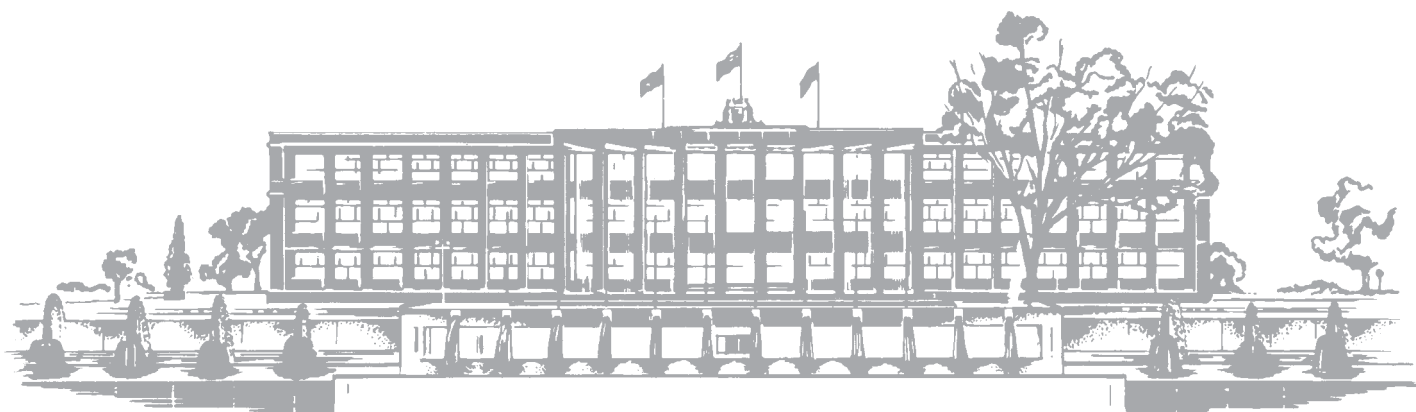




2005-06 BUDGET

ECONOMIC AND FISCAL OUTLOOK

PRESENTED TO THE LEGISLATIVE ASSEMBLY
ON 26 MAY 2005



Budget Paper No. 3

2005–06 Economic and Fiscal Outlook

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Under Treasurer's Certification

This Government Financial Projections Statement is based upon government decisions I was aware of or that were made available to me by the Treasurer on or before the budget planning cut-off date of 26 April 2005 and which had a material effect on the Government's financial projections.

It has been prepared in accordance with applicable Australian Accounting Standards and Government Finance Statistics principles, and is based on the economic assumptions outlined in Chapter 5: *The Western Australian Economy*. These assumptions were finalised on 26 April 2005.



Colin Murphy
ACTING UNDER TREASURER

26 May 2005

Economic and Fiscal Outlook – Overview

Fiscal Outlook

A strong operating surplus for the general government sector of \$631 million is estimated for the current financial year, up from the \$498 million estimate contained in the 2004-05 *Pre-Election Financial Projections Statement* (PFPS), released on 2 February 2005.

The increased surplus primarily reflects the continuing strong growth in the Western Australian economy (with forecast economic growth in 2004-05 revised up to 5.25%) and the impact of recently negotiated iron ore contract prices on mining royalties (with price rises in the order of 70% taking effect from 1 April 2005).

Solid operating surpluses are projected across the entire forward estimates period, with increased revenue from iron ore and petroleum royalties underpinning a forecast general government operating surplus of \$521 million for 2005-06. The strength of the State's finances has enabled the Government to deliver on all of its election commitments in this budget, together with further tax relief (in the areas of land tax and stamp duty on mortgages) and a record \$4.7 billion Capital Works Program.

The projected surpluses play a critical role in limiting growth in net debt, by reducing the need to borrow to fund the Government's investment in essential infrastructure. The net debt to revenue ratio for the total non-financial public sector (a key ratio for the State's credit rating) is forecast to peak at 43.4% (in 2007-08), comfortably below the Government's target limit of 47%. With the exception of general government expense growth in the current year, the 2005-06 Budget estimates are also consistent with the Government's other financial targets across the entire forward estimates period.

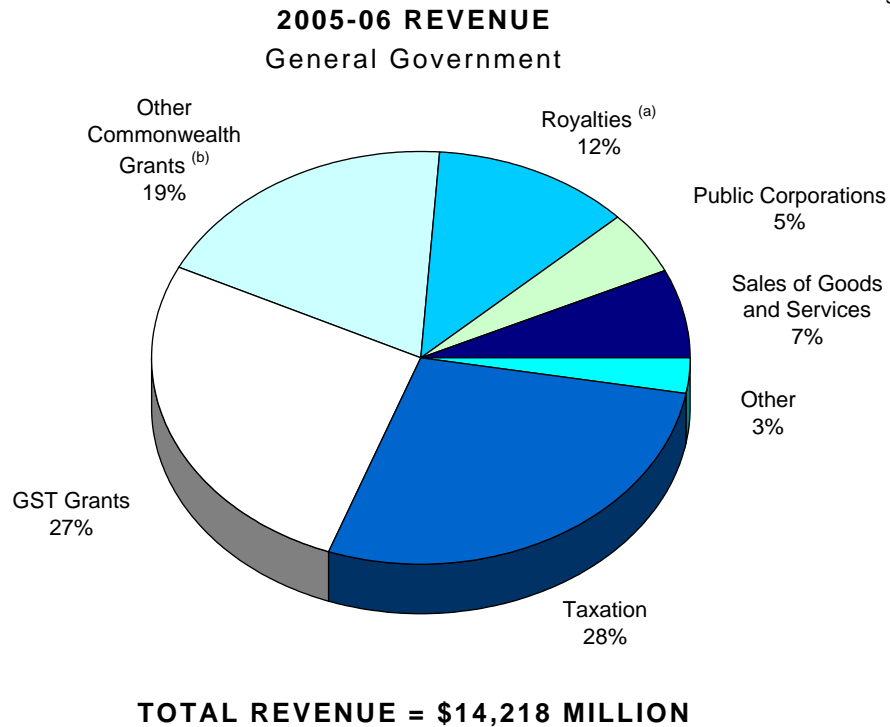
Table 1

KEY BUDGET AGGREGATES
Western Australia

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated Actual	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
GENERAL GOVERNMENT						
Net Operating Balance (\$m)	799	631	521	435	192	295
Revenue (\$m)	12,753	13,789	14,218	14,520	14,861	15,268
Revenue Growth (%)	8.3	8.1	3.1	2.1	2.3	2.7
Expenses (\$m)	11,954	13,158	13,697	14,085	14,669	14,973
Expense Growth (%)	3.8	10.1	4.1	2.8	4.1	2.1
TOTAL NON-FINANCIAL PUBLIC SECTOR						
Net Debt to Revenue Ratio (%)	28.4	32.5	39.2	41.9	43.4	43.2
TOTAL PUBLIC SECTOR						
Net Debt at 30 June (\$m)	4,194	5,167	6,521	7,152	7,616	7,835

As noted above, higher iron ore royalties resulting from recently announced increases in contract prices and higher production in the iron ore industry are significant factors in the revisions to revenue since the PFPS. Higher petroleum royalties due to increased crude oil prices and higher diamond output expectations also contribute to a substantial \$446 million upward revision to royalties (including North West Shelf petroleum royalties) in 2005-06. As indicated in the following chart, mining and petroleum royalties are estimated to account for around 12% of total general government revenue in 2005-06, which is up from an estimated 10% in 2004-05.

Figure 1



(a) Includes North West Shelf petroleum royalties, which are classified as a Commonwealth grant for Government Finance Statistics purposes, reflecting the Commonwealth's constitutional responsibility for off-shore areas.

(b) Includes specific purpose payments 'through' the State.

Note: Components may not add to 100% due to rounding.

The stronger financial outlook has permitted the Government to further extend its revenue relief program in this budget. Measures implemented as part of this budget will provide almost \$90 million in lower taxation in 2005-06, and nearly \$430 million over the next four years.

Key Areas of Expenditure

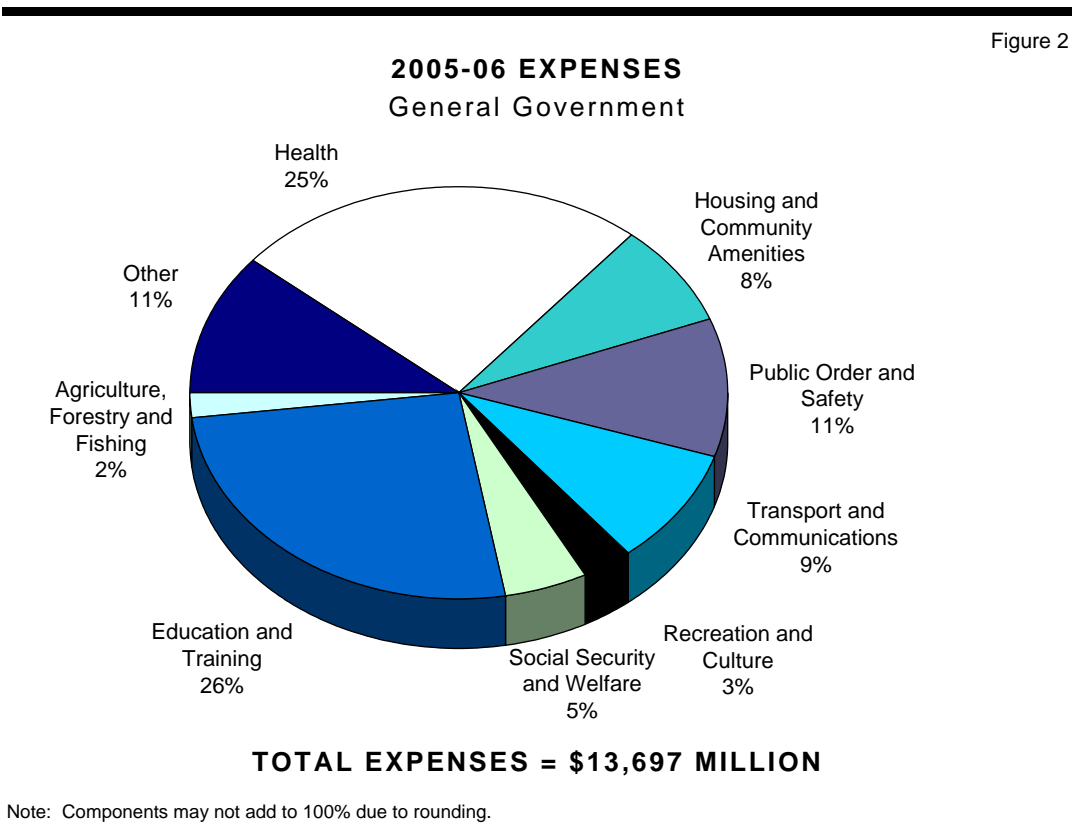
The 2005-06 Budget fully implements the Government's election commitments, which have a total impact on the net operating balance of \$673 million between 2004-05 and 2008-09. In 2005-06, election commitments are worth \$144 million (or 21%) of the total five year amount. These commitments, along with other new initiatives, continue to deliver increasing expenditure in key service delivery areas. For 2005-06, and compared to the estimated outturn for 2004-05, there is:

- a \$171 million (or 5.1%) increase in expenses by the Department of Health, including: a permanent increase of 130 beds in the public health system; a Winter Demand Strategy for 2005 to support peak service demand; free ambulance services to aged pensioners and a 50% ambulance fee subsidy to senior citizens; continued implementation of the Health Reform Committee recommendations; initiatives to reduce the elective surgery waitlist and waiting times; and additional resources for various programs including mental health services, community health initiatives, cancer service programs and health promotion;

- an \$80 million (or 2.6%) increase in expenses for education and training initiatives, including: expenditure on the ‘It Pays to Learn’ initiative to increase the school leaving age; the ‘Getting it Right’ Literacy and Numeracy strategy (including an additional 25 teachers); the Behaviour Management and Discipline strategy which involves reducing class sizes by employing an extra 125 teachers; and additional resources to provide support to students with disabilities and learning difficulties. The Government will also be tackling skills shortages through a number of programs including the School Apprenticeship Link program, the Fast Track Apprenticeship program, the Youth Skills Investment initiative and the Critical Skills initiative;
- a \$62 million (or 4.7%) increase in law and order expenses, including: the recruitment of an additional 80 police officers and 40 civilian staff; commencing the implementation of the Smarter Policing policy and the Corporate Corruption Prevention plan; additional resources to continue the implementation of the Police Royal Commission recommendations (including integrity testing and personnel vetting); and additional prison officers to service the needs of the prison system; and
- a \$22 million (or 7.8%) increase in expenses on disability services, including funding for 134 extra accommodation support places and additional funds for individual and family support strategies including early childhood intervention services.

Other movements in expenses are largely due to changes in the timing of a range of activities and grant payments across the sector.

As indicated in the following chart, expenses in the priority areas of health, education and training, and public order and safety are estimated to account for around 62% of total general government expenses in 2005-06.



Capital Works Program

The Western Australian economy continues to grow at a rate above the national average, bolstered by strong export demand and large investment projects. The public sector provides a significant contribution to this growth through infrastructure investment in the key areas of water and power supplies, roads and transport infrastructure, hospitals, schools, and public housing, to ensure the economy remains strong and quality services are delivered to the community.

The 2005-06 Capital Works Program is projected to be a record \$4.7 billion and provides funding for the Government's election commitments and other priority areas, including:

- \$220 million in the health sector, to commence planning and construction on various health facilities, including the Central Tertiary Hospital, King Edward Memorial Hospital, Armadale Kelmscott Hospital, Fremantle Hospital and Albany Regional Resource Centre. In addition, funds have been provided to continue work on a number of projects including the new Southern Tertiary Hospital, redevelopment of the Rockingham Kwinana Hospital and Broome and Geraldton Regional Resource Centres, the new Hedland Regional Resource Centre, equipment for the State Cancer Centre, and information technology and communication infrastructure for the health sector;
- \$227 million on government schools and TAFE college infrastructure, including the construction of six new primary schools and one new secondary school for the 2006 school year, as well as additions, improvements and upgrades to existing schools and the ongoing development of new facilities to meet future needs. TAFE college expenditure includes infrastructure for Challenger TAFE, incorporating the Henderson Oil and Gas facility, Central West TAFE in Geraldton and redevelopments at Central TAFE;
- \$228 million on law and order projects, an increase of \$94 million (or 71%) over 2004-05. These projects include:
 - progressing development of the Central Business District Courts construction and Central Law Courts refurbishment, and the provision of perimeter fencing for Wooroloo and Karnet prisons; and
 - the commencement (planning phase) of the new Perth Watch House/Perth Police Centre/Crime Headquarters (total project cost of \$81 million), the continuation of construction on a number of new and replacement police complexes and stations predominately in regional areas, and the provision of two new aircraft;
- \$715 million for water and wastewater services, an increase of \$303 million (or 74%) over 2004-05. The significant increase in expenditure is driven by investment in the construction of the Perth Seawater Desalination project and funding for alternative water sources in Perth and country areas. The program also provides for ongoing major projects such as the Infill Sewerage Program and various wastewater treatment schemes;

- \$599 million for electricity generation, transmission and distribution projects (an increase of \$135 million or 29% over 2004-05), including projects to:
 - increase distribution capacity for existing and new customers, replace ageing assets, and continue the underground power project;
 - address network safety and reliability concerns, with \$10 million in 2005-06 for replacement of overhead service wires and nearly \$90 million over four years to reduce average transformer loadings at metropolitan substations; and
 - increase power generation capacity through enhancements to Muja D, Kwinana C, Collie and Pinjar power stations and wind-diesel projects at Hopetoun and Coral Bay;
- \$401 million for the New MetroRail project, including the continuation of the Southern Suburbs Railway, incorporation of underground works in the Perth central business district, bridge and roadworks along the Kwinana Freeway, and the provision of new railcars;
- \$302 million on road construction and maintenance, including major projects to extend Roe Highway to Kwinana Freeway, Tonkin Highway to Thomas Road, Mitchell Freeway to Shenton Avenue and the reconstruction of Eyre Highway between Caiguna and Balladonia. This program is in addition to work associated with the New MetroRail project; and
- \$101 million in port facilities, including construction of a bulk storage facility, crane and a sulphur storage at Esperance, and infrastructure for the HIs melt project and upgrading container berths at Fremantle.

Economic Outlook

Measured in terms of gross State product (GSP), the Western Australian economy is estimated to grow by 5.25% in 2004-05 (up from 5.0% in the PFPS). Growth is expected to be almost entirely driven by the State's strong domestic economy, particularly household consumption and business investment.

In 2005-06, GSP growth is expected to remain vibrant at 4.5%, with the external sector replacing the domestic economy as the primary driver of growth. Exports are expected to lift as production from recently completed resource projects, which provided a fillip to growth in business investment in previous years, comes online.

Growth in the domestic economy (as measured by State final demand) is expected to ease in 2005-06, as household consumption and business investment growth moderate following strong increases in recent years.

Employment is expected to increase by 2.0% in 2005-06, while the unemployment rate is forecast to remain at a historical low of 4.75%. Wages growth (as measured by the wage price index) is anticipated to ease from 4.25% in 2004-05 to 3.75% in 2005-06, reflecting an easing in wages pressure as people are attracted into the workforce by strong labour market conditions.

In 2006-07, the domestic economy is expected to strengthen, fuelled by household consumption, business investment and dwelling investment. Growth in exports is expected to moderate, but remain relatively strong. Employment growth is expected to remain at 2.0%, while the unemployment rate is anticipated to stay low, at 4.75%.

Similar to trends nationally, Perth's consumer price index (CPI) is expected to increase by 2.5% in 2005-06, with price pressure from wages growth being dampened by the anticipated moderation in demand in the domestic economy. Perth's CPI is expected to increase by 2.5% in each of the subsequent years.

Table 2

MAJOR ECONOMIC PARAMETERS
Western Australia

	2003-04 Actual	2004-05 Estimated Actual	2005-06 Budget Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate	2008-09 Forward Estimate
	%	%	%	%	%	%
Real Gross State Product Growth	7.5	5.25	4.5	4.25	4.5	4.5
State Final Demand Growth	8.0	5.0	2.25	3.25	4.0	4.0
Employment Growth	1.7	3.5	2.0	2.0	2.25	2.25
Unemployment Rate	5.7	4.75	4.75	4.75	4.75	4.75
Wages Growth ^(a)	3.2	4.25	3.75	3.25	3.25	3.0
Consumer Price Index Growth	2.1	2.75	2.5	2.5	2.5	2.5
Implicit Price Deflator (SFD) Growth	-0.2	2.25	2.25	2.25	2.25	2.25
Public Consumption Deflator Growth	4.4	3.5	3.5	3.5	3.5	3.5

(a) Wages growth refers to the Wage Price Index.

Fiscal Strategy and Financial Projections

Overview

This budget delivers all of the Government's election commitments, implements other new policy initiatives, extends tax relief beyond that provided in the 2004-05 Budget and mid-year review, and invests in social and economic infrastructure projects that are critical to meet the needs of a vibrant Western Australian economy. This is all achieved under the umbrella of prudent financial management of the State's finances.

General government operating surpluses are projected in each year of the forward estimates period, continuing the series of surplus outcomes consistently recorded during the Government's first term. In 2005-06, an operating surplus of \$521 million is forecast. This follows an estimated surplus of \$631 million in 2004-05.

These surpluses are stronger than those forecast in the 2004-05 *Pre-Election Financial Projections Statement* (PFPS), primarily reflecting the impact of current high commodity prices (particularly iron ore and oil) on the State's royalty revenue¹.

The projected surpluses play a critical role in ensuring that net debt remains at affordable and sustainable levels, by reducing the need to borrow to fund the Government's infrastructure investment program. This is reflected in the net debt to revenue ratio for the total non-financial public sector, which is forecast to remain comfortably below the Government's target limit of 47% across the entire forward estimates period.

¹ The PFPS estimates factored in only a modest (5%) rise in iron ore prices in 2005-06, as contract negotiations between Australian iron ore producers and major Japanese customers had not concluded at that time, and the final outcome was subject to considerable uncertainty. Subsequently, the negotiations were completed and resulted in price increases in the order of 70%.

The provision of infrastructure by the public sector is driven by the service delivery requirements of the State's growing population and strong economic growth. The ability of the Government to continue to deliver services into the future is critically linked to its asset base. Reflecting these requirements, this budget includes a record \$4.7 billion Capital Works Program for 2005-06, with significant investment in the key areas of water and power supplies, roads and transport infrastructure, hospitals, schools, and public housing.

In summary, the 2005-06 Budget builds on the strong financial outcomes recorded during the Government's first term, delivers on all of the Government's election commitments, funds a massive investment in essential infrastructure, provides further targeted tax relief, and outlines a disciplined plan for the next four years.

The remainder of this chapter outlines the Government's financial targets, discusses the financial projections underlying the 2005-06 Budget, and summarises risks to the projections.

Fiscal Strategy

Delivering quality services and infrastructure while maintaining sound and sustainable public sector finances remains a core focus for the Government.

More specifically, the Government's fiscal strategy is underpinned by a series of medium-term financial targets. The targets for the Government's second term are very similar to those of its first term, with some changes of a largely technical nature (discussed in more detail below) aimed at improving the applicability of the targets when considering government policy.

Financial Targets

The existing financial targets have been successful in terms of delivering sound financial management outcomes in the Government's first term, and are well understood by key stakeholders. However, shortcomings in the technical definitions of some of the targets have detracted from their value as tools that can be used to assess the impact of government policy.

Accordingly, the Government has adopted changes of a largely technical nature to the method of calculating three of its targets. These changes are: targeting increases in *real* net worth (i.e. measured in constant dollar terms); ensuring that real per capita *own-purpose* expenses do not increase (this better focuses the target on expenses under the direct control of the State Government); and measuring tax competitiveness as *tax revenue as a share of gross State product (GSP) relative to the other States' average* (rather than a tax revenue per capita ranking).

Hence, for the 2005-06 Budget, the Government's financial targets are to:

- maintain or increase real net worth of the total public sector;
- achieve an operating surplus for the general government sector;

- retain the State's triple-A credit rating, represented by the following specific targets:
 - maintain the net debt to revenue ratio for the total non-financial public sector at or below 47%; and
 - ensure that real per capita own-purpose expenses for the general government sector do not increase; and
- maintain Western Australia's tax competitiveness, as measured by maintaining tax revenue as a share of GSP below the other States' average.

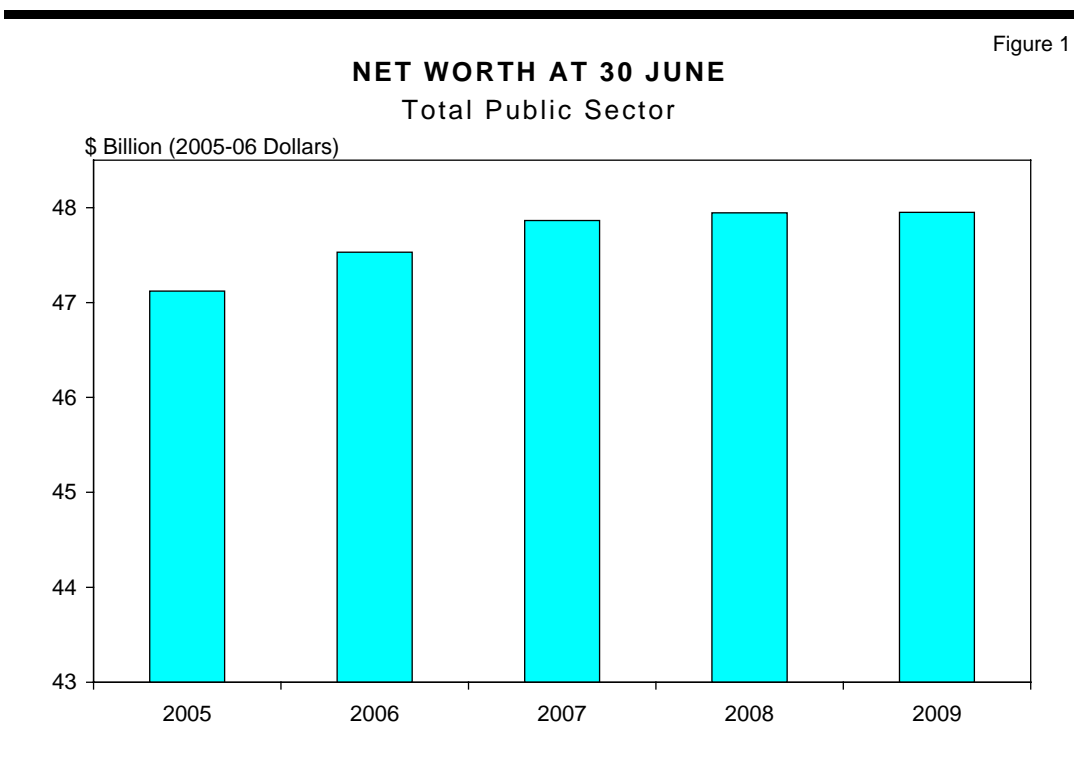
Further information on each of these targets is provided below.

Net Worth: Maintain or Increase Real Net Worth of the Total Public Sector

Net worth comprises total assets (both financial and non-financial) less total liabilities, and provides a comprehensive picture of a government’s overall financial position. Positive net worth indicates that there are more assets at the disposal of the public sector than the liabilities it must satisfy.

This target has been amended to focus on *real* net worth in order to encapsulate the impact of the time value of money from one year to the next. This change addresses a concern that increases in inflation, and subsequent increases in the nominal value of assets, can veil the underlying position of the public sector’s net worth. This change will increase the value of the target by negating some of the revaluation impacts typically evident at year-end.

The chart below shows that real net worth is projected to increase in each year of the forward estimates, rising from an estimated \$47.1 billion at 30 June 2005 to \$47.9 billion at 30 June 2009. This projected increase reflects expectations of consistent surplus operations across all sectors of government.



Operating Balance: Achieve an Operating Surplus for the General Government Sector

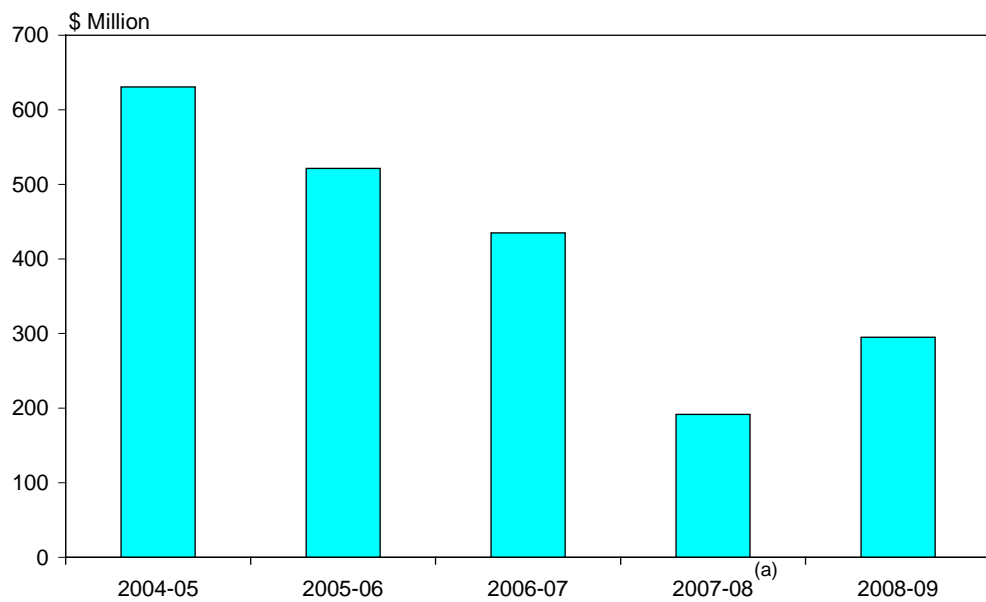
The net operating balance is the excess of operating (day-to-day) revenue over operating expenses, and is the principal budget ‘bottom line’. The operating balance is a good measure of the sustainability of public sector operations over time as it includes all day-to-day operating costs associated with providing government services, including non-cash costs such as accruing superannuation entitlements and the consumption of capital (i.e. depreciation).

The focus of this target, which has remained unchanged from the Government’s first term, is the general government sector, as this is the sector over which the Government has the most direct policy and management control.

As illustrated below, this target is expected to be achieved in 2005-06 and across all forward estimate years, continuing the Government’s consecutive run of four operating surpluses since 2001-02.

NET OPERATING BALANCE
General Government Sector

Figure 2



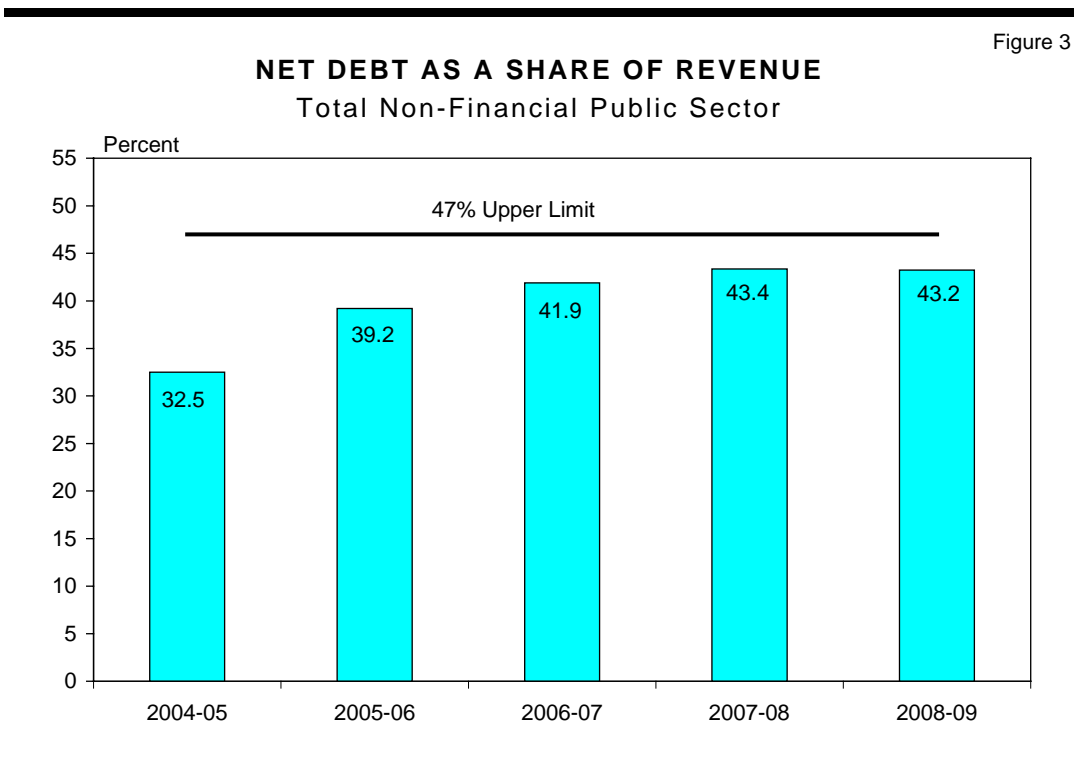
(a) The ‘dip’ in the forecast surplus in 2007-08 primarily reflects the financial assistance provided in October 2004 for the sale of the Dampier to Bunbury Natural Gas Pipeline. This assistance was provided in the form of a long-term loan which will convert to a non-repayable grant when certain commitments are satisfied. This conversion to a grant is expected to occur in 2007-08, resulting in the recognition of an \$88 million expense in that year.

Retain Triple-A Credit Rating – Maintain Net Debt to Revenue for the Total Non-Financial Public Sector at or Below 47%

This target indicates the degree to which net debt is managed by the Government at affordable and sustainable levels. Together with the real per capita own-purpose expenses target, it gives effect to the objective of maintaining the State’s triple-A credit rating.

Without specific ameliorating factors, a net debt to revenue ratio for the total non-financial public sector that increases above 47% is likely to raise concerns with the credit rating agencies about a jurisdiction’s capacity to service its debt.

As indicated in the following chart, the net debt to revenue ratio is forecast to remain comfortably below the 47% target limit in each year of the forward estimates, peaking at an estimated 43.4% in 2007-08.



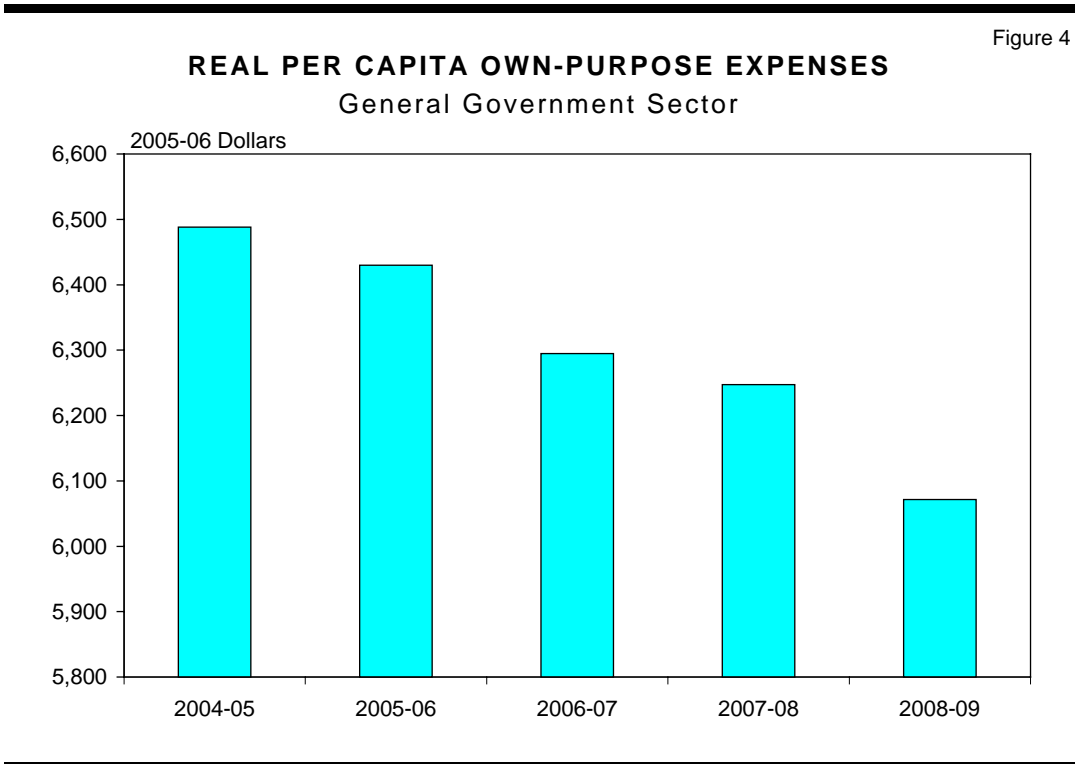
The projected increase in the ratio over the period to 2007-08 is due to new borrowings in support of the Government’s massive investment in infrastructure, with major projects like the New MetroRail project and the Perth Seawater Desalination project expected to be completed within this period. Importantly, the operating surpluses projected in this budget reduce the need for new borrowings and keep the net debt to revenue ratio below the target limit, by providing a significant source of non-debt funding for the Government’s infrastructure investment program.

Retain Triple-A Credit Rating – Ensure that Real Per Capita Own-Purpose Expenses for the General Government Sector do not Increase

This target allows for an increase in own-purpose expenses up to (but not exceeding) the combined growth in population and inflation². Under such controls, improved service provision arises through improved efficiency and productivity. The general government sector is the focus of the target because this is the sector over which the Government has the most control on expenses.

This target has been amended to focus on *own-purpose* expenses, by excluding Commonwealth specific purpose payments ‘through’ the State from the scope of the target. This ensures that the target appropriately focuses on expenses that are under the direct control of the State Government.

The expense growth target is expected to be met in the budget year and each of the outyears, with real per capita own-purpose expenses forecast to decline consistently over the period to 2008-09 (see following chart). However, as previously reported in the 2004-05 mid-year review and PFPS, estimated expense growth in the current financial year exceeds real per capita growth.



² Inflation for this target was previously measured in terms of the implicit price deflator for gross State product (GSP). However, this has been a volatile measure of price growth due to the impact of fluctuating export and import prices, which have little relationship with public sector spending. Moreover, the GSP deflator is not generally representative of the price pressure on key government services such as health and education. Therefore, inflation for this target is now measured by growth in the public final consumption expenditure deflator, as this provides a better measure of the growth in the price of delivering government services.

Tax Competitiveness: Maintain Western Australia’s Tax Competitiveness, as Measured by Maintaining Tax Revenue as a Share of Gross State Product Below Other States’ Average

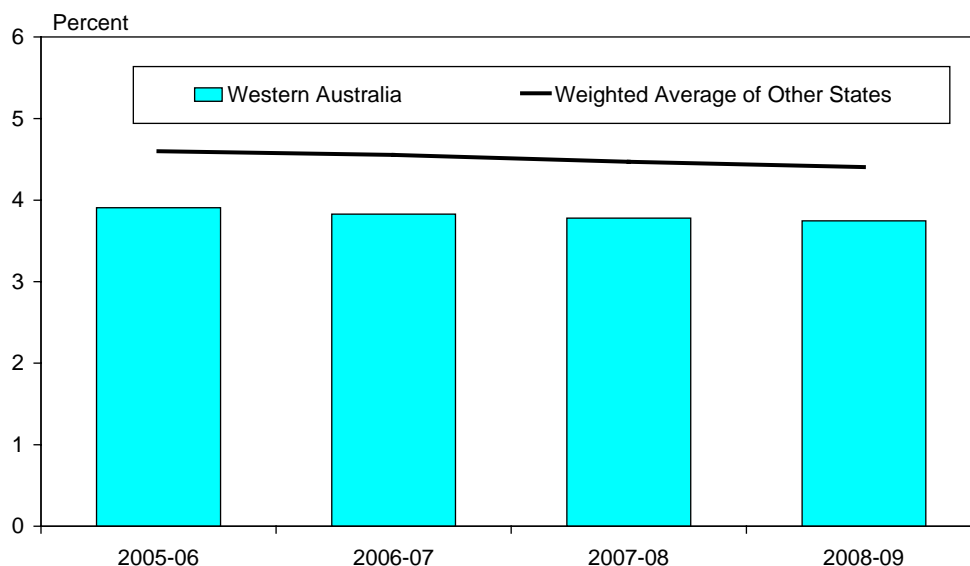
The Government recognises the need to maintain a competitive tax environment. In light of this, and the recent strength of the State’s finances, the Government has provided taxation relief measures worth a total of \$1.9 billion over the four years from 2005-06³.

This target has been changed to measure tax competitiveness based on tax revenue as a share of GSP, relative to the average level in other States (the previous target was to maintain Western Australia’s ranking in terms of tax revenue per capita). The new basis for calculating this target provides a more stable measure of tax competitiveness, and one which better reflects the impact of government policy (the previous tax competitiveness target was sensitive to the impact of economic growth which can distort any assessment of the relative impact of States’ taxing policies).

As shown in the following chart, Western Australia’s taxation revenue as a share of GSP is expected to remain comfortably below the average of the other States in each year of the forward estimates period.

Figure 5

TAX COMPETITIVENESS
General Government Taxation Revenue as a Share of GSP ^(a)



(a) Taxation revenue estimates for other jurisdictions are based on the most recent published estimates as of 19 May 2005. This includes the 2005-06 Victorian and Tasmanian budget estimates. These estimates have been adjusted to reflect other States’ commitment to abolish taxes that are subject to review under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations, and South Australia’s changes to land tax announced in February 2005. GSP estimates are based on Department of Treasury and Finance projections.

³ This is the estimated four-year cost of the tax reductions announced in the 2004-05 Budget, the October 2004 tax relief package, tax-related election commitments and new measures announced in this budget. This figure excludes the previously announced abolition of debits tax from 1 July 2005, which has an estimated four-year cost of \$376 million.

Summary of Financial Projections

Variations in the projections of the general government net operating balance since the 2004-05 Budget (released on 6 May 2004) are outlined in the following table. The table includes reconciliations for both revenue and expenses, due to policy decisions and parameter movements, between the last budget, the 2004-05 mid-year review and the PFPS.

Table 1

SUMMARY OF GENERAL GOVERNMENT REVENUE AND EXPENSE VARIATIONS SINCE THE 2004-05 BUDGET

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
2004-05 BUDGET – NET OPERATING BALANCE	243	224	198	321	-
Changes between the 2004-05 Budget and 2004-05 Mid-year Review ^(a)					
Revenue					
<i>Total Policy Decisions</i>	-121.9	-225.9	-246.7	-250.6	
<i>Total Parameter Changes</i>	869.8	641.5	639.1	671.1	
TOTAL REVENUE	747.8	415.6	392.4	420.5	
Expenses					
<i>Total Policy Decisions</i>	383.0	211.4	206.3	298.3	
<i>Total Parameter Changes</i>	187.2	162.4	183.7	188.7	
TOTAL EXPENSES	570.2	373.8	389.9	487.1	
TOTAL VARIANCE	177.6	41.8	2.4	-66.6	
2004-05 MID-YEAR REVIEW – NET OPERATING BALANCE	420	266	201	255	-
Changes between the 2004-05 Mid-year Review and 2004-05 Pre-Election Financial Projections Statement ^(b)					
Revenue					
<i>Total Policy Decisions</i>	-0.8	-1.9	-1.9	-2.0	
<i>Total Parameter Changes</i>	98.8	64.8	36.9	9.1	
TOTAL REVENUE	98.1	62.9	34.9	7.1	
Expenses					
<i>Total Policy Decisions</i>	19.7	20.7	17.8	17.7	
<i>Total Parameter Changes</i>	1.2	-4.8	-8.5	-10.0	
TOTAL EXPENSES	20.9	15.9	9.3	7.7	
TOTAL VARIANCE	77.2	47.0	25.6	-0.5	
2004-05 PRE-ELECTION FINANCIAL PROJECTIONS STATEMENT – NET OPERATING BALANCE	498	313	226	254	-

(a) See the 2004-05 *Government Mid-year Financial Projections Statement* (released on 21 December 2004) for further detail.

(b) See the 2004-05 *Pre-Election Financial Projections Statement* (released on 2 February 2005) for further detail.

Note: Columns may not add due to rounding.

Table 1 (cont.)

**SUMMARY OF GENERAL GOVERNMENT REVENUE AND EXPENSE
VARIATIONS SINCE THE 2004-05 BUDGET**

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
2004-05 PRE-ELECTION FINANCIAL PROJECTIONS STATEMENT – NET OPERATING BALANCE	498	313	226	254	-
Changes between the 2004-05 Pre-Election Financial Projections Statement and the 2005-06 Budget					
Revenue					
<i>Policy Decisions</i>					
Taxation relief	-	-88.0	-99.7	-116.9	-124.0
Comprises:					
- Increase in Family Concession on Motor Vehicle Registration	-	-26.3	-27.3	-28.5	-29.8
- Adjustment to land tax scale	-	-54.5	-58.3	-62.4	-66.8
- 50% Caravan Park exemption (land tax)	-	-1.0	-1.0	-1.1	-1.2
- Mortgage duty relief	-	-6.2	-13.1	-13.9	-14.7
- Reduction in Betting Tax (net of rebates)	-	-	-	-11.0	-11.5
Extension of water restrictions	-	-13.0	-19.0	-20.0	-21.0
Fees and charges ^(c)	-	-3.5	-1.7	-1.1	-1.7
<i>Total Policy</i>	-	-104.5	-120.4	-138.0	-146.7
<i>Parameter</i>					
Taxation	147.9	182.0	182.1	194.4	
Commonwealth grants:					
- North West Shelf royalties	-31.7	69.1	27.7	49.6	
- GST revenue grants	11.5	63.4	80.2	28.6	
- Other Commonwealth grants	19.6	21.4	-22.3	-6.4	
Mining royalties	67.0	376.1	397.9	248.6	
Agency sales of goods and services	8.7	12.2	8.8	3.6	
Revenue from public corporations	1.8	57.6	42.8	-1.2	
Other	-1.6	7.0	14.3	11.9	
<i>Total Parameter</i>	223.2	788.7	731.6	529.0	
TOTAL REVENUE	223.2	684.2	611.2	391.0	
Expenses					
<i>Policy Decisions</i> ^(d)	65.5	231.3	192.1	189.7	207.6
<i>Parameter</i>					
Salaries	63.8	104.2	167.5	182.5	
Superannuation	7.8	12.4	18.0	19.5	
Changes to sports stadium developments	-24.0	24.0	-25.0	-22.4	
Roads (funded by Commonwealth grants)	-	-	5.0	25.0	
Other	-22.9	103.7	44.8	59.5	
<i>Total Parameter</i>	24.6	244.3	210.3	264.0	
TOTAL EXPENSES	90.1	475.6	402.4	453.7	
TOTAL VARIANCE	133.1	208.6	208.8	-62.7	
2005-06 BUDGET – NET OPERATING BALANCE	631	521	435	192	295

(c) Includes reduction in fees for motor vehicle transfers and business names renewals, and new fees for the licensing of motor vehicle repairers and tours of the Fremantle Prison tunnel system.

(d) Excludes the public debt net interest effect of policy measures. An agency breakdown is provided in Table 2.

Note: Columns may not add due to rounding.

The following table provides a breakdown of expense policy decisions by agency since the PFPS. It should be noted that agency figures in this table may differ from those contained in Chapter 3: *Election Commitments and Other Expenditure Initiatives*. This is due to the timing of announcement of certain election commitments which, in some cases, resulted in their inclusion in the PFPS.

Table 2

**EXPENSE POLICY DECISIONS BY AGENCY SINCE THE
2004-05 PRE-ELECTION FINANCIAL PROJECTIONS STATEMENT**

	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m
Agriculture	1.8	3.8	3.1	0.5	0.5
Botanic Gardens and Parks Authority	-	-	-	1.1	1.2
Community Development	-	3.9	2.5	2.5	3.4
Conservation and Land Management	-	1.9	1.0	1.0	1.0
Consumer and Employment Protection	-	0.3	1.4	2.4	3.4
Country High School Hostels Authority	-	-	1.0	1.0	1.0
Culture and The Arts	0.2	3.2	2.7	2.7	2.7
Curriculum Council	-	0.5	1.0	1.0	1.7
Disability Services Commission	-	2.0	2.7	3.4	4.1
Education and Training	13.7	26.7	35.4	45.8	59.1
Education Services	-	1.4	3.2	3.9	4.7
Electoral Commission	-	0.3	-	-	-
Environment	-	1.3	1.3	1.3	1.3
Equal Opportunity Commission	-	0.4	0.4	0.5	0.5
Fire and Emergency Services Authority	0.3	5.8	6.0	6.0	1.0
Goldfields-Esperance Development Commission	1.0	0.1	-	-	-
Great Southern Development Commission	0.2	10.1	4.9	-	-
Health	37.3	114.4	85.9	91.6	95.0
Housing and Works	-	0.1	0.1	1.2	0.0
Indigenous Affairs	-	0.5	0.5	0.5	0.5
Industry and Resources	-	2.2	2.4	2.4	2.4
Justice	-	1.7	3.5	5.6	6.7
Kimberley Development Commission	-	0.8	-	-	-
Legislative Council	0.1	-	-	-	-
Local Government and Regional Development	-	1.2	0.1	0.1	0.1
Main Roads	-	0.4	-	-	-
Mid-West Development Commission	0.5	-	-	-	-
Office of Energy	-	3.8	0.7	0.7	0.7
Peel Development Commission	0.6	0.3	-	-	-
Pilbara Development Commission	-	0.8	0.8	-	-
Planning and Infrastructure	0.1	5.4	5.1	0.9	0.7
Police Service	0.7	1.4	1.4	1.2	1.2
Premier and Cabinet	5.3	12.9	8.4	8.4	8.4
Rural Business Development Corporation	-	-	1.5	1.5	-
South West Development Commission	0.2	1.0	1.0	-	-
Sport and Recreation	1.4	2.5	-	-	-
TAFE Colleges	-	0.7	1.7	4.2	8.0
Tourism Commission	2.3	7.9	0.5	-	-
Treasury and Finance ^(a)	0.1	11.7	12.0	3.6	3.6
Additional Corporate Services Savings	-	-	-	-5.0	-5.0
TOTAL	65.5	231.3	192.1	189.7	207.6

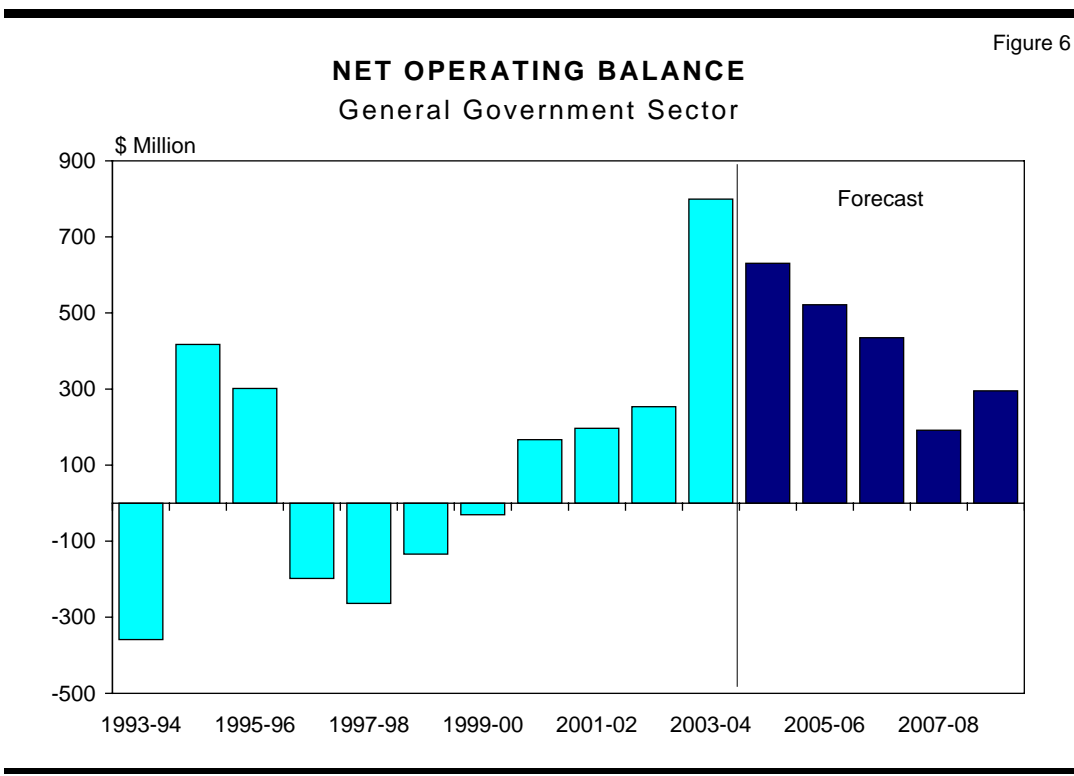
(a) Includes the operations of the Consolidated Fund, such as subsidies for public corporations.

General Government Sector

Summary

Solid operating surpluses are forecast for the general government sector in each year of the forward estimates period, including a \$521 million surplus in 2005-06. Across the outyears, forecast surpluses range from \$192 million to \$435 million, continuing the run of surpluses recorded in each year of the Government’s first term.

Figure 6



Net worth of the general government sector is forecast to increase by \$1.4 billion over 2005-06, and by an average \$1.2 billion per annum thereafter to stand at \$51.3 billion at 30 June 2009. General government net debt is expected to be \$138 million at 30 June 2006, and peak at \$373 million at 30 June 2008. For the fourth year in a row, a general government cash surplus is forecast for 2005-06.

The following table provides summary financial information for the general government sector, which is discussed in more detail below.

Table 3

GENERAL GOVERNMENT						
Summary Financial Statements						
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
OPERATING STATEMENT						
Revenue	12,753	13,789	14,218	14,520	14,861	15,268
Expenses	11,954	13,158	13,697	14,085	14,669	14,973
Net Operating Balance	799	631	521	435	192	295
Net Lending	570	250	15	-25	-223	-53
BALANCE SHEET						
Assets	53,871	55,785	57,483	58,979	60,463	61,850
Liabilities	10,117	9,701	9,954	10,037	10,336	10,590
Net Worth	43,754	46,083	47,530	48,941	50,127	51,260
STATEMENT OF CASH FLOWS						
Change in net cash held	152	-753	10	17	17	40
Cash Surplus	554	154	69	131	-38	155
<i>Memorandum Item: Net Debt</i>	-291	-275	138	142	373	332

Note: Columns may not add due to rounding.

Operating Statement

A general government operating surplus of \$521 million is forecast for 2005-06, following an estimated \$631 million surplus for 2004-05.

The estimated surplus for 2004-05 is \$133 million higher than the estimate contained in the PFPS, reflecting a \$223 million upward revision to revenue partly offset by higher expenses, up \$90 million.

Relative to the PFPS, the upward revision to revenue in 2004-05 mainly reflects:

- the continued strength in the Western Australian economy boosting stamp duties on property conveyances (\$63 million), motor vehicles (\$30 million) and insurance (\$30 million), and payroll tax (\$19 million);
- increased royalties (up \$35 million, including North West Shelf petroleum royalties), reflecting the net impact of:
 - higher iron ore royalties (up \$75 million) due to increases in both production volumes and prices, the latter flowing from recent negotiations between Australian iron ore producers and Japanese customers; and
 - lower petroleum royalties (down \$36 million) due to lower than previously forecast production levels; and
- higher specific purpose payments from the Commonwealth and agency sales of goods and services (up a combined \$28 million), both matched by offsetting expenses.

The increase in expenses in 2004-05 since the PFPS reflects a combination of policy measures taken by the Government (\$65 million) and various parameter changes across the sector (totalling \$25 million), backed by rises in agency own-source revenue and Commonwealth tied grants (as noted above). Policy measures include:

- a range of health-related initiatives (\$37 million) including hospital bed management and winter demand strategies, operating expenses for recent hospital purchases, and additional spending on pharmaceuticals and workforce issues;
- the commencement of annual payments to parents of \$200 for 16 and 17 year old students in Years 11 and 12 in government and non-government schools, and up to \$400 for 16 and 17 year old students enrolled in full-time TAFE facilities or a registered training organisation, as well as other education and training initiatives (\$14 million); and
- additional spending by the Department of the Premier and Cabinet (\$5 million) including the addition of three Ministers to Cabinet and the inquiry by retired Justice Dennis Mahoney into Western Australia's Corrections System.

