



2000-01 Budget Overview

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Summary

This budget has been framed against a background of stable and robust economic conditions. Together with strong population growth, demand for public services remains high.

Reflecting these demand conditions, this budget provides for increased service delivery in key social priority areas while remaining within fiscal targets for operating performance and debt, ensuring financial sustainability.

New expenditure initiatives address important priorities in the areas of health, education, disabilities, justice and transport. These initiatives build on the expansion in these services that has occurred since 1992-93.

New initiatives this year include better delivery of services through cross-agency cooperation, with initiatives such as Building Blocks, State Salinity Strategy, WA Strategy Against Drug Abuse, Online Services Strategy and Regional Development.

There are no increases in State taxes in this budget.

An accrual surplus of \$42.0 million is expected for the general government sector in 2000-01. This is an improvement of \$102.1 million on the expected outturn for 1999-2000.

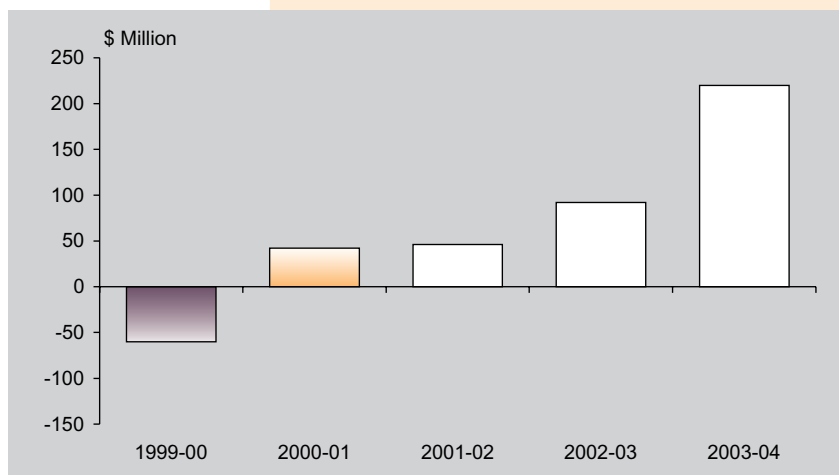
An accrual surplus of \$304.0 million is projected for the total public sector.

A record capital works program, of \$3.3 billion, is projected for 2000-01. This will require a further modest increase in net debt, although debt falls as a share of State output over the budget period.

The Government's net worth is estimated to increase by \$583.8 million to \$32.8 billion.

The budget includes the effect of the GST and related changes to Commonwealth-State relations. These effects increase revenue and expenses in broadly equal measure.

Major Budget Aggregates



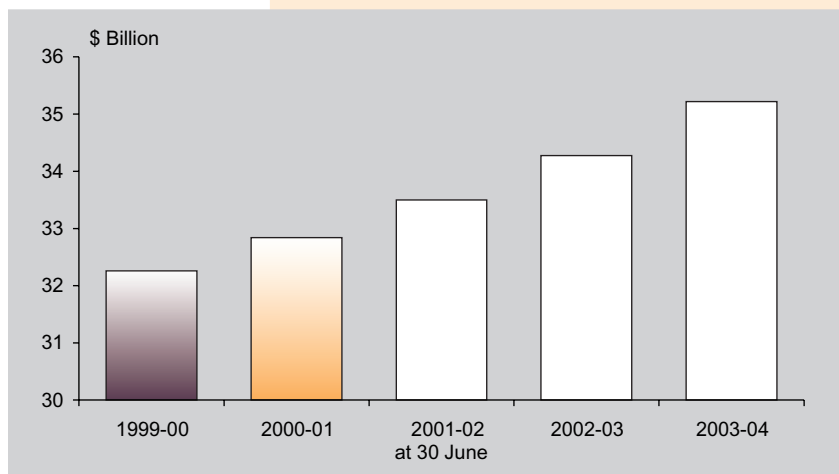
General Government Operating Surplus

The general government **operating surplus** of \$42.0 million projected for 2000-01 is a significant improvement of \$102.1 million on the expected outturn for 1999-2000. Steady revenue growth will see the surplus increase to an estimated \$219.7 million by 2003-04.

General government **revenue** is estimated to increase by \$468.4 million (5.0%), and **expenses** by \$366.4 million (3.9%) in 2000-01. In real terms, revenue increases by 2.5% and expenses by 1.5%.

