



1999 – 2000

**ECONOMIC AND  
FISCAL  
OVERVIEW**

PRESENTED TO THE LEGISLATIVE ASSEMBLY ON  
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# BUDGET 1999-2000

## ECONOMIC AND FISCAL OVERVIEW

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# CHAPTER 1

## 1999-2000 BUDGET SUMMARY AND FINANCIAL STRATEGY

### PART I

#### BUDGET SUMMARY

The 1999-2000 Budget<sup>1</sup> has been prepared against a background of financial tension arising from increased demand for key social expenditures and lower projected growth in own source revenues. These are largely factors beyond the Government's control. Compounding these pressures has been a further reduction in the share of Commonwealth Financial Assistance Grants to Western Australia. The 1999-2000 Budget provides for further real funding increases in the priority areas of education, health and law and order. At the same time there is only one new revenue measure and the financial outcome is sound.

#### HIGHLIGHTS

- The Government's financial strategy continues to focus on the long-term stability of the public sector. The targeting framework is largely unchanged from the 1998-99 Budget and financial management is in line with achievement of the targets (see Part II) and social objectives.
- The Consolidated Budget Statements of the Government of Western Australia<sup>2</sup> show an estimated operating surplus of \$171.3 million in 1999-2000, increasing to \$778.3 million in 2002-03 (see Table 1).
- Net assets of the Government of Western Australia (as measured by total assets less total liabilities) are expected to be \$32.9 billion at 30 June 1999 and to grow to \$38.2 billion by 30 June 2003.
- Affordable increases in net debt are estimated for 1999-2000 and 2000-01 to finance the Government's substantial capital works program (see Figure 1). Nevertheless, the target of a declining net interest cost as a proportion of gross own source revenue is expected to be met over the forward estimates period as reliance on debt funding diminishes.

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<sup>1</sup> The 1999-2000 Budget and three year forward estimates include revenues from State taxes proposed to be abolished as part of the national tax reform proposals. While the introduction of the proposed GST would affect individual revenue components, the impact on overall State finances is expected to be neutral (see Chapters 3 and 5).

<sup>2</sup> The Consolidated Budget Statements of the Government of Western Australia (which comprise the estimated Operating Statement, estimated Statement of Financial Position, and estimated Statement of Cash Flows for the whole of government) have been prepared on an accrual accounting basis to give operating and net asset results consistent with the principles of Australian Accounting Standards.

- Total Consolidated Fund expenditure in 1999-2000 is \$303.4 million higher than the expected outturn for 1998-99, ie. a 1.8% increase in real terms. Major areas of growth include education, health and law and order (see Table 5). In each of these areas, real per capita spending in Western Australia has, in recent years, been consistently higher than the average of the other States (see Chapter 3, Part II).
- This Budget provides for net additional expenditure measures of \$251.1 million, predominantly in the key areas of education, health and law and order (see Table 6).
- Taking account of these measures, the operating surplus for 1999-2000 on the former headline Consolidated Fund presentation is just under \$6 million (see Table 3). The Consolidated Fund is in recurrent surplus throughout the forward estimates period.
- The economic parameters underlying the 1999-2000 Budget include real economic growth of 4.5%, employment growth of 2.0%, an unemployment rate of 6.75%, an increase in the CPI of 2.25%, and wages growth of 3.5% (see Table 7).

## **BUDGET PRESENTATION**

The 1999-2000 Budget and forward estimates are for the second year presented on a full accrual accounting basis (the Consolidated Budget Statements). These Statements have two components: a Consolidated Fund Entity, which is the modern accounting equivalent of the Consolidated Fund; and the net outcome of the agencies owned and controlled by the Consolidated Fund Entity on behalf of the Government and people of Western Australia. The reported operating and net assets results are consistent with Australian Accounting Standards. The accrual presentation provides comprehensive information on the costs of government services beyond current cash payments and on the assets and liabilities of government.

The 1999-2000 Budget is also presented in terms of the traditional (Consolidated Fund) cash format. The cash presentation is designed to facilitate the appropriation process, which remains on a cash basis within the existing legislative framework.

In addition, in order to meet the State's obligations under uniform presentation and Loan Council arrangements, the budget is also presented in accordance with ABS government finance statistics (GFS) classification standards (see Chapter 6).

## CONSOLIDATED BUDGET STATEMENTS

A summary of the 1999-2000 Budget, as reflected in the Consolidated Budget Statements, is presented in Table 1. It shows that despite budget pressures, the Government of Western Australia's financial position is forecast to remain in surplus and to strengthen substantially over the forward estimates period.

<b>CONSOLIDATED BUDGET STATEMENT</b>						
<b>Summary Financial Statements</b>						
	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
<b>OPERATING STATEMENT</b>						
Total Revenue	7,628.5	8,163.7	8,227.2	8,626.5	8,904.8	9,138.4
Total Expenses	7,808.9	8,378.6	8,565.0	8,743.5	8,838.6	9,043.1
Consolidated Fund Entity Surplus/(Deficit)	(180.4)	(214.9)	(337.7)	(116.9)	66.2	95.3
Net Surplus attributable to controlled entities	297.7	409.2	509.1	622.7	606.7	683.0
<i>Operating Surplus/(Deficit) before Extraordinary/Abnormal Items</i>	<i>117.3</i>	<i>194.4</i>	<i>171.3</i>	<i>505.8</i>	<i>672.9</i>	<i>778.3</i>
Extraordinary/Abnormal Items	1,113.5	-	-	-	-	-
<b>Operating Surplus (Deficit)</b>	<b>1,230.8</b>	<b>194.4</b>	<b>171.3</b>	<b>505.8</b>	<b>672.9</b>	<b>778.3</b>
<b>STATEMENT OF FINANCIAL POSITION</b>						
Total Assets	2,306.7	2,284.9	1,807.9	1,634.1	1,662.7	1,550.9
Total Liabilities	6,927.2	7,120.2	6,981.0	6,924.1	6,886.5	6,679.4
Consolidated Fund Entity Net Assets <sup>(a)</sup>	(4,620.4)	(4,835.3)	(5,173.1)	(5,290.0)	(5,223.8)	(5,128.5)
Ownership Interest	36,778.9	37,742.5	39,095.9	40,422.7	41,865.3	43,318.9
<b>Equity of Government of WA (Net Assets)</b>	<b>32,158.5</b>	<b>32,907.1</b>	<b>33,922.8</b>	<b>35,132.7</b>	<b>36,641.5</b>	<b>38,190.5</b>
<i>Comprising:</i>						
Opening Balance, Equity and Revaluations	30,927.7	32,712.8	33,751.5	34,626.9	35,968.6	37,412.1
Operating Surplus/ (Deficit)	1,230.8	194.4	171.3	505.8	672.9	778.3
<b>STATEMENT OF CASH FLOWS</b>						
Cash Flows from Operating Activities	(120.2)	78.7	(248.2)	(216.0)	25.7	51.8
Cash Flows from Investing Activities	957.6	(59.3)	(67.1)	(0.1)	(30.5)	(43.0)
Cash Flows from Financing Activities	(801.6)	106.0	237.3	86.1	(34.2)	(35.8)
<b>Net Cash Flows</b>	<b>35.7</b>	<b>125.3</b>	<b>(78.0)</b>	<b>(130.0)</b>	<b>(39.0)</b>	<b>(27.0)</b>
<i>Opening Cash Balance</i>	<i>943.9</i>	<i>979.7</i>	<i>1,105.0</i>	<i>1,027.0</i>	<i>897.0</i>	<i>858.0</i>
<i>Closing Cash Balance</i>	<i>979.9</i>	<i>1,105.0</i>	<i>1,027.0</i>	<i>897.0</i>	<i>858.0</i>	<i>831.0</i>
(a) Negative Consolidated Fund Entity net assets arise due to the historical position of the Treasurer assuming agency superannuation liabilities and raising debt with the related assets being held on agency accounts.						



The Government of Western Australia operating surplus decreases from \$194.4 million in 1998-99 to \$171.3 million in 1999-2000. This decrease is attributable to only modest growth in operating revenue in 1999-2000. Operating expenses on the other hand grow at a slightly higher rate in 1999-2000, and continue to show similar growth across the forward estimates. In later years, strong operating surpluses emerge, increasing to a projected \$778.3 million in 2002-03, mainly as a result of higher revenue growth.

This projected result clearly meets the Government's financial target of achieving an accrual based operating surplus, before abnormal and extraordinary items, for the total public sector.

Total assets less total liabilities, a measure of taxpayer's "equity" in the Government of Western Australia, is estimated to increase from \$32.9 billion at end June 1999 to \$38.2 billion by end June 2003, an increase of 16% over the four year period. The improvement in net assets is mainly the result of forecast operating surpluses in each year. Revaluation of land holdings and a slight decrease in Consolidated Fund Entity liabilities also contribute to the growing net assets. The estimated result for the Budget and the forward estimates period is consistent with the Government's financial target that net assets be maintained or increased.

The cash balance held by the Government of Western Australia is expected to decrease by \$78 million over the year to 30 June 2000. The main reason is the draw on cash (to finance capital expenditures) from the State Development Fund, which was made available from the March 1998 sale of the Dampier to Bunbury natural gas pipeline. Fluctuations in trust fund balances in agencies also contribute to the movement in cash balances. Over the remaining period of the forward estimates the cash balance is estimated to decrease each year, to \$831 million by 30 June 2003, largely due to the drawdown of the State Development Fund. No allowance is made for proceeds of major assets sales in the forward estimates period.

## **FINANCIAL TARGETS**

The 1999-2000 Budget has been prepared within the context of the Government's medium term financial strategy (see Part II). Key planks of the financial strategy are: maintaining or increasing net assets of government; reducing the proportion of revenue spent servicing the State's debt; reducing real per capita operating expenses; and maintaining operating surpluses for the whole of government and Consolidated Fund.

The Government's financial strategy is being progressed in circumstances where there are heavy demands for increased output across a number of areas (particularly in health, education and law and order), while revenue growth is slow. This has put pressure on the Government's expenditure priorities in other areas, and the rate of growth of funding for some agencies has been reduced. Some moderate recourse to debt by agencies with large capital investment requirements is also expected in the short term, albeit within the parameters of the financial strategy.

The extent to which the Government's financial targets meet the projected results for the years identified in the forward estimates period are summarised in Table 2 below. It shows that the majority of financial targets are met each year, and that all financial parameters will be consistent with targets by 2002-03.

More detailed analysis on the financial statements of the Government of Western Australia, including progress against the financial targets, is contained in Chapter 3, Part III.

Table 2

### COMPLIANCE WITH FINANCIAL TARGETS

<b>Financial Target</b>	1999-00 Budget Estimate	2000-01 Forward Estimate	2001-02 Forward Estimate	2002-03 Forward Estimate
Net Assets	Yes	Yes	Yes	Yes
Net Debt - Interest cost <sup>(a)</sup>	Yes	No	Yes	Yes
Operating Expenses	Yes	Yes	Yes	Yes
Operating Balance	Yes	Yes	Yes	Yes
Underlying Balance <sup>(b)</sup>	No	No	No	Yes
Risk Management	Yes	Yes	Yes	Yes

(a) This target is met each year apart from a very minor increase in 2000-01 attributable to factors such as timing of loan raisings.

(b) Projected underlying deficits for the Consolidated Fund and general government sector are expected to be wound back progressively, such that this target will be met in 2002-03.

### CONSOLIDATED FUND AGGREGATES

Table 3 below presents the 1999-2000 Budget and forward estimates on the former headline Consolidated Fund cash basis. Generally speaking, in these Budget Papers, the impacts of policy decisions are presented on the basis of their effect on Consolidated Fund revenue and expenditure. This is because of the use of cash appropriations in this State. For the Consolidated Fund:

- The 1999-2000 Budget has an estimated operating surplus of just under \$6 million. Total expenditure is expected to increase by 4.1%, on top of the 8.9% increase projected for 1998-99. The high growth in 1998-99 expenditures was necessary to meet heavy demand, cost increases and to fund new output initiatives. Total revenue is estimated to be sufficient to meet the expenditure increase in 1999-2000.
- Modest operating surpluses are projected for each year of the forward estimates period, except in 2000-01 when (on current projections) the recurrent surplus is exceeded by a rising deficit on capital expenditure. In this year part of the reserves set aside in the State Development Fund will be used to offset the capital deficit so that there is no borrowing requirement on the Consolidated Fund.
- The estimated recurrent operating surplus for 1998-99 is \$354.3 million, offsetting an estimated capital deficit of \$351.3 million.
- There is no Consolidated Fund borrowing requirement in any year.

Table 3

**CONSOLIDATED FUND STATEMENT****Summary**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
	Actual <sup>(a)</sup>	Estimated Actual	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
<b>REVENUE</b>						
Recurrent	6,548.1	7,336.3	7,350.4	7,563.3	7,902.8	8,173.2
Capital	276.3	92.3	384.5	175.3	81.5	39.9
<b>Total Revenue</b>	<b>6,824.3</b>	<b>7,428.6</b>	<b>7,734.9</b>	<b>7,738.6</b>	<b>7,984.3</b>	<b>8,213.1</b>
<b>EXPENDITURE</b>						
Recurrent	6,440.3	6,982.0	7,254.2	7,451.1	7,566.7	7,746.1
Capital	377.3	443.6	474.8	382.6	409.9	441.8
<b>Total Expenditure</b>	<b>6,817.6</b>	<b>7,425.6</b>	<b>7,729.0</b>	<b>7,833.7</b>	<b>7,976.6</b>	<b>8,187.9</b>
<b>CASH FINANCING</b>						
Recurrent Surplus/(Deficit)	107.8	354.3	96.2	112.2	336.1	427.1
Capital Surplus/(Deficit)	(101.1)	(351.3)	(90.3)	(207.3)	(328.4)	(401.9)
<b>Operating Surplus/(Deficit)</b>	<b>6.7</b>	<b>3.0</b>	<b>5.9</b>	<b>(95.1)</b>	<b>7.7</b>	<b>25.2</b>

(a) Revenue for 1997-98 adjusted to ensure comparability with the 1999-2000 Budget and forward estimates. An adjustment was made to exclude proceeds from the sale of the Dampier to Bunbury natural gas pipeline.

A reconciliation of the 1999-2000 forward estimates with the 1999-2000 Budget estimates is shown in Table 4 below. The expenditure estimated for 1999-2000 is \$396.3 million higher than estimated at the time of the 1998-99 Budget, largely as a consequence of additional funding to meet increased demand, costs and new expenditure priority pressures in the education (\$121.8 million), law and order (\$49.7 million) and health (\$82.1 million) sectors. Parameter changes total \$138.1 million, of which \$60 million is to meet emerging superannuation liabilities.

Table 4

**RECONCILIATION OF 1999-2000 FORWARD ESTIMATES WITH 1999-2000  
BUDGET ESTIMATES OF EXPENDITURE**

	\$m
<b>Forward estimate of expenditure (recurrent and capital) for 1999-2000 reported in the 1998-99 Budget</b>	<b>7,332.7</b>
Adjustments since 30 April 1998 attributable to:	
Expenditure Policy decisions (net) <sup>(a)</sup>	251.1
Parameter variations <sup>(b)</sup>	138.1
Accounting changes	7.1
<b>1999-2000 Budget estimate of expenditure (recurrent and capital)</b>	<b>7,729.0</b>

(a) This figure includes \$176.4 million in additional funding to meet increased demand, mainly in education and health. The amounts involved can be considered as either parameter changes or policy decisions. They are treated as policy decisions in this document.

(b) Chapter 3, Appendix 3 shows details of recurrent parameter variations.

Table 5 below shows the major growth areas in 1999-2000 Budget expenditures when compared to 1998-99 estimated actuals. Further information on the major expenditure areas is available in Chapter 3, Part II.

Table 5

**MAJOR GROWTH AREAS IN BUDGET EXPENDITURE**

Agency	1998-99	1999-00	Change		
	Estimated Actual \$m	Budget Estimate \$m	\$m	% nominal	% real
Health	1,747.8	1,793.5	45.7	2.6	0.4
Education	1,297.1	1,388.4	91.2	7.0	4.7
Justice	336.3	364.6	28.3	8.4	6.0
Training	219.6	230.7	11.1	5.1	2.8
Disability Services Commission	141.2	151.7	10.5	7.5	5.1
Education Services	133.7	149.8	16.1	12.0	9.5
Commerce and Trade <sup>(a)</sup>	64.0	94.3	30.3	47.3	44.0
Conservation and Land Management	50.0	56.4	6.4	12.7	10.2

(a) The large growth in the Commerce and Trade Budget is partly a result of capital expenditure shifts from 1998-99 to 1999-2000.

Real per capita spending in the key service delivery areas of education, health and law and order has, in recent years, been consistently higher in Western Australia than the average of the other States. This trend is expected to be maintained in 1999-2000.

Further analysis of this expenditure trend is provided in Chapter 3.

## MAJOR POLICY DECISIONS

As noted above, the impacts of policy decisions are generally discussed in these Budget Papers in terms of their cash impact on the Consolidated Fund. Table 6 summarises all policy decisions affecting service delivery or revenue, such as taxes and charges, taken by the Government since the 1998-99 Budget.

	Effect on Consolidated Fund Cash Balance <sup>(b)</sup>			
	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m
<b>MAJOR POLICY DECISIONS TAKEN SINCE THE 1998-99 BUDGET <sup>(a)</sup></b>				
<b>NEW EXPENDITURE MEASURES:</b>				
Education <sup>(c)</sup>	121.8	121.1	91.2	141.8
Health <sup>(c)</sup>	82.1	83.1	84.1	85.1
Justice <sup>(c)</sup>	44.2	34.4	31.1	31.1
Transport	13.4	14.2	5.6	5.2
Police <sup>(c)</sup>	5.5	16.8	11.5	5.5
Commerce and Trade	3.7	0.7	0.7	0.7
Training	3.4	3.4	3.4	3.4
Conservation and Land Management	3.2	1.2	1.2	1.2
Resources Development	-1.0	-4.5	-8.3	1.4
Swan River Trust	2.8	2.8	2.8	2.8
Premier and Cabinet	2.9	1.0	1.6	2.1
Sport and Recreation	12.4	2.5	-0.8	-0.8
Aboriginal Affairs	1.5	1.5	1.5	1.5
State Revenue	1.3	1.3	1.3	1.3
Curriculum Council	1.0	1.5	-	-
Fire and Emergency Services Authority	1.8	1.8	1.8	1.8
Water and Rivers Commission	0.7	0.9	-	-
Culture and the Arts	1.9	1.9	2.9	2.9
Minerals and Energy	0.4	0.4	0.4	0.4
Planning	0.4	0.4	-	-
Land Administration	0.3	0.3	0.3	0.3
Western Australian Sports Centre Trust	0.2	0.2	0.2	0.2
Tourism Commission:				
Convention Centre	-21.8	-47.5	-12.5	90.6
Other	2.7	2.7	3.5	3.7
Treasury:				
Housing	8.9	3.0	5.0	3.0
Global Provision for Incentives <sup>(d)</sup>	8.0	8.0	8.0	8.0
CSO to LandCorp for Exmouth Superlot	6.6	-	-	-
	<b>308.3</b>	<b>253.1</b>	<b>236.5</b>	<b>393.2</b>
<b>EXPENDITURE SAVING MEASURES:</b>				
Expenditure reprioritisation <sup>(e)</sup>	-57.2	-57.2	-57.2	-57.2
	<b>-57.2</b>	<b>-57.2</b>	<b>-57.2</b>	<b>-57.2</b>
<b>REVENUE ENHANCEMENT MEASURES:</b>				
Stamp Duty on Vehicle Licences	-21.9	-25.3	-26.8	-28.3
	<b>-21.9</b>	<b>-25.3</b>	<b>-26.8</b>	<b>-28.3</b>
<b>REVENUE REDUCTION MEASURES:</b>				
Land Tax	7.0	7.5	8.0	8.6
	<b>7.0</b>	<b>7.5</b>	<b>8.0</b>	<b>8.6</b>
<b>TOTAL IMPACT OF ALL MEASURES</b>	<b>236.2</b>	<b>178.1</b>	<b>160.5</b>	<b>316.3</b>

(a) Includes impact of both recurrent and capital measures on Consolidated Fund revenue and expenditure.  
(b) A negative (-) sign indicates an increase in the surplus.  
(c) These decisions are partly in the nature of additional funding to provide services to meet rising demand.  
(d) To meet incentive payments to agencies demonstrating prudent financial management.  
(e) These measures reduce the forward estimates in some agencies which are outside the top priority areas of education, health and law and order.

A high priority of the 1999-2000 Budget is expenditure on community services. New expenditure measures include \$82.1 million for hospitals to maintain pace with the increasing demand for services and to address hospital waiting times. The additional \$121.8 million for education is being directed towards school initiatives, such as reduced class sizes, early childhood enhancement, Local Area Planning and salary costs from recent increases. The additional \$49.7 million allocated for law and order provides for increasing prisoner numbers, assists victims of crime and allows for more Police officers to be diverted from administrative duties to “the beat”.

The demand for increased services has been met partly by expenditure reprioritisation and revenue enhancement. The revenue enhancement measure is expected to increase revenue by \$21.9 million in 1999-2000 and involves the restructure of the stamp duty scale on registrations and transfers of motor vehicle licences. This revenue measure will be offset to some extent by a reduction in 1999-2000 in land tax rates (\$7 million in 1999-2000), designed to counter the impact of bracket creep.

Savings from expenditure reprioritisation amount to \$57.2 million per annum. For most agencies these represent small reductions when compared to their base level of funding and are to be absorbed by general productivity measures. In other cases specific strategies will be adopted to ensure service delivery is not compromised. When combined with the revenue enhancement measure, the savings generated from expenditure reprioritisation will be utilised to help meet the demand for services in the high priority areas of health, education and law and order.

The net impact of all policy measures is a decrease in the Consolidated Fund cash operating surplus of \$236.2 million in 1999-2000. In response to this a number of measures have been adopted to fund the capital works program other than through borrowings on the Consolidated Fund. These measures include the refinancing of outstanding high cost debt that statutory bodies had previously sourced from the Consolidated Fund. The measures are treated as capital revenue for the Consolidated Fund and are set out in Appendix 7 of Chapter 3.

Further details and discussion of major policy decisions and parameter variations since the 1998-99 Budget are contained in Chapter 3.

## ECONOMIC FORECASTS

The forecasts for major economic aggregates that underlie the budget and forward estimates, together with the expected outcome for 1998-99, are shown in Table 7. A more detailed discussion of trends in Western Australia's major economic aggregates is provided in Chapter 2.

<b>MAJOR ECONOMIC AGGREGATES <sup>(a)</sup></b>					
	1998-99	1999-00	2000-01	2001-02	2002-03
	%	%	%	%	%
Real Economic Growth (GSP)	3.25	4.50	5.00	5.00	5.00
State Final Demand	0.75	2.75	4.50	4.50	4.50
Employment Growth	2.50	2.00	2.75	3.25	3.25
Unemployment Rate	7.00	6.75	6.50	6.25	6.25
Consumer Price Index	1.75	2.25	3.00	2.50	2.50
GSP Implicit Price Deflator	2.00	2.25	2.50	2.25	2.25
Wages Growth	3.25	3.50	3.75	3.25	3.25

(a) 1998-99 figures are estimated outcomes, figures for 1999-2000 and beyond are forecasts.

## PUBLIC SECTOR FINANCE AGGREGATES

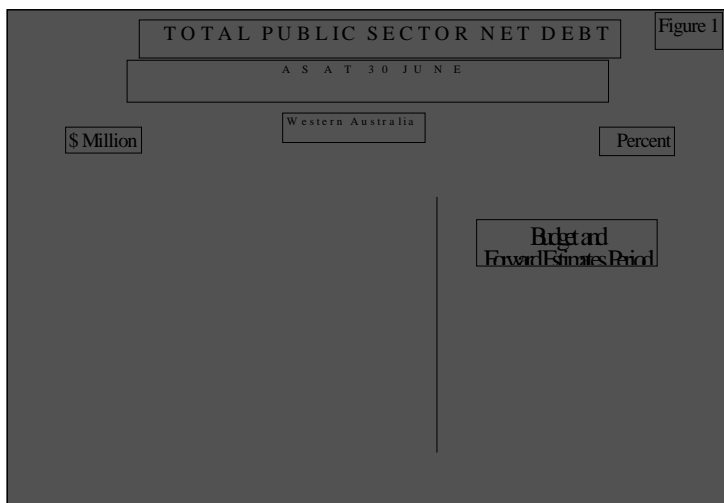
Table 8 shows public sector finances for 1998-99 and 1999-2000 in accordance with ABS government finance statistics classification standards.

<b>PUBLIC SECTOR FINANCES</b>								
<b>Summary of Major Aggregates</b>								
	General Government		Public Trading Enterprises		Public Financial Enterprises		Total Public Sector	
	1998-99 Estimated Actual \$m	1999-00 Budget Estimate \$m	1998-99 Estimated Actual \$m	1999-00 Budget Estimate \$m	1998-99 Estimated Actual \$m	1999-00 Budget Estimate \$m	1998-99 Estimated Actual \$m	1999-00 Budget Estimate \$m
OUTLAYS	8,127	8,754	2,025	2,041	887	726	9,814	10,259
REVENUE	7,914	8,116	1,256	1,298	980	834	8,924	8,986
FINANCING TRANSACTIONS	213	638	769	743	-92	-108	890	1,273
Current Surplus	628	391	335	680	35	119	998	1,190
Capital Surplus	-841	-1,029	-776	-826	-1	-1	-1617	-1,856
<b>Total Surplus/ Deficit (-)</b>	<b>-213</b>	<b>-638</b>	<b>-441</b>	<b>-146</b>	<b>34</b>	<b>119</b>	<b>-619</b>	<b>-666</b>

The total public sector is estimated to record a deficit of \$666 million in 1999-2000, with recurrent surpluses being offset by capital deficits. As a proportion of GSP, however, the expected deficit of the total public sector in 1999-2000 remains largely unchanged from the 1998-99 level.

The forecast deficit is due to the substantial capital works program of both the general government and public trading enterprises sectors, which is essential in meeting Western Australia’s growth needs. The projected healthy surplus on current operations in 1999-2000 indicates that the cost of day-to-day operations of the State public sector are being met by the current generation of taxpayers. In addition, this surplus makes a significant contribution to funding capital spending.

Figure 1 below shows that the net debt of the total public sector is expected to increase through to 2000-01 in support of the enhanced capital works program. Net debt is expected to decline thereafter as major capital projects wind back and the reliance on debt funding is diminished. As a proportion of GSP, the declining general trend in net debt observed in preceding years is expected to continue over the forward estimates period.



Further details on public sector finances are contained in Chapter 6.



## PART II

### GOVERNMENT FINANCIAL STRATEGY STATEMENT

#### INTRODUCTION

This Statement outlines the Government's financial strategy for the budget year and forward estimates period, detailing the financial management objectives for the public sector. Chapter 3 includes the *Financial Projections Statement* which compares the forward estimates and other projections against the targets.

The Government has passed its *Government Financial Responsibility Bill 1998* in the Legislative Assembly. The legislation is intended to provide a comprehensive financial planning, targeting and reporting framework for public sector finances. This statement complies with the Bill.

#### FINANCIAL STRATEGY STATEMENT

For 1999-2000 Budget purposes, the Government's financial strategy remains unchanged from its previous two budgets. The key features of the strategy include management of the financial elements of net assets, net debt, operating expenses, operating balance, underlying cash balance and the management of risk. The financial strategy has been maintained despite the revenue and expenditure pressures described above.

Appropriate financial management of these elements will guarantee that the public sector's performance and position remains consistent with the financial principles laid out in the *Government Financial Responsibility Bill 1998* (outlined below).

In particular, the following targeting framework will form the basis of macro-financial planning for the Western Australian public sector for this budget.

Table 9

**FINANCIAL STRATEGY  
ELEMENTS AND TARGETS**

<b>Financial Element</b>	<b>Financial Target</b>
Net assets	Net assets of the public sector be maintained or increased.
Net debt	A declining net interest cost as a proportion of own source revenue for the public sector.
Operating expenses	Real per capita expenses for the Consolidated Fund Entity be decreased.
Operating balance	An accrual operating surplus (before abnormal and extraordinary) for the total public sector.
Underlying balance <sup>(a)</sup>	The Consolidated Fund and general government sectors run an underlying cash surplus.
Risk management	Maintenance over the forward estimates of the financial management plan announced in the 1998-99 Budget to manage and fund accruing superannuation liabilities. Rationalise ownership of assets exposed to business risks.

(a) Equivalent to the surplus/deficit measure in government finance statistical series such as those in Chapter 6: *Uniform Presentation of Public Sector Finances*.

### Outline of Targets

Explanations of each of the targets, how they relate to the *financial principles* and how they are to be achieved are outlined below. Estimates of the relationship between the Government's financial projections and the targets are contained in Chapter 3.

*Net assets of the public sector be maintained or increased.*

This indicator provides a comprehensive measure of the implications of government operations for the net assets (or equity) taxpayers hold in their public sector. It is also helpful in assessing the long term sustainability of current financial policy and highlights potential intergenerational inequities. This target requires sound asset acquisition and/or sale decisions and effective management of liabilities.

*A declining net interest cost as a proportion of own source revenue for the public sector.*

This target indicates the drain on public sector revenue represented by interest costs and, in this sense, indicates how effectively debt is being managed. Effective debt management is of crucial importance to credit rating agencies, business partners, international investors and the public. A successful debt reduction strategy also frees funds for application in other areas. The expression of the target means that additional total public sector net debt can be contemplated as long as the proportion of revenue represented by net interest payments does not increase.

*Real per capita expenses for the Consolidated Fund Entity be decreased.*

This target is concerned with promoting aggregate expenditure restraint and providing a focus for improving value for money in the public sector. The Consolidated Fund Entity is the sector closest to reflecting expenditure policy decisions of Government. It allows expenses on agencies and their outputs to grow up to, but not exceed, the combined growth in population and inflation. In this environment, improved service provision arises through improved efficiency and productivity. This target is now required to be met each year, rather than on average, representing a tightening of the framework and, as foreshadowed last Budget, it has been converted to an accrual basis.

Expenditure restraint renders other key targets, including the accrual operating surplus, underlying cash balance, net assets and net debt targets more likely to be achieved.

*An accrual operating surplus (before abnormals and extraordinaries) for the total public sector.*

This target provides a complete picture of total public sector operational performance for the year. It is based on generally accepted accounting standards and provides a more comprehensive assessment of financial results and position than cash measures, for example, by including non-cash expenses such as leave entitlements. The accrual basis highlights intergenerational equity issues by indicating whether the Government is living beyond its means, and also provides an indicator of whether the existing level of services can be sustained.

*The Consolidated Fund and general government sectors run an underlying cash surplus.*

The target measures the underlying economic impact of the Budget balance for the Consolidated Fund and general government sectors by removing large once-off transactions such as intergovernmental debt repayments and equity sales. An underlying surplus is a measure of the relevant sector's contribution to savings, while a deficit represents a draw on the savings of other sectors.

*Maintenance over the forward estimates of the financial management plan announced in the 1998-99 Budget to manage and fund accruing superannuation liabilities.*

This target focuses on a significant emerging liability which has the potential to compromise the financial status of the State if left unmanaged. The contributions towards the unfunded Superannuation Guarantee Charge (SGC) and West State Super (WSS) Scheme announced in the 1998-99 Budget ensure that accruing superannuation expenses are fully funded. This is consistent with the principles that current generations pay for current services and that risk is prudently managed.

*Rationalise ownership of assets exposed to business risks.*

The target provides a commitment by Government to address risks through ensuring its business focus is on core functions, and through privatisations in appropriate circumstances. Recent examples include the sale of the Dampier to Bunbury natural gas pipeline and BankWest. The Government's equity in Westrail and AlintaGas is currently under consideration for sale.

## LEGISLATIVE REQUIREMENTS

In relation to budget presentations, the *Government Financial Responsibility Bill 1998* sets out a number of requirements for Government and for public servants<sup>3</sup>.

The Bill specifies a set of *Financial Principles*. These are broad financial management principles within which the Government will choose a *Financial Strategy* including *Financial Targets*.

The *Financial Principles* are:

- Funding for current services to be provided by the current generation;
- Spending and taxing policies are to be formulated and applied so as to give rise to a reasonable degree of stability and predictability; and
- Financial risks are to be managed prudently.

The *Financial Strategy* and *Targets* are included in this Statement, which meets both the requirements of the *Principles* and describes the Government's financial strategy.

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<sup>3</sup> In addition to the budget requirements, the Bill specifies requirements for interim (mid-year) and actual outturn financial reporting to facilitate analysis of progress against the budget. Requirements are also specified for the release of forward projections prior to a general election and for costing of election commitments. All projections are to be prepared using data consistent with external standards (Australian Accounting Standards and Government Finance Statistics principles).

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## CHAPTER 2

# THE WESTERN AUSTRALIAN ECONOMY

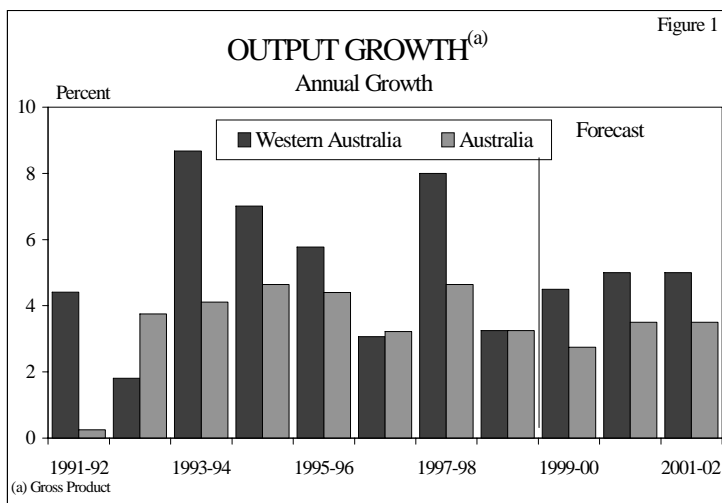
### HIGHLIGHTS

- The Western Australian economy is forecast to grow by 4.5% in 1999-2000, following a steadying in the economy in 1998-99 at a high level of activity. The State continues to enjoy strong growth, notwithstanding conditions in the world economy.
- Business investment reached a record \$12.4 billion in 1998. After a return to more sustainable levels of investment in 1999, modest growth in business investment is forecast for 1999-2000.
- The benefits of record levels of business investment are expected to begin to flow through to Western Australia's export growth in 1999-2000 with the commissioning of a number of large-scale resource projects.
- However, overall world demand conditions are anticipated to remain subdued through 1999-2000, with no significant improvement in Western Australia's major trading partners likely until mid-2000. Volumes of Western Australia's exports are expected to remain buoyant, but prices will continue to act as a constraint on returns to producers.
- Modest, yet consistent, employment growth is forecast to bring further steady reductions in the unemployment rate. This is set to be achieved within an environment of low inflation and moderate wage growth.
- Over the medium term, the timing of large investment projects will continue to have a major influence on changes in the State's growth performance. Business investment is projected to pick-up as external conditions improve through 2000-01. Reflecting this, growth in the State's economy is forecast to average around 5.0% per annum over the forward estimates period.

## OVERVIEW

### Outlook for 1999-2000

The pace of growth in the Western Australian economy is expected to lift significantly to 4.5% in 1999-2000, up from estimated growth of 3.25% in 1998-99.<sup>1</sup>



The anticipated strengthening of growth in the Western Australian economy in 1999-2000 is due to an expected improvement in both domestic demand and, to a lesser extent, exports, following a consolidation of high levels of activity in 1998-99. While the outlook for growth in 1999-2000 appears optimistic in the current economic climate<sup>2</sup>, the relatively stable levels of activity over 1998-99 provide a springboard for achieving higher rates of growth in 1999-2000 (see *Feature 1* for an analysis of expected and actual performance of the Western Australian economy in 1997-98 and estimated outcome in 1998-99).

The lift in domestic demand largely reflects a turnaround in business investment, from an estimated decline of 15.0% in 1998-99, to a modest increase in 1999-2000. As such, 1999-2000 represents a return to trend levels of investment, following the near record 26.8% rise in investment spending in 1997-98 and subsequent fall in 1998-99. Importantly, while investment growth will be subdued in 1999-2000, it should nonetheless make a small positive contribution to output growth.

Growth in private consumption expenditure is forecast to ease modestly, but will continue to provide a strong contribution to overall growth. This is expected to be accompanied by a pick-up in dwelling investment.

<sup>1</sup> All figures are in real terms, with actual data sourced from the Australian Bureau of Statistics (ABS), unless otherwise stated. The estimate of gross State product in 1997-98 is a Treasury estimate based on ABS statistics for State final demand and real net international merchandise exports. Data for 1998-99 are Treasury estimates. All data in figures relate to Western Australia unless otherwise stated.

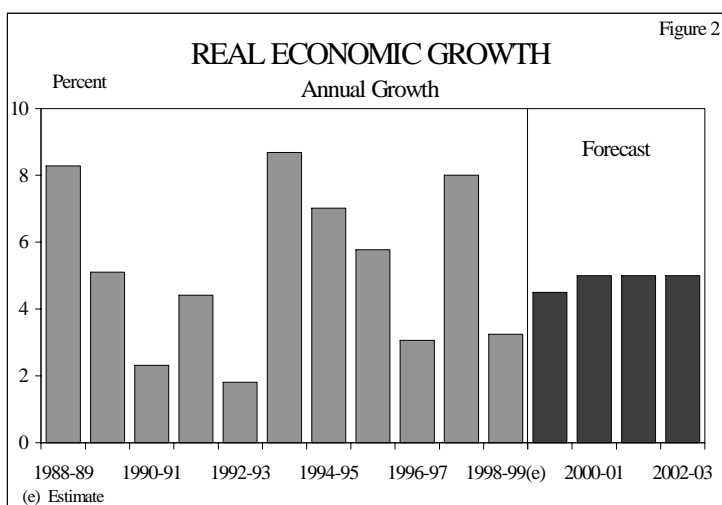
<sup>2</sup> A detailed analysis of current conditions in the Western Australian economy is provided by the Quarterly Economic Summary of the Western Australian economy for the March quarter, produced by the Western Australian Treasury.

The impetus to growth from the external sector is expected to strengthen slightly in 1999-2000. This is largely the result of a number of new projects moving into the production stage of their life cycle, leading to an increase in export growth. Increased capacity will be most evident in the production of nickel, iron ore and hot briquetted iron. At the same time, slower investment growth is likely to reduce the inflow of capital goods imports. These factors combined are forecast to result in a healthy increase in net exports, despite conditions in the world economy.

Employment growth is expected to remain relatively subdued in 1999-2000, despite the anticipated lift in domestic activity. This largely reflects the composition of domestic demand growth. In particular, activity is expected to ease in the wholesale and retail trade industries and in non-dwelling construction. Nevertheless, employment is forecast to grow by 2.0% in 1999-2000. This should bring a slight decline in the unemployment rate to an average 6.75% over the year, down from an estimated 7.0% in 1998-99.

### Medium Term Outlook

The outlook for economic activity in Western Australia is for a stabilisation in growth around the long-term average of 5.0% per annum over the medium term (see Figure 2). Domestic demand is expected to contribute around 3.75 percentage points per annum to growth, with the external sector contributing 1.25 percentage points each year.



Growth in business investment is expected to return to relatively strong rates in 2000-01 and beyond. This reflects an expected improvement in international economic conditions, and a consequent lift in demand for commodities, towards the end of 1999-2000. This improvement in international conditions is likely to influence the timing of commencement of a number of projects currently the subject of detailed planning. The pick-up in investment should contribute to growth in other sectors of the Western Australian economy, resulting in steady growth in private consumption expenditure and continued modest growth in dwelling investment.

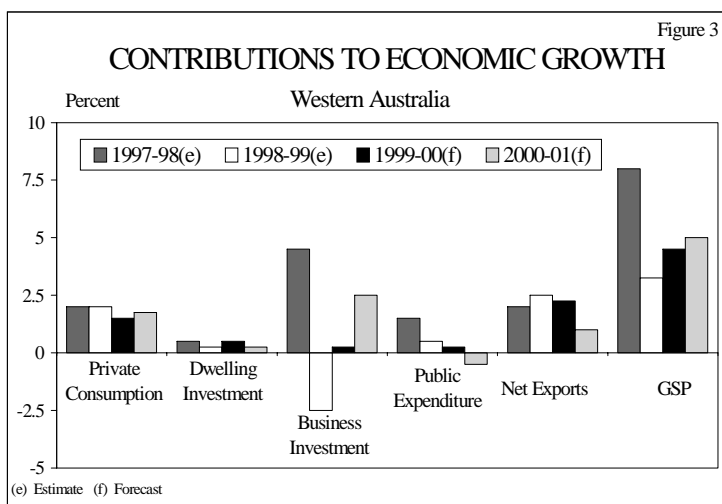


Table 1

### WESTERN AUSTRALIA'S COMPONENTS OF GROWTH<sup>(a)</sup>

	Components of Economic Growth Annual Average Growth %			
	Actual	Estimate	Forecast	
	1997-98	1998-99	1999-00	2000-01
Private				
Consumption	4.6	4.0	3.0	3.5
Dwelling Investment	11.6	5.0	7.5	5.5
Business Investment	26.8	-15.0	2.5	17.0
Public				
Consumption	8.7	5.25	-1.0	-1.0
Investment	-1.9	4.25	6.25	-9.0
State Final Demand	9.4	0.75	2.75	4.5
Exports	15.5	4.25	6.75	7.5
less Imports	24.5	-4.5	5.5	15.5
Net Exports	7.5	9.5	7.25	3.5
<b>GROSS STATE PRODUCT</b>	<b>8.0</b>	<b>3.25</b>	<b>4.5</b>	<b>5.0</b>

(a) Totals may not add due to the statistical discrepancy



Table 2

**WESTERN AUSTRALIA'S  
MAJOR ECONOMIC AGGREGATES**

	Annual Average Growth %					
	Actual	Estimate	Forecast			
	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Gross State Product	8.0	3.25	4.5	5.0	5.0	5.0
Employment Growth	2.7	2.5	2.0	2.75	3.25	3.25
Unemployment Rate	7.0	7.0	6.75	6.5	6.25	6.25
Wages Growth	1.6	3.25	3.5	3.75	3.25	3.25
Consumer Price Index(a)	-0.25	1.75	2.25	3.0	2.5	2.5
GSP Implicit Price Deflator	1.25	2.0	2.25	2.5	2.25	2.25

(a) Does not incorporate any impact of the introduction of the proposed goods and services tax package.

***Feature 1: 1998-99 Budget Projections and Estimated Outcomes***

The measured performance of the Western Australian economy in 1998-99 varied from the forecasts provided in the 1998-99 budget on 30 April 1998 in several important respects. This was largely due to the concentration of investment spending on a number of major projects in 1997-98. With construction on some of these projects having been completed somewhat earlier than forecast, there has been a decline in the level of investment spending in 1998-99. As a result, the forecast growth rate for 1998-99 has been revised down from 5.0% at budget time to 3.25%.

Growth in business investment reached a record 26.8% in 1997-98. This was significantly stronger than the 13.5% estimated for that year and reflected slightly different timing of expenditures on a number of large projects than that projected. As a consequence, domestic demand grew by 9.4% in 1997-98 - 4.9 percentage points higher than anticipated when the 1998-99 estimates were set down.

Capital expenditure on Western Australia's major projects can account for as much as a third of the State's total investment in any quarter. The size of this spending means that even slight changes in timing can substantially alter the pattern of investment growth from year to year. The impact of accelerated spending at the end of 1997-98 was to reduce the level of investment at the start of 1998-99, the most important quarter for determining the likely growth outcome for the financial year as a whole. With those projects therefore having less of their expenditure occurring in 1998-99, the estimate for business investment growth for this year has been revised down substantially from 8.25% to -15.0%. It is of interest that the substantially different pattern of business investment was not foreshadowed by industry in companies' own expectations of capital expenditure as surveyed by the Australian Bureau of Statistics.

Of the other components of domestic activity, the current estimate for growth in consumer spending in 1998-99 is in line with that forecast in the 1998-99 budget, despite buoyant levels of consumer spending having been sustained for longer than most commentators anticipated. However, there was a slight weakening in dwelling investment early in 1998-99, which was previously anticipated to occur later in the year. This has led to a downward revision of the original dwelling investment forecast from 8.75% to 5.0% for 1998-99.

Both public investment and consumption spending (including Commonwealth, State and local government expenditures) were slightly stronger in 1998-99 than anticipated at the time of the budget.

The 1998-99 budget estimates for exports were widely considered to be optimistic at the time of their release. However, notwithstanding the developments in the world economy, the estimate for growth in export volumes in 1998-99 remains virtually unchanged from the budget forecast. Continued strong growth in exports through 1998-99 was underpinned by strong demand from Western Australia's industrialised trading partners more than offsetting a decline in exports to markets hit by the Asian financial and economic downturn early in the year.

Table 3

**1998-99 BUDGET AGGREGATES AND OUTCOMES**

	Annual Average Growth			
	1997-98		1998-99	
	Estimate	Actual	Forecast	Estimate
<b>Private</b>				
Consumption	4.0	4.6	4.0	4.0
Dwelling Investment	8.0	11.6	8.0	5.0
Business Investment	13.5	26.8	8.25	-15.0
<b>Public</b>				
Consumption	3.25	8.7	3.25	5.25
Investment	7.5	-1.9	3.5	4.25
State Final Demand	6.0	9.4	4.0	0.75
Exports	7.25	15.5*	4.75	4.25
less Imports	11.5	24.5*	7.25	-4.5
Net Exports	5.0	7.5*	3.5	9.5
Gross State Product	6.5	8.0*	5.0	3.25
Employment	2.5	2.7	3.25	2.5
Unemployment Rate	7.0	7.0	6.75	7.0
Consumer Price Index	0.75	-0.25	3.25	1.75
GSP Deflator	1.5	1.25*	2.75	2.0
Wages Growth	2.75	1.6	3.25	3.25

\* Treasury Estimates.

The impetus to sustained demand for the State's exports was partly a result of the depreciation of the Australian dollar. There was also a boost to exports from the refining of imported gold for subsequent re-export. Encouragingly, there are now signs that exports to East Asia have begun to recover from significant declines early in the year.

The weaker growth in domestic demand in 1998-99 is expected to flow through to slower employment growth than projected at budget time. As a result, the unemployment rate is expected to be slightly higher on average over the year than previously anticipated. Notwithstanding this, Western Australia's employment growth currently stands as the strongest in the nation with 3.2% growth in employment over the year to March 1999, an unemployment rate of 6.8% and by far the nation's highest labour force participation rate.

In the face of record demand growth in 1997-98 and buoyant consumer spending, the inflation performance of the Western Australian economy (as with the national economy) has continued to exceed expectations. Consumer price inflation was forecast to rise sharply to 3.25% in 1998-99 following deflation in the previous year. The consumer price index is now estimated to grow by only 1.75% in 1998-99. Reflecting this, the gross State product implicit price deflator (a broader measure of inflation) has also been revised down slightly.

## **CONSUMER DEMAND**

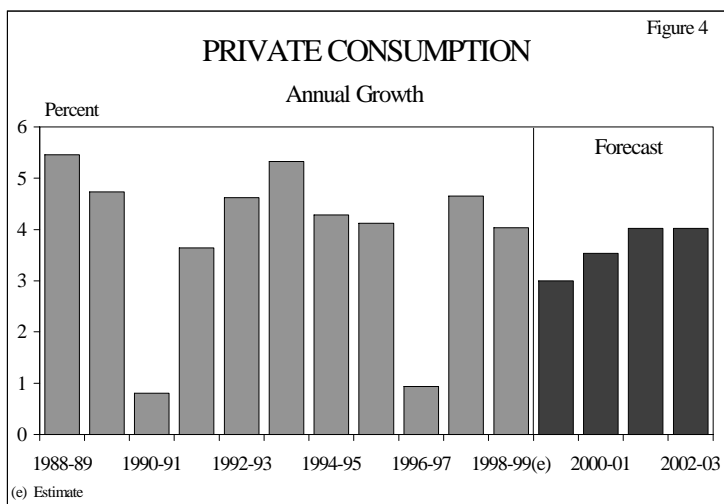
### **Private Consumption**

Growth in private consumption expenditure is forecast to ease slightly to 3.0% in 1999-2000, following estimated growth of 4.0% in 1998-99. Despite the anticipated moderation, growth in consumer demand is expected to remain robust as illustrated in Figure 4. Overall, private consumption expenditure is expected to contribute 1.5 percentage points to economic growth in 1999-2000.

Growth in private consumption expenditure over the past two years has been strong despite relatively modest growth in household incomes (ie. wages and employment). However, there has been a strong increase in available household wealth over the period and this is likely to have underpinned high levels of consumer demand to some extent.

In particular, there have been two developments that have boosted available household wealth in recent years - demutualisations and privatisations. Although demutualisations do not create wealth, depending on the method of demutualisation, they can transform wealth from membership of societies to easily tradeable shareholdings. These have contributed to a trend toward greater share ownership by households, a trend that has been further encouraged by a number of privatisations via public float.

The trend towards greater share ownership (excluding through demutualisations) appears to have been achieved through a switch in the form of household saving, from bank deposits to share holdings, rather than a substitution from consumption to higher savings.



In an environment of rising share prices, greater share ownership has provided more households with additional income from capital gains. Households can access this capital gain either by realising it through the sale of shares, or through greater use of credit, borrowed against the higher value of stocks. The latter approach would be consistent with a recent increase in the use of personal credit. In this context, greater access to wealth (and therefore an expectation of increased future income) and higher share prices, may have contributed to the strong growth in consumption over 1997-98 and 1998-99.

In the absence of any significant demutualisations and privatisations, or substantial moves in overall share prices in the immediate future, growth in consumer spending in 1999-2000 is expected to be underpinned by trends in household disposable income rather than wealth effects. In aggregate, household disposable income is expected to grow at a modest pace in 1999-2000, with a lift from stronger wages growth largely offset by slightly weaker employment growth.

There is some possibility that the pattern of consumer spending will be distorted towards the end of 1999-2000 by the introduction of the goods and services tax on 1 July 2000. In particular, changes in relative prices induced by the tax changes may result in the bringing forward of purchases of consumer goods and the deferral of motor vehicle purchases notwithstanding the transitional arrangements proposed for motor vehicles. The extent to which this occurs will be a function of individuals' perceptions of the impact of tax changes on price and the extent of response in their purchasing behaviour. Not surprisingly, these factors are difficult to predict and may result in a deviation in consumer spending patterns from the trends outlined above.

## Public Consumption

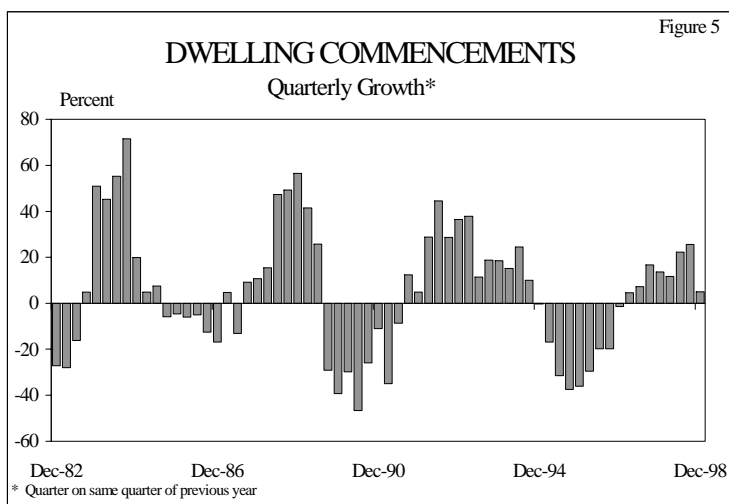
The aggregate growth in public consumption spending is forecast to ease from around 5.25% in 1998-99 to -1.0% in 1999-2000. It should be noted that this includes the impact of changes in spending by Commonwealth, State and local government agencies. For a detailed analysis of the State component of public expenditure, see Chapter 3 Financial Projections Statement.

## DWELLING INVESTMENT

Spending on dwelling construction is forecast to increase by 7.5% in 1999-2000, following growth of 5.0% in 1998-99. This is the fourth year of the current expansion in housing activity. Dwelling investment is expected to contribute 0.5 percentage points to overall growth in 1999-2000.

The housing sector tends to be characterised by cycles which on average last around 4 to 5 years from start to finish as illustrated in Figure 5. The figure also illustrates that there is a tendency for more modest growth during the expansion phase of the cycle to be accompanied by a longer expansion period (eg. 1993 to 1995). That is, the longer the market for new housing remains in or close to balance, the less likely is a corrective downturn.

This pattern is expected to dominate the present cycle. Since 1996, growth in dwelling investment has been more subdued than in previous expansions. Although the pace of growth eased in the second half of 1998, forward indicators point to a resumption of growth at higher rates through 1999.

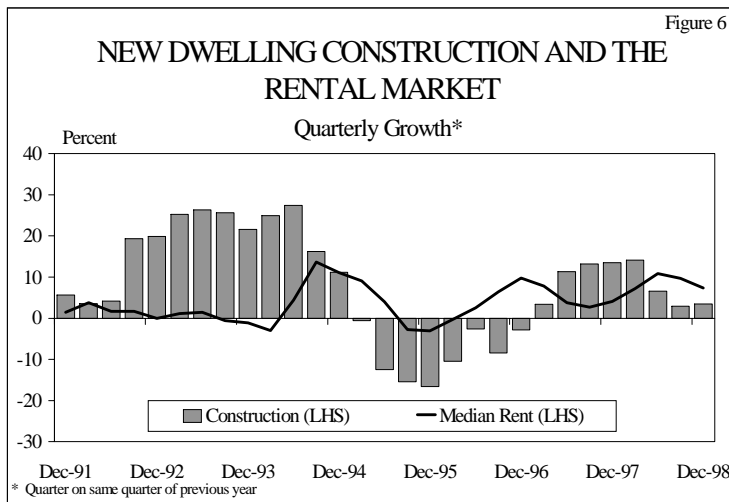


Growth in the current expansion has been more subdued than on previous occasions for a number of reasons. The resumption of growth in housing activity began at a slow pace in 1996-97, before gathering pace in 1997-98. The subsequent easing in growth through 1998-99 represented a steadying in new construction activity, at levels that can be sustained by demand.

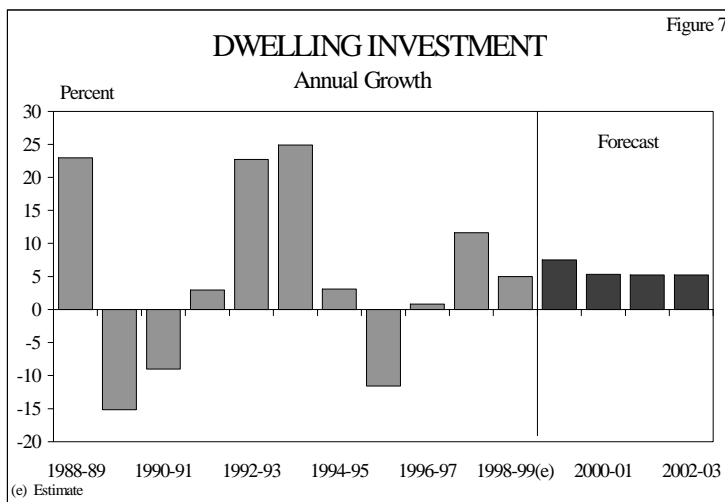
The reasons behind this growth pattern include the absence of significant levels of pent-up demand at the start of the expansion, and low asset price inflation, which reduces the impetus for speculative investment. The new housing market is currently considered to be in a position of balance between supply and demand. In this environment, dwelling investment is driven by demographic factors such as population growth, as well as favourable housing affordability.

There are indications that demand for housing is again beginning to rise, which underpins an expected lift in growth in 1999-2000. Forward indicators of dwelling investment point toward a pick-up in growth in 1999. After declining modestly in the later half of 1998 the number of housing finance commitments for construction of new housing has begun to increase. Growth in other indicators has been more robust. Building approvals rose by 17.8% in 1998, while dwelling commencements rose by 15.9%.

At the same time, indicators of activity in the established housing market, which tends to lead new construction activity (by around 2 quarters), also point towards a lift in growth in 1999. In particular, the number of established housing finance commitments rose by 12.2% in 1998. Conditions in the rental market also suggest demand for established housing is high (see Figure 6). Housing rents were 7.4% higher in the December quarter 1998 than in the December quarter 1997, while rental vacancies remained below 3.0% throughout the year – the lowest vacancy rate in over a decade.

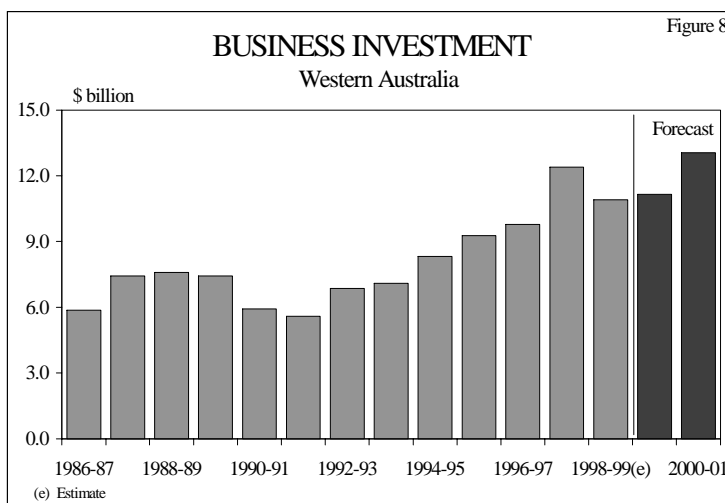


The outlook for dwelling investment beyond 1999-2000 is for growth to stabilise at around 5.0% per annum (see Figure 7), a rate consistent with growth in underlying demand. As a result, dwelling investment is expected to contribute around 0.25% per annum to overall growth.



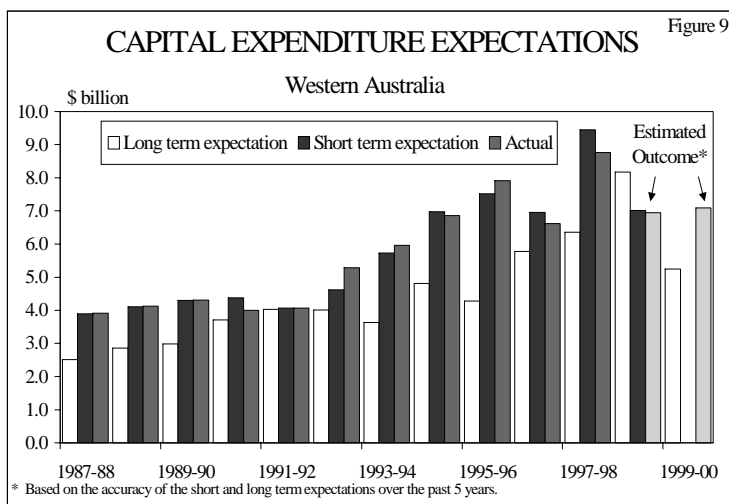
### BUSINESS INVESTMENT

Business investment is forecast to grow by 2.5% in 1999-2000, contributing 0.25 percentage points to growth. Although modest, this represents a substantial turnaround from an expected decline of 15.0% in 1998-99.<sup>3</sup> This decline represents a return to sustainable levels of investment following record spending reached during 1998. Investment spending rose to \$12.4 billion - 50% above the previous peak in 1988-89 - to represent around 18% of the State's total output, compared with 13% nationally.



<sup>3</sup> Excludes the impact of the sale of the Dampier - to - Bunbury Gas Pipeline.

The estimate for 1998-99 and the forecast for 1999-2000 are based on the latest Australian Bureau of Statistics' survey of expected private new capital expenditure in the second half of 1998-99, and for 1999-2000 as illustrated in Figure 9.<sup>4</sup>



The estimated decline in investment in 1998-99 is due to a number of large investment projects moving from their construction phase to their commissioning phase during the year. The most notable projects are the three pressure-acid-leach nickel plants (Murrin Murrin, Cawse, and Bulong), the Port Hedland hot briquetted iron plant, and the Yandicoogina iron ore mine. These projects had a combined value of \$4.8 billion in the context of total investment spending in Western Australia of over \$12.4 billion in 1997-98.

The drag on investment from the completion of these projects was only partially tempered by the commencement of construction on a number of smaller projects, including the Windimurra Vanadium project, the Lambert/Hermes oil fields, the refit of the Pioneer Cossack production vessel, a solar salt field at Onslow, and an expansion of the Sunrise Dam gold mine. Construction also commenced on a number of smaller manufacturing projects including a brickworks in Hazelmere, wool cleaning facilities in Kemerton, and a canola processing plant in Albany.

<sup>4</sup> The expectations of new capital expenditure typically differ from the actual expenditure. The factor by which they differ is referred to as the realisation ratio. This analysis applies the average realisation ratio experienced over the past five years to the long run expectations data.



The outlook for investment in 1999-2000 is less certain than it has been in the past. This is highlighted in Figure 9, which indicates that 1998-99 was the first year in over a decade in which the short term expectation for investment fell short of the long term expectation for that year (unadjusted by realisation ratios). This indicates the original investment plans for 1998-99 were revised down significantly during the course of that year. It also shows that the long term expectation for investment (the only estimate currently available for 1999-2000) tends to underestimate actual investment, for example, by as much as 80% in 1995-96. Historical trends suggest a pick-up in investment, but the most recent conditions suggest that expenditure plans can change substantially as the commitment period draws closer.

Available information on prospective projects also illustrates the uncertainty surrounding prospects for business investment in 1999-2000. Projects expected to underpin the modest growth in business investment in 1999-2000 include the Ravensthorpe nickel project, the mid-west gas transmission pipeline, the expansion of the Huntley bauxite mine and an ammonia flouride plant.

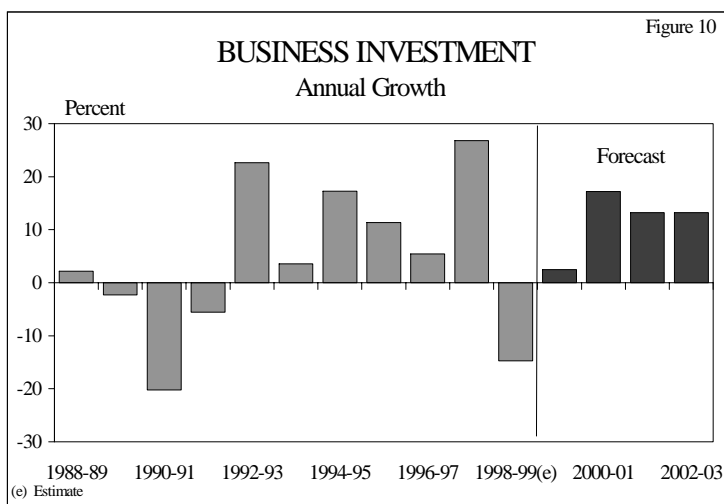
Construction may also commence on stage 2 of the Murrin Murrin nickel project and the West Angelas iron ore project. However, the timing of these projects is uncertain. Construction on stage 2 of Murrin Murrin is unlikely to occur until commissioning of stage 1 has been successfully completed and the West Angelas project is unlikely to commence until the nature of rail infrastructure has been determined. These two projects have a combined value in the order of \$1.7 billion, and the timing of their construction could have significant implications for the growth outcome in both 1999-2000 and 2000-01.

With resource extraction and processing projects tending to dominate changes in Western Australia's investment growth, the current competitive pressures across many areas of the industry provide further reason for caution in investment projections. In response to trend declines in commodity prices in recent years, many producers (both domestic and overseas) have sought to reduce costs by increasing rates of production to achieve economies of scale.

For some commodities, this strategy may be rational at an individual company level but unfortunately can be quite counter productive at an industry wide level as increased supply in the face of weakened demand has in some instances placed further downward pressure on prices. For Western Australia's resource industry, despite being amongst some of the lowest cost producers in the world, the outlook does not suggest any significant improvement in profitability in the short run, which is likely to restrict both the ability and willingness to invest in further production capacity.