Table 4

GENERAL GOVERNMENT
Operating Statement

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	Actual	Estimate	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
REVENUE						
Taxation	4,122	4,130	3,995	4,174	4,401	4,635
Current grants and subsidies	5,583	6,328	6,659	6,705	6,934	7,080
Capital grants	295	380	347	335	355	374
Sales of goods and services	941	927	943	966	987	1,011
Interest income	128	146	146	138	145	150
Revenue from public corporations						
Dividends	448	438	463	457	429	445
Tax equivalent payments	310	259	245	252	274	270
Royalty income	654	847	1,140	1,174	1,024	998
Other	272	335	281	319	312	305
<i>Total</i>	<i>12,753</i>	<i>13,789</i>	<i>14,218</i>	<i>14,520</i>	<i>14,861</i>	<i>15,268</i>
EXPENSES						
Gross operating expenses						
Salaries	4,787	5,165	5,405	5,590	5,787	6,019
Depreciation and amortisation	546	578	585	624	652	649
Superannuation	458	506	524	538	552	571
Services and contracts	1,216	1,454	1,416	1,400	1,442	1,430
Other	1,637	1,699	1,830	1,932	2,060	2,213
Nominal superannuation interest	283	295	296	297	296	295
Other interest	165	193	161	166	160	157
Current transfers	2,440	2,788	3,012	3,112	3,262	3,288
Capital transfers	421	480	467	427	457	350
<i>Total</i>	<i>11,954</i>	<i>13,158</i>	<i>13,697</i>	<i>14,085</i>	<i>14,669</i>	<i>14,973</i>
NET OPERATING BALANCE	799	631	521	435	192	295

Note: Columns may not add due to rounding.

Summary movements in revenue and expenses for the years 2005-06 to 2008-09 are outlined below. Detailed analysis is provided in Chapters 3 and 4.

Revenue

Operating revenue totalling \$14.2 billion is projected for the general government sector in 2005-06. This represents growth of \$430 million (or 3.1%) on the estimated outturn for 2004-05. This compares to estimated growth in 2004-05 of \$1.0 billion (or 8.1%).

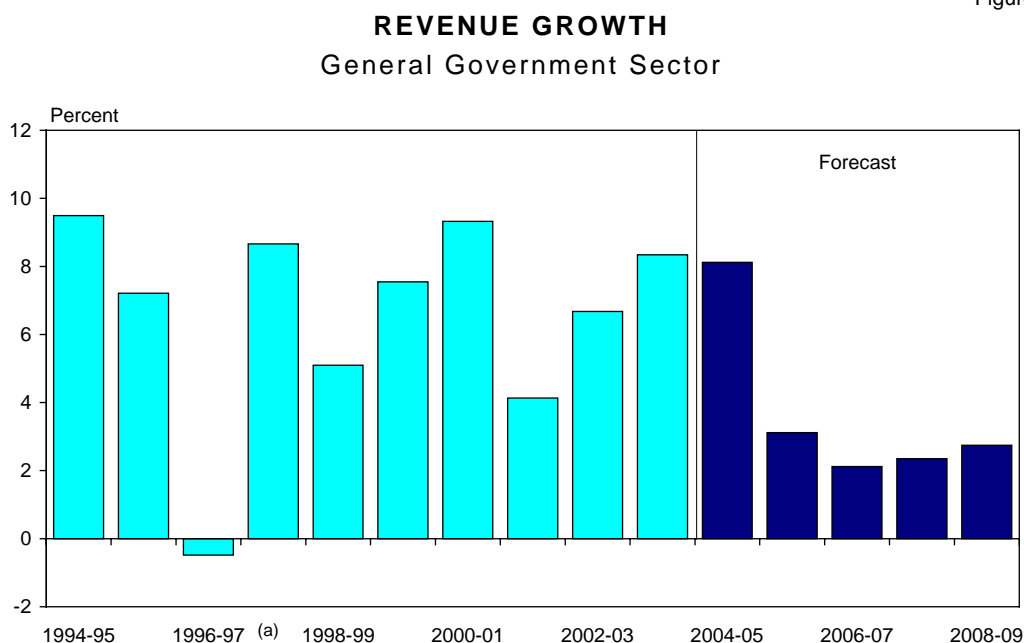
Mining royalties, including North West Shelf petroleum royalties, are the largest source of revenue growth in 2005-06 (up an estimated \$326 million, or 24.8%, on the 2004-05 estimated outturn). This primarily reflects a forecast increase in iron ore royalties of \$301 million due to the 71.5% price increase negotiated for 2005-06 by major producers, together with projected increases in production volumes. North West Shelf petroleum royalties are forecast to increase by \$34 million, due mainly to higher production volumes (largely as a result of production from the 4th LNG train), which are partly offset by an assumed moderation in oil prices.

Commonwealth grants (excluding North West Shelf royalties and specific purpose payments 'through' the State) are the next largest source of revenue growth in 2005-06 (up an estimated \$221 million, or 4.0%, on the 2004-05 estimated outturn). This increase primarily reflects growth in national GST collections, which more than offsets the cut in Western Australia's share of GST collections recommended earlier this year by the Commonwealth Grants Commission.

In 2005-06, growth in mining royalties and Commonwealth grants is expected to be partly offset by a decline in taxation revenue (of \$135 million, or 3.3%, relative to the estimated outturn for 2004-05). Tax relief measures contained in this budget, together with the full-year impact of the measures announced in October 2004, the stabilisation of property market activity following an extended period of strong growth, and the abolition of debits tax from 1 July 2005, are expected to drive this decline.

Following growth of 3.1% in 2005-06, revenue is expected to increase by a more moderate average of 2.4% per annum across the outyears. These rates of growth are modest compared to those experienced in the 1990s (see chart below). The relatively weaker growth forecast for operating revenue over the forward estimates mainly reflects a projected decline in mining royalties, low growth in specific purpose payments 'to' the State, and the Commonwealth's unilateral decision to cease national competition payments after 2005-06.

Figure 7



(a) Reflects the impact of \$200 million in one-off tax compensation received from the Commonwealth Government in 1995-96 for the sale of BankWest. Excluding these monies, revenue growth in 1995-96 and 1996-97 was 4.5% and 2.1% respectively.

Detailed information on the revenue estimates, including the tax relief measures introduced in this budget, is contained in Chapter 4: *Financial Projections – Revenue*.

Expenses

At \$13.7 billion, general government expenses in 2005-06 are projected to be \$539 million (or 4.1%) higher than the expected outcome for 2004-05. This increase includes a range of initiatives, including the implementation of election commitments and other spending on key services.

Across the forward estimates period to 2008-09, expenses are forecast to grow by an average of 3.3% per annum. This rate of growth is consistent with the Government's expense growth target (discussed earlier).

In 2005-06, salaries (which are the largest component of general government expenses, accounting for around 40% of total expenses) are forecast to rise by \$240 million or 4.7%, compared to the 2004-05 estimated outcome.

This rise is driven by an increase in the number of public sector employees due to the implementation of election commitments and other service delivery initiatives (outlined in more detail in Chapter 3: *Election Commitments and Other Expenditure Initiatives*). The rise also reflects the impact of the recent enterprise bargaining agreements for nurses and general public servants.

Salaries are forecast to grow by an average of 3.7% per annum across the outyears. This is a higher rate of growth than the 3% annual rise targeted by the Government's current wages policy, but is more a reflection of additional resources in key service delivery areas rather than increased pay rates.

In this regard, relative to the 2004-05 Budget, this budget incorporates an additional 800 nurses, 225 new teachers, 146 new TAFE lecturers and 100 training mentors, 350 new police officers and 160 public servants for the Police Service to free up more police officers to frontline duties.

Across the forward estimates, concurrent superannuation expenses are forecast to grow broadly in line with salaries.

Nominal superannuation expenses⁴ are forecast to remain relatively flat over the forward estimates period, consistent with the estimated pattern in the unfunded superannuation liability on the balance sheet. This expense is expected to gradually decline beyond the forward estimates period as unfunded superannuation liabilities are paid out to retirees.

Depreciation expenses are expected to increase by 2.9% a year on average across the forward estimates, due to growth in the stock of fixed assets. This reflects the Government's substantial infrastructure investment program and revaluations of assets.

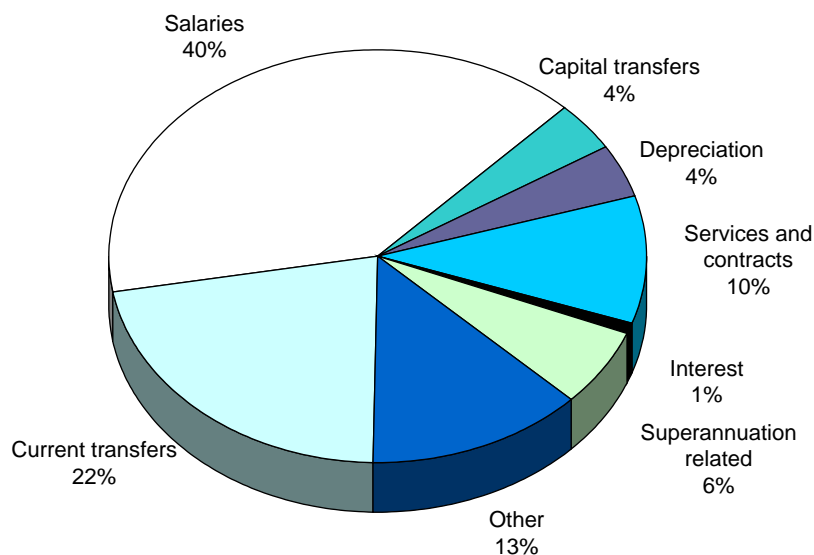
The operating statement aggregate 'Other gross operating expenses' has been disaggregated in this year's budget into 'services and contracts' and 'other'. These expenses represent the non-labour costs of providing goods and services, and include purchases of supplies and consumables, advertising and promotion, travel and other expenses that are incidental to the day-to-day operations of agencies. In total, these expenses are expected to increase by around 3.7% a year on average across the forward estimates period, which is broadly in line with forecast inflation and population growth and substantially lower than average growth of 8.7% per annum during the 1990s.

In 2005-06, interest expenses are forecast to be \$161 million, representing just 1.2% of total expenses (see following chart). Movements in borrowings, and the average rate of interest on those borrowings, are the key determinants of the level of general government interest expenses.

⁴ Nominal superannuation interest expenses are akin to a debt servicing cost and represent the cost of carrying unfunded superannuation liabilities on the balance sheet.

Figure 8

2005-06 EXPENSES BY OPERATING STATEMENT CATEGORY
 General Government Sector



TOTAL EXPENSES = \$13,697 MILLION

Across the outyears, interest expenses are forecast to remain at around the same level in both dollar terms and as a share of total expenses, with forecast general government operating surpluses working to moderate the growth in borrowings required to fund capital spending on assets such as roads, hospitals and schools.

In 2005-06, current transfers (largely made up of grants and subsidies) are forecast to rise by \$224 million or 8.0% compared to the 2004-05 estimated outturn. This increase reflects grants to the Public Transport Authority (up \$64 million reflecting the commencement of the Thornlie line as part of the New MetroRail project), an increase in Community Service Obligation payments to public corporations (up \$54 million), science and native title grants (\$43 million), and the commencement of grants under the National Action Plan for Salinity and Water Quality (\$28 million, funded equally by contributions from the State and the Commonwealth). In addition, Commonwealth grants to non-government schools and local government that are on-passed through the State are up \$40 million (matched entirely by grants revenue).

Across the outyears, current transfers are forecast to grow by a lower 3.0% per annum on average, as subsidies for the New MetroRail project stabilise and salinity-related grant arrangements under the National Action Plan for Salinity and Water Quality come to an end.

In 2005-06, capital transfers (which are fairly ‘lumpy’ in nature) are estimated at \$467 million, down \$12 million on the estimated outturn for 2004-05. The timing of capital projects that these grants support, and the progressive completion of approved projects, influence movements from year to year. In particular, spending under the Community Housing and Infrastructure Program (which forms part of the Indigenous Housing Agreement between the Commonwealth and the State) expires at the end of 2006-07 and is yet to be renegotiated. Similarly, the Government’s financial assistance to the purchasers of the Dampier to Bunbury Natural Gas Pipeline, provided in October 2004 as a long-term loan, is expected to convert to a non-repayable grant in 2007-08 when certain commitments regarding expansion of the pipeline are expected to be satisfied, resulting in the recognition of an \$88 million expense in that year.

Net Lending – An Alternative Measure of the Surplus

The ‘headline’ measure of budget performance in Western Australia is the government finance statistics-based net operating balance (NOB) for the general government sector.

As explained earlier, the NOB is the excess of operating (day-to-day) revenue over operating expenses. It includes all day-to-day operating costs associated with providing government services, including non-cash costs such as accruing superannuation entitlements and the consumption of capital (i.e. depreciation). It does not, however, include capital spending on fixed assets such as new hospitals, schools and roads.

‘Net lending’ is an alternative measure of the surplus that directly takes account of capital spending on fixed assets. Essentially, it is the accrual equivalent of the cash surplus/deficit, and is equal to the NOB (less depreciation expenses) plus net capital spending⁵. South Australia and Tasmania use net lending as their headline measure of budget performance, as did New South Wales up until recently.

Conceptually, a net lending surplus means that the Government is funding both its recurrent (operating) activities and its capital spending from current (operating) revenue. Conversely, a net lending deficit (referred to as ‘net borrowing’) means that current revenue is insufficient to fund both recurrent and capital spending, and the Government therefore needs to borrow to fully fund its spending (both recurrent and capital).

With the exception of 2005-06 (where a small net lending surplus is forecast), the forward estimates show the general government sector NOB in surplus, but the net lending measure in deficit. This means that operating revenue is expected to be sufficient to fund operating (day-to-day) expenses and *some* – but not all – of the capital spending by the general government sector on new hospitals, schools, roads, etc. The remainder of the capital spending requirement has to be met from new borrowings, which leads to an increase in net debt.

⁵ There are some other adjustments required to derive the net lending measure, but these are generally fairly minor.

It is not considered necessary or even appropriate to achieve a net lending surplus each and every year, as this may lead to sub-optimal economic outcomes and intergenerational inequity (through the current generation of taxpayers funding new infrastructure to be used and enjoyed by future generations). However, it is important to try and minimise net lending deficits over time, in order to keep net debt at sustainable and affordable levels.

In an environment of record levels of capital spending to support the State's growing economy and population, the only way to do this is to budget for (and deliver) *operating* surpluses of the magnitude projected in this budget.

Balance Sheet

General government sector net worth is projected to increase by an average \$1.3 billion per annum over the forward estimates, from an estimated \$46.1 billion at 30 June 2005 to \$51.3 billion at 30 June 2009.

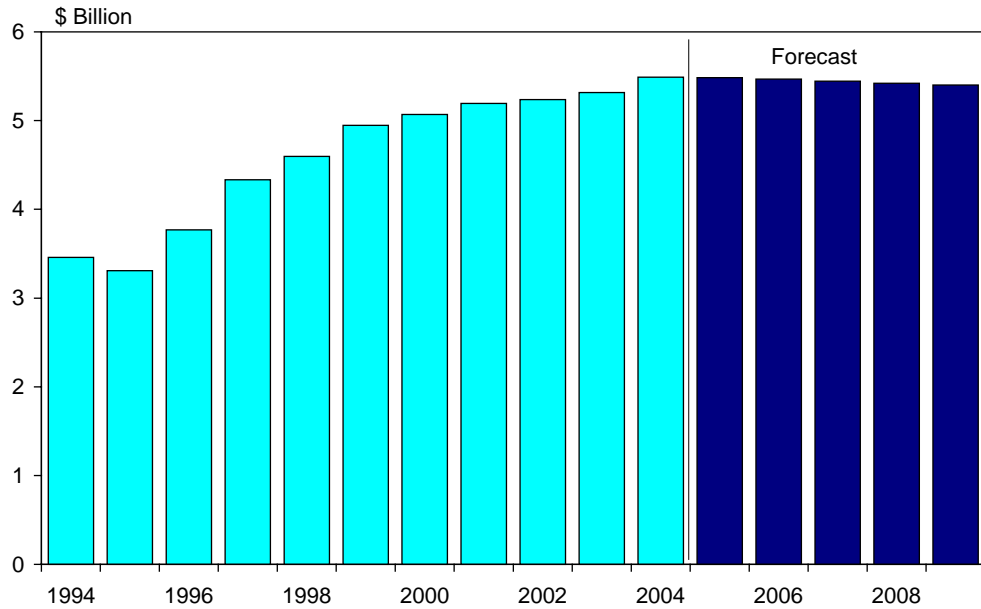
General government assets are forecast to grow to \$61.8 billion by 30 June 2009, an annual increase of \$1.5 billion across the forward estimates period. This growth is driven primarily by increased holdings in land and fixed assets as a result of significant fixed asset spending (e.g. roads, buildings and other infrastructure) in key areas such as health, education and training, and law and order.

Liabilities are projected to grow by an average of \$222 million per annum across the forward estimates period, with movements in borrowings the major factor driving movements in total liabilities. In 2005-06, general government borrowings are estimated to increase by \$174 million, which includes \$106 million taken on by the Consolidated Fund in refinancing rail freight debt held by the Public Transport Authority. The remaining \$212 million of this debt is to be fully extinguished from the estimated Consolidated Fund cash surplus at 30 June 2005.

Unfunded superannuation liabilities, which make up over 50% of total liabilities in the sector, are expected to start declining in the forward estimates period, reflecting the full concurrent funding of West State Super, which is the only public sector superannuation scheme still open to new members.

Figure 9

UNFUNDED SUPERANNUATION LIABILITIES AT 30 JUNE
General Government Sector



Net debt of the general government sector is discussed later in this chapter.

Cash Flow Statement

Net cash flows from operating activities (i.e. day-to-day operations of agencies) are projected to be in surplus throughout the forward estimates period, with a net operating cash surplus in excess of \$1.0 billion projected for each year out to 2008-09.

Receipts and payments from operating activities are expected to increase by 2.9% per annum over the forward estimates, which is broadly consistent with accrual operating revenue and expenses, discussed previously.

Reflecting the Government’s substantial Capital Works Program, purchases of non-financial assets are projected to peak at a record \$1.3 billion in 2005-06, and remain at historically high levels over the period to 2008-09. Capital spending by Health, Education and Training, Justice, the Police Service and Main Roads, as well as the implementation costs for corporate services reform, are significant components of these annual investments.

Cash surpluses (i.e. from operating and investing activities) are in prospect in all forward estimate years except 2007-08, where a modest \$38 million deficit is forecast. This positive outcome reflects the strength of the general government sector’s operating surplus over the projection period.

Total Public Sector

Summary

The total public sector is the consolidation of the three sectors of State government – the general government sector (which is largely funded from centrally received tax, royalty and Commonwealth grants revenue), the public non-financial corporations (PNFC) sector and the public financial corporations (PFC) sector, with these last two sectors including agencies which operate in markets and seek to recover costs through user charges.

The following table summarises the 2005-06 Budget estimates for the total public sector. A full set of financial statements for each individual sector and the consolidated public sector is at Appendix 1: *Detailed Financial Projections*.

Table 5

TOTAL PUBLIC SECTOR
Summary Financial Statements

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
OPERATING STATEMENT						
Revenue	18,069	18,949	19,421	19,842	20,441	21,098
Expenses	16,890	17,974	18,696	19,234	20,018	20,560
Net Operating Balance	1,178	976	725	607	423	538
BALANCE SHEET						
Assets	67,777	70,680	73,055	75,166	76,792	78,151
Liabilities	24,023	24,597	25,526	26,225	26,665	26,891
Net Worth	43,754	46,083	47,530	48,941	50,127	51,260
STATEMENT OF CASH FLOWS						
Change in net cash held	348	-816	-41	35	47	89
Cash Surplus	143	-956	-1,308	-582	-316	-213
Memorandum Item: Net Debt	4,194	5,167	6,521	7,152	7,616	7,835

Note: Columns may not add due to rounding.

The total public sector is projected to record operating surpluses across the entire forward estimates period, the result of surpluses in the general government and public corporations sectors. Similarly, total public sector net worth is projected to increase in each year of the forward estimates, consistent with the increases forecast for all sectors to 30 June 2009.

Net debt of the total public sector is estimated to rise over the forward estimates period to \$7.8 billion by 30 June 2009. This is an affordable and sustainable level of net debt, with the net debt to revenue ratio remaining comfortably below the 47% target limit (see *Net Debt* section below). Underlying these increases in net debt, the sector is projecting cash deficits over the forward estimates period, reflecting record levels of capital works spending.

Public Non-Financial Corporations

The PNFC sector is projecting an operating surplus of \$90 million in 2005-06, and surpluses in the range of \$56 million to \$134 million across the outyears. These projections include reduced profitability projections for Western Power due to increased expenditure on generation maintenance and operations, increased network expenditures to improve safety and reliability, and the effect of increased competition on sales. This is offset by the performance of other agencies in the sector including the Water Corporation, State Housing Commission and the port authorities.

Net worth of the PNFC sector is forecast to rise over the forward estimates period. Over this period Western Power is forecast to spend \$2.1 billion on capital works projects to improve and support electricity generation, transmission and distribution, while the Water Corporation will spend an estimated \$2.1 billion on projects including the Perth Seawater Desalination project and new wastewater treatment schemes at Alkimos and East Rockingham. Other major infrastructure assets include the New MetroRail project and improved and new facilities at the State's ports.

Record investment in infrastructure will result in cash deficits for the sector across the forward estimates, although these are forecast to decline from \$1.5 billion in 2005-06 to \$471 million in 2008-09 as capital works projects are completed.

Public Financial Corporations

The PFC sector is forecasting an operating surplus of \$114 million in 2005-06, with similar surpluses estimated for each of the outyears. This reflects the net interest and investment expectations for agencies such as the Western Australian Treasury Corporation and the Insurance Commission of Western Australia. The forecast surpluses are lower than the 2004-05 estimated outturn (\$178 million), reflecting less bullish market return expectations for investments held by the insurance sector.

Capital Investment

Infrastructure investment forms a critical component of the Government's budget and economic strategy. In recent years, the Government has invested heavily in social and economic infrastructure. The Government continues to place a high priority on public sector investment in hospitals, schools, water, power, public housing, roads and transport infrastructure. Such investment supports growth in the economy, enhances job creation for Western Australians and ensures quality service delivery into the future.

In 2005-06, the State's spending on fixed assets is projected to be a substantial \$3.6 billion, an increase of \$298 million over the estimated outturn for 2004-05. Public sector fixed asset spending is a significant component of the broader Capital Works Program, which is projected to be a record \$4.7 billion in 2005-06. These levels of spending are the highest on record, and are funded by a mix of internally generated funds (i.e. operating surpluses and sales of second hand assets) and debt.

Over the forward estimates period, key areas to benefit from the investment include: the health sector (implementing the Health Reform Committee recommendations including new and replacement hospitals); government schools and TAFE colleges; water services (including the Perth Seawater Desalination project); law and order-related projects; public transport (including the New MetroRail project which is due for completion in 2006-07); and electricity generation, transmission and distribution projects.

As noted above, differences between the level of spending undertaken by the public sector for fixed asset acquisition and the overall size and composition of the Capital Works Program are significant. The following table reconciles the fixed asset spending shown in the financial statements at Appendix 1: *Detailed Financial Projections*, to the Capital Works Program discussed elsewhere in these Budget Papers.

Table 6

RECONCILING CAPITAL SPENDING AGGREGATES
Western Australia

	2004-05 Estimated Actual \$m	2005-06 Budget Estimate \$m	2006-07 Forward Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m
<i>PURCHASES OF FIXED ASSETS</i>					
General government	1,177	1,285	1,242	1,179	1,092
Public non-financial corporations	2,146	2,336	1,783	1,393	1,416
Public financial corporations	4	4	5	4	2
TOTAL PUBLIC SECTOR	3,327	3,626	3,029	2,576	2,511
<i>plus</i>					
Expensed Capital Works Program ^(a)	279	348	277	276	219
Keystart home lending loans	678	651	562	577	596
All other ^(b)	234	102	138	172	139
<i>less</i>					
Capital spending by agencies outside the Capital Works Program ^(c)	4	2	3	3	2
Functional Review Taskforce asset management savings	-	-35	-35	-	-
Global provisions for Capital Works ^(d)	1	14	35	8	7
CAPITAL WORKS PROGRAM	4,514	4,746	4,004	3,591	3,455

(a) Includes items expensed as operating activities such as grants to local government and private sector agencies.

(b) Includes purchase of inventories and loans to external parties by agencies other than Keystart.

(c) Such agencies include the Burswood Park Board and other statutory marketing authorities.

(d) Provisions for projects yet to be committed to (e.g. Stage 2 of the Hismelt project).

Note: Columns may not add due to rounding.

Net Debt

Net debt is calculated as the difference between selected financial assets and financial liabilities, and is an important indicator of the strength of the public sector's financial position.

Debt funding allows the Government to spread the cost of public sector capital purchases over time, thus ensuring equity across generations of the State's citizens. This is appropriate as infrastructure often has a useful life that may last decades. Accordingly, it follows that the cost of that infrastructure, through the repayment of borrowings, should also be distributed over time and paid for by each generation of users benefiting from the asset.

However, it is important that the level of net debt is not excessive. High levels of net debt impose a call on future revenue flows to service that debt, and meeting these repayments can limit government flexibility. As such, an appropriate level of net debt is one which can be affordably serviced while adding to the productive capacity of the public sector.

Importantly, the public sector borrows in support of fixed asset acquisition and not for the purposes of day-to-day operating activities.

One indication that the State's level of net debt is sustainable and affordable is the State's credit rating. Western Australia is rated at triple-A by both major ratings agencies (Moody's and Standard and Poor's), the highest possible rating, which allows the State to borrow at lower rates of interest than would otherwise be the case. The triple-A credit rating also provides an easily identifiable signal to the public and potential investors that the Government is managing the State's finances in a responsible way, that its policies are financially sound, and that it represents a lower risk than other lower rated jurisdictions.

Total Public Sector

The following table provides details of public sector net debt levels by sector over the forward estimates period.

NET DEBT OF THE PUBLIC SECTOR AT 30 JUNE						
Summary						
	2004	2005	2006	2007	2008	2009
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
GENERAL GOVERNMENT						
Gross Debt ^(a)	2,677	2,195	2,331	2,301	2,448	2,541
Cash, Deposits and Lending ^(b)	2,969	2,470	2,193	2,160	2,075	2,210
Net Debt	-291	-275	138	142	373	332
PUBLIC NON-FINANCIAL CORPORATIONS						
Gross Debt ^(a)	7,390	8,402	9,475	10,273	10,724	11,224
Cash, Deposits and Lending ^(b)	2,219	2,220	2,306	2,425	2,591	2,780
Net Debt	5,170	6,183	7,169	7,848	8,133	8,444
TOTAL NON-FINANCIAL PUBLIC SECTOR ^(c)						
Gross Debt ^(a)	9,331	9,904	11,157	11,953	12,567	13,186
Cash, Deposits and Lending ^(b)	4,452	3,997	3,850	3,963	4,061	4,410
Net Debt	4,879	5,907	7,307	7,990	8,506	8,776
PUBLIC FINANCIAL CORPORATIONS						
Gross Debt ^(a)	13,491	14,167	15,079	15,740	16,022	16,104
Cash, Deposits and Lending ^(b)	14,175	14,907	15,865	16,578	16,912	17,045
Net Debt	-685	-741	-786	-838	-890	-941
TOTAL PUBLIC SECTOR ^(c)						
Gross Debt ^(a)	12,926	13,403	14,072	14,649	14,894	14,934
Cash, Deposits and Lending ^(b)	8,732	8,236	7,550	7,497	7,278	7,099
Net Debt	4,194	5,167	6,521	7,152	7,616	7,835

(a) Includes finance leases, loans and debt securities and derivatives in a net liability position. Excludes accounts payable and prepayments.

(b) Includes loans and debt securities in a net asset position. Excludes accounts receivable, prepayments and equities.

(c) Individual items for the respective sectors may not add to the total public sector. Each sector holds financial assets that are liabilities of the other. These inter-sector holdings eliminate on consolidation.

Note: Columns may not add due to rounding.

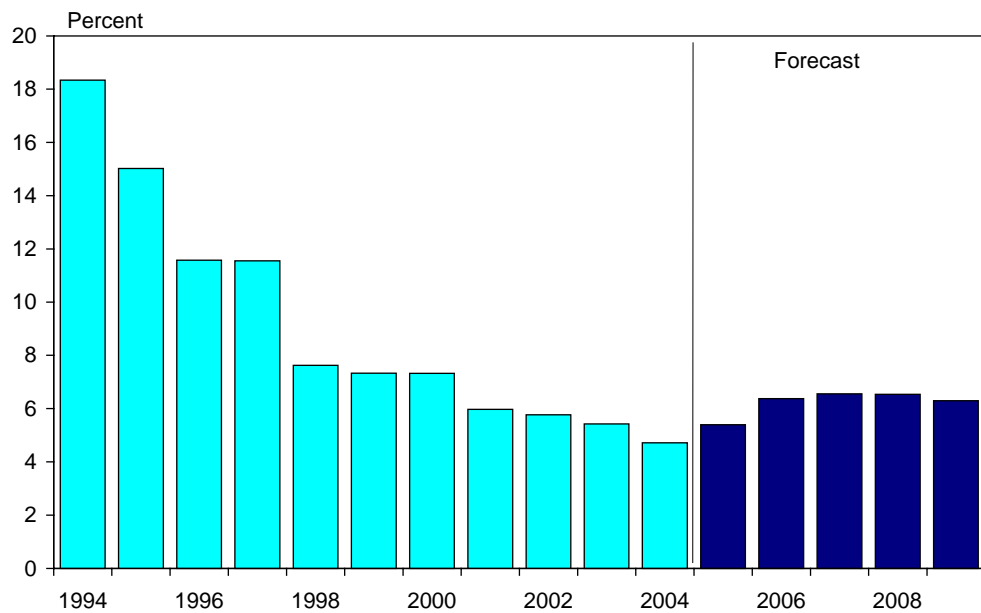
Total public sector net debt is forecast to be \$6.5 billion at 30 June 2006, compared with an estimated \$5.2 billion at 30 June 2005. The estimated \$1.4 billion increase in net debt is in support of the Government's record infrastructure investment program in 2005-06.

The increase in net debt is shared by both the general government sector (which provides infrastructure in areas such as health, education, police facilities and roads) and public corporations (which invest in infrastructure such as public transport, electricity, water and port developments which support the State's growing economy).

Net debt levels are forecast to rise in each of the forward estimate years to stand at \$7.8 billion by 30 June 2009. However, of critical importance is that these levels are affordable and sustainable, as shown by the expectation that the net debt to revenue ratio will remain comfortably below the Government’s 47% target limit across the entire forward estimates period, and net debt as a share of the economy is forecast to remain at historically modest levels (see following chart).

NET DEBT AS A SHARE OF GROSS STATE PRODUCT
Total Public Sector

Figure 10



General Government

General government net debt is estimated to stand at \$138 million at 30 June 2006. This represents an increase of \$413 million on the \$275 million net asset position estimated for 30 June 2005.

This increase includes a \$212 million rundown in general government cash investments combined with \$106 million in new general government borrowings to pay off \$318 million residual debt left over after the December 2000 privatisation of the freight business of Westrail. Since the privatisation, the Public Transport Authority has held this debt, with ongoing debt servicing costs met through an operating subsidy from the general government sector.

Early repayment of this debt reduces pressure on general government expenses (current transfers) across the outyears by up to \$17 million a year.

The remainder of the increase in net debt over 2005-06 supports infrastructure spending across the sector, including new schools, law and order facilities, health projects and roads, funded either through direct borrowings by agencies or through borrowings by the Consolidated Fund in support of capital contributions to agencies.

In 2006-07, the level of general government net debt is forecast to remain relatively stable, with capital investment largely funded from internal funds generated within the sector. In 2007-08, general government net debt is forecast to rise by \$231 million, reflecting both a smaller operating surplus in that year and the expected writing off of a loan provided to the purchasers of the Dampier to Bunbury Natural Gas Pipeline in October 2004 (this loan asset will be written off when conditions guaranteeing expansion of the pipeline are met, which is expected to occur in 2007-08).

Public Non-Financial Corporations

The majority of total public sector net debt in Western Australia is held in the PNFC sector. Agencies within this sector, including the Water Corporation, Western Power and port authorities, fund debt servicing costs through normal commercial operations and user charges.

In 2005-06, PNFC net debt is forecast to rise by \$986 million and by a further \$679 million in 2006-07 before the rate of growth in net debt slows to an average of \$300 million per annum thereafter.

These increases, particularly at the start of the forward estimates period, reflect significant infrastructure spending on the New MetroRail project, electricity generation, transmission and distribution, water provision including the Perth Seawater Desalination project, and port facilities. The completion of some of these projects is reflected in the slowing rate of growth in net debt in the outyears.

Public Financial Corporations

Agencies within the PFC sector include the Western Australian Treasury Corporation (the State's central borrowing authority), the Insurance Commission of Western Australia and other agencies dealing predominantly in financial assets and liabilities. In this sector, significant holdings of financial assets more than offset gross debt liabilities, with the sector thus projected to be in a net asset position over the forward estimates period. The strength of this net asset position is projected to increase over time, reflecting surplus operations from returns on investments.

Statement of Risks

As with all forward estimates, the 2005-06 Budget projections are based on a number of assumptions and are also subject to a variety of risks. Details on these risks as well as the major economic parameters underlying the budget projections are provided below.

Estimating Assumptions

The major economic parameters underlying the 2005-06 Budget are detailed in the following table.

Table 8

MAJOR ECONOMIC PARAMETERS
Western Australia

	2004-05 Estimated Actual	2005-06 Budget Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate	2008-09 Forward Estimate
Real gross State product ^(a) (%)	5.25	4.5	4.25	4.5	4.5
Real State final demand ^(b) (%)	5.0	2.25	3.25	4.0	4.0
Consumer price index (%)	2.75	2.5	2.5	2.5	2.5
Public consumption deflator (%)	3.5	3.5	3.5	3.5	3.5
Wages growth ^(c) (%)	5.5	4.75	3.5	3.5	3.5
Employment growth (%)	3.5	2.0	2.0	2.25	2.25
\$/A/\$US (cents)	78.0 ^(d)	78.0	78.0	78.0	78.0
Oil price (\$US per barrel)	47.0 ^(d)	40.0	30.0	30.0	30.0

(a) Gross State product (GSP) is the broadest measure of economic activity at the State level. It is measured as the sum of all final expenditures in the economy in a given period. GSP includes private and public sector consumption and investment and the net result of exports minus imports.

(b) State final demand (SFD) measures total domestic spending within the State. SFD is used in forecasting a number of stamp duties.

(c) This table shows average weekly earnings (AWE) growth (which is used in forecasting payroll tax revenue) rather than the wage price index measure reported in Chapter 5: *The Western Australian Economy*.

(d) For the remainder of 2004-05.

From a macroeconomic point of view, the primary risks relate to the sustainability of the positive international outlook, movements in exchange rates and interest rates, further pressure on the oil price and domestic wage pressures. These risks are discussed further in Chapter 5: *The Western Australian Economy*.

Revenue Estimates

The revenue estimates are sensitive to changes in key economic parameters such as wages and employment growth, the \$A/\$US exchange rate and the oil price. Approximate annual impacts of these changes are outlined in the following table⁶.

⁶ These impacts are not mutually exclusive and can vary over time. For example, in the case of a change in the exchange rate, the impact of a US1.0 cent change represents a different (larger) impact in percentage terms at the US60 cent level than at the US78 cent level. Furthermore, variations in the value of the \$A will impact on the sensitivity of the revenue to variations in the oil price.

Table 9

PARAMETER SENSITIVITY OF REVENUE ESTIMATES

	Variability (\$m)	Detail
Payroll tax	+/-13.0	For each 1.0 percentage point increase/decrease in wages and/or employment growth
Total mining revenue ^(a)	+/-18.5 ^(b)	For each 1.0 cent decrease/increase in the \$A/\$US exchange rate
Petroleum royalties ^{(a), (c)}	Up to +/-15.5	For each \$US1 increase/decrease in the price of a barrel of oil

(a) Includes North West Shelf petroleum royalties.

(b) The increase in this sensitivity since the PFPS (\$16.5m) is due to significant increases in estimates of total mining royalties over this period.

(c) The oil price sensitivity varies according to the extent of the flow-through to LNG prices. Not all of the increases in the oil price since the 2004-05 Budget appear to have been reflected in higher contracted LNG prices and therefore petroleum royalties.

In addition to the above sensitivities, specific factors that are considered to represent a potential risk to the revenue estimates are discussed below.

Revenue from the Commonwealth

General Purpose Grants

Growth in Western Australia's general purpose grants mainly depends on growth in the Commonwealth's GST collections (reflecting national rather than State economic conditions), and the recommendations of the Commonwealth Grants Commission.

The State budget uses the latest available Commonwealth forecasts of national GST revenue collections, as at the budget cut-off date (these were released as part of the Commonwealth's December 2004 *Mid-Year Economic and Fiscal Outlook*). The Commonwealth provided revised forecasts of GST collections in its May budget, but this was too late to be incorporated in the final State budget estimates.

Western Australia's share of GST revenue grants is based on annual recommendations by the Commonwealth Grants Commission. These recommendations incorporate the State's population share and the Commission's estimates of the State's capacity to raise revenue from its own sources and its cost of providing services, compared to other States.

Western Australia's share is forecast to decline over the forward estimates period, due to faster growth than other States in its own-source revenue capacity. However, experience shows that the annual change in Western Australia's share can be significant and is difficult to predict.

The Government recently took part in a review of the need to retain six stamp duties under the terms of the Intergovernmental Agreement on the GST funding arrangements. Three of these stamp duties have been abolished ahead of the review (on cheques, leases and unlisted marketable securities). While the Government has decided to retain the remaining three stamp duties for now (stamp duty on conveyances of non-residential property, mortgage duty and rental/hiring duty), the Commonwealth Government has demanded that these be abolished (except the real component of non-residential conveyances), in 2006-07 and 2007-08. As a result, there is a risk that the Commonwealth may attempt to withhold GST revenue from the State, or take other punitive action. However, the extent of this risk was unknown as at the budget cut-off date.

Specific Purpose Payments (SPPs)

The forward estimates of SPPs have a margin of uncertainty, reflecting the potential for Commonwealth policy changes (particularly for those SPPs which are currently being renegotiated or will be renegotiated during the forward estimates period), the reliance in some cases on successful State submissions for funding, and parameter uncertainties (such as indexation for inflation and wages growth).

In the Intergovernmental Agreement on the GST funding arrangements, the Commonwealth has indicated that it has no intention of cutting aggregate SPPs as part of these arrangements, reflecting the intention that the States should be better off under the new agreement. However, should GST revenue grow substantially in future years, there is a risk that the Commonwealth may allow SPPs to be eroded.

Competition Payments

Competition payments are conditional on the State satisfying the National Competition Council (NCC) and Federal Treasurer of its progress in implementing National Competition Policy (NCP) and related reforms. In 2004-05, Western Australia is receiving 50% of its possible competition payments, following a decision by the Commonwealth Treasurer to withhold payments for a range of anti-competitive restrictions retained in the State's legislation, including for retail trading hours and liquor licensing. Substantial payments are also being withheld for the State's failure to progress structural reform in the electricity sector.

The NCC will review competition payments to the States for 2005-06 by August 2005 and subsequently make new payments recommendations to the Commonwealth Treasurer. This is to be the final assessment under the current NCP program. A particular risk is that suspensions imposed in 2004-05 (such as for failure to progress electricity reform) may be replaced by permanent deductions in 2005-06, meaning that the State would automatically forfeit two years' worth of payments for outstanding reforms.

The forward estimates no longer include competition payments beyond 2005-06, following the Commonwealth's announcement without consultation that payments would not be made from 2006-07 onwards. The future of NCP, including funding arrangements, oversight institutions and reform priorities, is to be reviewed for decision by the Council of Australian Governments.

State Taxes

The forward estimates of taxation revenue are based on projected growth in key economic parameters such as employment, wages and State final demand. Risk factors in these assessments include international economic developments and the outlook for business investment (which, by virtue of its 'lumpy' nature, is very difficult to forecast).

Stamp duties linked to the historically volatile property market are inherently difficult to forecast. While a slight easing in property market activity is expected to marginally reduce conveyance duty revenue in underlying terms in 2005-06 (from a very high base), the timing and extent of any easing in activity is difficult to forecast.

Mining Royalties

The mining royalty estimates are sensitive to movements in oil prices and the \$A/\$US exchange rate. A change of \$US1 in the oil price would vary royalty revenue by up to \$15.5 million per annum. Similarly, a change in the exchange rate of US1.0 cent would vary royalty revenue by around \$18.5 million per annum.

Oil prices and the exchange rate are also inherently volatile. For example, the oil price in the lead-up to the budget (for West Texas Intermediate crude) averaged around \$US48 per barrel, compared to around \$US34 per barrel in 2003-04.

Analysts have suggested that oil prices currently incorporate a risk premium of around \$US14 per barrel. This risk premium reflects the market's assessment of geopolitical risks to oil supplies and the capacity of oil producers (most notably, OPEC) to promptly respond to a temporary loss of supply from one or more producers by bringing surplus production capacity on-line. The current level of the risk premium is partly due to the decline in OPEC's surplus production capacity in recent years, largely reflecting growth in demand from China.

The impact of oil price movements on petroleum royalties is significantly influenced by the extent of the flow-through to the price of LNG. While this factor is largely determined by contractual arrangements for LNG which are kept commercial-in-confidence, it has been observed that the increase to very high oil prices in 2004-05 has not flowed-through to the same extent to LNG prices.

Iron ore royalties are sensitive to price changes resulting from the annual negotiations between producers and buyers each year. It is assumed that the recently secured 71.5% price increase in 2005-06 will be maintained through to 2006-07. Prices are then assumed to decline by 25% in 2007-08, reflecting the anticipated supply response from producers. However, the extent of this response from Western Australian producers (only projects approved or committed are included in the current forward estimates), and any price moderation, is uncertain.

Revenue from Public Corporations

A future risk from Western Power is the impact of competition on profitability and revenue. While Western Power's forecasts already incorporate lower operating profits as a result of reduced market share and contract prices, and higher costs in some areas, there is a risk that these impacts could be greater than anticipated. In the absence of other changes this could result in Western Power's tax equivalent and dividend payments being lower than forecast.

Expenses

Wages

The forward estimates include provision for all enterprise bargaining agreements that have been agreed and finalised. Beyond those agreements, the forward estimates of salaries expenses assume wage increases of up to 3% per annum. Where wage outcomes are higher than this, expenses will generally be higher. To illustrate the potential impact, a 1% increase in wages in 2005-06 amounts to around \$60 million per annum across the general government sector in both salaries and concurrent superannuation costs.

Health Expense Pressures

The health sector continues to face significant cost and demand pressures, making budget and expense management a difficult and complex task. However, given the commitment by the Department of Health to implement health reform along with additional funding for reform and other initiatives, the agency is expected to remain within budget. Should any identified risks fail to be mitigated, they will be managed in accordance with the Government's financial priorities and objectives.

Justice

The recently commenced inquiry into Western Australia's Corrections System by Justice Mahoney is anticipated to take six months to complete. This broad ranging inquiry will focus on the requirements of prisons and community corrections to further improve community and staff safety, the rehabilitation of offenders and the structure and performance of the Department of Justice. In the current environment of increasing prisoner numbers, and to the extent that the recommendations will formulate a blueprint for overhauling the State's prison system with a commensurate increase in cost, there is a risk to the forward estimates.

Functional Review Taskforce Savings

The budget estimates incorporate substantial savings from the recommendations of the Functional Review Taskforce. These savings commenced in 2004-05, although their first full year impact is not until 2007-08. To the extent that these reforms are not implemented in full and/or do not yield the projected level of savings, there is a risk to the forward estimates.

Asset Revaluations

Periodic revaluations of assets are required under accounting standards to ensure the magnitude of the State's asset base is reported fairly on the balance sheet. These asset revaluations, which are very difficult to predict with any certainty, have the potential to increase expenses through subsequent increases in depreciation costs.

Capital Works

A number of capital works projects are predicated on the continuance of Commonwealth funding in accordance with existing arrangements (e.g. road funding).

The capital works budget also assumes that a number of projects will be funded from the proceeds of asset sales. If these asset sales do not eventuate then either the new works will not proceed or funding will be required from elsewhere.

The forward estimates allow for the impact of capital works projects that have been approved by the Government and that are subject to finalisation of contract negotiations and/or other events. If, for some reason, these projects do not proceed they will be removed from the forward estimates. The HIsmelt Stage 2 project is an example of such a project.

Contingent Liabilities

Contingent liabilities are costs that the Government will have to meet if a particular event occurs. Typically, contingent liabilities consist of guarantees, indemnities and sureties, as well as legal and contractual claims, and constitute a potential risk to the financial projections.

At 30 June 2004, quantifiable contingent liabilities of the Treasurer⁷ were in the order of \$985 million, comprising:

- contingent liabilities under guarantees, indemnities and sureties (\$879 million); and
- guaranteed obligations of the Bank of Western Australia Ltd (\$106 million at credit risk equivalent).

In addition, there are unquantifiable contingent liabilities for warranties given on the sale of BankWest and the Dampier to Bunbury Natural Gas Pipeline. These are detailed in the 2003-04 *Treasurer's Annual Statements* (released on 19 November 2004).

⁷ Excluding guaranteed borrowings and unfunded superannuation liabilities, which are identified as part of the liabilities determining net worth in the balance sheet of the total public sector. For the purpose of identifying contingent liabilities in the *Treasurer's Annual Statements*, guaranteed borrowings and unfunded superannuation liabilities are included in aggregate contingent liabilities. However, for the purposes of identifying additional risk, the balance sheet explicitly accounts for all borrowings (guaranteed or not) and unfunded superannuation as public sector liabilities.

Australian equivalents to International Financial Reporting Standards

Appendix 9: *Implementation of Australian equivalents to International Financial Reporting Standards (AIFRS)* outlines how AIFRS have been reflected in this budget. At the time of preparing the 2005-06 Budget projections, the impact of AIFRS on agencies' projections was based on current interpretations of new accounting standards and their interpretation in the government finance statistics framework which underlies the headline presentation of this budget. To the extent that final implementation of AIFRS in 2005-06 outturn reporting differs significantly from expectations in these forward estimates, there is a risk to the estimates.

Election Commitments and Other Expenditure Initiatives

Overview

This chapter provides information on two important areas of government expenditure:

- the delivery of the Government’s election commitments; and
- other major policy initiatives approved since the 2004-05 *Pre-Election Financial Projections Statement* (PFPS).

The following table compares the costings of the Government’s announced election commitments with the actual funding as reflected in this budget.

TOTAL EXPENDITURE ON ELECTION COMMITMENTS		Table 1
	Budget Impact over 5 years	
	\$m	
TOTAL RECURRENT EXPENDITURE ^(a)		
Estimated Commitment (February 2005)	667.9	
2005-06 Budget Estimate	672.9	
<i>Variance</i>	<i>+5.0</i>	
TOTAL CAPITAL EXPENDITURE ^(b)		
Estimated Commitment (February 2005)	427.1	
2005-06 Budget Estimate	448.0	
<i>Variance</i>	<i>+20.9</i>	

(a) Recurrent expenditure refers to that which is used for the delivery of services by agencies.

(b) Capital expenditure refers to that which is used for asset expansion by agencies.

While there are small variations on a range of election commitments, the variation in recurrent expenditure is primarily due to the Learning Allowance component of the Learning and Training Guarantee initiative. The original policy and costing was based on full time students only. This initiative has now been fully costed based on revised estimates of the number of Year 11 and 12 students as well as an expansion of scope to encompass all TAFE students (including apprentices and trainees).

Similarly, with regard to capital expenditure, the variance can be primarily explained by the inclusion of the construction costs for Dalyellup Middle School (\$30 million).

PREMIER; MINISTER FOR PUBLIC SECTOR MANAGEMENT; WATER RESOURCES; FEDERAL AFFAIRS

Premier and Cabinet

Other Initiatives – Recurrent

Establish an Office of Water Strategy

Additional funding of \$700,000 per annum has been provided to the Office of Water Strategy for additional staffing and operational requirements. The Office of Water Strategy will coordinate government initiated new water source development, demand management and water reuse activities.

WA Water Campaign Grants

An amount of \$125,000 per annum has been allocated to continue the WA Water Campaign with Local Councils and to assist implementation of sustainable water management plans. It is planned to recruit approximately 30 councils in total with 16 councils already recruited.

Waterwise on the Farm Educational Courses

Waterwise on the Farm educational courses are aimed at improving the on-farm productivity and water use efficiency, improve on-farm management and adopt practices to sustain land and water resources on and off the farm. \$50,000 per annum has been provided to continue this initiative.

State Water Strategy Initiatives

Funding of \$395,000 in 2005-06 and \$400,000 per annum until 2008-09 is provided for a range of initiatives including governance arrangements for water resource management, overseeing the implementation of the State wide irrigation review recommendations and the continuance of community education and consultation initiatives with regard to water conservation and efficiency.

Mid West Space Programs

New funding of \$720,000 in 2005-06, \$3.6 million in 2006-07 and \$140,000 per annum thereafter has been provided to promote the Midwestern region as the location for the Euro \$1 billion Square Kilometre Array and NASA Deep Space projects.

The Square Kilometre Array is a project to build an international radiotelescope. Mileura in Western Australia's Midwest has been selected as the preferred Australian site. It is proposed to develop a demonstrator project estimated to cost \$16.0 million at Mileura in conjunction with the CSIRO.

Government Media Office

Funding of \$150,000 has been approved for the refurbishment of the existing Media Conference Facility in the Government Media Office. Additional resourcing of \$425,000 per annum is also provided for the improved model of approving agency advertising, and for research and community consultation in metropolitan and regional areas.

New Ministerial positions

Funding of \$3.9 million per annum has been provided for costs associated with the additional three Ministers appointed following the election.

State Crisis Centre

Total funding of approximately \$4.8 million across the forward estimates has been approved for the ongoing operation of the State Crisis Centre.

Regional Liaison Officers

Funding of \$200,000 per annum has been provided to meet the salary and contingency expenses for two Regional Liaison Officers.

Native Title

Additional funding of \$852,000 in 2005-06, increasing to \$1.2 million per annum thereafter, has been approved for the increased cost associated with greater volumes of tenure searches required for Native Title claims, and future act matters.

Drink Driving Program

In 2004-05, Cabinet approved funding of \$175,000 for the initial start-up costs for the 'Revised Strategy to Counter Repeat Drink Driving'. Additional funding of \$139,000 in 2005-06 and \$140,000 in 2006-07 is provided for the continuation of this program.

Crime Prevention

Community Safety is a priority for Government. The Government has committed funding of \$1.6 million per annum for the expansion of the 'Operation Burglary Countdown' into the entire South East Metropolitan District (approximately 60 suburbs). Additional State Burglary Reduction Strategy projects to be implemented concurrently to reduce burglaries across the State include 'Burglar Beware', the Stolen Goods Strategy ('Don't Buy Crime'), Eyes on the Street Project, and Dob in a Burglar (phone-in) campaigns.

Additionally, \$180,000 per annum is provided for the development of a State Strategy to ensure that crime prevention through environmental design principles is embedded in all planning and development projects across Western Australia.

The Government has also committed \$250,000 in 2005-06 and \$440,000 thereafter for a revised community engagement structure to develop strategic approaches to strengthen community, indigenous and regional involvement in crime prevention in Western Australia.

Responsible Parenting

Funding of \$1.3 million in the current year has been provided with a further \$2.5 million in 2005-06 for the consolidation of the Parent Support service in the southeast corridor, and to expand the service to the northeast corridor of Perth.

Inquiry into Western Australia's Corrections System

An amount of \$2.0 million over two years (2004-05 and 2005-06) has been provided for the inquiry by retired Justice Dennis Mahoney into Western Australia's Corrections System.

Justice Inquiry

Funding of \$30,000 has been approved for the Inquiry into the Supreme Court escape of 10 June 2004.

Interfaith Service – Tsunami Victims

Funding of \$50,000 is provided for the costs associated with Western Australia's interfaith service for tsunami victims held on the National Day of Mourning and Reflection on Sunday 16 January 2005.

ANZAC Small Grants Scheme

The Government has approved funding of \$445,000 in 2005-06 to assist with the refurbishment of local war memorials throughout the State, and the production of further Anzac Medallions for people who made a personal contribution during the Second World War.

Other Initiatives – Capital*Ministerial Offices*

Funding of \$2.6 million in 2005-06 is provided for the refurbishment of premises for four Ministerial offices.

**DEPUTY PREMIER; TREASURER; MINISTER FOR
GOVERNMENT ENTERPRISES; MINISTER ASSISTING THE
MINISTER FOR PUBLIC SECTOR MANAGEMENT**

EXPENDITURE ON ELECTION COMMITMENTS						Table 2
	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	
RECURRENT EXPENDITURE						
Treasury and Finance						
- Securing our Water Future	-	9,000	9,000	-	-	
TOTAL (RECURRENT)	-	9,000	9,000	-	-	

Treasury and Finance**Election Commitments – Recurrent***Securing our Water Future*

An additional \$18.0 million has been provided to continue the successful Waterwise Rebate Program into 2005-06 and 2006-07. This program saves an estimated 3 gegalitres of water per year by encouraging householders to use water efficient products. The mix of products subject to rebates will be reviewed to ensure the program is responsive to changes in technology and the entry of new water efficient products.

Other Initiatives – Recurrent*Office of State Revenue*

The Government has provided additional funding of \$1.2 million per annum, commencing in 2005-06, to address customer service levels, complex assessing and voluntary compliance initiatives.

Economic Regulation Authority

Other Initiatives – Recurrent

Additional Operating Costs

The Government has allocated additional funding of \$105,000 in 2004-05, \$1.4 million in 2005-06, \$831,000 in 2006-07, \$1.0 million in 2007-08 and \$1.2 million in 2008-09 for operating costs. This relates primarily to accommodation costs, a corporate restructure due to the allocation of new functions, and legal and associated costs of reviews.

Other Initiatives – Capital

Computer and Office Equipment

The Government has provided additional capital contributions of \$124,000 in 2004-05, \$5,000 in 2005-06, \$26,000 in 2006-07, \$67,000 in 2007-08 and \$33,000 in 2008-09 for computer and office equipment. The increased asset requirement is due to a rationalisation of assets transferred to the Economic Regulation Authority when it was first established and the allocation of new functions.

MINISTER FOR AGRICULTURE AND FORESTRY; THE MID-WEST AND WHEATBELT

Table 3

EXPENDITURE ON ELECTION COMMITMENTS					
	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Agriculture					
- Carnarvon 2020	1,575	2,325	1,600	-	-
Mid-West Development Commission					
- Seniors Centre - Geraldton	450	-	-	-	-
TOTAL (RECURRENT)	2,025	2,325	1,600	-	-

Agriculture

Election Commitments – Recurrent

Carnarvon 2020

Following the Government's decision to create regional hubs/gateways of Exmouth and Carnarvon to underpin the Carnarvon-Ningaloo Coast Strategy, the implementation of the Carnarvon 2020 strategy will provide support to the agricultural industry, together with increasing and broadening the economic base of the Gascoyne region. Funding of \$5.5 million from 2004-05 to 2006-07 has been provided for the Meedo Horticulture Precinct, the Brickhouse Horticulture Precinct, the Carnarvon Artesian Basin and the Quobba Coast Eco-Tourism Precinct.

Other Initiatives – Recurrent

Windidda Station Rescue Fund

Funding of \$250,000 in 2004-05 has been provided to manage the emergency animal rescue at Windidda Station.

