentive to rent new dwellings to lower income households at a rate at least 20% below the prevailing market rate. The incentive is funded 75% by the Commonwealth and 25% by the State.

Since 2008, the State Government has approved 7,000 NRAS incentives for Western Australia at an estimated total cost of approximately $268 million to 2027-28. To date, 1,427 NRAS dwellings have been delivered in Western Australia, with a further 5,573 dwellings to be delivered by 2016-17.

First Home Owner Grant (FHOG)

A $7,000 FHOG is currently available for first home buyers who purchase a property up to the value of $750,000 (or up to $1 million if the home is located north of the 26th parallel. The Government will increase the value of the FHOG to $10,000 for first home owners purchasing or building a new home. Purchasers of an established home will receive a $3,000 FHOG. Subject to the passage of the required legislative amendments, these changes are intended to take effect from 15 September 2013.

Providing a higher FHOG for new homes is expected to increase housing supply as first home buyers will have a greater incentive to build a new dwelling rather than purchase an established home.

In 2012-13, around three-quarters (14,140) of FHOG recipients purchased an established home. Unlike in most other jurisdictions, first home buyers of established homes in Western Australia will continue to receive a FHOG (albeit reduced). In addition, first home buyers will continue to be exempt from transfer duty on new and established home purchases up to $500,000 (phasing out at $600,000) and on vacant land purchases up to $300,000 (phasing out at $400,000).

Compared to other jurisdictions, first home buyers of an established home in Western Australia will continue to receive generous State government assistance.

Table 1

STATE GOVERNMENT FIRST HOME BUYER ASSISTANCE FOR A $500,000 ESTABLISHED HOME IN THE METROPOLITAN AREA

	WA $	NSW $	VIC $	QLD $	SA $	TAS $	ACT $	NT $
FHOG	3,000	-	-	-	5,000	7,000	-	12,000
Duty Concession	17,765	-	-	8,750	-	-	-	-
Total Assistance	**20,765**	**-**	**-**	**8,750**	**5,000**	**7,000**	**-**	**12,000**

A more detailed inter-jurisdictional comparison of first home buyer assistance is included in Attachment A.

Review of Residential Planning and Building Approvals Processes

The Government has committed to undertake a targeted review of residential planning and building approvals processes, as inefficiencies in the current planning and building approvals processes may be stifling the supply response to increased demand for housing. The review is intended to be completed within six months.

The Department of Finance's Regulatory Gatekeeping Unit will:

- 'audit' previous reviews into planning and building approvals processes, their recommendations and implementation status; and
- consult with key government and industry stakeholders to progress the outcomes of the audit and propose revised processes, roles and accountabilities that will simplify and streamline current approvals processes.

The full terms of reference for the review are outlined in Attachment B.

INTER-JURISDICTIONAL ANALYSIS OF FIRST HOME BUYER ASSISTANCE

Table 2

Summary of Total First Home Buyer Assistance (Grant and Duty Concession) - Established House Purchased in October 2013 (Metropolitan Area) [(a)]

	WA	NSW	VIC	QLD	SA [(b)]	TAS [(c)]	ACT	NT [(d)]
	$	$	$	$	$	$	$	$
Property value								
$100,000	4,500	-	-	1,000	5,000	7,000	-	12,000
$200,000	8,035	-	-	2,000	5,000	7,000	-	12,000
$300,000	11,835	-	-	3,000	5,000	7,000	-	12,000
$400,000	16,015	-	-	5,250	5,000	7,000	-	12,000
$500,000	20,765	-	-	8,750	5,000	7,000	-	12,000
$600,000	3,000	-	-	-	-	7,000	-	12,000
$750,000	3,000	-	-	-	-	7,000	-	-
$1,000,000	-	-	-	-	-	7,000	-	-

(a) These amounts are the sum of the grant and/or duty concessions paid in the relevant jurisdiction.

(b) $5,000 grant reduces to zero from 1 July 2014.