In the context of these uncertainties, the forecast for growth in business investment in 1999-2000 has been based on the long-term capital expectation, adjusted for its demonstrated accuracy over the past five years (i.e. average realisation ratio of the past five years).

Beyond 1999-2000, growth in business investment is expected to lift substantially. Although timing issues will again play an important role in determining growth between years, it is anticipated that growth will average around 15% per annum until 2002-03.



This growth will be underpinned by the likely commencement of construction on a number of large projects. Possible projects include:

- A \$3.5 billion expansion of the North West Shelf LNG project involving the construction of a fourth LNG train;
- Dow/Shell's proposed \$3 billion petro-chemical plant in the Dampier/Karratha area;
- Plenty River Corporation's proposed \$800 million ammonia-urea plant on the Burrup Peninsula; and
- Alcoa's proposed \$700 million expansion of the Wagerup alumina refinery.

Being export oriented, the probability of these projects proceeding will increase as international demand conditions begin to strengthen around the end of 1999 and through 2000 (see *Feature 2: The International Economy*).

Beyond 2002-03, the outlook for business investment will be determined by the discovery and development of new resource projects. In this context, recent declines in exploration expenditure, if sustained, represent a risk to investment over the long run. The large number of projects currently under consideration or possible – estimated by Access Economics to be worth around \$58 billion – may mitigate the impact of a short downturn in exploration expenditure on investment over the longer term.

## PUBLIC INVESTMENT

Growth in public investment is forecast to accelerate to around 6.25% in 1999-2000, up from an estimated 4.25% in 1998-99.

Public investment spending will continue to be buoyed by spending on projects such as Westrail's upgrading of rail infrastructure and locomotive replacement program and the Water Corporation's in-fill sewerage program. However, with completion expected on a large proportion of these projects, spending is projected to decline by 9.0% in 2000-01 (based on the current capital works program).

## **NET EXPORTS**

The external sector is expected to continue to make a healthy contribution to growth in 1999-2000. Net exports are forecast to contribute 2.25 percentage points to growth, similar to contributions of 2.5 percentage points in 1998-99 and 2.0 percentage points in 1997-98.

The strong impetus to growth in 1999-2000 is due to a slight lift in exports growth being accompanied by more modest growth in imports. Exports growth is expected to pick-up in response to a significant increase in the State's production capacity, particularly of raw and processed mineral products. At the same time, subdued levels of investment will keep imports of capital goods low (the high value of Western Australia's capital goods tends to dominate movements in overseas imports).

Conditions in Western Australia's major export markets are expected to be mixed. Stronger demand from East Asia is expected as it emerges from the financial crisis of 1997-98 and 1998-99, but will be offset by a continuation of subdued growth in Japan, the State's largest trading partner. At the same time, although the United States' economy continues to out-perform the expectations of most analysts, growth is likely to ease somewhat (see *Feature 2: The International Economy*).

Beyond 1999-2000, the contribution to growth from net exports is expected to fall to around 1.25 percentage points per annum. Although exports are projected to continue growing at a healthy pace, the substantial growth in business investment on a number of large projects is expected to result in a significant lift in imports growth. Due to the long length of the planned construction period on a number of these projects, the increase in export production capacity arising from a large proportion of this investment is not expected to boost exports growth within the period to 2002-03.

### ***Feature 2: The International Economy***

The pace of growth in Western Australia's major trading partners (MTPs) eased substantially in 1998, with growth falling from 2.9% in 1997 to 1.2% in 1998. Growth during the year was underpinned by a strong increase in output in the United States' economy. This was partially offset by a decline in activity in Japan and South East Asia.

The outlook is for a steady lift in growth in 1999 and 2000. With growth in the United States expected to ease, the modest increase in MTP growth reflects a stabilisation in Japanese activity accompanied by a rebound in growth in North East Asia.

Table 4

**INTERNATIONAL OUTLOOK**

	<b>Real GDP Growth</b>			<b>Share of Western Australian Exports</b>
	Actual 1998 %	Forecast 1999 %	Forecast 2000 %	Actual 1998 %
MTPs	1.2	1.8	2.0	72.3
OECD MTPs(a)	1.5	1.6	1.6	49.9
NE Asian MTPs(b)	2.0	4.5	5.4	22.9
SE Asian MTPs(c)	-7.6	-0.6	3.0	9.5

(a) Japan, South Korea, United States of America, United Kingdom and Germany

(b) South Korea, China, Taiwan and Hong Kong

(c) Singapore, Indonesia, Malaysia, Thailand and the Philippines

Growth in Western Australia's MTPs is anticipated to recover slightly earlier than growth in the world economy as a whole. This reflects the onset of the Asian downturn and subsequent stabilisation in growth occurring ahead of similar developments in Russia and Latin America. The world economy is forecast to grow by 1.6% in 1999 before strengthening to around 2.0% in 2000. Western Australia's MTPs are forecast to grow by 1.8% in 1999 and 2.0% in 2000.

The anticipated recovery in world growth is likely to result in a stabilisation and modest recovery in commodity prices. The timing and magnitude of the recovery will however depend largely on trends in industrial production. As discussed below, there are tentative signs that production in a number of major economies may be beginning to lift.

#### *The OECD MTPs*

Western Australia's OECD MTPs as a whole are forecast to grow by 1.6% in both 1999 and 2000. This is broadly similar to growth in 1998. However, the relatively flat growth profile masks divergent growth trends within individual economies.

Growth in the United States' economy is forecast to ease from 3.9% in 1998 to 3.3% in 1999 and 2.2% in 2000. A number of factors point to an easing in growth later in the year. In particular:

- Market interest rates have recently risen and so consumer spending which is sensitive to interest rates (in particular housing and car sales) is expected to ease later in 1999.
- A slow down in profits over recent quarters may dampen business investment in coming quarters.
- The increase in wealth from the rate of growth in the stock market which has fuelled consumption is not expected to continue at the current rate and increases in spending are expected to moderate.
- The recession in Latin America and the slowdown in Europe is expected to depress export growth, particularly as Latin America accounts for 20% of United States exports.

The anticipated easing in growth in 1999 and 2000 represents a return to more sustainable rates of growth. In this context, the outlook for the United States remains relatively positive. There are, however, risks to this outlook. The most serious risk is the possibility of a significant correction in the United States' stock market. Speculation that stocks are over valued continues. Any correction is likely to have an impact on wealth and therefore consumption, and on confidence more generally. This risk is particularly important as consumer demand has been the crucial factor in the United States' strong performance to date.

In contrast to growth in the United States' economy, the performance of Japan is forecast to improve over the near term. Following a 2.9% decline in activity in 1998 – the worst decline since records began – Japan's output is expected to fall by 0.9% in 1999. Activity is forecast to stabilise in 2000, with activity rising by 0.2%.

Unlike some other Asian economies, there are no signs of recovery in Japan. Restructuring efforts by large companies and restrictive lending practices continue to impact negatively on business investment and consumer sentiment. Private consumption remains depressed by record high unemployment rates.

However, tax cuts and public investment initiatives may provide some impetus to domestic demand, while a resumption of growth in some Asian markets should lift external demand in 1999 and 2000. The main risk to this recovery scenario is that without an increase in consumer demand or a lift in business investment, the depressed economic environment in Japan would be more prolonged than currently anticipated.

*North East Asia*

Economic activity in North East Asia as a whole continued to grow in 1998, despite problems associated with the downturn in some economies, most notably South Korea. This was largely due to continued robust growth in China. The outlook is for a strong recovery in 1999, with growth lifting from 2.0% in 1998 to 4.5%. Growth is expected to rise further, to 5.4% in 2000.

This outlook is based on a continuation of relatively strong growth in China being accompanied by a strong rebound in growth in South Korea. The resumption of growth in South Korea reflects their commitment in implementing structural initiatives to address the crisis. Although there is a long way to go with reform, there are definite signs of growth in these economies in 1999. In particular, industrial production has started to rise and consumer spending has picked up in South Korea.

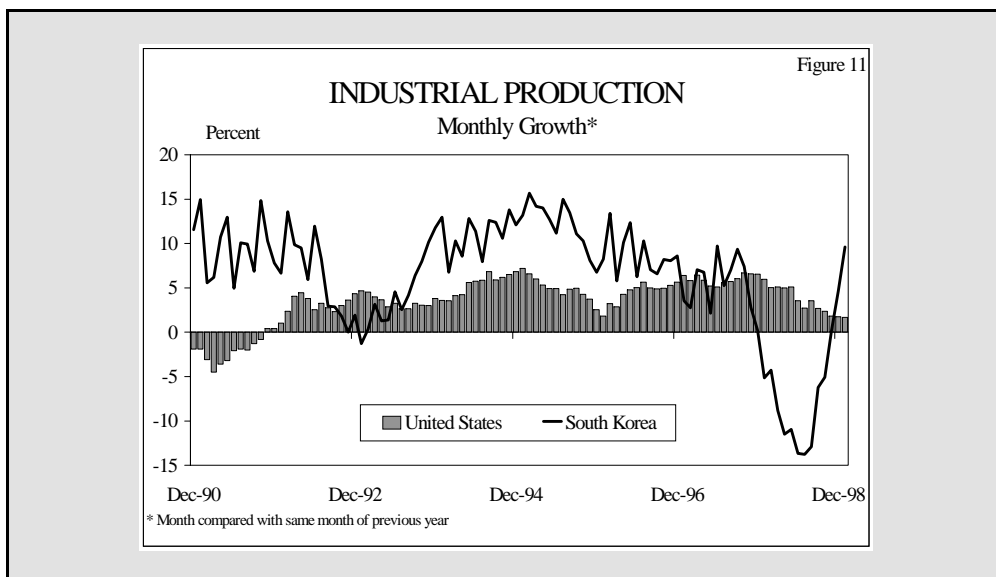
*South East Asia*

Reflecting the continuation of the Asian crisis, which began in mid-1997, economic growth in South East Asia fell by 7.6% in 1998. Activity fell in most countries in the region, with the exception of Singapore. The outlook is for divergent growth between economies. Growth is expected to rebound quickly in those economies which have begun implementing reforms, for instance Thailand. However, in countries such as Indonesia, which has been plagued by civil unrest and failed to undertake necessary reforms or instil confidence, the return to growth is expected to take somewhat longer.

*Impact on Western Australia*

The primary impact of international economic conditions on the Western Australian economy is through the demand for Western Australian commodities as inputs into industrial production. As such, levels of industrial production in the State's MTPs are more important than economic growth as a whole. This is particularly noticeable in the case of Japan, which has continued to import Western Australian commodities as inputs to industrial production, despite the slow growth in overall activity in Japan over the past decade. This has been possible, since the output of the industrial process in Japan is often exported, most notably to the United States.

Importantly, although industrial production in Japan has declined over the past year, there are tentative signs that the level of production is stabilising. This is being accompanied by continued steady growth in industrial production in the United States. At the same time, industrial production in South Korea has rebounded very strongly in recent months (see Figure 11). Although some commentators have expressed concern over the pace of the recovery in production, suggesting it is narrowly based, it is nevertheless a move in the right direction. However, the apparent recovery in South Korea's production will have to be accompanied by recoveries in other MTPs if demand for Western Australian commodities is to be sustained at higher levels.



### Merchandise Exports

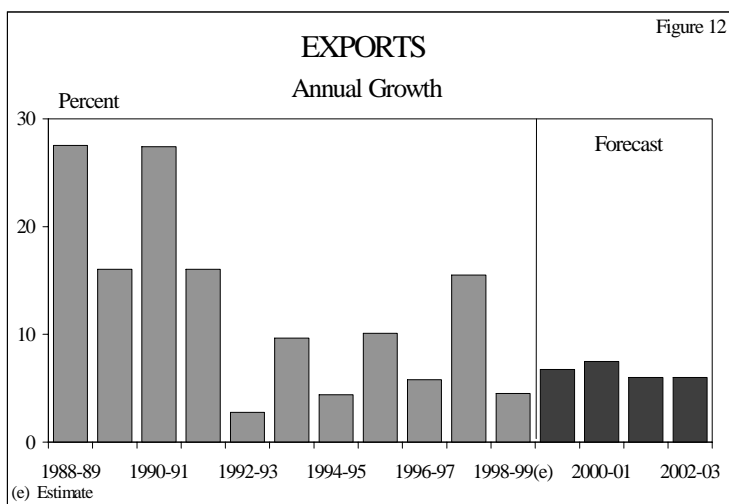
Exports growth is forecast to increase to 6.75% in 1999-2000, up from 4.25% in 1998-99 (see Figure 12).

The immediate impact of the Asian downturn was largely reflected in weaker prices for commodities rather than volumes traded. As a result, export volumes of major commodities continued to grow in 1997-98, and in the first half of 1998-99. Indeed, historically significant variations in Western Australia's export growth are mainly driven by changes in supply rather than demand.

However, it is anticipated that there may be some negative impacts on export volumes. Continued weakness in Japan is expected to have a short-term impact on volumes of some commodity exports, most notably iron ore. Recently concluded iron ore contract negotiations for Japan's financial year 1999-2000<sup>5</sup> included reductions in volumes expected to be exported of up to 8%.<sup>6</sup> It is anticipated that producers will seek alternative iron ore customers which may minimise the impact of weaker demand from Japan.

<sup>5</sup> The Japanese financial year 1999-2000 lasts from 1 April 1999 to 31 March 2000.

<sup>6</sup> Iron ore contracts negotiated between Western Australian iron ore suppliers and Japanese customers focus on price rather than volume. The contracts negotiate a fixed price, and include an indication of expected volume that will be required, although customers retain some flexibility in the volume of iron ore purchased.



The decline in export growth in 1998-99 reflects the partial unwinding of factors which boosted growth in 1997-98, as opposed to a delayed impact from the Asian crisis. These include a large increase in gold exports as well as a depreciation of the Australian dollar against the stronger world currencies. The 13.2% depreciation of the Australian dollar against the United States' dollar in 1997-98 substantially improved Australia's competitiveness and increased demand from the Group of Seven economies.<sup>7</sup>

The large increase in gold exports in 1997-98 was primarily due to the re-export of gold originally imported from South East Asia for refining into a deliverable product. For a brief period following the onset of the Asian downturn, the East Asian economies were net exporters of gold. These economies have subsequently reverted to being net importers of gold. Although there are indications that the re-export of refined gold imported from other sources is occurring on a more modest scale, the boost to exports from refined gold is expected to moderate in 1998-99 and into 1999-2000.

Similarly, the boost to competitiveness from the depreciation of the Australian dollar vis-à-vis major currencies has already begun to unwind. As Figure 13 illustrates, the Australian dollar appears to have stabilised at around US\$/A\$0.63 since late 1998. The outlook for the Australian dollar is that it is likely to continue to be driven by movements in commodity prices in the foreseeable future. Although the outlook for commodity prices is far from certain, with prices close to their lows over the past two decades, they are not expected to decline substantially in the near term. As a result the Australian dollar is unlikely to depreciate significantly in the near term, minimising the possibility of a repeat of the boost to competitiveness in 1998-99 or 1999-2000.

<sup>7</sup> The Group of Seven economies includes the United States of America, Japan, Germany, the United Kingdom, France, Italy and Canada.



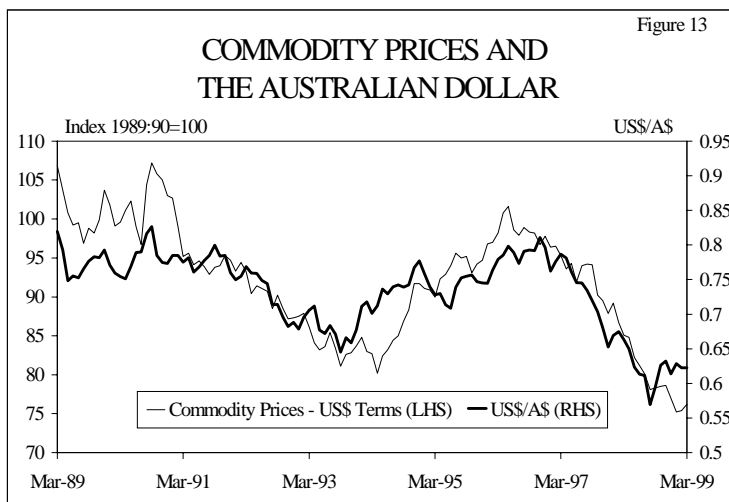
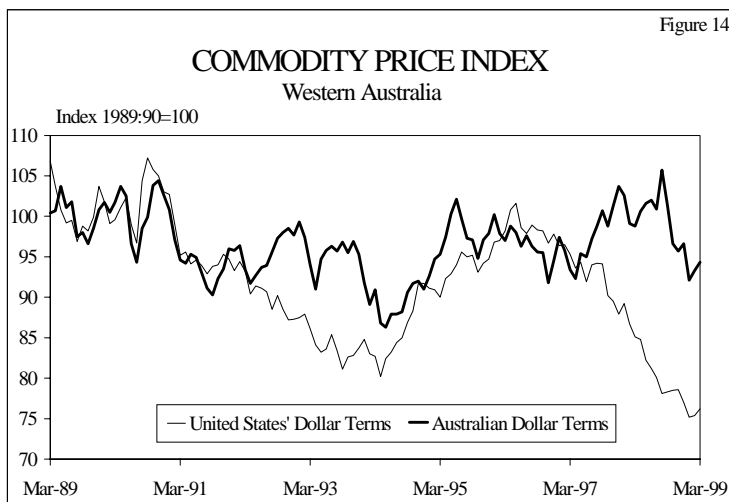


Figure 13 also illustrates the important impact movements in the Australian dollar have on Australian dollar returns to Australian producers. Despite the downturn in commodity prices in United States' dollar terms, on average, prices in Australian dollar terms have been close to their highest levels of the past decade. These high Australian dollar price levels have been sustained for most of the period since the Asian downturn commenced. In this sense, the trading of the Australian dollar as a commodity based currency acts as a natural hedge to domestic commodity producers. This has been important in counteracting the impact of the Asian downturn and the subsequent slowing in world industrial production on the Western Australian economy.

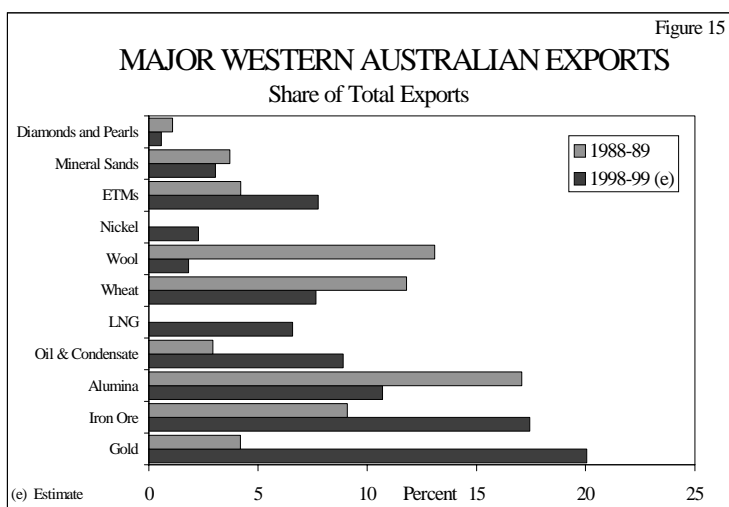
As illustrated by Figure 14, in United States' dollar terms, the average price of Western Australia's commodities (weighted by trade shares) fell by 12.4% in 1998, to an 11 year low. In contrast, in Australian dollar terms, the index of Western Australia's commodity prices rose to its highest level since records began, to be 2.7% higher over the year. This reflected a fall in the Australian dollar to its lowest level on record.



With the unwinding of the impact of re-exports of gold and improved competitiveness from a depreciating dollar, export growth in 1999-2000 will be underpinned by a lift in the State's production capacity, which is the major determinant of short term changes in export growth (as highlighted earlier). Although the increase in capacity is at a time when Japan remains in recession, and world growth is expected to ease, activity in Western Australia's major export markets overall should be sufficiently strong to accommodate the anticipated increase in export volumes.

Continued strong export growth since the onset of the Asian downturn, and the expectation that any volume effect of weak demand in Japan is likely to be minimal, are testament to the benefits of the broadening in Western Australia's commodity exports and exports markets that has occurred over the past decade.

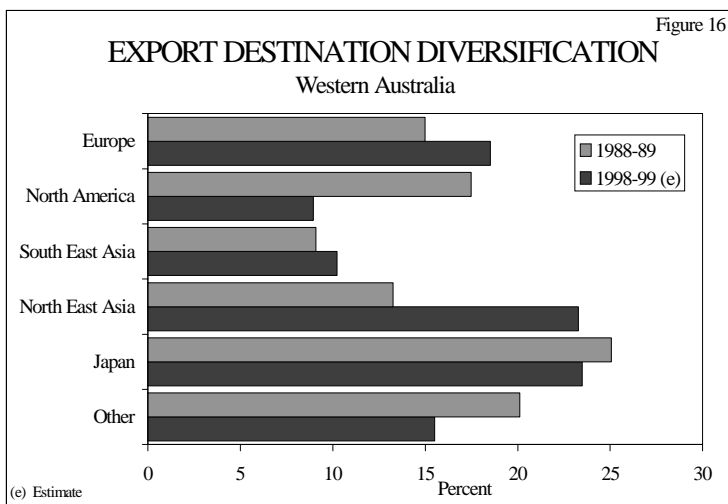
As illustrated by Figure 15, ten years ago Western Australia was reliant on four key exports: alumina; wool; wheat and iron ore. Since then, the list of key exports has expanded to include gold, oil and condensate, liquified natural gas and elaborately transformed manufactures (ETMs). The increase in share of these exports has been accommodated by lower shares of alumina and wool exports.



The trend towards greater diversification is expected to continue as new production capacity comes on stream. The most notable increases in production capacity are expected to be in nickel, iron ore and basic metal products (hot briquetted iron and alumina) processing. However, there will also be increases in the production of smaller export commodities such as salt, base metals, and possibly uranium, over the medium term.

The diversification in commodity exports has been accompanied by a diversification in export markets. This is illustrated in Figure 16, which shows that over the past decade, the importance of North America, and the United States (the State's second largest export market ten years ago), has diminished, while the importance of North East Asia and Europe as export markets has increased.

A current example of the benefits of diversification relates to Western Australian exports to Japan and East Asia. Growth in exports to Japan held up well during the worst of the Asian crisis, when exports to East Asia fell substantially. Exports to Japan have, however, tapered off recently. This is being offset by a recovery in Western Australian exports to East Asia.



A more striking illustration of diversification is illustrated in Figure 17. The figure shows that ten years ago, Western Australia only had two markets to which it exported more than \$1.0 billion worth of goods, and the third largest market was worth less than \$500 million in export earnings. In 1998-99, the State has six markets to which it exports over \$1.0 billion worth of goods, and five other markets to which it exports over \$500 million worth of merchandise. With growth in real exports and nominal exports having been broadly similar over the past decade, this increase highlights the broadening dependence on a range of export markets.



Significantly, despite the economic and political difficulties being experienced in Indonesia, it has sustained its status among Western Australia's top ten export destinations.

### **Merchandise Imports**

The value of Western Australia's imports is forecast to grow by 5.5% in 1999-2000, following a decline in 1998-99. The lift in import growth is due to the anticipated return to growth of business investment leading to an increase in imports of capital goods. This is expected to more than offset a decline in imports of consumer goods.

Beyond 1999-2000, imports growth is expected to rise to around 11% per annum until 2002-03. The resumption of strong imports growth over the period reflects a further strengthening in business investment and an accompanying improvement in consumer demand. These will in turn result in an increase in imports of capital goods and consumer durables.

### **Trade in Services**

Western Australia exported \$2.7 billion in services in 1997-98. Services exports account for around 15% of the State's total exports. Exports of travel services account for 50% of total services exports, with transport services accounting for a further 38%.

Services exports continued to grow at a healthy pace despite the Asian downturn, increasing by 7.6% in 1997-98. Growth continued into the first half of 1998-99, with services exports growing by 1.2% per quarter in the September and December quarters of 1998. With a decline in short term visitors from Asia following the Asian downturn, the strength of growth in services exports has been due largely to an increase in the number of visitors to Western Australia from the United Kingdom and Ireland. Australia has become a more attractive destination for visitors from these countries due to the extent of depreciation in the Australian dollar highlighted earlier.

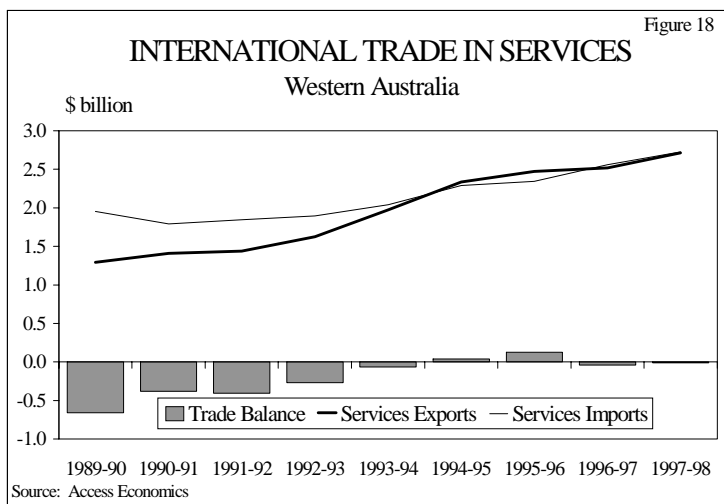
In 1997-98, the number of short term visitors from the United Kingdom and Ireland rose by 17.2%, while the number of visitors from Asia fell by 7.3%. Overall, the number of visitors rose by 1.2% in 1997-98. More recent data suggest that visitor numbers are starting to fall. In the first four months of 1998-99, the total number of visitors to Western Australia was 3.1% lower than in the same period in 1997-98. The number of visitors from the United Kingdom and Ireland continues to increase, but this has been more than offset by a further decline in the number of visitors from Asia.

Growth in exports of services is expected to ease slightly in 1999-2000, as the boost to competitiveness from the depreciation of the Australian dollar unwinds. However, this may be partially offset by a resumption of growth in visitors from Asia.

Imports of services to Western Australia were also valued at \$2.7 billion in 1997-98. Services imports account for around 23% of total imports. Travel services and transport services each account for around 40% of total service imports.

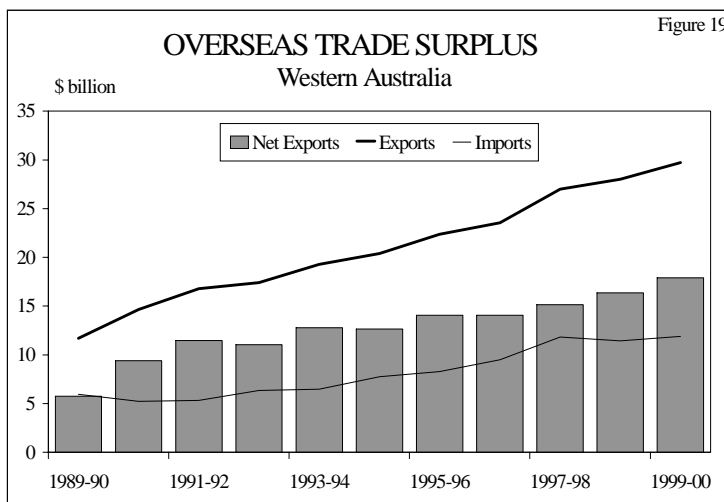
Imports of services to Western Australia grew by 6.4% in 1997-98. Service imports continued to grow at a steady pace in the first half of 1998-99, increasing by 1.0% per quarter in the September and December quarters of 1998.

Over the past decade, strong growth in services exports has led to a substantial improvement in Western Australia's net services exports, to the point where trade in services is balanced (see Figure 18). This is expected to remain the case in the foreseeable future.



### Trade Balance

Western Australia's overall trade surplus (including goods and services) is expected to increase by 7.25% to \$17.8 billion in 1999-2000. Net exports are expected to account for 30% of gross State product during the year.

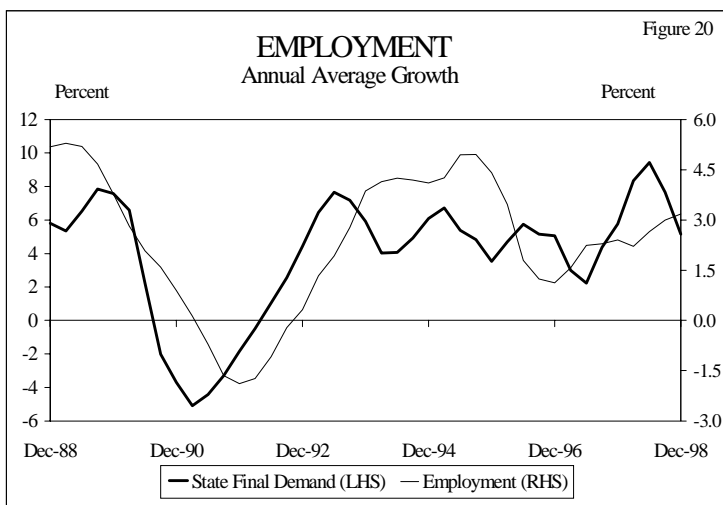


It should be noted that the overseas trade surplus is usually partially offset by deficits in interstate trade. However, data on the interstate trade balance have not been published since 1993-94.

## LABOUR MARKET

Conditions in Western Australia's labour market are forecast to steady in 1999-2000. Employment is forecast to grow by 2.0% over the year, down from an estimated increase of 2.5% in 1998-99. Nevertheless, 1999-2000 will be the eighth consecutive year in which employment has grown in Western Australia. This growth is expected to lead to a slight decline in the unemployment rate, to an average of 6.75% over 1999-2000.

The expectation of a modest easing in employment growth in 1999-2000 reflects the flow through of underlying changes in the demand for labour. In particular, trends in domestic demand tend to lead changes in employment with a lag of around three quarters. The main reason for the lag between higher demand for labour and increases in employment is that employers tend to ensure they fully utilise existing labour, and establish that increases in demand will be sustained, before committing to hiring additional workers.

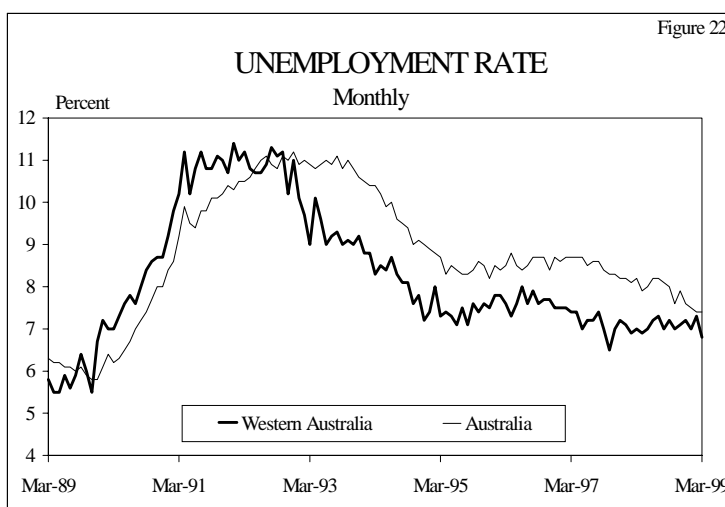


The expected easing in employment growth in 1999-2000 is not anticipated to be as substantial as the forecast easing in domestic demand. This is primarily due to changes in the industry composition of forecast employment growth. In particular, employment in construction is likely to grow over the year in response to buoyant housing construction activity. This is anticipated to more than offset a fall in non-dwelling construction employment, arising from the completion of construction on major projects in 1998-99, with housing construction being more labour intensive than construction of major investment projects. This is highlighted by developments in 1997-98, when total employment in construction activities actually fell, despite near record levels of construction on major projects. With consumer spending forecast to sustain steady growth, continued growth in wholesale/retail trade is also anticipated.

Growth in the labour force (ie. those either in work or actively seeking employment) is expected to be relatively subdued in 1999-2000. This reflects a close relationship (that appears to have strengthened in recent years), between growth in the labour force and employment (see Figure 21). This occurs as sustained healthy employment growth tends to encourage people into the workforce due to better prospects of successfully gaining work. Indeed, the figure suggests this relationship has strengthened substantially since mid-1996.



This similarity between rates of employment and labour force growth in recent years explains why the relatively healthy rates of employment growth over the period have not lead to as significant a reduction in the unemployment rate as might normally be expected, particularly given the State's impressive growth performance. This trend is set to continue in 1999-2000, with labour force growth expected to be only slightly weaker than employment growth. As a result, the unemployment rate is expected to fall only slightly, from an average rate of 7.0% in 1998-99, to 6.75% in 1999-2000.



Over the medium term, employment growth is expected to lift in response to the resumption of strong growth in domestic demand. Although this is likely to attract additional people into the workforce, the strength of employment growth is expected to outpace the corresponding growth in the workforce. As a result, the unemployment rate is expected to decline steadily over the medium term.

## **WAGES**

The outlook for wages, as measured by average weekly earnings (AWE), is for a gradual pick-up in growth until 2000-01, followed by a stabilisation at around 3.25% per annum. As part of this outlook, wages are forecast to grow by 3.5% in 1999-2000, following growth of 3.25% in 1998-99.

The gradual increase in growth over the near term is expected on the basis that total wages, as measured by AWE, are currently growing at an unsustainably low rate – average weekly earnings rose by just 1.3% in 1998. In contrast, other wage measures suggest that underlying wage pressures are growing substantially faster. Average weekly full-time ordinary time (which excludes part-time employee and over-time payments) earnings rose by 5.1% in 1998, while the wage cost index was 3.1% higher in the December quarter of 1998 than the December quarter of 1997.

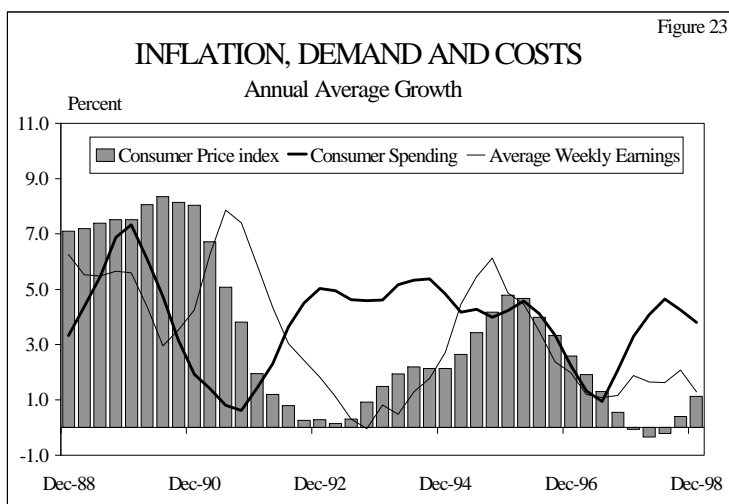
The differences between the various indicators of wages growth is hard to explain. It may be due, in part, to the increased use of workplace and enterprise agreements. In some cases, agreements trade over-time pay for an increase in ordinary time pay. This would have the effect of increasing ordinary time pay, without any significant impact on total pay. Once this once-off effect is washed out of the wage determination process, measures of wages growth are expected to converge to around 3.25% over the medium term.

This is consistent with growth as measured by wage outcomes negotiated under recently concluded workplace and enterprise agreements, which have remained relatively stable around 3.5% to 4.0% in recent years. It is also consistent with the implicit projections for aggregate productivity growth.

## **PRICES**

Consumer price growth is expected to remain relatively subdued over the near term. Growth in the consumer price index for Perth is forecast to accelerate slightly to 2.25% in 1999-2000, following estimated growth of 1.75% in 1998-99.





The anticipated lift in wages growth over both 1998-99 and 1999-2000 is expected to be the main pressure on prices in 1999-2000. There may also be additional pressure from retailers trying to regain margins after a period of intense competition in recent years.

In this regard, the subdued pace of price growth in 1997-98 and 1998-99 has been somewhat surprising given the significant depreciation of the Australian dollar in 1998. The effect of a depreciation in the exchange rate usually occurs in two phases. In the first phase, higher import prices are passed on in the form of higher wholesale prices. This tends to occur within a period of six months. The second phase, which takes slightly longer, occurs when retailers pass the higher wholesale prices on to consumers. The speed with which this second phase occurs depends on the competitive environment and the ability of retailers to reduce margins to remain competitive.

While wholesale prices for most goods rose in the second half of 1998, these price increases have yet to be passed on to consumers. This may be in part due to the intense competition that has dominated many markets recently (particularly the small car market). This is consistent with various indications that, while volumes of activity remain healthy across different sectors of the economy this has been sustained at the expense of squeezed margins.

Although the Australian dollar appears to have stabilised in late 1998 and early 1999, which should limit any further pressure on wholesale prices, attempts by retailers to re-coup margins over coming quarters would contribute to a lift in inflationary pressure.

Over the medium term, price growth is forecast to continue growing within the Reserve Bank's 2-3% target range. This outlook reflects the absence of any significant change in price pressures. In particular, consumer demand is expected to remain robust, but at growth rates consistent with modest price growth. Similarly, wages growth is forecast to remain relatively modest. Productivity growth of around 2.0% per annum should dampen the impetus to price growth from wages.

The direct impact of the introduction of the proposed Goods and Services Tax (GST) and the indirect impact, through higher consumer demand, of the associated income tax cuts have not been incorporated in the Budget forecasts. Estimates of the impact of the tax package vary. The Commonwealth government has estimated that the introduction of the tax reform package will result in an increase in the consumer price index of 1.9% in 2001-02. This assumes the new home owners' scheme rebate offsets the impact of the GST on new house prices. It also excludes the impact of the tax package on tobacco prices.<sup>8</sup> Two major private sector forecasters, Access Economics<sup>9</sup> and Econtech<sup>10</sup>, have also published estimates of the impact of the proposed GST on prices. The estimated impact, under a range of different assumptions, varies from between 2% and 3.6%.

## RISKS TO THE OUTLOOK

There are a number of significant risks to the economic outlook in Western Australia in the near term. These relate primarily to developments in Western Australia's major export markets, and uncertainty surrounding the outlook for business investment.

The past year has seen a substantial improvement in the economic outlook for Western Australia's East Asian export markets. Economic and financial indicators in most countries suggest that the worst of the crisis may be over. Indeed, there are signs that growth in South Korea, and to lesser extent, Thailand, may rebound relatively strongly. The one exception, however, is Indonesia, which continues to face considerable political and economic uncertainty. Despite these indications of strength, there is a possibility that the expected recovery in East Asia may stall. Consequently, although the forecasts incorporate a scenario of modest recovery in these markets through 2000, there are residual risks associated with the downturn in East Asia over the past two years.

Japan's performance over the next few years is of more crucial importance to the outlook for the Western Australian economy. Although growth in Japan has been subdued for most of the past decade, averaging around 2% per annum, Western Australia's exports to Japan have grown by an average of around 9.5% per annum. However, Japan has now been in recession for the past 5 quarters and the most favourable scenario is for a stabilisation in activity in the near term followed by modest growth in the medium term.

The potential impact of a less favourable scenario on the outlook for Western Australian exports is highlighted by price and volume reductions announced following the recent iron ore contract negotiations. A 10% cut in the volume of Western Australian exports to Japan, for instance, would reduce the volume of Western Australia's total exports by 4.5% (assuming no alternative markets are established). Though experience over the past eighteen months has demonstrated the capacity of producers to establish alternative markets, under the current scenario of steadier world growth and a higher Australian dollar in 1999-2000, this might be difficult to achieve. This, in turn, has implications for investment activity in new resource extraction operations and further processing.

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<sup>8</sup> A more detailed description of the Commonwealth's estimated impact of the introduction of the proposed GST package on consumer prices and the assumptions used in its analysis, is available in "Tax Reform: not a new tax, a new tax system – The Howard Government's Plan for a New Tax System".

<sup>9</sup> See p. 55 of the Access Economics Five Year Business Forecasts – December 1998.

<sup>10</sup> See p. 8 of Econtech Mid-Quarter Update – October 1998.

An additional issue facing iron ore producers is the anti-dumping claims faced by Japanese steel producers in the United States. The United States' Department of Commerce has already issued a preliminary judgement against six major Japanese steel producers. A final determination against the producers has the potential to reduce Japanese steel production. This may result in a further weakening in demand for Western Australian iron ore.

Japan is also a major market for other Western Australian commodities including liquified natural gas (LNG), liquified petroleum gas, petroleum, gold, alumina, base metals and a number of other commodities such as crustaceans and canola. Recent history illustrates the ease with which gold exports can be redirected to other markets. With respect to LNG, while the downside for export volumes is limited by long-term contracts, there is significant opportunity cost in the form of further investment in LNG capacity that may not proceed without significant improvement in conditions. In addition, if LNG volumes were cut, redirection to alternative markets is made difficult by the lack of necessary infrastructure to receive those exports.

A development with the greatest potential to impact on Western Australia's growth is the possibility that the United States' economy could experience a sharper slowdown than anticipated. Sources of such a potential slowdown have already been discussed in *Feature 2: The International Economy*. The most likely result of a slowdown in the United States' economy would be substantially slower world industrial production growth, and falls in demand for Western Australian commodity exports. This would place downward pressure on prices and possibly lead to reduced export volumes.

Exports aside, any slowdown in the United States' economy could also be expected to impact on Australia's domestic economy through its impact on business and consumer confidence. The linkage would be particularly strong if the slowdown in the United States was due to a substantial correction in its stock markets. In this event, the most likely outcome would be a correction in the Australian stock market, which would impact on wealth and therefore consumption, and confidence more generally.

The United States' economy is currently testing historical business cycle relationships. However, if these long held relationships prove to hold true, the longer the United States continues to expand, the more pronounced an inevitable slowing may be. Just as the expansion has exceeded most expectations, so too may the magnitude and duration of the slowdown.

Partly as a consequence of developments in Japan and the United States, the outlook for business investment (both in Western Australia and Australia) is less certain than it has been in the past. This uncertainty relates both to whether projects will proceed to a commitment, and to the timing of their construction once committed. One of the largest projects under consideration for construction during the projection period is the expansion of the North West Shelf (NWS) and associated projects. A commitment is not expected to be made until the NWS partners obtain letters of intent from customers. With a value of over \$3.5 billion, the decision to proceed and the timing of construction on this project will have important consequences for forecasts of investment. In particular, investment growth would lift substantially above forecast in the year in which construction on the project commenced, as it is not incorporated in the investment forecasts presented.

Other longer term risks to the Western Australian economy include possible reforms to the tax system. While the introduction of the GST is expected to provide a significant boost to the competitiveness of the State's sizeable export sector, this may be undermined by the possible removal of the accelerated depreciation allowance under possible reforms of the business taxation system, as mooted by the Ralph Review of business taxation.

In addition, initiatives aimed at reducing greenhouse gas emissions, in response to the Kyoto Protocol, have significant potential to constrain further development of new activities and/or expansions of existing operations. Notwithstanding the possible environmental benefits, this is a particular threat to the further development of the State's downstream processing activities which are typically energy intensive.

Both taxation policy and emissions abatement are considerable areas of policy debate the outcomes of which could have significant implications for changes to the structure of the State's economy over time.

## CHAPTER 3

# FINANCIAL PROJECTIONS STATEMENT

### HIGHLIGHTS

- The Government of Western Australia Consolidated Budget Statements are accrual, whole of government accounts. They show the overall finances of the State to be in a strong position in 1999-2000 and growing in strength over the forward estimates period.
- The Government's operating surpluses are forecast to grow from \$171.3 million in 1999-2000 to \$778.3 million in 2002-03. This growth comes in a difficult budgetary environment where funding for key education, health and law and order services is increasing, while revenue growth over the medium term is projected to be subdued.
- The Government's net assets (equity) are estimated to be \$32.9 billion at 30 June 1999, and to increase each year to a projected \$38.2 billion by 30 June 2003.
- Consolidated Fund revenue and expenditure are both contracting as a proportion of State output. This indicates a smaller burden from public services on Western Australia's growing economy.
- Growth in the recurrent operating surplus of the former headline Consolidated Fund is expected in each of the years from 1999-2000 to 2002-03.
- Capital works spending from the Consolidated Fund is a record \$474.8 million in 1999-2000.
- For the first time, this year's budget papers include a *State Government Social Concessions Expenditure Statement*. This provides estimates of the value of concessions on State Government services provided to low income, disadvantaged and other groups in the community.
- Three years of data are now available in the annual *State Tax and Royalties Expenditure Statement*. The Statement shows changes over time in the cost of major State tax and mining royalty exemptions and concessions, relative to benchmark tax rates and bases.
- The only State tax revenue enhancement measure in this budget involves the introduction of a new sliding scale of stamp duty on the transfer of motor vehicle licences. There will be a lower stamp duty rate on less expensive vehicles, but a higher rate on dearer vehicles. Revenue reducing measures include a further reduction in effective land tax rates.

## **INTRODUCTION**

The Financial Projections Statement represents the core information for the 1999-2000 Budget. The information meets the requirements of the Government Financial Responsibility Bill 1998.

Information contained in the Financial Projections Statement includes:

- The Consolidated Budget Statements of the Government of Western Australia. These statements comprise an Operating Statement, Statement of Financial Position and Statement of Cash Flows (ie accrual accounts) for the whole of government and, within that, for the modern accounting equivalent of the Consolidated Fund: The Consolidated Fund Entity. The coverage spans actuals for 1997-98, estimated actuals for 1998-99 and projections for 1999-2000 and the following three years (Part I);
- Traditional (cash based) Consolidated Fund information, including budget aggregates, highlights and the basis of the expenditure and revenue estimates (Part II); and
- An assessment of how the above projections perform against the financial targets outlined in the Government Financial Strategy Statement of Chapter 1. A risk statement encompassing the economic assumptions used in framing the financial projections, the sensitivity of the projections to changes in these assumptions, and other more general financial risks that may impact on the projections is also included (Part III).

Chapter 6 of this Budget Paper analysis the State's public sector finances on the Australian Bureau of Statistics' Government Finance Statistics basis. These statistics meet the Uniform Reporting standards across all Australian jurisdictions. The Chapter also provides information on the State public sector's net debt position.

## PART I

### CONSOLIDATED BUDGET STATEMENTS

The Consolidated Budget Statements of the Government of Western Australia, as shown in Tables 1 to 3, provide a complete picture of the revenue and expenses, assets and liabilities and cash flows for the total public sector. The Statements have been prepared on an equity basis, showing the Government as owner of its agencies. Conceptually, the Government is described as the Consolidated Fund Entity, plus the net outcome on their own account of the agencies owned and controlled by the Consolidated Fund Entity. These agencies include departments, statutory authorities, and business enterprises.

The financial data to compile the Statements has been provided by all 162 agencies that make up the total public sector. The financial statements of individual agencies that receive appropriations from the Consolidated Fund are contained in Budget Paper No. 2, Budget Statements.

### OPERATING STATEMENT

The Operating Statement (Table 1) comprises revenue earned and expenses incurred by the Government of Western Australia. The major components of the Operating Statement are revenue and expenses of the Consolidated Fund Entity itself and the net operating result of agencies. The total operating surplus is the sum of the *Consolidated Fund Entity* and the *Total Agency Surplus* lines.

<b>GOVERNMENT OF WESTERN AUSTRALIA<sup>(a)</sup></b>						
<b>Consolidated Operating Statement</b>						
	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
	Actual	Estimated	Budget	Forward	Forward	Forward
		Actual	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
<b>REVENUE</b>						
Taxation	2,217.4	2,275.3	2,379.1	2,486.8	2,624.7	2,780.7
Regulatory Fees, Fines and Other						
Territorial	922.5	888.4	964.1	1,031.1	1,014.1	1,007.2
Grants and Subsidies	3,190.4	3,502.3	3,540.2	3,632.9	3,749.4	3,881.8
Interest	111.5	94.8	84.9	60.0	54.5	54.9
Superannuation/Pension Recoups	53.8	241.5	40.2	41.9	43.8	45.8
Statutory Contributions	486.6	562.7	596.1	747.1	797.2	767.3
Other revenue	646.2	598.9	622.5	626.7	621.0	600.7
<b>Total Revenue</b>	<b>7,628.5</b>	<b>8,163.7</b>	<b>8,227.2</b>	<b>8,626.5</b>	<b>8,904.8</b>	<b>9,138.4</b>
<b>EXPENSES</b>						
Purchase of Outputs <sup>(b)</sup>	5,090.7	5,475.6	5,647.7	5,807.1	5,886.7	6,089.9
Interest	208.6	171.0	143.3	149.5	132.0	120.7
Superannuation	537.0	609.3	524.5	543.9	561.0	590.2
Grants and Subsidies	1,403.4	1,452.0	1,527.9	1,546.0	1,583.3	1,618.1
Other expenses	569.3	670.8	721.6	697.1	675.6	624.2
<b>Total Expenses</b>	<b>7,808.9</b>	<b>8,378.6</b>	<b>8,565.0</b>	<b>8,743.5</b>	<b>8,838.6</b>	<b>9,043.1</b>
<b>CONSOLIDATED FUND ENTITY SURPLUS/(DEFICIT)</b>	<b>(180.4)</b>	<b>(214.9)</b>	<b>(337.7)</b>	<b>(116.9)</b>	<b>66.2</b>	<b>95.3</b>
Net Surplus/ (Deficit) attributable to controlled entities:						
General Government Sector <sup>(b)</sup>	(86.3)	36.8	130.0	269.1	200.9	183.6
Public Trading Enterprises Sector	341.8	278.6	270.1	241.1	308.4	402.8
Financial Enterprises Sector	42.2	93.8	109.0	112.5	97.4	96.6
<b>Total Agency Surplus</b>	<b>297.7</b>	<b>409.2</b>	<b>509.1</b>	<b>622.7</b>	<b>606.7</b>	<b>683.0</b>
<b>Operating Surplus before Abnormal and Extraordinary Items</b>	<b>117.3</b>	<b>194.4</b>	<b>171.3</b>	<b>505.8</b>	<b>672.9</b>	<b>778.3</b>
<b>ABNORMAL ITEMS</b>						
Premium on debt repayment	(160.0)	-	-	-	-	-
<b>EXTRAORDINARY ITEMS</b>						
Sale of Gas Pipeline	1,273.5	-	-	-	-	-
<b>OPERATING SURPLUS AFTER ABNORMAL AND EXTRAORDINARY ITEMS</b>	<b>1,230.8</b>	<b>194.4</b>	<b>171.3</b>	<b>505.8</b>	<b>672.9</b>	<b>778.3</b>

(a) Explanatory notes are contained at Appendix 1.

(b) Net of capital injection



**Key Features of the Operating Statement**

Revenue of the Consolidated Fund Entity is expected to be \$8,227.2 million in 1999-2000, a modest increase of 0.8% on the estimated result for 1998-99. One off receipts in 1998-99 for superannuation/pension recoups are the main cause of this relatively low growth in 1999-2000, with most other areas of revenue showing a consistent upwards trend. Higher revenue growth is predicted to continue across the forward estimate years, averaging 3.6% each year. This translates to average growth of 1.2% in real terms. Revenue from taxation and statutory contributions in the form of dividends and tax equivalent receipts from government enterprises are the main sources leading to the growth.

Purchase of outputs is the single most significant expense in the Consolidated Fund Entity. This represents appropriations paid to general government agencies to allow them to deliver their outputs as specified in the agency details contained in Budget Paper No. 2 – Budget Statements. After an initial real increase of 0.9% in 1999-2000, purchase of outputs expense is estimated to be maintained in real terms across the forward estimates period. Total expenses of the Consolidated Fund Entity are expected to fall slightly in real terms over the forward estimate years. Interest expense continues to decline across the forward estimates period.

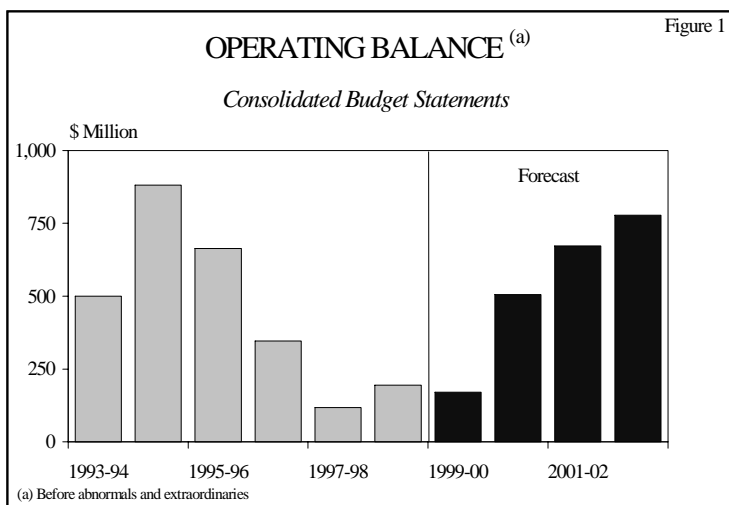
Total expenses of the Consolidated Fund Entity exceed revenues in each year up to 2000-01. The position turns from a \$337.7 million deficit in the Entity in 1999-2000 to a surplus in the last two years of the forward estimates. The deficit in the early years implies that the whole of government is relying on surpluses in enterprises themselves to remain in surplus.

This can occur for a number of reasons. The main reason is that the Consolidated Fund Entity is responsible for a large amount of liabilities, and therefore expenses, on behalf of agencies, particularly in the general government sector. These include superannuation expense and interest.

The trend of the Consolidated Fund Entity into operating surplus implies that such expenses, which are relatively stable, when taken together are increasingly covered by revenue sources. This will imply an increasingly flexible financial position in terms of taxes, capital investment and balance sheet management.

The improvement in the Consolidated Fund Entity is the primary reason for the increase in the total public sector operating surplus from \$171.3 million in 1999-2000 to \$778.3 million in 2002-03. The net surplus attributable to controlled entities increases from \$509.1 million in 1999-2000 to \$683.0 million in 2002-03.

Figure 1 shows the movement in the operating surplus over the period 1993-94 to 2002-03.



## STATEMENT OF FINANCIAL POSITION

The Statement of Financial Position (Table 2) is the balance sheet of the Government of Western Australia. The Government's major asset is its ownership interest in agencies. Other assets comprise mainly cash, investments and receivables administered by Treasury on behalf of Government. The most significant liabilities are superannuation, debt and trust funds. Trust funds largely offset the cash and investment assets of Government as they include funds "on deposit" by agencies in their operating trust accounts.

Table 2

**GOVERNMENT OF WESTERN AUSTRALIA<sup>(a)</sup>**  
**Consolidated Statement of Financial Position**

	1997-98 Actual	1998-99 Estimated	1999-00 Budget Estimate	2000-01 Forward Estimate	2001-02 Forward Estimate	2002-03 Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
<b>ASSETS</b>						
Cash and Investments	979.7	1,105.0	1,027.0	897.0	858.0	831.0
Loans and Advances	755.5	700.7	388.3	257.6	225.8	193.3
Dividends Receivable	364.2	263.5	172.4	248.9	258.7	274.5
Interest Receivable	17.5	16.2	9.0	10.0	90.0	10.0
Other Receivables	189.7	199.5	211.2	220.6	230.2	242.1
<b>Total Assets</b>	<b>2,306.7</b>	<b>2,284.9</b>	<b>1,807.9</b>	<b>1,634.1</b>	<b>1,662.7</b>	<b>1,550.9</b>
<b>LIABILITIES</b>						
Treasurer's Loan Liabilities	1,286.9	1,242.3	1,188.6	1,158.3	1,126.5	1,103.9
Interest	28.9	36.3	29.5	25.9	24.7	15.8
Superannuation	4,336.4	4,532.1	4,550.3	4,548.7	4,525.9	4,483.5
Government Insurance Fund	132.0	94.0	57.7	38.1	24.8	14.5
Trust Funds	1,086.8	1,155.6	1,092.9	1,089.2	1,121.0	998.7
Other Payables	56.2	59.9	62.0	63.8	63.6	63.0
<b>Total Liabilities</b>	<b>6,927.2</b>	<b>7,120.2</b>	<b>6,981.0</b>	<b>6,924.1</b>	<b>6,886.5</b>	<b>6,679.4</b>
<b>CONSOLIDATED FUND ENTITY</b>						
	<b>(4,620.4)</b>	<b>(4,835.3)</b>	<b>(5,173.1)</b>	<b>(5,290.0)</b>	<b>(5,223.8)</b>	<b>(5,128.5)</b>
<b>OWNERSHIP INTEREST IN AGENCIES</b>						
<i>Comprising:</i>						
<i>General Government Sector</i>						
Opening Balance	22,975.2	22,447.3	22,915.7	23,491.9	24,071.6	24,662.8
Equity Injections	84.5	115.5	147.0	48.6	83.7	54.4
Asset revaluations	(526.0)	316.1	299.1	262.0	306.5	311.4
Operating Surplus/(Deficit)	(86.3)	36.8	130.0	269.1	200.9	183.6
<b>Total</b>	<b>22,447.3</b>	<b>22,915.7</b>	<b>23,491.9</b>	<b>24,071.6</b>	<b>24,662.8</b>	<b>25,212.2</b>
<i>Public Trading Enterprises Sector</i>						
Opening Balance	13,963.5	14,609.2	15,010.5	15,678.8	16,313.4	17,067.5
Equity Injections	11.0	7.0	4.3	8.3	10.3	10.1
Asset revaluations	293.0	115.7	393.9	385.1	435.4	394.7
Operating Surplus/(Deficit)	341.8	278.6	270.1	241.1	308.4	402.8
<b>Total</b>	<b>14,609.2</b>	<b>15,010.5</b>	<b>15,678.8</b>	<b>16,313.4</b>	<b>17,067.5</b>	<b>17,875.0</b>
<i>Financial Enterprises Sector</i>						
Opening Balance	(319.9)	(277.6)	(183.8)	(74.8)	37.7	135.1
Operating Surplus/(Deficit)	42.2	93.8	109.0	112.5	97.4	96.6
<b>Total</b>	<b>(277.6)</b>	<b>(183.8)</b>	<b>(74.8)</b>	<b>37.7</b>	<b>135.1</b>	<b>231.7</b>
<b>Total Ownership Interest of Govt of WA in Agencies</b>	<b>36,778.9</b>	<b>37,742.5</b>	<b>39,095.9</b>	<b>40,422.7</b>	<b>41,865.3</b>	<b>43,318.9</b>
<b>EQUITY OF GOVERNMENT OF WA (Net Assets)</b>						
	<b>32,158.5</b>	<b>32,907.1</b>	<b>33,922.8</b>	<b>35,132.7</b>	<b>36,641.5</b>	<b>38,190.5</b>
<i>Comprising:</i>						
Opening Balance, Equity Injections and Revaluations	30,927.7	32,712.8	33,751.5	34,626.9	35,968.6	37,412.1
Operating Surplus/(Deficit)	1,230.8	194.4	171.3	505.8	672.9	778.3
<b>EQUITY OF GOVERNMENT OF WA (Net Assets)</b>	<b>32,158.5</b>	<b>32,907.1</b>	<b>33,922.8</b>	<b>35,132.7</b>	<b>36,641.5</b>	<b>38,190.5</b>

(a) Explanatory notes are contained at Appendix 1.

### Key Features of the Statement of Financial Position

The Government's net assets (equity) are expected to be \$33.9 billion by 30 June 2000, rising each year to reach \$38.2 billion by 30 June 2003.

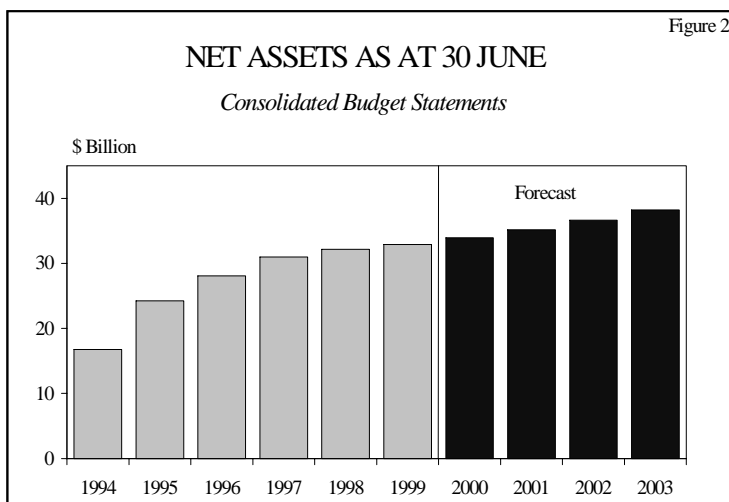
The Consolidated Fund Entity is projected to have negative net assets of \$5.2 billion at 30 June 2000, and after increasing in 2000-01 should then decline to be \$5.1 billion at the end of the forward estimates period. This deficit is due to superannuation and some loan liabilities being held centrally in the Consolidated Fund Entity, rather than being allocated to agencies. The Consolidated Fund Entity bears both the liability and expense for these components of the cost of production of agency outputs.

Assets of the Consolidated Fund Entity decline primarily due to lower cash holdings and repayment of loans and advances by public trading enterprises. Its total liabilities are gradually declining over the forward estimates period. This is largely due to the sound management practices in place for the two largest liabilities of Government – superannuation and debt. The Government now meets the full concurrent cost of the West State Super scheme, and has not borrowed for the Consolidated Fund Entity since 1993-94.

The Treasurer's loan liabilities shown in the Statement do not include debt held by individual agencies, although such debt reduces the net assets of agencies brought into the Consolidated Budget Statements balance sheet. This agency debt is reported in gross terms in agency balance sheets in Budget Paper No. 2 and globally in Chapter 6: *Uniform Reporting of Public Sector Finances* in this Budget Paper.

The major asset of government is its ownership interest in the agencies it owns. This asset rises in value from \$39.1 billion at 30 June 2000 to \$43.3 billion by 30 June 2003. The rise is attributable to healthy operating surpluses being generated by agencies, asset revaluations (largely land) and equity injections by Government for asset expansion. This asset is partly offset by the negative Consolidated Fund Entity position described above.

Figure 2 shows the trend in net assets of the Government over the period 1994 to 2003.



**STATEMENT OF CASH FLOWS**

The Statement of Cash Flows (Table 3) is closely aligned to the Consolidated Fund Statement (see Part II). In addition to showing the flow of Consolidated Fund transactions, the Statement includes the movement in Trust Fund balances. These balances include the operating accounts of agencies which are subdivisions of the public bank account.

