

Government of Western Australia

1999-2000

# Budget Overview

Presented to the Legislative Assembly on May 6<sup>th</sup>, 1999

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# OVERVIEW

The 1999-2000 Budget has been prepared against a background of financial tension arising from increased demand for key social expenditures and lower projected growth in own source revenues. These factors are largely beyond the Government's control. Compounding these pressures has been further real reductions in Commonwealth Financial Assistance Grants to Western Australia.

The 1999-2000 Budget provides for real funding increases particularly in the priority areas of education, health and law and order while maintaining large and increasing operating surpluses. At the same time there is only one new revenue raising measure.

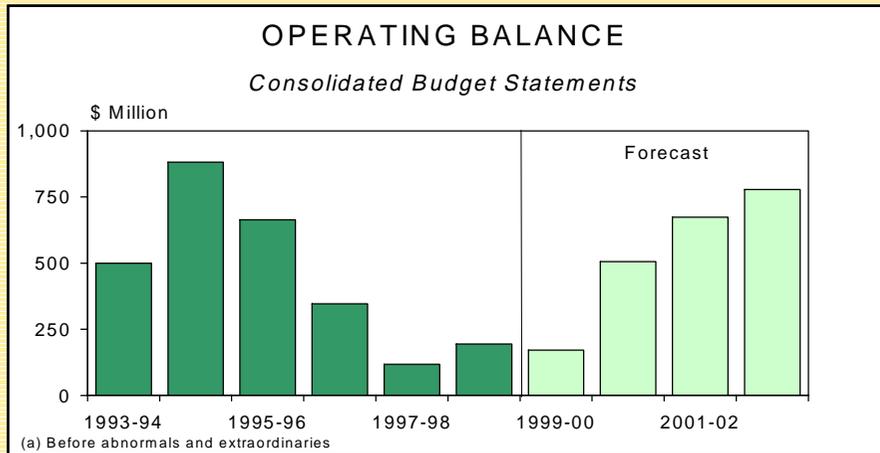
The Government's financial strategy continues to focus on the long-term stability of the public sector. The targeting framework is largely unchanged from the 1998-99 Budget and shows that financial management is on track to achieve the Government's financial targets and social objectives.

The 1999-2000 Budget and forward estimates are once again presented on a full accrual accounting basis consistent with Australian Accounting Standards.

Some **highlights** of the 1999-2000 Budget and forward estimates are:

- The budget has been structured against an economic outlook of continued strong growth in State output, sustained employment growth and a declining unemployment rate;
- An operating surplus of \$171.3 million in 1999-2000, increasing to \$778.3 million in 2002-03;
- Net Assets (assets less liabilities) of the Government of Western Australia are expected to increase by \$5.3 billion to \$38.2 billion at 30 June 2003, an increase of 16%;
- Additional expenditure measures of \$251.1 million in 1999-2000, predominantly in the key areas of education, health and law and order. Per capita spending in these areas continues to be above the average of the other States; and
- Strong growth in the capital works program, particularly by trading enterprises with consequent debt funding implications.

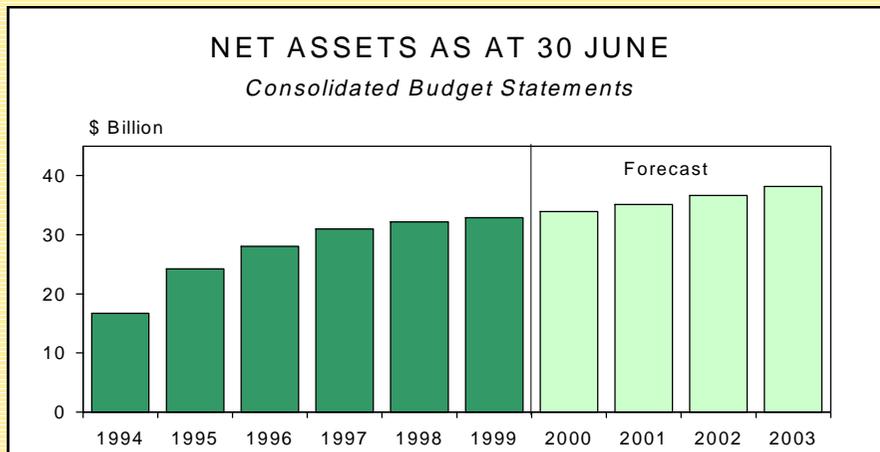
# MAJOR BUDGET AGGREGATES



A substantial **operating surplus** of \$171.1 million is estimated in 1999-2000 (slightly down from \$194 million in 1998-99). Expenditure restraint and more favourable revenue growth in the forward estimate years will see the surplus increase to a projected \$778 million by 2002-03.