Net of tax reform effects, general government revenue is expected to increase by \$302.8 million or 3.2% (0.8% real) and expenses by \$196.5 million or 2.0% (a real decline of 0.5%).

A surplus of \$304.0 million is projected for the total public sector in 2000-01.



General Government Net Worth

The total public sector's capital works program in 2000-01 is projected to be at a record high \$3.3 billion.

The Government's **net worth** is estimated to increase by \$583.8 million to \$32.8 billion largely as a result of the operating surplus and rising land values. Net worth is expected to continue increasing, to \$35.2 billion at 30 June 2004.

GENERAL GOVERNMENT SECTOR

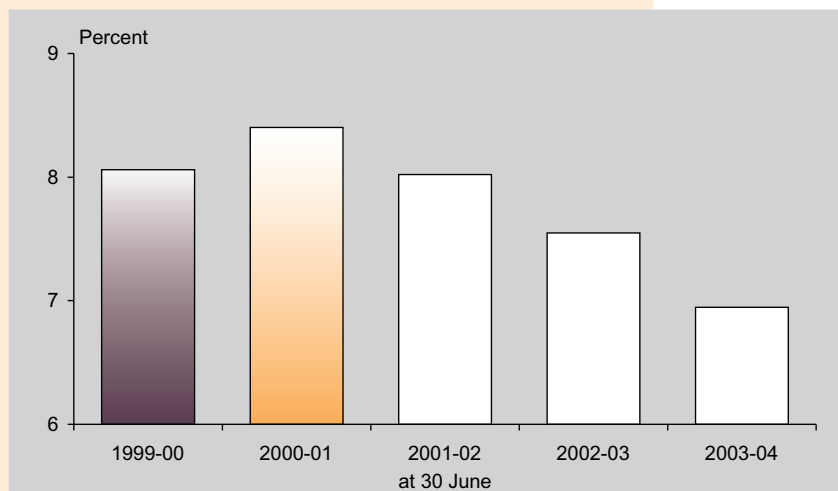
Government Finance Statistics ^(a)

	1999-00 Estimated Outcome \$m	2000-01 Estimate \$m	Change \$m
OPERATING STATEMENT			
Revenue	9,370.3	9,838.7	468.4
Expenses	9,430.3	9,796.7	366.4
Net Operating Balance	-60.1	42.0	102.1
BALANCE SHEET			
Assets	41,693.8	42,568.0	874.2
Liabilities	9,436.7	9,727.1	290.4
Net Worth	32,257.1	32,840.9	583.8

(a) In accordance with nationally agreed uniform reporting standards.

An increase in **net debt** has resulted from high capital expenditure over the past two years, building essential social and economic infrastructure.

Net interest cost as a proportion of revenue is estimated to be 2.7% in 2000-01 compared to 3.7% in 1993-94.



Total Public Sector Net Debt as a share of GSP

The Government retains the fiscal strategy of the last three years. Within this strategy, all targets are met over the forward estimates period.

Expenditure Measures

Health



The Health Department's budget appropriation is up \$86 million to \$1.9 billion in 2000-01, a real increase of 2.3%. Major highlights include:

- \$94 million for metropolitan and regional capital projects including major hospital redevelopments/upgrades at Armadale, Geraldton, Halls Creek, Kalamunda, Kalgoorlie, Margaret River, Moora and Narrogin; and
- \$9 million over the forward estimates period for the new cross-agency Building Blocks initiative.

Education

The Education Department will receive an additional \$54.4 million bringing its total budget up to \$1.47 billion in 2000-01, a real increase of 1.4%. The budget includes:

- \$131 million for new schools and school upgrades including \$10 million for early childhood facilities; and
- An additional \$1.5 million over four years to purchase lap-top computers for 250 teachers in rural areas and \$1.3 million over two years to replace the Kimberley School of the Air.

Law and Order

Total recurrent spending by the Ministry of Justice and the Western Australian Police Service is up by \$46.5 million to \$755 million, a real increase of 4.1%. Major highlights include:

- The redirection of a further 100 Police Officers from non-operational to active duty as a result of the contracting out of security and other services; and
- \$5.5 million over four years for the establishment of a pilot Drug Court regime in a range of courts.