Table 3

**GOVERNMENT OF WESTERN AUSTRALIA<sup>(a)</sup>**  
**Consolidated Statement of Cash Flows**

	1997-98 Actual	1998-99 Estimated Actual	1999-00 Budget Estimate	2000-01 Forward Estimate	2001-02 Forward Estimate	2002-03 Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
<b>OPERATING ACTIVITIES</b>						
<b>Receipts</b>						
Taxation	2,205.4	2,283.3	2,371.8	2,477.6	2,624.4	2,779.6
Regulatory fees, fines and other territorial	923.7	888.6	967.7	1,034.3	1,018.0	1,010.0
Grants and Subsidies	3,230.7	3,507.9	3,541.0	3,633.3	3,749.5	3,881.9
Interest	107.7	96.3	92.1	59.0	55.5	53.9
Superannuation/pension recoups	53.4	241.7	40.1	41.8	43.7	45.6
Statutory Contributions	420.9	673.8	672.9	668.4	765.1	756.2
Other Receipts	597.3	580.3	608.8	613.6	606.7	586.5
<b>Total</b>	<b>7,539.1</b>	<b>8,271.9</b>	<b>8,294.4</b>	<b>8,528.0</b>	<b>8,862.9</b>	<b>9,113.7</b>
<b>Payments</b>						
Purchase of Outputs	(5,090.7)	(5,475.6)	(5,647.7)	(5,807.1)	(5,886.7)	(6,089.9)
Interest	(243.3)	(164.9)	(152.5)	(155.8)	(134.6)	(130.9)
Superannuation	(327.6)	(442.8)	(505.3)	(550.8)	(570.1)	(610.9)
Grants and Subsidies	(1,416.2)	(1,457.4)	(1,524.6)	(1,548.8)	(1,586.4)	(1,620.7)
Other payments	(581.5)	(652.6)	(712.6)	(681.6)	(659.5)	(609.5)
<b>Total</b>	<b>(7,659.3)</b>	<b>(8,193.3)</b>	<b>(8,524.7)</b>	<b>(8,744.1)</b>	<b>(8,837.3)</b>	<b>(9,061.9)</b>
<b>Net Cash Flow from Operating Activities<sup>(b)</sup></b>	<b>(120.2)</b>	<b>78.7</b>	<b>(248.2)</b>	<b>(216.0)</b>	<b>25.7</b>	<b>51.8</b>
<b>INVESTING ACTIVITIES</b>						
Equity Investments	890.5	(122.5)	(151.3)	(56.9)	(94.0)	(64.5)
Proceeds from sale of assets	68.0	64.2	85.4	58.2	63.9	21.9
Other payments from investing activities	(0.9)	(1.1)	(1.2)	(1.4)	(0.4)	(0.4)
<b>Net Cash Flow from Investing Activities</b>	<b>957.6</b>	<b>(59.3)</b>	<b>(67.1)</b>	<b>(0.1)</b>	<b>(30.5)</b>	<b>(43.0)</b>
<b>FINANCING ACTIVITIES</b>						
Repayment of Borrowings	(797.4)	(49.1)	(53.7)	(32.0)	(33.4)	(24.2)
Increase in Trust Fund Balances	(140.1)	127.7	(9.2)	0.9	(18.6)	(29.8)
Reduction in Capital Ledgers						
Advances	211.2	28.0	299.1	117.1	17.6	18.0
Other receipts	4.2	1.5	1.1	0.1	0.2	0.2
Other payments	(79.5)	(2.2)	-	-	-	-
<b>Net Cash Flows from Financing Activities</b>	<b>(801.6)</b>	<b>106.0</b>	<b>237.3</b>	<b>86.1</b>	<b>(34.2)</b>	<b>(35.8)</b>
<b>NET INCREASE (DECREASE) IN CASH HELD</b>	<b>35.7</b>	<b>125.3</b>	<b>(78.0)</b>	<b>(130.0)</b>	<b>(39.0)</b>	<b>(27.0)</b>
<b>Opening Cash Balance</b>	<b>943.9</b>	<b>979.7</b>	<b>1,105.0</b>	<b>1,027.0</b>	<b>897.0</b>	<b>858.0</b>
<b>Closing Cash Balance</b>	<b>979.7</b>	<b>1,105.0</b>	<b>1,027.0</b>	<b>897.0</b>	<b>858.0</b>	<b>831.0</b>

(a) The explanatory notes are contained at Appendix 1.

(b) Net Cash Flow from Operating Activities, is the cash equivalent of the accrual CFE line in the Operating Statement (Table 1).

### Key Features of the Statement of Cash Flows

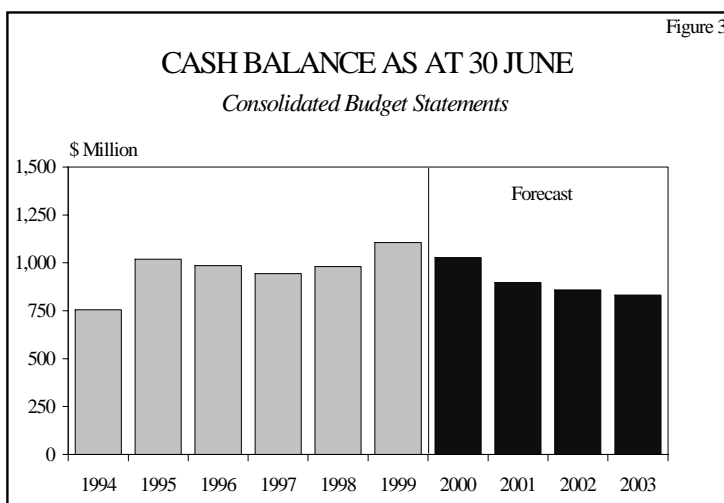
The cash balance held by Government is expected to decrease by \$78 million in 1999-2000 to be just in excess of \$1.0 billion, and continue to decline over the forward estimates period to \$831 million at 30 June 2003. Cash drawdowns against the State Development Fund (to meet capital works expenditures) explain most of this total movement, although fluctuations in agency cash balances in Trust Funds are a significant component of the year to year change in cash balances.

Consistent with the operating statement, purchase of outputs comprises the major component of cash operating outlays. In this year's presentation, part of the capital appropriation has been apportioned between operating activities and investing activities instead of being treated as purchase of outputs as was the case in last year's budget. Note 5 in Appendix 1 details how this split has been calculated. Superannuation payments, being for concurrent funding of West State Super, emerging liabilities of all superannuation schemes and pension payments, are another large component of operating payments.

Cash receipts from taxation, royalties, Commonwealth grants and statutory contributions from government enterprises make up the bulk of operating receipts in the Statement.

In financing activities, the lumpiness of amounts shown against Reduction in Capital Advances is due to the timing of accelerated debt repayments by agencies to the Consolidated Fund. In 1999-2000, accelerated repayments are expected to be \$275 million, and a further \$100 million is anticipated to be received in 2000-01. These amounts will be refinanced by the agencies on more attractive terms through the Western Australian Treasury Corporation.

Figure 3 shows the movement in cash balance of Government over the period 1994 to 2003, which has changed little over the period.



## **PART II**

### **CONSOLIDATED FUND FORWARD ESTIMATES OF REVENUE AND EXPENDITURE**

Financial management in Western Australia is increasingly focussing on the total public sector through the Consolidated Budget Statements and the uniform reporting data presented in Chapter 6.

The Consolidated Fund is the principal account of the Government for appropriations purposes and has legislative status under various Acts. It is used to receive State central government revenue which is the source of monies from which agencies are paid their appropriations. As such, major expenditure decisions for budget purposes are effected to a large degree through the Consolidated Fund by way of appropriation to agencies such as the Health Department.

The Consolidated Fund cash statement has been a focus of budgets since its creation in 1993-94. It can also be viewed as the single largest component of the Cash Flow Statement of the Consolidated Budget Statements of the Government of Western Australia (discussed in the previous section).



Table 4 presents the 1999-2000 Budget and forward estimates on the Consolidated Fund cash basis.

In each year except 2000-01, recurrent surpluses offset capital deficits of the Consolidated Fund. No new borrowings will be required for the Fund in any year. A number of measures have been implemented to achieve this result and these are outlined in Appendix 7 to this chapter.

Table 4						
<b>CONSOLIDATED FUND AGGREGATES</b>						
<b>CASH BASIS</b>						
	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
	Actual <sup>(b)</sup>	Estimated Actual	Forward Estimate	Forward Estimate	Forward Estimate	Forward Estimate
<b>REVENUE (\$m)</b>	<b>6,844.9</b>	<b>7,428.6</b>	<b>7,734.9</b>	<b>7,738.6</b>	<b>7,984.3</b>	<b>8,213.1</b>
Change on previous year						
\$ million	279.4	583.7	306.3	3.7	245.7	228.8
% nominal	4.3	8.5	4.1	0.0	3.2	2.9
% real <sup>(a)</sup>	3.0	6.4	1.8	-2.4	0.9	0.6
% real <sup>(a)</sup> per capita	1.2	4.6	0.3	-3.8	-0.5	-0.8
Share of GSP	11.5	11.9	11.5	10.7	10.3	9.8
<b>EXPENDITURE (\$m)</b>	<b>6,838.2</b>	<b>7,425.6</b>	<b>7,729.0</b>	<b>7,833.7</b>	<b>7,976.6</b>	<b>8,187.9</b>
Change on previous year						
\$ million	407.7	587.4	303.4	104.7	142.9	211.3
% nominal	6.3	8.6	4.1	1.4	1.8	2.6
% real <sup>(a)</sup>	5.0	6.4	1.8	-1.1	-0.4	0.4
% real <sup>(a)</sup> per capita	3.2	4.6	0.3	-2.6	-1.8	-1.0
Share of GSP	11.5	11.9	11.5	10.8	10.3	9.8
<b>OPERATING SURPLUS (\$m)</b>	<b>6.7</b>	<b>3.0</b>	<b>5.9</b>	<b>-95.1</b>	<b>7.7</b>	<b>25.2</b>
Change on previous year	-128.3	-3.7	2.9	-101.0	102.8	17.5
Recurrent surplus (\$m)	107.8	354.3	96.2	112.2	336.1	427.1
Capital surplus (\$m)	-101.1	-351.3	-90.3	-207.3	-328.4	-401.9

(a) Real terms measures have been calculated using forecasts for the implicit price deflator for gross State product.

(b) Revenue adjusted to exclude \$986 million dividend from AlintaGas following the sale of the Dampier to Bunbury natural gas pipeline.

Features of Table 4 on the revenue side include:

- 1998-99 and 1999-2000 totals have been boosted by the impact of one-off transactions for recoveries of debt and superannuation transactions with statutory bodies;
- Real revenue growth in the budget and forward years is modest and declines are forecast in real per capita terms over the forward estimates period; and
- As a share of State output, revenue continues to decrease and is expected to be below 10.0% by 2002-03, representing a significantly smaller burden on the economy.

For expenditure:

- Growth in 1999-2000 is projected to be lower than 1998-99 following significant increases in service delivery in education, health and law and order which take effect from 1998-99, that is, before the budget year;
- In line with current conditions, Government policy to contain expenditure growth in the budget sector is reflected in the modest 1.8% growth rate for 1999-2000 and real declines projected for the following years; and
- Consolidated Fund expenditure is contracting as a share of GSP.

A \$5.9 million operating surplus is projected for the Consolidated Fund for 1999-2000. Growing operating surpluses on recurrent activities are projected in each year to 2002-03.

### **BASIS OF EXPENDITURE ESTIMATES**

The forward estimates of expenditure summarised in Appendix 8 have been determined by calculating the future cost of existing policy settings. That is, they assume a continuation of current policies reflected in outputs delivered by agencies. The estimates vary from those published in the 1998-99 Budget Paper No. 2 for:

- The full year impact of policy decisions approved since the presentation of the 1998-99 Budget;
- Decisions to make funding adjustments for unforeseen changes in demand for services;
- Special one-off or non-recurring factors;
- Variations due to changes in economic parameters and formula-driven outputs of agencies; and
- Changes in accounting classification.

Allowance has been made in the outyears for the expected impact of unavoidable demand factors but no provision has been made for any future new initiatives. These are considered in the annual budget process.

Reconciliations of the 1999-2000 Budget estimates of revenue and expenditure, when compared with the estimates published with the 1998-99 Budget Papers on 30 April 1998, are shown in Appendices 3 to 6.

**EXPENDITURE<sup>(a)</sup>****FEATURE 1: Spending on social priorities**

Table 5 shows that per capita expenditure in education, health and public order and safety is expected to be higher in 1998-99 in Western Australia than is the average of other States.

Grants Commission data for 1997-98 (the latest year subject to assessment) shows that expenditure on health, and public order and safety in Western Australia exceeded that required to provide the Australian average level of service, despite the State's considerable cost disadvantages, for example, in relation to size and distance.

The Commission has in the past assessed expenditure on education in Western Australia to be below the Australian average. However, the additional expenditure on Education contained in this Budget is likely to ensure that the Australian level of education service will also be exceeded.

Table 5

**PER CAPITA SPENDING<sup>(a)</sup>**  
**(Comparison between Western Australia and average for the other States)**

	1993-94 Actual	1994-95 Actual	1995-96 Actual	1996-97 Actual	1997-98 Actual	1998-99 Estimated Actual
<b>EDUCATION</b>						
<b>Western Australia</b>	<b>1,004</b>	<b>999</b>	<b>1,041</b>	<b>1,100</b>	<b>1,165</b>	<b>1,243</b>
Average for other States	1,034	1,017	1,018	1,055	1,062	1,078
<b>HEALTH</b>						
<b>Western Australia</b>	<b>852</b>	<b>837</b>	<b>869</b>	<b>865</b>	<b>995</b>	<b>1,010</b>
Average for other States	798	813	832	859	917	896
<b>PUBLIC ORDER AND SAFETY<sup>(b)</sup></b>						
<b>Western Australia</b>	<b>341</b>	<b>355</b>	<b>385</b>	<b>433</b>	<b>442</b>	<b>479</b>
Average for other States	298	306	321	360	352	360

(a) Amounts are in 1999-2000 dollar terms. Source data is based on the Australian Bureau of Statistics publication *1998-99 Government Financial Estimates* except for 1998-99 data for Western Australia which is based on the latest budget estimates. Updated estimates for 1998-99 for the average for other States is not available and may be subject to revision.

(b) Includes Police, Justice and Emergency Services portfolios.

(a) Amounts provided are over the forward estimates period unless otherwise indicated.

Details of the major expenditures announced in the 1999-2000 Budget are provided in the following section.

### **Education**

Education Department outlays in 1999-2000 are \$128.4 million higher than the forward estimate shown in last year's budget papers. This increase is being directed towards additional recurrent outlays of \$99.4 million including school initiatives such as reduced class sizes, early childhood expansion, Local Area Planning, and to meet the cost of recent salary increases. In addition, there is an increase in Capital Works funding of \$29 million.

When compared with the 1998-99 estimated outturn, the 1999-2000 Budget for the Education Department has increased by \$91.2 million, or by 4.7% in real terms, to \$1,388.4 million. The major highlights in Education are:

- In 1999-2000, \$28.6 million will be expended by metropolitan schools as part of a comprehensive education plan to improve the educational opportunities for secondary students. A key element of the plan is the establishment of a new college to replace the Hollywood and Swanbourne Senior High Schools;
- A provision of \$17.4 million has been made in 1999-2000 for replacement schools at Boddington, Bunbury and Denmark. A further \$8.0 million will be spent in 1999-2000 on the construction of the new \$16.0 million Halls Head Middle School and \$8.2 million on the construction of the new Peel Senior Campus which forms part of a \$22.5 million co-located facility with the South Metropolitan College of TAFE;
- The capital works program also provides a total of \$2 million in 1999-2000 for the development of a multipurpose campus at the Manjimup Senior High School and for new administration and staff facilities at the Margaret River Senior High School. It is also planned to complete the construction of two new schools and the improvement and renovation to many existing schools;
- Funding of \$14.0 million is provided in 1999-2000 to enable the continuation of the Early Childhood Education and Asbestos Roof Replacement Programs, and \$6.4 million in 1999-2000 to accelerate the provision of covered assembly areas in schools; and
- A further \$30.4 million is provided in 1999-2000 to meet the second year of the commitments announced in last year's budget relating to the purchase of computers in government schools, the reduction in class sizes in years 1 and 3, the attraction and retention of quality teachers in isolated schools, an increase in support staff for schools and an increase in duties other than teaching time for primary teachers.

### **Law and Order**

Expenditure on law and order in 1999-2000 is up by \$63.1 million on the forward estimates published in last year's budget papers. This increase has been applied to additional capital works expenditure of \$12.8 million, and an increase in the recurrent budget of \$50.3 million to provide for the increase in the prisoner population, assist victims of crime and allow for more police officers to be released from administrative duties.

When compared with the 1998-99 estimated outturn, expenditure on law and order will increase by \$33.8 million in 1999-2000, or 2.2% in real terms, to \$789.2 million. Funds have been provided for:

- An allocation of \$41.5 million has been made in 1999-2000 for the processing of court cases. A total of 114,384 cases are estimated to be processed in 1999-2000 compared with 113,325 in 1998-99;
- Communities Against Juvenile Crime Program - the Ministry of Justice has undertaken a statewide needs analysis to identify communities considered to have juveniles at high or extreme risk of offending. The Ministry has consulted key stakeholders within the local communities and agencies to identify causes of local crime and to establish programs that will work in each particular community. This program provides \$1.6 million per annum to finance local community agencies to deliver specific programs that will divert and prevent juveniles from committing crime;
- Recurrent funding of \$7.0 million per annum has been provided for the transfer of the management of prisoner transportation and court security services from the Police Service to the Ministry of Justice. The transfer will free up the equivalent of approximately 94 police officers for front line operational duties;
- The daily number of adult offenders in custody is estimated to increase from 2,650 in 1998-99 to 2,900 in 1999-2000. To meet this demand, a total of \$42.6 million has been included in the estimates for the adult prisoner accommodation strategy. A major component of the strategy is the restructure and expansion of the Canning Vale Prison Complex to provide a comprehensive prisoner receipt/assessment/treatment facility and dedicated remand accommodation, at a total capital cost of \$16.3 million of which \$11.9 million will be expended in 1999-2000;
- Wooroloo South Prison - negotiations are continuing with the preferred respondent for the design, construction, maintenance and operation of a 750 bed medium security, male prison to be constructed on Ministry land at Wooroloo. This facility will provide a specialised metropolitan medium security prison operational in mid 2000. Accordingly, provisional recurrent allocations have been made in the forward estimates. The exact nature of the allocation will be determined once negotiations are finalised; and
- A \$10 million refurbishment program to be completed in 2000-01 will upgrade Bandyup Prison of which \$3.0 million will be expended in 1999-2000. An additional 50 metropolitan minimum security female beds will also be established at the Pyrtton site.

Other highlights in the capital works program are:

- The commencement of the Rockingham Justice Centre (\$7.5 million);
- The continuation of the construction of the Busselton Justice Centre (\$3.1 million)
- An amount of \$0.6 million has been provided in 1999-2000 for the completion of the new South Hedland Justice Centre at a total cost of \$4.7 million;

- The acquisition and upgrade of facilities at Pyrton for the establishment of a Women's detention facility (\$3.7 million);
- Additional on-going recurrent funding of \$4.5 million has been provided to meet costs associated with DNA sampling and meeting leasing costs for computer replacements and upgrades to enhance the ability of the Police Service to fight crime in Western Australia;
- Capital funds of \$42 million have been included in the forward estimates (\$1 million in 1999-2000) for the central facilities relocation and construction of a police operations facility in Midland;
- Provision of \$17.56 million has been made in the capital works program in 1999-2000 for the completion of release 1 (\$16.7 million) and commencement of release 2 (\$839,000) of the Police Service's Delta Communications Information Technology Plan. The total capital cost of releases 1 and 2 is \$50.1 million;
- \$10.8 million has been provided in 1999-2000 for the continuation of the new Police Academy complex, which has a total cost of \$45 million; and
- \$3 million has been provided over the forward estimates period for a new facility to replace the existing South Perth and Victoria Park Police Stations.

## Health

Health outlays in 1999-2000 are up by \$81.7million on the forward estimate published in last year's budget papers. The additional funding has been allocated to hospitals to maintain pace with the increasing level of service delivered to patients.

When compared with the 1998-99 estimated outturn, Health outlays in 1999-2000 will be up by \$45.7 million, an increase in real terms of 0.4%, to \$1,793.5 million.

The relatively low increase when compared to estimated outturn largely reflects the impact of supplementary budget funding of \$105 million provided in 1998-99. Over the four years to 1999-2000, the Government expects to have increased the level of funding provided to the Health Department by \$352 million or 17.8% in real terms.

The recurrent allocation for 1999-2000 of \$1,718.4 million represents an increase of \$66.5 million or 1.7% real on the expected outturn for 1998-99. The recurrent budget allocation includes provision for an additional \$90 million over the forward estimates period under the terms of the Australian Health Care Agreement for the reduction of waiting lists.

The 1999-2000 Budget includes provision for:

- An increase in childhood immunisation coverage from 75% to 80%;
- The establishment of influenza vaccine coverage for people over 65 years;

- The implementation of the Hepatitis C control program and the HIV/AIDS Treatment and Care Plan;
- An increase of 6% in the number of breast screenings for women;
- Increased funding of \$27 million, or 3.2%, for Hospital Scaled Central Episodes (hospital admissions) to provide for an estimated increase in episodes;
- Additional funding of \$5.7 million, or 3.3%, for non-admitted occasions of service to provide for an estimated increase in the number of these services from 3.12 million to 3.17 million occasions of service; and
- An increase in hours of home care available through Home and Community Care (HACC).

The capital works budget is \$75.1 million, which represents a \$20.8 million decrease on the 1998-99 expected outturn. This decrease is attributable to changed accounting arrangements which have resulted in \$20 million of maintenance and minor works funding being transferred from the Health Department's capital appropriation to its recurrent appropriation. The major components of the capital works planned for 1999-2000 include:

- \$5.8 million towards various metropolitan health services developments;
- \$10 million for the continuation of Mental Health Statewide Initiatives as part of a \$42.6 million program;
- \$6 million for the commencement of the construction at the Armadale/Kelmscott Hospital at a total cost of \$48 million;
- \$7 million to be spent on Year 2000 rectification; and
- \$10 million on minor works.

### **Aboriginal Affairs**

- The State Housing Commission is to receive \$19.9 million for the Aboriginal Communities Strategic Investment Program which was previously administered by the Aboriginal Affairs Department. The project aims to provide remote communities with essential services to the same standard as provided to mainstream towns of the same size and location. In addition, \$16.2 million is provided for the ongoing maintenance of the communities' assets, mainly in the provision of water and electricity supplies;
- The Country High Schools Hostels Authority's capital works program includes a total of \$2 million for the provision of Aboriginal Hostels in remote areas;
- Additional funding of \$1.5 million per annum has been provided in the Aboriginal Affairs Department for the ongoing operational costs associated with the expansion of regional offices from seven to twenty three that commenced in 1998-99; and

- In 1998-99, as part of the State's response to the "Bringing Them Home Report", funding was provided (within the Department of Family and Children's Services) to establish a records preservation facility, a records taskforce and family tracing and reunion services. To facilitate the State's response, the Family Records Information Bureau was established in 1998-99 by the Aboriginal Affairs Department. Funding of \$160,000 per annum has been provided for the Bureau's operational costs.

### **Commerce and Trade**

- To provide for the future needs of the shipbuilding and offshore oil and gas industries, the development of the Jervoise Bay southern precinct harbour infrastructure will continue with planned expenditure of \$26 million in 1999-2000, \$65 million in 2000-01, \$54 million in 2001-02 and \$13 million in 2002-03;
- In addition, land development and construction of the Marine Industry Technology Park at Jervoise Bay (Henderson) will continue at a cost of \$12.9 million in 1999-2000, \$2 million in 2000-01 and \$2 million in 2001-02;
- Building construction for the CSIRO facility at Technology Park in Bentley will commence with planned expenditure of \$20.6 million in 1999-2000 and \$8 million in 2000-01.
- \$3.0 million will be provided in 1999-2000 to assist in establishing a specialised container transport facility for Westrail at Forrestfield.

### **Conservation and Land Management**

- As part of the salinity management strategy, CALM proposes to accelerate its maritime pine-planting program from 5,500 hectares in 1999 to 10,000 hectares in the year 2000. This provides an opportunity to reduce salinity whilst increasing timber production through the establishment of pine plantations. The additional expenditure of approximately \$5 million will be funded from external investors, assets sales and internal cashflows; and
- Capital expenditure programs, totalling approximately \$81 million over the next four years, are planned for long term management of the forest ecosystem, provision of sustainable wood production, salinity control, improved tourism facilities, and nature conservation and wildlife management.

### **Culture and the Arts**

- An amount of \$4 million over the next four years has been provided for a joint venture with Granada Media to be developed under the Screen Industry Partnership Fund. The joint venture plans to produce Western Australian film projects valued at \$60 million over the next five years.
- The Government will contribute a further \$200,000 in 1999-2000 towards the purchase of a restored Catalina aircraft. The aircraft will be placed on permanent display as a commemoration of the part that these aircraft played in Western Australia's history.



**Disability Services**

- The 1999-2000 Budget reflects a continued commitment to people with disabilities through total funding of \$644.8 million over the budget and forward estimates period (\$151.7 million in 1999-2000) for ongoing operational costs including the initiatives associated with the "Count Us In" strategy. The 1999-2000 Budget allocation has increased by \$10.5 million, or 5.1% real when compared with the 1998-99 expected outturn.

**Education Services**

- An additional \$2.6 million has been provided for per capita funding to non-government schools in 1999-2000, increasing over the forward estimates period to \$27.5 million in 2002-03. The total cumulative increase for the four year period equals \$47.2 million.
- Additional low interest loans of \$26.5 million will be made available to non-government schools in 1999-2000.
- Stage 2 of the non-government schools computer purchase program will commence in 1999-2000. An amount of \$20 million was provided over four years, commencing in 1998-99 (\$5 million per annum).

**Fire and Emergency Services**

- The Fire and Emergency Services Authority is an amalgamation of the Bush Fires Board, the Western Australian State Emergency Service and the Western Australian Fire Brigades Board. The benefits from amalgamation to form the new Authority are:
  - Improvement in the delivery of emergency services to the community;
  - Better support for emergency services volunteers;
  - Improvement in the effectiveness and coherence of policy development and implementation; and
  - Coordinated approach to planning and management matters across emergency services agencies.
- Consistent with government policy, new funding arrangements for permanent fire districts are planned to come into effect on 1 July 1999. Under this arrangement all property owners within permanent fire districts will pay a Fire Service Levy based on a specific rate in the dollar on the Gross Rental Value of their property. The new arrangements will facilitate a more equitable method of funding fire services within permanent districts and will involve local government in the collection of the fire levy.
- Recurrent funding of \$2.5 million has been provided in 1999-2000 and in 2000-01 to complete the Fire Appliance Subsidy Scheme that assists local authorities in purchasing prescribed equipment, fire appliances and protective clothing. The Scheme commenced in 1994-95 and \$9.5 million has already been provided prior to 1999-2000;

- Total additional recurrent funding totalling \$1 million has been provided for training of emergency services volunteers;
- An annual recurrent provision of \$426,000 has been provided for aerial fire suppression. The Department of Conservation and Land Management also contributes \$104,000 per annum towards this initiative; and
- Additional recurrent funding of \$695,000 for the volunteer Sea Search and Rescue Services has been provided from 1999-2000 to increase the annual provision to \$1 million.

### **Premier and Cabinet**

- \$2 million has been provided in 1999-2000, for the Kalgoorlie Miners' and Prospectors' Hall of Fame, as part of the State Government's contribution to the Centenary of Federation; and
- New funding of \$300,000 per year in 1999-2000 and the outyears has been provided to fund the activities of the Native Title and Strategic Issues Division of the Ministry. In particular this relates to costs associated with the negotiation of native title claims and agreements.

### **Resources Development**

- Capital funding of \$22.8 million has been allocated over the forward estimates period to expand the Ord River Irrigation Scheme north and east of Kununurra, for a mix of agricultural and horticultural industries. The Scheme, which is funded over seven years, commenced in 1998-99 with a provision of \$1.8 million. \$1.4 million has been allocated in 1999-2000; and
- \$1.0 million has been provided for planning for the development of chemical projects in the Pilbara area.

### **Sport and Recreation**

- A total of \$16 million in funding has been provided in 1999-2000 and 2000-01 for the establishment of an International Motor Sport Facility at Kwinana. Funding of \$1.5 million per annum for 20 years has also been provided to the WA Football Commission to assist with the redevelopment of Subiaco Oval.

### **Swan River Trust**

- The Government has committed \$14 million to a 5 year cleanup program for the Swan and Canning River systems. Provision of \$2.8 million has been made in 1999-2000 and each of the forward estimate years for this purpose.

**Tourism Commission**

- The estimates provide for additional funding of \$12.3 million for various sporting and tourism events including \$1.1 million per annum to bid for future events. The funding for the future events is additional to the \$1.5 million per annum provided for the maintenance of Rally Australia, Heineken Golf Classic and Hopman Cup. A further \$1.6 million per annum has also been provided for national and international tourism campaigns including South East Asia.
- Total funding of \$98.8 million for the Convention Centre is now in the Tourism Commission's forward estimates having been transferred from Premier and Cabinet. The 1999-2000 allocation of \$25 million has been revised to \$3.2 million.

**Training**

- The Western Australian Department of Training's 1999-2000 Budget allocation of \$230.7 million, represents an increase of \$11.1 million or 2.8% real when compared with the 1998-99 estimated outturn. The budget allocation will enable the training sector to address priority training and employment requirements of the State.
- The 1999-2000 Budget provides for additional places for increased numbers of school leavers and re-skilling of mature aged long-term unemployed.
- The Budget also enables continued funding of \$535,000 for the Youth Employment Initiative to provide youth with opportunities of exploring options for employment. Other ongoing programs include the \$1.0 million Enterprise Employment Initiative to enhance employment opportunities and job creation, \$1.0 million for Landcare Traineeships and \$2.7 million for the Training Administration Body to support employers at a local level.
- In addition, funding has been provided to complete Stage 2 of Peel Regional College (\$6.8 million in 1999-2000), additions to Northam College (\$1.4 million in 1999-2000) and a new TAFE college at Moora (\$1.25 million in 1999-2000).
- Funds have also been provided to commence major work at Geraldton for a Manufacturing Centre (total cost \$5.9 million) and a Marine and Fishing Centre (total cost \$3.9 million). The Fremantle South Metropolitan College is also to be developed (total cost of \$11.7 million).

**Transport**

- A total of \$24.6 million has been provided over the next four years for the enhanced Vehicle Immobiliser Subsidy Scheme. This is aimed at reducing the incidence of car theft and resultant damage in the State. The enhancements facilitate the recording of an immobiliser as part of the vehicle licence details to ensure that all cars being transferred to new owners are fitted. The Department of Transport is to take over full responsibility for the program from the Police Service on 1 July 1999.

- The Department of Transport plans to spend \$80.1 million on capital works in 1999-2000, including \$66.6 million to progress works in progress and \$13.5 million for new projects.
- The works in progress expenditure includes \$50.4 million for the continuation of the Bus Acquisition Program.
- Other significant works in progress include:
  - The completion of Exmouth Boat Harbour;
  - Coral Bay Access Road and Boat Launching Facility;
  - Point Samson Boat Harbour Upgrading; and
  - The National Exchange of Vehicle and Driver Information System.
- \$4.5 million is provided to complete projects under the Public Transport Enhancement Program, which continues the Government's commitment to providing a sustainable public transport system in metropolitan Perth.
- Provision of \$1.9 million has been made in 1999-2000 for proposed new maritime access and infrastructure works, including:
  - The construction of a jetty at Cervantes Key (\$1.6 million);
  - Denham Boat Harbour Marine Facilities stage 1 (\$100,000, \$2.5 million total); and
  - Dunsborough Jetty (\$50,000, \$1.4 million total).
- A further \$2.2 million is provided for works of a recreational nature.
- Metropolitan Transport is supported by a budget allocation of \$8.1 million in 1999-2000, including \$3.4 million to be spent on Stage 2A of the Better Public Transport Program, which seeks to improve bus services to a level that will make their use more attractive to commuters.
- An amount of \$3 million has been provided for works associated with the proposed South-West Metropolitan Railway to be undertaken in conjunction with proposed work on the Kwinana Freeway.
- The State's road system will continue to be boosted by the 10 year TransformWA package, which commenced in the previous budget.
- Total expenditure by Main Roads on capital works in 1999-2000 is estimated at around \$565 million. The major areas of expenditure on State roads are:
  - Albany Highway, \$12.7 million on a \$113.2 million improvement program;

- Fremantle to Rockingham Highway, \$11.0 million on a \$112 million program;
- Goldfields Highway, \$15.3 million on a \$97 million program;
- Graham Farmer Freeway, \$103.5 million on a \$374 million program;
- Kwinana Freeway, \$60 million on a \$315 million program which includes the Narrows Bridge duplication and extension of the Freeway to Safety Bay Road;
- Mitchell Freeway, \$27.4 million on a \$62 million program which includes extension of the Freeway to Hodges Drive and widening the Freeway between Erindale Road and Hepburn Avenue;
- Mt Magnet to Agnew Road, \$19 million on a \$97 million construction program;  
and
- Roe Highway, \$16.0 million on a \$316 million program to construct the Highway between Wimbledon Street and Tonkin Highway.

**Youth Affairs**

- The Office of Youth Affairs, within the Department of Contract and Management Services, has been allocated \$28.8 million for the continued development and implementation of youth policies and initiatives including the Youth Training Scheme for Cadets in High Schools, the Young Community Leaders Program and the development of youth facilities in regional areas.

## **CAPITAL WORKS ESTIMATES – OVERVIEW**

The Western Australian economy enjoyed exceptional growth in both investment and exports in 1997-98. As expected, given that these circumstances are unlikely to be repeated in the near future, the growth in the economy is beginning to slow in 1998-99 when compared to the immediate past.

Nevertheless, the economic fundamentals are sound and existing high levels of activity should be maintained throughout 1998-99 and increase to long term growth rates of around 5% over the coming years.

Therefore the requirement for the timely provision of appropriate public capital works will continue to be a major factor for the Government to consider when framing future budgets.

Agencies will continue to be encouraged to consider all financing options for capital works including private sector involvement, and asset sales.

### **Key Initiatives**

The Capital Works Program presented in the 1999-2000 Budget aims to facilitate the delivery of the Government's social and economic outcomes.

Key initiatives - many that commenced in 1998-99 - that will progress over the forward estimates period include:

- Jervoise Bay Infrastructure Enhancement (State contribution of \$104 million and Federal contribution of \$80 million);
- Perth Convention and Exhibition Centre. The Government's \$100 million contribution to the development of this facility; and
- Main Roads. Over \$2.3 billion over four years with the provision of \$742 million in 1999-2000 by the State for various capital works projects, maintenance works and grants to local authorities to improve the State's transport system.

### **Total Program**

The State's total planned 1999-2000 Capital Works Program, including trading enterprises, is \$3,256.7 million, \$316.7 million higher than the expected 1998-99 outturn of \$2,940 million.

The Capital Works Program for 1999-2000 and the three out-years covered by the forward estimates is predicated on works in progress and new works as set out in Table No. 6.

<b>PUBLIC SECTOR CAPITAL WORKS PROGRAM</b>						
	Estimated Cost to Complete \$m	1999-00 Budget Estimate \$m	2000-01 Forward Estimate \$m	2001-02 Forward Estimate \$m	2002-03 Forward Estimate \$m	Carryover <sup>(a)</sup> \$m
<b>CONSOLIDATED FUND</b>						
Works in Progress	743.9	319.6	223.7	132.1	30.0	38.5
New Works 1999-2000	405.1	155.2	83.4	43.1	122.3	1.1
New Works 2000-2001	129.3	-	75.5	40.6	13.2	-
New Works 2001-2002	231.3	-	-	194.2	55.6	1.5
New Works 2002-2003	279.9	-	-	-	221.1	58.8
<b>Total Consolidated Fund</b>	<b>1,809.0</b>	<b>474.8</b>	<b>382.6</b>	<b>409.9</b>	<b>441.8</b>	<b>99.9</b>
<b>Trading Enterprise and other</b>	<b>10,908.3</b>	<b>2,781.8</b>	<b>2415.6</b>	<b>2,292.6</b>	<b>2,135.6</b>	<b>1,282.7</b>
<b>GRAND TOTAL</b>	<b>12,717.8</b>	<b>3,256.7</b>	<b>2,798.3</b>	<b>2,702.5</b>	<b>2,577.8</b>	<b>1,382.6</b>

(a) Carryover is estimated expenditure on projects that will not be completed by the end of Forward Estimates period.

Capital expenditure by agencies operating outside the Consolidated Fund was at historically high levels in 1997-98 and 1998-99 and remains high in 1999-2000. This is due to major expenditure by Western Power (on the Collie Power station and other generation), Westrail (on new locomotives and track improvements) and the Water Corporation (on the infill sewerage program) on a number of strategic projects. Allowance for this should therefore be made in interpreting the capital works expenditure over the out-years.

In that regard the total capital expenditures in 2000-01, 2001-02 and 2002-03 are planned to decrease, when compared to the previous year, by 10.9%, 5% and 6.8% respectively. The reductions are due mainly to a progressive decline in the capital programs of the trading enterprises. Expenditure on these programs falls from \$2,781.8 million in 1999-2000 to \$2,135.6 million in 2002-03.

The forward estimates for capital projects are subject to revisions from year to year and it may become necessary to make adjustments to the out-years in order to accommodate changed circumstances and priorities. This would include changes associated with projects currently under consideration but for which reliable cost estimates are not currently available.

### Funding Arrangements

Capital works funded from the Consolidated Fund will total \$474.8 million in 1999-2000, of which \$112.6 million is allocated to education, \$75.1 million to health, and \$79.4 million to law and order. Funding from the Consolidated Fund for capital works will fluctuate over the out-years decreasing to \$441.8 million in 2002-03.

The State's total 1999-2000 Capital Works Program is financed from Consolidated Fund capital receipts and recurrent surpluses (15%), borrowings by authorities (18%) and other funds generated by agencies (67%).

The Consolidated Fund Capital Works Program is funded without recourse to borrowings in any year.

The total public sector Capital Works Program is summarised in the following table:

Table 7				
<b>TOTAL PUBLIC SECTOR CAPITAL WORKS PROGRAM</b>				
	Estimate 1999-00 \$m	Estimate 2000-01 \$m	Estimate 2001-02 \$m	Estimate 2002-03 \$m
General Government <sup>(a)</sup>	1,324.4	981.4	920.1	914.5
Public Trading Enterprises <sup>(b)</sup>	1,932.3	1,816.9	1,782.4	1,663.1
<b>GRAND TOTAL</b>	<b>3,256.7</b>	<b>2,798.3</b>	<b>2,702.5</b>	<b>2,577.8</b>
(a) Agencies such as Education Health, Justice, Main Roads and Police (refer Appendix 5).				
(b) Agencies such as Western Power, Water Corporation, Westrail and Homeswest (refer Appendix 5).				

Capital works planned to be undertaken by general government agencies will total \$1,324.4 million in 1999-2000, of which \$152.2 will be spent by the Education Department, \$564.7 million by Main Roads, \$51.8 million by the Ministry of Justice and \$80.1 million by the Department of Transport. Capital works expenditure in 2000-01 will fall to \$981.4 million since expenditures by many of these agencies are at historically high levels in 1999-00.

Capital works planned to be undertaken by the trading enterprises will total \$1,932.3 million in 1999-2000, of which \$713.4 million will be spent by the State Housing Commission, \$465.5 million by the Water Corporation, \$261.8 million by Western Power and \$169.8 million by Westrail.

Net debt of public trading enterprises will increase by \$323 million in 1999-2000. Thereafter debt will decline largely due to the completion of major capital works (see Chapter 6 for more detail). These estimates do not include any provision of debt reductions from the sale of AlintaGas or the freight operations of Westrail.

Financing arrangements for individual agencies during 1998-99, 1999-2000 and the three outyears, along with details of capital expenditure and other funding sources are summarised in Appendices 13 and 14. Agency works programs and project information are presented in Chapter 3 of Budget Paper No. 2.



## REVENUE MEASURES

### Introduction

Despite the expenditure pressures on core Government services, and a further substantial reduction in Western Australia's share of Commonwealth grants, there is only one tax measure which will raise additional revenue in this year's budget. It is nevertheless designed to benefit low income earners and preserve the competitiveness of Western Australian businesses.

This measure involves a restructuring of the stamp duty scale on registrations and transfers of motor vehicle licences. Vehicles valued at less than \$20,000 will actually be subject to less stamp duty, while only more expensive vehicles will incur more.

On the other hand, the budget includes further reductions in land tax rates. These are essentially designed to remove the impact of "bracket creep", as land values continue to grow.

The choice of revenue measures has regard for the fact that the taxes proposed to remain with the States after national tax reform will be those on the relatively broad bases of motor vehicles, property, payrolls and gambling.

The replacement of the State's other mainly narrowly based, slow growing and/or distortionary taxes by the proposed broad based GST, will relieve some of the pressures on future budgets. However, this will only occur over a period of several years.

In the meantime, the Grants Commission has reduced Western Australia's share of Commonwealth grants by a further \$74 million in 1999-2000. Western Australia's grant will now be around \$309 million less than if our share of six years ago had been maintained.

Each of the revenue measures is proposed to apply from 1 July 1999.

Table 8				
<b>SUMMARY OF MEASURES</b>				
	Estimate Change in Revenue			
	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
<b>Motor Vehicle Stamp Duty</b>				
New rate scale	21.9	25.3	26.8	28.3
<b>Land Tax</b>				
New rate scale	-7.0	-7.5	-8.0	-8.6

### Motor Vehicle Stamp Duty

The current stamp duty scale of a flat 3% of the market value of the vehicle will be replaced with a sliding scale, as follows:

Market Value	Change in Stamp Duty Rates	
	Current	Proposed
	Up to \$15,000	3%
\$15,000 to \$40,000	3%	2.5% - 5.0%
More than \$40,000	3%	5.0%

For vehicles valued between \$15,000 and \$40,000, the stamp duty rate increase from 2.5% to 5.0% will be phased in, in a proportional manner. By way of example, for a \$20,000 vehicle:

- \$20,000 falls one fifth of the way between \$15,000 and \$40,000.
- Accordingly, the stamp duty rate will be 3.0% (applied to the full \$20,000), being one fifth of the way between 2.5% and 5.0%.

Put another way, for vehicles above \$15,000, the stamp duty rate (applicable to the total value of the vehicle) will increase by 0.1 percentage points for each \$1,000 increase in the price of the vehicle, until the maximum rate of 5% is reached (at \$40,000).

As a result, all vehicles valued at up to \$20,000 will be subject to less stamp duty than currently, benefiting most used car and small new car buyers. These vehicles account for around three quarters of total annual vehicle sales, although less than half of the value of all sales.

The impact on popular makes of new passenger vehicles will be as follows:

New Vehicle	List Price \$	Stamp Duty	
		Current \$	Proposed \$
		Hyundai Excel	13,990
Honda Civic	19,930	600	596
Toyota Camry	25,350	762	896
Holden Commodore	29,760	894	1,183
Nissan Patrol 4WD	46,990	1,410	2,350
BMW 528i	98,900	2,967	4,945

While large commercial vehicles (such as prime movers) will also be subject to more stamp duty, this will be partly offset by amortisation of the duty for income tax purposes. Furthermore, the affordability of commercial vehicles will be substantially improved after the proposed GST replaces wholesale sales tax, and GST input tax credits become available for these vehicles.

An interstate comparison of stamp duty rates is as follows:

Table 11

**STAMP DUTY ON SELECTED VEHICLE VALUES**

Vehicle Price	WA		NSW	VIC		QLD	SA		TAS	
	Current	Proposed		New	Used		Commercial	Other	Passenger	Other
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>5,000</b>	150	125	150	125	200	100	120	140	150	150
<b>10,000</b>	300	250	300	250	400	200	270	340	300	300
<b>20,000</b>	600	600	600	500	800	400	570	740	600	600
<b>30,000</b>	900	1,200	900	750	1,200	600	870	1,140	900	900
<b>45,000</b>	1,350	2,250	1,350	2,250	1,800	900	1,320	1,740	1,800	1,350
<b>60,000</b>	1,800	3,000	2,100	3,000	2,400	1,200	1,770	2,340	2,400	1,800
<b>80,000</b>	2,400	4,000	3,100	4,000	3,200	1,600	2,370	3,140	3,200	2,400

For the majority of individuals and families which purchase vehicles valued at up to \$20,000, the stamp duty in Western Australia will be less, and lower than in most other States.

### Land Tax

A new land tax scale is proposed that will limit land tax collections in 1999-2000 to an estimated \$194 million. After deducting land tax of around \$4 million to be paid by the Western Australian Land Authority for the first time, this represents growth of about 7%, the same as the estimated increase in taxable land values.

If the current land tax scale were retained, it is estimated that land tax collections in 1999-2000 would be \$201 million. Accordingly, the new scale provides a concession to taxpayers of around \$7 million per year.

This is the fifth successive budget in which the Government has provided land tax relief. The cumulative relief represents a significant boost to the competitiveness of Western Australian businesses.

The proposed new tax scale has again been designed to ensure that no taxpayer would be worse off than under the current scale, at the new land values. The largest benefits have been targeted at the mid land value ranges, where taxpayers are most affected by the progressivity of the scale on top of their land value increase.

## COMPONENTS AND BASIS OF ESTIMATES OF REVENUE

This section identifies the major components of, and major factors influencing growth in, the revenue aggregates set out in Appendix 2 of this Chapter. Information on major exemptions and concessions is included in the *Tax and Royalty Expenditure Statement* in Appendix 15.

### Taxes and Licences

These are compulsory levies used to fund general State Government services. They are collected primarily by the State Revenue Department, or other State revenue authorities.

The major taxes currently available to the State are:

- Payroll tax;
- Property taxes, including stamp duty on property conveyances and land tax;
- Motor vehicle taxes, including stamp duty and annual vehicle licence fees;
- Gambling taxes, including Lotteries Commission revenues, the casino tax and racing taxes; and
- Financial transaction taxes, including FID, Debits Tax and various stamp duties.

Until recently the States also collected franchise fees on tobacco, fuel and liquor. However, a High Court decision on 5 August 1997 forced the States to cease levying these taxes (they have since been replaced by surcharges on Commonwealth taxes on the same commodities, and associated grants to the States).

As part of national tax reform, it is proposed that most financial transaction taxes be abolished (stamp duty on insurance policies is an exception), commencing 1 January 2001 in the case of FID and Debits Tax, and 1 July 2001 in the case of various stamp duties. These taxes are generally slow growing and/or distort economic behaviour, and will effectively be replaced by the GST.

For the purposes of this year's budget presentation, the State taxes proposed to be abolished are nevertheless included in all years of the forward estimates period, pending finalisation of the national tax reform proposals (which should be budget neutral in that period).

The budget and forward estimates reflect expected nominal growth in total taxes and licences of around 5-6% per annum, compared to expected growth in the economy of around 7% per annum. Payroll and land taxes are generally expected to grow fastest.

The individual State taxation revenue estimates over the four years to 2002-03 incorporate the following general factors:

- The expected out-turns for 1998-99, as assessed at the end of March 1999, based on the monthly collection trends to that point;

- Forecasts at the end of March 1999 of growth in key economic parameters;
- Formal and informal advice from revenue collection authorities and relevant industry representatives about the growth prospects of specific revenue bases;
- Growth constraints associated with the narrowness of specific revenue bases; and
- The part-year and full-year revenue impact of revenue measures in 1998-99 and 1999-2000.

Additional, more specific forecasting assumptions underlying the estimates for each of the major taxes are set out below.

#### *Business Taxes and Licences*

Payroll tax is easily the largest component of business taxes and licences. Revenue projections are based primarily on forecast growth in wages and employment. They also include a small progressivity factor, provision for further increases in the Commonwealth's Superannuation Guarantee Charge (from the current 7% to 8% on 1 July 2000, and to 9% on 1 July 2002) and more regular compliance checks by the State Revenue Department.

Also included in this category is stamp duty on rental businesses, such as car rental and general equipment hire transactions. Growth in this duty is forecast to be in line with general growth in the State economy.

#### *Property Taxes*

The value of property market activity, and associated stamp duty revenue, is forecast to remain at around 1998-99 levels for the next two years, before picking up again in 2001-02.

Land tax and Metropolitan Region Improvement Tax are forecast to grow at around 7% per annum, in line with assumed growth in land values. The estimates also include the revenue impact of the Western Australian Land Authority becoming liable for land tax from 1 July 1999 (around \$4 million per annum).

#### *Motor Vehicles*

Most of the forecast growth in stamp duty revenue (which comes from transfers of new and used vehicle licences) in 1999-2000 reflects the budget measure to increase stamp duty rates on higher priced vehicles. Some deferral of vehicle sales in 1999-2000 has been allowed for, due to the expected reduction in vehicle prices after the proposed introduction of the GST in 2000-01.

In the forward estimates period, stamp duty revenue is forecast to grow at around three quarters of the rate of general growth in the State economy.

The estimates of revenue from annual motor vehicle licence fees are those supplied by the Department of Transport. This revenue is earmarked exclusively for road construction and maintenance.

*Gambling Taxes*

The Lotteries Commission is projecting only very low growth in their revenues, across the forward estimates period. No provision has been made for new games that would help to boost turnover.

Casino tax revenue has been declining in recent years, reflecting the impact on the premium player market of the Asian economic downturn and increased competition for Burswood from other casinos. However, stabilisation of Asian economies is assumed to bring the downward trend to an end in 1999-2000.

TAB turnover tax revenue is forecast to grow by 5-6% per annum, partly reflecting expansion of the TAB's telephone and electronic (eg. Internet) betting facilities.

*Financial Transaction Taxes*

The basis of the estimates for the various components of these taxes is:

- Growth in FID of half the rate of general growth in the State economy, reflecting recent growth experience;
- Growth in Debits Tax of only one quarter of the rate of general growth in the State economy, reflecting the narrow base of this tax;
- Growth in stamp duty on insurance policies of around three quarters of the rate of general growth in the State economy. In 1999-2000, the full year revenue benefit from last year's stamp duty rate increase is broadly offset by the cost of fire service funding being shifted away from insurance premiums to local government rates;
- Growth in stamp duty on mortgages broadly in line with property conveyance duty revenue;
- No growth in stamp duty on share transactions in 1999-2000, reflecting the high base in 1998-99, but a gradual return to growth in line with that in the State economy thereafter; and
- No growth in stamp duty on cheques, reflecting the trend of declining use of cheques relative to other payment mechanisms, and the fixed ten cents per cheque basis of the duty.

As noted previously, FID and Debits Tax are proposed to be abolished from 1 January 2001, as part of national tax reform. Stamp duties on mortgages, share transactions and cheques, together with stamp duties on rental business, leases and non-real property conveyances (eg. business goodwill and statutory licences) would be abolished from 1 July 2001.

### **Territorial**

These revenues are mainly comprised of mining royalties and associated mining lease and rental payments. The largest royalties come from petroleum and iron ore.

Mining royalties are not taxes, but rather the price paid to the community by mining companies for the right to extract resources which are owned by the community. The royalties are collected by the Department of Minerals and Energy.

Mining revenues are expected to be relatively flat across the forward estimates period, apart from a significant increase in 2000-01 (based on the gold royalty rate being fully phased-in, in that year). The estimates incorporate:

- Individual mining company projections of sales and prices supplied to, and modelled by, the Department of Minerals and Energy;
- An exchange rate across the forecast period of \$A1 = \$US0.63 (the prevailing rate at the time the estimates were struck). In this regard, all major minerals (with the exception of mineral sands) are sold under \$US contracts, but royalties apply to the \$A value;
- Petroleum prices for most production in Western Australia of \$US15/bbl, across the forecast period; and
- No provision for any planned new mining projects, unless they have already been formally approved and committed to.

### *Iron Ore*

Iron ore royalties are forecast to decline in 1999-2000, primarily reflecting price reductions in the latest round of negotiations between the major producers and Japanese buyers. Thereafter, prices and volumes are forecast to remain relatively static, with some shift in the volume mix towards products attracting a lower royalty rate.

### *Petroleum*

Petroleum revenues will be boosted in 1999-2000, relative to 1998-99, by a full year's production from the Wanaea/Cossack oil field, which has been affected recently by repairs to the production vessel. Forecast oil prices are also slightly higher than the average realised price so far in 1998-99.

The estimates across the forecast period are still substantially below what was projected in last year's forward estimates, due to low oil prices. However, a recent firming in oil prices and projections of lower cost deductions from the North West Shelf project have improved the outlook compared to that at the time of the 1998-99 mid-year budget review.

The decline in the petroleum estimates in the later part of the forward estimates period reflects the fact that some of the State's existing oil fields are now approaching peak production levels.

#### *Alumina*

Lower prices are expected to substantially offset the benefit of production capacity expansions by the State's two alumina producers.

#### *Diamonds*

A substantial fall in diamond royalties is forecast in 1999-2000, due to production cuts partly associated with stabilisation work to be under-taken in the open pit operation.

#### *Mineral Sands*

Firmer prices and increased production by some producers are expected to boost mineral sands royalties in 1999-2000. However, royalties are forecast to remain flat thereafter.

#### *Nickel*

Production from several new laterite nickel mines is expected to boost royalties in 1999-2000, relative to 1998-1999. However, the estimates are substantially lower than projected a year ago, due to lower nickel prices and the recent closure of some existing nickel mines.

#### *Gold*

The expected growth in gold royalty revenue in 1999-2000 reflects a full year's collection at the existing concessional royalty rate of 1.25%. Thereafter, the full royalty rate of 2.5% cuts in, although this is conditional on the gold price exceeding \$A450/oz.

Industry projections of lower production partly offset the benefit of the assumed higher royalty rate from 2000-01.

#### *Lease Rentals*

These are essentially charges for exploration and production licences. The forecast reduction in these revenues reflects the negative impact of subdued commodity prices and native title issues.



## Commonwealth

Grants from the Commonwealth comprise general revenue grants and specific purpose payments. The main sources of general revenue grants in 1999-2000 will be:

- Financial assistance grants – originally provided to replace State income taxes ‘temporarily’ taken over by the Commonwealth during World War II. The total pool of these grants is now escalated annually (to maintain the pool in real per capita terms), while its allocation between States is based on the Commonwealth Grants Commission’s recommendations; and
- Safety net revenues – introduced in 1997-98 to replace the franchise fees on tobacco, liquor and fuel, which the States relinquished due to the High Court decision in August 1997.

In 1999-2000 general revenue grants to Western Australia are forecast to contract in real per capita terms, despite the phasing out of the compulsory fiscal contributions to the Commonwealth’s budget deficit, which had reduced financial assistance grants from 1996-97 to 1998-99.

This decline is largely due to Western Australia’s reduced share of financial assistance grants, reflecting the Commonwealth Grants Commission’s recommendations. The Commission based this recommendation on Western Australia’s growing capacity to raise its own revenue compared to other States. In this regard it took particular account of the royalty revenues sourced from the North West Shelf petroleum project.

Real per capita growth in safety net revenues is also negative, due to Commonwealth projections of subdued demand for tobacco products.

The State is also required to meet conditions within functional areas of expenditure to be eligible to receive specific purpose payments for those areas. Most specific purpose payments are now handled by net appropriations, and do not flow through the Consolidated Fund. The main exception to this is the hospital funding grant.

The real per capita decrease in general revenue grants is expected to continue in 2000-01 and later years. Significant features of the forward estimates of Commonwealth revenue are:

- Current Commonwealth grant arrangements are assumed to apply over the forward estimates period. Under the Commonwealth’s proposed tax reforms, financial assistance grants, safety net revenues and a range of State taxes will be replaced by GST revenues. However, the Commonwealth has guaranteed that no State budget will be worse off from the change. So, while the composition of State revenues will change under the proposed arrangements, there will be no overall net impact on the State budget during the guarantee period.
- The pool of financial assistance grants to all States is escalated annually for growth in population and prices (the real per capita guarantee), but Western Australia’s share of this pool is declining over the long term, mainly due to growth in the State’s capacity to raise its own revenues;

- Hospital funding grant forecasts reflect changes to the size and composition of the population, growth in costs and additional demand associated with falling private health fund membership;
- Competition reform payments, which flow from the implementation of the National Competition Policy, will go to their second tranche in 1999-2000 and their third tranche in 2001-02<sup>1</sup>. The per capita component of the real per capita guarantee for financial assistance grants is also linked to the implementation of National Competition Policy; and
- Variations to specific purpose grants in accordance with advice received from Commonwealth agencies.

### **Departmental**

Departmental revenues are now mainly restricted to recoveries by Treasury of superannuation and interest payments from agencies, interest on the investment of the Government's short term cash balances and other revenue deemed ineligible for net appropriations. Most user charges collected by departments are now covered by net appropriations.

Departmental revenue is expected to fall from \$342.2 million in 1998-99 to \$142.3 million in 1999-2000, a decrease of \$199.9 million. The decrease largely reflects the impact of an initiative to buy-out the superannuation liability of Western Power (\$122.7 million) and the Water Corporation (\$66 million) in 1998-99.

With Western Power the superannuation initiative forms part of a broader package which also includes the termination of Agreed Statement of Principles payments in relation to North West Shelf contracts, in exchange for a one-off payment to Western Power (\$67 million). The Water Corporation will also be retiring its outstanding General Loan Fund debt (\$23.7 million) in 1999-2000.

These initiatives will result in the Western Power and Water Corporation balance sheets becoming more reflective of their post corporatisation business positions. Similar arrangements have previously been undertaken for Westrail and Fremantle Port Authority.

### **Law Courts**

This category of revenue is mainly comprised of fines and penalties on businesses and individuals that transgress the law. The Ministry of Justice collects these revenues.

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<sup>1</sup> The competition grants to Western Australia are estimated to be \$21 million in 1998-99, \$43 million in 1999-2000, \$45 million in 2000-01, \$69 million in 2001-02 and \$71 million in 2002-03. The per capita guarantee for financial assistance grants substantially increases these amounts.

The Law Courts revenue estimate of \$70.5 million in 1999-2000 represents an increase of \$18.7 million or 33.0% (real) compared with the estimated 1998-99 outturn of \$51.8 million. This increase is mainly due to the expected rise in traffic infringement fines resulting from the increased use of speed and red light cameras, as part of the Integrated Road Safety Program specifically aimed at reducing road accidents and fatalities.

### **Government Enterprises**

The State's major government owned businesses, such as Western Power, AlintaGas, the Water Corporation, Port Authorities and Westrail, are liable for a range of payments to the Consolidated Fund. These include dividends, income and wholesale sales tax equivalents, and government guarantee fees. A number of government enterprises are also liable for local government rates equivalent payments.

Tax and local government rates equivalents are levied by the State to ensure competitive neutrality (ie. a level playing field) between significant government business activities and private sector businesses, with the aim to ensure an efficient allocation of resources within the economy.

Estimated revenue from Government Enterprises in 1999-2000 will increase by 2.9 per cent to \$701.4 million compared with the estimated 1998-99 outturn of \$681.4 million.

Revenue from Government Enterprises essentially comes from tax equivalents (43%) and dividends (55%). Income tax equivalents in 1999-2000 are expected to fall substantially (25%), largely due to the temporary boost to these payments in 1998-99 from AlintaGas' sale of the Dampier to Bunbury natural gas pipeline.

Conversely, dividend payments are expected to rise (18%) largely as a consequence of increases in payments by Western Power and the Water Corporation. Western Power's dividend increase is due to a rise in its dividend payout ratio towards a more commercially appropriate ratio of 30%. The Water Corporation's dividend will also increase, reflecting its extremely strong balance sheet position.

### **Capital**

Capital revenues mainly comprise the proceeds of asset sales and loan repayments by agencies.

Reflecting their once only nature, capital revenues can vary substantially from year to year. Consequently, caution is required when comparing growth in total Consolidated Fund revenues from year to year.

In a number of cases the proceeds of property and asset rationalisations have been reappropriated back to the relevant agency to help fund their capital works program.

The large increase from \$92.3 million in 1998-99 to \$384.5 million in 1999-2000 is primarily due to the refinancing of statutory authority debt incurred prior to 1986 at higher interest costs than currently prevail. The refinancing is intended to take advantage of the low interest rate environment. It will raise \$275 million in 1999-2000 and provide flexibility for the affected agencies to better manage their debt and budgets.

### **Hypothecated Revenues**

These are tax and licence revenues which are credited initially to the Consolidated Fund and subsequently applied to a trust fund for expenditure on a specific purpose.

The major examples include the dedication of motor vehicle licence fees to the maintenance and construction of roads, and the dedication of Lotteries Commission surpluses to hospitals, sporting groups and the arts.

A summary of hypothecated revenues is contained in Appendix 11.

### **Net Appropriation Determinations**

Net Appropriations are designed to provide departments with the incentive and flexibility to improve cost recovery, rationalise services that are not cost-effective and initiate new activities, without drawing on general taxpayer funding. These arrangements were made obligatory in the 1998-99 Budget for the majority of major user charges and other revenues previously categorised as "Departmental" revenue.

A summary of net appropriation determinations is contained in Appendix 12.

## PART III

### **RELATIONSHIP OF FORWARD ESTIMATES TO FINANCIAL TARGETS**

The Government's financial strategy continues to focus on the long-term stability of the public sector. The key planks of the strategy are maintaining or increasing net assets of government, reducing the proportion of revenue spent servicing the State's debt, reducing real per capita operating expenses and maintaining operating surpluses.

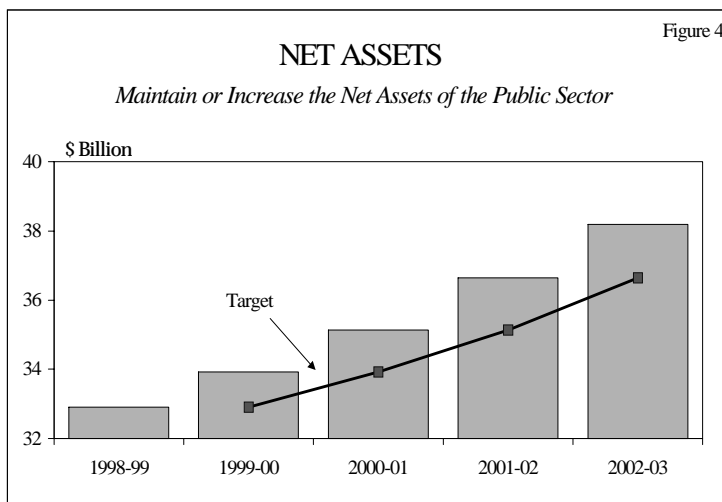
This budget has been framed in the face of continued demand-driven increases in key social expenditures and projected lower growth in both own source revenues and Commonwealth grants. Notwithstanding these pressures, all but two of the targets specified in the Government's Financial Strategy Statement will be met in all years. The exceptions are the Underlying Balance and Net Debt (interest cost) targets. The Underlying Balance target is not achieved in the short term due to the high levels of capital investment being undertaken in the general government and public trading enterprises sectors. However, continued prudent financial management and the measures taken in this Budget will enable this target to be achieved in 2002-2003. The Net Debt (interest cost) target is expected to be met in each year apart from a very small increase in 2000-01.

The following is an assessment of the forward estimates contained in Parts I and II of this Chapter and in Chapter 6 against the financial targets outlined in Part II of Chapter 1.

#### **Net Assets: net assets of the public sector be maintained or increased**

Achievement of this target is based on the Government's ongoing commitment to sound asset investment decisions and containing growth in liabilities.

As demonstrated in Figure 4 below, this target is expected to be met in 1999-2000 and in each year of the forward estimates period. Net assets of the public sector are projected to improve by \$5.3 billion between 1998-99 and 2002-03, an average increase of 4% per annum.

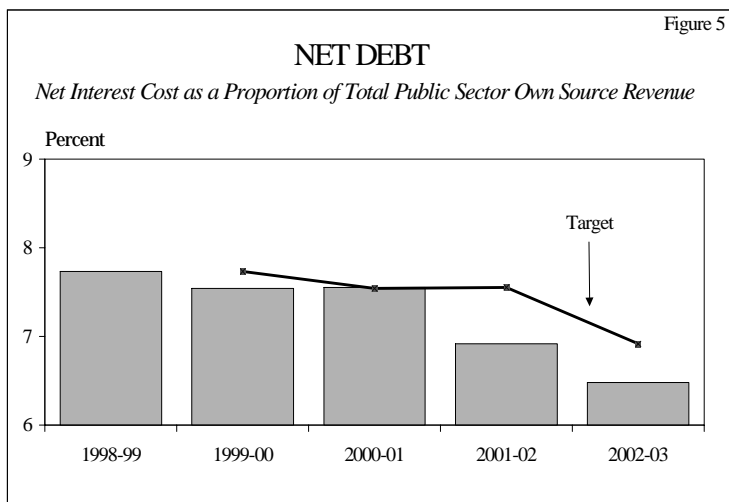


This projected outcome is largely due to the increasing value of the Government's ownership interest in public sector agencies, which is expected to grow by \$5.6 billion over the four year period. The factors contributing to this growth are the increase (\$2.8 billion) in value of land held by agencies in both the general government and public trading enterprises sectors, operating surpluses projected across all sectors (\$2.4 billion), and equity injections (\$0.4 billion). The land valuations are based on Valuer General's estimates.

