



2002-03 BUDGET

ECONOMIC AND FISCAL OUTLOOK

Budget Paper No. 3

PRESENTED TO THE LEGISLATIVE ASSEMBLY
ON 16 MAY 2002



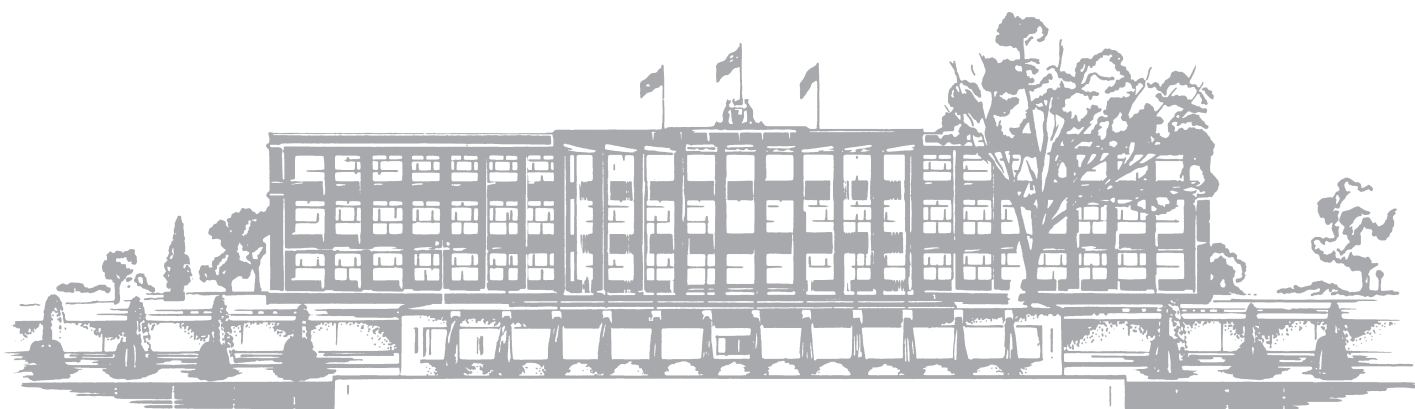


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2002–03 Economic and Fiscal Outlook

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For further information please contact:

Department of Treasury and Finance
197 St George's Terrace
Perth WA 6000

Telephone: +61 8 9222 9222

Facsimile: +61 8 9222 9342

Website: <http://budget.dtf.wa.gov.au>

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ECONOMIC AND FISCAL OUTLOOK

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Under Treasurer's Certification

This *Government Financial Projections Statement* is based upon government decisions I was aware of or that were made available to me by the Treasurer on or before the budget planning cut-off date of 15 April 2002 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. These assumptions were finalised on 15 April 2002.

The Government's decision on assistance for homelessness which was announced last week is not included in these estimates. The Government's contribution to the Hismelt project which is of a capital nature was also determined after 15 April 2002 and has not been incorporated in these estimates. Other decisions of a capital nature, taken after 15 April 2002 and which could impact the State's finances, are addressed on page 45 of Chapter 2.

A handwritten signature in black ink, appearing to read 'J L Langoulant', followed by a period.

J L Langoulant
UNDER TREASURER

16 May 2002

CHAPTER 1

Economic and Fiscal Outlook – Summary

Overview

The emphasis of the 2002-03 Budget is on enhancing investment in our intellectual and physical infrastructure. At the same time it has provided for continued improvements in the quantity and quality of services in the priority areas of health, education and law and order whilst ensuring that the Government's financial targets are met.

These objectives will be funded responsibly through a combination of using forecast surpluses of the general government and from debt.

The operating surpluses have been generated by further restraint across expenses and by revenue measures.

A general government net operating surplus of \$119.1 million is forecast for 2002-03. This follows an estimated surplus of \$118.6 million in 2001-02, substantially stronger than that budgeted.

The outlook for the general government operating balance is one of increasing surpluses, with the surplus growing to \$137.2 million in 2003-04 and to around \$370 million by the end of the projection period. These surpluses are consistent with the Government's debt management strategy. Without solid growth in operating surpluses going forward, an unsustainable burden of social and economic infrastructure investment falls on debt, an outcome which is inconsistent with sound financial management.