In addition to the above initiatives, the capital works program includes \$150 million for infrastructure to support the achievement of the Government's desired outcomes for law and order.

Disability Services

In recognition of the Second Five-Year Business Plan, the Government has committed \$34.5 million over the next five years.

Through this additional funding, the Commission will be able to meet the current demand for its services and facilities, and assist an additional 6,700 people with disabilities and their carers.

Commerce and Trade

The Department of Commerce and Trade's budget will increase by \$15.4 million to \$101.6 million in 2000-01, a real increase of 15.2%. Major initiatives include:

- \$6.1 million over four years to expand the number of telecentres from 76 to 100;
- \$19.6 million for completion of the CSIRO facility at Bentley; and
- The continuation of the \$23.1 million Marine Industry Technology Park at Jervoise Bay (Henderson), with expected expenditure of \$8.4 million in 2000-01 for land acquisition and construction of infrastructure.

Transport

Transport's budget in 2000-01 of \$328.1 million is up \$27.8 million, a real increase of 6.7%. Highlights include:

- \$5.3 million for the continued implementation of the 10 Year Better Public Transport Plan and the Public Transport Enhancement Program; and
- Free travel for Seniors on Sundays and public holidays will continue in 2000-01 at an annual cost of \$1.8 million.

Main Roads funding includes \$85.1 million for the Kwinana Freeway. This is part of a \$240.8 million program which includes the Narrows Bridge duplication and extension of the Freeway to Safety Bay Road.



Cross-Agency Initiatives

The Government is introducing cross-agency initiatives in this budget. These initiatives require joint commitment of agencies to achieve a common goal for Government. The budget details three such initiatives:

- Building Blocks;
- State Salinity Strategy; and
- WA Strategy Against Drug Abuse.

Regional Development and Online Services Strategy are two further initiatives currently being developed to achieve coordinated outcomes.

Building Blocks



A child's early years are critical in the formation of intelligence, personality and social behaviour, and the effects of early neglect can be cumulative. Research shows that significant social and economic benefits can flow from investment in antenatal, early childhood development and family support programs.

The Ministers for Health and Family and Children's Services have collaborated to develop the Building Blocks initiative. It provides support to families with children in the zero to two year age group to ensure that they have the essential building blocks in place

when they start out in life.

A total of \$9 million will be spent on this initiative over the forward estimates period. This includes \$720,000 to ensure every mother in the State with a newborn baby is offered an initial home visit; \$3.3 million to provide assistance to families in high need; \$1.9 million for expansion of services to families; and \$2.8 million for enhanced Aboriginal specific early childhood services.

State Salinity Strategy

Following extensive community consultation, the Premier launched an updated Salinity Strategy on 2 April 2000. The Strategy aims to reduce the impact of salinity in the South-West agricultural area of Western Australia.

The key agencies committed to addressing the issue of salinity are Agriculture Western Australia, the Department of Conservation, the Department of Environmental Protection and the Water and Rivers Commission.

In the order of \$40 million will be spent in 2000-01 on a range of activities to address salinity including tree planting, protection of remnant vegetation and the development of salinity strategies in consultation with local communities.



WA Strategy Against Drug Abuse

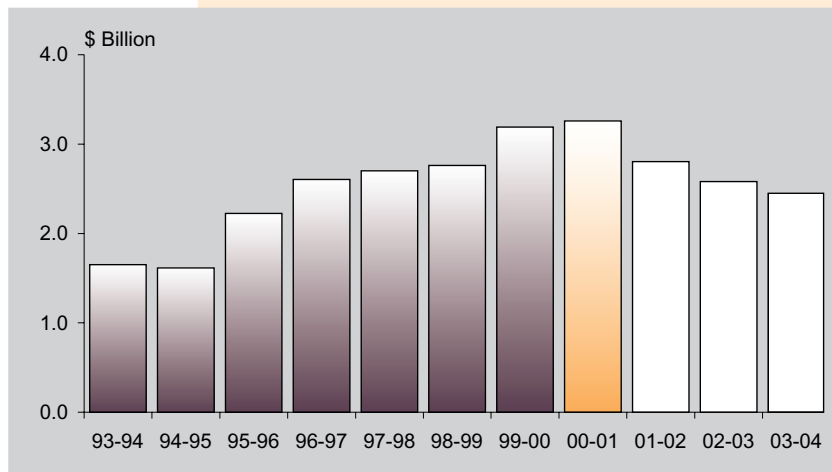
The WA Strategy Against Drug Abuse is aimed at reducing the extent of drug abuse and its impact, through integrated whole of government and whole of community initiatives.