Consolidated Fund Entity liabilities are projected to decrease over the forward estimates period by \$441 million (6.2 per cent in nominal terms). Reductions in the value of superannuation liabilities (\$48 million), Government Insurance Fund liabilities (\$79 million) and centrally held debt (\$138 million) are the major factors contributing to this decline.

**Net Debt: a declining net interest cost as a proportion of own source revenue for the public sector**

As illustrated in Figure 5 below, this target is expected to be met over the forward estimates period as a whole. Net interest cost as a proportion of own source revenue is projected to decline by one percentage point from 7.5% to 6.5% over the four year period to 2002-03, with a significant decline in the last two years of the forward estimates period.

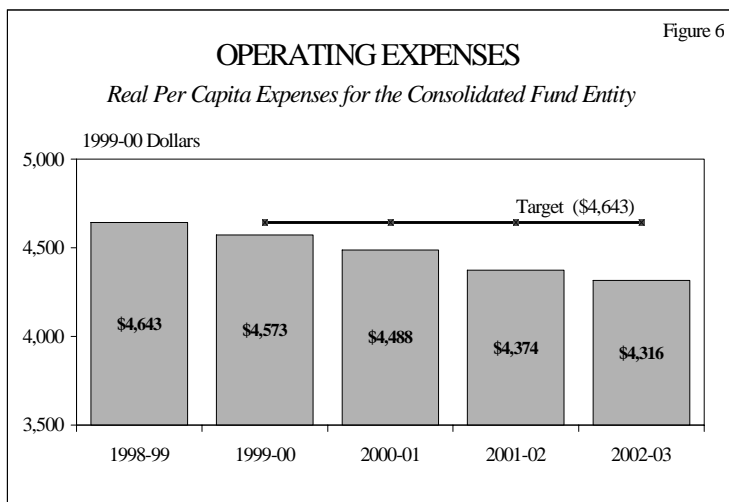


Apart from a very slight increase in 2000-01, the target is met in each year, despite growing net debt in the short term. This result has been assisted by own source revenue growth in the public trading enterprises sector and some refinancing of high interest cost debt. The practice of refinancing debt to achieve lower interest costs is sound in the current interest rate environment.

**Operating Expenses: real per capita expenses for the Consolidated Fund Entity be decreased**

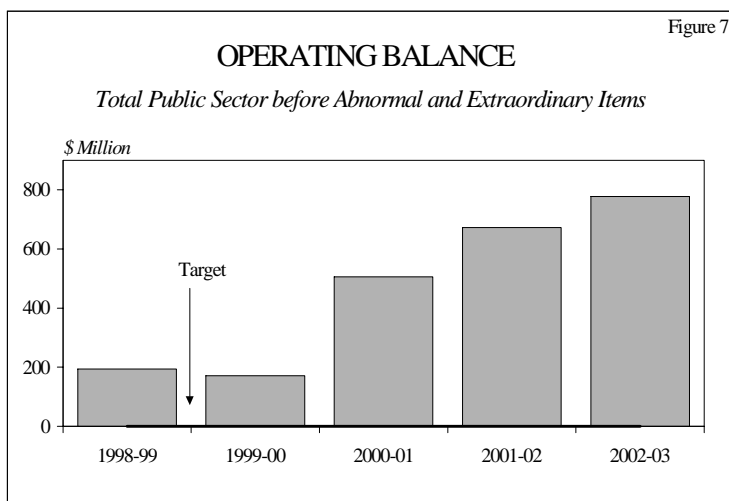
Achievement of this target requires continuing restraint in outlay growth through prudent decision making by government on expenditure matters.

Notwithstanding the increased funding provided for services in the education, health and law and order areas, this target is expected to be achieved each year. A combination of revenue measures and savings generated from expenditure reprioritisation have been utilised to help meet the growth in demand for these key social services. As shown in Figure 6 below, real per capita operating expenses for the Consolidated Fund Entity are projected to decline by \$327 over the forward estimates period, a decrease of 7%.



**Operating Balance: an accrual operating surplus (before abnormal and extraordinary) for the total public sector**

Achievement of this target is based on the Government taking financial decisions that ensure growth in operating expenses does not exceed available operating revenue. The ongoing monitoring of agency financial statements will enable government to prevent any erosion of this target throughout the course of each year.



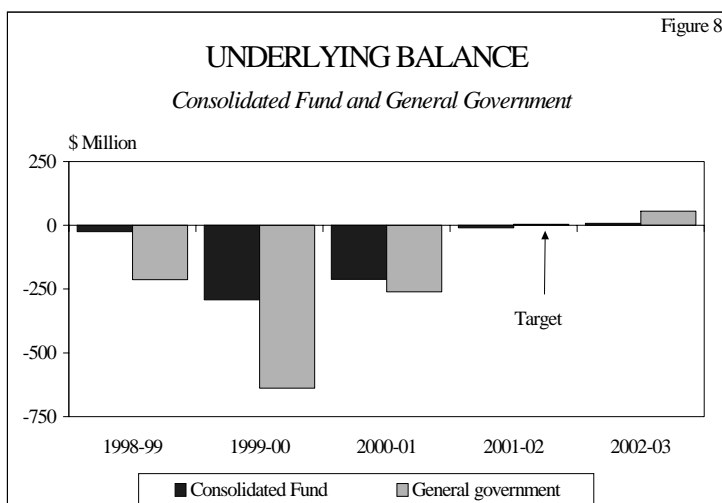
As illustrated in Figure 7 above, operating surpluses (before abnormal and extraordinary items) are projected for each year, indicating that the target will be successfully attained. The size of the Government's operating surplus is forecast to rise by \$607 million between 1999-2000 and 2002-03. This is achieved by exercising expenditure restraint in the general government sector and improved financial results in the public trading enterprises sector.



### Underlying Balance: the Consolidated Fund and general government sectors run an underlying cash surplus

Based on the projected results in Figure 8 below, this target is not expected to be achieved in the short term. Factors contributing to this outcome include demand-driven funding in the key service areas of education, health and law and order, subdued revenue growth and a record high Consolidated Fund capital works program in 1999-2000. The general government deficit is partly caused by the impact of the TransformWA program which draws on \$253 million of borrowings over the next four years. These borrowings are fully repaid over the ten year life of the program. Moreover, the fact that this target is not met in the next three years is not of major concern as the growth in debt and associated interest costs remain within manageable levels.

The target is expected to be achieved by the end of the forward estimates period as capital spending winds down.

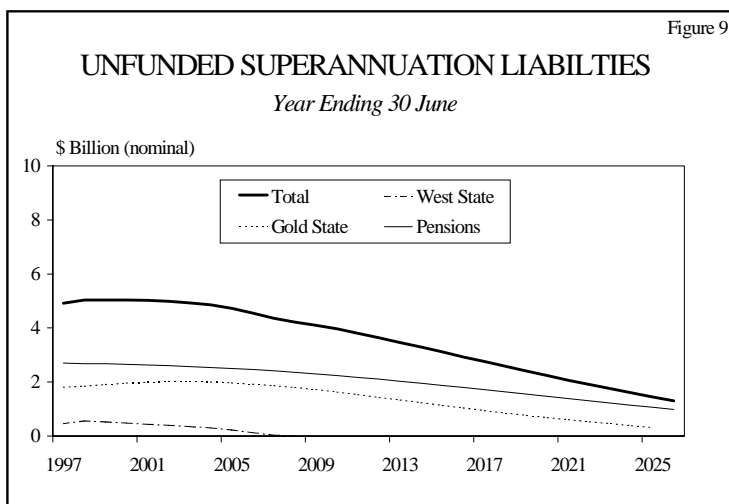


#### Risk Management:

- **maintenance over the forward estimates of the financial management plan announced in the 1998-99 Budget to manage and fund accruing superannuation liabilities;**

The 1998-99 Budget extended a strategy announced in the preceding year's budget aimed at achieving full concurrent funding of the West State Super Scheme. This strategy remains in place for the 1999-2000 Budget. Current estimates and the proposed schedule of contributions, indicate that the unfunded Superannuation Guarantee Charge (West State Super Scheme) liability is expected to be eliminated over approximately 9 years (see Figure 9)<sup>2</sup>.

<sup>2</sup> Revised actuarial assessment indicates an earlier retirement of unfunded liability for the Gold State and West State Super schemes than previously estimated.



- **rationalise ownership of assets exposed to business risks;**

The estimates contained in this Budget do not rely on any further major privatisation of the State's assets. Existing assets, including land and other buildings, are subject to continuous review and the Government is considering the adoption of a capital user charge that may encourage further rationalisation of assets. In addition, the Government's equity in Westrail and AlintaGas is currently under consideration for sale.

## RISK STATEMENT

The Government's financial projections are based on a number of judgements and assumptions about the state of the economy in Western Australia, as well as the Government's finances both now and in the future. Changes in the judgements and/or economic assumptions will have an impact on the financial outlook. The uncertainty (or risk) associated with the financial projections increases as the forecasts extend into the forward estimates period.

The major risks surrounding the financial projections (as reflected in the Consolidated Budget Statements) include:

- Economic performance and financial market conditions varying from forecasts;
- Changes in government policies (both State and Commonwealth);
- Specific assumptions about expenses, the balance sheet, and in particular tax revenue not being realised;
- Revaluations of assets and liabilities;
- The realisation of specific financial circumstances which have not been reflected in the financial forecasts because of their uncertainty; and
- The realisation of contingent liabilities.

Risk management is a key part of the Government's fiscal strategy. Its importance is specifically recognised in the *Government Financial Responsibility Bill 1998*, which establishes "... financial risks are to be managed prudently ..." as one of the three principles of responsible financial management.

An important step in managing risk is comprehensive identification and timely reporting of financial risks which allows them to be managed in conjunction with Government's financial priorities and objectives. All accountable officers and authorities are required to ensure that there are procedures in place for the periodic assessment, identification, and treatment of risks inherent in the operations of the department or statutory authority, together with suitable risk management policies and practices.

## ESTIMATING ASSUMPTIONS

The major economic parameters upon which the expenditure and revenue estimates have been based are detailed in the following table.

<b>MAJOR ECONOMIC PARAMETERS</b>				
	1999-00	2000-01	2001-02	2002-03
Real gross State product <sup>(a)</sup>	4.50	5.00	5.00	5.00
Consumer price index <sup>(b)</sup>				
Perth	2.25	3.00	2.50	2.50
Eight State	2.50	2.50	2.50	2.50
Wages growth <sup>(c)</sup>	3.50	3.75	3.25	3.25
Employment growth <sup>(d)</sup>	2.00	2.75	3.25	3.25
GSP implicit price deflator <sup>(e)</sup>	2.25	2.50	2.25	2.25
\$A/\$US	0.63	0.63	0.63	0.63
Oil Price \$US	15.00	15.00	15.00	15.00
(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 an economy in a given period. GSP includes private and public sector consumption and investment and the net result of exports minus imports. Growth in GSP is used in forecasting a number of State taxes, including stamp duties and financial transactions taxes and analysing movements in major budget aggregates.			
(b)	The Perth consumer price index is used in projecting land tax revenue in the outyears.			
(c) and (d)	These labour market aggregates are used in forecasting payroll tax revenue.			
(e)	The GSP implicit price deflator is a derived measure of price movement within GSP. It reflects movements in prices across a broad range of goods and services, unlike the consumer price index which measures movements in prices of consumer goods and services only. Therefore, the implicit price deflator provides a more representative measure of cost pressures on Government services.			

## PARAMETER SENSITIVITY OF THE ESTIMATES

The preceding major economic parameters on which the expenditure and revenue estimates have been based are necessarily surrounded by a degree of uncertainty. Under the provisions of the *Government Financial Responsibility Bill 1998*, the *Government Financial Projections Statement* is required to include an account of the economic and other assumptions on which the financial projections are based, and the degree to which the financial projections are likely to be affected by changes in the circumstances on which the assumptions are based. Consistent with this requirement, this section describes the sensitivity of the estimates to variations in the major economic parameters.

### Revenue

Individual effects are identified for each one percentage point variation in wages, employment growth, and the national consumer price index, as well as the effects of variations in the \$A/\$US exchange rate and in oil prices, as follows:

- The annual payroll tax revenue estimate varies by around \$8 million for each 1.0 percentage point variation in wages and/or employment growth;

- The total annual mining revenue estimate varies by around \$10 million for each 1.0 cent variation in the \$A/\$US exchange rate;
- The annual petroleum royalty estimate varies by around \$16 million for each \$US1 variation in the price of a barrel of oil; and
- Commonwealth general revenue grants vary by around \$17 million for each 1 percentage point variation in the national consumer price index.

### **Expenditure**

The forward estimates assume price increases consistent with the GSP implicit price deflator and include an annual provision of 2% for productivity based salary and wage increases in 1999-2000 and 1% from 2000-01.

Demand for public sector expenditure is to a large extent driven by economic growth, which is not necessarily matched by comparable increases in Western Australia's budget revenue. This situation reflects the narrow base of some of Western Australia's taxes and low growth in grants from the Commonwealth. Growth in grants is low largely because of Western Australia's declining share of these grants (which redistribute the revenue benefits of Western Australia's relatively high economic growth to other States).

### **FINANCIAL RISKS**

Financial risks are either general developments or specific events that may have an effect on the fiscal outlook. Financial risks may affect both expenditure and revenue, and may be positive or negative.

Details of known financial risks that may have an impact on the Government's financial projections but are not reflected in the forward estimates are briefly discussed in the following paragraphs.

#### *Expenditure Reductions*

The 1999-2000 Budget and forward estimates reflect reductions of \$57.2 million to agency budget allocations. In the majority of cases, these reductions will be achieved through productivity savings. To the extent that there is any slippage in these savings, there is likely to be upward pressure on expenditure.

#### *Capital Works*

The projected capital works budget assumes that a number of projects will be progressed by private sector involvement (see Loan Council Allocation information in Chapter 6: *Uniform Reporting of Public Sector Finances*). A number of projects are also predicated on the continuance of Commonwealth funding in accordance with existing agreements (eg. Jervoise Bay).

*Financial Assistance Grants*

Western Australia's share of financial assistance grants is forecast to decline steadily over the forward estimates period. This decline reflects the impact of the Commonwealth Grants Commission's assessment of the State's fiscal position relative to other States and the two Territories. These assessments are updated each year and consequently there is considerable scope for variations in the State's expected share.

The forward estimates are based on continuation of current Commonwealth grant arrangements. Under the Commonwealth's proposed tax reforms, the financial assistance grants will be abolished from 1999-2000 and States would receive proceeds from goods and services tax (GST) revenue in place of these grants, franchise fee safety net revenue and a range of State taxes. The Commonwealth has guaranteed that each State budget would be no worse off during the transition to the new tax arrangements. So while the composition of revenue may change over the forward estimates period, the proposed tax reform arrangements are forecast to have no overall net impact on the State's budget over this period. If GST revenue is higher than projected, however, there could be an improvement in the State's total revenue position.

*Competition Payments*

Competition payments (\$44 million in 1999-2000) as well as the per capita growth of Commonwealth financial assistance grants are conditional on the States satisfying the Commonwealth on their progress in implementing National Competition Policy and related reforms. If the National Competition Council considers that our obligations have not been met, and the Commonwealth accepts that assessment, funding from this source would be reduced.

*Specific Purpose Payments*

Western Australia is forecast to receive around \$1.8 billion in specific purpose payments in 1999-2000 (of which \$0.6 billion is paid into the Consolidated Fund). The Commonwealth has given an undertaking not to reduce aggregate specific purpose payments as a result of the introduction of any GST. There is still potential for specific purpose payments to be eroded over time, particularly if revenue under proposed GST arrangements to States were to grow.

*State Taxes*

The forward estimates are linked to projected growth in key economic parameters such as employment, wages and nominal gross State product. Risk factors in these projections include international economic developments, and uncertainty surrounding the State's business investment outlook.

While only minimal growth has been forecast in the next two years for stamp duties from the historically volatile property and share markets, no provision has been made for any cyclical downturn. It is possible for stamp duties from these sources to fall in a downturn.

Some of the State tax estimates are subject to the uncertain behavioural impacts on taxpayers of the planned national tax reforms. For example, the extent to which motor vehicle sales will be deferred in 1999-2000 (impacting on stamp duty collections), pending the proposed replacement of wholesale sales tax by the GST in 2000-01, is difficult to predict.

The estimates for financial transaction taxes are subject to the uncertain impact of further development in banking and payments technologies. There is some evidence of increasing erosion of the debits tax base in particular, as use of alternatives to cheque facilities becomes more widespread.

The casino tax revenue estimates are subject to the uncertainties of the Asian economic outlook, which impacts on turnover from the premium player market (a substantial component of total turnover).

### *Mining Royalties*

The mining royalty estimates are sensitive to even relatively small movements in oil prices and the \$A/\$US exchange rate. The future direction of these parameters is difficult to predict.

The forward estimates for the gold royalty assume that the full royalty rate of 2.5% will be triggered permanently from 1 July 2000. This requires the gold price to be maintained at or above \$A450/oz from that date.

### **Contingent Liabilities**

Contingent liabilities are costs which the Government of Western Australia 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. Contingent liabilities constitute an important component of risk around the financial position. As at 30 June 1998, the latest date at which published figures are available, quantified contingent liabilities of the Treasurer<sup>3</sup> were in the order of \$2,141 million comprising:

- Contingent liabilities under guarantees, indemnities and sureties (\$227 million);
- Contingent liabilities in relation to public universities' superannuation liabilities (\$114 million);

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<sup>3</sup> Excluding guaranteed borrowings and unfunded superannuation liabilities which are identified as part of the calculation of net assets in the Statement of Financial Position of the Government of Western Australia in Part I of this chapter. For the purposes of identifying contingent liabilities in the *Treasurer's Annual Statements*, guaranteed borrowings and unfunded superannuation liabilities are included in the aggregate. However, for the purposes of identifying additional risk, the statement of financial position explicitly accounts for all borrowings (guaranteed or not) and unfunded superannuation as public sector liabilities.

- Guaranteed obligations of the Bank of Western Australia Ltd (\$1,682 million at credit risk equivalent)<sup>4</sup>; and
- Other contingent liabilities of agencies (\$118 million).

In addition, there are unquantified contingent liabilities for warranties given on the sale of BankWest and the Dampier to Bunbury natural gas pipeline.

The general warranty period for the sale of BankWest has expired with no claims being made under the warranty. Negotiations are continuing on land development activities indemnities. Finalisation of a number of tax related issues, expected shortly, will result in a net receipt by R&I Holdings of \$1.7 million.

The one-year time limit for breaches of the Seller's Warranties for the Dampier to Bunbury natural gas pipeline expired at the end of March 1999. Two notices of claim for five separate items have been made by Epic Energy. Cumulatively, the claims potentially amount to be around \$1.9 million. These claims are yet to be resolved.

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<sup>4</sup> It should be noted that the value of these obligations has declined rapidly from the \$9,680 million at the time the bank was privatised on 1 December 1995.



## **STATEMENT FROM THE UNDER TREASURER**

This *Government Financial Projections Statement* was prepared under my instruction. It was based upon information I was aware of or that was made available to me by the Treasurer on or before the Budget planning cut off date of 9 April 1999 and which had a material effect on the Government's financial projections.

The *Government Financial Projections Statement*, is based on the economic assumptions as outlined in Chapters 1 and 3 of Budget Paper No. 3 and has been prepared in accordance with applicable Australian Accounting Standards and government finance statistics principles.

J L LANGOULANT  
UNDER TREASURER

6 May 1999

## APPENDIX 1

### NOTES TO THE CONSOLIDATED BUDGET STATEMENTS OF THE GOVERNMENT OF WESTERN AUSTRALIA

#### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

##### **Basis of Accounting**

The *Consolidated Budget Statements* have been prepared using the full accrual basis of accounting. The underlying information has been prepared using the applicable Australian Accounting Standards as a reference for decision making.

This general purpose financial consolidation report has been prepared using AAS 31 *Financial Reporting by Governments* to guide production but is not prepared in strict accordance with this standard. The most significant departure from AAS 31 is that these Statements have been prepared on an “equity” basis. This departure was made so that the reports are useful for management and control purposes.

The *operating result* and *total equity balance* of the *Consolidated Budget Statements* remain consistent with those of the *Consolidated Financial Statements* of the Government of Western Australia, which are prepared in strict accordance with AAS 31.

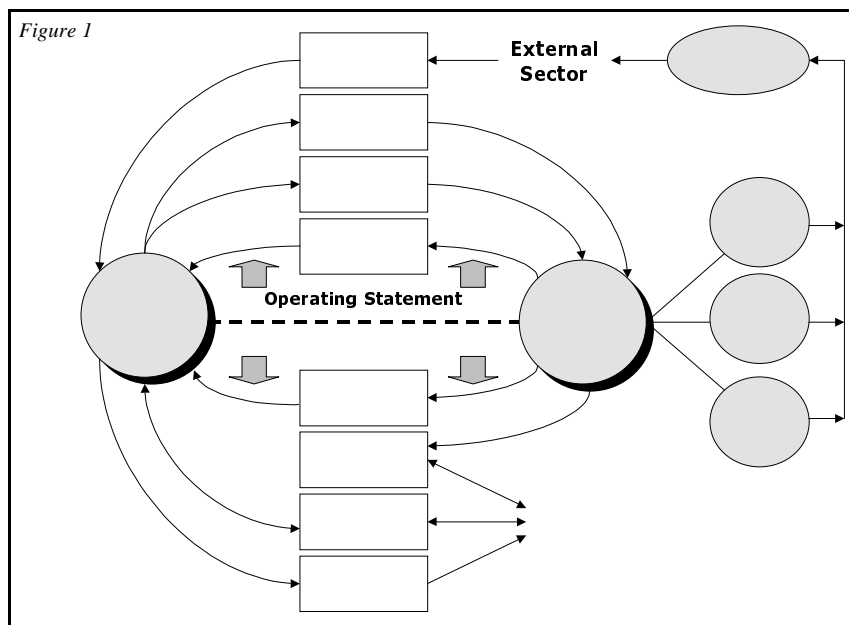
A full description of the Consolidated Budget Statements and historical tables are contained in 1998-99 Budget Paper No. 3.

##### **The Reporting Entity**

All agencies which are controlled by the State during 1999-2000 are consolidated (see Figure 1).

The reporting entity includes departments, statutory authorities and corporatised entities, and their controlled entities.

The *Consolidated Budget Statements* include the projected assets, liabilities, revenues and expenses and the cash flows of the State, including those of agencies controlled by the State during the financial year 1999-2000.



### Basis of Consolidation

There were several circumstances where the accounting policies adopted by agencies are not consistent with each other or with the policies adopted for the preparation of these *Consolidated Budget Statements*. Where the effect was considered material, those policies (such as depreciation rates and valuation of land) have been amended to ensure that consistent policies are adopted in the Statements. In these cases, policies were used which maintain the comparability with AAS 31 mentioned above.

## 2. DEFINITION OF “CONTROLLED” AND “ADMINISTERED” RESOURCES OF GOVERNMENT

For the purposes of recognising controlled and administered resources, reference has been made to *AAS 29 Financial Reporting by Government Departments* and to the requirements of *Treasurer’s Instruction 1101A Financial Reporting by Departments*.

Resources controlled by the agencies of the Government of Western Australia have been accounted for on an equity basis in the *Consolidated Budget Statements*, that is agency operating results and assets are included. Resources administered by agencies on behalf of government have been consolidated on a line-by-line basis.

### **3. RECOGNITION OF REVENUE**

#### **Taxation, territorial revenue, regulatory fees and fines, sale of goods and services and interest**

Revenues resulting from taxation, territorial revenue, regulatory fees and fines, sale of goods and services and interest are, where possible, recognised when the transaction or event giving rise to the revenue occurs. In some instances, however, the revenue is not measurable until the cash is received. Where appropriate, provisions have been made for doubtful debts.

#### **Grants and Subsidies**

Grants and subsidies primarily consist of Commonwealth general purpose grants provided by the Commonwealth Government unconditionally, that is, they can be used according to the policies and priorities of the Western Australian Government without further Commonwealth influence.

Commonwealth and other grants, whether for recurrent or capital purposes, are treated as revenue when received, in accordance with AAS 31 *Financial Reporting by Governments*.

#### **Statutory Contributions**

Statutory contributions represent tax equivalents (that is, amounts payable in lieu of income tax, sales tax etc.) and dividend payments that are payable to the State by various Public Trading Enterprises and Financial Enterprises.

#### **Other Revenue**

Revenue received from sources other than those specified above is grouped together as other revenue. These amounts individually are immaterial and do not warrant discrete identification.

### **4. EXPENSE RECOGNITION**

Expenses are recognised when incurred and are reported in the financial year to which they relate.

### **5. PURCHASE OF OUTPUTS**

This is the amount appropriated to agencies for the delivery of specified outputs. It is the price agreed to be paid to agencies for the delivery of a range of goods and services defined as outputs in the Budget documents.

In this year's presentation, an assessment has been made as to the proportion of the capital appropriation paid to agencies that relates to an equity injection. This amount has been calculated by estimating the proportion of agency depreciation that is attributable to the Consolidated Fund Entity. This proportion is estimated as the component of agency revenue formed by appropriation. The residual amount is deemed to be an equity injection or investment in agencies to allow for asset expansion and it is deducted from the amount paid to agencies in the form of capital appropriations. The following table illustrates this calculation.

<b>PURCHASE OF OUTPUTS – EQUITY INJECTION</b>						
	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
	\$m	\$m	\$m	\$m	\$m	\$m
Controlled Capital Appropriations	361.0	416.7	422.6	322.0	361.1	423.7
Less Depreciation attributable to CFE	276.5	301.2	275.6	273.4	277.4	369.3
<b>Equity Injection</b>	<b>84.5</b>	<b>115.5</b>	<b>147.0</b>	<b>48.6</b>	<b>83.7</b>	<b>54.4</b>

## 6. SUPERANNUATION

Western Australian Public Sector employees may be contributory members of superannuation schemes established under either the Superannuation and Family Benefits Act (Pension Scheme) or the Government Employees Superannuation (GES) Act (Lump Sum Scheme, now called the Gold State Scheme). Both of these Schemes are now closed to new members. Those employees who are not members of either of the above Schemes are automatically members of the Superannuation Guarantee Scheme (or West State Super Scheme) under the GES Act.

Generally, departments are not required to make employer contributions to any scheme. The superannuation liability for these agencies is assumed by the Treasurer and cash payments for superannuation obligations in any given year are permanently appropriated from the Consolidated Fund. This expense partly explains the loss on the "revenue minus expenses" line.

The accrued superannuation expense attributable to the Treasurer is determined from actuarial information that allows the calculation of the Treasurer's unfunded superannuation liability for each year of the forward estimates period.

## 7. CONSOLIDATED FUND ENTITY

The Consolidated Fund Entity (CFE) is the modern accrual accounting equivalent of the Consolidated Fund. It represents the accounts of the "core of government". In accounting terms the CFE is the parent entity of an economic entity consisting of itself and the agencies of government as subsidiary entities.

## **8. NET SURPLUS/(DEFICIT) ATTRIBUTABLE TO: GENERAL GOVERNMENT SECTOR ENTITIES; PUBLIC TRADING ENTERPRISE SECTOR ENTITIES; AND FINANCIAL ENTERPRISES SECTOR ENTITIES**

This provides a split of the Surpluses/(Deficits) attributable to the public sector (subsidiary) agencies consolidated into the Consolidated Budget Statements.

## **9. OPERATING SURPLUS/(DEFICIT)**

This represents the accrual financial result for the period, that is, revenues less expenses after extraordinary and abnormal items. It is based on generally accepted accounting principles and provides a more comprehensive assessment of financial results than cash measures.

## **10. CASH AND INVESTMENTS**

This balance includes the balances of trust funds administered by Treasury, investments in Commonwealth and State Government Securities, short term money market investments, term deposits and balances of bank accounts.

## **11. OWNERSHIP INTEREST OF GOVERNMENT OF WA IN AGENCIES**

Represents the Government of Western Australia's equity, interest or net worth, in its agencies. This ownership interest comprises retained accumulated surplus/deficits, equity injections and amounts held against asset revaluation reserves established for asset revaluation purposes. The revaluations have been made to reflect the change in service potential or economic benefit obtained through the control of assets.

These figures incorporate land values which have been globally estimated by the Valuer General. The land values used may not sum to the individual agency land values that appear in the agency statements.

## **12. NET ASSETS OF THE GOVERNMENT OF WESTERN AUSTRALIA**

Represents the ownership interest of the people of the State of Western Australia in their Government. This interest comprises the net effect of the history of public finances in the State including accumulated surpluses/deficits held by the State's agencies.

## **13. CASH FLOWS**

Cash flows represent actual cash movements resulting from transactions by the reporting entity. The cash flow statement records these movements whereas the operating statement records revenues and expenses as they are earned or incurred (and not when the cash is received or paid) for the accounting period to which they relate. The cash flow statement is confined to the Public Bank Account.

**14. DEBT**

The amounts of Treasurer's loan liability do not include debt held on agency balance sheets. This debt is consolidated in Chapter 6: *Uniform Reporting of Public Sector Finances*, and listed separately by agency in Budget Paper No. 2.

## APPENDIX 2

### CONSOLIDATED FUND ESTIMATES

	1997-98	1998-99		1999-00	2000-01	2001-02	2002-03
	Actual	Budget	Estimated	Budget	Forward	Forward	Forward
	\$m	Estimate	Actual	Estimate	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m	\$m
<b>REVENUE</b>							
Recurrent							
Actual <sup>(a)</sup> .....	6,968.3						
Net Appropriations <sup>(b)</sup> ..	(420.2)						
Comparable Totals.....	6,548.1	7,037.3	7,336.3	7,350.4	7,563.3	7,902.8	8,173.2
Capital							
Actual .....	297.0						
Net Appropriations <sup>(b)</sup> ..	(20.8)						
Comparable Totals.....	276.2	115.9	92.3	384.5	175.3	81.5	39.9
<b>Total Revenue .....</b>	<b>6,824.3</b>	<b>7,153.2</b>	<b>7,428.6</b>	<b>7,734.9</b>	<b>7,738.6</b>	<b>7,984.3</b>	<b>8,213.1</b>
<b>EXPENDITURE</b>							
Recurrent							
Actual .....	6,860.5						
Net Appropriations <sup>(b)</sup> ..	(420.2)						
Comparable Totals.....	6,440.3	6,665.7	6,982.0	7,254.2	7,451.1	7,566.7	7,746.1
Capital							
Actual .....	398.1						
Net Appropriations <sup>(b)</sup> ..	(20.8)						
Comparable Totals.....	377.3	463.0	443.6	474.8	382.6	409.9	441.8
<b>Total Expenditure.....</b>	<b>6,817.6</b>	<b>7,128.7</b>	<b>7,425.6</b>	<b>7,729.0</b>	<b>7,833.7</b>	<b>7,976.6</b>	<b>8,187.9</b>
<b>CASH FINANCING REQUIREMENT</b>							
Recurrent							
Surplus/(Deficit) ....	107.8	371.6	354.3	96.2	112.2	336.1	427.1
Capital							
Surplus/(Deficit) ....	(101.1)	(347.1)	(351.3)	(90.3)	(196.8)	(325.9)	(383.8)
Pipeline Sale Proceeds	986.0						
<b>Operating Surplus/(Deficit) ...</b>	<b>992.7</b>	<b>24.5</b>	<b>3.0</b>	<b>5.9</b>	<b>(95.1)</b>	<b>7.7</b>	<b>25.2</b>
<b>FINANCING TRANSACTIONS</b>							
State Development							
Fund.....	(244.0)	56.0	46.3	43.8	126.8	27.1	
Capital Repayments.....	(791.4)	(74.7)	(42.6)	(45.4)	(23.4)	(24.5)	(15.1)
Government Equity							
Contributions .....	(11.0)	(5.8)	(7.0)	(4.3)	(8.3)	(10.3)	(10.1)
Opening Balance .....	53.9		0.3				
Closing Balance .....	(0.3)						
<b>Total Financing Transactions .....</b>	<b>(992.7)</b>	<b>(24.5)</b>	<b>(3.0)</b>	<b>(5.9)</b>	<b>95.1</b>	<b>(7.7)</b>	<b>(25.2)</b>

(a) For comparability purposes, actual 1997-98 revenue has been adjusted to exclude proceeds from the sale of the Dampier to Bunbury natural gas pipeline (\$986.0 million).

(b) Net appropriation of eligible revenues is mandatory from 1 July 1998. For comparability purposes, the 1997-98 actuals have been adjusted to reflect revenue collected that would have been net appropriated if mandatory net appropriation arrangements had applied in that year.



## APPENDIX 3

### RECONCILIATION OF PREVIOUSLY PUBLISHED RECURRENT EXPENDITURE ESTIMATES TO THE 1999-2000 BUDGET ESTIMATES

	\$m	\$m
ESTIMATES OF RECURRENT EXPENDITURE FOR 1999-00 PUBLISHED IN THE 1998-99 BUDGET PAPERS		<b>6,883.3</b>
<b>Adjustments to Reflect Changed Accounting Arrangements</b>		
Changes to net appropriation determinations	+7.1	
Transfers from Capital Expenditure	+36.8	
		<b>+43.9</b>
<b>Policy Changes</b> (as detailed in Schedule A)		
		<b>+223.2</b>
<b>Parameter Variations</b>		
- Variations in Permanent Appropriation Estimates		
- Interest	+9.0	
- Superannuation	+60.1	
- Metropolitan Region Improvement Tax Act	+1.8	
- Road Traffic Act	+7.8	
- Agency Specific Parameter Changes (as detailed in Schedule B)	+25.1	
		<b>+103.8</b>
<b>RECURRENT EXPENDITURE ESTIMATE FOR 1999-00 PRESENTED TO PARLIAMENT ON 6 MAY 1999</b>		<b>7,254.2</b>

**APPENDIX 3 - SCHEDULE A****DETAILS OF MAJOR RECURRENT EXPENDITURE POLICY DECISIONS THAT  
IMPACT IN 1999-2000 MADE SINCE PRESENTATION OF THE 1998-99  
BUDGET ON 30 APRIL 1998**

	\$m	\$m
Education		
- Additional funding to meet policy and demand	+85.3	
- Local Area Planning	<u>+13.1</u>	+98.4
Health		
- Additional funding to meet policy and demand	+61.1	
- Waiting List Reduction Program	<u>+21.0</u>	+82.1
Justice		
- Additional funding to meet policy and demand	+14.9	
- Core Function Project	+7.0	
- Prison Management Strategy	+4.1	
- Commercialisation of Public Trust Office	+2.3	
- Offender Management Programs	+4.9	
- Native Title arrangements	<u>+0.7</u>	+33.9
Treasury		
- Global provision for incentive payments to agencies	+8.0	
- Community Service Obligation to LandCorp for Exmouth Superlot sale	<u>+6.6</u>	+14.6
Transport		
- Metrobus Closing Down Agreement	+7.8	
- Vehicle Immobiliser Scheme	<u>+5.6</u>	+13.4
Housing		
- Aboriginal Communities Strategic Investment Program		+8.9
Police		
- Additional funding to meet policy and demand		+4.5
Training		
- Additional funding to meet policy and demand		+3.4
Resources Development		
- Okajee Industrial Estate Buffer expansion	+1.6	
- Gas Lateral Line to the Murchison area	+1.2	
- Onslow Gas-Fired Power Station	<u>+0.2</u>	+3.0
Swan River Trust		
- Swan/Canning Clean-up Program		+2.8
Tourism		
- South East Asia Advertising Campaign	+1.6	
- Year 2000 ITU Triathlon World Championships	<u>+1.1</u>	+2.7
Conservation and Land Management		
- Gascoyne/Murchison Strategy		+2.0
Premier and Cabinet		
- Kalgoorlie Miners' and Prospectors Hall of Fame		+2.0
Fire and Emergency Services Authority		
- Creation of new authority		+1.8
Sport and Recreation		
- Subiaco Oval redevelopment		+1.5
All other policy decisions		+7.6
Expenditure reprioritisation		-50.6
<b>Total Policy Changes</b>		<b>+223.2</b>



## APPENDIX 4

### RECONCILIATION OF PREVIOUSLY PUBLISHED CAPITAL EXPENDITURE ESTIMATES TO THE 1999-2000 BUDGET ESTIMATES

	\$m
ESTIMATES OF CAPITAL EXPENDITURE FOR 1999-00 PUBLISHED IN THE 1998-99 BUDGET PAPERS	<b>449.4</b>
• Cashflow changes for projects aligned to the State Development Fund	-17.5
• Transfers to Recurrent Expenditure	-36.8
• Adjustments to the Provision for Works in Progress attributable mainly to expenditure timing changes	+53.7
• Provision for New Works	+26.0
<b>CAPITAL EXPENDITURE ESTIMATE FOR 1999-00 PRESENTED TO PARLIAMENT ON 6 MAY 1999</b>	<b>474.8</b>

**APPENDIX 5****RECONCILIATION OF PREVIOUSLY PUBLISHED RECURRENT REVENUE ESTIMATES TO THE 1999-2000 BUDGET ESTIMATES**

	\$m	\$m
ESTIMATES OF RECURRENT REVENUE FOR 1999-00 PUBLISHED IN THE 1998-99 BUDGET PAPERS		<b>7,247.1</b>
<b>Adjustments to the published Recurrent Revenue Estimates</b>		
Changes to Net Appropriation determinations		+7.1
Taxes and Licences		
- Payroll Tax	+16.5	
- Land Tax	+8.5	
- Vehicle Licences	+7.8	
- Stamp Duty		
- Vehicle Licences	+8.6	
- Property	-9.0	
- Insurance Policies	-11.3	
- Other	-5.0	
- FID and Debit Tax	-7.6	
- Casino Tax	-3.0	
- Other gambling taxes	+6.9	
- All other taxes/licences	<u>+0.9</u>	+13.3
Royalties		
- Mining – mainly due to lower commodity prices	-100.0	
- Land	<u>-0.5</u>	-100.5
Law Courts		
- Infringement penalties		-14.2
Government Enterprises		
- Tax Equivalent Receipts	-32.4	
- Dividends	<u>+121.3</u>	+88.9
Treasury Administered		
- Interest on Public Bank Account	+1.7	
- Recoveries of superannuation	-20.9	
- Public Trust Office Common Fund	+15.1	
- Other	<u>-1.1</u>	-5.2
Commonwealth		
- Financial Assistance Grant	-14.6	
- Section 90 Safety Net arrangements	+97.6	
- Pensioner Concession Assistance	-0.2	
- Competition Reform payment	-0.3	
- Hospital Funding Grant	+23.2	
- All other specific purpose payments	<u>+8.2</u>	+113.9
<b>RECURRENT REVENUE ESTIMATE FOR 1999-00 PRESENTED TO PARLIAMENT ON 6 MAY 1999</b>		<b>7,350.4</b>

## APPENDIX 6

### RECONCILIATION OF PREVIOUSLY PUBLISHED CAPITAL REVENUE ESTIMATES TO THE 1999-2000 BUDGET ESTIMATES

	\$m	\$m
ESTIMATES OF CAPITAL REVENUE FOR 1999-00 PUBLISHED IN THE 1998-99 BUDGET PAPERS		113.7
<b>Adjustments to the published Capital Revenue Estimates</b>		
Asset Sales		
- Westrail Land Rationalisation program	-5.0	
- Town and Suburban Lots	-12.2	
- Education – Local Area Planning	+13.1	
- All other Crown Land sales	+1.9	
- Motor Vehicles	<u>-1.5</u>	-3.7
Loan repayment recoveries		
- Refinancing of Capital Ledgers Debt	+275.0	
- Minor variations to scheduled recoveries	<u>-0.5</u>	+274.5
<b>CAPITAL REVENUE ESTIMATE FOR 1999-00 PRESENTED TO PARLIAMENT ON 6 MAY 1999</b>		<b>384.5</b>

**APPENDIX 7****FINANCING MEASURES ADOPTED IN FORMULATION OF THE 1999-2000 CONSOLIDATED FUND ESTIMATES**

	1998-99 \$m	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
Refinancing of Statutory Authority debt					
– New revenue	-	275.0	100.0	-	-
– Future recoveries	-		-38.7	-36.8	-34.3
Assumption of superannuation liability for existing pensioners of Water Corporation and Western Power					
– New revenue	188.7	-	-	-	-
– Future recoveries		-15.0	-15.0	-15.0	-15.0
Deferral of capital repayments under the Western Australian Treasury Corporation Act					
– Lower capital repayments	-	-	25.0	25.6	26.3
– Interest payments	-	-	-0.9	-2.6	-4.5
State Development Fund – Change in funding arrangements for the Convention Centre	-	-	93.1	-2.5	-90.6
<b>NET IMPACT ON CONSOLIDATED FUND BORROWINGS</b>	<b>188.7</b>	<b>260.0</b>	<b>163.5</b>	<b>-31.3</b>	<b>-118.1</b>

## APPENDIX 8

### CONSOLIDATED FUND FORWARD ESTIMATES OF EXPENDITURE

Description	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
<b>PART 1 – PARLIAMENT</b>						
Parliament						
– Recurrent Services	23,798	24,628	24,686	25,057	25,264	25,478
– Capital Services	1,517	1,169	2,073	1,148	724	650
Parliamentary Commissioner for Administrative Investigations						
– Recurrent Services	2,111	2,254	2,322	2,451	2,483	2,519
– Capital Services	70	40	63	50	50	108
<b>Total – Parliament</b>						
– Recurrent Services	<b>25,909</b>	<b>26,882</b>	<b>27,008</b>	<b>27,508</b>	<b>27,747</b>	<b>27,997</b>
– Capital Services	<b>1,587</b>	<b>1,209</b>	<b>2,136</b>	<b>1,198</b>	<b>774</b>	<b>758</b>
<b>PART 2 – PREMIER, TREASURER, MINISTER FOR PUBLIC SECTOR MANAGEMENT, AND FEDERAL AFFAIRS</b>						
Premier and Cabinet						
– Recurrent Services	66,577	74,510	76,431	73,424	74,451	75,645
– Capital Services	5,475	13,280	6,550	2,746	2,150	2,650
Executive Council						
– Recurrent Services	-	1	1	1	1	1
Government Projects Office						
– Recurrent Services	946	946	400	403	408	412
– Capital Services	1,999	6,977	21,800	9,700	700	700
Governor's Establishment						
– Recurrent Services	1,504	1,725	1,764	1,778	1,807	1,838
– Capital Services	634	700	350	100	270	-
Office of the Auditor General						
– Recurrent Services	6,316	6,669	6,637	6,715	6,794	6,875
– Capital Services	294	242	302	434	379	408
Salaries and Allowances Tribunal						
– Recurrent Services	297	264	271	276	281	286
Treasury						
– Recurrent Services	974,754	970,741	1,021,923	1,023,326	1,035,861	1,080,958
– Capital Services	1,132	2,119	2,512	1,845	34,052	34,978

Net appropriation of eligible revenues is mandatory from 1 July 1998. For comparability purposes, the 1997-98 actuals have been adjusted to reflect revenue collected that would have been net appropriated if mandatory net appropriation arrangements had applied in that year.



**CONSOLIDATED FUND  
FORWARD ESTIMATES OF EXPENDITURE (CONTINUED)**

Description	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
Office of the Public Sector Standards Commissioner						
– Recurrent Services	2,392	2,386	2,439	2,472	2,506	2,545
– Capital Services	59	47	56	90	70	90
<b>Total – Premier, Treasurer, Minister for Public Sector Management, and Federal Affairs</b>						
– Recurrent Services	<b>1,052,786</b>	<b>1,057,242</b>	<b>1,109,866</b>	<b>1,108,395</b>	<b>1,122,109</b>	<b>1,168,560</b>
– Capital Services	<b>9,843</b>	<b>23,365</b>	<b>31,570</b>	<b>14,915</b>	<b>37,621</b>	<b>38,826</b>
PART 3 – DEPUTY PREMIER, MINISTER FOR COMMERCE AND TRADE, REGIONAL DEVELOPMENT, AND SMALL BUSINESS						
Commerce and Trade						
– Recurrent Services	50,425	46,056	51,536	51,507	49,049	49,721
– Capital Services	8,300	17,958	42,750	49,000	36,000	13,000
Perth International Centre for Application of Solar Energy						
– Recurrent Services	1,000	600	900	900	900	900
Gascoyne Development Commission						
– Recurrent Services	1,063	1,147	1,174	1,194	1,214	1,237
– Capital Services	1,226	3,040	1,120	120	25	25
Goldfields-Esperance Development Commission						
– Recurrent Services	1,146	1,273	1,306	1,331	1,357	1,382
– Capital Services	5	260	10	-	-	-
Great Southern Development Commission						
– Recurrent Services	1,081	1,142	1,170	1,190	1,210	1,231
– Capital Services	15	165	115	30	30	30
Kimberley Development Commission						
– Recurrent Services	1,261	1,390	1,423	1,449	1,475	1,503
– Capital Services	31	183	173	29	30	50

Net appropriation of eligible revenues is mandatory from 1 July 1998. For comparability purposes, the 1997-98 actuals have been adjusted to reflect revenue collected that would have been net appropriated if mandatory net appropriation arrangements had applied in that year.

**CONSOLIDATED FUND  
FORWARD ESTIMATES OF EXPENDITURE (CONTINUED)**

Description	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
Mid West Development Commission						
– Recurrent Services	1,097	1,348	1,214	1,236	1,258	1,281
– Capital Services	507	1,195	8,565	3,205	30	30
Peel Development Commission						
– Recurrent Services	2,062	2,275	1,250	1,278	1,302	1,327
– Capital Services	-	445	1,225	1,470	1,590	50
Pilbara Development Commission						
– Recurrent Services	1,293	1,311	1,392	1,418	1,445	1,473
– Capital Services	500	25	1,255	300	30	80
South West Development Commission						
– Recurrent Services	4,747	4,279	4,356	4,401	4,450	4,499
– Capital Services	22	469	14	37	36	30
Wheatbelt Development Commission						
– Recurrent Services	1,109	1,184	1,212	1,232	1,251	1,273
– Capital Services	51	137	218	33	45	60
Small Business Development Corporation						
– Recurrent Services	7,475	8,455	8,646	8,843	9,019	9,207
– Capital Services	46	245	50	50	120	300
<b>Total – Deputy Premier, Minister for Commerce and Trade, Regional Development, and Small Business</b>						
– Recurrent Services	<b>73,759</b>	<b>70,460</b>	<b>75,579</b>	<b>75,979</b>	<b>73,930</b>	<b>75,034</b>
– Capital Services	<b>10,703</b>	<b>24,122</b>	<b>55,495</b>	<b>54,274</b>	<b>37,936</b>	<b>13,655</b>
PART 4 – MINISTER FOR RESOURCES DEVELOPMENT, ENERGY, AND EDUCATION						
Resources Development						
– Recurrent Services	28,048	16,143	20,717	18,376	15,736	13,008
– Capital Services	80	1,063	2,529	3,838	6,059	3,331

Net appropriation of eligible revenues is mandatory from 1 July 1998. For comparability purposes, the 1997-98 actuals have been adjusted to reflect revenue collected that would have been net appropriated if mandatory net appropriation arrangements had applied in that year.

**CONSOLIDATED FUND  
FORWARD ESTIMATES OF EXPENDITURE (CONTINUED)**

Description	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
Office of Energy						
– Recurrent Services	7,646	12,109	13,168	13,011	12,888	12,878
– Capital Services	4,313	205	258	208	247	214
Education						
– Recurrent Services	1,103,179	1,192,527	1,275,823	1,314,594	1,341,903	1,383,002
– Capital Services	75,044	104,626	112,568	86,973	89,288	77,150
Country High School Hostels Authority						
– Recurrent Services	2,126	2,140	2,267	2,706	2,771	2,796
– Capital Services	-	700	850	850	-	-
Curriculum Council						
– Recurrent Services	6,331	7,893	8,069	8,600	7,200	7,312
– Capital Services	60	60	158	110	117	70
Education Services						
– Recurrent Services	111,835	128,710	144,772	162,506	181,306	199,511
– Capital Services	-	5,000	5,000	5,000	5,000	-
<b>Total – Minister for Resources Development, Energy, and Education</b>						
– Recurrent Services	<b>1,259,165</b>	<b>1,359,522</b>	<b>1,464,816</b>	<b>1,519,793</b>	<b>1,561,804</b>	<b>1,618,507</b>
– Capital Services	<b>79,497</b>	<b>111,654</b>	<b>121,363</b>	<b>96,979</b>	<b>100,711</b>	<b>80,765</b>
PART 5 – MINISTER FOR PRIMARY INDUSTRY, AND FISHERIES						
Agriculture						
– Recurrent Services	82,508	92,395	86,004	86,126	86,582	87,190
– Capital Services	15,906	7,288	5,015	4,220	4,250	4,250
Agriculture Protection Board						
– Recurrent Services	12,038	12,043	12,043	11,843	11,943	12,043
Rural Adjustment and Finance Corporation of Western Australia						
– Recurrent Services	176	176	176	176	176	176

Net appropriation of eligible revenues is mandatory from 1 July 1998. For comparability purposes, the 1997-98 actuals have been adjusted to reflect revenue collected that would have been net appropriated if mandatory net appropriation arrangements had applied in that year.

**CONSOLIDATED FUND  
FORWARD ESTIMATES OF EXPENDITURE (CONTINUED)**

Description	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
Fisheries						
– Recurrent Services	15,485	15,550	15,500	15,100	15,200	15,300
– Capital Services	4,515	4,589	1,735	1,588	3,494	3,000
<b>Total – Minister for Primary Industry, and Fisheries</b>						
– Recurrent Services	<b>110,207</b>	<b>120,164</b>	<b>113,723</b>	<b>113,245</b>	<b>113,901</b>	<b>114,709</b>
– Capital Services	<b>20,421</b>	<b>11,877</b>	<b>6,750</b>	<b>5,808</b>	<b>7,744</b>	<b>7,250</b>
PART 6 – MINISTER FOR MINES, TOURISM, AND SPORT AND RECREATION						
Minerals and Energy						
– Recurrent Services	57,817	54,821	50,044	46,825	41,111	40,586
– Capital Services	2,130	3,283	1,750	1,133	3,150	3,350
Chemistry Centre (WA)						
– Recurrent Services	520	1,086	520	520	520	520
– Capital Services	-	100	-	-	-	-
Minerals and Energy Research Institute of Western Australia						
– Recurrent Services	835	837	857	876	896	917
Western Australian Tourism Commission						
– Recurrent Services	28,865	23,825	32,553	29,481	28,201	29,032
– Capital Services	3,000	2,000	5,230	4,500	4,500	92,590
Recreation Camps and Reserves Board						
– Recurrent Services	157	175	186	193	200	207
– Capital Services	260	80	111	103	276	310
Sport and Recreation						
– Recurrent Services	25,155	23,710	24,400	24,223	23,554	23,820
– Capital Services	200	10,150	13,350	3,800	2,150	150
Western Australian Sports Centre Trust						
– Recurrent Services	3,186	2,901	3,308	2,412	2,438	2,492
– Capital Services	860	-	4,500	-	-	2,000
<b>Total – Minister for Mines, Tourism, and Sport and Recreation</b>						
– Recurrent Services	<b>116,535</b>	<b>107,355</b>	<b>111,868</b>	<b>104,530</b>	<b>96,920</b>	<b>97,574</b>
– Capital Services	<b>6,450</b>	<b>15,613</b>	<b>24,941</b>	<b>9,536</b>	<b>10,076</b>	<b>98,400</b>

Net appropriation of eligible revenues is mandatory from 1 July 1998. For comparability purposes, the 1997-98 actuals have been adjusted to reflect revenue collected that would have been net appropriated if mandatory net appropriation arrangements had applied in that year.

**CONSOLIDATED FUND  
FORWARD ESTIMATES OF EXPENDITURE (CONTINUED)**

Description	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
<b>PART 7 – MINISTER FOR TRANSPORT</b>						
Transport						
– Recurrent Services	658,800	771,304	746,175	761,846	768,122	774,154
– Capital Services	10,848	11,909	14,400	7,000	11,115	10,000
Main Roads						
– Recurrent Services	43,825	43,527	43,314	43,314	43,314	43,314
<b>Total – Minister for Transport</b>						
– Recurrent Services	<b>702,625</b>	<b>814,831</b>	<b>789,489</b>	<b>805,160</b>	<b>811,436</b>	<b>817,468</b>
– Capital Services	<b>10,848</b>	<b>11,909</b>	<b>14,400</b>	<b>7,000</b>	<b>11,115</b>	<b>10,000</b>
<b>PART 8 – MINISTER FOR THE ENVIRONMENT, AND LABOUR RELATIONS</b>						
Conservation and Land Management						
– Recurrent Services	32,545	38,848	44,928	37,500	36,525	37,190
– Capital Services	11,240	11,155	11,440	12,440	13,525	12,440
Environmental Protection						
– Recurrent Services	17,650	24,597	19,405	17,463	17,100	17,385
– Capital Services	799	1,059	545	800	800	800
King's Park Board						
– Recurrent Services	4,088	4,248	4,423	4,444	4,478	4,510
– Capital Services	2,848	8,205	4,295	6,688	4,525	3,878
Zoological Gardens Board						
– Recurrent Services	3,789	3,959	3,653	3,400	3,244	3,118
Productivity and Labour Relations						
– Recurrent Services	7,102	7,338	7,377	7,481	7,584	7,696
– Capital Services	218	170	330	298	324	310
Commissioner of Workplace Agreements						
– Recurrent Services	1,595	1,774	1,782	1,812	1,845	1,878
– Capital Services	171	145	123	159	145	129
Registrar, Western Australian Industrial Relations Commission						
– Recurrent Services	6,090	6,113	6,068	6,604	7,225	7,322
– Capital Services	125	115	115	40	150	150

Net appropriation of eligible revenues is mandatory from 1 July 1998. For comparability purposes, the 1997-98 actuals have been adjusted to reflect revenue collected that would have been net appropriated if mandatory net appropriation arrangements had applied in that year.

**CONSOLIDATED FUND  
FORWARD ESTIMATES OF EXPENDITURE (CONTINUED)**

Description	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
WorkSafe Western Australia						
– Recurrent Services	11,458	12,038	12,081	12,240	12,451	12,647
– Capital Services	135	122	122	122	122	202
<b>Total – Minister for the Environment, and Labour Relations</b>						
– Recurrent Services	<b>84,317</b>	<b>98,915</b>	<b>99,717</b>	<b>90,944</b>	<b>90,452</b>	<b>91,746</b>
– Capital Services	<b>15,536</b>	<b>20,971</b>	<b>16,970</b>	<b>20,547</b>	<b>19,591</b>	<b>17,909</b>
PART 9 – MINISTER FOR FINANCE, AND RACING AND GAMING						
State Revenue						
– Recurrent Services	98,733	197,406	209,259	220,772	229,653	238,949
– Capital Services	3,103	290	380	405	550	550
Valuer General's Office						
– Recurrent Services	6,588	4,146	7,311	7,574	4,612	7,629
– Capital Services	1,522	1,077	275	263	777	514
Office of Racing, Gaming and Liquor						
– Recurrent Services	7,543	13,730	13,153	13,520	13,986	14,347
– Capital Services	172	258	100	72	419	395
<b>Total – Minister for Finance, and Racing and Gaming</b>						
– Recurrent Services	<b>112,855</b>	<b>215,282</b>	<b>229,723</b>	<b>241,866</b>	<b>248,251</b>	<b>260,925</b>
– Capital Services	<b>4,797</b>	<b>1,625</b>	<b>755</b>	<b>740</b>	<b>1,746</b>	<b>1,459</b>
PART 10 – MINISTER FOR LANDS, FAIR TRADING, AND PARLIAMENTARY AND ELECTORAL AFFAIRS						
Land Administration						
– Recurrent Services	20,142	18,906	18,182	16,650	13,217	13,673
– Capital Services	17,022	6,354	9,061	6,544	16,188	14,272
Fair Trading						
– Recurrent Services	6,287	7,803	6,957	6,873	6,949	7,049
– Capital Services	80	480	2,878	300	445	350

Net appropriation of eligible revenues is mandatory from 1 July 1998. For comparability purposes, the 1997-98 actuals have been adjusted to reflect revenue collected that would have been net appropriated if mandatory net appropriation arrangements had applied in that year.

**CONSOLIDATED FUND  
FORWARD ESTIMATES OF EXPENDITURE (CONTINUED)**

Description	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
Western Australian Electoral Commission						
– Recurrent Services	3,281	4,960	1,990	10,789	3,578	3,669
– Capital Services	15	825	400	-	-	300
<b>Total – Minister for Lands, Fair Trading, and Parliamentary and Electoral Affairs</b>						
– Recurrent Services	<b>29,710</b>	<b>31,669</b>	<b>27,129</b>	<b>34,312</b>	<b>23,744</b>	<b>24,391</b>
– Capital Services	<b>17,117</b>	<b>7,659</b>	<b>12,339</b>	<b>6,844</b>	<b>16,633</b>	<b>14,922</b>
PART 11 – MINISTER FOR POLICE, AND EMERGENCY SERVICES						
Police Service						
– Recurrent Services	362,830	367,342	379,060	392,606	411,194	416,073
– Capital Services	29,732	38,100	31,240	42,790	17,740	17,208
Fire and Emergency Services Authority of Western Australia						
– Recurrent Services	26,429	28,207	27,703	28,217	26,111	26,788
– Capital Services	1,671	1,796	1,693	1,974	1,067	680
<b>Total – Minister for Police, and Emergency Services</b>						
– Recurrent Services	<b>389,259</b>	<b>395,549</b>	<b>406,763</b>	<b>420,823</b>	<b>437,305</b>	<b>442,861</b>
– Capital Services	<b>31,403</b>	<b>39,896</b>	<b>32,933</b>	<b>44,764</b>	<b>18,807</b>	<b>17,888</b>
PART 12 – ATTORNEY GENERAL, MINISTER FOR JUSTICE, AND THE ARTS						
Justice						
– Recurrent Services	258,980	291,421	316,500	351,106	359,420	364,388
– Capital Services	36,619	44,922	48,119	31,247	36,417	34,217
Commissioner for Equal Opportunity						
– Recurrent Services	1,429	1,526	1,622	1,659	1,677	1,698
– Capital Services	23	39	71	51	53	57
Law Reform Commission						
– Recurrent Services	724	744	762	789	809	825

Net appropriation of eligible revenues is mandatory from 1 July 1998. For comparability purposes, the 1997-98 actuals have been adjusted to reflect revenue collected that would have been net appropriated if mandatory net appropriation arrangements had applied in that year.

**CONSOLIDATED FUND  
FORWARD ESTIMATES OF EXPENDITURE (CONTINUED)**

Description	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
Office of the Director of Public Prosecutions						
– Recurrent Services	9,110	9,839	10,459	10,607	10,757	10,912
– Capital Services	168	200	150	206	257	200
Office of the Information Commissioner						
– Recurrent Services	1,089	1,129	1,134	1,149	1,164	1,180
– Capital Services	30	40	30	25	25	25
Culture and the Arts						
– Recurrent Services	57,476	59,788	60,371	62,836	65,012	65,955
– Capital Services	6,932	2,060	4,780	1,050	6,325	5,000
<b>Total – Attorney General, Minister for Justice, and the Arts</b>						
– Recurrent Services	<b>328,817</b>	<b>364,447</b>	<b>390,848</b>	<b>428,146</b>	<b>438,839</b>	<b>444,958</b>
– Capital Services	<b>43,772</b>	<b>47,261</b>	<b>53,150</b>	<b>32,579</b>	<b>43,077</b>	<b>39,499</b>
PART 13 – MINISTER FOR PLANNING, EMPLOYMENT AND TRAINING, AND HERITAGE						
Planning						
– Recurrent Services	11,939	12,808	12,801	12,940	12,706	12,861
– Capital Services	4,000	-	-	-	-	500
Western Australian Planning Commission						
– Recurrent Services	28,603	29,550	31,385	33,422	35,660	37,990
– Capital Services	3,000	3,000	7,000	7,000	7,000	7,000
Western Australian Department of Training						
– Recurrent Services	205,035	209,741	222,863	228,853	235,182	241,209
– Capital Services	10,196	9,810	7,810	7,810	7,810	7,810
Heritage Council of Western Australia						
– Recurrent Services	3,029	2,925	2,961	3,003	2,041	2,080

Net appropriation of eligible revenues is mandatory from 1 July 1998. For comparability purposes, the 1997-98 actuals have been adjusted to reflect revenue collected that would have been net appropriated if mandatory net appropriation arrangements had applied in that year.



**CONSOLIDATED FUND  
FORWARD ESTIMATES OF EXPENDITURE (CONTINUED)**

Description	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
National Trust of Australia (Western Australia)						
– Recurrent Services	302	365	371	380	394	401
– Capital Services	239	645	215	270	382	382
<b>Total – Minister for Planning, Employment and Training, and Heritage</b>						
– Recurrent Services	<b>248,908</b>	<b>255,389</b>	<b>270,381</b>	<b>278,598</b>	<b>285,983</b>	<b>294,541</b>
– Capital Services	<b>17,435</b>	<b>13,455</b>	<b>15,025</b>	<b>15,080</b>	<b>15,192</b>	<b>15,692</b>
PART 14 – MINISTER FOR HOUSING, ABORIGINAL AFFAIRS, AND WATER RESOURCES						
Aboriginal Affairs						
– Recurrent Services	18,476	22,287	17,114	17,514	17,762	18,183
– Capital Services	3,894	450	450	-	-	-
Office of Water Regulation						
– Recurrent Services	6,972	5,763	4,951	4,891	4,893	4,945
– Capital Services	130	-	95	75	55	96
Swan River Trust						
– Recurrent Services	2,284	2,307	5,115	5,152	5,190	5,233
– Capital Services	-	-	110	80	60	85
Water and Rivers Commission						
– Recurrent Services	29,592	33,499	33,794	34,041	33,706	34,296
– Capital Services	3,753	2,373	800	800	2,500	2,500
<b>Total – Minister for Housing, Aboriginal Affairs, and Water Resources</b>						
– Recurrent Services	<b>57,324</b>	<b>63,856</b>	<b>60,974</b>	<b>61,598</b>	<b>61,551</b>	<b>62,657</b>
– Capital Services	<b>7,777</b>	<b>2,823</b>	<b>1,455</b>	<b>955</b>	<b>2,615</b>	<b>2,681</b>
PART 15 – MINISTER FOR HEALTH						
Health						
– Recurrent Services	1,517,170	1,651,948	1,718,416	1,770,280	1,796,953	1,823,221
– Capital Services	87,671	95,900	75,125	65,105	78,270	73,150
<b>Total – Minister for Health</b>						
– Recurrent Services	<b>1,517,170</b>	<b>1,651,948</b>	<b>1,718,416</b>	<b>1,770,280</b>	<b>1,796,953</b>	<b>1,823,221</b>
– Capital Services	<b>87,671</b>	<b>95,900</b>	<b>75,125</b>	<b>65,105</b>	<b>78,270</b>	<b>73,150</b>

Net appropriation of eligible revenues is mandatory from 1 July 1998. For comparability purposes, the 1997-98 actuals have been adjusted to reflect revenue collected that would have been net appropriated if mandatory net appropriation arrangements had applied in that year.