The Government's Expenditure Review Committee accommodated some targeted new initiatives and essential expense pressures over the forward estimates period via reprioritisation of existing programs and some revenue measures. Expenses are projected to grow by only 1.8% in 2002-03, after increasing by 4.0% in 2001-02 (after excluding expenses for the First Home Owner Grant scheme, the increase is 3.2%). These are modest increases by historical standards and reflect the Government's determination to check unnecessary expense growth.

That expenditure restraint notwithstanding, some revenue measures were necessary to ensure that the provision of public services in the future meets community requirements without having to resort to substantial borrowings. With strong population growth and healthy economic expansion, demand for government services is continuing to grow strongly.

The Government's financial targets remain unchanged from last year. These targets, which are discussed in Chapter 2: *Fiscal Strategy and Targets*, in summary form are:

- Maintain or increase total public sector net worth;
- Accrual operating surpluses for the general government sector;
- Maintain tax competitiveness; and
- Retain the State's triple-A credit rating.

Retention of the triple-A credit rating is not a measurable financial aggregate and, in any case, is not directly under the control of the Government. However, key factors relevant to maintaining the triple-A credit rating can be quantified, and this financial target is able to be expressed in terms of the following two specific targets:

- Net debt to total non-financial public sector revenue at or below 45%; and
- Real per capita expenses for general government not to increase.

All of these targets are expected to be achieved in 2001-02 and in the period 2002-03 to 2005-06.

Financial Projections

General Government Sector

The general government sector's finances are projected to strengthen across the forward estimates period. The sector is expected to record an operating surplus of \$119.1 million in 2002-03, increasing to \$137.2 million in 2003-04 and \$368.7 million by 2005-06.

Following high expense growth over the mid to late 1990s, this Government has successfully managed to rein in growth in expenses.

In the last budget, expenses were forecast to rise by 3.8% in 2001-02, down significantly from previous years. On the basis of this budget's financial estimates, expenses are estimated to have increased as budgeted in 2001-02, rising by 4.0%. This compares with an average 5.6% per annum over the previous seven years. In the new budget year (2002-03), expenses are forecast to rise by just 1.8%, with growth of 2.3% per annum forecast over the budget projection period.

The following table summarises the financial outlook for the general government sector. This sector represents the area of public sector operations over which the Government has most control. Accordingly, financial projections of the operating statement for this sector are the primary focus of the annual budget.

GENERAL GOVERNMENT						
Summary Financial Statements						
	2000-01 ^(a)	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
<u>OPERATING STATEMENT</u>						
Revenue	10,596.5	10,970.2	11,163.5	11,440.0	11,892.7	12,192.9
Expenses	10,429.4	10,851.6	11,044.4	11,302.8	11,566.4	11,824.3
Net Operating Balance	167.1	118.6	119.1	137.2	326.3	368.7
<u>BALANCE SHEET</u>						
Assets	42,106.3	42,604.8	43,406.3	44,291.4	44,998.9	45,883.4
Liabilities	9,902.0	9,809.4	10,045.1	10,255.1	10,125.0	10,092.8
Net Worth	32,204.3	32,795.4	33,361.2	34,036.3	34,874.0	35,790.5
<u>STATEMENT OF CASH FLOWS</u>						
Change in net cash held	397.4	-523.2	42.3	-3.5	32.4	190.0
GFS Cash Surplus	-128.3	-380.0	-95.2	-55.8	54.9	239.7
<i>Memorandum Item: Net Debt</i>	458.5	993.1	1,251.8	1,426.6	1,374.1	1,162.4

(a) Data quoted for 2000-01 update those published in the 2000-01 *Government Financial Results Report and 2001-02 Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2000-01 *Consolidated Financial Statements* in February 2002.

Note: Columns may not add due to rounding.

Major features of the outlook for the general government sector include:

- A growing general government net operating surplus in each year, rising from \$119.1 million in 2002-03 to \$368.7 million by 2005-06;
- Consistent with the overall strengthening in the sector's finances, general government net worth is expected to increase by an average of \$800 million per year between 30 June 2003 and 30 June 2006; and
- General government net debt rising moderately over the initial period of the forward estimates before declining to an expected \$1.2 billion by 30 June 2006.