New Opportunities for Tropical Agriculture

This initiative involves engaging Traditional Owners and other stakeholders in a process to explore scenarios to develop the agricultural potential and to achieve social, cultural, environmental and economic sustainable development outcomes in the West Kimberley. Funding of \$500,000 per annum has been provided for four years commencing in 2005-06, with a review to be undertaken following this period to enable Government to assess the outcomes that have been achieved.

Integrated Research Institute

As part of the Functional Review Taskforce recommendations, the Department of Agriculture was requested to explore the concept of integrating its research and development activities with the University sector. As a consequence, it was agreed that savings of \$1.0 million in 2004-05 and \$2.0 million in 2005-06 onwards was to be reflected against the agency's budget.

While planning continues for the integration of the research facilities, it is clear that given the complex nature of the work to be undertaken, it will be some time before the integration can occur and efficiencies realised.

Accordingly, Government has agreed to defer the commencement of the additional \$1.0 million savings scheduled to commence in 2005-06 for two years. Additional savings of \$1.0 million will now commence in 2007-08.

Other Initiatives – Capital

Integrated Agricultural Research Institute

The Government has provided funding of \$28.0 million across the forward estimates towards the establishment of phase one of the Integrated Agricultural Research Institute (IARI). The IARI concept will support the Functional Review Taskforce recommendations, which were for 'Government to establish, with a University, an agriculture and resource sciences research institute. The institute should encompass research and development for agriculture, food and natural resource management.'

This first phase involves the construction of the Murdoch Institute Research and Development Centre. Government will subsequently review the performance of the Murdoch facility before commencing planning for further phases.

Agriculture Protection Board

Other Initiatives – Recurrent

Zonal Rate Increases

Funding of \$150,000 in 2005-06, \$155,000 in 2006-07, \$185,000 in 2007-08 and \$216,000 in 2008-09 has been provided as a matching State contribution to fund an agreed level of declared plant and animal control work on pastoral leases as required under the *Agriculture and Related Resources Protection Act 1976*.

Rural Business Development Corporation

Other Initiatives – Recurrent

FarmBis3 Scheme

Funding of \$1.5 million per year in 2006-07 and 2007-08 has been provided as part of the State Government's contribution towards the new FarmBis3 Scheme, scheduled to commence in 2005 as an approved assistance scheme totalling \$10.0 million over four years. The scheme provides grants for learning activities related to enhancing the capacity and skills of primary producers, rural land managers and indigenous land managers to manage their business, natural and human resources.

Mid-West Development Commission

Election Commitments – Recurrent

Seniors Centre - Geraldton

An amount of \$400,000 in 2004-05 has been allocated towards the cost of extensions to the Queen Elizabeth Centre. This extension will significantly increase the floor area of the building.

Funding of \$50,000 in 2004-05 has also been provided for a full time co-ordinator position based at the Queen Elizabeth Centre for a further twelve months.

MINISTER FOR EDUCATION AND TRAINING

Table 4

EXPENDITURE ON ELECTION COMMITMENTS					
	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Education and Training					
- Academic Excellence	-	445	1,320	1,320	1,320
- Behaviour Management	-	1,520	1,820	1,970	2,270
- Computers in Schools	-	4,161	6,446	7,761	11,133
- Learning and Training Guarantee	13,441	19,962	26,576	38,028	51,393
- Literacy and Numeracy	-	1,313	2,300	2,358	2,418
- Physical Activity	-	100	100	100	100
- Skills and Training	-	2,725	4,475	6,225	7,975
- Skills Centre in Kalgoorlie	-	250	-	-	-
- Skills Initiative	250	750	500	500	500
- Student Community Service	-	210	300	340	350
Country High School Hostels Authority					
- Academic Excellence	-	-	125	125	125
Curriculum Council					
- Learning and Training Guarantee	-	250	800	800	1,500
- Student Community Service	-	215	195	160	160
Education Services					
- Geraldton University	325	-	-	-	-
- Learning and Training Guarantee	-	1,411	3,156	3,946	4,746
TOTAL (RECURRENT)	14,016	33,312	48,113	63,633	83,990
CAPITAL EXPENDITURE					
Education and Training					
- Academic Excellence/ Education Package	-	11,050	30,500	10,900	-
- Dalyellup Middle School	-	2,000	18,000	10,000	-
- Koondoola and Burbridge Primary Schools – environmental walk	10	-	-	-	-
- Learning and Training Guarantee	-	6,600	7,100	3,500	-
- Physical Activity	-	1,000	1,000	-	-
- Pinjarra Primary School	-	2,500	-	-	-
- Waroona Primary School playground	15	-	-	-	-
TOTAL (CAPITAL)	25	23,150	56,600	24,400	-

Education and Training

Election Commitments – Recurrent

Academic Excellence

Perth Modern School will be re-established as the State's premier school of academic excellence with extra staff and resources provided to deliver expanded programs totalling \$2.6 million over the three years 2006-07 to 2008-09.

Services to gifted and talented students at all public schools will be improved with targeted funding of \$700,000 over four years.

Provision of \$1.1 million has been made to create a new two-tiered scholarship for graduating Year 12 students. A \$1,000 cash bursary will be awarded to the single most outstanding Year 12 student at every public high school in the State, and a \$3,000 cash bursary will be offered to Year 12 General Exhibition winners, provided they agree to remain in Western Australia to continue their studies in the year after graduation.

Behaviour Management

The successful Behaviour Management Program has been expanded by the provision of an additional \$7.6 million over four years for the following:

- a four year commitment of \$4.7 million to help Gerard Neesham's Football Academy establish a presence in six more locations. This will build on the success of the current academies at Geraldton and Kalgoorlie, which have engaged hundreds of teenage Aboriginal boys in education and training. The new academies are to be established in four regional centres (Albany, Broome, Bunbury and Esperance) and two in the metropolitan area (Cannington plus at a second location to be determined);
- \$1.4 million to double the funding for the school chaplaincy service that offers support to primary and secondary students. The Christian based service already operates in more than 100 schools;
- \$1.1 million to extend the school volunteer program. The program operates in 200 Western Australian schools and provides adult mentors to students who are having trouble at school; and
- \$400,000 to boost resources for the specialist anti-suicide agency, Youth Focus. The additional funding will allow the organisation to employ two youth counsellors to concentrate on school students.

Computers in Schools

An additional 105 primary and secondary schools will receive computer resources and teacher training over the next four years at a total cost of \$29.5 million. The 56 regional and 49 metropolitan schools will join many of the original 100 schools that received additional computer resources over the last four years to form clusters. The cluster model will ensure neighbouring schools share similar computer technology and will provide for efficient delivery of professional development for teachers.

Learning and Training Guarantee

Legislative amendments will be drafted that require young people will either stay at school, undertake formal training, be employed or combinations of the three until the end of the year in which they turn 17. This will be done in two stages, with the school leaving age rising to 16 in 2006 and 17 in 2008. In order to implement this change in policy the following initiatives have been budgeted for:

- the appointment of 280 additional staff and the development of new education and training programs to more successfully meet the vocational, education and personal needs of 16 and 17 year olds. Students will remain enrolled at a high school even if all their time is spent off site, to ensure that they retain access to education resources such as training mentors and funding subsidies. The total cost of these programs is \$46.9 million over four years;
- the appointment of 100 training mentors to help guide students into work or training options at an estimated cost of \$25.5 million over four years. The mentors will provide clear and accurate advice to students and will help broker education, training and employment packages for individual students that should help them to choose a pathway that gives them the best chance of long term career-based employment;
- annual payments of \$200 will be paid to parents of 16 and 17 year olds if their child is still at high school and up to \$400 if their child is enrolled full time at TAFE or with another registered training provider. Parents of approximately 58,000 Western Australian teenagers will receive the payment. The new subsidy is in addition to the \$100 that the Government pays towards the school fees for all students enrolled in public high schools. The payment will not be means tested and the funds will be provided to parents of 16 and 17 year olds at non-government schools and private registered training providers, as well as public schools and TAFE colleges. The total cost is estimated to be \$69.3 million with the first payments due in 2005; and
- cost relief measures for low-income families and families who live in remote locations will be extended at a total cost of \$11.8 million over four years. There are three components: extending the Secondary Assistance Scheme so that it applies to students in Year 12 whose parents hold a Centrelink or Veterans' Affairs Card (\$4.3 million); raising the Boarding Away From Home Allowance (\$3.4 million); and providing additional funding for transport costs, to help ensure mobility of students between different education and training options (\$4.1 million). The Department of Education and Training will receive \$7.7 million over the next four years to meet its obligations under the policy with the Public Transport Authority to receive a transport subsidy of \$4.1 million.

Literacy and Numeracy

Following the highly successful 'Getting it Right' Literacy and Numeracy strategy, which employed more than 300 specialist teachers in government primary schools, an extra 25 specialist teachers will be employed to work in priority high schools at a cost of \$6.9 million over four years. The goal for these specialist teachers will be to raise the competence of those students who failed to reach Year 7 academic targets. The first step will be to get those students to Year 7 competence, and then to Year 9 competence.

Initially the 25 specialist teachers will be allocated to 25 target high schools where they will work closely with classroom teachers. This model, used successfully in the strategy for primary students, enables classroom teachers to identify and then provide extra help for those students who need it. It also allows for the specialist teachers to share their knowledge and then move on to other areas of identified need thus leaving the expertise with classroom teachers.

In addition to the appointment of the new teachers, \$1.5 million will be provided for professional development and other support to make sure that the specialist teachers receive the best training available and then share their skills with other teachers. Of this amount \$780,000 will fund workshops and other professional development opportunities for classroom teachers, \$560,000 will provide curriculum officer training and \$160,000 will be available to train administrative support staff.

Physical Activity

An allocation of \$100,000 per annum from 2005-06 onwards has been made for the professional development of teachers to help them more successfully engage primary students in physical activity.

Skills and Training

Western Australia's strong economy is producing jobs and economic opportunities at a rapid rate. However, the strong pace of growth has brought with it sudden and critical shortages of skilled labour, especially in small and medium-sized enterprises. A \$21.4 million package to tackle skills shortages in Western Australia will provide for the following initiatives:

- partnership with industry to train 30,000 apprentices and trainees, with special emphasis on areas of skills shortage. At a cost of \$14.0 million over four years, and in consultation with key stakeholders, the apprenticeship system will have the necessary flexibility and relevance required to meet the needs of Western Australian industry and to address those areas where skills shortages are most acute;
- a plan to re-engage unemployed and under-employed 15 to 24 year olds who do not have formal qualifications. Often the gap between a potential employer and employee is simply a matter of the relevant training. A \$2.0 million program over four years will subsidise the cost of training for young people who have no formally recognised qualifications. This initiative will specifically target young people who are not eligible for other forms of assistance;
- funding of \$400,000 will be provided to establish a Master Class of Trades for apprentices and young trades people who strive for excellence and are capable of becoming leaders in their chosen field;
- an amount of \$4.2 million has been allocated to provide rapid-response training to address immediate or imminent skills shortages. The new Critical Skills initiative is aimed at identifying needs before they become critical and making sure the necessary training is available and can be delivered when and where it is needed; and

- the establishment of a voluntary mentor program that will enable senior trades people to pass on some of their valuable knowledge to younger workers. The development and support of the volunteer mentors will cost \$800,000 over four years.

Skills Centre in Kalgoorlie

An amount of \$250,000 has been allocated in 2005-06 to upgrade Curtin University's Vocational Training and Education Centre to assist in addressing the skills shortage in the Goldfields. Specifically, the funding will provide for the upgrading and expansion of the Centre's plant mechanics workshop.

Skills Initiative

The 'Profit from Experience' program, which offers training and careers advice to people aged 40 and over, has received additional funding of \$1.7 million over four years. More than 3,000 Western Australians are expected to benefit from the expansion of the program.

In addition, the 'Fast Track' apprenticeship program has been expanded by \$800,000, creating up to an extra 1,000 mature age apprenticeships commencing in 2004-05.

Student Community Service

Funding of \$1.2 million over four years has been provided for the introduction of a compulsory community service program for students in Years 10 and 11 in government schools. Students will be required to complete a minimum of 20 hours of voluntary community service over two years. The initiative will commence in 2006 with a pilot program at selected regional and metropolitan schools.

Election Commitments – Capital

Academic Excellence/Education Package

Perth Modern School will be re-established as the State's premier school of academic excellence with a \$16.9 million capital upgrade. The building and renovation program will be completed in 2008.

The new Perth Modern School will cater for Western Australian high school students of outstanding academic ability, regardless of their economic or geographical background. An allocation of \$8.0 million has been made to develop a residential college in Perth to accommodate outstanding regional students who gain entry to Perth Modern School or to a specialist education program in another public school.

Additional funding of \$5.0 million has been allocated to upgrade science buildings and facilities at selected high schools.

An allocation of \$21.0 million over the period 2005-06 to 2007-08 has been made for the construction of three extra new primary schools.

\$1.5 million has been approved for a Hydrotherapy Pool at College Row School in Bunbury and \$50,000 has been approved for a car park upgrade at East Victoria Park Primary School.

Dalyellup Middle School

As part of the Government's education plan for the Bunbury region, a total of \$30.0 million has been provided to construct a new middle school at Dalyellup for Years 7 to 10. The project is scheduled to commence in September 2006 and is planned to be ready in time for the start of the 2008 school year.

Koondoola and Burbridge Primary Schools – environmental walk

An allocation of \$10,000 has been made in 2004-05 for an environmental walkway at Koondoola and Burbridge Primary Schools.

Learning and Training Guarantee

An additional capital allocation of \$17.2 million is required to implement the Learning and Training Guarantee. \$4.2 million has been provided for an extra 42 transportable classrooms; \$8.0 million for construction of Kalbarri District High School; funding to modernise classroom layouts at Swan View Senior High School (\$2.0 million) and Collie Senior High School (\$1.0 million); and \$2.0 million to upgrade design and technology facilities at Narrogin Senior High School.

Physical Activity

\$2.0 million has been allocated to upgrade playground equipment at existing primary schools in order to promote fitness through physical activity and recreation. Schools will be invited to make submissions in partnership with local businesses, community groups and sports organisations for grants of up to \$10,000 towards playground improvements.

Pinjarra Primary School

Pinjarra Primary School has been allocated funding of \$2.5 million in 2005-06 for an upgrade of facilities, including the library.

Waroona Primary School playground

An allocation of \$15,000 has been made in 2004-05 for playground equipment at Waroona Primary School.

Country High School Hostels Authority

Election Commitments – Recurrent

Academic Excellence

The new \$8.0 million boarding facility for regional students accessing programs of academic excellence at Perth Modern School and other metropolitan public specialist high schools will be run by the Country High School Hostels Authority. The operational costs will be subsidised by the government with an allocation of \$125,000 each year from 2006-07 onwards.

Curriculum Council

Election Commitments – Recurrent

Learning and Training Guarantee

The extra students in Years 11 and 12 resulting from increasing the school leaving age and the changes to the delivery of services will impact the operations of the Curriculum Council. The Council will record the achievements of students in combinations of education, training and employment so that they have formal recognition of their skills to show prospective employers or to help them on their way to further education. Funding of \$3.3 million over four years has been provided for this purpose.

Student Community Services

Funding of \$730,000 over four years has been provided for the introduction of a compulsory community service program for students in Years 10 and 11 in all schools. Students will be required to complete a minimum of twenty hours of voluntary community service over two years and will gain formal recognition through the Western Australian Certificate of Education. A pilot program will be introduced at selected regional and metropolitan government schools in 2006 with introduction into all schools in 2007 for certification from 2009.

Education Services

Election Commitments – Recurrent

Geraldton University

A grant of \$325,000 was provided to the University of Western Australia as a contribution towards the total cost of \$3.8 million for Stage 1 of the construction of the Geraldton Universities Centre.

Learning and Training Guarantee

The Government's reforms to the school leaving age will affect all 16 and 17 year olds regardless of whether they are attending government or non-government schools. Additional funding of \$6.4 million over four years has been allocated for the expected increase in per capita grants to the non-government sector arising from this initiative.

The Government has also introduced the School Apprenticeship Link initiative to make the trades more attractive to students, and increase the number of young people entering into apprenticeships. Funding of \$6.8 million has been provided over four years to the non-government sector to ensure that non-government school students have the option of continuing their education at school or at a non-school place of learning.

MINISTER FOR CONSUMER AND EMPLOYMENT PROTECTION; INDIGENOUS AFFAIRS; MINISTER ASSISTING THE MINISTER FOR WATER RESOURCES

Table 5

EXPENDITURE ON ELECTION COMMITMENTS

	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Consumer and Employment Protection					
- Industrial Inspectors	-	340	350	360	370
- Parental Leave	-	-	1,000	2,000	3,000
Water and Rivers Commission					
- Flood Mitigation	-	1,500	500	-	-
Indigenous Affairs					
- Nightsafe Policy	-	500	500	500	500
TOTAL (RECURRENT)	-	2,340	2,350	2,860	3,870
CAPITAL EXPENDITURE					
Waters and Rivers Commission					
- Flood Mitigation	-	2,250	2,250	-	-
TOTAL (CAPITAL)	-	2,250	2,250	-	-

Consumer and Employment Protection

Election Commitments – Recurrent

Industrial Inspectors

The Department is committed to increasing services in the metropolitan and regional areas in order to assist employers in complying with industrial awards and agreements.

The additional funding will allow for a further five inspectors to be appointed from 1 July 2005 in the Labour Relations Division:

- a Senior Investigations Officer will be attached to the Building Industry and Special Projects Inspectorate (BISPI);
- an additional industrial inspector for the South West Regional Office; and
- three additional metropolitan based industrial inspectors.

The Senior Investigations Officer attached to BISPI will assist in proactively monitoring compliance with industrial laws in the building and construction industry and investigate industrial law breaches in a timely manner. Such activities will include targeted campaigns based on sub-industries within the building and construction industry.

The inspector to be based in Bunbury will enable proactive work to be conducted in the region as well as assist with an increasing compliance workload. The addition of three inspectors in the metropolitan area will enable the Department to dedicate resources to proactive targeted compliance audit campaigns.

Parental Leave

The Government has introduced a number of flexibilities into its workplaces through awards and agreements, including paid parental leave. These flexibilities facilitate a work life balance that benefits employees and employers.

Public sector workers are currently entitled to seven weeks paid parental leave for the birth or adoption of a child. The Government has now committed \$6.0 million over the next four years to progressively increase this entitlement to eight weeks from 1 January 2006, ten weeks in 2006-07 and fourteen weeks in the subsequent financial years. This also makes Western Australia the only State in the country where fathers working in the public sector are eligible for paid parental leave, where they are the primary care givers.

The Government is committed to families and to recognising the needs of a fully professional public sector, which is vital to the well being of the Western Australian community.

Water and Rivers Commission

Election Commitments – Recurrent and Capital

Flood Mitigation (Carnarvon)

Additional funding of \$6.5 million is provided over two years to complete the structural flood mitigation measures to lessen flood damages especially in the plantation areas on the Gascoyne River. The works involve land acquisition, construction of levees, weirs, and upgrading of three sections of the NorthWest Coastal Highway.

Other Initiatives – Capital

Water Resources Management Program

The Water Resources Management Program is the response to the Auditor General's report to Parliament in September 2003, which highlighted serious concerns at the deteriorations in quantity and accuracy of the State's information for water resource management.

This program includes capital funding of \$18.0 million over four years and will maintain the existing network of 896 deep monitoring bores and 2,548 shallow groundwater monitoring bores across the State and allow for regular integrity tests. Drilling of investigation/monitoring bores will also be completed as part of this program. This will be undertaken in areas where ground water resources are required to be managed within sustainable yields and where current information is insufficient to do this effectively in ground water management areas where licensed use is close to the allocation limit. Another aspect of this program includes maintaining and expanding the existing network of gauging stations and other instrumentation to monitor flows, water levels, rainfalls, salinity and nutrients etc.

Indigenous Affairs

Election Commitments – Recurrent

Nightsafe Policy

As part of the Government's 'Nightsafe' policy to crackdown on criminal and anti-social behaviour, an additional \$2.0 million over four years has been allocated to extend and improve the effectiveness of 21 Aboriginal community patrols that operate across the State. The additional funds will mean more money to employ Aboriginal people to operate the patrols and to provide adequate training to enhance community safety and social well-being.

Water Corporation

Other Initiatives – Capital

A total of \$187.8 million of additional capital funding across the forward estimates has been approved for the provision of water and wastewater services to meet the continuing growth of the State and provide high quality and reliable water services based on the principles of sustainable management. The funding of high priority water and wastewater services has meant that the completion date for the infill sewerage program has been extended by 10 years.

Future Water Sources

The Government has allocated funding of \$1.6 million across the forward estimates for the investigation of a range of future water source projects. This investigation is essential to ensure the ongoing security of water supply as Perth continues to grow and the drying of our climate persists.

In addition, previously approved funding for the Harvey Water trading project has been brought forward by 12 months, with \$14.0 million and \$15.0 million now allocated in 2005-06 and 2006-07 respectively. This project involves the piping of the open irrigation channels of Harvey Water Irrigation and providing the Water Corporation with the 17 gigalitres of water per annum that is saved from reduced evaporation and channel leakage.

South West Yarragadee

Funding of \$1.8 million in 2005-06 and \$5.6 million in 2006-07 has been approved for ongoing investigation costs into the South West Yarragadee aquifer as a future water source for Perth. This funding is required to ensure the completion of the current environmental approval process and engineering investigative work.

Alkimos Wastewater Scheme

The Government has approved funding of \$167.2 million across the forward estimates for the development of a new wastewater treatment scheme required as a result of unprecedented land development in the northern coastal corridor. With catchment transfer options exhausted, a new wastewater treatment plant (WWTP), and the associated conveyance system, is required to expand the system's design capacity. The 10 megalitre per day (MLd) plant will initially service approximately 50,000 people and will be progressively upgraded in modules of 20 MLd to 160 MLd in the longer term.

East Rockingham Wastewater Scheme

Continued strong land development growth in the southern coastal corridor requires the development of a new wastewater treatment scheme. To meet the wastewater demands associated with the high population growth in this area, the Government has provided funding of \$52.8 million across the forward estimates for a 12 MLd upgrade to the Water Corporation's existing Kwinana WWTP. This work will ensure the East Rockingham wastewater catchment can be adequately serviced until 2015.

Desalination Cost Escalation

Following the announcement that the Multiplex-Degremont joint venture will construct the Perth Seawater Desalination Plant, the Government has approved additional capital expenditure of \$41.0 million for the project. This increase is consistent with the general increase in construction costs over the past two years. The total capital cost of the project is now \$387.0 million. However, the plant's projected operating costs have decreased by more than 20%, which is mainly the result of a more efficient energy recovery system.

ATTORNEY GENERAL; MINISTER FOR HEALTH; ELECTORAL AFFAIRS

Table 6

EXPENDITURE ON ELECTION COMMITMENTS					
	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Health					
- Ambulance Cover – Pensioners	-	14,000	14,000	14,000	14,000
- Cancer Services	-	5,725	6,229	6,762	7,326
- Dental Care	-	1,000	1,000	1,000	1,000
- Elective Surgery Waiting List Initiative	-	10,000	10,000	10,000	10,000
- Good Health Policy	-	2,500	2,500	5,000	5,000
- Hospital Beds (Kaleeya and Galliers hospitals)	7,000	-	-	-	-
- More Nurses	-	3,100	3,100	3,100	3,100
- Peel Region Health Services	-	1,000	1,000	1,000	1,000
- Obstetrics	-	600	600	600	600
TOTAL (RECURRENT)	7,000	37,925	38,429	41,462	42,026
CAPITAL EXPENDITURE					
Health					
- Cancer Centre – Bunbury	-	2,000	4,500	-	-
- Country Hospital Policy	500	9,500	35,600	34,787	-8,700
- Kalgoorlie Hospital	-	-	-	1,000	9,000
- Mental Health (Bunbury)	-	2,500	-	-	-
- Northern Suburbs Tertiary Hospital Policy	-	-	-	5,000	-
- Peel Health Campus and Community Health Centre – Stage 2	-	1,000	2,000	1,000	2,200
- Southern Tertiary Hospital Policy (including Rockingham/Kwinana)	500	1,200	4,500	22,300	65,000
TOTAL (CAPITAL)	1,000	16,200	46,600	64,087	67,500

Health

Election Commitments – Recurrent

Ambulance Cover – Pensioners

The Government has allocated \$14.0 million per annum to provide free ambulance service for aged pensioners and a 50 per cent concession for other seniors aged 65 and over from 1 July 2005.

Cancer Services

Funding of \$26.0 million over four years has been committed to improve coordination and standards of care for cancer patients, with a particular focus on improving expertise and care to rural communities. This will consist of:

- specific cancer prevention and care strategies;
- improvements to palliative care and support services;
- additional funding to ensure that cancer research is rapidly and directly applied to clinical practice;
- extensions to the State wide Skin Cancer Prevention Program run by the Cancer Council of Western Australia; and
- the introduction of a State wide colorectal screening program.

Dental Care

The Government has provided additional funding of \$1.0 million per annum over the next four years to reduce waiting times for eligible patients in the State's Dental Health Service.

Elective Surgery Waiting List Initiative

An additional \$40.0 million over four years has been allocated to reduce the elective surgery waiting lists and the time patients are waiting for elective surgery.

Good Health Policy

The Government has committed an additional \$15.0 million over four years to health promotion and ill-health and injury prevention activities.

Hospital Beds (Kaleeya and Galliers hospitals)

An additional \$7.0 million in 2004-05 has been provided to the Kaleeya and Galliers Hospitals to reduce elective surgery waiting lists and waiting times for surgery.

More Nurses

A total of \$12.4 million over four years has been provided over the forward estimates to undertake a range of initiatives to support nurses, including:

- provision of childcare support;
- a zero tolerance approach to workplace violence and aggression; and
- enhancements to the Nursing Scholarship Support Scheme.

Peel Region Health Services

The Government has allocated \$4.0 million over four years to review and improve the delivery of health services in the Peel region with a particular emphasis on Murray Districts Hospital.

Obstetrics

Funding of \$2.4 million over four years has been provided to establish and maintain a State wide Obstetric Support Unit. The unit will be established as part of the Women's and Children's Health Service and be responsible for the development of a State wide network of obstetric services and act as a central clinical reference point.

Election Commitments – Capital

Cancer Centre – Bunbury

The Government has allocated \$6.5 million over 2005-06 and 2006-07 to build a facility for a linear accelerator at Bunbury Hospital. This will be the first cancer facility outside the metropolitan area and will enable patients in the South West to be provided with life-saving radiation therapy treatment closer to home.

Country Hospital Policy

Substantial funding has been provided to significantly upgrade health services in the country, including:

- \$78.6 million to be expended to upgrade facilities in the Kimberley region, including the redevelopment of Broome Regional Hospital, a new hospital in Fitzroy Crossing, the replacement of Halls Creek and Wyndham Hospitals and the upgrade of Kununurra Hospital; and
- bringing forward the construction of the new \$65.0 million Hedland Hospital and the \$20.0 million redevelopment of Albany Hospital, with planned completion of both projects in 2007-08.

Kalgoorlie Hospital

The Government will invest a total of \$30.0 million (\$1.0 million in 2007-08, \$9.0 million in 2008-09 and \$20.0 million in 2009-10) to upgrade the Kalgoorlie Regional Hospital to a Regional Resource Centre in order to provide more locally accessible hospital care in the Goldfields region.

Mental Health (Bunbury)

Funding of \$2.5 million has been allocated in 2005-06 for a purpose-built Community Mental Health facility at Bunbury Regional Hospital to provide integrated mental health services to the communities of the South West.

Northern Suburbs Tertiary Hospital Policy

The Government has committed a further \$5.0 million towards the provision of an additional 30 inpatient mental health beds at the Joondalup Health Campus.

Peel Health Campus and Community Health Centre – Stage 2

A total of \$6.2 million over four years, beginning in 2005-06, has been allocated for an upgrade to the emergency department at the Peel Health Campus and for Stage Two of the new Mandurah Community Health Centre development.

Southern Tertiary Hospital Policy (including Rockingham/Kwinana)

Significant funding has been allocated to construct the new southern tertiary hospital (Fiona Stanley Hospital) and provide further services to patients south of the river, including:

- \$420.0 million for Stage One of the construction of the new southern tertiary hospital, with \$191.0 million to be spent over the next four years;
- \$67.0 million to be spent over the next four years to re-develop the Rockingham-Kwinana District Hospital;
- continued upgrades at Fremantle Hospital to focus on sub-acute care, aged care, rehabilitation, mental health, day surgery and community-based services; and
- continued support for the after hours General Practitioner Clinics at Fremantle and Rockingham-Kwinana hospitals.

Other Initiatives – Recurrent

Winter Demand Strategy

To manage the peak service demands for health, the Government has allocated additional funding for the 2005 Winter Demand and Emergency Demand Strategies, totalling \$11.4 million in 2004-05 and \$27.6 million in 2005-06.

Contractual Commitments to support the Winter Demand Strategy

The Government has allocated funding for the contractual commitments to support the Winter Demand Strategy including co-located General Practitioner Clinics, enhanced ambulance services by St John's Ambulance and the Residential Care Line totalling \$10.0 million in 2005-06, \$11.7 million in 2006-07, \$12.4 million in 2007-08 and \$13.1 million in 2008-09.

Bed Management Strategy

As part of the Bed Management Strategy, the Government has approved funding of \$33.1 million in 2005-06, \$34.9 million in 2006-07, \$36.8 million in 2007-08 and \$38.9 million in 2008-09, to permanently maintain the 130 beds added during 2004-05.

Commissioner for Equal Opportunity

Other Initiatives – Recurrent

Public Sector Anti-Racism Unit

The Commission has received funding of \$1.8 million over four years for a new program aimed at reducing racism within the public sector. It will address systemic barriers that restrict the participation of many Western Australians in our society. Core to the success of the program is the recognition that to achieve substantive equality, there may be a need to treat certain people differently.

Western Australian Electoral Commission

Other Initiatives – Capital

Election Management System

Funding of \$275,000 in 2005-06 has been provided for the development of the Election Management System that will integrate a number of existing systems. This will improve data information collection and reporting across local and State government election activities.

MINISTER FOR THE ENVIRONMENT; SCIENCE

Table 7

EXPENDITURE ON ELECTION COMMITMENTS					
	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
CAPITAL EXPENDITURE					
Conservation and Land Management					
- D'Entrecasteaux National Park	1,990	-	-	-	-
TOTAL (CAPITAL)	1,990	-	-	-	-

Conservation and Land Management

Election Commitments – Capital

D'Entrecasteaux National Park

Funding of \$2.0 million has been provided in 2004-05 to acquire five parcels of high conservation value land within the park currently owned by Cable Sands.

Other Initiatives – Recurrent

Additional 40 Fire Fighters

An additional 40 full time fire fighting staff will be employed at a cost of \$2.7 million per annum to improve fire fighting resources to help prevent and fight major wildfires throughout the South West.

Indigenous Joint Management

Additional funding of \$1.0 million per annum has been provided to allow the Demonstration Park Council program to continue.

Cane Toads

Funding of \$900,000 has been allocated in 2005-06 for CALM, in conjunction with the Department of Agriculture, to develop a long term strategy to effectively manage the cane toad threat to Western Australia.

Other Initiatives – Capital

Biodiversity Conservation Science Centre and Herbarium

A total of \$16.2 million over three years from 2005-06 will be provided as the first stage of a master plan for CALM's metropolitan accommodation. The project involves construction of a new Herbarium on CALM's Kensington site. The existing facility is beyond its useful life and an occupational health hazard as well as putting at risk the State's invaluable seed and plant collection.

Environment

Other Initiatives – Recurrent

Strategic Air Quality Management for Regional Centres

\$5.2 million over four years has been provided to extend the air quality management strategies for key regional 'airsheds' at Burrup and Collie. An 'airshed' refers to the air canopy surrounding population centres, industrial and other facilities within which the impacts of air pollutants need to be considered from health and environmental viewpoints.

Other Initiatives – Capital

Air Quality Initiatives

Funding of \$850,000 over four years has been allocated to complete the purchase of infrastructure required to discharge the State's obligation under nationally agreed standards for air monitoring activities and to expand the air monitoring stations in regional locations.

Bunbury Water Board

Other Initiatives – Capital

Water Distribution and Reticulation

Additional funding of \$507,000 in 2005-06, \$510,000 in 2006-07 and \$847,000 in 2007-08 has been provided to ensure the provision of new mains and the replacement of old mains required due to increased land development in the Bunbury area.

Water Treatment Plants

An amount of \$265,000 in 2005-06 and \$780,000 in 2006-07 has been allocated to augment existing water treatment plants to cope with increased demand arising from the high growth in the Bunbury area.

MINISTER FOR POLICE AND EMERGENCY SERVICES; COMMUNITY SAFETY

Table 8

EXPENDITURE ON ELECTION COMMITMENTS					
	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Police Service					
- Nightsafe Policy	31	-	-	-	-
- Police dogs – Regional (Albany, Bunbury, Geraldton, Kalgoorlie)	-	-	699	489	446
- Expansion of Canine Unit	-	599	406	377	428
- Frontline Policing Policy	65	386	365	904	-171
- Smarter Policing Policy	-	2,214	995	1,001	1,014
Fire and Emergency Services Authority					
- Wanneroo Fire Station	160	-	-	-	-
TOTAL (RECURRENT)	256	3,199	2,465	2,771	1,717
CAPITAL EXPENDITURE					
Police Service					
- Frontline Policing Policy	380	4,848	10,691	5,572	-5,225
Fire and Emergency Services Authority					
- Mt Helena Volunteer Bush Fire Brigade	150	-	-	-	-
TOTAL (CAPITAL)	530	4,848	10,691	5,572	-5,225

Police Service

Election Commitments – Recurrent

Nightsafe Policy

To support the Government's commitment to provide Police with the power to immediately ban from nightclubs and licensed premises individuals found in the vicinity of these premises with firearms, weapons or drugs, funding of \$31,000 has been provided in 2004-05 to purchase and maintain metal detectors.

Police dogs – Regional (Albany, Bunbury, Geraldton, Kalgoorlie)

Commencing in 2006-07 funding has been provided to increase canine services to regional Western Australia through the acquisition of seven new general purpose dogs to be located at Bunbury and at new services at Kalgoorlie, Albany and Geraldton.

Expansion of Canine Unit

To broaden the range of services available from the Canine Unit, funding has been provided in 2005-06 and thereafter for the:

- acquisition of an additional four general purpose dogs to enable a 24 hour 7 days a week service delivery within the metropolitan area and two new special purpose dogs, one trained specifically to deal with firearms incidents, and the other one trained in dealing with circumstances where explosives are involved; and
- establishment of a breeding program to ensure an ongoing supply of suitable police dogs.

Smarter Policing Policy

To expand the capacity of DNA sampling and obtain analysis results quicker, funding of \$2.1 million has been provided to purchase and maintain additional equipment (\$1.2 million in 2005-06) and employ additional staff (\$940,000 per year) at the PathCentre. In addition, funding of \$72,000 in 2005-06 has been approved to procure and expand the deployment of tasers, which will assist police in temporarily paralysing offenders. The taser delivers a high-voltage, low amperage charge that mimics the body's electrical signals. A further \$36,000 has been provided to trial portable electrostatic shoe impression lifters.

Election Commitments – Capital

Frontline Policing Policy

Additional capital funding has been provided across the forward estimates to bring forward the construction of police stations at Ellenbrook, Stirling and the Pilbara (Karratha), commence construction of a new station at Derby and upgrade the South Hedland station. In addition \$445,000 (\$65,000 expensed) has been allocated in 2004-05 to purchase special purpose vehicles (mobile lock-ups) to support front line police.

Other Initiatives – Recurrent

Security Vehicles

In accordance with recommendations made by the State Coroner, funding of \$621,000 in both 2004-05 and 2005-06 and \$283,000 in 2006-07 increasing to \$300,000 in 2008-09 has been provided to replace about 140 vehicles with a personnel carrier style vehicle fitted with internal security screens.

Other Initiatives – Capital

Perth Watch House / Central Metropolitan District Police Complex / Specialist Crime Portfolio Complex

In 2005-06 \$800,000 has been allocated to enable the Police Service to commence the design and planning phase for the replacement of the Perth Watch House and associated functions. Works will include the relocation and construction of a new Specialist Crime Portfolio building at Midland as well as the refurbishment and additions to Curtin House to accommodate the new Watch House and the Central Metropolitan District Police Complex. The estimated total cost of this project is \$81.0 million.

Aircraft Replacement Program

Funding of \$10.0 million has been allocated in 2005-06 for the acquisition of two new fixed wing turbine engine, pressurised aircraft capable of flying in all weather conditions to replace existing aircraft, which will allow the Police Service to reach any location within Western Australia to provide policing services. In line with the Police Service Frontline First strategy, the two new aircraft will enable better services to the community, including timely and effective deployment of police resources and equipment to anywhere in the State, provision of effective responses to emergency and security situations, improved reliability and cost effectiveness of police air support, and provision of quality services to remote indigenous communities.

Forward Looking Infra Red (FLIR) Unit

Funding of \$1.0 million has been allocated in 2005-06 to procure a new Forward Looking Infra Red (FLIR) unit, which will replace the outdated model currently utilised by the Air Support Unit. The new unit has additional capabilities that will enable the Police Service to maintain search and rescue capabilities at an enhanced level, provide a high level of evidentiary footage, conduct covert surveillance operations, and counter terrorism surveillance. It will also enable Police Communications to view real time camera footage through new technology advancements.

Livescan Finger Printing and Digital Image Technology

As part of a forensic technical enhancement project, funding of \$1.4 million in 2005-06 has been allocated to purchase eight livescan units and establish a data-transfer network which enables the electronic capture of fingerprints, direct transmission to the National Automated Fingerprint Identification System (NAFIS) searching and storage facility in Canberra and real time identification of persons.

Fire and Emergency Services Authority

Election Commitments – Recurrent

Wanneroo Fire Station

A total of \$160,000 has been allocated for station equipment associated with the completion of the Wanneroo Volunteer Fire Station.

Election Commitments – Capital

Mt Helena Volunteer Bush Fire Brigade

An amount of \$150,000 has been provided for the redevelopment of the Mt Helena Volunteer Fire Station including a new vehicle and maintenance bay for tankers as well as facilities for staff.

Other Initiatives – Recurrent

Western Australian Emergency Radio Network

Funding of \$15.8 million has been provided over three years commencing in 2005-06, for the new Western Australian Emergency Radio Network. Currently, few Emergency Service Organisations in Western Australia are able to communicate across agencies and divisional boundaries. The project entails the complete replacement and expansion of the existing emergency radio equipment. An amount of \$4.2 million has been allocated in 2005-06 for capital items required for this project.

Other Initiatives – Capital

Eglington Fire Station Transitional Arrangements

As part of the planned new Eglington Fire Station transitional arrangements, \$600,000 has been allocated in 2004-05 for new facilities to house the Quinns day-shift brigade.

MINISTER FOR PLANNING AND INFRASTRUCTURE

Table 9

EXPENDITURE ON ELECTION COMMITMENTS					
	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Planning and Infrastructure					
- Better Beaches Policy	-	250	250	250	250
- Burns Beach Feasibility Study	-	75	-	-	-
- Environment Package	-	1,200	1,200	-	-
- Maddington-Kenwick Sustainability	-	2,000	2,000	-	-
- One Hundred Dollar Savings for Families	-	26,250	27,250	28,500	29,750
- Safe Driving Policy	-	635	654	674	694
Main Roads					
- Madora Street Lights	-	400	-	-	-
Public Transport Authority					
- Better Beaches Policy	-	300	315	331	347
- Improve Frequency of Bus Services – Clarkson, Warwick	50	257	257	257	257
- Karratha Bus Services	-	25	-	-	-
- Learning and Training Guarantee	-	375	750	1,250	1,750
- Public Bus Service Trial in the Murray Region	-	12	-	-	-
- Public Transport Fare Policy	-	2,300	3,000	3,000	3,100
TOTAL (RECURRENT)	50	34,079	35,676	34,262	36,148
CAPITAL EXPENDITURE					
Planning and Infrastructure					
- Exmouth Boat Ramps	-	1,000	500	-	-
Main Roads					
- Geraldton Roads	-	-	-	4,000	19,000
- Improving Passing Lanes in the South West	-	3,000	4,500	-	-
- Modifications to Mitchell Freeway	-	-	2,000	-	-
- Riverton Roads	-	1,250	-	-	-
- Serpentine-Jarrahdale traffic lights	-	75	-	-	-
- South Street improvements	150	-	-	-	-
- Toodyay Road	-	2,500	-	-	-
- Wanneroo Roads	-	-	-	-	10,000
- Wiluna – Meekatharra Road	-	5,450	-	-	-
Public Transport Authority					
- Swan Valley Train Station	-	400	-	-	-
Albany Port Authority					
- Trade Policy	-	2,600	-	-	-
Esperance Port Authority					
- Trade Policy	5,000	16,600	-	-	-
TOTAL (CAPITAL)	5,150	32,875	7,000	4,000	29,000

Planning and Infrastructure

Election Commitments – Recurrent

Better Beaches Policy

Under the Better Beaches Policy, grants will be available to community groups and local government to rehabilitate beaches by restoring and protecting beach and dune ecosystems in the metropolitan area and at major regional coastal centres.

Burns Beach Feasibility Study

Funding of \$75,000 has been provided to undertake a feasibility study to review public access to the beachfront at Burns Beach.

Environment Package

The Government will continue to fund the Liquefied Petroleum Gas (LPG) Subsidy Scheme, which provides the owner of a vehicle that is registered for ‘family’ purposes with an incentive of a \$500 subsidy towards the cost of converting their vehicle from petrol to LPG as an alternative fuel source.

Maddington-Kenwick Sustainability

The Maddington-Kenwick Action and Implementation Plan identifies 100 actions aimed at enhancing and revitalising the Maddington Town Centre. The funding will be used together with other funds committed by the City of Gosnells, to implement the actions recommended in the Plan. These actions include technical studies, community based initiatives and minor capital works.

One Hundred Dollar Savings for Families

Western Australian families will save \$25 a year under the Government initiative to reduce motor vehicle running costs. Family concessions on motor vehicle registration will increase by \$25 to \$53 per year, saving families \$100 over a four year period. The move will cost the Government \$111.7 million over four years, and is part of a broader plan to cut costs for families.

Safe Driving Policy

Under the new Road Safety Policy, young drivers who drive safely and avoid traffic infringements for two years will receive a free licence renewal for one year.

Election Commitments – Capital

Exmouth Boat Ramps

Funding has been provided to upgrade facilities at the Tantabiddi and Bundegi boat launching ramp sites in the Ningaloo Marine Park.

Other Initiatives – Recurrent

Public Transport Promotion

The Government has allocated funding of \$1 million per annum in 2005-06 and 2006-07 to help residents in the Perth Metropolitan area reduce their car dependency through improved information and promotion, building on the successful TravelSmart initiative and supporting the Government's major investment in Perth's urban passenger rail network. It is expected that the Commonwealth Government will also contribute \$3 million to this initiative from the Greenhouse Gas Abatement Program.

Establishment of the Rangelands Council

Funding of \$400,000 per annum has been provided for the ongoing operational costs of the Council, which will monitor and regulate the sustainable use of the rangelands (i.e. any area of Western Australia not suitable for agricultural use, cropping or improving pastures), including the co-ordination and establishment of plans for all rangelands leases and crown land. This will lead to improved management of the rangelands with improved access and opportunities for diversification that will have economic benefit to many regional areas.

Main Roads

Election Commitments – Recurrent

Madora Street Lights

Funding of up to \$400,000 has been allocated to bring forward and complete by October 2005, the installation of traffic lights on the intersection of Fremantle Road and Madora Beach Road. This is to provide safer vehicle access to Fremantle Road, and also to improve safety for residents accessing the nearby bus stop.

Election Commitments – Capital

Geraldton Roads

Funding has been committed for the commencement of construction of the final stage of Indian Ocean Drive from Lancelin to Cervantes and for Stage 2 of the Geraldton Southern Transport Corridor (STC). The \$65.0 million final stage of Indian Ocean Drive will be built in two stages over four years commencing in 2007 and will provide a coastal link for Perth's northern suburbs with the coastal communities as far as Cliff Head and Dongara. Construction of the \$25.0 million Stage 2 of the STC will also commence in 2007.

Improving Passing Lanes in the South West

Funding of \$7.5 million has been committed for the construction of five additional passing lanes on the South Western Highway. It is expected that these improvements will enhance road safety and help avoid delays for people travelling in the region.

Modifications to Mitchell Freeway

As a result of recommendations following a community consultation process, additional funding of \$2.0 million has been added to the Mitchell Freeway project, to allow for modifications to the section between Hodges Drive and Shenton Avenue.

Riverton Roads

\$1.2 million has been allocated in 2005-06 to help alleviate traffic congestion caused by trucks using High Road in Riverton.

Serpentine-Jarrahdale traffic lights

The Main Roads Department will spend \$75,000 in 2005-06 on the provision of traffic lights in Serpentine-Jarrahdale.

South Street improvements

\$150,000 has been allocated in 2004-05 for the construction of two bus bays on South Street, between Karel Avenue and Pinetree Gully Road in Willetton.

Toodyay Road

Additional passing lanes on Toodyay Road in the Gidgegannup area will be constructed in 2005-06 at a cost of \$2.5 million. It is expected that these improvements will enhance road safety and help avoid delays for people travelling in the region.

Wanneroo Roads

In 2008-09, Wanneroo Road between Wallawa Street and Joondalup Drive will be upgraded at a cost of \$10.0 million.

Wiluna – Meekatharra Road

The upgrading and sealing of the Goldfields Highway between Wiluna and Meekatharra will commence in 2005-06 with the allocation of \$5.4 million.

Public Transport Authority

Election Commitments – Recurrent

Better Beaches Policy

As part of the better beaches policy, additional funding has been committed for extra bus services connecting beaches with train stations and other major centres during peak demand periods and over the weekend.

Improve Frequency of Bus Services – Clarkson, Warwick

The Government has committed funding for additional peak hour bus services to and from the Clarkson and Warwick stations.

Karratha Bus Services

Additional funding has been provided toward a bus service trial that links the communities of Wickham, Roebourne, Karratha and Dampier and is co-funded by the Shire of Roebourne.

Learning and Training Guarantee

As part of the commitment to learning and training, additional funds have been provided to the Public Transport Authority to help ensure mobility of students between different education and training options.

Public Bus Service Trial in the Murray Region

A new 5-day a week bus service between Waroona-North Pinjarra and Mandurah will be trialled for six months.

Public Transport Fare Policy

As part of the commitment to public transport, a new 50 cent student fare will be introduced for school students travelling to school on Transperth bus and train services and country town bus services. The fare will not vary regardless of the number of zones travelled.

Election Commitments – Capital

Swan Valley Train Station

A new train station will be built in the Swan Valley at Herne Hill that will provide increased patronage on the Avonlink service and provide new public transport options for the surrounding community.

Midland Redevelopment Authority

Other Initiatives – Capital

Midland Railway Workshop Site – Heritage Conservation

The Midland Redevelopment Authority will expend \$3.2 million of a total of \$14.3 million in 2005-06 towards the Heritage Conservation project to ensure major works are undertaken to preserve and protect the site's heritage buildings. This will further augment the Authority's capacity to exploit commercial opportunities on the site.

Albany Port Authority

Election Commitments – Capital

Trade Policy

The Government has allocated additional equity of \$2.6 million in 2005-06 to the Albany Port Authority to bring forward the construction of a fly-over on Princess Royal Drive over the railway line. The fly-over will allow for the increased volume of woodchips transported by rail to be discharged into the port loading facilities efficiently, without hindering traffic on the Princess Royal Drive. This project forms part of Government's commitment to transport woodchips from the Mirrambeena Industrial Estate to the Albany Port Authority by rail rather than road.

Bunbury Port Authority

Other Initiatives – Capital

Decisions have been taken to increase expenditure by the Port Authority in the following areas:

- \$1.7 million for minor works;
- \$1.5 million for a port access road (Turkey Point); and
- \$525,000 for the purchase of freehold land from the South West Development Commission.

Dampier Port Authority

Other Initiatives – Capital

Additional Minor Works

An increase in minor works funding of \$490,000 in 2005-06, \$730,000 in 2006-07 and \$1.1 million in 2007-08 has been approved to cater for increased activity associated with the new gas-to-liquids jetty.

Esperance Port Authority

Election Commitments – Capital

Trade Policy

Expenditure of \$5.0 million in 2004-05 and \$16.6 million in 2005-06 has been approved for a new bulk storage facility and shore based crane. This increased capital works has been approved to support the Ravensthorpe Nickel project.

MINISTER FOR STATE DEVELOPMENT; ENERGY

Table 10

EXPENDITURE ON ELECTION COMMITMENTS					
	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Industry and Resources					
- Trade Policy	-	1,000	700	700	700
Office of Energy					
- Environment Package	-	400	400	400	400
- Renewable Energy	-	3,350	300	300	300
TOTAL (RECURRENT)	-	4,750	1,400	1,400	1,400
CAPITAL EXPENDITURE					
Industry and Resources					
- Research and Innovation Policy	-	-	4,275	4,275	-
TOTAL (CAPITAL)	-	-	4,275	4,275	-

Industry and Resources

Election Commitments – Recurrent

Trade Policy

An allocation of \$1.0 million in 2005-06 and \$700,000 per annum thereafter has been provided to establish a Trade Office in the United States of America and promote Western Australia at international trade exhibitions.

Election Commitments – Capital

Research and Innovation Policy

Funding of \$4.3 million has been provided in both 2006-07 and 2007-08 to implement the Stage 1 expansion of the Bentley Technology Park, which will include the establishment of the Bentley Village Centre.

Other Initiatives – Recurrent

Raytheon Financial Assistance

Funding of \$1.0 million in 2005-06 and \$500,000 per annum from 2006-07 to 2009-10 has been approved to fund a \$3.0 million financial assistance agreement with Raytheon.

Hazardous Waste Precincts Study

An amount of \$170,000 has been budgeted in 2005-06 to assess the economic impact on the State and commercial impact on hazardous waste producers of relocating facilities to new hazardous waste precincts.

Major Hazard Facilities Regulations

Funding of \$1.0 million in 2005-06 and \$1.9 million per annum thereafter has been provided for the administration of new Major Hazard Facilities Regulations associated with the introduction of the *Dangerous Goods Safety Act 2004*, scheduled for August 2005.

Other Initiatives – Capital

Safety and Security at Explosives Reserves

An allocation of \$1.6 million in 2005-06 has been made for additional security measures at the Kalgoorlie and Baldivis explosives reserves.

Additional funding for Marine Industry Technology Park

An amount of \$2.1 million in 2005-06 has been approved to meet environmental costs to enable completion of the Marine Industry Technology Park at the Australian Marine Complex.

Office of Energy

Election Commitments – Recurrent

Environment Package

The Government has committed \$1.6 million from 2005-06 to 2008-09 to provide rebates for gas-boosted solar hot water systems.

Renewable Energy

The Government has allocated \$4.3 million from 2005-06 to 2008-09 to provide project opportunities for renewable energy. The programs to be funded include:

- \$2.5 million in 2005-06 for the Sun Farm Project to facilitate the development of a photovoltaic generator in Kalgoorlie;

- \$500,000 in 2005-06 for the Urban Renewable Energy Demonstration Project;
- \$100,000 in 2005-06 and \$50,000 in 2006-07, 2007-08 and 2008-09 to establish a renewable energy target of six per cent by 2010 for the South West Interconnected System; and
- \$1.0 million over four years, commencing in 2005-06, to implement a Solar Schools program involving the installation of solar power systems for up to 100 schools.

Western Power Corporation

Other Initiatives – Recurrent

Networks Operating Expenditure

The Government has approved additional operating expenditure of over \$70.0 million over the four-year budget period to target reductions in bushfire risk, pole maintenance and environmental compliance. Some of the major maintenance spends for 2005-06 includes \$3.2 million for silicon coating of transmissions lines and \$16.0 million for vegetation management.

This additional operating expenditure will allow Western Power to target improved safety in the high and extreme fire zones in the South West Interconnected System (SWIS), which includes approximately 300,000 customers. Western Power expects this program to:

- eliminate any vegetation initiated fires within two years in these zones; and
- reduce the number of pole top fires by 15% in these zones over the Budget period.

Additionally, Western Power expects this extra operating expenditure to reduce the number of pole top failures leading to fire and public safety risks by 20% over the budget period.

Customer Reliability Payment Scheme

The Government has introduced a 'Customer Reliability Payment Scheme' that provides rebates for households affected by power blackouts, making Western Power more accountable for the reliability of its electricity supply. Under the scheme, eligible customers who, through no fault of their own, suffer losses of electricity supply for a continuous period in excess of 12 hours will be paid \$80. The scheme will apply to all households and businesses with an average load of less than 5.7 kilowatt that are connected to a Western Power network and will start from 1 July 2005 with the first payments due on or before 1 January 2006. Accordingly, \$2.5 million per annum of operating expenditure has been provided for anticipated claims and administration costs.

Other Initiatives – Capital

The Government has approved a significant increase in capital works for the State's electricity system, with a total of \$488.1 million of additional capital works being approved for Western Power over the four-year budget period. This funding represents a substantial stimulus and is focused on improving the quality, reliability and safety of supply in both regional and metropolitan areas.

Generation

The Government has approved additional funding of \$35.6 million for the generation business unit (including sustainable energy) along with the reallocation of existing funding for an open cycle gas turbine to other initiatives. Generation's additional and re-allocated capital expenditure delivers the following projects:

- \$31.0 million for capacity enhancements to Muja D to meet an expected reserve capacity shortfall in 2006-07. Rather than commission a new open cycle gas turbine, Western Power will meet the shortfall by less costly upgrades to existing generators to ensure system security for customers;
- \$81.9 million will be spent on a large number of small projects for enhancements and upgrades associated with Muja C and D, Kwinana C, Collie and Pinjar power stations;
- \$19.0 million for spare parts for Cockburn 1; and
- funding for Stage 3 of the wind-diesel project at Hopetoun. Previously approved funding also remains allocated for a new wind farm at Grasmere, adjacent to the Albany wind farm. This project has reserve bidder status in the renewable energy procurement process and its commencement will therefore depend on the outcome of a competitive tendering process.

Networks

Around 75 percent of the additional capital expenditure approved by the Government for Western Power is allocated to the electricity network – both transmission and distribution. The total increase in network expenditure of \$369.0 million (plus a further \$13.8 million in network information technology expenditure) is in addition to capital and operating expenditure of \$1.8 billion approved for networks in the 2004-05 Budget.

Of this additional funding, a large amount is allocated to network safety and reliability measures. Funding has been allocated to the following:

- \$52.0 million over the budget period for the replacement of overhead service wires connecting 161,000 houses and small businesses as a result of investigations into the deaths of two children at Wyndham. Current plans provide for the replacement of all compromised units by December 2006. By the end of the program in 2012, the connections to 300,000 houses and small businesses will have been replaced at a total cost of \$105.0 million;

- \$88.0 million to reduce average transformer loadings at metropolitan substations which aims to improve overall system reliability; and
- \$210.0 million for the connection of new domestic and commercial customers as well as new generators, which includes the associated expansion in network capacity to meet increased electricity loads.