The second phase of the strategy is currently underway and includes various initiatives ranging from education and community action to prevent drug abuse to law enforcement activities to reduce the supply of drugs.

The major participating government agencies are the WA Drug Abuse Strategy Office, the Departments of Health, Education, Aboriginal Affairs and Family and Children's Services, the Police Service and the Ministry of Justice.

A total of \$50.2 million will be spent on the strategy in 2000-2001 to reduce the demand for drugs. Highlights of the strategy include expansion of the School Drug Education Project (\$1.1 million), provision in the Health sector for further capacity for pharmacotherapies, detoxification and brief intervention services (\$2.1 million) and \$1.4 million to establish a pilot drug courts process.

Capital Works



Total Public Sector Capital Works

The Government has committed \$3.3 billion in 2000-01 to maintain and expand the State's economic and social infrastructure. Key features of the capital works program include spending of:

- \$727 million to enhance the provision of public housing;

- In the order of \$700 million on roads, including \$416 million capital and the balance on maintenance works and grants to local authorities;
- \$473 million by the Water Corporation including \$116 million for major improvements to wastewater treatment in the metropolitan area;
- \$276 million by Western Power, including over \$150 million for expansion and improvements to the transmission and non-interconnected systems and \$87 million for new customer connections;
- \$184 million by Westrail including \$87 million for track improvements and \$37 million for locomotives and rolling stock;
- \$150 million for public order and safety, including the completion of Acacia Prison, the continuation of the new police academy at Joondalup, the construction of a number of new police stations and the commencement of a Police Operations Support facility at Midland;
- \$131 million for new schools and school upgrades;
- \$94 million for metropolitan and regional health projects including a number of major hospital redevelopments and upgrades; and
- Over \$23 million for the construction of a world class museum on the Fremantle Waterfront.

Revenue

Total revenue in the general government sector is forecast to rise by 2.5% in real terms, comprising a decline in taxation revenue and offsetting rises in public corporations revenue, mining royalties and Commonwealth grants.

The large decline in **taxation** is due to the abolition of franchise fee safety net revenues under the national tax reform program. Abstracting from national tax reform, tax revenue is expected to increase slightly, by 0.7% in real terms.

Increased **mining royalties** reflects a lift in nickel production and the commencement of the full gold royalty rate.

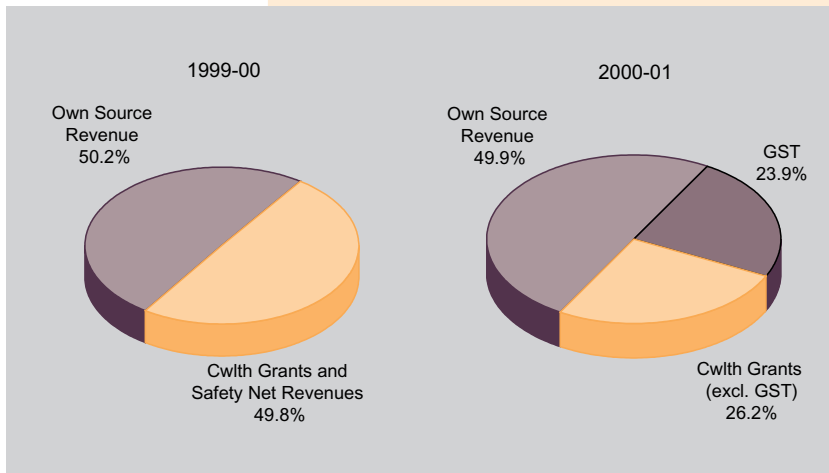
The increase in revenue from **public corporations** reflects both higher income tax equivalent and dividend payments.

The large increase in **Commonwealth** revenue includes payments to cover reductions in State revenues (including safety net revenues) and increases in State expenditures resulting from national tax reform (see following section on Commonwealth Funding).