Total Public Sector

The total public sector (comprising the general government sector, public non-financial corporations (PNFC) and public financial corporations (PFC)) is forecast to achieve strong operating results over the forward estimates period, with operating surpluses forecast in all years.

The surplus for the total public sector is projected to rise from \$423.2 million in 2002-03 to \$725.2 million by the end of the projection period.

Reflecting the large capital works program of the public sector, total public sector net debt is expected to rise over the projection period, from an estimated \$5.3 billion at 30 June 2002 to \$5.9 billion at 30 June 2003. However, with the level of capital works forecast to decline in later years, the level of net debt is forecast to stabilise at around \$6.2 billion thereafter.

As a result of both stabilising levels of net debt and forecasts for solid growth in the economy, the State's net debt is expected to fall relative to the size of the economy over the projection period, from 7.0% of gross State product (GSP) in 2002-03 to 6.1% of GSP by 2005-06.

In addition, most of the State's net debt is held by the PNFC sector, which it services through its commercial operations.

Further detail on the State's financial outlook is contained in Chapter 2: *Fiscal Strategy and Targets* and in the appendices.

Policy Measures Summary

The following table shows the impact of policy decisions taken since the last budget on general government revenue and the funding of expenses. Variations in appropriations are shown on an agency basis while the revenue effects represent the impact of the relevant policy decision on the aggregate revenue of the general government sector.

Individual policy decisions that comprise the agency totals in the following table are detailed in Chapter 3: *Financial Projections – Expenses* and relevant agency statements in Budget Paper No. 2. Revenue measures are described in Chapter 4: *Financial Projections – Revenue*.

Table 2

POLICY DECISIONS TAKEN SINCE THE 2001-02 BUDGET

	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
EXPENSES ^(a)				
Agriculture	-1.6	-3.3	-3.2	-3.1
Anti-Corruption Commission	-1.2	-1.2	-1.2	-1.2
Botanic Gardens and Parks Authority	-	-	0.9	1.7
Community Development	4.6	4.5	4.4	5.0
Conservation and Land Management	14.3	14.5	14.5	14.5
Consumer and Employment Protection	0.5	-	-3.2	-3.2
Curriculum Council	0.8	0.9	1.2	1.2
Disability Services Commission	2.4	2.7	2.7	2.7
Education	20.6	23.0	28.2	30.9
Education Services	-2.8	-4.8	-9.8	14.6
Environmental Protection	-0.5	2.1	0.9	-0.9
Fire and Emergency Services Authority	0.3	0.2	0.2	1.9
Fisheries	0.1	0.2	0.2	0.2
Health	130.7	139.4	118.5	163.5
Heritage Council of Western Australia	0.1	0.3	0.1	0.1
Housing and Works	0.2	0.2	0.9	0.9
Indigenous Affairs	0.2	0.3	0.3	0.3
Industry and Technology	7.9	-4.0	-4.0	-4.0
Justice	11.3	6.2	7.2	8.5
Local Government and Regional Development	9.8	0.2	0.2	0.2
Main Roads	2.0	-16.5	-16.5	-18.0
Mid West Development Commission	0.1	0.3	0.2	-
Mineral and Petroleum Resources	0.6	-	-0.9	4.2
Office of Energy	1.0	1.0	0.2	-
Parliament	0.3	0.3	0.3	0.3
Parliamentary Commissioner for Administrative Investigations	0.1	-	-	-
Planning and Infrastructure	8.8	14.1	15.5	42.5
Police Service	8.2	20.7	26.3	30.7
Premier and Cabinet	5.8	9.1	12.5	10.8
Royal Commission into whether there has been any corrupt or criminal conduct by Western Australian Police Officers	5.2	2.8	-	-
Sport and Recreation	4.7	3.7	4.1	0.1
Training	1.6	12.9	9.4	5.7
Transport	1.9	1.9	1.1	0.6
Treasury and Finance - Controlled	1.3	1.0	1.0	1.1
Water and Rivers Commission	0.4	-2.0	-2.0	-1.9
Western Australian Tourism Commission	1.9	2.1	-	-
Zoological Gardens Board	0.3	0.3	0.3	0.3
Total Expenses	241.7	233.1	210.4	310.2
REVENUE				
New taxation measures	109.9	116.5	122.6	128.7
Not proceed with premium land tax	-8.8	-9.4	-10.1	-10.8
Total Revenue	101.1	107.1	112.5	117.9

(a) Comprises variations in agencies' appropriation for output. For further details, refer to relevant agencies in Budget Paper No. 2.