The Government's **net assets** are estimated to increase from \$32.9 billion to \$33.9 billion in the budget year as a result of the operating surplus, rising land values and investments.

The Government's largest asset is the net assets of its agencies which are expected to increase from \$37.7 billion to \$43.3 billion between 30 June 1999 and 30 June 2003. (These are slightly offset by core government liabilities.)



**Cash Balances** remain stable with a modest drawdown from the State Development Fund for capital works.

**Superannuation liability** held by the Government on behalf of agencies falls by \$49 million (9.7% real) over the forward estimates reflecting decisions taken in recent years to fully fund the superannuation liability.

## MAJOR BUDGET AGGREGATES CONTINUED

### CONSOLIDATED BUDGET STATEMENTS <sup>(a)</sup>

	1998-99	1999-00	
	Estimated Outcome \$m	Estimate \$m	Change \$m
<b>Consolidated Fund Entity:</b>			
Revenue	8,164	8,227	63
Expenses	8,379	8,565	186
Surplus (Deficit)	(215)	(338)	(123)
Surplus from Agencies	409	509	100
<b>Total Operating Surplus<sup>(b)</sup></b>	<b>194</b>	<b>171</b>	<b>(23)</b>

(a) These Statements have two components: a Consolidated Fund Entity, which is the modern accounting equivalent of the Consolidated Fund; and the surplus of the agencies owned and controlled by the Consolidated Fund Entity on behalf of the Government and people of Western Australia.

(b) Consistent with Australian Accounting Standards

Consolidated Fund Entity **revenue** is estimated to increase by \$63 million (0.8%), and **expenses** by \$186 million in 1999-2000, (2.2%). In real terms, revenue declines by 1.4% and expenses are unchanged.

The capital works program in 1999-2000 is projected to be a record high \$3.3 billion across the total public sector.

The 1999-2000 Budget provides for significant funding increases over the previous forward estimates in key service areas, including:

- Education Department – Up \$128.4 million or 10.2%;
- Health – Up \$81.7 million or 4.8%; and
- Law and Order – Up \$64.1 million or 8.8%.

## EXPENDITURE MEASURES <sup>(a)</sup>

**Health:** Health outlays in 1999-2000 will be up by \$81.7 million over last Budget's forward estimates, an increase of 4.8% to \$1,793.5 million.

Since 1996-97 the Government has increased the level of funding provided to the Health Department by \$352 million or 17.8% in real terms.

The budget allocation provides for an additional \$90 million over the forward estimates period to reduce waiting lists.

Capital works planned for 1999-2000 include:

- \$10 million for the continuation of Mental Health Statewide Initiatives as part of a \$42.6 million program;
- \$6 million for the commencement of construction of the Armadale/Kelmscott Hospital at a total cost of \$48 million;
- \$7 million on ensuring information technology is Year 2000 compliant; and
- \$5.8 million for metropolitan health services development.

(a) These figures relate to the Consolidated Fund. Expenditure and revenue policy measures have the same impact on the Consolidated Fund as the Consolidated Budget Cash Flow Statements.

**Education:** The 1999-2000 budget for the Education Department has increased by \$128.4 million, up 10.2 % to \$1,388.4 million. This increase is to be dedicated to school initiatives, such as reducing class sizes, local area planning and meeting the cost of teachers' salary increases. The major highlights in Education are:

- In 1999-2000, \$28.6 million will be spent by metropolitan schools as part of a comprehensive education plan to improve the educational opportunities for secondary students;
- \$17.4 million has been provided in 1999-2000 for replacement schools at Boddington, Bunbury and Denmark. A further \$8.0 million will be spent in 1999-2000 on the construction of the new \$16.0 million Halls Head Middle School and \$8.2 million on the construction of the new Peel Senior Campus;
- 1999-2000 is the second year of the Government's \$100 million *computers in schools* program. \$20 million is included in the Education Department's budget and a further \$5 million is provided in the Department of Education Services for private schools.

