



2003-04 BUDGET

ECONOMIC AND FISCAL OUTLOOK

PRESENTED TO THE LEGISLATIVE ASSEMBLY
ON 8 MAY 2003



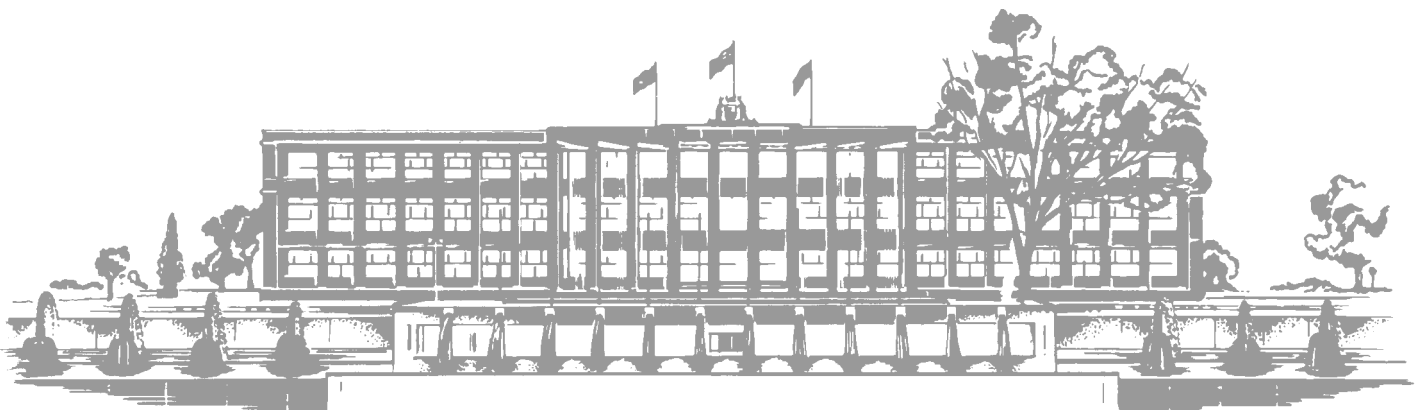
Budget Paper No. 3



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2003–04 Economic and Fiscal Outlook

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ECONOMIC AND FISCAL OUTLOOK
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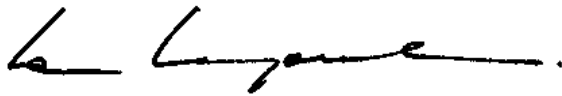
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Under Treasurer's Certification

This *Government Financial Projections Statement* is based upon government decisions I was aware of or that were made available to me by the Treasurer on or before the budget planning cut-off date of 7 April 2003 and which had a material effect on the Government's financial projections.

It has been prepared in accordance with applicable Australian Accounting Standards and Government Finance Statistics principles, and is based on the economic assumptions outlined in Chapter 5: *The Western Australian Economy*. These assumptions were finalised on 7 April 2003.

A handwritten signature in black ink, appearing to read 'J L Langoulant', with a long horizontal stroke extending to the right.

J L Langoulant
UNDER TREASURER

8 May 2003

CHAPTER 1

Economic and Fiscal Outlook – Overview

Fiscal Outlook

In an environment of subdued revenues (which are projected to decline in real terms) and continuing cost and demand pressures in the key areas of health, education and law and order, the 2003-04 Budget is projected to deliver on all of the Government's financial targets.

Consistent with these targets, an operating surplus for the general government sector (the budget 'bottom line') of \$83 million is projected in 2003-04, with increasing surpluses across the outyears. These surpluses play a critical role in containing net debt at sustainable levels, with the net debt to revenue ratio forecast to remain well below the 47% target limit across all years of the forward estimates (see Table 1).

Table 1

KEY BUDGET AGGREGATES						
Western Australia						
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated Actual	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
GENERAL GOVERNMENT						
Net Operating Balance (\$m)	197	178	83	111	339	389
Revenue (\$m)	11,035	11,527	11,774	12,228	12,637	13,017
Revenue Growth (%)	4.1	4.5	2.1	3.9	3.3	3.0
Expenses (\$m)	10,838	11,349	11,691	12,117	12,298	12,628
Expense Growth (%)	3.9	4.7	3.0	3.6	1.5	2.7
TOTAL NON-FINANCIAL PUBLIC SECTOR						
Net Debt to Revenue Ratio (%)	33.6	37.1	42.6	44.4	42.8	41.5
TOTAL PUBLIC SECTOR						
Net Debt at 30 June (\$m)	4,491	5,009	5,960	6,458	6,404	6,308

The Government's primary strategy in addressing the funding pressures in the priority areas mentioned above has been to restrain expense growth in administrative and lower priority areas of public sector activity.

A major feature of this effort is that the Government has adopted most of the recommendations of the Functional Review Taskforce¹, established following the 2002-03 Budget to identify opportunities for productivity improvement in the public sector and to ensure the effective and efficient delivery of the Government's priorities. The Functional Review Taskforce recommendations deliver significant savings, particularly in the latter years of the forward estimates.

Expenses are projected to grow by 3.0% in 2003-04, broadly in line with inflation. As already mentioned the Government remains committed to restraining the growth in expenses, and it has delivered significantly lower growth in expenses in the past two years, when compared with the 1990s.

The growth in expenses in 2002-03 has been impacted by the provision of some Commonwealth grants that were unforeseen at the time of the last budget, and also by agencies carrying expenses forward from 2001-02 into 2002-03. Abstracting from such one-off items, the underlying growth in expenses in 2002-03 is estimated at 2.7%, which is below real per capita growth.

Of the total increase in expenses in 2003-04 (\$342 million), \$303 million or 88% is in the priority areas of health, education and law and order. Outside these areas, many agencies are required to manage with nominal increases in expenses of less than 1%.

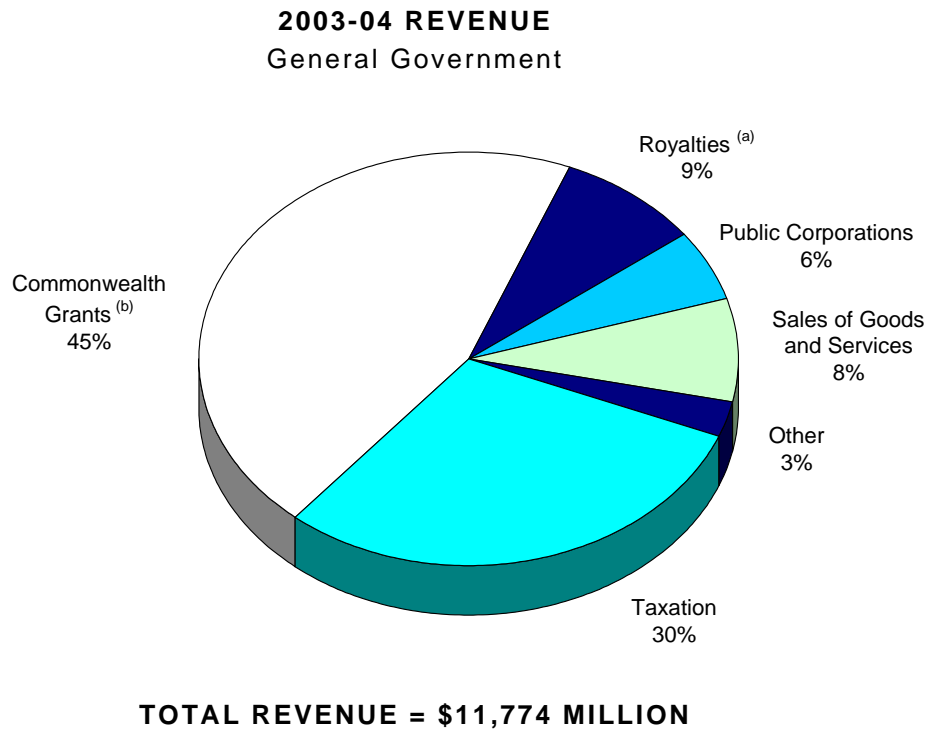
Notwithstanding the Government's determination to restrain expense growth in low priority areas, it has proved necessary to introduce some revenue measures as part of this Budget, with the principal revenue decisions relating to stamp duty on insurance policies and property conveyances. Without these measures, operating revenue would grow by only \$65 million or 0.6% in 2003-04, compared with the 2002-03 estimated outturn. Even after these measures, general government revenue is estimated to grow by a modest \$247 million or 2.1% in 2003-04, less than half the estimated rate of growth in 2002-03, and below the projected rate of inflation.

A significant problem faced by the Government in framing this Budget is that together, Commonwealth grants and royalties are projected to decline by 0.8% in nominal terms in 2003-04, reflecting a further decline in Western Australia's share of national GST revenue and a projected easing in the world price of oil and a rising \$A/\$US exchange rate.

¹ Taskforce Established to Review The Delivery of Government Priorities by Public Sector Agencies.

The following chart shows the major sources of general government revenue, and illustrates the importance of Commonwealth grants and royalties in the State’s revenue base. Together, these two revenue sources account for more than half or \$6,314 million of total general government revenue. As such, a decline of 0.8% has a significant impact on State revenue.

Figure 1



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

(b) Includes specific purpose payments ‘through’ the State.

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

Reflecting the Government’s substantial investment in economic and social infrastructure (discussed further below), total public sector net debt is projected to increase in the early part of the forward estimates period.

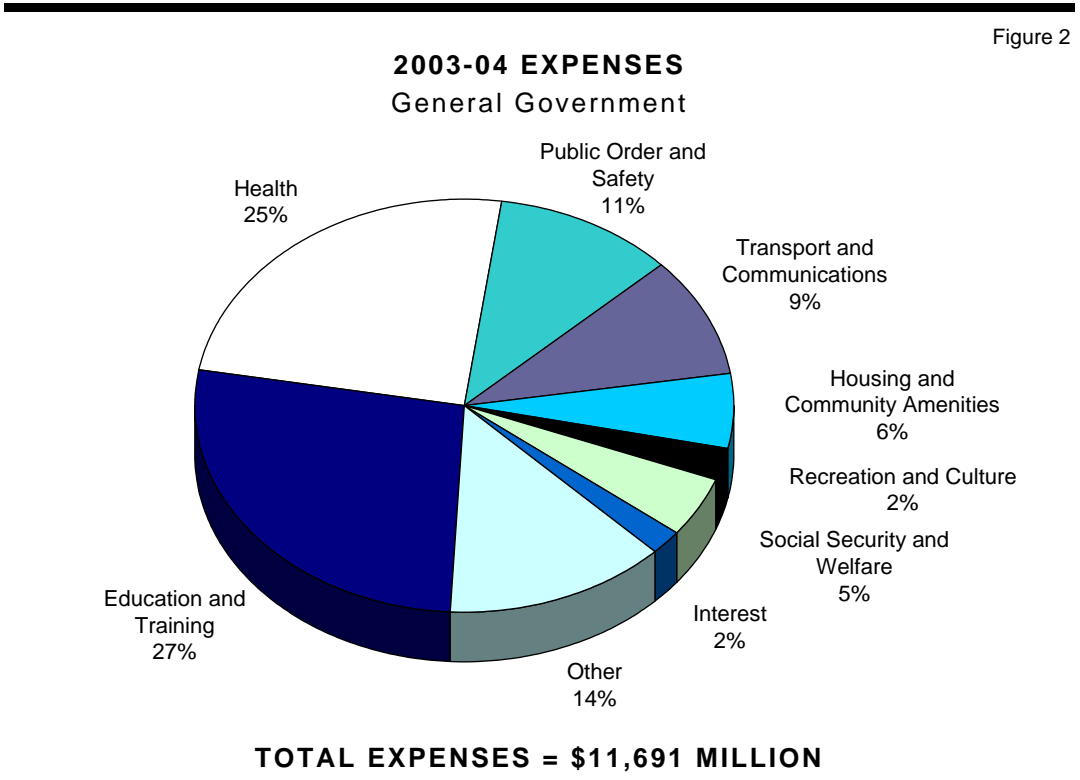
A similar net debt pattern has featured in the public sector’s forward estimates since the 2000-01 *Pre-election Financial Projections Statement* (PFPS). However, unlike the PFPS projections, which showed unabating growth in the total non-financial public sector net debt to revenue ratio, the 2003-04 Budget projections show net debt contained at sustainable levels, with the net debt to revenue ratio projected to remain well below the 47% target limit across the entire projection period.

Key Areas of Expenditure

Notwithstanding the low growth in revenue in 2003-04, this Budget delivers substantial increases in expenditure in the Government's priority areas. In particular:

- a 6.3% increase in health services expenses, including the recruitment of additional doctors, nurses and allied health professionals, the purchase of external services including ambulance and transport services, blood products and home care services, pharmaceuticals, and covering increased costs associated with service delivery contracts with private hospitals. There are also new initiatives including implementation of the National Group C Meningococcal Vaccination Program and enhancing the planning and preparedness for infectious disease threats;
- a 2.6% increase in education and training expenses, including spending on programs to create more apprentices and trainees, and the Getting it Right Literacy and Numeracy Strategy which focuses on early intervention and support for students most at risk of not meeting literacy and numeracy standards;
- a 4.8% increase in expenses on law and order initiatives, such as:
 - the Offender Re-entry Program which assists prisoners' re-entry into the community and aims to reduce re-offending, and the Drug Management Program which is aimed at reducing the likelihood of drug users returning to crime to feed their drug habit on re-entry to the community; and
 - continued funding for the recruitment of additional police officers and Aboriginal Police Liaison Officers (APLOs) consistent with the Government's election commitment to employ an extra 250 police officers and 40 APLOs over four years;
- the establishment of a new Corruption and Crime Commission (CCC) to replace the existing Anti-Corruption Commission. The CCC will be headed by a single commissioner and have all the powers of a regular Royal Commission, including the ability to hold public hearings and compel witnesses to give evidence;
- greater enforcement of environmental regulation through the creation of a new Environmental Enforcement Unit, and significant additional funding for the identification and remediation of contaminated sites; and
- increased spending on disability services, including funding for 80 new accommodation places, and increased services in the areas of family support, therapy and local area coordination; and
- the provision of an additional 20 Workplace Inspectors to address community and stakeholder concerns regarding occupational safety and health.

The following chart shows the contributions to total general government expenses by functional spending area for 2003-04.



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

Capital Investment

Economic growth in Western Australia has often exceeded the national average, boosted by large investment projects and strong export demand. To help ensure that the Western Australian economy remains strong, it is important to focus on and plan for the future. Reflecting this, the Government is developing a number of measures to streamline the approvals process for private sector projects, while also undertaking its own extensive Capital Works Program.

The estimated Capital Works Program for 2003-04 is a record \$3.5 billion, and provides for ongoing funding of the Government’s election commitments and increased funding in priority areas, including:

- new projects in the health sector to address new areas of need, and the continued refurbishment of existing hospital and other infrastructure, to ensure a continuing high standard of health care;

- investment in government school and TAFE college infrastructure including the refurbishment of existing primary and high schools and construction works for new primary and high schools, and an emphasis on developing better integration between the education and training sectors by developing shared use of TAFE and school facilities, where practicable;
- continuation of capital spending in relation to law and order including:
 - investment in the Central Business District Courts complex. This project will see the consolidation of criminal court facilities for the Magistrates, District and Supreme Courts and the remediation of existing facilities, resulting in operational efficiencies; and
 - spending on the Delta Communications and Information Technology project and the Computer Aided Dispatch Communications project to improve police communications and provide increased community security and officer safety. In addition, construction will commence on the forensic component of the Police Operations Support Facility, and three police stations at targeted remote locations;
- the continuation of the New MetroRail project including delivery of the first few sets of railcars, completion of a major portion of railway infrastructure works for the Northern Suburbs Railway extension and progress on the infrastructure works for the Thornlie extension;
- a total of \$773.2 million is being spent on roads in 2003-04, of which \$328.3 million is included in the Capital Works Program; and
- substantial investment by the State's utilities, in particular:
 - electricity generation, transmission and distribution projects to maintain quality and reliability of supply and provide increased capacity to serve existing customers. This will include the construction of new lines and substations and upgrades and enhancements to existing lines, substations, protection systems and communications facilities; and
 - water, wastewater and drainage services to provide reliable water services and to replace and augment existing infrastructure to meet the needs of our growing State. Investment in key projects includes a desalination plant and a saline pipeline to provide water to new industrial developments on the Burrup Peninsula, and specific projects focussing on securing water supply to the metropolitan and country areas.

Economic Outlook

Solid growth of 4.25% in gross State product (GSP) is expected in 2002-03, despite the impact of the drought on agricultural production. This has been driven mainly by a buoyant domestic economy, with strong growth in business and dwelling investment a prominent feature. Reflecting the strong domestic economy, robust employment and wages growth (of 2.5% and 3.25% respectively) is predicted.

Growth in GSP of 4.5% is forecast for 2003-04, with a return to normal seasonal conditions in the agricultural sector expected. However, moderation in domestic demand is projected, with the current expansionary cycle in dwelling investment likely to have run its course. Nevertheless, continued strong growth in business investment is anticipated, reflecting ongoing construction of existing projects and a number of large new projects on the horizon.

A tightening of the labour market is expected in 2003-04, with employment growth constrained by labour supply. A slight moderation in the unemployment rate to 5.75% is forecast. Correspondingly, wages growth is expected to remain above trend levels.

In 2004-05, GSP growth of 4.0% is predicted, which is consistent with Western Australia's long-term average. An increase in net exports and moderate growth in the domestic economy underpin this forecast. Continued solid employment and wages growth is projected in 2004-05.

Growth in the consumer price index is projected to follow national trends and ease to 2.5% across the budget and forward estimate years.

Table 2

MAJOR ECONOMIC AGGREGATES
Western Australia

	2001-02 Actual %	2002-03 Estimated Actual %	2003-04 Budget Estimate %	2004-05 Forward Estimate %	2005-06 Forward Estimate %	2006-07 Forward Estimate %
Real Gross State Product Growth	5.7	4.25	4.5	4.0	4.0	4.0
Employment Growth	1.1	2.5	2.25	2.25	2.5	2.5
Unemployment Rate	6.5	6.0	5.75	5.75	6.0	6.0
Wages Growth ^(a)	3.2	3.25	3.25	3.25	3.0	3.0
Consumer Price Index Growth	2.7	2.75	2.5	2.5	2.5	2.5
Implicit Price Deflator Growth	0.3	2.25	2.5	2.25	2.25	2.25

(a) Growth in wages refers to growth in the Wage Cost Index.

CHAPTER 2

Fiscal Strategy and Financial Projections

Overview

The 2003-04 Budget has been framed in an environment of international uncertainty, real declines in State revenues and continuing cost and demand pressures in key areas of public sector activity, particularly health, education and law and order.

In addressing these issues, the Government's primary focus has been to restrain growth in expenses in non-priority areas. Reflecting this, the Government has adopted most of the recommendations of its Functional Review Taskforce which was established in June 2002 to examine measures to improve the productivity of the public sector and ensure the effective and efficient delivery of the Government's priorities. These measures are expected to generate significant savings, particularly in the latter years of the forward estimates.

Notwithstanding the adoption of the Functional Review Taskforce savings measures and the Government's determination to restrain expense growth in non-priority areas, it has proved necessary to supplement a very subdued revenue base by introducing some new revenue measures as part of this Budget. These are discussed in Chapter 4: *Financial Projections – Revenue*.

Without the revenue measures, general government revenue was estimated to grow by only \$65 million or 0.6% in 2003-04, primarily reflecting the impact of weak international demand on the State's royalty revenue and growth in Commonwealth grants to Western Australia of only 0.9%¹. Such low growth in revenue is insufficient to meet the cost and demand pressures in the priority areas mentioned above. Even after the revenue measures, general government revenue is estimated to grow by only 2.1% in 2003-04.

¹ Excluding North West Shelf petroleum royalties and specific purpose payments 'through' the State.

The Government's decisions on the Functional Review Taskforce savings measures and the revenue measures underline its commitment to responsible financial management. The projections outlined in this Budget are consistent with the Government's financial targets, and include an estimated \$83 million general government operating surplus for 2003-04, with increasing surpluses across the outyears, and net debt levels well within target.

The remainder of this Chapter outlines the Government's fiscal strategy and financial targets framework, discusses the detailed financial projections underlying the 2003-04 Budget and the risks surrounding the projections, and examines alternative 'headline' measures of budget performance used by jurisdictions across Australia.

Fiscal Strategy

At a broad level, the Government's fiscal strategy, unchanged from its first two budgets, is to deliver sustainable financial management outcomes while providing key services and essential economic and social infrastructure to a growing population and economy.

As indicated above, the Government's focus in operationalising this strategy is to restrain growth in expenses in non-priority areas. This is the key to delivering general government operating surpluses which, in turn, enable the Government to fund Western Australia's substantial capital investment requirements while keeping net debt at sustainable levels.

Emphasising the durability of the Government's commitment to this strategy, the Government's financial targets, largely unchanged from those adopted when it came to office, are all expected to be met in 2003-04 and each of the forward estimate years, as outlined in the following discussion.

Financial Targets

The Government's financial targets are to:

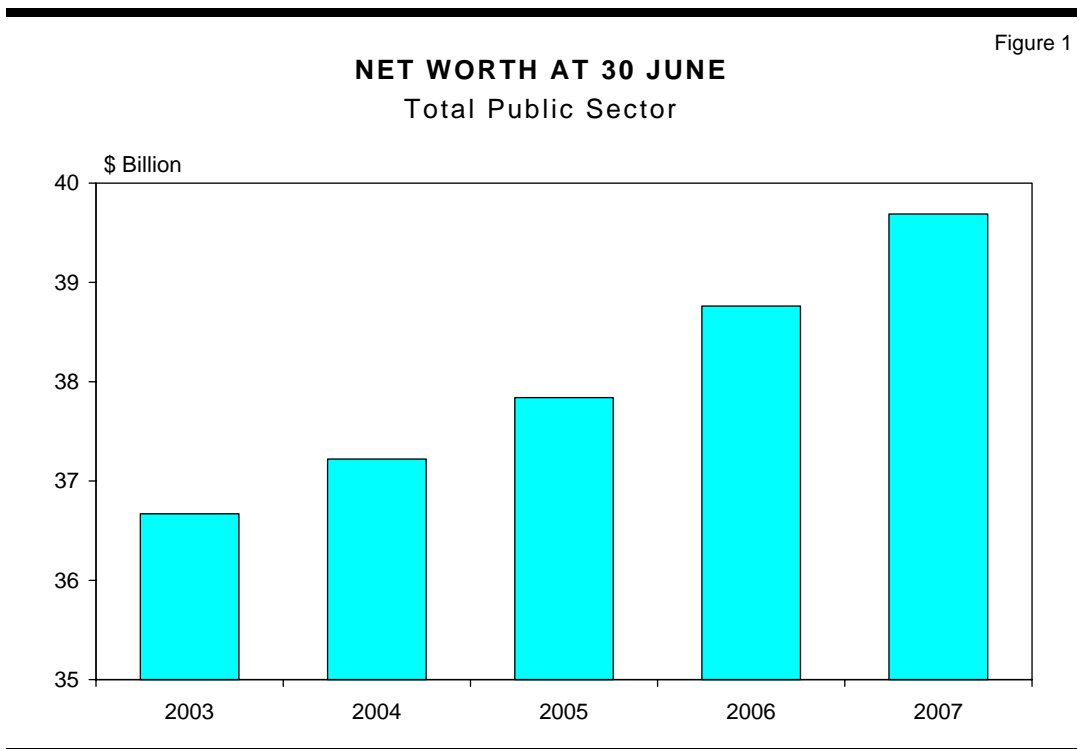
- maintain or increase the net worth of the total public sector;
- achieve an operating surplus for the general government sector;
- retain Western Australia's triple-A credit rating, represented by the following two specific targets:
 - maintain the net debt to revenue ratio for the total non-financial public sector² at or below 47%; and
 - ensure that real per capita expenses for the general government sector do not increase; and
- maintain Western Australia's tax competitiveness.

² Comprises the general government and public non-financial corporations sectors (the latter includes public corporations such as Western Power, the Water Corporation and the port authorities).

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

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

This target is expected to be achieved in the budget year and in each of the forward estimate years, with net worth increasing from an estimated \$36.7 billion at 30 June 2003 to \$39.7 billion at 30 June 2007.

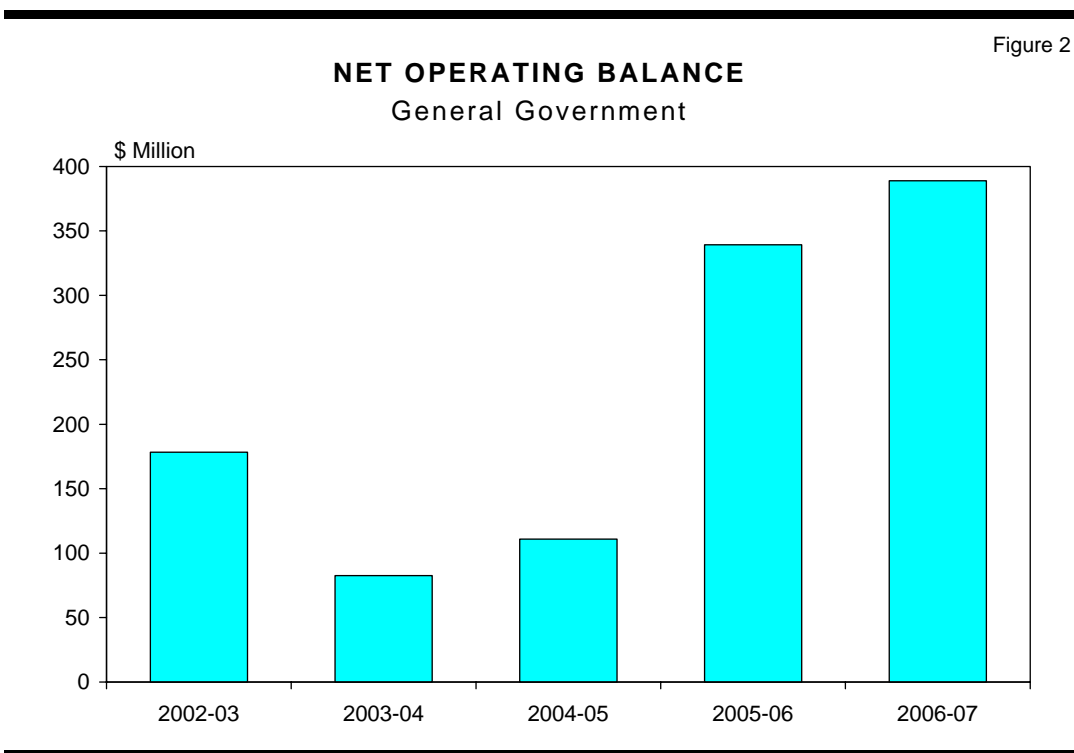


Operating Balance: Achieve an Operating Surplus for the General Government Sector

The net operating balance is the excess of operating (day-to-day) revenue over operating expenses, and is the principal budget ‘bottom line’. It excludes expenditure on the acquisition of capital assets but includes non-cash costs such as accruing superannuation entitlements and the consumption of capital (ie. depreciation).

By including all accruing costs, the net operating balance encompasses the full costs of providing government services, making it a good measure of the sustainability of the Government’s operations over time.

As illustrated in the following chart, this target is expected to be achieved in each year.



The 2002-03 mid-year review reported an estimated net operating surplus in 2002-03 of \$53 million. However, the outlook for the 2002-03 surplus has since strengthened on the back of stronger than expected stamp duty revenue from sustained activity in the property market and higher petroleum royalties. A surplus of \$178 million is now forecast for 2002-03.

The operating surplus for 2003-04 is expected to be \$83 million, reflecting a significant easing in revenue growth (from an estimated 4.5% in 2002-03 to 2.1% in 2003-04), before rising to an estimated \$389 million by 2006-07, largely reflecting the impact of the Functional Review Taskforce savings measures.

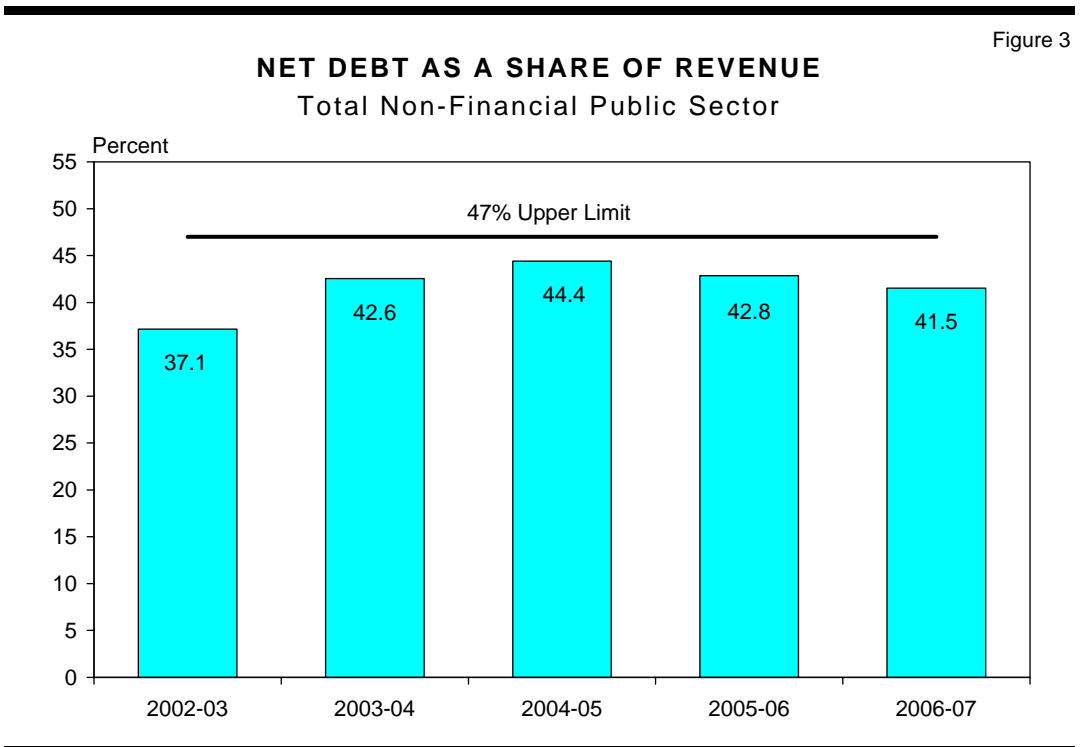
Retain Triple-A Credit Rating – Net Debt: Maintain Net Debt to Revenue for the Total Non-Financial Public Sector at or Below 47%

This is the Government’s target to manage net debt levels. Together with the real per capita expenses target, it gives effect to the objective of maintaining the State’s triple-A credit rating.

As discussed in the 2002-03 mid-year review, the upper limit to the net debt to revenue target was adjusted in November 2002 to 47% to accommodate the merger of the Grain Pool of Western Australia with Cooperative Bulk Handling forming a new, private sector entity.

While the merger removed the Grain Pool’s revenue from the total non-financial public sector (thus increasing the net debt to revenue ratio for that sector), it has not had any impact on the State’s ability to service its debt. The upward revision in the target reflecting this structural change, in no way represents a weakening of the Government’s commitment to maintain the State’s triple-A credit rating, and has been accepted by the credit rating agencies.

As indicated in the following chart, this target is forecast to be met in each year, with the ratio peaking at 44.4% in 2004-05.

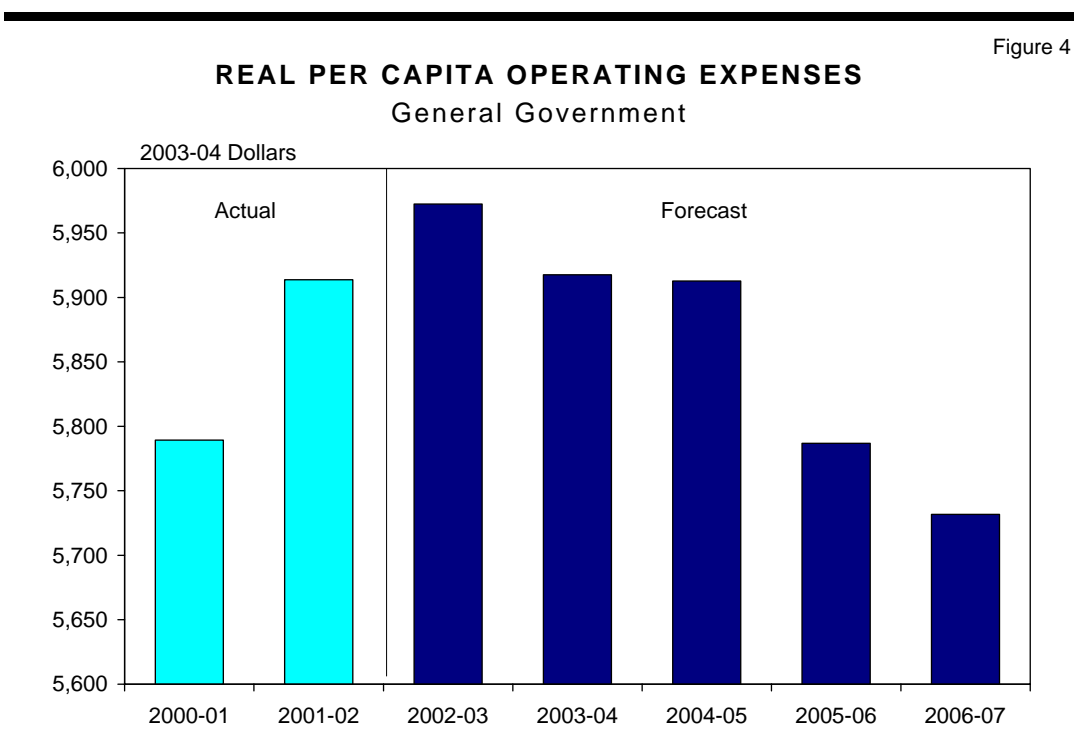


The operating surpluses projected over the forward estimates period, and the revenue measures and Functional Review Taskforce savings measures that underlie those surpluses, play a major role in keeping the net debt to revenue ratio below the target limit.

Retain Triple-A Credit Rating – Operating Expenses: Real Per Capita Expenses for the General Government Sector to not Increase

This target is aimed at capping expense growth, and allows for an increase in expenses up to, but not exceeding, the combined growth in population and inflation³. The general government sector is the focus of the target because this is the sector over which the Government has the most control on expenses.

As indicated in the following chart, this target is expected to be met in the budget year and each of the forward estimate years. The large drop in real per capita expenses in 2005-06 largely reflects the first full year impact of the Functional Review Taskforce savings measures.



As shown in Figure 4, the target was not met in 2001-02 and is not expected to be met in 2002-03. Importantly, however, actual expense growth in 2001-02 was 3.9%, which is marginally lower than the 4.0% growth estimated for that year, but well below the average rate of expense growth under the previous Government (5.6%). As it turned out, the target was not met because of a technical factor associated with extremely low growth in inflation (as measured by the implicit price deflator) which was only 0.3%, compared with forecast growth of 2.5%.

³ Inflation as measured by growth in the implicit price deflator (IPD). The IPD is a measure of the total price of Western Australian production (gross State product) and, as such, is the widest measure of prices in the Western Australian economy.

The projected increase in real per capita expenses in 2002-03 incorporates a number of one-off factors which result in stronger than budgeted growth of 4.7%. Several of the large, one-off changes were backed by Commonwealth grants (and hence have no net impact on the budget bottom line), including a \$16.7 million increase in Commonwealth grants for on-passing to non-government schools and a \$10.0 million increase in Commonwealth funding for first home buyers.

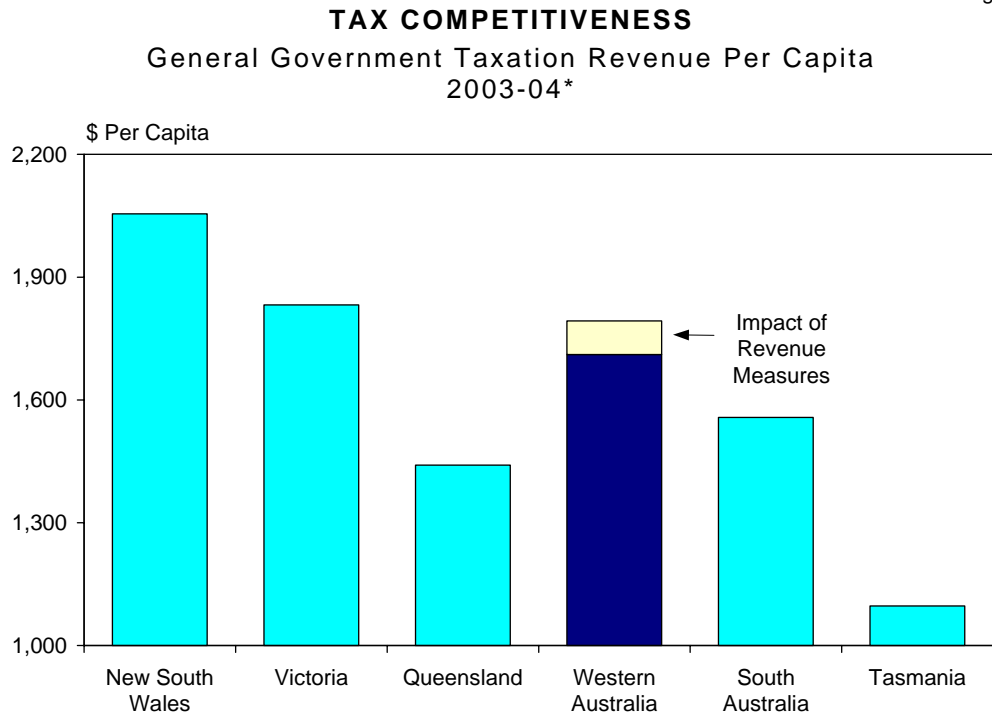
They also include a substantial 'carryover' of expenses from 2001-02 to 2002-03 (\$72.6 million) due to timing issues across a wide range of agency activities, and a \$38.6 million increase in depreciation due to a substantial upward revaluation of the State's road network. By excluding these one-off factors an underlying measure of expense growth can be determined which shows growth in 2002-03 of only 2.7%, which is below real per capita growth.

Tax Competitiveness: Maintain Western Australia's Tax Competitiveness

This target is expressed as maintaining Western Australia's interstate ranking in terms of general government taxation revenue per capita.

As indicated in the following chart, Western Australia is expected to maintain its ranking in 2003-04, even after the revenue measures introduced as part of this Budget. Moreover, this ranking is forecast to remain unchanged throughout the forward estimates period.

Figure 5



*Estimates of taxation revenue for other States are based on their 2002-03 mid-year review, while the 2003-04 Budget estimate is used for Western Australia. The population projections are based on data from the Australian Bureau of Statistics.

Summary of Financial Projections

Table 1 summarises the major factors affecting the general government net operating balance since the 2002-03 Budget. Policy decisions affecting expenses and revenue are discussed in detail in Chapter 3: *Financial Projections – Expenditure* and Chapter 4: *Financial Projections – Revenue* respectively.

Table 1

SUMMARY OF GENERAL GOVERNMENT REVENUE AND EXPENSE VARIATIONS SINCE THE 2002-03 BUDGET					
	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
2002-03 BUDGET – NET OPERATING BALANCE	119.1	137.2	326.3	368.7	-
Changes between the 2002-03 Budget and 2002-03 Mid-year Review					
Revenue					
<i>Policy Decisions^(a)</i>					
Extension of water restrictions	-	-26.3	-	-	
Provision for the Review of State Business					
Taxes	-0.2	-4.3	-24.4	-25.2	
Other	-4.3	5.3	8.1	10.1	
<i>Total Policy</i>	<i>-4.5</i>	<i>-25.3</i>	<i>-16.3</i>	<i>-15.1</i>	
<i>Parameter^(b)</i>					
Taxation	-9.3	-9.3	-7.4	0.2	
Commonwealth grants:					
- North West Shelf royalties	105.4	70.5	27.5	55.5	
- GST revenue grants	-0.1	-0.8	-47.3	-33.8	
- non-government schools grants	16.7	23.2	28.7	62.7	
- other Commonwealth grants	87.7	-31.8	0.1	-7.4	
Mining royalties	17.2	17.0	46.6	67.9	
Agency sales of goods and services	-5.8	45.0	36.8	41.9	
Interest revenue	-5.1	-10.5	-6.4	-2.5	
Revenue from public corporations	-8.1	-31.1	-26.1	-29.9	
Other	-12.3	-7.7	-27.5	-8.7	
<i>Total Parameter</i>	<i>186.3</i>	<i>64.5</i>	<i>25.0</i>	<i>145.9</i>	
TOTAL REVENUE	181.8	39.2	8.7	130.8	
Expenses					
<i>Policy Decisions^(a)</i>					
	35.5	45.7	42.8	41.1	
<i>Parameter^(b)</i>					
Non-government schools grants on-passed	16.7	23.2	28.7	62.7	
Depreciation of road network	38.6	44.2	45.4	46.2	
First Home Owner Grants	10.0	-	-	-	
Carry-over from 2001-02	72.6	5.5	-	-	
Other	74.6	24.7	67.5	48.1	
<i>Total Parameter</i>	<i>212.5</i>	<i>97.6</i>	<i>141.6</i>	<i>157.0</i>	
TOTAL EXPENSES	248.0	143.3	184.5	198.1	
TOTAL VARIANCE	-66.2	-104.1	-175.8	-67.3	
2002-03 MID-YEAR REVIEW – NET OPERATING BALANCE	52.9	33.1	150.6	301.4	-

Table 1 (cont.)

**SUMMARY OF GENERAL GOVERNMENT
REVENUE AND EXPENSE VARIATIONS
SINCE THE 2002-03 BUDGET**

	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
2002-03 MID-YEAR REVIEW – NET OPERATING BALANCE	52.9	33.1	150.6	301.4	-
Changes between the 2002-03 Mid-year Review and 2003-04 Budget					
Revenue					
<i>Policy Decisions^(a)</i>					
Stamp duty on conveyances	-	109.5	116.5	123.0	129.0
Stamp duty on insurance policies	-	52.5	54.5	57.0	59.5
Water Corporation dividend payout ratio	-	20.1	21.0	22.5	22.2
<i>Total Policy</i>	-	182.1	192.0	202.5	210.7
<i>Parameter^(b)</i>					
Taxation	75.4	31.0	40.0	44.1	
Commonwealth grants:					
- North West Shelf royalties	27.8	16.2	-6.9	-6.7	
- GST revenue grants	6.1	36.4	20.8	31.7	
- Meningococcal vaccination program	10.7	6.3	6.3	1.0	
- Natural Heritage Trust Agreement 2	6.4	15.5	20.5	-	
- Indigenous Housing Agreement	-	18.2	41.1	41.1	
- other Commonwealth grants	-36.3	-11.7	-10.7	-9.3	
Mining royalties	6.9	-35.0	-32.9	-31.1	
Agency sales of goods and services	32.2	-20.3	3.8	-5.1	
Revenue from public corporations	20.0	1.0	-8.7	-11.3	
Other	32.7	19.3	25.6	15.7	
<i>Total Parameter</i>	181.8	112.4	134.8	111.1	
TOTAL REVENUE	181.8	294.6	326.8	313.6	
Expenses					
<i>Policy Decisions^{(a) (c)}</i>	31.8	258.7	319.0	279.2	422.1
<i>Parameter^(b)</i>					
Meningococcal vaccination program grants on-passed	10.7	6.3	6.3	1.0	
Natural Heritage Trust Agreement 2 grants on-passed	6.4	15.5	20.5	-	
Indigenous Housing Agreement grants on-passed	-	18.2	41.1	41.1	
Other	7.5	-53.6	-20.4	-45.5	
<i>Total Parameter</i>	24.6	-13.7	47.5	-3.4	
TOTAL EXPENSES	56.4	245.1	366.5	275.7	
TOTAL VARIANCE	125.4	49.5	-39.7	37.8	-
2003-04 BUDGET – NET OPERATING BALANCE	178	83	111	339	389

(a) Excludes the public debt net interest effect of policy measures.

(b) 'Parameter' variations refer to all movements in revenue and expenses that are not directly related to a policy decision of the Government.

(c) These figures reflect movements in agency expenses (on a GFS basis) arising from policy decisions of the Government, including the Functional Review Taskforce savings measures. They exclude any transfers between general government agencies, which are eliminated on consolidation.

Note: Columns may not add due to rounding.

General Government Sector

Summary

Financial projections of the general government sector are the primary focus of the annual budget, as this area of public sector operations is subject to greatest control by government. It includes the operations of agencies such as Health, Education and Training and the Police Service, whose operations are funded from central revenue collections (such as taxation).

The net operating balance indicates whether there is an excess of revenue over expenses (an operating surplus), or an excess of expenses over revenue (an operating deficit). The general government net operating balance is the principal budget 'bottom line' in Western Australia.

Table 2

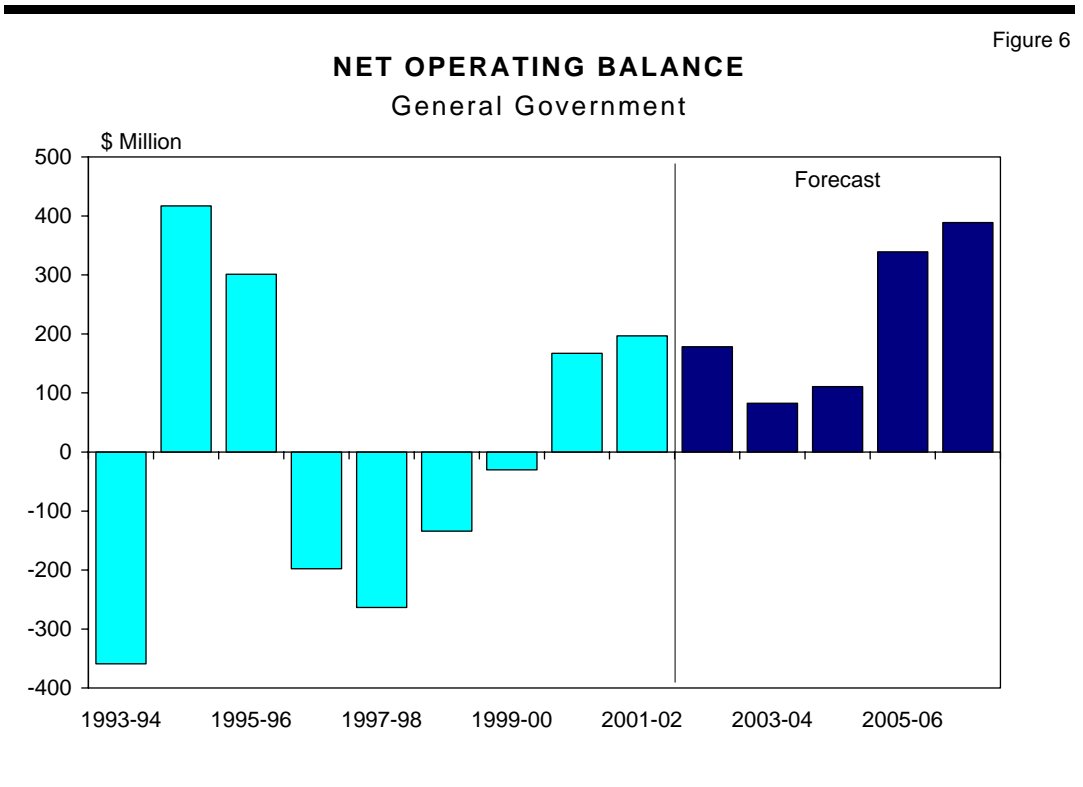
GENERAL GOVERNMENT Summary Financial Statements

	2001-02 ^(a) Actual \$m	2002-03 Estimated Actual \$m	2003-04 Budget Estimate \$m	2004-05 Forward Estimate \$m	2005-06 Forward Estimate \$m	2006-07 Forward Estimate \$m
OPERATING STATEMENT						
Revenue	11,035	11,527	11,774	12,228	12,637	13,017
Expenses	10,838	11,349	11,691	12,117	12,298	12,628
Net Operating Balance	197	178	83	111	339	389
BALANCE SHEET						
Assets	45,918	46,533	47,310	47,964	48,620	49,294
Liabilities	9,912	9,864	10,090	10,124	9,858	9,604
Net Worth	36,006	36,669	37,220	37,840	38,762	39,690
STATEMENT OF CASH FLOWS						
Change in net cash held	-253	-135	-1	-90	-17	14
GFS Cash Surplus	-31	-35	-152	-161	284	317
<i>Memorandum Item: Net Debt</i>	472	672	926	1,144	920	652

(a) Data quoted for 2001-02 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

Note: Columns may not add due to rounding.

As illustrated in the following chart, general government operating surpluses are projected across each year of the forward estimates period, in contrast with the experience of the 1990s.



In 2003-04, the Government has restricted the vast majority of the increase in expenses to the priority areas of health, education and community safety. Together with the Functional Review Taskforce savings measures, this budget strategy results in sustainable expense growth across the forward estimates period.

At the same time, some revenue measures have been necessary to supplement a very subdued revenue base, which is expected to be depressed by adverse international conditions and the Commonwealth Grants Commission process. As noted previously, even after these measures general government revenue is estimated to grow by an historically low 2.1% in 2003-04, down from an estimated 4.5% in 2002-03.

In order to underpin the economic development of the State, the Government is continuing to invest a substantial amount in infrastructure, resulting in a forecast rise in general government net debt of \$255 million over the budget year and a further \$217 million the following year.

These increases in net debt are responsible and sustainable. Reflecting the growing operating surpluses and an easing in capital investment over the outyears, the level of general government net debt is forecast to decline in the last two years of the forward estimates, after peaking at \$1.1 billion in 2004-05.

Operating Statement

Reflecting the low revenue growth in 2003-04, the general government net operating surplus is forecast to decline from an estimated \$178 million in 2002-03 to \$83 million in 2003-04, before increasing across the forward estimates period to an estimated \$389 million by 2006-07.

Table 3

GENERAL GOVERNMENT
Operating Statement

	2001-02 ^(a)	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
REVENUE						
Taxation	2,945	3,255	3,543	3,712	3,823	4,019
Current grants and subsidies	5,253	5,396	5,386	5,547	5,851	5,996
Capital grants	267	290	278	326	297	304
Sales of goods and services	905	946	930	921	923	930
Interest income	122	104	95	98	92	97
Revenue from public corporations						
Dividends	406	389	428	479	481	505
Tax equivalent payments	237	230	228	252	271	288
Royalty income	636	679	650	680	686	650
Other	264	238	235	213	214	227
<i>Total</i>	<i>11,035</i>	<i>11,527</i>	<i>11,774</i>	<i>12,228</i>	<i>12,637</i>	<i>13,017</i>
EXPENSES						
Gross operating expenses						
Salaries	4,209	4,397	4,615	4,751	4,824	4,937
Depreciation and amortisation	568	614	615	608	613	623
Superannuation	375	405	418	438	445	459
Other	2,660	2,814	2,837	3,047	3,033	3,102
Nominal superannuation interest	278	277	277	276	274	271
Other interest	214	215	214	230	234	235
Current transfers	2,277	2,383	2,438	2,508	2,621	2,743
Capital transfers	257	245	276	259	254	258
<i>Total</i>	<i>10,838</i>	<i>11,349</i>	<i>11,691</i>	<i>12,117</i>	<i>12,298</i>	<i>12,628</i>
NET OPERATING BALANCE	197	178	83	111	339	389

(a) Data quoted for 2001-02 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

Note: Columns may not add due to rounding.

The \$178 million estimated outturn for 2002-03 is \$125 million above the estimate contained in the 2002-03 mid-year review. The improvement in the projected surplus since mid-year review reflects a \$182 million upward revision to revenue partly offset by higher expenses, up \$56 million.

The major factors contributing to the improved revenue estimate since the mid-year review for 2002-03 include:

- an upward revision to the conveyance duty estimate (\$70 million), arising from stronger than expected activity in the property market;
- higher North West Shelf petroleum royalties (up \$28 million), mainly reflecting the net impact of a revised oil price assumption (from \$US25 a barrel for the remainder of the year in the mid-year review to \$US30 currently) and a revised \$A/\$US exchange rate assumption (from 56.0 for the remainder of the year in the mid-year review to 60.0 currently);
- an increase in revenue from public corporations (\$20 million), with higher dividend and Income Tax Equivalent revenue from the Water Corporation arising from higher than expected profitability; and
- higher Commonwealth grants related to Federal Government programs, in particular Meningococcal Vaccinations (\$11 million) and the Natural Heritage Trust Agreement 2 incorporating the Landcare, Bushcare, Rivercare and Coastcare programs (\$6 million), both matched by offsetting expenses.

The major factors contributing to the increase in expenses in 2002-03 since the mid-year review include:

- policy decisions taken by the Government (\$31.8 million), including increased business exit assistance related to the Regional Forests Agreement and supplementary funding for cost and demand pressures in the health sector; and
- the on-passing of Commonwealth grants related to Federal programs, including in relation to Meningococcal Vaccinations and the Natural Heritage Trust Agreement 2 noted above.

The major revenue and expense factors underlying the projected operating surpluses across the budget and forward estimate years are summarised below, with further detail provided in Chapters 3 and 4.

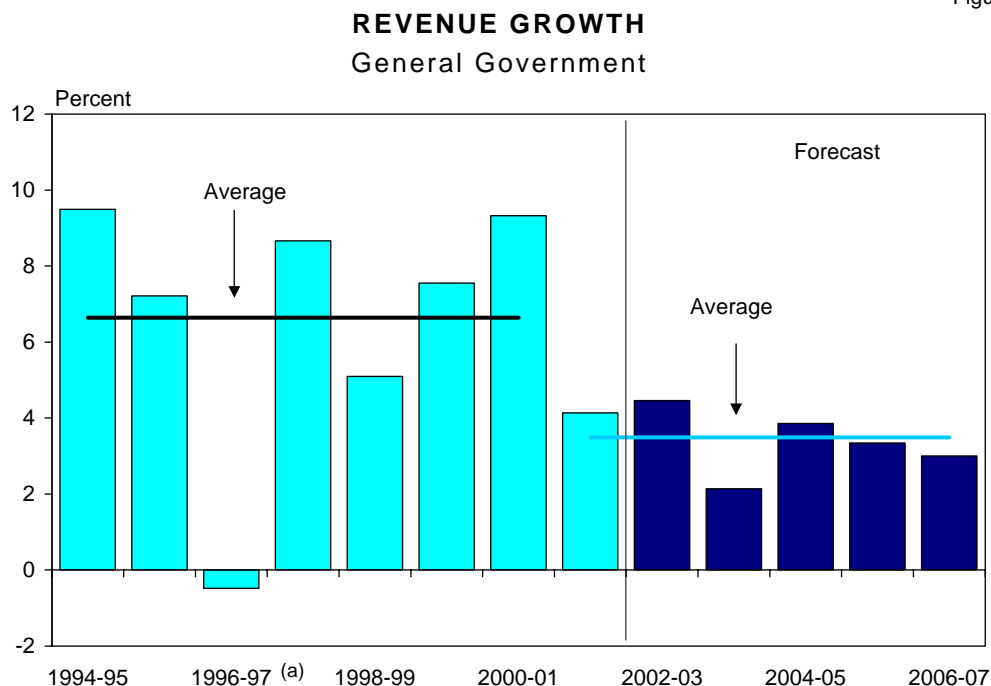
Revenue

Total operating revenue for the general government sector is expected to be \$11.8 billion in 2003-04. This represents growth of \$247 million or 2.1% over the expected outturn for 2002-03, and follows growth of 4.5% in 2002-03.