Note: Columns may not add due to rounding.

Economic Outlook

The Western Australian economy is expected to record a robust 4.5% growth in 2001-02 and to grow by a further 3.75% in 2002-03.

Strong growth in business and dwelling investment is providing a substantial boost to the domestic economy in 2001-02. While growth in business investment will remain relatively strong in 2002-03, with growth of 9.5% forecast, dwelling investment is forecast to contract.

Despite strong domestic demand growth in 2001-02, employment growth is fairly weak and growth of just 1.0% is expected over this year. However, a pick-up in employment growth is forecast for 2002-03. The unemployment rate is expected to increase to 6.75% in annual terms in 2001-02, but then fall to 6.25% by 2003-04 as employment growth outpaces growth in the labour force.

Wages are forecast to increase by 3.25% in 2001-02 and continue growing at this rate over the medium term. Inflation is expected to be at the top end of the Reserve Bank of Australia's target range, at 3.0%, in both 2001-02 and 2002-03.

The external sector, although being relatively weak throughout 2001-02, is forecast to rebound in 2002-03 on the back of stronger international demand, as world economies begin to recover and Western Australia's production capacity expands from the current business investment surge.

MAJOR ECONOMIC AGGREGATES
Western Australia

Table 3

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	%	%	Estimate	Estimate	Estimate	Estimate
Real Gross State Product Growth	-1.2	4.5	3.75	4.0	4.25	4.25
Employment Growth	1.5	1.0	2.25	2.5	2.5	2.5
Unemployment Rate	6.4	6.75	6.5	6.25	6.25	6.25
Wages Growth ^(a)	3.6	3.25	3.25	3.25	3.25	3.25
Underlying Consumer Price Index ^(b)	2.5	3.0	3.0	2.75	2.75	2.5
GSP Implicit Price Deflator	8.9	2.5	2.25	2.25	2.25	2.25

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

(b) Does not incorporate any impact of the introduction of the GST.

Budget Presentation

The *Government Financial Responsibility Act 2000* requires that the annual budget be prepared based on external reporting standards, specifically the concepts and classifications set out in Government Finance Statistics (GFS) Australia and/or the Australian Accounting Standards.

This is the third budget that is formulated in accordance with the Australian Bureau of Statistics GFS accrual methodology. This methodology has been adopted by all Australian governments for the purpose of Uniform Presentation Framework (UPF) of public finances. The current UPF format was approved at the June 1999 Council of Australian Governments meeting.

CHAPTER 2

Fiscal Strategy and Targets

Fiscal Strategy

The Government is committed to sound financial management and has maintained the financial targets adopted upon coming to office and as expressed in its first budget last year. At the broadest level, the Government's fiscal strategy is to implement measures which meet these financial targets.

The economic and social contexts of the budget have presented challenges to the fiscal strategy. These include:

- Social and economic infrastructure requirements in urban transit and regional transport, police information technology and industrial development projects;
- Substantial injection of additional education funds to enhance early childhood educational outcomes and availability of information technology; and
- Additional health service delivery needs and expenses, including large salary demands from doctors and nurses.

In responding to these challenges the Government was again faced with fundamental choices. The first was whether or not to respond to these social and economic needs. The projects and services that have been funded in this budget have been rigorously assessed to pass one essential test: they are essential to the long term welfare and development of the State. The second fundamental question was whether these needs could be met within a responsible financial framework.

In considering this question the Government tested the financial implications of its spending and investment priorities against its financial targets. Without corrective action, it was found that the demands facing the Government could not have been met while at the same time delivering operating surpluses and limiting debt.

The Government's response in this budget has been to constrain the growth in total expenses while ensuring priority areas are funded appropriately. It is also introducing some revenue measures. These decisions have been taken after careful consideration of what savings were available in government operations after the substantial cuts that were put in place in the last budget, which in the vast majority of cases are expected to be achieved.