## EXPENDITURE MEASURES CONTINUED<sup>(a)</sup>

**Law and Order:** Expenditure on Law and Order will increase by \$64.1 million or 8.8% to \$789.2 million. Major highlights include:

- A total of \$42.6 million has been included in the estimates for the adult prisoner accommodation strategy;
- A \$10 million refurbishment program will be completed by 2000-01 to upgrade Bandyup Prison;
- Capital funds of \$42 million have been included in the forward estimates for the construction of a police operations support facility in Midland; and
- Provision of \$16 million has been made in the capital works program (\$839,000 in 1999-2000) for release 2 of the Delta Communications Information Technology Plan.

**Training:** The Department of Training's budget is up by \$5.4 million to \$230.7 million to provide additional places for school-leavers and re-skilling of mature-aged long-term unemployed.

(a) These figures relate to the Consolidated Fund. Expenditure and revenue policy measures have the same impact on the Consolidated Fund as the Consolidated Budget Cash Flow Statement.

**Commerce and Trade:** To provide for the future needs of the shipbuilding and offshore oil and gas industries, the development of the Jervoise Bay southern precinct harbour and support infrastructure will continue with planned expenditure of \$39 million in 1999-2000. The estimated cost of the Jervoise Bay project is \$182 million.

Building construction for the CSIRO facility at Technology Park in Bentley will commence with planned expenditure of \$20.6 million in 1999-2000.

**Resources Development:** Capital funding of \$22.8 million has been allocated over the next five years to expand the Ord River Irrigation Scheme north and east of Kununurra, for a mix of agricultural and horticultural industries.

**Transport:** A total of \$24.6 million has been provided for the enhanced Vehicle Immobiliser Subsidy Scheme. This is aimed at reducing the incidence of car theft and resultant damage in the State.

# CAPITAL WORKS PROGRAM

At \$3.3 billion the 1999-2000 capital works program shows a record level of investment by Government. This program includes \$634 million of additional funding over previous estimates for 1999-2000.

This growth reflects significant investment across social and economic infrastructure. Key features include:

**Education:** \$152 million for government school infrastructure, an increase of \$46 million over previous estimates.

**Health:** \$75 million for metropolitan and regional projects including major hospital redevelopments.

**Law and Order:** \$108 million, an additional \$41.2 million over the previous forward estimates.

**Main Roads:** \$742 million for new roads, maintenance, and grants to local authorities.

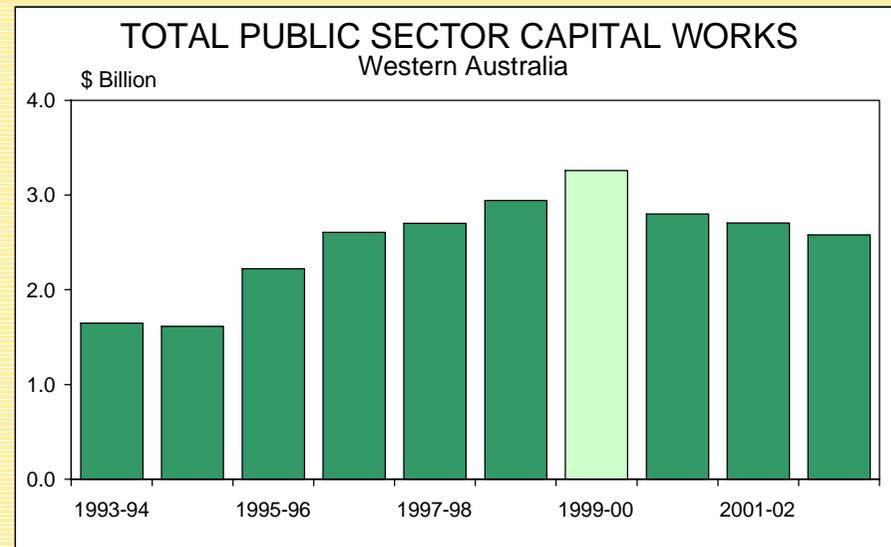
**Homeswest:** \$713 million, an additional \$188 million over the previous budget provision for 1999-2000, to enhance the provision of public housing.

**Transport:** \$80 million including \$50 million for the acquisition of new buses to improve the public transport system.