**CONSOLIDATED FUND  
FORWARD ESTIMATES OF EXPENDITURE (CONTINUED)**

Description	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
<b>PART 16 – MINISTER FOR WORKS, SERVICES, YOUTH, AND CITIZENSHIP AND MULTICULTURAL INTERESTS</b>						
Western Australian Building Management Authority						
– Recurrent Services	39,089	29,067	26,656	27,102	26,821	26,962
– Capital Services	2,120	1,150	1,000	350	500	400
Contract and Management Services						
– Recurrent Services	13,521	23,587	22,594	24,014	23,106	23,637
– Capital Services	150	180	-	-	-	-
State Supply Commission						
– Recurrent Services	2,811	2,856	1,331	1,426	1,504	1,565
– Capital Services	-	90	-	-	-	-
Office of Citizenship and Multicultural Interests						
– Recurrent Services	2,136	2,092	2,241	2,259	2,277	2,295
– Capital Services	21	63	15	25	19	17
<b>Total – Minister for Works, Services, Youth, &amp; Citizenship and Multicultural Interests</b>						
– Recurrent Services	<b>57,557</b>	<b>57,602</b>	<b>52,822</b>	<b>54,801</b>	<b>53,708</b>	<b>54,459</b>
– Capital Services	<b>2,291</b>	<b>1,483</b>	<b>1,015</b>	<b>375</b>	<b>519</b>	<b>417</b>
<b>PART 17 – MINISTER FOR LOCAL GOVERNMENT, AND DISABILITY SERVICES</b>						
Local Government						
– Recurrent Services	4,273	6,185	7,290	7,431	5,729	4,836
– Capital Services	1,076	1,051	1,030	1,120	85	32
Disability Services Commission						
– Recurrent Services	134,428	141,198	151,741	159,006	165,435	168,589
<b>Total – Minister for Local Government, and Disability Services</b>						
– Recurrent Services	<b>138,701</b>	<b>147,383</b>	<b>159,031</b>	<b>166,437</b>	<b>171,164</b>	<b>173,425</b>
– Capital Services	<b>1,076</b>	<b>1,051</b>	<b>1,030</b>	<b>1,120</b>	<b>85</b>	<b>32</b>

Net appropriation of eligible revenues is mandatory from 1 July 1998. For comparability purposes, the 1997-98 actuals have been adjusted to reflect revenue collected that would have been net appropriated if mandatory net appropriation arrangements had applied in that year.

**CONSOLIDATED FUND  
FORWARD ESTIMATES OF EXPENDITURE (CONTINUED)**

Description	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
<b>PART 18 – MINISTER FOR FAMILY AND CHILDREN'S SERVICES, SENIORS, AND WOMEN'S INTERESTS</b>						
Family and Children's Services						
– Recurrent Services	134,671	143,504	146,047	148,685	150,903	153,067
– Capital Services	9,121	11,727	8,348	4,781	7,388	8,497
<b>Total – Minister for Family and Children's Services, Seniors, and Women's Interests</b>						
– Recurrent Services	<b>134,671</b>	<b>143,504</b>	<b>146,047</b>	<b>148,685</b>	<b>150,903</b>	<b>153,067</b>
– Capital Services	<b>9,121</b>	<b>11,727</b>	<b>8,348</b>	<b>4,781</b>	<b>7,388</b>	<b>8,497</b>
<b>Total Recurrent Services</b>	<b>6,440,275</b>	<b>6,982,000</b>	<b>7,254,200</b>	<b>7,451,100</b>	<b>7,566,700</b>	<b>7,746,100</b>
<b>Total Capital Services</b>	<b>377,345</b>	<b>443,600</b>	<b>474,800</b>	<b>382,600</b>	<b>409,900</b>	<b>441,800</b>
<b>GRAND TOTAL</b>	<b>6,817,620</b>	<b>7,425,600</b>	<b>7,729,000</b>	<b>7,833,700</b>	<b>7,976,600</b>	<b>8,187,900</b>

Net appropriation of eligible revenues is mandatory from 1 July 1998. For comparability purposes, the 1997-98 actuals have been adjusted to reflect revenue collected that would have been net appropriated if mandatory net appropriation arrangements had applied in that year.

## APPENDIX 9

### ESTIMATES OF CONSOLIDATED FUND REVENUE

	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
<b>RECURRENT</b>						
Governmental:						
– Taxes and Licences.....	2,434,084	2,469,333	2,597,915	2,717,933	2,865,233	3,030,433
– Territorial .....	672,467	650,515	671,025	695,525	693,025	675,025
– Law Courts .....	41,588	51,842	70,524	98,400	84,159	84,159
– Government Enterprises ...	1,405,658	663,484	672,415	668,863	750,561	756,659
– Departmental .....	194,686	345,092	144,188	95,590	106,288	91,011
<b>Total Governmental.....</b>	<b>4,748,483</b>	<b>4,180,266</b>	<b>4,156,067</b>	<b>4,276,311</b>	<b>4,499,266</b>	<b>4,637,287</b>
Commonwealth:						
– General Revenue Grants ...	1,544,137	1,628,200	1,678,900	1,713,000	1,766,000	1,831,000
– Safety Net Revenue .....	696,934	899,800	925,100	951,800	979,700	1,008,800
– Specific Purpose Grants ...	544,519	628,034	590,333	622,189	657,834	696,113
<b>Total Commonwealth.....</b>	<b>2,785,590</b>	<b>3,156,034</b>	<b>3,194,333</b>	<b>3,286,989</b>	<b>3,403,534</b>	<b>3,535,913</b>
<b>Total Recurrent.....</b>	<b>7,534,073</b>	<b>7,336,300</b>	<b>7,350,400</b>	<b>7,563,300</b>	<b>7,902,800</b>	<b>8,173,200</b>
<b>CAPITAL</b>						
Governmental:						
– Asset Sales.....	62,238	64,223	85,378	58,184	63,871	21,871
– Loan Repayments .....	211,269	28,077	299,112	117,116	17,629	18,029
– Contributions.....	2,742	-	-	-	-	-
<b>Total Capital.....</b>	<b>276,249</b>	<b>92,300</b>	<b>384,500</b>	<b>175,300</b>	<b>81,500</b>	<b>39,900</b>
<b>GRAND TOTAL.....</b>	<b>7,810,322</b>	<b>7,428,600</b>	<b>7,734,900</b>	<b>7,738,600</b>	<b>7,984,300</b>	<b>8,213,100</b>

- (a) This table provides details of the estimated revenues to be paid into the Consolidated Fund from all sources for the last two financial years, next year and the three following years.
- (b) The 1997-98 actuals in this table have been adjusted for mandatory net appropriation arrangements that commenced from 1 July 1998.

**APPENDIX 10****ESTIMATED REVENUE FOR THE YEAR ENDING 30 JUNE 2000  
COMPARED WITH ESTIMATED ACTUALS FOR THE YEAR  
ENDED 30 JUNE 1999**

	Budget	1998-99		1999-00	
	Estimate	Estimated	Actual	Budget	Budget
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>RECURRENT</b>					
<b>GOVERNMENTAL</b>					
<b>TAXES AND LICENCES</b>					
BUSINESS .....	802,905		813,061		866,899
Payroll Tax .....		780,000		833,500	
Liquor .....		1,000		-	
Stamp Duty – Rental Business .....		21,500		23,200	
Business Names Registrations .....		5,276		5,212	
Other Registration Fees .....		108		100	
Pollution Licences and Permits.....		3,418		3,562	
Waste Licences .....		415		415	
Agents' Licence Fees:					
– Credit Providers.....		455		260	
– Employment Agents .....		53		20	
– Finance Brokers.....		21		20	
– Land Valuers .....		148		70	
– Motor Vehicle Dealers.....		441		300	
– Travel Agents .....		226		240	
FINANCIAL TRANSACTIONS.....	457,000		439,500		456,000
Financial Institutions Duty.....		125,500		131,200	
Debits Tax.....		110,000		112,200	
Stamp Duty:					
– Insurance Policies.....		110,000		115,700	
– Mortgages.....		61,000		63,400	
– Marketable Securities.....		24,000		24,000	
– Cheques, Orders, Procurations, etc.....		9,000		9,500	
GAMBLING .....	162,100		167,700		171,200
Casino Tax.....		46,000		47,000	
Racing:					
– Totalisator Agency Board Betting Tax .....		38,800		41,000	
Video Lottery Terminals .....		600		500	
Lotteries Commission:					
– Health <sup>(a)</sup> .....		65,900		66,100	
– Arts <sup>(a)</sup> .....		8,200		8,300	
– Sport and Recreation <sup>(a)</sup> .....		8,200		8,300	

(a) Taxes and Licences required by law to be credited to the Consolidated Fund with an equal amount to be appropriated and credited to the relevant Trust Fund Accounts.

**ESTIMATED REVENUE FOR THE YEAR ENDING 30 JUNE 2000 COMPARED WITH ESTIMATED ACTUALS FOR THE YEAR ENDED 30 JUNE 1999 (CONTINUED)**

	Budget	1998-99		1999-00	
	Estimate \$'000	Estimated Actual \$'000	\$'000	Budget Estimate \$'000	\$'000
<b>MOTOR VEHICLE AND DRIVERS ..</b>	406,947		402,672		438,644
Stamp Duty – Vehicle Licences .....		138,000		162,600	
Vehicle Registrations:					
– Licences <sup>(a)</sup> .....		206,227		212,000	
– Recording Fee .....		33,510		32,500	
Drivers' Licences .....		23,335		29,944	
Permits – Oversize Vehicles and Loads <sup>(a)</sup> .....		1,600		1,600	
<b>PROPERTY .....</b>	627,500		625,100		643,300
Stamp Duty – Conveyances and Transfers .....		420,000		420,000	
Land Tax .....		177,600		194,000	
Metropolitan Region Improvement Tax <sup>(a)</sup> .....		27,500		29,300	
<b>OTHER.....</b>	26,072		21,300		21,872
Stamp Duty.....		11,500		12,000	
Conservancy Dues .....		9,800		9,872	
<b>Total Taxes and Licences .....</b>	<b>2,482,524</b>		<b>2,469,333</b>		<b>2,597,915</b>
<b>TERRITORIAL</b>					
<b>MINING .....</b>	688,000		647,500		668,500
Royalties:					
– Iron Ore .....		241,000		232,500	
– Petroleum .....		176,500		205,500	
– Alumina .....		41,000		38,500	
– Diamonds .....		46,000		27,000	
– Mineral Sands .....		19,500		23,000	
– Nickel .....		19,000		24,000	
– Gold .....		28,500		37,500	
– Other .....		35,000		40,500	
– Lease and Other Rentals .....		41,000		40,000	
<b>LAND.....</b>	3,015		3,015		2,525
Leases:					
– Pastoral .....		490		-	
– Special and Other .....		2,525		2,525	
<b>TIMBER .....</b>	20		20		20
<b>Total Territorial .....</b>	<b>691,015</b>		<b>650,515</b>		<b>671,025</b>

(b) Taxes and Licences required by law to be credited to the Consolidated Fund with an equal amount to be appropriated and credited to the relevant Trust Fund Accounts.

**ESTIMATED REVENUE FOR THE YEAR ENDING 30 JUNE 2000 COMPARED WITH ESTIMATED ACTUALS FOR THE YEAR ENDED 30 JUNE 1999 (CONTINUED)**

	Budget Estimate \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	\$'000
<b>LAW COURTS</b>				
Judicial Fines and Penalties .....	14,500	14,500	15,000	15,000
Infringement Penalties .....	47,200	37,342	55,524	55,524
<b>Total Law Courts .....</b>	<b>61,700</b>	<b>51,842</b>	<b>70,524</b>	<b>70,524</b>
<b>GOVERNMENT ENTERPRISES</b>				
Tax Equivalent Receipts .....	282,191	289,827	229,124	229,124
– Income Tax .....		264,421	197,911	197,911
– Sales Tax .....		19,175	23,316	23,316
– Local Government .....		6,231	7,897	7,897
Dividends .....	365,397	373,657	443,291	443,291
<b>Total Government Enterprises<sup>(a)</sup> .....</b>	<b>647,588</b>	<b>663,484</b>	<b>672,415</b>	<b>672,415</b>
<b>DEPARTMENTAL<sup>(b)</sup></b>				
<i>Reimbursements, Fees and Other Services</i>				
Conservation and Land				
Management .....	71	71	71	71
Director of Public Prosecutions .....	250	1,284	250	250
Fisheries.....	25	25	25	25
Government Employees'				
Superannuation Board.....	1,133	1,133	1,175	1,175
Police.....	380	360	380	380
Registrar, Western Australian				
Industrial Relations				
Commission .....	3	3	3	3
Treasury.....	147,801	342,216	142,284	142,284
<b>Total Departmental .....</b>	<b>149,663</b>	<b>345,092</b>	<b>144,188</b>	<b>144,188</b>
<b>TOTAL GOVERNMENTAL .....</b>	<b>4,032,490</b>	<b>4,180,266</b>	<b>4,156,067</b>	<b>4,156,067</b>

(a) Details of tax equivalent and dividend payments made by government trading enterprises which are included in this category are provided in the financial statements for the Treasury Department in Budget Paper No. 2.

(b) Details of Departmental Revenue are contained in the estimates of each agency, which are in alphabetical order in Budget Paper No. 2, Chapter 3.

**ESTIMATED REVENUE FOR THE YEAR ENDING 30 JUNE 2000 COMPARED WITH  
ESTIMATED ACTUALS FOR THE YEAR ENDED 30 JUNE 1999 (CONTINUED)**

	Budget Estimate \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	\$'000
<b>COMMONWEALTH</b>				
<b>GENERAL REVENUE GRANTS</b>				
Financial Assistance Grant .....	1,591,000	1,591,200	1,609,400	
Competition Reform Payment .....	21,000	21,200	43,700	
Debt Redemption Assistance .....	2,000	2,500	12,000	
Pensioner Concessions Assistance ....	13,000	13,300	13,800	
Safety Net Revenues.....	805,200	899,800	925,100	
Tobacco.....		350,000	351,000	
Fuel.....		436,800	457,800	
Liquor.....		113,000	116,300	
<b>Total General Revenue Grants.....</b>	<b>2,432,200</b>	<b>2,528,000</b>	<b>2,604,000</b>	
<b>SPECIFIC PURPOSE GRANTS</b>				
Education Services .....		153		
Health .....	545,348	593,065	554,000	
Treasury.....	27,262	34,816	36,333	
<b>Total Specific Purpose Grants.....</b>	<b>572,610</b>	<b>628,034</b>	<b>590,333</b>	
<b>TOTAL COMMONWEALTH.....</b>	<b>3,004,810</b>	<b>3,156,034</b>	<b>3,194,333</b>	
<b>TOTAL RECURRENT REVENUE</b>	<b>7,037,300</b>	<b>7,336,300</b>	<b>7,350,400</b>	
<b>CAPITAL</b>				
<b>GOVERNMENTAL</b>				
ASSET SALES .....	92,268	64,223	85,378	
Town and Suburban Lots.....		4,004	7,482	
Crown Grants:				
– Other Land Sales				
– Land Administration .....		36,990	46,324	
– Police .....		4,640	162	
– Transport.....		265	818	
– Westrail.....		17,916	29,790	
Conditional Purchase Leases .....		254	254	
Motor Vehicles .....		154	548	



**ESTIMATED REVENUE FOR THE YEAR ENDING 30 JUNE 2000 COMPARED WITH ESTIMATED ACTUALS FOR THE YEAR ENDED 30 JUNE 1999 (CONTINUED)**

	Budget Estimate \$'000	1998-99		1999-00	
		Estimated Actual \$'000	Estimated Actual \$'000	Budget Estimate \$'000	Budget Estimate \$'000
LOAN REPAYMENTS.....	23,632		28,077		299,122
Recoveries:					
– Scheduled Repayments.....		22,589		22,972	
– Accelerated Repayments.....		-		275,000	
– Other.....		5,488		1,150	
<b>TOTAL CAPITAL REVENUE.....</b>	<b>115,900</b>		<b>92,300</b>		<b>384,500</b>
<b>TOTAL REVENUE.....</b>	<b>7,153,200</b>		<b>7,428,600</b>		<b>7,734,900</b>

## APPENDIX 11

### HYPOTHECATED REVENUES <sup>(a)</sup>

	1998-99		1999-00
	Budget Estimate \$'000	Estimated Actual \$'000	Budget Estimate \$'000
<b>MAIN ROADS TRUST FUND</b>			
Permit Fees .....	1,600	1,600	1,600
Motor Vehicle Licences .....	202,300	206,227	212,000
<b>METROPOLITAN REGION IMPROVEMENT FUND</b>			
Metropolitan Region Improvement Tax .....	27,000	27,500	29,300
<b>LOTTERIES COMMISSION</b>			
Sports Lotteries Account .....	7,800	8,200	8,300
Arts Lotteries Account .....	7,800	8,200	8,300
Hospital Fund .....	61,500	65,900	66,100
<b>TOTAL .....</b>	<b>308,000</b>	<b>317,627</b>	<b>325,600</b>

(a) This table shows those agencies whose recurrent revenues are required by law to be credited to Consolidated Fund and then applied to the relevant Trust Fund Accounts.

**APPENDIX 12****NET APPROPRIATION DETERMINATIONS**

	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
<b>ABORIGINAL AFFAIRS</b>						
Revenue from Commonwealth.....	654	70	-	-	-	-
Miscellaneous Revenue.....	60	175	35	35	35	35
<b>AGRICULTURE</b>						
Direct Mail Services .....	138	178	137	139	141	143
Land Management Services .....	290	412	407	413	419	425
Animal Health Services .....	579	563	550	558	566	574
Seed Quality Services .....	526	538	698	708	719	730
Research Support Unit Operations .....	2,990	3,300	2,880	2,923	2,967	3,012
Services to Industry .....	17,499	16,532	19,898	20,196	20,499	20,806
Services to the Commonwealth .....	19,823	29,010	30,025	30,097	30,170	30,244
Consultancy Services .....	370	100	298	302	307	312
Sale of Intellectual or Genetic Property .....	1,239	1,500	760	771	783	795
Services to the Rural Adjustment and Finance Corporation .....	7,856	10,071	11,923	10,360	2,727	2,727
Services to the Agriculture Protection Board Industry and Market Development.....	15,348	15,888	15,851	14,697	15,795	15,655
Industry Protection .....	-	153	170	173	176	179
Industry Protection .....	-	663	804	816	828	840
Miscellaneous Revenue .....	2,355	250	100	100	100	100
<b>AUDITOR GENERAL</b>						
Audit Fees.....	2,689	2,780	2,550	2,550	2,550	2,550
Other Revenue .....	13	18	18	18	18	18
<b>CHEMISTRY CENTRE (WA)</b>						
Scientific Investigative and Advisory Services .....	6,594	5,850	7,384	7,188	7,391	7,558
<b>CITIZENSHIP AND MULTICULTURAL INTERESTS</b>						
Recoup of Salary and Other Related Costs ...	-	124	-	-	-	-
Other Revenue .....	-	20	-	-	-	-
<b>COMMISSIONER FOR EQUAL OPPORTUNITY</b>						
Community Education Services .....	117	120	100	100	100	100
Human Rights Commission .....	257	255	255	255	255	255
<b>CONSERVATION AND LAND MANAGEMENT</b>						
Sale of Forest Products .....	117,232	116,820	115,721	116,507	116,507	116,507
Sale of Real Property .....	1,452	5,599	2,000	1,500	1,500	1,000
Sale of Equipment .....	879	426	267	300	300	300
Apiary Site Rentals .....	64	80	80	80	80	80
Forrest Leases .....	62	54	54	54	54	54
Wildlife Fees .....	111	110	110	110	110	110
Timber Inspection Fees .....	128	107	107	110	110	110
Communication Site Fees .....	16	-	200	150	150	150
Commissions .....	12	12	12	13	13	14
<b>CONTRACT AND MANAGEMENT SERVICES</b>						
Contract Services .....	1,179	3,922	7,344	7,082	7,125	7,218
Westlink Satellite Communication Service	498	568	822	822	822	822
Warehousing and Distribution Services .....	16,266	14,921	-	-	-	-

1997-98 actuals have been included for comparability purposes only.

**NET APPROPRIATION DETERMINATIONS (CONTINUED)**

	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
<b>CULTURE AND THE ARTS</b>						
Services to the Perth Theatre Trust .....	1,561	1,000	-	-	-	-
King Street Arts Centre .....	19	200	200	200	200	200
Return of Investments under the Arts						
Venture Capital Scheme .....	38	90	100	100	100	100
Other Revenue .....	22	-	-	-	-	-
<b>DIRECTOR OF PUBLIC PROSECUTIONS</b>						
Executive Vehicle Scheme .....	-	14	19	19	19	19
Miscellaneous Revenue .....	-	6	5	5	5	5
<b>EDUCATION</b>						
Fees .....	7,569	8,245	7,352	7,420	7,420	7,420
Recoveries and Refunds .....	3,983	2,040	1,660	1,660	1,660	1,660
Farm School Revenue .....	1,461	1,500	1,500	1,500	1,500	1,500
Commonwealth - Recurrent .....	143,724	153,870	152,212	152,137	152,051	152,051
Commonwealth - Capital .....	20,750	22,725	22,091	22,582	22,891	23,000
Other Revenue .....	2,812	3,502	1,591	1,869	1,955	1,955
<b>EDUCATION SERVICES</b>						
Registration Fees .....	24	41	44	44	44	44
Aboriginal Education and Training Council ..	325	293	325	325	325	325
Borrowings from WA Treasury Corporation ..	36,500	41,000	26,500	26,500	26,500	26,500
Interest Repayments .....	356	1,500	2,000	3,000	3,500	4,000
Principal Repayments .....	230	1,156	3,234	5,451	7,728	10,069
<b>ELECTORAL COMMISSION</b>						
Extraneous Election .....	62	47	20	20	20	20
Sale of Rolls and Maps .....	11	17	20	20	20	20
Local Government Recoups .....	173	12	1,200	-	-	-
Head Office Relocation .....	-	700	-	-	-	-
Sundries .....	136	23	3	3	3	3
<b>ENERGY</b>						
Electrical and Gas Licensing Services .....	1,024	1,429	1,671	1,858	2,005	2,005
Mines Electrical Inspection Services .....	380	400	400	400	400	400
Sale of Technical and Safety Publications .....	41	41	41	41	41	41
Contribution towards WA Energy Efficiency Awards .....	-	20	20	20	20	20
<b>ENVIRONMENTAL PROTECTION</b>						
Grants from Industries .....	-	3,119	3,120	2,352	2,395	2,483
Waste Management Recycling Fund .....	-	3,500	4,400	4,000	3,800	3,800
Waste Management W.A. .....		188	1,850	650	1,200	1,050
Other User Charges .....	510	39	34	34	34	34
<b>FAIR TRADING</b>						
Business Names Searches .....	707	591	591	591	591	591
Indian Ocean Territories .....	90	85	85	85	85	85
Business Names Data .....	63	47	47	47	47	47
Education Kit for Landlords .....	16	2	2	2	2	2
Business Names Certificates .....	33	35	35	35	35	35
Real Estate and Business Agents						
Supervisory Board and the Settlement						
Agents Supervisory Board .....	2,936	3,920	3,920	3,920	3,920	3,920
Chattels Security Register .....	1,645	1,550	1,550	1,550	1,550	1,550
Consumer Assistance .....	1,451	1,478	1,478	1,478	1,478	1,478
Trade Measurement .....	250	150	150	150	150	150
Bill of Sale .....	18	20	20	20	20	20
Other Revenue .....	226	50	50	50	50	50

1997-98 actuals have been included for comparability purposes only.

**NET APPROPRIATION DETERMINATIONS (CONTINUED)**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$'000	Actual	Estimate	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>FAMILY AND CHILDREN'S SERVICES</b>						
Departmental Services .....	1,377	1,474	1,218	1,290	947	977
Children's Services .....	802	245	368	368	368	368
Family Court of Western Australia .....	1,220	1,190	1,190	1,190	1,190	1,190
Christmas/Cocos Island .....	-	65	130	130	-	-
Supported Accommodation Assistance						
Program .....	10,777	10,960	10,788	11,025	11,190	11,436
Unattached Refugee Children .....	18	15	20	18	16	16
Parenting Initiatives .....	145	-	-	-	-	-
National Campaign Against Drug Abuse .....	-	658	439	439	439	439
National Illicit Drug Strategy .....	-	5	-	-	-	-
Aboriginal and Torres Strait Islander						
Employment Strategy .....	-	130	130	109	-	-
Aboriginal Child Care Training .....	37	39	39	39	39	39
<b>FISHERIES</b>						
Sundry Revenue .....	23	30	25	25	25	25
<b>GOVERNMENT PROJECTS OFFICE</b>						
Executive Vehicle Scheme .....	2	2	2	2	2	2
<b>GOVERNOR'S ESTABLISHMENT</b>						
Ballroom Hire .....	19	10	10	20	20	20
<b>HEALTH</b>						
Health Statistics Branch .....	131	70	50	50	50	50
Environmental Health Services .....	833	927	800	800	800	800
Community Support Services .....	1,261	1,216	1,140	1,140	1,140	1,140
Health Promotion Services .....	751	670	670	670	670	670
Miscellaneous Services .....	442	833	369	369	369	369
Other State Agencies .....	100	-	-	-	-	-
Services provided on behalf of the						
Commonwealth .....	74,048	87,841	83,572	84,951	86,409	88,174
<b>INFORMATION COMMISSIONER</b>						
Executive Vehicle Scheme .....	-	3	3	3	3	3
<b>JUSTICE</b>						
Court of Petty Sessions Fees .....	6,462	7,600	7,200	7,200	7,200	7,200
Supreme Court Fees .....	2,357	1,560	1,860	1,860	1,860	1,860
District Court Fees .....	3,451	2,200	2,300	2,300	2,300	2,300
Local Court Fees .....	3,519	3,350	3,350	3,350	3,350	3,350
Sheriff's and District Court Bailiff Fees .....	215	200	200	200	200	200
Tribunal's Fees .....	86	90	90	90	90	90
Family Court of Western Australia .....	7,482	7,910	7,910	7,910	7,910	7,910
Indian Ocean Territories Program .....	353	300	300	300	300	300
Registrar General's Fees .....	2,837	3,011	3,011	3,011	3,011	3,011
Personal Prisoner Services .....	2,746	3,000	3,100	3,200	3,200	3,200
Sale of Prison .....	1,219	1,100	1,100	1,100	1,100	1,100
Public Trustee Fees .....	5,726	5,541	8,541	8,541	8,541	8,541
Surplus Public Trust Common Fund Interest	5,264	3,000	-	-	-	-
Legal Services Fees .....	2,652	2,600	2,600	2,600	2,600	2,600
Workers' Compensation Tribunal						
Recoveries .....	216	150	150	150	150	150
Recovery of Legal Costs .....	566	300	300	300	300	300
Recoup of Residential Tenancies Payments ..	524	450	450	450	450	450
Recoup of Workers' Compensation						
Payments .....	243	385	385	385	385	385
Recovery of Criminal Injuries Awards .....	820	700	700	700	700	700
Auctioneers Licences .....	146	100	100	100	100	100
Schools Assistance Grants .....	173	150	150	150	150	150
Management of Loss and Grief .....	161	-	-	-	-	-
Other Revenue .....	558	315	315	315	315	315

1997-98 actuals have been included for comparability purposes only.

**NET APPROPRIATION DETERMINATIONS (CONTINUED)**

	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
<b>LAND ADMINISTRATION</b>						
Land Titles Management Services .....	33,232	34,274	35,331	35,626	34,900	36,300
Sales of Maps and Plans .....	1,541	1,567	1,478	1,458	1,425	1,427
International Consultancy Services .....	981	1,393	1,252	-	-	-
Remote Sensing Satellite Imagery Services ..	1,039	1,055	1,161	1,277	1,404	1,545
Rental Properties .....	942	790	750	714	663	630
WA Land Information System .....	236	105	105	105	105	105
Mapping and Survey Services .....	64	100	88	88	88	88
Interest from Land Sales .....	101	64	65	65	65	65
Government Property Register Information...	-	40	40	40	40	40
Special Leases .....	76	31	30	30	30	30
Sale of Public Property .....	79	30	30	30	30	30
Worker's Compensation Recoups .....	21	22	22	22	22	22
Executive Vehicle Scheme .....	13	15	15	17	15	19
Other Revenue .....	596	325	102	102	102	102
Pastoral Leases .....	-	-	490	490	490	490
Services provided on behalf of the Commonwealth .....	601	830	1,205	-	-	-
<b>LOCAL GOVERNMENT</b>						
Indian Ocean Territories Program .....	261	179	196	196	196	196
Other Revenue .....	20	8	8	8	8	8
<b>MINERALS AND ENERGY</b>						
Mineral Processing Services .....	1,027	500	-	-	-	-
Dangerous Goods Vehicles .....	-	350	200	120	120	120
Petroleum Permits and Licences .....	5,846	3,823	3,900	4,000	4,100	4,100
Prospecting, Exploration and Other Mining Licences .....	3,341	3,400	3,400	3,400	3,400	3,400
Dangerous Goods and Explosives Regulations .....	1,111	1,012	1,012	1,012	1,012	1,012
Other Revenue .....	1,021	1,316	1,616	1,616	1,616	1,616
<b>PARLIAMENT</b>						
Joint House Committee:						
Stationery Supplies and Other Revenue .....	111	78	78	78	78	78
Legislative Assembly:						
Sale of Publications and Other Revenue .....	2	10	10	2	2	2
Legislative Council:						
Services and Refunds .....	4	2	2	2	2	2
<b>PARLIAMENTARY COMMISSIONER FOR ADMINISTRATIVE INVESTIGATIONS</b>						
Indian Ocean Territories Program .....	15	12	12	12	12	12
Other Revenue .....	20	-	-	-	-	-
<b>PLANNING</b>						
Services to the Western Australian Planning Commission .....						
Indian Ocean Territories Program .....	44	60	60	-	-	-
Other Revenue .....	109	72	15	15	15	15
<b>POLICE SERVICE</b>						
Licences .....	2,697	2,568	2,823	2,903	2,645	2,645
Departmental .....	6,653	8,313	7,836	4,086	3,689	3,689
Commonwealth .....	12,307	1,286	1,080	1,004	1,080	1,004
<b>PREMIER AND CABINET</b>						
State Law Publisher .....	3,555	2,976	2,670	2,470	2,370	2,370
Other Revenue .....	2,139	1,675	1,130	1,210	1,280	1,300

1997-98 actuals have been included for comparability purposes only.

**NET APPROPRIATION DETERMINATIONS (CONTINUED)**

	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
<b>PRODUCTIVITY AND LABOUR RELATIONS</b>						
Labour Relations Training .....	53	-	-	-	-	-
Executive Vehicle Scheme .....	1	1	1	1	1	1
Federal Investigation and Advisory Service ..	-	299	314	314	314	314
Registration Fees for Office of Censorship ..	-	-	120	120	120	120
Other .....	6	-	-	-	-	-
<b>PUBLIC SECTOR STANDARDS COMMISSIONER</b>						
Other Revenue .....	15	122	67	33	25	9
<b>RACING, GAMING AND LIQUOR</b>						
Services to the Racing and Gaming						
Industries .....	2,773	3,289	4,036	3,409	3,820	3,870
Indian Ocean Territories Program .....	1,040	984	202	207	211	216
Liquor Fees Revenue .....	-	-	1,000	1,000	1,000	1,000
Other Revenue .....	65	63	4	4	4	4
<b>RECREATION CAMPS AND RESERVES BOARD</b>						
Accommodation and Recreation Programs ...	1,586	1,561	1,360	1,360	1,360	1,360
<b>REGISTRAR, WESTERN AUSTRALIAN INDUSTRIAL RELATIONS COMMISSION</b>						
Service Charges, Transcript and Award						
Sales and Other Revenue .....	85	82	79	79	79	79
<b>RESOURCES DEVELOPMENT</b>						
Forrest Residue Utilisation Levy.....	461	74	-	-	-	-
Executive Vehicle Scheme .....	7	7	7	7	7	7
Sale of Publications .....	9	3	3	3	3	3
Contributions from Industry.....	1,540	1,849	-	-	-	-
WA Government/China Economic and						
Technical Research Trust Fund .....	68	-	-	-	-	-
Recoupments for Ord River .....	109	-	-	-	-	-
Department of Industry and Science -						
Funding for Wood and Paper Industry						
Strategy .....	85	70	70	-	-	-
Other Revenue .....	115	-	-	-	-	-
<b>SALARIES AND ALLOWANCES TRIBUNAL</b>						
Other Revenue .....	1	-	-	-	-	-
<b>SPORT AND RECREATION</b>						
Sport Participation Services to the						
Commonwealth .....	683	727	705	-	-	-
Sport Development Services to Industry						
Bodies .....	173	180	45	45	45	45
Other Revenue .....	70	55	64	141	144	146
<b>STATE REVENUE</b>						
Land Tax Liability Enquiry Fees.....	1,583	1,580	1,750	1,750	1,750	1,750
Sale of the Revenue Collection Information						
System .....	-	531	-	-	-	-
Perth Parking Management Licensing						
Scheme .....	-	128	-	-	-	-
Other Revenue .....	615	99	79	79	79	79

1997-98 actuals have been included for comparability purposes only.

**NET APPROPRIATION DETERMINATIONS (CONTINUED)**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$'000	Actual	Estimate	Estimate	Estimate	Estimate
		\$'000	\$'000	\$'000	\$'000	\$'000
<b>TRAINING</b>						
Commercial Activities of Institutions .....	11,255	10,500	10,000	10,000	10,000	10,000
Business Units .....	337	250	250	250	250	250
Miscellaneous Revenue .....	-	50	50	50	50	50
Services provided on behalf of the Commonwealth .....	98,523	95,249	94,408	95,789	98,289	98,289
Sale of Property .....	30	-	-	-	-	-
Capital Works Program .....	-	120	-	-	-	-
<b>TRANSPORT</b>						
Special Series Number Plates .....	1,438	1,796	1,846	1,898	1,898	1,898
Boat Registration Fees.....	3,713	4,382	4,802	4,885	4,885	4,885
Jetty Licences.....	220	191	201	201	201	201
Temporary Permits .....	272	400	420	430	430	430
Motor Vehicles .....	13,747	13,833	14,033	14,233	14,433	14,433
Motor Drivers .....	4,045	4,037	4,092	4,147	4,202	4,202
Proof of Age Card .....	37	40	40	40	40	40
Multi-Rider Fares .....	22,063	23,000	24,000	24,000	24,000	24,000
Cash Fares .....	36,180	38,000	37,000	37,000	37,000	37,000
Marine Examinations.....	112	135	119	125	125	125
Recoups for Services Provided.....	5,091	4,440	4,640	4,700	4,750	4,750
<b>TREASURY</b>						
Rent from Government owned buildings.....	2,015	-	-	-	-	-
Executive Vehicle Scheme .....	33	30	30	30	30	30
State Fleet Revenues .....	-	5,224	37,759	37,759	37,759	37,759
<b>VALUER GENERAL'S OFFICE</b>						
Valuation and Property Information Services	4,406	6,968	3,735	3,550	6,590	3,655
<b>WATER REGULATION</b>						
Licence Application Fees .....	1	1	1	1	1	1
Proceeds from Industry .....	51	52	52	52	52	52
<b>WORKSAFE WA</b>						
Taxes and Licences .....	653	670	279	307	281	281
Departmental - Miscellaneous .....	295	210	122	122	122	122
<b>TOTAL .....</b>	<b>883,499</b>	<b>928,142</b>	<b>924,804</b>	<b>919,166</b>	<b>923,161</b>	<b>926,808</b>

1997-98 actuals have been included for comparability purposes only.



**APPENDIX 13****CAPITAL WORKS PROGRAM SOURCE OF FUNDS**

	1997-98 Actual \$'000	1998-99 Estimated Actual \$'000	1999-00 Budget Estimate \$'000	2000-01 Forward Estimate \$'000	2001-02 Forward Estimate \$'000	2002-03 Forward Estimate \$'000
<b>CONSOLIDATED FUND</b>						
Revenue:						
– Asset Sales .....	62,238	64,223	85,378	58,184	63,871	21,871
– Loan Repayments .....	211,269	28,077	299,122	117,116	17,629	18,029
– State Development Fund.....	2,742	-	-	-	-	-
	276,249	92,300	384,500	175,300	81,500	39,900
Financing Transactions:						
– Recurrent Surplus .....	1,093,798	354,300	96,200	112,200	336,100	427,100
– State Development Fund.....	-244,000	46,300	43,800	126,800	27,100	-
– Capital Repayments .....	-791,403	-42,600	-45,400	-23,400	-24,500	-15,100
– Government Equity Contributions .....	-10,972	-6,965	-4,300	-8,300	-10,300	-10,100
– Movement in cash balance.....	53,673	265	-	-	-	-
Cash Financing Requirement .....	101,096	351,300	90,300	207,300	328,400	401,900
<b>Total Funds Expended.....</b>	<b>377,345</b>	<b>443,600</b>	<b>474,800</b>	<b>382,600</b>	<b>409,900</b>	<b>441,800</b>
<b>OTHER FUNDING<sup>(a)</sup></b>						
Project Borrowing Requirements.	453,856	307,530	677,515	440,152	283,481	143,772
Other Commonwealth Grants and Advances.....	169,234	222,863	198,138	210,845	159,984	138,093
Specific Contributions .....	98,267	65,325	64,885	62,910	62,545	62,545
Land and Property Sales .....	322,688	354,266	399,855	341,312	289,827	315,525
Internal Funds and Balances .....	1,278,535	1,546,325	1,441,484	1,359,637	1,493,985	1,475,132
<b>TOTAL FUNDING.....</b>	<b>2,699,925</b>	<b>2,939,909</b>	<b>3,256,677</b>	<b>2,797,456</b>	<b>2,699,722</b>	<b>2,576,867</b>

(a) 1997-98 "Other Funding" represents Estimated Actuals as reported in the 1998-99 Budget Papers.

## APPENDIX 14

### CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

Agencies	Consolidated Fund	1998-99 Budget Estimate		Total Expenditure
		Borrowings by State Authorities	Other Funding	
	\$'000	\$'000	\$'000	\$'000
<b>PARLIAMENT</b>				
Legislative Council .....	58	-	-	58
Legislative Assembly .....	97	-	-	97
Joint House Committee (Parliamentary Services) ..	595	-	-	595
Parliamentary Commissioner for Administrative Investigations.....	40	-	-	40
<b>PREMIER, TREASURER, MINISTER FOR PUBLIC SECTOR MANAGEMENT, AND FEDERAL AFFAIRS</b>				
Premier and Cabinet .....	22,400	-	-	22,400
Governor's Establishment .....	700	-	-	700
Government Projects Office.....				
Office of the Auditor General .....	242	-	-	242
Treasury .....	14,225	-	-	14,225
Office of the Public Sector Standards Commissioner.....	47	-	-	47
<b>DEPUTY PREMIER, MINISTER FOR COMMERCE AND TRADE, REGIONAL DEVELOPMENT, AND SMALL BUSINESS</b>				
Commerce and Trade.....	18,000	-	22,896	40,896
Gascoyne Development Commission .....	1,540	-	384	1,924
Goldfields-Esperance Development Commission .....	260	-	-	260
Great Southern Development Commission .....	165	-	-	165
Kimberley Development Commission .....	183	-	-	183
Mid West Development Commission .....	5,788	-	89	5,877
Peel Development Commission .....	445	-	-	445
Pilbara Development Commission .....	25	-	1,250	1,275
South West Development Commission .....	469	-	2,725	3,194
Wheatbelt Development Commission .....	137	-	-	137
Small Business Development Corporation .....	245	-	-	245
<b>MINISTER FOR RESOURCES DEVELOPMENT, ENERGY, AND EDUCATION</b>				
Resources Development .....	2,063	-	850	2,913
Office of Energy .....	205	-	-	205
AlintaGas Corporation .....	-	-	40,500	40,500
Western Power Corporation .....	-	46,000	301,800	347,800
Education .....	89,633	-	32,172	121,805
Country High School Hostels Authority .....	200	416	705	1,321
Curriculum Council.....	60	-	-	60
Education Services .....	5,000	-	-	5,000

For details of agency capital works programs, see agency information contained in Budget Paper No. 2, Budget Statements.

**CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING (CONTINUED)**

Consolidated Fund	1998-99 Estimated Actual			Consolidated Fund	1999-00 Budget Estimate		
	Borrowings by State Authorities	Other Funding	Total Expenditure		Borrowings by State Authorities	Other Funding	Total Expenditure
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
58		150	208	66			66
97		46	143	75			75
1,014		209	1,223	1,932			1,932
40			40	63			63
13,280		(9,383)	3,897	6,550		12,000	18,550
700		496	1,196	350			350
6,977		212	7,189	21,800			21,800
242			242	302			302
2,119		305	2,424	2,512			2,512
47			47	56			56
17,958		10,196	28,154	42,750		26,700	69,450
3,040		479	3,519	1,120			1,120
260			260	10			10
165			165	115			115
183			183	173			173
1,195		(177)	1,018	8,565		554	9,119
445		2,000	2,445	1,225			1,225
25		100	125	1,255		1,150	2,405
469		4,035	4,504	14		1,270	1,284
137			137	218			218
245			245	50			50
1,063		850	1,913	2,529			2,529
205		114	319	258			258
		35,713	35,713			31,314	31,314
	30,100	329,772	359,872			261,803	261,803
104,626		29,592	134,218	112,568		39,596	152,164
700	555	243	1,498	850	419	224	1,493
60			60	158		2	160
5,000			5,000	5,000			5,000

**CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING (CONTINUED)**

Agencies	Consolidated Fund \$'000	1998-99 Budget Estimate		Total Expenditure \$'000
		Borrowings by State Authorities \$'000	Other Funding \$'000	
<b>MINISTER FOR PRIMARY INDUSTRY, AND FISHERIES</b>				
Agriculture.....	16,231	-	1,301	17,532
Agriculture Protection Board.....	-	-	-	-
Perth Market Authority.....	-	1,043	679	1,722
Fisheries.....	4,589	-	-	4,589
<b>MINISTER FOR MINES, TOURISM, AND SPORT AND RECREATION</b>				
Minerals and Energy .....	3,283	-	75	3,358
Chemistry Centre (WA) .....	100	-	451	551
Rottneet Island Authority .....	-	-	2,940	2,940
Western Australian Tourism Commission	1,700	-	-	1,700
Recreation Camps and Reserves Board .....	80	-	100	180
Sport and Recreation .....	10,150	-	-	10,150
Western Australian Sports Centre Trust .....	-	-	1,500	1,500
<b>MINISTER FOR TRANSPORT</b>				
Transport .....	11,909	65,672	1,735	79,316
Main Roads .....	-	37,740	405,035	442,775
Metropolitan (Perth) Passenger Transport Trust....	-	-	-	-
Western Australian Government Railways Commission.....	-	133,926	5,000	138,926
Albany Port Authority .....	-	-	3,000	3,000
Bunbury Port Authority .....	-	-	3,500	3,500
Dampier Port Authority .....	-	-	1,195	1,195
Esperance Port Authority.....	-	-	2,200	2,200
Fremantle Port Authority .....	-	10,000	4,605	14,605
Geraldton Port Authority .....	-	-	3,285	3,285
Port Hedland Port Authority .....	-	-	3,415	3,415
<b>MINISTER FOR THE ENVIRONMENT, AND LABOUR RELATIONS</b>				
Conservation and Land Management .....	11,155	-	9,510	20,665
Environmental Protection .....	1,059	-	-	1,059
King's Park Board .....	11,205	-	25	11,230
Zoological Gardens Board .....	-	2,361	(58)	2,303
Productivity and Labour Relations .....	170	-	-	170
Commissioner of Workplace Agreements .....	145	-	-	145
Registrar, Western Australian Industrial Relations Commission.....	115	-	-	115
WorkSafe Western Australia .....	122	-	-	122

For details of agency capital works programs, see agency information contained in Budget Paper No. 2, Budget Statements.

**CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING (CONTINUED)**

Consolidated Fund	1998-99 Estimated Actual			Consolidated Fund	1999-00 Budget Estimate		
	Borrowings by State Authorities	Other Funding	Total Expenditure		Borrowings by State Authorities	Other Funding	Total Expenditure
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
7,288		5,492	12,780	5,015		5,568	10,583
4,589	1,043	867	1,910	1,735	3,480	2,559	6,039
			4,589				1,735
3,283		1,405	4,688	1,750		75	1,825
100		111	211			523	523
		3,000	3,000			3,500	3,500
2,000			2,000	5,230			5,230
80		229	309	111		66	177
10,150		138	10,288	13,350			13,350
		5,500	5,500	4,500		1,700	6,200
11,909	40,160	5,386	57,455	14,400	59,950	5,792	80,142
	67,750	349,287	417,037		221,000	343,660	564,660
	136,255	12,419	148,674		164,771	5,000	169,771
		1,000	1,000			1,000	1,000
		2,330	2,330			4,000	4,000
		742	742			600	600
		800	800			6,900	6,900
	3,000	17,322	20,322		14,504	9,485	23,989
		1,351	1,351			3,870	3,870
		830	830			3,260	3,260
11,155		15,659	26,814	11,440		10,587	22,027
1,059		56	1,115	545		318	863
8,205		1,494	9,699	4,295			4,295
	1,318	857	2,175		1,832	105	1,937
170		24	194	330			330
145		117	262	123			123
115			115	115			115
122			122	122			122

**CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING (CONTINUED)**

Agencies	Consolidated Fund	1998-99 Budget Estimate		Total Expenditure
		Borrowings by State Authorities	Other Funding	
	\$'000	\$'000	\$'000	\$'000
<b>MINISTER FOR FINANCE, AND RACING AND GAMING</b>				
State Revenue .....	290	-	-	290
Valuer General's Office.....	1,077	-	-	1,077
Office of Racing, Gaming and Liquor .....	258	-	182	440
<b>MINISTER FOR LANDS, FAIR TRADING, AND PARLIAMENTARY AND ELECTORAL AFFAIRS</b>				
Land Administration .....	14,741	-	1,015	15,756
Western Australian Land Authority .....	-	-	79,946	79,946
Fair Trading .....	80	-	-	80
Western Australian Electoral Commission .....	425	-	-	425
<b>MINISTER FOR POLICE, AND EMERGENCY SERVICES</b>				
Police Service .....	38,100	-	-	38,100
Fire and Emergency Services Authority of Western Australia .....	1,796	3,526	1,500	6,822
<b>ATTORNEY GENERAL, MINISTER FOR JUSTICE, AND THE ARTS</b>				
Justice .....	40,337	-	9,465	49,802
Commissioner for Equal Opportunity .....	39	-	-	39
Office of the Director of Public Prosecutions .....	200	-	-	200
Office of the Information Commissioner .....	40	-	-	40
Culture and the Arts.....	2,086	2,752	-	4,838
<b>MINISTER FOR PLANNING, EMPLOYMENT AND TRAINING, AND HERITAGE</b>				
Western Australian Planning Commission .....	3,000	-	35,399	38,399
East Perth Redevelopment Authority .....	-	-	13,716	13,716
Subiaco Redevelopment Authority .....	-	13,466	23,000	36,466
Western Australian Department of Training .....	9,810	-	20,939	30,749
National Trust of Australia (Western Australia) ...	235	-	-	235
<b>MINISTER FOR HOUSING, ABORIGINAL AFFAIRS, AND WATER RESOURCES</b>				
Government Employees' Housing Authority .....	-	-	15,500	15,500
Country Housing Authority .....	-	-	4,605	4,605
State Housing Commission .....	-	-	552,404	552,404
Aboriginal Affairs .....	3,450	-	-	3,450
Office of Water Regulation .....	-	-	-	-
Swan River Trust .....	-	-	-	-
Water and Rivers Commission .....	2,373	-	-	2,373
Water Corporation .....	-	20,000	320,000	340,000

For details of agency capital works programs, see agency information contained in Budget Paper No. 2, Budget Statements.

**CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING (CONTINUED)**

Consolidated Fund	1998-99 Estimated Actual			Consolidated Fund	1999-00 Budget Estimate		
	Borrowings by State Authorities	Other Funding	Total Expenditure		Borrowings by State Authorities	Other Funding	Total Expenditure
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
290		2,421	2,711	380			380
1,077		410	1,487	275			275
258		1,031	1,289	100		983	1,083
6,354		2,477	8,831	9,061			9,061
		116,868	116,868			160,671	160,671
480		54	534	2,878			2,878
825		12	837	400			400
38,100			38,100	31,240		25,000	56,240
1,796	1,581	6,135	9,512	1,693	5,597	1,335	8,625
44,922		7,174	52,096	48,119		3,465	51,584
39			39	71			71
200		-42	158	150		90	240
40			40	30			30
2,060	3,168	3,122	8,350	4,780	2,130		6,910
3,000		30,488	33,448	7,000		45,300	52,300
		12,604	12,604			26,390	26,390
	600	32,378	32,978		5,300	14,141	19,441
9,810		23,668	33,478	7,810		18,927	26,737
645			645	215			215
		21,104	21,104			22,983	22,983
		5,363	5,363			6,000	6,000
		742,834	742,834		17,532	695,807	713,339
450		338	788	450		50	500
				95			95
				110			110
2,373		299	2,672	800			800
	20,000	340,000	360,000		180,000	285,460	465,460

**CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING (CONTINUED)**

Agencies	Consolidated Fund \$'000	1998-99 Budget Estimate		Total Expenditure \$'000
		Borrowings by State Authorities \$'000	Other Funding \$'000	
<b>MINISTER FOR HEALTH</b>				
Health .....	95,900	-	-	95,900
<b>MINISTER FOR WORKS, SERVICES, YOUTH, AND CITIZENSHIP AND MULTICULTURAL INTERESTS</b>				
<b>Western Australian Building Management</b>				
Authority .....	1,150	-	2,500	3,650
Contract and Management Services .....	180	-	-	180
State Supply Commission.....	90	-	-	90
Office of Citizenship and Multicultural Interests ..	63	-	-	63
<b>MINISTER FOR LOCAL GOVERNMENT, AND DISABILITY SERVICES</b>				
Local Government .....	1,051	-	-	1,051
Fremantle Cemetery Board .....	-	1,000	481	1,481
Metropolitan Cemeteries Board .....	-	-	4,250	4,250
Disability Services Commission .....	-	1,000	-	1,000
<b>MINISTER FOR FAMILY AND CHILDREN'S SERVICES, SENIORS, AND WOMEN'S INTERESTS</b>				
Family and Children's Services .....	11,394	-	2,728	14,122
	463,000	338,902	1,940,494	2,742,396

For details of agency capital works programs, see agency information contained in Budget Paper No. 2, Budget Statements.



**CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING** *(continued)*

Consolidated Fund	1998-99 Estimated Actual			Consolidated Fund	1999-00 Budget Estimate		
	Borrowings by State Authorities	Other Funding	Total Expenditure		Borrowings by State Authorities	Other Funding	Total Expenditure
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
95,900			95,900	75,125			75,125
1,150		7,490	8,640	1,000			1,000
180		574	754				
90			90				
63			63	15			15
1,051		55	1,106	1,030			1,030
	1,000	96	1,096			1,675	1,675
		2,570	2,570			6,300	6,300
	1,000	258	1,258		1,000		1,000
11,727		(2,370)	9,357	8,348		6,679	15,027
443,600	307,530	2,188,779	2,939,909	474,800	677,515	2,104,362	3,256,677

## APPENDIX 15

### TAX AND ROYALTY EXPENDITURE STATEMENT

#### General

A tax or royalty expenditure can be defined as the revenue foregone by the Government, or the financial benefit to individuals or businesses, of an exemption or concession (or other exception to the general tax norm). 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.

Measuring tax and royalty expenditures requires identification of:

- A benchmark tax or royalty base;
- Preferentially taxed components of the benchmark tax or royalty base (eg. a particular industry, activity or class of taxpayer); and
- A benchmark tax or royalty rate to apply to the preferentially taxed components of the base.

Labelling an exemption or concession as a tax or royalty expenditure does not necessarily imply any judgement on its appropriateness. It merely makes the amount of the exemption or concession explicit, and thereby facilitates scrutiny as part of the annual budget (including review of whether the concession is still effective in achieving any specific objective originally intended).

Identification of benchmark revenue bases and rates requires a degree of judgement to be exercised, and is open to discussion. Furthermore, data limitations mean that the tax and royalty expenditures are only approximations.

The tax and royalty expenditures identified in this Statement are not intended to be exhaustive. The Statement does not include estimates of revenue foregone from exemptions or concessions provided to charitable organisations or government agencies. Also excluded are very small exemptions or concessions.

This year's Statement includes estimates of tax and royalty expenditures for 1996-97 to 1998-99. The estimates shown in brackets below are for 1998-99 only.

#### Payroll Tax

The benchmark payroll tax base is assumed to be all wages, salaries and supplements paid by the private and public trading enterprise sectors in Western Australia, as reported by the Australian Bureau of Statistics (ABS). The benchmark tax rate is assumed to be the top payroll tax rate in each financial year, being 6% in 1996-97 and 5.56% in both 1997-98 and 1998-99.

<b>SUMMARY OF MAJOR TAX AND ROYALTY EXPENDITURES</b>			
	1996-97 Estimated Actuals <sup>(a)</sup>	1997-98 Estimated Actuals	1998-99 Estimates
	\$m	\$m	\$m
<b>PAYROLL TAX</b>			
Small business exemption	256.0	250.0	264.5
Medium business concessions	78.0	76.5	83.0
Non-grossing up of fringe benefits	7.5	12.5	13.5
Apprentices and trainees exemption	6.0	6.0	6.0
<b>LAND TAX &amp; MRIT</b>			
Principal place of residence exemption	188.0	189.0	196.5
Primary production exemption	15.0	18.0	26.0
Land developers' concession	2.0	2.5	3.0
<b>FINANCIAL INSTITUTIONS DUTY</b>			
Maximum duty limit	19.0	21.0	21.5
Social security payments exemption	2.0	2.5	2.5
<b>STAMP DUTY ON CONVEYANCES</b>			
Corporate reconstructions exemption	3.0	11.0	11.0
Family farms exemption	4.0	3.0	4.0
Chattels exemption	9.5	10.5	-
Concessional rate for homes and businesses	2.0	1.5	8.0
\$500 rebate for first home buyers	1.5	1.0	1.5
<b>STAMP DUTY ON INSURANCE POLICIES</b>			
Health insurance policies exemption	22.0	24.0	40.5
Motor vehicle third party concession	11.0	12.0	20.5
Workers' compensation insurance	5.5	4.5	7.0
Transport of goods; marine hulls exemption	1.5	0.5	1.0
<b>STAMP DUTY ON MORTGAGES</b>			
Concessional rate for homes	5.5	6.5	6.5
<b>MOTOR VEHICLE LICENCE FEES</b>			
Family vehicle concession	20.0	22.5	23.5
Primary producer vehicle concession	n.a.	10.5	9.0
Pensioner vehicle concession	n.a.	7.0	11.5
Diesel vehicle concession	n.a.	6.0	-
Intrastate heavy vehicle concession	n.a.	5.5	3.0
<b>MINING ROYALTIES</b>			
Exemption/concession for gold	72.5	84.0	52.0
Iron ore Agreement Act concessions	30.0	39.0	44.0
Iron ore processing incentives	-	-	-
<b>TOTAL</b>	<b>n.a.</b>	<b>827.0</b>	<b>859.5</b>

(a) Excludes franchise fee concessions applicable prior to a High Court decision leading to the abandonment of these fees.

*Small Business Exemption (\$264.5 million)*

The current annual wages exemption threshold is \$675,000, about twenty times average weekly earnings. When payroll tax was transferred from the Commonwealth to the States in 1971, the exemption threshold was only about three times average weekly earnings (the tax rate was also much lower).

Data from the Australian Bureau of Statistics indicates that the exemption currently applies to about one quarter of wages, salaries and supplements paid by the private and public trading enterprise sectors.

*Medium Business Concessions (\$83.0 million)*

Employers with annual payrolls of between \$675,000 and \$5,625,000 currently benefit from concessional payroll tax rates. Under the original State payroll tax scale in 1971, there was a single marginal rate of payroll tax, which applied to all wages in excess of the exemption threshold.

*Non-grossing Up of Fringe Benefits (\$13.5 million)*

Unlike under the Federal Fringe Benefits Tax legislation, only the non-grossed up value of fringe benefits is currently liable for payroll tax. This means that there may still be some payroll tax advantage to an employer in substituting non-cash benefits for cash wages.

*Apprentices and Trainees Exemption (\$6.0 million)*

An exemption for wages paid to first year apprentices was introduced in 1983-84 and extended to all apprentices in 1993-94. An exemption for wages paid to Australian Traineeship trainees was introduced in 1985-86 and extended to Career Start and Australian Vocational Training System trainees from 1 January 1994.

These exemptions were aimed at promoting youth employment.

**Land Tax and Metropolitan Region Improvement Tax (MRIT)**

The benchmark tax base is assumed to include all residential, agricultural, industrial and commercial land (but only such land in the metropolitan region, in the case of MRIT). The benchmark tax scale is assumed to be the land tax and MRIT scales that actually applied in each year.

*Principal Place of Residence Exemption (\$196.5 million)*

Owner-occupied homes were exempted from land tax (with the exemption automatically flowing through to MRIT) in Western Australia in 1971, largely on the grounds that home owners had a lesser "capacity to pay" than commercial land owners. However, New South Wales recently extended land tax to owner-occupied residential homes which are above a certain value.

*Primary Production Exemption (\$26.0 million)*

This exemption currently applies to all agricultural, horticultural, viticultural and other specified primary production land outside the metropolitan region (also to some such land within the metropolitan region, subject to the owner meeting certain conditions). It was introduced in 1958, when the price of certain primary products fell substantially.

*Land Developers' Concession (\$3.0 million)*

From 1 July 1996, residential land developers have been charged land tax and MRIT only in respect of the en globo (unsubdivided) value of lots produced during the previous financial year, which remain unsold at 30 June. The concession was introduced to encourage an increase in buffer stocks of residential land.

**Financial Institutions Duty (FID)**

The benchmark tax base is assumed to be all receipts of money by financial institutions for credit to customers' accounts, or the financial institution's own internal income accounts (but not short term money market accounts). The benchmark tax rate is assumed to be the current general rate of 6 cents per \$100 deposited.

*Maximum Duty Limit (\$21.5 million)*

Large depositors currently benefit from a maximum FID charge of \$1,200, where the deposit exceeds \$2 million. The maximum charge helps to ensure that "large volume, low margin" transactions are not unfairly penalised, although there are separate concessional arrangements for short term money market transactions.

The estimate of the revenue foregone by allowing this "cap" is based on a survey by a major bank in this State, although that survey is now some years old. It is also subject to some uncertainty, to the extent that depositors may in some cases choose to bank the funds outside the State, if only Western Australia removed the "cap".

*Social Security Payments Exemption (\$2.5 million)*

Direct credits of social security payments to recipients' accounts were exempted in 1985, at the instigation of the Commonwealth (which wanted to encourage direct credits in place of cheques). Deposits of other income by social security recipients are still liable for FID, and there is no general policy of tax exemptions for social security recipients at State Government level.

**Stamp Duty on Conveyances**

The benchmark tax base is assumed to be all sales of residential, agricultural, industrial and commercial land, buildings, chattels (sold in conjunction with property), mining tenements, business goodwill and other generally recognised "property". The benchmark tax scale is assumed to be the scale that actually applied in each year (significant rate increases took effect in 1998-99).

*Corporate Reconstructions Exemption (\$11.0 million)*

An exemption for transfers of property between commonly owned companies was introduced from 1 October 1996, as a business efficiency measure. The estimate of the tax expenditure is based on the value of claims for the exemption, and assumes that only one third of corporate reconstructions would proceed in the absence of an exemption (based on a somewhat arbitrary Commonwealth Grants Commission estimate).

Thus, the gross notional cost of this exemption is estimated to be \$33 million in 1998-99.

*Family Farms Exemption (\$4.0 million)*

Transfers of farms between family members were exempted from 1 January 1995, to encourage transfers of farm ownership to family members considered more likely to introduce more innovative and efficient farming techniques (eg. the younger generation). More recently, the exemption has been extended to transfers of farms into discretionary family trusts.

It is assumed, somewhat arbitrarily, that only half of such transfers would proceed if no stamp duty exemption were provided. Thus, the gross notional cost of this exemption is estimated to be \$8 million in 1998-99.

*Chattels Exemption (minimal)*

Western Australia became the last State to extend its conveyance duty base to most chattels (eg. portable furnishings and equipment) sold in conjunction with real property, in its 1998-99 Budget. The remaining chattels exemption is limited primarily to trading stock, livestock and other chattels used in farming, which also remain exempt in a number of other States.

*Concessional Rate for Homes and Businesses (\$8.0 million)*

Purchasers of owner-occupied residences and small businesses valued at up to \$100,000 pay a concessional stamp duty rate of 1.5%, compared to the normal rate of between 1.95% and 2.13%. The concessional rate phases out for properties valued between \$100,000 and \$135,000.

This concession was originally introduced in 1981, at a time of high inflation and associated high property values. It was extended in 1989, and again in last year's budget.

*\$500 Rebate for First Home Buyers (\$1.5 million)*

First home buyers can claim a \$500 stamp duty rebate on homes valued at up to \$135,000 in the south of the State, and \$202,500 in the north of the State. A rebate of up to \$500 also applies to the purchase of land (for a first home) valued at up to \$52,000.

The rebate was first introduced in 1989, at a time of high mortgage interest rates and low home affordability, and extended in last year's budget.

## **Stamp Duty on Insurance Policies**

The benchmark tax base is assumed to be all classes of insurance policies, other than life insurance. The benchmark tax rate is assumed to be the general insurance stamp duty rate applicable in each year, being 8% of the premium in 1998-99 and 5% prior to that.

### *Health Insurance Policies Exemption (\$40.5 million)*

This exemption is long standing and applies to all health insurance policies issued by registered health funds. Notably, all other States are also understood to exempt this class of insurance. The original policy reasons for the exemption are unclear.

### *Motor Vehicle Third Party Concession (\$20.5 million)*

Stamp duty on motor vehicle third party insurance policies is currently a nominal 25 cents per policy. This class of insurance was excluded from a general increase in stamp duty rates on insurance in 1962, in view of the increase in duty payable on comprehensive motor vehicle insurance at that time.

Some other States impose stamp duty at ad valorem rates on this class of insurance.

### *Workers' Compensation Insurance Concession (\$7.0 million)*

Workers' compensation insurance policies have been subject to a concessional rate of duty, currently 5% of the premium (3% prior to 1998-99), since the inception of this category of stamp duties. Notably, some other States have abolished stamp duty on this class of insurance, to help reduce labour on-costs.

### *Transport of Goods; Marine Hulls Exemption (\$1.0 million)*

These exemptions apply to insurance policies for all risks associated with the transport of goods, and for all marine hulls used for commercial purposes. They were introduced in 1986. The reason given at the time was to maintain parity with the other States and thereby improve the competitiveness of Western Australia's insurance industry.

## **Stamp Duty on Mortgages**

The benchmark tax base is assumed to be all residential and commercial loans. The benchmark tax scale is assumed to be the current scale applicable to commercial loans.

### *Concessional Rate for Homes (\$6.5 million)*

The stamp duty rate on loans, including refinancings, for owner-occupied homes is a flat 0.25% of the loan amount, compared to the rate for commercial loans, which rises to 0.4% for amounts above \$35,000. The concession has been in place since 1989 (a time of very high mortgage interest rates), when the upper tier rate for commercial loans was introduced.

## Motor Vehicle Licence Fees

The benchmark fee base is assumed to be all vehicles required to be registered under the Road Traffic Act. The benchmark rates are assumed to be the standard rates applicable under the Act, which were increased in each of the last two budgets.

### *Family Vehicle Concession (\$23.5 million)*

A discount, currently a flat \$28, was introduced for family vehicles on 1 January 1990 (originally it was a discount of \$20, plus exclusion from a general 7% increase in licence fees at that time). The original purpose was to provide assistance to families during an economic down-turn.

### *Primary Producer Vehicle Concession (\$9.0 million)*

Vehicles used on farms only are exempt from licence fees. This would reflect the fact that motor vehicle licence fees in Western Australia are intended to fund expenditure on roads, rather than general government services. A concession of 50% is available to vehicles used to transport produce or farm requirements (limited to one vehicle per farm).

### *Pensioner Vehicle Concession (\$11.5 million)*

Concessions are available to recipients of a pension from the Department of Social Security or the Department of Veterans Affairs. Generally, a 50% concession applies (including for part-pensioners). A 100% concession is available to civilian invalid or veteran invalid pensioners receiving full pensions.

### *Diesel Vehicle Concession (nil)*

A 25% concession for diesel powered vehicles weighing less than 4.5 tonnes, 2-axle diesel trucks, and diesel powered buses was removed on 1 July 1998. The concession was introduced in July 1979 to offset the effect of the introduction of fuel franchise fees (which replaced the Road Maintenance Charge). The franchise fee affected diesel vehicles not previously subject to the Road Maintenance Charge.