In order to ensure maximum public sector efficiency in the context of future calls on resources, the Government is pursuing two strategies:

- An enhanced voluntary redundancy offer to public sector employees designed to encourage staffing arrangements that meet current needs; and
- A structured process of functional reviews will be introduced in 2002-03 designed to identify those areas of government activity that are duplicated across agencies, or least serve priority community outcomes. These activities will be reviewed, releasing funding for redirection to higher priorities.

The revenue measures, which are discussed further in Chapter 4: *Financial Projections - Revenue*, contribute to operating surpluses in each year of the forward estimates. While these surpluses grow to modest amounts in the outyears, they are necessary for prudent risk management and infrastructure capital requirements. Without solid surpluses going forward, an unsustainable burden of social and economic infrastructure investment falls on debt. Funding some of this infrastructure through operating surpluses contributes to the achievement of the credit rating target and the prevention of unsustainable growth in interest burdens, spiralling debt outcomes and falling net worth.

The relationship between infrastructure, surpluses and debt is further discussed later in this Chapter.

Financial Targets

As outlined in Chapter 1: *Economic and Fiscal Outlook – Summary*, the Government's financial targets are as follows:

- 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 sector¹ at, or below, 45%; and
 - Ensure that real per capita expenses for the general government sector do not increase; and
- Maintain Western Australia's tax competitiveness.

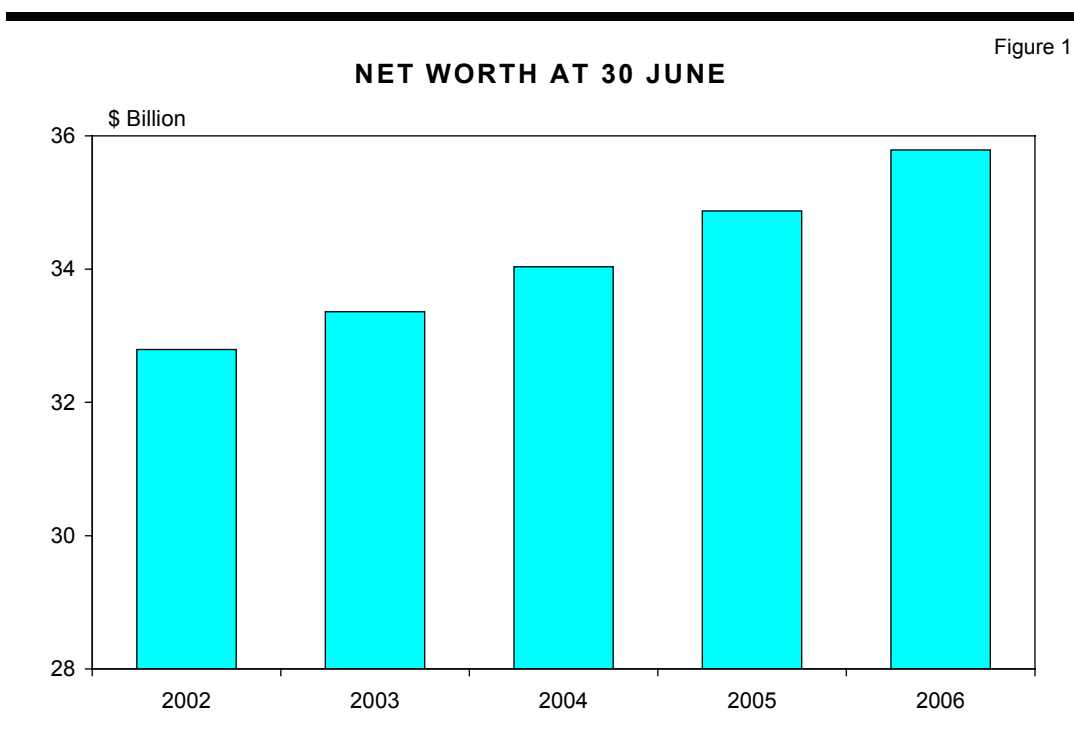
¹ Comprises the general government and public non-financial corporations sectors.

The following discussion relates to the five specific targets of the Government.