**Western Power:** \$262 million, an additional \$33 million over the previous forward estimates, including \$17.9 million for the State Underground Power Program.

**Westrail:** \$170 million including \$119 million for track improvements and \$27.2 million for locomotives and rolling stock, an increase of \$51.4 million over previous estimates.

**Water Corporation:** \$465 million, an increase of \$115 million over previous estimates, including \$61 million for the first stage of a new dam on the Harvey River and trunk main extension.



# REVENUE

## SUMMARY OF CASH REVENUE ESTIMATES

	1998-99	1999-00		
	Estimated Actual \$m	Budget Estimate \$m	Growth \$m	Real Growth %
<b>RECURRENT</b>				
Own Source:				
Taxes and Licences	2,469.3	2,597.9	128.6	2.9
Territorial	650.5	671.0	20.5	0.9
Government Enterprises	663.5	672.4	8.9	-0.9
Departmental and Law Courts	396.9	214.7	-182.2	-47.1
<b>Total</b>	<b>4,180.3</b>	<b>4,156.1</b>	<b>-24.2</b>	<b>-2.8</b>
Commonwealth:				
Financial Assistance Grants	1,591.2	1,609.4	18.2	-1.1
Safety Net Revenue	899.8	925.1	25.3	0.5
Other General Revenue	37.0	69.5	32.5	83.7
Specific Purpose Grants	628.0	590.3	-37.7	-8.1
<b>Total</b>	<b>3,156.0</b>	<b>3,194.3</b>	<b>38.3</b>	<b>-1.0</b>
<b>Total Recurrent</b>	<b>7,336.3</b>	<b>7,350.4</b>	<b>14.1</b>	<b>-2.0</b>
<b>Capital</b>	<b>92.3</b>	<b>384.5</b>	<b>292.2</b>	<b>307.4</b>
<b>TOTAL REVENUE</b>	<b>7,428.6</b>	<b>7,734.9</b>	<b>306.3</b>	<b>1.8</b>

**Consolidated Fund** revenue <sup>(a)</sup> is projected to rise by 1.8% (real) with growth in capital revenue offsetting a decline in own source recurrent revenue and Commonwealth grants.

Growth is expected from **taxes and licences** and to a lesser extent **territorial** revenue – royalties being subdued due to low commodity prices.

Revenue from **Government Enterprises** is down largely because of the higher receipts in 1998-99 from the sale of the gas pipeline.

**Departmental and Law Courts** is affected by one-off 1998-99 revenue for superannuation recovered from trading enterprises.

**Commonwealth** revenue declines by 1.0% in real terms due to lower financial assistance grants and changes to health funding.

The 2.0% real decline in recurrent revenue is offset by the one-off impact of accelerated capital receipts in the budget year (worth \$275 million). This measure will give agencies such as Homeswest and the State's larger teaching hospitals access to lower cost debt.

a) The Consolidated Budget Statements (CBS) operating statement includes the accrual equivalent of Consolidated Fund (CF) recurrent revenue as well as certain revenue that does not flow through the CF, for example Commonwealth grants for non-government schools and local government. The fall in CBS revenue of 1.4% real is lower than the 2.0% real decrease in CF recurrent revenue because of the larger base and non-CF revenue being maintained in real terms

## REVENUE MEASURES

### TAXATION REVENUE MEASURES ANNOUNCED IN THE BUDGET <sup>(a)</sup>

Description of Measures/Initiatives	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
REVENUE ENHANCING MEASURES				
Motor Vehicle Stamp Duty	21.9	25.3	26.8	28.3
REVENUE REDUCING MEASURES				
Land tax	-7.0	-7.5	-8.0	-8.6
<b>TOTAL IMPACT OF ALL REVENUE MEASURES</b>	<b>14.9</b>	<b>17.8</b>	<b>18.8</b>	<b>19.7</b>

(a) A negative sign (-) indicates a reduction in revenue

**Motor Vehicle Stamp Duty** – The current single stamp duty rate of 3% on the market value of the vehicle will be replaced by a sliding scale where the stamp duty rate varies with the value of the vehicle purchased. Under the new scale, the stamp duty rate will be 2.5% for vehicles valued at up to \$15,000, increasing to a maximum of 5.0% for vehicles valued at \$40,000 or more.

