

2009-10 ANNUAL REPORT ON STATE FINANCES

- The *Annual Report on State Finances (ARSF)* is a statutory requirement of the *Government Financial Responsibility Act 2000*, and is audited by the Auditor General.
- Outcomes in the ARSF are reported against the original 2009-10 State Budget estimates.
- The following table summarises the key financial outcomes for 2009-10 as published in the ARSF.

Table 1

KEY BUDGET AGGREGATES

	2008-09	2009-10					
	Actual	Budget Estimate (1)	MYR Revision (2)	Estimated Outturn (3)	Actual (4)	Variation on Budget ^(a) (4) - (1)	Variation on EOT (4) - (3)
GENERAL GOVERNMENT SECTOR							
Revenue (\$m)	19,435	20,700	20,884	21,752	22,039	1,339	287
Revenue Growth (%)	0.5	5.2	7.5	11.9	13.4	8.2	1.5
Expenses (\$m)	19,117	20,291	20,834	21,462	21,208	917	-253
Expense Growth (%)	13.5	6.6	9.0	12.3	10.9	4.3	-1.3
Net Operating Balance (\$m)	318	409	51	290	831	422	541
TOTAL NON-FINANCIAL PUBLIC SECTOR							
Net Financial Liabilities to Revenue (%) ^(b)	54.4	73.6	70.8	61.0	54.6	-19.0	-6.4
Net Interest Cost to Revenue (%)	1.3	2.3	2.2	1.9	1.6	-0.7	-0.3
TOTAL PUBLIC SECTOR							
Net Debt at 30 June (\$m)	6,688	12,364	11,921	11,365	9,896	-2,468	-1,469
Asset Investment Program (\$m)	5,795	8,272	7,649	7,162	6,828	-1,444	-334

(a) Variation on Budget is discussed in the ARSF.

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

OPERATING SURPLUS

- An \$831 million general government operating surplus was recorded for 2009-10. This is \$541 million higher than the estimated outturn for 2009-10 published in the May 2010 State Budget. The net operating balance was boosted by higher revenue (up \$287 million) due to the net impact of the following key items:
 - higher royalties, mostly from iron ore (up \$107 million);
 - higher North West Shelf grants and other Commonwealth grants, such as for non-government schools (up \$164 million);
 - higher than expected fees and charges revenue (up \$83 million); and
 - lower dividends and tax equivalent income from the State's public corporations (down \$141 million).

- Expenses were also lower than expected at the time of the recent budget (down \$253 million), largely as a result of lower than expected spending on:
 - salaries as the Government's spending control measures began to have a more noticeable impact on employee costs (down \$140 million); and
 - nominal superannuation interest, representing the impact of changes in the discount rate used by the actuary to value the State's unfunded superannuation liabilities at 30 June 2010 (down \$87 million).
- The surplus represents 3.8% of general government revenue, compared to an average surplus outcome of 11.5% of revenue over the period 2003-04 to 2007-08.
- Without the spending control measures implemented by the Government, such as the 3% efficiency dividend and reductions in the State's vehicle fleet, the budget would have been in deficit in 2009-10.

TRENDS IN EXPENSES

- General government expenses grew by 7.7% in underlying terms in 2009-10 (i.e. after abstracting from extraordinary or one-off factors like the on-passing of Commonwealth stimulus funding and the cost of the Government's voluntary severance schemes).
 - Reflecting the impact of Government initiatives like a ceiling on staff numbers¹ and a new public sector wages policy, underlying growth in salaries expenditure was just 5.7% - the lowest rate of growth since 2000-01.
 - Two voluntary severance schemes were funded at a cost of \$80.5 million in 2009-10, resulting in 802 surplus staff exiting the public sector.

ASSET INVESTMENT PROGRAM

- The Asset Investment Program (infrastructure spending on hospitals, schools, roads, etc.) was a record \$6.8 billion in 2009-10.
 - This is \$334 million lower than the estimated actual outcome contained in the 2010-11 State Budget, but a substantial \$1.0 billion higher than the previous record outcome in 2008-09.

NET DEBT AND CREDIT RATING IMPLICATIONS

- Total public sector net debt was \$9.9 billion at 30 June 2010. This is \$1.5 billion lower than estimated in the 2010-11 State Budget (due to the stronger operating surplus and lower than expected infrastructure spending), but is up \$3.2 billion from 30 June 2009.
- Net debt levels, and the associated financial ratios, remain consistent with the State's triple-A credit rating.
- The ARSF is available from the Department of Treasury and Finance website at http://www.dtf.wa.gov.au/cms/content.aspx?ID=518#Annual_Report_on_State_Finances.

¹ The Public Sector Commission's June quarter report shows that the average level of full time equivalent (FTE) employees in the year to June (102,863) is below the approved 2009-10 FTE ceiling (102,911).