

2010-11 Mid-year Review Fact Sheet

2010-11 MID-YEAR REVIEW¹

- Overall, the state finances have improved and net debt levels are projected to be slightly lower than budget-time, largely on the back of iron-ore royalties. The stronger revenue performance, has been utilised to enhance service delivery and infrastructure investment.

Table 1

KEY BUDGET AGGREGATES

Western Australia

	2009-10 Actual	2010-11 Budget Estimate	2010-11 Mid-year Revision	2011-12 Forward Estimate	2012-13 Forward Estimate	2013-14 Forward Estimate
GENERAL GOVERNMENT SECTOR						
Net Operating Balance (\$m)	831	286	758	1,063	940	147
Revenue (\$m)	22,039	22,591	23,373	24,384	25,468	25,913
Revenue Growth (%)	13.4	3.9	6.1	4.3	4.4	1.7
Expenses (\$m)	21,208	22,305	22,614	23,321	24,528	25,766
Expense Growth (%)	10.9	3.9	6.6	3.1	5.2	5.0
TOTAL PUBLIC SECTOR						
Net Debt at 30 June (\$m)	9,896	15,442	14,009	16,774	18,305	19,886
Asset Investment Program (\$m)	6,828	7,627	7,619	7,083	6,301	5,727
KEY FINANCIAL RATIOS ^(a)						
Net Interest Cost to Revenue (%)	1.6	2.4	2.3	2.7	2.9	3.0
Net Financial Liabilities ^(b) to Revenue	54.6	65.1	63.6	66.6	67.4	69.2

(a) These ratios relate to the total non-financial public sector.

(b) As defined by Standard and Poor's for the purposes of credit rating assessments.

ECONOMIC OUTLOOK

- The Western Australian economy is expected to strengthen over the medium term.
- The outlook for the mining sector is robust, underpinned by sustained strength in global commodity markets.
- However, both property market activity and growth in household spending have been relatively subdued so far in 2010-11, reflecting higher interest rates. The drought is also expected to impact significantly on the State's agricultural exports. Therefore, overall economic growth is likely to be slightly lower in 2010-11 at 4.0%, compared to 4.5% forecast at budget-time.

¹ The *Government Mid-year Financial Projections Statement* (mid-year review) is a statutory requirement of the *Government Financial Responsibility Act 2000*. The mid-year review outlines developments in the State's economic and financial outlook since finalisation of the 2010-11 State Budget projections, which were presented to Parliament on 20 May 2010.

- Across the outyears, forecast growth for Western Australia has been revised up in 2012-13 and 2013-14 to 4.5% and 4.0% respectively, mainly due to expectations of stronger growth in business investment and exports.
- This translates to higher employment growth, and, consequently a lower rate of unemployment. The forecast of stronger demand for labour is expected to result in slightly higher rates of wages growth than previously projected.

OPERATING SURPLUS

- The mid-year review estimates are for a general government sector operating surplus of \$758 million for 2010-11, up \$472 million on budget-time. This primarily reflects:
 - higher royalty revenue due to the Government's decision to reform royalty rates in State Agreement Acts (\$390 million);
 - higher revenue from parameter changes (\$350 million), with material movements including:
 - increased iron ore royalty revenue (up \$416 million), driven by record iron ore prices;
 - higher payroll tax collections (up \$178 million), reflecting the strengthening labour market; and
 - lower revenue from total duty on transfers (down \$360 million) and lower GST grants (down \$104 million), due to weaker housing activity and consumer spending respectively; and
 - higher expenses (up \$309 million), which includes policy decisions totalling \$67 million, for initiatives such as compensation for the victims of the Toodyay bushfire. General parameter changes account for the remaining \$243 million increase in expenses;
 - higher health spending (up \$100 million), including higher employee costs arising from new enterprise bargaining agreements, spending on Commonwealth programs and costs met by demand-driven revenue, and higher depreciation expenses);
 - a reallocation of royalties for regions spending from capital to recurrent purposes (up \$76 million);
 - additional spending on the provision of goods and services by other (non-health) agencies (up \$45 million), matched by agency own-source revenue;
 - an increase in grants on-passed from the Commonwealth for non-government school (up \$40 million); and
 - lower interest expenses (down \$37 million), reflecting the flow-on impact of a lower than expected borrowings requirement in 2009-10.