(c) $7,000 grant reduces to zero from 1 July 2014.

(d) $25,000 for established homes in regional areas.

Table 3

Summary of Total First Home Buyer Assistance (Grant and Duty Concession) - New House Purchased in October 2013 (Metropolitan Area) [(a)]

	WA	NSW [(b)]	VIC	QLD	SA [(c)]	TAS [(d)]	ACT	NT
	$	$	$	$	$	$	$	$
Property value								
$100,000	11,500	16,990	10,860	16,000	23,500	15,000	12,500	25,000
$200,000	15,035	20,490	12,548	17,000	23,500	15,000	12,500	25,000
$300,000	18,835	23,990	14,548	18,000	23,500	15,000	12,500	25,000
$400,000	23,015	28,490	16,548	20,250	23,500	15,000	12,500	25,000
$500,000	27,765	32,990	18,788	23,750	15,000	15,000	12,500	25,000
$600,000	10,000	25,120	22,428	15,000	-	15,000	12,500	25,000
$750,000	10,000	-	10,000	15,000	-	15,000	12,500	-
$1,000,000	-	-	-	-	-	15,000	-	-

(a) These amounts are the sum of the grant and/or duty concessions paid in the relevant jurisdiction.

(b) Reduces by $5,000 from 1 January 2016 (when FHOG reduces from $15,000 to $10,000).

(c) Includes a Housing Construction Grant of up to $8,500 available for new homes (valued up to $450,000) until 31 December 2013.

(d) Includes $8,000 First Home Builder Boost (scheduled to end 30 June 2014); from 1 July 2014 reduces to $7,000.

Review of Residential Planning and Building Approvals Processes

Terms of Reference

Western Australia is experiencing record population growth – double that of the nation as a whole. This brings with it significant demand for housing which both Government and industry need to respond to effectively. This requires an efficient supply of vacant residential lots and new homes. At the same time, there is a concern that inefficiencies in the current planning and building approvals processes are contributing to inadequate housing supply levels.

The Government is committed to simplifying and streamlining the current residential building and planning approvals processes as part of a broader housing supply package, focusing on both:

- factors affecting the turning of zoned land into titled lots—for example, environmental approvals (State and Commonwealth), regional and local hard infrastructure (roads, public transport, water, sewerage, power), community infrastructure (parks, schools, libraries), and land use planning (subdivision design, R-Codes, densities etc.); and
- factors affecting the turning of lots into housing—for example, the consistent and timely assessment against planning and building regulations by the relevant agencies involved, particularly in respect to content of Local Government Authority planning schemes, policies and design guidelines, requirements of the Building Code of Australia, and the cost and transparency of providing water, power and other infrastructure (especially for infill development).

As such, the Government has tasked the Regulatory Gate Keeping Unit within the Department of Finance to:

- by no later than 8 November 2013:
  1. undertake an audit of previous planning and building approvals reviews, including:
     a. determining the implementation status of each recommendation;
     b. assessing each recommendation's impact on housing supply; and
     c. developing a detailed implementation plan for each recommendation that is assessed to positively affect housing supply;
  2. assess the functions and accountability of each body involved in building and planning approvals decision-making, along with the associated process and timing, highlighting any areas of duplication and/or inefficiency in current processes; and

- by no later than 8 February 2014:

  1. consult with the Master Builders Association of Western Australia, Property Council of WA, the Housing Industry Association, the Urban Development Institute of Australia (WA), Planning Institute of Australia, Western Australian Local Government Association and a range of Government stakeholders including the Office of Land and Housing Supply and provide recommendations to the Treasurer, the Minister for Housing and the Minister for Planning:

     a. progressing the outcomes of the audit referred to above; and

     b. identifying revised processes, roles and accountabilities that will simplify and streamline current approvals processes, including the scope or potential for:

        i. improving the consistency, equity and transparency of the process used to determine the requirements for land development approvals;