Net Worth: Net Worth of the Public Sector be Maintained or Increase

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 by \$3.0 billion between 30 June 2002 and 30 June 2006.



Operating Result: Achieve a Net Operating Surplus for the General Government Sector

The net operating result is the excess of revenue over 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 (depreciation).

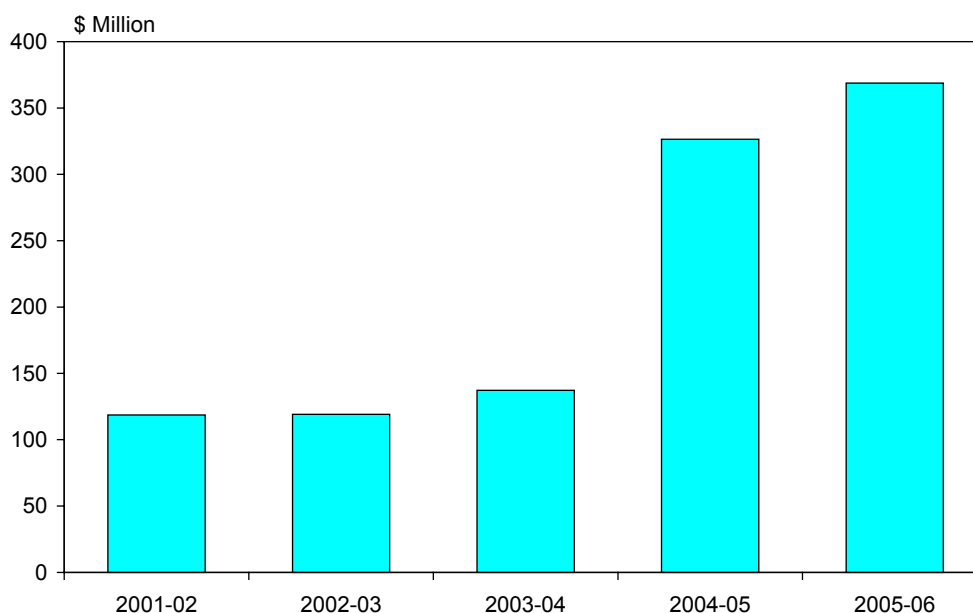
By including all accruing costs, the net operating result encompasses the full costs of providing government services, making it a good measure of the sustainability of the Government's operations over time.

This target is expected to be achieved as revenue exceeds expenses in each year. Importantly, this is consistent with the expectation at the time of the 2001-02 Budget and the *2001-02 Government Mid-year Financial Projections Statement* (mid-year review), meaning that the Government's financial management program remains firmly on track.

The Government's net operating surplus for 2001-02 was forecast to have fallen slightly in the mid-year review (compared with the 2001-02 Budget estimate), mainly in light of the then expected effects of the events of 11 September 2001. However, a return to stronger economic growth, the recent recovery in oil prices and close monitoring of expense pressures have strengthened the Government's finances in 2001-02, with an operating surplus of \$118.6 million now expected.

Figure 2

NET OPERATING BALANCE General Government



Retain Triple-A Credit Rating – Net Debt: Maintain Net Debt to Revenue for the Total Non-Financial Public Sector at or Below 45 Percent