As noted earlier, Commonwealth grants and mining royalties are under pressure due to the Commonwealth Grants Commission process delivering a real cut in Commonwealth payments to Western Australia in 2003-04, and international conditions adversely affecting key economic parameters such as the exchange rate and oil price. These parameters have a major impact on Western Australia's royalty revenue (including North West Shelf petroleum royalties), which is forecast to fall by \$131 million or 11.5% in 2003-04 when compared with the estimated outcome for 2002-03.

Excluding the revenue measures announced as part of this Budget, operating revenue is forecast to grow by just 0.6% in 2003-04. Even with the new revenue measures, revenue growth of 2.1% is low by historical standards (see following chart).

Figure 7



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

Between 1993-94 and 2000-01, total operating revenue grew by an average of 6.6% per annum (or 6.3% excluding the one-off impacts of major asset sales). In contrast, revenue growth since 2000-01 is forecast to average just 3.5% per annum.

It should be noted that general government revenue growth is not affected by the returns on superannuation-related financial investments, as Western Australia’s public sector superannuation funds are managed by a statutory-based superannuation board whose investment income is not available to government. Amongst other things, this arrangement insulates the general government sector from the impact of volatile income changes such as those experienced recently in Queensland, where superannuation-related assets are managed by the general government sector. This issue is further discussed in the section on *Issues in Public Sector Finances* at the end of this Chapter.

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

Expenses

Total operating expenses of the general government sector are expected to be \$11.7 billion in 2003-04. This represents an increase of \$342 million or 3.0% on the expected outturn for 2002-03.

In an effort to turn around the deterioration in general government operating performance that was evident during the 1990s, the Government has a strong focus on expense restraint in low priority areas. This is in contrast to the period between 1993-94 and 2000-01 when expenses were growing at unsustainable rates, averaging 5.6% per annum. Over the same period, the State recorded four consecutive deficits between 1996-97 and 1999-2000, and a total of five deficits in eight years.

In its first Budget in 2001-02, the Government undertook a reprioritisation of public sector operating and capital investment spending which yielded an unprecedented \$852 million reprioritisation of expenses. In the 2002-03 Budget, continued management of expense growth remained a high priority while ensuring that the key areas of health, education, law and order and the environment were funded appropriately.

The focus on restricting expense growth has continued in the 2003-04 Budget. This is particularly evidenced by the Government's adoption of most of the savings measures recommended by the Functional Review Taskforce, which was announced in the 2002-03 Budget and established soon thereafter to examine measures for improving the productivity of the public sector and ensuring the effective and efficient delivery of the Government's priorities.

The impact of these decisions is evident in both the budget year and across the outyears.

The increase in expenses in 2003-04 of \$342 million is concentrated in health (\$153 million), education (\$103 million) and law and order (\$47 million). Outside these areas, many agencies are being required to manage with nominal increases in expenses of less than 1%.

Across the forward estimates period, the Budget projections incorporate \$497 million in expense savings (net of implementation costs) arising from Functional Review Taskforce recommendations endorsed by the Government (see Table 4 below, which also shows the capital savings projected from the Taskforce's recommendations). As discussed in Chapter 3: *Financial Projections – Expenditure*, some of these savings have been redirected to priority areas to help fund emerging pressures, however the bulk of the savings are directed at improving the general government operating surplus.

Table 4

FUNCTIONAL REVIEW TASKFORCE
Savings Reflected in the 2003-04 Budget Projections

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	Total \$m
OPERATING SAVINGS					
Gross Savings					
Agency Specific ^(a)	-29	-63	-72	-75	-239
Corporate Services	-	-	-40	-40	-80
Procurement	-	-30	-100	-100	-230
Implementation Costs	28	24	-	-	52
Total Net Savings	-1	-69	-212	-215	-497
CAPITAL SAVINGS					
Gross Savings	-51	-100	-75	-76	-302
Implementation Costs	8	42	-	-	50
Total Net Savings	-43	-58	-75	-76	-252

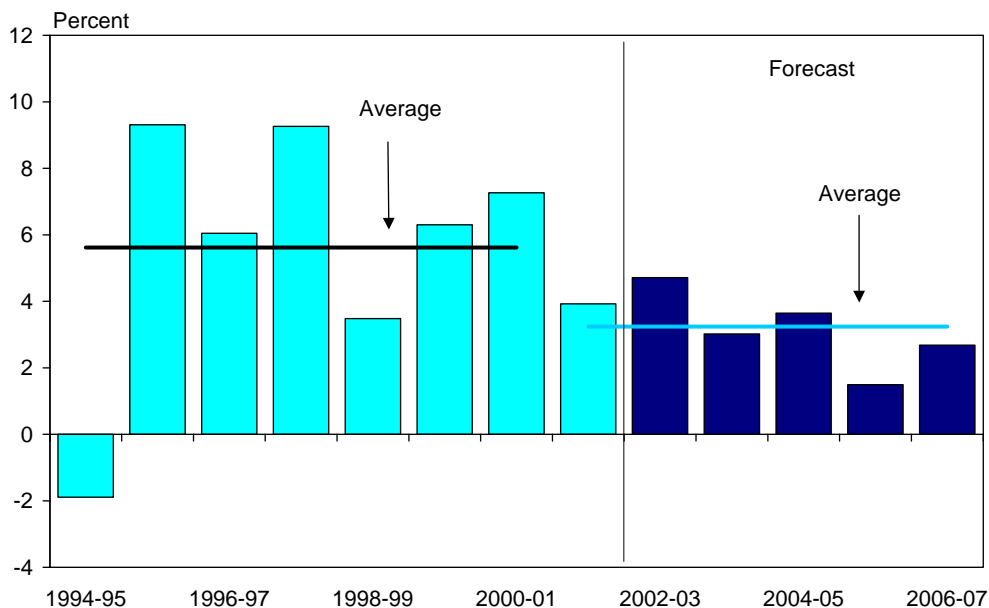
(a) These amounts include savings reinstated to assist with funding emerging pressures.

However, it will take some time to achieve full savings from these initiatives. For instance, the initiatives being implemented in the areas of procurement and corporate services functions across the general government sector will take some time to develop and implement, and are scheduled to start to generate expense reductions in 2004-05, with the first full year impact expected in 2005-06.

The impact of the Functional Review Taskforce savings measures and the Government's determination to restrain expense growth in non-priority areas mean that expenses are estimated to grow by an average of just 2.7% per annum across the budget and forward estimate years.

Figure 8

EXPENSE GROWTH
General Government



Salaries are the general government sector's largest operating expense, accounting for around 40% of total expenses. In 2003-04, the total wages bill for the general government sector is expected to total \$4.6 billion, up 5.0% compared with 2002-03.

This increase does not indicate any change from past policy to restrict wage growth to 3% per year. Rather, it reflects the impact of policy decisions such as initiatives in the health sector (eg. the recruitment of additional doctors, nurses and allied health professionals), the establishment of the new Corruption and Crime Commission and the Government's response to the Gordon Inquiry.

Across the outyears, salaries are forecast to rise by an average 2.3% per annum. The fall in the rate of growth across the forward estimates reflects underlying salaries growth expectations.

Table 5

GENERAL GOVERNMENT
Operating Expenses

	2001-02 ^(a) Actual \$m	2002-03 Estimated Actual \$m	2003-04 Budget Estimate \$m	2004-05 Forward Estimate \$m	2005-06 Forward Estimate \$m	2006-07 Forward Estimate \$m
Gross operating expenses						
Salaries	4,209	4,397	4,615	4,751	4,824	4,937
Depreciation and amortisation	568	614	615	608	613	623
Superannuation	375	405	418	438	445	459
Other	2,660	2,814	2,837	3,047	3,033	3,102
Nominal superannuation interest	278	277	277	276	274	271
Other interest	214	215	214	230	234	235
Current transfers	2,277	2,383	2,438	2,508	2,621	2,743
Capital transfers	257	245	276	259	254	258
Total	10,838	11,349	11,691	12,117	12,298	12,628

(a) Data quoted for 2001-02 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

Note: Columns may not add due to rounding.

There are two expenses related to superannuation on the operating statement. These are the superannuation expense related to employment in the year of the estimate, and nominal superannuation interest⁴. Trends in superannuation-related expenses mirror movements in salaries expenses and the magnitude of unfunded liabilities carried on the balance sheet.

Across the budget and outyears, concurrent superannuation expenses are forecast to rise by 3.2% per annum, broadly in line with salaries growth.

⁴ Nominal superannuation interest represents the cost of carrying unfunded superannuation liabilities on the balance sheet. It is akin to a debt servicing cost and, together with superannuation expenses, payments and non-transaction related changes (such as revaluations), is one of the factors which affects the rate of growth in superannuation liabilities from year to year.

It is anticipated that the recent downturn in equity markets which has impacted on the Superannuation Board's investment returns will be reversed and long term investment returns restored. There has, therefore, been no requirement to increase provisions for superannuation expenses for equity market performance reasons across the forward estimates.

Depreciation expenses are forecast to rise marginally by the end of the forward estimates, averaging around \$615 million per annum. Depreciation represents the cost of 'consuming' the State's significant fixed assets, and near constant depreciation expense across the forward estimates period indicates that the sector's fixed asset holdings are being maintained at a fairly constant level.

'Other' gross operating expenses incorporate many of the expenses incidental to the day-to-day operations of agencies. These include purchases of goods and services (eg. consumables such as stationery), advertising, travel and promotion. The Government has placed a high priority on restricting growth in such expenses since coming to office. Reflecting this, other gross operating expenses are forecast to rise by just 0.8% in 2003-04.

Interest expenses reflect movements in borrowings outstanding and the average rate of interest on those borrowings. In 2003-04, interest expenses are forecast to remain largely unchanged relative to 2002-03 levels, with low and generally stable interest rates together with debt refinancing measures (as more expensive long term debt is retired by new debt attracting lower rates) helping to contain interest expenses in 2002-03 and 2003-04.

Across the outyears, interest expenses are forecast to rise marginally due to additional borrowings for capital investment. However, debt servicing costs remain at historically low levels, and are expected to account for less than 2% of total expenses on average over the forward estimates period.

Current transfers (largely grants and subsidies) are forecast to rise by \$56 million (or 2.3%) in 2003-04. The expected rise in 2003-04 reflects a combination of the on-passing of grants received from the Commonwealth (including grants to non-government schools (up \$38 million) and Natural Heritage Trust Agreement 2 grants (up \$9 million)), and own-source increases (such as community service obligations to public corporations, up \$10 million).

Reflecting similar factors, current transfers are forecast to increase by an average of 4.0% per annum over the remainder of the forward estimates.

Capital transfers, which are dominated by Commonwealth funding received under the Commonwealth-State Housing Agreement and for local government roads, are forecast to increase by \$31 million (or 12.8%) in 2003-04. This partly reflects the carryover of spending not undertaken in 2002-03 which saw capital transfers decline by \$13 million. Also increasing in 2003-04 are transfers related to the Perth Convention and Exhibition Centre, up \$15 million.

Capital transfers are forecast to remain relatively constant across the forward estimate years.

Balance Sheet

The Government's stocks of assets and liabilities are recorded in the general government balance sheet, and are shown in the following table.

Table 6						
GENERAL GOVERNMENT						
Balance Sheet at 30 June						
	2002 ^(a)	2003	2004	2005	2006	2007
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
ASSETS						
<i>Financial Assets</i>						
Cash and deposits	299	289	286	285	278	279
Advances paid	874	868	858	844	831	820
Investments, loans and placements	1,356	1,090	1,065	954	930	987
Other non-equity assets	734	724	715	761	754	751
Equity	15,867	16,309	16,721	17,115	17,592	18,075
<i>Total</i>	<i>19,131</i>	<i>19,280</i>	<i>19,645</i>	<i>19,958</i>	<i>20,385</i>	<i>20,910</i>
<i>Non-Financial Assets</i>						
Land and fixed assets	26,775	27,219	27,590	27,926	28,147	28,293
Other non-financial assets	11	35	76	80	88	90
<i>Total</i>	<i>26,787</i>	<i>27,254</i>	<i>27,666</i>	<i>28,006</i>	<i>28,235</i>	<i>28,384</i>
TOTAL ASSETS	45,918	46,533	47,310	47,964	48,620	49,294
LIABILITIES						
Deposits held	298	226	229	224	226	265
Advances received	593	581	561	548	536	523
Borrowings	2,111	2,112	2,346	2,454	2,197	1,950
Unfunded superannuation liabilities	5,236	5,219	5,187	5,130	5,068	4,989
Other employee entitlements and provisions	1,128	1,159	1,224	1,201	1,260	1,312
Non-equity liabilities	545	567	543	566	571	565
TOTAL LIABILITIES	9,912	9,864	10,090	10,124	9,858	9,604
NET WORTH	36,006	36,669	37,220	37,840	38,762	39,690
<i>Memorandum Item: Net Debt</i>	<i>472</i>	<i>672</i>	<i>926</i>	<i>1,144</i>	<i>920</i>	<i>652</i>

(a) Data quoted for 2002 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

Note: Columns may not add due to rounding.

The general government's net worth (ie. assets less liabilities) is projected to increase over the forward estimates period, rising from an expected \$36.7 billion at 30 June 2003 to \$39.7 billion by 30 June 2007.

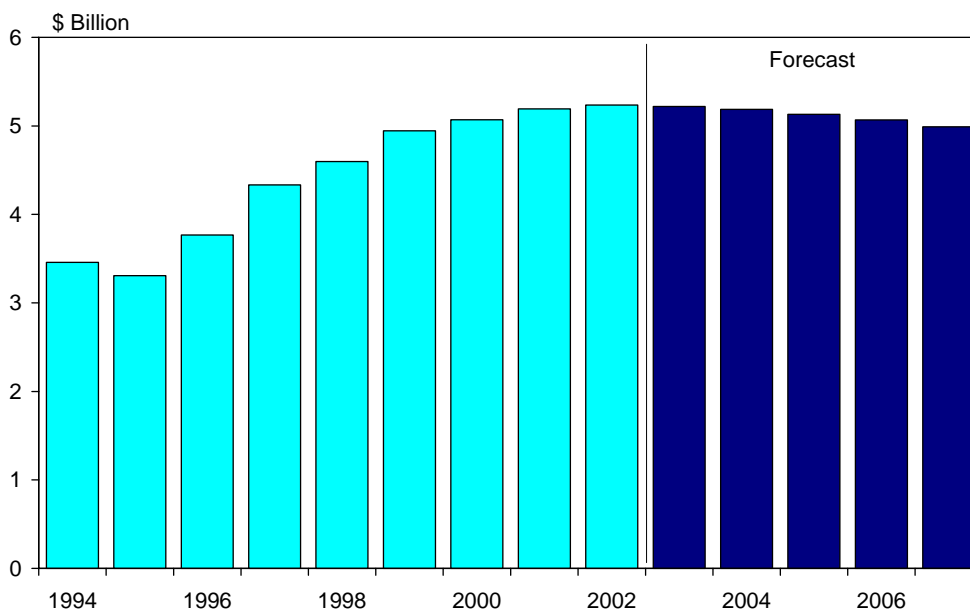
Total assets are forecast to rise by an average \$690 million per annum over the forward estimates. The general government sector’s equity in other sectors of government, for example ownership interests in Western Power and the Water Corporation, is the major driver of this rising asset holding, accounting for around 65% of the average increase each year. Land and fixed asset holdings (eg. buildings, roads and other infrastructure) also increase with an active Capital Works Program.

Gross liabilities are projected to move in line with debt. Borrowings, in support of capital works, increase in 2003-04 and 2004-05 and decline thereafter. Analysis of net debt, of which borrowings are a major component, appears later in this Chapter.

With full concurrent funding of the only public sector superannuation scheme still open to new numbers, West State Super, unfunded superannuation liabilities are forecast to progressively decline over the forward estimates period, to be below \$5 billion by 30 June 2007.

Figure 9

UNFUNDED SUPERANNUATION LIABILITIES AT 30 JUNE
General Government



Cash Flow Statement

Table 7 shows that net cash flows from operating activities (ie. day-to-day operations) are projected to be in surplus throughout the forward estimates period, increasing from \$655 million in 2003-04 to over \$900 million in 2005-06 and 2006-07.

Table 7

GENERAL GOVERNMENT						
Cash Flow Statement						
	2001-02 ^(a)	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	2,968	3,257	3,544	3,713	3,825	4,019
Receipts from sales of goods and services	891	908	943	937	943	948
Grants and other subsidies received	5,531	5,656	5,672	5,873	6,148	6,295
Other receipts	2,116	2,149	2,117	2,168	2,257	2,273
Total	11,506	11,970	12,277	12,691	13,173	13,536
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-7,376	-7,779	-8,029	-8,487	-8,492	-8,691
Grants and subsidies paid	-2,294	-2,492	-2,608	-2,633	-2,731	-2,850
Interest paid	-220	-211	-213	-230	-234	-234
Other payments	-855	-782	-771	-786	-809	-819
Total	-10,746	-11,264	-11,621	-12,136	-12,266	-12,594
Net Cash Flow from Operating Activities	760	706	655	556	907	942
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-894	-859	-979	-867	-748	-745
Sales of non-financial assets	102	118	172	150	126	120
Total	-792	-741	-807	-717	-622	-625
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-93	-116	-74	-39	-45	-58
Liquidity purposes	-11	42	17	11	9	-6
Total	-105	-74	-57	-28	-36	-64
Net Cash Flow from Investing Activities	-896	-815	-864	-745	-658	-690
FINANCIAL ACTIVITIES						
Advances received (net)	-13	-	-8	-	-	-
Borrowings (net)	13	1	237	111	-254	-245
Deposits received (net)	-92	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	-25	-27	-21	-11	-12	6
Total	-117	-26	208	100	-265	-239
<i>Opening cash balance</i>	1,167	913	779	778	688	671
NET INCREASE IN CASH HELD	-253	-135	-1	-90	-17	14
<i>Closing cash balance</i>	913	779	778	688	671	684
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	-31	-35	-152	-161	284	317
Surplus	-31	-35	-152	-161	284	317

(a) Data quoted for 2001-02 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

Note: Columns may not add due to rounding.

Receipts from operating activities are expected to increase by an average 3.1% per annum between 2002-03 and 2006-07, compared with 2.8% growth for operating payments. These increases mirror movements in their counterparts on the operating statement, which were discussed previously.

Investment in non-financial assets (ie. the acquisition of fixed assets or capital spending) is forecast to rise by \$120 million in 2003-04 to just under \$1 billion. Capital works spending by the Departments of Education and Training, Health and Justice, the Police Service and the Western Australian Planning Commission underpins this increase.

Capital spending by the sector results in forecast cash deficits in 2003-04 and 2004-05. However, the increasing surplus on operating activities, assisted by lower projected capital works in the outyears, result in the emergence of a forecast cash surplus in 2005-06.

Total Public Sector

Summary

The total public sector is the consolidation of the general government sector with the State's public non-financial corporations (PNFCs) and public financial corporations (PFCs).

The following table summarises the 2003-04 Budget projections for the total public sector. A full set of financial statements for each individual sector and the consolidated total public sector is at Appendix 1: *Detailed Financial Projections*.

TOTAL PUBLIC SECTOR						
Summary Financial Statements						
	2001-02 ^(a) Actual \$m	2002-03 Estimated Actual \$m	2003-04 Budget Estimate \$m	2004-05 Forward Estimate \$m	2005-06 Forward Estimate \$m	2006-07 Forward Estimate \$m
OPERATING STATEMENT						
Revenue	15,752	16,363	16,498	17,122	17,759	18,267
Expenses	15,375	15,980	16,119	16,749	17,116	17,589
Net Operating Balance	377	383	379	373	643	678
BALANCE SHEET						
Assets	58,044	59,673	61,302	62,195	63,311	64,439
Liabilities	22,039	23,005	24,081	24,355	24,550	24,750
Net Worth	36,006	36,668	37,221	37,840	38,761	39,690
STATEMENT OF CASH FLOWS						
Change in net cash held	-514	-2	13	-50	36	25
GFS Cash Surplus	-143	-809	-795	-467	41	82
<i>Memorandum Item: Net Debt</i>	4,491	5,009	5,960	6,458	6,404	6,308

(a) Data quoted for 2001-02 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

Note: Columns may not add due to rounding.

With general government and the public corporations forecasting operating surpluses in all forward estimate years, the total public sector is expected to remain in a net operating surplus position over the period to 2006-07. Forecast improvements in general government sector operating performance are the principal factor in the increasing total public sector net operating surplus over the forward estimates period.

Offsetting the impact of the growing operating surpluses across the forward estimates is the on-going impact of the State's significant Capital Works Program. Both the general government and PNFC sectors are projecting large fixed asset spending over the period to 2006-07 in support of the State's growing population and economy. As a result, net debt is projected to grow in 2003-04 and 2004-05, before declining in the last two years of the forward estimates (the net debt projections are discussed later in this Chapter).

Public Non-Financial Corporations

The PNFC sector is projected to return a net operating surplus of \$122 million in 2003-04, and to remain in surplus over the forward estimates period, with average expense growth marginally lower than average revenue growth.

The significant stock of large infrastructure assets held by the PNFC sector is projected to increase as the New MetroRail project, spending on in-fill sewerage and waste water treatment, urban and regional water supply, electricity generation, transmission and distribution, port expansion (particularly at Geraldton) and Burrup projects proceed. Funded in part from surpluses on operations, these and other significant capital works projects contribute to rising net worth over the forward estimates period.

Reflecting the PNFC sector's substantial capital investment levels throughout the period to 2006-07, cash deficits are in prospect over the projection period, but these wind back from an estimate of around \$731 million for 2003-04 to around \$360 million by 2006-07.

Public Financial Corporations

The PFC sector is projected to return consistent net operating surpluses over the forward estimates period. These forecasts across the sector reflect net interest and other net returns on investments by agencies such as the Western Australian Treasury Corporation and the Insurance Commission of Western Australia. The forecast net operating surpluses represent an improvement relative to the poorer net returns recorded in 2001-02 associated with the equity market downturn, with financial market performance and associated earnings forecast to return to longer term trend levels.

Capital Investment

Significant social and economic infrastructure is delivered in Western Australia by the public sector to meet the demands of a growing population and economy.

Funded from a mix of internally generated funds (eg. operating surpluses and sales of second hand assets) and debt, the State's spending on fixed assets is projected to be a substantial \$2.7 billion in 2003-04, up from \$2.3 billion expected for 2002-03. These levels of capital spending are high by historical standards.

Significant road, rail and other public transport, public order and safety, education, health, port, electricity, water, land and industrial development projects, both in the State's regions and metropolitan area, contribute to these large investment commitments.

The Capital Works Program discussed in Chapter 3: *Financial Projections – Expenditure* includes spending by State public sector agencies on fixed asset acquisition in the State. However, unlike the financial statements in Appendix 1: *Detailed Financial Projections*, the Capital Works Program traditionally includes monies spent on fixed assets that are not necessarily held by the State (eg. grants paid to local government or the private sector for fixed asset purchases held by third parties).

The following table reconciles the fixed asset spending shown in the financial statements at Appendix 1, to the Capital Works Program discussed in Chapter 3.

Table 9

RECONCILING CAPITAL SPENDING AGGREGATES
Western Australia

	2002-03 Estimated Actual \$m	2003-04 Budget Estimate \$m	2004-05 Forward Estimate \$m	2005-06 Forward Estimate \$m	2006-07 Forward Estimate \$m
<i>PURCHASES OF FIXED ASSETS</i>					
General government	859	979	867	748	745
Public non-financial corporations	1,469	1,735	1,398	1,319	1,338
Public financial corporations	6	2	2	2	3
TOTAL PUBLIC SECTOR	2,335	2,717	2,263	2,069	2,086
<i>plus</i>					
Expensed Capital Works Program supported by appropriations ^(a)	280	237	120	153	160
Keystart home lending loans	519	533	548	564	580
All other ^(b)	221	88	161	70	-43
<i>less</i>					
Capital spending by agencies outside the Capital Works Program ^(c)	116	127	128	127	123
Functional Review Taskforce savings measures					
- implementation costs	-	8	42	-	-
- asset management savings	-	-12	-20	-35	-35
CAPITAL WORKS PROGRAM	3,239	3,453	2,943	2,764	2,694

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

(b) Includes expensed Capital Works Program funded from sources other than appropriations (eg. cash balances), purchase of inventories, loans to external parties by agencies other than Keystart, and provisions for projects yet to be committed to (eg. components of the Burrup Infrastructure Package).

(c) Such agencies include the Western Australian Egg Marketing Board and other statutory marketing authorities, and the State Supply Commission in relation to the State's vehicle fleet.

Note: Columns may not add due to rounding.

Net Debt

In conjunction with other balance sheet information, net debt levels provide an indication of the strength of the public sector's financial position and the sustainability of policy settings in the longer term.

Rising net debt is not necessarily a 'bad' thing. Like households and private sector enterprises, the public sector spreads the costs of capital purchases by using debt funding, as well as some of its current income.

'Good' debt outcomes occur where debt is used prudently and sustainably, held to levels that are affordable from a debt servicing point of view, and where the debt is used to deliver assets rather than to fund day-to-day operations.

Total Public Sector

Table 10 shows a breakdown of Western Australia's net debt levels by sector and the composition of that debt. Net debt equals gross borrowings less financial assets (largely cash, liquid investments and loans to other sectors).

NET DEBT OF THE PUBLIC SECTOR AT 30 JUNE						
Summary						
	2002 ^(a)	2003	2004	2005	2006	2007
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	Actual	Estimate	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
GENERAL GOVERNMENT						
Gross Debt ^(b)	3,002	2,919	3,136	3,226	2,959	2,737
Cash, Deposits and Lending ^(c)	2,530	2,247	2,209	2,083	2,039	2,085
Net Debt	472	672	926	1,144	920	652
PUBLIC NON-FINANCIAL CORPORATIONS						
Gross Debt ^(b)	6,280	6,691	7,300	7,654	7,952	8,215
Cash, Deposits and Lending ^(c)	1,663	1,570	1,568	1,580	1,646	1,666
Net Debt	4,617	5,121	5,732	6,073	6,306	6,549
TOTAL NON-FINANCIAL PUBLIC SECTOR ^(d)						
Gross Debt ^(b)	8,513	8,891	9,728	10,192	10,236	10,254
Cash, Deposits and Lending ^(c)	3,424	3,097	3,069	2,975	3,010	3,053
Net Debt	5,089	5,793	6,659	7,217	7,226	7,201
PUBLIC FINANCIAL CORPORATIONS						
Gross Debt ^(b)	12,107	12,862	13,681	13,954	14,177	14,365
Cash, Deposits and Lending ^(c)	12,705	13,646	14,380	14,713	14,999	15,259
Net Debt	-598	-785	-699	-759	-822	-893
TOTAL PUBLIC SECTOR ^(d)						
Gross Debt ^(b)	11,983	12,679	13,530	13,799	13,837	13,894
Cash, Deposits and Lending ^(c)	7,492	7,670	7,570	7,341	7,433	7,586
Net Debt	4,491	5,009	5,960	6,458	6,404	6,308

(a) Data quoted for 2002 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

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

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

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

Note: Columns may not add due to rounding.

Total public sector net debt is forecast to be approximately \$6.0 billion at 30 June 2004, a rise of \$951 million compared with the estimated outturn at 30 June 2003. The increase is underpinned by capital works spending by general government and public non-financial corporations.

The projected net debt level at 30 June 2004 compares closely to the estimate contained in the 2000-01 *Pre-election Financial Projections Statement* (PFPS) of \$5.9 billion at the same time.

It is important to note that the current projection for 30 June 2004 includes the public funding of rolling stock (\$150 million by this date) and the government car fleet (around \$200 million), both of which were not included in the net debt figures at the time of the PFPS.

Importantly, net debt as a share of revenue is projected to remain below the financial target level of 47% throughout the forward estimates period, indicating that growth in net debt is sustainable (see Figure 3 in this Chapter).

As a share of GSP, total public sector net debt is expected to fall over the projection period, from 6.8% in 2003-04 to 6.0% in 2006-07.

General Government

The level of general government net debt is expected to increase by \$255 million in the budget year to stand at \$926 million at 30 June 2004. The Government's commitment to invest in infrastructure is the principal factor contributing to the rise in net debt.

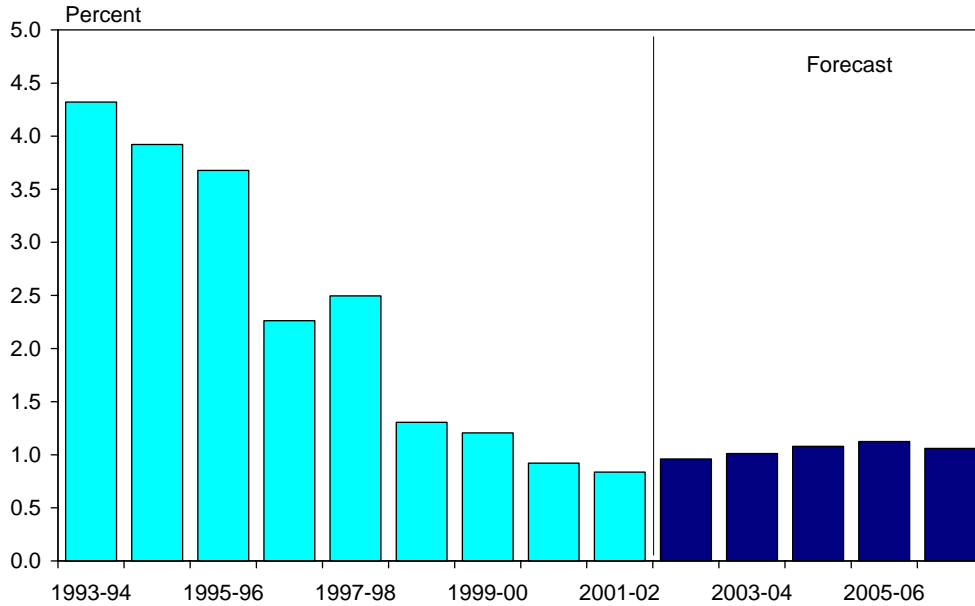
The sector's net debt is forecast to rise by a further \$217 million in 2004-05 before declining by a cumulative \$492 million over the last two forward years to stand at \$652 million at 30 June 2007. The reasons behind the falls in the latter years are twofold.

Firstly, general government capital investment is expected to peak in 2003-04 and then decline as key projects are completed (eg. road infrastructure projects across the State and police-related projects including the Delta Communications and Information Technology and Computer Aided Dispatch Communications programs) and the business cases supporting replacement programs lack sufficient development to be incorporated in the estimates. Secondly, the increasing size of the operating surplus, which is projected to increase to over \$300 million in the last two forward years, reduces the call on debt as a source of funding for the sector's capital investment spending.

Another feature of the Government's net debt projections is that net interest expense as a proportion of general government revenue is projected to average around 1.1% across the forward estimates. As illustrated in Figure 10, this compares favourably with ratios experienced in the past.

Figure 10

NET INTEREST EXPENSE AS A PROPORTION OF REVENUE
General Government



Public Non-Financial Corporations

The PNFC sector includes agencies such as Western Power, the Water Corporation, port authorities and redevelopment authorities. This sector holds the majority of total public sector net debt. Agencies in the PNFC sector meet interest and capital payments associated with debt via their normal commercial operations.

Net debt of the PNFC sector is forecast to rise by \$611 million in 2003-04 and by an average \$275 million per year thereafter. The rise in net debt reflects investment in key infrastructure projects including the New MetroRail project, water infrastructure, upgrades and expansion to ports across the State, electricity generation and transmission, and public housing.

Public Financial Corporations

The PFC sector includes the State’s central borrowing authority (the Western Australian Treasury Corporation) and insurance agencies.

Similar to outcomes in recent years, this sector is projected to be in a net asset position over the forward estimates, with large gross debt figures offset by substantial financial assets. This sector’s net asset position, which reduces total public sector net debt, is largely attributable to the financial investments of the Insurance Commission of Western Australia.

Statement of Risks

The 2003-04 Budget projections are based on various judgements and assumptions about the state of the Western Australian economy, 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 Government's financial projections.

In a generic sense, the major risks surrounding the projections include:

- economic parameters varying from forecasts;
- changes in government policies (both State and Commonwealth);
- specific assumptions regarding revenue, expenses, assets and liabilities not being realised;
- the realisation of specific financial circumstances that have not been reflected in the projections because of their uncertainty (eg. capital projects awaiting commitment by third parties); and
- the realisation of contingent liabilities.

Details on risks that may have an impact on the Government's financial projections, but are not reflected in the forward estimates, are discussed below.

Estimating Assumptions

The major economic parameters underlying the 2003-04 Budget are detailed in Table 11. From a macroeconomic point of view the primary risks are the international environment (including the associated impact on the oil price and exchange rate), the impact of drought and the general economic climate (including interest rates). These risks are discussed further in Chapter 5: *The Western Australian Economy*.

MAJOR ECONOMIC AGGREGATES

Table 11

	2002-03 Estimated Actual	2003-04 Budget Estimate	2004-05 Forward Estimate	2005-06 Forward Estimate	2006-07 Forward Estimate
Real gross State product ^(a) (%)	4.25	4.5	4.0	4.0	4.0
Real State final demand ^(b) (%)	6.25	4.0	3.5	3.5	3.5
Consumer price index (%)	2.75	2.5	2.5	2.5	2.5
Wages growth ^(c) (%)	4.75	4.0	4.0	3.75	3.75
Employment growth (%)	2.5	2.25	2.25	2.5	2.5
\$A/\$US	57.4 ^(d)	60.0	60.0	60.0	60.0
Oil price (\$US per barrel)	29.0 ^(d)	25.0	22.0	22.0	22.0

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

(b) State final demand (SFD) measures total domestic spending within the State. SFD is used in forecasting a number of taxes, including stamp duties and financial transaction taxes.

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

(d) Estimated average for 2002-03.

Parameter Sensitivity of Revenue Estimates

The estimated effects on the revenue estimates of variations in State final demand, wages and employment growth, the national Consumer Price Index, the \$A/\$US exchange rate and oil prices are as follows:

- the annual total tax estimate varies by around \$10 million for each 1.0 percentage point variation in nominal State final demand growth;
- the annual payroll tax estimate varies by around \$10 million for each 1.0 percentage point variation in wages and/or employment growth;
- the total annual mining revenue estimate (including North West Shelf petroleum royalties) varies by around \$18 million for each 1.0 cent change in the \$A/\$US exchange rate;
- the annual petroleum royalty estimate (including North West Shelf petroleum royalties) varies by around \$17 million for each \$US1 variation in the price of a barrel of oil; and
- Commonwealth general purpose grants vary by around \$23 million for each 1.0 percentage point variation in the national Consumer Price Index.

These impacts are approximate and not mutually exclusive. For instance, variations in the value of the \$A will impact on the sensitivity of the revenue to variations in the oil price. Therefore, sensitivities can vary over time.

Commonwealth Grants

General Purpose Grants

The State is currently receiving 'budget balancing assistance' from the Commonwealth. The level of this assistance is based on the premise of ensuring that the State is 'no worse off' under the GST-based national tax changes. It is intended to offset any GST revenue shortfall. In practice, it does not fully cover the shortfall. For example, last year the Commonwealth made a unilateral cut to the funding (this is discussed in Chapter 6: *Federal Affairs*).

As long as the State receives budget balancing assistance, growth in total general purpose grants to the State will depend on parameters such as the national Consumer Price Index and population growth (which were used to index financial assistance grants under the pre-tax reform arrangements), rather than actual GST collections. The State is currently expecting to receive budget balancing assistance up to and including 2003-04, and again in 2005-06 (for one year) when debits tax is abolished.

However, if GST revenue growth is higher than projected, budget balancing assistance may cease earlier than expected. Alternatively, lower than projected GST revenue growth could result in Western Australia receiving budget balancing assistance for longer than expected. The State's GST revenue is projected to exceed the guaranteed minimum amount below which budget balancing assistance is paid by only \$1 million in 2004-05 and only \$9 million in 2006-07.

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

Western Australia's share is forecast to decline over the forward estimates period. However, experience shows that the annual change in Western Australia's share can be quite significant and is difficult to predict, particularly as a revised Grants Commission methodology (not yet available to the States) will be put in place from 2004-05.

Competition payments are conditional on the State satisfying the Commonwealth on its progress in implementing National Competition Policy and related reforms. Payments depend on whether the National Competition Council (NCC) concludes that our obligations have been met and the Commonwealth Treasurer accepts that assessment.

The Commonwealth Treasurer decided that Western Australia will receive the full amount of competition payments for 2002-03. However, the NCC has indicated that if Western Australia fails to progress reforms in areas such as retail trading hours, liquor licensing regulations and potato marketing arrangements, this could lead to reductions in competition payments in the future. Western Australia could also be penalised if it fails to complete its legislation review and reform program by June 2003.

Specific Purpose Payments (SPPs)

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

In the Intergovernmental Agreement on the GST-based national tax changes, the Commonwealth indicated that it would not cut aggregate SPPs as a result of tax reform, reflecting the intention that the States should be better off under the new arrangements. However, should GST revenue grow substantially in future years, there is a risk that the Commonwealth may allow SPPs to be eroded.

State Taxes

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

Stamp duties linked to the historically volatile property market are inherently difficult to forecast. This has particularly been the case for conveyance duty in recent times given the impact of the GST, the First Home Owner Grant and unexpected strength in property market activity in 2002-03. While the current strength of property market activity is not expected to be sustained throughout 2003-04, the timing and severity of any dip in activity is difficult to forecast and will have a significant impact on conveyance duty revenue.

Mining Royalties

The mining royalty estimates are sensitive to movements in oil prices and the \$A/\$US exchange rate. The future direction of these parameters is always difficult to forecast, and developments in the Middle East have only further complicated the outlook.

The forward estimates assume an average oil price of \$US25/barrel through 2003-04, before falling to a long term average of \$US22/barrel in the outyears. The \$A/\$US exchange rate has been projected at 60.0, its recent average.

The forward estimates of the gold royalty assume that an average gold price of \$US325/oz will prevail in 2003-04 and over the forward estimates period.

Contract negotiations between iron ore producers and major customers for 2003-04 had not been finalised at the time of the compilation of these estimates. There is a risk that contract outcomes will vary from the assumed 4% price increase reflected in the forward estimates. In this regard, for each 1% variation in price, iron ore royalties are estimated to vary by around \$2 million.

Revenue from Public Corporations

As noted in the 2002-03 mid-year review, the Water Corporation is currently involved in a legal dispute with the University of Western Australia regarding residential development on land within the buffer of the Subiaco Wastewater Treatment Plant, which was granted to the University by the State.

Subject to the outcome of the action, there may be a financial impact on the Water Corporation, and consequently on the State's finances. At this time, it is not possible to quantify either the likelihood of the Corporation being successful in its defence, nor the magnitude of any impact should the Corporation's defence fail. However, action is currently on hold while the interested parties are in discussion in an attempt to resolve the matter.

The Water Corporation is at an advanced stage of developing the Wellington Dam Pumpback project, which will proceed if the winter of 2003 does not bring sufficient rainfall. The project, which allows for the transfer of water from Wellington Dam, via Harris Dam, to Stirling Dam, would provide a greater level of water security in the Perth region and could cost \$33 million over two years.

The Government recently endorsed plans for wide ranging structural, market and regulatory reform within Western Australia's electricity industry. A currently undetermined amount of expenditure will need to be incurred to implement a wholesale electricity market and to disaggregate Western Power. The Electricity Reform Implementation Steering Committee will oversee reform implementation and will also be assessing, and where appropriate implementing, measures to minimise the cost of the reform.

Expenses

Two important parameter influences on general government sector expense movements are growth in wages and the effects of inflation on the cost of goods and services. To the extent that the forecasts are not achieved, there may be pressure for supplementary funding or on service delivery levels.

For instance, provision has been made for wage increases of up to 3% a year, where one percentage point of that increase is funded by agencies improving their efficiency. Where wage outcomes are higher than these provisions, expenses will generally be higher. For instance, a 1% increase in wages in 2003-04 amounts to \$46 million across the general government sector.

The Government has agreed to a certain level of savings across operating expenses over the forward estimates period. To the extent that there is any slippage in agencies not achieving the agreed level of savings, for example by seeking to fund savings through the running down of cash or build up of liabilities, there is likely to be upward pressure on expenses.

Some areas of general government expenses are more susceptible to external pressures than others. The health sector in particular has demand pressures and funding requirements that are difficult to estimate, but the Government is attempting to address this by investing in substantial reform of the sector, under the supervision of the Health Reform Committee. This is discussed further in Chapter 3: *Financial Projections - Expenditure*.

Capital Works

A number of projects are predicated on the continuance of Commonwealth funding in accordance with existing agreements (eg. road funding).

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

There are a number of capital works projects that have been approved by the Government and reflected globally in the forward estimates that are subject to finalisation of contract negotiations and/or other events. If, for some reason, these projects do not proceed they will be removed from the financial estimates. Infrastructure assistance for some aspects of the Burrup Peninsula development and HIsmelt Stage 2 are two such examples.

Contingent Liabilities

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

As at 30 June 2002, the latest date at which published figures are available, quantified contingent liabilities of the Treasurer⁵ were in the order of \$992 million, comprising:

- contingent liabilities under guarantees, indemnities and sureties (\$343 million); and
- guaranteed obligations of the Bank of Western Australia Ltd (\$649 million at credit risk equivalent).

In addition, there are a number of unquantified contingent liabilities for warranties given on the sale of BankWest and the Dampier to Bunbury Natural Gas Pipeline. These are detailed in the 2001-02 *Treasurer's Annual Statements* released in November 2002.

⁵ Excluding guaranteed borrowings and unfunded superannuation liabilities, which are identified as part of the liabilities determining net worth in the balance sheet of the total public sector. For the purposes of identifying contingent liabilities in the *Treasurer's Annual Statements*, guaranteed borrowings and unfunded superannuation liabilities are included in aggregate contingent liabilities. However, for the purposes of identifying additional risk, the balance sheet explicitly accounts for all borrowings (guaranteed or not) and unfunded superannuation as public sector liabilities.

Issues in Public Sector Finances

Since the 2000-01 Budget, Western Australia's principal indicator of bottom line budget performance has been the accrual Government Finance Statistics (GFS) net operating balance for the general government sector.

While some other jurisdictions also use this measure, others choose to focus on alternative measures of budget performance, which can complicate comparisons and cause confusion for users of budget papers.

This section examines the alternative 'headline' measures that jurisdictions in Australia use to report and monitor their budget performance, briefly examines the differences between these measures and compares jurisdictions on a consistent basis.

Alternative 'Headline' Measures of Budget Performance

Background

All Australian Governments are required to present with their budgets financial statements prepared in accordance with the Uniform Presentation Framework (UPF). The UPF allows for comparisons between jurisdictions using the GFS statistical framework.

However, while most jurisdictions' budgets are presented on the basis of the GFS-based UPF, Victoria and the Australian Capital Territory continue to present their budgets on the basis of the Australian Accounting Standards (AAS), while providing a report based on the UPF in their appendices. The Commonwealth presents its budget in both formats.

The Heads of Treasuries agreed in August 2002 to support a harmonisation of AAS and GFS, with the key objective being to achieve an Australian Accounting Standard for a single set of government reports that are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements. Work on this Standard is being progressed by the Australian Accounting Standards Board.

For those jurisdictions that focus on GFS results, three (including Western Australia) focus on the net operating balance. The other jurisdictions focus on other GFS-based measures as their indicators of bottom-line budget performance.

The various measures in use by jurisdictions across Australia are examined and compared in the remainder of this section.

Differences Between Jurisdictions

The following table provides a list of the different headline measures used by each jurisdiction.

Table 12

HEADLINE MEASURES USED BY JURISDICTIONS

	Headline Measure of Budget Surplus/Deficit	Estimated 2002-03 Headline Surplus ^(a) \$m
Western Australia	Net operating balance (GFS)	178
New South Wales	Net lending/borrowing (GFS)	86
Victoria	Net operating result (AAS)	594
Queensland	Net operating balance (GFS)	-741
South Australia	Net lending/borrowing (GFS)	48
Tasmania	Net lending/borrowing (GFS)	37
Australian Capital Territory	Net operating result (AAS)	-43
Northern Territory	Net operating balance (GFS)	-52
Commonwealth	Underlying cash balance (GFS)	2,100

(a) 2003-04 Budget estimate for Western Australia. 2002-03 mid-year review estimate for all other jurisdictions.

There are three different accrual headline measures used among the jurisdictions. These are the *net operating balance* (based on the UPF), the *net operating result* (based on the AAS) and *net lending/borrowing* (sometimes also referred to as the 'fiscal balance', also UPF-based). In addition, the Commonwealth's principal headline measure is the cash-based underlying cash balance (although the Commonwealth's budget papers also refer to the accrual net lending, or fiscal balance, measure).

Net Operating Balance (GFS)

The net operating balance is the excess of operating (day-to-day) revenue over operating expenses. The GFS net operating balance includes non-cash costs such as accruing superannuation entitlements and the consumption of capital (ie. depreciation). It includes transactions from economic activities in the period, and specifically excludes revenue and expense items that are related to valuation changes. It also excludes expenditure of a capital nature (although flow-on or indirect costs such as depreciation and interest on borrowings are reflecting in the net operating balance).

Net Operating Result (AAS)

This measure is generally consistent with the GFS net operating balance, although there is a key difference in the treatment of items relating to valuation (or other non-activity) based changes in assets and liabilities. For example, the AAS net operating result includes the profit/loss on the disposal of assets and the revaluation of superannuation liabilities, while the GFS net operating balance specifically excludes such valuation-related changes.

Net Lending/Borrowing (GFS)

Net lending/borrowing, also known as the fiscal balance, differs from the GFS net operating balance in that it includes net capital expenditure, but not the use of capital (ie. depreciation). It is meant to measure a government's investment-saving balance and hence its contribution to the current account deficit. The term net lending refers to a surplus position, while net borrowing refers to a deficit position.

Underlying Cash Balance (GFS)

The underlying cash balance is similar to the GFS-based net lending/borrowing measure, but reflects the timing of cash transactions. It includes net cash flows from operating activities and net cash flows from capital expenditure, but specifically excludes cash flows from investments in financial assets. Although financial management is increasingly focused on accrual aggregates, the cash surplus/deficit provides a useful indication of a government's call on financial markets to meet its budget obligations.

Advantages and Disadvantages of Each Headline Measure

Reflecting different jurisdictions' choice of headline measures, there is no single 'right' measure to focus on. Jurisdictions utilise measures that best suit the emphasis of financial management relevant to their context.

Bottom-lines focusing on the net operating balance (or net operating result) indicate whether day-to-day operations are efficient and sustainable in the longer term. Net lending adds capital expenditure to the equation, giving a more complete picture of the impact of a government's budget on the economy, but at the cost of less information on operating performance.

The following table summarises the main pros and cons of the alternative bottom-line measures.

Table 13

HEADLINE MEASURES

	Pros	Cons
Net Operating Balance (GFS)	<ul style="list-style-type: none"> Comparable across jurisdictions Operating efficiency indicator Excludes valuation issues Consistent with international statistical standards 	<ul style="list-style-type: none"> Excludes capital expenditure, and hence incomplete as an indicator of debt growth Less well understood outside Treasuries, ABS and economic commentators
Net Operating Result (AAS)	<ul style="list-style-type: none"> Operating efficiency indicator Consistent with AAS Well understood by wide cross-section of commentators and accounting professionals 	<ul style="list-style-type: none"> Includes valuation effects Excludes capital expenditure, and hence incomplete as an indicator of debt growth Subject to interpretation of standards in different jurisdictions Not fully consistent with international statistical standards
Net Lending/Borrowing (GFS)	<ul style="list-style-type: none"> Comparable across jurisdictions Excludes valuation issues Consistent with international statistical standards More complete indicator of debt growth and impact of budget on the economy 	<ul style="list-style-type: none"> Operating efficiency not clearly indicated Less well understood outside Treasuries, ABS and economic commentators
Underlying Cash Balance (GFS)	<ul style="list-style-type: none"> Comparable across jurisdictions More complete indicator of debt growth and cash call on financial markets Excludes valuation issues Consistent with international statistical standards 	<ul style="list-style-type: none"> Operating efficiency not clearly indicated Incomplete indicator of costs as only counts cash items

Recognising that no single measure will be able to cover all financial management issues, the Western Australian Government also includes other key aggregates in its financial targets framework, such as the net debt to revenue ratio for the total non-financial public sector.

This ratio is an important indicator of debt affordability, and reflects the impact of both the Government's operating performance and the Capital Works Program. It is important that these different aggregates be considered in conjunction with one another in order to obtain a complete understanding of the Government's financial management performance, rather than just focus on one particular measure such as the net operating balance.

A Consistent Comparison Between Jurisdictions

A direct comparison of jurisdictions' headline measures is not possible due to the conceptual and measurement differences underlying the various measures. To enable a consistent comparison, the following table shows all jurisdictions' estimated 2002-03 surpluses based on the GFS net operating balance measure.

GFS NET OPERATING BALANCE FOR EACH JURISDICTION	
	Estimated 2002-03 GFS Net Operating Balance ^(a) \$m
Western Australia	178
New South Wales	1,239
Victoria	1,219
Queensland	-741
South Australia	229
Tasmania	11
Australian Capital Territory	-6
Northern Territory	-52
Commonwealth	-773

(a) 2003-04 Budget estimate for Western Australia. 2002-03 mid-year review estimate for all other jurisdictions.

It is notable that for jurisdictions such as New South Wales and South Australia, the net operating balance is substantially larger than the net lending headline measures reported in Table 12. This mainly reflects the exclusion of capital expenditure from the net operating balance measure.

It should also be noted that, even when results are reported on a consistent basis, there are compositional differences between jurisdictions that need to be considered.

A prime example of this is Queensland, whose net operating balance has been affected by the recent downturn in equity markets, reflecting that jurisdiction's public sector superannuation arrangements. In this regard, Queensland's superannuation schemes are funded from cash investments set aside for this purpose that earn revenue for the general government sector. As a result, Queensland's general government sector investment income (and hence its net operating balance) fluctuates according to investment market performance, whereas Western Australia's net operating balance is insulated from such fluctuations (reflecting the ownership of superannuation assets by members rather than government).

Conclusion

Despite the existence of the GFS-based Uniform Presentation Framework (UPF), jurisdictions may (and do) focus on different 'headline' measures of budget performance, which can cause confusion amongst readers of budget papers.

The various headline measures in use in Australia each have their own advantages and disadvantages, and it is considered appropriate for jurisdictions to focus on alternative measures that are most relevant to their circumstances. However, readers need to be aware of the differences between the various headline measures, whilst noting that standard UPF information is available in all jurisdictions' budget papers, thus making consistent comparisons possible.

Work will also continue (under the auspices of the Australian Accounting Standards Board) on the proposed harmonisation of AAS and GFS, which would be a significant step forward in public sector financial reporting.

CHAPTER 3

Financial Projections – Expenditure

Overview

This chapter discusses three important areas of Government expenditure:

- the impact on the Government's finances as a result of decisions stemming from the Functional Review Taskforce's (FRT) recommendations;
- spending by general government agencies; and
- the total public sector capital investment.

Functional Review Taskforce

The Government has taken a number of decisions flowing from the recommendations of the Functional Review Taskforce to ensure that public services are being delivered effectively in the Government's priority areas and to reduce the general cost of public administration in Western Australia.

These decisions reflect the Government's determination to look at how the delivery of essential public services can be improved and to ensure that the State's expenditures are well managed and kept as low as possible.

Information on the Functional Review Taskforce, its terms of reference, composition of membership and implementation program can be sourced from the Department of the Premier and Cabinet.

The Taskforce reported to the Government in December 2002 and the Premier announced the following major initiatives arising from its recommendations earlier this year:

- the merger of the Departments of Education and Training so that a greater focus would be brought to turning around Western Australia's unacceptably low Year 12 retention rates, and boosting traineeships and apprenticeships;
- the creation of a new Department of Industry and Resources by amalgamating the industry component of the Department of Industry and Technology with the Department of Mineral and Petroleum Resources. The new Department will reduce duplication and competition for resources and improve coordination and cohesion of service delivery to facilitate the development of the State's industries;
- the transfer of the government procurement operations from the Department of Industry and Technology to the Department of Treasury and Finance. This initiative is designed to bring greater coordination to the procurement practices across the government and to maximise the government's purchasing power so that greater funds can be directed to priority service areas;
- the transfer of the information and technology staff of the Department of Industry and Technology to the Department of the Premier and Cabinet. These arrangements have resulted in the establishment of a new E-Government Office which will ensure common standards are developed for electronic and communications technology across the Government. This will increase the delivery of services over the internet which will be especially useful for citizens suffering from disabilities, enhance online transactions and increase community access to health and education information; and
- as a consequence of these measures, the abolition of the Department of Industry and Technology.

The Premier also confirmed that there would be no involuntary redundancies arising from the implementation of these initiatives.

A number of other Taskforce recommendations were considered during the formulation of the 2003-04 Budget. These recommendations were generally specific to agency activities and were designed to ensure agencies were allocating resources to areas of Government priority and generally to achieve savings. They also included the Taskforce recommendation to enhance asset management and capital investment processes across the government, through greater coordination by the Departments of Treasury and Finance, and Housing and Works. In addition, the Government has decided to accept the Taskforce's recommendation that the provision of corporate services across the public service would be better coordinated through the creation of greater shared corporate service arrangements.

Table 1 below summarises the savings which will flow from these agency specific recommendations, the measures announced by the Premier as outlined above and from the enhanced corporate service, and asset management and capital investment processes. All savings have been incorporated in the budget estimates. The agency specific savings have been reflected in the respective agency appropriations and expense levels throughout Budget Paper No. 2. Further information on the agency specific measures is contained in the discussion on agency expense variations in the remainder of this chapter.

The savings from the initiatives concerning procurement, corporate service reform and enhanced asset management arrangements have been allocated in global provisions across the forward estimates.