Together with additional network operating expenditure, the additional network capital expenditure program will allow Western Power to:

- achieve a 25% improvement in the reliability of electricity supplies over the next four years; and
- eliminate 90% of all outages caused by the failure of overloaded transformers.

The Government has also established a working group consisting of Western Power, the Office of Energy and the Department of Treasury and Finance to formalise a process for reporting electricity system performance information and outcomes.

Regional

Over the four years, capital expenditure for the Regional business unit is projected to increase by \$11.5 million due to network growth and asset replacement. This includes replacement of overhead service connections to houses and small businesses.

Other

A comprehensive Information Technology (IT) plan has been developed with independent external assistance that will support the planned disaggregation of Western Power by 31 March 2006. The plan is aimed at meeting the requirements of the electricity reform process and the future strategic directions of the successor entities in a competitive market.

In response to the IT plan, the Government has approved additional funding across business units of \$66.0 million over the next four years, which will, in part, enable expected network operating expenditure savings of \$10.0 million in 2005-06 and \$20.0 million per annum from 2006-07 onwards.

MINISTER FOR COMMUNITY DEVELOPMENT; CULTURE AND THE ARTS; WOMEN'S INTERESTS

Table 11

EXPENDITURE ON ELECTION COMMITMENTS

	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Community Development					
- Helping Young People Engage (HYPE) projects - Kimberley	-	200	-	-	-
- Local Youth Projects	-	237	37	38	38
TOTAL (RECURRENT)	-	437	37	38	38

Community Development

Election Commitments – Recurrent

Helping Young People Engage (HYPE) projects – Kimberley

The Government will expend \$200,000 in 2005-06 to continue the HYPE program in Broome, and extend and enhance the program to provide support services to youth in the major regional centres of Kununurra, Wyndham and Derby in consultation with local shires and communities.

Local Youth Projects

The Government has allocated a total of \$350,000 over four years to establish the HYPE program in Halls Creek and Fitzroy Crossing. This funding will also build a skate park in Halls Creek and establish a youth drop-in centre at Fitzroy Crossing.

Other Initiatives – Recurrent

Professional Home Based Care Initiative

The Government has committed \$4.6 million over four years, commencing in 2005-06, to provide professional home based care to children and young people with severe emotional and behavioural disturbances. The home based care will be provided throughout the metropolitan area in the homes of salaried carers with specialist competencies.

Intensive Placement Support Initiative

The Government has allocated \$437,000 per annum from 2005-06 to 2008-09 for professional carers, families, teachers and the community to ensure that high-risk children and young people are provided with appropriate treatment, as well as quality care.

Enhanced Treatment Initiative

The Government has committed \$863,000 per annum from 2005-06 to 2008-09 to fund additional clinical psychologists to provide an immediate and on-going response for children who have been abused in care and individual psychological intervention for children and young people in care.

Continuation of 2001 Election Commitments

Funding of \$1.2 million in 2005-06 has been provided to continue the 2001 election commitments. This includes:

- \$465,000 to Support Volunteer Organisations to continue the support and promotion of volunteering through a range of different initiatives including the establishment of volunteer resource centres and for training and development opportunities;
- \$100,000 to the Student Community Program to fund the non-government agency Volunteering WA which runs ‘Yvolunteer’;
- \$200,000 to the Improve Domestic Violence program to provide for improved responses to domestic violence;
- \$50,000 to the Assistance Foster Carers Association to assist the Foster Carer Association of Western Australia to provide a resource base, information, advice and support services to foster and relative carers throughout Western Australia;
- \$315,000 to the Assistance to Carers program to continue the Carer and Health Awareness and Retreats Program and the 24 hour Carers Counselling Line;
- \$30,000 to Youth Programs to continue the development of youth oriented cultural venues and public spaces in rural and regional areas;
- \$53,000 to the Geraldton Seniors Resource Centre to increase the operating hours and services provided by the Queen Elizabeth II Senior Citizens Centre in Geraldton; and
- \$15,000 to the Geraldton Financial Counselling Service to extend the operating hours of a financial counselling service in Geraldton.

Culture and the Arts

Other Initiatives – Recurrent

WA OnScreen

The Government has allocated \$2.0 million per annum from 2005-06 to 2008-09 to ScreenWest to co-finance major film and television productions in Western Australia and to address critical industry development needs.

Better Beginnings Family Literacy Program

The Government has committed \$776,000 over four years, commencing in 2005-06, to fund the Better Beginnings Family Literacy Program. Better Beginnings is a proven early intervention family literacy program that provides a crucial early base for lifelong literacy, success in formal schooling and improved life chances. The program will also receive contributions of \$800,000 from local government and \$510,000 from private industry.

State Records Office Additional Base Funding

Funding of \$170,000 per annum commencing in 2004-05 has been allocated to the State Records Office to fund its increased workload resulting from its obligations of implementing the *State Records Act 2000*.

Other Initiatives – Capital***Subiaco Theatre Centre Additional Funding***

Additional funding of \$550,000 in 2005-06 has been allocated to address the building code issues associated with the Subiaco Theatre Centre, for which \$1.8 million has already been provided.

MINISTER FOR DISABILITY SERVICES; SPORT AND RECREATION; CITIZENSHIP AND MULTICULTURAL INTERESTS; SENIORS

Table 12

EXPENDITURE ON ELECTION COMMITMENTS					
	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Disability Services Commission					
- Aged Carers Initiative and Early Childhood Intervention	-	2,000	2,650	3,350	4,100
Sport and Recreation					
- Ellenbrook Centre	-	2,500	-	-	-
- Halls Creek Swimming Pool	1,400	-	-	-	-
TOTAL (RECURRENT)	1,400	4,500	2,650	3,350	4,100

Disability Services Commission

Election Commitments – Recurrent

Aged Carers Initiative and Early Childhood Intervention

To assist the community, the Government has allocated \$5.6 million to accommodate 25 people with disabilities known to rely on a carer aged 70 and over.

The Government has also provided \$6.5 million to double the current Government spending on early childhood intervention. This funding represents unprecedented investment in the potential of children with Autism, Cerebral Palsy, Down Syndrome and other developmental disabilities.

Other Initiatives – Capital

Bennett Brook Hostel

The Government has allocated additional funding of \$700,000 for the redevelopment of the Bennett Brook Hostel. The total cost of the project is \$3.2 million with the balance to be funded from the Disability Services Commission's existing capital works program and internal funds.

Sport and Recreation

Election Commitments – Recurrent

Ellenbrook Centre

\$2.5 million has been allocated in 2005-06 towards the construction of a swimming pool in the suburb of Ellenbrook (Shire of Swan).

Halls Creek Swimming Pool

A provision of \$1.4 million has been made in 2004-05 towards the construction of a swimming pool in the Shire of Halls Creek.

Other Initiatives – Capital

Camps Reinvestment Projects

An additional \$5.1 million in capital funding has been allocated between 2005-06 and 2006-07 towards the camps reinvestment projects. This additional funding covers both higher than anticipated increases in building costs, as broadly evidenced in the construction industry, as well as other unforeseen infrastructure costs. Once completed, schools and community groups will enjoy physical activity and recreation experiences in a contemporary setting.

MINISTER FOR TOURISM; RACING AND GAMING; YOUTH; PEEL AND THE SOUTH WEST

Table 13

EXPENDITURE ON ELECTION COMMITMENTS

	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Western Australian Tourism Commission					
- Broome Visitor Centre	-	500	500	-	-
- Tourism Policy	1,000	3,850	3,850	4,350	4,350
Racing and Wagering Western Australia					
- Racing Industry Tax Relief	-	5,000	5,000	6,000	6,500
Peel Development Commission					
- Assist Waroona in Urban Renewal	200	250	-	-	-
- Peel Music Foundation	163	-	-	-	-
- Refurbishment of Pinjarra Court House	200	-	-	-	-
South West Development Commission					
- Aged Care in Brunswick	100	-	-	-	-
- Repair Bunbury Court House	50	-	-	-	-
TOTAL (RECURRENT)	1,713	9,600	9,350	10,350	10,850

Western Australian Tourism Commission

Election Commitments – Recurrent

Broome Visitor Centre

In recognition of the importance of the region to the Western Australian tourism industry, a grant of \$1.0 million has been provided as a contribution toward the development of a new Broome Visitor Centre. The new centre will provide a purpose built facility to meet the needs of the growing number of visitors to the region each year.

Tourism Policy

An additional \$17.4 million has been provided over the forward estimates to accelerate growth of the State's tourism industry. The plan is based on four broad strategies:

- improving tourism infrastructure and services throughout the State;
- stepping up marketing and promotion;
- protecting and promoting key tourism icons; and
- creating a vibrant city centre.

The additional funds will build on tourism's contribution to Western Australia's economic growth by creating more job opportunities, particularly in regional areas.

Other Initiatives – Recurrent

Brand Campaign

In order to increase leverage from the recently launched 'The Real Thing' campaign, an additional \$6.0 million has been provided in 2005-06 for media activities in major markets including interstate, the United Kingdom, Europe, New Zealand and Japan. The funds will increase Western Australia's marketing presence in these countries and will link with strategies to achieve or expand direct flights to Perth, particularly from China, Japan and Korea. This amount is part of a package of additional marketing funds that includes the provision of \$3.4 million in 2004-05.

Other Initiatives – Capital

Donnelly River Remediation

An amount of \$240,000 has been provided to assess the structural condition of the Donnelly River Mill, undertake urgent maintenance work, and complete an asbestos and environmental assessment report for the Wheatley Townsite.

Racing and Wagering Western Australia

Election Commitments – Recurrent

Racing Industry Tax Relief

This election commitment provided for \$5.0 million in 2005-06 and 2006-07, \$6.0 million in 2007-08 and \$6.5 million in 2008-09. In conjunction with the existing allocation at Mid-Year Review of \$5.0 million per annum over 4 years, commencing 2005-06, the racing industry will receive an average of an extra \$11.0 million a year in TAB profit distribution.

The \$10.0 million per annum for the next two years will be provided as capital grants. The grants will fund the upgrade of outdated facilities and assist planning for capital works programmes in country and regional racing centres such as Albany, Bunbury, Geraldton, Northam, Kalgoorlie, Peel, Lark Hill and Pinjarra.

Commencing 1 July 2007 the capital grants will no longer be required as the level of taxation on the racing industry will be reduced and the method of taxation will be converted from turnover to one on gross profit. This will be the equivalent of reducing the current level of taxation on the racing industry by 1 percent. This will increase the incentive to explore new wagering products and bring the level of taxation on the racing industry in line with the casino tax paid by Burswood on its gaming machine revenue.

Peel Development Commission

Election Commitments – Recurrent

Assist Waroona in Urban Renewal

\$450,000 has been allocated over two years (\$200,000 in 2004-05 and \$250,000 in 2005-06) to assist the Shire of Waroona to develop its town centre, other various town square projects and to ensure necessary headworks infrastructure is in place to allow for the development of industrial land in the area.

Peel Music Foundation

The Peel Music Foundation focuses on the training and employment of young people in the music industry who live in the Mandurah area. The Foundation also provides young musicians with access to live original music and alternative school programs.

A once-off grant of \$163,000 has been made available in 2004-05 to cover the costs of the Foundation for the next three years, after which the program becomes self-funding.

Refurbishment of Pinjarra Court House

\$200,000 has been allocated in 2004-05 to refurbish the Old Court House in Pinjarra with the possibility of a range of government services being delivered from this site in the future.

South West Development Commission

Election Commitments – Recurrent

Aged Care in Brunswick

The Harvey Shire has identified a site in Brunswick Junction for the construction of eight senior citizens units. The Shire will enter into a joint venture project with Homeswest to fund these units with a once-off grant from the Government of \$100,000.

Repair Bunbury Court House

The old Court House is located in the CBD of Bunbury adjacent to the new Court House and Police Station. \$50,000 has been allocated towards the upgrade and maintenance of this heritage listed building.

Other Initiatives – Capital

Picton Industrial Park Sewerage

This \$2.0 million project entails the construction of the sewer to service the balance of the Glen Iris and Picton East catchments. The project is to be entirely funded from the sale of land held by the Commission.

The provision of sewerage is critical to maximising the return on the Commission's land holdings. It will also improve the efficient utilisation of land in the Preston industrial area and is critical to the expansion of general industry in the Bunbury and Dardanup areas.

MINISTER FOR HOUSING AND WORKS; HERITAGE; MINISTER ASSISTING THE MINISTER FOR PLANNING AND INFRASTRUCTURE

Housing and Works (DHW)

Other Initiatives – Recurrent

Strategic Asset Management Framework

On 13 April 2005 the Government approved the publication and implementation of the draft Strategic Asset Management Framework. The proposed implementation strategy is consistent with Functional Review Taskforce recommendations. Additional fixed term funding of \$383,000 over the period 2005-06 to 2007-08 was allocated to the DHW to provide advice and support to agencies to implement the new project definition plan reporting requirements and to improve the rigour in business case analysis.

National Trust of Australia (WA)

Other Initiatives – Capital

Heritage Properties Security Upgrades

The Government has provided funding of \$959,000 over three years to upgrade and install electrical, security and fire warning systems in public buildings managed by the National Trust of Australia (WA) in line with building health and safety standards.

**MINISTER FOR LOCAL GOVERNMENT AND REGIONAL
DEVELOPMENT; LAND INFORMATION;
GOLDFIELDS-ESPERANCE AND GREAT SOUTHERN**

Table 14

EXPENDITURE ON ELECTION COMMITMENTS

	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Local Government and Regional Development					
- Derby Township	-	750	-	-	-
- Chinese Tourism Precinct - Northbridge	-	250	-	-	-
Great Southern Development Commission					
- City of Albany Band	8	-	-	-	-
- Brig Amity Project - Albany	50	-	-	-	-
- Community playground at Duck Lake in Lockyer	-	75	-	-	-
- Coastal Safety and Information System	100	-	-	-	-
- Toy Library - Albany	15	-	-	-	-
Goldfields-Esperance Development Commission					
- Kalgoorlie Sports Ground	-	130	-	-	-
- Recreation Centre at Kambalda	1,000	-	-	-	-
TOTAL (RECURRENT)	1,173	1,205	-	-	-
CAPITAL EXPENDITURE					
Great Southern Development Commission					
- Albany Convention and Entertainment Centre	-	10,000	4,900	-	-
TOTAL (CAPITAL)	-	10,000	4,900	-	-

Local Government and Regional Development

Election Commitments – Recurrent

Derby Townsite

\$750,000 has been allocated in 2005-06 for the revitalisation of the Derby township and wharf. The project will stimulate economic development, increase job opportunities and provide essential infrastructure for a sustainable future in Derby.

Chinese Tourism Precinct

\$250,000 has been allocated in 2005-06 to provide for a grant to the Town of Vincent to assist in the upgrade of the streetscape in the Chinese Tourism Precinct in William Street.

Other Initiatives – Recurrent

Local Government Financial Management and Compliance Audit

A number of councils have encountered financial difficulties in recent times. Funding of \$565,000 has been provided over the forward estimates period to implement a structured monitoring process to identify councils at risk of financial difficulties and to establish a framework for compliance.

Great Southern Development Commission

Election Commitments – Recurrent

City of Albany Band

The Government has committed \$8,000 in 2004-05 to support the City of Albany Band.

Brig Amity Project - Albany

Funding of \$50,000 in 2004-05 has been allocated to refurbish the Brig Amity in Albany. The Brig Amity is an important tourist attraction, which generates considerable revenue for the Albany Visitor Centre.

Community playground at Duck Lake in Lockyer

The Government has committed \$75,000 in 2005-06 to help build a community playground at Duck Lake in Lockyer.

Coastal Safety and Information System

The Government has allocated \$100,000 in 2004-05 to develop a Coastal safety and information system considered vital to Albany.

Toy Library - Albany

Funding of \$15,000 in 2004-05 has been provided to the Rainbow Coast Toy Library. The Library is considered crucial to Albany as it caters for children with physical and developmental learning disabilities.

Election Commitments – Capital

Albany Convention and Entertainment Centre

Funding of \$10.0 million in 2005-06 and \$4.9 million in 2006-07 has been committed to build a \$14.9 million convention and entertainment centre in Albany. This will provide Albany with an area to hold regional conferences, conventions and host national and international headline acts.

Goldfields-Esperance Development Commission

Election Commitments – Recurrent

Kalgoorlie Sports Ground

The Government has provided \$130,000 in 2005-06 to upgrade the floodlighting and re-grass the surface of Kalgoorlie's main oval.

Recreation Centre at Kambalda

The Government has made a contribution of \$1.0 million in 2004-05 to the Shire of Coolgardie for its new community and recreation centre in Kambalda. The Shire has already secured funding of \$1.5 million from WMC Resources and \$500,000 from Mincor Resources.

Department of Land Information

Other Initiatives – Capital

The Department of Land Information's anticipated capital spending for 2005-06 will be \$13.3 million, comprising:

- spending of \$7.0 million on projects relating to the provision of land and property information services within an e-commerce environment;
- investment of \$4.7 million in the Shared Land Information Platform; and
- enhancing the quality of land information datasets up to the value of \$1.6 million.

MINISTER FOR JUSTICE; SMALL BUSINESS

Table 15					
EXPENDITURE ON ELECTION COMMITMENTS					
	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Justice					
- New Juvenile Remand Centres	-	-	-	2,000	3,000
TOTAL (RECURRENT)	-	-	-	2,000	3,000
CAPITAL EXPENDITURE					
Justice					
- New Juvenile Remand Centres	-	-	12,000	12,000	-
TOTAL (CAPITAL)	-	-	12,000	12,000	-

Justice

Election Commitments – Recurrent

New Juvenile Remand Centres

The commitment of \$2.0 million in 2007-08 rising to \$3.0 million in 2008-09 will ensure that appropriate staffing levels are provided upon full operation of the new Kalgoorlie and Geraldton juvenile remand centres. The staff will work with Police and the Departments of Health, and Education and Training to tackle juvenile crime and provide strong, focussed rehabilitation during remand periods ranging from a few days to several months.

Election Commitments – Capital

New Juvenile Remand Centres

Two new juvenile remand centres costing \$12.0 million each will be constructed at Kalgoorlie and Geraldton. Both multi-purpose centres will secure young offenders on remand and deliver drug and other juvenile rehabilitation programs as required. This follows the \$20.0 million overhaul of juvenile justice and will support the Intensive Supervision Program for serious and repeat offenders, which will be commencing in Kalgoorlie in mid 2005.

Other Initiatives – Recurrent

Community Justice Services

Following on from a review of the management of high-risk offenders under supervision by Community Justice Services, funding of \$7.5 million over the forward estimates has been provided for the appointment of 24 additional senior officers. This initiative is aimed at providing Community Corrections Officers with better advice, support and direction in the supervision of offenders, which will contribute to improved community safety.

Minimum Security Fencing

An additional \$5.0 million has been provided over the forward estimates to assist with the monitoring of the Wooroloo and Karnet minimum security facilities, once the fences have been installed. This funding will enable a response capacity to be available around the accommodation units with an improvement in security at the facilities.

Other Initiatives – Capital

Minimum Security Fencing

In order to strengthen security provisions at the prisons of Wooroloo and Karnet, the construction and monitoring of fences is essential. The implementation of perimeter fencing, detection sensors, cameras and lighting will assist in the tightening of security around the facilities. \$10.8 million has been provided for this initiative in 2005-06.

MINISTER FOR FISHERIES; THE KIMBERLEY, PILBARA AND GASCOYNE

Table 16

EXPENDITURE ON ELECTION COMMITMENTS

	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Kimberley Development Commission					
- Indigenous Arts	-	150	-	-	-
- Kununurra Youth Centre	-	100	-	-	-
- Mowanjum Arts Centre	-	500	-	-	-
Pilbara Development Commission					
- Turtle Interpretive Centre and Dust Control	-	750	750	-	-
TOTAL (RECURRENT)	-	1,500	750	-	-

Fisheries

Other Initiatives – Capital

Ningaloo Marine Park

The Government has allocated funding of \$262,000 in 2005-06 for the purchase of vessel, vehicle and caravan facilities to increase compliance operations to be undertaken in the Ningaloo Marine Park area.

Kimberley Development Commission

Election Commitments – Recurrent

Indigenous Arts

The Government has committed \$150,000 in 2005-06 towards the development of an Indigenous Arts strategy. The program will accelerate the marketing and development support available to indigenous arts centres at Balgo, Warmun, Yiyili and Fitzroy Crossing.

Kununurra Youth Centre

\$100,000 will be provided in 2005-06 to the new Kununurra multi-purpose youth facility. The facility will provide a one-stop shop for youth advice and support services.

Mowanjum Arts Centre

Funding of \$500,000 will be provided in 2005-06 to ensure the Mowanjum Indigenous Arts and Tourism Centre is built. It is expected that the facility will promote the art of the Mowanjum community and attract visitors both to the Art Centre and to the region.

Other Initiatives – Capital

Disability Access

Funding of \$87,000 in 2005-06 has been allocated to provide disability access to the Commission's Broome office.

Pilbara Development Commission

Election Commitments – Recurrent

Turtle Interpretive Centre and Dust Control

The Government has committed \$750,000 in both 2005-06 and 2006-07 to help clean up iron ore dust residue in the West End of Port Hedland and to establish the North West Sea Turtle Interpretive Centre near Port Hedland's Cemetery Beach.

Financial Projections - Revenue

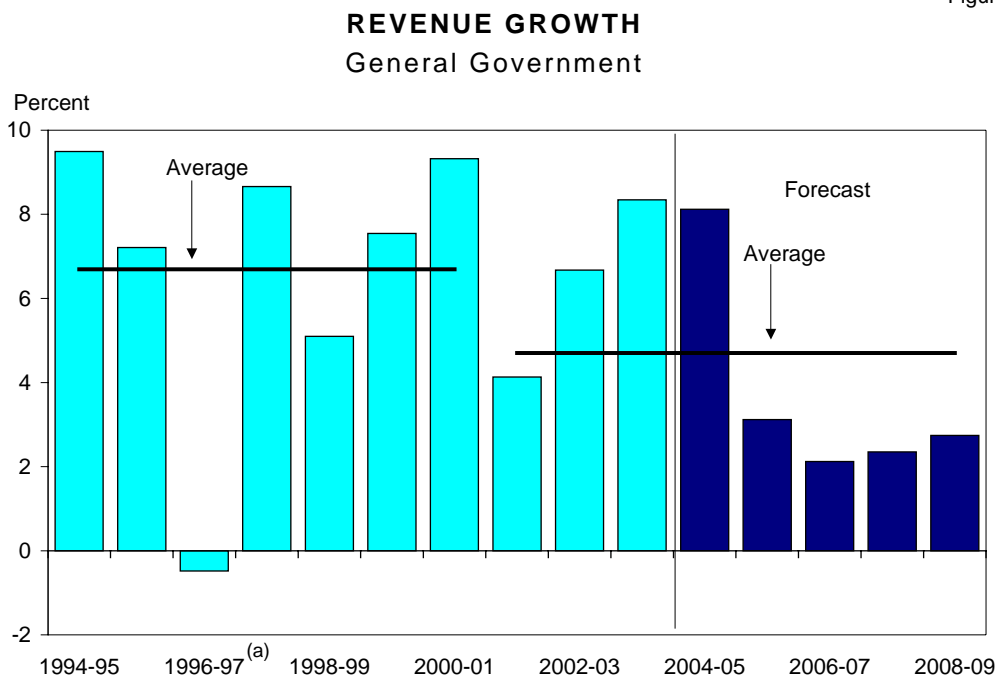
Overview

Total operating revenue for the general government sector is expected to increase by 3.1% in 2005-06. This includes strong growth in royalties of 24.8%, particularly iron ore and petroleum royalties (including North West Shelf royalties, which increase as a result of the commencement of shipments from the 4th LNG train), and growth in Commonwealth grants (excluding North West Shelf royalties and specific purpose payments 'through' the State) of 4.0%.

Modest growth is forecast for several other revenue categories, including revenue from the sale of goods and services (1.7%) and revenue from public corporations (1.6%). Taxation revenue is expected to decline by 3.3%. This is mainly due to the tax relief measures contained in this Budget and the full-year impact of the measures announced in October 2004, but also reflects an expected stabilisation of property market activity following an extended period of strong growth and the abolition of debits tax from 1 July 2005.

Over the three outyears, total operating revenue is expected to increase by a modest 2.4% per annum. Forecast growth is strongest for taxation revenue and Commonwealth grants, notwithstanding that Western Australia's share of GST revenues is expected to fall. Royalties are expected to decline over this period, mainly due to assumptions of a drop in oil prices and a fall in iron ore prices in 2007-08, but nonetheless remain higher than in 2004-05.

Figure 1



(a) Reflects the impact of \$200 million in one-off tax compensation received from the Commonwealth Government in 1995-96 for the sale of BankWest. Excluding these monies, revenue growth in 1995-96 and 1996-97 was 4.5% and 2.1% respectively.

Operating Revenue Projections

Summary¹

Total operating revenue for the general government sector is estimated to be \$14.2 billion in 2005-06. This represents an increase of \$430 million (or 3.1%) on the estimated outturn for 2004-05, and is mainly attributable to growth in royalty revenue (up \$326 million, or 24.8%), GST revenue grants (up \$181 million, or 5.0%), SPPs ‘to’ the State (up \$55 million, or 2.9%) and SPPs ‘through’ the State (up \$44 million, or 6.9%). These increases are partly offset by declines in taxation revenue (down \$135 million, or 3.3%) and ‘other’ revenue (down \$54 million, or 16.2%).

¹ Due to the release of the Commonwealth Budget (on 10 May 2005) after Western Australia’s Budget cut-off date (26 April 2005), Western Australia’s GST revenue grant estimates do not reflect information from the Commonwealth Budget (in particular, Commonwealth estimates of national GST revenue). This information increases estimated GST revenue grants by \$26 million in 2004-05 and \$15 million in 2005-06, and reduces estimated grants by several million dollars per year in each of the outyears.

Table 1

GENERAL GOVERNMENT
Operating Revenue

	2003-04 Actual	2004-05 Estimated Actual	2005-06 Budget Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate	2008-09 Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Taxation	4,122	4,130	3,995	4,174	4,401	4,635
GST revenue	3,158	3,639	3,820	3,927	4,080	4,247
Other Commonwealth grants to Western Australia ^(a)	1,740	1,956	1,997	1,978	2,043	2,056
SPPs 'through' the State ^(b)	617	641	685	728	774	822
Sales of goods and services	941	927	943	966	987	1,011
Interest Income	128	146	146	138	145	150
Revenue from public corporations						
Dividends	448	438	463	457	429	445
Tax equivalent payments	310	259	245	252	274	270
Royalties ^(c)	1,016	1,319	1,645	1,581	1,416	1,326
Other	272	335	281	319	312	305
TOTAL	12,753	13,789	14,218	14,520	14,861	15,268

(a) Other Commonwealth grants to Western Australia comprise SPPs 'to' the State and National Competition Policy payments.

(b) SPPs 'through' the State include payments distributed to local government, private schools and first home buyers (as part of the now expired extended First Home Owner Scheme).

(c) Royalties comprise the GFS 'royalty income' revenue category plus North West Shelf petroleum royalties.

Note: Columns may not add due to rounding.

Over the forward estimates period, total operating revenue is expected to increase by a modest 2.4% per annum. This includes growth in Western Australia's taxation revenue of around 5.1% per annum, and in GST revenue grants of around 3.6% per annum. Mining royalty revenue is expected to fall by around 6.9% per annum over this period, mainly due to a drop in oil prices and an assumed 25% fall in iron ore prices in 2007-08 (although these price movements are difficult to predict). Notwithstanding this fall in royalties relative to 2005-06, mining revenue is expected to remain above its 2004-05 level across the forward estimates.

The remainder of this chapter focuses on the revenue relief measures in this Budget, and the basis for the revenue estimates through to 2008-09 in each of the major revenue categories. Information on major tax and royalty exemptions and concessions is included in Appendix 4: *Tax and Royalty Expenditure Statement*.

Revenue Relief Measures

Summary

The table below summarises the impact of policy measures included in the 2005-06 Budget on total operating revenue.

The tax relief measures contained in this Budget build on the substantial tax cuts implemented by the Government over the last year and meet Government commitments made during the election campaign. All up, these measures have an estimated total cost of \$431 million in 2005-06 and \$1.9 billion over the next four years. This does not include the abolition of debits tax from 1 July 2005 as part of the Business Tax Review measures that passed through Parliament in November 2003.

Table 2

SUMMARY OF TAX RELIEF MEASURES IN THE 2005-06 BUDGET

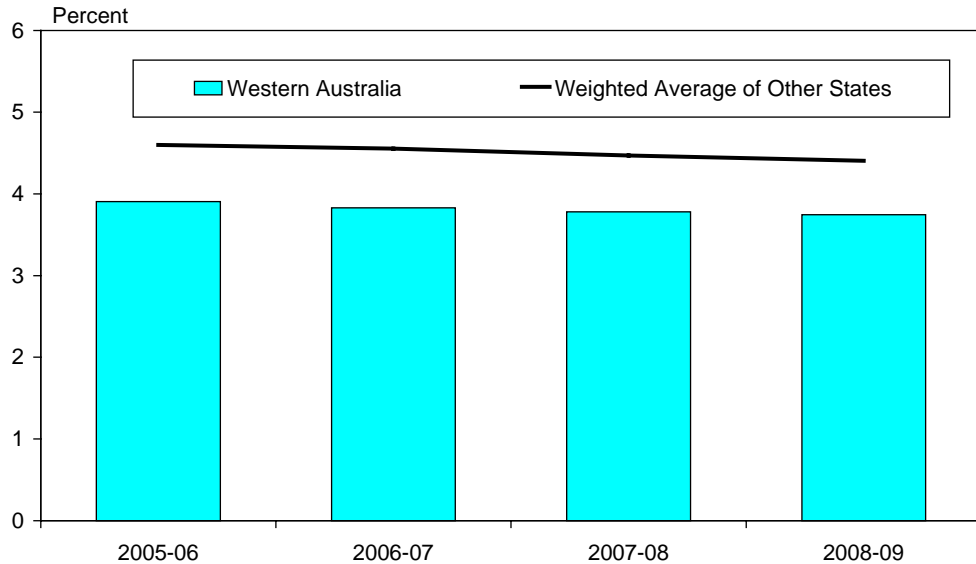
	2005-06 Budget Estimate \$m	2006-07 Forward Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m
Adjustment to the land tax scale and associated impact on MRIT Revenue	-54.5	-58.3	-62.4	-66.8
50% land tax concession for caravan parks	-1.0	-1.0	-1.1	-1.2
Stamp duty exemption for mortgage refinancing	-6.2	-13.1	-13.9	-14.7
\$25 reduction in the annual registration fee for a family vehicle	-26.3	-27.3	-28.5	-29.8
TAB betting tax changes	-	-	-11.0	-11.5
TOTAL	-88.0	-99.7	-116.9	-124.0

Note: Columns may not add due to rounding.

The measures announced in the 2005-06 Budget will help to maintain Western Australia's tax competitiveness in line with the Government's financial target. Western Australia is forecast to be the lowest taxing State in terms of taxation revenue as a share of gross State product across the budget year and to remain the lowest or equal lowest across the forward estimates period.

Figure 2

STATE TAXES AS A SHARE OF GROSS STATE PRODUCT
Western Australia Compared to Other States ^(a)



(a) Taxation revenue estimates for other jurisdictions are based on the most recent published estimates as of 19 May 2005. This includes 2005-06 Victorian and Tasmanian budget estimates. These estimates have been adjusted to reflect other States' commitments to abolish State taxes that are subject to review under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations and South Australia's changes to land tax announced in February 2005. Gross State product estimates are based on Department of Treasury and Finance projections.

Land Tax

General Relief

On the basis of preliminary land values for 2005-06, land tax and Metropolitan Region Improvement Tax (MRIT) revenues were forecast to grow strongly. In order to ameliorate increases in land tax liabilities for many businesses and other land holders, the Government will lift the lowest three thresholds in the land tax scale and reduce the middle marginal tax rate, from 1 July 2005. These changes are illustrated in the following table.

Table 3

LAND TAX SCALE

2004-05 SCALE			2005-06 SCALE		
Unimproved Value of Land \$'000	Base Value at Threshold	Marginal Rate on Excess	Unimproved Value of Land \$'000	Base Value at Threshold	Marginal Rate on Excess
0 - 100	Nil	Nil	0 - 130	Nil	Nil
100 - 220	\$150	0.15%	130 - 290	Nil	0.15%
220 - 570	\$330	0.45%	290 - 750	\$240	0.45%
570 - 2,000	\$1,905	1.76%	750 - 2,000	\$2,310	1.62%
2,000 - 5,000	\$27,073	2.30%	2,000 - 5,000	\$22,560	2.30%
Over 5,000	\$96,073	2.50%	Over 5,000	\$91,560	2.50%

Around 24,000 (or 20% of) land tax payers will be freed from land tax altogether as a result of the increase in the exemption threshold from \$100,000 to \$130,000. All taxpayers will have a lower land tax payment than they would have had if the land tax scale remained unchanged.

These changes are in addition to the Government's October 2004 announcement, that it would amend the operation of the land tax exemption threshold so that land tax is only levied on the portion of the aggregate taxable value of land above the exemption threshold (rather than on the total land value once the exemption threshold is reached).

As an example, a taxpayer who owns taxable property with an unimproved value of \$250,000 in 2005-06 will benefit from a land tax bill that is \$285 (or 61%) less than it would otherwise have been under the 2004-05 land tax scale (\$180 rather than \$465).

The following table provides a comparison of the land tax arrangements across States and Territories after the implementation of this measure.

Table 4

LAND TAX SCALES AS AT 1 JULY 2005^(a)

	WA	NSW ^(b)	VIC	QLD ^(c)	SA	TAS	ACT ^(d)	NT
Minimum threshold (\$'000)	130	-	200	170	100	25	-	Not
Maximum threshold (\$'000)	5,000	500	2,700	1,500	1,000	750	225	Levied
Minimum tax rate	0.15%	0.40%	0.20%	0.20%	0.30%	0.55%	1.00%	
Maximum tax rate	2.50%	1.40%	3.50%	1.80%	3.70%	2.50%	1.70%	

(a) Based on sources of other jurisdictions as at 19 May 2005. Includes measures announced in Victoria and Tasmania's 2005-06 Budgets.

(b) NSW applies a flat rate of 1.4% to non-concessional companies and special trusts.

(c) Based on Queensland's companies and trusts scale.

(d) Based on the ACT's commercial property scale.

The following table provides a comparison of land tax liabilities at selected property values across the States and Territories. It indicates that Western Australia should have a highly competitive land tax regime, particularly for those families and businesses who own taxable property with an aggregate unimproved value of less than \$1 million.

Table 5

**LAND TAX PAYABLE ON SELECTED UNIMPROVED VALUES
AS AT 1 JULY 2005 (\$) ^(a)**

	WA	NSW ^(b)	VIC	QLD ^(b)	SA	TAS	ACT ^(c)	NT
\$50,000	-	700	-	-	-	188	500	Not
\$100,000	-	1,400	-	-	-	463	1,000	Levied
\$150,000	30	2,100	-	-	150	738	1,600	
\$200,000	105	2,800	200	1,497	300	1,013	2,300	
\$250,000	180	3,500	300	2,495	450	1,288	3,075	
\$300,000	285	4,200	400	3,095	600	1,563	3,925	
\$400,000	735	5,600	600	4,380	1,100	2,838	5,625	
\$500,000	1,185	7,000	800	5,750	1,800	4,838	7,325	
\$1,000,000	6,360	14,000	3,680	14,465	11,450	16,088	15,825	
\$2,000,000	22,560	28,000	20,580	36,000	48,450	41,088	32,825	
\$5,000,000	91,560	70,000	116,830	90,000	159,450	116,088	83,825	
\$10,000,000	216,560	140,000	291,830	180,000	344,450	241,088	168,825	

(a) Based on sources of other jurisdictions as at 19 May 2005. Includes measures announced in Victoria and Tasmania's 2005-06 Budgets.

(b) Based on NSW and Queensland's current companies and trusts scale.

(c) Based on the ACT's current commercial property scale.

Including the measure foreshadowed in October 2004, the changes to the land tax scale are estimated to result in foregone revenue of around \$73 million in 2005-06 and \$325 million in the four years to 2008-09. Of these amounts, around \$3.5 million in 2005-06 and \$15.5 million over the four years to 2008-09 reflects foregone MRIT revenue (as taxpayers freed from land tax are also freed from MRIT).

Land tax – 50% concession for caravan parks

The Government will also provide a 50% land tax concession for caravan parks from 1 July 2005. Large increases in the value of caravan park land in recent years (particularly in coastal areas and the South-West region) have reduced the viability of caravan parks by increasing the cost of taxes and charges that are linked to land values.

This measure will help to ensure the on-going supply of low cost 'family' accommodation in the State's prime holiday destinations. However, in the event that the land is subdivided for another use, a clawback provision will require the repayment of the land tax concession claimed for a period of up to five years prior to the subdivision.

Stamp Duty Exemption for Mortgage Refinancing

From 1 January 2006, loan refinancing undertaken by homeowners and small businesses will be exempt from stamp duty. The definition of small business for this purpose will be based on the existing payroll tax exemption threshold of \$750,000. These businesses typically employ less than 20 people.

Under the existing arrangements, owner-occupiers pay stamp duty when refinancing a loan secured by a mortgage at the rate of 25 cents per \$100, and businesses and other borrowers pay stamp duty at the rate of 40 cents per \$100. As a result of the refinancing exemption, an owner-occupier refinancing a \$140,000 loan will save \$350 while a small business refinancing a loan of the same size will save \$560.

The following table shows the dollar savings at different loan sizes resulting from this measure.

Table 6

MORTGAGE DUTY SAVINGS AT VARIOUS LOAN VALUES						
	Loan Value (\$)					
	100,000	250,000	500,000	1,000,000	2,000,000	5,000,000
Owner-Occupier	250	625	1,250	2,500	5,000	12,500
Small Business	400	1,000	2,000	4,000	8,000	20,000

The 1 January 2006 commencement date will allow sufficient time for financial institutions and the Office of State Revenue to implement systems changes for administering the exemption.

Motor Vehicle Licence Fees

The Government's election commitment to reduce the annual registration cost for a family car by \$25 will be implemented from 1 July 2005. This will increase the existing concession for non-business use vehicles to \$53.

The following table compares the total cost of annual registration, compulsory third party insurance and other charges for a typical vehicle across jurisdictions. Western Australia has the lowest total of these costs of all jurisdictions for a typical family vehicle.

MOTOR VEHICLE LICENCE FEES (\$) ^(a)								
	WA	NSW	VIC	QLD	SA	TAS	ACT	NT
PRIVATE USE								
Motor vehicle licence fees	181.44	352.00	160.50	295.00	167.00	190.40	329.00	152.00
Compulsory third party insurance (CTP)	250.25	348.00	339.00	357.00	385.00	332.00	385.85	426.30
Stamp duty on CTP insurance	25.00	0.00	33.90	0.10	60.00	6.00	0.00	0.00
Other fees	9.80	47.00	0.00	39.10	45.00	0.00	18.00	8.40
Total	466.49	747.00	533.40	691.20	657.00	528.40	732.85	586.70
BUSINESS USE								
	536.44	932.00	533.40	691.20	692.00	528.40	913.85	586.70

(a) Based 2005-06 information for Western Australia and 2004-05 information for other jurisdictions. Based on a six cylinder Holden Commodore with a tare weight of 1,524 kg.

TAB Betting Tax

During the election campaign, the Government made a commitment to reform the taxation arrangements that apply to TAB betting activity. This commitment reflected the recommendations of the Racing and Wagering Western Australia (RWVA) Industry Economic Review on a strategy for the sustainable future for the racing industry.

The TAB betting tax is currently levied at the rate of 4.5% of TAB turnover (after a rebate of 0.5%). From 1 July 2007, the TAB betting tax base will be changed to a tax rate of 21% of gross margin, which is broadly consistent with the tax rate on gaming machines at the Burswood casino and is equivalent to a tax rate of around 3.5% on TAB turnover.

This measure is estimated to reduce TAB betting tax revenue by around \$11.0 million per year from 2007-08, which will be used by RWVA for the development of the industry.

Taxation Revenue Estimates

Summary

The following table summarises the Budget projections for State taxes, incorporating the revenue measures outlined above and forecast growth in key economic parameters (as outlined in Chapter 5: *The Western Australian Economy*).

Table 8

TAXATION REVENUE						
	2003-04 Actual	2004-05 Estimated	2005-06 Budget Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate	2008-09 Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
TAXES ON EMPLOYERS' PAYROLL AND LABOUR FORCE						
Payroll tax	1,139	1,202	1,242	1,302	1,389	1,470
TAXES ON PROPERTY AND FINANCIAL INSTITUTION TAXES						
Land tax	280	315	320	342	365	392
Stamp duties on financial and capital transactions	1,375	1,262	1,142	1,194	1,264	1,340
Financial institutions transactions taxes	97	96	8	-	-	-
Other	129	178	194	208	217	223
<i>Total</i>	<i>1,881</i>	<i>1,851</i>	<i>1,665</i>	<i>1,744</i>	<i>1,847</i>	<i>1,955</i>
TAXES ON PROVISION OF GOODS AND SERVICES						
Taxes on gambling	132	126	129	131	123	125
Taxes on insurance	328	306	317	329	345	359
<i>Total</i>	<i>461</i>	<i>432</i>	<i>446</i>	<i>460</i>	<i>468</i>	<i>485</i>
TAXES ON USE OF GOODS AND PERFORMANCE OF ACTIVITIES						
Motor vehicle taxes	641	645	642	668	697	725
TOTAL TAXES	4,122	4,130	3,995	4,174	4,401	4,635

Note: Columns may not add due to rounding.

The estimated outturn for taxation revenue in 2004-05 is expected to be just 0.2% higher than in 2003-04. The low growth incorporates the tax relief measures contained in the 2004-05 Budget and the October 2004 tax relief package, as well as the abolition of stamp duties on workers' compensation and life insurance premiums under the Business Tax Review (BTR).

The expected decline in total taxation revenue in 2005-06 of \$135 million, or 3.3%, is mainly due to tax relief measures announced in this Budget, the full-year impact of the October 2004 tax relief measures and the abolition of debits tax from 1 July 2005 as part of the BTR (and as required under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations). The one-off impact of stamp duty on the sale of the Dampier to Bunbury natural gas pipeline in 2004-05 also reduces taxation revenue growth in 2005-06. In the absence of the tax relief and BTR measures, taxation revenue is estimated to increase by 3.4%.

Additional information on the assumptions underlying the estimates for each of the major tax revenue categories, as defined in the Australian Bureau of Statistics' Government Finance Statistics classification, is set out below.

Taxes on Employers' Payroll and Labour Force

Payroll tax is the sole tax in this category and is expected to account for 31.1% of total taxation revenue in 2005-06.

Payroll tax is expected to grow by 3.3% in 2005-06, following growth of 5.5% in 2004-05. The slower growth mainly reflects the full-year impact of the reduction in the payroll tax rate from 6.0% to 5.5% from 1 January 2005. Over the outyears, payroll tax is expected to grow by an average of 5.8% per annum, consistent with forecasts of employment growth and earnings growth.

Taxes on Property and Financial Institutions

This category comprises land tax, stamp duties on financial and other capital transactions, financial institutions taxes and other taxes (the MRIT and the Emergency Services Levy (ESL)). These taxes are estimated to account for 41.7% of total taxation revenue in 2005-06. Together, direct property taxes – land tax, MRIT, stamp duty on conveyances and the ESL – are estimated to account for 37.7% of total taxation revenue in 2005-06.

The expected fall in property and financial institutions taxes of 1.6% in 2004-05 is mainly due to:

- tax relief measures contained in the 2004-05 Budget and the October 2004 tax relief package; and
- a lower rate of growth in underlying property market activity in 2004-05 relative to 2003-04, notwithstanding that property market activity did not weaken to the extent anticipated at the time of the 2004-05 Budget.

Excluding the impact of tax relief measures, growth in revenue from taxes on property and financial institutions taxes is estimated to be around 7.8% in 2004-05.

In 2005-06, property and financial institutions taxes are estimated to decline by 10.1%. The larger decline in 2005-06 reflects:

- the land tax and mortgage refinancing tax relief measures contained in this Budget;
- the abolition of debits tax from 1 July 2005;
- the full-year impact of tax relief measures announced in October 2004; and
- the one-off impact of stamp duty on the sale of the Dampier to Bunbury natural gas pipeline, which boosted conveyance duty (by \$80 million) and mortgage duty revenue (by \$8 million) in 2004-05.

Within this category, revenue from stamp duty on financial and other capital transactions (which includes stamp duties on property conveyances and mortgages) is estimated to fall by 9.5% in 2005-06, following a fall of 8.2% in 2004-05. This reflects tax relief measures, little or no expected growth in property market activity (from the current high levels), and (in relation to the fall in 2005-06) the one-off impact of stamp duty on the sale of the Dampier to Bunbury natural gas pipeline.

Growth in land tax is expected to be just 1.6% in 2005-06, following growth of 12.6% in 2004-05. In the absence of changes to the land tax scale discussed above, it is estimated that revenue would have increased by 25.1% in 2005-06 (largely driven by increases in the unimproved value of taxable land).

Debits tax is the sole tax in the financial institutions taxes category and will be abolished from 1 July 2005 as part of the BTR reforms (its abolition was also required under the terms of the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations). It is anticipated that around one month's debits tax revenue (around \$8 million) will be collected in 2005-06, relating to transactions occurring during June 2005.

Other taxes in the taxes on property and financial institutions taxes category are expected to grow by 9.3% in 2005-06, mainly reflecting growth in MRIT revenues (based on growth in unimproved land values), and the ESL (reflecting growth in operating costs and new services over and above that which are funded via an appropriation).

Taxes on the Provision of Goods and Services

This category includes taxes on gambling and insurance, and some minor levies. Taxes in this category are expected to account for 11.2% of total taxation revenue in 2005-06.

Taxes on gambling mainly comprise lotteries, casino and TAB betting taxes. Gambling taxes contribute significantly more to taxation revenues in other jurisdictions due to gaming machines in hotels and clubs (which are prohibited in Western Australia).

Gambling tax revenue is estimated to increase by around 2.5% in 2005-06, and decline by an average of 1.0% per annum across the outyears, mainly due to the changes to the TAB betting tax discussed above. Casino tax, levied on gross gaming revenue (total bets less winnings paid out) at the Burswood casino, is estimated to increase by 2.0% in 2005-06, and by around 1.9% per annum over the outyears. Lotteries Commission surpluses are estimated to increase by around 2.7% in 2005-06, and by 1.6% per annum over the forward estimates.

Taxes on insurance comprise stamp duty on insurance policies and the employers' indemnity supplementation fund levy. Revenue from stamp duty on insurance policies is expected to increase by 3.4% in 2005-06, in line with forecast growth in nominal State final demand. This follows growth of 2.5% in 2004-05, which reflected high growth in premiums being partly offset by the abolition of stamp duty on life insurance and workers' compensation premiums as part of the BTR reforms.

Taxes on the Use of Goods and Performance of Activities

This category is made up of motor vehicle taxes and is expected to account for 16.1% of total taxation revenue in 2005-06.

Motor vehicle taxes comprise stamp duty on the registration and transfer of vehicle licences, annual vehicle registration fees, permit fees for oversize vehicles and loads and the motor vehicle recording fee.

Motor vehicle stamp duty collections are expected to increase by 3.5% in 2005-06, following growth of 5.7% in 2004-05. Growth of around 4.6% per annum is expected across the outyears, based on forecast growth in nominal State final demand.

Revenue from annual motor vehicle licence fees is estimated to decline by 1.6% in 2005-06 (mainly due to the \$25 increase in the family vehicle rebate), and average 3.8% growth across the outyears. This revenue is earmarked for road construction and maintenance.

Other Revenue

Commonwealth Grants²

Commonwealth grants to the State take two forms:

- general purpose grants – which have no restrictions on how the money can be spent. General purpose grants to Western Australia consist of GST revenue grants, compensation for GST deferral, and competition payments; and
- specific purpose payments (SPPs) – which must be applied to specific activities and have various other conditions attached.

The Commonwealth's national GST collections are distributed between the States according to the Commonwealth Grants Commission's recommendations. GST revenue grants to Western Australia are projected to grow by 5.0% in 2005-06 (including GST deferral compensation). This primarily reflects:

- projected growth in national GST collections of 5.2%; and
- a \$24 million cut in Western Australia's share of GST collections, as recommended by the Commonwealth Grants Commission.

GST deferral compensation is paid to the States as a result of the Commonwealth's 2004-05 Budget measure to allow annual payment of GST by some taxpayers. The compensation reflects the higher level of GST that would have been collected in each year if it were not for the deferral measure.

² Due to the release of the Commonwealth Budget (on 10 May 2005) after Western Australia's Budget cut-off date (26 April 2005), Western Australia's GST revenue grant estimates do not reflect information from the Commonwealth Budget (in particular, Commonwealth estimates of national GST revenue). This information increases estimated GST revenue grants by \$26 million in 2004-05 and \$15 million in 2005-06, and reduces estimated grants by several million dollars per year in each of the outyears.

In 2005-06, competition payments are assumed to continue at 50% of Western Australia's maximum annual entitlements, as was the case in 2004-05 (except that 2004-05 payments also included the recoupment of some 2003-04 suspensions). Consistent with the Commonwealth's unilateral decision to cease National Competition Policy payments from 2006-07 onwards, they are no longer included in the forward estimates.

SPPs 'to' Western Australia are expected to increase by only 2.9% in 2005-06.³ An increase in payments under the National Action Plan for Salinity and Water Quality as it approaches its peak is largely offset by a reduction in Commonwealth project based road funding.

SPPs that pass through the State's accounts, mainly to local governments and private schools, are expected to grow by 6.9% in 2005-06, primarily reflecting a large increase in Commonwealth payments to private schools.

From 2005-06 to 2008-09, Commonwealth grants 'to' the State are expected to increase by an average of 2.7% per annum. Solid growth in the national pool of GST revenues is expected to be partly offset by a declining share of GST revenues for Western Australia (largely reflecting the lagged impact of growth in the State's mining royalties on the Grants Commission's assessments), low growth in SPPs 'to' the State, and the cessation of competition payments.

Table 9

COMMONWEALTH GRANTS

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
General Purpose Grants						
GST revenue ^(a)	3,158	3,617	3,807	3,926	4,078	4,247
GST deferral compensation	-	22	13	2	2	-
Competition payments	34	54	39	-	-	-
Total general purpose grants	3,192	3,693	3,859	3,927	4,080	4,247
SPPs 'to' the State ^(b)	1,707	1,903	1,957	1,978	2,043	2,056
TOTAL COMMONWEALTH GRANTS 'TO' THE STATE	4,898	5,595	5,816	5,906	6,123	6,303
SPPs 'through' the State	617	641	685	728	774	822
North West Shelf royalties	363	472	505	406	392	329
TOTAL COMMONWEALTH GRANTS (GFS basis)	5,878	6,708	7,006	7,040	7,289	7,453

(a) The estimate of 2004-05 GST revenue grants includes a deduction of \$0.5 million, to reflect final revisions to the budget balancing assistance entitlement for 2002-03 (budget balancing assistance was paid to 'top up' GST revenue grants to pre-GST funding levels).

(b) Payments in areas of State responsibility. Includes all SPPs other than payments on-passed through the State and North West Shelf royalty payments received from the Commonwealth.

Note: Columns may not add due to rounding.

³ SPPs 'to' the State are funds provided by the Commonwealth for specific state services in areas such as health, education, roads and the environment.

Sales of Goods and Services

Revenue from the sale of goods and services is forecast to increase by an average of 2.2% per annum across the forward estimates period. This rate of growth includes:

- the annual indexation of a range of agency fees and charges to movements in the consumer price index;
- the introduction of new fees by a number of agencies, including the licensing of motor vehicle repairers (Consumer and Employment Protection) and fees related to tours of the tunnels at Fremantle Prison (Housing and Works);
- the reduction in fees for motor vehicle transfers (Planning and Infrastructure) and business name renewals (Consumer and Employment Protection) in response to concerns raised by the Auditor General about the level of cost recovery; and
- movements in the volume of goods and services provided by agencies across the sector.

The major goods and services revenue earners for general government include the Departments of Health, Education and Training, and Planning and Infrastructure, and Technical and Further Education (TAFE) colleges.

Interest Income

Interest earnings from cash balances and other financial assets are projected to remain relatively constant in 2005-06 and the outyears at around \$145 million.

Revenue from Public Corporations

The State's major public corporations are liable for income tax equivalent and dividend payments. A number of these public corporations also pay local government rate equivalent payments to the State.

Tax and local government rate equivalents are levied by the State to ensure competitive neutrality (i.e. a level playing field) between significant government business activities and private sector businesses.

Revenue from public corporations in 2005-06 is estimated at \$708 million, which represents an increase of \$11 million, or 1.6%, from the previous year.

Table 10

REVENUE FROM PUBLIC CORPORATIONS						
	2003-04 Actual \$m	2004-05 Estimated Actual \$m	2005-06 Budget Estimate \$m	2006-07 Forward Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m
Income Tax Equivalent	304	253	238	245	267	263
Local Government Rate Equivalent	6	6	7	7	7	7
Dividends	448	438	463	457	429	445
TOTAL	758	697	708	709	703	715

Note: Columns may not add due to rounding.

The increase in revenue in 2005-06 mainly results from higher tax equivalent and dividend revenue from the Water Corporation, partially reduced by lower tax equivalent and dividend revenue from Western Power.

The increases from the Water Corporation are associated with increased profits due mainly to higher sales and community service obligation revenues, partially offset by lower developer contributions.

The reductions from Western Power are associated with reduced profits due mainly to increased expenditure on generation maintenance and operations, increased network expenditures to improve system reliability and safety, and the effect of increased competition on sales. These are partly offset by expected productivity improvements through new efficiency measures and increased revenue from developer contributions. There is also no tariff increase for the year.

A more detailed overview of revenue from individual public corporations can be found in Appendix 7: *Public Corporations – Revenue and Expenses*.

Royalty Income

Mining royalties are paid to government by mining companies for the right to extract resources owned by the community.

Technically, North West Shelf petroleum revenues are included in Commonwealth grants rather than own-source revenue, reflecting the Commonwealth's constitutional responsibility for off-shore areas and the royalty sharing arrangements between Western Australia and the Commonwealth.

Projections of mining royalty revenue are based on:

- individual mining company projections of sales, prices and operating costs supplied to the Department of Industry and Resources on a confidential basis;
- an assumed \$A/\$US exchange rate of US78.0 cents across all years (the average rate in the lead-up to the estimates being finalised on 26 April 2005), representing a 4% appreciation from the estimated average exchange rate of US74.95 cents in 2004-05;

- an average oil price of \$US47 per barrel over the remainder of 2004-05, \$US40 per barrel in 2005-06, and \$US30 per barrel in the following years; and
- no provision for any planned new mining projects or expansions of existing projects unless they have been formally approved and committed to.