Under the new rates, all vehicles valued at up to \$20,000, which account for around three quarters of annual sales, will be subject to less stamp duty.

**Land Tax** – A new tax scale will limit growth in land tax collections in 1999-2000 to amounts less than would result from land value increases alone.

All other taxes remain unchanged, as are electricity and gas tariffs. Water charges increase by a general 2% with larger increases for heavier consumers. Public transport fares increase on average by 3.3%. (Over 80% of standard fare paying passengers will pay no more than an additional 10 cents per journey.)

# FUNDING FROM THE COMMONWEALTH

**Grants from the Commonwealth** are expected to decline 1.0% in real terms in 1999-2000.

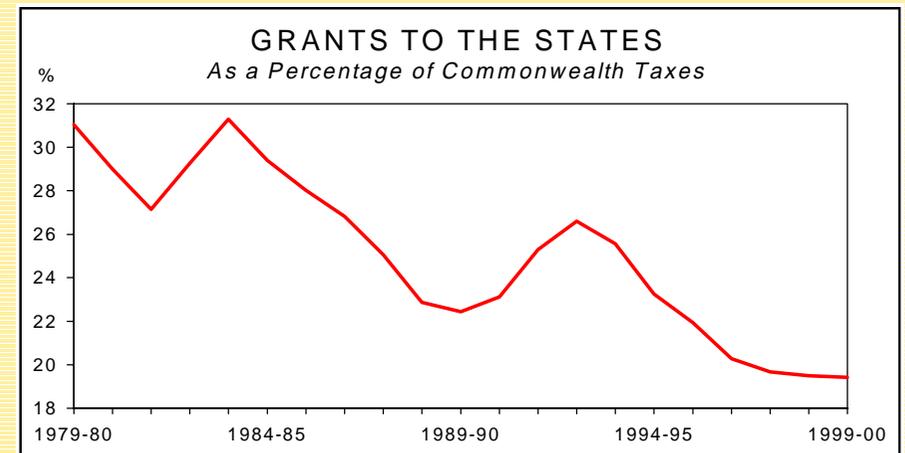
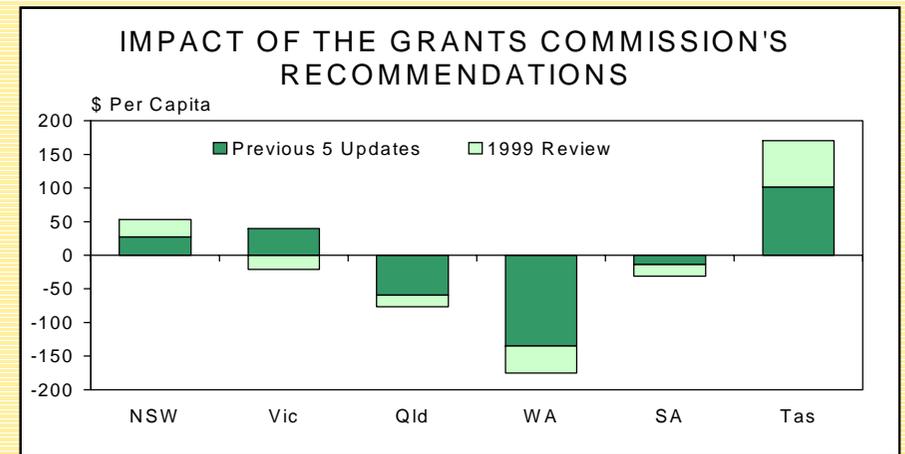
This decline reflects a further \$74 million cut in Western Australia's share of Financial Assistance Grants as recommended by the Commonwealth Grants Commission. Western Australia's grant in 1999-2000 will be \$309 million less than if funding shares from six years before had been maintained.

In **real per capita** terms general revenue grants are expected to continue to decline after 1999-2000.

States in total receive a much lower proportion of Commonwealth taxes than they did 20 years ago. Proposed reforms to provide States with all the GST revenue should help stem this decline, but the reforms are not expected to improve the Western Australian budget for at least three years.

Specific Purpose Payments to the State are expected to show negligible growth in 1999-2000<sup>(a)</sup>.

(a) The majority of Specific Purpose Payments are now treated as net appropriations in the Consolidated Fund.