In implementing the Taskforce recommendations the Government has recognised that investment in new information technology will be necessary to generate the savings that have been identified. Provisions for these investments together with costs associated with the Health Reform Committee and other implementation and consultancy costs have been made across the budget estimates as shown in Table 1 below.

In the area of asset management and capital investment processes, savings have been identified by the Taskforce which relate to land and related asset holdings which are no longer required by agencies in delivering their services to the community and where the proceeds of such assets can be put to better use. These assets include, for example, public service office buildings owned by the Government. The task of identifying these assets is still before the Government and normal processes of community consultation will precede any action to sell such assets.

There is considerable work being undertaken across the public sector to implement the Taskforce's recommendations. This work is being coordinated by a special unit in the Department of the Premier and Cabinet. This unit has responsibility for developing the arrangements for implementing corporate shared service reforms. Those reforms are intended to be implemented from 2005-06. The unit is also working closely with the Department of Treasury and Finance, and the State Supply Commission to identify measures that will generate savings in procurement practices.

There is also considerable involvement of Directors General of the 21 government departments in implementing the Functional Review Taskforce recommendations. Four committees comprising the Directors General have been established which have been charged with providing oversight and governance responsibilities for the implementation of the Taskforce recommendations concerning corporate services, procurement reform, the establishment of the E-Government Office, and the initiatives in the areas of asset management and capital investment. Each committee is required to report regularly to the Premier on progress in each area and also to inform the Expenditure Review Committee (a Sub-Committee of the Cabinet) on progress in securing the savings targets associated with each measure.

Table 1

**SUMMARY OF FUNCTIONAL REVIEW RECOMMENDATIONS THAT ARE
REFLECTED IN THE 2003-04 BUDGET AND FORWARD ESTIMATES**

Operating (\$'000)

ISSUE	2003-04	2004-05	2005-06	2006-07	TOTAL
Agency specific savings	-28,724	-63,134	-72,169	-74,684	-238,711
Corporate service savings	-	-	-40,000	-40,000	-80,000
Procurement savings	-	-30,000	-100,000	-100,000	-230,000
Corporate Services Procurement Implementation Team	4,333	4,333	-	-	8,666
Investment Services Taskforce	750	750	-	-	1,500
Other Implementation Costs	21,333	18,917	-	-	40,250
Health Reform Committee	1,300	-	-	-	1,300
Total	-1,008	-69,134	-212,169	-214,684	-496,995

Capital (\$'000)

ISSUE	2003-04	2004-05	2005-06	2006-07	TOTAL
Corporate Services and Procurement Implementation Costs	8,000	42,000	-	-	50,000
Asset Management Savings	-12,000	-20,000	-35,000	-35,000	-102,000
Main Roads	-39,150	-80,000	-40,000	-40,850	-200,000
Total	-43,150	-58,000	-75,000	-75,850	-252,000
Total net savings	-44,158	-127,134	-287,169	-290,534	-748,995

Table 2

AGENCY SPECIFIC FUNCTIONAL REVIEW TASKFORCE SAVINGS
Operating (\$'000)

AGENCY	2003-04	2004-05	2005-06	2006-07	TOTAL
Agriculture	-	-1,000	-2,000	-2,000	-5,000
Community Development	-428	-428	-428	-428	-1,712
Conservation and Land Management	-700	-700	-700	-700	-2,800
Consumer and Employment Protection	-2,500	-2,500	-2,500	-2,500	-10,000
Culture and the Arts	-500	-1,000	-1,000	-1,000	-3,500
Disability Services Commission	-100	-100	-100	-100	-400
Environmental Protection	-200	-400	-600	-850	-2,050
Fisheries	-100	-1,300	-1,300	-1,300	-4,000
Indigenous Affairs	-292	-292	-292	-292	-1,168
Justice	-820	-1,740	-2,400	-2,640	-7,600
Land Administration	-1,000	-3,350	-1,300	-1,400	-7,050
LandCorp ^(a)	-1,000	-1,000	-1,000	-1,000	-4,000
Local Government and Regional Development	-55	-55	-55	-55	-220
Planning and Infrastructure	-3,100	-5,600	-5,600	-5,600	-19,900
Police ^(b)	-315	-315	-6,715	-6,715	-14,060
Premier and Cabinet	-500	-1,400	-2,300	-2,300	-6,500
Salaries and Allowances Tribunal	-50	-50	-50	-50	-200
Small Business Development Corporation	-581	-581	-581	-581	-2,324
Treasury and Finance	-1,283	-1,678	-1,678	-1,678	-6,317
Education and Training – Integration ^(c)	-10,000	-30,000	-30,000	-30,000	-100,000
Education and Training – Other	-1,000	-2,925	-4,850	-6,775	-15,550
Industry and Technology ^(d)	-4,200	-6,720	-6,720	-6,720	-24,360
Total	-28,724	-63,134	-72,169	-74,684	-238,711

(a) Change to dividend policy.

(b) The Government has determined that the recommendations of the Functional Review Taskforce to close nominated police stations and for the Police Service to assume responsibility for Court Security and Prisoner Transport will not be progressed. Savings are proposed to be realised from a combination of measures including refinement of administrative processes and functions, and the delivery of new technology.

(c) The \$100 million savings from this measure have been redirected back to the agency to meet educational priorities.

(d) The savings associated with this recommendation were extracted from the former department prior to the split of the budget between the departments of Industry and Resources, Premier and Cabinet, and Treasury and Finance.

Expenses by General Government Agencies

The Government pursues its key objectives through the approved mix of spending on service delivery. Agencies provide these services by spending on ongoing costs (eg. wage costs for nurses) referred to as expenses¹ or by investing in asset acquisition programs (eg. building new hospitals).

The Government's focus for the 2003-04 Budget is to continue to resource its priority areas of service delivery, as well as expanding service delivery capacity by investing in economic and social infrastructure. Government's priority areas for this Budget remain Health, Education, Law and Order, Community Support and Environment.

In keeping with this focus, the 2003-04 Budget will provide for additional operating expenses over and above the estimated 2002-03 outturn for key service delivery initiatives including:

- Health – \$178.3 million, an increase of 6.3% or real growth of 3.7%. In 2003-04 the Government will commit to spending a total of \$3.02 billion towards the delivery of health services. This represents an increase in total spending on health of almost \$222 million from the 2003-04 forward estimate published in the 2002-03 Budget Statements. The appropriations to Health are budgeted to increase by a record 9.7%;
- Education and Training – a \$70.8 million or 2.6% increase. In education, spending per student is budgeted to grow by 1.1% in real terms in 2003-04;
- Police – total spending will grow by 5.4%, an increase of \$29.6 million, representing real growth of 2.9%;
- Justice – total spending is up by \$24.5 million (an increase of 4.3%);
- Community Development – up 5.6%;
- Disability Services – total spending will grow by \$12.7 million, or 5.2%; and
- Environment – total spending will increase to \$38.8 million. On a comparable basis², the Government's funding via appropriations is up by 6.7%.

¹ Expenses are primarily funded by appropriations by Parliament, revenue raised and retained by the agency, and grants from the Commonwealth. Total spending in this section refers to the total operating expenses of agencies and generally excludes capital investment which is addressed in the following section.

² After adjusting for a change in retained revenue arrangements and significant one off expenditure.

The following section outlines significant variations in expenditure and the key service delivery initiatives in the 2003-04 Budget. Details of the major policy commitments for each of the Government's 14 ministerial portfolios are presented as well as discussion of the longer term trend in total spending by individual agencies over the forward estimates period.

Key Service Delivery Initiatives of the 2003-04 Budget by Ministerial Portfolio

PREMIER; MINISTER FOR PUBLIC SECTOR MANAGEMENT; FEDERAL AFFAIRS; SCIENCE; CITIZENSHIP AND MULTICULTURAL INTERESTS

Premier and Cabinet

The Department's total spending is expected to increase by \$31.5 million to \$174.5 million in 2003-04. This increase is largely attributed to expenditure that was previously planned for 2002-03 that has to be carried over into 2003-04 for the Office of Science and Innovation and the Office of Native Title. This is primarily as a result of revised timing of payment of science grant funds, and Native Title unit expenditure.

Additional recurrent funding has also been provided for the following major policy initiatives within the Department.

*Gordon Inquiry*³

An amount of \$8.4 million will be spent over a five year period up to 2006-07 (\$2.9 million to be spent in 2003-04) towards the implementation of the Government's Response to the Gordon Inquiry. The spending will provide for:

- a program to address the security and community building needs of children and vulnerable adults (\$6.1 million);
- the establishment of a Community Partnerships Fund to facilitate Aboriginal communities developing solutions in partnership with government agencies for issues identified in the Gordon Inquiry (\$1.6 million); and
- the establishment of a Community Futures Foundation (\$400,000), which will invite investment from private enterprise and the broader community to support innovative and creative initiatives, the establishment of a Video Evidentiary Unit (\$220,000) and a tracking system (\$100,000) for the implementation of all programs under the Gordon Inquiry.

³ Funding has also been provided to the Departments of Justice, Community Development, Health, and the Western Australia Police Service.

Implementation of Functional Review Taskforce

Funding of \$11.3 million over three years (\$4.3 million in 2003-04) has been provided for the implementation of the recommendations of the FRT to increase the effective delivery of government services. Additionally, the FRT recommendation on the activities of the Department will result in savings of \$500,000 in 2003-04 increasing to \$2.3 million by 2005-06.

E-Government

The Office of E-Government was established on 3 February 2003 as an outcome of the FRT recommendations to develop an e-government strategy for the public sector, develop a policy framework and guidelines, and coordinate and facilitate cross sector implementation of the strategy and framework. Funding in the order of \$3.3 million per annum has been transferred from the former Department of Industry and Technology to the Department of Premier and Cabinet in this regard.

175th Anniversary of the Swan River Colony Settlement

The year 2004 marks the 175th anniversary of the settlement of the Swan River Colony. Funding of \$1.2 million has been provided in 2003-04 to coordinate statewide programs and initiatives that will serve to educate Western Australians about their history and the way in which this will influence their future.

Parliamentary Electorate Offices

Additional spending of around \$2.5 million per annum will meet increasing costs associated with the entitlements of the State's 91 members of Parliament, as determined by the Salaries and Allowances Tribunal and the Government.

Salaries and Allowances Tribunal

Functional Review Taskforce

The Government endorsed a recommendation that the administrative support for the Tribunal be located within the Public Sector Management Division of the Department of Premier and Cabinet, with savings of \$50,000 per annum from 2003-04.

DEPUTY PREMIER; TREASURER; MINISTER FOR ENERGY

Department of Treasury and Finance (DTF)

The Department's expenses are expected to decrease by \$9.2 million or 10.3% in 2003-04, primarily due to a reduction in expenditure on the Wireless West project and the implementation of the recommendations of the FRT. Details on these and other policy initiatives are outlined below.

Wireless West project

In 2002-03, an estimated \$12.3 million was spent on the Wireless West project to extend the Telstra CDMA network to provide continuous coverage in the South West land division. In 2003-04 this expenditure falls to \$1.6 million.

Functional Review Taskforce

The FRT recommended that an Investment Services Taskforce be established within DTF with the prime responsibility to effect improvement in whole-of-Government asset management and capital practices. Total funding of \$1.3 million (\$650,000 in 2003-04 and \$650,000 in 2004-05) has been provided for this Taskforce.

The implementation of FRT recommendations designed to improve efficiencies through rationalisation of processes within DTF has resulted in a reduced allocation of \$1.3 million in 2003-04 and \$1.7 million per annum thereafter, including:

- further efficiencies from merging the State Revenue Department and the Treasury Department into the Department of Treasury and Finance (\$608,000 per annum);
- efficiencies from the implementation of the Office of State Revenue Strategic Electronic Services Plan (\$455,000 in 2003-04 and \$850,000 per annum thereafter); and
- savings from revised arrangements for monitoring, reporting and review of agencies under the proposed new Financial Management Act be implemented (\$220,000 per annum).

Compliance Enhancement

Additional funding of \$220,000 in 2003-04 has been provided for compliance schemes administered by the Office of State Revenue. The funding will be applied to extending the current audit of land tax residential exemptions on properties for a further twelve months. This is expected to generate additional land tax revenues of \$1.0 million per year on an ongoing basis.

Government Procurement Operations

An outcome of the FRT recommendations was to transfer the Government Procurement Operations from the Department of Industry and Technology to the DTF. The outcome of this initiative is to bring greater co-ordination to the procurement practices across government and maximise government's purchasing power so that greater funds can be directed to priority service areas.

Office of Energy

The Government has committed to the expansion of the Aboriginal and Remote Communities Power Supply Pilot Project to include an additional three remote Aboriginal communities in the Kimberley region. Bidadanga, Warmun, Bardi, Beagle Bay and Lombadina/Djarindjin will benefit from these new arrangements (including generation, distribution and retail), which will result in improved affordability and reliability of the power supply to these communities.

If successful, the project will be considered for extension to other large permanent remote Aboriginal and non-Aboriginal communities with a population over 200.

MINISTER FOR AGRICULTURE; FORESTRY AND FISHERIES; THE MID-WEST, WHEATBELT AND GREAT SOUTHERN

Agriculture

The Department's total spending is expected to decrease by \$17.5 million in 2003-04. Key factors include:

- the cessation of various once-off industry assistance packages that operated in 2002-03 (Dairy Industry and the Dry Seasons Assistance Packages worth a total of \$8.0 million in 2002-03);
- measures implemented in the 2002-03 Budget provided savings through streamlining service delivery processes, which will reduce spending by a further \$2.0 million in 2003-04;
- the State's contribution of almost \$6.3 million to the joint Commonwealth-State Red Imported Fire Ants Eradication program was largely spent in 2002-03; and
- heightened quarantine activities undertaken in 2002-03 (\$3.8 million spent in 2002-03), associated with the outbreak of food and mouth disease overseas.

Offsetting these measures, the agency's expenditure from the Natural Heritage Trust (NHT1 and NHT2), a joint Commonwealth/State program to manage and improve bio-diversity and sustainable resource management, is set to increase by \$5.5 million from 2002-03 to be \$15.5 million in 2003-04. NHT2 expenditure totals over \$42.0 million between 2002-03 and 2004-05 with the Department of Agriculture being the lead agency.

Functional Review Taskforce

The FRT recommendations for enhanced arrangements for delivering investment in Research and Development will result in savings in the Department's budget of \$1.0 million in 2004-05 and \$2.0 million per annum thereafter.

Fisheries

The Department's total spending is expected to increase by \$1.0 million to \$47.5 million in 2003-04. This includes funding for the initial phase of the development of an Integrated Fisheries Management system in Western Australia. This system will aim to protect valuable fish resources and ensure the sustainability of the fishing industry.

Functional Review Taskforce

The FRT recommendations will result in budget savings of \$1.2 million from 2004-05 onwards. Additionally, a further \$100,000 per annum will be saved as a result of the transfer of the marine operations function from the Department for Planning and Infrastructure to the Department of Fisheries.

Great Southern Development Commission

The Great Southern Development Commission will spend \$830,000 in 2003-04 on the completion of the Albany University Centre and the Vancouver Waterways Project. The Commission will also administer \$400,000 of Regional Development Scheme funds, which will be used to contribute to various projects for the social and economic development of the Great Southern region. A same-sized allocation has been provided to each of the nine regional Development Commissions.

Mid West Development Commission

The Mid West Development Commission has committed \$280,000 to the Geraldton University Centre in 2003-04, as part of the \$592,000 that is being provided over four years to support its establishment and operation. The establishment of the Universities Centre – a joint venture between the State Government, the University of Western Australia, Curtin University and Edith Cowan University – addresses some of the educational inequities experienced in the Mid West region. The University Centre commenced operations in 2002.

The Commission will also administer its \$400,000 of Regional Development Scheme funds in 2003-04, as previously highlighted.

MINISTER FOR HOUSING AND WORKS; LOCAL GOVERNMENT AND REGIONAL DEVELOPMENT; THE KIMBERLEY, PILBARA AND GASCOYNE

Housing and Works

The Department's expenses are expected to total \$44.1 million in 2003-04. The Department will also receive a \$75.8 million administered appropriation⁴ which primarily reflects an allocation of \$74.4 million for the completion of assistance to the developer of the Perth Convention and Exhibition Centre. Major initiatives to be funded as part of the 2003-04 Budget process, include:

Security of Payment Legislation

Additional funding of \$100,000 in 2003-04 and each year thereafter has been provided to support the introduction of security of payment legislation. Security of payment has been an ongoing and significant problem in the building and construction industry. The legislation will provide a mechanism for the rapid recovery of late or disputed payments due under construction contracts between building industry participants, provide for quick resolution of disputes and alert building industry participants to payment problems before the point of insolvency is reached.

Investment Services Taskforce

The Department will be closely involved in working with the Department of Treasury and Finance to effect the FRT recommendations to improve whole-of-Government asset management and capital investment practices. Funding of \$100,000 in 2003-04 and 2004-05 has been provided to Housing and Works for this purpose.

Local Government and Regional Development

A \$12.4 million decrease in expenses from 2002-03 is largely due to the 2002-03 spending being buoyed by \$11.6 million that was carried forward from 2001-02 in Regional Investment Fund grants. The Government's commitment to provide \$75 million over four years will be maintained with a cash flow of \$1.3 million in 2001-02, \$36.9 million in 2002-03, \$21.8 million in 2003-04 and \$15.0 million in 2004-05. Funding beyond 2004-05 will be considered as part of the 2004-05 Budget process.

Compliance Activities

Additional funding of \$1.9 million over the forward estimates, including \$448,000 in 2003-04, has been provided primarily to fund increased local government compliance, investigation and policy development activities.

⁴ Payments not directly controlled by the Department. Such payments are controlled by Central Government and the agency administers payment on its behalf.

Animal Welfare Unit

To fund the implementation of the recently proclaimed *Animal Welfare Act 2002*, \$125,000 per annum has been provided from 2002-03 onwards to establish the Animal Welfare Unit. The new Act replaces the *Prevention of Cruelty to Animals Act 1920*. As well as providing for fines and imprisonment, the new Act enables courts to impose orders to protect animals, either by seizing them or preventing a person from owning animals in the future.

Functional Review Taskforce

The Government endorsed an FRT recommendation that support staff for Local Government Grants Commission activities be reduced by one FTE and \$55,000 per annum from 2003-04 onwards to bring it into line with other comparable jurisdictions.

Pilbara Development Commission

A reduction in expenditure in 2003-04 primarily reflects the completion of the Onslow Sea Wall project in 2002-03 (\$1.3 million).

Gascoyne Development Commission

The Gascoyne Development Commission is facilitating the construction of the Aboriginal Heritage and Cultural Centre, a project aimed to provide and stimulate indigenous tourism, education and learning, business development, Aboriginal heritage, and cultural maintenance and practice.

Due to unforeseen delays in this project an amount of \$2.0 million has been deferred from 2002-03 to 2003-04.

MINISTER FOR CONSUMER AND EMPLOYMENT PROTECTION

Consumer and Employment Protection

Additional Workplace Inspectors

An amount of \$6.6 million over the forward estimates, including \$862,000 in 2003-04, has been provided to fund the provision of an additional 20 Workplace Inspectors. The employment of the additional inspectors will be phased in over three years, to facilitate the Government's election commitment to lift awareness of, and commitment to, workplace safety in Western Australia. This initiative is in response to a number of tragic fatal workplace accidents in 2002-03 and addresses community and stakeholder concerns regarding the importance placed on occupational safety and health.

Extension of Paid Parental Leave in the Public Sector

Over 62% of public sector employees in Western Australia currently have access to entitlements of up to six weeks paid parental or maternity leave. These entitlements have been included in individual sector-specific industrial agreements with no standard clause being in place.

The Government has cleared the way for the extension of six weeks paid parental leave to all public sector employees from 1 July 2003. A provision for use by all agencies will be drafted for inclusion in future industrial agreements as a standard clause.

Functional Review Taskforce

A levy will be implemented that will raise \$2.5 million per annum from 2003-04 onwards from the energy industry to fully fund technical and safety regulation work undertaken by the Energy Safety Directorate.

ATTORNEY GENERAL; MINISTER FOR JUSTICE AND LEGAL AFFAIRS; ELECTORAL AFFAIRS; PEEL AND THE SOUTH WEST

Justice

The Department of Justice's expenses are expected to increase by \$24.5 million to \$597.5 million in 2003-04, an increase of 4.3%.

Offender Re-entry Program

Funding of \$22.8 million over the forward estimates, including \$5.3 million (which includes \$2.0 million for the development and implementation of rehabilitation programs in the community) in 2003-04, has been allocated to develop and implement the Offender Re-entry Program. It is targeted to support prisoners and assist their successful re-entry into the community, as currently 46% of prisoners return to prison within two years of being released. The program's objective is to reduce re-offending by prisoners, reducing crime and making the community safer. It will also take considerable pressure off the prison system.

Offender Drug Management Program

An allocation of \$8.3 million (\$2.1 million in 2003-04) over a four year period up to 2006-07 has been approved for the implementation of a Justice Drug Plan. Management of the complex issues around drugs in prisons involves a broad range of initiatives that includes working with other agencies. This will involve reducing both the supply of and demand for drugs in prisons and addressing the addiction behaviours of offenders in prison and on release into the community. The plan is to reduce the likelihood of drug users returning to crime to support their drug habit on re-entry to the community.

Homelessness Project

Additional funding of \$340,000 per annum has been provided for support and mentoring services. These funds are targeted at offenders with the highest need for intensive community re-entry and accommodation support during the transitional months after leaving custody.

State Administrative Tribunal (SAT)

An amount of \$4.5 million has been set aside in 2003-04 to assist in meeting the establishment costs of the SAT. The SAT will see the amalgamation of the functions of some 40 existing boards and tribunals to provide a 'one-stop shop' for administrative decision-making, appeals against administrative decisions and discipline of statutorily based professions. It will be operational from 1 January 2004. This initiative is in response to the progressive implementation of Law Reform Commission recommendations emanating from the Review of the Criminal and Civil Justice System 1999.

The establishment of the SAT will see an end to the proliferation of boards and tribunals and various court and ministerial appeal avenues. It will address the apparent lack of uniformity in procedural and appeal avenues that currently exist and provide a more effective and timely decision making and administrative review system with greater independence and impartiality.

Gordon Inquiry

\$3.8 million has been allocated over a four year period up to 2006-07 towards the implementation of the Government's response to the Gordon Inquiry.

The following initiatives have received additional funding of \$868,000 in 2003-04:

- appointment of development officers in four regional areas (Kimberley, Pilbara, Gascoyne, Goldfields) to facilitate interagency therapeutic rehabilitation programs targeting sexual and violence perpetrators (\$450,000);
- introduction of Aboriginal Community Supervision Officers in the Kimberley, Pilbara and Goldfields to expand the range and number of offender supervision agreements with Aboriginal communities (\$118,000); and
- expansion of the Child Witness Service and Victim Support Service to Aboriginal communities (\$300,000).

Functional Review Taskforce

The Government has implemented savings of \$620,000 in 2003-04, \$1.5 million in 2004-05, \$2.2 million in 2005-06 and \$2.4 million in 2006-07. This relates to the move towards the full cost recovery of the Public Trust Office and the Registry of Births, Deaths and Marriages (RBDM).

The 2003-04 saving relates to a first stage implementation approach for the RBDM. Changes to the RBDM charging regime to increase the rate of cost recovery will be implemented over a two-year timeframe with the first year raising an additional \$620,000 rising to \$1.2 million per annum thereafter.

Further savings of \$200,000 per annum from 2003-04 onwards will be achieved by the Legal Aid Commission from efficiencies to be gained from the better coordination of services between Justice and the Western Australia Police Service through the implementation of electronic exchange of police statements of material facts.

Western Australian Electoral Commission

The decrease in 2003-04 is largely attributable to a spike in expenditure in 2002-03 of \$2.2 million relating to the distribution of electoral boundaries and \$2.0 million for the biennial local government postal elections.

South West Development Commission

The Commission's spending will decline by \$2.0 million, following once-off expenditure on a number of projects in 2002-03, including \$266,000 for the Pemberton Heritage Energy Centre, \$430,000 for the Picton Industrial Park Redevelopment and \$800,000 on the Bunbury Back Beach project.

MINISTER FOR THE ENVIRONMENT AND HERITAGE

Conservation and Land Management

The Department's spending is expected to increase by \$1.1 million to \$151.8 million in 2003-04. The increase is aimed to ensure that the State's conservation reserves and other lands and waters controlled by the Department are managed on an ecologically sustainable basis.

Protecting Our Old-growth Forests Policy

Ongoing recurrent funding of \$4.5 million per annum continues to be provided for the management of new national parks and conservation reserves in the South West to meet the Government's commitment made under the 'Protecting Our Old-growth Forests' policy. Total spending since 2001-02 and projected over the forward estimates on this policy across all agencies is \$151.1 million.

Salinity Initiatives

In 2003-04, \$12.5 million will be provided for salinity initiatives, particularly those aimed at conserving biodiversity in affected areas.

Functional Review Taskforce

The FRT recommendation will result in a net budget reduction of \$700,000, primarily due to the transition from DOLA of field management responsibility for unallocated Crown land and unvested reserves outside the Perth Metropolitan area.

Marine Conservation

The Government is working to create a comprehensive network of marine parks along Western Australia's 13,500 kilometre coastline to ensure that the State has a world-class marine conservation system. Additional recurrent funding of \$430,000 in 2003-04 increasing to \$830,000 per annum by 2006-07 has been provided for the establishment and management of the new Jurien Bay Marine Park and to provide additional management capacity for the Ningaloo Marine Park and the adjacent coastal strip.

Native Vegetation Clearing Controls

Funding of \$320,000 per annum has been provided to meet the Department's involvement in the implementation of proposed clearing control legislation. This will be achieved through roadside vegetation mapping, the development of roadside vegetation management plans through the Roadside Conservation Committee, and the provision of biodiversity assessment advice for applications to clear native vegetation.

Waters and Rivers Commission

Additional expenditure of \$1.5 million in 2003-04 has been provided for 'On Farm Water Grants' as part of the State's 'Response to Dry Season 2002', which will aid farmers and rural communities struggling to cope with this year's drought. The aim of the scheme is to enable farmers to develop on-farm supplies to a point where they are substantially self-sufficient, are better able to cope with extended periods of low rainfall and, in turn, rely less on public water supplies from off-farm sources.

Environmental Protection

The Department's spending is expected to be \$38.7 million in 2003-04. The appropriation figures shown in the Budget from 2003-04 onwards reflect a move to the Department retaining the revenue it raises (previously returned as general government revenue) to directly fund its operations, with an offsetting reduction in its funding via appropriations. This has the impact of reducing appropriations across the forward estimates but not total funding levels. Adjusting for this new arrangement, the 2003-04 appropriation is \$22.9 million, which in comparable terms is 6.7% higher than the 2002-03 out-turn. The 2003-04 Budget has expanded initiatives in the areas of environmental regulation, which will see greater and more effective enforcement effort through the creation of a new Environmental Enforcement Unit, and in the identification and remediation of contaminated sites. Major highlights within the Budget include:

- the introduction of a general provision for contaminated sites of \$14.5 million over the forward estimates (\$2.5 million in 2003-04). Spending grows in the out-years to reflect the likely increasing demands with implementation of the contaminated sites legislation. This will be used to cover costs associated with the initial implementation of the Contaminated Sites Bill as well as remediation costs for contaminated sites, identified as being of high priority for remediation as part of that implementation process;

- an additional \$1.4 million per year has been provided for compliance and enforcement of the *Environmental Protection Act 1986* through the establishment of a dedicated Environmental Enforcement Unit within the Department. The specialist support unit will work in partnership with other operations areas to ensure high standards are achieved in regulatory instruments, that compliance is encouraged and enforcement action is efficiently undertaken whenever appropriate. Its focus will be on the need for enforcement action in response to environmental damage or breach of statutory approvals;
- as part of the Government's response to the Bellevue Fire Inquiry, further funding of \$800,000 will be provided in 2003-04 and each of the out years. This will provide a more effective response to environmental emergencies by enhancing the Department's ability to assess environmental status and undertake immediate remediation works. This brings the Government's total financial contribution to the Bellevue incident to \$13.0 million;
- expenditure of \$440,000 in 2003-04 for planning the establishment of a new waste precinct to treat hazardous waste and will involve consultation with the Western Australian community. This will make pre-assessed sites available to industry;
- expenditure of \$432,000 per annum, commencing in 2003-04 to meet the Department's involvement in the implementation of the proposed clearing control legislation. This will be achieved through the creation of a permit system for the clearing of native vegetation. The Government recognises that clearing remnant native vegetation is one of the main pressures impacting on biodiversity, as it contributes to salinity and other forms of land degradation; and
- in line with the FRT recommendation, the Department will achieve full cost recovery associated with pollution license fees over the next three years.

MINISTER FOR POLICE AND EMERGENCY SERVICES

Police

The Police Service's budgeted total spending of \$573.7 million represents an increase of \$29.6 million or 5.4% compared to the estimated outturn for 2002-03. This represents growth in real terms of 2.9%, substantially boosting the capacity of the Police Service to deliver safer communities.

Police Officers

Additional funding of \$1.7 million has been provided in 2003-04 as part of the Government's commitment to employ an extra 250 police officers and 40 Aboriginal Police Liaison Officers (APLO) over four years. At the end of 2002-03, 115 police officers and 20 APLOs will have been recruited with a further 60 police officers and 10 APLOs to be recruited in 2003-04 - a total boost of 175 officers and 30 APLOs.

Delta Communications and Information Technology (DCAT) Project

To maintain and continue the DCAT project, additional funding of \$2.8 million has been provided in 2003-04 resulting in a recurrent allocation of \$22.0 million this year. Over the forward estimate years, recurrent expenditure of \$121.6 million has been projected for this program. In addition, capital funding totalling \$61.9 million will be spent over the same period.

Gordon Inquiry

As part of the Government's response to the Gordon Inquiry, funding of \$1.4 million in 2003-04 has been allocated for the:

- placement of eight Domestic Violence Specialist police officers in police districts to work in partnership with other service providers; and
- operating costs associated with the construction of three police stations each year for three years at targeted remote locations, including the placement of police officers.

Computer Aided Dispatch Communications System

The Government has approved the purchase of the Computer Aided Dispatch and Communications system (CADCOM), comprising stages 1A and 1B (new voice management dispatch system) and stage 1C (planning and acquisition of a new Metropolitan Police Radio Network). The purchase replaces a proposed lease arrangement and has been approved on the basis of better value for money following a review of the system deliverables and project risks.

In accordance with accounting principles, an amount of \$14.2 million has been transferred from recurrent to capital in 2003-04 for the purchase of CADCOM stages 1A and 1B along with additional capital funding of \$4.3 million. Stage 1C will be progressively purchased at a total capital cost of \$59.8 million. This will improve Police communications and provide increased community security and officer safety.

Capital User Charge and Depreciation

Due to factors such as the decision to purchase the CADCOM system, the Capital User Charge expense in 2003-04 has increased by \$3.2 million compared to the estimated outturn for 2002-03. Similarly, overall depreciation incurred by the Service in 2003-04 is projected to increase by \$3.6 million compared to the expected outturn in 2002-03.

Functional Review Taskforce

The government has determined that the recommendations of the Functional Review Taskforce to close nominated police stations and for the Police Service to assume responsibility for court security and prisoner transport will not be progressed.

Efficiencies of \$315,000 per annum in 2003-04 and 2004-05 and \$6.7 million from 2005-06 are proposed to be realised from a combination of measures including refinement of administrative processes and functions and the delivery of new technology.

Fire and Emergency Services Authority

The total spending of the FESA will increase from \$113.4 million in 2002-03 to \$141.4 million in 2003-04 primarily as a result of increases to grants to State Emergency Service and Bush Fire Brigade Volunteers (\$12.5 million) and Employee related expenses (\$2.9 million). Other increases include:

- ESL administration, provisions and implementation - \$3.0 million,
- collection costs - \$3 million,
- property valuations and system modifications - \$1.0 million,
- new service related costs - \$1.5 million,
- previous policy decisions - \$1.8 million; and
- other general operating increases - \$2.3 million

It should be noted that the increase in spending by FESA under ESL arrangements will meet the cost of services previously funded by local authorities and volunteer groups through council rates and fund raising and provide a fairer and more equitable funding system.

Emergency Services Levy (ESL)

The ESL is a replacement for the current inequitable funding arrangements that involve a mix of insurance and state and local government contributions. The ESL will provide a fairer, more equitable and transparent system to fund life and property saving emergency services, and provide better support to emergency services staff and volunteers, particularly in rural areas.

To ensure that the new funding arrangements do not adversely alter the State's contribution of funding, adjustments were made to the State's contribution as follows:

- a \$4.3 million reduction, due to the loss of stamp duty from lower insurance premiums;
- a \$3.5 million reduction to meet the cost of ESL concessions to pensioners and seniors. These estimated amounts will now be received by the FESA from local authorities as a subsidy for pensioner concessions; and
- a \$1.3 million deduction for the cost of the ESL to the State Housing Commission that will not be able to be passed on to tenants where income-capped rents are in place. These amounts will be returned to the FESA through the ESL.

In addition, the State's direct output appropriation to the FESA will reduce by \$6.5 million in 2003-04, as these funds will now be received by FESA as an ESL payment on behalf of general government agencies from DTF.

National Aerial Firefighting Strategy

To enhance Western Australia's existing aerial firefighting capabilities, an annual allocation of \$400,000 has been made to lease and operate two heli-tankers to extinguish wild fires in both inner and outer metropolitan areas. In 2002-03, a contribution of \$300,000 was also received from the Australasian Fire Authorities Council for this purpose.

Chemical, Biological or Radiological (CBR) Emergency

An allocation of \$530,000 per annum has been made to improve the State's capacity to manage a CBR emergency and deal with any possible terrorist activity. This initiative follows the Bali tragedy. The funds will provide for additional equipment, staff and training programs.

Firefighter Enterprise Bargaining Agreement (EBA)

To meet the cost of a salary increase for the firefighters under a new EBA, expenses including superannuation, have increased by \$3.2 million in 2002-03 and \$4.8 million in 2003-04 and the outyears. The State's contribution to this additional cost increased by \$590,000 in 2002-03 and \$733,000 in 2003-04 and the outyears.

MINISTER FOR PLANNING AND INFRASTRUCTURE

Planning and Infrastructure

Expenditure by the Department for Planning and Infrastructure (DPI) is planned to total \$561.9 million in 2003-04. Its budgeted appropriation is \$414.9 million, an increase of \$19.0 million or 4.8%. This represents growth in real terms of 2.2%.

Rail Transit Guards

Additional funding of \$1.0 million in 2002-03 and \$2.2 million per annum from 2003-04 has been provided to meet the Government's commitment to have a guard patrol on every train on the metropolitan rail system. This commitment is aimed at reducing violence and intimidation on our trains, particularly after dark.

Marine Sand Dredging

Additional expenditure of \$390,000 in 2002-03 and \$1.0 million in 2003-04 has been allocated for marine dredging, in response to:

- the increasing number of marine facilities that require dredging;
- increased environmental controls; and
- safety considerations.

Transport Electronic Licensing Information System

Additional once-off expenditure of \$575,000 will occur in 2003-04 as part of the implementation of a new transport licensing system. The new system is designed to improve the provision of vehicle and drivers licence services to the community.

Air Services Subsidy

The objectives of the Air Services Subsidy are to:

- meet fundamental requirements in regional Western Australia regarding accessible air services all year round;
- support regional economic development initiatives;
- support social needs involving access to services, basic travel opportunities and availability of fundamental goods such as mail and daily newspapers; and
- ensure equity of access to fast, convenient and suitable public transport to cover the vast distances found in Western Australia.

Due to increasing costs and a significantly changed environment since the collapse of Ansett Airlines, additional funding of \$670,000 per annum has been directed to this service. The total cost of the subsidy over four-years is \$4.4 million.

Taxi Users Subsidy Scheme (TUSS)

The TUSS provides subsidised taxi travel for people who have a severe disability that will prevent them using a conventional public transport bus service. Further funding of approximately \$2 million per annum has been injected in order to maintain the current policy in an environment of increased demand for this service.

Functional Review Taskforce

The Government has extracted general efficiency savings of \$1.5 million in 2003-04 and \$4.0 million per annum thereafter based on recommendations by the FRT. These savings will be found from streamlining service delivery across the Department. In addition, the Department will recover \$1.5 million per annum for services provided to the Western Australian Planning Commission (WAPC).

A further \$100,000 per annum will be saved as a result of the transfer of the 'At Sea' function to the Department of Fisheries. This function provides maritime safety surveillance services and will be merged with Fisheries' inspectorate service to provide a more co-ordinated and efficient single service.

Land Administration

The Department of Land Administration's (DOLA) expenditure in 2003-04 is planned to be \$97.6 million. Its appropriation will increase by 2.1% to \$38.2 million.

Business Improvement and Land Information Systems Costs (BILIS)

Additional expenditure of \$2.1 million will be incurred in 2003-04 to assist in implementing the BILIS initiatives which include the alignment of DOLA's products and services with its strategic direction and the establishment of a common land information platform.

Functional Review Taskforce

The Government has extracted savings of \$1.0 million in 2003-04, \$3.4 million in 2004-05, \$1.3 million in 2005-06 and \$1.4 million in 2006-07 based on the recommendations of the FRT. The savings in 2003-04 relate to:

- recovery of \$900,000 in costs relating to the removal of the subsidy to local government authorities for valuations undertaken by the Valuer General; and
- \$100,000 in respect of the administration or use of Crown land through charging where expected benefits outweigh associated costs.

Main Roads

Main Road's operational expenditure (non-capitalised expenditure) has increased by \$9.5 million in 2003-04, largely attributable to an increase in the Capital User Charge expense.

Functional Review Taskforce

The Government adopted the recommendations of the FRT and reduced funding to Main Roads by \$200 million from 2003-04 to 2006-07. While this impacted on both capitalised and non-capitalised expenditure, the reduction in non-capitalised expenditure in 2003-04 was offset primarily by the carryover of expenditure from 2002-03, and increases in depreciation and the capital user charge.

Western Australian Planning Commission

The WAPC's expenses are estimated to total \$33.1 million in 2003-04.

Town Planning Appeals Tribunal (TPAT)

Subject to the proclamation of legislation, from 1 January 2004 the State Administrative Tribunal will be performing the functions, of the TPAT. Accordingly, WAPC's spending has been reduced by \$405,000 in 2003-04, and \$811,000 in each subsequent year.

Capital User Charge (CUC)

During the year, the WAPC was granted an exemption from the CUC calculation, for all land that is designated for roads and road reserves, parks and recreation reserves, special uses and redevelopment schemes. Accordingly, the CUC has been reduced by \$32.4 million in 2002-03, \$35.8 million in 2003-04, \$38.8 million in 2004-05, \$42.0 million in 2005-06, and \$42.8 million in 2006-07.

MINISTER FOR STATE DEVELOPMENT; TOURISM; SMALL BUSINESS

Department of Industry and Resources

The Department of Industry and Resources has been newly formed from the amalgamation of the former Department of Mineral and Petroleum Resources and the industry facilitation and promotion areas of the former Department of Industry and Technology. Its mission is to advance the responsible development of the State's industry and resources for the benefit of Western Australians and it has been allocated an operating budget of \$96.8 million in 2003-04. This represents a reduction of around \$1.0 million from the previous year, on a comparable basis.

Savings of \$4.2 million in 2003-04 and \$6.7 million per annum thereafter will be achieved as a result of the decision to abolish the Department of Industry and Technology.

Aboriginal Heritage Surveys

Expenditure of \$100,000 per annum for five years from 2003-04 has been budgeted for Aboriginal heritage surveys on the Burrup Peninsula, as part of the Government's commitments under a recent native title agreement for the region.

Burrup Infrastructure Package – East/West Service Corridor

An allocation of \$830,000 per annum has been made in 2003-04 and each of the outyears to support borrowings by LandCorp of \$8.3 million to fund the increased cost of the East/West service corridor to support projects on the Burrup Peninsula.

Pinjarra-Brunswick Sustainable Communities Planning Study

An expenditure provision of \$225,000 has been made in 2003-04 to initiate a whole-of-government planning study to develop a sustainable economic and social development strategy for the Pinjarra-Brunswick region, in conjunction with local governments, communities and industry.

West Pilbara Coast Strategic Industry Land and Infrastructure Planning

Funding of \$200,000 in 2003-04 has been provided to initiate a study of potential industrial sites between West Intercourse Island/Maitland and Boodarie, to secure land additional to the Burrup Peninsula.

Upgrading of Security Measures at Kalgoorlie and Baldivis Explosives Reserves

The upgrading of security measures at the Kalgoorlie and Baldivis explosives reserves will lead to an increase in ongoing spending of around \$700,000 per annum from 2003-04.

Westpac Banking Corporation Contact Centre at Joondalup

A contribution of \$580,000 is planned to be made in 2003-04, as part of a seven year funding commitment of \$4.6 million, to facilitate the establishment of a contact centre at Joondalup, employing up to 450 staff.

Australian Marine Complex Facility Management

An amount of \$2.3 million is planned to be spent in 2003-04, as part of a four year funding commitment of \$7.5 million, for a facility manager at the Australian Marine Complex at Cockburn Sound.

Additional Business Exit Assistance

Funding of \$5.6 million has been allocated in 2003-04 for additional Business Exit Assistance under the Government's 'Protecting Our Old Growth Forests Policy'.

Western Australian Tourism Commission

The Western Australian Tourism Commission's (WATC) 2003-04 recurrent appropriation will increase by 5.0% or \$1.8 million. In view of the current economic climate and world events, a greater proportion of the WATC's marketing activity will be directed towards attracting interstate and intrastate tourism in Western Australia.

Tourism Strategic Plan

In 2003-04, the Government will continue its strong commitment to tourism promotion, by providing additional funding of \$1.0 million to the WATC for regional tourism. This assistance is required for the review of the current regional structure to determine the most appropriate and efficient means by which regional tourism development efforts can be aligned and administered to maintain effect.

The review is intended to reduce the current tourism regions from eleven to five, thus eliminating a duplication of resources and increasing the synergy between the new zones.

This commitment of \$1.0 million by the Government is in addition to the:

- four-year commitment of \$2.0 million per annum which was provided from 2001-02 to market rural and regional Western Australia. The four-year commitment was targeted towards specific marketing of tourism in rural and regional Western Australia and the increased sustainability of Country Visitor centres; and
- \$5.0 million crisis funding provided in 2001-02 and 2002-03 to assist the Western Australian tourism industry to recover from the collapse of Ansett Airlines and global instability.

Small Business Development Corporation

An additional amount of \$400,000 has been provided in 2003-04 for expenditure associated with the Small Business Development Corporation's (SBDC) Business Enterprise Centres (BECs) which are located throughout the State. A review of BECs is currently being undertaken and the additional funding will be expensed subject to the outcomes of the review.

There will be a reduction in the SBDC's expenses of \$581,000 per annum resulting from the cessation of the Small Business Improvement Program. This measure follows from the recommendations of the FRT.

MINISTER FOR EDUCATION AND TRAINING; SPORT AND RECREATION; INDIGENOUS AFFAIRS

Education and Training

The core responsibilities of the recently created Department of Education and Training are to:

- create the best possible conditions for teaching and learning in each and every one of the State's government schools; and
- maximise training and employment opportunities for Western Australians.

Consistent with the Government's commitment to resource its priority areas, Education and Training spending will increase by \$70.8 million or 2.6%. The direct appropriation by the State is budgeted to rise by \$91.8 million or 4.0% - a real increase of 1.4%.

The average amount spent on each student in a government school is expected to rise to over \$9,850 – a real increase of 1.1%.

The merger of the former departments of Education and Training will allow a greater focus on turning around Western Australia's unacceptably low Year 12 retention rates and boost traineeships and apprenticeships.

The highest priority for the new Department is to engage more 15 to 19 year olds in worthwhile learning. Following extensive community consultation on the educational, social and financial implications of raising the age of compulsory attendance, a new strategy on 15 to 19 year olds will be developed.

There will also be a strong emphasis on more apprentices and trainees, and better career guidance and counselling services.

Functional Review Taskforce

The merger of the former departments of Education and Training as recommended by the FRT will generate net savings of \$95.0 million over four years, comprising \$5.0 million in 2003-04 and \$30.0 million per annum thereafter. The savings will primarily be implemented through rationalisation of corporate services activities and will not affect educational outcomes. Furthermore, these savings have been re-appropriated to the Department to assist in meeting educational priorities.

In response to the FRT recommendations specific to the Office of Training, the Government has targeted an increase in revenue of \$11.6 million over the forward estimate period, comprising \$1.9 million in 2004-05, \$3.9 million in 2005-06 and \$5.8 million in 2006-07. Further savings of \$1.0 million per annum from 2003-04 onwards will be achieved as grants to science and innovation are to be sought through the Science Council.

On-line Education Services

Further development of on-line education services will continue to enable teachers to transform their teaching methods and realise better outcomes for students. This will capitalise on the Department's investment in Information and Communication Technology infrastructure, as part of the education to community (e2c) strategy. All government schools will be connected to new high bandwidth telecommunication services by the end of 2003. The budget allocation for the project in 2003-04 is \$26.9 million.

Also under the e2c strategy, the Notebooks for Teachers program continues into its second year at an estimated cost of \$9.9 million. Already more than 11,000 teachers have taken advantage of this initiative, which is coupled to a professional development program and dial up Internet facilities.

Getting it Right Literacy and Numeracy Strategy

A further 40 teachers will be provided in 2004 for the Getting it Right Literacy and Numeracy Strategy, bringing the total to almost 160 extra teachers for specialised assistance to schools' literacy and numeracy programs. The focus of the strategy is on early intervention, and support for students most at risk of not meeting literacy and numeracy standards.

Competence in literacy and numeracy continue to be essential to effective participation and success in schooling, further education and entry to the work force. Strong foundations need to be established in the early years of schooling and maintained through the middle and senior years. A common approach to reporting to parents will be provided to all schools during 2003-04.

Australian National Training Authority (ANTA)

Additional funding of \$20.2 million will be provided by the State over the period 2003-04 to 2006-07 to meet its funding obligations under the current ANTA agreement. A new ANTA agreement will be negotiated in the later half of 2003, relating to calendar years 2004 to 2006.

Through strategic funding arrangements with publicly funded TAFE colleges and private providers, approximately 26.7 million student contact hours will be delivered.

Review of the Western Australian Training Sector

During 2002-03, a number of changes designed to enhance the TAFE system were implemented as a result of the endorsement of recommendations of the Review of the Western Australian Training Sector. These changes place a greater emphasis on teaching and learning excellence and will mean delivering more services to students, industry and the community. The changes that have been implemented are:

- from 1 January 2003, Eastern Pilbara College merged with West Pilbara College to form Pilbara College of TAFE;
- from 1 January 2003, Midland College and the Balga campus of West Coast College merged with South East Metropolitan College to form Swan College of TAFE. The new Swan TAFE will bring together heavy trade training into one college. Within five years it is planned for the management of the new college to move to a purpose-built facility at the Midland Railways Workshop site; and
- commencement of construction works for the new world class Joondalup Hospitality Centre that will offer Vocational Education and Training programs from school through to advanced training. This project has been delayed mainly due to delays in finalising the location. The project is now scheduled for completion in September 2004 with \$4.2 million to be spent in 2003-04.

Employment Directions Strategy

A review of labour market programs was used to develop the Employment Directions Strategy. This involves a significant shift from employment placement programs to regionally based services aimed at assisting people and communities through enhancing employability, supporting entrepreneurship and a futures orientation.

Apprenticeships and Traineeships

The number of apprenticeships and traineeships in 2003-04 are projected to increase by at least 1,250. A target has been set of 25,000 apprentices and trainees in training to be achieved by 2006 and includes 1,000 school-based traineeships.

The First Click Program

The First Click Program, which provides grants to community-based organisations for initiatives to increase computer literacy, has been extended to 2003-04 at a cost of \$1.0 million.

Regional Forests Agreement Workers Assistance Package (RFWAP)

Under the RFWAP, the Department will continue to deliver services to workers in the native forest hardwood timber industry directly impacted by the Government's forest policy. There will be funding of approximately \$7.0 million in 2003-04 to continue assistance to displaced timber workers.

Sport and Recreation

The Department's total spending is expected to increase by \$6.0 million or 19.1% to \$37.5 million in 2003-04. The significant increase is mainly due to:

- a revised profile of spending for the Community Sporting and Recreation Facilities Fund grants (\$6.7 million in 2002-03 and \$10.7 million in 2003-04). This reflects the expected flow of payments and does not impact the annual evaluation and approval of projects within the guidelines of the Fund. The capital nature of projects assisted through this Fund and the consequential delays in payments, are the primary factors behind the delays in expenditure; and
- additional funding provided for the Perth Oval Redevelopment project (\$4.5 million) in 2003-04, which is partly offset by a once-off contribution of \$1.5 million provided in 2002-03 towards a baseball stadium at Tom Bateman Reserve.

Western Australian Sports Centre Trust

A decrease in expenditure of \$2.3 million is budgeted, mainly due to the abnormal payment of \$3.0 million in 2002-03 to LandCorp for land used for the Kwinana Motorplex site.

The Trust has again been provided with \$270,000 in 2003-04 to assist with the shortfall in revenue due to the loss of sponsorship naming rights at Challenge Stadium.

Indigenous Affairs

The FRT investigated the potential for the Department to rationalise its local offices. As a result, the Government endorsed the closure of three offices during 2003-04, saving \$292,000 per annum.

MINISTER FOR COMMUNITY DEVELOPMENT; WOMEN'S INTERESTS; SENIORS AND YOUTH; DISABILITY SERVICES; CULTURE AND THE ARTS

Department for Community Development

The Department's total expenditure is expected to increase by \$11.2 million or over 5.5% to \$210.0 million in 2003-04. This represents an increase in real terms of over 3.0%.

State Homelessness Task Force Response

As part of the total \$32.0 million package to tackle homelessness, the Government has provided \$2.9 million per annum from 2002-03 onwards to assist public and private sector tenants to keep their housing, help homeless children, support young people leaving long term care and assist people directly into stable accommodation through by-passing crisis accommodation.

Gordon Inquiry

In response to the Gordon Inquiry, the Government has committed \$6.7 million in 2003-04, from a total of \$26.3 million over five years, to provide for a range of initiatives aimed at combating child abuse and family violence in Aboriginal communities. These initiatives include 25 additional child protection workers situated across the State to increase the Department's capacity to respond to complaints of child abuse and undertake child protection assessments. It also provides for the expansion of the Strong Families Program to provide a mechanism for an interagency collaborative case management approach to children and families at risk.

Children in Care, Foster Care Subsidies and Allowances

The Government has allocated \$2.2 million per annum from 2003-04 onwards to meet the needs of the growing number of children in care. To further provide for children in care, \$1.1 million in 2003-04 (\$14.1 million over four years) has been allocated for increases in foster care and respite care subsidies, an increase in clothing allowance for adolescent children in care, and to address the inequity in the payment of certain allowances to carers of non-wards.

These initiatives will contribute to the support of families and individuals in crisis and ensure that quality care is provided to those children placed in the care of the State.

Functional Review Taskforce

The FRT recommendations for rationalised expenditure on the Youth Grants WA Program and the abolition of the Youth Advisory Councils, including the YAC Attack Conference and Senior Media Awards have resulted in savings of \$428,000 per annum.

Disability Services Commission

A significant funding boost has been provided to assist people with disabilities with total spending set to increase by \$12.7 million to \$255.7 million in 2003-04. This represents a 5.2% increase over spending in 2002-003 and will increase services in the following areas:

- accommodation - 80 new places;
- family support - 154 new services;
- alternatives to employment / post school options - 103 new services;
- therapy - 544 new services; and
- local area coordination - 205 new services.

Functional Review Taskforce

The FRT recommendation for greater administrative efficiencies across the Department resulted in a requirement for savings of \$100,000 per annum from 2003-04 onwards.

Culture and the Arts

Functional Review Taskforce

The FRT recommended that the Department achieve efficiencies in their operating costs to realise savings of \$500,000 in 2003-04 and \$1 million thereafter. This decision was accepted by the Government and the Department is working to streamline its activities to achieve these savings.

MINISTER FOR HEALTH

Health

The provision of Health Services by the Department of Health accounts for 24.6% of total general government expenditure in Western Australia. In 2003-04, total spending will grow by 6.3%, with the injection of a further \$178.3 million over 2002-03. This will take total spending by the Department of Health to \$3.019 billion. In real terms, this amounts to a 2.2% increase per capita. To fund the nominal 6.3% spending increase in 2003-04, the direct appropriation by the State is budgeted to rise by \$232.2 million or 9.7%. This larger appropriation is necessary as Commonwealth funding declines in 2003-04 compared with 2002-03 levels.

To ensure that the Western Australian Health system meets the health needs of Western Australians now and into the future, the Government is committed to increasing health expenses by \$1.3 billion over the next four years, to take total expenses to \$13.0 billion over this period.

Cost and Demand Pressures

Western Australia's growing and ageing population, together with the increasing costs of delivering health services, is contributing towards cost and demand pressures for public health services.

The increases in spending by major cost categories include:

- labour costs which are estimated to increase by \$85.9 million reflecting salary and wage increases for health workers and the recruitment of additional doctors, nurses and allied health professionals to service increased demand;
- grants and subsidies to external organisations are estimated to increase by \$55.3 million reflecting the increased costs of purchasing services including ambulance and transport services, blood products and home care services; and
- direct and indirect patient support costs, along with private sector contracts are estimated to increase by \$15.3 million. The increase is mainly as a result of higher costs for pharmaceuticals, patient diagnostic supplies and service delivery contracts with private hospitals.

The significant injection of funding across these areas is aimed at ensuring service continuity and the delivery of quality health services that meet the needs of the community.

Health Reform Committee

Since the election, the Government has injected an additional \$2.45 billion into the Western Australian health system.

Health spending in this State has been growing by around 6 to 7 percent a year. Growth in health expenditure of this order presents a particular challenge to the Government, as it does to all governments nationally and internationally to ensure health expenditures are well targeted and to fund health services in a sustainable manner.

To ensure that health services are funded and provided on a sustainable basis both now and into the future the Government has established the Health Reform Committee.

The Committee is to be chaired by Professor Reid, a former Director General of the New South Wales Health Department and the current Director Policy and Practice Program, Institute for International Health in Sydney. It is charged with the responsibility of implementing system wide reforms aimed at improving health services to the community, constraining growth in health costs over the longer term and ensuring the continuation into the future of sustainable, quality health service delivery.

Funding has been provided to meet the operating costs of the Committee, estimated to be \$1.3 million.

The successful reform of the health system requires a coordinated strategy from all States and Territories and the Commonwealth Government. The successful re-negotiation of the Australian Health Care Agreement will be very important in ensuring sustainable health outcomes are achieved across the forward estimates.