In 2004-05, mining royalties (including North West Shelf petroleum royalties) are expected to increase strongly by around 29.7% (or \$302 million) to \$1,319 million. This incorporates:

- higher iron ore royalties (up \$157 million) mainly due to stronger iron ore prices (up 18.6%) and production (up by around 20%) compared with 2003-04;
- higher petroleum royalties (up \$116 million) reflecting an average oil price for 2004-05 (to 26 April 2005) of around \$US48 per barrel, compared to an average price of \$US34 per barrel in 2003-04; and
- an average Australian dollar exchange rate of around US74.95 cents in 2004-05 (to 26 April 2005), compared to an average of US71.30 cents in 2003-04. The negative impact of the stronger Australian dollar on royalty revenue is more than offset by increases in price and/or quantity for major commodities.

Mining royalties are then expected to increase strongly again in 2005-06, by 24.8% (or \$326 million). This mainly reflects the 71.5% iron ore price increase negotiated by producers and an expected increase in production, which is forecast to see iron ore take over from petroleum as Western Australia's largest source of royalties. While oil prices are expected to weaken in 2005-06, averaging around \$US40 per barrel, they will remain high compared to their level in recent years. Despite the lower oil price, North West Shelf petroleum royalties are forecast to increase in 2005-06, mainly due to the additional production from the 4th LNG train.

In 2006-07, mining royalties are expected to decrease by 3.9% (or \$65 million) due to the assumption that oil prices will weaken further, averaging around \$US30 per barrel over 2006-07 and the following years. The resulting decline in petroleum royalty revenue in 2006-07 is expected to be partly offset by further increases in iron ore production.

In 2007-08, mining royalties are expected to decline by 10.4% (or \$164 million), largely due to the assumption that iron ore prices will drop by about 25% as additional supply comes onto world markets in response to recent price increases. Production volumes for key commodities such as crude oil, diamonds and gold are also forecast to decline due to natural depletion.

Risks to the mining royalty estimates, including the impact of variations in key parameters such as the exchange rate and oil price, are detailed in the Statement of Risks (as outlined in Chapter 2: *Fiscal Strategy and Financial Projections*).

Table 11

MINING ROYALTIES						
	2003-04 Actual	2004-05 Estimated Actual	2005-06 Budget Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate	2008-09 Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Iron Ore	305	462	763	803	684	706
Petroleum – excluding North West Shelf royalties	36	43	27	19	16	10
Alumina	52	56	59	60	64	73
Diamonds	41	36	51	71	61	23
Mineral Sands	27	26	23	22	19	18
Nickel	77	94	84	68	58	50
Gold	77	78	73	72	64	58
Other	40	54	61	61	60	61
Mining Royalties (excluding North West Shelf grant)^(a)	654	847	1,140	1,174	1,024	998
Petroleum – North West Shelf grant ^(b)	363	472	505	406	392	329
Total Mining Royalties (including North West Shelf Grant)	1,016	1,319	1,645	1,581	1,416	1,326
Lease Rentals ^(c)	40	40	43	43	43	43
TOTAL MINING REVENUE	1,057	1,359	1,688	1,624	1,459	1,369

(a) This is the GFS Royalty Income category.

(b) North West Shelf royalties are classified as a Commonwealth grant for GFS purposes (these revenues are collected under Commonwealth off-shore legislation and then paid to the State by the Commonwealth).

(c) Lease rentals revenue is classified under 'other revenue' for GFS purposes.

Note: Columns may not add due to rounding.

Iron ore – iron ore royalties are forecast to increase significantly in 2005-06 and 2006-07, reflecting a significant increase in iron ore prices secured by iron ore producers for 2005-06 (up by an average of around 71.5%) and increases in projected iron ore production. It is anticipated that the iron ore price will remain at its 2005-06 level in 2006-07. However, reflecting the expected supply increase from producers (including Western Australian producers), iron ore prices are assumed to decline by 25% in 2007-08.

Petroleum – In 2005-06, petroleum royalties incorporate an increase in LNG shipments boosted by the 4th LNG train and the beginning of the 25-year agreement to export LNG to China. However, the increase in total royalties is not sustained in the following years due to lower production of crude oil from maturing fields and an easing in the projected oil price (from an average of around \$US47 per barrel in 2004-05 to around \$US40 per barrel in 2005-06, and stabilising at around \$US30 per barrel in the following years).

Alumina – growth in expected alumina royalties over the estimates period reflects planned production capacity expansions by the two major producers (Alcoa and Worsley) and stable alumina prices for the current and forward years.

Diamonds – royalties from the Argyle project are expected to increase in 2005-06 and 2006-07. This is mainly due to higher diamond sales and a reduction in deductible production costs over the period, due to the winding down of the existing open-cut operations. The progressive winding down of the open-cut mine is then expected to result in declining royalties from 2007-08, with production currently forecast to cease completely by 2010.

Argyle is currently examining the viability of underground operations. Any commitment to underground operations would significantly alter its outlook for production and costs. Argyle is expected to announce a decision on underground mining later this year.

Mineral sands – the decline in royalties over the estimates period is largely due to lower prices and a predicted fall off in production of ilmenite and zircon.

Nickel – royalties are expected to decline from 2005-06, due to forecast nickel prices declining from around \$US15,000 per tonne to around \$US8,000 per tonne by 2008-09. This price forecast is in line with market expectations.

Gold – gold production from existing operations is expected to be steady in the near term and then to decline slightly toward the end of the forecast period. The decline in royalties mainly reflects an expected easing in gold prices from the current level of over \$US400/oz to \$US370/oz by 2008-09.

Lease rentals – these mining related charges are essentially for exploration and production licences. Future lease rental payments will mainly be determined by the level of exploration activity and the measures adopted to address a backlog of mining lease applications.

Other Revenue

The 'other revenue' category incorporates a range of revenue not elsewhere classified, including:

- fines for traffic-related infringements including on-the-spot, multanova and red light camera infringements paid to the Departments of Planning and Infrastructure and Premier and Cabinet (via the Office of Road Safety and the Road Trauma Trust Fund) and judicial fines and penalties paid to the Department of Justice;
- mining-related lease rentals for exploration and production licences paid to the Department of Industry and Resources (previously discussed under mining royalties);
- capital user charge⁴ revenue from the Public Transport Authority (PTA);

⁴ The capital user charge (CUC) is a levy charged by government to agencies on the net value of assets used by agencies in the delivery of services. It was introduced as part of the accrual appropriations regime in 2001-02. Since that time, only general government agencies have been subject to the accrual appropriations regime (including the CUC), and as such, the financial impact has been eliminated on consolidation. When the Public Transport Authority (PTA) was established, it was decided to provide funding in the form of output appropriations and as such, the PTA was subject to the full accrual appropriations regime (including the CUC). As the PTA is classified as a public non-financial corporation, the appropriation of funds to the PTA, and subsequent requirement to pay the CUC, has the effect of grossing up general government revenue and expenses.

- donations and grants from private organisations, local government and other levels of government within the Western Australian public sector; and
- net asset transfers.

Budget projections for fines, donations and grants are usually stable from year-to-year.

The capital user charge revenue from the PTA is forecast to grow by around 20% on average across the budget estimates period, reflecting the growth in net assets of the PTA with the completion of the New MetroRail project (matched by an increase in operating subsidies paid to the agency).

Net asset transfers are often lumpy and one-off in nature and are the main influence for year-to-year growth in other revenue. Two such asset transfers in the budget aggregates are:

- the transfer of Crown land previously vested with Edith Cowan University (Churchland Campus) to the State Government prior to its disposal during 2004-05 (\$58 million); and
- the expected wind-up and transfer of residual net assets of the Subiaco Redevelopment Authority (\$37m).

The Western Australian Economy

Overview

The Western Australian economy is forecast to grow by 5.25% in 2004-05, following record growth of 7.5% in 2003-04. Growth in 2004-05 is expected to be primarily driven by a strong domestic economy, particularly private household consumption and business investment, with the external sector making a modest contribution to growth.

Growth in gross State product (GSP) is projected to remain healthy at 4.5% in 2005-06. Growth in the domestic economy, as measured by State final demand (SFD), is expected to ease in 2005-06, as growth in household consumption and business investment moderates after a prolonged period of above trend growth. However, the external sector is forecast to make a stronger contribution to growth as projects that have recently been completed move into their operational phase.

In 2006-07, GSP is forecast to grow by 4.25%. The domestic economy is expected to again become the main driver of growth in 2006-07, although it is anticipated that net exports will continue to make a solid contribution to growth.

2004-05

GSP is forecast to grow by 5.25% in 2004-05, largely underpinned by a strong domestic economy. SFD is estimated to grow by 5.0% in 2004-05, supported by strong increases in household consumption and business investment. The public sector (both consumption and investment) is also expected to make a strong contribution to growth.

Over the past three years, household consumption and business investment have provided a solid basis for economic growth, with both experiencing a sustained period of above trend growth over this period. Household consumption has been supported by record high consumer sentiment, a period of historically low interest rates, increases in household wealth (from rising house prices), a buoyant share market, and the general strength of economic conditions.

At the same time, business investment has benefited from strong commodity prices and in particular, buoyant demand from China for Western Australia's major resource commodities, which together have provided impetus for the construction of a significant number of resource-related projects.

Dwelling investment consolidated at a high level in 2004-05 supported by a backlog of residential construction work in the pipeline, which built up due to labour and materials shortages, coupled with steady additions to demand for dwellings.

Exports are projected to increase by 6.0% in 2004-05. It is anticipated that the relatively subdued export performance over the first half of 2004-05 will be followed by stronger growth in the second half of the year, as recently commissioned projects, such as the 4th liquefied natural gas (LNG) train on the North West Shelf and the second processing train at the Telfer Deeps gold mine, commence production.

Reflecting the strength of the economy, employment is expected to grow by a strong 3.5% in 2004-05, while the unemployment rate is projected to decline to a 30 year low, averaging 4.75% over the year. With conditions relatively tight in the labour market, wages are forecast to grow by 4.25% in 2004-05.

Table 1

MAJOR ECONOMIC AGGREGATES
Western Australia

	2003-04 Actual %	2004-05 Estimated Actual %	2005-06 Budget Estimate %	2006-07 Forward Estimate %	2007-08 Forward Estimate %	2008-09 Forward Estimate %
Real Gross State Product Growth	7.5	5.25	4.5	4.25	4.5	4.5
State Final Demand Growth	8.0	5.0	2.25	3.25	4.0	4.0
Employment Growth	1.7	3.5	2.0	2.0	2.25	2.25
Unemployment Rate	5.7	4.75	4.75	4.75	4.75	4.75
Wages Growth ^(a)	3.2	4.25	3.75	3.25	3.25	3.0
Consumer Price Index Growth	2.1	2.75	2.5	2.5	2.5	2.5
Implicit Price Deflator Growth	-0.2	2.25	2.25	2.25	2.25	2.25

(a) Wages Growth refers to the Wage Price Index.

Outlook

The Western Australian economy is expected to continue to display strong economic fundamentals with forecast growth at 4.5% in 2005-06. While growth of the domestic economy is expected to moderate, the external sector is projected to make a stronger contribution to growth, as additional capacity arising from record levels of investment in recent years flows through to higher production and exports. SFD is forecast to grow by 2.25% in 2005-06, as all components of activity consolidate at, or close to, historically high levels.

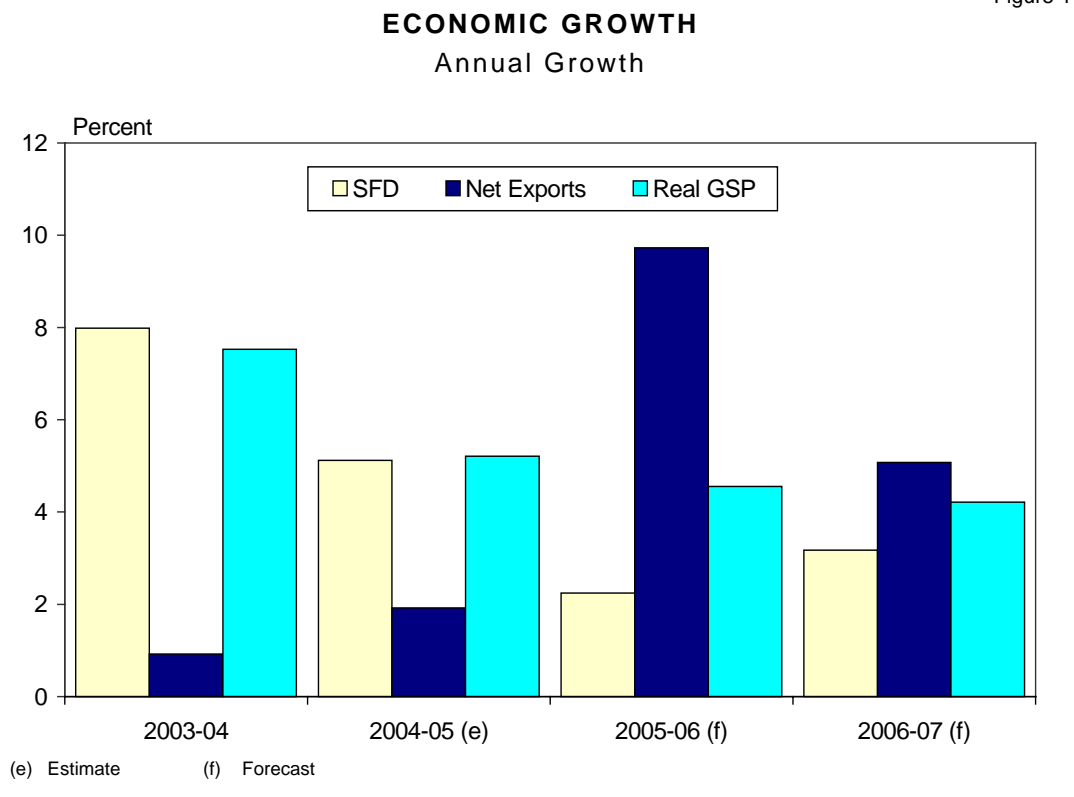
Consumer spending is expected to continue to grow, albeit at a steadier pace than that experienced during the past three years of above trend growth. The anticipated moderation in growth of household consumption, to 2.75% in 2005-06, is due to diminishing wealth effects (arising from the stabilisation of housing prices), higher levels of consumer debt servicing, and the possibility of further interest rate rises.

Business investment is expected to consolidate at a high level, growing by 1.25% in 2005-06, following an extended period of strong growth. Investment is expected to be supported by construction work on the Ravensthorpe nickel mine, the Enfield oil and gas development and a number of smaller scale projects, which should sustain activity at a high level despite the completion of a number of large projects in 2004-05.

Dwelling investment is forecast to contract by 1.0% in 2005-06, reflecting steady demand for new dwellings and a gradual unwinding of work currently in the construction pipeline.

Exports are forecast to grow by 8.25% in 2005-06, supported by numerous project expansions and developments coming online, mostly in the resource industry. At the same time it is anticipated that growth in imports will moderate as consumer spending eases and business investment levels out. These trends should moderate demand for consumer and capital goods imports, with imports forecast to grow by 5.75% in 2005-06. Overall, net exports are forecast to grow by 9.75% in 2005-06.

Figure 1



Reflecting the anticipated easing in domestic activity, growth in employment is expected to moderate to 2.0% in 2005-06. Nonetheless, conditions in the labour market are expected to remain tight with the average unemployment rate forecast to remain at 4.75%.

In 2006-07, the domestic economy is expected to strengthen, with growth picking up in household consumption, business investment and dwelling investment. GSP is forecast to grow by 4.25%, with SFD growth increasing to 3.25%. The continued expansion of capacity in the resources sector is expected to support strong exports growth of 5.5% in 2006-07. Looking further ahead, GSP and SFD forecasts are based on long-term trends, with growth of 4.5% and 4.0% forecast respectively for 2007-08 and 2008-09.

Table 2

COMPONENTS OF GROSS STATE PRODUCT
Western Australia

	2003-04 Actual	2004-05 Estimate	2005-06 Budget Forecast	2006-07 Forward Estimate
	%	%	%	%
ANNUAL AVERAGE GROWTH				
Private				
Household Consumption	6.8	4.5	2.75	3.5
Business Investment	17.2	5.75	1.25	4.75
Dwelling Investment	0.2	3.5	-1.0	3.5
Public				
Consumption	3.0	4.75	3.25	2.0
Investment	22.0	15.0	3.75	-4.75
State Final Demand	8.0	5.0	2.25	3.25
External Sector ^(a)				
Exports	4.5	6.0	8.25	5.5
Imports	10.1	13.5	5.75	6.25
Net Exports	0.9	2.0	9.75	5.0
Gross State Product	7.5	5.25	4.5	4.25
CONTRIBUTIONS TO GROWTH				
Private				
Household Consumption	3.4	2.2	1.3	1.7
Business Investment	2.7	1.0	0.2	0.8
Dwelling Investment	0.0	0.2	-0.1	0.2
Public				
Consumption	0.5	0.7	0.5	0.3
Investment	0.7	0.6	0.2	-0.2
State Final Demand	7.3	4.7	2.0	2.9
External Sector				
Exports	2.1	2.5	3.4	2.4
Imports	-1.8	-1.9	-0.9	-1.0
Net Exports	0.3	0.5	2.5	1.4
Balancing Item ^(b)	0.0	-	-	-
Gross State Product	7.5	5.25	4.5	4.25

(a) Merchandise exports only. Does not include services.

(b) The balancing item includes international services trade, interstate trade, changes in stocks and a statistical discrepancy.

Note: Columns may not add due to rounding.

State Final Demand

Household Consumption

Growth in household consumption is expected to ease to 4.5% in 2004-05, following record growth of 6.8% in 2003-04. This will be the third consecutive year of above trend growth. The anticipated moderation in growth in part reflects a softening in consumer sentiment following the increase in interest rates in March 2005, and the prospect of further rate increases.

Growth in household consumption is forecast to moderate further, to 2.75% in 2005-06, as households enter a phase of debt consolidation after an extended period of credit growth. Despite the expectation of continued strong wages growth and a healthy labour market, the recent accumulation of debt, a moderation in the growth of wealth (primarily through steadier house price growth), and the prospect of further interest rate increases are expected to result in a period of debt repayment and equity restoration by households.

In 2006-07, growth in private consumption expenditure is expected to strengthen slightly to 3.5%. This in part reflects household expenditure returning to a long-term average rate of growth. Strong labour market conditions and healthier household balance sheets are anticipated to support growth.

Business Investment

The rate of growth in business investment is expected to moderate in 2004-05, albeit from a high base. This follows a sustained period of exceptionally strong growth, which has been underpinned by a global commodities boom, which has resulted in high commodity prices, strong external demand for the State's key resources, solid growth in business profits, and an overall positive economic environment. Over the three years since 2000-01, business investment has grown by 64.6%.

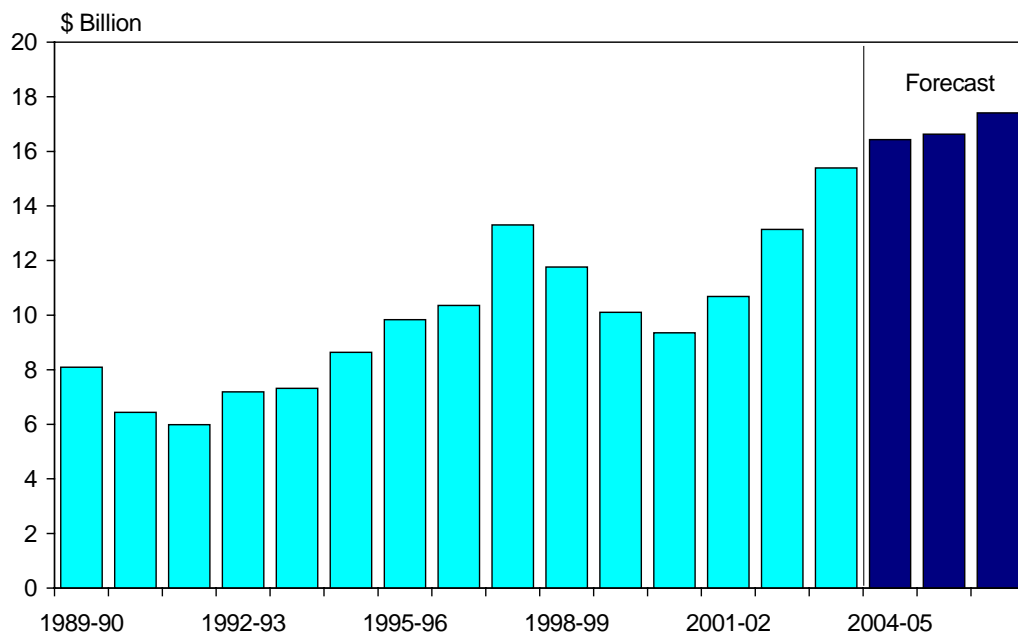
A recovery in the global economy, largely driven by robust growth in the Chinese economy and its flow on effects to neighbouring countries, an expanding economy in the United States, and a tentative recovery in Japan have seen the global economy in 2004 record its strongest growth in almost 30 years. The global commodities boom has seen several commodities trading at record prices in Australian dollar terms despite a higher domestic currency. As a consequence, many projects that may not have been viable in the past are now being developed, and existing ones expanded, as demand for the State's resources continues to strengthen, increasing prices and hence profitability.

A continuation of these favourable conditions in 2004-05 is expected to boost investment by a further 5.75% on top of current record levels.

In 2005-06, business investment is expected to consolidate at a high level, sustained by the first full year of construction on projects such as the \$1.6 billion Ravensthorpe nickel project, the \$1.5 billion Enfield oil and gas field development and further iron ore capacity expansions. The expectation that business investment will stabilise, with growth of 1.25% forecast, is consistent with recent business surveys, which suggest that new capital expenditure will remain at high levels across 2005-06.

Figure 2

BUSINESS INVESTMENT IN WESTERN AUSTRALIA



(a) Chain weighted reference year for measure is 2002-03.

Note: Excludes net purchases of second-hand public sector assets by the private sector. The most notable impact was the sale of the Dampier to Bunbury Natural Gas Pipeline for \$2.1 billion in 1997-98.

In 2006-07, it is anticipated that growth in business investment will strengthen to 4.75%, boosted by construction on projects such as the \$1.4 billion 5th LNG train of the North West Shelf project. Other potential projects include the \$1.8 billion Wagerup alumina refinery, the \$1.4 billion Boddington gold mine expansion, and development of the \$1.4 billion Goongarrie nickel project.

Given the lumpy nature of business investment, changes to project status and timing could result in significantly different outcomes than forecast. The projections would be significantly higher if construction of the \$14.6 billion Gorgon LNG project (two trains) commences during the forward estimates period.

Dwelling Investment

Dwelling investment is estimated to grow by 3.5% in 2004-05, after increasing by just 0.2% in 2003-04. This follows growth of 15.0% in 2001-02 and 8.1% in 2002-03.

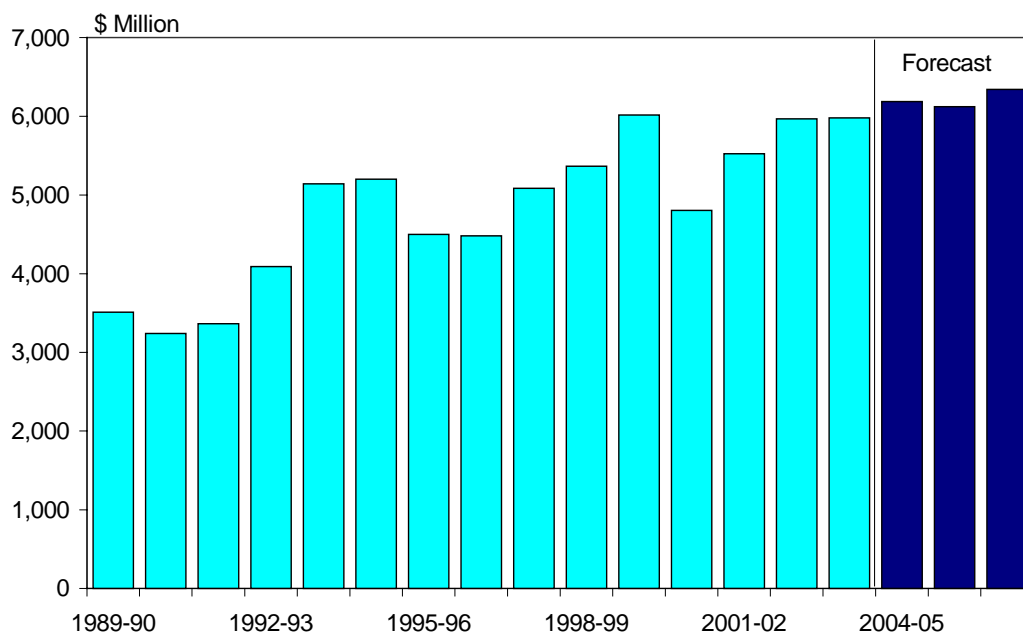
The relatively steady (high) level of dwelling investment in 2003-04 and 2004-05 largely reflects the fact that the dwelling construction sector has been operating at close to capacity in these years. Capacity over the period has been constrained by shortages of skilled labour and some materials. As a result of these constraints, the rate of growth in the current expansion has not reached levels of previous expansions. Since the latest trough in 2000-01, dwelling investment has only grown by 24.5%. This compares to growth from trough to peak of 60.6% (between 1990-91 and 1994-95) and 34.3% (between 1996-97 and 1999-2000) in the past two expansions.

Despite these capacity constraints, demand for new dwellings has been strong in recent years, and as a consequence, there has been a significant build-up in work yet to be done. It has only been very recently that there have been signs that the pipeline of work yet to be done has peaked.

The estimate for growth in dwelling investment of 3.5% in 2004-05 reflects the combined impact of a rebound in first home owner activity, other new demand, and work on previously committed dwellings. The lift in first home owner activity in 2004-05 follows two years in which the level of first home owner (finance) commitments was below the long term trend. This in turn followed two years when commitments were above the long term trend level of commitments (2000-01 and 2001-02) when first home buyers were eligible for the extended first home owner grant (announced by the Commonwealth following the introduction of the GST) which was available over the period 9 March 2001 to 30 June 2002 for first home owners constructing a home.

DWELLING INVESTMENT IN WESTERN AUSTRALIA^(a)

Figure 3



(a) Chain weighted reference year for measure is 2002-03.

Dwelling investment is expected to remain at a very high level in 2005-06, despite activity being forecast to decline by 1.0%. It is anticipated that the high level of dwelling investment will be sustained by steady demand for new housing and construction arising from the backlog of work in the pipeline. Latest forward indicators continue to point to robust levels of new demand for dwellings. At the same time, available data and industry liaison suggests that there is sufficient work yet to be done to support construction work for the next 12-18 months.

Dwelling investment activity is expected to pick-up modestly in 2006-07, with activity forecast to increase by 3.5%. The lift in dwelling investment is anticipated on the basis that demand for dwellings will increase after having stabilised, albeit at a high level, in 2005-06.

Public Activity

Public consumption (expenditure by Federal, State and local governments) is expected to grow by 4.75% in 2004-05. Public expenditure is forecast to moderate in both 2005-06 and 2006-07, with growth of 3.25% and 2.0% respectively.

Public investment is typically volatile between years, as it tends to occur in sizeable and discrete 'lumps', coinciding with major public projects. Reflecting this, public investment is expected to grow by 15.0% in 2004-05, largely underpinned by a carryover of investment on the New MetroRail project and a number of new power stations, such as the Kemerton power station (currently under construction and expected to be operating by late 2005). In 2005-06, public investment is forecast to grow by 3.75% as work on major infrastructure projects draws nearer to completion, and then decline by 4.75% in 2006-07 with the finalisation of the Mandurah to Perth rail line during the year.

Chapter 3: *Election Commitments and Other Expenditure Initiatives*, provides a more detailed analysis of public consumption and investment by the State, on which these forecasts are partly based.

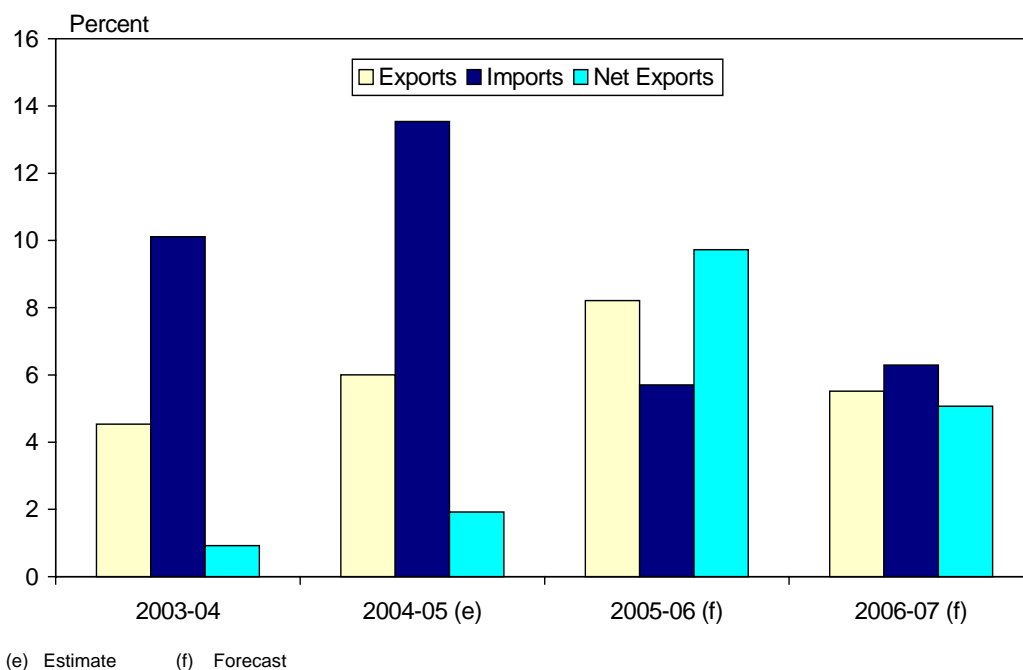
Net Exports

Net exports are expected to make a modest contribution to economic growth in 2004-05, despite relatively strong growth in exports during the year. This reflects the expectation that strong growth in export volumes will be largely offset by a large increase in imports. The increase in imports is due to high levels of consumer spending and business investment boosting imports of consumer goods and plant and equipment. Imports growth has also been boosted by the strength of the Australian dollar making imports relatively cheaper. Overall, it is anticipated that net exports will grow by 2.0% in 2004-05 and contribute 0.5 percentage points to GSP growth.

In 2005-06, net exports are projected to be the major driver of growth in the Western Australian economy. Export volumes are expected to grow at a strong pace as production from recently completed projects and capacity expansions ramps up. At the same time, steadier growth in both business investment and household consumption is expected to flow through to an easing in imports growth. Accordingly, in 2005-06, net exports are forecast to grow by 9.75%, contributing 2.5 percentage points to growth of the State's economy.

GROWTH IN THE EXTERNAL SECTOR
Western Australia

Figure 4



While export volumes are expected to continue to grow at a strong pace in 2006-07, a lift in household spending and business investment is expected to drive stronger growth in imports. This is anticipated to moderate the contribution from the external sector to overall growth. Overall, the external sector is expected to contribute 1.4 percentage points to GSP growth in 2006-07.

Exports

Exports are expected to grow by 6.0% in 2004-05, as a number of projects enter their production phases. In particular, production from the 4th LNG train on the North West Shelf project, the Telfer Deeps above ground mine expansion and iron ore capacity expansions are expected to provide a lift in exports in the second half of 2004-05. This should more than offset a decline in crude oil exports and the impact of the closure of BHP's Hot Briquetted Iron plant following an accident in May 2004.

Western Australia's merchandise exports are anticipated to increase further in 2005-06, with growth forecast at 8.25%. Exports growth should be underpinned by production from extra capacity coming on-line from recent, and soon to be completed, projects. Projects such as the recently completed Mutineer Exeter oil well development and the Burrup Fertilisers Ammonia plant (expected to be completed in mid-2005), should contribute to export growth over the year.

Global demand for many of the State's commodity exports is expected to remain strong, with growth in the global economy anticipated to remain well above trend rates. China is once again projected to perform strongly and is likely to remain a key source of demand for the State's major commodity exports, particularly iron ore. In this regard, the iron ore industry has seen a marked increase in volumes exported, with this trend expected to continue. Further iron ore capacity expansions, such as Hamersley Iron's \$1.3 billion Dampier port upgrade and Yandicoogina mine expansion, are expected to be completed during 2005 and add to the export capabilities of the iron ore industry.

Notwithstanding the announcement of further construction projects in the resource sector in the near future, exports growth is forecast to moderate from the high rate of growth in 2005-06. This reflects that recent additions to production capacity will be largely utilised, and the larger exports base. Notwithstanding this, production from projects such as the Worsley Alumina refinery upgrade should contribute to exports growth. Overall, exports are forecast to grow by 5.5% in 2006-07.

Imports

Record high consumer sentiment, high levels of business investment and a strong Australian dollar have boosted imports of consumer goods and capital equipment in recent years. In 2004-05, a continuation of healthy domestic conditions and an increased demand for capital equipment, coupled with low-priced Chinese imports and high levels of retail discounting, is expected to result in another year of strong growth in imports. Accordingly, imports are projected to grow by 13.5% in 2004-05. This follows growth of 10.1% in 2003-04.

Growth in imports in 2005-06 and 2006-07 should continue to be driven by trends in consumer demand and business investment. Reflecting this, imports are projected to ease to 5.75% in 2005-06 in line with a moderation in growth of consumer spending and capital investment, before strengthening to 6.25% in 2006-07, as consumption expenditure and business investment lift.

Labour Market

Employment

Employment in Western Australia is forecast to grow by 3.5% in 2004-05, after growing by 1.7% in 2003-04. Strong growth in employment in 2004-05 reflects the flow-through of strong economic activity. Both full-time and part-time employment rose strongly in the first half of 2004-05, and forward indicators (such as continued strong growth in the number of job vacancy advertisements) point to sustained demand in the near term.

Employment growth is expected to moderate to 2.0% in 2005-06, in line with the anticipated easing in the pace of growth of the domestic economy. The forecast for more moderate growth also reflects that projected growth in 2004-05 is particularly strong, and the likelihood that growth may be constrained by the availability of appropriately skilled labour.

In 2006-07, it is anticipated that employment growth will remain steady at 2.0%. This is consistent with the forecast for a continuation of more moderate growth in the domestic economy than experienced in recent years.

Unemployment

Reflecting the strength of the Western Australian economy and strong employment growth, the unemployment rate has recently fallen to its lowest level since the 1970's. The unemployment rate reached 4.4% in November 2004 and averaged 4.5% over the December quarter 2004. This improvement in labour market conditions has resulted in an increase in labour force participation more recently, which has led to a slight increase in the unemployment rate. Reflecting this, the unemployment rate is expected to average 4.75% over 2004-05.

In 2005-06 and the out-years, the average unemployment rate is forecast to remain at 4.75%. Continued steady growth in domestic economic activity is likely to see the demand for labour remain healthy, with growth in employment accommodated by growth in the labour force and increased labour force participation.

Prices

Consumer Price Index

Growth in prices in Western Australia largely mirrors national movements (as measured by the Consumer Price Index, or CPI). In 2004-05, growth in the CPI for Perth is expected to strengthen to 2.75%, boosted primarily by housing purchase costs.

For 2005-06, CPI growth is forecast to ease back to 2.5%, largely a result of the anticipated moderation in the domestic economy. Moreover, the decision in March by the Reserve Bank of Australia to increase interest rates (and determination to curtail emerging price pressures), combined with signs the pace of national economic growth is easing should help to maintain a moderate inflation environment. CPI growth in the outyears is expected to remain at around 2.5% per annum.

Wages

Tight labour market conditions and continuing healthy conditions in the State's construction industry, together with high levels of activity in the housing and resources sectors have resulted in stronger wages growth recently. Reflecting this, wages, as measured by the Wage Price Index (WPI), are expected to grow by 4.25% in 2004-05.

In 2005-06, the growth in the WPI is anticipated to moderate to 3.75%, reflecting steadier growth in the domestic economy and an easing in labour supply pressures. Wages growth is estimated to moderate further to 3.25% in 2006-07, before reverting to the long-term trend of 3.0% by 2008-09.

Implicit Price Deflators

The SFD implicit price deflator¹ is expected to increase by 2.25% in 2004-05, after rising by 1.3% in 2003-04. The GSP implicit price deflator² (IPD) is also expected to increase by 2.25% in 2004-05, following a decline of -0.2% in 2003-04 (largely due to the appreciation of the Australian dollar). Both deflators are projected to grow by 2.25% per annum in each of the outyears – a pace of growth that is broadly in line with past growth over the medium to long term.

Regional Economies

As a result of resource-related activity, growth in Western Australia's regional areas is expected to be robust in 2004-05, particularly in the Pilbara, Goldfields-Esperance and Mid-West regions. While cropping conditions in the South-West and Wheatbelt over much of 2004-05 were down on 2003-04, recent rains are likely to provide better seasonal conditions and improved crop yields in the near term.

The global resources boom underpinned by solid global economic growth and robust demand from China for the State's major commodities has resulted in significant resources-based business investment in Western Australia's regional economies. The major Western Australian commodities to experience large price increases have been iron ore, natural gas (and to a somewhat lesser extent, crude oil) and nickel.

The Pilbara region is benefiting from the large increase in demand for iron ore. The resulting record increase in the price of iron ore (negotiated annually with Japanese steel mills) has fuelled a number of large project developments and expansions in the industry. In particular, capacity expansions at the Yandicoogina mine, continued expansion of the West Angelas mine, and the expansion of the Telfer Deeps gold mine are expected to result in increased exports from the region. Additionally, this increased ore extracting capacity has led to supporting infrastructure projects, such as the expansion of port capacity and railway improvements.

Developments in the LNG market are also benefiting the State (and in particular the Pilbara region). The 4th LNG train was recently commissioned on the North West Shelf and a 5th LNG train is likely to be approved shortly, with a construction start possible in the latter part of 2005. The Pilbara region is forecast to experience significant economic growth as more projects in the 'under consideration' or 'committed' categories progress through to their construction phases, before leading to further benefits in respect to their operation phases.

¹ The State final demand (SFD) deflator is the average price of the total level of production in the State's domestic economy.

² The implicit price deflator is the average price of the total level of production in the State's economy (GSP), including domestic prices and import and export prices. It is the broadest measure of prices available for the Western Australian economy and is used to compare the real value of expenditures and receipts over time.

The global boom in nickel prices is expected to result in an improved outlook for the Goldfields-Esperance and Great Southern regions (based on resource deposits in these areas). A number of small nickel mines have been re-commissioned over the past couple of years, as global supply remains constrained. In addition, construction has recently commenced on the Ravensthorpe nickel project, situated in the Great Southern, with activity expected to ramp up by the end of 2005. Employment on the project is expected to peak by year end.

In addition to the boom in the resources industry, which is supporting activity in the resource-rich regions, tourism, improving conditions in the agriculture industry and a steady retail sector is expected to drive the other regions.

A record rainfall at the beginning of May for key regions in the southern half of the State has recently re-ignited hopes for healthy crop yields, with most of the agriculture centres of the Wheatbelt, Great Southern and Mid-West expected to be the major beneficiaries. Recent reports suggest that these regions are now in a position to increase the value of sown crops, with soaking rains said to have provided the best start to the industry in five years.

Most regions are expected to benefit from growth in the tourism and retail industries. In particular, activity in the tourism-oriented regions of the Kimberley and the Gascoyne is expected to be boosted by an increase in international and domestic visitors. The number of international and domestic visitors into Western Australia increased by 2.9% and 1.9% respectively in 2004, and visitor numbers are expected to increase in 2005 and again in 2006. An increasing number of visitors to key regional centres has resulted in an increase in the number of carriers and flights to towns such as Broome.

Public investment in the Perth to Mandurah New MetroRail project is continuing to underpin growth in the Peel region. Recent reports suggest the population in the Peel region continues to grow rapidly, as people are attracted to locate in the region by affordable housing and lifestyle factors. Consequently, business investment, primarily in the professional services sector, is forecast to strengthen and catch-up to the rapid rates of household formation being experienced.

International conditions

The external sector typically accounts for around a quarter of the Western Australian economy. With exports alone accounting for around 40% to 45% of the State's GSP (relative to about 20% nationally), Western Australia has a relatively high degree of exposure to conditions in the broader, global economy. This section details the outlook for the international economy (at the time the Budget economic forecasts were finalised).

The near-term outlook for the world economy remains positive with most forecasters expecting global growth to remain strong in 2005, albeit at a slightly slower pace than the 5.1% growth rate recorded in 2004 (the strongest rate of growth in more than 30 years). In its April 2005 *World Economic Outlook*, the International Monetary Fund (IMF) projects world output to expand by 4.3% in 2005 and 4.4% in 2006.

The Chinese economy continues to expand, with GDP growing by 9.5% in 2004, despite Government attempts to dampen growth in some areas (such as the construction industry). IMF projections suggest that growth will ease slightly in the near term, to 8.5% in 2005 and 8.0% in 2006. While China's current rate of economic growth is viewed as being unsustainable over the long term, the IMF considers average annual growth of 7% to 8% to be sustainable for at least another decade.

Strong growth in China has been a major driver of Western Australian investment and exports (particularly in iron ore and gas) in recent years. Reflecting this, China is now Western Australia's second largest export destination after Japan. Robust consumption of iron ore in China enabled Western Australian producers to secure iron ore contract price increases of 71.5% (in \$US terms) from Asian buyers for the 2005-06 Japanese financial year (1 April to 31 March). This follows a record 18.6% increase in iron ore contract prices for the 2004-05 Japanese fiscal year.

While economic growth in Japan softened in the second half of 2004, resulting in GDP growing by 2.6% in 2004, prospects are for continued, albeit modest growth. Improved corporate profitability, a healthier financial sector, stronger trade linkages with Asia and an improving labour market bode well for continued growth. Japan has benefited from China's rapid industrial expansion, through its exports of steel and machinery equipment to China (which has further benefits to Western Australia in relation to increasing Japanese demand for the State's resources exports).

Growth in other Asian economies has been, and is expected to remain, strong in the near term. Growth across the region has been supported by strong growth in China.

The United States continues to expand, with GDP growing by 4.4% in annual average terms in 2004. This was the strongest rate of growth since 1999. Growth in recent years has been supported by accommodative fiscal and monetary policies. However, these settings are being unwound. Indeed, the US Federal Reserve has increased interest rates on eight consecutive occasions since June 2004 to pre-empt inflationary pressure, and has indicated that it "will continue to remove the accommodative stance at a measured pace". At the same time, the Federal Government has announced plans to halve its budget deficit by 2009. Despite the removal of fiscal stimulus, GDP in the United States is expected to grow by 3.6% per annum in both 2005 and 2006.

While growth in the European Union (EU) lifted in 2004, growth remained relatively modest, and the outlook is for a continuation of modest growth. However, as the EU is a relatively small export market for Western Australia, the direct impact of sluggish growth is expected to be limited.

Risks to the Outlook

A number of assumptions have been made in relation to the forecasts presented in this chapter. What follows is an outline of the major risks associated with some of these assumptions and how these risks could potentially affect the forecasts.

International Conditions

While, as outlined previously, the outlook for the global economy remains healthy, there are nevertheless risks to this outlook. Notable risks are the large budget and current account deficits in the United States and the high oil prices (see separate section).

The growing United States budget and current account deficits remain a risk to the United States and global economies. In particular, in response to the large current account deficit the US dollar has depreciated over the past three years, having declined by an average 25% against other major currencies since February 2000. While this has not had a major impact on the global economy to date, an unexpectedly large depreciation could lead to inflationary pressures in the United States – which could trigger a more accentuated tightening of interest rates (than currently expected) – and a decline in demand for imports. This would adversely impact on the United States' trading partners, and could slow growth substantially in some countries (notably in Asia) and stall already sluggish growth in others (including in the European Union).

Unanticipated external shocks, such as a major terrorist event or outbreak of disease (such as SARS in 2003) always represent a risk to the international economy.

Interest Rates

Interest rates are assumed to remain at current levels³ over the forecast period. While this is in accordance with established forecasting practice, any significant increase in interest rates would have the potential to impact on the economy. The immediate effects of any rise would most likely be experienced in household consumption (particularly in respect to consumer sentiment) and dwelling investment. Additionally, an increase in interest rates is often linked to an appreciation of the \$A, which, as discussed below, could impact on our export competitiveness and hence business investment attractiveness.

The Australian Dollar

Consistent with accepted forecasting practice, the Australian dollar is assumed to remain constant at around \$US0.78 over the forecast period.

³ At the time of writing, the Reserve Bank of Australia's official cash rate stood at 5.5%, with market expectations of the Reserve Bank holding a slight tightening bias over the short term.

Other things equal, an appreciating Australian dollar will reduce the competitiveness of domestic products on world markets and reduce the return to exports denominated in foreign currencies. This would in turn reduce the profitability of projects under consideration and therefore affect whether or not the project is economically viable, potentially reducing future investment and exports. In addition, the cost in Australian dollar terms of imported goods would fall, which could induce increased spending by consumers. Conversely, if the Australian dollar were to depreciate, the reverse of these effects could occur.

Wages

There is a risk to economic growth if wages growth exceeds the levels forecast. In this regard, there is evidence of continuing labour shortages, particularly for skilled workers. To date this has not resulted in substantial across-the-board increases in wages, although wages growth in some industries has been relatively strong. Pressure for substantial increases in wages, however, could be expected to impact on economic activity by making Western Australia a less attractive destination for business investment.

Tight labour market conditions and a forecast lift in wages growth in 2004-05 are expected to flow through to higher participation and a larger workforce, which should alleviate labour shortages. However, continued shortages would have the potential to place further upwards pressure on wages.

Oil Prices

Geopolitical unrest, the continued threat to oil supplies in the Middle East, and increasing demand for oil fuelled by the recent strength in the global economy, largely from China and the United States, has placed some pressure on the oil price over the past year.

Differences between the current high oil price and previous spikes mean that the impacts are likely to differ. In particular, while the oil price is high in nominal terms, it is significantly lower in real terms than during the spikes of the 1970s. At the same time, the energy intensity of world output has also fallen noticeably since previous oil price peaks. Moreover, in contrast to oil price spikes in the 1970s, which were the result of supply shocks, the current high oil price has largely been driven by demand factors.

These factors suggest the current high oil price is likely to have a more limited impact than might be implied by previous experience. Indeed, oil prices have been high for some time, without having had a dramatic affect on global output, although there is still likely to be a time-lag before the full impact is felt. Notwithstanding this, further substantial and sustained price increases could be expected to place upwards pressure on general prices, interest rates and costs, and reduce profitability and production, particularly in energy intensive industries.

Economic growth in Western Australia would likely be less affected than other jurisdictions as it is a large net exporter of energy. Indeed, over the long run, it is likely that the Western Australian economy would benefit from a sustained increase in the price of oil to the extent that it provides a fillip to the State's oil and gas industry and its export earnings.

Federal Affairs

Overview

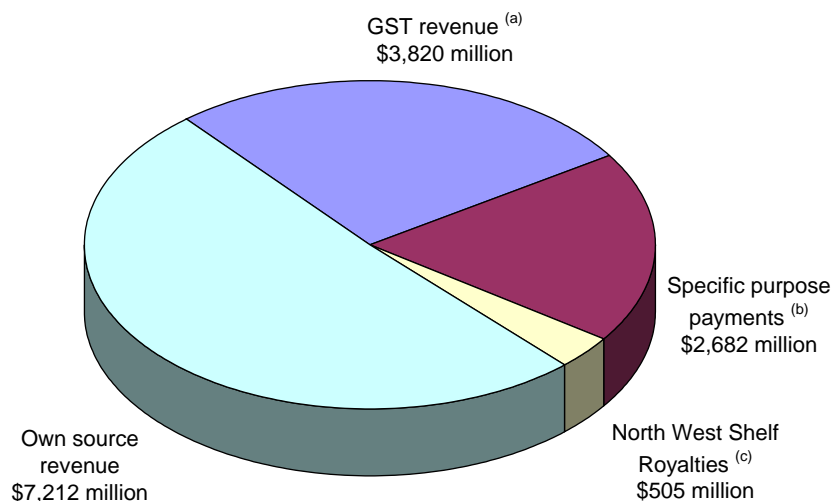
2004-05 produced few constructive outcomes for Commonwealth-State financial relations, being dominated by an aggressive approach by the Commonwealth in its dealings with the States. Notable developments included the Commonwealth's repudiation of the agreement to provide ongoing National Competition Policy dividend payments to the States (see Chapter 7: *Structural Reform*); its replacement of the semi-autonomous Australian National Training Authority with a Commonwealth controlled process for developing and implementing national vocational education and training priorities; its decision to conduct a review of government health care responsibilities in Australia without State participation; and its insistence that States schedule the abolition of a range of stamp duties, which had been listed in the Intergovernmental Agreement on the GST funding arrangements as subject only to review in 2005.

On a more positive note, the March 2005 meeting of the Ministerial Council of Treasurers agreed the terms of reference for the Commonwealth Grants Commission's next major review of its methods for calculating the distribution of GST revenues between the States. Work has already commenced, with a final report due in February 2010. An important focus of this review will be simplifying the Grants Commission's methods, consistent with the principle of horizontal fiscal equalisation used by the Grants Commission.

Overall, Commonwealth grants for the States in 2005-06 will total approximately \$64 billion (around half of the States' total revenues), mainly comprising \$37 billion in GST grants and \$26 billion in specific purpose payments (SPPs). Western Australia will receive around 10.1% of total Commonwealth grants in 2005-06 (excluding North West Shelf petroleum royalties), which approximates its 9.9% national population share.

Figure 1

WESTERN AUSTRALIAN GOVERNMENT REVENUE SOURCES
2005-06



- (a) Includes compensation for GST deferred as a result of the Commonwealth's decision to allow extended payment arrangements for some taxpayers (mainly small businesses).
- (b) Includes payments 'to' and 'through' the State (see later section on SPPs) and competition payments (see Chapter 7: *Structural Reform*).
- (c) North West Shelf petroleum royalties are classified as a Commonwealth grant for Government Finance Statistics purposes, reflecting the Commonwealth's constitutional responsibility for off-shore areas.

Developments in the GST Funding Arrangements

Under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA) that accompanied the introduction of the GST, the Commonwealth agreed to pass all of its GST revenue collections to the States in the form of general purpose grants (distributed on the basis of the Grants Commission's recommendations), to replace the previous financial assistance grants to the States, and (among other things) finance the abolition or reduction of a range of State taxes.

The IGA also provides for each State to receive budget balancing assistance, as necessary, on the premise of being no worse off than under a continuation of the pre-GST funding arrangements. Initially, GST revenues were insufficient to ensure that States were no worse off, requiring budget balancing assistance for all States. Over time, GST revenues have grown faster than the revenues it replaced, and budget balancing assistance has declined to the extent that no State is expected to require any in 2004-05 (apart from residual adjustments to finalise assessments in previous years). Western Australia has not needed budget balancing assistance since 2002-03.

Review of State Taxes

Under the original IGA (signed in April 1999), the Commonwealth and States agreed to a substantial list of State taxes to be abolished, and to review the need to retain stamp duty on non-residential real property conveyances at a later time. However, when food was exempted from the GST to enable passage of the GST legislation through the Senate (resulting in a \$4 billion reduction in estimated annual GST collections), projected revenues were no longer sufficient to cover foregone revenue from abolition of all the taxes originally outlined in the IGA. The IGA was amended (and signed in revised form in June 1999), with States agreeing to the following revised provisions:

- bed taxes to be abolished from 1 July 2000 (these taxes only applied in New South Wales and the Northern Territory);
- Financial Institutions Duty and stamp duties on quoted marketable securities to be abolished from 1 July 2001;
- debits tax to be abolished by 1 July 2005, “subject to review” by the Ministerial Council of Commonwealth and State Treasurers. At its March 2004 meeting, the Ministerial Council agreed that debits tax would be abolished and all States will have done so by 1 July 2005; and
- by 2005, the Ministerial Council will “review the need for retention of stamp duty” on non-residential conveyances, unlisted marketable securities, leases, mortgages, credit/rental arrangements and cheques. Western Australia has already abolished stamp duty on unlisted securities, leases and cheques.

Consistent with the IGA, a review of the need for retention of the relevant stamp duties was undertaken by Heads of Treasuries for the Ministerial Council, but an agreed outcome was not achieved. The States considered that the net benefits of the GST funding arrangements also needed to be applied to service and infrastructure funding pressures, while the Commonwealth effectively argued that abolition of the IGA stamp duties should be the first priority.

The issue was discussed further at the Ministerial Council meeting in March 2005, where the Commonwealth Treasurer put forward the following proposal¹ for abolition of the relevant stamp duties:

- all taxes subject to review, except non-residential conveyance duty, be abolished from 1 July 2006;
- stamp duty on the non-real component of non-residential conveyances be abolished from 1 July 2007; and
- the need to retain stamp duty on real non-residential conveyances be reviewed at a later date (when all States could abolish this duty without being in a net-loss position under the GST funding arrangements).

¹ This proposal was for faster abolition of taxes than proposed by the Commonwealth in the Heads of Treasuries review.

The States and Commonwealth did not reach agreement over the abolition of State taxes at the Ministerial Council meeting. Subsequently, six of the States and Territories, excluding Western Australia and New South Wales, provided the Commonwealth with a counter-offer, committing to State-specific schedules for the abolition of relevant taxes by 2010-11, with the exception of stamp duty on real non-residential conveyances (which is proposed to be retained indefinitely, at the individual discretion of States).

At the time, the Commonwealth Treasurer publicly indicated acceptance of the schedules of tax abolition in the six States' counter-offer.

New South Wales has argued that it cannot afford to abolish the stamp duties without further assistance from the Commonwealth (reflecting the State's relatively small net benefits to date from the GST funding arrangements). Western Australia has maintained that it should be able to determine its own State tax reform priorities without intervention by the Commonwealth, and noted that its capacity to abolish these taxes is limited, (among other things) by its low gambling taxes and lack of toll roads.

Table 1 provides estimates of Western Australia's revenue from stamp duties earmarked for review in the IGA.

ESTIMATED REVENUE FROM TAXES UNDER REVIEW				
Western Australia				
	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09
Stamp Duties already abolished				
Leases	15	16	17	18
Cheques	6	6	6	6
Unlisted Marketable Securities	9	10	10	11
Remaining IGA Stamp Duties				
Non-residential real conveyances	331	348	368	390
Non-residential non-real conveyances	70	74	78	83
Mortgages ^(a)	109	109	115	122
Rental/hire of goods business	28	30	32	34

(a) Mortgage duty estimates have been reduced to take account of the small business and owner-occupier refinancing exemption, announced in this Budget.

Note: This table does not include/recognise any negative impact on Western Australia's share of GST grants associated with the Commonwealth Grants Commission ceasing its assessments of the States' relative revenue raising capacity for these taxes.

Source: Department of Treasury and Finance.

Net Benefits of the GST Funding Arrangements

Table 2 shows the financial impact on each State of the GST funding arrangements, compared with a continuation of pre-GST funding arrangements. The table is based on methods agreed under the IGA. The negative impacts in some instances reflect the Commonwealth's unilateral decision in 2002 to cease including the inflation component of abolished petroleum revenue replacement payments in the calculation of budget balancing assistance. The cost of abolishing stamp duties subject to review under the IGA has not been taken into account for any State.