SUMMARY OF REVENUE ESTIMATES

	1999-00 Estimated Actual \$m	2000-01 Budget Estimate \$m	Growth \$m	Real Growth %
Own-Source:				
Taxation	3401.1	2706.2	-694.9	-22.3
Mining Royalties	441.4	520.5	79.1	15.1
Public Corporations	649.8	676.5	26.7	1.6
Sales of Goods and Services	764.6	762.9	-1.8	-2.6
Interest Income	83.9	85.6	1.7	-0.4
Other	197.8	206.5	8.9	2.0
Total	5538.6	4958.2	-580.4	-12.6
Commonwealth:				
General Purpose Grants	1635.6	2625.6	990.0	56.7
Specific Purpose Payments	1803.3	1933.7	130.4	4.6
NW Shelf Royalties	392.8	321.2	-71.6	-20.2
Total	3831.7	4880.5	1048.8	24.2
TOTAL REVENUE	9370.3	9838.7	468.4	2.5

Tax Reform



General Government Revenue Sources

All revenues from the goods and services tax (GST) will be provided to the States. They will replace Commonwealth financial assistance grants and State safety net revenues. The GST will become the largest single revenue source for the State.

Other aspects of the tax reform package include a new First Home Owners' Scheme to help offset the impact of the GST for first home

buyers, and (after 2000-01) the abolition of State financial institutions duty and stamp duty on listed shares.

The Commonwealth has guaranteed that State budgets will be no worse off as a result of tax reform, and in the longer term Western Australia is expected to gain significantly from tax reform, as the growth in GST revenues is expected to exceed the growth in the revenues it replaces.

ESTIMATED IMPACT OF TAX REFORM

Based on impacts recognised in the guarantee calculation

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2000-01	0	0	0	0	0	0	0	0	0
2001-02	0	0	0	0	0	0	0	0	0
2002-03	0	0	85	0	0	0	0	0	85
2003-04	0	0	239	0	0	0	0	0	239
2004-05	0	0	434	95	0	0	14	1	544
2005-06	0	0	302	82	0	0	13	29	426
2006-07	0	0	457	185	43	16	29	71	801
2007-08	114	195	655	309	130	47	49	123	1,623

Source: Figures released by Ministerial Council on 17 March 2000.

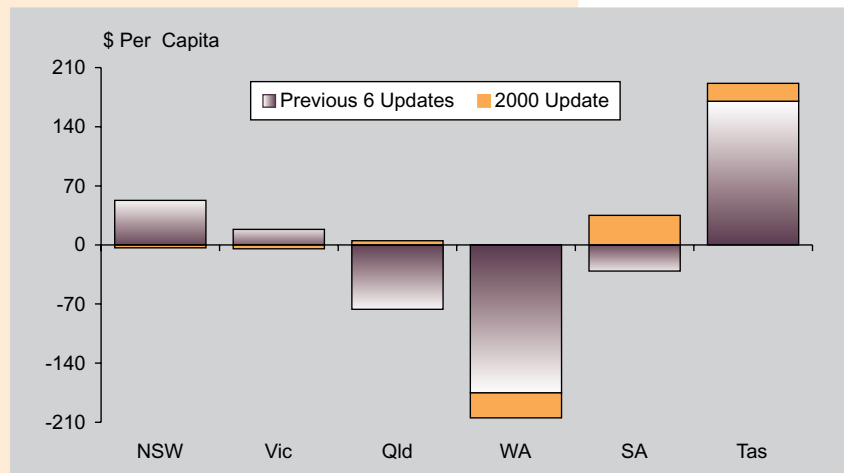
Commonwealth Funding

Excluding the impact of tax reform, Commonwealth general purpose grants are expected to decline in real terms in 2000-01, due to a \$56 million cut in Western Australia's share of grants.

Reflecting Western Australia's strong economic growth, the Commonwealth Grants Commission has reduced the State's funding for seven consecutive years, leading to a cumulative funding loss

of \$365 million by 2000-01. Further reductions are expected in future years.

Specific purpose payments (including North West Shelf royalties) are expected to increase slightly in real terms in 2000-01 but decline in future years.