Key Initiatives

The key initiatives to be undertaken in 2003-04 include:

- enhancing the planning and preparedness for infectious disease threats, including those associated with bio-terrorism;
- implementation of the National Group C Meningococcal Vaccination Program which aims to vaccinate, over the next three years, all children and teenagers;
- expansion of renal dialysis, including expansion of services at the Peel Satellite Dialysis Unit. The Peel unit is being expanded from a five-chair facility capable of providing services to up to 20 patients per week to a 12-chair facility capable of providing dialysis services to up to 48 patients per week;
- establishment of new adult dental clinics in Joondalup and Cockburn to further improve access and service provision to eligible patients in the growing Northern and Southern suburbs;
- implementation of the Country Health Services Review, with particular emphasis on development of the Regional Networks and the Regional Resource Centres in Albany, Broome, Geraldton, Kalgoorlie and the Pilbara. This will enable as much secondary level acute care activity to be retained within the regions as possible, limiting as much as clinically appropriate, the need for patient transfers to Perth for other than tertiary level services;
- implementation of the Homelessness taskforce recommendations, which involves the allocation of \$800,000 per annum, to increase support services for young people with mental illness and \$260,000 per annum for additional housing support to assist the accommodation of mental health patients released back into the community;
- implementation of the Gordon Inquiry recommendations for which the Government has committed \$2.2 million in 2003-04 and \$1.4 million thereafter in order to:
 - increase the existing capacity of the Child Protection Unit at the Princess Margaret Hospital and assist children that are victims of abuse. This will include:
 - appointment of additional staff to provide expanded services in a new co-located facility with Police and specialist staff from the Department for Community Development;
 - development of an educational program for all disciplines of health care workers in respect to child protection issues; and
 - establishing a stronger partnership with the Deerbarl Yerrigan Health Service to develop a culturally appropriate service in this specialist area;

- expand the services provided by the Sexual Assault Resource Centre (SARC) to enhance the provision of coordinated and adequate medical, forensic and counselling services to adult and mature minors that are victims of sexual assault. The key services to be delivered include:
 - increased counselling outreach services particularly in northern, southern and eastern outskirts of the metropolitan area;
 - the establishment of SARC as the key support agency for sexual assault services throughout the State, including for services provided by non-government organisations. A primary focus will be working with other sexual assault services to develop an integrated approach to training and education for those involved in providing services to victims of sexual assault; and
 - commencement of a review of the particular needs of Aboriginal people in this area with the goal of establishing a model of care that is culturally sensitive and acceptable;
- to meet increased community demand for emergency department services a number of emergency management initiatives are being implemented, including:
 - upgrades to increase the capacity of metropolitan emergency centres at Sir Charles Gairdner, Princess Margaret, Swan Districts and Rockingham Hospitals (\$21.4 million in total);
 - establishment of care coordinator roles in emergency departments to facilitate timely and appropriate discharge from emergency departments or rapid assessment for medical patients to facilitate appropriate care;
 - a transit lounge at Fremantle Hospital to ensure the timely discharge of patients and reduce delays in freeing up beds for other admissions; and
 - a 24 hour, 7 day per week emergency rescue helicopter service to transport patients with time critical or life threatening conditions either between health facilities or to a health facility from a location of between 50 and 200 kilometres from Perth.
- Health and education services in regional Western Australia are set to benefit from an \$8 million National Communications Fund grant to upgrade telecommunications and increase bandwidth. A State Government consortium consisting of the Departments of Health, Education and Training, and Premier and Cabinet is managing the grant, aiming to roll out improved telecommunications infrastructure to key regional centres in early 2004.

Community Health Care

A series of new community health care initiatives will be undertaken in 2003-04. These include:

- a Primary Health Care Strategy to improve the integration across services delivered by the acute, non-acute and primary health care and community sectors. This would involve establishing systems that result in improved patient care, support for carers, better health outcomes and optimal resources;
- stronger emphasis in areas such as policy development, prevention and early intervention strategies and in particular, service implementation for West Australian Culturally and Linguistically Diverse families;
- development of integrated services in priority areas including chronic diseases (such as diabetes and asthma) and immunisation in community health services; and
- development of a new framework for Aboriginal Child Health to guide the development and implementation of services in this area. A strong consultative process involving Aboriginal communities will be used in the development of the framework.

Total Public Sector Capital Investment

Summary

The total public sector capital works program for 2003-04 is forecast to be \$3.5 billion, an increase of \$213.9 million compared to the estimated 2002-03 outturn of \$3.2 billion. An explanation of the difference and a reconciliation of the capital works program to capital expenditure is provided in Chapter 2: *Fiscal Strategy and Financial Projections*.

The value of investment in public infrastructure in 2003-04 will represent around 3.9% as a proportion of Western Australia's total economy.

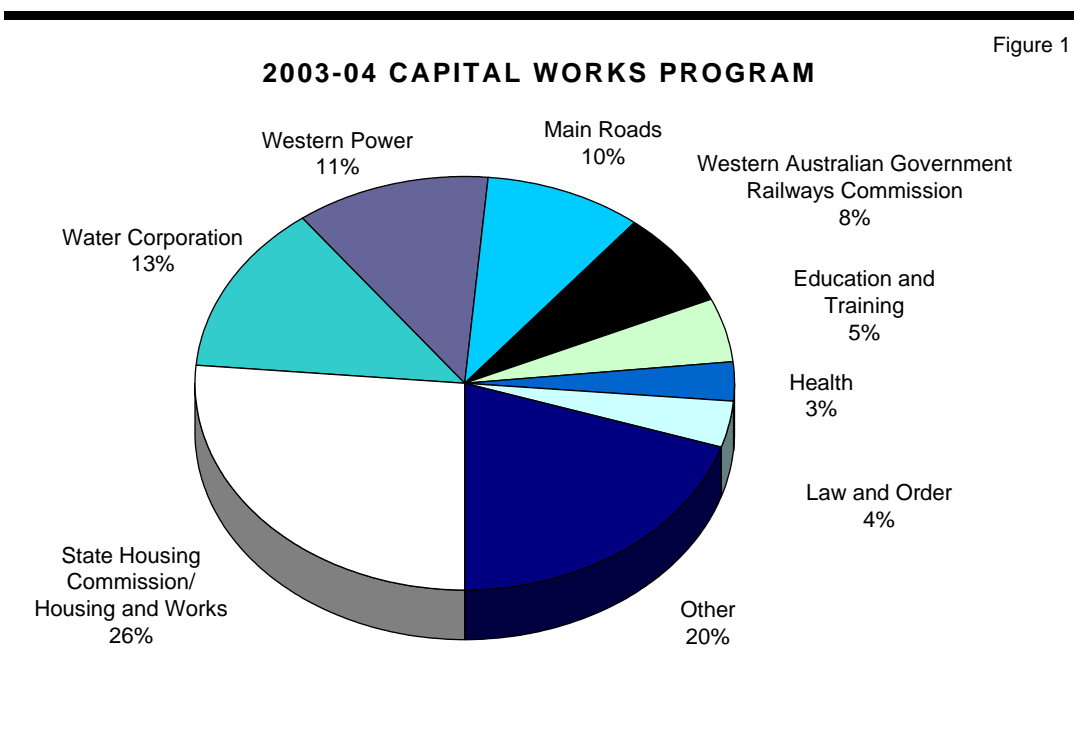
The Program encompasses works in progress and new works as set out for each agency in Budget Paper 2.

Table 4

PUBLIC SECTOR CAPITAL WORKS PROGRAM			
Sector	2001-02 Actual \$m	2002-03 Estimated Actual \$m	2003-04 Budget Estimate \$m
General Government	1,143.6	1,102.9	1,107.3
Public Corporations	1,840.3	2,136.1	2,345.6
GRAND TOTAL	2,983.9	3,239.0	3,452.9

Note: Columns may not add due to rounding.

Figure 1 provides an illustration of the break up of the 2003-04 capital works program.



Consistent with trends in previous budgets the total investment in 2004-05, 2005-06 and 2006-07 is budgeted to ease.

The forward estimates for capital projects are subject to revisions from year to year and adjustments may be necessary to the outyears 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. As the business cases and cost estimates for such projects are further refined over time, they tend to bolster the capital works program in the earlier years of the forward estimates.

Key Expenditures

The following is a summary of key expenditures.

PREMIER; MINISTER FOR PUBLIC SECTOR MANAGEMENT; FEDERAL AFFAIRS; SCIENCE; CITIZENSHIP AND MULTICULTURAL INTERESTS

Premier and Cabinet

The Department's capital works program incorporates \$20.0 million for the Office of Science's InnovateWA Program. Of that total, \$4.2 million is estimated to be spent in 2003-04.

DEPUTY PREMIER; TREASURER; MINISTER FOR ENERGY

Western Power Corporation

Western Power's capital expenditure program of \$395.4 million in 2003-04 provides for major economic infrastructure across the State. The following investments are planned:

- \$93.3 million on generation expenditure to progress the Cockburn 1 power station and fund the short-term life extension of the Kwinana Stage B plant. The short term life extension of the Kwinana Stage B plant is necessary following the Government's decision to defer the construction of Cockburn 2 for up to 12 months pending further work on the demand growth for energy and the extent to which the private sector is prepared to enter the generation market following market reforms. Other generation expenditures support the achievement of efficiency, reliability and environmental targets;
- \$97.5 million on transmission expenditure to enable the continuation of the Pinjar-Cataby-Eneabba 132kV line. Other transmission expenditure provides for the construction of new lines, substations and enhancements to existing lines, substations, protection systems and communications facilities throughout the South West Interconnected System;

- \$123.9 million on distribution expenditure to maintain reliability and quality of supply through ongoing enhancement of the system. The continuation of the Undergrounding Project (\$17.3 million), which involves laying the existing aerial distribution system underground in both country and metropolitan areas, is being carried out in conjunction with State and Local Governments;
- completion of a number of renewable and sustainable energy projects such as the Integrated Wood Processing Plant at Narrogin and the Esperance wind farm. New sustainable energy projects include the Hopetoun wind/diesel plant and potential new wind farms; and
- upgrade network infrastructure on the Burrup Peninsula to support developments in the Pilbara. Expenditure within the isolated regional system provides for the progressive connection of facilities as they become available through the Regional Power Procurement process.

MINISTER FOR AGRICULTURE; FORESTRY AND FISHERIES; THE MID-WEST, WHEATBELT AND GREAT SOUTHERN

Agriculture

The Department of Agriculture will commence planning for the staged replacement of its South Perth Headquarters. Funding of \$1.0 million has been budgeted in 2003-04 for this purpose.

Forest Products Commission

The Commission will be investing \$5.2 million in plantation timber development in 2003-04 and \$21.3 million across the forward estimates.

The benefits of such a program are not solely limited to yields from timber production but also have direct economic, social and regional benefits to the State.

Great Southern Development Commission

The \$12.0 million Albany Small Boat Harbour project will commence with a \$302,000 commitment by the Government through the Great Southern Development Commission (GSDC) in 2003-04. The project is a joint collaboration between the City of Albany, the Department for Planning and Infrastructure, and the GSDC. It will create a new small boat harbour and provide a catalyst for other related foreshore activities and business opportunities. This project will assist tourist boat operators and the fishing industry by providing safe havens and repair facilities. In addition, it will re-vitalise the Albany foreshore precinct for land-based tourism activities and businesses.

MINISTER FOR HOUSING AND WORKS; LOCAL GOVERNMENT AND REGIONAL DEVELOPMENT; THE KIMBERLEY, PILBARA AND GASCOYNE

Housing and Works

In relation to public works, the 2003-04 Budget includes the planning, development and construction of significant capital works projects on behalf of the Government and government agencies. These projects include an allocation of \$74.4 million in 2003-04 to be provided for the completion of assistance to the developer of the Perth Convention and Exhibition Centre.

State Housing Commission

Construction and Refurbishment Commencements

In relation to public housing, the Budget will again deliver a significant program with construction and refurbishment commencements in excess of 1,500 units. This includes a total investment of \$143.2 million for the construction of new units in 2003-04, up \$13.6 million from the previous year.

Aboriginal Housing

Included in the provision for public housing is an allocation of \$17.6 million which brings the Government's total investment in Aboriginal Housing in 2003-04 to \$62.5 million, an increase of 43% over 2002-03 levels.

New Living Program

The award-winning New Living Program, which has been highly successful in reducing crime rates and increasing property values, will build on 2002-03 achievements with projected sales of 485 units and refurbishment of 400 units in 2003-04. Total investment in this program is expected to be \$36.9 million in 2003-04 and will make a strong contribution to employment in the construction industry in Western Australia.

The commitment of extensive resources to refurbish the public rental stock through this, and other refurbishment programs, has been maintained without adverse effect on the rental waiting list, which has remained stable over the past three years.

Brownlie Towers Project

The Brownlie Towers Project and its precinct, in the suburb of Bentley, will receive a \$5.0 million re-vitalisation over the next two financial years. This represents a substantial investment in the facility and will lead to improved security and community lifestyle within the complex and surrounding areas, addressing a long standing need for improvement.

Community Loan Assistance

Loans to homebuyers on low to moderate incomes, disabled and Aboriginal households will be made through the KeyStart, Goodstart and Access schemes. Funding of \$533.5 million will be provided for KeyStart loans in 2003-04, with \$14.1 million for Goodstart, of which \$6.9 million is for Access.

Country Housing Authority

It is estimated that the Country Housing Authority will approve loans totalling \$13.3 million in 2003-04. Combined, this assistance will help around 144 families with loans for new homes and renovations.

Government Employees' Housing Authority

The Government Employees' Housing Authority's capital works program in 2003-04 will construct and purchase new government employee housing to support the provision of government services in regional Western Australia.

It is expected that up to \$4.0 million of the \$9.5 million program will be spent on providing new housing for Police and other services in remote communities to support the implementation of recommendations made by the Gordon Inquiry.

Local Government and Regional Development

A total investment of \$5.0 million will be made in 2003-04 under the Regional Collocation Scheme (Community Resource Centres Assistance program). The scheme aims to assist regional communities develop appropriate infrastructure for the collocation of government and community services.

Fremantle Cemetery Board

An amount of \$4.5 million will be spent in 2003-04 on the construction of a new mausoleum.

Gascoyne Development Commission

A \$3.5 million capital grant will be provided in 2003-04 to complete the construction of the \$4.5 million Aboriginal Heritage and Cultural Centre in Carnarvon. The centre is aimed at increasing the economic independence of aboriginal people including employment and training during the construction phase, and ongoing tourism, arts and marketing opportunities once it is completed.

ATTORNEY GENERAL; MINISTER FOR JUSTICE AND LEGAL AFFAIRS; ELECTORAL AFFAIRS; PEEL AND THE SOUTH WEST

Justice

A new CBD Courts project has been approved to proceed. Situated within the existing Justice precinct site at Hay/Erwin Street, this major CBD facility will provide a contemporary court complex as the permanent home for the District Court and criminal trial matters of the Supreme Court. The refurbishment of the existing Central Law Courts building will provide accommodation for the Magistrates' Court and related justice functions. Both facilities will be connected via a tunnel, which is necessary to address identified custodial and judicial security and access deficiencies, and will be completed by 2008 at a total estimated cost of \$127.9 million. This project is also the cornerstone of major accommodation changes for Justice-related functions in the CBD.

As part of the Procurement Planning Stage, a detailed analysis of the project will be undertaken to ascertain whether a Public Private Partnership (PPP) model of procurement will provide better value for money than Government financing. The full capital cost of this project is reflected in the State's net debt position to make provision for Government financing of the project should a PPP not be found to be the best value for money.

Also included in the capital works program is provisioning for the better management of women in prisons by developing new operational models and services appropriate to the needs of women and upgrading facilities for women in prison. In accordance with this strategy, significant works will be undertaken in 2003-04 at a cost of \$9.0 million (out of a total cost of \$14.0 million) at the new Female Low Security Prison at the former Nyandi-Longmore site in Bentley.

The Department will continue with the construction of the \$11.1 million Albany Justice Complex with \$4.4 million to be invested in 2003-04.

Consolidation and provision of accommodation and infrastructure requirements for the newly formed State Administrative Tribunal (SAT) will continue during 2003-04 (\$2.6 million) to enable the tribunal to commence operations from January 2004. The SAT will see the amalgamation of the functions of some 40 existing boards and tribunals to provide a one-stop shop for administrative decision-making, appeals against administrative decisions and enhance the disciplinary procedures of statutorily based professions.

The Integrated Courts Management System will replace obsolete non-integrated court systems and provide a platform for e-business, enabling electronic access to information and case management processing for all court jurisdictions. The \$10.9 million System will be completed with an amount of \$2.3 million to be spent in 2003-04. Stage 1 of the Community Based Service Information System will continue during 2003-04 at a cost of \$1.2 million.

Peel Development Commission

Funding of \$1.0 million will be provided in 2003-04 for the Pinjarra to Boddington railway reconstruction, along with a further \$500,000 to be spent to complete the \$2.2 million Railway Heritage Centre.

MINISTER FOR THE ENVIRONMENT AND HERITAGE

Conservation and Land Management

The Department's capital works program for 2003-04 is estimated at \$12.0 million. This includes a \$2.5 million investment in the provision of national parks infrastructure associated with the 'Protecting Our-old Growth Forests' policy. A further \$1.0 million will be contributed towards the development of a Karri-Tingle Interpretive Centre in the proposed Walpole Wilderness Area.

Botanic Gardens and Parks Authority

Government has committed to a Bali Memorial in recognition of the people who tragically died in the Bali terrorist explosion in October 2002. The memorial will be constructed following extensive public consultation and is scheduled to be completed by October 2003 at an anticipated cost of \$1 million. It will aim to deliver a symbolic memorial in the form of a new lookout and a family gathering area in the Fraser Avenue Precinct of Kings Park.

Zoological Parks Authority

The Government has committed a total of \$1.2 million over 2003-04 and 2004-05 to enable the Perth Zoo to immediately commence upgrading the enclosure for its herd of four Asian Elephants. This investment is being made as a result of recognising the need to maintain animal welfare standards and ensure safety.

MINISTER FOR POLICE AND EMERGENCY SERVICES

Police

The Police Service has an approved capital works program of \$77.5 million in 2003-04, with the main projects being:

- the continuation of the Delta Communications and Technology (DCAT) project with estimated expenditure of \$22.1 million to improve systems and technology in the Police Service. In 2003-04 this will complete stage 1 of the Frontline Incident Management System, the Victim and Offender Management System, the Custody Management System and replace existing systems for CAP speed;
- the purchase of the Computer Aided Dispatch Communications stages 1A and 1B incorporating the new voice management dispatch system at an estimated cost of \$17.5 million. Funding of \$1.5 million has also been allocated in 2003-04 for stage 1C, which involves the planning and acquisition of a new metropolitan police radio network at a total capital cost of \$59.8 million. The purchase replaces a proposed lease arrangement resulting in better value for money and the reclassification of expenditure on the project from recurrent to capital. This project will improve police communications and provide increased community security and officer safety;
- the commencement of construction of the forensic component of the Police Operations Support Facility at Midland, with \$12.3 million to be spent in 2003-04. The total estimated cost of this commitment is \$23.0 million;
- the construction of three police stations at targeted remote locations, which are proposed at Warburton, Kintore and Docker River at a total cost of \$3.3 million. These locations are targeted in response to the recommendations of the Gordon Inquiry;
- ongoing building modifications at a cost of \$4.1 million in 2003-04 to address health and safety obligations as a result of including sworn police officers within Occupational Health and Safety legislation;
- continuation of works on police stations at Wanneroo (\$1.5 million), Albany (\$1.3 million), Newman (\$3.1 million) and Laverton (\$2.1 million); and
- purchase of new equipment, including semi-automatic pistols, a telephone intercept system, speed detection equipment and video evidentiary unit (Gordon Inquiry) at a total cost of \$5.7 million.

Fire and Emergency Services Authority

Capital expenditure by the FESA totals \$12.7 million in 2003-04, including major projects as follows:

- construction and equipment for a Computer Aided Dispatch Communications Project (\$2.5 million), which will act as a back-up facility for emergency communications for the Police Service, and will improve the delivery, coordination, efficiency and management of emergency services in Western Australia;
- continuation of the light tanker replacement program (\$1.3 million);
- the commencement of the construction of two new fire stations at Kwinana (\$1.6 million) and Murdoch (\$300,000), which are both due for completion in 2004-05;
- continuation of the light pumper replacement program (\$2.5 million);
- purchase of new equipment, including breathing apparatus (\$400,000), hoses (\$60,000), firefighting appliances (\$1.3 million), volunteer equipment (\$500,000), trucks (\$200,000) and trailers (\$150,000); and
- a collocated regional office in Geraldton (\$525,000).

MINISTER FOR PLANNING AND INFRASTRUCTURE

Planning and Infrastructure

For 2003-04, the Department for Planning and Infrastructure has an approved capital works program of \$23.8 million. The main projects involved are:

- the purchase of 22 replacement buses for the metropolitan area at a cost of \$10 million; and
- the implementation of the Smartcard ticketing system which will replace the current Transperth 'magnetic strip' ticketing system. The new system is expected to be operational in late 2004 or early 2005. The total cost of the project is estimated to be \$23.5 million, with funding being sourced from both the Western Australian Government Railways Commission and DPI, with DPI contributing \$7.1 million toward the project in 2003-04.

Main Roads

In 2003-04, Main Roads will spend a total of \$773.2 million on roads of which \$328.3 million is included in the capital works program. This represents an increase of approximately \$2.0 million over 2002-03. Some of the major programs include:

- Carnarvon – Mullewa Road - a project to construct and seal this important inter community and tourist route between the North West Coastal Highway and Gascoyne Junction. \$3.2 million will be spent in 2003-04 as part of a total project cost of \$24.0 million;

- Great Central Road - a project to form and gravel this road between Laverton and Docker River, with planned expenditure of \$1.0 million in 2003-04 as part of a total project cost of \$25.2 million;
- Geraldton Southern Transport Corridor - this project will provide an alternative route for freight vehicles and rail freight, which will improve access and efficiency for the transport industry and improve safety for all road users by reducing conflict between road and rail freight and passenger vehicles, with planned expenditure of \$8.1 million in 2003-04;
- Karratha – Tom Price Stage 1 - construction of a two lane sealed road north of Tom Price to the Nanutarra-Munjina Road commenced in January 2003 with estimated completion by late 2003. This project, with planned expenditure of \$14.1 million in 2003-04, will reduce travel distance and time while improving the level of service for freight, tourists and local traffic;
- Great Eastern Highway - a number of projects, with planned expenditure of \$11.8 million in 2003-04 to rehabilitate and widen sections, improve passing opportunities and enhance safety and efficiency; and
- Great Northern Highway - rehabilitation, reconstruction and widening of a number of sections, with planned expenditure of \$4.3 million in 2003-04.

Armadale Redevelopment Authority

The Armadale Redevelopment Authority enters its second full year of operations in 2003-04. In early 2003-04 the Authority's Redevelopment Scheme is expected to be gazetted. This Redevelopment Scheme will determine works necessary to be undertaken across the forward years. A \$2.0 million capital works program in 2003-04 will focus on the investigation and detailed planning for the Redevelopment Scheme, and will also include some works in the City Centre.

East Perth Redevelopment Authority

The East Perth Redevelopment Authority is funded by land sales revenue and will continue work in the development of areas of East Perth, The Village Northbridge and the Gateway to deliver social, environmental and economic returns to the Government at a cost of \$21.9 million in 2003-04.

Midland Redevelopment Authority

The Authority's capital works program for 2003-04 is estimated at \$13.4 million. This will include site environmental testing and remediation works at the Midland railways workshops at an estimated cost of \$3.7 million, the commencement of the Helena Precinct residential sub divisional works at an estimated cost of \$2.5 million and the city centre sub divisional works at an estimated cost of \$1.2 million.

Subiaco Redevelopment Authority

The Subiaco Redevelopment Authority is funded by land sales revenue and will be continuing the redevelopment of Subi Centro to deliver social, environmental and economic returns to Government, investing \$11.2 million in 2003-04.

Bunbury Port Authority

The Bunbury Port Authority's capital works program for 2003-04 is projected at \$9.2 million. The main projects are:

- the construction of the Container Facilities including the construction of a hardstand area and a refrigerated container power point;
- the construction of a new Conveyor Facility for woodchips; and
- a conveyor for bulk loading.

Dampier Port Authority

The Port will provide a dredged shipping channel costing \$13.0 million and additional navigational aids costing \$900,000. It will also undertake wharf extensions costing \$1.1 million, to support Burrup Fertilisers which is the first project to commit to construction on the King Bay Hearson Cove industrial area.

Fremantle Port Authority

Fremantle Port Authority's capital works program for 2003-04 is projected at \$42.7 million. The program accounts for an investment of \$18.5 million in 2003-04 on Stage 1 of the HIs melt project for pig iron production and export. A further \$8.0 million is planned to be expended on the North Quay Rail Terminal and Rail Loop.

Geraldton Port Authority

The Geraldton Port Authority plans to invest \$24.7 million in 2003-04. Completion of the \$107.7 million Port Enhancement Project at a cost of \$22.4 million in 2003-04 is the major component of these works.

Western Australian Government Railways Commission

The Western Australian Government Railways Commission's planned capital expenditure in 2003-04 is \$261.5 million. This includes the continuation of the New MetroRail project (formerly the Perth Urban Rail Development project) and some new projects to ensure the safety of rail and road coach passengers.

Expenditure of \$182.9 million on the New MetroRail project includes:

- completion of the Nowergup Railcar depot and delivery of the first few sets of railcars late in the year ;
- completion of the bulk of railway infrastructure works for the Northern Suburbs Railway extension;
- progress on the infrastructure works for the Thornlie extension; and
- completion of all design work on the Perth to Mandurah Railway with the awarding of contracts for the major construction packages totalling approximately \$690.0 million, of which \$63.5 million is planned to be spent in 2003-04.

Western Australian Land Authority

LandCorp's planned capital works program for 2003-04 is \$186.1 million including \$44.9 million on industrial land acquisition and development, \$89.9 million on acquisition and development of land as part of the Government asset disposal program, and \$47.8 million on urban and town site land acquisition and development.

Western Australian Planning Commission

A total of \$96.5 million will be spent by the Commission on capital works projects for 2003-04 including:

- \$78.0 million for the continuation of the ten year program to facilitate the acquisition of land under the Metropolitan Region Scheme;
- \$10.0 million for the continuation of Perth's Bush Forever ten year program; and
- \$5.0 million for the Regional Land Acquisitions program.

MINISTER FOR STATE DEVELOPMENT; TOURISM; SMALL BUSINESS

Industry and Resources

Capital funding of \$4.3 million will be available in 2003-04 to progress the development of the Ord River Irrigation Stage 2 project in the Kimberley. Total funding of \$15.5 million has been committed to this project.

Capital funding of \$1.0 million has been provided in 2003-04 for the upgrading of security measures at the Kalgoorlie and Baldivis explosives reserves. This proposal has a recurrent impact of around \$700,000 per annum from 2003-04.

Rottneest Island Authority

The Rottneest Island Authority's capital works program for 2003-04 is forecast to be \$3.0 million, which includes the Authority's planned capital works expenditure of \$2.0 million for the construction of an 80-metre wind turbine.

MINISTER FOR EDUCATION AND TRAINING; SPORT AND RECREATION; INDIGENOUS AFFAIRS

Education and Training

A total of \$166.8 million will be spent in 2003-04 on government school and TAFE college infrastructure, including:

- \$30.7 million on the completion of five replacement primary schools at Djidi Djidi, East Maylands, Koongamia, Midvale and Woodbridge, and four new primary schools at Brighton, Dalyellup, Ellenbrook and South Atwell;
- \$6.4 million on the commencement of four new primary schools at Canning Vale (north), Carramar, East Marangaroo and Landsdale (Ashdale Gardens), and five replacement primary schools at Koorilla, Melville, Onslow, Wanneroo and Willagee;
- the completion of the \$15.8 million Canning Vale College Stage 1 with \$8.4 million to be spent in 2003-04;
- the continued \$10.9 million stage 2 redevelopment of the Mt Lawley Senior High School;
- \$7.5 million on the third stage of the Secondary School Refurbishment Program benefiting seven schools;
- the consolidation of site acquisition for the e-Central campus at East Perth; and
- \$14.1 million on major construction works for the Margaret River Campus, Joondalup Hospitality Centre, the Henderson Maritime project, the Fremantle Stage 1 Maritime project, and the Geraldton Marine and Fishing Centre.

Country High School Hostels Authority

An amount of \$920,000 has been allocated to provide for the ongoing maintenance program across all residential colleges in the State. This is aimed to ensure that accommodation for boarding students is maintained at an acceptable standard.

In addition, \$300,000 has been provided for the construction of a family residence at Moora to ensure that the Authority can retain and attract suitable qualified candidates for the position of residential Manager.

Curriculum Council

Government has provided \$1.0 million for the continued replacement of student records for the Post Compulsory Education Review Program. The total cost of the project is \$4.2 million and is due to be completed in 2004-05.

Sport and Recreation

A \$4.5 million capital grant will be provided to the Town of Vincent in 2003-04, with a further \$1.6 million to be provided in 2004-05 to facilitate the re-development of Perth Oval as the major permanent rectangular sporting venue in Western Australia. The total cost of the project is \$10.5 million with the remainder being funded by the Town of Vincent.

Western Australian Sports Centre Trust

Total funding of \$867,000 has been allocated in 2003-04 to provide for maintenance on buildings and replacement of plant and equipment at the facilities managed by the Trust. This ensures that sound asset management principles are followed with respect to the management of significant facilities, such as Joondalup Arena, Midvale SpeedDome, Challenge Stadium and Kwinana Motorplex.

MINISTER FOR COMMUNITY DEVELOPMENT; WOMEN'S INTERESTS; SENIORS AND YOUTH; DISABILITY SERVICES; CULTURE AND THE ARTS

Community Development

The Department's capital works program for 2003-04 is estimated to be \$11.4 million. This includes \$8.6 million for upgrades for accommodation, community centres and information technology.

Culture and the Arts

The Department's capital works program for 2003-04 is estimated to be \$21.5 million. In addition to the agency's ongoing capital maintenance, book purchase and art acquisition programs, work will commence on renovations to the Blue Room Theatre and Subiaco Theatre Centre.

Planning and consultations have also commenced on the Broome Arts Centre and the Bunbury Regional History Museum. The urgent issues confronting the Western Australian Museum have been addressed with the allocation of \$7.5 million to transfer the functions of the Francis Street building to alternate sites in order to ensure staff and public safety, and the continued delivery of Museum services.

MINISTER FOR HEALTH

Health

The Department of Health's capital works program for 2003-04 is estimated at \$105.1 million. The projects address new areas of need, while progressively refurbishing existing Health infrastructure, to keep pace with continued improvement in technology and standards of health care.

Planned investment in 2003-04 includes:

- \$16.7 million to fund the replacement of plant and equipment, furnishings, minor medical equipment and other minor works;
- \$9.0 million as part of a \$32.8 million four year program to provide refurbishments, upgrades and equipment replacement at the Women's and Children's Health Service, including Princess Margaret and King Edward Hospitals;
- \$7.6 million towards the redevelopment of the Geraldton Hospital due for completion in October 2005 at a total cost of \$40.0 million over five years;
- \$6.3 million for hospitals' equipment maintenance statewide;
- \$5.3 million to complete the emergency department upgrade at the Sir Charles Gairdner Hospital;
- \$4.3 million towards the Rockingham Hospital emergency department and ward upgrades;
- \$3.5 million for upgrades to the Royal Perth Hospital Shenton Park Rehabilitation Centre;
- \$2.2 million for the Peel Health Campus renal unit upgrade and day surgery;
- \$3.0 million for infrastructure planning to follow on from service role delineation planning and clinical service review;
- \$3.0 million for information technology developments to improve the information technology infrastructure;
- \$2.7 million of a \$13.0 million four year project to upgrade communication infrastructure in rural health services;
- \$2.0 million of a \$41.7 million project over five years to upgrade health facilities primarily at Broome, Derby, Fitzroy and Halls Creek;
- \$1.3 million to upgrade the Swan and Other Metropolitan Secondary Hospitals; and
- \$958,000 as part of the \$2.8 million project over two years to build new dental clinics in Joondalup and Coolbellup.

MINISTER FOR RACING AND GAMING; GOVERNMENT ENTERPRISES; GOLDFIELDS-ESPERANCE

Water Corporation

A total of \$462.8 million will be spent on existing and new infrastructure that supports the supply of water, wastewater and drainage services, and provides quality and reliable water services including:

- \$125.5 million on the distribution network to replace and augment existing infrastructure;
- \$96.8 million on commercial activities with the key projects being a desalination plant and a saline pipeline to provide water to new industrial developments on the Burrup Peninsula (\$59.6 million). Investment in the Kwinana wastewater re-use projects is due to be completed in 2004-05 with spending of 13.8 million in 2003-04;
- \$58.0 million to continue projects focussing on securing water supply to the metropolitan and country areas;
- \$36.3 million on upgrading wastewater treatment plants in metropolitan and country areas to allow for growth in numbers of customers and enhancement of the treatment process;
- \$33.3 million to continue the implementation of the Infill Sewerage Program, including small town sewerage, which reduces health and environmental risks by replacing septic tanks with deep sewerage in metropolitan and country areas;
- \$30.8 million to continue to improve odour management for the Beenyup and Subiaco Wastewater Treatment Plants;
- \$22.0 million to improve the quality drinking water (in particular to fulfil the requirements of the 1996 drinking water guidelines set by the Department of Health); and
- \$11.8 million on the Dam Safety Program the key upgrade projects being Churchman Brook, Waroona and Phillips Creek.

Totalisator Agency Board

The Board will commence a number of significant projects in 2003-04 including:

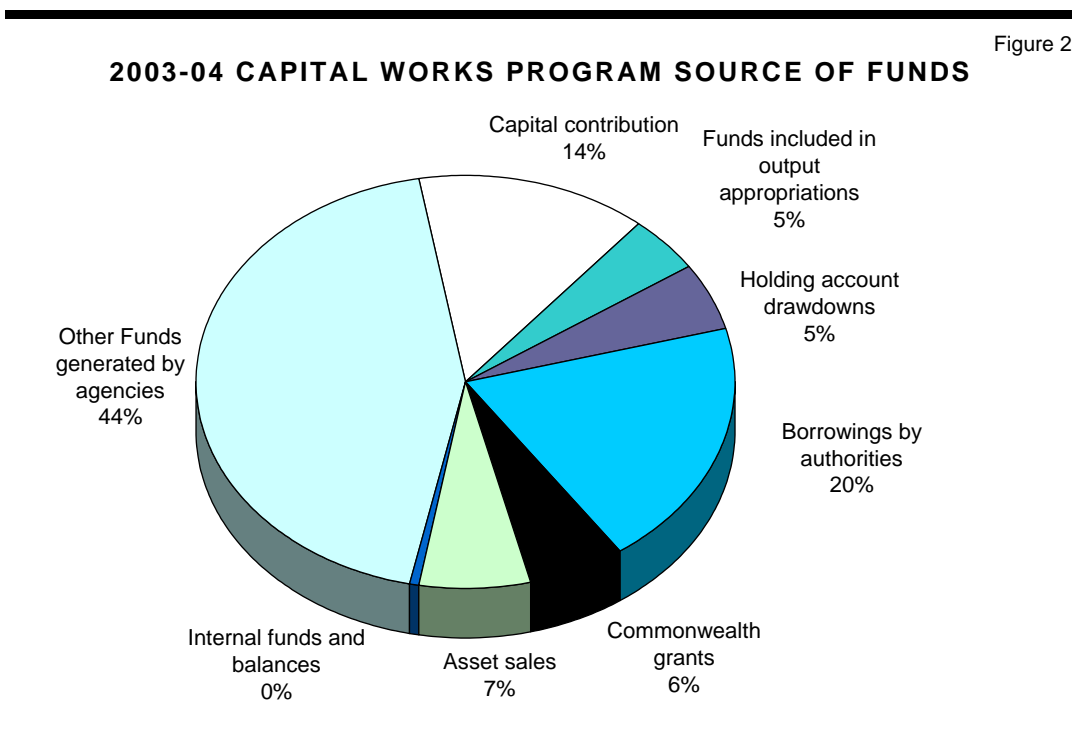
- \$2.4 million for the replacement of the core production system for processing wagering and fixed odds bets known as the 'bet engine';
- \$1.0 million for the commencement of a \$3.2 million self-service betting terminals project and \$1.0 million for the purchase of customer focussed electronic information terminals; and
- \$1.7 million for the commencement of a \$2.2 million project for the replacement of supporting communication network devices for the retail outlets.

Funding Sources

The funding of the total public sector capital works program is summarised in Table 5 and illustrated in Figure 2.

Table 5			
FUNDING - PUBLIC SECTOR CAPITAL WORKS PROGRAM			
	2001-02 Actual \$m	2002-03 Estimated Actual \$m	2003-04 Budget Estimate \$m
Sources			
APPROPRIATIONS			
Capital contribution	542.4	357.6	479.9
Funding included in output appropriations	227.3	213.8	156.6
OTHER FUNDING			
Holding Account	2.8	138.6	174.3
Borrowings	396.8	524.9	676.0
Commonwealth grants	239.8	257.5	199.2
Land and Property Sales	188.9	213.3	235.4
Internal funds and balances	81.6	120.7	14.6
Other	1,304.3	1,412.6	1,516.9
GRAND TOTAL	2,983.9	3,239.0	3,452.9

Note: Columns may not add due to rounding.



A summary, by agency, of the capital works program expenditure and funding sources is provided in Appendix 6.

A capital contribution is primarily provided to general government sector agencies, such as Health, Education and Training, Police, and Main Roads, from general revenues and is only made where an asset is created on the balance sheet of the respective agency. All other expenditure (such as those in the nature of capital grants or the acquisition of information technology and other minor equipment) is included in the agency appropriation for the delivery of outputs.

The Holding Account also forms another source of funding. The Holding Account is held by the Department of Treasury and Finance and represents accumulated non-cash output appropriations for depreciation and can be utilised for the replacement of assets.

A significant proportion of the capital works program is funded other than by appropriations. The majority of such capital projects are undertaken by agencies such as Western Power, Water Corporation and the Western Australian Government Railways Commissions and are funded from either internal funds or through borrowings.

Borrowings, shown in Table 5, represent new borrowings raised to fund the required capital works⁵. The borrowings are primarily associated with the programs of:

- Western Australian Government Railways Commission - \$211.6 million;
- Water Corporation - \$185.0 million;
- Western Power - \$95.0 million; and
- Fremantle, Dampier and Geraldton Port Authorities - \$62.2 million.

In addition to the above, the Commonwealth contributes funding to agencies such as Education and Training, Health, State Housing and Main Roads under specific programs, usually involving dollar for dollar matching funding arrangements. These total \$199.2 million in 2003-04.

The 'Internal funds and balances' and 'Other' funding source categories generally refer to funds accumulated by agencies such as cash surpluses and the carryover of funds not expended on projects in the prior year. However, these categories may also include minor asset sales or agency revenue set aside for expenditure of a capital nature.

⁵ As this does not take into account repayment of capital, it is a partial measure of movement in gross debt and will not reconcile with the movement in net debt across the sector.

CHAPTER 4

Financial Projections - Revenue

Overview

Total operating revenue for the general government sector is expected to increase by 2.1% in 2003-04, significantly lower than historical revenue growth. This estimate reflects the high level of revenue collected in 2002-03 (underpinned predominantly by the impact of stronger than expected property market activity and high oil prices), the impact of very low growth in Commonwealth grants to Western Australia¹ (which decline in real terms) and uncertain international conditions (which are already impacting on commodity prices, notably the oil price, and the \$A/\$US exchange rate) in 2003-04.

In 2003-04, growth in taxation revenue (up 8.9%), revenue from public corporations (up 6.1%), Commonwealth grants to Western Australia (up 0.9%) and specific purpose payments (SPPs) 'through' the State² (up 7.2%) are expected to offset a decline in revenue from sales of goods and services (down 1.8%), royalties³ (down 11.5%), interest income (down 8.3%) and other revenue⁴ (down 1.3%).

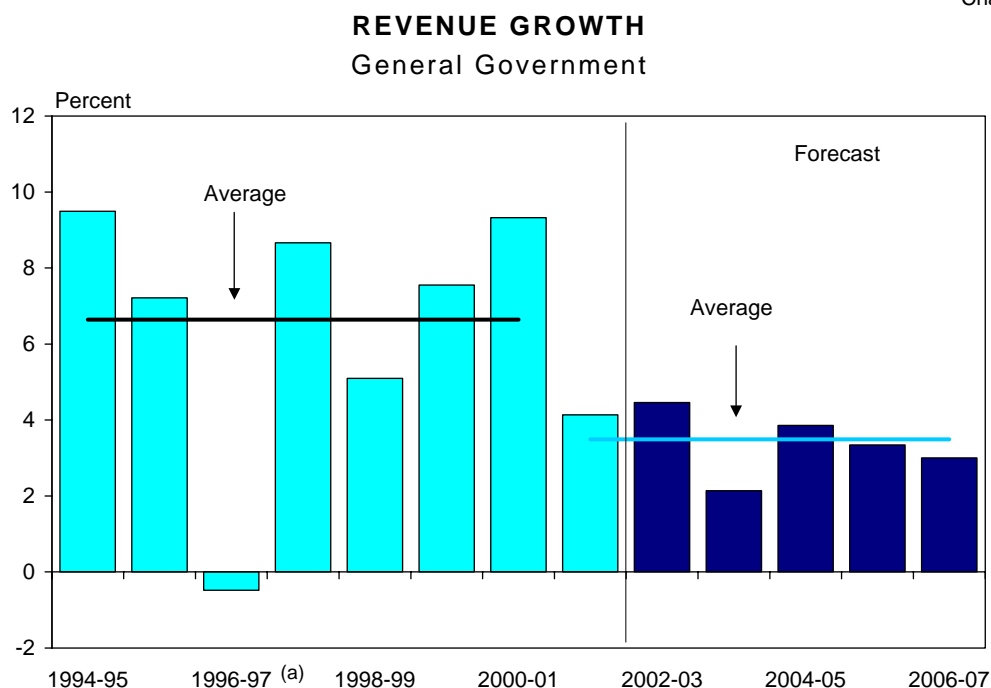
Over the three outyears, total operating revenue is expected to increase by around 3.4% per annum. Growth in revenue from taxation and payments from public corporations should remain relatively strong, however growth in most other revenue sources is expected to be lower than experienced in the past. Revenue sources other than taxation show little relationship to growth in the domestic economy.

¹ Commonwealth grants to Western Australia comprise the GFS Commonwealth grants revenue categories (ie. 'current grants and subsidies' and 'capital grants') less North West Shelf royalties and specific purpose payments 'through' the State.

² SPPs 'through' the State include payments on-passed to local government, private schools and first home buyers (as part of the extended First Home Owners Scheme).

³ Royalties comprise the GFS 'royalty income' revenue category plus North West Shelf royalties.

⁴ 'Other revenue' comprises lease rentals, fines and other revenue not elsewhere included. This latter item includes donations and asset transfers, which are lumpy and one-off in nature.



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

Operating Revenue Projections

Summary

Total operating revenue for the general government sector is estimated to be \$11.8 billion in 2003-04. This represents an increase of \$247 million (2.1%) on 2002-03 estimated collections and is attributable to growth in revenue from taxes (up \$288 million, or 8.9%, including the impact of revenue measures), Commonwealth grants to Western Australia (up \$40 million, or 0.9%), SPPs 'through' the State (up \$40 million, or 7.2%) and payments from public corporations (up \$38 million, or 6.1%).

Growth in these revenue items in 2003-04 is projected to be partially offset by declines in revenue from royalties (down \$131 million, or 11.5%), sales of goods and services (down \$17 million, or 1.8%), interest income (down \$9 million, or 8.3%) and other income (down \$3 million, or 1.3%).

Significantly, the growth in total operating revenue of 2.1% in 2003-04 is considerably lower than revenue growth of 6.3% per annum on average over the period 1993-94 to 2000-01 (abstracting from the 'one-off' revenue impacts of major asset sales) and, more recently, annual average revenue growth of 5.6% in 2001-02 and 2002-03.

The expected easing in the growth rate of total operating revenue in 2003-04 is due to the combined impact of weak growth in Commonwealth grants to Western Australia, an expected decline in oil prices, a higher \$A/\$US exchange rate and a slight easing in growth in the domestic economy.

Modest growth in total operating revenue in 2003-04 follows estimated revenue growth of 4.5% (ie. an increase of \$492 million) in 2002-03. Total operating revenue for 2002-03 is now estimated to be \$364 million higher than forecast at the time of last year's Budget.

The higher revenue in 2002-03 is largely due to the impact of stronger than expected property market activity on conveyance duty revenue (accounting for \$70 million of the increase), a higher than expected oil price on petroleum royalties (accounting for around \$114 million of the increase), higher than expected volumes of petroleum and iron ore production (accounting for around \$71 million of the increase) and the recoupment from the Commonwealth of costs for the treatment of veterans exceeding past Commonwealth payments over a number of years (accounting for around \$53 million of the increase).

Over the forward estimates, total operating revenue is expected to increase by \$1.2 billion (or 3.4% per annum) over the three outyears. This largely reflects growth in revenue from Commonwealth grants to Western Australia (up \$490 million, or 3.3% per annum), taxation (up \$476 million, or 4.3% per annum), payments from public corporations (up \$136 million, or 6.5% per annum) and SPPs 'through' the State (up \$117 million, or 6.2% per annum).

Table 1

GENERAL GOVERNMENT
Operating Revenue

	2001-02 (a)	2002-03 Estimated Actual	2003-04 Budget Estimate	2004-05 Forward Estimate	2005-06 Forward Estimate	2006-07 Forward Estimate
	Actual \$m	\$m	\$m	\$m	\$m	\$m
Taxation	2,945	3,255	3,543	3,712	3,823	4,019
Commonwealth grants to Western Australia (b)	4,561	4,674	4,714	4,906	5,117	5,204
SPPs 'through' the State (c)	588	555	595	632	673	712
Sales of goods and services	905	946	930	921	923	930
Interest income	122	104	95	98	92	97
Revenue from public corporations						
Dividends	406	389	428	479	481	505
Tax equivalent payments	237	230	228	252	271	288
Royalties (d)	1,006	1,136	1,005	1,014	1,044	1,034
Other	264	238	235	213	214	227
TOTAL	11,035	11,527	11,774	12,228	12,637	13,017

(a) Data quoted for 2001-02 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements* in February 2003.

(b) Commonwealth grants to Western Australia comprise the GFS Commonwealth grants categories (ie. 'current grants and subsidies' and 'capital grants') less North West Shelf royalties and SPPs 'through' the State.

(c) SPPs 'through' the State include payments on-passed to local government, private schools and first home buyers (as part of the extended First Home Owners Scheme).

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

Note: Columns may not add due to rounding.

Growth in total operating revenue would have been 0.6% in 2003-04 in the absence of revenue measures included in this Budget.

The primary reason for low revenue growth in 2003-04 is projected low growth in Commonwealth grants to Western Australia (ie. 0.9% in 2003-04), which make up around 40% of Western Australia's revenue. This weak growth in Commonwealth grants revenue will be accompanied by lower petroleum revenue resulting from a projected decline in the oil price in 2003-04 (from its high levels in 2002-03) and an increase in the expected year average exchange rate.

Such low revenue growth is insufficient to address demand for essential services and infrastructure, while meeting the Government's overarching aim of sustainable financial management, including maintaining the general government sector in surplus. As a consequence, the Government has included revenue measures in this Budget.

The remainder of this Chapter outlines taxation revenue measures and the revenue estimates through to 2006-07 in each of the major categories. Information on major tax and royalty exemptions and concessions is included in Appendix 4: *Tax and Royalty Expenditure Statement*.

Taxation Measures

Summary

The table below summarises the impact on taxation revenue of measures included by the Government in the 2003-04 Budget. These measures will take effect from 1 July 2003.

SUMMARY OF TAXATION REVENUE MEASURES ^(a)					Table 2
	2003-04 Budget Estimate \$m	2004-05 Forward Estimate \$m	2005-06 Forward Estimate \$m	2006-07 Forward Estimate \$m	
Increase stamp duty rates on conveyances by 15% across the rate scale	109.5	116.5	123.0	129.0	
Increase stamp duty rate on general insurance policies from 8% to 10%	52.5	54.5	57.0	59.5	
TOTAL IMPACT	162.0	171.0	180.0	188.5	

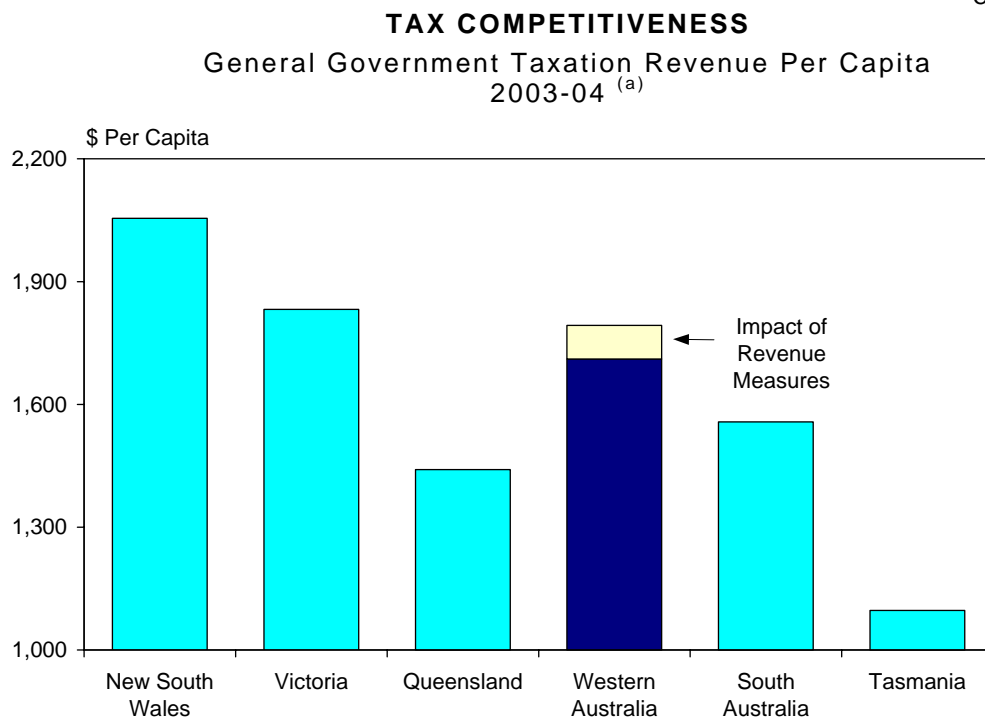
(a) Does not include the Government's decision to increase the Water Corporation's dividend payout ratio from 85% to 92%.

Note: Columns may not add due to rounding.

The specific taxation revenue measures introduced in this Budget are targeted at two of the largest stamp duty bases available to the State – stamp duty on property conveyances and insurance. Beyond these and payroll tax and land tax, the State has very few revenue raising options available to it, reflecting the Commonwealth's monopoly on income tax, Constitutional constraints and the Government's commitment to prohibit gaming machines outside of the Burswood casino.

Importantly, the revenue measures do not breach the Government's financial target of maintaining Western Australia's tax competitiveness. In 2003-04, the revenue measures are estimated to leave unchanged Western Australia's interstate ranking in terms of taxation revenue per capita relative to other Australian States and Territories. Specifically, Western Australia is expected to continue to be the fourth lowest taxing State on a per capita basis.

Chart 2



(a) Estimates of taxation revenue for other States are based on their 2002-03 mid-year review, while the 2003-04 Budget estimate is used for Western Australia. The population projections are based on data from the Australian Bureau of Statistics.

Stamp Duty - Insurance

From 1 July 2003, the stamp duty rate on general insurance policies will increase from the current rate of 8% of the premium to 10% of the premium. As the following table shows, this increase will bring stamp duty rates on general insurance in Western Australia into line with most other jurisdictions.

Table 3

INTERSTATE COMPARISON OF STAMP DUTY RATES ON GENERAL INSURANCE (%)

WA (current)	WA (new)	NSW	VIC	QLD ^(a)	SA	TAS	ACT	NT
8.0	10.0	5.0	10.0	8.5	11.0	8.0	10.0	10.0

(a) Queensland's stamp duty rate on comprehensive motor vehicle insurance is 5%.

This measure will increase the effective price of general insurance (ie. base premium plus taxes) by around 2%. This equates to an increase of around \$23 on a package of insurance policies typically taken out by Western Australian households (including home, contents, comprehensive motor vehicle insurance and motor vehicle compulsory third party insurance) worth around \$1,243 per annum⁵.

Life and workers' compensation insurance will not be affected by this measure, as they are subject to a separate stamp duty regime (which will soon be abolished as part of the Review of State Business Taxes, described in further detail below). Nor will the measure apply to health insurance or insurance on the transport of goods and commercial marine hulls, which will remain exempt from stamp duty.

Stamp Duty – Property Conveyances

From 1 July 2003, all marginal rates of stamp duty on conveyances will be increased by 15% across the rate scale. A comparison of the current conveyance duty rate scale and new conveyance duty rate scale is provided below.

Table 4

STAMP DUTY ON PROPERTY CONVEYANCES

Property Value	Current		New	
	Base Value at Threshold	Marginal Rate on Excess	Base Value at Threshold	Marginal Rate on Excess
\$0 to \$80,000	Nil	2.00%	Nil	2.30%
\$80,001 to \$100,000	\$1,600	3.00%	\$1,840	3.45%
\$100,001 to \$250,000	\$2,200	4.15%	\$2,530	4.75%
\$250,001 to \$500,000	\$8,425	5.15%	\$9,655	5.90%
Over \$500,000	\$21,300	5.50%	\$24,405	6.30%

As a result of the increase in conveyance duty rates, the maximum increase in stamp duty for an estimated two-thirds of property transfers is \$930 (ie. for property valued up to \$200,000). The following table illustrates the impact of the increased conveyance duty rates on property transfers at selected values.

⁵ The package of insurance policies valued at around \$1,243 per annum includes GST and stamp duty, but abstracts from the impact of the phasing out of the fire services levy (described later in further detail).

Table 5

IMPACT OF CONVEYANCE DUTY MEASURE ON PROPERTY TRANSFERS AT SELECTED VALUES (\$)

Property Value	Increase in Stamp Duty
\$50,000	\$150
\$80,000	\$240
\$100,000	\$330
\$200,000	\$930
\$300,000	\$1,605
\$400,000	\$2,355
\$500,000	\$3,105
\$1,000,000	\$7,105

An interstate comparison of stamp duty payable on selected property values is illustrated in the following table.