Table 2

**ESTIMATED FINANCIAL IMPACT OF TAX REFORM
PRIOR TO ABOLISHING STAMP DUTIES SUBJECT TO REVIEW**

	NSW	VIC	QLD	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2000-01	-	-	-	-	-	-	-	-	-
2001-02	-	-	-	-	-	-	-	-	-
2002-03	-39	-27	52	-20	-10	-3	-2	7	-42
2003-04	-65	81	464	126	83	64	35	107	897
2004-05	94	214	687	214	140	93	49	132	1,623
2005-06	-58	128	520	189	135	86	49	131	1,179
2006-07	140	286	654	260	187	101	60	126	1,816
2007-08	410	516	820	366	246	114	77	125	2,673
2008-09	711	789	973	473	305	126	93	118	3,589
2009-10	993	1,027	1,166	594	377	146	112	134	4,551

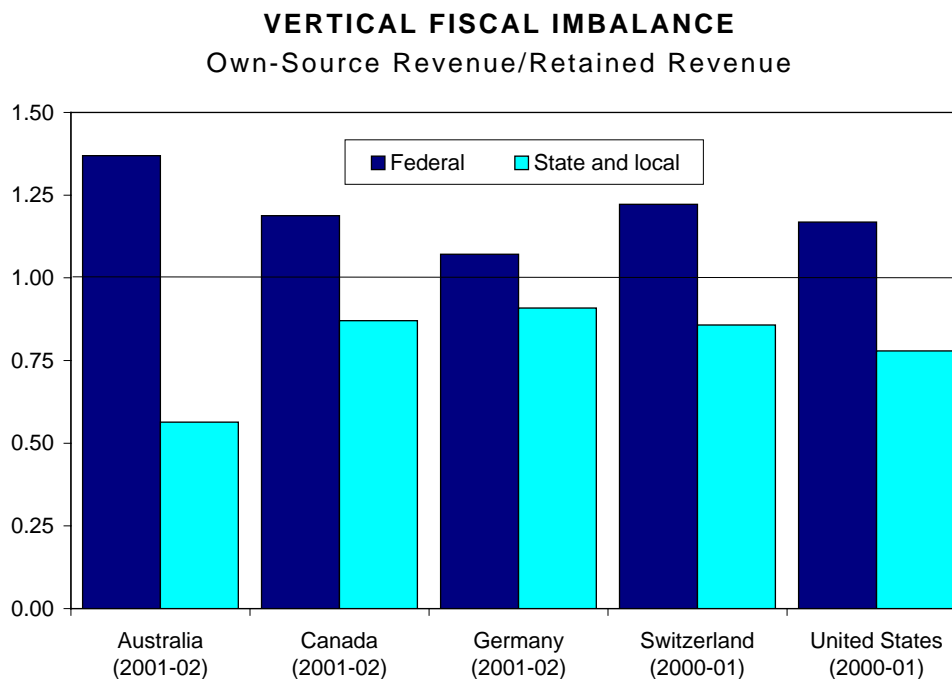
Note: This table reflects the abolition of debits tax from 2005-06, but not the stamp duties. It also treats the cut to the petroleum revenue replacement payment indexation as a cost to the States.

Source: Heads of Treasuries report to Ministerial Council (consistent with the Commonwealth's December 2004 *Mid Year Economic and Fiscal Outlook* estimates of national GST collections), adjusted for the State's estimate of the impact of the cut to petroleum revenue replacement payment indexation.

Imbalances in the Federal System

Compared with other similar Federations (see Figure 2), Australian States have a high degree of financial dependence on the central government, stemming largely from the Commonwealth's takeover of State income taxes in World War II, and restrictive interpretations by the High Court on States' constitutional power to tax goods. (The GST is a Commonwealth tax, although the proceeds are provided to the States.)

Figure 2



Source: IMF Government Finance Statistics 2003.

This dependence, referred to as *vertical fiscal imbalance* (VFI), tends to reduce the accountability of governments to their electorates, and increases the need for the different levels of government to work cooperatively to ensure the successful functioning of the Federation. Such cooperation has not been much evident recently, with the Commonwealth taking an aggressive and centralist approach on a number of issues, including specific purpose payments and shared responsibilities for services (see below).

Areas where cooperative solutions are needed include the following.

- Despite the introduction of the GST, States remain highly dependent on narrow tax bases. The GST has also reduced States' fiscal independence, as it has been accompanied by the abolition of taxes controlled by the States.
- The Commonwealth continues to use specific purpose payments as a mechanism to exert central control on State spending rather than focussing on national-interest community outcomes. This approach prevents States from responding properly to the needs of their communities, with a consequential reduction in national welfare.
- Incentives for economic development are impeded by funding arrangements that drive a wedge between the costs and benefits of development for governments. For example, the Commonwealth Grants Commission process redistributes the State government revenue streams from economic development, without recognising many of the associated costs faced by State governments. Similarly, the Commonwealth receives the majority of revenue benefits from many of Western Australia's resource developments, but contributes relatively little to infrastructure support costs.

- Shared responsibilities for a range of services have resulted in a number of problems, including cost-shifting, duplication and gaps in service delivery. Recent Commonwealth policy measures to create technical colleges and directly fund improvements for government school amenities are likely to increase these problems. Long-standing issues in the area of health (e.g. cost-shifting associated with governments' shared roles in providing primary and aged care services) have yet to be tackled in a systematic and cooperative way by governments. For example, during 2004-05 the Commonwealth established a taskforce to examine the operation of the Australian health system, but refused to engage the States in the process.

To increase public awareness of the need for reform, the Department of Treasury and Finance has established a website devoted to Commonwealth-State finances. This can be accessed through <http://www.dtf.wa.gov.au>.

The Commonwealth Grants Commission

Horizontal Fiscal Equalisation

GST revenue grants are allocated across the States according to the recommendations of the Commonwealth Grants Commission, using the principle of horizontal fiscal equalisation (HFE).² The aim of HFE is to enable each State to provide the same standard of services, providing it makes the same effort to raise revenues from its own sources.

HFE takes account of the different costs faced by State governments in providing services and States' differing capacities to raise their own revenues. To the extent that these differences can be identified and are due to unavoidable factors (such as high cost remote communities) rather than differences in State policies (or efficiency of service delivery), grants are allocated to offset the discrepancies.

The Grants Commission updates its calculation of State grant shares annually, using the latest available data (e.g. on State revenue bases and the composition of State populations). In addition to annual updates, the Commission undertakes a major review of the methodology used to implement fiscal equalisation every five or six years. The last review was completed in 2004.

² Strictly speaking, only the GST is allocated according to HFE principles. However, in order to fully implement the HFE principle, the distribution of the GST takes into account the distribution of most SPPs, which effectively extends the reach of HFE to these SPPs.

The 2005 Update

In February 2005, the Grants Commission reported on its annual update recommendations, to apply in 2005-06. The Commission recommended a decrease in Western Australia's funding share of around \$24 million, or \$12 per person.³ A major reason for this reduction was a continued increase in our capacity to collect revenue from mining royalties, compared to the other States (see below for more detailed analysis). As shown in Table 3, Queensland, South Australia and Tasmania also experienced a reduction in their grant shares, while other States' shares were increased. The Commission's recommendations were discussed by the Ministerial Council in March 2005 and no State or Territory requested a change or variation to the Commission's recommendations.

Table 3

GENERAL GOVERNMENT IMPACT OF GRANTS COMMISSION RECOMMENDATIONS (2004-05 TERMS)				
	2005 Update		1994 – 2005	
	\$m	\$ per capita	\$m	\$ per capita
New South Wales	+12.0	+1.8	-387.2	-56.8
Victoria	+106.2	+21.2	+122.1	+24.4
Queensland	-93.7	-23.9	-35.0	-9.2
Western Australia	-24.0	-12.0	-335.0	-166.9
South Australia	-3.2	-2.1	+181.0	+117.2
Tasmania	-6.8	-14.0	+175.8	+366.9
ACT	+9.2	+28.4	+156.5	+475.3
Northern Territory	+0.3	+1.5	+118.8	+599.1

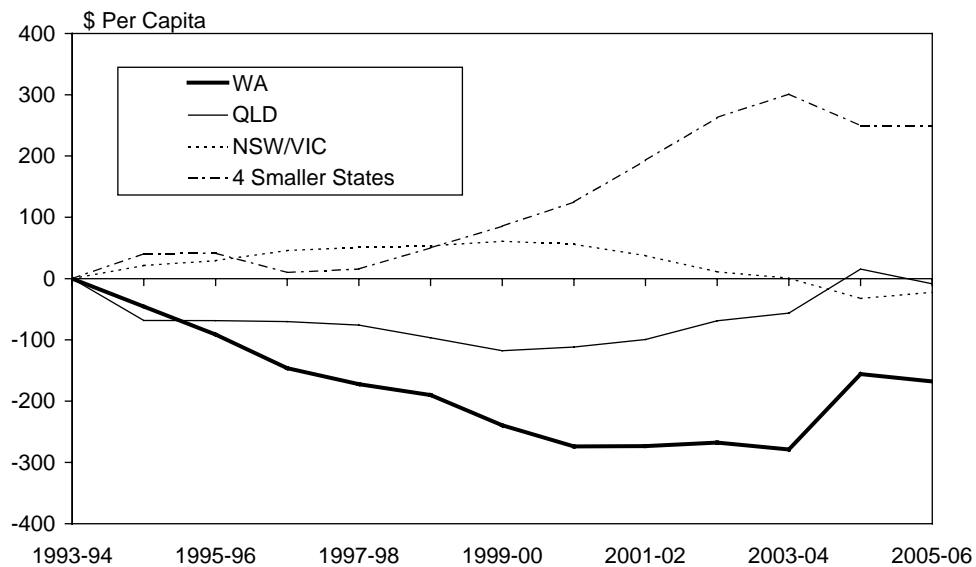
Western Australia's net annual loss in grant share from the Grants Commission since 1993-94 now totals \$335 million (in 2004-05 terms). This mainly reflects the rapid growth in the State's royalty collections (particularly from the North West Shelf project), which has resulted in a redistribution of funds to States with weaker revenue growth.

Figure 3 below shows the cumulative gains/losses experienced by the States since 1993-94. The increase in Western Australia's grant share in 2004-05 was the result of improvements to the Grants Commission's methods resulting from its major review of methods reported in 2004, but as the graph shows, this only partly offsets the State's losses over the last decade.

³ Valued in 2004-05 dollars, consistent with the Grants Commission's report.

Figure 3

IMPACT OF GRANTS COMMISSION RECOMMENDATIONS
Cumulative Per Capita Gains/Losses Since 1993-94 (2004-05 terms)



Source: Department of Treasury and Finance estimates using Commonwealth Grants Commission data.

Major Reasons for Changes to Western Australia's Grant Share in the 2005 Update

The Grants Commission's assessments reflect an average taken over a five year data period. In updating its assessments for 2005, the new five year data period covers 1999-2000 to 2003-04 (i.e. 1998-99 data was dropped, while 2003-04 data was added).

The \$24 million loss in grant share for Western Australia reflected the net impact of a range of factors.

Losses for the State resulted from:

- a downwards revision in the State's relative costs of hospital inpatient services due to updated data and classification changes (\$15 million loss);
- increased royalties from offshore oil and gas (\$30 million loss);
- an increase in the State's relative capacity to raise payroll tax, reflecting above average growth in wages paid by medium and large employers in the State (\$23 million loss); and
- a reduction in the State's relative costs of school education, resulting from a larger than national average fall in the school age proportion of the population (\$16 million loss).

These were partly offset by gains for Western Australia, which included:

- a reduction in the State's relative capacity to raise stamp duty on conveyances, reflecting higher growth in property transfers in some of the more populous States (\$20 million gain);
- a reduction in the State's relative capacity to raise land tax, reflecting below average growth in commercial and industrial land values in the State (\$17 million gain); and
- a correction to all years for previous overstatement of Western Australia's capacity to raise financial transaction taxes (\$17 million gain).

Future Work Program

The March 2004 meeting of the Ministerial Council of Treasurers asked Heads of Treasuries to examine simplification and data issues in relation to the Grants Commission process.⁴ Heads of Treasuries recommended a terms of reference for the Commission's next methodology review, which included broad guidelines for simplifying the Commission's processes, providing that to do so is consistent with the principle of HFE. Potential mechanisms include aggregation of assessments, applying materiality thresholds, adopting more general indicators of need and eliminating unreliable assessments. The terms of reference also requests the Commission to undertake a program of continuous improvement of data and methodology, consider mechanisms to maintain simplification, and improve quality assurance processes. This was agreed to by the March 2005 meeting of the Ministerial Council.

The Grants Commission is required to report by February 2010. The Commission is also required to provide interim reports to the Ministerial Council in 2006 and 2007 on its progress and conclusions in relation to simplification, and progress in relation to continuous improvement, mechanisms to maintain simplification and quality assurance processes. The interim reports will indicate the Commission's views on which, if any, of its conclusions could be acted on in advance of the 2010 report.

The 2010 Review will require considerable involvement by State Treasuries (with the assistance of other State agencies) in the preparation of submissions and data, participation in working groups and attending conferences. During 2008, the Grants Commission will visit each State to hold discussions with Treasury officials and State service delivery staff (including in country areas).

⁴ The terms of reference for this review were very similar to a work program proposed by the Grants Commission in its 2004 Review Report.

Inter-State Redistribution of Resources by the Commonwealth

The distribution of GST grants between States by the Grants Commission on the basis of HFE principles, rather than where the GST is generated, is one prominent example of redistribution of resources across States by the Commonwealth.

However, all Commonwealth fiscal policies tend to redistribute resources between States, as the distribution of benefits from Commonwealth expenditures across States does not match the distribution of taxes and other revenues raised from the economic activity within the State. Differences between States in terms of their economic strength and need for government services ensure that there is no precise link between the Commonwealth's receipts from and outlays in each State.

Table 4 shows the redistribution of resources between States by the Commonwealth (including through the GST arrangements), as estimated by the Department of Treasury and Finance.⁵ While Western Australia receives more in GST revenue grants than the GST it generates, in overall terms it provides around \$3 billion more to the Commonwealth in taxes and other revenues than it receives in Commonwealth expenditures. This net contribution to the Commonwealth represents a larger amount in per capita terms than the other two contributors (New South Wales and Victoria).

Table 4

REDISTRIBUTION OF RESOURCES 2003-04

	GST only		Total Resources	
	\$ million	\$ per capita	\$ million	\$ per capita
New South Wales	2,276	339	4,831	720
Victoria	1,304	264	2,572	520
Queensland	-548	-143	-3,067	-798
Western Australia	-196	-100	2,916	1,483
South Australia	-723	-472	-2,934	-1,917
Tasmania	-695	-1,448	-2,045	-4,259
Northern Territory	-1,418	-7,126	-2,274	-11,424
Total	0	0	0	0

Note: Estimates calculated by allocating all Commonwealth outlays and revenues relating to the ACT among the other jurisdictions according to population shares. This approach reflects that, if the Federation were to cease to exist, it is unlikely that the ACT would continue to exist as a separate entity.

Source: Department of Treasury and Finance estimates, using a range of data sources including the Commonwealth's Final Budget Outcome and Australian Bureau of Statistics Catalogue Nos. 3101.0 and 5220.0.

⁵ This has involved estimating the State of origin of revenues received by the Commonwealth (based on the location of economic activities generating these revenues), and the distribution across States of benefits generated by Commonwealth spending (based on the location of the recipients of benefits).

Table 5 provides a breakdown of the components of Western Australia's net contribution. In many cases, Commonwealth revenues are not earmarked for specific Commonwealth outlays. Accordingly, the component analysis of Western Australia's net contribution is based on the extent to which each category of Commonwealth revenue and expenditure differs from the State's population share.

The table shows that Western Australia's large net contribution reflects the high levels of company tax, fuel excise and petroleum extraction revenues derived from the State, as well as the low level of social security and health payments, and benefits from Commonwealth services, for Western Australia. Updated data has resulted in the previous estimate of Western Australia's net contribution in 2002-03 being revised up to \$2.8 billion, only marginally less than the first-time estimate for 2003-04.

Table 5

**COMPONENTS OF WESTERN AUSTRALIA'S
NET CONTRIBUTION TO THE COMMONWEALTH**
Relative to Western Australia's population share

	2001-02 \$m	2002-03 \$m	2003-04 \$m
Personal Income Tax	-193	-44	-84
Company Tax	417	671	762
Fuel Excise (net of rebates)	360	366	458
Taxes & Royalties on Petroleum Extraction	1,055	1,413	1,083
Commonwealth Services ^(a)	650	669	716
Personal Benefit Payments	461	472	577
Payments to State and Local Governments ^(b)	-274	-286	-157
Other	-383	-433	-439
Total	2,095	2,827	2,916

(a) Departmental expenditures, including defence.
(b) Includes GST revenue grants.
Source: As per Table 4.

Specific Purpose Payments

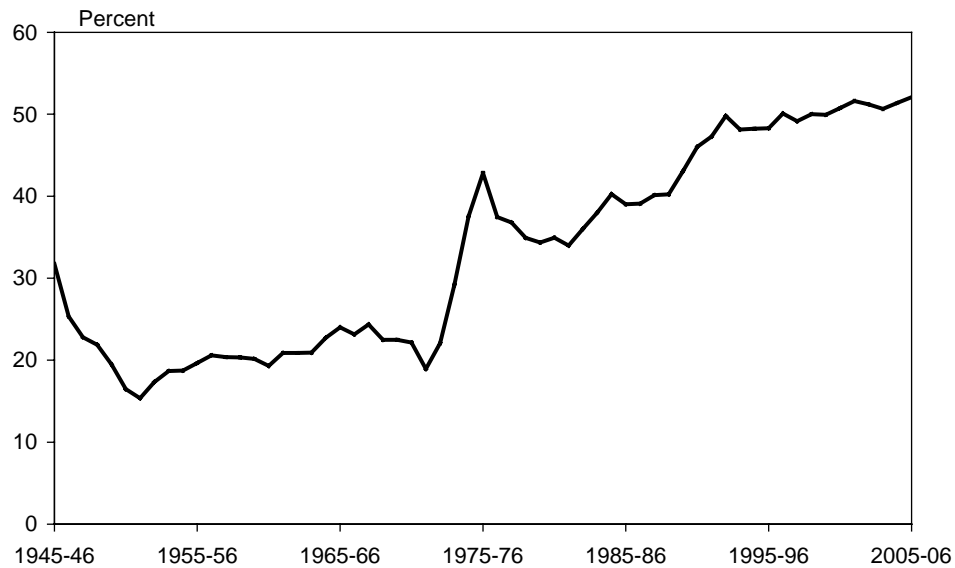
SPPs are grants from the Commonwealth to the States for specified activities, and with conditions attached to their uses that are usually set out in individual agreements. Distinctions are made between:

- SPPs 'to' the State, that support specific areas of State responsibility;
- SPPs that are on-passed 'through' the State primarily to local governments and private schools; and
- North-West Shelf royalty payments (which are reported in Government Finance Statistics as SPPs because of the Commonwealth's constitutional jurisdiction over offshore areas).

Over the years SPPs have become a substantially larger component of Commonwealth grants to the States (and therefore of total State revenues).

**SPPS AS A PROPORTION OF TOTAL PAYMENTS
TO THE STATES**

Figure 4



Note: Data from 2000-01 to 2005-06 are adjusted to enable comparison on a consistent basis between pre and post-GST years.

Source: Commonwealth's Final Budget Outcome and Commonwealth Budget papers.

In 2005-06, Western Australia expects to receive around \$2.0 billion in SPPs 'to' the State, representing an increase of 2.9% compared with 2004-05. An increase in payments under the National Action Plan for Salinity and Water Quality as it approaches its peak is largely offset by a reduction in Commonwealth project based road funding.

Although there are around 100 SPPs, the majority of SPP funding is provided in the core areas of health, education and training, roads, housing, salinity and disabilities. These SPPs to Western Australia are expected to account for 77.5% of all SPPs 'to' the State in 2005-06.

Table 6

**SPECIFIC PURPOSE PAYMENTS
'TO' WESTERN AUSTRALIA**

	2004-05 Estimates		2005-06 Forward Estimates	
	\$m	Percent of total SPPs 'to' WA	\$m	Percent of total SPPs 'to' WA
Australian Health Care Agreement	792.1	41.6%	818.2	41.8%
Government Schools	219.9	11.6%	227.1	11.6%
Vocational Education and Training	114.9	6.0%	112.9	5.8%
Road Programs ^(a)	131.1	6.9%	98.5	5.0%
Home and Community Care	78.8	4.1%	85.9	4.4%
Commonwealth-State Housing Agreement	70.7	3.7%	71.5	3.7%
National Action Plan for Salinity and Water Quality	12.5	0.7%	53.9	2.8%
Commonwealth-State/Territories Disability Agreement	45.8	2.4%	49.0	2.5%
Other ^(b)	436.8	23.0%	439.7	22.5%
Total SPPs	1,902.7	100.0%	1,956.7	100.0%

(a) Includes the Road Safety Blackspots Program, but excludes the Interstate Road Transport Program.

(b) Comprise a large number of smaller specific purpose payments.

Note: Columns may not add due to rounding.

The distribution of individual SPPs between the States is based on a variety of arrangements, including population shares, historical shares, Commonwealth discretionary allocations and various formulae that attempt to reflect relative costs or demand. In 2005-06, Western Australia expects to receive 9.8% of total Commonwealth SPPs 'to' States (compared with Western Australia's 9.9% share of the national population).

SPPs Monitoring Report

Clause 5 (v) of the IGA refers to the Commonwealth's intention not to cut aggregate SPPs as a result of tax reform, consistent with the objective of the IGA that State governments should be financially better off under the new arrangements. One of the functions of the Ministerial Council is to monitor compliance with the Commonwealth's undertaking.

A mechanism for monitoring the Commonwealth's adherence to its commitment, which compares actual growth in SPPs since 1999-2000 against benchmarks of real and real per capita maintenance, was developed and agreed by Heads of Treasuries at their July meeting. Western Australia coordinates an annual report on the SPP commitment as part of the process for briefing Ministerial Council.

Based on this analysis, the Commonwealth's SPP commitment has been met comfortably in each year to 2003-04, and is also expected to be met in 2004-05 and 2005-06 (based on the Commonwealth's 2004-05 Mid-Year Economic and Fiscal Outlook projections).

However, even the more generous 'real per capita' benchmark is not a realistic indicator of the increasing demands on States. Costs and demands for some State services have grown much faster than this, particularly in socially sensitive areas such as health. Overall, States' expenses are estimated to have grown around 2.4% per annum in real per capita terms between 1999-2000 and 2004-05, exceeding the growth in SPPs to the States over this period.

Developments in Major SPPs

AusLink

The Commonwealth released the AusLink White Paper on 7 June 2004, detailing proposed reform of land transport (road and rail) planning and funding. AusLink involves the amalgamation of the Commonwealth's existing land funding programs, including the National Highway System, Roads of National Importance, Road Safety Blackspots and Roads to Recovery.

Concerns with AusLink include the following.

- Western Australia's share of road funding (excluding local roads) has fallen to 7% under the Commonwealth's new AusLink program, which is much less than the State's 10% population share. The State should be receiving an above average share of funding, reflecting its large distances, above average economic contribution to the nation and above average economic growth.
- The program requires States to maintain road funding effort on the AusLink network in real terms (over a five year period), which fails to recognise the lumpy nature of transport infrastructure requirements and may distort the allocation of funding for infrastructure.
- The Commonwealth is seeking to impose its implementation guidelines for the National Code of Practice for the Construction Industry on projects that meet its contribution-level thresholds.
- It is considered that the AusLink program creates imbalances in decision making processes by giving the Commonwealth greater influence on transport infrastructure projects, while at the same time the Commonwealth has sought to reduce its share of the risk of cost overruns by committing only fixed amounts of financial assistance.
- By involving the Commonwealth in the entire road network, AusLink blurs Commonwealth and State responsibilities for transport infrastructure, reducing accountability. Previously, the responsibilities were more clearly delineated, with the Commonwealth taking responsibility for national highways and States taking responsibility for major State roads.

Commonwealth-State Training Funding Agreement

Commonwealth funding support for vocational education and training has been provided to the States under the Australian National Training Authority (ANTA) agreement. However on 22 October 2004 the Prime Minister announced the abolition of the ANTA, from 30 June 2005.

The announcement included the statement that "A Ministerial Council on Vocational Education will be established to ensure continued harmonisation of a national system of standards, assessment and accreditation, with goals agreed in a Commonwealth-State Funding Agreement."

The Commonwealth Minister for Education, Science and Training recently wrote to the States outlining the Commonwealth's funding offer under the proposed new Commonwealth-State Training Funding Agreement for the period 1 July 2005 to 31 December 2008. There are a number of concerns with the Commonwealth offer.

- Despite the fact that the Commonwealth contributes only a minority of the public funding for the TAFE sector (less than 30%), the offer is couched in terms of the Commonwealth taking control of most aspects of the policy agenda, as well as prescribing how State training services are delivered.
- The offer does not include any new funding but does include the transfer of funds from other existing Commonwealth programs with a requirement for States to match these funds.
- The existing maintenance of effort condition, which potentially impinges on the State's budget flexibility, remains.

Other issues concerning the offer include the following:

- It gives the Commonwealth Minister sole discretion to assess achievement of financial and activity targets as well as the determination of any financial penalties for non-achievement.
- It requires the States to agree to a national fees policy.
- It proposes major changes to the industrial relations arrangements of TAFE Colleges through the introduction of Australian Workplace Agreements and performance based pay.
- To receive infrastructure funding the States would be required to comply with the Commonwealth's implementation guidelines for the National Code of Practice for the Construction Industry.

Australian Technical Colleges

During the 2004 election campaign the Federal Coalition announced that it would establish 24 Australian Technical Colleges, providing tuition for students in Years 11 and 12.

- The Colleges will offer both academic education (involving a common curriculum) and vocational education.
- The Colleges will operate autonomously, with a governing body chaired by a local business or industry representative and involving local communities.
- The governing body will be involved in the selection of, and work closely with, the College Principal. The Principal will have the autonomy to offer performance pay and must offer the option of an Australian Workplace Agreement to all staff.
- If Colleges need funding for new infrastructure then they will be required to comply with the National Code of Practice for the Construction Industry.

Expressions of interest from organisations interested in establishing these colleges have been sought. It is proposed that two colleges be established in this State, one in the Pilbara and one in the southern metropolitan area, potentially utilising existing State infrastructure.

The creation of Commonwealth funded technical colleges intrudes into an area of traditional State responsibility and will blur accountability. Furthermore, the Commonwealth is likely to have to establish bureaucratic structures that duplicate existing State structures.

Supported Accommodation Assistance Program

The Supported Accommodation Assistance Program (SAAP) provides funding support to non-government organisations that offer transitional accommodation and a range of related support services to people who are homeless or at imminent risk of homelessness.

Under the current five year SAAP funding agreement between the Commonwealth and the States (expiring on 30 June 2005), the Commonwealth and Western Australia respectively fund 59.5% and 40.5% of the program. Similarly, in most other States the Commonwealth provides majority funding support.

In December 2004, the Commonwealth Minister for Family and Community Services wrote to States outlining the Commonwealth's offer for the next five year SAAP agreement.

The Commonwealth offer maintains its overall funding in real terms, but proposes to redirect a proportion of the funding to an innovation fund for pilot projects. The Commonwealth seeks to make up the funding shortfall for existing programs by requiring States to increase their proportion of SAAP funding up to 50%.

States have expressed concern that the Commonwealth has attempted to justify increased State contributions to SAAP on the basis of growth in the GST and other State revenues, when it is not proposing to increase its own effort in real terms, despite equally strong revenue growth.

States have also expressed concerned that past and proposed future indexation fall well short of cost increases experienced by States, and that the draft agreement (unlike any other SPP agreement) includes a clause allowing the Commonwealth to unilaterally terminate the agreement at any time.

Negotiations with the Commonwealth are continuing.

Indigenous Funding

The Commonwealth and the State are currently negotiating a bilateral agreement to govern indigenous funding arrangements, following the abolition of the Aboriginal and Torres Strait Islander Commission (ATSIC).⁶ Previous ATSIC funding is now going through mainstream Commonwealth agencies, although it is separately identified and potentially transferable between agencies.

⁶ ATSIC itself will not be abolished until 1 July 2005. However, the funding and service responsibilities provided by the related Aboriginal and Torres Strait Islander Services were abolished on 1 July 2004.

At COAG last year, the Commonwealth and the States agreed to a National Framework of Principles for Government Service Delivery to Indigenous Australians. The bilateral agreement is to put this “National Framework” into practice.

It is hoped that Western Australia will be able to access greater funding for indigenous services, particularly in agreed priority areas. This is likely to also involve additional funding from the State.

It is also hoped that the bilateral agreement will improve co-ordination between governments, reducing duplication and streamlining service delivery, and will establish flexible arrangements for indigenous representation for obtaining community input into government decisions.

General Issues with SPPs

States and many commentators have long argued that many SPP agreements unduly limit States’ flexibility to meet community needs (by controlling the use of funds and specifying how much States must spend on particular programs) and should be refocused on community outcomes.

Despite this broad consensus, the last few years have seen a trend towards greater use by the Commonwealth of input controls (e.g. matching and minimum growth funding requirements on States), together with increasingly detailed oversight of States’ operations.

Requirements to match new Commonwealth funding are seen as a particularly blunt tool for achieving Commonwealth objectives, as they fail to take into account the States’ existing efforts.

Western Australia has for a number of years chaired an ‘SPPs Working Group’ comprising officials from the Treasuries of the Commonwealth and all States and Territories, and the Commonwealth Department of Finance. The objectives of the working group have been:

- to develop a better understanding of Commonwealth and State perspectives on SPP arrangements (including each party’s concerns and issues of common interest); and
- to explore an SPP framework that will provide the best service-delivery outcomes for the community (involving improved resource allocation and efficiency), while also providing the basis for assessment of Commonwealth objectives.

During 2004-05, sub-groups of the working group completed reports on the impact of SPP controls and options for change. Key findings were:

- around 30% of States’ overall revenues (including both SPP funds and States’ own revenues) are now subject to some form of input control (a number of specific examples of SPP conditions distorting States’ budget priorities were also identified);

- a number of options are available to make input controls more flexible, including tailoring to individual State circumstances, broadening the scope of relevant State expenditures that ‘count’ (i.e. for matching or maintenance of effort purposes) and relaxing the input controls where efficiency improvements or improved outcomes from switching resources to related programs can be demonstrated;
- an outcomes/outputs accountability framework has some advantages over input controls (i.e. focusing on what is achieved rather than what is spent, encouraging efficiency and innovation, and identifying areas of under-performance); and
- using a theoretical case study of the Commonwealth State Territory Disability Agreement (CSTDA), it was concluded that, if appropriate safeguards and well defined/measurable outputs and performance indicators could be designed, an outcomes/outputs accountability framework would be a preferable alternative to input controls for the CSTDA.

Following from this work, there has been some consensus by Commonwealth and State Treasuries that there is merit in considering ways to improve flexibility in input controls. However, views on the merits of replacing input controls by an outcomes/outputs accountability framework remain divided.

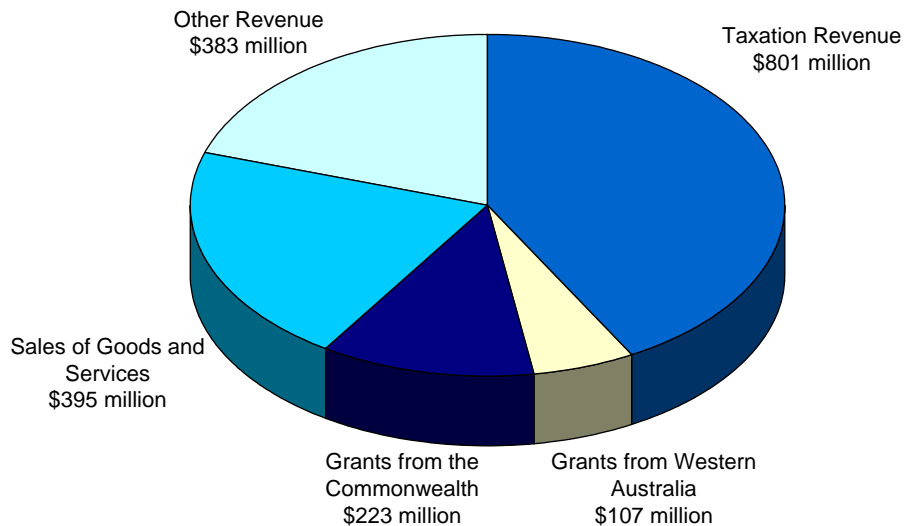
State-Local Financial Relations

Of Western Australia’s 142 local governments, 20% are categorised as urban and 80% as regional and rural. Their ability to raise revenues and levy user charges varies considerably, due to differences in individual local governments’ rating bases and economic structure. However, overall, the Western Australian local government sector is significantly less reliant on grant funding than the State Government. In aggregate, 17% of local government revenues are derived from grants, compared with 46% for the State Government.

Figure 5 illustrates the composition of total revenues for Western Australian local governments. Just under half of total revenue is generated by local government rates. Local governments in Western Australia also derive 21% of their revenues from sales of goods and services, compared with only 7% for the State Government.

Figure 5

TOTAL REVENUE FOR WESTERN AUSTRALIAN LOCAL GOVERNMENTS
2003-04



Source: ABS, Department of Treasury and Finance and Commonwealth Final Budget Outcome 2003-04.

In 2003-04, \$330 million in grants was provided to Western Australia’s local governments. Of this amount, \$107 million was provided by the State, with the balance provided by the Commonwealth.

Most payments from the Commonwealth to local government are untied payments that are passed through the States, and distributed mainly using HFE principles. The Commonwealth also provides specific purpose payments direct to local governments. State grants for local government mainly comprise funding for roads. Table 7 shows grants received by local governments in Western Australia in 2003-04.

Table 7

GRANTS TO LOCAL GOVERNMENT IN WESTERN AUSTRALIA
2003-04

	\$m
State Grants	
Main Roads	65
Fire and Emergency Services Authority	15
Sport and Recreation	11
Other	16
Total	107
Commonwealth Grants	
Financial Assistance Grants	
General Purpose Funding	102
Untied Local Roads Funding	71
Specific Purpose Payments	
Children's Services	4
Roads to Recovery Program	46
Total	223

Source: Department of Treasury and Finance, Commonwealth Final Budget Outcome 2003-04.

The Western Australian State Government and local governments are committed to improving cooperation to enhance the sustainable social, environmental and economic development of the State. The two levels of government agreed to establish a State/Local Government Council in December 2002. The State/Local Government Council:

- receives reports on specific partnership agreements;
- addresses issues that may arise from the implementation of partnership agreements; and
- addresses strategic issues relating to the relationship between State and Local Government.

A number of agreements have recently been signed, including the following:

- a Partnership Agreement on Communication and Consultation in June 2004;
- a protocol for future State Agreements and resource projects of significance to the State in July 2004; and
- a framework agreement between State and Local Government for the provision of public library services in Western Australia in December 2004.

The report of the House of Representatives Inquiry into Local Government and Cost-Shifting (the Hawker Report) was tabled in Federal Parliament in November 2003. The Commonwealth Minister for Local Government, Territories and Roads issued a media release on 11 February 2005 advising that the Commonwealth will soon be delivering a formal response to the Report in Parliament.

In November 2004, the Western Australian Parliament's Legislative Council Standing Committee on Public Administration and Finance tabled its report in relation to the Local Government Rating System and Distribution of Funds. The report makes a number of recommendations on rating limitations under State Agreement Acts, industry support, and the impact of Commonwealth-State financial arrangements on the regions. The Government is currently finalising its response.

Structural Reform

Overview

The Government continues to recognise the importance of structural reform as a means of enhancing the efficiency of the Western Australian economy.

Major structural reform achievements by the Government in 2004-05 were predominantly in the electricity sector and included:

- the development of rules that will govern the forthcoming wholesale electricity market;
- implementation of an electricity access code for Western Australia;
- a significant increase in the number of business customers able to choose their electricity supplier; and
- the introduction of a range of electricity consumer protection measures (including a customer service code).

National Competition Policy (NCP) reviews and reforms were also progressed, particularly in the areas of aviation, grain marketing reform, water and health legislation.

In 2005-06, the Government's major structural policy focus will be on:

- the on-going electricity reform process, including vertical disaggregation of Western Power Corporation and implementation of the wholesale electricity market by 1 July 2006;
- progressing outstanding NCP reforms with a view to ensuring Western Australia maximises its NCP payments from the Commonwealth in 2005-06;
- participation in the national review of the wholesale gas market; and
- water and wastewater reform (particularly in the light of the Economic Regulation Authority's (ERA) findings from its independent review of water pricing and the findings of the Irrigation Review Steering Committee).

Electricity Industry Reform

Despite not being able to participate in the national electricity market, Western Australia continues to take very seriously its need to reform the State's electricity industry and introduce competition into this sector. This reform is essential if the State is to maintain its international and national competitiveness as a place to do business.

Impediments to competition are being removed in the wholesale and retail sectors of the industry, access to the transmission and distribution systems is provided for in legislation, the number of contestable customers is being increased and private sector involvement in the industry is being promoted.

Structural Reform and Market Design

To facilitate greater competition and sustainable lower electricity prices, the Government established the Electricity Reform Task Force (ERTF) in August 2001 to develop a framework for further reform of the State's electricity supply industry. The ERTF's final report, submitted in October 2002, recommended the creation of a new electricity market that balanced the need for greater competition, lower prices and consumer protection. Specifically, the report recommended:

- the creation of a wholesale market;
- a strong and independent regulatory system;
- the disaggregation of Western Power into four new entities; and
- the retention of the uniform tariff and existing rebates.

The Government endorsed the recommendations of the ERTF in November 2002.

By the beginning of 2004-05 the most significant achievement in the Government's electricity reform agenda had been the *Electricity Industry Act 2004*, which was passed by Parliament on 8 April 2004. The *Electricity Industry Act 2004*, which is intended to facilitate the development of competition in the generation and retail sectors of the electricity industry, makes provision for:

- establishing a wholesale electricity market (WEM) for the South West Interconnected System (SWIS);
- establishing an independent licensing regime for electricity industry participants;
- establishing an Electricity Access Code to provide for third party access to electricity networks in Western Australia; and
- implementing measures to protect customers in a competitive electricity market.

The achievement of the initiatives listed above and the creation of a more competitive industry are key aspects of the Government's electricity reforms. In particular, the development of the WEM will promote greater competition and private sector investment in the SWIS.

Wholesale Electricity Market

The objectives of the WEM are to:

- promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the SWIS;
- encourage competition among generators and retailers in the SWIS, including by facilitating efficient entry of new competitors;
- avoid discrimination in the WEM against particular energy options and technologies, including sustainable energy options and technologies; and
- minimise the long-term cost of electricity supplied to consumers from the SWIS.

After a three-year process of consultation with the electricity industry, the market rules for the operation of the WEM were approved by the Minister for Energy in October 2004. A key feature of the WEM, which is scheduled to commence on 1 July 2006, is the Independent Market Operator (IMO).

The IMO, which was established on 1 January 2005, will have responsibility for operating the WEM and setting and procuring, by way of electricity capacity auctions, the level of reserve capacity to meet peak periods of demand. It will also be responsible for the scheduling of electricity load dispatch from generators and the balancing of electricity supply with demand.

The IMO will publish in July 2005 a statement of opportunities, based on the latest available information, to determine the details of generation capacity to be auctioned in October 2005. After the initial auction, the IMO will periodically conduct further capacity auctions as required.

Reducing Western Power Corporation's Market Power

As a prelude to implementing the ERTF's recommendation that Western Power Corporation be broken up into four successor entities, the Government recently introduced the Electricity Corporations Bill 2005 into Parliament. This Bill is essentially a composite of the original restructuring bills introduced in 2003 and, if passed, would see Western Power Corporation split into four independent functional entities by 31 March 2006:

- the Electricity Generation Corporation;
- the Electricity Networks Corporation;
- the Electricity Retail Corporation; and
- the Regional Power Corporation.

The Government would retain ownership of these entities, which would deal with each other at arm's length. This approach would be an effective mitigation measure against the potential market power resulting from Western Power Corporation's current vertical integration.

However, the Electricity Generation Corporation (or Western Power Corporation in the event that the Electricity Corporations Bill 2005 is not passed) would still be a dominant player in the WEM by virtue of its large share of the generation market (which would be around 90 per cent when the WEM commences). To mitigate the potential market power associated with such a large market share, on 7 April 2005 the Minister for Energy issued a direction to the Western Power Corporation Board to cap the Corporation's generating capacity at 3,000 megawatts.

The direction will restrict Western Power Corporation from building any new generation plant until old plant owned by the utility is retired. The cap will allow private companies to develop the new generation capacity required to meet the State's ongoing electricity needs and, over time, will reduce the market share of Western Power Corporation. The Corporation's ability to replace generation plant that is near the end of its economic life, with more efficient new plant, will ensure that its generation assets remain competitive over time, increasing competitive pressures in the WEM.

Regulatory Reform and Retail Contestability

Licensing

Effective regulation of a competitive electricity industry requires the commercial licensing of market participants. The *Electricity Industry Act 2004* details the framework for the licensing of market participants involved in electricity generation, transmission, distribution and retail in Western Australia. Licensing will allow the State to identify operators, and to monitor and report their performance in relation to specific criteria for prudential and service standards. The licensing framework has been developed in full consultation with stakeholders.

On 1 January 2005, the ERA assumed responsibility for issuing, amending, monitoring and enforcing licences. All parties who generate, transmit or distribute electricity at a voltage of 66kV or higher, or who sell electricity, are required to be licensed. Parties who, immediately prior to 1 January 2005, were conducting any of the activities required to be licensed have until 31 December 2005 to apply for a licence, and will be treated as holding a licence until 30 June 2006.

Electricity Access Code

Open, transparent and non-discriminatory access to network services is also a prerequisite to a competitive electricity market. As part of the new market framework established under the *Electricity Industry Act 2004*, an Electricity Access Code providing for open access to network assets has been developed to suit conditions prevailing in Western Australia.

The Electricity Networks Access Code was gazetted on 30 November 2004 and commenced on the same day. The Access Code provides a framework for the independent regulation of certain electricity networks in Western Australia.

The Electricity Access Code incorporates the use of incentive regulation (so-called because regulated entities are encouraged to minimise costs through efficiency improvements), including the use of price and/or revenue caps and, where efficient and practicable, cost reflective network pricing. In most respects it is also consistent with the National Electricity Code and National Gas Code and has been designed to meet the requirements for certification under the Part IIIA of the *Trade Practices Act 1974*.

The ERA is responsible for regulating third party access to regulated electricity networks in the State. At the commencement of the Access Code, the only such network was Western Power Corporation's South West Interconnected Network within the SWIS.

Under the Access Code, Western Power Corporation is obliged to submit a proposed Access Arrangement, Access Arrangement Information and technical rules to the ERA by 27 July 2005. After assessing the compliance of the proposed Access Arrangement with the requirements of the Access Code and undertaking a public consultation process, the ERA will issue a final decision.

Contestability

In recent years retail contestability thresholds for electricity have been lowered progressively, with the aim of ultimately achieving full retail contestability (FRC) in 2005 (thus giving all electricity consumers the power to choose between retailers). However, as effective competition at all levels of the industry is required for FRC, this objective has been deferred until after the WEM is functioning successfully. Nevertheless, the threshold for contestability was reduced to 5.7 kW average load (50 MWh per annum) on 1 January 2005. This level of consumption is typical of small businesses. The extension of access to Western Power Corporation's electricity networks has increased the number of contestable customers to around 12,500 and approximately 60 per cent of Western Power Corporation's current load in the SWIS is now contestable.

Consumer Protection

In an electricity market with increased competition, a number of consumer protection mechanisms are required to ensure appropriate service standards are maintained. Consumer protection for residential and small business customers is being addressed through the following measures:

- the implementation of a Customer Service Code. The Code of Conduct for the Supply of Electricity to Small Use Customers became operational on 1 January 2005 and regulates and controls the conduct of retailers, distributors and electricity marketing agents in order to protect the interests of customers who generally have little or no market power. For this reason, the Code applies only to customers who consume no more than 160 MWh of electricity per annum;
- the imposition and enforcement of obligations on retailers to have a standard contract with an associated standard tariff at or below the uniform tariff cap, which is available to any existing or new tariff customer;

- the imposition and enforcement of obligations on network service providers to publish an approved consumer connection and extension policy detailing the technical and economic conditions for connection of customers;
- the implementation of an Energy Ombudsman scheme providing consumers with a complaint resolution mechanism; and
- the imposition of a retailer of last resort obligation on Western Power Corporation to ensure that supply is available to customers whose retailer exits the market.

Gas Market Reform

With the introduction of full retail contestability in the Western Australian gas market on 31 May 2004, reform of this market is largely complete.

In May 2004, the Ministerial Council on Energy, which comprises Energy Ministers from jurisdictions within Australia, launched a wholesale gas market development program to encourage transparency, new market entrants, investment in gas infrastructure, and provide a market mechanism to assist in managing supply and demand interruptions. The Western Australian Government is contributing to the development of an effective and efficient wholesale gas market through its participation in the consultation process of the national gas market review.

Water Market Reform

Urban Water and Wastewater

The Western Australian Government remains strongly committed to the development of an efficient and sustainable water industry in the State. In this regard the Government has directed the ERA to conduct an inquiry into urban water and wastewater pricing in Western Australia. The inquiry is focussed on the cities and towns in Western Australia that are serviced by the Water Corporation, the Bunbury Water Board and the Busselton Water Board.

The Government is required to conduct this inquiry to ensure compliance with pricing principles forming part of the Council of Australian Governments' Strategic Framework for Water Reform, which has been incorporated into National Competition Policy. The ERA's final report is due to be released by August 2005. The purpose of the inquiry is to inform the Government on the level and structure of water prices prior to its consideration of these matters in the 2006-07 financial year.

Irrigation

The Government's 2003 State Water Strategy set out an integrated set of recommendations designed to address the State's water issues. One of these recommendations was for a whole-of-government review of irrigation activities.

The terms of reference for this Review, which were approved in December 2003 by the Cabinet Sub-Committee for Water, included:

- a review of the potential for water trading to improve the efficiency with which water is delivered and used; and
- identification of policy and other constraints to water trading and, if appropriate, recommendation of actions needed to facilitate water trading.

The Irrigation Review Steering Committee completed its work in May 2005 and has submitted its final report to the Government.

Transport Market Reform

Aviation

In April 2005, the Government announced that tenders would be sought for the regulated intrastate air routes servicing regional Western Australian communities. This follows a decision in 2002 (after the collapse of Ansett in 2001) to regulate non-jet routes in order to stabilise air services to regional centres.

The decision to invite applications from airlines for the licence rights to operate regulated routes satisfies the requirements of NCP, and was considered to strike the right balance between competition and stability in regional aviation.

The regulated routes will be tendered as two networks:

- a coastal network, comprising the regional airports of Albany, Esperance, Exmouth (Learmonth), Geraldton, Carnarvon, Kalbarri and Shark Bay; and
- a northern Goldfields network, comprising the airports of Leonora, Leinster, Laverton, Wiluna, Meekatharra and Mount Magnet, with limited access to Geraldton.

The assessment of applications is expected to be completed by August 2005, with services commencing in December 2005.

The Government has decided that, as air service development in the Kimberley is in a dynamic phase, air routes to and within the region will not be regulated at this stage and will therefore not be part of the current regulatory tender process.

Rail

The Western Australian Government is committed to creating an environment favourable to competition within the rail sector. The cornerstone of this policy is the Rail Access Regime, comprising the *Railways (Access) Act 1998* and the Railways (Access) Code 2000 (the Code), which provides a framework for the negotiation of access to railway infrastructure on fair and reasonable terms. The aim of the Rail Access Regime is to encourage the efficient use of, and investment in, railway facilities within a contestable market.

As part of the Government's ongoing commitment to refine and improve the effectiveness and efficiency of the State's railway infrastructure, a full review of the Rail Access Regime commenced in January 2005 with the publication of an issues paper by the ERA. The purpose of the review is to assess the suitability of the provisions of the Code to give effect to the Competition Principles Agreement in respect of railways to which the Code applies. The final report on the review is expected to be released in August 2005.

In addition to a review of the Rail Access Regime, the Government is focusing on the development of a Pilbara Rail Access Policy to encourage existing railway operators, which are not covered by the Access Regime, to comply with the third party access obligations contained in their State Agreements.

National Competition Policy

NCP legislation review and reform activity has continued in accordance with the State's obligations under the Competition Principles Agreement. The revised Public Interest Guidelines for Legislation Review released by the Government in November 2001 ensure that, in making recommendations for reform, assessments of the public interest include consideration of social objectives such as regional development and environmental protection as well as economic efficiency.

Competition Payments to Western Australia

Western Australia has been penalised by \$38.4 million of its Competition Payments in 2004-05 as a result of the National Competition Council's 2004 assessment of the State's progress in achieving NCP-related reforms. The payments penalty comprises:

- deductions totalling 20% of annual payments (\$15.4 million) that have continued since 2003-04 for the regulation of retail trading hours (10% of \$7.7 million), the delayed transition to competitive liquor licensing arrangements (5% or \$3.8 million) and the regulation of potato marketing (5% or \$3.8 million);
- a pool suspension of 15% or \$11.5 million for failure to adequately progress review and reform of a range of outstanding high priority legislation; and
- a new specific suspension of 15% or \$11.5 million for failure to progress electricity reform satisfactorily.

However, Western Australia has received once-off back-payments of specific and pool suspensions from 2003-04 (worth 20% of 2003-04 payments or \$14.9 million) for the belated implementation of reforms relating to water pricing and egg marketing, among others.

National Competition Policy Reform Activity in Western Australia

On 20 February 2005, a referendum was held on retail trading hours in the Perth metropolitan area. On the issues of extended weeknight trading and Sunday trading, 58 per cent and 61 per cent of voters respectively supported the 'No' case.

The Western Australian Government has approached the Federal Government with this information and has argued that the referendum results represent a clear assessment by the electorate that the benefits to the community as a whole of the existing restrictions on retail trading hours outweigh the costs. That is, the Western Australian community has determined that it is in the public interest for these restrictions to be retained. The implication of this argument is that the State should not be penalised by the Federal Government as a consequence.

A number of important NCP reforms were progressed in 2004-05, including:

- the Marketing of Eggs Amendment Bill 2004, which gained assent on 26 August 2004. The Bill amended the *Marketing of Eggs Act 1945* to provide for the expiry of the Act and the dissolution of the W.A. Egg Marketing Board on or before 31 December 2005. An advisory group of Government and industry representatives is currently finalising the transitional path to a deregulated industry;
- the Architects Bill 2003, which gained assent on 8 December 2004. The Bill reformed the professional regulation of architects, providing for effective registration and the maintenance of nationally consistent professional standards. Use of the title 'architect' remains controlled, and misleading conduct by non-architects is prevented;
- the drafting of the Water Legislation (Competition Policy) Amendment Bill, which implements required reforms to the State's water legislation. Drafting is almost completed, and the Bill should shortly be introduced to the Parliament;
- the drafting of template health practitioner legislation. The related 'Core Practices Review', identifying which practices should be restricted and which liberalised in the health services sector, is almost finalised and will shortly be considered by the Minister for Health; and
- the review of the *Caravan Parks and Camping Grounds Act 1995*, which continues to progress. The review is assessing the public interest of the current exemption of State public sector bodies from the licensing provisions of the Act.

Grain marketing reforms were implemented in 2003-04 to allow regulated competition with the Grain Pool in the export of prescribed grains (i.e. barley, lupins and canola) through the establishment of the Grain Licensing Authority (GLA). The competition between grain marketers that this reform achieves has had a positive impact on the cash market for prescribed grains in Western Australia. The GLA issues special export licences for the bulk export of prescribed grains to traders other than the Grain Pool. These licences can be granted only in markets where there is no evidence of the Grain Pool achieving a price premium through the market power of being a single seller.

In its first season of operation (i.e. the 2003-04 growing season), the GLA approved Special Export Licence applications of just over 500,000 tonnes for all prescribed grains. Most of the applications were for exports of feed barley to the Middle East. An independent review of the activities of the GLA found that there was a noticeable lift in cash prices offered for both feed barley and canola following the issuing of Special Export Licences.

The Future of National Competition Policy

As foreshadowed in the Federal election campaign in October 2004, the Federal Government decided in its Mid Year Economic and Fiscal Outlook Statement of 2004-05 to redirect Competition Payments to the States in respect of 2006-07 and 2007-08 to projects under the National Water Initiative (to which Western Australia is not a signatory). It has made no provision for Competition Payments thereafter.

The Federal Government's decision pre-empts an agreement made by the Council of Australian Governments (CoAG) in 2000 to review NCP arrangements by September 2005. Future prospects for a further NCP reform agenda will be resolved by CoAG as part of this review. CoAG's decisions will be informed by the Productivity Commission's report on its review of NCP reforms, which was released by the Federal Government in April 2005.

Detailed Financial Projections

This appendix contains detailed financial projections for the various sectors of the total public sector under the Government Finance Statistics (GFS) framework. The tables in this section also satisfy Uniform Presentation Framework (UPF) requirements (with the exception of general government sector taxes, contained in Chapter 4: *Financial Projections – Revenue*).

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Table 1

GENERAL GOVERNMENT						
Operating Statement						
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Taxation	4,122	4,130	3,995	4,174	4,401	4,635
Current grants and subsidies	5,583	6,328	6,659	6,705	6,934	7,080
Capital grants	295	380	347	335	355	374
Sales of goods and services	941	927	943	966	987	1,011
Interest income	128	146	146	138	145	150
Revenue from public corporations						
Dividends	448	438	463	457	429	445
Tax equivalent payments	310	259	245	252	274	270
Royalty income	654	847	1,140	1,174	1,024	998
Other	272	335	281	319	312	305
Total	12,753	13,789	14,218	14,520	14,861	15,268
EXPENSES						
Gross operating expenses						
Salaries	4,787	5,165	5,405	5,590	5,787	6,019
Depreciation and amortisation	546	578	585	624	652	649
Superannuation	458	506	524	538	552	571
Services and contracts	1,216	1,454	1,416	1,400	1,442	1,430
Other gross operating expenses	1,637	1,699	1,830	1,932	2,060	2,213
Nominal superannuation interest	283	295	296	297	296	295
Other interest	165	193	161	166	160	157
Other property expenses	-	-	-	-	-	-
Current transfers	2,440	2,788	3,012	3,112	3,262	3,288
Capital transfers	421	480	467	427	457	350
Total	11,954	13,158	13,697	14,085	14,669	14,973
NET OPERATING BALANCE	799	631	521	435	192	295
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchase of non-financial assets	992	1,177	1,285	1,242	1,179	1,092
Sales of non-financial assets	-166	-277	-192	-187	-127	-94
less depreciation	546	578	585	624	652	649
plus change in inventories	-4	2	-2	4	3	-1
plus other movements in non-financial assets	-47	58	-	25	12	-
Total	229	381	506	460	414	348
NET LENDING/BORROWING	570	250	15	-25	-223	-53
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS						
NET OPERATING BALANCE	799	631	521	435	192	295
less provisions for doubtful debts	-5	1	1	1	1	1
plus net gains on assets (including derivatives)	-149	74	6	6	-27	-39
plus capitalised interest	-	-	-	-	-	-
less revaluation of superannuation liabilities	66	-	-	-	-	-
plus all other adjustments	-	-12	-	3	-	-
AAS/AIFRS RESULT ^(a)	588	692	527	443	165	255

(a) Consistent with all accounting data in these Budget Papers, 2003-04 and 2004-05 results are based on data complying with AAS at the time of the budget's preparation. Data for 2005-06 and beyond are consistent with the implementation of AIFRS. See Appendix 9: *Implementation of Australian equivalents to International Financial Reporting Standards (AIFRS)*.