# FINANCIAL TARGETS

## COMPLIANCE WITH FINANCIAL TARGETS

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

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

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

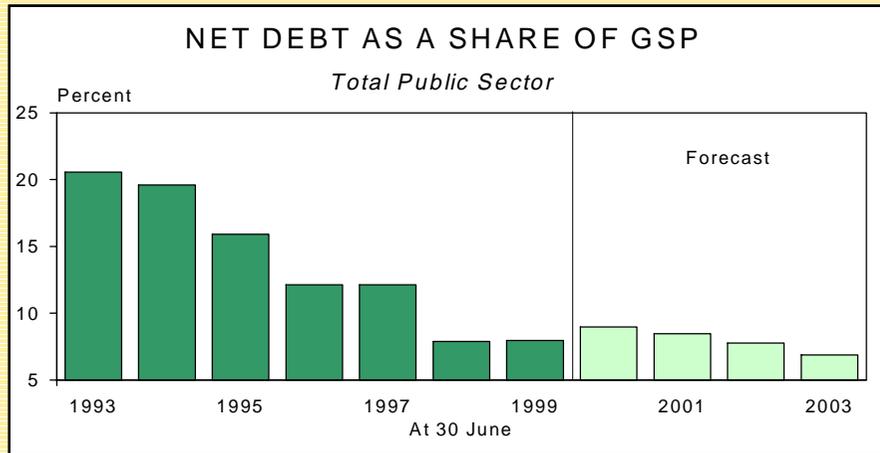
The 1999-2000 Budget has been prepared within the context of the Government's financial strategy which continues to focus on the long-term stability of the public sector. Key planks of the financial strategy are:

- Maintaining or increasing net assets of government;
- Reducing the proportion of revenue spent servicing the State's debt;
- Reducing real per capita operating expenses; and
- Maintaining operating surpluses for the whole of government and Consolidated Fund.

The Government's financial strategy is being progressed in circumstances where increased demand for services, particularly in health, education and law and order, needs to be accommodated and infrastructure needs are large. At the same time revenue growth is expected to be slow.

Notwithstanding these pressures, the table opposite shows that the majority of financial targets are met each year, and that all financial targets are met over the forward estimates period.

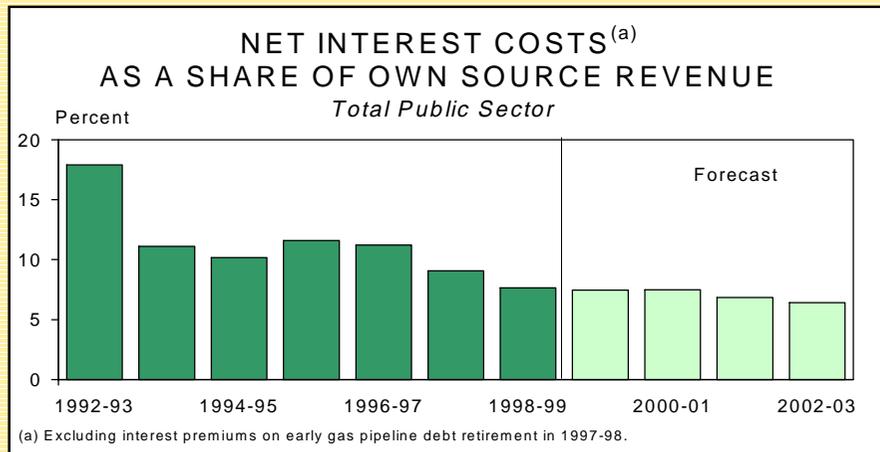
# NET DEBT



Net debt will remain at historically low levels over the period to 2002-03, although record levels of capital works will see a one-off increase in debt in 1999-2000.

Projected net debt for 1999-2000, at \$5.8 billion, remains lower than the peak figure of \$8.7 billion recorded just six years earlier.

From 8.5% in 1999-2000, net debt is expected to fall to around 6.5% of State output in 2002-03, compared with 20.6% in 1992-93. These levels of net debt are consistent with maintenance of the State's Triple A credit rating.



Subdued interest rates and low debt are contributing to low net interest costs. Net interest costs are projected to fall to around 6.4% of own-source revenue by 2002-03 from 17.9% in 1992-93.