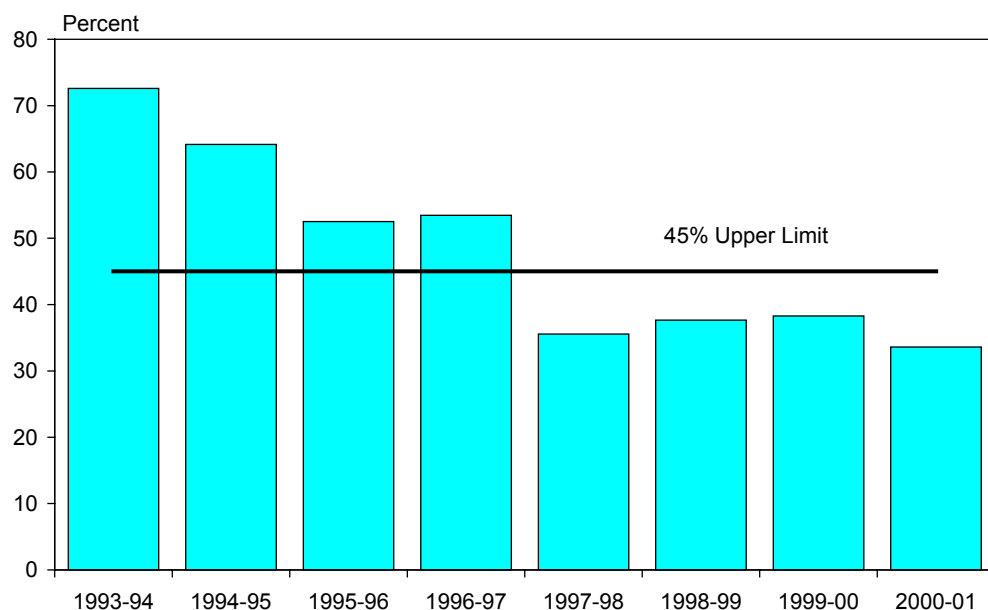
This is the Government's target to manage net debt levels. Together with the real per capita expenses target, it gives effect to the objective to maintain the State's triple-A credit rating.

A ratio of net debt to revenue for the total non-financial public sector that increases above 45% may cause concern with credit rating agencies. Without specific ameliorating factors, a ratio significantly above 45% would be unlikely to be consistent with a triple-A credit rating.

The 45% target was not met in the early 1990s, a time when rating agencies conferred a lower rating on the State. However, this target has been met since 1997-98, reflecting the significant reductions in net debt, largely due to asset sales, in the mid to late 1990s.

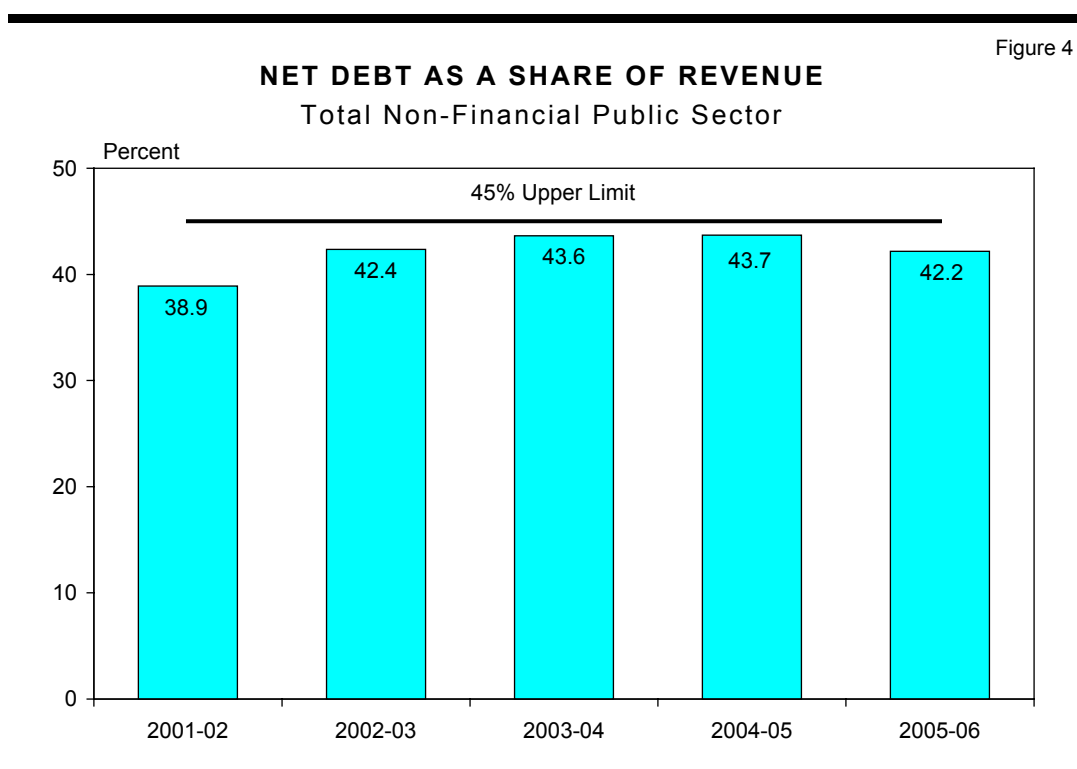
Figure 3

NET DEBT AS A SHARE OF REVENUE Total Non-Financial Public Sector



On the basis of the budget projections, this target is forecast to be met in each of the budget and forward estimate years, with the ratio averaging around 43% a year. This is a significant achievement given the large capital works program being undertaken by this Government. The low growth in expenses – and associated operating surpluses – expected over the projection period assist greatly in maintaining sustainable net debt levels.