The concession was originally set at 50%. It was reduced to 25% from July 1996 when the national uniform heavy vehicle charges were introduced.

### *Intrastate Heavy Vehicle Concession (\$3.0 million)*

A 25% concession for intrastate heavy vehicles was halved to 12.5% on 1 July 1998, and will be withdrawn completely on 1 July 1999. These changes will bring the fees into line with the nationally uniform charges on interstate heavy vehicles.

This concession was introduced in July 1996 to reduce the impact of the national heavy vehicle charges adopted by all States. The national uniform scheme significantly increased charges for vehicles used in combination (truck and trailer).



## **Mining Royalties**

The revenue base is assumed to be all commercial production of minerals and petroleum. The benchmark royalty rates for minerals are assumed to be those specified in the Mining Act, which range from 2.5% for minerals sold in a metallic form, to 7.5% for those sold in relatively unprocessed form.

### *Exemption for Gold (\$52.0 million)*

A gold royalty was introduced on 1 July 1998 (payable quarterly in arrears) at a concessional rate of 1.25% of the value (based on spot prices) of gold produced. A 2,500 ounce annual production exemption threshold also applies. The royalty rate is due to increase to the full rate of 2.5% on 1 July 2000, subject to the spot price of gold exceeding \$A450/oz.

The estimated gold royalty expenditures are based on the 2.5% royalty rate.

### *Iron Ore Agreement Act Concessions (\$44.0 million)*

Under the Mining Act, the standard royalty rates for lump, fine and beneficiated ore are 7.5%, 5.625% and 5.0% respectively. Under Agreement Acts negotiated with most iron ore producers since the 1960s, the royalty rates for non-lump ore are generally only around 3.75%, reflecting the lesser marketability of those ore types in the 1960s and 1970s.

### *Iron Ore Processing Incentives (nil)*

Royalty concessions for downstream processing of iron ore were introduced in 1996, as a measure of the Government's support for more value adding activity. The concessions comprise a discount (from the standard rates in the Mining Act) of 0.5% for ore processed to pellet form, 1.0% for ore processed into direct reduced/hot briquetted iron form, and 2.0% for ore processed into steel. No company has used these concessions to date.

## APPENDIX 16

### STATE GOVERNMENT SOCIAL CONCESSIONS EXPENDITURE STATEMENT

#### Introduction

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 card issued by the State Government. A synopsis of these cards is included at the end of this Statement.

The information in this Statement is mainly compiled from survey forms (developed with the assistance of the Australian Bureau of Statistics) returned to Treasury by 25 agencies that provide social concessions. At this stage, only data for 1997-98 is available.

In 1997-98, the State Government provided social concessions with an estimated value of \$312.7 million, across a range of service areas. The cost to the State was partly offset by a \$13.3 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 the difference between the concession and otherwise applicable price. In others, such as those involving a fixed annual charge, the estimates reflect the rebate or subsidy paid.

#### Energy

##### *Supply charge rebate (\$19.5 million)*

Domestic customers of Western Power who are in possession of a Pensioner Concession Card (PCC), a Health Care Card (HCC) or a State Seniors' Card (SSC) receive a full rebate of the fixed (daily) supply charge. The average value of the rebate per recipient is approximately \$84 per year.

##### *Dependent child rebate (\$11.6 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 \$180 per year.

##### *Other (\$1.1 million)*

Other concessions include Western Power's rebate on *account establishment fees* and *power meter testing fees*, for holders of a PCC, HCC or SSC.

**SUMMARY OF STATE GOVERNMENT SOCIAL CONCESSIONS 1997-98**

Class of Concession	Estimated Total Value \$m	Estimated Number of Recipients
<b>ENERGY</b>		
Supply charge rebate	19.5	231,473
Dependent child rebate	11.6	64,499
Other	1.1	n.a.
<b>WATER, SEWERAGE &amp; DRAINAGE</b>		
Rates rebate for pensioners	19.0	97,238
Consumption concession for pensioners	4.0	121,988
Rates rebate for Seniors	2.2	24,038
Other	0.1	n.a.
<b>HOUSING AND LAND</b>		
Homeswest rental subsidy	88.6	29,384
Homeswest right to buy subsidy	3.8	234
Stamp duty concession for homes and small business <sup>(a)</sup>	1.5	8,173
Homeswest amenities fee waiver	1.1	14,156
First home buyers' stamp duty rebate <sup>(a)</sup>	1.0	1572
Homeswest cash assistance grant	0.9	590
Other	0.3	n.a.
<b>LOCAL GOVERNMENT</b>		
Rates rebate for pensioners	19.9	93,590
<b>TRANSPORT</b>		
Contract school bus services	45.3	22,300
Transperth fares concession	30.7	76,500
Motor vehicle licence fee concession <sup>(a)</sup>	7.0	128,748
Student fares concession	5.2	5,890
Taxi user subsidy	4.2	1,408
Drivers licence fee concession	1.7	63,000
Subsidised student travel	1.3	770
Pensioners' annual free trip	1.0	1606
Other	5.0	n.a.
<b>HEALTH</b>		
Subsidised dental care	9.9	39,508
Spectacle subsidy scheme	2.3	48,121
Other	2.2	n.a.
<b>EDUCATION</b>		
Secondary assistance scheme - school charges	4.9	26,061
Secondary assistance scheme – clothing	3.1	26,061
Department of Training tuition fees concession	2.4	19,764
Boarding away from home allowance	1.2	2,500
Other	0.6	n.a.
<b>LEGAL SERVICES</b>		
Legal assistance	8.4	22,552
Other	0.1	n.a.
<b>CULTURE, LEISURE &amp; RECREATION</b>		
Children's Zoo discount	0.5	107,637
Other	0.9	n.a.
<b>OTHER</b>		
Various	0.1	n.a.
<b>TOTAL</b>	<b>312.7</b>	<b>n.a.</b>

(a) Also included in Tax and Royalty Expenditure Statement.

**Water***Rates rebate for pensioners (\$19.0 million)*

Home-owners in possession of a PCC or a State Concession Card (SCC) receive a rebate of 50% of the Water Corporation's annual charges for water, sewerage and drainage services. The average value of the rebate per home-owner is \$195 per year.

*Consumption concession for pensioners (\$4.0 million)*

Holders of a PCC or a SCC receive a rebate of 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 concession per recipient is \$32 per year.

*Rates rebate for seniors (\$2.2 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. The average value of the concession is \$93 per year.

*Other (\$0.1 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 (\$88.6 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 \$3,000 per year.

*Homeswest right to buy subsidy (\$3.8 million)*

Homeswest's low-income tenants receive a discount of up to \$20,000 to assist them to purchase their rental property.

*Stamp duty concession for homes and small business (\$1.5 million)*

In 1997-98, purchasers of homes and small businesses valued at less than \$85,000 paid a concessional stamp duty rate of 1.5%, compared to the normal rates (at the time) of between 1.75% and 1.79%. The concession was expanded in 1998-99 (see also the Tax and Royalty Expenditure Statement).

*Homeswest amenities fee waiver (\$1.1 million)*

Homeswest's low-income tenants over 55 years of age are exempted from the amenities fee for room heating. The average value of this concession per recipient is \$77 per year.

*First home buyers' stamp duty rebate (\$1.0 million)*

In 1997-98, first homebuyers who purchased a home valued at no more than \$85,000 could claim a stamp duty rebate of \$500. For first homes purchased north of the 26<sup>th</sup> parallel, the threshold house value for the rebate was \$127,500. The concession was expanded in 1998-99 (see also the Tax and Royalty Expenditure Statement)

*Homeswest cash assistance grant (\$0.9 million)*

People with disabilities and Aboriginal and Torres Strait Islanders who wish to buy their own homes may receive a cash grant from Homeswest. The average value of a grant is \$1,580.

*Other (\$0.3 million)*

Other housing and land concessions include the Department of Land Administration's *deferral of land rent payments*.

**Local Government***Rates rebate for pensioners (\$19.9 million)*

The State Revenue Department pays local governments 50% of rates for persons who own and occupy their own home and hold a PCC or SCC. Local governments pass this benefit on to pensioners by discounting their rates. The average value of the concession is \$213 per year.

**Transport***Contract school bus services (\$45.3 million)*

Full-time students aged less than 19, who attend an approved school and reside more than 4.5 kilometres from the closest school and more than 1.5 kilometres from a public transport route, travel free of charge on contract school bus services. The Department of Transport funds these services. The average value of the concession per student is estimated to be \$5 per journey, or about \$2,000 per year.

*Transperth fare concessions (\$30.7 million)*

Children, students and holders of a PCC or SSC receive discounts of between 50% and 60% on Transperth fares. The average value of the concession per recipient is \$1 per journey.

*Motor vehicle licence fee concession (\$7.0 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 more than \$50 per year.

*Student fares concession (\$5.2 million)*

Full-time students pay concessional fares for regular non-Transperth “school bus” passenger transport services. The average value of the concession is \$2.15 for each fare.

*Taxi user subsidy (\$4.2 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 Transport. The average value of the concession is \$8 per trip.

*Drivers licence fee concession (\$1.7 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 \$27 per year.

*Subsidised student travel (\$1.3 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 Transport funds this concession. The annual value of these return trips averages \$1,653 per recipient.

*Pensioners’ free annual trip (\$1.0 million)*

Holders of a PCC who live north of the 26<sup>th</sup> 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 Transport funds the concession, the average value of which is \$598 per recipient.

*Other (\$5.0 million)*

Other transport concessions include the *intra-town* and *inter-town travel concessions* for pensioners and seniors.

**Health***Subsidised dental care (\$9.9 million)*

Holders of a PCC receive a discount on dental work provided by the Government Dental Clinic. The discount is generally 75% of standard fees (20% of standard fees for orthodontic services). The average value of the concession is \$125 per treatment.

*Spectacle subsidy scheme (\$2.3 million)*

Age pensioners, disability pensioners and holders of a SSC receive a subsidy from the Health Department to acquire spectacles or contact lenses. The average value of the concession per recipient is \$48.

*Other (\$2.2 million)*

Other health concessions include the *country patients' dental health scheme* and the *patient assisted travel scheme*.

**Education***Secondary assistance scheme for school charges (\$4.9 million)*

The Education Department provides assistance of between \$150 and \$215 (depending on the year of schooling) to low-income families with secondary school children, to meet school charges.

*Secondary assistance scheme for clothing (\$3.1 million)*

The Education Department provides assistance of \$115 per annum to low-income families with secondary school children to meet clothing costs associated with schooling.

*Department of Training tuition fees concession (\$2.4 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 \$1.55 per hour of tuition.

*Boarding away from home allowance (\$1.2 million)*

Families in receipt of Commonwealth assistance for geographically isolated students receive a \$500 concession each year from the Ministry of Education.

*Other (\$0.6 million)*

Other education concessions include the *needy child grant*.

**Legal Services***Legal assistance (\$8.4 million)*

Provision of subsidised legal services by the Legal Aid Commission 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 the *waiver of fees* in the small claims tribunal for financially disadvantaged persons, and a *reduction or waiver of court fees* for full-time students.

**Culture, Leisure and Recreation***Children's Zoo discount (\$0.5 million)*

Children between 4 and 15 years of age receive a 50% discount on the entry fee for the Perth Zoo. The value of the discount is \$5 per child for each visit. It could be argued that this is a commercial concession (rather than a social concession), to the extent that the lower entry fee for children maximises overall income for the zoo.

*Other (\$0.9 million)*

Concessional fees etc 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 Rottneet Island Authority. Again, some of these concessions may be of a more commercial than social nature.

**Eligibility Criteria for Concession Cards***Pensioner Concession Card (PCC)*

The Commonwealth Government issues a PCC to long term welfare recipients. 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. For example, to receive at least a 'part' age pension, and thereby remain eligible for a PCC, a single aged person must earn less than \$833.60 per fortnight and own assets (excluding their home) of less than \$248,250 (or \$338,250 in the case of non-home-owners).

*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. For example, to receive the full family allowance, and thereby remain eligible for a HCC, family income must be less than \$23,550 per year (in the case of a family with one child) and family assets must not exceed \$410,000.



*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 Western Australian Department of Family and Children's Services 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.

## CHAPTER 4

# MICROECONOMIC REFORM IN WESTERN AUSTRALIA

### HIGHLIGHTS

- Western Australia received its 1998-99 payments from the Commonwealth in full for meeting its National Competition Policy obligations and has submitted its report to the National Competition Council for the assessment that will determine 1999-2000 payments.
- Substantial progress has been made on the National Competition Policy legislation review program. 78 legislation reviews have been completed, more than half of which recommend reform.
- The implementation of access arrangements covering significant infrastructure in the gas, electricity and rail sectors of Western Australia has been progressed. This includes the establishment of the Office of Gas Access Regulation to oversee fair and reasonable terms for access to gas pipelines.
- The Cabinet Government Management Standing Committee (GMC) endorsed the Competitive Neutrality Complaints Mechanism that deals with allegations of non-compliance by public sector agencies with competitive neutrality in Western Australia.
- The Government is implementing a new policy for electricity supply in remote areas of the State, which encourages the introduction of private generation and brings more competition into the market.
- The Government announced its intention to sell the freight business of the Western Australian Government Railways Commission (Westrail), and the State's gas utility, AlintaGas.

### OVERVIEW

Microeconomic reform is about increasing efficiency and productivity, and improving the competitiveness of business in order to increase living standards.

At the broad level, improving the productivity of resources leads to businesses obtaining cheaper and/or better quality inputs; developing new and better products and services; becoming more competitive, both domestically and internationally; and having greater capacities to adjust to changes in economic conditions.

Microeconomic reform benefits consumers through lower product prices, improved product quality and increased choice. Businesses that face competitive pressures have greater incentives to search out exactly what characteristics of the product consumers value. This is because the more consumers value a product, the more they will be willing to pay for it.

Competition will also generate a wider range of products and choice for consumers. Businesses will have a greater incentive to innovate and develop new products and differentiate existing products when markets are competitive.

Lower prices from microeconomic reform and competition in general have a flow on effect throughout the economy as businesses and consumers have increased disposable income for consumption and investment.

The Western Australian Government's ongoing program of microeconomic reform continued through 1998-99. Progress achieved has built upon the substantial reform that the Western Australian Government has already undertaken - particularly in the key industries of energy and transport. In the main, microeconomic reform has more recently been focused on fine tuning arrangements to even further enhance the competitiveness of the environment in which the major utilities operate, as well as progressing Western Australia's obligations under National Competition Policy. Importantly, the Government has also announced additional assets sales.

A variety of benefits is emerging from the Western Australian Government's reform program, in particular from opening up to competition services previously provided by public utilities on a monopoly basis. These benefits include improvements in efficiency, reflected in lower prices or lower costs to the taxpayer in the case of subsidised services, and increased quality of service and range of price/service combinations available to consumers. For example, residential gas tariffs have fallen in real terms each year since 1992-93. At the same time, AlintaGas' response to faults within 1 hour has increased from 91.2 per cent in 1994-95 to 99.2 per cent in 1997-98.

As a result of government requirements for commercial operation and the threat of competition, service provision by public utilities is clearly becoming more customer-focused rather than being predominantly supply or technology driven as it has sometimes been in the past.

Introduction of competition and structural reform is particularly important in markets providing significant inputs to industry, such as energy and transport. As prices for these inputs come down, existing industries become more competitive at the local, national and international level, while it becomes more viable for businesses to start up or expand into new value adding industries.

## **NATIONAL COMPETITION POLICY - OBLIGATIONS AND PAYMENTS**

In July 1998, the National Competition Council (NCC) assessed Western Australia's performance in implementing National Competition Policy (NCP) and recommended that the Commonwealth Government pay Western Australia, in full, its competition policy-related payments in accordance with the inter-governmental agreement. The recommendation was accepted and, consequently, Western Australia will receive \$21.2 million in competition payments and an additional \$35.8 million in Financial Assistance Grants during 1998-99.

The NCC's July 1998 assessment found that Western Australia had fully met its first tranche commitment. The NCC did not identify any problems with Western Australia's legislation review and competitive neutrality programs, expressing a general finding that satisfactory progress was being made in these areas.

The NCC found that the State had satisfactorily resolved matters that had been of concern to the NCC, by undertaking actions such as:

- Examination of a sample of the State's resource development agreement Acts in line with a 1997 undertaking to the NCC;
- The open and competitive expressions of interest process for the construction of additional north-west to south-west gas pipeline capacity; and
- A comprehensive competitive neutrality program with respect to local governments.

The NCC will again assess Western Australia's performance prior to July 1999. This assessment will be broad ranging focusing on the major areas of NCP, in particular, legislation review, application of competitive neutrality principles, structural reform, and the related reforms in the areas of electricity, gas, water and road transport.

A report outlining Western Australia's substantial progress in reforming these areas during 1998-99 has been forwarded to the NCC. Competition policy-related payments from the Commonwealth are worth \$43.7 million in specific competition payments and \$53.4 million representing the per capita growth component of Financial Assistance Grants during 1999-2000.

It is important to recognise that NCP does not require removal of all restrictions on competition. Restrictions are retained where they are on balance in the public interest, taking into account a wide range of matters such as public health and safety, social welfare, environmental protection, consumer protection, regional development and employment growth.

## **REVIEW OF LEGISLATION**

The review of legislation to determine whether restrictions on competition are in the public interest is an important part of the National Competition Policy reform program. Both existing and new legislation and regulations are being reviewed in accordance with clause 5 of the Competition Principles Agreement.

Legislation reviews are done in accordance with the State's Legislation Review Guidelines, which are designed to achieve robust reviews through a balanced and independent process. The process includes the requirement that all interested parties should have the opportunity to provide input to reviews, generally by responding to requests for submissions or by way of targeted consultation. The Guidelines also require that where there are strongly held and divergent views in the community, the review should be conducted by an independent body such as a consultant or, for significant reviews, a panel comprising a balanced and representative range of stakeholders.

The focus of each review of a restriction on competition is whether the restriction offers net benefits to the public. The public interest case for retaining or removing restrictions has been analysed rigorously in all of the completed reviews. In reviews completed thus far, more than half the identified restrictions have been found to offer overall benefits to the public, leading to recommendations that they be retained.

The matters that can be taken into account as being in the public interest are not limited. Restrictions that have been found to be in the public interest, and therefore recommended for retention, relate to:

- Public health and safety concerns (boxing, railways and ports);
- Social welfare considerations (pensioner concessions);
- Environmental protection (Rottneest Island, the *Environmental Protection Act*);
- Consumer protection (labelling of fertilisers); and
- Compulsory producer levies for provision of public goods (plant disease eradication and poultry industry standards).

Removal of a restriction is recommended only where the costs of the restriction outweigh the public benefits, if any, offered by the restriction.

Western Australia is making strong progress towards completing its reviews in accordance with the national review timetable. 78 reviews have been completed and a further 37 are under way.

## REFORMS TO BE IMPLEMENTED

The review program to date has resulted in a number of recommendations to remove restrictions, some of which will involve significant reforms. Benefits from implementing the reforms will include not only cost reductions and price savings but also improvements in businesses' and consumers' choice and quality of products and services. Legislative reform is the end product of a thorough and public review process, followed by Cabinet consideration of any resulting proposals for reform. Over the period 1997 to 2000 all laws with the potential to restrict competition will be reviewed and it is expected that pro-competitive reforms will continue to be implemented during this time.

Some of the more significant reforms to date are:

- The repeal of the *Bread Act 1982* will remove a number of onerous restrictions on competition, including removal of:
  - licensing requirements for bake-houses;
  - restrictions preventing the choice of the time at which bread can be delivered; and
  - requirements for marking vehicles used for delivering bread.
- Changes to the *Betting Control Act 1954* will enable bookmakers to compete with the Totalisator Agency Board on a more level footing with the removal of several restrictions on their activities;

- The review of the *Painters Registration Act 1961* found that the current system of mandatory licensing is too restrictive and should be removed. The review recommended that a certification scheme be developed to allow consumers to readily identify painters who possess particular skills. It is proposed that the certification be supported by a system of negative licensing allowing for the removal of persons from the industry who do not adhere to basic standards of commercial conduct. These changes will reduce business costs but will still enable some control of the industry and certainty for consumers. This scheme will provide consumers and employers with better information to recognise and choose painters with particular skills and experience;
- Changes to the *Licensed Surveyors Act 1909* will reduce the risk that the Board will restrict competition by unnecessarily refusing people entry to the surveying profession. The changes provide a clearer definition of what constitutes “good fame and character”, with particular regard to any previous criminal record including business fraud and/or dishonest business practices. It is accepted that being “of good fame and character” is an appropriate test for admission to the profession of surveyors, but it is undesirable that the expression is open to the Licensing Board’s interpretation. This change has the potential to provide clients with more surveyors to choose between while ensuring required standards are maintained;
- Recommended reform to the *Sandalwood Act 1929* will reduce the barriers to private land owners entering the sandalwood industry. In particular it will remove an arbitrary constraint on harvesting from private land while retaining restrictions relating to sustainable rates of harvest;
- The review of the *Hire-Purchase Act 1959* has recommended the repeal of most of the Act, which will remove the arduous reporting and documentation requirements imposed on providers of hire purchase and make the requirements in Western Australia more consistent with other jurisdictions;
- Recommended reforms will make the *Valuation of Land Act 1978* less prescriptive as to eligibility criteria to make valuations for rating or taxing purposes and thereby allow greater potential choice in engaging valuers. In relation to the Valuer General’s information gathering powers, a mechanism will also be introduced to allow the Minister to publicly release this information where it is in the public interest to do so;
- The review of the *Law Reporting Act 1981* recommended that the current system (under which law reports cannot be published without prior written approval of the Attorney General) be replaced with a negative licensing system that gives blanket authorisation to anyone to publish law reports while preserving the Attorney General’s right to revoke, vary or withdraw authorisation. Reducing the barriers to entering the law report publishing market could lead to greater consumer choice in acquiring law reports. The review has also recommended adoption of a more competitive tender process and contractual period for arrangements under which the series of Authorised Reports are published; and
- The review of the *Government Railways Act 1904* recommended amendments to reduce the Commission’s powers to determine who may seek access to rail, set conditions for carriage of goods by other railway operators and license other transport operators. The review also recommended changes which will require the Commission to operate on a level playing field with other transport operators. This will help to promote competition with other transport operators.

## STATUTORY MARKETING AUTHORITIES

The legislation review program includes nine Acts governing the activities of agricultural Statutory Marketing Authorities (SMAs) and related agricultural marketing authorities which have been reviewed or are presently being reviewed. For example, reviews of the legislation governing the activities of Golden Egg Farms and Western Potatoes are currently under way and completed reviews include dairy, dried fruits and chicken meat.

The main purpose of most of this legislation is to protect growers (who individually have very little market power) from the actions of wholesalers and retailers who generally have much larger businesses and considerably more market power.

The review of the *Chicken Meat Industry Act 1977* and Regulations found that there is a public interest in ensuring that growers have sufficient market power to prevent anti-competitive behaviour by processors. However, analysis of less restrictive alternatives led to the recommendation that rather than being part of a compulsory single contract for all growers, the growers' contracts would be voluntary. This will mean that growers can choose to negotiate directly with processors if they think this will better serve their interests.

Similarly in the case of the *Marketing of Meat Act 1971*, the statutory monopoly of lamb exports will be removed and replaced by a grower-owned cooperative which will market and process a range of sheep meat and other meat products.

While protecting the market position of growers, the new arrangements give growers the choice of opting out and marketing their products individually which may increase competition and improve the opportunity for innovation, leading to lower prices and greater product choice for consumers. Clearly, if cooperatives are able to achieve higher prices for their members through their market power then they are likely to retain the majority of growers.

The review of the *Dried Fruits Act 1947* recommended that the Act be repealed on the grounds that the costs of maintaining the Dried Fruits Board outweighed the benefits arising from its activities.

## COMPETITIVE NEUTRALITY

Competitive neutrality involves the introduction of measures that effectively neutralise any competitive advantages and disadvantages of a business activity of Government (relative to actual or potential competitors in the private sector) which arise purely as a result of Government ownership of the activity. Its aim is to foster the allocation of resources in the economy to where they can be used to their best effect. Under the National Competition Policy, competitive neutrality needs to be implemented only to the extent that the benefits to the community outweigh the costs.

Competitive neutrality can be implemented through a variety of reform packages, ranging from complex and comprehensive packages (eg corporatisation and commercialisation) to simple and specific reforms (eg full cost pricing or targeting material individual advantages or disadvantages). The reform package selected for a particular government business activity will depend on the nature and characteristics of the activity.

## **IMPLEMENTING COMPETITIVE NEUTRALITY**

The principle of competitive neutrality is an integral component of the State's policy of reforming its government owned businesses in order to achieve greater organisational and economic efficiency in Western Australia, and substantial progress has been made to date. In this regard, the State's largest government enterprises were subjected to competitive neutrality prior to 1998–99 - Western Power, AlintaGas, the Water Corporation and Port Authorities have all been subject to commercialisation principles. Collectively, these government businesses account for more than 80 per cent of business revenues earned by the Government.

More recently, Western Australia has begun to focus its competitive neutrality review effort on smaller agencies. Most noticeably, as a result of competitive neutrality reviews, LandCorp and the Western Australian Treasury Corporation became subject to commercialisation principles in 1998. Gold Corporation has also recently completed its review and significant reforms have been recommended for the Government's consideration.

A number of other significant government owned businesses are scheduled to complete their competitive neutrality reviews before 30 June 1999, including the Lotteries Commission, Totalisator Agency Board, Insurance Commission of Western Australia, the Public Trust Office, the Rottneest Island Authority and Homeswest.

In addition to the initiatives arising from specific competitive neutrality reviews, several issues have been addressed in a more generic way. In this regard, all government business activities (whether in the general government or Public Trading Enterprise [PTE] sectors) are currently subject to a loan guarantee charge, which was introduced in 1992-93. The majority of PTEs (including Westrail, the Port Authorities and LandCorp) entered the tax equivalent regime on 1 July 1996. In addition, a dividend policy was introduced for the Ports and Westrail in 1996-97, and since then Westrail has received funding from the Consolidated Fund for community service obligations (CSOs) that it performs on behalf of the Government.

## **COMPETITIVE NEUTRALITY COMPLAINTS MECHANISM**

In October 1998, the GMC endorsed the Competitive Neutrality Complaints Mechanism that deals with allegations of non-compliance with competitive neutrality by public sector agencies in Western Australia.

Responsibility for handling complaints lies with the GMC. A Competitive Neutrality Complaints Secretariat (the Complaints Secretariat) situated within Treasury provides administrative support to the GMC.

The complaints handling process involves complainants initially making contact with the agency alleged not to be complying with competitive neutrality to discuss (and, if possible, resolve) the allegation. If resolution of an allegation of non-compliance cannot be reached through such discussion, complainants can then lodge a complaint in writing to the Complaints Secretariat. Allegations of non-compliance need to be accompanied by sufficient evidence to establish a prima facie case for investigating an agency's pricing strategy, cost structure and behaviour.



The Complaints Secretariat is responsible for the initial screening of the complaint. The Secretariat will determine whether the complaint falls within the scope of the complaints mechanism and warrants further investigation. Where a complaint is accepted the Complaints Secretariat will carry out consultation and investigation on behalf of the GMC. Once the investigation has concluded, the Complaints Secretariat will report its findings to the GMC. The report will contain an assessment of whether the Government agency enjoys a competitive advantage by virtue of its ownership by Government, and whether the removal of this advantage is in the public interest.

Where the Complaints Secretariat concludes there has been no breach of competitive neutrality and the GMC concurs with that recommendation, the Complaints Secretariat will advise the complainant in writing of this outcome. There is no appeal mechanism.

Where the GMC concurs with a finding by the Complaints Secretariat that there is a breach of competitive neutrality then the GMC may determine that the competitive advantage should be removed.

The GMC will decide on a case by case basis what action should be taken if an allegation of non-compliance is proven, taking account of the seriousness and nature of the non-compliance. Corrective action will be restricted to directions to remove any outstanding competitive advantages. Monitoring implementation of any Government decision with respect to the removal of competitive advantages will be undertaken subsequently by the Treasury.

## **ACCESS TO ESSENTIAL INFRASTRUCTURE**

### **PROGRESS IN ACCESS ARRANGEMENTS**

The implementation of access arrangements covering significant infrastructure in the gas, electricity and rail sectors of Western Australia has been significantly progressed.

- The *Gas Pipelines Access (Western Australia) Act 1998* came into effect, providing a framework for negotiation of access to gas pipelines and enabling competition in the sale of gas to end users to be phased in over time. The Government has applied for certification of the gas access regime as an "effective" regime under competition laws.
- The Office of Gas Access Regulation (OffGAR) was established as the independent regulator of the gas pipeline industry and to oversee negotiation of fair and reasonable terms for access to gas pipelines.
- The *Government Railways (Access) Act 1998* was enacted, providing a framework for access to a range of facilities operated by Westrail. The Government has applied for certification of the rail access regime as an "effective" regime under competition laws.
- Access to Western Power's electricity distribution network is being phased in commencing with high volume customers. Since 1 July 1998, providers have been able to compete for the business of customers purchasing an average of 5MW (43,800 MWh per year), falling to an average of 1MW (8,760 MWh per year) from 1 January 2000. Since 1 January 1997, Western Power's high voltage transmission network has been fully open to access by third parties.

- In regional areas, introduction of competition has been accelerated. Since 1 January 1999, providers have been able to obtain access to Western Power's regional networks in order to compete for customers purchasing 300,000 kWh per year.

These access arrangements are discussed in more detail in the Sectoral Reform Section.

### **WHY ACCESS IS IMPORTANT**

A central principle of competition policy is the provision of rights of access to infrastructure that is of national significance. Infrastructure that can fall into this category includes telecommunications networks, gas pipelines, electricity transmission and distribution networks, railway tracks, water and sewerage pipeline networks, seaports and airports.

Rights of access to infrastructure are a particularly important part of national competition policy in a resource-rich State such as Western Australia. Greater competition in energy supply in particular can have huge benefits given the State's vast gas supplies and opportunities for further processing of minerals. For example, access arrangements can greatly reduce energy prices, leading to lower input costs to business and lower prices to consumers. This effect is wide-ranging because of the many products for which energy is a significant input. Furthermore, Western Australia can be expected to become much more competitive in industries that add value to the State's mineral resources. This provides an important strategic opportunity for State development.

In the absence of a right to access, an infrastructure owner may have the ability to restrict competition in markets either upstream or downstream of the infrastructure. For example, if the owner of a distribution facility for a particular product refuses to allow a potential competitor to purchase capacity to distribute the product, the competitor has no means of competing in the retail market for the product, short of duplicating the infrastructure required to distribute it. Where it is uneconomic to duplicate the infrastructure, it may be appropriate to implement an access regime.

Once an access regime is in place, the competitor has the option of seeking access, on reasonable terms and conditions, to the infrastructure. Competition is thereby promoted by removing the potential for anti-competitive behaviour by the infrastructure owner.

Under competition policy, access regimes are to be implemented for both privately and publicly owned infrastructure. In many sectors, public ownership of infrastructure has traditionally been accompanied by restrictions on private sector participation in the sector. Accordingly, provision of access is often accompanied by deregulation, involving a complete or partial lifting of these restrictions.

The Western Australian Government continues to make significant progress in providing access to key infrastructure. The State's electricity, rail and gas markets have been deregulated to allow private sector participation in these sectors, and progress continues towards implementing access regimes. Progress in each of these sectors is discussed below, following a brief outline of the national framework for access matters.

## OVERVIEW OF THE NATIONAL ACCESS FRAMEWORK

Part IIIA of the Commonwealth *Trade Practices Act 1974* sets out the various means by which access can be obtained to services provided using significant infrastructure facilities. The four routes by which access can be obtained are:

- Individual, unregulated commercial negotiation between the parties;
- Declaration of a service by the designated Minister, who is the Premier where the service is provided by a State body and a Federal Minister otherwise. Declaration brings a service under the coverage of a national access regime regulated by the Australian Competition and Consumer Commission;
- Negotiation on the basis of an access undertaking registered with the ACCC by the service provider; and
- Negotiation on the basis of an access regime developed by the State Government for services provided by infrastructure within the State and certified as “effective” by a Federal Minister.

## SECTORAL REFORM

The West Australian Government recognises the need to create a more competitive economy that is able to grow faster and adjust more rapidly to national and international developments. To this end, the Government remains committed to ongoing microeconomic reform, with a particular focus on reforms to government trading enterprises.

In this regard, public utilities play a key role in the economy as providers of essential services to businesses and households. Ongoing improvements in the efficiency and effectiveness of public utilities are therefore vital to the competitiveness of the economy and to increased living standards. Reforms are occurring through the removal of commercial advantages (and disadvantages) applying to government businesses, organisational restructure of government businesses (including the separation of regulatory and policy functions) and opening of natural monopoly infrastructure to competing service providers. In addition, the Government has made significant announcements in relation to the privatisation of government owned businesses.

These initiatives are all designed to ensure that consumers receive services traditionally provided by government businesses in the most efficient and cost effective way. The Government's reforms are resulting in lower prices, improved and more responsive services, savings to the taxpayer, and a more accountable and transparent delivery of community services. In addition, the reform process enables resources to be 'freed-up' and directed into other community services, such as health and education.

Western Australia's progress with reform is proceeding as part of a package - with third party access arrangements being developed and the application of competitive neutrality, commercialisation, and privatisation where appropriate. Recent initiatives are discussed below, along with some of the benefits that have emerged from the wider reform program.

## **ELECTRICITY**

### **Recent Initiatives**

The Western Australian Government continues to build on the extensive reforms already undertaken in the electricity industry. In June 1998 the Government announced a new policy for electricity supply in remote areas of the State, which aims to encourage the introduction of private generation and bring more competition into the market. The regional power supply strategy applies to 29 regional locations outside the grid system and maintains the Government's commitment to the uniform tariff for all 14,300 residential customers and 4,500 small to medium sized businesses supplied in the regions by Western Power.

The focus of this new policy is to reduce the reliance on cross-subsidisation to fund the uniform tariff policy. This goal is to be facilitated through reducing the costs of supplying electricity to remote areas. In this regard, the new regional policy involves tenders for private sector generation, accelerated access arrangements, and energy efficiency initiatives.

Western Power has begun a competitive tender process by calling for expressions of interest from private companies to establish new power generation plants in regional areas. Strong interest has been shown, with 15 expressions of interest in the West Kimberley (of which 10 have been short-listed), 12 in the Mid West (of which 7 have been short-listed) and 23 for the Esperance/Hopetoun region. Of the 10 companies invited to submit a bid in the West Kimberley, 6 have put in a bid for the supply of electricity to Western Power.

Private sector generators may be able to achieve a lower cost of supply than Western Power, and will be an alternative source of electricity for those customers who can be supplied by third parties. The Government may also make a once-off investment in energy infrastructure to allow the cost of supply to be reduced.

From 1 January 1999 all large regional power customers with electricity consumption above 300,000 kWh annually became contestable (able to be supplied by third parties) and can enter into contract-based supply. In addition, tenants in regional fishing boat harbours and shopping centres can choose to receive a direct power supply from Western Power, rather than entering into a sub-metering system.

More comprehensive energy efficiency advice will be provided to commercial users in regional areas, as well as energy audits and information brochures. This aims to ensure that electricity customers, especially large commercial users in regional areas, recognise the need to use energy wisely considering the significant cost of generation in remote areas of the State.

### *Electricity Access Arrangements*

Western Australia is prevented by distance from participating in the national electricity market, or national grid, which is the major vehicle for electricity access reform at a national level.

Within the State, progress is being made towards promoting competition in the electricity transmission and distribution markets. Initially the focus is on increasing the ability of potential suppliers to obtain access to Western Power's existing electricity network in order to supply electricity to their own customers.

In this regard, access by third parties to Western Power's electricity transmission network commenced on 1 January 1997, when all consumers taking supply at 66 kV and above became eligible to purchase electricity from the supplier of their choice. Access to Western Power's electricity distribution network is being phased in over time and commenced on 1 July 1997 for customers with average loads of at least 10 MW (87,600 MWh per year). Of the 63 customer sites in the State that had become contestable at the 10 MW threshold (including customers taking supply from the transmission network), 16 had chosen to purchase power from independent producers using Western Power's transmission/distribution networks.

In late 1997, the Minister for Energy announced an accelerated timetable for access to Western Power's distribution network. From 1 July 1998 users within the South West Interconnected System (SWIS), the North West Interconnected System (NWIS) and regional non-interconnected distribution systems who consume at least an average of 5 MW (43,800 MWh per year) of electricity became eligible to obtain electricity from a supplier of their choice. This threshold will fall to an average of 1 MW (8,760 MWh per year) on 1 January 2000 for users on the SWIS and NWIS.

As noted above, under the Government's new regional power supply strategy, access for users on regional non-interconnected systems has been accelerated. Regional users who consume at least 300,000 kWh per annum at a single site are now eligible to obtain electricity from a supplier of their choice. Annual consumption of 300,000 kWh equates to an annual electricity bill of around \$48,000.

### **Benefits of Reform**

Consumers are benefiting from the Government's electricity reform initiatives undertaken to date. In this regard, there will be no increase in electricity tariffs in 1999-2000. Moreover, average residential electricity bills State-wide are estimated to have fallen in real terms by 8.6 per cent between 1992-93 and 1998-99. Average non-residential electricity bills on the SWIS (for tariff customers) are estimated to have fallen by 22 per cent in real terms over the same period.

Greater competition and the efficiencies flowing from corporatisation have resulted in improved quality and reliability of electricity supply, and the level of service provided to customers. In this regard, improvements to the SWIS's reliability in 1997-98 resulted in the average number of supply interruptions being reduced by 26 per cent, and the duration of outages falling by almost 25 per cent.

Deregulation has also enabled large electricity customers to enter into contracts with either Western Power or private sector generators to purchase electricity, which is supplied via Western Power's transmission and distribution networks. This has resulted in increased competition for the supply of electricity to large industrial and mining companies, particularly in the Goldfields region.

As a result, eligible electricity customers in the Goldfields and South West now have the opportunity to purchase power from independent generators, such as the Parkeston Power Station, owned by Goldfields Power. The power station was developed to provide a source of reliable, low cost electricity for local industry, especially mining operations. It is fuelled by natural gas transported from the North West to Kalgoorlie by the Goldfields Gas Transmission Pipeline.

Electricity prices to the power station's Goldfields mining customers are around 10 to 20 per cent lower than the previous Western Power tariffs and lower than alternatives, including self-generation. In addition, Goldfields Power became the first independent supplier to supply electricity to a Perth customer in November 1998 when it won a two year contract in competition with Western Power to supply electricity to Westralia Airports Corporation. Westralia operates the Perth International Airport with an average consumption of about 5 MW. The contract with Goldfields Power has reduced the cost of running the airport's airconditioning, lighting and power services by around \$500,000 a year.

## **GAS**

### **Recent Initiatives**

In December 1998 the Government announced its decision to sell the State's gas utility, AlintaGas. The sale is expected to occur in the first half of the year 2000. A sale steering committee, working group and support arrangements have been established to facilitate the sale.

The sale steering committee is to recommend to the Government before the middle of 1999 an appropriate structure, method and timing of the sale to achieve an optimum price for AlintaGas, while protecting the interests of gas customers and the State. The sale will include AlintaGas' retail, trading and pipeline distribution system.

Before finalising the sale process the Government will consider a number of critical issues, including safety and reliability of gas supply; ensuring the lowest feasible gas tariffs for small customers; the interests of AlintaGas employees; the actual sale method; the corporate structure of AlintaGas; and recognition of competition policy guidelines in terms of the sale.

### *Gas Access Arrangements*

The impending sale of AlintaGas has been facilitated by a series of major reforms aimed at introducing competition into Western Australia's gas sector. An important facet of promoting competition is to provide for access to the State's gas transmission and distribution systems. Progress has been made in a number of areas detailed below.

### *Gas Pipelines Access (Western Australia) Act 1998*

This Act came into effect in February 1999. The Act forms part of a national access regime for gas pipelines agreed by the Council of Australian Governments in the Natural Gas Pipelines Access Agreement. The Act implements the National Third Party Access Code for Natural Gas Pipeline Systems ("the Code"), which provides a framework for businesses to seek access to pipelines covered by the Act. It is expected that this will facilitate competition in gas markets by enabling new entrants to transport gas through existing pipelines for supply to their own customers.

Under the Code:

- Operators of the designated pipelines which are initially covered by the Code must establish an access arrangement which outlines the terms on which access will be granted to services provided by the pipeline;
- A pipeline which is not initially covered by the Code may become covered in one of three ways - where the owner submits an access arrangement; where the pipeline is built following a tender process under the Code; and where an access seeker succeeds in arguing that the pipeline meets the criteria for access (ie access would promote competition, meet safety requirements and be in the public interest, and it would be uneconomical to duplicate the pipeline);
- Reference tariffs forming part of access arrangements must meet the pricing principles set out in the Code;
- Any person can apply for access to a pipeline covered by the Code by following the procedures of the Code and the approved access arrangements; and
- Owners of pipelines covered by the Code must separate or "ring fence" their gas transport operations from their production and retail operations, promoting transparent cost accounting and reducing the potential for cross-subsidisation.

The Act establishes three State-based regulatory bodies: the Western Australian Independent Gas Pipelines Access Regulator (which approves access arrangements), the Gas Review Board (which hears appeals against the Regulator's decisions) and the Gas Disputes Arbitrator (which arbitrates disputes about particular access applications). The three bodies operate from the Office of Gas Access Regulation, or OffGAR, which was established in March 1999 and will be largely funded by the gas industry.

The State applied in March 1999 to the NCC for a recommendation that the Act is an "effective" regime under Part IIIA of the *Trade Practices Act 1974* (TPA). If this application is successful (as a similar application by South Australia was) and the Federal Minister accepts the recommendation, it will not be possible for any person to seek declaration under Part IIIA of the TPA for any pipeline covered by the regime.

#### *South-West Gas Market*

Both the transmission and distribution markets in the south-west region, including Perth, continue to become more competitive as the Government's timetable for progressively opening up new segments of the market to competition is implemented.

Until recently there was little or no opportunity for any business to offer competition to AlintaGas in the retail market for natural gas. However, by 2002 gas retailers will be able to obtain access to AlintaGas pipelines in order to compete for the business of all gas customers in the south-west.

The introduction of competition began in January 1995 when customers using at least 1,000 Terajoules (TJ) of gas per year at a single site became able to contract directly with the gas supplier of their choice. The chosen gas supplier has the right to negotiate access to AlintaGas' distribution system in order to supply the customer. The threshold for contestable customers dropped first to 500 then 250 TJ per year. From 1 January 2000 the threshold will be 100 TJ per year, then 1 TJ per year from 1 January 2002, with full deregulation to follow later in 2002.

Gas transmission and distribution prices in the future will be approved by the Regulator, consistent with the pricing principles in the Code.

#### *Sale of Dampier to Bunbury Natural Gas Pipeline to Epic Energy*

The Dampier to Bunbury Natural Gas Pipeline (DBNGP) was sold to Epic Energy in March 1998. As well as returning a healthy sale price to the State, the sale represented a significant vertical disaggregation of AlintaGas' operations and promoted diversity of participation in the industry.

Access to the DBNGP has become progressively available since 1995, on the same phased timetable as that for distribution access. The owner of the DBNGP, as with all transmission pipelines covered by the Code, is required to submit a proposed access arrangement for approval by the Regulator later in 1999.

#### *Goldfields Gas Market*

The Goldfields Gas Pipeline (GGP) will become subject to the national access regime under a timetable similar to that applying to the DBNGP. As for the DBNGP, the joint venture owner is required to propose an access arrangement later in 1999.

The distribution system served by the GGP in the Kalgoorlie/Boulder area is allowed a partial exemption from the full application of the national access agreement for a period of ten years from the commencement of the Western Australian Act. Under the exemption, restrictions on construction of new distribution pipelines in the area will remain in place during that time. However, the exemption will not prevent the opening up of competition by way of access to the distribution system operated by AlintaGas in Kalgoorlie/Boulder.

#### *Proposed Second North-West to South-West Pipeline*

The *Dampier to Bunbury Pipeline Act 1997* provided for the widening of the pipeline corridor from about 30 to about 100 metres. This will allow the construction of increased gas flow capacity from the north-west gas fields to the south-west retail gas markets, possibly by way of a second pipeline.

Considerable work remains to be done in resolving native title and other property and planning matters before the corridor is ready to accommodate a second pipeline. In September 1998 the Government called for expressions of interest in constructing additional pipeline capacity to the south-west. Eleven companies lodged an initial registration of interest, indicating that the deregulation process has succeeded in broadening the field of potential participants in the gas market.

None of the companies proposed to proceed with construction in the short term. Nevertheless, three companies have been asked and have agreed to proceed with a full expression of interest, and the Government will continue to work with them.



## **Benefits of Reform**

Consumers have benefited greatly from gas industry reform in relation to the price of gas supply. Other than minor variations reflecting changes in distillate pricing, gas tariffs for businesses have been held virtually constant in nominal terms since 1992-93. Residential gas tariffs have decreased in real terms for most customers since 1992-93, and in 1999-2000 natural gas tariffs for residential customers will be held at 1998-99 prices.

Since the disaggregation of the North West gas contract, gas prices in the Pilbara region have fallen by up to 50 per cent in real terms. In addition, as a result of the sale of the DBNGP, gas transmission tariffs have fallen from about \$1.26 per gigajoule (GJ) in 1997 to \$1.09 per GJ, and are expected to fall further to about \$1.00 per GJ by 2000. This should flow through to the consumer.

The corporatisation of AlintaGas has also resulted in a greater customer focus and improvements in service quality to gas customers, particularly in the residential and small commercial market. Reliability of supply as measured by the number of unplanned interruptions to gas supply improved from 5.6 interruptions per thousand customers in 1994-95 to 3.5 in 1997-98.

Response to gas smells in a home within 2 hours has increased from 83.0 per cent (under SECWA) in 1994-95 to 93.6 per cent in 1997-98. Similarly, response to broken mains/services faults within 1 hour has increased from 91.2 per cent in 1994-95 to 99.2 per cent in 1997-98. It is also worth noting that 95.0 per cent of customers (that have a gas main available) are connected within 5 days, and customer satisfaction (measured by a customer service monitor) for supply faults, connections and account enquiries is in excess of 90 per cent.

## **RAIL**

### **Recent Initiatives**

On 30 July 1998, the Government announced its intention to sell the freight business of the Western Australian Government Railways Commission (Westrail). A taskforce has been established to determine the best structure for a privatised Westrail freight business and to advise on the sale process.

At this stage it is planned to sell the freight business outright, along with the rolling stock, depots, terminals and existing contracts. The Government will retain ownership of the railway track and the land corridor, which will be leased to the successful purchaser. The Government expects to pass legislation by 1 July 1999 to enable the sale to proceed.

The sale process has been facilitated by the deregulation of the freight transport market in Western Australia from 1 July 1995, and the commercialisation of Westrail and implementation of financial reforms from 1 July 1996. The financial reform package (Right Track Initiative) included Westrail entering the Government's taxation equivalent regime and the Government reimbursing Westrail for losses incurred in undertaking CSOs.

### *Rail Access Arrangements*

The most significant recent event in promoting access to rail services is the passage of the *Government Railways (Access) Act 1998* in November 1998. The Act, together with an access code, establishes the terms on which a person seeking access to certain Westrail facilities can apply for and obtain access. The code applies to the entire Westrail network.

The development of the access code adds to the previously existing rights of access for interstate operators under the *Government Railways Act 1904*.

The State has applied to the NCC for a recommendation that the Act and the code provide an effective regime for the purposes of Part IIIA of the *Trade Practices Act 1974*. The NCC has begun its consideration of the application by advertising nationally, calling for submissions from interested parties on the effectiveness of the regime. If this application is successful and the Federal Minister accepts the recommendation, it will not be possible for any person to seek declaration of any rail services covered by the regime.

With regard to private railways, the Government has written to the iron ore companies that operate private railways, to propose the implementation of an access regime (whether State-wide or for individual railways). An effective regime would have advantages to companies seeking access but also benefits to owners by enabling them to avoid the uncertainty of their railways being the subject of a declaration application.

### **Benefits of Reform**

Since competition began on the interstate line in 1996, interstate rail freight prices are estimated to have decreased by about 25 per cent, some estimates placing this as high as 40 per cent for certain traffic. Greater efficiencies in Westrail as a result of its commercialisation have led to grain freight rates declining in real terms by 30 per cent since 1988-89. Information on freight rates in other traffics is not readily available because they are commercially confidential, but anecdotal evidence suggests that these too have declined in real terms in recent years.

## **WATER**

### **Recent Initiatives**

Reform in the water industry is progressing. A significant initiative is the implementation of pricing based on the principles of consumption-based pricing, full cost recovery, and removal of cross-subsidies, with remaining subsidies made transparent. Two-part tariffs for urban water users comprising a fixed access charge and a variable consumption component have also been adopted where this is cost effective.

In addition, the Government is implementing a comprehensive system of water allocations, including allocations for the environment, backed by separation of water property rights from land title, and the introduction of arrangements for trading in water entitlements. This involves undertaking major legislative reform.

### **Benefits of Reform**

Business customers are enjoying significantly lower water costs as a result of the restructuring of tariffs to reduce the level of cross subsidy between business and residential customers and to better reflect consumption, rather than property values. In this regard, business customers have seen a reduction of around \$55 million in their aggregate water and sewerage costs over the period from 1993 to 1999.

In addition to ongoing tariff restructuring, in 1999-2000 a general 2 per cent increase in water, sewerage and drainage rates will take effect together with larger increases of 5 per cent and 10 per cent for high volume water consumption. The 2 per cent general tariff increase represents a modest incremental move towards full cost recovery. A 5 per cent increase will apply to consumption between 350kl and 550kl for metropolitan households, and 350kl and 750kl for country households. Metropolitan households consuming more than 550kl, and country households consuming more than 750kl will face an increase in consumption tariffs of 10 per cent. Increases in tariffs for consumption above amounts considered non-discretionary are designed to encourage lower water consumption and reflect the government's commitment to promoting water conservation in an environment of population growth and limited low cost water sources.

These tariff changes better reflect the true cost of service provision and will therefore lead to investment decisions that are in the long term interests of the community.

Consumers are also benefiting from improved customer service. Independent surveys showed that overall customer satisfaction increased by 3 per cent to 84 per cent in 1997-98.

Several service quality indicators show the Water Corporation has made significant improvements over recent years. For example, sewer blockages per 100kms of sewer have fallen from 37 in 1993-94 to 26 in 1997-98. Property sewerage overflows attended within two hours increased from 70 per cent in 1994-95 to 97 per cent in 1997-98.

The Office of Water Regulation has established a process for conciliating and arbitrating on complaints from customers on water services.

## **LAND DEVELOPMENT**

### **Recent Initiatives**

A Ministerial review of the Western Australian Land Authority (trading as LandCorp), a government trading enterprise responsible for land and associated infrastructure development in the State, resulted in new legislation applying commercialisation principles to LandCorp in 1998.

This has resulted in a more commercial focus for LandCorp and the imposition of taxes and local government rates through tax and rate equivalent payments; application of transparent CSO payments; and establishment of an independent performance monitoring mechanism.

### **Benefits of Reform**

The reforms to the structure and operation of LandCorp have resulted in internal efficiencies and a clearer focus for LandCorp in strategic land development for the State. LandCorp now operates with an explicit focus on commercial principles and strives to earn an appropriate rate of return on its activities. Transparency and accountability have been improved in several respects, including through the requirement to produce Strategic Development Plans and Statements of Corporate Intent, the funding of non-commercial activities through CSO payments, and the application of competitive neutrality.

## PORT MANAGEMENT

### Recent Initiatives

In March 1999, Cabinet approved the Ord River Development Cooperative becoming the new facilities manager for the Port of Wyndham. The Cooperative is expected to commence operations at the Port in July 1999. Facilities management involves the Government retaining ownership of the infrastructure assets and entering into arrangements with private service providers to operate and manage these assets.

Other ports are pursuing similar initiatives. Both the Bunbury Port Authority and the Geraldton Port Authority have invited tenders from interested parties for the provision of stevedoring and related services at their respective ports. The Albany Port Authority has invited tenders for the operation of its cold storage facilities. The Esperance Port Authority has also conducted preliminary research into facilities management opportunities.

### Benefits of Reform

Facilities management initiatives are expected to improve operational efficiency and capacity utilisation of ports; provide greater scope for innovative management practices; guarantee continuity of service; and achieve best practice standards of service with no increase in costs to port users.

More generally, ongoing reform initiatives undertaken by Western Australia's ports have resulted in significant price reductions. The Fremantle Port Authority has reduced port prices by 21 per cent in real terms over the period 1992-93 to 1997-98. Bunbury Port Authority customers enjoyed a 1.5 per cent reduction in port prices in 1997-98, and prices remained unchanged in 1998-99.

In 1998-99, Dampier Port Authority reduced its port dues by 13.9 per cent, and most charges at Geraldton Port Authority fell by 5.0 per cent. Overall, prices at the smaller regional ports have not risen since 1994-95, resulting in falling prices in real terms.

## ROAD TRANSPORT

### Recent Initiatives

Western Australia has made strong progress towards implementing road transport reform as part of the National Competition Policy obligations to improve the efficiency of the industry. Progress on reform includes:

Reform initiatives for:

- Transportation of dangerous goods. The *Dangerous Goods (Transport) Act 1998* was assented to in December 1998. The associated regulations which are soon to be proclaimed will provide for a uniform approach to the transport of dangerous goods by both road and rail to achieve a harmonised national regulatory framework for the land transport of dangerous goods;

- Heavy vehicle registration. Western Australia is making changes to the *Road Traffic Act 1974* to allow the full implementation of a registration scheme consistent with the national model which ensures that the procedures and requirements for heavy vehicle registration are nationally uniform and consistent. This reform will eliminate unnecessary duplication of resources and regulations and will streamline the vehicle registration process;
- National driver licensing. This reform is being adopted to achieve consistency with the agreed national outcomes of uniform requirements for driver licensing, including a consistent system for demerit points and uniform licence classifications. Cabinet has endorsed the necessary changes to the Act; and
- Vehicle operations. This reform is being developed to provide common national standards for the operation of all vehicles, axle mass and loading regulations, and common operating and route access regulations for combination, over-size and over-mass vehicles. It will also provide for a common road traffic code throughout Australia.

Western Australia has also introduced a Code of Practice linked to occupational health and safety laws to manage fatigue in the road transport industry. This will provide a flexible and cost effective management system to meet the particular needs of remote areas and does not create difficulties for interstate transport operators.

### **Benefits of Reform**

These reforms provide for a uniform national approach to road transport regulations which for Western Australia and all States and Territories will mean reduced administrative burdens to industry and government, and improved efficiency and safety in the road transport industry while helping to facilitate interstate trade.

## CHAPTER 5

# INTERGOVERNMENTAL RELATIONS

### HIGHLIGHTS

- Commonwealth general purpose grants to Western Australia are expected to rise 1.6% in 1999-2000 (excluding the impact of fiscal contributions), which represents a cut of 2.7% in real per capita terms.<sup>1</sup>
- Western Australia's financial assistance grants will be lower by \$74 million as a result of the latest recommendations of the Commonwealth Grants Commission.
- The Commonwealth, States and Territories signed an Intergovernmental Agreement which will give the States all the revenues from the Commonwealth's proposed goods and services tax, in exchange for the abolition of Commonwealth general purpose grants and a range of State taxes, starting in 2000-01.
- Specific purpose payments to the State are expected to show negligible growth in 1999-2000.

### COMMONWEALTH FUNDING FOR 1999-2000

The State receives funding from the Commonwealth in the form of general purpose grants and 'tied' (or specific purpose) payments.

#### GENERAL PURPOSE GRANTS

General purpose grants comprise financial assistance grants, competition payments, safety net revenues and special revenue assistance. For Western Australia, general purpose grants are expected to increase 2.8% in 1999-2000.

This growth reflects the increased competition payments under the second tranche of the National Competition Policy arrangements agreed at the 1995 Premiers' Conference<sup>2</sup> and growth in the safety net revenues. Growth in general purpose grants for 1999-2000 is also boosted by the cessation of the fiscal contributions which States provided to the Commonwealth over the three years ended 1998-99.

Excluding the impact of the fiscal contributions, general purpose grants for Western Australia are expected to increase by 1.6% in 1999-2000, which represents a real per capita decline of 2.7% (see Table 1).

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<sup>1</sup> Real terms in this chapter means adjusted for national price deflators. In this chapter, unless otherwise specified "States" refers to the six States and the Northern Territory and ACT.

<sup>2</sup> Under the arrangements agreed at the 1995 Premiers' Conference, the competition payments are paid in three tranches (expressed in 1994-95 dollars) - \$200 million per annum from 1997-98, \$400 million per annum from 1999-2000 and \$600 million per annum from 2001-02. These amounts are escalated for inflation and distributed between the States according to population shares.

Table 1

**GENERAL PURPOSE GRANTS**

	Western Australia		All States	
	1998-99	1999-00	1998-99	1999-00
	\$m	\$m	\$m	\$m
Financial Assistance Grants	1,617	1,609	16,804	17,431
<i>Less State Fiscal Contributions</i>	29	0	313	0
Net Financial Assistance Grants	1,588 <sup>(a)</sup>	1,609	16,490	17,431
Special Revenue Assistance	0	0	25	13
Competition Payments	21	44	216	443
Safety Net Revenues	900	925	6,719	6,880
<b>Total General Purpose Grants<sup>(b)</sup></b>	<b>2,509</b>	<b>2,578</b>	<b>23,450</b>	<b>24,768</b>
	\$ per capita	\$ per capita	\$ per capita	\$ per capita
General Purpose Grants <sup>(c)</sup>	1,374	1,372	1260	1,298
- real per capita increase	+0.9%	-2.7%	+0.7%	+0.5%

(a) Financial assistance grants shown in the Consolidated Fund estimates are \$3.3 million higher due to the refund of a deduction in the previous year for higher education superannuation.

(b) General revenue grants as included in the Consolidated Fund also include debt redemption assistance and pensioner concession compensation.

(c) Excluding impact of State fiscal contributions.

Source: Western Australian Treasury estimates.

For all States, general purpose grants are expected to increase by 5.6% in 1999-2000 (see Table 1). However, excluding the impact of the fiscal contributions, these grants are expected to increase by 4.2% in 1999-2000, representing a real per capita increase of 0.5%.

The real per capita decline experienced by Western Australia in 1999-2000 is a result of the State's declining share of financial assistance grants as recommended by the Commonwealth Grants Commission.

## THE COMMONWEALTH GRANTS COMMISSION

Financial assistance grants are allocated according to per capita relativities recommended by the Commonwealth Grants Commission. The Commission uses the principle of fiscal equalisation to calculate these relativities.

To achieve fiscal equalisation, grants should be distributed so as to enable each State to fund the average level of services (assuming it does so at the average level of efficiency) while making the average revenue raising effort.

This involves a redistribution of funds from States with low per capita costs of providing services to States where the per capita cost of providing services is higher. It also involves a redistribution of funds from States with a high per capita revenue raising capacity to States with lower per capita revenue raising capacity.

In February 1999 the Commonwealth Grants Commission completed a major review of its methods (the previous such review was completed in 1993). The new relativities recommended by the Commission in its 1999 report incorporated both its revised methods and the latest available data.

Compared with the relativities used to allocate financial assistance grants in 1998-99, the new relativities (which will be used to allocate financial assistance grants in 1999-2000) reduce Western Australia's share of funding by \$74 million. In per capita terms, this is the largest loss experienced by any jurisdiction (see Table 2).

Table 2

**IMPACT ON FUNDING SHARES OF GRANTS COMMISSION'S 1999 REVIEW**

	\$ million	\$ per capita
New South Wales	+165	+26
Victoria	-100	-21
Queensland	-60	-17
Western Australia	-74	-40
South Australia	-26	-17
Tasmania	+32	+69
ACT	+55	+178
Northern Territory	+6	+32
All States	0	0

Source: Commonwealth Grants Commission.

Table 3 illustrates the factors underlying the movement in each State's relativity. In Western Australia's case, the \$74 million loss entirely reflects data changes:

- \$55 million loss from rolling the five year data period forward (the new data period covers 1993-94 to 1997-98, compared with the previous data period 1992-93 to 1996-97). In the new data period, Western Australia was assessed as having increased capacity to raise royalties and taxes compared with other States, reflecting its strong economic growth; and
- \$20 million loss from the adoption of 1996 Census data in the calculations.

Table 3

**IMPACT ON FUNDING SHARES OF GRANTS COMMISSION'S 1999 REVIEW**

**\$ million**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>DATA CHANGES</b>								
New data period	-112	+32	+47	-55	+39	+17	+24	+8
Changed financial data	+4	-21	+41	+1	-2	+3	-8	-17
Census data	-3	+26	-43	-20	+44	+8	+3	-15
<i>Total data changes</i>	-111	+38	+44	-74	+80	+28	+19	-24
<b>METHOD CHANGES</b>	+276	-138	-104	0	-106	+5	+36	+30
<b>TOTAL CHANGES</b>	+165	-100	-60	-74	-26	+32	+55	+6

Source: Commonwealth Grants Commission.



There was no net impact for Western Australia from method changes, although there were substantial changes in individual areas (eg. Western Australia lost from the capital assessments, administrative scale and socio-demographic factors, but gained from costs of servicing dispersed populations and economic environment factors).

In the case of other States, method changes had a significant impact, with substantial losses incurred by three jurisdictions and gains by the remaining jurisdictions.

Table 4 details the results of the Commission's 1999 Review in individual assessment areas. This shows how allowances provided for the high cost of providing services in Western Australia are more than offset by the State's relatively high revenue raising capacity (primarily from mining royalties) and high share of Commonwealth tied payments.

Western Australia's \$74 million loss from the Grants Commission's 1999 report follows losses in each of the last five years from the Grants Commission's annual updates of relativities (which updated the data but retained the 1993 methods). These five updates had reduced Western Australia's annual share of grants by a cumulative \$235 million. The 1999 report increases this loss to \$309 million, and mainly reflects Western Australia's stronger economic performance over time, with a consequent reallocation of grants to weaker States. Western Australia's cumulative loss is far greater than any other State (see Figure 1).