The one-off increase in debt arises from two main factors:

- The Government's decision to redirect part of its recurrent surpluses from funding capital works to increasing service delivery in priority areas; and
- An increase in the capital works program in utility and social infrastructure and public housing.

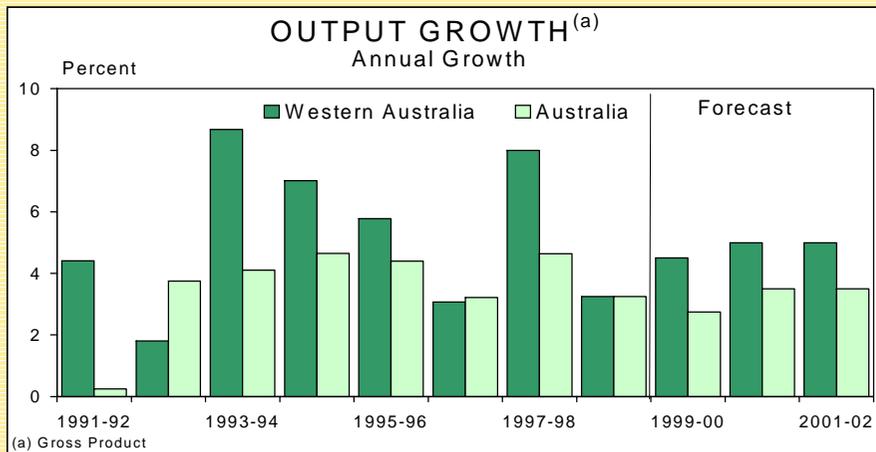
# THE ECONOMY

## MAJOR ECONOMIC AGGREGATES

Year Average Percent Change

	1997-98 Actual %	1998-99 Estimate %	1999-00 Forecast %
Gross State Product	8.0 <sup>(a)</sup>	3.25	4.5
State Final Demand	9.4	0.75	2.75
Employment	2.7	2.5	2.0
Unemployment Rate <sup>(b)</sup>	7.0	7.0	6.75
Wages	1.6	3.25	3.5
Perth CPI	-0.2	1.75	2.25

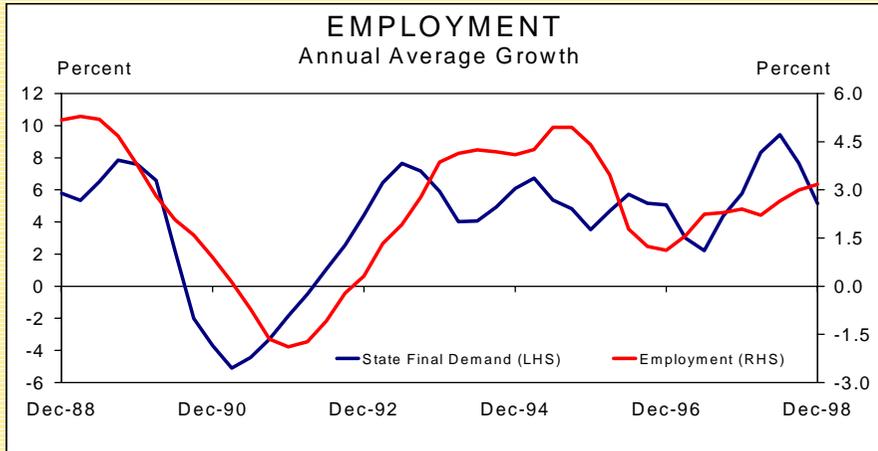
(a) Estimate (b) Annual Average



The State continues to enjoy strong growth, notwithstanding conditions in the world economy. Growth in the Western Australian economy is forecast to lift slightly to 4.5% in real terms in 1999-2000, following a steadying in the economy at a high level of activity in 1998-99.