Table 6

STAMP DUTY PAYABLE ON SELECTED PROPERTY VALUES ^(a) (\$)

Value ('000)	WA (current)	WA (new)	NSW	VIC	QLD	SA	TAS	NT	ACT
50	1,000	1,150	765	1,000	975	1,080	1,050	1,213	1,000
100	2,200	2,530	1,990	2,200	2,350	2,830	2,425	2,750	2,000
150	4,275	4,905	3,740	4,660	3,975	4,830	3,925	4,613	3,750
200	6,350	7,280	5,490	7,660	5,600	6,830	5,675	6,800	5,500
250	8,425	9,655	7,240	10,660	7,225	8,955	7,550	9,313	7,500
500	21,300	24,405	17,990	25,660	15,975	21,330	17,550	27,000	20,500
1,000	48,800	55,905	40,490	55,000	34,725	48,830	37,550	54,000	49,250
5,000	268,800	307,905	260,490	275,000	184,725	268,830	197,550	270,000	319,250

(a) Based on sources of other jurisdictions as at 7 April 2003.

The amount of conveyance duty payable on the purchase of a median-priced house in Perth will still be lower than that in all jurisdictions except for South Australia and Tasmania.

Table 7

STAMP DUTY PAYABLE ON MEDIAN-PRICED HOUSE (\$)

	WA (current)	WA (new)	NSW	VIC	QLD	SA	TAS	NT	ACT
Price ^(a) ('000)	194.4	194.4	450.0	335.0	256.0	190.5	147.3	208.0	246.0
Stamp Duty ^(b)	6,120	7,015	15,740	15,760	7,435	6,450	3,845	7,180	7,340

(a) Median capital city house price as at December quarter 2002.

(b) Based on sources of other jurisdictions as at 7 April 2003.

Review of State Business Taxes

On 23 January 2003, the Government announced the final package of reforms to arise out of the Review of State Business Taxes following extensive public consultation. The total package represents a significant overhaul of State taxes and will deliver a taxation system which has fewer, fairer and simpler taxes.

Key elements of the package include:

- abolishing six State taxes (ie. stamp duties on leases, cheques, marketable securities, life insurance, workers' compensation insurance and debits tax);
- simplifying the payroll tax and land tax rate scales;
- accommodating modern business practices by amending the Stamp Act in areas where it has not kept pace with developments in the commercial world (such as property syndicates and off-the-plan arrangements); and
- improving tax administration.

The total cost of the package (which has been revised to incorporate the increase in stamp duty rates on conveyances in this Budget) is \$3.2 million in 2003-04, \$22.6 million in 2004-05, \$23.4 million in 2005-06 and \$23.8 million in 2006-07. Around \$4 million of the annual cost relates to the stamp duty on motor vehicle license transfers measures which were included in the 2002-03 Budget (ie. reduction of the stamp duty rate on new registrations of heavy vehicles and the introduction of a cap on the maximum amount of stamp duty payable on new registrations and second hand transfers of heavy vehicles).

In terms of timing, the payroll tax and land tax measures, which must operate for a full financial year, are planned to commence on 1 July 2003. The majority of other measures in the tax reform package are expected to commence as soon as possible in 2003-04, subject to legislation being passed by Parliament and allowing sufficient time for education and for taxpayers to make any necessary changes to accommodate the new legislation.

More information on the package can be obtained from the Department of Treasury and Finance or its website (www.dtf.wa.gov.au).

Taxation Revenue Estimates

Summary

The following table summarises the budget projections for State taxes, incorporating the revenue measures outlined above and forecast economic parameters.

Table 8						
TAXATION REVENUE						
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
Taxes on Employers' Payroll and Labour Force						
<i>Payroll taxes</i>	900	996	1,060	1,128	1,201	1,278
Taxes on Property						
Land taxes	226	265	277	297	317	340
Stamp duties on financial and capital transactions	787	870	969	1,027	1,085	1,139
Financial institutions transaction taxes	112	96	96	96	8	-
Other	47	50	129	175	184	194
<i>Total</i>	1,172	1,282	1,471	1,594	1,594	1,673
Taxes on Provision of Goods and Services						
Taxes on gambling	113	114	119	124	127	129
Taxes on insurance	267	318	330	280	289	302
<i>Total</i>	380	432	449	404	416	430
Taxes on Use of Goods and Performance of Activities						
<i>Motor vehicle taxes</i>	493	545	563	586	612	637
TOTAL TAXES	2,945	3,255	3,543	3,712	3,823	4,019

Note: Columns may not add due to rounding.

The estimated outturn for taxation revenue in 2002-03 is expected to be 10.5% higher than in 2001-02, largely as a result of the taxation revenue measures included in the 2001-02 and 2002-03 Budgets. Abstracting from the impact of these revenue measures, the estimated outturn for taxation revenue in 2002-03 is 3.0% higher than in 2001-02, reflecting the impact of economic growth on the State's tax bases.

The expected increase in total tax revenue in 2003-04 of \$288 million, or 8.9%, is largely a result of the revenue measures in this Budget. In the absence of these measures, estimated growth in taxation revenue would be significantly lower, at 3.9%. Apart from revenue measures and the impact of the Review of State Business Taxes, the main driver of taxation revenue growth in 2003-04 is payroll tax, reflecting projected solid employment and wages growth, and the impact of the new Emergency Services Levy (ESL)⁶.

Beyond 2003-04, growth in tax revenue is expected to stabilise at around 4.3% per annum. This compares with annual average growth of around 7.8% over the period 1993-94 to 2000-01 (abstracting from one-off revenues from major asset sales and the impact of national tax reform).

Additional information on the assumptions underlying the estimates for each of the major tax revenue categories is set out below.

Taxes on Employers' Payroll and Labour Force

This category is comprised exclusively of payroll tax collections and is expected to account for around 30% of total taxation revenue in 2003-04.

Strong growth in payroll tax revenue is expected in 2002-03 and 2003-04 (10.7% and 6.4% respectively), primarily due to the flow-on impact of payroll tax measures in the 2001-02 Budget (which took effect from 1 January 2002) and forecast increases in employment and earnings. Even without the impact of the revenue measures contained in the 2001-02 Budget, growth in payroll tax revenue is expected to be relatively strong, at 5.8% in 2002-03 and 6.4% in 2003-04.

The financial impact of payroll tax measures in the Business Tax Review package is broadly revenue neutral, with the cost to revenue from the move to a single marginal payroll tax rate offset by a broadening in the payroll tax base to include eligible termination payments.

Payroll tax revenue is expected to continue to grow strongly over the forward estimates (6.4% per annum), in line with forecast strong employment and earnings growth.

Taxes on Property

This category comprises land taxes, stamp duties on financial and other capital transactions, financial institutions taxes and other property-related taxes (such as the Metropolitan Region Improvement Tax (MRIT) and the new ESL). These taxes are estimated to account for 41.5% of total taxation revenue in 2003-04. Together, land tax, MRIT and stamp duty on conveyances are estimated to account for 32.8% of total taxation revenue in 2003-04.

⁶ The new ESL is classified under 'other' property taxes. The revenue the ESL raises is greater than previously collected from insurance companies' contribution to fire brigades (ie. via the fire services levy) because it also replaces local government and other funding previously provided for fire and emergency services.

Expected growth in property taxes in 2002-03 (9.3%) and 2003-04 (14.8%) is very strong, largely due to the impact of property-related revenue measures. Abstracting from the impact of revenue measures, the Review of State Business Taxes and the introduction of the ESL on 1 July 2003, projected growth in revenue from property taxes is very weak, at 0.3% in 2002-03 and 0.4% in 2003-04. This result is primarily due to expected low growth and a decline in policy-adjusted conveyance duty revenue (ie. abstracting from the impact of revenue measures and the Review of State Business Taxes) - which makes up around 55% of taxes on property - in 2002-03 and 2003-04 respectively.

Stamp duties on financial and other capital transactions include stamp duties on property conveyances, mortgages and marketable securities. Revenue from these stamp duties is estimated to grow by 10.6% in 2002-03 and 11.4% in 2003-04, primarily driven by growth in conveyance duty revenue (including the impact of revenue measures).

Underlying activity in the property market was expected to ease in 2002-03 at the time of the last budget, leading to a fall in conveyance duty revenue. However, this did not occur, as was the case in other jurisdictions. Conveyance duty revenue is now expected to increase by 11.6% in 2002-03 (compared to a predicted fall of 2.7% in the last budget) and 16.5% in 2003-04, largely due to the impact of revenue measures.

Abstracting from the impact of revenue measures and the Review of State Business Taxes, conveyance duty revenue is expected to grow by a modest 1.2% in 2002-03 (following strong growth in conveyance duty revenue in 2001-02, which was buoyed by strong property market activity and a number of large 'one-off' assessments) and fall by 2.9% in 2003-04 (consistent with a forecast fall in dwelling investment). Most other jurisdictions are also anticipating a fall in conveyance duty revenue in 2003-04, albeit greater than that expected in Western Australia. Other jurisdictions have experienced stronger increases in property prices in recent times, and the projected decline in their property markets is expected to be proportionately sharper.

Growth in land taxes is expected to be strong, at around 17.4% in 2002-03 and 4.5% in 2003-04. The strong increase in 2002-03 is largely due to the impact of the land tax measures in the 2001-02 Budget (which took effect from 1 July 2002). Without the impact of revenue measures, land tax revenue would be stagnant in 2002-03 and grow by 4.5% in 2003-04 (largely driven by increasing values for unimproved land). Declines in unimproved values for some CBD properties in the 2002-03 land tax assessment year contributed to the stagnant growth in land tax revenue in 2002-03.

Financial institutions taxes comprise financial institutions duty (which was abolished from 1 July 2001 as part of national tax reform) and debits tax. Debits tax revenue is expected to continue to decline in real terms, reflecting the narrow and declining nature of this tax base as alternatives to cheque account facilities become more widespread. The abolition of debits tax from 1 July 2005 will be legislated as part of the Review of State Business Taxes.

Growth in other property taxes mainly reflects growth in revenue from the Metropolitan Region Improvement Tax and the ESL. The ESL, which takes effect from 1 July 2003, will apply to all property owners, based on the gross rental value of their property in urban areas and on a fixed annual charge in rural areas of the State. The ESL will be gradually phased-in between 1 July 2003 and 31 December 2003 to replace the current insurance-based system of funding fire and emergency services. Consequently, both revenue from the insurance companies' contribution to fire brigades and the ESL will be collected for part of 2003-04 (and as such, the ESL will raise less than it would have in the absence of these phased arrangements). It should be noted that while the ESL may appear to raise more revenue than under the current insurance-based system, this is because it is replacing local government and other funding previously provided for fire and emergency services.

Taxes on the provision of goods and services

This category includes taxes on gambling and insurance, and some minor levies. This revenue is expected to account for around 12.7% of total taxation revenue in 2003-04, declining to around 10.7% by 2006-07 largely due to the phasing out of insurance companies' contribution to fire brigades in 2003-04.

Taxes on gambling mainly comprise lotteries, casino tax and the TAB betting tax. Taxes on gambling contribute significantly to strong growth in the taxation revenue of other jurisdictions. However, this is not the case in Western Australia, largely due to the Government's ban on electronic gaming machines outside the Burswood casino. Gambling tax revenue is estimated to grow by around 4.2% in 2003-04, easing to an average 2.7% per annum across the outyears.

The estimates for lotteries revenue are based on the Lotteries Commission's projection of turnover for existing games. Casino tax revenue is expected to grow quite strongly in 2003-04 (14.6%), reflecting factors such as the introduction of the three-tiered casino tax rate scale and an expected recovery in turnover, with more modest growth of 0.7% per annum expected across the outyears. TAB betting tax revenue is expected to grow by a modest 2.9% in 2003-04 and a strong 5.5% per annum on average across the outyears (due to the intended introduction of new racing products anticipated to boost betting turnover).

Taxes on insurance comprise stamp duty on insurance policies, the fire service levy currently paid by insurance companies and the employers' indemnity supplementation fund levy. The latter commenced on 25 June 2001 to meet the liability of compensation payments for injured workers who were covered by HIH Insurance prior to its collapse. Revenue from taxes on insurance are estimated to grow by 19.1% in 2002-03 and 3.8% in 2003-04.

However, without the impact of revenue measures and the abolition of the fire service levy, taxes on insurance are estimated to increase by 9.9% in 2002-03 (reflecting strong growth in premiums, particularly since the collapse of HIH and the 11 September 2001 terrorist attacks) and 0.4% in 2003-04 (with an increase in revenue from stamp duty on insurance policies largely being offset by a fall in revenue from the employers' indemnity supplementation fund levy). In relation to stamp duty on insurance policies more specifically, revenue from this tax (on a policy-adjusted basis) is estimated to increase by 16.6% in 2002-03 and 4.2% in 2003-04.

Insurance tax revenue is expected to grow by just 0.2% per annum across the outyears, due to the abolition of stamp duty on workers' compensation insurance from 1 July 2004 as part of the Review of State Business Taxes and declining revenue from the employers' indemnity supplementation fund levy.

Taxes on the use of goods and performance of activities

This category is made up of motor vehicle taxes and is expected to account for around 15.9% of total taxation revenue in 2003-04. This share is forecast to remain relatively constant across the outyears.

Motor vehicle taxes comprise stamp duty on the registration and transfer of vehicle licences and revenue from annual vehicle registration fees. Motor vehicle stamp duty collections are expected to increase by 24.2% in 2002-03, largely as a result of the revenue measures in the 2002-03 Budget, and by 2.4% in 2003-04. Abstracting from the revenue measures, motor vehicle stamp duty collections are estimated to increase by 5.2% in 2002-03 and 2.4% in 2003-04. However, growth in motor vehicle stamp duty revenue is expected to stabilise at around 4.4% per annum across the outyears.

Revenue from annual motor vehicle licence fees is estimated to increase by around 2.4% in 2002-03, 4.2% in 2003-04 and 4.4% per annum across the outyears. This revenue is earmarked for road construction and maintenance.

Other Revenue

Commonwealth Grants

Commonwealth grants to the States take two forms:

- General purpose grants – which have no restrictions on how the money is spent; and
- SPPs – which must be applied to specific activities and have various other conditions attached.

Commonwealth grants to Western Australia are projected to increase by 0.9% in 2003-04 (a real per capita decline of 3.0%), reflecting low growth in general purpose grants and a decline in SPPs 'to' the State⁷.

⁷ SPPs 'to' the State exclude SPPs 'through' the State and North West Shelf royalties.

General purpose grants consist of GST revenue grants, associated budget balancing assistance and competition payments.

The Commonwealth's national GST collections are distributed between the States according to the Commonwealth Grants Commission's recommendations. In addition, States receive budget balancing assistance, intended to ensure that no State budget is worse off as a result of the national tax reform arrangements.

General purpose grants to Western Australia are projected to grow by only 2.1% in 2003-04 (a real per capita decline of 1.8%). This reflects:

- a \$20 million cut to Western Australia's grant share recommended by the Commonwealth Grants Commission;
- the cessation of \$19 million annual compensation in budget balancing assistance for wholesale sales tax equivalent payments from public corporations which were lost when the GST was introduced (the Commonwealth only agreed to compensate the States for this foregone revenue for the first three years of the new arrangements); and
- ongoing low growth in estimated foregone petroleum and tobacco safety net revenues, for which compensation is provided in budget balancing assistance (in the case of petroleum, this reflects the unilateral abolition of escalation for inflation by the Commonwealth last year).

Western Australia is not expected to receive budget balancing assistance in 2004-05, as GST revenues in that year are forecast to be larger than the Commonwealth's calculation of the grants and other State revenues (adjusted for changes in expenditure responsibilities) they have replaced. However, Western Australia is expected to again receive budget balancing assistance in 2005-06, when debits tax is abolished, but not thereafter.

SPPs 'to' Western Australia are expected to decrease by 1.5% in 2003-04 (a real per capita decline of 5.2%). This decline reflects:

- a once-off payment in 2002-03 for back payment of costs of providing health services to veterans;
- the cessation after 2002-03 of compensation for Fringe Benefits Tax which the Commonwealth is applying to public hospitals;
- a reduction of \$9.5 million in base funding under the Commonwealth-State Housing Agreement, mainly reflecting the Commonwealth's decision to cease GST compensation payments; and
- lower Commonwealth road funding due to completion of major projects (Eyre Highway upgrades and Ord River Bridge) and a \$5 million reduction in rehabilitation funding for the National Highway in Western Australia.

A substantial decrease of 22.2% in 2003-04 is also expected for North West Shelf royalties (due mainly to lower projected average oil prices).

SPPs that pass through the State's accounts to entities such as local governments and private schools, are expected to grow by 7.2% in 2003-04 (a real per capita increase of 3.1%), reflecting a large increase in payments to private schools.

From 2003-04 to 2006-07, Commonwealth grants to the State are expected to increase by an average of 3.3% per annum (an annual average real per capita decline of 0.3%). This is largely attributable to expected solid growth in GST revenues, partially offset by lower revenues from the cessation of budget balancing assistance. The State expects continued cuts to its funding share by the Commonwealth Grants Commission and less than real per capita maintenance of SPPs.

COMMONWEALTH GRANTS

Table 9

	2001-02 Actual \$m	2002-03 Estimated Actual \$m	2003-04 Budget Estimate \$m	2004-05 Forward Estimate \$m	2005-06 Forward Estimate \$m	2006-07 Forward Estimate \$m
General purpose grants						
GST revenue	2,518	2,811	2,946	3,082	3,208	3,351
Budget balancing assistance	352	133	61	-	59	-
Competition payments	71	72	75	77	79	81
<i>Total general purpose grants</i>	<i>2,941</i>	<i>3,016</i>	<i>3,081</i>	<i>3,158</i>	<i>3,346</i>	<i>3,432</i>
SPPs 'to' the State ^(a)	1,621	1,658	1,634	1,748	1,771	1,771
TOTAL COMMONWEALTH GRANTS 'TO' THE STATE	4,561	4,674	4,714	4,906	5,117	5,204
SPPs 'through' the State ^(b)	588	555	595	632	673	712
North West Shelf royalties	370	457	355	335	358	384
TOTAL COMMONWEALTH GRANTS (GFS basis)	5,520	5,686	5,665	5,873	6,148	6,300

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

(b) Payments on passed to local government, private schools and first home owners (ie. recipients of the additional payment for new home construction).

Note: Columns may not add due to rounding.

Sales of Goods and Services

Goods and services revenue is estimated to fall by \$17 million (1.8%) in 2003-04. However, the goods and services revenue series is currently influenced by changes to the accounting treatment of the transitional arrangements associated with previous motor vehicle fleet leasing arrangements (also accompanied by lower expenses). Excluding this, goods and services revenue is forecast to increase by \$16 million (1.8%) in 2003-04. This increase includes modest increases in some agencies' fees and charges.

Goods and services revenue for 2002-03 is now estimated to be around \$27 million higher than forecast at the time of last year's budget, with movements in school revenue (offset by direct schools expenses) being the principal factor behind the higher than expected outturn.

Low growth in goods and services revenue is projected over the forward estimates, reflecting the policy of containing agency fees and charges to growth at or below CPI increases over the past year, and the gradual phasing out of transitional arrangements for funding the government car fleet. For the latter, the revenue from the sale of former Matrix vehicles will fall from \$59 million in 2002-03 to less than \$1 million by 2005-06, as vehicles are progressively replaced. This declining revenue stream is largely offset by similarly declining expenses relating to those vehicles and the impact on the net operating balance is small.

Departmental revenue from the sale of goods and services is detailed in the Net Appropriation Determinations table of Budget Paper No. 2.

Interest Income

Interest earnings from cash balances and other financial assets are projected to decline by \$9 million (8.3%) in 2003-04. This is due to the draw down of cash reserves and the liquidation of cash investments, including the utilisation of remaining AlintaGas sale proceeds for the New MetroRail project.

Other financial assets (trust account balances, loans, etc.) are projected to remain at broadly constant levels in aggregate terms over the forward years, with relatively small fluctuations in these interest bearing assets delivering minor impacts on investment income, which is expected to grow by an average of 0.6% per annum across the outyears.

Revenue from Public Corporations

The State-owned public corporations are liable for income tax equivalent and dividend payments, representing a return to the Government for the investment in public owned infrastructure. A number of these public corporations also pay 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.

Revenue from public corporations in 2003-04 is estimated at \$657 million, which represents an increase of \$38 million, or 6.1%, from the previous year. Payments from the Water Corporation and Western Power are forecast to account for more than 90% of the Government's total income tax equivalent and dividend revenue in the budget year and across the forward estimates.

Table 10

REVENUE FROM PUBLIC CORPORATIONS

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
Income Tax Equivalent	230.1	222.0	219.9	243.6	262.5	278.7
Local Government Equivalent	7.1	8.1	8.4	8.6	8.8	9.0
Dividends	405.6	388.8	428.5	478.5	480.8	505.2
TOTAL	642.9	618.9	656.8	730.7	752.2	792.9

Note: Columns may not add due to rounding.

The increase in revenue in 2003-04 and the outyears is largely due to the Government's decision to increase the Water Corporation's dividend payout ratio (from 85% to 92%) and the assumption that water restrictions will be eased in 2004-05 (which will increase the Water Corporation's profitability). In total, estimated revenue from the Water Corporation is up \$16 million in 2003-04 and \$43 million in 2004-05.

In addition, the West Australian Land Authority (LandCorp) is expected to make higher payments of \$12 million in 2003-04 from increased land sales.

A more detailed overview of payments by individual public corporations can be found in Appendix 7: *Public Corporations – Revenues and Expenses*.

Royalty Income

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

Royalties from the extraction of petroleum products account for the largest share of mining royalties in Western Australia (although it should be noted that the North West Shelf petroleum royalties which the State receives under royalty sharing arrangements with the Commonwealth are included in Commonwealth grants rather than own-source revenue, reflecting the Commonwealth's constitutional responsibility for off-shore areas).

Mining royalties (including North West Shelf royalties) are expected to grow by around \$129 million (or 12.9%) in 2002-03. This significant increase mainly reflects the impact on petroleum royalties (including North West Shelf royalties) of a rise in the oil price from an annual average of around \$US23 per barrel in 2001-02 to around \$US29 per barrel in 2002-03. The other major contributing factor is growth in iron ore royalties, partly reflecting the growth in exports to China. These factors were partly offset by a substantial appreciation of the \$A/\$US exchange rate from an average of US52.4 cents in 2001-02 to an expected average of around US57.4 cents in 2002-03.

The projected fall in mining royalty revenue in 2003-04 and relatively subdued growth across the forward estimates period incorporates:

- individual mining company projections of sales, prices and operating costs supplied to the Department of Industry and Resources;
- an \$A/\$US exchange rate of US60.0 cents across the forward estimates (the average rate in the lead-up to the estimates being finalised), representing a 5% appreciation from the estimated average exchange rate of US57.4 cents in 2002-03;
- an oil price of \$US25 per barrel in 2003-04 and \$US22 per barrel in following years, representing a substantial decline from the expected average oil price of \$US29 per barrel in 2002-03 – see box labelled 'Oil Price Impact and Outlook'; and
- no provision for any planned new mining projects, unless they have already been formally approved and committed to.

Table 11

MINING ROYALTIES						
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
Iron Ore	276.5	293.5	291.5	307.0	302.0	298.0
Petroleum – excluding North West Shelf grant ^(a)	31.2	42.0	35.2	21.6	16.1	14.4
Alumina	60.0	50.0	53.5	60.0	61.0	62.0
Diamonds	66.1	72.5	68.5	78.5	89.0	57.0
Mineral Sands	25.1	26.5	23.5	25.0	26.0	26.5
Nickel	49.0	59.0	46.0	51.0	53.0	53.0
Gold	80.7	82.5	76.0	72.0	76.0	76.0
Other ^(b)	47.4	53.0	55.5	64.5	62.5	63.0
Mining Royalties (excluding North West Shelf grant)^(c)	635.9	679.0	649.8	679.7	685.7	649.9
Petroleum – North West Shelf grant ^(d)	370.4	456.8	355.3	334.7	358.3	384.3
Total Mining Royalties (including North West Shelf grant)	1,006.3	1,135.8	1,005.1	1,014.4	1,044.0	1,034.2
Lease Rentals ^(e)	37.2	36.5	37.7	37.7	37.7	37.7
TOTAL MINING REVENUE	1,043.5	1,172.3	1,042.8	1,052.1	1,081.7	1,071.9

(a) Net amount which incorporates petroleum related payments to the Commonwealth.

(b) Net amount which incorporates refunds to producers.

(c) GFS 'royalty income' revenue category.

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

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

Note: Columns may not add due to rounding.

Iron Ore – Iron ore royalties are forecast to fall marginally in 2003-04, notwithstanding expectations of continued strong export growth to China and an average iron ore price rise of around 4%. This mainly reflects the impact of the higher \$A/\$US exchange rate and a compositional shift toward the export of fines ore which attract a lower royalty rate (3.75%) than lump ore (7.5%).

Petroleum - The decline in the petroleum royalty estimates (including from North West Shelf production) incorporate an easing in the oil price from an average of around \$US29 per barrel in 2002-03 to around \$US25 per barrel in 2003-04 and a projected long term average of \$US22 per barrel in following years. In 2005-06 and beyond, petroleum royalties will be boosted by output from the new 4th LNG train on the North West Shelf project and the associated 25 year agreement to export LNG to China.

Alumina – The low estimated growth in alumina royalties reflects the downward pressure on prices which is expected to continue to be exerted by high levels of world alumina output and excess capacity.

Diamonds – Diamond volumes are expected to remain stable in 2003-04. The forward estimates incorporate the current output expectations for the Ashton joint venture and Ellendale venture. In this regard, the Ashton joint venture anticipates that diamond volumes will start to decline from 2006-07 unless the mine is extended to underground operations.

Mineral sands – The low growth in mineral sands royalties reflects the impact of the higher projected \$A/\$US exchange rate and industry expectations of subdued price growth for illmenite, rutile and zircon.

Nickel – Nickel production is expected to increase in 2003-04 and across the forward estimates period, due mainly to projected improvements in the output capacity of the Murrin Murrin project. Although nickel prices are expected to ease marginally after strengthening through 2002-03, international demand conditions are forecast to remain relatively favourable for existing producers, reflecting expectations that there will be no significant additions to world nickel production capacity in the near term.

Gold – In \$US terms, the gold price is projected to be around \$US325/oz in 2003-04 and across the forward estimate period. The forecast flat growth in gold royalties across the forward estimates period largely reflects declining production capacity at existing operations, partially offset by the expected recommencement of production by the Telfer project.

Under the gold royalty arrangements, a 2.5% royalty rate will apply if the average gold price in each quarter is at least \$A450/oz, otherwise a lower concessionary rate of 1.25% applies. This price condition lasts until 30 June 2005, after which the royalty rate will be 2.5% irrespective of the gold price.

Consistent with industry expectations, the budget and forward estimates assume that the gold price will remain above \$A450/oz (in \$US terms, this is equivalent to a gold price of \$US255/oz at the current projected \$A/\$US exchange rate of US60.0 cents).

Lease rentals – These mining-related charges are essentially for exploration and production licences. The estimates incorporate an increase in annual rentals in 2003-04 to reflect CPI growth. Future growth in lease rentals revenue will be mainly determined by the level of mining exploration activity and the effectiveness of measures to address the backlog of mining lease applications under native title processes.

Oil Price Impact and Outlook

Petroleum royalties are currently the most significant component of Western Australia's mining revenue base - accounting for around 40% (or \$402 million) of total mining royalties in 2001-02 and estimated to account for around 44% (or \$499 million) in 2002-03.

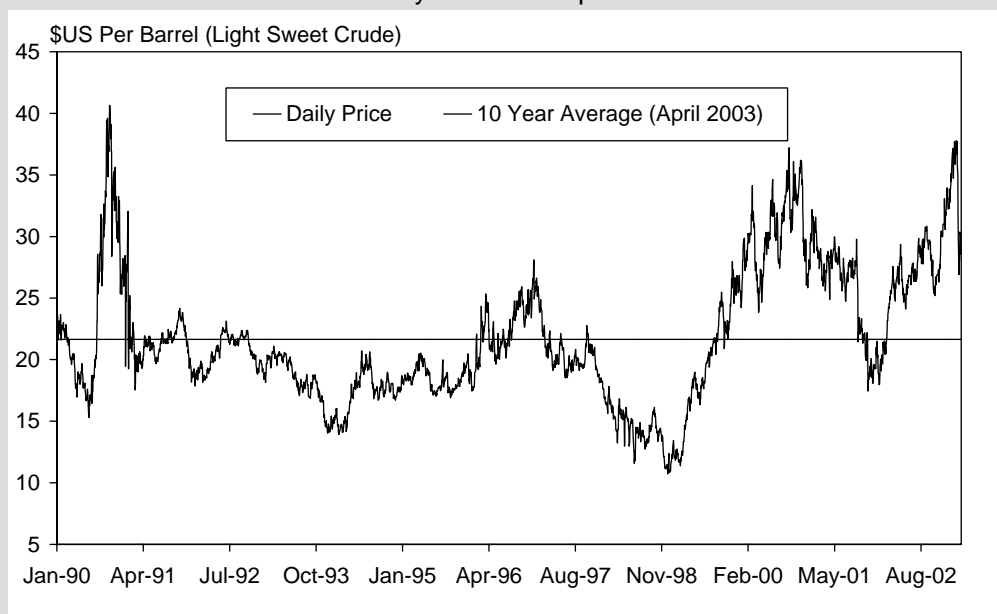
A substantial proportion of petroleum production is crude oil and the prices of other major petroleum products (including North West Shelf LNG and condensate) are generally linked to movements in the price of crude oil.

As a result, the price of crude oil on international markets has a significant influence on the amount of petroleum royalties received by Western Australia. Under an assumed \$A/\$US exchange rate of US60.0 cents, a \$US1 per barrel increase/decrease in the annual average crude oil price will increase/decrease total annual petroleum royalties by around \$18 million.

So far in 2002-03, the world price of crude oil (West Texas Intermediate⁸ has been as high as \$US39 per barrel and has averaged \$US29 per barrel, substantially above the long-term (10 year) average price of \$US22 per barrel and the mid-year review forecast of \$US25 per barrel.

Chart 3

OIL PRICE MOVEMENTS January 1990 to April 2003



⁸ The benchmark price of Malaysian Tapis light sweet crude oil rose to a peak of just under \$US35 per barrel. The forecasts assume that the prices of Australian petroleum production are largely benchmarked to the Tapis price, reflecting that Tapis is a more widely accepted benchmark for light sweet crude oil prices in the Asian region than West Texas Intermediate.

The strength of the oil price during 2002-03 has been influenced by political factors, such as labour strikes in the petroleum industry in Venezuela and, most recently, the build up in tensions over Iraq and the outbreak of military conflict.

These factors have outweighed market fundamentals which would otherwise tend to reduce (or at least stabilise) the price of oil, such as slow economic growth in the United States and OPEC's commitment to adjust production quotas to maintain a target oil price range of \$US22-28 per barrel.

In the 2003-04 Budget, the oil price is forecast to ease to an average level of \$US25 per barrel in 2003-04. However, the speed of the decline will be affected by the underlying strength or weakness of international economic conditions and developments in the Middle East.

Table 12

OIL PRICE PROJECTIONS

\$US Per Barrel

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	\$m	\$m	\$m	\$m
Light Sweet Crude (Tapis)	23	29	25	22	22	22

While there can be major variances of opinion, most analysts expect that if there are no further major political shocks that impact on the oil market, the oil price will stabilise at around \$US22 per barrel in 2004-05 and beyond. This projected price level is around the lower edge of OPEC's target price range and is consistent with the current long-term (10 year) average price of \$US22 per barrel. In this regard, continued growth in petroleum output in non-OPEC regions (such as Russia), and past evidence of the willingness of OPEC members to exceed their agreed production quotas, are generally expected to reduce OPEC's ability to influence the oil price over the longer term.

CHAPTER 5

The Western Australian Economy

Overview

The Western Australian economy is expected to record strong growth in output over the next few years, despite sluggish economic activity in the world's major developed economies. Although a slower global economy will impact upon demand for the State's exports, the suite of resource projects already committed or under construction should stand the State's domestic economy in good stead to ride out the current downturn before export demand recovers.

Notwithstanding the impact of the drought on agricultural production, growth of 4.25% in gross State product (GSP) is expected in 2002-03. This has been driven mainly by a buoyant domestic economy with strong growth in business and dwelling investment prominent features.

Growth of 4.5% is forecast for 2003-04, based on a return to normal seasonal conditions in the agricultural sector. Although domestic demand is expected to moderate, with the current expansionary cycle in dwelling investment likely to have run its course, continued strong growth in business investment is expected.

In 2004-05, growth of 4.0% is predicted, which is consistent with Western Australian long-term average growth. An increase in net exports and moderate growth in the domestic economy underpins this forecast.

2002-03

In 2002-03, despite the drought reducing agricultural output, total product growth is expected to outpace previous expectations, with the domestic economy being particularly strong. State final demand (SFD) is now expected to grow by 6.25% in 2002-03.

Business investment has been growing strongly and businesses appear optimistic about investment intentions for the remainder of 2002-03. The construction sector is expected to drive growth in business investment over this period, with the construction of new resource projects and activity in the Perth commercial construction sector particularly robust.

The impact of the extended first home owner grant (FHOG), which ended on 30 June 2002, has lingered longer than previously anticipated and, together with low interest rates, has driven rapid growth in the dwelling sector. Low interest rates have also underpinned continued strong growth in household consumption.

While only a small part of the economy, public investment is expected to increase by 15.5% in 2002-03, which largely reflects expenditure carried forward from 2001-02.

External demand has remained reasonably resilient despite substantial international uncertainty. However, weaker agricultural exports are expected to reduce growth in the second half of the year. On balance, exports are expected to increase by 6.25% over 2002-03. Offsetting this, strong growth in business investment is likely to drive an increase in imports. As a result, net exports are forecast to fall by 0.25%.

Overall, GSP is forecast to increase by 4.25% in 2002-03 with strong non-farm activity more than offsetting lower agricultural production.

Employment growth has strengthened in recent months and is expected to grow by 2.5% in 2002-03, with the unemployment rate expected to average 6.0% over the year. Wages growth is currently also strong, which is likely to continue over the remainder of 2002-03.

Outlook

A further strong rise in GSP is forecast for 2003-04, with growth of 4.5% predicted. The main impact on the economy in 2003-04 will be a recovery in agricultural production (assuming a return to normal seasonal conditions), which is expected to offset a moderation in the domestic economy.

SFD is forecast to increase by 4.0% in 2003-04. Dwelling investment, which is now forecast to contract by 5.75%, and an associated weakening in household consumption, are the primary reasons for the moderation in domestic growth from 2002-03. Partly offsetting this, business investment is expected to remain strong, with growth of 10.0% forecast on the back of several large new resource projects.

Despite uncertainty about the strength of the world economy, exports are predicted to be stronger than previously expected with growth of 3.25% forecast. While agricultural exports are likely to decline (due to reduced production in 2002-03), greater production capacity from new resource projects and project expansions should lead to moderate growth in exports. Imports are forecast to remain strong with business investment driving the increase. Net exports are forecast to record a fall of 1.25%.

Robust employment growth is forecast to continue in 2003-04, supported by a return to normal seasonal conditions and continued strong growth in the domestic economy. Reflecting this, and the current subdued growth in the size of the labour force, the unemployment rate is predicted to decline to 5.75%. Wages growth, while moderating from the high levels of 2002-03, should remain above long-run average levels reflecting an expected tight labour market.

Growth in GSP of 4.0% is predicted in 2004-05, consistent with the State's long-run average growth. Moderate growth in the domestic economy should be accompanied by a rebound in the external sector as investment in 2002-03 and 2003-04 leads to increased future capacity for exports, and the world economy gathers momentum.

In 2004-05, exports should be boosted by anticipated production from the 4th train expansion of the North West Shelf project. This, along with more moderate growth in imports, is expected to lead to an increase in net exports of 2.75%.

In 2005-06 and 2006-07, forecasts of SFD and GSP growth are based on long-term averages. SFD is forecast to increase by 3.5% in both years, while GSP is forecast to increase by 4.0%.

Figure 1

ECONOMIC GROWTH
Annual Growth

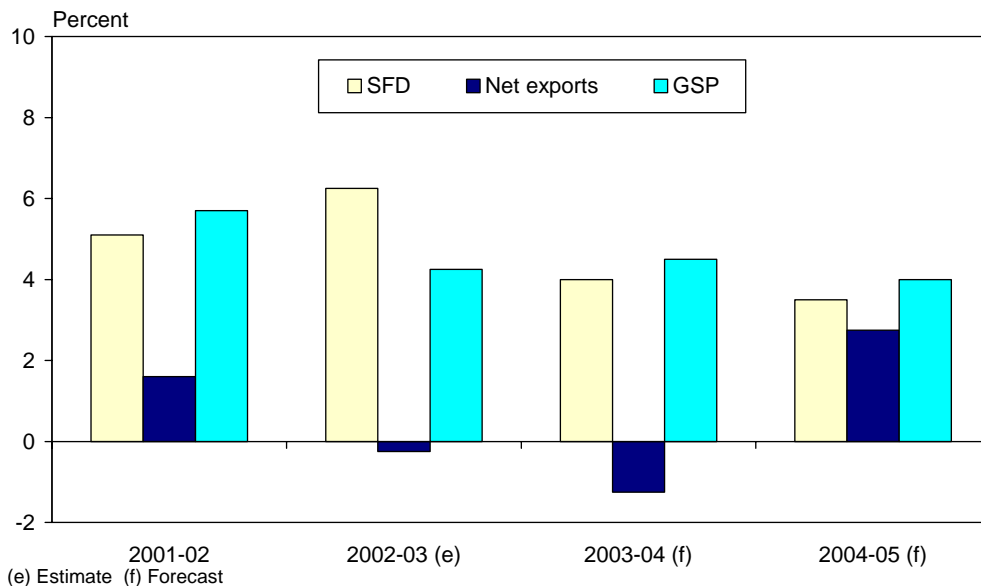


Table 1

COMPONENTS OF GROSS STATE PRODUCT				
Western Australia				
	2001-02	2002-03	2003-04	2004-05
	Actual	Estimate	Budget	Forward
	%	Actual	Estimate	Estimate
	%	%	%	%
Annual Average Growth				
Private				
— Household Consumption	3.8	4.25	3.75	3.75
— Business Investment	13.6	15.0	10.0	5.5
— Dwelling Investment	14.9	7.5	-5.75	5.0
Public				
— Consumption	3.2	2.5	2.5	3.0
— Investment	-11.7	15.5	8.5	-8.25
STATE FINAL DEMAND	5.1^(a)	6.25	4.0	3.5
External Sector ^(b)				
— Exports	1.6	6.25	3.25	4.0
— Imports	1.3	22.5	12.25	6.25
Net Exports	1.7	-0.25	-1.25	2.75
GROSS STATE PRODUCT	5.7^(c)	4.25	4.5	4.0
Contributions to Growth				
Private				
— Household Consumption	2.0	2.0	1.75	2.0
— Business Investment	1.75	2.0	1.5	1.0
— Dwelling Investment	1.0	0.5	-0.5	0.25
Public				
— Consumption	0.5	0.5	0.5	0.5
— Investment	-0.5	0.5	0.25	-0.25
STATE FINAL DEMAND	4.75	5.5	3.5	3.25
External Sector				
— Exports	0.75	2.5	1.5	1.7
— Imports	-0.25	2.75	1.75	1.0
Net Exports	0.5	-0.25	-0.25	0.0
Balancing Item ^(d)	0.5	-1.5	1.25	0.0
GROSS STATE PRODUCT	5.7	4.25	4.5	4.0

(a) All components of demand are based on December 2002 State final demand data.

(b) Merchandise only. Does not include services.

(c) Based on 2001-02 State Accounts data, which are not consistent with 2001-02 data in the December 2002 SFD release.

(d) The balancing item includes international services trade, interstate trade, changes in stocks, and a statistical discrepancy. In 2001-02, the balancing item has been adjusted to take account of the differences between the Australian Bureau of Statistics 2001-02 State Accounts data and the 2001-02 data in the December 2002 State final demand release. Contrary to usual practice, the balancing item has been adjusted in the 2002-03 and 2003-04 estimates to account for the timing of the impact of the drought. While production (GSP) will be directly affected in 2002-03, much of the impact on exports will be in 2003-04, and so the balancing item was adjusted to take account of less than normal accumulation of stocks in 2002-03. The balancing item has a positive impact in 2003-04 to reflect higher agricultural production with a return to normal seasonal conditions.

Note: Columns may not add due to rounding.

Table 2

MAJOR ECONOMIC AGGREGATES
Western Australia

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	%	%	Estimate	Estimate	Estimate	Estimate
			%	%	%	%
Real Gross State Product Growth	5.7	4.25	4.5	4.0	4.0	4.0
State Final Demand Growth	5.1	6.25	4.0	3.5	3.5	3.5
Employment Growth	1.1	2.5	2.25	2.25	2.5	2.5
Unemployment Rate	6.5	6.0	5.75	5.75	6.0	6.0
Wages Growth ^(a)	3.2	3.25	3.25	3.25	3.0	3.0
Consumer Price Index Growth	2.7	2.75	2.5	2.5	2.5	2.5
Implicit Price Deflator Growth	0.3	2.25	2.5	2.25	2.25	2.25

(a) Wages growth refers to the wage cost index.

State Final Demand

Household Consumption

Household consumption is forecast to grow by a robust 4.25% in 2002-03. This largely reflects a booming retail sector, which has been underpinned by high wages growth and a recent lift in employment growth. In addition, historically low interest rates are supporting strong consumer confidence. Strong dwelling investment in 2002-03 has also led to healthy demand for household related items.

Household consumption is expected to moderate to 3.75% in 2003-04, when the flow-on impact of the drought is likely to be felt, at least in the early part of the year. In addition, purchases of dwelling related items are likely to slow in 2003-04 with a moderate fall in dwelling activity predicted in that year.

Continued employment growth and strong wages growth in 2004-05 should provide ongoing impetus to consumption, maintaining household consumption growth of 3.75% in 2004-05.

Business Investment

Despite uncertainty in the global economic and political environment, business investment in Western Australia has remained very resilient. Business investment rebounded markedly in 2001-02, and in the December quarter 2002 reached levels not seen since the boom period of 1997-98. Supporting this growth has been continued work on the 4th train expansion of the North West Shelf project, the \$350 million construction of the Mining Area C iron ore mine and site works for the \$400 million HIs melt project.

On the basis of strong growth in the first half of 2002-03, and bullish private capital expenditure plans for the remainder of the financial year, business investment is estimated to grow by 15.0% in 2002-03.

Continued expenditure associated with those projects currently under construction should underpin further growth in 2003-04. Projects recently announced, including Newcrest's \$975 million Telfer Deeps gold mine expansion and the \$630 million Oswal Fertilisers' Burrup ammonia plant, should also add to investment growth. While new business investment across the mining sector is being hindered by the downturn in exploration activity, overall, business investment is expected to grow by 10.0% in 2003-04. That said, there remains some risk that uncertainty in the international environment may result in the delay of some of these projects.

Business investment is expected to moderate somewhat in 2004-05, reflecting the anticipated completion of a number of major projects in that year. Overall, modest growth of 5.5% is forecast for 2004-05. Nevertheless, there are a large number of projects currently under consideration in Western Australia, including the possible 5th train expansion of the North West Shelf project.

Dwelling Investment

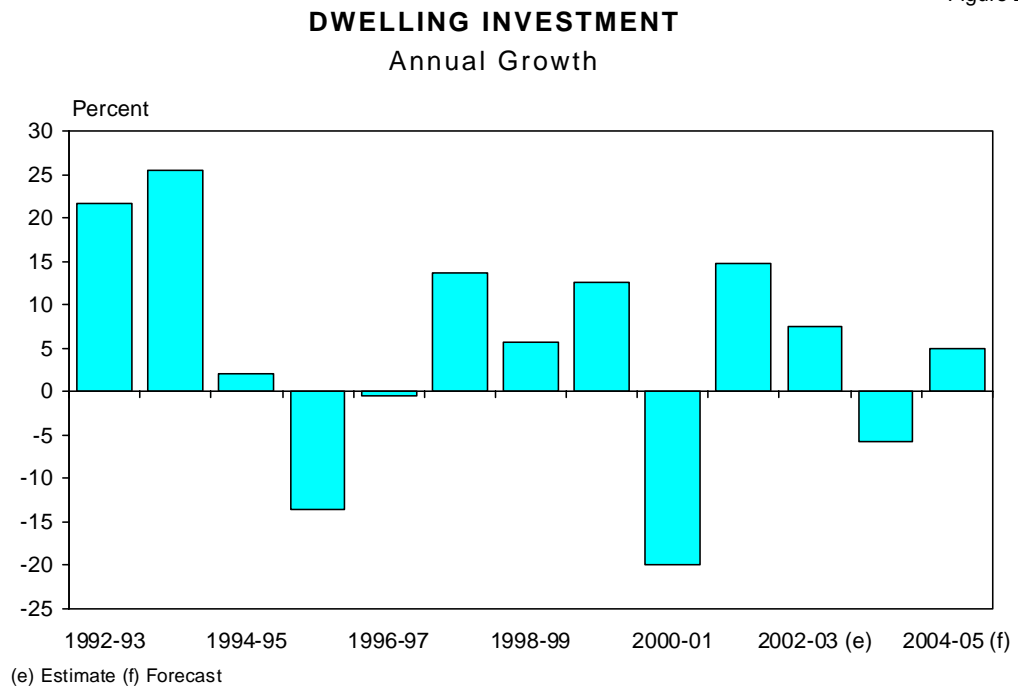
Dwelling investment in Western Australia grew by a strong 14.9% in 2001-02, buoyed by the extended FHOG and low interest rates. The level of activity in the first half of 2002-03 has also been robust, largely reflecting strength in the second and third home buyer markets. The housing sector has been further assisted by a late rush of first home buyers in June 2002, who sought to secure the last of the extended grants.

Alterations and additions should also contribute to dwelling investment over the remainder of 2002-03, supported by continued low interest rates and healthy growth in the rest of the economy.

Forward indicators, however, point to a moderation in dwelling construction activity. In particular, dwelling commencements fell by 14.9% in the December quarter 2002. On this basis, dwelling investment is estimated to ease slightly over the second half of 2002-03, but remain strong over the full year with growth of 7.5% expected.

The moderation in dwelling activity is expected to continue over 2003-04, resulting in a forecast decline of 5.75%. This reflects the exhaustion of FHOG related building activity and forward work created by past high levels of activity. This is a relatively small decline compared with historical downturns in dwelling investment, and is likely to be less pronounced than in other States, which experienced much larger increases in activity in 2002.

Figure 2



Activity in the established housing market is also expected to taper off over 2003-04. However, underlying growth in conveyance duty revenue is expected to experience a more modest decline, with rises in house prices (not captured in dwelling investment data) partly offsetting slower turnover in the established housing market.

In 2004-05, dwelling investment is expected to recover with growth of 5.0% forecast. This will be underpinned by continued solid wages and employment growth.

Public Activity

Government consumption (ie. by Federal, State and local governments) is projected to rise steadily over the forward estimates period. Moderate growth in public consumption of 2.5% is expected in 2002-03 and 2003-04 before increasing to 3.0% in 2004-05.

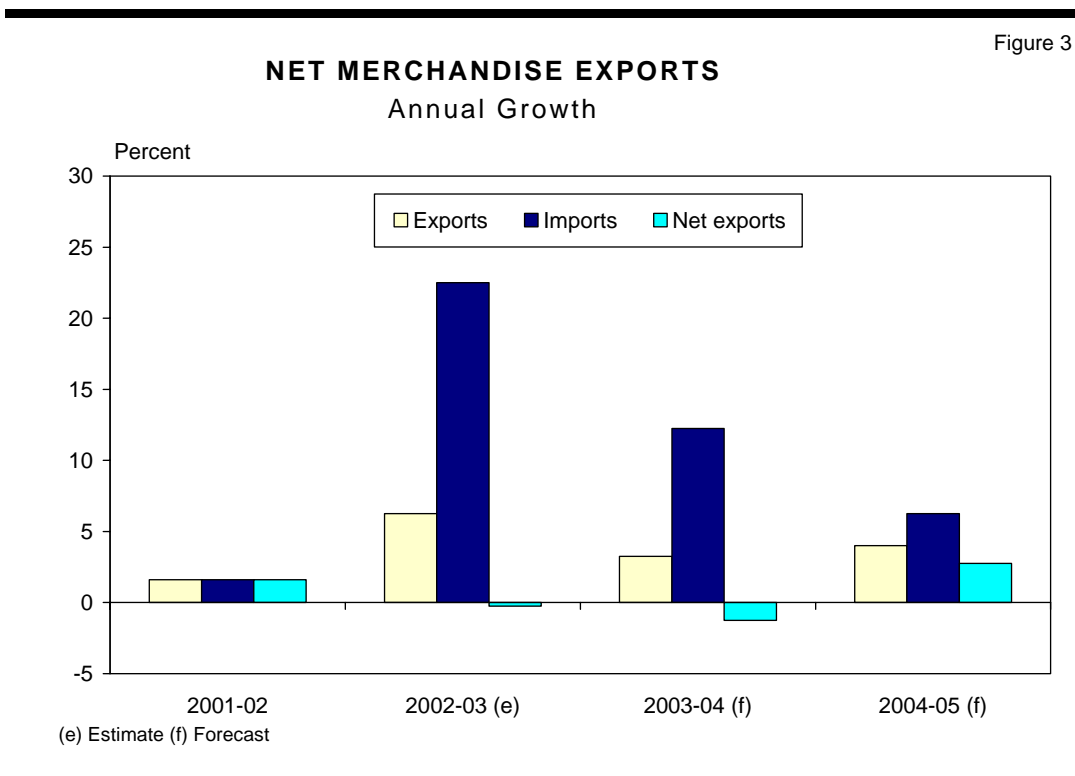
Public investment is expected to increase by a rapid 15.5% in 2002-03 largely reflecting capital expenditure carried forward from 2001-02 by State Government agencies. In this regard, public investment fell 11.7% in 2001-02. In 2003-04, a continued catch-up effect as well as the State Government's Capital Works Program (discussed in Chapter 3: *Financial Projections – Expenditure*) is expected to contribute to growth of 8.5% in total public investment. A fall of 8.5% is forecast for 2004-05, reflecting the expected high level of activity in the preceding year and the inherent lumpiness of capital investment.

Net Exports

Net exports are forecast to fall slightly in both 2002-03 and 2003-04, before recovering in 2004-05. A very strong increase in imports (associated with business investment) is expected to lead to the slight decline in 2002-03. Nevertheless, solid growth in exports in 2002-03 is expected, with continued robust demand for exports only partly offset by the impact of the drought.

Weaker exports (including from the drought and from a deterioration in international demand) and strong imports are expected to lead to a further decline in net exports in 2003-04.

An acceleration in exports in 2004-05, combined with a moderation in total import growth is expected to result in a rebound in net exports in that year. Production from the 4th train expansion of the North West Shelf and improving international demand are projected to drive the increase in exports.



Exports

Western Australia’s exports have performed well in 2002-03, with solid demand from key overseas markets and increased production from new resource projects coming on-line, underpinning overall growth. Indeed, although real exports eased slightly in the December quarter 2002, they were still 9.8% higher than a year earlier.

Encouragingly, recent trade data suggests that there is continuing strong demand for commodity exports from China and South Korea despite the uncertain international economy. In particular, rapid industrial and infrastructure growth in the Chinese market has played an important role in absorbing higher iron ore production.

While the \$A has risen against the \$US (which may reduce the State's export competitiveness), this reflects a general fall in the value of the \$US rather than a general appreciation of the \$A. In this regard, the \$A still remains competitive against other currencies.

In contrast to these positive trends, a sharp fall in rural exports is expected for the remainder of 2002-03 as the impact of the drought shows through in export levels. Rural exports have already begun this decline with a fall recorded in the December quarter 2002. Overall, exports are expected to grow by 6.25% in 2002-03.

Exports in 2003-04 are expected to grow by 3.25%, with reduced agricultural exports (from lower production in the previous year) likely to partly offset strong demand for key commodities and new productive capacity in the resource sector. Projects contributing to the increase in exports in 2003-04 include the recently completed West Angelas iron ore mine, exports from Mining Area C, the Thunderbox gold project (to be completed in late 2002-03) and the Cosmos Deeps nickel project. Partly offsetting this, there may be a reduction in petroleum exports, with reduced volumes from some oil wells that have past peak production levels.

A strengthening in export growth is expected in 2004-05, with growth of 4.0% forecast. This reflects an expected return to normal seasonal conditions in the agricultural sector in 2003-04, further increases in capacity and expectations of a pick-up in world growth. A full year of LNG exports from the 4th train expansion of the North West Shelf project is expected to underpin the increase, while production from the Kwinana Hismelt plant is also expected to begin during 2004-05.

Imports

Strong growth in business investment is expected to result in higher imports over the forecast period. This has been the experience recently, with real imports 24.7% higher in the December quarter 2002 than a year earlier. Over 2002-03, it is anticipated that imports will grow by 22.5%.

Further growth of 12.25% is forecast in 2003-04, with imports of capital items forecast to remain strong due to higher business investment in this year. A moderation in household consumption is likely to partly offset overall imports growth.

A relaxation in import growth is expected in 2004-05, with an increase of 6.25% forecast. This primarily reflects a moderation in the expected level of growth in business investment over this period.

Labour Market

Employment

Employment growth has accelerated through 2002-03, and is expected to grow by 2.5% over the year. The pick-up in employment growth, and specifically a lift in full-time employment, has been underpinned by continued strong economic growth and may reflect greater confidence in the State's economic prospects.

In 2003-04, solid growth in employment of 2.25% is forecast as a result of continued economic growth in the State, including an anticipated return to normal seasonal conditions in the agricultural sector. Any reduction in employment in the dwelling construction sector is expected to be largely offset by an increase in employment in commercial construction.

Similar growth of 2.25% in employment is forecast for 2004-05. While labour demand is forecast to remain robust, the tight labour market will limit the amount of new jobs created, with workers being rewarded through a consequent rise in wages.

Employment growth is forecast to grow by Western Australia's long-run average of 2.5% per annum over the outyears.

Unemployment

Reflecting the forecast solid economic growth and employment growth outpacing labour force growth, unemployment is expected to fall to an average of 6.0% over 2002-03 and even further to 5.75% over 2003-04.

The low unemployment rate of 5.75% is forecast to persist through 2004-05, after which an increase in the working population (with labour being attracted from interstate as a result of higher local employment growth than nationally) is forecast to lead to a slightly higher average unemployment rate of 6.0% over 2005-06 and the following year.