        ii. code-based assessment of low-impact buildings such as single residential dwellings;

        iii. planning concessions or incentives for higher-density and/or apartment developments in the audit of planning and building approvals reviews above;

        iv. internet-based electronic lodgement, assessment and tracking systems;

        v. the use of performance-based incentives/funding to support local governments that meet target timeframes for development application assessment;

        vi. removal of all local government regulatory creep and legislating against the implementation of new regulations outside State or Australian standards;

        vii. uniform implementation of track-based assessment of development applications;

        viii. limits on the use of design controls or restrictive covenants that inhibit affordability;

        ix. State government control over uniform application of the residential design codes; and

        x. uniform local government application of the Building Code of Australia.

OVERVIEW OF TAXATION REVENUE MEASURES

The 2013-14 Budget tax revenue measures are designed to assist in returning the State's finances to a more sustainable position, while at the same time ensuring the State's tax base remains competitive with other States.

The primary measures include relatively modest changes to land tax rates together with the deferral of the abolition of duty on non-real business assets, a number of tax administration initiatives, and changes to the motor vehicle registration concession for private vehicles.

The 2013-14 Budget also delivers the State Government's commitment to increase the payroll tax exemption threshold.

In net terms, these revenue measures are estimated to raise $453 million in 2013-14 and a total of $1.3 billion over the four years to 2016-17.

Table 1

SUMMARY OF TAXATION REVENUE MEASURES IN THE 2013-14 BUDGET

	2013-14 $m	2014-15 $m	2015-16 $m	2016-17 $m	**Total $m**
Defer the abolition of duty on non-real business assets	125	122	134	147	**527**
12.5% increase in land tax rates	73	80	88	97	**338**
Taxation Administration Package (a)	233	72	72	72	**449**
Increase payroll tax exemption threshold	-	-27	-30	-64	**-121**
Motor vehicle registration fees – halve discount for private vehicles	21	44	45	46	**155**
TOTAL	**453**	**290**	**310**	**298**	**1,348**

(a) Estimates include Office of State Revenue system and staffing costs.
Note: Totals may not tally due to rounding.

Duty on Non-Real Business Assets

As previously announced, the Government has deferred the abolition of duty on non-real business assets until budget circumstances allow.

Legislation has been passed to ensure that duty continues to apply to transfers of non-real business assets, such as goodwill, intellectual property and statutory business licences.

New South Wales, Queensland, South Australia and the Northern Territory have also announced the deferral of the abolition of this duty.

This measure is estimated to save $527 million over the forward estimates period.

Land Tax

Land tax in Western Australia is significantly lower than in all other States. According to the Commonwealth Grants Commission, Western Australia's land taxing 'effort'[1] is around 63% below the average of all other States and Territories.

To assist in addressing the imbalance between revenue and expenditure growth, land tax rates in Western Australia will be increased by 12.5% from the 2013-14 land tax year, as shown in the table below. This is expected to increase land tax revenue over the forward estimates period by $338 million.

Table 2

LAND TAX SCALES IN THE 2013-14 BUDGET

	2012-13 Scale		2013-14 Scale	
Threshold	Tax at Threshold	Marginal Rate on Excess	Tax at Threshold	Marginal Rate on Excess
$	$	%	$	%
300,000	0	0.09%	0	0.10%
1,000,000	630	0.47%	700	0.53%
2,200,000	6,270	1.22%	7,060	1.37%
5,500,000	46,530	1.46%	52,270	1.64%
11,000,000	126,830	2.16%	142,470	2.43%

Even after this increase, Western Australia's land tax rates will remain significantly below those of other jurisdictions. For example, land tax payable on land with an unimproved value of $1 million in Western Australia will now be $700 (up from $630), compared to $9,604 in New South Wales, $9,447 in South Australia and $4,500 in Queensland.