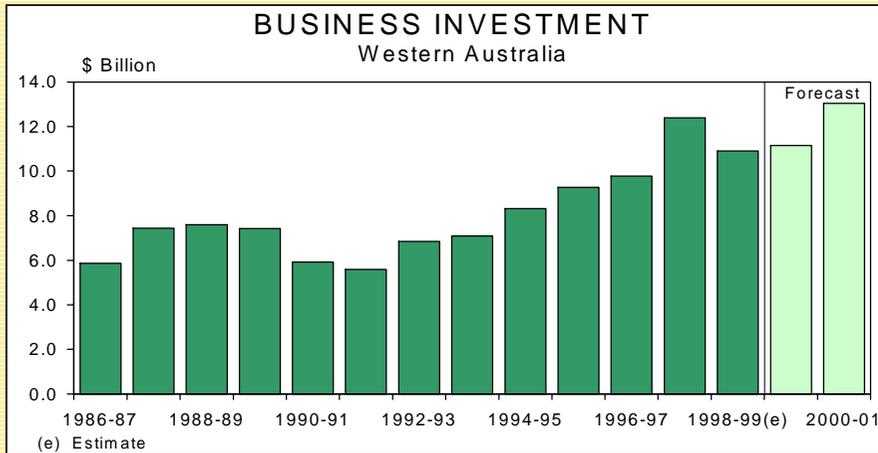
- Growth in consumer spending is forecast to ease slightly following surprisingly resilient growth in 1998-99. This is expected to be accompanied by a pick-up in dwelling construction through 1999-2000.
- Business investment is expected to remain relatively stable, having dropped back from a record \$12.4 billion during 1998.
- Increases in production capacity resulting from buoyant investment in recent years are expected to begin to flow through to Western Australia's export growth in 1999-2000 with the commissioning of a number of large-scale resource projects.
- At the same time, slower investment is likely to reduce the inflow of capital goods imports. These factors combined are forecast to result in a healthy increase in net exports, despite subdued conditions in the world economy.

# EMPLOYMENT AND MEDIUM TERM OUTLOOK



Employment growth is expected to ease slightly in 1999-2000, despite the anticipated lift in domestic activity. Nonetheless, the Western Australian labour market is forecast to remain the strongest in the nation.

- Employment is expected to grow by 2.0% in 1999-2000, down from 2.5% in 1998-99. This should bring a slight decline in the unemployment rate to an average of 6.75% over the year.
- The moderation in employment growth largely reflects the composition of domestic demand growth. In particular, activity is expected to ease in the wholesale and retail trade industries and in non-dwelling construction.



## Medium Term Outlook

The outlook for economic activity in Western Australia is for a stabilisation in growth around the long-term average of 5.0% per annum over the medium term.

Growth in business investment is projected to return to relatively strong rates in 2000-01 and beyond. This reflects an expected improvement in international economic conditions, and a consequent lift in demand for commodities, towards the end of 1999-2000. This is likely to influence the timing of commencement of a number of large-scale investment projects.

# COMPONENTS OF GROWTH

## MAJOR ECONOMIC AGGREGATES

Year Average Percent Change

Components of GSP	1997-98 Actual %	1998-99 Estimate %	1999-00 Forecast %	
<i>Private</i>				
Consumption	4.6	4.0	3.0	Growth in private consumption expenditure strong despite relatively modest household incomes growth. Some impetus from increased household wealth.
Dwelling Investment	11.6	5.0	7.5	The fourth year of the current expansion in housing activity, buoyed by demographics, affordability and some impact on timing from GST.
Business Investment	26.8	-15.0	2.5	Completion of large projects only partially offset by the commencement of a number of smaller projects - return to sustainable levels of investment. Timing of new projects will depend on pick-up in world demand towards mid 2000 and will add further to projected investment growth.
<i>Public</i>				
Consumption	8.7	5.25	-1.0	Continuation of fiscal consolidation of recent years, in keeping with fiscal targets and strategies.
Investment	-1.9	4.25	6.25	A number of major infrastructure projects (eg, Westrail's upgrading of rail infrastructure).
<b>State Final Demand</b>	<b>9.4</b>	<b>0.75</b>	<b>2.75</b>	Acceleration in domestic demand - return to growth in business investment and stronger growth in dwelling investment and public investment.
Exports	15.5	4.25	6.75	Increased supply from new projects set to boost export growth. Strengthening in major trading partners towards the end of 1999-2000.
less Imports	24.5	-4.5	5.5	Resumption of modest import growth in line with growth in plant and equipment investment and consumption.
Net Exports	7.5	9.5	7.25	Healthy growth in net exports despite international demand conditions and commodity prices.
<b>Gross State Product</b>	<b>8.0</b>	<b>3.25</b>	<b>4.5</b>	Strong expansion despite uncertainties in world conditions and timing of major investment projects.

# 1999-2000 Budget Overview

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