Impact of the Grants Commission's recommendations

COMMONWEALTH GENERAL PURPOSE FUNDING

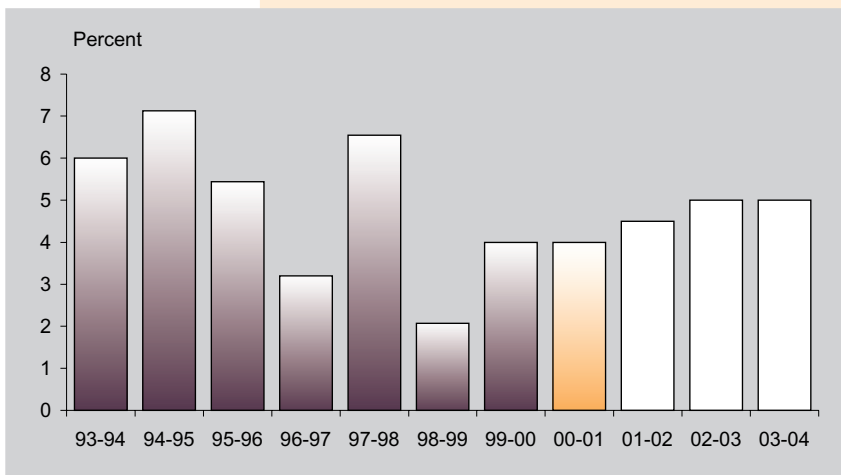
	1999-00 \$m	2000-01 \$m
GST grants	0.0	2,352.9
GST guarantee	0.0	227.1
Financial assistance grants	1,592.4	0.0
Competition payments	43.2	45.6
General purpose grants	1,635.6	2,625.6
Safety net revenues ^(a)	923.2	55.8
Total	2,558.8	2,681.4
Pre-tax reform: ^(b)		
<i>Financial assistance grants</i>	1,592.4	1,604.7
<i>Competition payments</i> ^(c)	43.2	45.6
<i>Safety net revenues</i> ^(a)	923.2	960.4
Total	2,558.8	2,610.7

(a) Gross basis. Safety net revenues are classified as State taxes in the budget.

(b) These figures indicate revenue that would have been expected had pre-tax reform arrangements continued.

(c) Unaffected by tax reform.

The Economy



Gross State Product

The Western Australian economy is forecast to remain stable and robust in 2000-01.

The drivers of growth in 2000-01 are expected to be household consumption, business investment and net exports.

Employment is forecast to grow by 2.5% in 2000-01. This is slightly weaker than in 1999-2000, reflecting moderating demand for labour in the construction industry.

The unemployment rate is forecast to remain unchanged at 6.5%, with employment growth being offset by a higher labour force participation rate.

Wages growth is forecast to increase to around 3.5% consistent with the latest data on wage increases being negotiated in industrial agreements.

Underlying inflation is expected to remain within the Reserve Bank's target range of 2% to 3% over the medium term. However, the headline CPI is expected to increase strongly in 2000-01 as a result of the introduction of the GST, before returning to the Reserve Bank's target range in 2001-02.

MAJOR ECONOMIC AGGREGATES

Year Average Percent Change

	1998-99 Actual %	1999-00 Estimate %	2000-01 Forecast %
Gross State Product	2.1	4.0	4.0
State Final Demand	0.2	2.75	2.5
Employment	2.5	3.0	2.5
Unemployment Rate ^(a)	7.0	6.5	6.5
Wages	1.1	2.5	3.5
Perth CPI ^(b)	1.8	2.5	3.0

(a) Annual Average

(b) Forecast for 2000-01 does not incorporate any impact of the goods and services tax package.

Medium Term Outlook

Over the medium term, the Western Australian economy is projected to grow by its long run average rate of 5.0% per annum.

The domestic economy is forecast to contribute around 3.5 percentage points to growth, with a further 1.5 percentage points coming from net exports.

Household consumption is forecast to remain steady at around 3.5% per annum.