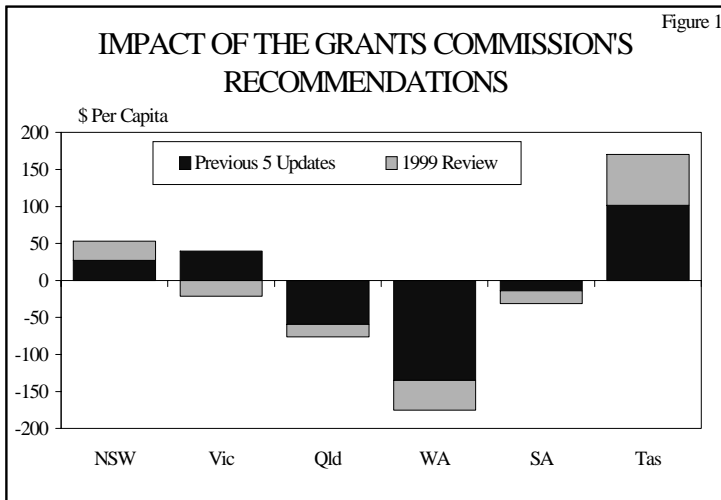


Table 4

**GRANTS COMMISSION 1999 REVIEW ASSESSMENTS BY CATEGORY**  
**Western Australia**

	Impact on 1999-00 Grants \$m	Contribution to Relativity
<b>Per Capita Share of Pool of Grants <sup>(a)</sup></b>	<b>2,277</b>	<b>1.00000</b>
<b>Expenditure Cost Differences</b>		
Education	197	0.08648
Services to Industry	80	0.03516
Roads	53	0.02305
Law, Order and Public Safety	44	0.01930
Health	44	0.01926
Culture and Recreation	35	0.01525
Superannuation	25	0.01083
Urban Transit	8	0.00331
Aboriginal Community Services	7	0.00316
Welfare	5	0.00224
Housing	4	0.00194
Concessions and Other Payments	-6	-0.00273
Debt Charges	-18	-0.00774
Depreciation	-20	-0.00881
Other Expenditure Categories	22	0.00971
<b>Total Expenditure</b>	<b>480</b>	<b>0.21040</b>
<b>Revenue Capacity Differences</b>		
Mining Revenue	-348	-0.15245
Stamp Duty on Conveyances	-34	-0.01494
Fuel Taxes/Safety Net Revenues	-29	-0.01277
Vehicle Registration Fees and Taxes	-44	-0.01915
Tobacco Taxes/Safety Net Revenues	-23	-0.01002
Stamp Duty on Motor Vehicle Registrations and Transfers	-19	-0.00814
Liquor Taxes/Safety Net Revenues	-8	-0.00364
Insurance Taxation	6	0.00276
Gambling Taxation	12	0.00531
Payroll Taxation	13	0.00568
Stamp Duties on Shares and Marketable Securities	24	0.01060
Land Revenue	32	0.01387
Other Revenue Categories	3	0.00124
<b>Total Revenue</b>	<b>-414</b>	<b>-0.18165</b>
<b>Tied Grants</b>		
Grants in Lieu of Royalties	-143	-0.06264
Grants for Aboriginal Purposes	-37	-0.01618
Government Schools	-8	-0.00359
Non-government Schools	-4	-0.00190
Disability Services	10	0.00419
Other Tied Grants	-2	-0.00071
<b>Total Tied Grants</b>	<b>-184</b>	<b>-0.08082</b>
<b>Total All Differences</b>	<b>-119</b>	<b>-0.05207</b>
<b>Total Grant and Relativity</b>	<b>2,158</b>	<b>0.94793</b>

(a) Grants Commission relativities are applied to a combined pool of financial assistance grants and health care grants.

Source: Commonwealth Grants Commission and Western Australian Treasury estimates.

## TIED PAYMENTS

Based on current Commonwealth policies Western Australia expects to receive \$1.8 billion in tied Commonwealth funding in 1999-2000, including \$0.4 billion which is passed through the State to local governments and private schools. Excluding payments through the State, the tied payments to the State in 1999-2000 will be at a similar level to the grants in 1998-99.

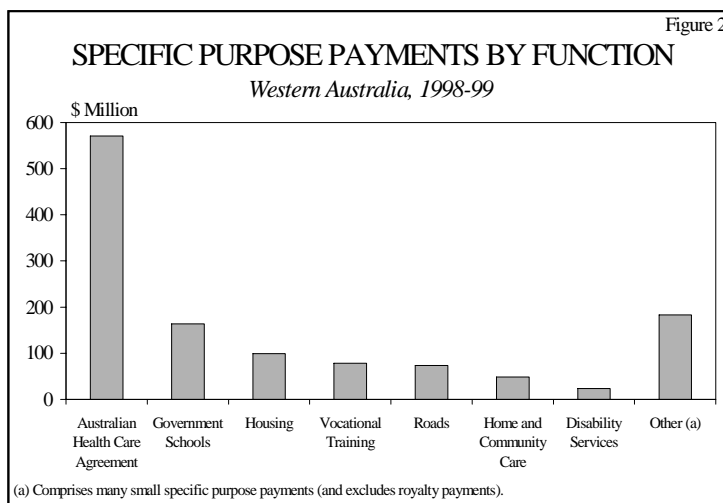
Tied payments, or specific purpose payments (SPPs), are now generally included in net appropriations in the Budget. This means they are paid directly to agencies which are then funded from the Consolidated Fund on a net basis (after taking account of all revenues, including Commonwealth payments). As a result, SPPs appearing directly in the Consolidated Fund in 1999-2000 will total only \$0.6 billion.

Western Australia's share of SPPs to the States (excluding payments through the State) is estimated to be 11.2% in 1999-2000. However, excluding royalties paid to Western Australia from the North West Shelf gas project, which the Commonwealth treats as payments to the States but which are in reality State revenue, the State's share of SPPs is 9.8%.

SPPs are made under Section 96 of the Constitution. They usually must be applied to a specified activity and have conditions attached (such as conforming to a national agenda/program structure, matching funding and reporting requirements) which restrict the ability of the State to allocate funds according to its priorities.

In 1998-99 the seven largest SPPs accounted for about 85% of all tied payments to Western Australia (excluding royalties).

Figure 2 below illustrates the extent to which Commonwealth SPPs are concentrated in the core areas of health, education, housing, vocational training and roads.



## **LOCAL GOVERNMENT**

The Commonwealth Government also provides general purpose assistance to local government in the form of local government financial assistance grants and local government untied road funding. This assistance is paid to the States as a specific purpose payment which is passed on to local government by State Local Government Grants Commissions. In 1999-2000 Commonwealth assistance to local government in Western Australia is expected to be \$148.2 million.

The distribution of local government financial assistance grants between States is on an equal per capita basis. In 1998-99 local government in Western Australia is expected to receive 9.7% or \$82.8 million of the national allocation of local government financial assistance grants from the Commonwealth. Local government untied road funding is distributed on the basis of historical shares.

The State also makes payments to Western Australian local government, mostly for roads. In addition, in 1998-99, the State provided \$830,000 to local government from the Local Government Development Fund (established by allocating 4.1% of the State's National Competition Policy payments from the Commonwealth). In the next two financial years the amount to be paid to local government will more than double to \$1.8 million per annum, the majority of which will go to development projects.

## **THE TASK AHEAD**

Significant progress has been made over the past year in advancing reform of Commonwealth-State financial relations as part of the Commonwealth Government's program of national tax reform. However, the task ahead remains substantial. Apart from the implementation of the national tax reform agenda and its Commonwealth-State aspects, further reform is needed to increase the efficiency and effectiveness of Commonwealth specific purpose funding to the States, and to improve the fiscal equalisation process.

## **TAX REFORM AND INTERGOVERNMENTAL RELATIONS**

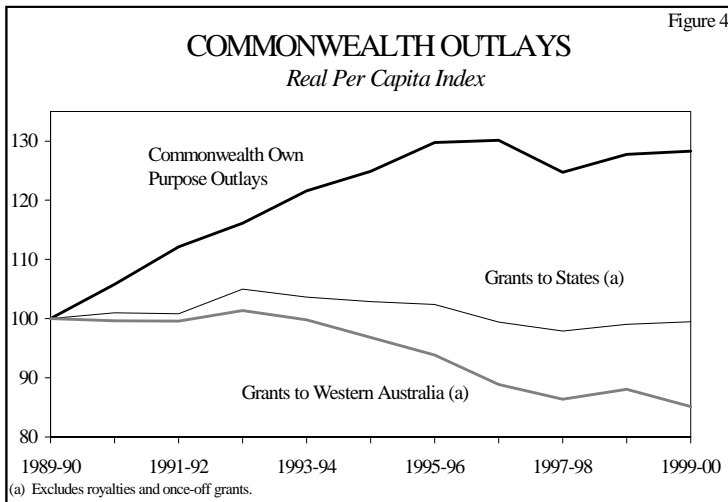
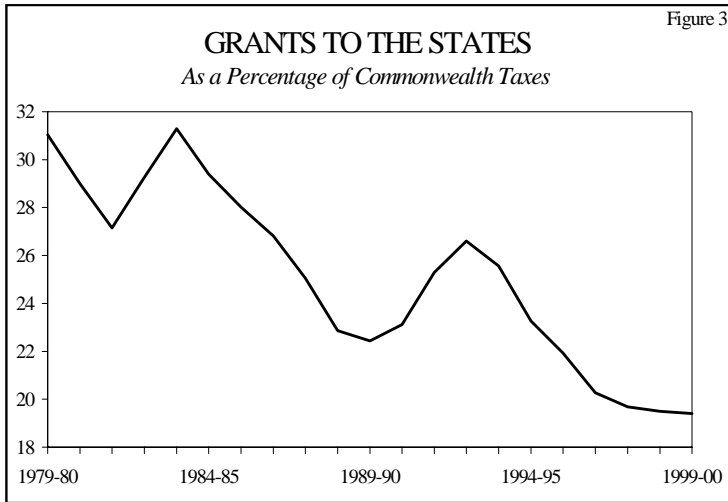
The signing of an Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations at the 9 April 1999 Premiers' Conference was a key milestone in the Commonwealth's negotiation with the States on the implementation of its program of tax reform. If sustained, the Agreement should help provide States with better long term revenue growth to match future demands for services.

Subject to passage of the relevant legislation through the Commonwealth Parliament, States will receive all the proceeds of a Federal goods and services tax (GST), which will replace existing general purpose grants and a range of State taxes. The Intergovernmental Agreement sets out the details of this reform.

### **Background to Reform**

The need for fundamental reform of Commonwealth-State financial relations has arisen from the States' limited access to satisfactory broad-based taxes. This has left States reliant on Commonwealth grants and a range of narrowly based and inefficient State taxes.

Over time, the Commonwealth has been unwilling to provide the States with sufficient revenue growth. Grants to the States as a share of Commonwealth taxes have fallen in the past 20 years from 31% to 19% (see Figure 3). Over the last 10 years there has been no growth in grants to the States (measured in real per capita terms), while the Commonwealth's own outlays have grown nearly 30% in real per capita terms (see Figure 4).



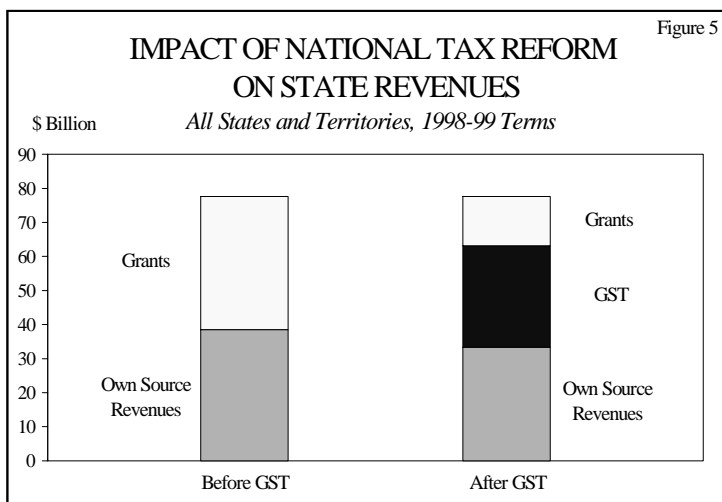
The States' limited revenue raising capacities were further reduced by the August 1997 High Court decision requiring States to cease collecting franchise taxes on tobacco, alcohol and fuel. This led to an even greater dependence of States on Commonwealth grants. The decision precipitated inclusion of reform of Commonwealth-State financial relations in the Commonwealth's plans for reform of the Australian tax system.

**Intergovernmental Agreement**

The Commonwealth’s proposed national tax reforms, involving the introduction of a GST to be given to the States, were outlined in August 1998. As mentioned, a formal Intergovernmental Agreement setting out the detail of the proposed Commonwealth-State arrangements was signed at the April 1999 Premiers’ Conference.

Table 6
<p><b>STATE TAXES TO BE ABOLISHED OR ADJUSTED</b></p> <p><b>Taxes to be Abolished from 1 July 2000</b></p> <ul style="list-style-type: none"> <li>• Bed taxes (these apply in New South Wales and the Northern Territory)</li> </ul> <p><b>Taxes to be Abolished from 1 January 2001</b></p> <ul style="list-style-type: none"> <li>• Financial institutions duty</li> <li>• Debits tax</li> </ul> <p><b>Taxes to be Abolished from 1 July 2001</b></p> <ul style="list-style-type: none"> <li>• Stamp duty on marketable securities</li> <li>• Stamp duty on business conveyances (other than real property)</li> <li>• Stamp duty on leases</li> <li>• Stamp duties on mortgages, debentures, bonds and other loan securities</li> <li>• Stamp duties on credit arrangements, instalment purchase arrangements and rental arrangements</li> <li>• Stamp duties on cheques, bills of exchange and promissory notes</li> </ul> <p><b>Taxes to be Adjusted from 1 July 2000</b></p> <ul style="list-style-type: none"> <li>• Gambling tax arrangements will be adjusted to take account of the impact of the GST on gambling operators</li> </ul>

Under the Agreement, States will receive all the revenue from the GST, commencing 1 July 2000. The GST will replace Commonwealth financial assistance grants, “safety net” replacement revenues, and a range of State taxes (see Table 6).<sup>3</sup> The GST will comprise around 40% of total State revenues, with a corresponding reduction in Commonwealth grants and State taxes (see Figure 5).



<sup>3</sup> States will also lose sales tax equivalent payments they currently receive from their trading enterprises.

States will be required to provide general purpose grants to local government (taking over this responsibility from the Commonwealth), to set up a new First Home Owners' Scheme (to help offset the effect of the GST on house prices), and to pay the Australian Tax Office for the cost of collecting the GST. States will also receive expenditure savings from the abolition of their off-road diesel subsidy schemes and the reduced cost of purchasing goods (due to the abolition of Commonwealth sales tax and reduction in Commonwealth fuel excise).

In the initial years, the GST revenues will be insufficient to cover each State's lost revenues and increased net expenditures. During this period, the Commonwealth will provide guaranteed top-up payments to ensure that no State is worse off than if the reforms were not implemented.

For the first two years, the GST revenues will be distributed in a manner which will help ensure no State budget is worse off, but in later years the GST will be allocated among States fully on the basis of fiscal equalisation principles by the Commonwealth Grants Commission (in the same way that financial assistance grants are currently distributed).

Other provisions of the Intergovernmental Agreement relate to:

- Changes to the GST rate and major changes to the GST base, which will require unanimous agreement of the Commonwealth and the States;
- Establishment of a Ministerial Council of Commonwealth, State and Territory Treasurers to oversee the operation of the GST and the Intergovernmental Agreement;
- A Commonwealth commitment not to cut specific purpose payments as part of the reform process; and
- Reciprocal taxation arrangements to be introduced between the Commonwealth, State and local government sectors on a revenue neutral basis.<sup>4</sup>

### **Financial Implications of the Reforms**

A major objective of the reforms is to give the States access to a broad-based growth tax (the GST) which should grow faster than the grants and State taxes which it will replace. However, as noted above, in the short term the GST will be insufficient to cover States' lost revenues and higher expenditures, necessitating transitional guarantee payments by the Commonwealth.

In the first year, the Commonwealth guarantee payment will be provided as an interest free loan to be repaid the following year. In subsequent years, guarantee payments will be grants. The cost to the States of repaying the loan in the second year will be taken into account in calculating the guarantee payment for that year.

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<sup>4</sup> Reciprocal taxation involves the application of each government's taxes to other levels of government, while revenue neutrality will require adjustments to grants between governments to offset net changes in tax collections.

Table 7 summarises the estimated financial impact of the reforms for Western Australia and all States in the first six years. These figures are highly preliminary and actual outcomes could be significantly different. Beyond six years, the annual benefit of the reforms is projected to continue to grow.

Table 7						
<b>IMPACT OF NATIONAL TAX REFORM</b>						
\$ million						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Western Australia</b>						
GST Received	2,635	3,103	3,209	3,422	3,649	3,891
Financial Assistance Grants Abolished	-1,583	-1,640	-1,714	-1,793	-1,875	-1,963
Safety Net Revenues Abolished	-890	-966	-994	-1,024	-1,054	-1,087
Reduced State Taxes <sup>(a)</sup>	-176	-492	-527	-548	-569	-592
Grants to Local Government	-157	-163	-169	-175	-182	-189
First Home Owners' Scheme	-114	-117	-119	-121	-124	-127
Net Other Impacts <sup>(b)</sup>	168	227	245	263	281	300
Net Guarantee Payment	117	46	69	0	0	0
<b>Net Total Impact</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>24</b>	<b>125</b>	<b>233</b>
<b>All States</b>						
GST Received	27,506	32,451	33,470	35,523	37,700	40,008
Financial Assistance Grants Abolished	-18,010	-18,637	-19,287	-19,984	-20,707	-21,456
Safety Net Revenues Abolished	-6,657	-7,149	-7,330	-7,519	-7,717	-7,926
Reduced State Taxes <sup>(a)</sup>	-2,308	-5,570	-5,961	-6,224	-6,506	-6,823
Grants to Local Government	-1,362	-1,403	-1,452	-1,502	-1,554	-1,609
First Home Owners' Scheme	-727	-743	-758	-774	-791	-807
Net Other Impacts <sup>(b)</sup>	457	982	1,099	1,227	1,344	1,473
Net Guarantee Payment	1,101	69	219	8	0	0
<b>Net Total Impact</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>755</b>	<b>1,769</b>	<b>2,860</b>
(a)	Assumes that stamp duties on non-residential business conveyances are retained throughout the period.					
(b)	Includes State cost savings from tax reform, State taxes growth dividend from tax reform, GST administration costs, cashflow interest costs and abolition of State off-road diesel subsidies.					
Source:	Based on analysis prepared for the April 1999 Premiers' Conference. The Table does not reflect additional measures agreed at the Conference (ie. allocating the GST fully on a fiscal equalisation basis after two years, and recognition of some further GST-related costs faced by the States relating to public housing, local government and abolition of sales tax equivalent payments by trading enterprises). Further revisions can also be expected in light of parameter changes and other refinements.					

### Impact on Local Government

The existing arrangements for Commonwealth general purpose grants to local government will become the responsibility of the States, which will provide grants to local government on the same basis as currently. In particular, grants will remain untied and maintained in real per capita terms. The allocation will continue to be based on fiscal equalisation, with a minimum grant entitlement for each local government.



While most States will need to wait several years to see significant revenue benefits from the reforms, local government will benefit immediately the reforms are introduced. This reflects the reduction in local government costs due to the removal of sales tax and reduction in fuel excise, while grants (which are maintained in real per capita terms) will be boosted by the impact of the GST on prices.

### **Further Issues**

The implementation of the reforms is subject to passage of the relevant Commonwealth legislation.

In addition, as the major benefit of the reforms will only accrue to the States in the long term, it will be important that the reforms endure over time. In the past, a major problem with Commonwealth-State arrangements has been the Commonwealth's tendency to unilaterally change them. For example, tax sharing arrangements implemented in 1976 and 1982 were subsequently discontinued by the Commonwealth when State revenues started to grow.

The future security of the new reforms is assisted by the existence of a formal Intergovernmental Agreement between all jurisdictions and the requirement that all jurisdictions attach the Agreement to their legislation.

Over time, further issues will need to be addressed, particularly to give individual States more flexibility in revenue raising and in the use of Commonwealth grants for specific purposes. The Agreement acknowledges the need for all parties to pursue on-going reform of Commonwealth-State relations.

### **TIED PAYMENTS**

Tied payments, or specific purpose payments (SPPs), have grown to be a key feature of the Federation. Since the 1970s, an increasing proportion of Commonwealth grants to the States has taken the form of SPPs.

The Commonwealth currently has around 97 programs involving SPPs in place with State governments, local government authorities and educational institutions. In 1998-99, SPPs to the six States amounted to \$12 billion or 44% of their total Commonwealth payments. In 1972-73, SPPs represented only 21% of Commonwealth payments to the six States.

The use of SPPs is largely driven by Commonwealth policy objectives. For various reasons the Commonwealth is either not in a position to directly implement its policy objectives (eg. in areas of State responsibility under the Constitution) or chooses not to (eg. where States are best placed with infrastructure and expertise to deliver the required services).

There has been continuing friction between the Commonwealth and the States on SPP issues in the areas of health, housing, disability services and vocational training (as the Commonwealth has sought to limit its funding and impose more stringent conditions).

There are a number of problems inherent in SPP arrangements that place decision making further away from the point of service delivery. The provision of Commonwealth funds to the States in the form of an SPP significantly reduces the ability of State Governments to address policy priorities from a regional perspective. The States are far better placed to identify and address their changing circumstances and should have sufficient flexibility in their ability to apply funds to areas of greatest need. Providing States with greater flexibility in resource allocation would deliver services tailored to the needs of the local community.

Other problems with SPPs from a State perspective include:

- Lack of efficiency incentives (focus on inputs rather than outputs and outcomes);
- Duplication of roles and responsibilities (reconciling Commonwealth/State processes for joint planning and decision making);
- Costs of compliance and administration;
- Lack of consultation between Commonwealth and State agencies; and
- Blurred accountability to clients and the general community.

It is in the interests of both the Commonwealth and the States that SPP arrangements be as efficient and effective as possible. Achieving this requires that the Commonwealth and the States maintain an ongoing commitment to the review and reform of SPPs.

For the future, the reform of Commonwealth/State financial relations proposed under *A New Tax System* will add a new dimension to State concerns about SPPs. With GST revenues coming to the States, SPPs will be the remaining area of Commonwealth/State financial transfers over which the Commonwealth will have discretion.

States have also expressed concerns that as GST revenues grow they will be increasingly exposed to the threat of cuts to SPPs. States have sought an improvement in the quality of data on SPPs from the Commonwealth, including the provision of State by State estimates of SPPs over the forward estimate years.

As part of the Intergovernmental Agreement, the Commonwealth has made a commitment not to reduce SPPs in aggregate. This commitment is to be monitored by the Ministerial Council overseeing the Agreement.

## **THE FUTURE OF FISCAL EQUALISATION**

The principle of fiscal equalisation is a generally accepted and long standing feature of the Federation. However, because of the substantial redistribution of funds involved, the application of fiscal equalisation has often been contentious.

The Commonwealth Grants Commission's latest review of its methods (completed in 1999) has resulted in some improvements (eg. measuring the costs of servicing populations in remote areas). However, a number of important methodological areas need further examination, particularly the assessment of States' capital costs.

The Commission has, for the first time, made explicit allowance for the operating costs of capital in its assessments. This reflected increasing pressure from a number of jurisdictions, particularly Western Australia, for recognition of capital costs. However, the Commission did not start developing the capital assessments until late in its review. Most jurisdictions (and the Commission) believe that further work will be needed to produce reliable results (although the 1999 Premiers' Conference agreed to implement this assessment).

Another problem with the application of fiscal equalisation is that the Grants Commission does not take account of differences in economic performance due to differing policies of State governments.

In this regard, the fiscal equalisation process is by intention policy neutral, in the sense that policy actions of individual States should have little influence on the grants they receive. However, in practice, policy neutrality is achieved only in a narrow sense, eg. the capacity to raise payroll tax is based on the national average payroll tax rate. On the other hand, if better economic management and pro-development policies result in higher revenue raising capacity, this is redistributed to other States.

Another problem with fiscal equalisation is that it can be used by the Commonwealth as a way of avoiding responsibility for assisting States that face fiscal problems. The Commonwealth tends to rely on the fiscal equalisation process to assist States with special needs, rather than adequately increasing aggregate funding.

The importance of obtaining appropriate fiscal equalisation outcomes is highlighted by the large reallocation of resources within the Federation through Commonwealth policies, of which fiscal equalisation is only one component. The equalisation outcomes need to be viewed in the broader context of these other reallocations.

Table 8 shows the effective subsidies provided by each State in 1996-97 through Commonwealth fiscal policies. These subsidies represent the difference between Commonwealth revenues derived from each State (eg. income tax, company tax, fuel excise) and Commonwealth expenditures on each State (eg. grants to State governments, social security and Medicare benefits, and public service salaries).<sup>5</sup>

Western Australia provides the largest dollar subsidy (and the second largest per capita subsidy) of any States. Furthermore, the subsidy provided by Western Australia has been rising dramatically in recent years, more than tripling since 1991-92.

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<sup>5</sup> More details are available in *Fiscal Subsidies within the Australian Federation*, Treasury Discussion Paper, March 1999.

The existence of fiscal subsidies within the Federation is to be expected as a result of uniform tax rates across the nation and consistent policies on service provision. For example, a State with a stronger economy such as Western Australia can be expected to fund a relatively high share of company tax and receive a relatively low share of unemployment benefits. However, because the reallocation is so large, States are justified in querying how much fiscal equalisation should add to these subsidies.

Table 8

**EACH STATE'S NET SUBSIDY TO THE FEDERATION  
1996-97<sup>(a)</sup>**

	\$ million	\$ per capita
New South Wales	1,354	217
Victoria	1,483	323
Queensland	-2,056	-610
Western Australia	2,525	1,417
South Australia	-1,953	-1,322
Tasmania	-1,065	-2,245
ACT	660	2,139
Northern Territory	-949	-5,144
All States	0	0

(a) The latest year for which relevant data are available.

Source: Western Australian Treasury estimates.

## LOAN COUNCIL

The Loan Council monitors the financing requirements of Commonwealth, State and Territory governments using 'Loan Council Allocations' (LCAs). An LCA is a government's deficit/surplus (as defined by the Australian Bureau of Statistics) adjusted by memorandum items which are intended to provide better coverage of government liabilities and improve comparability between States.

The Loan Council's main concern is that aggregate LCAs be consistent with macroeconomic policy requirements. Governments are required to regularly report on their LCAs including variations which exceed total public sector revenue by 2%.

In last year's State Budget, Western Australia's 1998-99 LCA was estimated to be a deficit of \$374 million, compared to the current estimate of a deficit of \$760 million. The increase is due to higher expenditures by public trading enterprises (PTEs), especially payments to reduce superannuation liabilities.

The State's 1999-2000 LCA has been revised from an estimated deficit of \$704 million nominated to Loan Council in April 1999 to a currently estimated deficit of \$852 million. This revision mainly reflects higher government expenditure and lower projections of land sales.

Table 9

**LOAN COUNCIL ALLOCATIONS**  
**Western Australia**

	1998-99 Current Estimate \$m	1999-00 Current Estimate \$m
General government sector deficit/surplus	143.0	347.1
PTE sector net financing requirement	526.8	464.6
<b>Total non-financial public sector deficit/surplus</b>	<b>670.0</b>	<b>811.7</b>
Memorandum items <sup>(a)</sup>	90.1	40.1
<b>Loan Council Allocation</b>	<b>760.1</b>	<b>851.8</b>

(a) Memorandum items are used to adjust the ABS deficit/surplus to include in LCAs certain transactions - such as operating leases - that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit/surplus certain transactions that Loan Council has agreed should not be included in LCAs - for example, the funding of more than emerging costs under public sector superannuation schemes, the deficit/surplus of States' central borrowing authorities, or borrowings by entities such as statutory marketing authorities.

Source: Western Australian Treasury estimates.

## CHAPTER 6

# UNIFORM REPORTING OF PUBLIC SECTOR FINANCES

### HIGHLIGHTS

- Growth in the surplus on current<sup>1</sup> operations will continue across the public sector, cementing improvements in performance in recent years. In 1999-2000, this surplus will be almost \$1.2 billion.
- Capital spending on major infrastructure projects such as TransformWA, infill sewerage, construction of the Harvey dam, Jervoise Bay and Westrail freight operations will continue. As a result, both general government and public trading enterprise (PTE) sector finances will record modest deficits until 2001-02 and 2002-03.
- The public financial enterprise (PFE) sector will return a surplus in 1999-2000 and is projected to improve on that position in the medium term.
- Increases in net debt are projected through to 2000-01 in support of the capital works program. As capital projects begin to wind back, the reliance on debt funding will diminish and with on-going repayments, net debt is projected to decline from 2001-02.
- These increases in net debt are from the lowest levels recorded. The impact of increasing debt is affordable within the context of the financial targets outlined in Chapters 1 and 3.
- No account has been taken of future asset sales in these estimates. To the extent that these may occur, further improvements in the strength of the State's finances may be expected.

### INTRODUCTION

Western Australia's public sector finances are assessed throughout this chapter on a basis consistent with Australian Bureau of Statistics' (ABS) standards. Analysis presented in this chapter relies on the government finance statistics (GFS) series and on the financial assets and liabilities series, commonly referred to as net debt.

GFS provide a measure of the net economic impact on the Western Australian economy of all State Government financial transactions in the year they occur. The focus is on the value of cash transactions. The series has been developed according to ABS and international economic statistical standards.

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<sup>1</sup> The term current refers to non-capital outlay or revenue transactions and is closely related to the day-to-day operating activities of the public sector.

The net debt series consists of selected financial assets and liabilities of the public sector. It includes cash holdings, advances (repayable grants), borrowings and lending.

Both series provide estimates and projections to 2002-03 on a uniform basis (in accordance with the ABS standards) for the general government, PTE and PFE sectors with consolidated totals for the non-financial and total public sector.

In recent years, governments of all Australian jurisdictions at State, Territory and Commonwealth levels, the media, credit rating agencies and other commentators have increasingly relied upon GFS and the net debt series to provide comparability between jurisdictions and across time.

Major features of these series include:

- Netting of some revenue, outlays and financial asset and liability aggregates (to assess net economic impact); and
- Inclusion of all State public sector agencies in a single consolidated statement to provide a comprehensive summary of the State's finances.

For background information and details of future developments refer to Appendix 2: *Developments in Statistical Series and Uniform Presentation* at the end of this chapter. Unless otherwise stated, all growth rates in this chapter are quoted in real terms using the implicit price deflator for gross State product.

## **1998-99 OUTCOME**

A total public sector deficit of \$619 million is projected for 1998-99. This result follows from the significant and on-going capital investment programs in the general government and PTE sectors.

The surplus on current activities will remain at the high levels achieved in recent years. A current surplus of \$998 million is expected for the year, offset by a \$1,617 million draw from capital.

The favourable outcome expected on current transactions comes despite considerable pressure for additional funding for education, health, transport and law and order. Significant increases to current funding of the key general government agencies in these sectors were announced earlier this year.

The general government sector will record a deficit of around \$213 million in 1998-99, \$230 million lower than projected in the *Mid-Year Review of Public Sector Finances* released in February 1999, and an improvement of \$64 million on the deficit projected in last year's budget papers<sup>2</sup>. This improvement results from lower projected consumption expenditure augmented with a small increase in revenue.

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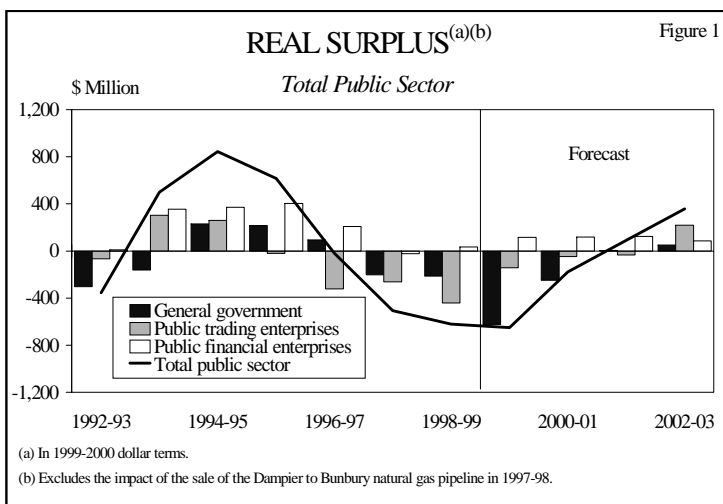
<sup>2</sup> Adjusted for reclassification of the gas pipeline sale impacts, consistent with ABS treatment.

The PTE sector deficit is largely caused by capital works requirements. However, the increase over mid-year estimates to \$441 million reflects cash payments to the Consolidated Fund to reduce the sector’s unfunded superannuation liabilities, lower than expected operating profit by the State’s larger utilities and increases in dividend and tax equivalent regime (TER) payments.

### 1999-2000 AND FORWARD YEARS

#### TOTAL PUBLIC SECTOR

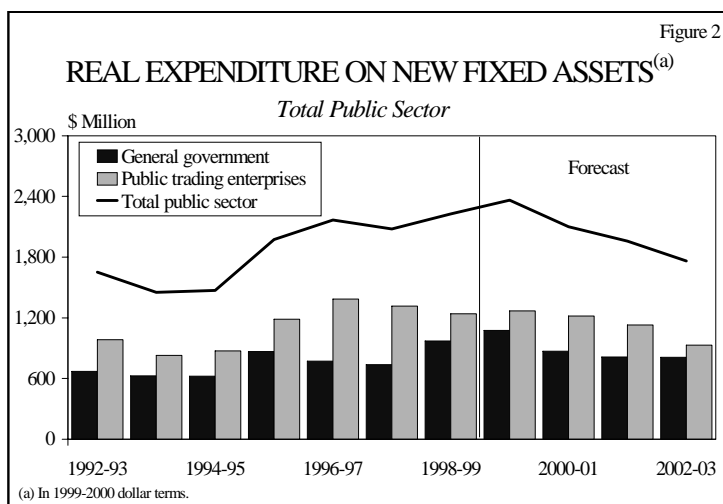
The total public sector is projected to record a deficit of \$666 million in 1999-2000, comprised of a current surplus of \$1,190 million and a capital deficit of \$1,856 million.



Underlying the projected capital deficit is continued major infrastructure spending in the general government and PTE sectors, essential in meeting Western Australia’s growth needs. The high level of capital spending is projected to moderate over the forward estimate period.

A significant proportion of public sector outlays is comprised of capital works program activities. This program is required to meet the continuing capital needs in provision of school and hospital facilities, public housing, water and power supplies, roads and transport services, and the many other services supplied by the Government. Outlays on capital works over the period 1992-93 projected out to 2002-03 are shown in the following figure.





As well as illustrating the considerable on-going capital outlays over this period, the figure also shows significant variations from year to year, reflecting the effect of a number of major projects such as:

- Rail electrification and northern suburbs extension (to 1994);
- Construction of the Collie power station (1996 to 1998);
- The sewerage infill program (from 1998);
- Westrail infrastructure upgrade and locomotive replacement (1999 to 2002);
- Computers in schools program (1999 and 2000); and
- The TransformWA road and public transport project.

Total outlays will remain at high levels until 2001-02 mainly due to the large capital outlays of the general government and PTE sectors. As some of the infrastructure projects draw to a close, capital investment spending is projected to moderate and return to historical levels which in turn is projected to see the total public sector record overall surpluses from 2001-02.

In contrast to the deficit on capital works and in line with current financial policy, a healthy surplus on current operations is projected across all State public sectors in 1999-2000. The outcome is a clear indication that in cash terms the day-to-day operations of the State public sector are being met by the current generation of taxpayers and that they also make a significant contribution to funding capital spending.

Restraint in operating spending will result in current outlays declining marginally over the period 1999-2000 to 2002-03, while revenue will continue the modest growth trend of recent years.

Table 1

## WESTERN AUSTRALIAN PUBLIC SECTOR FINANCES

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	\$m	Estimate	Estimate	Estimate
<i>General Government</i>						
OUTLAYS						
Current	6,810.0	7,114.8	7,585.1	7,770.8	7,877.6	8,052.5
Capital	774.5	1,072.3	1,229.2	1,042.1	1,002.4	1,042.1
<b>TOTAL</b>	<b>7,584.5</b>	<b>8,187.1</b>	<b>8,814.3</b>	<b>8,813.0</b>	<b>8,880.0</b>	<b>9,094.6</b>
REVENUE						
Own source revenue	4,113.3	4,507.4	4,694.2	4,967.8	5,212.1	5,378.8
Grants received	3,277.1	3,466.7	3,481.6	3,584.2	3,671.6	3,771.1
<b>TOTAL</b>	<b>7,390.4</b>	<b>7,974.1</b>	<b>8,175.8</b>	<b>8,552.0</b>	<b>8,883.7</b>	<b>9,150.0</b>
<i>Financing Transactions</i>	<i>194.1</i>	<i>212.9</i>	<i>638.4</i>	<i>261.0</i>	<i>-3.7</i>	<i>-55.3</i>
Current surplus	348.7	627.8	390.8	562.8	801.9	913.1
Capital surplus	-542.8	-840.7	-1,029.3	-823.8	-798.2	-857.8
<b>TOTAL SURPLUS</b>	<b>-194.1</b>	<b>-212.9</b>	<b>-638.4</b>	<b>-261.0</b>	<b>3.7</b>	<b>55.3</b>
<i>Public Trading Enterprises</i>						
OUTLAYS						
Current	1,100.5	1,075.5	1,035.3	1,121.0	1,187.6	1,232.5
Capital	-1,115.0	949.3	1,005.6	1,002.5	964.4	792.7
<b>TOTAL</b>	<b>-14.5</b>	<b>2,024.7</b>	<b>2,040.9</b>	<b>2,123.5</b>	<b>2,152.0</b>	<b>2,025.2</b>
REVENUE						
Own source revenue	1,279.2	1,167.8	1,211.2	1,324.7	1,404.4	1,490.5
Grants received	77.3	87.8	86.8	87.7	87.3	87.0
<b>TOTAL</b>	<b>1,356.5</b>	<b>1,255.7</b>	<b>1,298.0</b>	<b>1,412.4</b>	<b>1,491.7</b>	<b>1,577.5</b>
Increase in provisions	574.9	328.1	596.7	660.7	622.4	687.8
Other financing	-1,946.0	440.9	146.2	50.4	37.8	-240.2
<i>Financing transactions</i>	<i>-1,371.1</i>	<i>769.1</i>	<i>742.9</i>	<i>711.1</i>	<i>660.3</i>	<i>447.7</i>
Current surplus	653.6	334.7	680.0	766.3	735.7	836.8
Capital surplus	1,292.4	-775.7	-826.1	-816.8	-773.5	-596.7
<b>TOTAL SURPLUS</b>	<b>1,946.0</b>	<b>-440.9</b>	<b>-146.2</b>	<b>-50.4</b>	<b>-37.8</b>	<b>240.2</b>
<i>Public Financial Enterprises</i>						
OUTLAYS						
Current	1,041.3	871.9	709.5	742.0	770.6	779.0
Capital	18.1	15.6	16.1	13.1	13.9	23.5
<b>TOTAL</b>	<b>1,059.4</b>	<b>887.5</b>	<b>725.6</b>	<b>755.1</b>	<b>784.5</b>	<b>802.4</b>
REVENUE						
Own source revenue	952.7	964.7	818.4	858.5	872.3	882.0
Grants received	27.9	14.9	15.5	14.5	14.8	15.1
<b>TOTAL</b>	<b>980.6</b>	<b>979.6</b>	<b>833.9</b>	<b>873.1</b>	<b>887.1</b>	<b>897.2</b>
Increase in provisions	55.4	-57.7	10.5	6.1	27.9	-0.2
Other financing	23.4	-34.5	-118.8	-124.1	-130.5	-94.5
<i>Financing transactions</i>	<i>78.8</i>	<i>-92.2</i>	<i>-108.3</i>	<i>-117.9</i>	<i>-102.6</i>	<i>-94.7</i>
Current surplus	-33.2	35.1	119.5	122.7	129.5	102.8
Capital surplus	9.8	-0.7	-0.6	1.4	1.0	-8.3
<b>TOTAL SURPLUS</b>	<b>-23.4</b>	<b>34.5</b>	<b>118.8</b>	<b>124.1</b>	<b>130.5</b>	<b>94.5</b>

Table 1 (cont)

**WESTERN AUSTRALIAN PUBLIC SECTOR FINANCES (CONTINUED)**

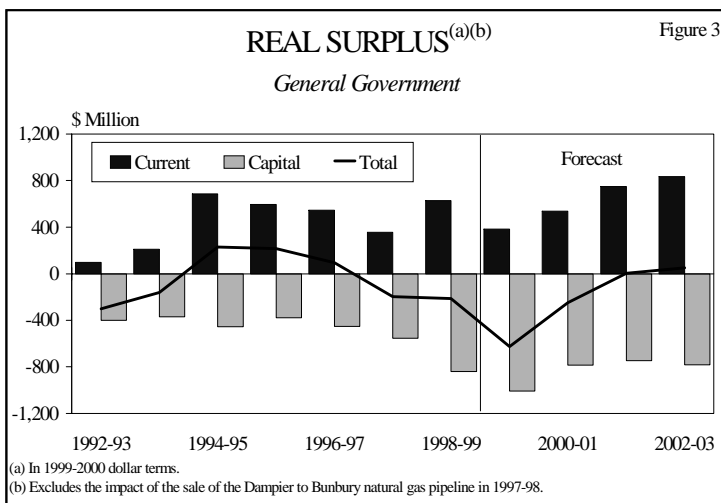
	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	\$m	\$m	\$m	\$m
<i>Total Public Sector</i>						
<b>OUTLAYS</b>						
Current	7,720.4	7,939.3	8,170.0	8,354.6	8,450.4	8,684.1
Capital	-427.6	1,934.4	2,148.6	1,955.6	1,878.5	1,756.2
<b>TOTAL</b>	<b>7,292.7</b>	<b>9,873.7</b>	<b>10,318.6</b>	<b>10,310.2</b>	<b>10,328.9</b>	<b>10,440.3</b>
<b>REVENUE</b>						
Own source revenue	5,113.8	5,517.2	5,564.0	5,871.8	6,103.3	6,371.6
Grants received	3,277.1	3,466.7	3,481.6	3,584.2	3,671.6	3,771.1
<b>TOTAL</b>	<b>8,390.9</b>	<b>8,983.8</b>	<b>9,045.7</b>	<b>9,456.0</b>	<b>9,775.0</b>	<b>10,142.7</b>
Increase in provisions	630.3	270.5	607.2	666.8	650.3	687.6
Other financing	-1,728.5	619.4	665.7	187.3	-96.3	-390.0
<i>Financing transactions</i>	<i>-1,098.2</i>	<i>889.8</i>	<i>1,273.0</i>	<i>854.2</i>	<i>553.9</i>	<i>297.6</i>
Current surplus	969.0	997.7	1,190.3	1,451.8	1,667.1	1,852.8
Capital surplus	759.4	-1,617.1	-1,856.0	-1,639.2	-1,570.7	-1,462.8
<b>TOTAL SURPLUS</b>	<b>1,728.5</b>	<b>-619.4</b>	<b>-665.7</b>	<b>-187.3</b>	<b>96.3</b>	<b>390.0</b>

Note: Columns may not add due to rounding.

**GENERAL GOVERNMENT**

The general government sector will continue to generate solid surpluses on current operations over the forward estimates period. This trend shows that the underlying operating position of the sector remains intrinsically sound.

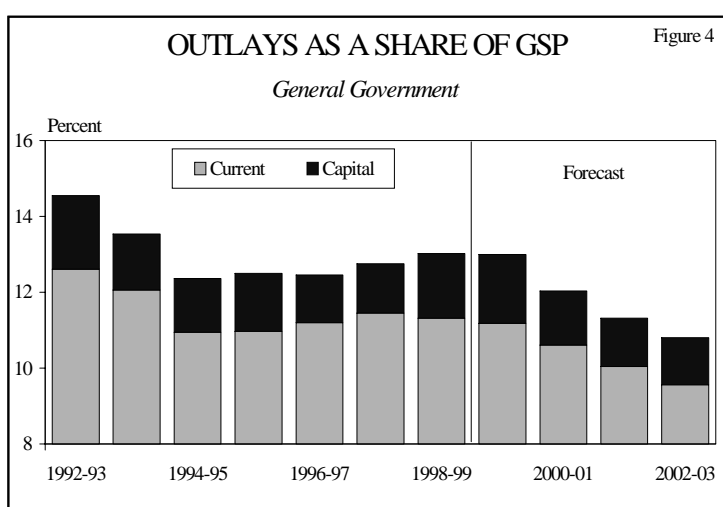
Capital spending will keep the sector in an overall deficit position from 1998-99 to 2000-01. Restraining current outlays will enable the general government capital program to be funded from surplus funds in 2001-02 and 2002-03.



## Outlays

General Government current outlays growth in 1999-2000 will be around 4.3% while average annual growth over the four years to 2002-03 is projected at 0.8%. Capital spending associated with large projects such as the on-going TransformWA road and public transport program, regional infrastructure, education capital, upgrading the State's bus fleet, a new police academy, the Police Service's Delta Communications program and the Canning Vale assessment centre underlie the 12.8% increase in gross fixed capital spending in 1999-2000 (this follows on the back of an increase of 38.5% in 1998-99).

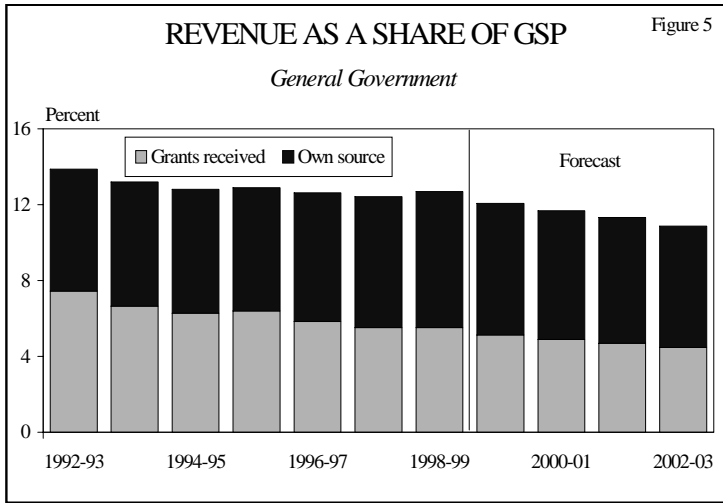
In terms of the sector's overall contribution to the State's economic activity, current outlays will continue to trend downwards as a share of GSP. Restraint in current outlays and the end of some larger projects will accentuate this declining trend from the budget year.



## Revenue

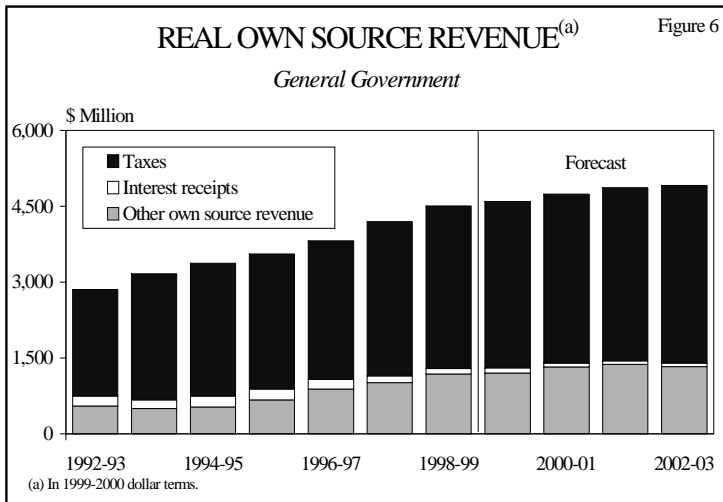
General Government revenue is projected to grow by just 0.3% in 1999-2000 with a 1.9% (\$187 million) increase in own source receipts more than offsetting an expected real decline in Commonwealth funding.

The revenue burden on the State's economy is expected to continue its declining trend. At 12.2% of GSP expected in 1999-2000 (compared with 13.9% in 1992-93) and a projected level of 11.0% by 2002-03, this means that the relative impact of funding day-to-day operations of the public sector is reducing.

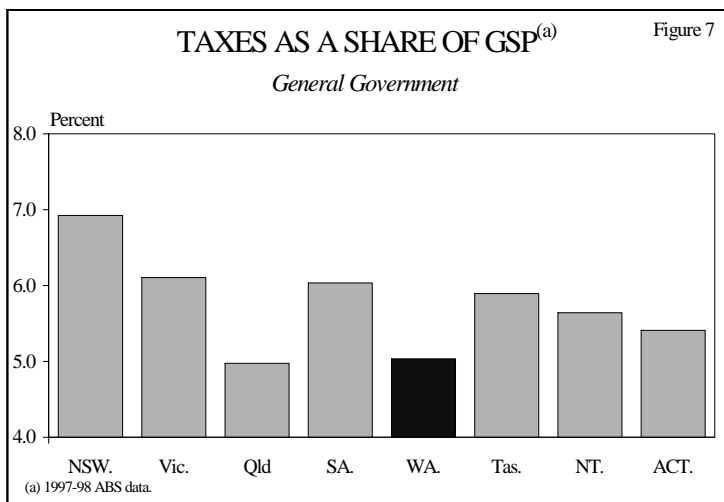


Revenue from the Commonwealth is expected to account for around 42.6% of general government revenue in 1999-2000, down from 53.5% ten years ago. This structural change in the mix of Western Australia’s revenue sources to a higher dependence on a narrow own source revenue base highlights the State’s interest in achieving enduring reform in taxation arrangements which provides the States access to broad based taxes.

The most significant component of own source revenue is taxation, accounting for over 70% of the projections for 1999-2000. Other own source revenue in the following figure includes royalties and dividend and TER receipts from the PTE and PFE sectors.



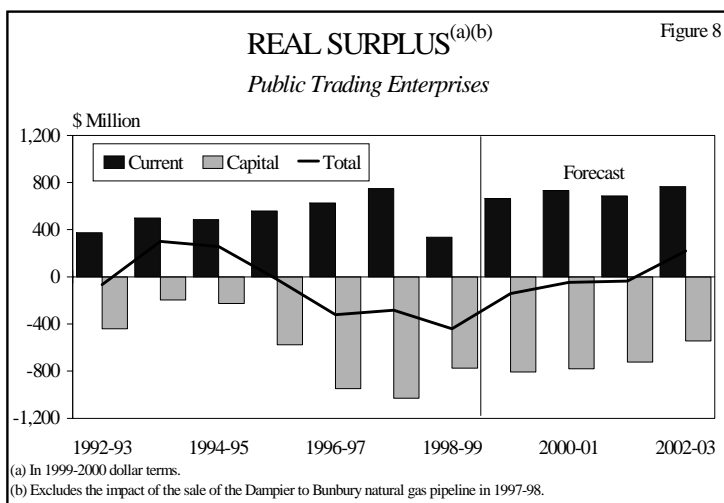
Based on ABS 1997-98 actual outturn data, Western Australia remains as the equal lowest taxing State or Territory (along with Queensland) in terms of share of its economy.



**PUBLIC TRADING ENTERPRISES (PTEs)**

The PTE sector is expected to record an overall deficit of \$146 million in 1999-2000.

While the current surplus is projected to be \$680 million, maintaining the stronger growth trend of recent times, the projected capital deficit of \$826 million will keep the sector in overall deficit. The capital deficit is the result of above average capital investment in energy, water and rail transport infrastructure which is necessary for the State’s economic development.



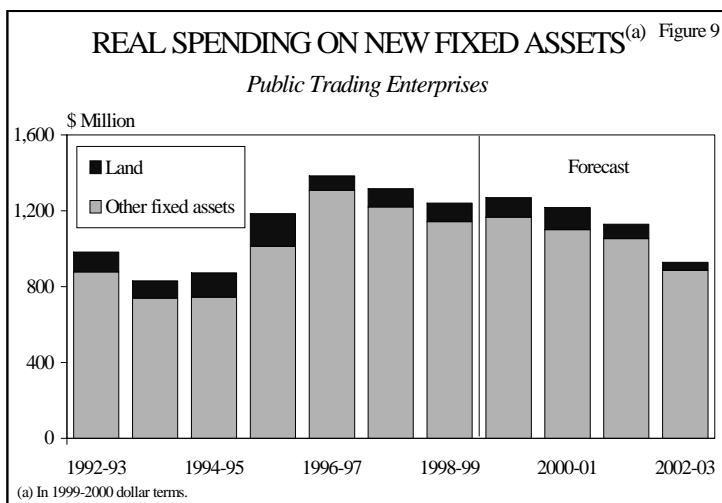
The PTE current surplus will remain at high levels over the forward estimates period. However, small overall deficits are projected for 2000-01 and 2001-02 due to the continuing demands of the capital investment program. This trend should be reversed in 2002-03 when the present levels of demand for infrastructure are forecast and the sector will return an overall surplus.

## Outlays

Total PTE outlays<sup>3</sup> of \$2,041 million for 1999-2000 are much the same as 1998-99 outlays.

While current outlays will decline by 5.9% in 1999-2000 (due primarily to the concentration in 1998-99 of dividend and TER payments from sale of the Dampier to Bunbury natural gas pipeline), capital outlays will continue at historically high levels. Current outlays will increase by an annual average rate of 3.6% to 2002-03, reflecting further growth in dividend and TER payments, funded from higher operating profits.

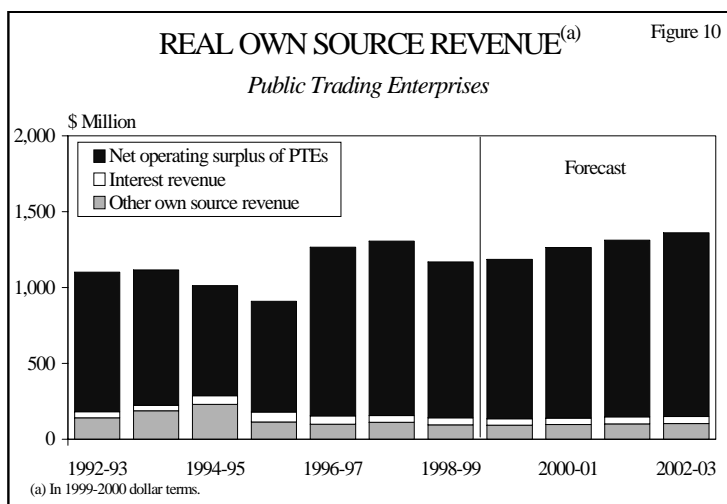
Spending on new assets in 1999-2000 will be almost \$1,300 million and will remain at this high level until 2001-02. Significant capital projects included in the projections are the metropolitan infill sewerage scheme, the recently announced Harvey dam, the housing construction and purchase program and railway projects (upgrading railway track and rolling stock).



## Revenue

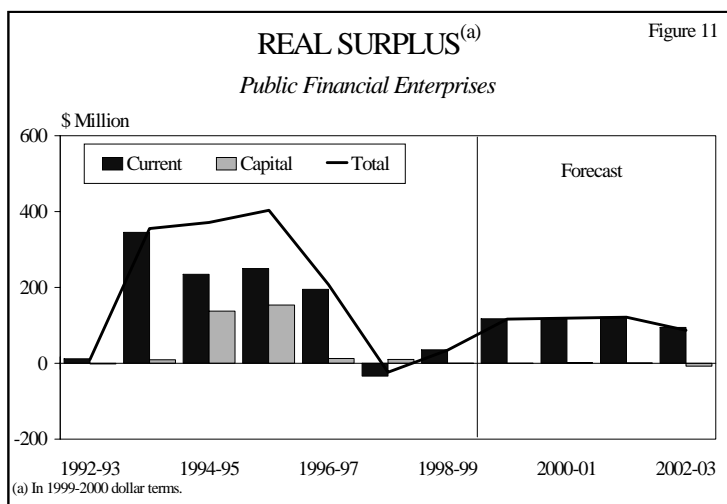
Total PTE revenue will increase by 1.1% in 1999-2000 to \$1,298 million mainly due to a small increase in net operating surpluses of the State's larger utilities. Stronger growth (again due to operating surplus performance) is expected over the forward estimates period.

<sup>3</sup> PTE sector outlays exclude goods and services, depreciation and superannuation expenses recorded in the net operating surplus revenue aggregate.



## PUBLIC FINANCIAL ENTERPRISES

The PFE sector is expected to return a surplus of \$119 million in 1999-2000 improving on the \$34 million surplus expected in 1998-99. The sector is expected to continue to record surpluses in the forward years with both revenue and outlays growth expected to be stable over the period.



## Outlays

Total PFE outlays for 1999-2000 of \$726 million are 1.1% of GSP. Lower interest payments have resulted in a reduction in outlays from the 1998-99 levels. This is offset by a corresponding reduction in revenue from general government and PTE agencies from the corresponding lower levels of debt on these sectors' balance sheets.



## **FINANCING TRANSACTIONS**

### **INTRODUCTION**

Financing transactions show how the State allocates its surpluses or funds its deficits. The GFS presentation of these transactions include:

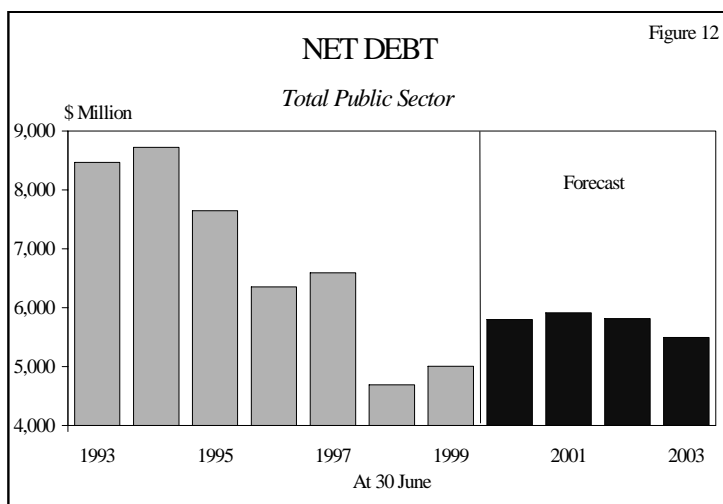
- Net advances from other levels of government (which include loans made by government to the private sector and their repayment);
- Net borrowings (generally borrowing and lending with the non-public sector);
- Increases in provisions (which are used to remove the impact of major accrued expenses and revenue in the PTE sector to arrive at the derived cash surplus/deficit measure); and
- Other financing transactions (including movements in payables, receivables and cash balances).

Total financing transactions indicate the various ways in which the public sector draws on or adds to national savings. Western Australia's surpluses of the recent past have made a positive contribution to national savings, making more funds available to other sectors for investment purposes.

Net debt increases over the next two years but not all this movement is attributable to borrowings. It also includes movements in cash holdings and other non-borrowing aggregates such as loans to and from other sectors.

### **GROSS AND NET DEBT**

The sale of the Dampier to Bunbury natural gas pipeline in 1997-98 enabled public sector net debt to decline to \$4,694 million at 30 June 1998. This was the lowest net debt level recorded. As was projected in last year's budget, continuing substantial capital works programs will cause net debt to rise over the period to 30 June 2001, after which reductions in debt levels are expected. The increase in the short term is projected to result in a net debt peak of around \$5,915 million at 30 June 2001. This level of net debt is lower than for any year prior to the sale of the gas pipeline.



### Movements in Debt

Gross debt is expected to stand at around \$11.6 billion at 30 June 1999, a \$756 million increase on the corresponding period last year. Financial assets will grow at a similar rate to \$6.6 billion, up \$441 million. A considerable portion of the increases is borrowings for on-lending to home purchasers through home lending programs. These transactions have little impact on the level of net debt because the borrowings liability is offset by the financial assets created through the on-lending.

The balance of the increase in gross debt is largely due to the continued higher capital works programs relating to rail and road transport, energy, water and sewerage. While such borrowings result in increased fixed assets, these assets are not included in net debt computation and hence these borrowings add to net debt while the assets add to the State's overall net assets position.

A summary of the public sector's estimated gross and net debt at 30 June for each year to 2003 is provided in Table 2.

Table 2

## NET DEBT OF THE PUBLIC SECTOR AT 30 JUNE

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	Actual	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
<i>General Government</i>						
<b>GROSS DEBT</b>						
Deposits held	301.3	113.3	109.3	109.9	102.6	100.2
Advances received	318.3	306.1	142.7	23.5	8.5	12.4
Borrowings <sup>(a)</sup>	1,664.9	1,743.1	2,236.2	2,499.6	2,499.5	2,495.6
<i>Total gross debt</i>	<i>2,284.5</i>	<i>2,162.5</i>	<i>2,488.1</i>	<i>2,633.0</i>	<i>2,610.5</i>	<i>2,608.1</i>
<b>CASH, DEPOSITS AND LENDING</b>						
Cash and deposits	161.2	79.8	82.4	84.6	89.1	146.0
Advances paid	462.8	479.4	285.1	284.9	282.0	275.4
Other lending <sup>(b)</sup>	1,260.3	1,154.2	1,162.3	1,109.7	1,067.3	1,068.5
<i>Total cash, deposits and lending</i>	<i>1,884.2</i>	<i>1,713.5</i>	<i>1,529.9</i>	<i>1,479.3</i>	<i>1,438.5</i>	<i>1,489.9</i>
<b>NET DEBT<sup>(c)</sup></b>	<b>400.3</b>	<b>449.0</b>	<b>958.3</b>	<b>1,153.7</b>	<b>1,172.0</b>	<b>1,118.2</b>
<i>Unfunded employee entitlements<sup>(d)</sup></i>	<i>5,422.3</i>	<i>5,648.8</i>	<i>5,685.2</i>	<i>5,707.3</i>	<i>5,707.1</i>	<i>5,686.2</i>
<i>Public Trading Enterprises</i>						
<b>GROSS DEBT</b>						
Deposits held	8.7	10.5	1.5	1.5	1.5	1.5
Advances received	876.0	853.9	698.6	683.4	667.2	635.4
Borrowings <sup>(a)</sup>	4,717.6	5,455.6	5,916.2	5,957.8	5,990.8	5,877.7
<i>Total gross debt</i>	<i>5,602.3</i>	<i>6,320.0</i>	<i>6,616.3</i>	<i>6,642.7</i>	<i>6,659.6</i>	<i>6,514.6</i>
<b>CASH, DEPOSITS AND LENDING</b>						
Cash and deposits	335.8	173.3	188.3	199.4	195.7	175.5
Advances paid	450.5	312.1	325.8	317.7	311.8	306.0
Other lending <sup>(b)</sup>	302.4	899.2	843.8	845.1	854.8	859.9
<i>Total cash, deposits and lending</i>	<i>1,088.7</i>	<i>1,384.6</i>	<i>1,357.9</i>	<i>1,362.1</i>	<i>1,362.3</i>	<i>1,341.4</i>
<b>NET DEBT<sup>(c)</sup></b>	<b>4,513.7</b>	<b>4,935.4</b>	<b>5,258.4</b>	<b>5,280.6</b>	<b>5,297.3</b>	<b>5,173.2</b>
<i>Unfunded employee entitlements<sup>(d)</sup></i>	<i>619.2</i>	<i>423.7</i>	<i>420.6</i>	<i>418.7</i>	<i>417.1</i>	<i>415.5</i>
<i>Total Non-Financial Public Sector<sup>(e)</sup></i>						
<b>GROSS DEBT</b>						
Deposits held	184.8	69.1	53.6	54.4	66.8	80.8
Advances received	945.4	912.6	798.7	671.2	646.0	625.0
Borrowings <sup>(a)</sup>	6,382.5	7,198.6	8,152.4	8,457.4	8,490.3	8,373.2
<i>Total gross debt</i>	<i>7,512.8</i>	<i>8,180.3</i>	<i>9,004.7</i>	<i>9,183.1</i>	<i>9,203.1</i>	<i>9,079.0</i>
<b>CASH, DEPOSITS AND LENDING</b>						
Cash and deposits	371.8	198.4	213.6	227.0	247.5	300.6
Advances paid	664.4	544.1	568.4	567.0	564.1	558.6
Other lending <sup>(b)</sup>	1,562.7	2,053.4	2,006.1	1,954.8	1,922.2	1,928.4
<i>Total cash, deposits and lending</i>	<i>2,598.9</i>	<i>2,795.8</i>	<i>2,788.1</i>	<i>2,748.8</i>	<i>2,733.8</i>	<i>2,787.6</i>
<b>NET DEBT<sup>(c)</sup></b>	<b>4,913.9</b>	<b>5,384.5</b>	<b>6,216.7</b>	<b>6,434.3</b>	<b>6,469.3</b>	<b>6,291.3</b>
<i>Unfunded employee entitlements<sup>(d)</sup></i>	<i>6,041.5</i>	<i>6,072.5</i>	<i>6,105.8</i>	<i>6,126.0</i>	<i>6,124.2</i>	<i>6,101.7</i>

Table 2 (cont)

**NET DEBT OF THE PUBLIC SECTOR AT 30 JUNE (CONTINUED)**

	1998	1999	2000	2001	2002	2003
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	\$m	\$m	\$m	\$m
<i>Public Financial Enterprises</i>						
<b>GROSS DEBT</b>						
Deposits held	0.0	0.0	0.0	0.0	0.0	0.0
Advances received	0.0	3.5	3.5	3.4	3.4	3.3
Borrowings <sup>(a)</sup>	9,674.6	11,092.6	11,742.8	12,154.5	12,398.8	12,446.0
<i>Total gross debt</i>	<i>9,674.6</i>	<i>11,096.1</i>	<i>11,746.3</i>	<i>12,157.9</i>	<i>12,402.2</i>	<i>12,449.3</i>
<b>CASH, DEPOSITS AND LENDING</b>						
Cash and deposits	8.2	21.3	16.2	9.3	6.0	13.0
Advances paid	1,163.1	1,436.2	1,660.6	1,871.7	2,077.4	2,265.5
Other lending <sup>(b)</sup>	8,723.6	10,014.7	10,486.1	10,796.1	10,972.6	10,969.3
<i>Total cash, deposits and lending</i>	<i>9,894.9</i>	<i>11,472.2</i>	<i>12,162.9</i>	<i>12,677.1</i>	<i>13,056.0</i>	<i>13,247.8</i>
<b>NET DEBT<sup>(c)</sup></b>	<b>-220.2</b>	<b>-376.1</b>	<b>-416.7</b>	<b>-519.2</b>	<b>-653.8</b>	<b>-798.5</b>
<i>Unfunded employee entitlements<sup>(d)</sup></i>	<i>17.4</i>	<i>17.4</i>	<i>16.4</i>	<i>16.4</i>	<i>15.4</i>	<i>15.4</i>
<i>Total Public Sector<sup>(e)</sup></i>						
<b>GROSS DEBT</b>						
Deposits held	184.8	60.9	50.1	52.9	65.1	77.6
Advances received	795.4	916.1	802.2	674.7	649.4	628.3
Borrowings <sup>(a)</sup>	9,892.9	10,651.6	11,422.4	11,915.6	12,130.9	12,184.5
<i>Total gross debt</i>	<i>10,873.2</i>	<i>11,628.5</i>	<i>12,274.7</i>	<i>12,643.1</i>	<i>12,845.3</i>	<i>12,890.4</i>
<b>CASH, DEPOSITS AND LENDING</b>						
Cash and deposits	380.0	211.5	226.3	234.8	251.8	310.4
Advances paid	1,677.4	1,980.3	2,229.0	2,438.7	2,641.5	2,824.1
Other lending <sup>(b)</sup>	4,122.1	4,428.4	4,019.4	4,054.5	4,136.6	4,263.0
<i>Total cash, deposits and lending</i>	<i>6,179.4</i>	<i>6,620.2</i>	<i>6,474.8</i>	<i>6,728.0</i>	<i>7,029.9</i>	<i>7,397.6</i>
<b>NET DEBT<sup>(c)</sup></b>	<b>4,693.7</b>	<b>5,008.4</b>	<b>5,800.0</b>	<b>5,915.1</b>	<b>5,815.5</b>	<b>5,492.8</b>
<i>Unfunded employee entitlements<sup>(d)</sup></i>	<i>6,058.9</i>	<i>6,089.9</i>	<i>6,122.3</i>	<i>6,142.5</i>	<i>6,139.6</i>	<i>6,117.2</i>

(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 and derivatives in a net asset position. Excludes accounts receivable, prepayments and equities.