Note: Columns may not add due to rounding.

Table 2

GENERAL GOVERNMENT**Balance Sheet at 30 June**

	2004	2005	2006	2007	2008	2009
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	Actual	Estimate	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	414	388	385	383	389	398
Advances paid	853	947	944	931	828	802
Investments, loans and placements	1,702	1,135	864	846	858	1,010
Other non-equity assets	926	987	904	843	864	806
Equity	18,273	19,217	20,116	20,518	20,959	21,426
<i>Total</i>	<i>22,168</i>	<i>22,674</i>	<i>23,213</i>	<i>23,520</i>	<i>23,897</i>	<i>24,442</i>
<i>Non-Financial assets</i>						
Land and fixed assets	31,621	33,032	34,055	35,209	36,305	37,192
Other non-financial assets	83	79	215	249	261	217
<i>Total</i>	<i>31,704</i>	<i>33,111</i>	<i>34,270</i>	<i>35,458</i>	<i>36,566</i>	<i>37,409</i>
TOTAL ASSETS	53,871	55,785	57,483	58,979	60,463	61,850
LIABILITIES						
Deposits held	309	276	247	237	241	246
Advances received	561	556	547	534	517	490
Borrowings	1,807	1,363	1,537	1,530	1,690	1,805
Unfunded superannuation liabilities	5,490	5,483	5,467	5,444	5,420	5,399
Other employee entitlements and provisions	1,344	1,322	1,393	1,461	1,541	1,609
Non-equity liabilities	606	702	762	831	927	1,040
TOTAL LIABILITIES	10,117	9,701	9,954	10,037	10,336	10,590
NET WORTH	43,754	46,083	47,530	48,941	50,127	51,260
<i>Memorandum Item: Net Debt</i>	<i>-291</i>	<i>-275</i>	<i>138</i>	<i>142</i>	<i>373</i>	<i>332</i>

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET WORTH	43,754	46,083	47,530	48,941	50,127	51,260
<i>less equity (net worth) of PNFC and PFC sectors</i>	<i>17,847</i>	<i>18,665</i>	<i>19,093</i>	<i>19,349</i>	<i>19,685</i>	<i>20,051</i>
<i>less all other adjustments</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
AAS/AIFRS NET ASSETS ^(a)	25,907	27,419	28,437	29,592	30,442	31,208

(a) Consistent with all accounting data in these Budget Papers, 2003-04 and 2004-05 results are based on data complying with AAS at the time of the budget's preparation. Data for 2005-06 and beyond are consistent with the implementation of AIFRS. See Appendix 9: *Implementation of Australian equivalents to International Financial Reporting Standards (AIFRS)*.

Note: Columns may not add due to rounding.

Table 3

GENERAL GOVERNMENT**Cash Flow Statement**

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	4,047	4,142	4,002	4,181	4,414	4,649
Receipts from sales of goods and services	968	946	961	985	1,013	1,018
Grants and subsidies received	5,829	6,695	7,007	7,051	7,289	7,485
Other receipts	2,224	2,368	2,756	2,848	2,640	2,684
<i>Total</i>	<i>13,068</i>	<i>14,151</i>	<i>14,726</i>	<i>15,065</i>	<i>15,357</i>	<i>15,836</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-8,238	-9,092	-9,390	-9,659	-10,033	-10,388
Grants and subsidies paid	-2,589	-3,047	-3,250	-3,288	-3,361	-3,359
Interest paid	-171	-187	-153	-159	-154	-152
Other payments	-691	-772	-770	-772	-794	-784
<i>Total</i>	<i>-11,688</i>	<i>-13,098</i>	<i>-13,563</i>	<i>-13,879</i>	<i>-14,343</i>	<i>-14,683</i>
Net Cash Flow from Operating Activities	1,380	1,053	1,163	1,186	1,014	1,153
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-992	-1,177	-1,285	-1,242	-1,179	-1,092
Sales of non-financial assets	166	277	192	187	127	94
<i>Total</i>	<i>-826</i>	<i>-900</i>	<i>-1,094</i>	<i>-1,055</i>	<i>-1,052</i>	<i>-998</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-122	-125	-471	-120	-93	-101
Liquidity purposes	-80	15	15	-	-	-1
<i>Total</i>	<i>-202</i>	<i>-110</i>	<i>-456</i>	<i>-120</i>	<i>-93</i>	<i>-101</i>
Net Cash Flow from Investing Activities	-1,028	-1,010	-1,550	-1,175	-1,145	-1,099
FINANCING ACTIVITIES						
Advances received (net)	-8	-	-	-	-	-
Borrowings (net)	-158	-680	418	23	167	4
Deposits received (net)	-2	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	-32	-117	-21	-17	-18	-18
<i>Total</i>	<i>-199</i>	<i>-797</i>	<i>398</i>	<i>6</i>	<i>148</i>	<i>-14</i>
<i>Opening cash balance</i>	<i>2,538</i>	<i>2,690</i>	<i>1,936</i>	<i>1,946</i>	<i>1,963</i>	<i>1,980</i>
NET INCREASE IN CASH HELD^(a)	152	-753	10	17	17	40
<i>Closing cash balance</i>	<i>2,690</i>	<i>1,936</i>	<i>1,946</i>	<i>1,963</i>	<i>1,980</i>	<i>2,021</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>554</i>	<i>154</i>	<i>69</i>	<i>131</i>	<i>-38</i>	<i>155</i>
Surplus	554	154	69	131	-38	155

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 4

PUBLIC NON-FINANCIAL CORPORATIONS
Operating Statement

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
REVENUE						
Current grants and subsidies	810	925	1,035	1,090	1,156	1,186
Capital grants	128	153	154	155	119	106
Sales of goods and services	5,201	5,119	5,264	5,436	5,626	5,893
Interest income	118	124	115	121	127	134
Other	310	262	198	198	189	201
<i>Total</i>	6,567	6,582	6,767	7,000	7,217	7,520
EXPENSES						
Gross operating expenses						
Salaries	480	497	529	565	588	599
Depreciation and amortisation	627	641	670	723	768	800
Superannuation	48	49	51	54	56	57
Services and contracts	320	316	309	311	317	329
Other gross operating expenses	3,198	3,217	3,281	3,372	3,453	3,628
Nominal superannuation interest	-	-	-	-	-	-
Other interest	418	463	529	570	598	651
Other property expenses	744	692	704	704	698	711
Current transfers	472	530	584	586	591	601
Capital transfers	1	11	20	59	22	10
<i>Total</i>	6,308	6,415	6,676	6,944	7,090	7,386
NET OPERATING BALANCE	259	167	90	56	127	134
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	1,507	2,146	2,336	1,783	1,393	1,416
Sales of non-financial assets	-441	-480	-418	-461	-436	-395
less depreciation	627	641	670	723	768	800
plus change in inventories	391	20	9	-8	1	-1
plus other movements in non-financial assets	32	-	-	-25	-12	-
<i>Total</i>	861	1,045	1,257	565	178	220
NET LENDING/BORROWING	-602	-877	-1,167	-508	-51	-86

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET OPERATING BALANCE	259	167	90	56	127	134
less provisions for doubtful debts	5	8	6	6	6	6
plus net gains on assets (including derivatives)	106	92	72	123	115	131
plus capitalised interest	6	-	-	-	-	-
less revaluation of superannuation liabilities	-	-	-	-	-	-
plus all other adjustments	2	-	-	-	-	-
AAS/AIFRS RESULT ^(a)	368	251	156	173	235	260

(a) Consistent with all accounting data in these Budget Papers, 2003-04 and 2004-05 results are based on data complying with AAS at the time of the budget's preparation. Data for 2005-06 and beyond are consistent with the implementation of AIFRS. See Appendix 9: *Implementation of Australian equivalents to International Financial Reporting Standards (AIFRS)*.

Note: Columns may not add due to rounding.

Table 5

PUBLIC NON-FINANCIAL CORPORATIONS

Balance Sheet at 30 June

	2004 Actual \$m	2005 Estimated Actual \$m	2006 Budget Estimate \$m	2007 Forward Estimate \$m	2008 Forward Estimate \$m	2009 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	281	238	212	216	247	266
Advances paid	119	78	8	7	7	7
Investments, loans and placements	1,819	1,904	2,086	2,201	2,337	2,507
Other non-equity assets	880	1,050	1,174	1,259	1,383	1,515
Equity	5	5	7	7	9	9
Total	3,104	3,275	3,487	3,691	3,983	4,305
<i>Non-Financial assets</i>						
Land and fixed assets	24,162	25,937	27,636	28,546	29,156	29,744
Other non-financial assets	215	160	179	190	190	193
Total	24,377	26,097	27,815	28,736	29,346	29,937
TOTAL ASSETS	27,481	29,372	31,302	32,427	33,329	34,241
LIABILITIES						
Deposits held	2	1	1	1	1	1
Advances received	561	556	547	534	517	490
Borrowings	6,826	7,846	8,927	9,738	10,206	10,733
Unfunded superannuation liabilities	191	180	169	158	147	135
Other employee entitlements and provisions	316	279	191	193	190	197
Non-equity liabilities	1,618	1,686	1,774	1,732	1,771	1,739
TOTAL LIABILITIES	9,515	10,547	11,609	12,356	12,832	13,295
Shares and other contributed capital	426	552	1,023	1,169	1,274	1,374
NET WORTH	17,540	18,273	18,670	18,902	19,224	19,572
<i>Memorandum Item: Net Debt</i>	5,170	6,183	7,169	7,848	8,133	8,444

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET WORTH	17,540	18,273	18,670	18,902	19,224	19,572
<i>plus</i> shares and other contributed capital	426	552	1,023	1,169	1,274	1,374
<i>less</i> all other adjustments	-	-	-	-	-	-
AAS/AIFRS NET ASSETS ^(a)	17,966	18,825	19,693	20,070	20,498	20,947

(a) Consistent with all accounting data in these Budget Papers, 2003-04 and 2004-05 results are based on data complying with AAS at the time of the budget's preparation. Data for 2005-06 and beyond are consistent with the implementation of AIFRS. See Appendix 9: *Implementation of Australian equivalents to International Financial Reporting Standards (AIFRS)*.

Note: Columns may not add due to rounding.

Table 6

PUBLIC NON-FINANCIAL CORPORATIONS**Cash Flow Statement**

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
RECEIPTS FROM OPERATING ACTIVITIES						
Receipts from sales of goods and services	5,238	5,162	5,222	5,453	5,607	5,878
Grants and subsidies received	882	1,008	1,114	1,153	1,169	1,187
Other receipts	596	484	467	462	440	457
<i>Total</i>	<i>6,716</i>	<i>6,655</i>	<i>6,803</i>	<i>7,068</i>	<i>7,217</i>	<i>7,521</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-3,806	-3,988	-3,976	-4,164	-4,291	-4,461
Grants and subsidies paid	-386	-434	-475	-467	-451	-458
Interest paid	-454	-432	-530	-574	-603	-655
Other payments	-734	-640	-644	-665	-637	-664
<i>Total</i>	<i>-5,379</i>	<i>-5,494</i>	<i>-5,624</i>	<i>-5,869</i>	<i>-5,982</i>	<i>-6,237</i>
Net Cash Flow from Operating Activities	1,337	1,160	1,179	1,199	1,235	1,283
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-1,507	-2,146	-2,336	-1,783	-1,393	-1,416
Sales of non-financial assets	441	480	418	461	436	395
<i>Total</i>	<i>-1,066</i>	<i>-1,666</i>	<i>-1,918</i>	<i>-1,322</i>	<i>-957</i>	<i>-1,021</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	22	41	-8	-56	-81	-91
<i>Total</i>	<i>22</i>	<i>41</i>	<i>-8</i>	<i>-56</i>	<i>-81</i>	<i>-91</i>
Net Cash Flow from Investing Activities	-1,043	-1,625	-1,926	-1,378	-1,037	-1,112
FINANCING ACTIVITIES						
Advances received (net)	-12	-12	-13	-13	-13	-13
Borrowings (net)	175	885	900	702	344	414
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-677	-700	-734	-708	-671	-733
Other financing	180	221	550	206	183	196
<i>Total</i>	<i>-334</i>	<i>394</i>	<i>703</i>	<i>188</i>	<i>-157</i>	<i>-136</i>
<i>Opening cash balance</i>	<i>495</i>	<i>454</i>	<i>384</i>	<i>339</i>	<i>348</i>	<i>390</i>
NET INCREASE IN CASH HELD ^(a)	-40	-71	-44	9	42	36
<i>Closing cash balance</i>	<i>454</i>	<i>384</i>	<i>339</i>	<i>348</i>	<i>390</i>	<i>426</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	<i>-406</i>	<i>-1,205</i>	<i>-1,474</i>	<i>-830</i>	<i>-392</i>	<i>-471</i>
<i>less finance leases and similar arrangements</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Surplus</i>	<i>-406</i>	<i>-1,205</i>	<i>-1,474</i>	<i>-830</i>	<i>-392</i>	<i>-471</i>

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 7

TOTAL NON-FINANCIAL PUBLIC SECTOR
Operating Statement

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Taxation	3,952	3,975	3,831	4,008	4,242	4,475
Current grants and subsidies	5,583	6,328	6,659	6,705	6,934	7,080
Capital grants	295	380	347	335	355	374
Sales of goods and services	5,981	5,883	6,043	6,235	6,441	6,728
Interest income	208	226	217	218	232	246
Royalty income	654	847	1,140	1,174	1,024	998
Other	516	538	402	400	390	399
<i>Total</i>	<i>17,188</i>	<i>18,177</i>	<i>18,640</i>	<i>19,075</i>	<i>19,618</i>	<i>20,298</i>
EXPENSES						
Gross operating expenses						
Salaries	5,267	5,661	5,934	6,155	6,375	6,618
Depreciation and amortisation	1,173	1,219	1,255	1,347	1,420	1,449
Superannuation	506	555	576	592	609	628
Services and contracts	1,536	1,770	1,725	1,711	1,759	1,759
Other gross operating expenses	4,562	4,649	4,841	5,029	5,241	5,564
Nominal superannuation interest	283	295	296	297	296	295
Other interest	545	612	646	694	719	770
Other property expenses	-	-	-	-	-	-
Current transfers	2,000	2,279	2,423	2,453	2,532	2,532
Capital transfers	257	338	333	306	348	254
<i>Total</i>	<i>16,129</i>	<i>17,379</i>	<i>18,029</i>	<i>18,584</i>	<i>19,299</i>	<i>19,869</i>
NET OPERATING BALANCE	1,058	798	612	491	318	429
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	2,499	3,323	3,622	3,024	2,572	2,508
Sales of non-financial assets	-607	-757	-610	-647	-564	-489
less depreciation	1,173	1,219	1,255	1,347	1,420	1,449
plus change in inventories	387	22	6	-5	4	-2
plus other movements in non-financial assets	-16	58	-	-	-	-
<i>Total</i>	<i>1,090</i>	<i>1,426</i>	<i>1,763</i>	<i>1,025</i>	<i>592</i>	<i>568</i>
NET LENDING/BORROWING	-32	-628	-1,152	-533	-274	-138

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET OPERATING BALANCE	1,058	798	612	491	318	429
less provisions for doubtful debts	1	9	6	7	7	7
plus net gains on assets (including derivatives)	-43	166	78	129	88	93
plus capitalised interest	6	-	-	-	-	-
less revaluation of superannuation liabilities	66	-	-	-	-	-
plus all other adjustments	1	-12	-	3	-	-
AAS/AIFRS RESULT ^(a)	955	943	683	616	400	516

(a) Consistent with all accounting data in these Budget Papers, 2003-04 and 2004-05 results are based on data complying with AAS at the time of the budget's preparation. Data for 2005-06 and beyond are consistent with the implementation of AIFRS. See Appendix 9: *Implementation of Australian equivalents to International Financial Reporting Standards (AIFRS)*.

Note: Columns may not add due to rounding.

Table 8

TOTAL NON-FINANCIAL PUBLIC SECTOR**Balance Sheet at 30 June**

	2004 Actual \$m	2005 Estimated Actual \$m	2006 Budget Estimate \$m	2007 Forward Estimate \$m	2008 Forward Estimate \$m	2009 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	520	488	495	512	548	575
Advances paid	411	470	405	404	317	319
Investments, loans and placements	3,521	3,039	2,950	3,048	3,195	3,516
Other non-equity assets	1,479	1,644	1,722	1,661	1,671	1,666
Equity	312	397	430	454	470	489
Total	6,243	6,038	6,002	6,078	6,203	6,564
<i>Non-Financial assets</i>						
Land and fixed assets	55,783	58,968	61,692	63,755	65,462	66,935
Other non-financial assets	298	239	394	439	450	410
Total	56,081	59,208	62,086	64,194	65,912	67,345
TOTAL ASSETS	62,323	65,245	68,087	70,273	72,114	73,909
LIABILITIES						
Deposits held	136	140	145	151	154	158
Advances received	561	556	547	534	517	490
Borrowings	8,633	9,209	10,464	11,268	11,896	12,537
Unfunded superannuation liabilities	5,681	5,663	5,636	5,602	5,567	5,534
Other employee entitlements and provisions	1,540	1,502	1,572	1,641	1,721	1,791
Non-equity liabilities	2,017	2,093	2,193	2,136	2,133	2,138
TOTAL LIABILITIES	18,569	19,162	20,558	21,331	21,987	22,649
NET WORTH	43,754	46,083	47,530	48,941	50,127	51,260
<i>Memorandum Item: Net Debt</i>	4,879	5,907	7,307	7,990	8,506	8,776

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET WORTH	43,754	46,083	47,530	48,941	50,127	51,260
<i>less equity (net worth) of the PFC sector</i>	307	392	423	447	461	479
<i>less all other adjustments</i>	-	-	-	-	-	-
AAS/AIFRS NET ASSETS ^(a)	43,447	45,691	47,107	48,494	49,666	50,781

(a) Consistent with all accounting data in these Budget Papers, 2003-04 and 2004-05 results are based on data complying with AAS at the time of the budget's preparation. Data for 2005-06 and beyond are consistent with the implementation of AIFRS. See Appendix 9: *Implementation of Australian equivalents to International Financial Reporting Standards (AIFRS)*.

Note: Columns may not add due to rounding.

Table 9

TOTAL NON-FINANCIAL PUBLIC SECTOR**Cash Flow Statement**

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	3,878	3,985	3,837	4,013	4,254	4,489
Receipts from sales of goods and services	6,052	5,950	6,023	6,275	6,452	6,722
Grants and subsidies received	5,829	6,695	7,007	7,051	7,289	7,485
Other receipts	2,063	2,057	2,380	2,478	2,279	2,270
<i>Total</i>	<i>17,821</i>	<i>18,687</i>	<i>19,248</i>	<i>19,818</i>	<i>20,274</i>	<i>20,966</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-11,885	-12,916	-13,201	-13,656	-14,151	-14,671
Grants and subsidies paid	-2,079	-2,457	-2,595	-2,586	-2,626	-2,613
Interest paid	-585	-586	-653	-705	-729	-780
Other payments	-1,233	-1,214	-1,191	-1,195	-1,190	-1,199
<i>Total</i>	<i>-15,782</i>	<i>-17,173</i>	<i>-17,640</i>	<i>-18,141</i>	<i>-18,696</i>	<i>-19,263</i>
Net Cash Flow from Operating Activities	2,039	1,514	1,608	1,677	1,578	1,704
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-2,499	-3,323	-3,622	-3,024	-2,572	-2,508
Sales of non-financial assets	607	757	610	647	564	489
<i>Total</i>	<i>-1,892</i>	<i>-2,565</i>	<i>-3,012</i>	<i>-2,377</i>	<i>-2,008</i>	<i>-2,019</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	15	-	-	-	-	-
Liquidity purposes	-58	56	7	-56	-81	-91
<i>Total</i>	<i>-42</i>	<i>57</i>	<i>7</i>	<i>-56</i>	<i>-81</i>	<i>-91</i>
Net Cash Flow from Investing Activities	-1,934	-2,509	-3,005	-2,432	-2,089	-2,110
FINANCING ACTIVITIES						
Advances received (net)	-20	-12	-13	-13	-13	-13
Borrowings (net)	18	205	1,318	725	511	418
Deposits received (net)	-2	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	10	-22	58	69	71	78
<i>Total</i>	<i>6</i>	<i>171</i>	<i>1,364</i>	<i>781</i>	<i>570</i>	<i>483</i>
<i>Opening cash balance</i>	<i>3,032</i>	<i>3,144</i>	<i>2,320</i>	<i>2,286</i>	<i>2,312</i>	<i>2,370</i>
NET INCREASE IN CASH HELD ^(a)	112	-824	-34	26	59	76
<i>Closing cash balance</i>	<i>3,144</i>	<i>2,320</i>	<i>2,286</i>	<i>2,312</i>	<i>2,370</i>	<i>2,446</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	<i>148</i>	<i>-1,052</i>	<i>-1,404</i>	<i>-700</i>	<i>-430</i>	<i>-315</i>
<i>less finance leases and similar arrangements</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Surplus	148	-1,052	-1,404	-700	-430	-315

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 10

PUBLIC FINANCIAL CORPORATIONS
Operating Statement

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Current grants and subsidies	-	2	1	1	1	1
Capital grants	-	-	-	-	-	-
Sales of goods and services	634	587	610	633	667	704
Interest income	937	948	975	1,008	1,071	1,084
Other	30	1	-	-	-	-
<i>Total</i>	<i>1,601</i>	<i>1,537</i>	<i>1,585</i>	<i>1,641</i>	<i>1,739</i>	<i>1,788</i>
EXPENSES						
Gross operating expenses						
Salaries	19	21	21	22	23	24
Depreciation and amortisation	4	4	7	8	8	7
Superannuation	2	2	2	2	2	2
Services and contracts	15	14	15	16	17	17
Other gross operating expenses	569	535	617	640	689	726
Nominal superannuation interest	-	-	-	-	-	-
Other interest	856	774	801	830	887	894
Other property expenses	15	5	5	5	5	5
Current transfers	2	3	2	2	2	2
Capital transfers	-	1	1	1	1	1
<i>Total</i>	<i>1,481</i>	<i>1,359</i>	<i>1,472</i>	<i>1,525</i>	<i>1,634</i>	<i>1,679</i>
NET OPERATING BALANCE	120	178	114	116	105	109
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	3	4	4	5	4	2
Sales of non-financial assets	-	-	-1	-	-	-
less depreciation	4	4	7	8	8	7
plus change in inventories	-	-	-	-	-	-
plus other movements in non-financial assets	-	-	-	-	-	-
<i>Total</i>	<i>-2</i>	<i>-</i>	<i>-5</i>	<i>-3</i>	<i>-4</i>	<i>-5</i>
NET LENDING/BORROWING	122	178	118	119	109	114

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET OPERATING BALANCE	120	178	114	116	105	109
less provisions for doubtful debts	-	-	-	-	-	-
plus net gains on assets (including derivatives)	-18	-	-	-	-	-
plus capitalised interest	-	-	-	-	-	-
less revaluation of superannuation liabilities	-4	-	-	-	-	-
plus all other adjustments	-	-	-	-	-	-
AAS/AIFRS RESULT ^(a)	105	178	113	116	105	109

(a) Consistent with all accounting data in these Budget Papers, 2003-04 and 2004-05 results are based on data complying with AAS at the time of the budget's preparation. Data for 2005-06 and beyond are consistent with the implementation of AIFRS. See Appendix 9: *Implementation of Australian equivalents to International Financial Reporting Standards (AIFRS)*.

Note: Columns may not add due to rounding.

Table 11

PUBLIC FINANCIAL CORPORATIONS**Balance Sheet at 30 June**

	2004	2005	2006	2007	2008	2009
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	18	28	174	180	166	176
Advances paid	1,366	1,553	1,770	1,871	1,960	2,043
Investments, loans and placements	12,792	13,326	13,920	14,526	14,786	14,826
Other non-equity assets	469	450	446	446	447	449
Equity	899	958	1,028	1,109	1,188	1,263
<i>Total</i>	15,544	16,315	17,338	18,132	18,547	18,757
<i>Non-Financial assets</i>						
Land and fixed assets	324	343	368	400	431	460
Other non-financial assets	-	17	24	23	22	21
<i>Total</i>	324	359	392	423	453	481
TOTAL ASSETS	15,868	16,675	17,730	18,555	19,000	19,239
LIABILITIES						
Deposits held	-	-	-	-	-	-
Advances received	3	3	3	3	3	3
Borrowings	13,487	14,163	15,076	15,737	16,019	16,101
Unfunded superannuation liabilities	12	11	11	10	9	9
Other employee entitlements and provisions	7	7	6	6	6	6
Non-equity liabilities	2,052	2,098	2,212	2,352	2,502	2,641
TOTAL LIABILITIES	15,561	16,282	17,307	18,108	18,539	18,759
<i>Shares and other contributed capital</i>	-	-	-	-	-	-
NET WORTH	307	392	423	447	461	479
<i>Memorandum Item: Net Debt</i>	-685	-741	-786	-838	-890	-941

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET WORTH	307	392	423	447	461	479
<i>less</i> all other adjustments	-	-	-	-	-	-
<i>plus</i> shares and other contributed capital	-	-	-	-	-	-
AAS/AIFRS NET ASSETS ^(a)	307	392	423	447	461	479

(a) Consistent with all accounting data in these Budget Papers, 2003-04 and 2004-05 results are based on data complying with AAS at the time of the budget's preparation. Data for 2005-06 and beyond are consistent with the implementation of AIFRS. See Appendix 9: *Implementation of Australian equivalents to International Financial Reporting Standards (AIFRS)*.

Note: Columns may not add due to rounding.

Table 12

PUBLIC FINANCIAL CORPORATIONS

Cash Flow Statement

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	\$m	Estimate	Estimate	Estimate
RECEIPTS FROM OPERATING ACTIVITIES						
Receipts from sales of goods and services	572	576	590	621	651	684
Grants and subsidies received	-	2	1	1	1	1
Other receipts	940	904	934	968	1,033	1,049
<i>Total</i>	<i>1,512</i>	<i>1,482</i>	<i>1,525</i>	<i>1,590</i>	<i>1,685</i>	<i>1,734</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-520	-515	-532	-541	-579	-629
Grants and subsidies paid	-2	-2	-	-	-	-
Interest paid	-852	-776	-802	-830	-888	-897
Other payments	-126	-85	-88	-92	-95	-99
<i>Total</i>	<i>-1,499</i>	<i>-1,377</i>	<i>-1,421</i>	<i>-1,463</i>	<i>-1,562</i>	<i>-1,625</i>
Net Cash Flow from Operating Activities	12	105	103	128	123	109
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-3	-4	-4	-5	-4	-2
Sales of non-financial assets	-	-	1	-	-	-
<i>Total</i>	<i>-3</i>	<i>-4</i>	<i>-3</i>	<i>-5</i>	<i>-4</i>	<i>-2</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	-54	-266	-307	-212	-195	-176
<i>Total</i>	<i>-54</i>	<i>-266</i>	<i>-307</i>	<i>-212</i>	<i>-195</i>	<i>-176</i>
Net Cash Flow from Investing Activities	-56	-271	-310	-217	-199	-179
FINANCING ACTIVITIES						
Advances received (net)	-	-	-	-	-	-
Borrowings (net)	295	178	204	103	70	87
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-15	-5	-5	-5	-5	-5
Other financing	-	-	-	-	-	-
<i>Total</i>	<i>280</i>	<i>173</i>	<i>200</i>	<i>98</i>	<i>65</i>	<i>82</i>
<i>Opening cash balance</i>	<i>2,547</i>	<i>2,783</i>	<i>2,790</i>	<i>2,784</i>	<i>2,793</i>	<i>2,781</i>
NET INCREASE IN CASH HELD ^(a)	236	8	-7	9	-11	13
<i>Closing cash balance</i>	<i>2,783</i>	<i>2,790</i>	<i>2,784</i>	<i>2,793</i>	<i>2,781</i>	<i>2,794</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>-5</i>	<i>96</i>	<i>96</i>	<i>118</i>	<i>114</i>	<i>102</i>
Surplus	-5	96	96	118	114	102

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 13

TOTAL PUBLIC SECTOR
Operating Statement

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Taxation	3,950	3,974	3,830	4,006	4,241	4,474
Current grants and subsidies	5,583	6,328	6,659	6,705	6,934	7,080
Capital grants	295	380	347	335	355	374
Sales of goods and services	6,488	6,337	6,503	6,706	6,933	7,236
Interest income	580	552	546	521	570	544
Royalty income	654	847	1,140	1,174	1,024	998
Other	518	532	397	394	384	393
<i>Total</i>	<i>18,069</i>	<i>18,949</i>	<i>19,421</i>	<i>19,842</i>	<i>20,441</i>	<i>21,098</i>
EXPENSES						
Gross operating expenses						
Salaries	5,286	5,682	5,955	6,177	6,398	6,642
Depreciation and amortisation	1,177	1,223	1,262	1,355	1,428	1,457
Superannuation	508	557	578	594	611	630
Services and contracts	1,551	1,785	1,740	1,727	1,776	1,777
Other gross operating expenses	5,005	5,051	5,308	5,506	5,755	6,094
Nominal superannuation interest	283	295	296	297	296	295
Other interest	836	764	800	819	873	879
Other property expenses	-	-	-	-	-	-
Current transfers	1,988	2,278	2,423	2,453	2,532	2,531
Capital transfers	257	339	334	307	349	255
<i>Total</i>	<i>16,890</i>	<i>17,974</i>	<i>18,696</i>	<i>19,234</i>	<i>20,018</i>	<i>20,560</i>
NET OPERATING BALANCE	1,178	976	725	607	423	538
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	2,502	3,327	3,626	3,029	2,576	2,511
Sales of non-financial assets	-607	-757	-611	-647	-564	-489
less depreciation	1,177	1,223	1,262	1,355	1,428	1,457
plus change in inventories	387	22	6	-5	4	-2
plus other movements in non-financial assets	-16	58	-	-	-	-
<i>Total</i>	<i>1,088</i>	<i>1,426</i>	<i>1,758</i>	<i>1,022</i>	<i>588</i>	<i>562</i>
NET LENDING/BORROWING	90	-450	-1,033	-414	-165	-24

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET OPERATING BALANCE	1,178	976	725	607	423	538
less provisions for doubtful debts	1	9	7	7	7	7
plus net gains on assets (including derivatives)	-61	166	78	129	88	93
plus capitalised interest	6	-	-	-	-	-
less revaluation of superannuation liabilities	63	-	-	-	-	-
plus all other adjustments	38	-12	-	3	-	-
AAS/AIFRS RESULT ^(a)	1,098	1,121	797	732	505	624

(a) Consistent with all accounting data in these Budget Papers, 2003-04 and 2004-05 results are based on data complying with AAS at the time of the budget's preparation. Data for 2005-06 and beyond are consistent with the implementation of AIFRS. See Appendix 9: *Implementation of Australian equivalents to International Financial Reporting Standards (AIFRS)*.

Note: Columns may not add due to rounding.

Table 14

TOTAL PUBLIC SECTOR
Balance Sheet at 30 June

	2004	2005	2006	2007	2008	2009
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	Actual	Estimate	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	538	516	668	692	714	751
Advances paid	1,773	2,019	2,172	2,272	2,274	2,359
Investments, loans and placements	6,421	5,701	4,710	4,534	4,290	3,990
Other non-equity assets	1,737	1,914	1,993	1,936	1,951	1,953
Equity	904	963	1,034	1,115	1,197	1,273
<i>Total</i>	<i>11,373</i>	<i>11,113</i>	<i>10,578</i>	<i>10,549</i>	<i>10,426</i>	<i>10,324</i>
<i>Non-Financial assets</i>						
Land and fixed assets	56,107	59,311	62,059	64,155	65,893	67,396
Other non-financial assets	298	256	418	462	472	430
<i>Total</i>	<i>56,405</i>	<i>59,567</i>	<i>62,477</i>	<i>64,617</i>	<i>66,365</i>	<i>67,826</i>
TOTAL ASSETS	67,777	70,680	73,055	75,166	76,792	78,151
LIABILITIES						
Deposits held	136	140	145	150	154	158
Advances received	561	556	547	534	517	490
Borrowings	12,229	12,708	13,379	13,965	14,223	14,286
Unfunded superannuation liabilities	5,694	5,675	5,647	5,612	5,576	5,543
Other employee entitlements and provisions	1,545	1,507	1,578	1,647	1,727	1,797
Non-equity liabilities	3,858	4,011	4,230	4,317	4,468	4,617
TOTAL LIABILITIES	24,023	24,597	25,526	26,225	26,665	26,891
NET WORTH	43,754	46,083	47,530	48,941	50,127	51,260
<i>Memorandum Item: Net Debt</i>	<i>4,194</i>	<i>5,167</i>	<i>6,521</i>	<i>7,152</i>	<i>7,616</i>	<i>7,835</i>

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET WORTH	43,754	46,083	47,530	48,941	50,127	51,260
less all other adjustments	-	-	-	-	-	-
AAS/AIFRS NET ASSETS^(a)	43,754	46,083	47,530	48,941	50,127	51,260

(a) Consistent with all accounting data in these Budget Papers, 2003-04 and 2004-05 results are based on data complying with AAS at the time of the budget's preparation. Data for 2005-06 and beyond are consistent with the implementation of AIFRS. See Appendix 9: *Implementation of Australian equivalents to International Financial Reporting Standards (AIFRS)*.

Note: Columns may not add due to rounding.

Table 15

TOTAL PUBLIC SECTOR
Cash Flow Statement

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	3,840	3,950	3,801	3,976	4,216	4,449
Receipts from sales of goods and services	6,492	6,407	6,475	6,739	6,929	7,210
Grants and subsidies received	5,829	6,695	7,007	7,051	7,289	7,485
Other receipts	2,368	2,337	2,624	2,695	2,535	2,491
<i>Total</i>	<i>18,529</i>	<i>19,389</i>	<i>19,906</i>	<i>20,460</i>	<i>20,970</i>	<i>21,637</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-12,273	-13,312	-13,594	-14,038	-14,556	-15,104
Grants and subsidies paid	-2,080	-2,458	-2,595	-2,585	-2,625	-2,613
Interest paid	-828	-753	-776	-794	-848	-856
Other payments	-1,311	-1,253	-1,235	-1,243	-1,244	-1,256
<i>Total</i>	<i>-16,492</i>	<i>-17,775</i>	<i>-18,200</i>	<i>-18,661</i>	<i>-19,273</i>	<i>-19,829</i>
Net Cash Flow from Operating Activities	2,037	1,614	1,706	1,799	1,696	1,808
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-2,502	-3,327	-3,626	-3,029	-2,576	-2,511
Sales of non-financial assets	607	757	611	647	564	489
<i>Total</i>	<i>-1,894</i>	<i>-2,570</i>	<i>-3,014</i>	<i>-2,382</i>	<i>-2,012</i>	<i>-2,021</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	15	-	-	-	-	-
Liquidity purposes	-111	-210	-300	-268	-276	-268
<i>Total</i>	<i>-96</i>	<i>-210</i>	<i>-300</i>	<i>-268</i>	<i>-276</i>	<i>-268</i>
Net Cash Flow from Investing Activities	-1,991	-2,780	-3,315	-2,649	-2,288	-2,289
FINANCING ACTIVITIES						
Advances received (net)	-20	-12	-13	-13	-13	-13
Borrowings (net)	313	384	1,522	828	581	505
Deposits received (net)	-2	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	10	-22	58	69	71	78
<i>Total</i>	<i>301</i>	<i>350</i>	<i>1,568</i>	<i>884</i>	<i>640</i>	<i>570</i>
<i>Opening cash balance</i>	<i>5,579</i>	<i>5,927</i>	<i>5,110</i>	<i>5,069</i>	<i>5,104</i>	<i>5,152</i>
NET INCREASE IN CASH HELD^(a)	348	-816	-41	35	47	89
<i>Closing cash balance</i>	<i>5,927</i>	<i>5,110</i>	<i>5,069</i>	<i>5,104</i>	<i>5,152</i>	<i>5,240</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>143</i>	<i>-956</i>	<i>-1,308</i>	<i>-582</i>	<i>-316</i>	<i>-213</i>
Surplus	143	-956	-1,308	-582	-316	-213

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 16

SPENDING BY GOVERNMENT PURPOSE CLASSIFICATION ^(a)
General Government

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
<i>Expenses</i>						
General public services	390	379	499	475	500	520
Public order and safety	1,296	1,429	1,500	1,558	1,617	1,680
Education	3,250	3,511	3,583	3,737	3,884	4,047
Health	2,953	3,226	3,399	3,543	3,736	3,947
Social security and welfare	538	587	615	637	663	674
Housing and community amenities	862	972	1,049	997	988	999
Recreation and culture	353	411	425	403	386	390
Fuel and energy	82	108	105	107	112	116
Agriculture, forestry, fishing and hunting	291	341	335	360	349	265
Mining and mineral resources (other than fuels), manufacturing and construction	157	139	140	130	122	123
Transport and communications	1,089	1,245	1,278	1,376	1,569	1,475
Other economic affairs	244	314	313	298	287	285
Other purposes	448	496	457	463	457	453
Total General Government Expenses	11,954	13,158	13,697	14,085	14,669	14,973
<i>Purchases of Non-financial Assets</i>						
General public services	181	148	186	162	146	139
Public order and safety	65	136	223	228	180	77
Education	180	158	208	237	182	138
Health	118	198	221	215	225	300
Social security and welfare	6	15	18	13	8	7
Housing and community amenities	111	91	79	65	56	61
Recreation and culture	49	70	51	51	74	36
Fuel and energy	1	2	17	2	2	1
Agriculture, forestry, fishing and hunting	16	29	16	20	48	16
Mining and mineral resources (other than fuels), manufacturing and construction	3	17	9	5	5	2
Transport and communications	250	288	235	219	243	308
Other economic affairs	12	24	24	25	12	9
Other purposes	-	-	-	-	-	-
Total Purchases of Non-financial Assets	992	1,177	1,285	1,242	1,179	1,092

(a) Data in this table are for consolidated general government aggregates. The data exclude internal transactions within the sector. This differs from the expenditure discussion at portfolio level in Chapter 3: *Election Commitments and Other Expenditure Initiatives*. In relation to purchases of non-financial assets, the information in this table represents spending by function on fixed assets, which may be different to Capital Works Program spending which has a broader definition and different sectoral coverage.

Table 17

LOAN COUNCIL ALLOCATIONS ^(a)
Western Australia

	2004-05 Budget	2004-05 Estimated Actual	2005-06 Budget Estimate
	\$m	\$m	\$m
General Government deficit	71	-154	-69
Public Non-financial Corporations' net financing requirement	887	1,205	1,474
Net Capital Advances	13	-	-
<i>Total non-financial public sector deficit</i>	<i>945</i>	<i>1,052</i>	<i>1,404</i>
<i>Memorandum Items</i> ^(b)	<i>-148</i>	<i>-81</i>	<i>-102</i>
Loan Council Allocation	796	970	1,302

(a) The deficit/surplus data quoted here are consistent with the treatment of net capital advances paid (e.g. loans to private schools) as outlays. This is consistent with Loan Council treatment but differs from the GFS treatment used in the rest of this document (which treats net capital advances as financing transactions).

(b) Memorandum items are used to adjust the ABS deficit/surplus to include in LCAs certain transactions (e.g. operating leases) that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. Where appropriate, they are also used to deduct from the deficit/surplus certain transactions that Loan Council has agreed should not be included in LCAs (e.g. the funding of more than emerging costs under public superannuation schemes).

Note: Columns may not add due to rounding.

Agency Classification

The following is a comprehensive list of State government agencies covered by the whole-of-government forward estimates, classified by sector under the GFS framework.

This list differs from the portfolio list that appears in Budget Paper No. 2. The listing in that budget paper covers only those agencies which receive appropriations and/or have a capital works program.

General Government

Agricultural Practices Board of Western Australia	Gascoyne Development Commission
Agriculture Protection Board of Western Australia	Goldfields-Esperance Development Commission
Agricultural Produce Commission	Governor's Establishment
Anzac Day Trust	Great Southern Development Commission
Botanic Gardens and Parks Authority	Great Southern TAFE
Building and Construction Industry Training Board	Heritage Council of Western Australia
Central TAFE	Independent Market Operator
Central West TAFE	Keep Australia Beautiful Council (W.A.)
Challenger TAFE	Kimberley Development Commission
Commissioner of Main Roads	Kimberley TAFE
Corruption and Crime Commission	Landcare Trust
Country High School Hostels Authority	Law Reform Commission of Western Australia
Curriculum Council	Legal Aid Commission of Western Australia
C.Y. O'Connor College of TAFE	Legal Costs Committee
Department of Agriculture	Legislative Assembly
Department for Community Development	Legislative Council
Department of Conservation and Land Management	Local Health Authorities Analytical Committee
Department of Consumer and Employment Protection	Mid-West Development Commission
Department of Culture and the Arts	Minerals and Energy Research Institute of Western Australia
Department of Education and Training	Office of Energy
Department of Education Services	Office of Health Review
Department of Environment	Office of Shared Services
Department of Fisheries	Office of the Auditor General
Department of Health	Office of the Director of Public Prosecutions
Department of Housing and Works	Office of the Information Commissioner
Department of Indigenous Affairs	Office of the Inspector of Custodial Services
Department of Industry and Resources	Office of the Parliamentary Inspector of the Corruption and Crime Commission
Department of Justice	Office of the Public Sector Standards Commissioner
Department of Land Information	Parliamentary Services Department
Department of Local Government and Regional Development	Peel Development Commission
Department for Planning and Infrastructure	Pilbara TAFE
Department of the Premier and Cabinet	Pilbara Development Commission
Department of Racing, Gaming and Liquor	Police Service
Department of Sport and Recreation	Professional Combat Sports Commission
Department of the Registrar, Western Australian Industrial Relations Commission	Professional Standards Council
Department of Treasury and Finance	Racing Penalties Appeal Tribunal of Western Australia
Disability Services Commission	Recreation Camps and Reserve Board
Economic Regulation Authority	Rural Business Development Corporation
Equal Opportunity Commission	Salaries and Allowances Tribunal
Fire and Emergency Services Authority of Western Australia	Small Business Development Corporation
Gaming and Wagering Commission of Western Australia	South West Development Commission
	South West Regional College of TAFE
	State Administrative Tribunal

General Government (cont.)

State Supply Commission
Swan TAFE
Swan River Trust
The Aboriginal Affairs Planning Authority
The Burswood Park Board
The Coal Miner's Welfare Board of Western Australia
The National Trust of Australia (W.A.)
The Parliamentary Commissioner for Administrative Investigations
Trustees of the Public Education Endowment
Water and Rivers Commission
West Coast TAFE
Western Australian Building Management Authority

Western Australian Electoral Commission
Western Australian Gas Disputes Arbitrator
Western Australian Greyhound Racing Association
Western Australian Health Promotion Foundation
Western Australian Institute of Sport
Western Australian Meat Industry Authority
Western Australian Planning Commission
Western Australian Sports Centre Trust
Western Australian Tourism Commission
Wheatbelt Development Commission
WorkCover Western Australia Authority
Zoological Parks Authority

Public Non-Financial Corporations

Albany Port Authority
Animal Resources Authority
Armadale Redevelopment Authority
Broome Port Authority
Bunbury Port Authority
Bunbury Water Board
Busselton Water Board
Dampier Port Authority
East Perth Redevelopment Authority
Electricity Corporation (Western Power Corporation)
Esperance Port Authority
Forest Products Commission
Fremantle Port Authority
Geraldton Port Authority
Gold Corporation
Government Employees Housing Authority

Lotteries Commission
Metropolitan Cemeteries Board
Midland Redevelopment Authority
Perth Market Authority
Port Hedland Port Authority
Potato Marketing Corporation of Western Australia
Public Transport Authority of Western Australia
Racing and Wagering Western Australia
Rottnest Island Authority
Subiaco Redevelopment Authority
The Eastern Goldfields Transport Board
The State Housing Commission
Water Corporation
Western Australian Coastal Shipping Commission
Western Australian Egg Marketing Board
Western Australian Land Authority

Public Financial Corporations

Community Insurance Fund
Country Housing Authority
Insurance Commission of Western Australia
Keystart Housing Scheme, comprising
 Keystart Bonds Ltd
 Keystart Housing Scheme Trust
 Keystart Loans Ltd
 Keystart Support Pty Ltd
 Keystart Support (Subsidiary) Pty Ltd
 Keystart Support Trust
RiskCover
Western Australian Treasury Corporation

Agencies Outside the State's Public Sector

Some State agencies are not covered in the whole-of-government reporting framework as defined under Australian Accounting Standards and/or the GFS framework. The entities listed below, which administer superannuation and like funds and/or hold private funds in trust or fidelity type funds, are examples of such agencies not included in the definition of the public sector used in this publication. This is because the assets are not available for the benefit of, and/or are not controlled by, the State.

Coal Industry Superannuation Board
Construction Industry Long Service Leave Payments Board
Curtin University of Technology and its subsidiaries
Edith Cowan University
Fire and Emergency Services Superannuation Board
Government Employees Superannuation Board
Legal Contribution Trust
Murdoch University and its subsidiaries
Public Trustee
The University of Western Australia and its subsidiaries
Other Professional and Trade Supervisory and Regulatory
Boards

APPENDIX 2

General Government Operating Revenue

This appendix contains general government revenue estimates prepared on an accrual basis consistent with the GFS framework.

Table 1

OPERATING REVENUE						
General Government						
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
TAXATION						
Taxes on employers' payroll and labour force						
<i>Payroll tax</i>	1,139	1,202	1,242	1,302	1,389	1,470
Property taxes						
<i>Land tax</i>	280	315	320	342	365	392
Conveyances and transfers	1,207	1,110	1,002	1,053	1,115	1,182
Mortgages	115	121	109	109	115	122
Other stamp duties	53	31	31	33	35	37
<i>Total stamp duties on financial and capital transactions</i>	1,375	1,262	1,142	1,194	1,264	1,340
Debits Tax	97	96	8	-	-	-
<i>Total financial institutions taxes</i>	97	96	8	-	-	-
Metropolitan Region						
Improvement Tax	44	48	54	58	61	66
Emergency Services Levy	75	119	129	138	143	145
Loan guarantee fees	10	11	12	12	13	13
<i>Total other property taxes</i>	129	178	194	208	217	223
Taxes on provision of goods and services						
Lotteries Commission	95	96	98	100	101	103
less rebates	-20	-21	-22	-23	-24	-26
Video lottery terminals	-	1	1	1	1	1
Casino Tax	47	51	52	53	54	55
less rebates	-24	-29	-28	-29	-29	-30
TAB betting tax	56	53	56	58	44	46
less rebates	-22	-25	-27	-28	-24	-24
<i>Total taxes on gambling</i>	132	126	129	131	123	125
Contribution to fire brigades	31	-	-	-	-	-
Stamp duty on insurance policies	279	286	295	308	323	338
Other	19	21	22	21	22	22
<i>Total taxes on insurance</i>	328	306	317	329	345	359
Taxes on use of goods and performance of activities						
Stamp duty on vehicle licences	273	289	299	311	326	342
Permits - oversize vehicles and loads	3	3	2	2	2	2
Motor vehicle recording fee	45	37	30	31	32	33
Motor vehicle registrations	320	317	312	324	337	348
<i>Total motor vehicle taxes</i>	641	645	642	668	697	725
Total Taxation	4,122	4,130	3,995	4,174	4,401	4,635

Table 1 (cont.)

OPERATING REVENUE						
General Government						
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
CURRENT GRANTS AND SUBSIDIES						
<i>General Purpose Grants</i>						
GST revenue grants ^(a)	3,158	3,639	3,820	3,927	4,080	4,247
Competition reform	34	54	39	-	-	-
<i>Specific Purpose Grants to the State</i>						
Australian Health Care Agreement						
	730	792	818	866	916	963
Other health						
	251	266	263	269	274	275
Schools assistance – government schools						
	207	222	231	241	253	266
Vocational training						
	92	94	94	96	98	98
Roads						
	30	32	33	40	24	21
Other						
	111	127	181	141	134	70
<i>Specific Purpose Grants through the State</i>						
Schools assistance – non-government schools						
	432	454	490	527	565	606
Local government grants						
	103	104	109	113	117	121
Local government roads						
	71	72	75	78	81	84
<i>Other Grants</i>						
North West Shelf royalties						
	363	472	505	406	392	329
Total Current Grants and Subsidies	5,583	6,328	6,659	6,705	6,934	7,080
CAPITAL GRANTS						
<i>Specific Purpose Grants to the State</i>						
Roads						
	47	101	67	62	108	131
Schools assistance – government schools						
	25	26	26	26	26	26
Vocational training						
	15	21	18	18	14	20
Other						
	198	222	225	220	196	186
<i>Specific Purpose Grants through the State</i>						
Schools assistance – non-government schools						
	10	10	10	10	11	11
Total Capital Grants	295	380	347	335	355	374

(a) Includes compensation for GST deferred as a result of the Commonwealth's decision to allow extended payment arrangements for some taxpayers (mainly small businesses).

Table 1 (cont.)

OPERATING REVENUE						
General Government						
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
SALES OF GOODS AND SERVICES						
Department for Planning and Infrastructure	93	115	115	117	120	123
Department of Health	159	168	172	174	175	177
Department of Education and Training	116	139	134	135	133	134
TAFE Colleges	84	79	81	81	82	82
Department of Land Information	66	66	63	66	71	69
Department of Justice	55	54	54	55	55	55
Department of Conservation and Land Management	36	30	29	29	29	29
Department of Consumer and Employment Protection	23	24	23	28	29	32
Department of Fisheries	22	23	23	24	24	25
Department of Culture and the Arts	20	18	18	18	18	19
Police Service	18	16	16	17	17	17
All Others	249	195	215	222	236	250
Total Sales of Goods and Services	941	927	943	966	987	1,011
INTEREST INCOME	128	146	146	138	145	150
REVENUE FROM PUBLIC CORPORATIONS						
Dividends	448	438	463	457	429	445
Tax Equivalent Regime	310	259	245	252	274	270
Total Revenue from Public Corporations	758	697	708	709	703	716
ROYALTY INCOME						
Revenue from Territorial less petroleum and other refunds	676	865	1,153	1,184	1,032	1,003
	-22	-18	-13	-9	-8	-6
Total Royalty Income	654	847	1,140	1,174	1,024	998
OTHER						
Lease rentals	40	40	43	43	43	43
Fines	79	77	79	79	79	79
Revenue not elsewhere counted	153	218	159	197	190	183
Total Other	272	335	281	319	312	305
GRAND TOTAL	12,753	13,789	14,218	14,520	14,861	15,268

Note: Columns may not add due to rounding.

APPENDIX 3

2004-05 General Government Operating Revenue

This appendix contains general government revenue estimates for the 2004-05 financial year comparing the original 2004-05 Budget estimates, mid-year review and PFPS revisions and the current estimated outturn.

Table 1

2004-05 OPERATING REVENUE
General Government

	2004-05 Budget Estimate \$m	2004-05 Mid-Year Revision \$m	2004-05 PFPS Revision \$m	2004-05 Estimated Actual \$m
TAXATION				
Taxes on employers' payroll and labour force				
<i>Payroll tax</i>	1,202	1,183	1,183	1,202
Property taxes				
<i>Land tax</i>	301	310	310	315
Conveyances and transfers	846	967	1,047	1,110
Mortgages	95	109	121	121
Other stamp duties	30	34	31	31
<i>Total stamp duties on financial and capital transactions</i>	972	1,110	1,200	1,262
Debits Tax	96	96	96	96
<i>Total financial institutions taxes</i>	96	96	96	96
Metropolitan Region Improvement Tax	46	48	48	48
Emergency Services Levy	118	118	118	119
Loan guarantee fees	11	11	11	11
<i>Total other property taxes</i>	175	177	177	178
Taxes on provision of goods and services				
Lotteries Commission	95	96	96	96
less rebates	-21	-20	-20	-21
Video lottery terminals	1	1	1	1
Casino Tax	43	45	45	51
less rebates	-24	-25	-25	-29
TAB betting tax	53	53	53	53
less rebates	-24	-24	-24	-25
<i>Total taxes on gambling</i>	124	126	126	126
Contribution to fire brigades	-	-	-	-
Stamp duty on insurance policies	254	256	256	286
Other	6	21	21	21
<i>Total taxes on insurance</i>	260	276	276	306
Taxes on use of goods and performance of activities				
Stamp duty on vehicle licences	249	259	259	289
Permits - oversize vehicles and loads	2	2	2	3
Motor vehicle recording fee	44	45	37	37
Motor vehicle registrations	316	309	317	317
<i>Total motor vehicle taxes</i>	610	615	614	645
Total Taxation	3,739	3,892	3,982	4,130
CURRENT GRANTS AND SUBSIDIES				
<i>General Purpose Grants</i>				
GST revenue grants ^(a)	3,496	3,639	3,628	3,639
Competition reform	34	35	54	54
<i>Specific Purpose Grants to the State</i>				
Australian Health Care Agreement	770	791	791	792
Other health	211	259	259	266
Schools assistance – government schools	212	215	215	222
Vocational training	91	94	94	94
Roads	32	32	32	32
Other	104	120	121	127

(a) Includes compensation for GST deferred as a result of the Commonwealth's decision to allow extended payment arrangements for some taxpayers (mainly small businesses).

2004-05 OPERATING REVENUE
General Government

Table 1 (cont.)