Prices

Consumer Price Index

Consumer prices growth is likely to remain within the Reserve Bank of Australia's target range of 2% to 3% in the forecast period, following nationally determined trends. In 2002-03, the consumer price index (CPI) is estimated to increase by 2.75%, after which it is anticipated to increase by 2.5% annually in 2003-04 and the outyears. The slightly higher growth in 2002-03 reflects the impact of the drought on food prices and the higher oil price, but neither of these factors is expected to have any flow-on inflationary impact.

Wages

Wages growth¹ has been relatively high over the past two years compared with recent historical standards and is expected to reach 3.25% in 2002-03. In 2003-04 and 2004-05, wages growth is forecast to remain high at 3.25% reflecting the anticipated tight labour market, before moderating to 3.0% in the outyears.

Implicit Price Deflator

In 2001-02, the implicit price deflator² (IPD) was unusually low at 0.3%, largely due to a rising \$A. However, the IPD is now anticipated to rise more in line with the CPI, increasing by 2.25% in 2002-03 and 2.5% in 2003-04, before falling back to a growth rate of 2.25% in 2004-05 and the outyears.

Regional Economies

While data limitations constrain analysis of recent developments in regional areas, it appears that there have been divergent growth patterns across Western Australia during 2002-03. Major resource projects in the Pilbara region, including the 4th train expansion of the North West Shelf project and the construction of iron ore projects such the West Angelas iron ore mine and the Mining Area C project (and related infrastructure), have underpinned development in this region.

At the other extreme, drought has cut agricultural production in the Wheatbelt and Mid-West regions. Estimates by the Australian Bureau of Agricultural and Resource Economics point to a 40% fall in the State's grain crop in 2002-03, suggesting that overall output from these regions will be substantially lower in 2002-03.

Agricultural areas in the Great Southern and South West appear to have escaped the worst of the drought. These regions have also benefited from an increasingly important tourism sector – driven in part by the Margaret River and Mount Barker wine industries. These markets, within driving distance from Perth, have the capacity to benefit from the recent international uncertainty if more people decide to holiday at home. The Gascoyne region should benefit similarly.

Increased flights to Broome, including direct flights from Melbourne, and the difficulties of international travel at the current time have the potential to lift tourist numbers in the Kimberly region. Reflecting the positive outlook for the region, the population in the Kimberly has increased strongly in recent years, with annual growth averaging 4.8% over the past five years.

¹ Wages growth is now forecast in terms of the wage cost index (WCI), which is becoming the preferred indicator of wage pressures in Australia. There are a number of alternative measures of wages growth. These include average weekly earnings (which covers the whole workforce), average weekly ordinary-time earnings (which abstracts from changes in overtime worked and/or the full-time/part-time employment mix) and the WCI (which abstracts from all compositional changes). With many jobs being reclassified as part-time or casual/contract, the WCI provides a more accurate measure of changes in the price of labour than average weekly earnings or average weekly ordinary-time earnings, because it abstracts from changes in the composition of the workforce and focuses solely on the change in price for a particular job.

² The implicit price deflator is the average price of the total level of production in the economy (GSP), including import and export prices. It is the broadest measure of prices available for the Western Australian economy and so is useful for comparing the real value of expenditures and receipts over time.

Public sector infrastructure projects in the Mid-West and Peel regions should boost economic growth in those areas. The Geraldton Port upgrade will improve the export capacity of the region and underpin future iron ore developments in the region, such as the Mt Gibson iron ore project. The New MetroRail project should increase the economic opportunities for the Peel region, particularly investment in the dwelling sector.

Higher commodity prices, particularly a higher \$US gold price, bodes well for the Goldfields-Esperance region.

Risks to the Outlook

External factors continue to pose the most significant risks to the State's economy. Western Australia has greater exposure to the world economy than other States, with its strong export and business investment orientation. Nevertheless, despite the weak external environment, exports have performed well so far over 2002-03. Business investment expectations have also remained resilient, with firms looking past short-term turbulence in making their long-term investment plans.

International Conditions

Conditions in the world economy remain shaky. Economic growth in much of the developed world is weak with little prospect of a quick turnaround. On the other hand, growth in non-Japan Asia remains solid, with China a bright spot for the State's exports (especially iron ore exports).

In the United States, economic growth remains modest at best. Over-capacity, particularly in the information and communications technology industry, and skittishness amongst investors point to a subdued outlook for business investment. While interest rates remain at a 40-year low, the ability of consumers to continue to provide impetus to the recovery is almost exhausted. Consensus Economics³ now predicts growth of 2.4% for the United States in 2003 (March 2003 survey, revised down from 3.1% in the September 2002 survey), increasing to 3.6% in 2004.

The impact of the war in Iraq on the international economy is unclear. There is evidence that the conflict has dented consumer confidence in the United States, but conversely, spending on the war and reconstruction will provide a short-term fiscal impetus to the US economy. In the longer run, there is a risk of increased government spending putting undue pressure on the US budget deficit (especially in the light of the forthcoming tax cuts), thus placing pressure on interest rates.

Of continuing concern is the weak economic position of Japan, with Consensus Economics forecasting meagre growth of 0.6% in 2003 and 0.7% in 2004.

³ Consensus Economics surveys over 600 economists worldwide to obtain their forecasts and views.

Similarly, the lingering economic weakness in European economies remains a concern, with European Union (EU) leaders seemingly lacking the means and the will to reform their economies. The European Central Bank is also running an extremely restrictive monetary policy to target EU-wide inflation, which is detrimental to countries not enjoying strong growth, such as France and Germany, the largest economies in Europe.

In contrast, strong growth in the Chinese economy has been a boon for Western Australia and Chinese demand for commodities has offset weakness elsewhere. This is likely to remain the case, with Consensus Economics forecasting Chinese growth of over 7.5% for the next two years. However, these forecasts do not capture the impact of the severe acute respiratory syndrome (SARS), which is likely to dampen growth in the short-term. In addition, the Chinese economy faces significant challenges in coming years and will need to address concerns over social unrest and its growing public debt, as well as implement further reforms to the state-owned banking sector, to ensure that its strong economic performance continues.

While there has also been strong activity in South Korea, where growth is forecast to be 4.9% in 2003 and 5.6% in 2004, there are some signs that confidence there is faltering, not helped by geopolitical tensions in the region.

SARS, on top of current geo-political tensions, is also likely to have some impact on economies in East Asia. Tourism and economic activity more broadly are likely to be hit by the virus. Tourist arrivals to Western Australia are also at risk. Nevertheless, the intrastate tourism sector, particularly those regions within reach of Perth by vehicle, is likely to be unaffected by the downturn in international visitors, if not enhanced by more people holidaying at home.

The Australian Dollar

On the basis of commonly accepted forecasting practices, the \$A is assumed to remain at around its current level of \$US0.60 over the forecast period.

The \$A appreciated over 2002 and reached over \$US0.60 in early 2003 for the first time since early 2000. There is a risk of further increases, with Consensus Economics forecasts suggesting a slow increase in the \$A over 2003 to around \$US0.62, and remaining at that level over 2004 and 2005. Any rises in the value of the \$A above that level, without a commensurate increase in \$US commodity prices, is likely to put pressure on the competitiveness of exports and on the incomes of Western Australia's exporters, making future investment in the State less attractive.

Investment Climate

In addition to the chance of protracted weakness in the world economy, there are a number of other issues impacting on the certainty of investment conditions in Western Australia.

There is a risk that concern over future greenhouse gas abatement requirements may lead to companies undertaking exploration and development in countries without such policies.

While petroleum exploration remains robust, the low level of mineral exploration spending in Western Australia (which declined by 45% in current price terms between 1996-97 and 2001-02) remains a risk to the State's future development. Reasons often cited for this downturn are difficulties in obtaining land to explore (particularly due to native title issues) and poor mineral prices (which have improved for many minerals over the past year). Exploration provides the deposits on which the State's resource exports are based, and so a continuation of the downturn in mineral exploration will inevitably lead to a reduction in the State's growth prospects.

CHAPTER 6

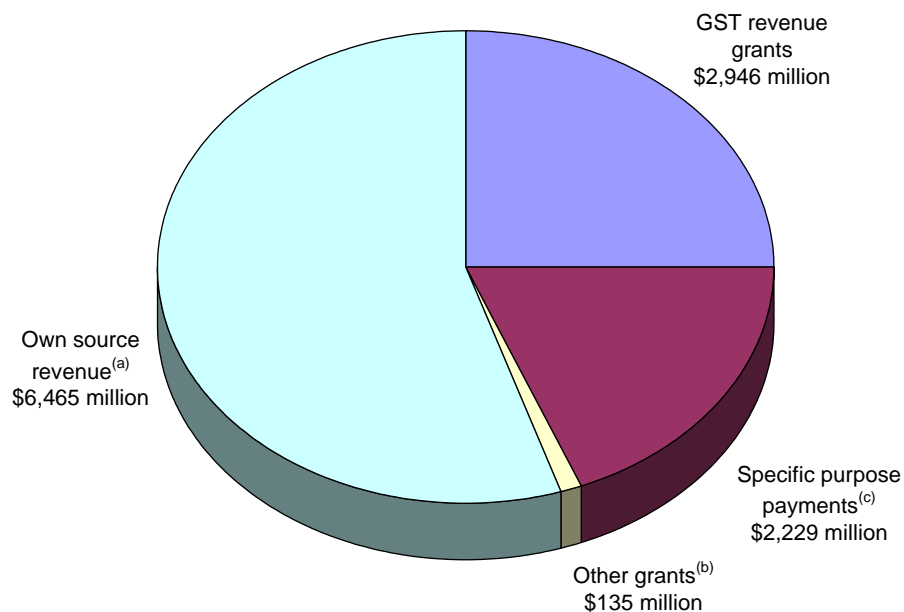
Federal Affairs

Overview

Commonwealth grants to the States in 2003-04 will total approximately \$55 billion (around half of the States' total revenues), mainly comprising around \$31 billion in GST grants and \$22 billion in specific purpose payments (SPPs). Western Australia will receive around \$5.3 billion or 9.4% of total Commonwealth grants in 2003-04 (excluding North West Shelf petroleum royalties), which is less than its 9.8% national population share.

STATE GOVERNMENT REVENUE SOURCES, 2003-04

Figure 1



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

(b) Budget balancing assistance and competition payments.

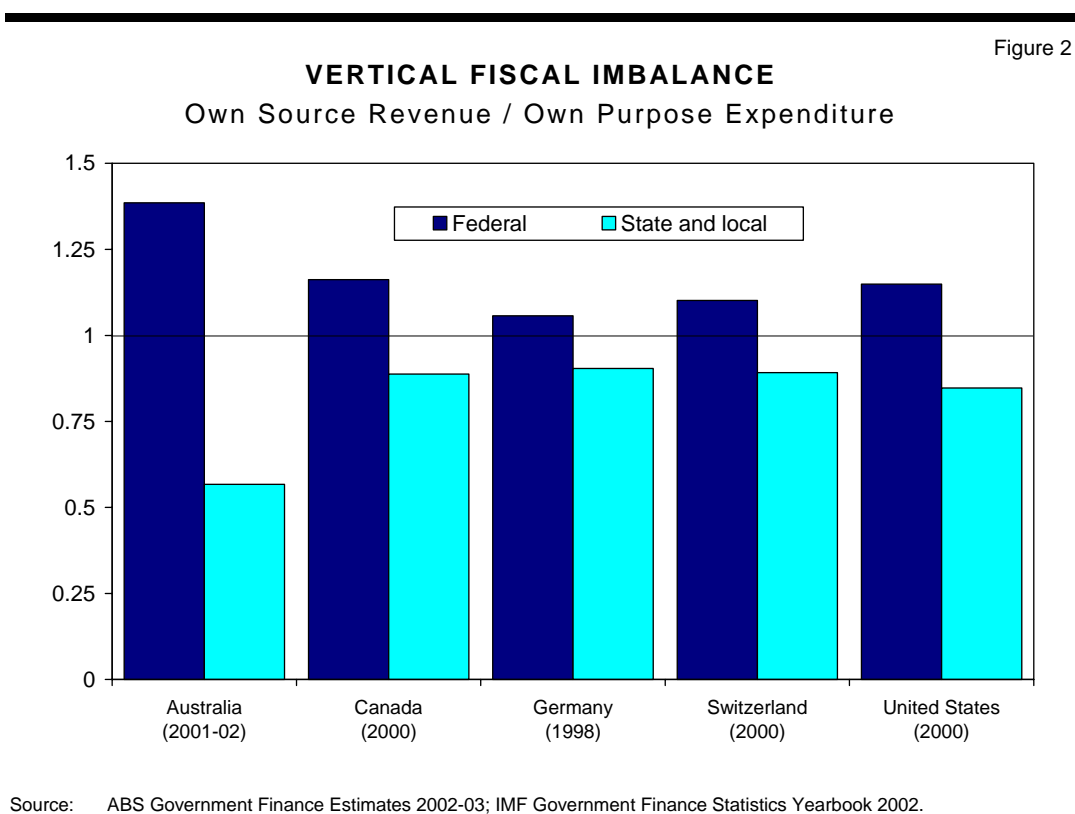
(c) Includes payments 'to' and 'through' the State.

Reform of Commonwealth-State Funding

An independent *Review of Commonwealth-State Funding*,¹ conducted by economists Professor Ross Garnaut and Dr Vince FitzGerald and released in August 2002, concluded that major reforms to the existing grant system are needed. The following discussion reflects some of the findings from that review and related issues.

Vertical Fiscal Imbalance

A major underlying reason for many of the problems with current Commonwealth-State financial arrangements is the heavy reliance of the States on Commonwealth grants. The dependence of one level of government on another is referred to as *vertical fiscal imbalance* (VFI), and is particularly high in Australia compared with other federations.



The large degree of VFI in Australia stems from the Commonwealth’s takeover of State income taxes in World War II, and restrictive High Court interpretations of States’ Constitutional powers to tax goods. The GST-related tax reforms (which involve the Commonwealth government raising a GST and providing the proceeds to the States in the form of grants) have increased the States’ dependence on the Commonwealth government, as the States have been required to abolish a number of their own taxes over time as part of the tax reforms (eg. financial institutions duty and debits tax).

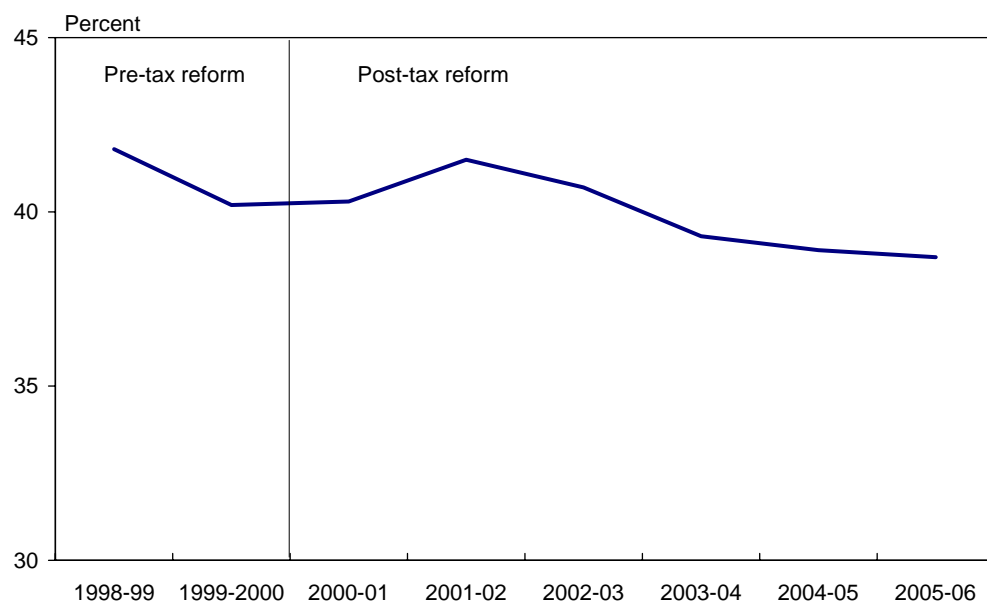
¹ The review was jointly commissioned by the governments of New South Wales, Victoria and Western Australia.

State and Territory Shares of National Revenue

On behalf of all States and Territories, the Northern Territory coordinated an analysis of State and Territory shares of national revenue (ie. revenues raised by the Commonwealth and all States and Territories) for the March 2003 Treasurers' Conference. The analysis shows that the share of national revenue received by States and Territories is projected to continue to decline, despite the GST funding arrangements.²

SHARE OF NATIONAL REVENUE RECEIVED BY STATES AND TERRITORIES ^(a)

Figure 3



(a) Includes revenue raised by States and Territories as well as grants received, including from the GST.

² The increase in States' share of national revenues in 2001-02 reflects reductions in the Commonwealth's tax effort at the time the GST was introduced, rather than any additional funding for States.

Horizontal Fiscal Equalisation

The States' high dependence on Commonwealth grants elevates the importance and sensitivity of the manner in which these grants are shared between individual States.

Grants are allocated among the States by the Commonwealth Grants Commission using the principle of *horizontal fiscal equalisation* (HFE).³ The aim of HFE is to enable each State to provide the same standard of services, if it makes the same effort to raise its own revenues. To do this, HFE takes into account the different costs faced by State governments in providing services, as well as States' different capacities to raise revenues from their own sources. Grants are allocated to offset these differences, to the extent that they can be identified and are due to unavoidable factors (for example high cost remote communities) rather than differences in State policies.

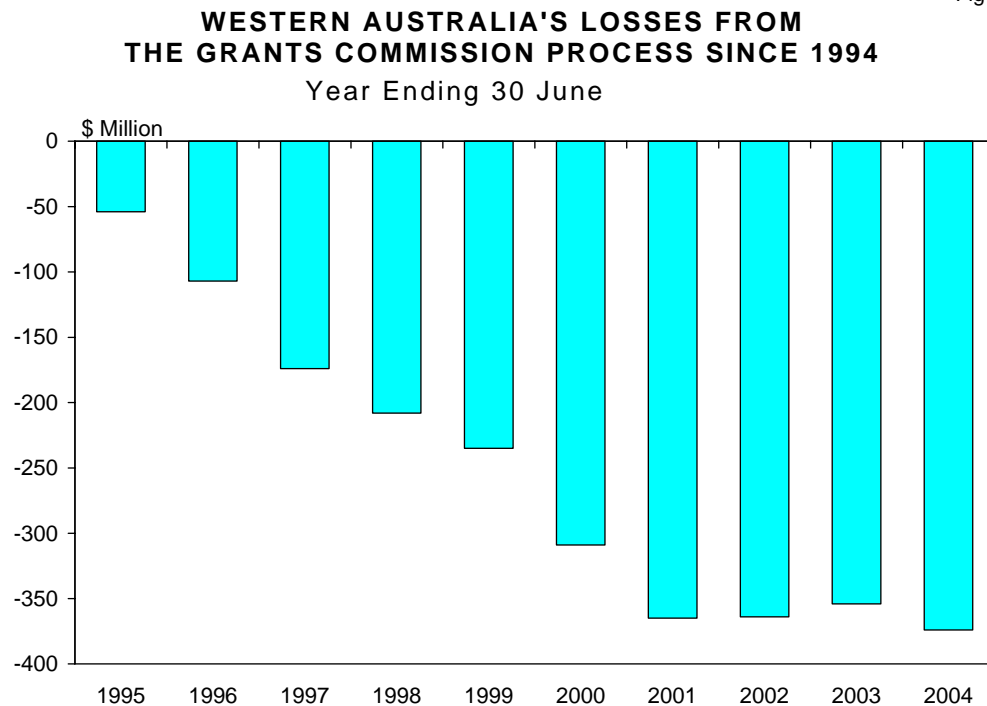
Over the last ten years, the Grants Commission has successively reduced Western Australia's share of grants, with the cumulative impact of these cuts now totalling \$374 million per year⁴ (see Figure 4). These cuts reflect Western Australia's strong growth in mining and petroleum royalties (particularly from the North West Shelf project), which has led the Grants Commission to redistribute Western Australia's grants to other States with weaker revenue growth.

The relatively strong growth in the State's revenues from the resources sector in this period is recognised, and the Grants Commission's requirement (under its terms of reference) to redistribute that revenue growth to other States is also accepted. However, Western Australia's major issue with this approach is that it does not allow adequately for the costs the State is exposed to in facilitating and supporting resource development projects.

³ Strictly speaking, only the GST (and related budget balancing assistance) is allocated according to HFE principles. However, in order to fully implement the HFE principle, the distribution of the GST takes into account the distribution of most SPPs, which effectively extends the reach of HFE to these SPPs.

⁴ The impact of cuts in earlier years increases over time due to the escalation of grants for inflation and population growth. These escalation impacts are not included in the \$374 million cumulative cutback.

Figure 4



Garnaut and Fitzgerald discussed these shortcomings in their report, which identified the major problems with the Grants Commission process as including:

- reduced incentives for States to encourage economic development, as the revenue benefits from economic growth are shared among the States through adjustments to grant shares;
- the Grants Commission does not similarly share many of the costs that States incur in supporting economic development (Western Australia has noted for some time that the Grants Commission provides little recognition for many of the State's economic development costs, such as common-use infrastructure for industrial developments, new or expanded social infrastructure to support population growth, and affordable access to energy and water services for communities in regional areas);
- no recognition of lower access to services in regional and remote areas, compared with the major population centres; and
- extreme complexity (requiring nearly 2,000 pages to document the formulae) which gives a misleading impression of precision and certainty. As data are often inadequate or unavailable, and the issues are complex to analyse, the formulae necessarily reflect many judgements and simplifications, resulting in continuing debate among the handful of specialists that work in the area across the nation about the merits of the Grants Commission's methods.

Inter-State Redistributive Impact of Commonwealth Policies

The HFE process results in a redistribution of resources between States, as GST grants are not allocated between States according to the State of origin of GST paid to the Commonwealth.

More broadly, all Commonwealth fiscal policies tend to redistribute resources between States, as the distribution of benefits from Commonwealth expenditures across States (including grants to State and local governments, benefits paid to individuals and direct provision of services) does not match the distribution of taxes and other revenues raised from production and consumption activities in each State to support these expenditures.⁵

The latest analysis of this redistribution, by the Department of Treasury and Finance, is shown in Table 1.

As shown in the table, Western Australia is a major contributor to national welfare through the revenues it contributes to the Commonwealth Budget that are used to support expenditures in other States. Western Australia provides around \$3 billion more to the Commonwealth in taxes and other revenues than it gets back in Commonwealth expenditures.

Western Australia's per capita net contribution to the Commonwealth far exceeds that of any other State, and partly reflects the high level of company tax and other Commonwealth revenues generated from its resource sector, as well as the low level of social security and health benefits received by Western Australians.

EACH STATE'S NET FISCAL SUBSIDY TO THE FEDERATION

Table 1

2000-01

	\$m	\$ per capita
New South Wales	3,741	576
Victoria	2,367	493
Queensland	-3,422	-951
Western Australia	3,187	1,680
South Australia	-2,538	-1,692
Tasmania	-1,621	-3,448
Northern Territory	-1,714	-8,724
All States	0	0

Note: Figures are subject to revision when final data becomes available. Results for 2001-02 are not yet available.

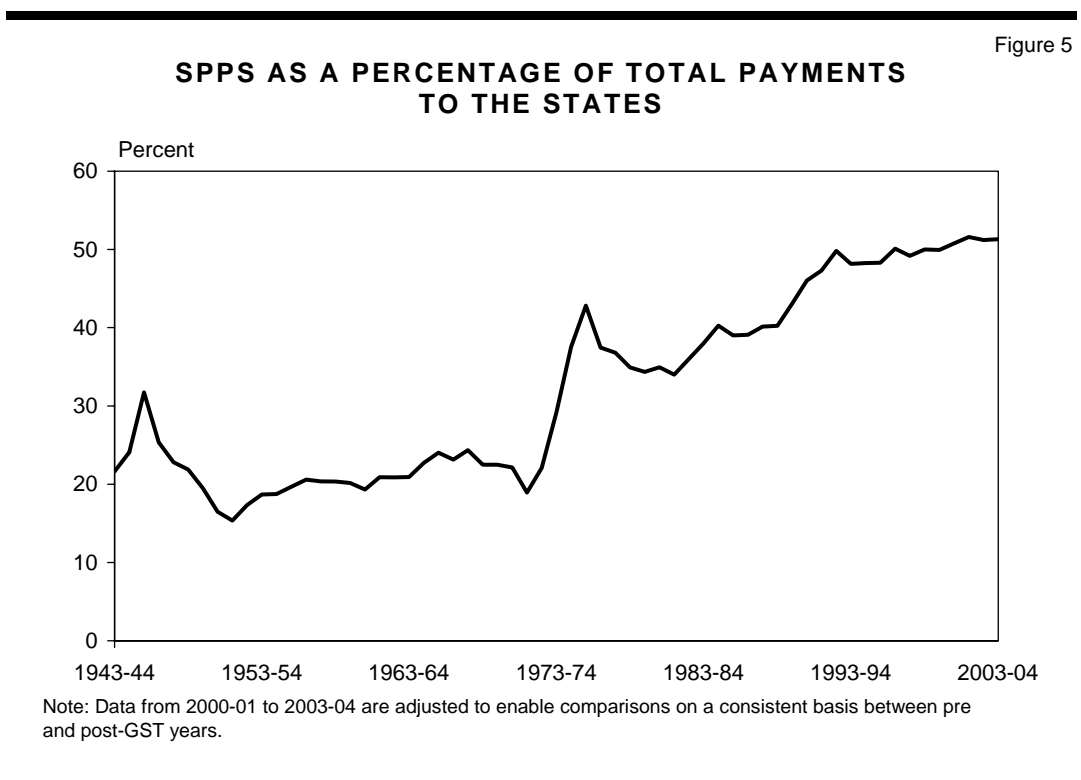
⁵ Expenditure benefits and revenues would only match in the case of user-pays services.

There is concern that Commonwealth policies do not properly recognise the support needed for continued development in Western Australia to sustain its contribution to national welfare. For example:

- while the Commonwealth will typically receive the lion's share of the government revenues from new resource projects in the State, including the current and proposed Burrup Peninsula and Gorgon gas developments, it does not contribute anything like a commensurate share of the infrastructure needed to support these projects (in the case of the Burrup Peninsula, the State is contributing \$138 million to multi-user infrastructure, while the Commonwealth has to date committed only \$85 million of direct assistance to projects under active consideration); and
- the removal of accelerated depreciation allowances for company tax purposes has tended to disadvantage the long term high risk developments that are a major feature of Western Australia's economy.

Specific Purpose Payments

SPPs (to support States' programs in areas such as health, housing, schools and roads) have become a substantially more important element of Commonwealth grants (and therefore of total State revenues) over time.



Conditions on SPPs

Through SPPs the Commonwealth now has substantial influence in many areas of State responsibility as set out in the Australian Constitution. States have to meet conditions to qualify for the payments, which not only control the use of the Commonwealth funds but also often control how the States spend their own revenues. For example, many SPPs require maintenance of State funding or dollar for dollar matching.

Through such conditions, which have tended to become more onerous over time, the Commonwealth can effectively control States' resource allocations, even though the Commonwealth may only make a minority contribution to the total program (as in the areas of training and disability services). This enables the Commonwealth to override State policy choices to a degree that exceeds what is needed to reflect national interests, notwithstanding that States are often better placed (through their experience in providing services, and closeness to their communities) to determine priorities.

Apart from distorting priorities, SPPs may produce less than optimal benefits for communities by preventing State governments from allocating funds flexibly between existing programs, or to new programs, to best meet overall community needs. SPPs set up 'artificial chimneys'. For example, there are separate SPP agreements for supported accommodation assistance, disability services and public housing, even though all three programs seek to provide accommodation to the most disadvantaged. This is often exacerbated by new money matching conditions that draw no distinction between States in relation to how much effort they are already putting into a program.

SPPs also involve large direct costs for governments through duplication of responsibilities – there are around 100 individual SPPs, which have to be negotiated, managed and accounted for by both State and Federal governments.

There is broad consensus among the States and many commentators that SPP arrangements need to be reformed to focus more on community outcomes rather than inputs, and provide States with more flexibility to meet community needs. To this end, all States have adopted a set of *Best Practice Principles and Guidelines for Specific Purpose Payments* as the basis for new SPP negotiations. The Commonwealth has not adopted these guidelines, but has expressed some support for a more outcome-oriented approach.

Level of SPPs

The Intergovernmental Agreement on GST-related tax reforms refers to the Commonwealth's intention not to cut aggregate SPPs as a result of tax reform, consistent with the objective of the Agreement that State governments should be financially better off under the new arrangements.

In an annual report to the Ministerial Council (coordinated by Western Australia), States monitor the level of SPPs against a benchmark based on the 1999-2000 level of SPPs, adjusted for inflation and population growth. The Commonwealth has to date met its commitment against this benchmark. However:

- the 'real per capita maintenance' benchmark is not a realistic indicator of the increasing demands on States. Costs and demands for some State services have grown much faster than the increases in prices and population, particularly in the health area;
- the most recent trend is not encouraging. While there has been relatively strong growth in SPPs from the base year to 2001-02, the Commonwealth's 2002-03 mid-year review projections suggest a decline for that year in real per capita terms; and
- the GST is not providing any revenue growth to allow for reductions in SPP funding and maintenance of existing service provision.

The Way Forward

The Western Australian Government believes that the Commonwealth needs to take a leadership role in facilitating a broad review of Commonwealth-State financial relations, in view of the potential economic and social benefits for the nation that could accrue from a reformed system. A suitable time for such a review could be after February 2004, following the release of the Grants Commission's limited review of its own methods (discussed below).

In the meantime, the Western Australian Government is continuing to assist the Grants Commission (through participation in the Commission's own review process) to improve the methods it uses to implement the HFE principle.

States collectively are also working closely with the Commonwealth on SPPs with a view to reducing reliance on funding controls and rigid conditions in favour of outcomes-based accountability. The Heads of Treasuries SPPs Working Group (with membership from the central finance agencies of the Commonwealth and all States and Territories) is one forum facilitating discussions and debate in this area.

The Western Australian Government's *Strategic Framework for SPPs* (which incorporates the *Best Practice Principles and Guidelines for SPPs*) will help facilitate better outcomes from SPPs by promoting a more coordinated and whole-of-government approach within the State.

At the same time, discussions are continuing between the Western Australian and Commonwealth governments on the need for more Commonwealth infrastructure support for development areas in Western Australia such as the Burrup Peninsula.

GST and Budget Balancing Assistance

Under the Intergovernmental Agreement that accompanied the introduction of the GST, the Commonwealth passes all of its GST revenue collections to the States as general purpose grants. As indicated above, the distribution between States is based on recommendations by the Commonwealth Grants Commission.

The Commonwealth is also required to 'top up' GST payments to the States with budget balancing assistance grants, on the premise of ensuring that no State's budget is worse off as a result of the national tax reforms. The budget balancing assistance is the difference between:

- the GST revenues passed on by the Commonwealth to the State; and
- the Commonwealth financial assistance grants and State taxes foregone as a result of tax reform, after also allowing for changes in State expenditure responsibilities under the new arrangements.

Table 2 shows the calculation of Western Australia's budget balancing assistance for 2001-02 to 2006-07.

The 'guaranteed minimum amount' (GMA) is the minimum funding that the Commonwealth determines is necessary to ensure that each State is 'no worse off' financially (based on the range of impacts recognised by the Intergovernmental Agreement) compared to if the pre-tax reform arrangements had continued to apply.

At last year's Treasurers' Conference, the Commonwealth Treasurer unilaterally altered the GMA by removing the inflation adjustment for the component of the GMA that relates to foregone petroleum safety net revenues. This reduced the level of budget balancing assistance paid to the States.

Table 2 shows that Western Australia's requirement for budget balancing assistance is generally declining over time, reflecting the faster growth in the GST than in revenues foregone through tax reform. Western Australia is not expected to receive budget balancing assistance after 2003-04, apart from 2005-06 (when budget balancing assistance is temporarily needed again to cover the revenue lost from the abolition of debits tax). However, over the forward estimates period, the State is still expected to be worse off compared with the pre-GST funding arrangements, as the Commonwealth is no longer providing compensation for the inflation component of foregone petroleum safety net revenues.

Table 2

CALCULATION OF BUDGET BALANCING ASSISTANCE
Western Australia

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
STATE REVENUES FOREGONE						
Financial assistance grants	1,653.7	1,757.6	1,805.5	1,851.3	1,893.8	1,923.4
Safety net revenues	1,017.8	1,018.1	1,041.1	1,068.7	1,096.9	1,125.2
Financial institutions duty	129.3	145.8	150.7	155.8	161.0	166.4
Debits tax	-	-	-	-	114.0	126.5
Marketable securities duty ^(a)	23.9	30.2	34.3	37.8	41.9	45.5
Wholesale sales tax equivalents ^(b)	19.0	19.0	-	-	-	-
Plus REDUCED REVENUES						
Reduction in gambling taxes	58.5	61.5	65.8	67.7	69.5	70.4
Plus Interest costs (on changed cashflows)	0.9	1.2	-	-	-	-
Plus ADDITIONAL EXPENDITURES						
First Home Owners Scheme	158.8	106.9	114.5	116.8	119.1	121.5
GST administration costs	50.6	55.2	56.3	57.5	58.9	60.4
Minus REDUCED EXPENDITURES						
Off road diesel subsidies	173.6	170.9	173.6	177.2	180.8	184.2
Low alcohol beer subsidies	-	7.8	8.0	8.2	8.4	8.6
Savings from indirect tax reform ^(c)	53.4	56.9	60.6	64.6	68.9	72.1
Minus Growth dividend – State revenues ^(d)	11.5	15.6	20.0	24.7	30.0	35.6
Equals						
GUARANTEED MINIMUM AMOUNT	2,869.5	2,944.3	3,006.0	3,080.8	3,267.0	3,338.9
GST REVENUE	2,518.0	2,811.0	2,945.6	3,081.8	3,208.3	3,351.4
BUDGET BALANCING ASSISTANCE	351.5	133.3	60.5	-	58.7	-

(a) The calculation of budget balancing assistance assumes complete abolition of marketable securities duty, although duty on unlisted shares will be retained.

(b) State governments previously imposed a wholesale sales tax (WST) equivalent regime on State trading enterprises (whereby the State kept the revenue from the WST that would have been payable to the Commonwealth had the enterprise been directly liable for WST). Under the GST-related tax reforms, wholesale sales tax (and therefore the WST equivalent regime) has been abolished. However, the guarantee calculation only covers this foregone revenue for the first three years.

(c) Commonwealth estimates of savings to State government agencies from the abolition of wholesale sales tax (which was embedded in the price of goods and services purchased by government agencies).

(d) Commonwealth estimates based on an assumption that the GST-related tax reforms would result in greater economic growth, leading to higher State revenue collections.

Note: Columns may not add due to rounding.

Table 3 shows estimates for each State of the impact of the GST-based funding arrangements, compared with the funding that would have been received if pre-tax reform arrangements had continued, and based on the methods recognised by the Intergovernmental Agreement. The negative impacts in some years reflect the lack of compensation for the inflation component of foregone petroleum safety net revenues in the calculation of budget balancing assistance.

As a result, budget balancing assistance tops each State's GST revenue up to a GMA that leaves it worse off compared with pre-tax reform arrangements. Some States are still worse off in their first year without budget balancing assistance, because their GST revenue exceeds their GMA by less than the petroleum safety net revenue cut.

Queensland gains from the GST at a relatively early stage because it did not collect financial institutions duty (so it is giving up less revenue than other States). Western Australia is not expected to gain from the GST until 2007-08, but this is nevertheless earlier than for some other States because:

- it has a relatively low reliance on gambling revenues (so less revenue is lost from reducing gambling taxes to make room for the GST); and
- it did not collect accommodation taxes (so no revenue is lost from abolishing these taxes).

Table 3

ESTIMATED IMPACT OF TAX REFORM

	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	-42	-30	-25	-18	-10	-4	-2	-3	-134
2003-04	-62	-44	+86	-27	-15	-6	-1	+15	-54
2004-05	-82	-59	+202	-7	-20	0	+5	+30	+68
2005-06	-98	-70	-19	-42	-24	-9	+1	+33	-229
2006-07	-117	-83	+132	-10	-29	+8	+12	+50	-37
2007-08	-137	-97	+318	+89	+6	+30	+30	+68	+306
2008-09	-135	-40	+506	+187	+64	+50	+45	+85	+762
2009-10	+117	+139	+706	+292	+127	+73	+62	+102	+1,619

Note: This table does not take into account the potential abolition of a range of business stamp duties, the need for which is to be reviewed by the Ministerial Council of Treasurers by 2005.

Source: Based on parameters agreed by Heads of Treasuries, and funding cut advised by the Commonwealth.

Commonwealth Grants Commission Updates and Reviews

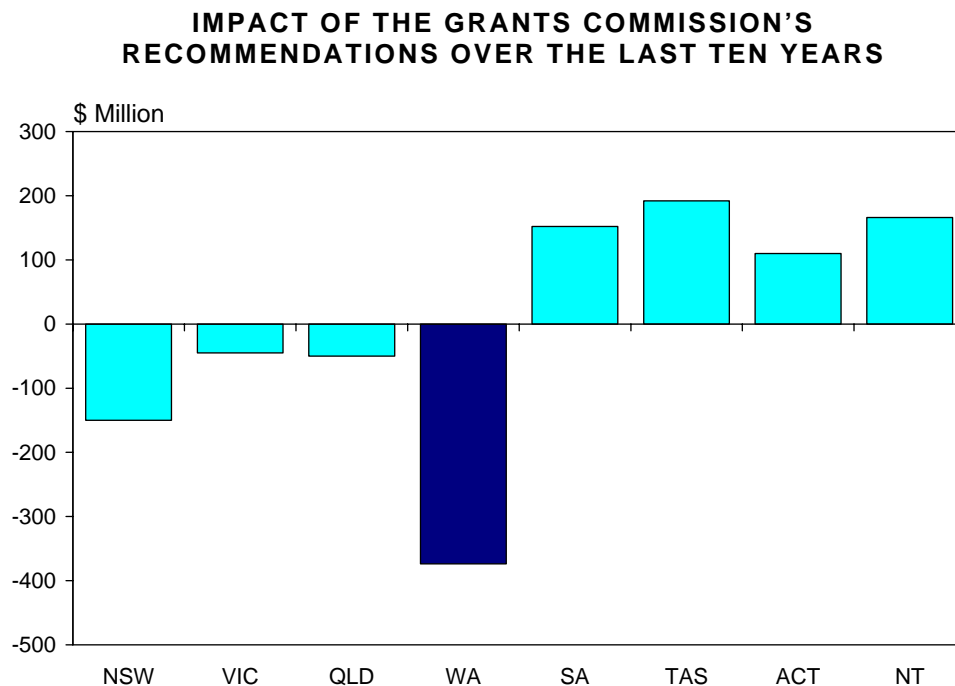
2003 Update

The Grants Commission updates its calculation of State grant shares each year, using the latest available data (eg. on State revenues and the composition of State populations). The Grants Commission's recommended changes are considered by the Ministerial Council of Treasurers in March each year.

The Grants Commission's '2003 Update' recommendations (endorsed by the March 2003 Treasurer's Conference to apply in 2003-04) result in a reduction in Western Australia's funding share of about \$20 million. The major reason for this reduction is a large increase in Western Australia's North West Shelf petroleum royalties over the last few years.

Over the last ten years, the decline in Western Australia's annual share of grants, as a result of the cumulative impact of successive cuts by the Grants Commission, has greatly exceeded the loss sustained by any other State or Territory. Unless there is a change to the Grants Commission's approach, further declines are expected for Western Australia in future years.

Figure 6



2004 Review

In addition to the annual updates, every five years the Grants Commission undertakes a major review of the methods it uses to implement fiscal equalisation. The Grants Commission is in the final stages of its latest review, which is to be completed by February 2004.

Western Australia has raised many issues with the Grants Commission in this review, including the need to better reflect Western Australia's high costs in providing economic development assistance, infrastructure for its fast growing population and services to Indigenous communities and remote areas.

Western Australia provided a major submission to the Grants Commission in April 2002. A further submission was provided in March 2003, which responded to the Grants Commission's preliminary views, as well as the arguments and evidence submitted by other States. These submissions were prepared in consultation with State agencies, and can be viewed on the Department of Treasury and Finance's website (www.dtf.wa.gov.au).

The Grants Commission hosted national conferences of State Treasuries in October and November 2002 to discuss proposed directions in revising its methods. The Grants Commission also visited Western Australia from 29 July 2002 to 2 August 2002 to meet with representatives from State agencies, in Perth, Mandurah, Karratha/Burrup Peninsula, Jigalong, Kalgoorlie and Katanning. These locations were chosen to illustrate the State's high expenditure needs in various areas of the State.

Western Australia hosted another Grants Commission visit for bilateral discussions in March 2003.

PROGRAM OF REMAINING MAJOR EVENTS FOR THE 2004 REVIEW		Table 4
2003		
31 July	Commission circulates preliminary results/calculations	
5 September	Commission convenes general conference on preliminary results	
10-12 September	Commission convenes technical conference on preliminary results	
3 October	Final submissions due	
2004		
25 February	Commission presents its final report (impacting from 2004-05)	

Competition Payments

At the April 1995 Council of Australian Governments meeting, the Commonwealth and the States agreed to the National Competition Policy.

National Competition Policy is a package of measures aimed at encouraging increased competition and thereby improved economic performance. To the extent that this can be achieved, incomes, employment and living standards are likely to rise. However, the policy permits restrictions on competition where these can be shown to be in the public interest. A range of economic, social and environmental factors need to be considered in making a public interest judgement.

An Industry Commission report in March 1995 estimated substantial benefits to the national economy and government revenues from competition reforms. However, it also confirmed the States' views that the bulk of additional revenues would accrue to the Commonwealth (reflecting the Commonwealth's much broader tax bases), even though more than 80% of the national economic growth resulting from competition reforms would come from measures implemented by the States.

The Commonwealth consequently agreed to provide 'competition payments' in return for the States implementing competition reforms under the National Competition Policy.

The competition payments are being paid in three tranches – \$200 million per year from 1997-98, \$400 million per year from 1999-2000 and \$600 million per year from 2001-02. These amounts are expressed in 1994-95 dollar terms and escalated for inflation. They are distributed between the States on the basis of population shares (Western Australia's share is approximately 10%).

The National Competition Council advises the Federal Treasurer whether it believes that States have undertaken the reforms required for them to qualify for the full amount of each tranche of competition payments. Western Australia has received its full entitlement since competition payments commenced in 1997-98.

Western Australia's competition payments are expected to rise from \$72.0 million in 2002-03 to an estimated \$74.6 million in 2003-04. However, the National Competition Council has indicated that if Western Australia fails to progress reforms in a number of areas, including retail trading hours, liquor licensing regulations, the taxi industry and potato marketing arrangements, its competition payments in 2003-04 and subsequent years could be suspended or substantially reduced.

Specific Purpose Payments

As noted previously, SPPs are grants from the Commonwealth to the States for specified activities, and with conditions attached to their use that are usually set out in individual agreements.

Distinctions are made between:

- SPPs 'to' the State, that support specific areas of State responsibility;
- SPPs that are on-passed 'through' the State to local governments and private schools;⁶ and
- North West Shelf royalty payments (which are reported as SPPs because of the Commonwealth's constitutional jurisdiction over offshore areas).

In 2003-04, Western Australia expects to receive around \$1.6 billion in SPPs 'to' the State, representing a decline of 1.5% compared with 2002-03 (the reasons for this decline are explained in Chapter 4: *Financial Projections – Revenue*).

Although there are around 100 SPPs, the majority of SPP funding is concentrated in the core areas of health, education, housing, training and roads. The ten largest SPPs to Western Australia account for 84.7% of all SPPs 'to' the State in 2003-04.

⁶ Previously, some of the extensions to the First Home Owners Scheme have been funded by SPPs 'through' the State.

Table 5

**SPECIFIC PURPOSE PAYMENTS
'TO' WESTERN AUSTRALIA**

	2002-03 Estimates		2003-04 Forward Estimates	
	\$m	Percent of total SPPs 'to' WA	\$m	Percent of total SPPs 'to' WA
Australian Health Care Agreement	689.0	41.6%	733.9	44.9%
Government Schools	204.2	12.3%	205.2	12.6%
Australian National Training Agreement	103.8	6.3%	105.9	6.5%
Commonwealth-State Housing Agreement ^(a)	89.1	5.4%	79.6	4.9%
Home and Community Care	62.9	3.8%	69.4	4.3%
Road Programs ^(b)	72.1	4.3%	60.4	3.7%
Commonwealth-State/Territories Disability Agreement	41.0	2.5%	41.7	2.6%
Indigenous Housing Agreement	28.6	1.7%	35.8	2.2%
Public Health Outcome Funding	33.4	2.0%	27.5	1.7%
High Cost Drugs	23.8	1.4%	25.0	1.5%
Other ^(c)	310.0	18.7%	249.2	15.3%
TOTAL SPPs	1,657.9	100	1,633.6	100

(a) Excludes the Aboriginal housing program, which has been included with the Indigenous Housing Agreement.

(b) Excludes the Road Safety Blackspots program and the Interstate Road Transport program.

(c) Comprises a large number of small specific purpose payments.

The distribution of individual SPPs between the States is based on a variety of arrangements, including population shares, historical shares, Commonwealth discretionary allocations and various formulae that attempt to reflect relative costs or demand. In 2003-04, Western Australia expects to receive 9.6% of total Commonwealth SPPs 'to' States (compared with Western Australia's 9.8% share of the national population).

Issues in Major SPPs

Commonwealth-State negotiations on SPPs during 2002-03 have been difficult, and characterised by Commonwealth attempts to place increasing controls on eligibility for SPPs (including prescriptions on how much States must spend from their own sources), without being prepared to provide adequate funding growth for rising costs and demands on State services.

Commonwealth-State/Territory Disability Agreement

The Commonwealth-State/Territory Disability Agreement (CSTDA) helps fund a specialist disability services system, as well as initiatives to ensure that people with disabilities have equal access to mainstream State services. Western Australia's share of the CSTDA fund is estimated to be \$41.7 million in 2003-04.

The last CSTDA expired on 30 June 2002, with a new agreement still in the process of renegotiation.

During negotiations, the Commonwealth has asked the States to match the Commonwealth's average 6% annual funding increase for disability services. This is despite the fact that the Commonwealth only funds around 20% of State disability services and most of the Commonwealth funding increase is for its own programs (eg. employment services) – grants for services that Western Australia is responsible for delivering (eg. accommodation and specialist support services) are projected to grow by only an average 3.2% per annum. This is scarcely sufficient to cover rising costs, let alone unmet needs and growing demands for services.

Commonwealth-State Housing Agreement

The Commonwealth-State Housing Agreement (CSHA) helps pay for public housing assistance for people whose needs for appropriate housing cannot be met by the private market. Western Australia's share of CSHA funding is expected to be \$79.6 million in 2003-04 (excluding the Aboriginal housing program), comprising 36% of the State's total expenditure on housing (net of rental income).

The current CSHA agreement is due to expire on 30 June 2003 and negotiations for the new agreement are now well underway.

For the first time, the proposed new CSHA will escalate grants for cost increases (demand increases will remain unrecognised). However, in other respects, the proposed arrangements will financially penalise the State. In particular, the Commonwealth plans to:

- discontinue GST compensation payments, amounting to \$8.5 million per year in Western Australia. The GST compensation payments were provided to offset the extra costs incurred by State public housing authorities as a result of the GST. These extra costs for State public housing authorities are ongoing;
- continue deducting a so-called 1% 'efficiency dividend' from CSHA base funding each year. This deduction is made on the assumption that States are becoming more efficient at providing services under the CSHA and therefore require less funding over time. However, the CSHA is a capital program where costs are largely driven by conditions in the housing construction sector; and
- include an option for the Commonwealth to withhold 5% of CSHA funds from States and Territories in the event of failure to give timely and/or 'satisfactory' reports of performance indicators on encouraging private sector involvement in the provision of social housing and reducing workforce disincentives for public housing tenants. The State could face increased costs if the current practice of reducing public housing subsidies as tenant income rises were modified to reduce workforce disincentives.

The proposed continuation of State matching funding requirements will also limit the State's flexibility in allocating funds across programs.

Australian Health Care Agreements

The Australian Health Care Agreements (AHCAs) aim to facilitate the provision of public hospital services to public patients free of charge, and to ensure that Australians have equitable access to public hospital services regardless of where they live.

While the current agreements expire on 30 June 2003, new agreements are being negotiated. The Western Australian Budget includes AHCA funding of \$733.9 million in 2003-04 (based on the existing agreements), comprising about 35% of the State's total expenditure on hospital services, and about 25% of the State's expenditure on all health services.

In February 2003, State Health Ministers presented a funding claim (involving both additional base funding and higher indexation) for the new AHCAs to the Commonwealth. The Commonwealth refused to discuss this claim, but presented its offer in late April.

Under the Commonwealth offer, the States will receive less funding than under a continuation of the current AHCAs, and will face additional conditions. In particular, States will be required to provide more detailed performance reporting and to match the growth rate in Commonwealth funding to be eligible for their full funding entitlement from the Commonwealth.

There is no indication that the Commonwealth is prepared to tackle reform issues of concern to the States (eg. the reduced accountability and cost-shifting resulting from the current delineation of Commonwealth and State funding responsibilities for primary care, aged care and public hospital services).

Under the new AHCAs and associated health reforms, Western Australia will seek greater recognition of its unique disadvantages, particularly the relative lack of private sector health services (which increases demand on the public sector) and the high needs of indigenous persons. These disadvantages are only partially compensated for through the Grants Commission process.

Salinity Management

In 2000 the Commonwealth offered the States \$700 million over 7 years under the Commonwealth's *National Action Plan on Salinity and Water Quality*. Reflecting the scale of the salinity problem in this State, the Commonwealth indicated that Western Australia's share would be \$158 million. However, we remain the only State with which the Commonwealth has not signed a bilateral agreement.

The Commonwealth's offer is conditional on new dollar for dollar matching by the States, which takes no account of existing effort by States in this area. This is despite assurances by the Prime Minister, at the Coalition of Australian Governments meeting in November 2000, that States that had taken early action on salinity issues would not be disadvantaged under the agreement.

Non-recognition of Western Australia's existing funding has amounted to a substantial penalty relative to other States. Western Australia was the first State to develop a Statewide salinity action plan and in recent years has been spending up to \$40 million per annum on salinity management. Other States' efforts have not been comparable to Western Australia's.

Western Australia signed a bilateral agreement in November 2002, after Commonwealth and State officials reached agreement on eligible projects that would attract State matching funding. However the Commonwealth Government has not accepted all the projects and has not signed the agreement.

Natural Heritage Trust 2

In its 2001-02 Budget, the Commonwealth Government extended the original Natural Heritage Trust (NHT) for five years, from 2002-03 to 2006-07. This extension (ie. NHT2) covers Rivercare, Coastcare, Landcare and Bushcare programs that are aimed at achieving the conservation, sustainable use and restoration of Australia's natural environment.

Approximately \$250 million per year is available under NHT2, although only about half of that will flow to State and Territory governments. The Commonwealth signed a bilateral NHT2 agreement with Western Australia in January 2003. Western Australia expects to receive about \$43 million over the first three years of the agreement.

Compared with the first NHT, NHT2 has moved towards a more strategic and regional investment model for natural resource management activities, although it is still a complex program with substantial Commonwealth micro-management. NHT2 involves Commonwealth-State-regional community partnership agreements, in addition to the Commonwealth-State bilateral agreements. Projects funded by NHT2 are to be in accord with accredited regional strategies and investment plans. Projects will be assessed by a Commonwealth-State Steering Committee, and finally approved by Commonwealth and State Ministers. The Commonwealth investment must be matched dollar for dollar by the State.

CHAPTER 7

Structural Reform

Overview

The Government remains strongly committed to implementing structural reforms to improve the efficiency of the Western Australian economy.

The major structural reform achievements by the Government in 2002-03 included:

- endorsement of the Electricity Reform Task Force's recommendations and the commitment to implement reform which includes the disaggregation of Western Power into separate generation, network, retail and regional businesses and the introduction of a competitive wholesale electricity market;
- development of systems and processes to facilitate full retail competition in the gas industry;
- introduction into Parliament of the Economic Regulation Authority Bill 2002 to establish the Economic Regulation Authority as an independent economic regulator for the electricity, gas, water and rail industries; and
- enactment of various legislation to improve the availability and affordability of public liability and professional indemnity insurance.

The Government has also revisited trading hour restrictions in the retail sector and licensing restrictions in the taxi industry. Potential reforms are being considered as part of the State's National Competition Policy obligations.

In 2003-04, the Government's major structural policy focus will involve finalising the establishment of the Economic Regulation Authority, implementing the first round of reforms to the electricity industry, overcoming practical constraints to competition in the gas retail sector, and implementing other National Competition Policy reforms.

Electricity Industry Reform

Western Australia continues to have among the highest electricity prices in Australia and is lagging behind other States and other comparable economies in introducing competitive pressures in its electricity market. In recognising these shortcomings, the Government's election commitments included an agenda for electricity industry reform, to promote greater competition and sustainable lower electricity prices.

In August 2001, the Government established the Electricity Reform Task Force to develop a framework for the reform of the State's electricity supply industry. The Task Force's final report was submitted in October 2002. Among other things, the report recommended separating Western Power into four new entities and the creation of a new wholesale electricity market. The report also recommended a number of measures aimed at encouraging the development of sustainable energy initiatives and ensuring consumer protection for residential and small business customers.

The main objective of the reforms is to achieve, where practicable, sustainable lower electricity prices for all customers while maintaining the uniform tariff for residential and small business customers, and ensuring adequate reliability, security, quality and safety of electricity supply. For a resource-based economy like Western Australia, lower electricity prices are essential to improve the State's competitiveness and generate economic growth.

Benefits of Electricity Industry Reform

An independent cost-benefit study of the impact of the proposed reforms showed that there would be significant reductions in electricity prices as a result of the reform process and that substantial net benefits would flow to the Western Australian economy as a result. The benefits arise from the downward pressure on costs that competition is expected to bring and the stimulatory impact that reductions in electricity prices will have across broad sectors of the State.

The analysis estimated that average retail electricity prices would be around 8.5 per cent lower with reform compared to the status quo. This price reduction is estimated to boost the economy's Gross State Product by \$300 million per annum by 2010 (rising to \$590 million per annum within 20 years) and generate an additional 2,900 jobs by 2010 (rising to 3,900 within 20 years).

Structural Reform and Market Design

The Task Force recommended that Western Power's activities in the South West Interconnected System (SWIS) be vertically disaggregated into three independent entities – State Generation, State Networks and State Retail. The Task Force also recommended the establishment of a fourth entity, the Regional Power Corporation, with responsibility for electricity supply in the North West Interconnected System and Western Power's non-interconnected regional systems.