- Surpluses of around \$1.0 billion are forecast for 2011-12 and 2012-13, with a smaller surplus of \$147 million forecast for 2013-14.
 - The decline in magnitude of the operating surplus in 2013-14 is largely the result of an expected \$363 million decline in royalty income from 2012-13 and Western Australia's declining share of GST, which is forecast to be just 4.9% of the national pool in that year. GST grants will fall by \$326 million in 2013-14, with a cut of \$510 million due to a decline in Western Australia's share of the GST grant pool, partly offset by an increase of \$184 million due to an increase in the GST grant pool.

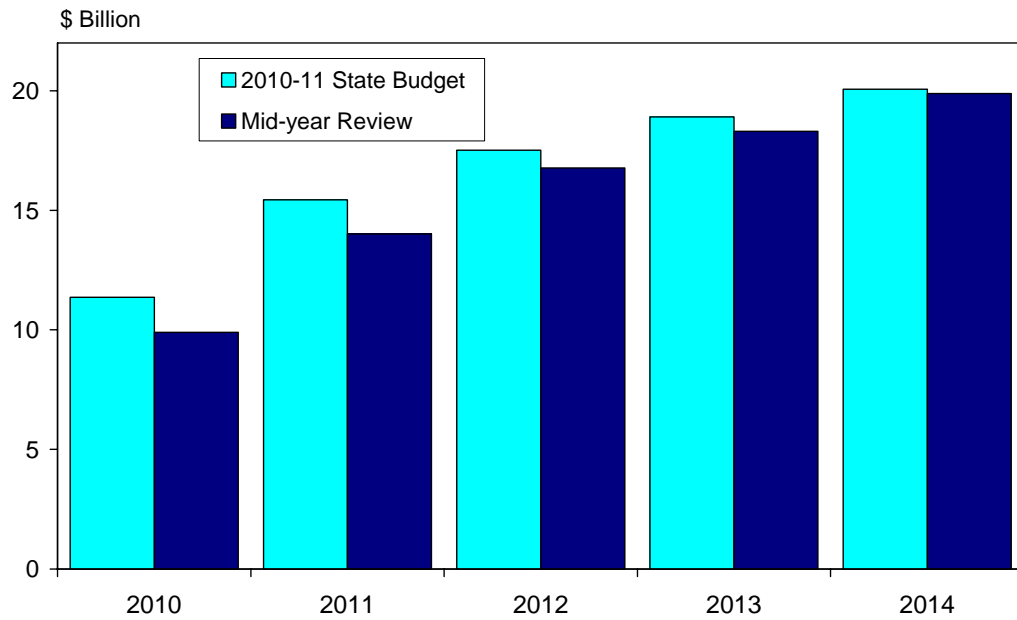
INFRASTRUCTURE SPENDING

- The stronger general government sector surpluses enable the funding of new infrastructure projects without the need for increased borrowings.
- The State's four year infrastructure program has been revised up by \$1.7 billion to \$26.7 billion. New spending on projects over the next four years includes:
 - the New Children's Hospital (\$567 million);
 - the Pilbara Desalination Plant (\$370 million);
 - upgrades to the Grain Freight Network (\$202 million); and
 - electricity infrastructure (\$342 million).

NET DEBT AND CREDIT RATING IMPLICATIONS

- As a result of the higher operating surpluses, total public sector net debt is forecast to be slightly lower than at budget-time, reaching a maximum \$19.9 billion by 30 June 2014 (\$176 million lower than the Budget projection).
- Net debt levels, and the associated financial ratios, remain consistent with the State's triple-A credit rating.

TOTAL PUBLIC SECTOR
Net Debt at 30 June



The mid-year review is available from the Department of Treasury and Finance website at [http://www.dtf.wa.gov.au/cms/content.aspx?ID=518#Govt Mid year Financial Projections](http://www.dtf.wa.gov.au/cms/content.aspx?ID=518#Govt%20Mid%20year%20Financial%20Projections)