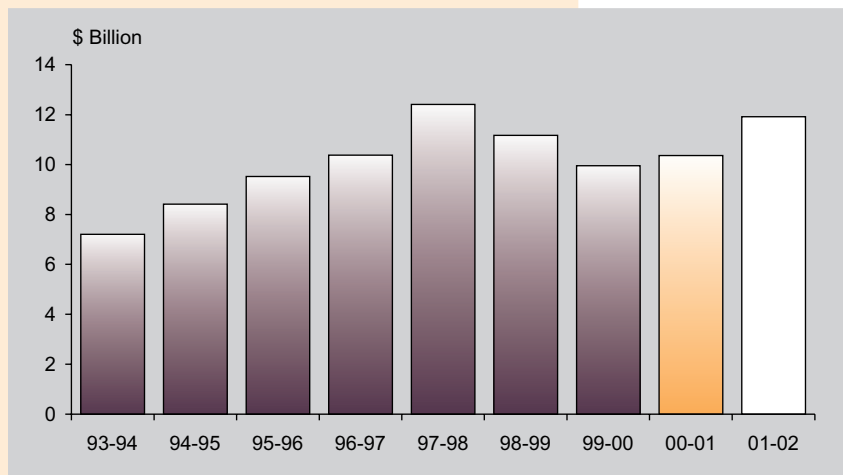
Spending on housing is forecast to ease in 2001-02 before recovering thereafter.

Growth in business investment is expected to return to relatively strong rates in 2001-02 and beyond.

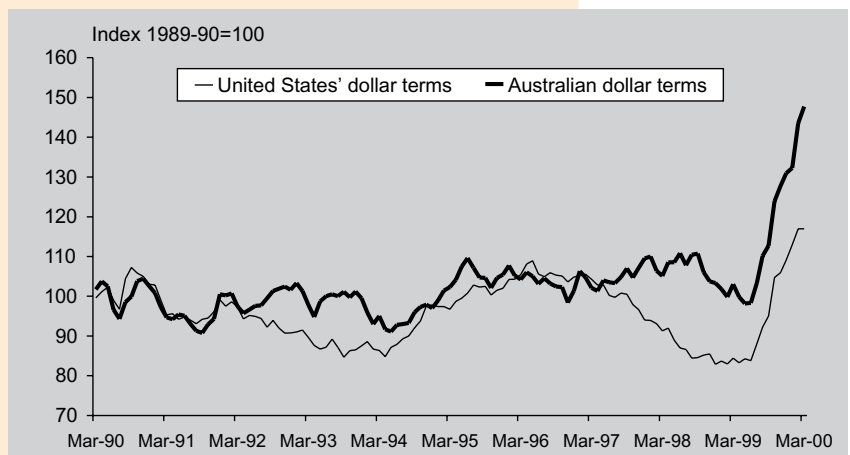
There are currently over \$64 billion worth of projects committed or under consideration in Western Australia.

Export growth is forecast to remain strong throughout the forecast period, underpinned by gradual increases in production from recently commissioned projects, and further additions to supply from projects currently committed or under consideration.

Increases in commodity prices over the past year bode well for profits, investment and export growth. Prices of alumina, petroleum and nickel have more than doubled since early 1999, and iron ore producers have negotiated price increases in recently signed contracts with Japan.



Business Investment



Commodity Price Index

Components of Growth

MAJOR ECONOMIC AGGREGATES

Year Average Percent Change

	1998-99	1999-00	2000-01	
	Actual	Estimate	Forecast	
Components of GSP	%	%	%	
<i>Private</i>				
Consumption	3.2	3.5	3.5	Household consumption to remain strong, supported by employment and wages growth, income tax cuts and increases in welfare payments.
Dwelling Investment	5.7	12.5	0.25	Growth in dwelling construction to slow. Construction in 2000-01 will be supported by those accessing the First Home Owners Scheme grant of \$7,000.
Business Investment	-9.9	-11.0	4.0	Business investment to strengthen following the commitment of the West Angelas iron ore project, and improved prospects of other projects proceeding.
<i>Public</i>				
Consumption	0.0	4.0	1.25	Continuation of fiscal consolidation of recent years, in keeping with fiscal targets and strategies.
Investment	6.2	26.0	-6.0	Modest decline in public capital expenditure as major projects are completed.
State Final Demand	0.2	2.75	2.5	Slight moderation in domestic demand reflecting the slowdown in dwelling investment, and the modest decline in public investment.
Exports	-1.1	5.25	6.75	Exports growth to lift, buoyed by strong growth in industrial production in key export markets, and increased production from new projects.
Imports	4.1	4.75	7.0	Imports growth to pick-up, reflecting an increase in imports of plant and equipment and steady increases in imports of consumption goods.
Net Exports	-4.1	5.75	6.75	Net exports to provide a greater impetus to growth, boosted by improved international demand conditions.
Gross State Product	2.1	4.0	4.0	Steady, more broadly based growth.