(c) Total gross debt less total cash, deposits and lending.

(d) Unfunded employee entitlements includes annual leave, long service leave, superannuation and workers compensation. The superannuation liabilities are projected from membership data at 30 June 1998. The increase in the general government liability estimated for 30 June 1999 (and corresponding decline in PTE liabilities in the same year) reflect the transfer of Western Power and Water Corporation liabilities to the Treasurer during 1998-99.

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

Note: Columns may not add due to rounding.

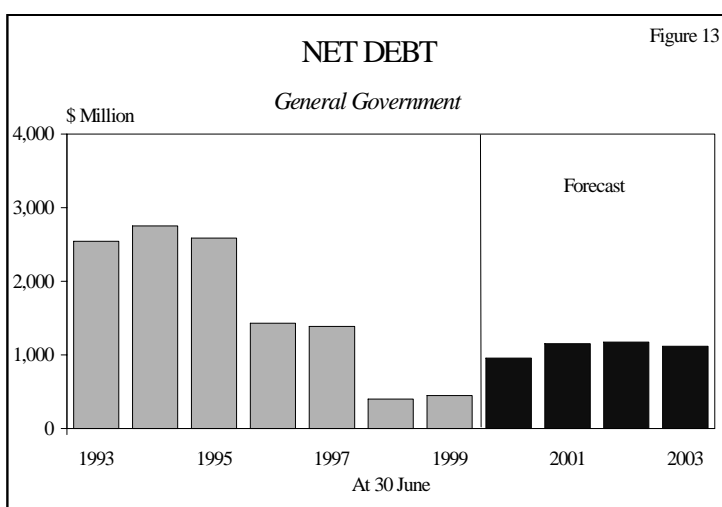
## General Government

Following major reductions in net debt in 1995-96 and 1997-98 (following the sale of BankWest and the AlintaGas pipeline respectively), general government net debt is expected to show modest increases from 1998-99 through to 2001-02. However, the 30 June 2002 net debt of \$1,172 million will still be less than half the peak level of 30 June 1994, and below the level at 30 June 1997.

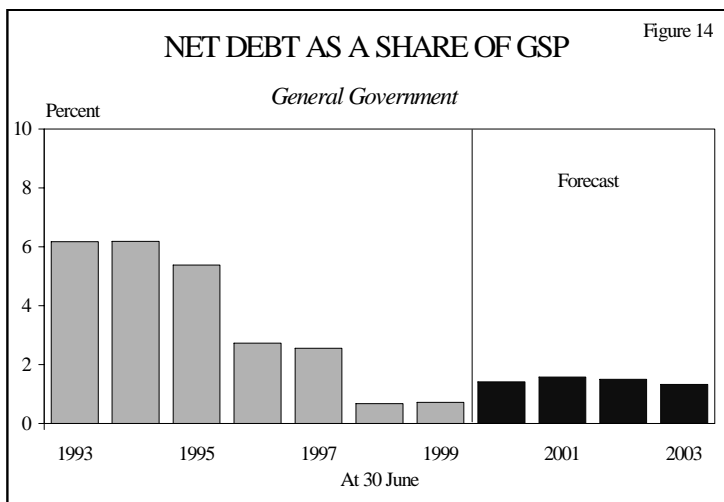
Improvement in general government sector net debt levels has been achieved through application of the proceeds of major asset sales together with sustained surpluses on operating activities. The considerable reduction in net debt in this area frees funds used for debt servicing costs for use in areas such as health and education.

The continuing low level of debt compared to the first half of this decade represents a significant easing of the burden carried by the sector and the economy generally. Net debt projected for general government will be around 0.7% of State output at 30 June 1999, down from the high of 6.2% in the ratio at 30 June 1993.

Debt servicing costs are expected to be low over the forward estimates period due to historically low interest rates and net debt levels. Projected net debt levels are consistent with levels at the time the State's Aaa credit rating was restored.



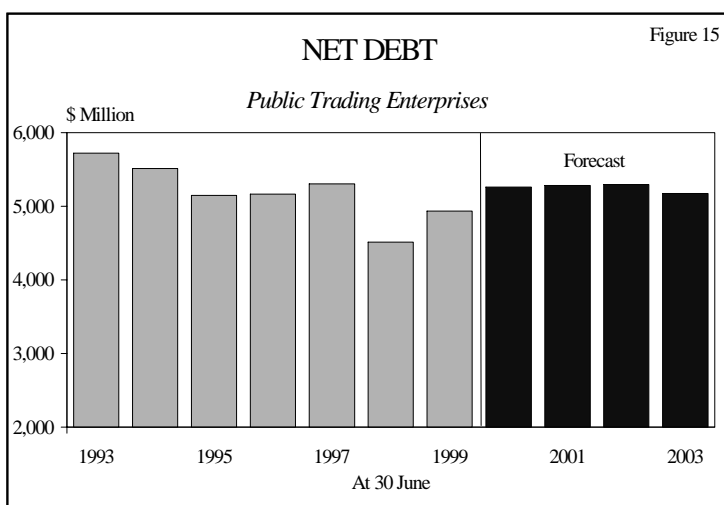
As a share of GSP, net debt will be around 1.5% at the end of 2001-02. Levels are expected to decline thereafter, particularly as the borrowings undertaken for TransformWA are repaid.



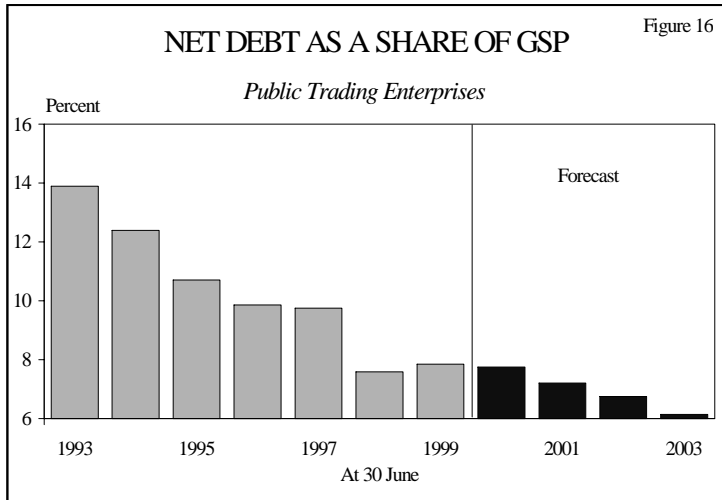
**Public Trading Enterprises**

The proceeds of the sale of the gas pipeline enabled a lowering of PTE net debt levels. Net debt declined from \$5,302 million at 30 June 1997 to \$4,513 million at 30 June 1998. Debt reduction from the pipeline sale well exceeds debt requirements of the sector’s infrastructure program.

Construction of the Collie power station is virtually complete. However, other energy, water, sewerage and railway projects will continue to require new borrowings through to 1999-2000. Net debt in the PTE sector is expected to be relatively unchanged in the two following years, declining from 2002-03.

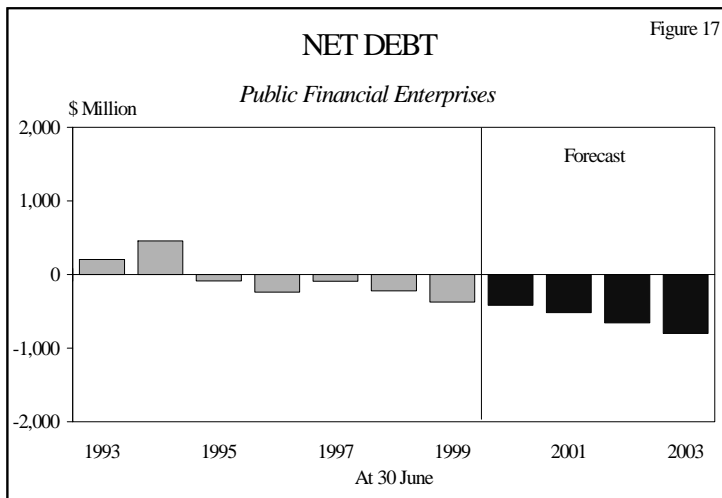


Net debt as a share of GSP was 15.8% at 30 June 1989, the highest on record and the first year of the net debt series. The equivalent figure at 30 June 1999 is expected to be 7.9% and, by 30 June 2003, around 6.2%.

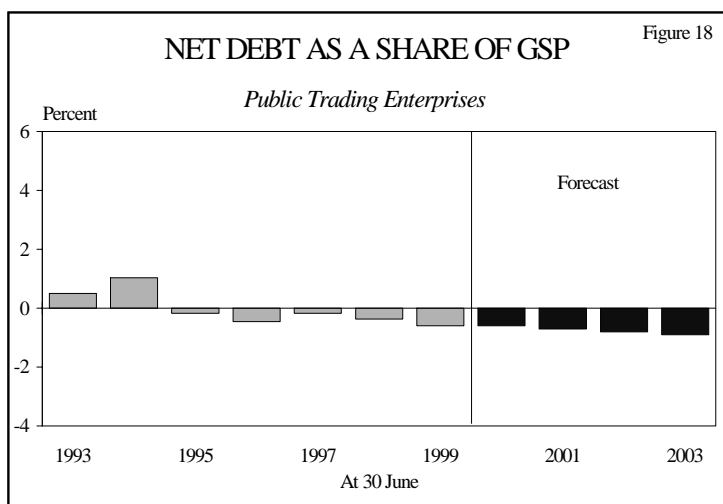


### Public Financial Enterprises

The PFE sector is currently in a credit position in terms of net debt. This situation has prevailed since 1994-95 despite some major fluctuations in the past from major privatisations (sale of BankWest and part of the State's insurance operations) and variable financial performance.



The sector's net financial asset position is estimated to be \$376 million at 30 June 1999. This credit position is expected to continue through the forecast period, and to increase to \$799 million by 30 June 2003. An increasingly positive position in the insurance sector is the major driver for this movement.



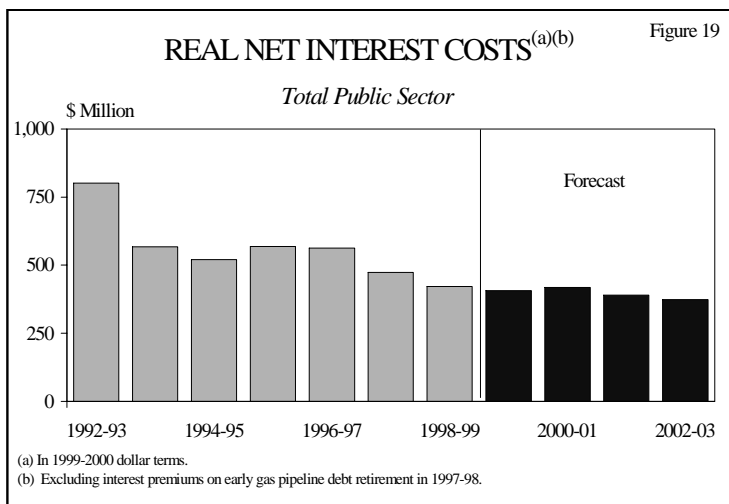
#### Debt Servicing Costs<sup>4</sup>

Net interest costs will be around \$415 million in 1999-2000. In real terms, this is the lowest level since net interest costs began to increase seventeen years ago (that is, since 1982-83 when new debt was raised to fund development of the north-west shelf oil and gas region), and substantially lower than the 1990-91 peak of \$763 million.

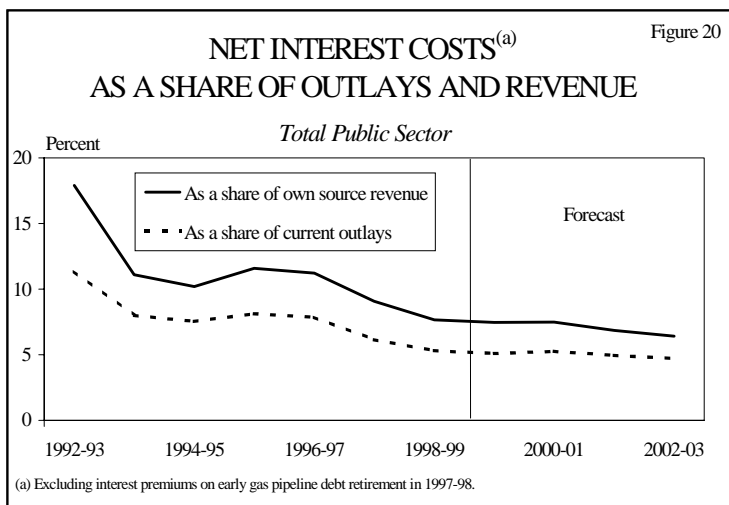
These lower levels are expected to continue over the forward estimates period and although a small rise in 2000-01 is projected, it is at a low level.

<sup>4</sup> As with net debt, debt servicing costs need to be considered in net terms to take account of interest received on investments as well as the gross cost of debt servicing.





Lower debt servicing costs free funds to provide services, fund liabilities (such as superannuation) and restructure public sector spending in line with changing priorities.



A further, less tangible, benefit also follows from lower risk to the State's finances through exposure to sudden increases in interest costs. This in turn insulates spending on services and hence the community generally from any deterioration in monetary policy conditions.

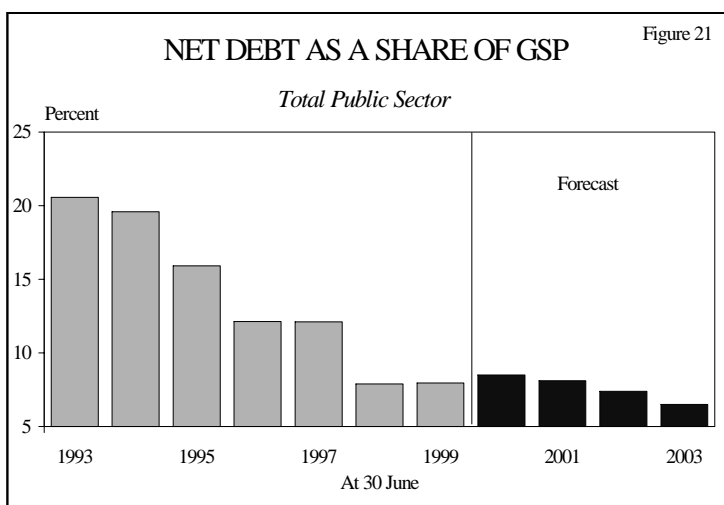
### Net Debt Outlook

The Government's financial strategy in recent years has focussed on reducing net debt and the State's interest burden.

Reductions through asset sales, and improving the commercial position of agencies such as the Water Corporation and Westrail, have combined to achieve these objectives over recent years.

Although net debt is projected to rise in dollar terms through to 2000-01 in line with capital spending by the general government and the PTE sector, it will decline in terms of its share of State output over the medium term. The low interest rate environment expected over the forecast period implies low net interest costs.

In spite of the demand for debt funding from the capital works program, net debt is projected to stand at around 6.5% of State output at 30 June 2003, continuing the downward trend of recent times and representing the lowest recorded debt to output ratio for the public sector.



**APPENDIX 1****UNIFORM PRESENTATION OF PUBLIC SECTOR FINANCES**

Table 1	:	Total Public Sector
Table 2	:	General Government Sector
Table 3	:	Public Trading Enterprises
Table 4	:	Total Non-Financial Public Sector
Table 5	:	Public Financial Enterprises
Table 6	:	Total Non-financial Public Sector Outlays by Government Purpose
Table 7	:	Taxes - General Government Sector
Table 8	:	Loan Council Allocations

Table 1

<b>GOVERNMENT FINANCE STATISTICS</b>						
<b>TOTAL PUBLIC SECTOR</b>						
	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
	Actual	Estimated	Budget	Forward	Forward	Forward
	Actual	Actual	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
<b>OUTLAYS</b>						
Final consumption expenditure	4,997.2	5,231.7	5,574.2	5,735.4	5,822.6	5,955.4
Interest payments	1,146.6	954.9	752.2	761.5	739.5	749.7
Other current outlays	1,576.5	1,752.7	1,843.6	1,857.8	1,888.3	1,979.1
<i>Total current outlays</i>	<i>7,720.4</i>	<i>7,939.3</i>	<i>8,170.0</i>	<i>8,354.6</i>	<i>8,450.4</i>	<i>8,684.1</i>
Gross fixed capital expenditure	-447.9	1,897.2	2,085.5	1,895.0	1,829.0	1,738.5
Expenditure on land (net)	-83.7	-83.3	-80.4	-113.9	-100.8	-85.9
Grants to other sectors	98.7	118.0	216.0	164.5	154.9	108.0
Other capital outlays	5.3	2.5	-72.5	10.0	-4.5	-4.4
<i>Total capital outlays</i>	<i>-427.6</i>	<i>1,934.4</i>	<i>2,148.6</i>	<i>1,955.6</i>	<i>1,878.5</i>	<i>1,756.2</i>
<b>TOTAL OUTLAYS</b>	<b>7,292.7</b>	<b>9,873.7</b>	<b>10,318.6</b>	<b>10,310.2</b>	<b>10,328.9</b>	<b>10,440.3</b>
<b>REVENUE</b>						
<i>Own source revenue</i>	<i>5,113.8</i>	<i>5,517.2</i>	<i>5,564.0</i>	<i>5,871.8</i>	<i>6,103.3</i>	<i>6,371.6</i>
Taxes	2,992.6	3,217.4	3,362.4	3,499.3	3,666.7	3,848.6
Net operating surplus	932.7	1,050.3	1,110.3	1,220.4	1,293.5	1,362.5
Interest received	501.8	533.3	336.7	322.5	321.6	340.4
Other own source revenue	686.6	716.2	754.6	829.6	821.6	820.0
<i>Grants received</i>	<i>3,277.1</i>	<i>3,466.7</i>	<i>3,481.6</i>	<i>3,584.2</i>	<i>3,671.6</i>	<i>3,771.1</i>
<b>TOTAL REVENUE</b>	<b>8,390.9</b>	<b>8,983.8</b>	<b>9,045.7</b>	<b>9,456.0</b>	<b>9,775.0</b>	<b>10,142.7</b>
<b>FINANCING TRANSACTIONS</b>						
Net advances received	-363.2	-308.5	-276.1	-252.3	-247.2	-236.1
Net borrowings	-1,538.4	885.0	690.6	417.9	252.2	53.6
Increase in provisions	630.3	270.5	607.2	666.8	650.3	687.6
Other financing transactions	173.2	42.9	251.2	21.7	-101.3	-207.5
<b>TOTAL FINANCING TRANSACTIONS</b>	<b>-1,098.2</b>	<b>889.8</b>	<b>1,273.0</b>	<b>854.2</b>	<b>553.9</b>	<b>297.6</b>
Current deficit	-969.0	-997.7	-1,190.3	-1,451.8	-1,667.1	-1,852.8
Capital deficit	-759.4	1,617.1	1,856.0	1,639.2	1,570.7	1,462.8
<b>Total deficit</b>	<b>-1,728.5</b>	<b>619.4</b>	<b>665.7</b>	<b>187.3</b>	<b>-96.3</b>	<b>-390.0</b>
<b>Net debt</b>	<b>4,694.0</b>	<b>5,008.4</b>	<b>5,800.0</b>	<b>5,915.1</b>	<b>5,815.5</b>	<b>5,492.8</b>
Columns may not add due to rounding.						

Table 2

**GOVERNMENT FINANCE STATISTICS  
GENERAL GOVERNMENT SECTOR**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	\$m	\$m	\$m	\$m
<b>OUTLAYS</b>						
Final consumption expenditure	4,997.2	5,231.7	5,574.2	5,735.4	5,822.6	5,955.4
Interest payments	381.6	243.5	242.3	264.9	256.6	249.9
Other current outlays	1,431.1	1,639.6	1,768.6	1,770.6	1,798.4	1,847.2
<i>Total current outlays</i>	<i>6,810.0</i>	<i>7,114.8</i>	<i>7,585.1</i>	<i>7,770.8</i>	<i>7,877.6</i>	<i>8,052.5</i>
Gross fixed capital expenditure	617.4	872.6	1,006.0	819.4	776.9	825.3
Expenditure on land (net)	-46.9	-21.3	-95.1	-44.0	-32.1	6.2
Grants to other sectors	203.9	220.8	318.3	266.7	257.0	210.2
Other capital outlays	0.0	0.3	0.0	0.0	0.6	0.4
<i>Total capital outlays</i>	<i>774.5</i>	<i>1,072.3</i>	<i>1,229.2</i>	<i>1,042.1</i>	<i>1,002.4</i>	<i>1,042.1</i>
<b>TOTAL OUTLAYS</b>	<b>7,584.5</b>	<b>8,187.1</b>	<b>8,814.3</b>	<b>8,813.0</b>	<b>8,880.0</b>	<b>9,094.6</b>
<b>REVENUE</b>						
<i>Own source revenue</i>	<i>4,113.3</i>	<i>4,507.4</i>	<i>4,694.2</i>	<i>4,967.8</i>	<i>5,212.1</i>	<i>5,378.8</i>
Taxes	2,992.6	3,217.4	3,362.4	3,499.3	3,666.7	3,848.6
Interest received	130.4	105.6	101.3	82.3	78.2	78.2
Other own source revenue	990.3	1,184.4	1,230.5	1,386.1	1,467.2	1,452.0
<i>Grants received</i>	<i>3,277.1</i>	<i>3,466.7</i>	<i>3,481.6</i>	<i>3,584.2</i>	<i>3,671.6</i>	<i>3,771.1</i>
<b>TOTAL REVENUE</b>	<b>7,390.4</b>	<b>7,974.1</b>	<b>8,175.8</b>	<b>8,552.0</b>	<b>8,883.7</b>	<b>9,150.0</b>
<b>FINANCING TRANSACTIONS</b>						
Net advances received	1,196.4	49.4	263.8	-43.7	-44.3	16.9
Net borrowings	-755.8	93.6	290.1	151.4	7.1	-31.8
Increase in provisions	0.0	0.0	0.0	0.0	0.0	0.0
Other financing transactions	-246.6	70.0	84.5	153.3	33.5	-40.5
<b>TOTAL FINANCING TRANSACTIONS</b>	<b>194.1</b>	<b>212.9</b>	<b>638.4</b>	<b>261.0</b>	<b>-3.7</b>	<b>-55.3</b>
Current deficit	-348.7	-627.8	-390.8	-562.8	-801.9	-913.1
Capital deficit	542.8	840.7	1,029.3	823.8	798.2	857.8
<b>Total deficit</b>	<b>194.1</b>	<b>212.9</b>	<b>638.4</b>	<b>261.0</b>	<b>-3.7</b>	<b>-55.3</b>
<b>Net debt</b>	<b>400.0</b>	<b>449.0</b>	<b>958.3</b>	<b>1,153.7</b>	<b>1,172.0</b>	<b>1,118.2</b>

Due to financial flows between the general government and PTE sectors, total public sector transactions cannot be derived as the addition of these two sectors. Columns may not add due to rounding.

Table 3

**GOVERNMENT FINANCE STATISTICS  
PUBLIC TRADING ENTERPRISES**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	\$m	\$m	\$m	\$m
<b>OUTLAYS</b>						
Interest payments	543.9	400.3	404.9	392.6	393.2	398.6
Other current outlays	556.6	675.1	630.4	728.4	794.4	833.9
<i>Total current outlays</i>	<i>1,100.5</i>	<i>1,075.5</i>	<i>1,035.3</i>	<i>1,121.0</i>	<i>1,187.6</i>	<i>1,232.5</i>
Gross fixed capital expenditure	-1,071.8	1,009.0	1,063.4	1,062.4	1,038.2	889.7
Expenditure on land (net)	-49.6	-62.0	14.7	-69.9	-68.7	-92.2
Other capital outlays	6.4	2.2	-72.5	10.0	-5.1	-4.8
<i>Total capital outlays</i>	<i>-1,115.0</i>	<i>949.3</i>	<i>1,005.6</i>	<i>1,002.5</i>	<i>964.4</i>	<i>792.7</i>
<b>TOTAL OUTLAYS</b>	<b>-14.5</b>	<b>2,024.7</b>	<b>2,040.9</b>	<b>2,123.5</b>	<b>2,152.0</b>	<b>2,025.2</b>
<b>REVENUE</b>						
<i>Own source revenue</i>	<i>1,279.2</i>	<i>1,167.8</i>	<i>1,211.2</i>	<i>1,324.7</i>	<i>1,404.4</i>	<i>1,490.5</i>
Net operating surplus	1,126.8	1,027.6	1,073.4	1,179.4	1,247.2	1,327.1
Interest received	43.6	45.3	43.1	44.3	49.5	50.1
Other own source revenue	108.8	94.9	94.8	101.1	107.7	113.4
<i>Grants received</i>	<i>77.3</i>	<i>87.8</i>	<i>86.8</i>	<i>87.7</i>	<i>87.3</i>	<i>87.0</i>
<b>TOTAL REVENUE</b>	<b>1,356.5</b>	<b>1,255.7</b>	<b>1,298.0</b>	<b>1,412.4</b>	<b>1,491.7</b>	<b>1,577.5</b>
<b>FINANCING TRANSACTIONS</b>						
Net advances received	-1,282.1	-85.9	-318.4	-3.8	-2.4	-53.4
Net borrowings	-738.2	735.4	523.0	51.5	32.0	-118.9
Increase in provisions	574.9	328.1	596.7	660.7	622.4	687.8
Other financing transactions	74.3	-208.6	-58.3	2.7	8.2	-67.9
<b>TOTAL FINANCING TRANSACTIONS</b>	<b>-1,371.1</b>	<b>769.1</b>	<b>742.9</b>	<b>711.1</b>	<b>660.3</b>	<b>447.7</b>
Current deficit	-653.6	-334.7	-680.0	-766.3	-735.7	-836.8
Capital deficit	-1,292.4	775.7	826.1	816.8	773.5	596.7
<b>Total deficit</b>	<b>-1,946.0</b>	<b>440.9</b>	<b>146.2</b>	<b>50.4</b>	<b>37.8</b>	<b>-240.2</b>
<b>Net debt</b>	<b>4,513.0</b>	<b>4,935.4</b>	<b>5,258.4</b>	<b>5,280.6</b>	<b>5,297.3</b>	<b>5,173.2</b>

Columns may not add due to rounding.

Table 4

**GOVERNMENT FINANCE STATISTICS  
TOTAL NON-FINANCIAL PUBLIC SECTOR**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	\$m	\$m	\$m	\$m
<b>OUTLAYS</b>						
Final consumption expenditure	4,997.2	5,231.7	5,574.2	5,735.4	5,822.6	5,955.4
Interest payments	875.1	605.7	608.2	633.6	626.9	625.3
Other current outlays	1,575.4	1,761.8	1,837.1	1,855.4	1,851.0	1,946.5
<i>Total current outlays</i>	<i>7,447.7</i>	<i>7,599.3</i>	<i>8,019.4</i>	<i>8,224.3</i>	<i>8,300.5</i>	<i>8,527.2</i>
Gross fixed capital expenditure	-454.4	1,881.6	2,069.4	1,881.8	1,815.1	1,715.0
Expenditure on land (net)	-96.5	-83.3	-80.4	-113.9	-100.8	-86.0
Grants to other sectors	126.6	132.9	231.5	179.1	169.7	123.1
Other capital outlays	6.4	2.5	-72.5	10.0	-4.5	-4.4
<i>Total capital outlays</i>	<i>-417.8</i>	<i>1,933.7</i>	<i>2,148.0</i>	<i>1,957.0</i>	<i>1,879.5</i>	<i>1,747.8</i>
<b>TOTAL OUTLAYS</b>	<b>7,029.8</b>	<b>9,533.0</b>	<b>10,167.5</b>	<b>10,181.3</b>	<b>10,180.0</b>	<b>10,275.0</b>
<b>REVENUE</b>						
<i>Own source revenue</i>	<i>4,929.7</i>	<i>5,084.3</i>	<i>5,304.5</i>	<i>5,625.0</i>	<i>5,851.9</i>	<i>6,111.5</i>
Taxes	2,992.6	3,217.4	3,362.4	3,499.3	3,666.7	3,848.6
Net operating surplus	1,126.8	1,027.6	1,073.4	1,179.4	1,247.2	1,327.1
Interest received	123.6	112.9	105.4	102.7	104.9	105.1
Other own source revenue	686.7	726.5	763.3	843.6	833.1	830.8
<i>Grants received</i>	<i>3,277.1</i>	<i>3,466.7</i>	<i>3,481.6</i>	<i>3,584.2</i>	<i>3,671.6</i>	<i>3,771.1</i>
<b>TOTAL REVENUE</b>	<b>8,206.8</b>	<b>8,551.0</b>	<b>8,786.2</b>	<b>9,209.2</b>	<b>9,523.5</b>	<b>9,882.7</b>
<b>FINANCING TRANSACTIONS</b>						
Net advances received	-85.4	-36.5	-54.4	-47.3	-46.5	-36.3
Net borrowings	-1,493.9	828.9	813.1	202.9	39.1	-150.7
Increase in provisions	574.9	328.1	596.7	660.7	622.4	687.8
Other financing transactions	-172.5	-138.6	25.9	155.7	41.5	-108.6
<b>TOTAL FINANCING TRANSACTIONS</b>	<b>-1,177.0</b>	<b>982.0</b>	<b>1,381.3</b>	<b>972.1</b>	<b>656.5</b>	<b>392.3</b>
Current deficit	-1,002.3	-962.5	-1,070.8	-1,329.2	-1,537.6	-1,750.0
Capital deficit	-749.6	1,616.4	1,855.4	1,640.6	1,571.7	1,454.4
<b>Total deficit</b>	<b>-1,751.9</b>	<b>653.9</b>	<b>784.6</b>	<b>311.4</b>	<b>34.1</b>	<b>-295.5</b>
<b>Net debt</b>	<b>4,914.0</b>	<b>5,384.5</b>	<b>6,216.7</b>	<b>6,434.3</b>	<b>6,469.3</b>	<b>6,291.3</b>

Columns may not add due to rounding.

Table 5

**GOVERNMENT FINANCE STATISTICS  
PUBLIC FINANCIAL ENTERPRISES**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	\$m	\$m	\$m	\$m
<b>OUTLAYS</b>						
Interest payments	1,040.1	870.8	694.2	725.6	721.9	735.7
Other current outlays	1.2	1.1	15.2	16.4	48.8	43.3
<i>Total current outlays</i>	<i>1,041.3</i>	<i>871.9</i>	<i>709.5</i>	<i>742.0</i>	<i>770.6</i>	<i>779.0</i>
Gross fixed capital expenditure	6.5	15.6	16.1	13.1	13.9	23.5
Expenditure on land (net)	12.8	0.0	0.0	0.0	0.0	0.0
Other capital outlays	-1.2	0.0	0.0	0.0	0.0	0.0
<i>Total capital outlays</i>	<i>18.1</i>	<i>15.6</i>	<i>16.1</i>	<i>13.1</i>	<i>13.9</i>	<i>23.5</i>
<b>TOTAL OUTLAYS</b>	<b>1,059.4</b>	<b>887.5</b>	<b>725.6</b>	<b>755.1</b>	<b>784.5</b>	<b>802.4</b>
<b>REVENUE</b>						
<i>Own source revenue</i>	<i>952.7</i>	<i>964.7</i>	<i>818.4</i>	<i>858.5</i>	<i>872.3</i>	<i>882.0</i>
Net operating surplus	-194.0	22.7	36.9	41.0	46.3	35.5
Interest received	1,146.7	942.0	781.6	817.5	826.0	846.6
Other own source revenue	0.0	0.0	0.0	0.0	0.0	0.0
<i>Grants received</i>	<i>27.9</i>	<i>14.9</i>	<i>15.5</i>	<i>14.5</i>	<i>14.8</i>	<i>15.1</i>
<b>TOTAL REVENUE</b>	<b>980.6</b>	<b>979.6</b>	<b>833.9</b>	<b>873.1</b>	<b>887.1</b>	<b>897.2</b>
<b>FINANCING TRANSACTIONS</b>						
Net advances received	-277.5	-272.0	-221.7	-205.0	-200.8	-199.8
Net borrowings	-1,475.6	1,397.1	701.0	411.6	244.3	47.2
Increase in provisions	55.4	-57.7	10.5	6.1	27.9	-0.2
Other financing transactions	1,776.6	-1,159.5	-598.1	-330.7	-174.0	58.2
<b>TOTAL FINANCING TRANSACTIONS</b>	<b>78.8</b>	<b>-92.2</b>	<b>-108.3</b>	<b>-117.9</b>	<b>-102.6</b>	<b>-94.7</b>
Current deficit	33.2	-35.1	-119.5	-122.7	-129.5	-102.8
Capital deficit	-9.8	0.7	0.6	-1.4	-1.0	8.3
<b>Total deficit</b>	<b>23.4</b>	<b>-34.5</b>	<b>-118.8</b>	<b>-124.1</b>	<b>-130.5</b>	<b>-94.5</b>
<b>Net debt</b>	<b>-220.0</b>	<b>-376.1</b>	<b>-416.7</b>	<b>-519.2</b>	<b>-653.8</b>	<b>-798.5</b>

Columns may not add due to rounding.



Table 6

**GOVERNMENT FINANCE STATISTICS**  
**TOTAL NON-FINANCIAL PUBLIC SECTOR OUTLAYS**  
**BY GOVERNMENT PURPOSE**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
	Actual	Estimated	Budget	Forward	Forward	Forward
	Actual	Actual	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
<i>Current Outlays</i>						
General public services	510.6	442.2	758.9	771.9	768.0	809.1
Defence	0.0	0.0	0.0	0.0	0.0	0.0
Public order and safety	708.2	770.1	813.0	856.3	874.4	890.7
Education	1,893.9	2,071.3	2,078.9	2,186.0	2,255.5	2,323.4
Health	1,654.3	1,743.7	1,787.4	1,834.6	1,872.4	1,903.7
Social security and welfare	402.1	440.3	436.2	446.7	457.4	463.4
Housing and community amenities	337.3	314.1	332.8	350.5	362.1	406.2
Recreation and culture	154.6	152.8	161.4	163.0	161.7	159.5
Fuel and energy	85.9	81.4	39.2	45.1	23.7	43.8
Agriculture, forestry and fishing	111.4	180.6	194.2	176.5	167.2	169.9
Mining, manufacturing, construction	50.5	50.3	46.4	42.2	37.9	38.7
Transport and communications	404.8	486.8	515.5	464.3	440.4	436.8
Other economic affairs	179.5	166.4	160.1	157.5	186.1	179.6
Other purposes	954.7	699.2	695.6	730.0	693.7	702.3
<i>Total current outlays</i>	<i>7,447.7</i>	<i>7,599.3</i>	<i>8,019.4</i>	<i>8,224.3</i>	<i>8,300.5</i>	<i>8,527.2</i>
<i>Capital Outlays</i>						
General public services	6.1	17.0	49.2	19.3	42.9	44.4
Defence	0.0	0.0	0.0	0.0	0.0	0.0
Public order and safety	60.5	94.9	88.5	85.1	62.1	58.3
Education	131.3	172.1	184.4	149.8	152.9	145.6
Health	75.6	78.3	75.2	69.3	72.9	65.1
Social security and welfare	1.9	3.6	6.7	5.3	10.9	8.2
Housing and community amenities	327.5	452.8	640.1	561.3	533.8	462.9
Recreation and culture	21.5	35.7	37.6	15.7	20.1	24.0
Fuel and energy	-383.0	380.3	294.8	267.7	298.9	285.1
Agriculture, forestry and fishing	-18.1	-7.5	-21.3	-13.1	-17.5	11.7
Mining, manufacturing, construction	-1.9	3.4	2.3	1.7	3.7	3.8
Transport and communications	-646.5	682.1	830.8	741.5	662.0	550.7
Other economic affairs	24.2	36.6	-24.3	78.7	65.7	111.6
Other purposes	-16.9	-15.6	-16.1	-25.1	-28.9	-23.5
<i>Total capital outlays</i>	<i>-417.8</i>	<i>1,933.7</i>	<i>2,148.0</i>	<i>1,957.0</i>	<i>1,879.5</i>	<i>1,747.8</i>
<i>Total Outlays</i>						
General public services	516.8	459.3	808.1	791.1	810.9	853.5
Defence	0.0	0.0	0.0	0.0	0.0	0.0
Public order and safety	768.7	865.1	901.4	941.3	936.6	948.9
Education	2,025.2	2,243.4	2,263.3	2,335.8	2,408.4	2,469.0
Health	1,729.9	1,822.0	1,862.6	1,903.9	1,945.3	1,968.8
Social security and welfare	403.9	443.8	443.0	452.0	468.3	471.6
Housing and community amenities	664.8	766.8	972.9	911.7	896.0	869.0
Recreation and culture	176.1	188.6	199.0	178.7	181.7	183.6
Fuel and energy	-297.1	461.7	334.0	312.8	322.5	328.9
Agriculture, forestry and fishing	93.2	173.1	172.9	163.4	149.7	181.6
Mining, manufacturing, construction	48.6	53.6	48.7	43.8	41.6	42.6
Transport and communications	-241.7	1,168.9	1,346.3	1,205.7	1,102.3	987.4
Other economic affairs	203.7	203.0	135.7	236.1	251.8	291.1
Other purposes	937.8	683.6	679.5	704.9	664.9	678.8
<b>Total outlays</b>	<b>7,029.8</b>	<b>9,533.0</b>	<b>10,167.5</b>	<b>10,181.3</b>	<b>10,180.0</b>	<b>10,275.0</b>

Columns may not add due to rounding.

Table 7

**TAXES**  
**GENERAL GOVERNMENT SECTOR**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	\$m	\$m	\$m	\$m
<i>Taxes on employers' payroll and labour force taxes</i>	705.3	760.3	814.0	883.5	948.8	1,026.8
<i>Taxes on property</i>	1,061.3	997.1	1,029.2	1,054.6	1,118.6	1,187.1
Land taxes	170.6	177.6	194.0	207.6	222.1	237.7
Stamp duties on financial and capital transactions	625.5	547.0	552.1	554.9	595.9	639.7
Financial institutions taxes	228.0	235.5	243.4	250.8	257.3	264.1
Other	37.1	37.0	39.7	41.3	43.3	45.6
<i>Taxes on the provision of goods and services</i>	307.6	343.6	359.4	369.6	379.4	387.9
Excises	9.0	6.9	12.5	11.2	12.3	11.3
Taxes on gambling	170.8	166.7	171.2	175.4	178.3	181.3
Taxes on insurance	127.9	170.0	175.7	183.0	188.8	195.3
<i>Taxes on use of goods and performance of activities</i>	918.5	1,116.3	1,159.9	1,191.6	1,219.9	1,246.8
Motor vehicle taxes	315.1	380.9	409.5	423.6	433.0	440.2
Franchise taxes <sup>(a)</sup>	603.4	735.4	750.4	768.0	786.9	806.6
<b>Total Taxes</b>	<b>2,992.6</b>	<b>3,217.4</b>	<b>3,362.4</b>	<b>3,499.3</b>	<b>3,666.7</b>	<b>3,848.6</b>

(a) Consistent with the ABS, includes Commonwealth safety net revenue arrangements active since August 1997. Columns may not add due to rounding.

Table 8

**LOAN COUNCIL ALLOCATIONS<sup>(a)</sup>**  
**WESTERN AUSTRALIA**

	1998-99	1998-99	1999-00
	Budget	Estimated	Budget
	\$m	\$m	\$m
General government deficit	137.1	143.0	347.1
Public trading enterprises' net financing requirement	277.3	526.8	464.6
<i>Total public sector deficit</i>	<i>416.5</i>	<i>670.0</i>	<i>811.7</i>
<i>Memorandum items<sup>(b)</sup></i>	<i>-42.3</i>	<i>90.1</i>	<i>40.1</i>
<b>Loan Council Allocation</b>	<b>374.2</b>	<b>760.1</b>	<b>851.8</b>

(a) Readers should note that 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 chapter (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).

### **Termination Liabilities**

Since a Loan Council agreement in 1997-98, all jurisdictions are required to include as a footnote to LCA statements, an estimate of likely termination liabilities for any public sector capital project with private sector involvement where the project value exceeds \$5 million.

Western Australia has no such termination liabilities associated with projects within scope of the LCA guidelines. In line with disclosure by other jurisdictions, public sector capital projects with private sector involvement are outlined below although they are technically outside the scope of the State's LCA reporting requirements.

#### *Justice - Male medium security prison*

In September 1998, the Ministry of Justice invited tenders from four pre-qualified tenderers to design, construct, maintain, finance and operate a seven-hundred-and-fifty bed male medium security prison on Government owned land located at Wooroloo, approximately fifty-five kilometres east-north-east of Perth.

Tenders closed on 8 December 1998 and on 1 February 1999 Cabinet approved the commencement of negotiations with the Preferred Respondent, the Corrections Corporation of Australia Consortium. The nomination of a Reserve Respondent was also approved in case negotiations with the Preferred Respondent fail.

Negotiations conducted to date indicate that private sector delivery of the design, construction, maintenance and operation components of the project will provide better value for money than traditional public sector methods.

Irrespective of the outcome of these negotiations, there will be no residual payment liability attaching to the State, in the event of contractor default leading to contract termination.

#### *Health - Peel Health Campus*

Health Solutions (WA) has been contracted to sell health services to the Health Department in the Peel Region.

The Western Australian Building Management Authority (BMA) owns the buildings and leases them to Health Solutions. The leasing fee is on-charged to the Health Department as an 'availability charge'.

The Health Department has no liability upon termination arising from default by Health Solutions. In the event of default by the contractor it is likely that the Department would continue the service from the hospital by contracting with an alternative provider or providing the service with public sector resources.

#### *Health - Joondalup Health Campus*

The Health Department has contracted Health Care of Australia to provide health services in the Joondalup Region.

Health Care of Australia constructed and owns the buildings and during the contract period charges the Health Department an 'availability charge'. At the end of the contract period, all buildings will revert to the Health Department. The land continues to be owned by the Government.

The Health Department has no liability upon termination arising from default by Health Care of Australia. In the event of default by the contractor it is likely that the Department would continue the service from the hospital by contracting with an alternative provider or providing the service with public sector resources.

#### *Health - Bunbury Health Campus*

The Health Department and St. John of God Hospital Inc. entered into a joint venture to develop the Bunbury Health Campus.

Each of the parties have their own management structure and arrangements are in place for the management of the overall campus and common use areas.

Independent health services will generally be provided by each party. However, selected services will be contracted to the joint venture partners. The site on which the buildings are constructed is owned by the Government, with St. John of God leasing a portion for its discrete requirements.

The Government portion of the construction is being financed by the Consolidated Fund, with St. John's financing its portion.

The Health Department has no liability upon termination arising from default by St. John of God Hospital Inc.

#### *Energy - Second north west to south west natural gas pipeline*

The registration of interest process for the development of a second north west to south west natural gas pipeline closed in October 1998. The submissions received are currently being evaluated before a decision is made to progress to a more formal expression of interest process.

It is anticipated that the Government will have no liability arising from default by any future contractor for this project.

#### *Port Authorities - Port at Kwinana/Naval Base*

In November 1997, the Government called for expressions of interest to develop and manage a privately owned port facility to be built at Kwinana/Naval Base by the year 2001. Requests for proposals closed on 1 October 1998 and are currently being evaluated. The port is envisaged to provide assistance in servicing the trade needs of the Perth metropolitan area and Western Australia.

It is anticipated that the Government will have no liability arising from default by any future contractor for this project.

*Port Authorities - Oakajee Port*

On 21 March 1998 the Government called for expressions of interest from the private sector to build, own and operate a port at Oakajee, north of Geraldton. Expressions of interest closed on 7 May 1998 and respondents have been short listed. The Government has not announced its intentions regarding a call for detailed proposals at this stage.

It is anticipated that the Government will have no liability arising from default by any future contractor for this project.

## APPENDIX 2

### DEVELOPMENTS IN STATISTICAL SERIES AND UNIFORM PRESENTATION

The 1998 calendar year included changes to the government finance statistics (GFS) and financial assets and liabilities (net debt) series and also the Uniform Presentation framework to improve the coverage, quality and scope of public sector financial reporting and budget presentation.

In particular, since 1998-99 budget presentations, all jurisdictions have revised their general government sector coverage to exclude the impact of central borrowing authorities (CBAs). CBAs are now classified as PFEs and coverage of this sector was included in actual outturn reporting for the 1997-98 financial year in the latter half of 1998.

#### Accruals Accounting Concepts in GFS

Recognising both the national and international moves toward accrual accounting, the largely cash-based analysis in GFS will move to include accrual accounting concepts later this year. Treasuries and the Australian Bureau of Statistics (ABS) are currently working together to effect this change. The new GFS series will incorporate an operating statement, balance sheet and cash flow series. The data presented in the existing net debt series will be derivable directly from the accrual-based GFS balance sheet.

To date, GFS has been compiled from a mixture of cash (general government sector) and accruals (public trading enterprise [PTE] and public financial enterprise [PFE] sector) data, which were used to provide cash based outputs. This follows from the traditional cash methods of accounting within government agencies. Inputs into the GFS compilation in respect of the Consolidated Fund comprised statements of cash transactions in respect of the fund. General government agencies provided cash flow statements relating to their operations. PTEs and PFEs provided operating statements compiled on an accruals accounting basis, but these were supplemented by movements in agencies' balance sheet data, to provide flows for non-operating transactions such as acquisition of fixed assets, and borrowing, lending and other debt transactions. The PTE and PFE balance sheets also provide movements in accrued balances such as payables and receivables, enabling derivation of a cash-based operating result comparable to that directly obtained from general government agencies.

The implementation of accrual accounting concepts in GFS will occur nationally later this year and follows developments in international standards for National Accounting and GFS economic data series. This change has been made possible following the recent commencement of preparation of accruals based accounts by all agencies, as required by Australian Accounting Standard (AAS) 29: *Financial Reporting by Government Departments*. The principal compilation will incorporate agencies' operating statements and balance sheets, while an abbreviated cash flow output (broadly comparable with the existing GFS series) will also be produced.

While output formats under accruals GFS have not yet been finalised, it is expected that the main output tables will include a detailed operating statement and a balance sheet. The new series will feature both a *net operating result* and *increase in net worth* as bottom-line measures of fiscal performance as well as permit derivation of the existing net debt series and other aggregates that relate to public sector components of National Accounts. As noted above, an abbreviated cash based GFS output table will also be produced, to provide a cash surplus/deficit series comparable to that currently produced, and to document cash appropriations paid/received.

These changes in GFS, and in government accounting generally, will have a number of positive consequences. Adoption of accrual accounting concepts will bring public sector reporting more into line with that in the business world as well as give a better indication of costs and benefits to the economic and financial performance of the public sector. It will improve government accountability and provide a more accurate and comprehensive basis for recording public sector operations, particularly in the area of unfunded liabilities and other non-cash transactions. It will also make the GFS data more compatible with public sector debt data. Compliance with the requirements of AAS 29 and AAS 31: *Financial Reporting by Governments* will be improved with the adoption of accruals GFS, as will Australia's ability to meet international reporting obligations in respect of government finance and National Accounts.

### **Uniform Presentation Framework**

The uniform presentation format adopted by all State, Territory and Commonwealth jurisdictions for reporting budget and outturn data on a comparable basis is currently under review.

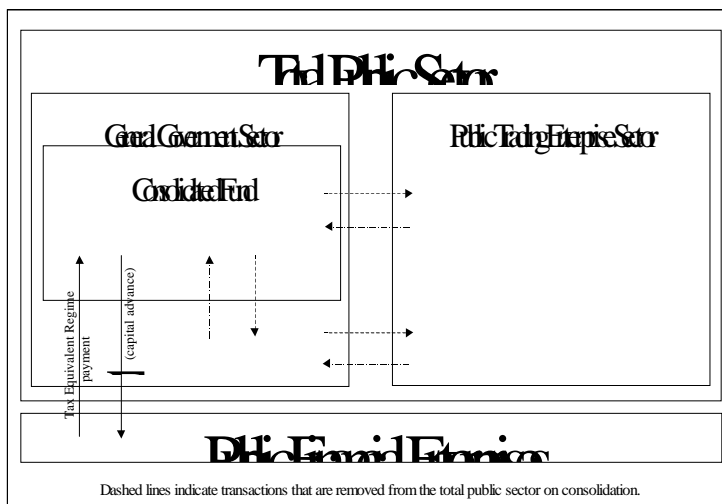
In particular, Treasuries are considering the impact on uniform reporting that will flow from the move to an accruals-based GFS series. A variety of issues including transitional arrangements and an implementation timetable as well as availability of data and other presentational issues are under consideration. It is expected that with the introduction of an accruals-based GFS series in ABS publications from this year, budgets from the year 2000 on may require changes to the uniform reporting format.

## APPENDIX 3

### DEFINING THE PUBLIC SECTOR

#### Sector Relationships

The total public sector encompasses all State public sector agencies. It is divided into three main sub-sectors (general government, public trading enterprises (PTEs) and public financial enterprises (PFEs)).



The general government sector includes budget sector agencies (which operate with funding from the Consolidated Fund) and other non-budget sector agencies such as the Gaming Commission of Western Australia and some trust funds. For the most part, general government agencies are centrally funded and do not usually attempt to fully recover the cost of services they provide.

PTE agencies charge for goods and services, and operate largely independently of central government. In Western Australia, the PTE sector includes agencies such as Western Power Corporation, AlintaGas and the Water Corporation.

The PFE sector includes those agencies which largely incur financial liabilities and deal in financial assets. These include the State's central borrowing authority (the Western Australian Treasury Corporation), home lending schemes, insurance agencies, etc.

A comprehensive list of the State's agencies, classified by sector, is included below.



## Agency Classification

### General Government Agencies

#### 1. General Government Budget Sector Agencies

Aboriginal Affairs Department	Ministry for Planning
Agriculture Protection Board of Western Australia	Ministry of Fair Trading
Agriculture Western Australia	Ministry of Justice
Chemistry Centre (W.A.)	Ministry of Sport and Recreation
Commissioner of Main Roads	Ministry of the Premier and Cabinet
Commissioner of Workplace Agreements	Office of Citizenship and Multicultural Interests
Country High School Hostels Authority	Office of Energy
Curriculum Council	Office of Racing, Gaming and Liquor
Department for Family and Children's Services	Office of the Auditor General
Department of Commerce and Trade	Office of the Director of Public Prosecutions
Department of Conservation and Land Management	Office of the Information Commissioner
Department of Contract and Management Services	Office of the Public Sector Standards Commissioner
Department of Education Services	Office of Water Regulation
Department of Environmental Protection	Peel Development Commission
Department of Land Administration	Perth International Centre for Application of Solar Energy
Department of Local Government	Pilbara Development Commission
Department of Minerals and Energy	Police Service
Department of Productivity and Labour Relations	Recreation Camps and Reserve Board
Department of Resources Development	Rural Adjustment and Finance Corporation of Western Australia
Department of the Registrar, Western Australian Industrial Relations Commission	Salaries and Allowances Tribunal
Department of Transport	Small Business Development Corporation
Disability Services Commission	South West Development Commission
Education Department of Western Australia	State Revenue Department
Equal Opportunity Commission	State Supply Commission
Fire and Emergency Services Authority	Swan River Trust
Fisheries Western Australia	The King's Park Board
Gascoyne Development Commission	The National Trust of Australia (W.A.)
Goldfields-Esperance Development Commission	The Parliamentary Commissioner for Administrative Investigations
Government Projects Office	The Treasury
Governor's Establishment	Valuer General's Office
Great Southern Development Commission	Water and Rivers Commission
Health Department of Western Australia	Western Australian Building Management Authority
Heritage Council of Western Australia	Western Australian Department of Training
Joint House Committee	Western Australian Electoral Commission
Kimberley Development Commission	Western Australian Planning Commission
Law Reform Commission of Western Australia	Western Australian Sports Centre Trust
Legislative Assembly	Western Australian Tourism Commission
Legislative Council	Wheatbelt Development Commission
Mid-West Development Commission	WorkSafe Western Australia
Minerals and Energy Research Institute of Western Australia	Zoological Gardens Board
Ministry for Culture and the Arts	

#### 2. General Government Non-Budget Sector Agencies

Agricultural Practices Board of Western Australia	Herd Improvement Service of Western Australia
Anti-Corruption Commission	Horticultural Product Commission
Anzac Day Trust	Karratha College
Betting Control Board	Keep Australia Beautiful Council (W.A.)
Building and Construction Industry Training Board	Landcare Trust
Central Metropolitan College of TAFE	Legal Aid Commission of Western Australia
Central West College of TAFE	Legal Costs Committee
Gaming Commission of Western Australia	Local Health Authorities Analytical Committee
Great Southern Regional College of TAFE	Midland College of TAFE

*2. General Government Non-Budget Sector Agencies (continued)*

Racecourse Development Trust	The Queen Elizabeth II Medical Centre Trust
Racing Penalties Appeal Tribunal of Western Australia	The Western Australian Centre for Pathology and Medical Research (PathCentre)
R&I Holdings	Trustees of the Public Education Endowment
South East Metropolitan College of TAFE	West Coast College of TAFE
South Metropolitan College of TAFE	Western Australian Boxing Commission
South West Regional College of TAFE	Workers' Compensation and Rehabilitation Commission
The Burswood Park Board	Western Australian Financial Institutions Authority
The Carnarvon Banana Industry Compensation Committee	Western Australian Health Promotion Foundation
The Coal Miner's Welfare Board of Western Australia	Western Australian Institute of Sport
The Potato Growing Industry Trust Fund Advisory Committee	Western Australian Meat Industry Authority
The Poultry Industry Trust Fund Committee	

*Public Trading Enterprises*

Albany Port Authority	Metropolitan Cemeteries Board
Animal Resources Authority	Perth Market Authority
Bunbury Port Authority	Port Hedland Port Authority
Bunbury Water Board	Potato Marketing Corporation of Western Australia
Busselton Water Board	Rottnest Island Authority
Dairy Industry Authority of Western Australia	Subiaco Redevelopment Authority
Dampier Port Authority	The Eastern Goldfields Transport Board
East Perth Redevelopment Authority	The Grain Pool of W.A.
Electricity Corporation (Western Power Corporation)	The State Housing Commission
Esperance Port Authority	The Western Australian Government Railways Commission
Fremantle Cemetery Board	Totalisator Agency Board
Fremantle Port Authority	Water Corporation
Gas Corporation (AlintaGas)	Western Australian Coastal Shipping Commission
Geraldton Port Authority	Western Australian Egg Marketing Board
Gold Corporation	Western Australian Greyhound Racing Authority
Government Employees Housing Authority	Western Australian Land Authority
Lotteries Commission	Western Australian Meat Marketing Corporation
Metropolitan (Perth) Passenger Transport Trust	

*Public Financial Enterprises*

Country Housing Authority	Keystart Support Pty Ltd
Insurance Commission of Western Australia	Keystart Support (Subsidiary) Pty Ltd
Keystart Housing Scheme, comprising:	Riskcover
Keystart Bonds Ltd	Western Australian Treasury Corporation
Keystart Loans Ltd	

*Agencies Outside the State's Public Sector*

The entities listed below, which administer superannuation and like funds and/or hold private funds in trust or fidelity type funds, are not included in 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	Parliamentary Superannuation Board
Coal Mines Accident Relief Fund Trust	Public Trustee
Construction Industry Long Service Leave Payments Board	Real Estate and Business Agents Supervisory Board
Government Employees Superannuation Board	Settlement Agents Supervisory Board
Legal Contribution Trust	Western Australian Fire Brigades Board

*Agencies Outside the State's Public Sector (continued)*

Curtin University of Technology and its subsidiaries  
Edith Cowan University

Murdoch University and its subsidiary  
The University of Western Australia and its subsidiary

## APPENDIX 4

### GLOSSARY OF TERMS

<b>Outlays</b>	
Final consumption expenditure	Is the value of output produced by the <i>general government sector</i> (measured in terms of the cost of goods and services less receipts from the sale of these goods and services). The major items of final consumption expenditure are wages, salaries and supplements and the purchase of goods and services from the <i>public trading enterprise sector</i> , the private sector and overseas. Also includes contracted services.
<i>plus</i> Interest payments	Payments for the use of money such as interest on bank overdrafts, loans, bonds or deposits.
<i>plus</i> Other current outlays	Includes other current expenditures such as land rents, non-capital grants and subsidies to other sectors and personal benefit payments.
<i>equals</i> <b>Current outlays</b>	Expenditures that do not result in the creation of fixed assets or in the acquisition of land, buildings, intangible assets or second hand plant and equipment.
Gross fixed capital expenditure	This covers net expenditures on new and second hand fixed assets (durable goods with a life expectancy of greater than one year).
<i>plus</i> Expenditure on land (net)	The net result from expenditures on land purchases less receipts from land sales.
<i>plus</i> Capital grants to other sectors	Grants made by public authorities to other inter-sector agencies with the aim of meeting part or all of the capital costs of a project in a particular year. Grants are not repayable to the granting agency.
<i>plus</i> Other capital outlays	Includes net movements in stocks, intangibles and other capital not elsewhere classified.
<i>equals</i> <b>Capital outlays</b>	Capital outlays cover expenditure on, and sale of, fixed assets, increases in land and intangible assets, and stocks as well as the provision of funds, in the form of capital transfers, for the purpose of acquiring such assets.

<b>Revenue</b>	
Own source revenue	Consists of all revenue raised by State public sector authorities except grants received from the Commonwealth (for the PTE sector, this item refers to all revenue raised excluding grants from the general government sector). The main components of own source revenue are <i>taxes, net operating surpluses</i> of PTEs and PFEs, and interest receipts.
Taxes	A tax is a compulsory imposition by government, mainly designed to raise revenue. There is generally no clear link between payment of taxes and the provision of goods and services.
<i>plus</i> Net operating surplus of PTEs	The net operating surplus of a PTE is the excess of the value of its output over costs incurred in producing that output. The costs include wages, salaries, purchase of goods and services and depreciation charges but exclude interest, dividends, land rent, royalties and direct taxes.
<i>plus</i> Interest received	Includes interest received on financial assets.
<i>plus</i> Other own source revenue	Includes donations, royalties and unclaimed monies (e.g. unclaimed TAB dividends and unclaimed bank accounts).
<i>plus</i> Grants received	Refers to current and capital grants received from the Commonwealth Government. For the PTE sector, this item refers to current and capital grants received from the general government sector.
<i>equals</i> <b>Revenue</b>	Refers to revenue and grants received from other sectors or levels of government, available to finance outlays by public authorities.

<b>Financing</b>	
Net advances received	Consists of advances less repayments received from other non-financial public sector units. This aggregate also includes net capital advances paid which are transactions previously counted as capital outlays, consistent with the ABS treatment in its catalogues.
<i>plus</i> Net borrowings	Includes both domestic and overseas borrowings. Net borrowing represents gross borrowing less repayment of past borrowing.  Net domestic borrowings include borrowings from public and private bodies and individuals within Australia.  Net borrowings from abroad include borrowings raised on foreign capital markets.
<i>plus</i> Increase in provisions	Refers to the net movement in provisions for depreciation, superannuation, long service leave, doubtful debts, etc.
<i>plus</i> Other financing transactions	This classification includes increases in investments, currency and deposits, movements in debtors and creditors, and other funds available.
<i>equals</i> <b>Financing transactions</b>	Financing transactions represent the difference between total outlays and total revenue and indicate the level of public sector borrowing or investment in other sectors of the economy.

Current deficit	The current deficit is that portion of the <i>total deficit</i> attributable to non-capital transactions. It is measured by subtracting current outlays from revenue and adding increases in provisions less capital grants and other capital revenue.
<i>plus</i> Capital deficit	The capital deficit measures the portion of the <i>total deficit</i> associated with the sector's capital transactions. It comprises capital grants and other capital revenue net of capital outlays.
<i>Equals</i> <b>Total deficit/surplus</b>	This is the sum of all financing transactions less increases in provisions. The deficit/surplus is a measure of the State's financial exposure to other levels of government, and the non-public sector. Provisions are excluded as these are non-cash items.
<b>Net financing requirement</b>	The net financing requirement comprises domestic and overseas borrowing, changes in investments, currency and deposits, and other financing transactions including movements in deposits received as well as debtors and creditors. Excluded are net advances and increases in provisions.

### ***Surplus/Deficit***

The most widely used financial measure of government performance is the GFS surplus/deficit. The surplus/deficit is the difference between total revenue and total outlays after adding back non-cash items such as increases in provisions for superannuation and depreciation.

#### **DEFINING THE SURPLUS/DEFICIT**

	Current revenue	+	Capital revenue	=	Total revenue
<i>less</i>	Current outlays	+	Capital outlays	=	Total outlays
<i>plus</i>	Increase in provisions				Increase in provisions
<i>equals</i>	<u>Current surplus</u>	+	<u>Capital surplus</u>	=	<u>Total surplus</u>

The surplus/deficit is a measure of the State public sector's contribution to the economy's savings. A surplus provides a contribution to/deduction from savings while a deficit represents a draw on other sectors' savings. The surplus/deficit provides an indication of the reduction/increase in public sector debt, net of holdings of financial assets.