Separation of the natural monopoly networks business is necessary to ensure that it operates in the best overall interests of all market participants, providing potential competitors with access to Western Power's networks at fair and reasonable prices. Separation of the networks business removes the incentive for it to unfairly favour the State owned generation and retail activities to the detriment of actual or prospective competitors. This will provide an environment more conducive to entry by competing electricity generators and retailers.

Establishing State Generation and State Retail as separate entities will allow them to act independently to achieve the best commercial outcomes, while competition will ensure the best outcomes for customers. Retention of the generation and retail functions within a single entity would reduce the incentive for the retail business to seek the cheapest sources of generation regardless of supplier, and encourage the generation business to discriminate against other retailers competing with the retail business of the combined entity.

Although committed to disaggregation, the Western Australian Government remains strongly opposed to the privatisation of Western Power and its successor entities.

The proposed wholesale market model is designed to promote greater competition and private sector investment in the SWIS. The model will extend the bilateral contracting system currently in place and incorporate an associated residual trading market, where generators can sell uncontracted energy and buyers can purchase energy without a bilateral contract.

The proposed market model also includes mechanisms for balancing and congestion management to ensure supply of electricity matches demand at all times, and a capacity payment to provide sufficient incentive for investment in appropriate generation capacity and reserves. A number of transitional restrictions on the State-owned successor entities will also be enforced to mitigate their market power.

Regulatory Reform and Retail Contestability

A new regulatory framework is proposed as part of the reform of the electricity supply industry. This includes:

- establishment of a licensing regime, which will allow the Government to monitor and report on the performance of market participants in relation to prudential and service standards; and
- development of an Electricity Access Code to be administered by the Economic Regulation Authority, which will ensure fair and reasonable network access terms and conditions for all generators and retailers.

The Task Force recommended delaying the introduction of full retail contestability (which had originally been aimed for in 2005) because effective competition at all levels of the industry would not exist by this time. However, to maintain the momentum of reform the threshold for contestability is to be reduced to 5.7 kW average load on 1 January 2005. This level of consumption is typical of small businesses such as small corner shops. The lower threshold will result in an additional 10,000 consumers being able to choose their supplier of electricity. Competition in the retail market will ensure the benefits of upstream efficiency gains are passed through to consumers.

Consumer Protection

Consumer protection for residential and small business customers will be addressed by a number of measures, including:

- the implementation of a Customer Service Code;
- obligations on retailers to have a standard contract with an associated standard tariff at or below the uniform tariff cap;
- obligations on network service providers to publish an approved consumer connection and extension policy detailing the technical and economic conditions for connection of customers;
- implementation of an energy ombudsman scheme providing consumers with a complaint resolution mechanism; and
- a retailer of last resort obligation on State Retail and the Regional Power Corporation to ensure that supply is available to customers whose retailer exits the market.

Western Australia has had a long-standing policy of providing electricity in rural and remote areas at the same tariff as in the Perth metropolitan area (despite the higher costs), to ensure that this essential service is affordable to people in regional areas and to encourage regional economic development. It is Government policy that uniform tariffs across Western Australia be retained, and provided in a transparent manner that encourages efficiency in the delivery of the service.

Sustainable Energy Initiatives and Renewable Energy

Sustainable energy initiatives, such as electricity produced from renewable sources, the efficient location of generation alleviating pressures on the transmission system, demand management and end-use efficiency, will be encouraged through a combination of measures including:

- the transitional energy balancing concession for renewable energy generators;
- exemption from the uniform tariff cap for supply of electricity produced from renewable sources;
- less stringent requirements to balance supply and demand for electricity produced from unpredictable renewable sources (such as wind generators) in the new wholesale electricity market;

- the residual trading market facilitating demand side participation, where consumers can alter the level and/or timing of their electricity consumption in response to changes in prices; and
- the Regional Power Corporation being required to promote innovative generation solutions, reducing the cost of supply in its retail licence areas.

Implementation Timetable and Public Consultation

The Government has committed to a progressive timetable for implementing the proposed structural, market and regulatory reforms. Key steps include:

- disaggregation of Western Power, which is to be completed and the successor business entities to be in operation within 18 months;
- reduction in the contestability threshold to 5.7 kW, on 1 January 2005;
- development of the Western Australian Electricity Access Code, and the operation of the new access framework and licensing regime; and
- implementation of the new wholesale electricity market.

The Government's work program continues to include extensive stakeholder consultation and participation. The Electricity Reform Task Force consulted widely during its deliberations, releasing discussion papers in November 2001 and April 2002 and considering 146 submissions from the public consultation process prior to delivering its recommendations to the Government.

The Electricity Reform Implementation Steering Committee, supported by the Electricity Reform Implementation Unit, was established following the Government's endorsement of the Task Force's recommendations in November 2002. The Steering Committee and the Implementation Unit will continue to facilitate the consultation process initiated by the Task Force.

A Union Consultation Committee has commenced operation to address any concerns of Western Power employees in relation to job security, career paths, remuneration and employment conditions. An Electricity Industry Reference Group is also being established to provide a sounding board for industry with respect to electricity reform implementation issues.

It is also intended that the Implementation Unit will release exposure drafts and host workshops on specific electricity reform matters such as regional issues, wholesale market implementation, access code, licensing regime, customer protection, transitional arrangements and sustainable energy initiatives.

Gas Market Reform

The Government is committed to the establishment of a competitive gas market in Western Australia, under which customers will be able to choose their preferred gas retailer.

On 1 January 2002 the gas market became contestable, allowing those customers consuming one or more terajoules (TJ) of natural gas per annum, such as hospitals, hotels, restaurants, laundries and bakeries, to choose their gas retailer. On 1 July 2002, the last legal impediments to contestability for the remaining approximately 440,000 small business and household customers, consuming less than 1 TJ per annum, were also removed.

However practical full retail contestability has been delayed pending the introduction of administrative and operational arrangements, which are being developed by the Gas Retail Deregulation Project Steering Group (established by the Minister for Energy in July 2001). Membership comprises gas industry participants and government and consumer representatives, and is supported by a series of technical working parties. The Steering Group's specific role has involved developing and establishing arrangements necessary for the functioning of a more competitive market including:

- a retail market administrator;
- systems to:
 - manage consumers changing retailers;
 - measure gas supply and consumption;
 - balance gas supply and demand; and
 - settle accounts;
- a gas industry ombudsman and other consumer protection mechanisms;
- emergency gas supply management and procedures;
- back-up retailer arrangements to ensure that all customers have access to at least one retailer;
- operational arrangements to cater for differing ownership of gas distribution systems; and
- consistency with other jurisdictions, where appropriate.

A number of key milestones have been achieved in the progress towards practical full retail contestability. These include:

- expanding the project to include South Australia. In recognition of the benefits of a coordinated approach to the introduction of full retail contestability, market participants and the governments of South Australia and Western Australia have agreed to work together; and
- registering the Retail Energy Market Company (REMCo) with the Australian Securities and Investments Commission on 8 January 2003 and appointing its Chief Executive Officer and Directors. REMCo will be responsible for the administration of the fully contestable Western Australian and South Australian gas retail markets.

Economic Regulation

Competition and technological change are transforming utility industries which deliver essential services to businesses and households in this State. Consumers are benefiting through lower prices and improvements in the quality and reliability of goods and services. Multi-utilities are now emerging to provide even greater choice to consumers by supplying services across more than one market.

The current regulatory framework supports competition and lower prices to consumers. For example, third party access regulation allows competing service providers access to gas pipelines and distribution networks on fair and reasonable terms, thereby preventing monopoly power and monopoly pricing. However the current regulatory framework is fragmented and administered by a disparate range of regulators, Ministers and public sector officials.

The Government has therefore committed to the establishment of an independent Economic Regulation Authority (ERA) with functions across the gas, rail, water and electricity industries. The ERA will be part of an institutional environment that promotes consistent regulatory outcomes across key utility industries and which can respond to changing regulatory needs, such as utilities operating in more than one market (eg. in future a retailer could operate in the gas and electricity market – a trend which is well established in other jurisdictions). Its independence should remove any perception of political interference in regulatory decisions which, if left unaddressed, would have the potential to stifle investment and competition.

It is proposed that the ERA will:

- facilitate access to natural monopoly infrastructure (eg. gas pipelines, railway lines and electricity wires) at prices designed to balance investment incentives and reasonable returns to the provider against lower prices for consumers. The ERA will initially assume responsibility for the existing gas and rail access regimes. Responsibility for a future electricity access regime is a likely outcome of electricity reform implementation;
- independently grant industrial licences and ensure compliance with terms and conditions applying to licences;
 - the ERA will, at its commencement, assume responsibility for water industry licensing;
 - gas industry licensing functions will be transferred at a later date, which is expected to follow the implementation of practical full retail contestability in the gas market;
 - electricity industry licensing functions are a likely outcome of electricity reform implementation; and
- make expert recommendations to government about tariffs and charges for government monopoly services, and any other matters requested by government.

The ERA will comprise at least one and up to three Members with a supporting office. It is to be established as an independent statutory authority under a centre-piece enabling Act. A range of industry-specific legislation will then define the functions for each industry.

The Government will remain responsible for the laws administered by the ERA, and to support this function will establish an advisory committee drawn from the relevant government policy agencies.

The Economic Regulation Authority Bill 2002 was introduced into Parliament on 4 December 2002. Subject to Parliamentary processes, it is anticipated that the ERA could be in operation by 1 July 2003.

Insurance Market Reform

The effects of sharply increasing public liability and professional indemnity insurance premiums are being felt across a wide range of community and business groups. Community and business groups that may have rarely if ever made a claim are having difficulty accessing affordable premiums.

Escalating costs from an increase in the number and average value of claims, especially for personal injury, have contributed significantly to premium increases. The collapse of HIH and the impact of the September 2001 terrorist attacks on re-insurance arrangements have placed further pressure on premiums.

The Government has passed or proposed a series of legislative reforms aimed at improving the availability and affordability of public liability and professional indemnity insurance.

- The *Civil Liability Act 2002* seeks to reduce the cost of claims by introducing a deductible threshold on general damages and capping damages for economic loss at three times the amount of gross average weekly earnings. It also facilitates structured settlements to allow periodic compensation payments as an alternative to lump sums, and restricts advertising of personal injury legal services and touting.
- The *Fire and Emergency Services Legislation Amendment Act 2002* protects volunteer fire units and marine rescue units and their members from civil liability.
- The *Insurance Commission of Western Australia Amendment Act 2002* allows for the establishment of the Community Insurance Fund, through which the Commission can provide insurance to eligible not-for-profit organisations that are unable to access insurance elsewhere.
- The *Volunteers (Protection from Liability) Act 2002* provides volunteers with qualified immunity from civil liability when doing community work for not-for-profit incorporated associations.
- The Civil Liability Amendment Bill 2003, introduced into Parliament on 20 March 2003 proposes to:

- codify and in some cases vary certain common law rules of negligence to ensure that an appropriate level of responsibility is borne by both plaintiff and defendant in personal injury cases;
- facilitate voluntary assumption of risk by those engaging in recreational activities;
- introduce a new public policy defence for public authorities;
- replace the concept of joint and several liability with proportionate liability as the basis for assessment of claims for damages for pure economic loss;
- protect a good samaritan who comes to the aid of another, acting in good faith and without recklessness, from personal civil liability; and
- permit a person to give an apology without thereby exposing him or herself to personal civil liability.

National Competition Policy

The Western Australian Government is in the latter stages of implementing National Competition Policy (NCP) reforms where review has established that they are in the public interest. Reviews are based on rigorous public interest tests that take into account a wide range of economic, social and environmental considerations.

Although all substantive restrictions on competition either have been or are in the process of being reviewed, the restrictions in the energy sector have attracted particular focus because of their potential impact on the State's economy. (Energy reforms were discussed earlier in this chapter.)

The Government is examining a number of other potential reforms in accordance with the timeframe for the final assessment by the National Competition Council (NCC) in June 2003. Of particular importance are reviews of retail trading hour restrictions and taxi licensing.

In November 2002 the NCC notified Western Australia that it was facing the loss of an unspecified but substantial portion of the \$75 million of ongoing payments from the Commonwealth if it did not reform its retail trading hours regulations. Previously, the Government had indicated that it was satisfied that the current arrangements were in the public interest.

In response to the NCC, the Government is carrying out a further review of retail trading hours. The Government recognises that there are a number of reform options including:

- retaining the current arrangements;
- easing current restrictions on:
 - weeknight trading;
 - weeknight and Saturday night trading; and

- weeknight, Saturday night and Sunday trading;
- completely removing retail trading hour restrictions; or
- re-instating standard opening hours for all retailers (ie. no trading on Sundays or extended trading on Thursdays).

As part of the public interest test, which will account for the impact on all groups in the community, a public consultation process has been initiated, with submissions called for by 17 April 2003. The Government is expecting to make a decision on retail trading hours by 30 June 2003.

The Government is also reviewing the anti-competitive restrictions in the taxi industry. The Minister for Planning and Infrastructure convened a 'Taxi Forum' in February 2003 that enabled the views of a range of taxi industry stakeholders to be aired, including those of industry and consumer groups.

The Minister has subsequently established a review group (comprising Hon. Graham Giffard MLC, and representatives from the Department of Planning and Infrastructure and the Department of Treasury and Finance) to consider the outcomes of the Taxi Forum and analyse various reform options. The options being considered include a taxi-plate buy-back scheme, as well as an immediate release of new taxi licences.

In assessing the options for reform, the Government is conscious of ensuring reform does not impact adversely on driver income, fares, service standards and industry stability. The review group will consider taxi reform initiatives pursued in other jurisdictions.

The Government is also actively pursuing the implementation of reforms arising from legislation reviews. The Acts Amendment and Repeal (Competition Policy) Bill 2002 was introduced into the Parliament of Western Australia in November 2002. It repeals two acts and amends a further thirteen to take account of NCP review recommendations. Examples of provisions in the Bill are:

- repeal of the *Wheat Marketing Act 1989*. The Act relied on the existence of the national Wheat Marketing Board, which is no longer in operation following changes to the Commonwealth's wheat marketing arrangements;
- amendment of the *Chicken Meat Industry Act 1977* to remove the need for approval of a processing plant, as health, safety and planning laws already cover this area. The obligation for growers and processors to enter into a prescribed form of fixed-price contract is also removed; and
- making the tax equivalent arrangements for Gold Corporation and subsidiaries consistent with other significant government businesses.

A second 'omnibus bill' is to be initiated to provide for the implementation of remaining NCP review recommendations that are outstanding.

The NCC's 2003 assessment of Western Australia's progress in implementing National Competition Policy reforms is of particular significance because it is the final assessment to be made under the terms of the Competition Principles Agreement, and may therefore determine the State's competition payments for 2003-04 and subsequent years.

APPENDIX 1

Detailed Financial Projections

This appendix contains detailed financial projections for the various sectors of the total public sector under the Government Finance Statistics (GFS) framework. The tables in this section also satisfy Uniform Presentation Framework (UPF) requirements (with the exception of general government sector taxes, contained in Chapter 4: *Financial Projections – Revenue*).

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Table 1

GENERAL GOVERNMENT						
Operating Statement						
	2001-02 ^(a)	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	Actual	Estimate	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
REVENUE						
Taxation	2,945	3,255	3,543	3,712	3,823	4,019
Current grants and subsidies	5,253	5,396	5,386	5,547	5,851	5,996
Capital grants	267	290	278	326	297	304
Sales of goods and services	905	946	930	921	923	930
Interest income	122	104	95	98	92	97
Revenue from public corporations						
Dividends	406	389	428	479	481	505
Tax equivalent payments	237	230	228	252	271	288
Royalty income	636	679	650	680	686	650
Other	264	238	235	213	214	227
Total	11,035	11,527	11,774	12,228	12,637	13,017
EXPENSES						
Gross operating expenses						
Salaries	4,209	4,397	4,615	4,751	4,824	4,937
Depreciation and amortisation	568	614	615	608	613	623
Superannuation	375	405	418	438	445	459
Other	2,660	2,814	2,837	3,047	3,033	3,102
Nominal superannuation interest	278	277	277	276	274	271
Other interest	214	215	214	230	234	235
Other property expenses	-	-	-	-	-	-
Current transfers	2,277	2,383	2,438	2,508	2,621	2,743
Capital transfers	257	245	276	259	254	258
Total	10,838	11,349	11,691	12,117	12,298	12,628
NET OPERATING BALANCE	197	178	83	111	339	389
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchase of non-financial assets	894	859	979	867	748	745
Sales of non-financial assets	-102	-118	-172	-150	-126	-120
less depreciation	568	614	615	608	613	623
plus change in inventories	3	-1	-	1	1	-
plus other movements in non-financial assets	-3	-	-	-	-	17
Total	223	126	193	110	10	19
NET LENDING/BORROWING	-27	52	-110	1	329	369
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	197	178	83	111	339	389
less provisions for doubtful debts	3	-	-	-	-	-
plus net gains on assets (including derivatives)	-8	48	22	-13	-15	-16
plus capitalised interest	-	-	-	-	-	-
less revaluation of superannuation liabilities	42	-	-	-	-	-
plus all other adjustments	-	-	-	-	-	-
AAS OPERATING RESULT	144	226	104	97	324	373

(a) Data quoted for 2001-02 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

Note: Columns may not add due to rounding.

Table 2

GENERAL GOVERNMENT
Balance Sheet at 30 June

	2002 ^(a)	2003	2004	2005	2006	2007
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	299	289	286	285	278	279
Advances paid	874	868	858	844	831	820
Investments, loans and placements	1,356	1,090	1,065	954	930	987
Other non-equity assets	734	724	715	761	754	751
Equity	15,867	16,309	16,721	17,115	17,592	18,075
<i>Total</i>	<i>19,131</i>	<i>19,280</i>	<i>19,645</i>	<i>19,958</i>	<i>20,385</i>	<i>20,910</i>
<i>Non-Financial assets</i>						
Land and fixed assets	26,775	27,219	27,590	27,926	28,147	28,293
Other non-financial assets	11	35	76	80	88	90
<i>Total</i>	<i>26,787</i>	<i>27,254</i>	<i>27,666</i>	<i>28,006</i>	<i>28,235</i>	<i>28,384</i>
TOTAL ASSETS	45,918	46,533	47,310	47,964	48,620	49,294
LIABILITIES						
Deposits held	298	226	229	224	226	265
Advances received	593	581	561	548	536	523
Borrowings	2,111	2,112	2,346	2,454	2,194	1,950
Unfunded superannuation liabilities	5,236	5,219	5,187	5,130	5,068	4,989
Other employee entitlements and provisions	1,128	1,159	1,224	1,201	1,260	1,312
Non-equity liabilities	545	567	543	566	571	565
TOTAL LIABILITIES	9,912	9,864	10,090	10,124	9,858	9,604
NET WORTH	36,006	36,669	37,220	37,840	38,762	39,690
<i>Memorandum Item: Net Debt</i>	<i>472</i>	<i>672</i>	<i>926</i>	<i>1,144</i>	<i>920</i>	<i>652</i>

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)

NET WORTH	36,006	36,669	37,220	37,840	38,762	39,690
<i>less equity (net worth) of PNFC and PFC sectors</i>	<i>15,705</i>	<i>16,007</i>	<i>16,331</i>	<i>16,673</i>	<i>17,095</i>	<i>17,511</i>
<i>less all other adjustments</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
AAS NET ASSETS	20,302	20,662	20,890	21,167	21,667	22,179

(a) Data quoted for 2002 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

Note: Columns may not add due to rounding.

Table 3

GENERAL GOVERNMENT
Cash Flow Statement

	2001-02 ^(a)	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	2,968	3,257	3,544	3,713	3,825	4,019
Receipts from sales of goods and services	891	908	943	937	943	948
Grants and subsidies received	5,531	5,656	5,672	5,873	6,148	6,295
Other receipts	2,116	2,149	2,117	2,168	2,257	2,273
<i>Total</i>	<i>11,506</i>	<i>11,970</i>	<i>12,277</i>	<i>12,691</i>	<i>13,173</i>	<i>13,536</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-7,376	-7,779	-8,029	-8,487	-8,492	-8,691
Grants and subsidies paid	-2,294	-2,492	-2,608	-2,633	-2,731	-2,850
Interest paid	-220	-211	-213	-230	-234	-234
Other payments	-855	-782	-771	-786	-809	-819
<i>Total</i>	<i>-10,746</i>	<i>-11,264</i>	<i>-11,621</i>	<i>-12,136</i>	<i>-12,266</i>	<i>-12,594</i>
Net Cash Flow from Operating Activities	760	706	655	556	907	942
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-894	-859	-979	-867	-748	-745
Sales of non-financial assets	102	118	172	150	126	120
<i>Total</i>	<i>-792</i>	<i>-741</i>	<i>-807</i>	<i>-717</i>	<i>-622</i>	<i>-625</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-93	-116	-74	-39	-45	-58
Liquidity purposes	-11	42	17	11	9	-6
<i>Total</i>	<i>-105</i>	<i>-74</i>	<i>-57</i>	<i>-28</i>	<i>-36</i>	<i>-64</i>
Net Cash Flow from Investing Activities	-896	-815	-864	-745	-658	-690
FINANCING ACTIVITIES						
Advances received (net)	-13	-	-8	-	-	-
Borrowings (net)	13	1	237	111	-254	-245
Deposits received (net)	-92	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	-25	-27	-21	-11	-12	6
<i>Total</i>	<i>-117</i>	<i>-26</i>	<i>208</i>	<i>100</i>	<i>-265</i>	<i>-239</i>
<i>Opening cash balance</i>	<i>1,167</i>	<i>913</i>	<i>779</i>	<i>778</i>	<i>688</i>	<i>671</i>
NET INCREASE IN CASH HELD^(b)	-253	-135	-1	-90	-17	14
<i>Closing cash balance</i>	<i>913</i>	<i>779</i>	<i>778</i>	<i>688</i>	<i>671</i>	<i>684</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>-31</i>	<i>-35</i>	<i>-152</i>	<i>-161</i>	<i>284</i>	<i>317</i>
Surplus	-31	-35	-152	-161	284	317

(a) Data quoted for 2001-02 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

(b) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 4

PUBLIC NON-FINANCIAL CORPORATIONS
Operating Statement

	2001-02 ^(a)	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Current grants and subsidies	504	538	549	581	640	667
Capital grants	110	120	118	142	143	144
Sales of goods and services	4,830	4,797	4,688	4,902	5,139	5,288
Interest income	103	96	76	78	79	77
Other	158	112	94	110	105	108
<i>Total</i>	5,705	5,663	5,526	5,813	6,105	6,283
EXPENSES						
Gross operating expenses						
Salaries	379	407	415	431	446	470
Depreciation and amortisation	570	590	611	640	653	667
Superannuation	45	43	43	44	45	47
Other gross operating expenses	3,291	3,218	3,018	3,164	3,322	3,377
Nominal superannuation interest	-	-	-	-	-	-
Other interest	404	406	411	452	469	487
Other property expenses	627	613	649	725	747	788
Current transfers	220	234	257	265	272	278
Capital transfers	20	83	-	-	-	21
<i>Total</i>	5,556	5,594	5,404	5,722	5,955	6,136
NET OPERATING BALANCE	148	69	122	91	150	148
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	1,110	1,469	1,735	1,398	1,319	1,338
Sales of non-financial assets	-308	-359	-384	-303	-295	-284
<i>less</i> depreciation	570	589	611	640	653	667
<i>plus</i> change in inventories	287	-128	43	-10	-6	-12
<i>plus</i> other movements in non-financial assets	-33	-82	-	-	-	-21
<i>Total</i>	487	311	783	445	365	355
NET LENDING/BORROWING	-339	-242	-661	-355	-215	-208

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)

NET OPERATING BALANCE	148	69	122	91	150	148
<i>less</i> provisions for doubtful debts	7	-	-	-	-	-
<i>plus</i> net gains on assets (including derivatives)	39	57	51	59	63	58
<i>plus</i> capitalised interest	14	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	14	-	-	-	-	-
<i>plus</i> all other adjustments	-	-	-	-	-	-
AAS OPERATING RESULT	181	126	173	150	213	206

(a) Data quoted for 2001-02 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

Note: Columns may not add due to rounding.

Table 5

PUBLIC NON-FINANCIAL CORPORATIONS
Balance Sheet at 30 June

	2002 ^(a) Actual \$m	2003 Estimated Actual \$m	2004 Budget Estimate \$m	2005 Forward Estimate \$m	2006 Forward Estimate \$m	2007 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	248	231	238	256	286	315
Advances paid	186	162	146	131	119	106
Investments, loans and placements	1,229	1,177	1,184	1,193	1,241	1,245
Other non-equity assets	576	683	831	850	874	899
Equity	8	1	1	1	1	1
Total	2,247	2,254	2,400	2,431	2,521	2,566
<i>Non-Financial assets</i>						
Land and fixed assets	21,500	22,142	23,232	23,878	24,530	25,215
Other non-financial assets	22	114	114	115	115	116
Total	21,522	22,256	23,346	23,993	24,645	25,330
TOTAL ASSETS	23,769	24,510	25,746	26,424	27,166	27,896
LIABILITIES						
Deposits held	2	1	1	1	1	1
Advances received	585	573	561	548	536	523
Borrowings	5,693	6,118	6,739	7,104	7,415	7,692
Unfunded superannuation liabilities	275	262	247	241	240	240
Other employee entitlements and provisions	235	193	186	215	225	229
Non-equity liabilities	1,268	1,262	1,574	1,552	1,562	1,583
TOTAL LIABILITIES	8,058	8,409	9,307	9,662	9,979	10,267
Shares and other contributed capital	163	302	390	442	497	564
NET WORTH	15,547	15,799	16,049	16,321	16,690	17,065
<i>Memorandum Item: Net Debt</i>	4,617	5,121	5,732	6,073	6,306	6,549

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)

NET WORTH	15,547	15,799	16,049	16,321	16,690	17,065
<i>plus</i> shares and other contributed capital	163	302	390	442	497	564
<i>less</i> all other adjustments	-	-	-	-	-	-
AAS NET ASSETS	15,710	16,101	16,439	16,762	17,187	17,629

(a) Data quoted for 2002 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

Note: Columns may not add due to rounding.

Table 6

PUBLIC NON-FINANCIAL CORPORATIONS
Cash Flow Statement

	2001-02 ^(a)	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Receipts from sales of goods and services	4,918	4,733	4,627	4,847	5,072	5,215
Grants and subsidies received	616	660	667	722	782	810
Other receipts	455	397	321	332	347	350
<i>Total</i>	<i>5,990</i>	<i>5,789</i>	<i>5,616</i>	<i>5,900</i>	<i>6,201</i>	<i>6,375</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-3,663	-3,634	-3,400	-3,532	-3,734	-3,824
Grants and subsidies paid	-162	-165	-141	-148	-150	-154
Interest paid	-356	-433	-415	-451	-471	-490
Other payments	-491	-426	-397	-409	-427	-430
<i>Total</i>	<i>-4,672</i>	<i>-4,658</i>	<i>-4,353</i>	<i>-4,540</i>	<i>-4,782</i>	<i>-4,898</i>
Net Cash Flow from Operating Activities	1,318	1,132	1,262	1,360	1,419	1,477
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-1,110	-1,469	-1,735	-1,398	-1,319	-1,338
Sales of non-financial assets	308	359	384	303	295	284
<i>Total</i>	<i>-802</i>	<i>-1,110</i>	<i>-1,351</i>	<i>-1,094</i>	<i>-1,024</i>	<i>-1,055</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	-37	-47	-14	-13	-2	-3
<i>Total</i>	<i>-37</i>	<i>-47</i>	<i>-14</i>	<i>-13</i>	<i>-2</i>	<i>-3</i>
Net Cash Flow from Investing Activities	-840	-1,157	-1,365	-1,108	-1,027	-1,058
FINANCING ACTIVITIES						
Advances received (net)	-11	-12	-12	-12	-13	-13
Borrowings (net)	89	438	630	374	318	283
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-626	-662	-641	-681	-756	-784
Other financing	155	187	140	103	108	103
<i>Total</i>	<i>-394</i>	<i>-48</i>	<i>116</i>	<i>-217</i>	<i>-343</i>	<i>-412</i>
<i>Opening cash balance</i>	<i>375</i>	<i>460</i>	<i>386</i>	<i>400</i>	<i>435</i>	<i>485</i>
NET INCREASE IN CASH HELD^(b)	84	-74	14	36	50	8
<i>Closing cash balance</i>	<i>460</i>	<i>386</i>	<i>400</i>	<i>435</i>	<i>485</i>	<i>493</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>-111</i>	<i>-640</i>	<i>-731</i>	<i>-416</i>	<i>-361</i>	<i>-362</i>
<i>Surplus</i>	<i>-111</i>	<i>-640</i>	<i>-731</i>	<i>-416</i>	<i>-361</i>	<i>-362</i>

(a) Data quoted for 2001-02 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

(b) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 7

TOTAL NON-FINANCIAL PUBLIC SECTOR
Operating Statement

	2001-02 ^(a)	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Taxation	2,803	3,115	3,402	3,566	3,673	3,865
Current grants and subsidies	5,253	5,396	5,386	5,547	5,851	5,997
Capital grants	267	290	278	326	297	304
Sales of goods and services	5,599	5,613	5,472	5,675	5,915	6,081
Interest income	193	167	141	146	141	145
Royalty income	636	679	650	680	686	650
Other	416	336	317	308	303	302
<i>Total</i>	15,166	15,597	15,647	16,248	16,866	17,344
EXPENSES						
Gross operating expenses						
Salaries	4,588	4,804	5,030	5,182	5,271	5,407
Depreciation and amortisation	1,138	1,204	1,226	1,248	1,266	1,290
Superannuation	421	448	461	481	490	506
Other gross operating expenses	5,716	5,803	5,608	5,956	6,099	6,231
Nominal superannuation interest	278	277	277	276	274	271
Other interest	586	588	595	652	674	693
Other property expenses	-	-	-	-	-	-
Current transfers	1,927	2,019	2,087	2,133	2,192	2,292
Capital transfers	167	208	158	117	111	118
<i>Total</i>	14,821	15,350	15,442	16,046	16,376	16,807
NET OPERATING BALANCE	345	247	204	202	489	537
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	2,004	2,329	2,714	2,265	2,067	2,083
Sales of non-financial assets	-410	-477	-555	-453	-420	-403
less depreciation	1,138	1,204	1,226	1,248	1,266	1,290
plus change in inventories	337	-128	43	-9	-5	-11
plus other movements in non-financial assets	-36	-82	-	-	-	-4
<i>Total</i>	757	437	976	555	376	375
NET LENDING/BORROWING	-412	-190	-771	-353	114	162

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)

NET OPERATING BALANCE	345	247	204	202	489	537
less provisions for doubtful debts	11	-	-	-	-	-
plus net gains on assets (including derivatives)	31	106	73	45	47	42
plus capitalised interest	14	-	-	-	-	-
less revaluation of superannuation liabilities	56	-	-	-	-	-
plus all other adjustments	-	-	-	-	-	-
AAS OPERATING RESULT	324	352	277	247	537	579

(a) Data quoted for 2001-02 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

Note: Columns may not add due to rounding.

Table 8

TOTAL NON-FINANCIAL PUBLIC SECTOR
Balance Sheet at 30 June

	2002 ^(a)	2003	2004	2005	2006	2007
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	364	373	376	401	424	418
Advances paid	475	457	444	427	415	404
Investments, loans and placements	2,585	2,267	2,249	2,147	2,170	2,232
Other non-equity assets	1,113	1,241	1,370	1,391	1,417	1,437
Equity	165	209	282	353	406	447
Total	4,702	4,547	4,722	4,719	4,832	4,937
<i>Non-Financial assets</i>						
Land and fixed assets	48,275	49,360	50,822	51,804	52,677	53,508
Other non-financial assets	33	149	190	195	203	206
Total	48,309	49,509	51,012	51,999	52,880	53,714
TOTAL ASSETS	53,010	54,057	55,734	56,718	57,712	58,651
LIABILITIES						
Deposits held	116	80	83	85	88	90
Advances received	593	581	561	548	536	523
Borrowings	7,804	8,230	9,085	9,558	9,612	9,641
Unfunded superannuation liabilities	5,511	5,481	5,435	5,371	5,308	5,229
Other employee entitlements and provisions	1,269	1,297	1,363	1,342	1,402	1,455
Non-equity liabilities	1,711	1,719	1,988	1,973	2,005	2,022
TOTAL LIABILITIES	17,004	17,388	18,514	18,878	18,950	18,961
NET WORTH	36,007	36,669	37,220	37,840	38,762	39,690
<i>Memorandum Item: Net Debt</i>	5,089	5,793	6,659	7,217	7,226	7,201

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)

NET WORTH	36,007	36,669	37,220	37,840	38,762	39,690
<i>less equity (net worth) of PNFC and PFC sectors</i>	157	208	281	352	405	446
<i>less all other adjustments</i>	-	-	-	-	-	-
AAS NET ASSETS	35,849	36,461	36,939	37,488	38,357	39,244

(a) Data quoted for 2002 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

Note: Columns may not add due to rounding.

Table 9

TOTAL NON-FINANCIAL PUBLIC SECTOR
Cash Flow Statement

	2001-02 ^(a)	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	2,829	3,121	3,404	3,568	3,675	3,874
Receipts from sales of goods and services	5,656	5,519	5,431	5,639	5,870	6,026
Grants and subsidies received	5,531	5,656	5,673	5,873	6,148	6,296
Other receipts	1,892	1,836	1,747	1,768	1,798	1,789
Total	15,908	16,133	16,255	16,848	17,492	17,984
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-10,876	-11,281	-11,281	-11,864	-12,072	-12,368
Grants and subsidies paid	-1,828	-1,991	-2,069	-2,047	-2,087	-2,181
Interest paid	-545	-613	-598	-651	-675	-696
Other payments	-1,207	-1,072	-1,030	-1,052	-1,088	-1,105
Total	-14,456	-14,957	-14,978	-15,614	-15,922	-16,350
Net Cash Flow from Operating Activities	1,452	1,176	1,276	1,235	1,570	1,635
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-2,004	-2,329	-2,714	-2,265	-2,067	-2,083
Sales of non-financial assets	410	477	555	453	420	403
Total	-1,594	-1,851	-2,159	-1,812	-1,646	-1,680
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	16	15	15	12	10	9
Liquidity purposes	-49	-5	3	-1	7	-9
Total	-33	10	18	11	17	-1
Net Cash Flow from Investing Activities	-1,627	-1,841	-2,141	-1,801	-1,629	-1,681
FINANCING ACTIVITIES						
Advances received (net)	-25	-12	-20	-12	-13	-13
Borrowings (net)	101	440	867	484	64	38
Deposits received (net)	-92	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	21	28	31	40	41	42
Total	6	456	878	512	92	67
<i>Opening cash balance</i>	<i>1,883</i>	<i>1,714</i>	<i>1,505</i>	<i>1,518</i>	<i>1,463</i>	<i>1,496</i>
NET INCREASE IN CASH HELD^(b)	-169	-209	13	-54	33	21
<i>Closing cash balance</i>	<i>1,714</i>	<i>1,505</i>	<i>1,518</i>	<i>1,463</i>	<i>1,496</i>	<i>1,517</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>						
	-142	-675	-883	-577	-77	-45
Surplus	-142	-675	-883	-577	-77	-45

(a) Data quoted for 2001-02 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

(b) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 10

PUBLIC FINANCIAL CORPORATIONS
Operating Statement

	2001-02 ^(a)	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
REVENUE						
Current grants and subsidies	-	1	1	1	1	1
Capital grants	-	-	-	-	-	-
Sales of goods and services	394	516	605	649	686	739
Interest income	833	938	983	1,025	1,038	1,041
Other	27	2	-	-	-	-
<i>Total</i>	<i>1,254</i>	<i>1,457</i>	<i>1,589</i>	<i>1,675</i>	<i>1,724</i>	<i>1,781</i>
EXPENSES						
Gross operating expenses						
Salaries	18	19	20	21	22	22
Depreciation and amortisation	3	4	4	4	4	4
Superannuation	2	2	2	2	2	2
Other gross operating expenses	483	522	568	623	680	748
Nominal superannuation interest	-	-	-	-	-	-
Other interest	699	760	805	842	852	852
Other property expenses	15	7	8	5	5	4
Current transfers	2	3	3	3	3	3
Capital transfers	-	4	5	3	3	3
<i>Total</i>	<i>1,222</i>	<i>1,321</i>	<i>1,414</i>	<i>1,503</i>	<i>1,571</i>	<i>1,639</i>
NET OPERATING BALANCE	32	136	175	172	154	142
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	5	6	2	2	2	3
Sales of non-financial assets	-1	-	-	-	-	-
<i>less</i> depreciation	3	4	4	4	4	4
<i>plus</i> change in inventories	-	-	-	-	-	-
<i>plus</i> other movements in non-financial assets	-	-	-	-	-	-
<i>Total</i>	<i>1</i>	<i>2</i>	<i>-2</i>	<i>-1</i>	<i>-2</i>	<i>-1</i>
NET LENDING/BORROWING	31	134	177	173	155	143
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	32	136	175	172	154	142
<i>less</i> provisions for doubtful debts	-	-	1	-	-	-
<i>plus</i> net gains on assets (including derivatives)	-64	-	-	-	-	-
<i>plus</i> capitalised interest	-	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	-	-	-	-	-	-
<i>plus</i> all other adjustments	-	-	-	-	-	-
AAS OPERATING RESULT	-32	135	174	172	153	141

(a) Data quoted for 2001-02 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

Note: Columns may not add due to rounding.

Table 11

PUBLIC FINANCIAL CORPORATIONS
Balance Sheet at 30 June

	2002 ^(a) Actual \$m	2003 Estimated Actual \$m	2004 Budget Estimate \$m	2005 Forward Estimate \$m	2006 Forward Estimate \$m	2007 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	16	38	38	42	45	49
Advances paid	1,463	1,473	1,653	1,663	1,673	1,683
Investments, loans and placements	11,226	12,136	12,688	13,007	13,280	13,527
Other non-equity assets	472	459	470	485	497	507
Equity	606	636	688	751	817	891
Total	13,783	14,742	15,538	15,949	16,314	16,656
<i>Non-Financial assets</i>						
Land and fixed assets	302	317	337	363	389	419
Other non-financial assets	-	16	16	16	17	16
Total	302	332	353	379	406	436
TOTAL ASSETS	14,085	15,074	15,891	16,328	16,720	17,092
LIABILITIES						
Deposits held	-	-	-	-	-	-
Advances received	3	3	3	3	3	3
Borrowings	12,103	12,858	13,678	13,950	14,173	14,362
Unfunded superannuation liabilities	17	17	17	17	17	17
Other employee entitlements and provisions	7	7	7	7	7	7
Non-equity liabilities	1,797	1,980	1,904	1,998	2,114	2,256
TOTAL LIABILITIES	13,927	14,866	15,609	15,976	16,314	16,645
Shares and other contributed capital	-	-	-	-	-	-
NET WORTH	157	208	281	352	405	446
<i>Memorandum Item: Net Debt</i>	-598	-785	-699	-759	-822	-893

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)

NET WORTH	157	208	281	352	405	446
<i>less</i> all other adjustments	-	-	-	-	-	-
<i>plus</i> shares and other contributed capital	-	-	-	-	-	-
AAS NET ASSETS	157	208	281	352	405	446

(a) Data quoted for 2002 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

Note: Columns may not add due to rounding.

Table 12

PUBLIC FINANCIAL CORPORATIONS
Cash Flow Statement

	2001-02 ^(a)	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Receipts from sales of goods and services	485	508	567	613	653	706
Grants and subsidies received	-	1	1	1	1	1
Other receipts	822	913	959	994	1,006	1,010
<i>Total</i>	<i>1,307</i>	<i>1,422</i>	<i>1,526</i>	<i>1,608</i>	<i>1,659</i>	<i>1,717</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-494	-500	-537	-560	-591	-632
Grants and subsidies paid	-1	-1	-3	-	-	-
Interest paid	-734	-757	-807	-843	-852	-852
Other payments	-59	-284	-80	-86	-92	-98
<i>Total</i>	<i>-1,289</i>	<i>-1,542</i>	<i>-1,428</i>	<i>-1,489</i>	<i>-1,535</i>	<i>-1,582</i>
Net Cash Flow from Operating Activities	18	-121	98	118	125	134
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-5	-6	-2	-2	-2	-3
Sales of non-financial assets	1	-	-	-	-	-
<i>Total</i>	<i>-4</i>	<i>-6</i>	<i>-2</i>	<i>-2</i>	<i>-2</i>	<i>-3</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	-24	-80	-265	-116	-124	-132
<i>Total</i>	<i>-24</i>	<i>-80</i>	<i>-265</i>	<i>-116</i>	<i>-124</i>	<i>-132</i>
Net Cash Flow from Investing Activities	-28	-86	-267	-119	-126	-135
FINANCING ACTIVITIES						
Advances received (net)	-	-	-	-	-	-
Borrowings (net)	-319	216	178	10	9	9
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-15	-7	-8	-5	-5	-4
Other financing	-	205	-	-	-	-
<i>Total</i>	<i>-335</i>	<i>413</i>	<i>170</i>	<i>5</i>	<i>4</i>	<i>4</i>
<i>Opening cash balance</i>	<i>2,916</i>	<i>2,571</i>	<i>2,778</i>	<i>2,778</i>	<i>2,782</i>	<i>2,785</i>
NET INCREASE IN CASH HELD^(b)	-345	207	1	4	3	4
<i>Closing cash balance</i>	<i>2,571</i>	<i>2,778</i>	<i>2,778</i>	<i>2,782</i>	<i>2,785</i>	<i>2,789</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	<i>-1</i>	<i>-134</i>	<i>88</i>	<i>110</i>	<i>117</i>	<i>127</i>
<i>less finance leases and similar arrangements</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Surplus	-1	-134	88	110	117	127

(a) Data quoted for 2001-02 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

(b) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 13

TOTAL PUBLIC SECTOR
Operating Statement

	2001-02 ^(a)	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
REVENUE						
Taxation	2,802	3,113	3,401	3,564	3,671	3,863
Current grants and subsidies	5,253	5,397	5,386	5,547	5,851	5,997
Capital grants	267	290	278	326	297	304
Sales of goods and services	5,883	5,995	5,930	6,164	6,431	6,636
Interest income	487	560	545	539	526	520
Royalty income	636	679	650	680	686	650
Other	424	328	308	302	298	297
<i>Total</i>	15,752	16,363	16,498	17,122	17,759	18,267
EXPENSES						
Gross operating expenses						
Salaries	4,606	4,823	5,050	5,203	5,293	5,429
Depreciation and amortisation	1,141	1,208	1,230	1,252	1,270	1,294
Superannuation	423	450	463	483	492	508
Other gross operating expenses	6,090	6,191	6,028	6,419	6,608	6,795
Nominal superannuation interest	278	277	277	276	274	271
Other interest	745	804	821	862	873	879
Other property expenses	-	-	-	-	-	-
Current transfers	1,924	2,017	2,087	2,132	2,192	2,292
Capital transfers	167	211	162	121	115	121
<i>Total</i>	15,375	15,980	16,119	16,749	17,116	17,589
NET OPERATING BALANCE	377	383	379	373	643	678
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	2,010	2,335	2,717	2,268	2,069	2,086
Sales of non-financial assets	-411	-477	-555	-453	-420	-403
less depreciation	1,141	1,207	1,230	1,252	1,270	1,294
plus change in inventories	337	-128	43	-9	-5	-11
plus other movements in non-financial assets	-36	-82	-	-	-	-4
<i>Total</i>	758	439	974	554	374	373
NET LENDING/BORROWING	-381	-56	-595	-180	269	305

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)

NET OPERATING BALANCE	377	383	379	373	643	678
less provisions for doubtful debts	11	1	1	1	1	1
plus net gains on assets (including derivatives)	-33	106	73	45	47	42
plus capitalised interest	14	-	-	-	-	-
less revaluation of superannuation liabilities	56	-	-	-	-	-
plus all other adjustments	-	-	-	-	-	-
AAS OPERATING RESULT	292	488	451	418	690	720

(a) Data quoted for 2001-02 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

Note: Columns may not add due to rounding.

Table 14

TOTAL PUBLIC SECTOR
Balance Sheet at 30 June

	2002 ^(a)	2003	2004	2005	2006	2007
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	380	411	415	443	470	467
Advances paid	1,934	1,927	2,093	2,087	2,084	2,083
Investments, loans and placements	5,177	5,333	5,062	4,811	4,879	5,036
Other non-equity assets	1,328	1,524	1,679	1,724	1,774	1,812
Equity	614	637	689	752	818	892
Total	9,434	9,831	9,938	9,817	10,025	10,290
<i>Non-Financial assets</i>						
Land and fixed assets	48,577	49,677	51,158	52,167	53,066	53,927
Other non-financial assets	33	165	206	211	220	222
Total	48,610	49,842	51,365	52,378	53,286	54,150
TOTAL ASSETS	58,044	59,673	61,302	62,195	63,311	64,439
LIABILITIES						
Deposits held	116	80	82	85	88	90
Advances received	593	581	561	548	536	523
Borrowings	11,274	12,019	12,887	13,166	13,214	13,281
Unfunded superannuation liabilities	5,528	5,498	5,451	5,388	5,325	5,246
Other employee entitlements and provisions	1,274	1,302	1,368	1,347	1,407	1,461
Non-equity liabilities	3,254	3,525	3,732	3,821	3,981	4,149
TOTAL LIABILITIES	22,039	23,005	24,081	24,355	24,550	24,750
NET WORTH	36,006	36,668	37,221	37,840	38,761	39,690
<i>Memorandum Item: Net Debt</i>	4,491	5,009	5,960	6,458	6,404	6,308

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)

NET WORTH	36,006	36,668	37,221	37,840	38,761	39,690
<i>less all other adjustments</i>	-	-	-	-	-	-
AAS NET ASSETS	36,006	36,669	37,220	37,840	38,762	39,690

(a) Data quoted for 2002 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

Note: Columns may not add due to rounding.

Table 15

TOTAL PUBLIC SECTOR
Cash Flow Statement

	2001-02 ^(a)	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	2,827	3,095	3,375	3,537	3,643	3,840
Receipts from sales of goods and services	6,023	5,902	5,865	6,100	6,358	6,548
Grants and subsidies received	5,531	5,657	5,673	5,873	6,148	6,296
Other receipts	2,154	2,135	2,103	2,118	2,136	2,118
<i>Total</i>	<i>16,535</i>	<i>16,788</i>	<i>17,016</i>	<i>17,628</i>	<i>18,285</i>	<i>18,802</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-11,252	-11,656	-11,685	-12,271	-12,497	-12,816
Grants and subsidies paid	-1,826	-1,992	-2,072	-2,046	-2,086	-2,181
Interest paid	-768	-787	-827	-866	-874	-878
Other payments	-1,234	-1,306	-1,065	-1,096	-1,139	-1,163
<i>Total</i>	<i>-15,080</i>	<i>-15,741</i>	<i>-15,649</i>	<i>-16,280</i>	<i>-16,596</i>	<i>-17,037</i>
Net Cash Flow from Operating Activities	1,455	1,048	1,366	1,347	1,690	1,765
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-2,010	-2,335	-2,717	-2,268	-2,069	-2,086
Sales of non-financial assets	411	477	555	453	420	403
<i>Total</i>	<i>-1,598</i>	<i>-1,857</i>	<i>-2,161</i>	<i>-1,815</i>	<i>-1,649</i>	<i>-1,682</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	16	15	15	12	10	9
Liquidity purposes	-73	-85	-262	-118	-117	-142
<i>Total</i>	<i>-57</i>	<i>-69</i>	<i>-247</i>	<i>-105</i>	<i>-106</i>	<i>-133</i>
Net Cash Flow from Investing Activities	-1,655	-1,926	-2,409	-1,920	-1,755	-1,816
FINANCING ACTIVITIES						
Advances received (net)	-25	-12	-20	-12	-13	-13
Borrowings (net)	-218	656	1,045	494	73	46
Deposits received (net)	-92	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	21	233	31	40	41	42
<i>Total</i>	<i>-314</i>	<i>877</i>	<i>1,056</i>	<i>522</i>	<i>102</i>	<i>76</i>
<i>Opening cash balance</i>	<i>4,456</i>	<i>3,942</i>	<i>3,940</i>	<i>3,954</i>	<i>3,903</i>	<i>3,939</i>
NET INCREASE IN CASH HELD^(b)	-514	-2	13	-50	36	25
<i>Closing cash balance</i>	<i>3,942</i>	<i>3,940</i>	<i>3,954</i>	<i>3,903</i>	<i>3,939</i>	<i>3,964</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	<i>-143</i>	<i>-809</i>	<i>-795</i>	<i>-467</i>	<i>41</i>	<i>82</i>
<i>less finance leases and similar arrangements</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Surplus	-143	-809	-795	-467	41	82

(a) Data quoted for 2001-02 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

(b) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 16

LOAN COUNCIL ALLOCATIONS ^(a)
Western Australia

	2002-03 Budget	2002-03 Estimated Actual	2003-04 Budget Estimate
	\$m	\$m	\$m
General Government deficit	95	35	152
Public Non-financial Corporations' net financing requirement	555	641	731
Net Capital Advances	15	15	15
<i>Total non-financial public sector deficit</i>	<i>635</i>	<i>660</i>	<i>868</i>
<i>Memorandum Items ^(b)</i>	<i>-155</i>	<i>-310</i>	<i>-132</i>
Loan Council Allocation	480	350	736

(a) The deficit/surplus data quoted here are consistent with the treatment of net capital advances paid (eg. loans to private schools) as outlays. This is consistent with Loan Council treatment but differs from the GFS treatment used in the rest of this document (which treats net capital advances as financing transactions).

(b) Memorandum items are used to adjust the ABS deficit/surplus to include in LCAs certain transactions (eg. 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 (eg. the funding of more than emerging costs under public superannuation schemes).

Note: Columns may not add due to rounding.

Agency Classification

The following is a comprehensive list of State government agencies covered by the whole-of-government forward estimates, classified by sector under the GFS framework.

This list differs from the portfolio list that appears in Budget Paper No. 2. The listing in that budget paper covers only those agencies which receive appropriations and/or have a capital works program.

General Government

Agricultural Practices Board of Western Australia	Kimberley College of TAFE
Agriculture Protection Board of Western Australia	Landcare Trust
Agricultural Produce Commission	Law Reform Commission of Western Australia
Anti-Corruption Commission	Legal Aid Commission of Western Australia
Anzac Day Trust	Legal Costs Committee
Betting Control Board	Legislative Assembly
Botanic Gardens and Parks Authority	Legislative Council
Building and Construction Industry Training Board	Local Health Authorities Analytical Committee
Central TAFE	Mid-West Development Commission
Central West College of TAFE	Minerals and Energy Research Institute of Western Australia
Challenger TAFE	Office of Energy
Commissioner of Main Roads	Office of Health Review
Country High School Hostels Authority	Office of the Auditor General
Curriculum Council	Office of the Director of Public Prosecutions
C.Y. O'Connor College of TAFE	Office of the Information Commissioner
Department of Agriculture	Office of the Inspector of Custodial Services
Department for Community Development	Office of the Public Sector Standards Commissioner
Department of Conservation and Land Management	Office of Water Regulation
Department of Consumer and Employment Protection	Parliamentary Services Department
Department of Culture and the Arts	Peel Development Commission
Department of Education and Training	Perth International Centre for Application of Solar Energy
Department of Education Services	Pilbara College of TAFE
Department of Environmental Protection	Pilbara Development Commission
Department of Fisheries	Police Service
Department of Health	Professional Standards Council
Department of Housing and Works	Racecourse Development Trust
Department of Indigenous Affairs	Racing Penalties Appeal Tribunal of Western Australia
Department of Industry and Resources	Recreation Camps and Reserve Board
Department of Justice	Royal Commission Into Whether There Has Been Any Corrupt or Criminal Conduct by Western Australian Police Officers
Department of Land Administration	Rural Business Development Corporation
Department of Local Government and Regional Development	Salaries and Allowances
Department for Planning and Infrastructure	Small Business Development Corporation
Department of the Premier and Cabinet	South West Development Commission
Department of Racing, Gaming and Liquor	South West Regional College of TAFE
Department of Sport and Recreation	State Supply Commission
Department of the Registrar, Western Australian Industrial Relations Commission	Swan College of TAFE
Department of Treasury and Finance	Swan River Trust
Disability Services Commission	The Aboriginal Affairs Planning Authority
Equal Opportunity Commission	The Burswood Park Board
Fire and Emergency Services Authority	The Coal Miner's Welfare Board of Western Australia
Gaming Commission of Western Australia	The National Trust of Australia (W.A.)
Gascoyne Development Commission	The Parliamentary Commissioner for Administrative Investigations
Goldfields-Esperance Development Commission	The Potato Growing Industry Trust Fund Advisory
Governor's Establishment	The Poultry Industry Trust Fund Committee
Great Southern Development Commission	Trustees of the Public Education Endowment
Great Southern TAFE	Water and Rivers Commission
Heritage Council of Western Australia	
Keep Australia Beautiful Council (W.A.)	
Kimberley Development Commission	

General Government (cont.)

West Coast College of TAFE
 Western Australian Boxing Commission
 Western Australian Building Management Authority
 Western Australian Electoral Commission
 Western Australian Greyhound Racing Authority
 Western Australian Health Promotion Foundation
 Western Australian Independent Gas Pipelines Access
 Regulator

Western Australian Independent Rail Access Regulator
 Western Australian Institute of Sport
 Western Australian Meat Industry Authority
 Western Australian Sports Centre Trust
 Western Australian Tourism Commission
 Wheatbelt Development Commission
 Workers' Compensation and Rehabilitation
 Commission
 Zoological Parks Authority

Public Non-Financial Corporations

Albany Port Authority
 Animal Resources Authority
 Armadale Redevelopment Authority
 Broome Port Authority
 Bunbury Port Authority
 Bunbury Water Board
 Busselton Water Board
 Dampier Port Authority
 East Perth Redevelopment Authority
 Electricity Corporation (Western Power Corporation)
 Esperance Port Authority
 Forest Products Commission
 Fremantle Cemetery Board
 Fremantle Port Authority
 Geraldton Port Authority
 Gold Corporation
 Government Employees Housing Authority
 Lotteries Commission

Metropolitan (Perth) Passenger Transport Trust
 Metropolitan Cemeteries Board
 Midland Redevelopment Authority
 Perth Market Authority
 Port Hedland Port Authority
 Potato Marketing Corporation of Western Australia
 Rottnest Island Authority
 Subiaco Redevelopment Authority
 The Eastern Goldfields Transport Board
 The State Housing Commission
 The Western Australian Government Railways
 Commission
 Totalisator Agency Board
 Water Corporation
 Western Australian Coastal Shipping Commission
 Western Australian Egg Marketing Board
 Western Australian Land Authority

Public Financial Corporations

Community Insurance Fund
 Country Housing Authority
 Insurance Commission of Western Australia
 Keystart Housing Scheme, comprising:
 Keystart Bonds Ltd
 Keystart Housing Scheme Trust
 Keystart Loans Ltd
 Keystart Support Pty Ltd
 Keystart Support (Subsidiary) Pty Ltd
 Keystart Support Trust
 Riskcover
 Western Australian Treasury Corporation

Agencies Outside the State's Public Sector

Some State agencies are not covered in the whole-of-government reporting framework as defined under Australian Accounting Standards and/or the GFS framework. The entities listed below, which administer superannuation and like funds and/or hold private funds in trust or fidelity type funds, are examples of such agencies not included in the definition of the public sector used in this publication. This is because the assets are not available for the benefit of, and/or are not controlled by, the State.