	2004-05 Budget Estimate \$m	2004-05 Mid-Year Revision \$m	2004-05 PFPS Revision \$m	2004-05 Estimated Actual \$m
<i>Specific Purpose Grants through the State</i>				
Schools assistance – non-government schools	453	454	454	454
Local government grants	106	104	104	104
Local government roads	73	72	72	72
<i>Other Grants</i>				
North West Shelf royalties	331	496	503	472
Total Current Grants and Subsidies	5,913	6,312	6,328	6,328
CAPITAL GRANTS				
<i>Specific Purpose Grants to the State</i>				
Roads	97	101	101	101
Schools assistance – government schools	23	25	25	26
Vocational training	16	23	23	21
Other	221	219	221	222
<i>Specific Purpose Grants through the State</i>				
Schools assistance – non-government schools	10	10	10	10
Total Capital Grants	367	379	381	380
SALES OF GOODS AND SERVICES				
Department for Planning and Infrastructure	88	115	115	115
Department of Health	162	168	168	168
Department of Education and Training	103	131	131	139
TAFE Colleges	80	79	79	79
Department of Land Information	62	66	66	66
Department of Justice	51	51	51	54
Department of Conservation and Land Management	29	30	30	30
Department of Consumer and Employment Protection	23	24	24	24
Department of Fisheries	23	23	23	23
Department of Culture and the Arts	15	18	18	18
Police Service	13	16	16	16
All Others	247	198	198	195
Total Sales of Goods and Services	896	919	918	927
INTEREST INCOME	118	146	146	146
REVENUE FROM PUBLIC CORPORATIONS				
Dividends	421	436	436	438
Tax Equivalent Regime	235	259	259	259
Total Revenue from Public Corporations	656	695	695	697
ROYALTY INCOME				
Revenue from Territorial	751	809	800	865
less petroleum and other refunds	-15	-20	-20	-18
Total Royalty Income	736	789	780	847
OTHER				
Lease rentals	41	40	40	40
Fines	76	76	77	77
Revenue not elsewhere counted	178	219	219	218
Total Other	296	336	336	335
GRAND TOTAL	12,719	13,467	13,565	13,789

Note: Columns may not add due to rounding.

Tax and Royalty Expenditure Statement

Purpose

The purpose of the tax and royalty expenditure statement is to provide information about the cost or value of tax or royalty concessions that would not otherwise be reported in the budget papers in the years after the concessions were introduced.

What is a tax or royalty expenditure?

Tax and royalty expenditures include revenue foregone by the government and financial benefits to taxpayers from exemptions and other concessions that depart from the general tax treatment. They are expenditures in the sense that their impact on the budget is similar to direct outlays, and they can be used to achieve similar goals as spending programs.

Labelling an exemption or concession as a tax or royalty expenditure does not necessarily imply any judgement about its appropriateness. Rather, it makes the amount of the exemption or concession explicit, and thereby facilitates scrutiny as part of the annual budget process (including review of whether the concession is still effective in achieving any specific objective originally intended).

Measuring tax and royalty expenditures

Measuring a tax or royalty expenditure requires identification of:

- a benchmark tax or royalty base and rate; and
- concessionary tax treatment of components of the benchmark tax or royalty base (e.g. a concession or exemption for a particular industry, activity or class of taxpayer).

Identification of benchmark revenue bases and rates requires a degree of judgement to be exercised. Furthermore, data limitations mean that the tax and royalty expenditures identified in this statement are only approximations.

This statement is not exhaustive. For example, it does not include estimates of revenue foregone from exemptions provided to charities, religious organisations or government agencies. Nor has the revenue impact of differential royalty rates applying to some minerals under State legislation been fully quantified (it could be argued that these exemptions and differential rates form part of the benchmark tax and royalty base). Very small exemptions or concessions are also excluded.

This year's statement includes actual outcomes for 2003-04 and estimates for 2004-05.

Specific tax and royalty expenditures

Movements in the value of specific tax and royalty expenditures between 2003-04 and 2004-05 include:

- an increase in the value of the payroll tax exemption for small business due to an increase in the number of employees and/or wages growth in this sector, although this was partially offset by a decrease in the payroll tax rate from 6.0% to 5.5% from 1 January 2005;
- an increase in the value of the payroll tax concession for trainees and apprentices due to an increase in the number of apprentices and trainees;
- an increase in the value of the principal place of residence exemption reflecting increased land values;
- a decrease in the value of the primary production land tax exemption due to a decrease in the number of properties claiming the exemption;
- a large decline in the value of the corporate reconstructions stamp duty exemption, thought to reflect the unpredictable nature of corporate reconstructions activity;
- a reduction in the value of the \$500 stamp duty rebate for first home buyers due to its replacement with a first home buyer's stamp duty exemption in 2004-05;
- an increase in the value of the insurance duty concession on workers' compensation due to the abolition of this duty from 30 June 2004;
- an increase in the value of the home mortgage stamp duty concession as a result of an increase in the number and value of home loans; and
- an increase in the value of the iron ore royalty concession due to significant increases in the price and quantity of iron ore produced.

Table 1

SUMMARY OF MAJOR TAX AND ROYALTY EXPENDITURES
Western Australia

	2003-04 Actual \$m	2004-05 Estimated Actual \$m
PAYROLL TAX		
Small business exemption	583.5	610.6
Apprentices and trainees exemption	14.1	15.0
LAND TAX		
Principal place of residence exemption	186.9	193.7
Primary production exemption	22.8	20.8
STAMP DUTY ON CONVEYANCES		
Corporate reconstructions exemption	120.5	33.3
Family farm exemption	6.7	7.5
Concessionary rate for homes and businesses	2.9	1.6
\$500 rebate for first home buyers	0.9	-
First home buyers' exemption	-	51.9
STAMP DUTY ON INSURANCE POLICIES		
Health insurance policies exemption	93.0	96.1
Workers' compensation insurance exemption ^(a)	32.8	60.8
Marine hulls exemption	3.5	3.6
STAMP DUTY ON MORTGAGES		
Concessionary rate for homes	17.0	20.8
MOTOR VEHICLE LICENCE FEES		
Family vehicle concession	25.9	26.7
Primary producer vehicle concession	10.0	10.1
Pensioner vehicle concession	19.8	20.4
STAMP DUTY ON MOTOR VEHICLE LICENCE TRANSFERS		
New heavy vehicle concession	5.9	7.7
Used heavy vehicle concession	1.2	1.4
MINING ROYALTIES		
Iron Ore Agreement Act concessions	46.1	60.2
TOTAL	1,193.5	1,242.2

(a) Exemption applied from 30 June 2004. Previously, a concessionary rate was levied.

State Government Social Concessions Expenditure Statement

Overview

The State Government provides social concessions in the form of rebates, discounts and waivers to improve the affordability of key services and other services that improve the quality of life for eligible individuals and families. Eligibility is based on low income, age, service to country or community and/or special needs or disadvantage.

In many cases, eligibility for a concession is evidenced by possession of a social security card issued by the Commonwealth Government, or other cards issued by the State Government. A synopsis of these cards is included below.

The information in this Statement is mainly compiled from survey forms (developed with the assistance of the Australian Bureau of Statistics) returned to the Department of Treasury and Finance by 26 agencies that provide social concessions.

In 2003-04, the State Government provided social concessions with an estimated value of \$410.9 million across a range of service areas. The cost to the State was partly offset by a \$16.2 million contribution from the Commonwealth Government, in respect of key concessions provided to part pensioners.

The method of estimating the value of concessions varies. For example, in some cases the estimates reflect the amount of good or service consumed at the concessional price or fare, and is the difference between the concession and the otherwise applicable price or fare. In others, such as those involving a fixed annual charge, the estimates reflect the rebate or subsidy paid.

Eligibility Criteria for Concession Cards

Pensioner Concession Card (PCC)

The Commonwealth Government issues a PCC to long term welfare recipients and low income earners. These include age pensioners, disability support pensioners, 'service' pensioners, people in receipt of carer payments or parenting payments, and certain other welfare recipients who are over 60 years of age and have been in receipt of a benefit for more than nine months.

Eligibility for these long term benefits is generally subject to a means test, based on the recipient's income and the value of their assets.

Health Care Card (HCC)

The Commonwealth Government issues the HCC to relatively short term welfare recipients, including the unemployed (recipients of the Newstart allowance), people who receive the full family allowance and low income full time students.

Eligibility for these short term benefits is also generally subject to a means test, based on the recipient's income, and sometimes also their assets.

Commonwealth Seniors Health Card (CSHC)

The Commonwealth Government issues the CSHC to senior Australians who are of Age Pension age but do not qualify for the Age Pension. The CSHC is subject to annual income limits and helps senior Australians with the cost of medicines by reducing the cost of prescription medicines.

State Seniors Card (SSC)

The Western Australian Government issues the SSC to permanent residents who are over 60 years of age and work less than 20 hours per week. Otherwise, there are no means tests. The SSC was first introduced in 1989.

State Concession Card (SCC)

The Department of Community Development issues the SCC to Totally and Permanently Incapacitated Pensioners, Blinded War Pensioners, Extra Disablement Pensioners and War Widows. Like 'service' pensions, all these pensions are provided by the Commonwealth Department of Veterans' Affairs. However, unlike 'service' pensions, they are not means tested and recipients may be ineligible for a PCC.

Table 1

SUMMARY OF STATE GOVERNMENT SOCIAL CONCESSIONS
Western Australia

Class of Concession	2002-03 Estimated Total Value \$m	2002-03 Estimated No. of Recipients	2003-04 Estimated Total Value \$m	2003-04 Estimated No. of Recipients
ENERGY				
Supply charge rebate	21.2	251,141	21.1	281,693
Dependent child rebate	11.5	67,169	11.5	77,206
Other	0.9	n.a.	0.9	n.a.
WATER, SEWERAGE & DRAINAGE				
Rates rebate for pensioners	27.4	116,307	28.8	116,622
Consumption concession for pensioners	4.9	138,017	5.1	137,446
Rates rebate for seniors	5.5	30,229	6.1	31,849
Other	0.2	n.a.	0.2	n.a.
HOUSING AND LAND				
Homeswest rental subsidy	94.6	28,381	95.0	27,775
Homeswest amenities fee waiver	1.4	13,108	1.4	13,096
Other	0.6	n.a.	0.6	n.a.
LOCAL GOVERNMENT				
Rates rebate for pensioners	38.3	160,187	44.5	299,847
TRANSPORT				
Contract school bus services	53.2	26,000	61.2	22,398
Transperth fares concession	42.3	88,250	46.4	90,750
Motor vehicle licence fee concession for pensioners ^(a)	17.9	161,580	19.8	181,020
Student fares concession	3.9	3,027	3.1	1,855
Taxi user subsidy	6.7	20,376	6.8	19,108
Drivers licence fee concession	4.5	98,116	5.9	122,771
Subsidised student travel	1.5	892	1.2	830
Pensioners' annual free trip	3.1	79,492	3.2	77,614
Other	3.5	n.a.	4.1	n.a.
HEALTH				
Subsidised dental care	8.6	67,900	8.5	52,004
Spectacle subsidy scheme	2.7	54,111	2.6	54,942
Other	5.2	n.a.	5.3	n.a.
EDUCATION				
Secondary assistance scheme – school charges	5.4	25,860	3.9	24,882
Secondary assistance scheme - clothing	3.0	25,860	2.9	24,882
Department of Education and Training tuition fees	5.4	34,826	5.8	35,133
Boarding away from home allowance	1.3	2,220	1.4	2,290
Other	0.2	n.a.	0.2	n.a.
LEGAL SERVICES				
Legal assistance	8.9	44,358	9.8	48,850
Other	0.2	n.a.	0.1	n.a.
CULTURE, LEISURE & RECREATION				
Children's Zoo discount	1.0	144,959	0.7	98,535
Children under four years of age – free Zoo entry	0.8	54,550	0.7	46,782
Other	1.5	n.a.	2.1	n.a.
TOTAL	387.3	n.a.	410.9	n.a.

(a) Also included in Tax and Royalty Expenditure Statement.

Energy

Supply charge rebate (\$21.1 million)

Domestic customers of Western Power who are in possession of a PCC, a HCC or a SSC receive a full rebate of the fixed (daily) supply charge. The average value of the rebate per recipient is approximately \$75 per year.

Dependent child rebate (\$11.5 million)

Domestic customers of Western Power with dependent children listed on their PCC or HCC receive a partial rebate of electricity usage charges. Their account is reduced in proportion to the number of children. The average value of the rebate per family is approximately \$148 per year.

Other (\$0.9 million)

Other concessions include Western Power's rebate on *account establishment fees* and *air conditioning subsidy*, for holders of a PCC, HCC or SSC.

Water

Rates rebate for pensioners (\$28.8 million)

Home owners in possession of a PCC or a SCC receive a rebate of up to 50% of the Water Corporation's annual charges for water, sewerage and drainage services. The average value of the rebate per home owner is approximately \$247 per year.

Consumption concession for pensioners (\$5.1 million)

Holders of a PCC or a SCC receive a rebate of up to 50% of the Water Corporation's water consumption charges on the property that they occupy (provided they are responsible for paying the account). The average value of the rebate per recipient is approximately \$37 per year.

Rates rebate for seniors (\$6.1 million)

Home owners in possession of a SSC receive a rebate of up to 25% of the Water Corporation's annual charges for water, sewerage and drainage services while home owners in possession of both a SSC and Commonwealth Seniors Card (CSC) receive a rebate of up to 50% of the annual charges. The average value of the concession is \$191 per year.

Other (\$0.2 million)

Other water concessions provided by the Water Corporation include a 25% concession on annual water, sewerage and drainage services for residents of retirement villages.

Housing and Land

Homeswest rental subsidy (\$95.0 million)

Low income individuals and families with accommodation needs can receive a rental subsidy from Homeswest. Eligibility for the subsidy is based on the applicant's capacity to pay rent (as determined by an income and assets test). The average value of the subsidy per recipient is approximately \$3,421 per year.

Homeswest amenities fee waiver (\$1.4 million)

Homeswest's low income tenants over 55 years of age are exempted from the amenities fee for room heating.

Other (\$0.6 million)

Other housing and land concessions include the interest forgone by Homeswest under the *Bond Assistance Scheme*.

Local Government

Rates rebate for pensioners (\$44.5 million)

The Office of State Revenue pays local governments 50% of rates for persons who own and occupy their own home and hold a PCC or a SCC. Local governments pass this benefit on to pensioners by discounting their rates. The average value of the concession is \$148 per year.

Transport

Contract school bus services (\$61.2 million)

Full time students aged less than 19, who attend approved schools and reside more than 4.5 kilometres from the closest school travel free of charge on contract school bus services. The Public Transport Authority funds these services. The average value of the concession per student is estimated to be \$7.61 per journey, or about \$2,732 per year.

Transperth fares concession (\$46.4 million)

Children, students and holders of a PCC or a SSC receive discounts of between 58% and 61% on Transperth fares, or free travel. The average value of the concession per recipient is \$1.28 per journey.

Motor vehicle licence fee concession for pensioners (\$19.8 million)

Invalid pensioners receive a 100% concession on their annual motor vehicle licence fee. All other holders of a PCC receive a 50% concession. The average value of the concession per pensioner is \$109 per year.

Student fares concession (\$3.1 million)

Full-time students pay concessional fares for regular non-Transperth 'school bus' passenger transport services. The average value of the concession is \$4.26 for each fare.

Taxi user subsidy (\$6.8 million)

People with a severe disability that prevents them from using public transport receive a 50% to 75% subsidy on taxi fares, funded by the Department of Planning and Infrastructure. At 30 June 2003 and 2004 there were respectively 20,376 and 19,108 active members of the scheme. The average value of the subsidy is \$9.10 per trip.

Drivers licence fee concession (\$5.9 million)

Age pensioners have their driver's licence fee waived. All other holders of a PCC and holders of a SSC receive a 50% discount on their driver's licence fee. The combined average value of these concessions per driver is \$48 per year.

Subsidised student travel (\$1.2 million)

Full-time students whose parents live in remote areas of the State receive four free return trips per year between home and school. The Department of Planning and Infrastructure funds this concession. The annual value of these return trips averages \$1,466 per recipient.

Pensioners' annual free trip (\$3.2 million)

Holders of a PCC who live north of the 26th parallel receive one free trip per year to Perth, or anywhere in the South West land division that can be reached for an equivalent fare. The Department of Planning and Infrastructure funds this concession. In addition, holders of a PCC also receive from Westrail, one free train return trip or two single train trips to any location within Western Australia. The average value of this concession is \$41 per recipient.

Other (\$4.1 million)

Other transport concessions include the *intra town* and *inter town* travel concessions for pensioners and seniors.

Health

Subsidised dental care (\$8.5 million)

Holders of a PCC or a HCC receive a discount on dental work provided by the Government Dental Clinic. The discount is generally between 50% and 75% of standard fees, with some services (orthodontics) attracting a 25% reduction. The average value of the concession is \$164 per treatment.

Spectacle subsidy scheme (\$2.6 million)

Age pensioners, disability pensioners and holders of a SSC receive a subsidy from the Department of Health to acquire spectacles or contact lenses. The average value of the subsidy per recipient is \$47.

Other (\$5.3 million)

Other health concessions include the *country patients' dental subsidy scheme*, the *patients assisted travel scheme* and the *metropolitan patients' dental subsidy scheme*.

Education**Secondary assistance scheme for school charges (\$3.9 million)**

The Department of Education and Training provides assistance to low income families with secondary school children to meet school charges, which averages at \$157 per recipient.

Secondary assistance scheme for clothing (\$2.9 million)

The Department of Education and Training provides assistance of \$115 per annum to low income families with secondary school children to meet clothing costs associated with schooling.

Department of Education and Training tuition fees concessions (\$5.8 million)

Holders of a PCC, HCC, SSC and SCC pay reduced tuition fees for courses offered by TAFE colleges. The average value of the concession is \$0.55 per hour of tuition for vocational education and training courses, and \$2.00 per hour of tuition for adult and community education courses.

Boarding away from home allowance (\$1.4 million)

Families in receipt of Commonwealth assistance for geographically isolated students receive a \$623 concession each year from the Department of Education and Training.

Other (\$0.2 million)

Other education concessions include the Department of Education and Training's *special subsidy for boarders at Agricultural Colleges* (who are not eligible for Commonwealth assistance).

Legal Services**Legal assistance (\$9.8 million)**

Provision of subsidised legal services by Legal Aid Western Australia to low income persons. Eligibility is means tested, and the value of the concession varies with the type of legal services provided.

Other (\$0.1 million)

Other legal service concessions include a reduction or waiver of court fees in the Family Court and the Magistrates courts for holders of a HCC and PCC, and the waiver of fees in the Small Claims Tribunal for financially disadvantaged persons.

Culture, Leisure and Recreation

Children's Zoo discount (\$0.7 million)

Children between four and 15 years of age receive a 50% discount on the entry fee for the Perth Zoo. The value of the discount is \$7.50 per child for each visit.

Children under four years of age free Zoo entry (\$0.7 million)

Children under four years of age receive free entry to the Perth Zoo. The value of the discount is \$15 per child for each visit.

Other (\$2.1 million)

Concessional fees apply to students and various concession card holders in a range of culture, leisure and recreation areas, including admission to exhibitions at the Art Gallery, performances arranged by the Perth Theatre Trust and activities administered by the Rottnest Island Authority.

APPENDIX 6

Capital Works Program – Summary of Expenditure and Source of Funds

This appendix contains two tables.

Table 1 shows expenditure on capital works and associated funding sources by agency within portfolio groups.

Table 2 shows detailed sources of funds for the aggregate capital works program by year.

Table 1

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2004-05 Budget Estimate			2004-05 Estimated Actual			2005-06 Budget Estimate					
	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000
PARLIAMENT												
Parliamentary Services	750	-	920	1,670	750	-	920	1,670	-	-	1,144	1,144
Parliamentary Commissioner for Administrative Investigations	136	-	297	433	136	-	321	457	-	-	72	72
PREMIER; MINISTER FOR PUBLIC SECTOR MANAGEMENT; WATER RESOURCES; FEDERAL AFFAIRS												
Premier and Cabinet	42,000	-	10,478	52,478	21,883	-	7,876	29,759	47,289	-	10,000	57,289
Governor's Establishment	-	-	-	-	-	-	-	-	-	-	100	100
Office of the Public Sector Standards Commissioner	-	-	110	110	50	-	148	198	34	-	164	198
Salaries and Allowances Tribunal	-	-	6	6	-	-	10	10	-	-	6	6
DEPUTY PREMIER; TREASURER; MINISTER FOR GOVERNMENT ENTERPRISES; MINISTER ASSISTING THE MINISTER FOR PUBLIC SECTOR MANAGEMENT												
Treasury and Finance	400	-	1,254	1,654	400	-	2,832	3,232	-	-	2,541	2,541
Office of the Auditor General	113	-	350	463	113	-	631	744	27	-	419	446
Economic Regulation Authority	-	-	71	71	124	-	48	172	17	-	49	66
Western Australian Treasury Corporation	-	-	392	392	-	-	713	713	-	-	518	518
State Supply Commission	19	-	123,331	123,350	19	-	111,856	111,875	42	-	119,702	119,744
Gold Corporation	-	-	2,068	2,068	-	-	4,090	4,090	-	-	2,045	2,045
Insurance Commission of Western Australia	-	-	1,900	1,900	-	-	2,926	2,926	-	-	3,235	3,235
Lotteries Commission	-	-	3,755	3,755	-	-	4,905	4,905	-	-	3,223	3,223

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2004-05 Budget Estimate				2004-05 Estimated Actual				2005-06 Budget Estimate			
	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000
MINISTER FOR AGRICULTURE AND FORESTRY; THE MID-WEST AND WHEATBELT												
Agriculture	2,296	-	17,646	19,942	2,158	-	6,249	8,407	3,531	-	4,923	8,454
Western Australian Meat Industry Authority	-	-	-	-	-	-	3,185	3,185	1,596	-	1,353	2,949
Perth Market Authority	-	1,560	1,360	2,920	-	2,880	1,920	4,800	-	3,300	2,200	5,500
Forest Products Commission	-	5,220	370	5,590	-	14,370	751	15,121	-	5,360	751	6,111
Mid West Development Commission	-	-	30	30	-	-	1,590	1,590	-	-	2,661	2,661
Wheatbelt Development Commission	-	-	445	445	-	-	535	535	-	-	73	73
MINISTER FOR EDUCATION AND TRAINING												
Education and Training	101,451	-	88,451	189,902	122,131	-	74,597	196,728	160,738	-	66,141	226,879
Country High School Hostels Authority	24	-	1,370	1,394	24	50	1,235	1,309	5,096	500	2,745	8,341
Curriculum Council	70	-	1,580	1,650	70	-	2,183	2,253	1,570	-	206	1,776
Education Services	-	-	43	43	-	-	465	465	-	-	60	60
MINISTER FOR CONSUMER AND EMPLOYMENT PROTECTION; INDIGENOUS AFFAIRS; MINISTER ASSISTING THE MINISTER FOR WATER RESOURCES												
Consumer and Employment Protection Registrar, Western Australian Industrial Relations Commission	1,283	-	877	2,160	1,283	-	3,879	5,162	1,550	-	830	2,380
Indigenous Affairs	137	-	150	150	-	-	395	395	-	-	150	150
Water and Rivers Commission	2,300	-	713	850	137	-	723	860	397	-	713	1,110
Water Corporation	-	-	800	3,100	2,300	-	3,578	5,878	5,610	-	1,446	7,056
Busselton Water Board	-	60,058	296,217	356,275	-	95,000	316,696	411,696	-	396,005	318,795	714,800
Bunbury Water Board	-	-	432	432	-	-	1,713	1,713	-	-	1,146	1,146
	-	-	1,414	1,414	-	-	3,038	3,038	-	-	1,849	1,849

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2004-05 Budget Estimate			2004-05 Estimated Actual			2005-06 Budget Estimate			
	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	
ATTORNEY GENERAL; MINISTER FOR HEALTH; ELECTORAL AFFAIRS										
Parliamentary Inspector of the Corruption and Crime Commission	169	-	283	502	-	8,532	10,257	-	1,698	11,955
Commissioner for Equal Opportunity	31	-	31	95	-	37	10	-	-	10
Law Reform Commission of Western Australia	-	-	10	-	-	17	61	-	34	95
Office of the Director of Public Prosecutions	-	-	200	-	-	200	-	-	200	200
Office of the Information Commissioner	-	-	30	-	-	30	-	-	30	30
Health	44,400	-	117,700	148,399	-	49,611	180,492	-	39,931	220,423
Western Australian Electoral Commission	-	-	-	-	-	284	-	-	565	565
MINISTER FOR THE ENVIRONMENT; SCIENCE										
Conservation and Land Management	11,670	-	12,713	13,660	-	13,481	11,700	-	10,923	22,623
Botanic Gardens and Parks Authority	1,042	-	2,783	1,042	-	6,256	550	-	2,552	3,102
Environment	-	-	857	-	-	1,314	358	-	1,326	1,684
Swan River Trust	2,000	-	100	-	-	110	-	-	100	100
Zoological Parks Authority	-	-	2,456	-	-	3,622	-	-	4,076	4,076
MINISTER FOR POLICE AND EMERGENCY SERVICES; COMMUNITY SAFETY										
Police Service	43,434	-	44,680	44,031	-	23,172	38,838	-	69,946	108,784
Fire and Emergency Services Authority of Western Australia	450	5,240	12,132	1,382	16,673	10,414	5,060	1,655	21,863	28,578

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2004-05 Budget Estimate			2004-05 Estimated Actual			2005-06 Budget Estimate			
	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000
MINISTER FOR PLANNING AND INFRASTRUCTURE										
Planning and Infrastructure	6,471	7,900	6,928	14,003	7,100	4,471	14,003	730	4,465	14,700
Main Roads	115,876	-	260,327	147,126	-	220,696	147,126	-	187,925	301,717
Public Transport Authority	10,558	517,347	-	10,658	555,748	2,565	10,658	504,039	-1,486	529,549
Armadale Redevelopment Authority	2,000	-	4,250	3,000	-	5,885	3,000	-	4,250	7,250
East Perth Redevelopment Authority	-	-	47,912	-	2,500	38,798	-	5,360	51,783	57,143
Midland Redevelopment Authority	-	2,468	10,565	-	3,648	14,061	-	2,392	4,404	10,236
Subiaco Redevelopment Authority	-	-	4,680	-	-	17,475	-	-	10,981	10,981
Albany Port Authority	-	-	750	-	-	750	2,600	2,000	750	5,350
Broome Port Authority	-	-	500	-	7,320	4,980	-	4,000	1320	5,320
Bunbury Port Authority	-	-	6,250	-	-	12,700	-	-	6,325	6,325
Dampier Port Authority	-	31,108	912	-	58,037	-3,888	-	-	600	600
Esperance Port Authority	-	-	1,200	-	5,000	2,200	-	35,600	1,200	36,800
Fremantle Port Authority	1,222	29,498	14,873	5,320	39,863	21,096	1,533	28,865	9,560	39,958
Geraldton Port Authority	-	1,000	2,115	-	9,132	803	-	1,300	1,334	2,634
Port Hedland Port Authority	-	5,326	6,099	-	5,326	9,682	-	-	4,509	4,509
Western Australian Land Authority	-	25,000	168,807	-	-	233,905	-	7,500	122,850	130,350
The Eastern Goldfields Transport Board	-	-	-	-	900	-	-	600	-	600
Western Australian Planning Commission	7,500	-	75,500	7,500	-	74,723	5,100	-	57,005	62,105
MINISTER FOR STATE DEVELOPMENT; ENERGY										
Industry and Resources	1,360	-	18,475	2,260	-	24,457	2,260	-	7,980	15,800
Office of Energy	-	-	292	-	-	292	-	-	251	251
Western Power Corporation	-	90,000	328,600	-	121,636	342,748	-	308,626	290,750	599,376
Independent Market Operator	-	-	-	-	-	-	-	15,000	-	15,000
MINISTER FOR COMMUNITY DEVELOPMENT; CULTURE AND THE ARTS; WOMEN'S INTERESTS										
Community Development	4,984	-	10,084	4,984	-	11,480	4,984	-	7,438	14,510
Culture and the Arts	10,961	-	9,991	11,176	-	19,562	11,176	-	17,291	23,292

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2004-05 Budget Estimate			2004-05 Estimated Actual			2005-06 Budget Estimate					
	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000
MINISTER FOR DISABILITY SERVICES; SPORT AND RECREATION; CITIZENSHIP AND MULTICULTURAL INTERESTS; SENIORS												
Disability Services Commission	2,252	-	1,414	3,666	2,252	2,158	864	5,274	3,668	-	3,612	7,280
Sport and Recreation	2,743	-	7,776	10,519	1,777	-	5,512	7,289	6,733	-	33,748	40,481
Western Australian Sports Centre Trust	890	-	10	900	1,115	-	725	1,840	900	-	-	900
MINISTER FOR TOURISM; RACING AND GAMING; YOUTH; PEEL AND THE SOUTH WEST												
Western Australian Tourism Commission	-	-	424	424	-	-	1,924	1,924	240	-	424	664
Rottnest Island Authority	-	-	6,033	6,033	14,206	-	3,364	17,570	7,730	-	1,500	9,230
Racing, Gaming and Liquor	-	-	30	30	-	-	210	210	-	-	388	388
Racing and Wagering Western Australia	-	-	6,684	6,684	-	-	10,118	10,118	-	-	13,888	13,888
Western Australian Greyhound Racing Authority	-	-	1,160	1,160	-	-	2,475	2,475	-	-	1,525	1,525
Peel Development Commission	-	-	92	92	-	-	1,087	1,087	-	-	540	540
South West Development Commission	-	-	6,108	6,108	-	-	4,780	4,780	-	-	2,650	2,650
MINISTER FOR HOUSING AND WORKS; HERITAGE; MINISTER ASSISTING THE MINISTER FOR PLANNING AND INFRASTRUCTURE												
Housing and Works	500	-	3,531	4,031	1,700	-	4,955	6,655	5,100	-	4,045	9,145
Country Housing Authority	-	10,011	3,322	13,333	-	7,255	5,329	12,584	-	6,300	6,194	12,494
Government Employees' Housing Authority	-	4,000	9,714	13,714	-	-	16,843	16,843	-	6,000	7,806	13,806
The State Housing Commission	-	16,000	803,525	819,525	-	13,351	1,040,136	1,053,487	-	10,000	982,400	992,400
Heritage Council of Western Australia	-	-	1,050	1,050	-	-	2,900	2,900	-	-	1,050	1,050
The National Trust of Australia (Western Australia)	339	-	61	400	339	-	61	400	521	-	374	895

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2004-05 Budget Estimate				2004-05 Estimated Actual				2005-06 Budget Estimate			
	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000
MINISTER FOR LOCAL GOVERNMENT AND REGIONAL DEVELOPMENT; LAND INFORMATION; GOLDFIELDS-ESPERANCE; GREAT SOUTHERN												
Local Government and Regional Development	-	-	1,350	1,350	-	-	1,387	1,387	124	-	1,250	1,374
Metropolitan Cemeteries Board	-	-	8,017	8,017	-	-	8,928	8,928	-	-	2,989	2,989
Land Information	278	-	6,788	7,066	184	-	11,384	11,568	633	-	12,648	13,281
Goldfields-Esperance Development Commission	33	-	52	85	33	-	52	85	12	-	26	38
Great Southern Development Commission	5,249	-	32	5,281	5,249	-	1,785	7,034	9,085	-	10,033	19,118
MINISTER FOR JUSTICE; SMALL BUSINESS												
Justice Corporation	21,465	-	49,005	70,470	18,229	-	48,376	66,605	78,828	-	40,620	119,448
Small Business Development Corporation	313	-	122	435	313	-	366	679	184	-	116	300
MINISTER FOR FISHERIES; THE KIMBERLY, PILBARA and GASCOYNE												
Fisheries	7,150	-	2,260	9,410	8,950	-	11,414	20,364	262	-	2,089	2,351
Kimberly Development Commission	-	-	20	20	-	-	20	20	87	-	20	107
Pilbara Development Commission	-	-	-	-	-	-	31	31	-	-	-	-
Gascoyne Development Commission	-	-	890	890	-	-	3,470	3,470	-	-	1,040	1,040
TOTAL	456,319	811,736	2,649,385	3,917,440	621,063	967,947	2,925,026	4,514,036	775,789	1,345,132	2,624,974	4,745,895

Table 2

CAPITAL WORKS PROGRAM SOURCE OF FUNDS

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Estimated	Budget	Budget	Budget	Budget
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
APPROPRIATIONS						
Capital contribution	511.4	621.1	775.8	815.8	743.8	687.0
Funding included in output appropriations	161.5	115.3	203.1	170.8	196.0	157.8
OTHER FUNDING						
Holding Account	176.5	161.1	162.2	159.7	146.8	107.0
Borrowings	370.0	967.9	1345.1	809.8	538.9	651.5
Commonwealth grants	212.6	292.4	254.1	249.6	262.5	269.6
Land and Property Sales	295.0	339.1	280.9	288.0	280.2	257.4
Internal funds and balances	915.6	1,254.4	1,021.7	899.1	803.4	691.4
Other	642.1	762.6	703.0	611.1	619.2	633.6
TOTAL FUNDING	3,284.7	4,514.0	4,745.9	4,003.9	3,590.9	3,455.2

Note: Columns may not add due to rounding.

Public Corporations – Revenue and Expenses

The State's major public corporations are liable for income tax equivalent and dividend payments. A number of public corporations are also liable for local government rate equivalent payments.

Tax and local government rate equivalents are levied by the State to ensure competitive neutrality (i.e. a level playing field) between significant government business activities and private sector businesses.

A detailed overview of revenue received by the general government sector from individual public corporations is provided in Table 1.

The \$11 million, or 1.6% increase in revenue in 2005-06 mainly results from higher tax equivalent and dividend revenue from the Water Corporation, partially reduced by lower tax equivalent and dividend revenue from Western Power.

The increases from the Water Corporation are associated with increased profits due mainly to higher sales and community service obligation (CSO) revenues, partially offset by lower developer contributions.

The reductions from Western Power are associated with reduced profits due mainly to increased expenditure on generation maintenance and operations, increased network expenditures to improve system reliability and safety, and the effect of increased competition on sales. These are partly offset by expected productivity improvements through new efficiency measures and increased revenue from developer contributions. There is also no tariff increase for the year.

The level of Western Power's operating profit and revenue to government is also expected to reduce in the forward estimates. This reflects the impact of increased competition from Independent Power Producers (including the Alinta 140MW gas-fired cogeneration plants at Alcoa's Pinjarra alumina refinery), capacity constraints on the Dampier to Bunbury Natural Gas Pipeline (DBNGP), expenditure on network corrective and preventative maintenance, and measures to extend the life of the Kwinana B and the Muja A and B generators.

Revenue to government from the Water Corporation is also being affected by a decision to assume two day per week sprinkler restrictions in 2005-06 and the forward estimates. This is estimated to reduce tax equivalent and dividend revenue from the Water Corporation by around \$13 million in 2005-06, and around \$20 million per year thereafter. Although water source development has been accelerated, the decision to assume ongoing sprinkler restrictions reflects below average rainfall in 2004, the drying climate exhibited over the previous 5 years, and the current low dam storage levels.

There are also significant payments from the general government sector to public corporations. Such payments include funding of CSOs, which are non-commercial services provided by public corporations at the request of government to sections of the general public. Examples include funding of pensioner and senior concessions for electricity and water services.

In addition, funding may be provided to public corporations as part of government initiatives to attract and support the establishment of down-stream industries in Western Australia. Where possible, this form of financial assistance is directed at supporting the construction of infrastructure that will be available for common use.

A detailed overview of general government sector expenses arising from payments to individual public corporations is provided in Table 2.

The increase in the Water Corporation's 2005-06 Country Water, Sewerage and Drainage Operations CSO payment is mainly due to a rebase to account for the actual loss incurred (which occurs every four years). In the interim years, the annual payments are based on a single formula that is an indexation-based proportional compensation for growth and asset replacement.

Table 1

REVENUE TO GOVERNMENT FROM PUBLIC CORPORATIONS

Details of Payment	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
Western Power					
Income tax expense	63,199	42,240	26,181	45,799	33,066
LGRE	1,372	1,413	1,442	1,471	1,473
Dividends	95,931	88,003	74,056	40,369	37,930
<i>Subtotal</i>	160,502	131,656	101,679	87,639	72,469
Water Corporation					
Income tax expense	161,768	171,599	192,257	195,298	185,815
LGRE	2,755	2,895	3,040	3,200	3,280
Dividends	291,552	321,608	349,470	355,589	357,474
<i>Subtotal</i>	456,075	496,102	544,767	554,087	546,569
Western Australian Land Authority (LandCorp)					
Income tax expense	16,553	11,327	11,506	8,443	13,450
LGRE	902	1,128	1,109	1,124	1,122
Dividends	35,560	35,560	17,751	12,751	11,751
<i>Subtotal</i>	53,015	48,015	30,366	22,318	26,323
Gold Corporation					
Income tax expense	-	1,426	1,609	1,731	1,731
Dividends	1,675	1,675	1,664	1,877	2,019
<i>Subtotal</i>	1,675	3,101	3,273	3,608	3,750
Western Australian Treasury Corporation					
Income tax expense	1,797	2,095	2,286	2,255	2,176
Dividends	3,497	2,515	2,933	2,668	2,631
<i>Subtotal</i>	5,294	4,610	5,219	4,923	4,807
Albany Port Authority					
Income tax expense	-	30	305	439	618
LGRE	68	68	69	70	72
Dividends	-	35	355	512	720
<i>Subtotal</i>	68	133	729	1,021	1,410
Broome Port Authority					
Income tax expense	1,220	100	-	-	247
LGRE	5	5	5	5	5
Dividends	-	-	-	-	288
<i>Subtotal</i>	1,225	105	5	5	540
Bunbury Port Authority					
Income tax expense	1,982	1,599	1,666	2,266	2,492
LGRE	140	144	148	186	191
Dividends	1,695	1,724	1,738	2,300	2,530
<i>Subtotal</i>	3,817	3,467	3,552	4,752	5,213

Table 1 (cont.)

REVENUE TO GOVERNMENT FROM PUBLIC CORPORATIONS

Details of Payment	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
Dampier Port Authority					
Income tax expense	-	451	801	803	822
LGRE	12	13	13	14	14
Dividends	24	526	935	937	961
Subtotal	36	990	1,749	1,754	1,797
Esperance Port Authority					
Income tax expense	-	213	867	1,113	3,317
LGRE	180	180	180	185	100
Dividends	1,301	1,301	1,419	728	2,775
Subtotal	1,481	1,694	2,466	2,026	6,192
Fremantle Port Authority ^(a)					
Income tax expense	3,785	3,784	3,727	3,786	4,071
LGRE	281	239	251	264	277
Dividends	3,906	3,640	3,571	3,629	3,943
Subtotal	7,972	7,663	7,549	7,679	8,291
Geraldton Port Authority					
Income tax expense	626	1,008	1,107	1,780	10,105
LGRE	140	140	140	140	140
Dividends	128	-	1,271	1,631	11,833
Subtotal	894	1,148	2,518	3,551	22,078
Port Hedland Port Authority					
Income tax expense	546	1,627	1,641	2,453	4,354
LGRE	169	215	221	235	235
Dividends	738	1,798	1,932	2,880	5,098
Subtotal	1,453	3,640	3,794	5,568	9,687
Bunbury Water Board					
Income tax expense	613	626	593	559	581
Subtotal	613	626	593	559	581
Busselton Water Board					
Income tax expense	600	224	227	231	250
Subtotal	600	224	227	231	250
Forest Products Commission					
Dividends	-	-	286	2,856	5,386
Subtotal	-	-	286	2,856	5,386
Other Agencies					
LGRE	146	146	146	146	146
Statutory contributions/Dividends	2,018	5,018	18	18	18
Subtotal	2,164	5,164	164	164	164
Total Amounts					
Income tax expense	252,689	238,349	244,773	266,956	263,095
LGRE	6,170	6,586	6,764	7,040	7,055
Statutory contributions/Dividends	438,025	463,403	457,399	428,745	445,357
Total	696,884	708,338	708,936	702,741	715,507

(a) Includes a provision for the Infrastructure costs of Hismelt – Stage 2 in 2008-09.

Table 1(a)

REVENUE FROM PUBLIC CORPORATIONS
Dividend Payout Ratios^(a)

	2004-05 %	2005-06 %	2006-07 %	2007-08 %	2008-09 %
Western Power ^(b)	50.0	50.0	50.0	50.0	50.0
Water Corporation ^(c)	85.0	85.0	85.0	85.0	85.0
Western Australian Land Authority (LandCorp) ^(d)	50.0	50.0	50.0	50.0	50.0
Gold Corporation	60.0	60.0	60.0	60.0	60.0
Western Australian Treasury Corporation	60.0	60.0	50.0	50.0	50.0
State Port Authorities	50.0	50.0	50.0	50.0	50.0
Forest Products Commission ^(e)	na	na	na	na	na

(a) From 2005-06 onwards, due to the new International Financial Reporting Standards, dividends based on profit at the end of a financial year are accrued in the next financial year (previously these were accrued in the same financial year).

(b) Western Power's dividend payout ratio does not include amounts paid to compensate for reduced tax equivalent payments arising from the costs of electricity reform.

(c) The after-tax value of handover assets from developers is excluded from the calculation of the Water Corporation's dividend payments.

(d) Adjusted for the need to maintain adequate land stocks.

(e) The dividend payout ratio for the Forest Products Commission is based on the full cash surplus remaining at the end of each financial year being paid to the Consolidated Fund, allowing for a closing balance of \$1 million as working capital.

Table 2

EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Details of Payment	Payment Type	Funding Department	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
Water Corporation							
Burru Water Supply System	Other	DoIR	6,500	6,700	6,800	7,000	7,200
Country Water, Sewerage and Drainage Operations	CSO	DTF	178,222	229,391	217,225	231,593	236,680
Infill Sewerage Program	CSO	DTF	24,638	29,657	31,922	32,581	32,631
Pensioner and Senior Concessions	CSO	DTF	68,447	74,887	83,790	88,327	92,959
Rural Irrigation Schemes	CSO	DTF	8,336	6,481	6,565	6,648	6,738
Partial Reimbursement of Proceeds from the Sale of Surplus Land	Other	DTF	-	-	-	-	-
State Water Strategy – Rebates Scheme	Other	DTF	14,800	9,000	9,000	-	-
Subtotal			300,943	356,116	355,302	366,149	376,208
Western Power							
Aboriginal and Remote Communities Project – Phase 1	CSO	DTF	-	-	2,440	6,990	4,415
Aboriginal and Remote Communities Project – Phase 2	CSO	DTF	-	-	-	-	3,850
Air Conditioning Subsidy for Seniors (North of 26 th Parallel)	CSO	DTF	92	91	94	97	101
Community Service Concessions ^(e)	CSO	DTF	350	346	359	371	383
Coral Bay Electricity Supply	CSO	DTF	-	-	890	950	950
Energy Rebates for Eligible Permanent Caravan Park Residents	CSO	DTF	334	334	334	334	334
Gas Lateral Line to Murchison Area – Interest Costs	Other	DoIR	1,005	832	832	832	832
High Wide Load Project	Other	MRD	2,500	2,450	2,375	2,300	2,300
Interval Electricity Meters	CSO	DTF	1,500	1,000	-	-	-
Onslow Gas Fired Power Station – Interest Costs	Other	DoIR	225	183	183	183	183
Pensioner and Senior Concessions	CSO	DTF	37,121	36,856	38,493	39,791	41,080
Tariff Migration – Movement to L2 Tariff	CSO	DTF	10,033	11,022	12,102	13,218	14,033
Underground Power Program	Other	OoE	4,820	4,820	4,820	4,820	4,820
Subtotal			57,980	57,934	62,922	69,886	73,281

Table 2 (cont.)

EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Details of Payment	Payment Type	Funding Department	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
Western Australian Land Authority (LandCorp)							
Australian Marine Complex – Facilities Management	CSO	DTF	2,733	760	-	-	-
Australian Marine Complex – Rate of Return	CSO	DTF	2,502	2,502	2,502	2,502	2,502
Australian Marine Complex – Tech Park – Land Acquisition ^(b)	Other	DoIR	1,300	-	-	-	-
Bunbury Outer Harbour	CSO	DTF	790	-	-	-	-
Forrestdale - Rate of Return (Armadale Redevelopment Authority)	CSO	DTF	150	200	200	200	200
Hope Valley / Wattleup – Land Acquisition	CSO	DTF	14,000	14,000	-	-	-
Kalgoorlie North West Sector	CSO	DTF	3,500	-	-	-	-
Karratha / Burrup Western Service Corridor	Other	DoIR	2,030	2,030	2,030	2,030	2,030
Kemerton Core Land Acquisition	CSO	DTF	1,641	-	-	-	-
Kemerton Expansion – Land Acquisition ^(b)	Other	DoIR	550	-	-	-	-
Mungari – Replacement of TMW Evaporation Ponds	CSO	DTF	2,900	-	-	-	-
Oakajee Expansion – Land Acquisition	Other	DoIR	4,000	5,000	-	-	-
PARC Funding	CSO	DTF	-	150	-	-	-
PIL Kwinana Land – Interest Costs	CSO	DTF	730	810	810	810	810
Rockingham Development Office	Other	DPI	298	140	-	-	-
Strategic Asset Management	CSO	DTF	-	500	500	500	-
Townsite Development Program	CSO	DTF	1,289	4,000	4,000	4,000	4,000
<i>Subtotal</i>			38,413	30,092	10,042	10,042	9,542
Albany Port Authority							
Albany Woodchip Mill	Other	DTF	173	173	151	-	-
<i>Subtotal</i>			173	173	151	-	-
Broome Port Authority							
Jetty Extension – Interest Subsidy	Other	DTF	-	575	435	420	405
<i>Subtotal</i>			-	575	435	420	405
Bunbury Port Authority							
Casting Basin Loan – Interest Costs	Other	DoIR	165	95	95	95	95
<i>Subtotal</i>			165	95	95	95	95

Table 2 (cont.)

EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Details of Payment	Payment Type	Funding Department	2004-05 Estimated Actual \$'000	2005-06 Budget Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000
Dampier Port Authority			-	7,800	9,100	9,000	11,500
Burrup Infrastructure – Interest Support	Other	DoIR	-	7,800	9,100	9,000	11,500
<i>Subtotal</i>							
Forest Products Commission							
Debt Servicing Costs - Non-Commercial Native Forest Related							
Debt	CSO	DTF	1,070	1,070	1,070	1,070	1,070
<i>Subtotal</i>			1,070	1,070	1,070	1,070	1,070
Public Transport Authority (PTA)							
Net Amount Appropriated to Deliver Outputs	Other	DTF	480,706	545,177	619,783	668,485	691,527
<i>Subtotal</i>			480,706	545,177	619,783	668,485	691,527
Total			879,450	999,032	1,058,900	1,125,147	1,163,628

(a) The Community Service Concession is a concession available to eligible voluntary and charitable organisations.

(b) Further purchases are subject to ERC approval and funding provided on a 'case by case' basis.

Tariffs, Fees and Charges – Impact on ‘Representative Household’ Model

The Department of Treasury and Finance (DTF) has produced, for a number of years, a model that estimates the costs incurred by a ‘representative household’ through the consumption of certain State ‘government’ goods and services. The model’s parameters are outlined in this appendix.

It should be noted that calculating the effects of changes in State ‘government’ tariffs, fees and charges for a single ‘representative household’ can never capture the enormous diversity in household structures that occur in the community, and the widely differing patterns of usage of State ‘government’ goods and services.

The model simply seeks to highlight the impact of changes in major State ‘government’ tariffs, fees and charges on a particular hypothetical household reflecting current average electricity and water consumption, an assumed level of public transport use and a specified consumption of a range of other State ‘government’ goods and services (including select taxes).

Key Government Charges Affecting Households

The model covers the following annual State ‘government’ charges affecting the ‘representative household’:

- water, including both consumption and annual supply charges;
- sewerage;
- drainage;
- electricity, including both consumption and annual supply charges;

- public transport;
- compulsory third party insurance;
- motor vehicle registration costs;
- driver's licence fees;
- debits tax applied on bank accounts; and
- stamp duty on both compulsory third party insurance and general insurance.

It should be noted that the model excludes State government charges relating to one off events such as stamp duty charges relating to property transactions.

Assumptions

The 'representative household' model is based on a single income (full-time work), two adult and two children household. It assumes that the household:

1. consumes:
 - 5,474 kilowatt hours of electricity per annum, based on the current 2003-04 average level of consumption for a household provided by Western Power; and
 - 300 kilolitres of water per annum, based on the current average level of water usage for a residential customer provided in Water Corporation's 2005-06 Rates and Charges Submission.
2. purchases five standard 2-zone Transperth fares and ten concession 1-zone Transperth fares each week. Transperth fares are purchased using the lowest cost means available (i.e. using MultiRider Plus);
3. owns one car, a Holden Commodore (tare weight of 1568 kilograms – relevant for the purpose of determining the appropriate level of motor vehicle licence fee);
4. makes two withdrawals of between \$100 and \$499 per week (for the purposes of calculating debits tax);
5. pays average home and contents, and motor vehicle insurance, based on information from the insurance industry (for the purposes of calculating stamp duty payable on insurance policies); and
6. owns and occupies a property that has an average gross rental value (for sewerage and drainage rating purposes).

Discussion

Following last year's freeze in household tariffs, fees and charges, the Government has continued to assist Western Australian households with day-to-day living expenses. In 2005-06, the Government will remove, reduce or freeze a number key tariffs, fees and charges that impact on household expenditure.

From 1 July 2005, the debits tax applied on bank accounts will be abolished. This will provide savings to the 'representative household' of around \$70.

For the fifth consecutive year there will be no increase in the level of electricity prices.

Similarly, compulsory third party insurance premiums and stamp duty rates on insurance will remain unchanged.

Transperth standard fares increase by a flat 10 cents, with the exception of no change to 2 section or 1 zone fares. Transperth concession fares increase by 2.2%, rounded to 10 cent increments. However, the introduction of the Government's new 50 cent student fare for all school students travelling to school on Transperth leads to substantial savings for families.

Motor vehicle licence and driver's licence fees will increase by 2.2%. This is more than offset by the Government's decision to increase the family concession by \$25, from \$28 to \$53, per family motor vehicle.

Water, sewerage and drainage charges will rise by 2.2%.

Results

Table 1 shows the impact of the changes in State 'government' tariffs, fees and charges on the 'representative household' consuming the assumed level of State 'government' goods and services.

INCREASES IN TARIFFS, FEES AND CHARGES ^(a)		
Impact on household expenditure and income based on AWOTE (\$)		
	Existing 2004-05	Future 2005-06
Expenditure	\$3,256.40	\$3,175.66
Change in Expenditure (\$)		-\$80.74
Change in Expenditure (%)		-2.48%
Household Income (after tax)	\$40,039.08	\$41,759.35
Change in Income (\$)		+\$1,720.26
Change in Income (%)		+4.30%
Expenditure as a percentage of disposable income	8.13%	7.60%

(a) Figures are in nominal terms.

Table 1

On the basis of the above assumptions and the 2005-06 levels of State 'government' tariffs, fees and charges, the total expenditure of the 'representative household' on this basket of State 'government' goods and services is \$3,175.66. This represents a decrease of around \$80.74, or 2.48%, on 2004-05 expenditure levels.

As a result of the Government's decisions on household charges, the increase in the cost of the basket of State 'government' goods and services is significantly under the forecast CPI in 2005-06 of 2.5%. Therefore, the percentage of a 'representative household's' after-tax income (as measured by average weekly ordinary time earnings)¹ spent on the representative basket of State 'government' goods and services falls from 8.13% to 7.60%, after taking account of forecast earnings growth.

Pensioner Concessions

A variant of the 'representative household' is also used to assess the impact these changes have on those that are eligible to receive pensioner concessions offered on a range of government charges². These concessions include:

- 50% concession on motor vehicle licence fees;
- 68% concession on driver's licence fees;
- 100% rebate on fixed daily supply charge for electricity;
- 50% rebate on the first 150kL water consumption charges per year if owning or renting. An additional 50% rebate is provided on annual water supply charge if, as assumed in the model, the property is owner-occupier;
- 50% rebate on annual sewerage charges; and
- 50% rebate on annual drainage charges.

Table 2 shows the impact of the changes in State 'government' tariffs, fees and charges on a pensioner household holding a Pensioner Concession Card, consuming the same level of State 'government' goods and services as the 'representative household'.

¹ AWOTE is the best measure of household income for this purpose. It refers to the average week's earnings of a full-time employee for the reference period attributable to award, standard or agreed hours of work. It is calculated on an annualised basis before taxation and other deductions (e.g. superannuation) have been made. Thus, AWOTE represents a measure of an ordinary working week for a full-time employee and is not distorted by those that are employed part-time.

² You are entitled to a Pensioner Concession Card, and thus eligible for State concessions, if you receive:

- a pension, such as Age pension, Disability Support pension, Carer pension;
- Parenting Payment (single);
- Mature Age Allowance;
- Mature Age Partner Allowance;
- Carer payment; or
- If you are aged over 60 and have been receiving one (or a combination) of the following payments continuously for more than nine months; Newstart Allowance, Sickness Allowance, Widow Allowance, Partner Allowance, Parenting Payment, or Special Benefit.

Table 2

INCREASES IN TARIFFS, FEES AND CHARGES ^(a)
Impact on pensioner household expenditure

	Existing 2004-05	Future 2005-06
Expenditure	\$2,359.40	\$2,283.46
Change in Expenditure (\$)		-\$75.94
Change in Expenditure (%)		-3.22%

(a) Figures are in nominal terms.

It is estimated that such a pensioner household would have a total expenditure of \$2,283.46 on State 'government' tariffs, fees and charges, experiencing a decrease of \$75.94, or 3.22%. This is significantly below the forecast CPI in 2005-06 of 2.5%.

Implementation of Australian equivalents to International Financial Reporting Standards (AIFRS)

Australian Accounting Standards (AAS) will be harmonised with International Financial Reporting Standards for all reporting periods beginning on or after 1 January 2005. The harmonised standards are known as Australian equivalents to International Financial Reporting Standards (AIFRS).

The 2005-06 Budget includes AIFRS impacts in all projections from 2005-06 (inclusive). Actuals and estimated outturns for 2003-04 and 2004-05 respectively remain on an AAS reporting basis.

This approach applies to all financial statements presented in Budget Paper 2: *Budget Statements*, as well as all accounting data underlying the government finance statistics (GFS) consolidations presented in Budget Paper 3: *Economic and Fiscal Outlook*.

In moving to AIFRS, most amendments to accounting aggregates are confined to the balance sheet, including valuation and/or presentational changes for the accounting of items such as:

- non-current assets held for sale;
- capitalised software; and
- employee benefit obligations (largely leave liabilities).

For the operating (or income) statement, the majority of changes are minor with the most significant impact flowing from the recognition of dividend transactions in the period in which they are declared (rather than the period in which the underlying activity determined dividends under existing accounting standards).

Except for the case of revenue from public corporations (dividends), in almost all cases operating statement changes due to AIFRS implementation flow from valuation changes to the balance sheet. These revaluation impacts do not affect the GFS operating statement, hence apart from public corporation dividend changes, there are no material changes to the GFS operating statement as a result of the move to AIFRS.

The following table shows the degree to which the GFS-based general government net operating balance (the headline budget measure in Western Australia) has been affected by the implementation of AIFRS in this budget.

Table 1

GENERAL GOVERNMENT NET OPERATING BALANCE
Impact of Transition to AIFRS

	2005-06 Budget Estimate \$m	2006-07 Forward Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m
<i>AIFRS based net operating balance^(a)</i>	521	435	192	295
Less:				
Change in dividend recognition	15	2	-5	-3
All other	-1	1	1	-1
<i>Total Variance</i>	14	2	-4	-5
Non-AIFRS based net operating balance	507	433	195	300

(a) From Appendix 1: *Detailed Financial Projections*. These are the headline results for the 2005-06 Budget.

Note: Columns may not add due to rounding.