The majority of taxpayers will only experience a modest increase in their land tax bill. Around 80% of taxpayers are estimated to have an increase of $70 or less (excluding the impact of any land valuation changes). More details are included in Attachment A.

Taxation Administration Package

Increased resources for the Office of State Revenue will help improve the timeliness of, and compliance with, payroll tax and duties, including through the introduction of interim duty assessments for complex high value transactions that would otherwise be expected to take up to five years to assess.

These tax administration measures are estimated to raise revenue of $454 million over the forward estimates period ($449 million net of related expenses), the vast majority of which is a bring-forward of revenue from beyond the forward estimates period. More details are included in Budget Paper No. 3.

[1] Excluding the Metropolitan Region Improvement Tax.

Payroll Tax

The State Government is also increasing the payroll tax exemption threshold from $750,000 to $800,000 from 1 July 2014 and then to $850,000 from 1 July 2016.

This increase in the exemption threshold is expected to benefit more than 16,000 employers at a cost of $121 million over the forward estimates period.

Motor Vehicle Registration Fees

Currently, a flat annual discount of $72 applies to motor vehicle registration fees for private vehicles. The concession is available to anyone who drives a vehicle for non-business purposes, regardless of income, the value of the vehicle, or how many kilometres the vehicle travels.

As the concession is not targeted to people who need it the most or to any environmental outcomes, the concession will be halved from 1 January 2014. This will save a total of $155 million across the forward estimates.

Even after this measure, Western Australia will continue to enjoy the lowest vehicle registration fees and compulsory third party insurance premiums (combined) of any jurisdiction (see Table 3).

Table 3

MOTOR VEHICLE REGISTRATION

Fees and Compulsory Third Party Premiums (Combined)

NSW [(a)] $ p.a.	VIC $ p.a.	QLD $ p.a.	WA $ p.a.	SA $ p.a.	TAS $ p.a.	NT $ p.a.	ACT $ p.a.
1,054.00	712.10	820.00	585.86	745.00	622.16	693.45	1,120.90

(a). In NSW, CTP insurance is compulsory but not collected by the State. Quotes vary between insurance companies and are dependent on individual driver risk (but are generally in the vicinity of $400 to $800). This figure assumes a CTP insurance costs of $583 (an actual average for Sydney metropolitan, provided by ICWA)

Note: Costs are based on a six cylinder Holden Commodore.

Table 4

INTER-JURISDICTIONAL COMPARISON OF LAND TAX PAYABLE

Land Value	WA Current	WA New	NSW	VIC	QLD	SA	TAS	ACT
$	$	$	$	$	$	$	$	$
100,000	0	0	0	0	0	0	463	625
200,000	0	0	0	0	0	0	1,013	1,420
300,000	0	0	0	375	0	0	1,563	2,538
400,000	90	100	0	575	0	420	2,588	4,338
500,000	180	200	1,604	775	0	920	4,088	6,138
1,000,000	630	700	9,604	2,975	4,500	9,447	11,588	15,138
3,000,000	16,030	18,020	43,676	24,975	37,500	82,771	41,588	51,138
5,000,000	40,430	45,420	83,676	69,975	62,500	156,771	71,588	87,138
10,000,000	112,230	126,070	183,676	182,475	150,000	341,771	146,588	177,138
15,000,000	213,230	239,670	283,676	294,975	237,500	526,771	221,588	267,138

Table 5

LAND TAX INCREASE BY AMOUNT AND NUMBER OF TAXPAYERS [(a)]

Threshold	Tax Payable Current	Tax Payable New	Tax Increase	No of Taxpayers	% of Taxpayers
$	$	$	$		
300,000	0	0	0	0	0.0%
400,000	90	100	10	31,957	28.5%
500,000	180	200	20	18,981	16.9%
600,000	270	300	30	12,748	11.4%
700,000	360	400	40	9,843	8.8%
800,000	450	500	50	6,778	6.0%
900,000	540	600	60	5,079	4.5%
1,000,000	630	700	70	4,176	3.7%
2,000,000	5,330	6,000	670	14,933	13.3%
3,000,000	16,030	18,020	1,990	3,687	3.3%
4,000,000	28,230	31,720	3,490	1,447	1.3%
5,000,000	40,430	45,420	4,990	711	0.6%
10,000,000	112,230	126,070	13,840	1,238	1.1%
Over 10m				676	0.6%
				112,254	100.0%

(a) Excludes the impact of any valuation changes experienced by individual taxpayers.