Coal Industry Superannuation Board
Construction Industry Long Service Leave Payments Board
Curtin University of Technology and its subsidiaries
Edith Cowan University
Fire and Emergency Services Superannuation Board
Government Employees Superannuation Board
Legal Contribution Trust
Murdoch University and its subsidiaries
Public Trustee
The University of Western Australia and its subsidiaries
Other Professional and Trade Supervisory and Regulatory
Boards
Legal Contribution Trust

APPENDIX 2

General Government Operating Revenue

This appendix contains revenue estimates prepared on an accrual basis consistent with Government Finance Statistics (GFS).

Table 1

OPERATING REVENUE						
General Government						
	2001-02 ^(a)	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
TAXATION						
Taxes on employers' payroll and labour force						
<i>Payroll tax</i>	900	996	1,060	1,128	1,201	1,278
Property taxes						
<i>Land tax</i>	226	265	277	297	317	340
Conveyances and transfers	647	722	842	893	943	990
Mortgages	85	92	95	100	106	112
Other stamp duties	54	56	32	33	35	37
<i>Total stamp duties on financial and capital transactions</i>	787	870	969	1,027	1,085	1,139
Financial Institutions Duty	16	-	-	-	-	-
Debits Tax	96	96	96	96	8	-
<i>Total financial institutions taxes</i>	112	96	96	96	8	-
Metropolitan Region						
Improvement Tax	38	40	43	46	49	52
Emergency Services Levy	-	-	76	118	124	130
Loan guarantee fees	10	10	11	11	12	12
<i>Total other property taxes</i>	47	50	129	175	184	194
Taxes on provision of goods and services						
Lotteries Commission	88	89	93	95	97	98
less rebates	-17	-18	-20	-20	-21	-21
Video lottery terminals	-	1	1	1	1	1
Casino Tax	44	41	47	47	48	48
less rebates	-28	-25	-28	-29	-29	-29
TAB betting tax	44	47	49	53	55	57
less rebates	-19	-21	-22	-23	-24	-25
Other gambling	-	-	-	-	-	-
<i>Total taxes on gambling</i>	113	114	119	124	127	129
Contribution to fire brigades	64	69	30	-	-	-
Stamp duty on insurance						
policies	176	230	289	273	285	298
Other	27	19	10	7	4	4
<i>Total taxes on insurance</i>	267	318	330	280	289	302
Taxes on use of goods and performance of activities						
Stamp duty on vehicle						
licences	181	225	230	240	251	262
Permits - oversize vehicles and loads	2	2	2	2	2	2
Motor vehicle recording fee	38	40	41	43	44	44
Motor vehicle registrations	272	279	290	302	316	330
<i>Total motor vehicle taxes</i>	493	545	563	586	612	637
Total Taxation	2,945	3,255	3,543	3,712	3,823	4,019

Table 1 (cont.)

OPERATING REVENUE						
General Government						
	2001-02 ^(a)	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
CURRENT GRANTS AND SUBSIDIES						
<i>General Purpose Grants</i>						
GST revenue:						
Grants	2,518	2,811	2,946	3,082	3,208	3,351
Budget balancing assistance	352	133	61	-	59	-
Competition reform	71	72	75	77	79	81
<i>Specific Purpose Grants to the State</i>						
Australian Health Care						
Agreement	659	689	734	782	833	833
Other health	211	274	230	237	239	250
Schools assistance –						
government schools	185	185	189	195	205	210
Vocational training	89	83	86	91	89	89
Roads	55	29	28	32	30	29
Other	162	117	99	95	89	67
<i>Specific Purpose Grants through the State</i>						
Schools assistance –						
non-government schools	357	376	414	445	479	512
Local government grants	99	98	102	105	109	113
Local government roads	70	67	70	72	75	78
First Home Owner Grants - Extension	52	5	-	-	-	-
<i>Other Grants</i>						
North West Shelf royalties	370	457	355	335	358	384
Total Current Grants and Subsidies	5,253	5,396	5,386	5,547	5,851	5,996
CAPITAL GRANTS						
<i>Specific Purpose Grants to the State</i>						
Roads	41	50	39	66	30	37
Schools assistance –						
government schools	23	23	23	23	23	23
Vocational training	14	21	20	16	18	14
Other	180	188	187	212	216	220
<i>Specific Purpose Grants through the State</i>						
Schools assistance –						
non-government schools	10	9	9	9	10	10
Total Capital Grants	267	290	278	326	297	304

Table 1 (cont.)

OPERATING REVENUE						
General Government						
	2001-02 ^(a)	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
SALES OF GOODS AND SERVICES						
Department of Planning and Infrastructure	139	154	157	155	156	156
Department of Health	141	149	143	144	145	146
Department of Education and Training	103	107	104	102	103	103
TAFE Colleges	75	74	79	81	86	84
Department of Land Administration	53	62	62	66	64	65
Department of Justice	48	48	49	50	51	51
Department of Conservation and Land Management	43	26	26	26	26	26
State Supply Commission	50	59	26	3	1	-
Department of Consumer and Employment Protection	16	18	23	23	23	23
Department of Fisheries	21	21	22	22	22	22
Department of Culture and the Arts	18	13	14	14	14	14
Police Service	15	11	13	12	12	12
All Others	183	207	212	222	220	227
Total Sale of Goods and Services	905	946	930	921	923	930
INTEREST INCOME	122	104	95	98	92	97
REVENUE FROM PUBLIC CORPORATIONS						
Dividends	406	389	428	479	481	505
Tax Equivalent Regime	237	230	228	252	271	288
Total Revenue from Public Corporations	643	619	657	731	752	793
ROYALTY INCOME						
Revenue from Territorial less petroleum and other refunds	651	698	670	690	692	655
	-15	-19	-20	-10	-7	-5
Total Royalty Income	636	679	650	680	686	650
OTHER						
Lease rentals	37	37	38	38	38	38
Fines	85	76	77	77	77	77
Revenue not elsewhere counted	142	125	121	98	99	113
Total Other	264	238	235	213	214	227
GRAND TOTAL	11,035	11,527	11,774	12,228	12,637	13,017

(a) Data quoted for 2001-02 update those published in the 2001-02 *Government Financial Results Report* and the 2002-03 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2001-02 *Consolidated Financial Statements*, released in February 2003.

Note: Columns may not add due to rounding.

APPENDIX 3

2002-03 General Government Operating Revenue

This appendix contains general government revenue estimates for the 2002-03 financial year comparing the original 2002-03 Budget estimates, mid-year review revisions and the current estimated outturn.

Table 1

2002-03 OPERATING REVENUE
General Government

	2002-03 Budget Estimate \$m	2002-03 Mid-Year Revision \$m	2002-03 Estimated Actual \$m
TAXATION			
Taxes on employers' payroll and labour force			
<i>Payroll tax</i>	1,022	992	996
Property taxes			
<i>Land tax</i>	267	267	265
Conveyances and transfers	652	652	722
Mortgages	90	89	92
Other stamp duties	58	58	56
<i>Total stamp duties on financial and capital transactions</i>	799	799	870
Financial Institutions Duty	-	-	-
Debits Tax	98	98	96
<i>Total financial institutions taxes</i>	98	98	96
Metropolitan Region Improvement Tax	41	41	40
Emergency Services Levy	-	-	-
Loan guarantee fees	10	10	10
<i>Total other property taxes</i>	51	51	50
Taxes on provision of goods and services			
Lotteries Commission	91	89	89
less rebates	-18	-18	-18
Video lottery terminals	1	1	1
Casino Tax	46	46	41
less rebates	-27	-27	-25
TAB betting tax	46	46	47
less rebates	-21	-21	-21
Other gambling	-	-	-
<i>Total taxes on gambling</i>	117	117	114
Contribution to fire brigades	65	69	69
Stamp duty on insurance policies	231	230	230
Other	10	19	19
<i>Total taxes on insurance</i>	306	318	318
Taxes on use of goods and performance of activities			
Stamp duty on vehicle licences	214	219	225
Permits - oversize vehicles and loads	2	2	2
Motor vehicle recording fee	40	40	40
Motor vehicle registrations	279	279	279
<i>Total motor vehicle taxes</i>	535	540	545
Total Taxation	3,194	3,179	3,255
CURRENT GRANTS AND SUBSIDIES			
<i>General Purpose Grants</i>			
GST revenue:			
Grants	2,821	2,796	2,811
Budget balancing assistance	117	142	133
Competition reform	73	72	72
<i>Specific Purpose Grants to the State</i>			
Australian Health Care Agreement	689	689	689
Other health	203	264	274
Schools assistance – government schools	172	181	185
Vocational training	87	86	83
Roads	28	28	29
Other	134	132	117

2002-03 OPERATING REVENUE
General Government

Table 1 (cont.)

	2002-03 Budget Estimate \$m	2002-03 Mid-Year Revision \$m	2002-03 Estimated Actual \$m
<i>Specific Purpose Grants through the State</i>			
Schools assistance – non-government schools	359	376	376
Local government grants	96	98	98
Local government roads	68	68	67
First Home Owner Grants – Extension	-	5	5
<i>Other Grants</i>			
North West Shelf royalties	324	429	457
Total Current Grants and Subsidies	5,170	5,366	5,396
CAPITAL GRANTS			
<i>Specific Purpose Grants to the State</i>			
Roads	60	65	50
Schools assistance – government schools	23	23	23
Vocational training	21	21	21
Other	178	188	188
<i>Specific Purpose Grants through the State</i>			
Schools assistance – non-government schools	9	9	9
Total Capital Grants	292	306	290
SALES OF GOODS AND SERVICES			
Department of Planning and Infrastructure	154	154	154
Department of Health	149	149	149
Department of Education and Training	87	107	107
TAFE Colleges	72	86	74
Department of Land Administration	58	61	62
Department of Justice	43	46	48
Department of Conservation and Land Management	25	25	26
State Supply Commission	67	59	59
Department of Consumer and Employment Protection	18	18	18
Department of Fisheries	21	21	21
Department of Culture and the Arts	13	13	13
Police Service	13	11	11
All Others	199	164	207
Total Sale of Goods and Services	919	914	946
INTEREST INCOME	109	104	104
REVENUE FROM PUBLIC CORPORATIONS			
Dividends	379	374	389
Tax Equivalent Regime	228	225	230
Total Revenue from Public Corporations	607	599	619
ROYALTY INCOME			
Revenue from Territorial less petroleum and other refunds	670 -15	688 -16	698 -19
Total Royalty Income	655	672	679
OTHER			
Lease rentals	37	37	37
Fines	90	78	76
Revenue not elsewhere counted	91	91	125
Total Other	218	206	238
GRAND TOTAL	11,164	11,345	11,527

Note: Columns may not add due to rounding.

APPENDIX 4

Tax and Royalty Expenditure Statement

Purpose

The purpose of the tax and royalty expenditure statement is to provide information about the cost or value of tax or royalty concessions that would not otherwise be reported in the Budget Papers in the years after the concessions were introduced.

What is a Tax or Royalty Expenditure?

Tax and royalty expenditures include revenue foregone by government and financial benefits to taxpayers from exemptions and other concessions that depart from 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.

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

Measuring Tax and Royalty Expenditures

Measuring a tax or royalty expenditure requires identification of:

- a benchmark tax or royalty base and rate; and
- concessionary tax treatment of components of the benchmark tax or royalty base (eg. a concession or exemption for a particular industry, activity or class of taxpayer).

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

This statement is not exhaustive. For example, it does not include estimates of revenue foregone from exemptions provided to charities, religious organisations or government agencies nor has the revenue impact of differential royalty rates applying to some minerals under State legislation been fully quantified (it could be argued that these exemptions and differential rates form part of the benchmark tax and royalty base). Very small exemptions or concessions are also excluded.

This year's statement includes estimates of tax and royalty expenditures for the years 2001-02 and 2002-03.

Specific Tax and Royalty Expenditures

Significant movements in the value of specific tax and royalty expenditures between 2001-02 and 2002-03 include:

- an increase in the value of the payroll tax concession for small and medium business, primarily due to the increase in the top payroll tax rate from 5.56% to 6.0% from 1 January 2002;
- the removal of the payroll tax concession of not grossing up fringe benefits from 1 January 2002;
- an increase in the value of the payroll tax exemption for apprentices and trainees, reflecting a significant increase in the number of trainees in 2002-03;
- an increase in the value of the principal place of residence land tax exemption, reflecting a substantial increase in the number of owner occupied properties with high land values;
- an increase in the value of the corporate reconstructions conveyance duty exemption, due to a small number of large transactions in 2002-03;
- a decrease in the value of the \$500 rebate for first home buyers conveyance duty concession, because first home buyer activity was significantly higher in 2001-02;
- the removal of the motor vehicle compulsory third party insurance concession from 1 July 2002; and
- the introduction of new stamp duty arrangements on motor vehicle licence transfers from 1 July 2002, which levy stamp duty on heavy vehicles at a lower rate than on other vehicles.

Table 1

SUMMARY OF MAJOR TAX AND ROYALTY EXPENDITURES
Western Australia

	2001-02	2002-03
	Actual	Estimated
	\$m	\$m
PAYROLL TAX		
Small business exemption	452.0	499.0
Medium business concessions	116.0	132.5
Non-grossing up of fringe benefits	8.0	-
Apprentices and trainees exemption	9.5	12.0
LAND TAX		
Principal place of residence exemption	186.0	258.0
Primary production exemption	22.3	24.5
Land developers' concession	4.5	4.5
STAMP DUTY ON CONVEYANCES		
Corporate reconstructions exemption	31.1	45.0
Family farm exemption	5.8	7.5
Concessionary rate for homes and businesses	2.5	2.5
\$500 rebate for first home buyers	5.0	3.0
STAMP DUTY ON INSURANCE POLICIES		
Health insurance policies exemption	58.5	62.5
Motor vehicle third party concession	25.5	-
Workers' compensation insurance concession	23.5	25.0
Marine hulls exemption	2.5	3.0
STAMP DUTY ON MORTGAGES		
Concessionary rate for homes	11.0	11.0
MOTOR VEHICLE LICENCE FEES		
Family vehicle concession	24.8	25.0
Primary producer vehicle concession	8.9	9.5
Pensioner vehicle concession	16.9	17.5
STAMP DUTY ON MOTOR VEHICLE LICENCE TRANSFERS		
New heavy vehicle concession	-	9.0
Used heavy vehicle concessions	-	2.0
MINING ROYALTIES		
Concession for gold	2.0	1.5
Iron Ore Agreement Act concessions	41.5	43.5
TOTAL	1,057.8	1,198.0

APPENDIX 5

State Government Social Concessions Expenditure Statement

Overview

The State Government provides social concessions in the form of rebates, discounts and waivers to improve the affordability of key services and other services that improve the quality of life for eligible individuals and families. Eligibility is based on low income, age, service to country or community and/or special needs or disadvantage.

In many cases, eligibility for a concession is evidenced by possession of a social security card issued by the Commonwealth Government, or other cards issued by the State Government. A synopsis of these cards is included 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 the Department of Treasury and Finance by 25 agencies that provide social concessions.

In 2001-02, the State Government provided social concessions with an estimated value of \$381.2 million across a range of service areas. The cost to the State was partly offset by a \$14.9 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.

Extension of Concessions from 1 July 2001

The State Government approved amendments to eligibility criteria for some social concessions from 1 July 2001. These amendments mainly extended the eligibility for the concessions to holders of the Commonwealth Seniors Health Card (CSHC) who are also State Seniors Card (SSC) holders. The CSHC is available to Australians who are of Age Pension age but do not qualify for the Age Pension and who are subject to annual income limits. Including CSHC holders in eligibility criteria has allowed low-income self-funded retirees access to certain concessions for which they were previously ineligible, thereby improving equity of access to the concessions.

Details of the extensions are provided as follows:

- extended the 50% rebate (or deferment) for local government and water rates currently available to pensioner concession card (PCC) holders to CSHC holders;
- provided a capped 25% local government rates rebate for SSC holders without a CSHC;
- provided a pro-rata rebate (or deferment) of local government and water rates to holders of a PCC, CSHC or SSC who become eligible after the commencement of the rating year;
- allowed PCC and CSHC holders with rate arrears to obtain a rebate (or deferment) in respect of their current year's rates, subject to them entering into a repayment arrangement;
- extended the 50% motor vehicle fee concession currently provided to PCC holders to CSHC holders;
- extended the 100% driver's license fee concession currently provided to PCC holders to CSHC holders; and
- introduced a new air-conditioning subsidy to holders of a PCC or CSHC living north of the 26th parallel and other specified climatically harsh areas.

Table 1

SUMMARY OF STATE GOVERNMENT SOCIAL CONCESSIONS
Western Australia

Class of Concession	2000-01 Estimated Total Value \$m	2000-01 Estimated No. of Recipients	2001-02 Estimated Total Value \$m	2001-02 Estimated No. of Recipients
ENERGY				
Supply charge rebate	18.6	221,888	20.0	293,437
Dependent child rebate	9.3	62,898	10.7	87,961
Other	0.8	na	0.8	na
WATER, SEWERAGE & DRAINAGE				
Rates rebate for pensioners	22.0	99,708	25.9	114,235
Consumption concession for pensioners	4.6	127,116	4.7	131,529
Rates rebate for seniors	2.8	24,896	5.0	28,820
Other	0.1	na	0.2	na
HOUSING AND LAND				
Homeswest rental subsidy	84.6	27,687	96.7	27,835
Homeswest right to buy subsidy ^(a)	3.2	171	-	-
Homeswest rental sales scheme subsidy ^(b)	-	-	0.1	45
Homeswest amenities fee waiver	1.0	13,254	1.1	8,724
Homeswest cash assistance grant	0.4	222	0.1	59
Other	0.3	na	0.5	na
LOCAL GOVERNMENT				
Rates rebate for pensioners	23.6	99,401	33.6	148,795
TRANSPORT				
Contract school bus services	45.3	25,734	53.2	26,552
Transperth fares concession	39.6	83,292	42.9	90,085
Motor vehicle license fee concession for pensioners ^(c)	16.6	145,198	16.9	159,263
Student fares concession	3.0	2,352	3.8	2,817
Taxi User subsidy	6.6	21,896	6.4	27,835
Drivers license fee concession	4.4	101,657	4.4	97,750
Subsidised student travel	1.3	900	1.3	886
Pensioners' annual free trip	3.5	79,586	3.1	79,902
Other	3.0	na	3.3	na
HEALTH				
Subsidised dental care	11.9	79,464	10.3	76,256
Spectacle subsidy scheme	2.5	50,978	2.6	52,362
Other	4.2	na	5.7	na
EDUCATION				
Secondary assistance scheme – school charges	5.1	25,922	5.2	27,050
Secondary assistance scheme - clothing	3.0	25,922	3.1	27,050
Department of Training tuition fees	4.6	29,535	5.4	35,236
Boarding away from home allowance	1.1	1,901	0.8	1,340
Other	0.5	na	0.3	na
LEGAL SERVICES				
Legal assistance	9.8	45,317	8.8	45,701
Other	0.1	na	0.2	na
CULTURE, LEISURE & RECREATION				
Children's Zoo discount	0.8	128,698	1.0	165,611
Children under four years of age – Free Zoo entry	0.7	57,038	0.8	61,768
Other	1.0	na	2.3	na
TOTAL	339.9	na	381.2	na

(a) This program was not available in 2001-02.

(b) This program only commenced in 2001-02.

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

Energy

Supply charge rebate (\$20 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 \$68 per year.

Dependent child rebate (\$10.7 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 \$122 per year.

Other (\$0.8 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.

Water

Rates rebate for pensioners (\$25.9 million)

Home owners in possession of a PCC or a State Concession Card (SCC) receive a rebate of up to 50% of the Water Corporation's annual charges for water, sewerage and drainage services. The average value of the rebate per home owner is approximately \$227 per year.

Consumption concession for pensioners (\$4.7 million)

Holders of a PCC or a SCC receive a rebate of up to 50% of the Water Corporation's water consumption charges on the property that they occupy (provided they are responsible for paying the account). The average value of the rebate per recipient is approximately \$36 per year.

Rates rebate for seniors (\$5.0 million)

Home owners in possession of a SSC receive a rebate of up to 25% of the Water Corporation's annual charges for water, sewerage and drainage services while home owners in possession of both a SSC and Commonwealth Seniors Card receive a rebate of up to 50% of the annual charges. The average value of the concession is \$173 per year.

Other (\$0.2 million)

Other water concessions provided by the Water Corporation include a 25% concession on annual water, sewerage and drainage services for residents of retirement villages.

Housing and Land

Homeswest rental subsidy (\$96.7 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 \$3,474 per year.

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.

Homeswest cash assistance grant (\$0.1 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 the grant in 2001-02 is \$2,492.

Other (\$0.5 million)

Other housing and land concessions include the interest forgone by Homeswest under the *Bond Assistance Scheme*.

Local Government

Rates rebate for pensioners (\$33.6 million)

The Office of State Revenue (formerly the State Revenue Department) in the Department of Treasury and Finance 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 \$226 per year.

Transport

Contract school bus services (\$53.2 million)

Full time students aged less than 19, who attend approved schools and reside more than 4.5 kilometres from the closest school travel free of charge on contract school bus services. The Department of Planning and Infrastructure (formerly the Department of Transport) funds these services. The average value of the concession per student is estimated to be \$5.15 per journey, or about \$2,003 per year.

Transperth fare concessions (\$42.9 million)

Children, students and holders of a PCC or SSC receive discounts of between 58% and 61% on Transperth fares, or free travel. The average value of the concession per recipient is \$1.19 per journey.

Motor vehicle licence fee concession for pensioners (\$16.9 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 \$106 per year.

Student fares concession (\$3.8 million)

Full-time students pay concessional fares for regular non-Transperth 'school bus' passenger transport services. The average value of the concession is \$3.47 for each fare.

Taxi user subsidy (\$6.4 million)

People with a severe disability that prevents them from using public transport receive a 50% to 75% subsidy on taxi fares, funded by the Department of Planning and Infrastructure. At 30 June 2001 and 2002 there were respectively 21,896 and 27,835 active members of the scheme. The average value of the concession is \$8.77 per trip.

Drivers licence fee concession (\$4.4 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 \$45 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 Planning and Infrastructure funds this concession. The annual value of these return trips averages \$1,467 per recipient.

Pensioners' free annual trip (\$3.1 million)

Holders of a PCC who live north of the 26th parallel receive one free trip per year to Perth, or anywhere in the South West land division that can be reached for an equivalent fare. The Department of Planning and Infrastructure funds this concession. In addition, holders of a PCC also receive from Westrail, one free train return trip or two single train trips to any location within Western Australia. The average value of this concession is \$39 per recipient.

Other (\$3.3 million)

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

Health

Subsidised dental care (\$10.3 million)

Holders of a PCC or HCC receive a discount on dental work provided by the Government Dental Clinic. The discount is generally between 50% and 75% of standard fees, with some services (orthodontics) attracting a 25% reduction. The average value of the concession is \$135 per treatment.

Spectacle subsidy scheme (\$2.6 million)

Age pensioners, disability pensioners and holders of a SSC receive a subsidy from the Department of Health to acquire spectacles or contact lenses. The average value of the concession per recipient is \$50.

Other (\$5.7 million)

Other health concessions include the *country patients' dental subsidy scheme* and the *patients assisted travel scheme* and the *metropolitan patients' dental subsidy scheme* (which was introduced during 2000-01).

Education

Secondary assistance scheme for school charges (\$5.2 million)

The Department of Education provides assistance to low income families with secondary school children to meet school charges, which averages at \$192 per recipient.

Secondary assistance scheme for clothing (\$3.1 million)

The Department of Education 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 concessions (\$5.4 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 \$0.55 per hour of tuition for vocational education and training courses, and \$2.50 per hour of tuition for adult and community education courses.

Boarding away from home allowance (\$0.8 million)

Families in receipt of Commonwealth assistance for geographically isolated students receive a \$601 concession each year from the Department of Education.

Other (\$0.3 million)

Other education concessions include the Department of Education's *special subsidy for boarders at Agricultural Colleges* (who are not eligible for Commonwealth assistance).

Legal Services

Legal assistance (\$8.8 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 (\$0.2 million)

Other legal service concessions include a reduction or waiver of court fees in the Family Court and the Magistrates courts for holders of HCC and PCC, and the waiver of fees in the Small Claims Tribunal for financially disadvantaged persons.

Culture, Leisure and Recreation

Children's Zoo discount (\$1.0 million)

Children between four and 15 years of age receive a 50% discount on the entry fee for the Perth Zoo. The value of the discount is \$6.50 per child for each visit.

Children under four years of age free Zoo entry (\$0.8 million)

Children under four years of age receive free entry to the Perth Zoo. The value of the discount is \$13 per child for each visit.

Other (\$2.3 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 Rottnest Island Authority.

Eligibility Criteria for Concession Cards

Pensioner Concession Card (PCC)

The Commonwealth Government issues a PCC to long term welfare recipients and low income earners. These include age pensioners, disability support pensioners, 'service' pensioners, people in receipt of carer payments or parenting payments, and certain other welfare recipients who are over 60 years of age and have been in receipt of a benefit for more than nine months.

Eligibility for these long term benefits is generally subject to a means test, based on the recipient's income and the value of their assets.

Health Care Card (HCC)

The Commonwealth Government issues the HCC to relatively short term welfare recipients, including the unemployed (recipients of the Newstart allowance), people who receive the full family allowance and low income full time students.

Eligibility for these short term benefits is also generally subject to a means test, based on the recipient's income, and sometimes also their assets.

Commonwealth Seniors Health Card (CSHC)

The Commonwealth Government issues the CSHC to senior Australians who are of Age Pension age but do not qualify for the Age Pension. The CSHC is subject to annual income limits and helps senior Australians with the cost of medicines by reducing the cost of prescription medicines.

State Seniors Card (SSC)

The Western Australian Government issues the SSC to permanent residents who are over 60 years of age and work less than 20 hours per week. Otherwise, there are no means tests. The SSC was first introduced in 1989.

State Concession Card (SCC)

The Department of Community Development issues the SCC to Totally and Permanently Incapacitated Pensioners, Blinded War Pensioners, Extra Disablement Pensioners and War Widows. Like 'service' pensions, all these pensions are provided by the Commonwealth Department of Veterans' Affairs. However, unlike 'service' pensions, they are not means tested and recipients may be ineligible for a PCC.

APPENDIX 6

Capital Works Program - Summary of Expenditure and Source of Funds

This appendix contains two tables.

Table 1 shows expenditure on capital works and associated funding sources by agency within portfolio groups.

Table 2 shows detailed sources of funds for the aggregate capital works program by year.

Table 1

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2002-03 Budget Estimate				2002-03 Estimated Actual				2003-04 Budget Estimate			
	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
PARLIAMENT												
Parliament	2,795	-	1,365	4,160	2,795	-	1,238	4,033	1,525	-	910	2,435
Parliamentary Commissioner for Administrative Investigations	92	-	-	92	558	-	149	707	-	-	100	100
PREMIER; MINISTER FOR PUBLIC SECTOR MANAGEMENT; FEDERAL AFFAIRS; SCIENCE; CITIZENSHIP AND MULTICULTURAL INTERESTS												
Premier and Cabinet	-	-	8,769	8,769	-	-	6,403	6,403	-	-	8,320	8,320
Anti-Corruption Commission	480	-	70	550	480	-	70	550	380	-	270	650
Governor's Establishment	1,325	-	185	1,510	1,325	-	185	1,510	1,040	-	195	1,235
Public Sector Standards Commissioner	431	-	85	516	431	-	114	545	-	-	93	93
Salaries and Allowances Tribunal	-	-	6	6	3	-	3	6	-	-	6	6
DEPUTY PREMIER; TREASURER; ENERGY												
Office of the Auditor General	29	-	379	408	29	-	601	630	122	-	365	487
Gas Access Regulator	-	-	23	23	-	-	24	24	-	-	54	54
Treasury and Finance	400	-	1,077	1,477	1,000	-	14,889	15,889	400	-	3,110	3,510
Treasury Corporation	-	-	1,254	1,254	-	-	1,375	1,375	-	-	430	430
Office of Energy	74	-	69	143	154	-	107	261	110	-	117	227
Perth International Centre for Application of Solar Energy	24	-	-	24	24	-	-	24	-	-	-	-
Western Power	-	159,000	285,274	444,274	-	173,892	261,071	434,963	-	95,000	300,355	395,355

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2002-03 Budget Estimate				2002-03 Estimated Actual				2003-04 Budget Estimate			
	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
MINISTER FOR AGRICULTURE, FORESTRY AND FISHERIES; THE MID-WEST, WHEATBELT AND GREAT SOUTHERN												
Agriculture	-	-	7,205	7,205	-	-	5,141	5,141	-	-	8,671	8,671
Meat Industry Authority	-	-	200	200	-	-	15	15	-	-	185	185
Perth Market Authority	-	1,500	1,280	2,780	-	1,500	1,381	2,881	-	1,560	1,345	2,905
Fisheries	2,951	-	2,589	5,540	2,122	-	8,288	10,410	5,000	-	3,770	8,770
Forest Products Commission	-	5,120	1,300	6,420	-	5,120	1,539	6,659	-	5,200	590	5,790
Mid West Development Commission	30	-	-	30	30	-	99	129	-	-	30	30
Wheatbelt Development Commission	19	-	153	172	19	-	142	161	-	-	48	48
Great Southern Development Commission	20	-	296	316	20	-	419	439	322	-	863	1,185
MINISTER FOR HOUSING AND WORKS; LOCAL GOVERNMENT AND REGIONAL DEVELOPMENT; THE KIMBERLEY, PILBARA AND GASCOYNE												
Housing and Works	1,246	-	50,677	51,923	1,246	-	52,877	54,123	-	-	77,385	77,385
Country Housing Authority	-	11,619	1,714	13,333	-	8,868	2,714	11,582	-	10,768	2,565	13,333
Government Employees Housing Authority	-	-	2,178	2,178	-	-	4,453	4,453	-	4,000	5,544	9,544
State Housing Commission	-	16,713	717,709	734,422	-	14,850	764,616	779,466	-	7,000	829,119	836,119
State Supply Commission	36	-	6	42	36	-	6	42	-	-	-	-
Local Government and Regional Development	2,000	-	32	2,032	2,000	-	199	2,199	3,030	-	2,100	5,130
Fremantle Cemetery Board	-	4,000	1,535	5,535	-	-	1,630	1,630	-	2,000	2,915	4,915
Metropolitan Cemeteries Board	-	-	3,901	3,901	-	-	3,666	3,666	-	-	4,589	4,589
Kimberley Development Commission	-	-	25	25	-	-	25	25	14	-	51	65
Pilbara Development Commission	50	-	380	430	50	-	1,330	1,380	45	-	35	80
Gascoyne Development Commission	25	-	2,037	2,062	25	-	1,031	1,056	40	-	4,087	4,127

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2002-03 Budget Estimate				2002-03 Estimated Actual				2003-04 Budget Estimate			
	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
MINISTER FOR CONSUMER AND EMPLOYMENT PROTECTION												
Consumer and Employment Protection Registrar, Western Australian Industrial Relations Commission	1,956	-	1,760	3,716	1,956	-	3,000	4,956	1,372	-	1,334	2,706
	150	-	-	150	150	-	-	150	195	-	125	320
ATTORNEY GENERAL; MINISTER FOR JUSTICE AND LEGAL AFFAIRS; ELECTORAL AFFAIRS; PEEL AND THE SOUTH WEST												
Justice	7,250	-	44,134	51,384	6,880	-	34,954	41,834	13,400	-	42,564	55,964
Commissioner for Equal Opportunity	32	-	25	57	32	-	52	84	49	-	28	77
Law Reform Commission	1	-	9	10	1	-	9	10	-	-	10	10
Office of Director of Public Prosecutions	102	-	98	200	102	-	258	360	48	-	152	200
Information Commissioner	-	-	25	25	-	-	30	30	-	-	25	25
Western Australian Electoral Commission	171	-	129	300	171	-	129	300	371	-	129	500
Peel Development Commission	50	-	370	420	43	-	971	1,014	50	-	1,500	1,550
South West Development Commission	66	-	3,488	3,554	30	-	5,288	5,318	330	-	(200)	130
MINISTER FOR THE ENVIRONMENT AND HERITAGE												
Conservation and Land Management	3,713	-	12,248	15,961	2,836	-	14,461	17,297	4,550	-	7,414	11,964
Botanic Gardens and Parks Authority	4,150	-	4,436	8,586	4,150	-	6,401	10,551	3,550	-	6,728	10,278
Environmental Protection	-	-	800	800	-	-	1,540	1,540	497	-	823	1,320
Office of Water Regulation	37	-	59	96	37	-	94	131	11	-	60	71
Swan River Trust	-	-	85	85	-	-	135	135	-	-	135	135
Water and Rivers Commission	1,700	-	800	2,500	1,700	-	1,580	3,280	1,200	-	1,300	2,500
Zoological Gardens Board	-	300	900	1,200	-	300	995	1,295	-	-	1,600	1,600
Heritage Council of Western Australia	-	-	58	58	-	-	58	58	22	-	63	85
National Trust of Australia (WA)	343	-	2,839	3,182	343	-	4,139	4,482	356	-	44	400

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2002-03 Budget Estimate				2002-03 Estimated Actual				2003-04 Budget Estimate			
	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
MINISTER FOR POLICE AND EMERGENCY SERVICES												
Police Service	24,633	-	8,926	33,559	28,215	-	6,210	34,425	65,467	-	12,020	77,487
Fire and Emergency Services Authority of Western Australia	350	5,650	3,820	9,820	1,040	5,500	11,747	18,287	450	6,855	5,440	12,745
MINISTER FOR PLANNING AND INFRASTRUCTURE												
Planning and Infrastructure	5,954	27,900	32,916	66,770	11,354	15,600	23,407	50,361	9,249	10,000	4,550	23,799
Land Administration	1,550	-	755	2,305	1,550	-	5,732	7,282	8,099	-	2,070	10,169
Main Roads	104,620	110,000	107,770	322,390	150,222	-	176,013	326,235	187,647	20,000	140,662	328,309
Armadale Redevelopment Authority	-	-	500	500	-	-	500	500	-	-	2,000	2,000
East Perth Redevelopment Authority	-	-	26,470	26,470	-	-	34,410	34,410	-	-	21,910	21,910
Midland Redevelopment Authority	-	10,381	1,777	12,158	-	8,767	-	8,767	-	7,280	6,080	13,360
Subiaco Redevelopment Authority	-	-	8,623	8,623	-	-	10,580	10,580	-	-	11,210	11,210
Albany Port Authority	-	-	750	750	-	-	750	750	-	-	350	350
Broome Port Authority	-	-	400	400	-	-	1,530	1,530	-	-	500	500
Bunbury Port Authority	-	-	3,550	3,550	-	-	2,150	2,150	-	-	9,175	9,175
Dampier Port Authority	-	2,000	85	2,085	-	-	1,385	1,385	-	15,000	105	15,105
Esperance Port Authority	-	-	2,000	2,000	-	-	2,000	2,000	-	-	1,200	1,200
Fremantle Port Authority	-	10,000	10,390	20,390	-	4,000	23,394	27,394	-	24,760	17,935	42,695
Geraldton Port Authority	-	-	1,399	1,399	-	85,261	2,134	87,395	-	22,414	2,252	24,666
Port Hedland Port Authority	-	-	10,378	10,378	-	-	12,183	12,183	-	-	4,317	4,317
Western Australian Government Railways Commission	-	151,108	94,000	245,108	-	85,597	116,747	202,344	-	211,608	49,856	261,464
Western Australian Land Authority	-	38,500	104,093	142,593	-	-	104,108	104,108	-	46,800	139,290	186,090
Eastern Goldfields Transport Board	-	-	-	-	-	-	-	-	-	500	-	500
Western Australian Planning Commission	5,000	-	68,500	73,500	5,000	-	68,500	73,500	42,500	-	54,000	96,500

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2002-03 Budget Estimate				2002-03 Estimated Actual				2003-04 Budget Estimate			
	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
MINISTER FOR STATE DEVELOPMENT; TOURISM; SMALL BUSINESS												
Industry and Resources	3,595	-	32,212	35,807	4,130	-	75,621	79,751	3,640	-	9,255	12,895
Rottneet Island Authority	-	-	2,727	2,727	-	-	1,727	1,727	-	-	3,036	3,036
Western Australian Tourism Commission	-	-	2,151	2,151	-	-	2,246	2,246	35	-	2,139	2,174
Small Business Development Corporation	196	-	104	300	196	-	106	302	97	-	115	212
MINISTER FOR EDUCATION AND TRAINING; SPORT AND RECREATION; INDIGENOUS AFFAIRS												
Education and Training	86,036	-	73,937	159,973	86,036	-	77,451	163,487	94,823	-	71,995	166,818
Country High School Hostels Authority	107	3,592	240	3,939	107	6,810	652	7,569	9	300	1,022	1,331
Curriculum Council	1,500	-	72	1,572	1,500	-	1,083	2,583	1,070	-	80	1,150
Education Services	-	-	50	50	-	-	85	85	-	-	237	237
Recreation Camps and Reserves Board	-	-	560	560	-	-	918	918	-	-	265	265
Sport and Recreation	-	-	6,620	6,620	-	-	2,144	2,144	1,070	-	4,770	5,840
Sports Centre Trust	-	-	889	889	-	-	1,035	1,035	300	-	567	867
Indigenous Affairs	100	-	250	350	100	-	470	570	42	-	258	300
MINISTER FOR COMMUNITY DEVELOPMENT, WOMEN'S INTERESTS, SENIORS AND YOUTH; DISABILITY SERVICES; CULTURE AND THE ARTS												
Community Development	736	-	6,819	7,555	736	-	10,244	10,980	3,563	-	7,795	11,358
Disability Services Commission	1,156	1,996	1,500	4,652	1,156	3,841	1,340	6,337	1,921	-	1,394	3,315
Culture and the Arts	9,092	-	11,704	20,796	5,992	-	10,791	16,783	12,758	-	8,774	21,532
MINISTER FOR HEALTH												
Health	29,447	-	79,600	109,047	29,447	-	68,481	97,928	9,086	-	96,045	105,131

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2002-03 Budget Estimate				2002-03 Estimated Actual				2003-04 Budget Estimate			
	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
MINISTER FOR RACING AND GAMING; GOVERNMENT ENTERPRISES; GOLDFIELDS-ESPERANCE												
Racing, Gaming and Liquor	-	-	395	395	-	-	469	469	-	-	449	449
Totalisator Agency Board	-	-	3,858	3,858	-	-	4,467	4,467	-	-	8,658	8,658
Western Australian Greyhound Racing Authority	-	-	1,443	1,443	-	-	1,419	1,419	-	-	1,390	1,390
Bunbury Water Board	-	-	3,532	3,532	-	-	3,478	3,478	-	-	4,384	4,384
Busselton Water Board	-	-	1,061	1,061	-	-	1,261	1,261	-	-	1,380	1,380
Gold Corporation	-	-	1,000	1,000	-	-	1,739	1,739	-	-	2,000	2,000
Insurance Commission of Western Australia	-	-	1,707	1,707	-	-	3,016	3,016	-	-	2,000	2,000
Lotteries Commission	-	-	6,585	6,585	-	-	4,640	4,640	-	-	4,190	4,190
Water Corporation	-	75,000	278,000	353,000	-	105,000	268,345	373,345	-	185,000	277,787	462,787
Goldfields-Esperance Development Commission	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	305,820	634,379	2,168,154	3,108,353	357,559	524,906	2,356,602	3,239,067	479,855	676,045	2,296,958	3,452,858

Table 2

CAPITAL WORKS PROGRAM SOURCE OF FUNDS

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Estimated	Budget	Budget	Budget	Budget
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
APPROPRIATIONS						
Capital contribution	542.4	357.6	479.9	426.2	363.2	320.2
Funding included in output appropriations	227.3	213.8	156.6	112.2	149.6	151.9
OTHER FUNDING						
Holding Account	2.8	138.6	174.3	133.9	136.4	126.9
Borrowings	396.8	524.9	676.0	512.3	478.3	416.9
Commonwealth grants	239.8	257.5	199.2	244.4	211.6	215.9
Land and Property Sales	188.9	213.3	235.4	231.8	160.7	146.0
Internal funds and balances	81.6	120.7	14.6	1.6	7.4	-
Other	1,304.3	1,412.6	1,516.9	1,280.2	1,256.5	1,316.3
TOTAL FUNDING	2,983.9	3,239.0	3,452.9	2,942.6	2,763.7	2,694.1

Note: Columns may not add due to rounding.

APPENDIX 7

Public Corporations - Revenue and Expenses

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

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

A detailed overview of revenue received by the general government sector from individual public corporations is provided in Table 1 below.

However, there are also significant payments from the general government sector to public corporations. Such payments include funding of community service obligations (CSOs), which are non-commercial services provided by public corporations at the request of government to sections of the general public. Examples include funding of pensioner and senior concessions for electricity and water services.

In addition, funding may be provided to public corporations as part of government initiatives to attract and support the establishment of down-stream industries in Western Australia. Where possible, this form of financial assistance is directed at supporting the construction of infrastructure that will be available for common use.

A detailed overview of expenses from the general government sector to individual public corporations is provided in Table 2 below.

Table 1

REVENUE TO GOVERNMENT FROM PUBLIC CORPORATIONS

Details of Payment	2002-03 Estimated Actual \$'000	2003-04 Budget Estimate \$'000	2004-05 Forward Estimate \$'000	2005-06 Forward Estimate \$'000	2006-07 Forward Estimate \$'000
Western Power					
Income tax expense	82,304	74,754	76,584	81,701	85,313
LGRE	3,028	3,051	3,075	3,100	3,123
Dividends	116,320	124,555	128,777	104,490	108,549
<i>Subtotal</i>	201,652	202,360	208,436	189,291	196,985
Water Corporation					
Income tax expense	131,919	130,956	145,141	156,891	169,815
LGRE	2,500	2,625	2,755	2,895	3,040
Dividends ^(a)	251,564	268,259	297,008	326,269	354,883
<i>Subtotal</i>	385,983	401,840	444,904	486,055	527,738
Western Australian Land Authority (LandCorp)					
Income tax expense	-1,805	2,591	8,186	8,041	5,502
LGRE	1,500	1,660	1,700	1,750	1,750
Dividends	6,828	14,000	22,500	16,000	11,000
<i>Subtotal</i>	6,523	18,251	32,386	25,791	18,252
Gold Corporation					
Statutory contributions/Dividends	-	1,800	5,760	5,760	5,760
<i>Subtotal</i>	-	1,800	5,760	5,760	5,760
Western Australian Treasury Corporation					
Income tax expense	2,625	2,284	2,151	1,853	1,853
Dividends	4,701	5,675	3,198	3,012	2,593
<i>Subtotal</i>	7,326	7,959	5,349	4,865	4,446
Albany Port Authority					
Income tax expense	-	-	201	327	321
LGRE	66	66	66	66	66
Dividends	-	-	235	381	375
<i>Subtotal</i>	66	66	502	774	762
Broome Port Authority					
LGRE	4	4	4	4	4
<i>Subtotal</i>	4	4	4	4	4
Bunbury Port Authority					
Income tax expense	1,375	1,415	1,578	1,489	1,683
LGRE	127	136	140	144	148
Dividends	1,698	1,695	1,767	1,738	1,788
<i>Subtotal</i>	3,200	3,246	3,485	3,371	3,619

Table 1 (cont.)

REVENUE TO GOVERNMENT FROM PUBLIC CORPORATIONS

Details of Payment	2002-03 Estimated Actual \$'000	2003-04 Budget Estimate \$'000	2004-05 Forward Estimate \$'000	2005-06 Forward Estimate \$'000	2006-07 Forward Estimate \$'000
Dampier Port Authority					
Income tax expense	9	103	283	465	522
LGRE	12	12	13	13	13
Dividends	144	145	331	542	610
Subtotal	165	260	627	1,020	1,145
Esperance Port Authority					
Income tax expense	-7	844	994	1,469	1,469
LGRE	80	80	80	80	80
Dividends	1,268	810	1,157	1,241	1,281
Subtotal	1,341	1,734	2,231	2,790	2,830
Fremantle Port Authority					
Income tax expense	3,706	4,296	5,258	6,189	6,856
LGRE	412	352	373	392	411
Dividends	3,734	4,282	4,801	5,596	6,156
Subtotal	7,852	8,930	10,432	12,177	13,423
Geraldton Port Authority					
Income tax expense	24	892	981	1,431	2,088
LGRE	140	140	140	140	140
Dividends	126	1,083	1,189	1,650	2,416
Subtotal	290	2,115	2,310	3,221	4,644
Port Hedland Port Authority					
Income tax expense	661	444	606	742	1,375
LGRE	230	230	240	250	250
Dividends	891	867	812	866	1,604
Subtotal	1,782	1,541	1,658	1,858	3,229
Bunbury Water Board					
Income tax expense	443	697	606	649	652
Subtotal	443	697	606	649	652
Busselton Water Board					
Income tax expense	125	120	120	124	127
Subtotal	125	120	120	124	127
Forest Products Commission					
Income tax expense	-	140	563	600	600
Dividends	1,557	3,298	8,952	8,266	8,138
Subtotal	1,557	3,438	9,515	8,866	8,738
Other Agencies					
Income tax expense	573	377	375	571	571
Statutory contributions/Dividends	18	2,018	2,018	5,018	18
Subtotal	591	2,395	2,393	5,589	589
Total Amounts					
Income tax expense	221,952	219,913	243,627	262,542	278,747
LGRE	8,099	8,356	8,586	8,834	9,025
Statutory contributions/Dividends	388,849	428,487	478,505	480,829	505,171
Total	618,900	656,756	730,718	752,205	792,943

(a) Includes a provision for an Infrastructure package on the Burrup Peninsula.

Table 1(a)

REVENUE FROM PUBLIC CORPORATIONS
Dividend Payout Ratios

	2002-03 %	2003-04 %	2004-05 %	2005-06 %	2006-07 %
Western Power ^(a)	50.0	50.0	50.0	50.0	50.0
Water Corporation	85.0	92.0	92.0	92.0	92.0
Western Australian Land Authority (LandCorp) ^(b)	50.0	50.0	50.0	50.0	50.0
Gold Corporation	60.0	60.0	60.0	60.0	60.0
Western Australian Treasury Corporation	60.0	60.0	60.0	60.0	50.0
State Port Authorities	50.0	50.0	50.0	50.0	50.0
Forest Products Commission ^(c)	na	na	na	na	na

(a) Western Power's dividend payout ratios for 2002-03, 2003-04 and 2004-05 are notional only as in 2001, the Government and the Board of Western Power agreed on a schedule of dividend payments for these years.

(b) Adjusted for the need to maintain adequate land stocks.

(c) The dividend payout ratio for the Forest Products Commission is based on the full cash surplus remaining at the end of each financial year being paid to the Consolidated Fund, allowing for a closing cash balance of \$1 million as working capital.

Table 2

EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Details of Payment	Payment Type	Funding Department	2002-03 Estimated Actual \$'000	2003-04 Budget Estimate \$'000	2004-05 Forward Estimate \$'000	2005-06 Forward Estimate \$'000	2006-07 Forward Estimate \$'000
Water Corporation							
Country Water, Sewerage and Drainage Operations	CSO	DTF	163,795	168,251	173,818	184,539	188,322
Infill Sewerage Program	CSO	DTF	20,121	22,845	23,416	24,278	24,816
Pensioner and Senior Concessions	CSO	DTF	63,835	67,434	70,861	74,485	78,332
Rural Irrigation Schemes	CSO	DTF	10,784	8,545	8,757	8,973	9,208
Partial Reimbursement of Proceeds from the Sale of Surplus Land	Other	DTF	1,000	1,400	-	-	-
State Water Strategy – Rebates Scheme	Other	DTF	3,600	4,200	-	-	-
Burrup Water Supply System ^(a)	Other	DoIR	-	-	7,921	8,127	8,316
<i>Subtotal</i>			263,135	272,675	284,773	300,402	308,994
Western Australian Government Railways Commission							
Country Rail (Prospector & Australind) and Inter-town Coach Services	CSO	DTF	21,383	25,566	26,874	28,089	28,089
Geraldton Southern Rail Corridor – Debt Servicing Costs	CSO	DTF	243	879	1,922	2,768	3,077
Geraldton Southern Rail Corridor – Principal Repayments	Other	DTF	119	436	972	1,441	1,672
Freight Division – Infrastructure/Superannuation – Debt Servicing Costs	CSO	DTF	19,946	19,264	18,592	17,904	17,199
Freight Division – Debt – Principal Repayments	Other	DTF	-	-	-	509	10,853
Freight Network – Post-sale management costs	CSO	DTF	4,198	3,969	4,630	4,860	5,000
Metropolitan Urban Rail Services Contract	Other	DPI	120,232	121,671	128,430	140,124	156,741
Pensioner and Senior Concessions (Country Rail and Inter-town Coach only)	CSO	DTF	786	786	786	786	786
New MetroRail Project - Equity	Other	DTF	94,000	45,500	-	9,000	9,100
New MetroRail – Debt Servicing Costs	Other	DPI	1,276	1,445	17,021	42,307	59,240
New MetroRail – Principal Repayments	Other	DTF	-	630	7,921	19,432	25,522
Reimbursement of Proceeds from Sale of Surplus Land	Other	DTF	16,106	17,650	14,850	3,000	1,000
<i>Subtotal</i>			278,289	237,796	221,998	270,220	318,279

Table 2 (cont.)

EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Details of Payment	Payment Type	Funding Department	2002-03 Estimated Actual \$'000	2003-04 Budget Estimate \$'000	2004-05 Forward Estimate \$'000	2005-06 Forward Estimate \$'000	2006-07 Forward Estimate \$'000
Western Power							
Air Conditioning Subsidy for Seniors (North of 26 th Parallel)	CSO	DTF	120	123	128	133	138
Community Service Concessions ^(b)	CSO	DTF	309	318	331	344	358
Gas Lateral Line to Murchison Area – Interest Costs	Other	DoIR	832	832	832	832	832
Onslow Gas Fired Power Station – Interest Costs	Other	DoIR	183	183	183	183	183
Pensioner and Senior Concessions	CSO	DTF	32,087	32,491	33,239	34,112	34,941
Pilot Aboriginal and Remote Communities Project	CSO	DTF	-	-	750	1,500	1,500
Underground Power Program	Other	OoE	4,813	5,000	5,000	5,000	5,000
<i>Subtotal</i>			38,344	38,947	40,463	42,104	42,952
Western Australian Land Authority (LandCorp)							
Albany Gasworks Site	CSO	DTF	5,100	-	-	-	-
Australian Marine Complex	Other	DoIR	2,600	2,260	1,880	760	-
Exmouth Marina Village	CSO	DTF	8,000	-	-	-	-
Hope Valley / Wattleup Land Acquisition	CSO	DTF	12,000	19,500	14,000	14,000	-
Karratha / Burrup Western Service Corridor	Other	DoIR	200	1,930	1,930	1,930	1,930
Kemerton Expansion - Studies	Other	DoIR	100	-	-	-	-
Mandurah Ocean Marina Development	CSO	DTF	2,839	2,839	-	-	-
Morangup Contaminated Sites	Other	DEP	1,500	-	-	-	-
Munster MITP	Other	DoIR	1,858	1,250	900	350	-
Omex Site Bellvue	Other	DEP/DPI	-	600	-	-	-
PARC Funding	CSO	DTF	-	150	-	-	-
PIL Kwinana Land – Interest Costs	CSO	DTF	764	810	810	810	810
Townsite Development Program	CSO	DTF	714	3,125	5,268	5,907	4,847
<i>Subtotal</i>			35,675	32,464	24,788	23,757	7,587
Albany Port Authority							
Albany Woodchip Mill ^(c)	Other	DTF	173	173	173	173	-
<i>Subtotal</i>			173	173	173	173	-

Table 2 (cont.)

EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Details of Payment	Payment Type	Funding Department	2002-03 Estimated Actual \$'000	2003-04 Budget Estimate \$'000	2004-055 Forward Estimate \$'000	2005-06 Forward Estimate \$'000	2006-07 Forward Estimate \$'000
Bunbury Port Authority							
Casting Basin Loan – Interest Costs	Other	DoIR	92	92	89	89	89
Land Tax Reimbursement	Other	DTF	44	-	-	-	-
<i>Subtotal</i>			<u>136</u>	<u>92</u>	<u>89</u>	<u>89</u>	<u>89</u>
Dampier Port Authority							
Burrup Infrastructure – Interest Support ^(a)	Other	DoIR	-	700	700	700	700
Channel Dredging – Interest Support	Other	DoIR	-	520	520	520	520
<i>Subtotal</i>			<u>-</u>	<u>1,220</u>	<u>1,220</u>	<u>1,220</u>	<u>1,220</u>
Fremantle Port Authority							
Land Tax Reimbursement	Other	DTF	314	-	-	-	-
Multi-user Bulk Unloader – Interest Costs	Equity	DTF	221	221	217	215	212
<i>Subtotal</i>			<u>535</u>	<u>221</u>	<u>217</u>	<u>215</u>	<u>212</u>
Forest Products Commission							
Forest Enhancement Program	CSO	DTF	500	230	-	-	-
Debt Servicing Costs - Non-Commercial Native Forest Related Debt	CSO	DTF	1,070	1,070	1,070	1,070	1,070
Reimbursement of Proceeds from Asset Sales	Other	DTF	1,287	1,289	1,291	1,291	1,291
<i>Subtotal</i>			<u>2,857</u>	<u>2,589</u>	<u>2,361</u>	<u>2,361</u>	<u>2,361</u>
Total			<u>619,144</u>	<u>586,177</u>	<u>576,082</u>	<u>640,541</u>	<u>681,694</u>

(a) Includes a provision for an Infrastructure package on the Burrup Peninsula.

(b) The Community Service Concession is a concession of up to \$276 per year to eligible voluntary and charitable organisations.

(c) Funding for infrastructure associated with the Albany Woodchip Mill in 2000-01 was through DMPR, but has been through DTF as from 2001-02 onwards.