PROGRAM EVALUATION

The Government is committed to value for money in service delivery and is implementing a new, systematic approach to program evaluation across the Western Australian public sector.

Rolling Program Evaluations

In 2013-14 the State Government will spend over $27 billion delivering services and programs for the benefit of the Western Australian community. The Government is committed to delivering these services and programs as effectively and efficiently as possible.

The Government will establish a Steering Committee of Directors General to conduct rolling program evaluations of existing programs and service delivery areas. These program evaluations will firstly establish that there is still a genuine need for a particular program or service, and secondly will identify opportunities for delivering the service more efficiently and effectively. This may result in government partnering with alternative service providers.

The Government is targeting recurrent savings from this initiative of $50 million per annum from 2014-15 and a total of $350 million in net debt savings over the forward estimates period. Specific program savings will be annually detailed in future Budget Papers.

Sunset Clauses

From January 2014, material new policy proposals will be subject to ‘sunset clauses’, whereby additional expenditure will be allocated for a finite period only, and continuation of the program beyond that period will be conditional on a rigorous independent evaluation demonstrating that the program is achieving its intended objectives and delivering value for money. If the evaluation cannot demonstrate this, then the program—and the associated expenditure—will cease.

It is expected that this approach will result in significant savings over the medium- to long-term as more efficient methods of service delivery are identified and implemented, and as programs that have achieved their goals are ceased in favour of new areas of priority funding.

Program Evaluation Unit

The above initiatives will be supported by a new Program Evaluation Unit (PEU) in the Department of Treasury (Treasury). The PEU will be established and funded from a restructure and reprioritisation of Treasury’s existing resources.

PROGRAM RATIONALISATION

The Government's $6.8 billion Fiscal Action Plan (see separate Fact Sheet) includes savings totalling $526.5 million (in net debt terms) from a range of program rationalisation measures.

These savings measures were identified following a review by Ministers and agencies of existing programs and activities across the public sector that are no longer considered a priority or do not provide value for taxpayers' money.

While the quantum of required savings is reflected in relevant agencies' approved budgets, the Budget Papers do not provide agency-level detail of how these savings will be achieved. In this regard, Ministers and agencies have a degree of flexibility as to how they implement their required savings, to ensure minimal disruption to service delivery.

However, some examples of where the Government is targeting savings over the forward estimates period include:

- Synergy – a net debt benefit totalling $76.9 million from reducing the rate paid to participants of the Feed-in Tariff Scheme from the current 40 cents per kilowatt hour (of electricity exported into the network) to 30 cents from 1 October 2013, and then to 20 cents from 1 July 2014;
- Public Transport Authority – savings of $27.6 million from the discontinuation of, or reduction in, a number of public transport programs that have been assessed as not delivering value for money, including the 4am Trains Trial on Saturdays and Sundays, the Fremantle Night Rider Service and the AvonLink rail car service;
- Department of Commerce – savings of $16.8 million primarily through internal restructuring of the Department's Industry and Innovation Division (following the transfer of the Office of Science to the Premier's portfolio) and Labour Relations Division (following implementation of the Government's new public sector wages policy);
- Department of the Premier and Cabinet – savings of $5.3 million from a revised Parliamentary Electorate Offices relocation and refurbishment program, reduction in staff and changes to vehicle leasing, travel and leave management policies; and
- Commissioner for Equal Opportunity – savings of $1.5 million from the abolition of the Commission's Substantive Equality Unit.