It is of note that at the time of last year's budget, the net debt to revenue ratio for 2001-02 was estimated at 39.1%. The Government expects to achieve – and slightly better – this estimate, with net debt to revenue now estimated at 38.9% for 2001-02.

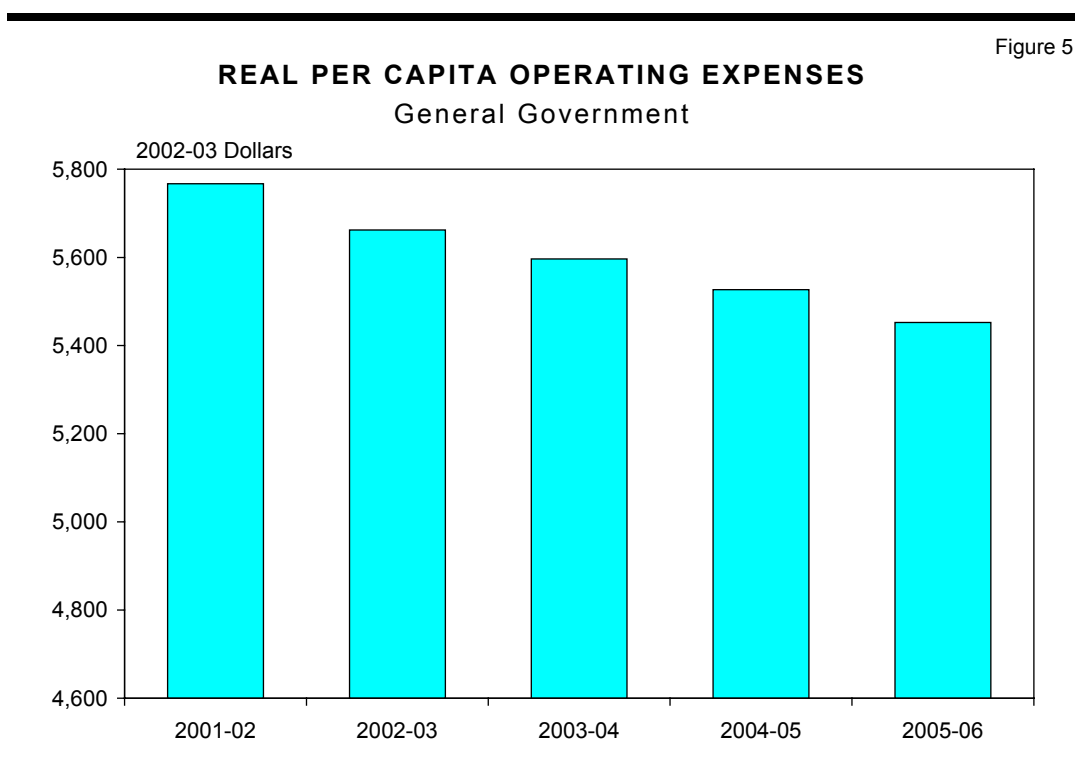


Retain Triple-A Credit Rating – Operating Expenses: Real Per Capita Expenses for the General Government Sector to not Increase

This target is aimed at capping expense growth. Strong growth in operating expenses was the primary reason that the general government operating balance recorded deficit results in the past.

The target allows agencies to increase expenses up to, but not exceeding, the combined growth in population and inflation. In this environment, improved service provision arises through improved efficiency and productivity. The general government sector is the sector over which the Government has the most policy control and is therefore the appropriate scope of the target.

As the following chart illustrates, the target is expected to be achieved in the budget year and for the remainder of the projection period, with mildly falling operating expenses on a real per capita basis.

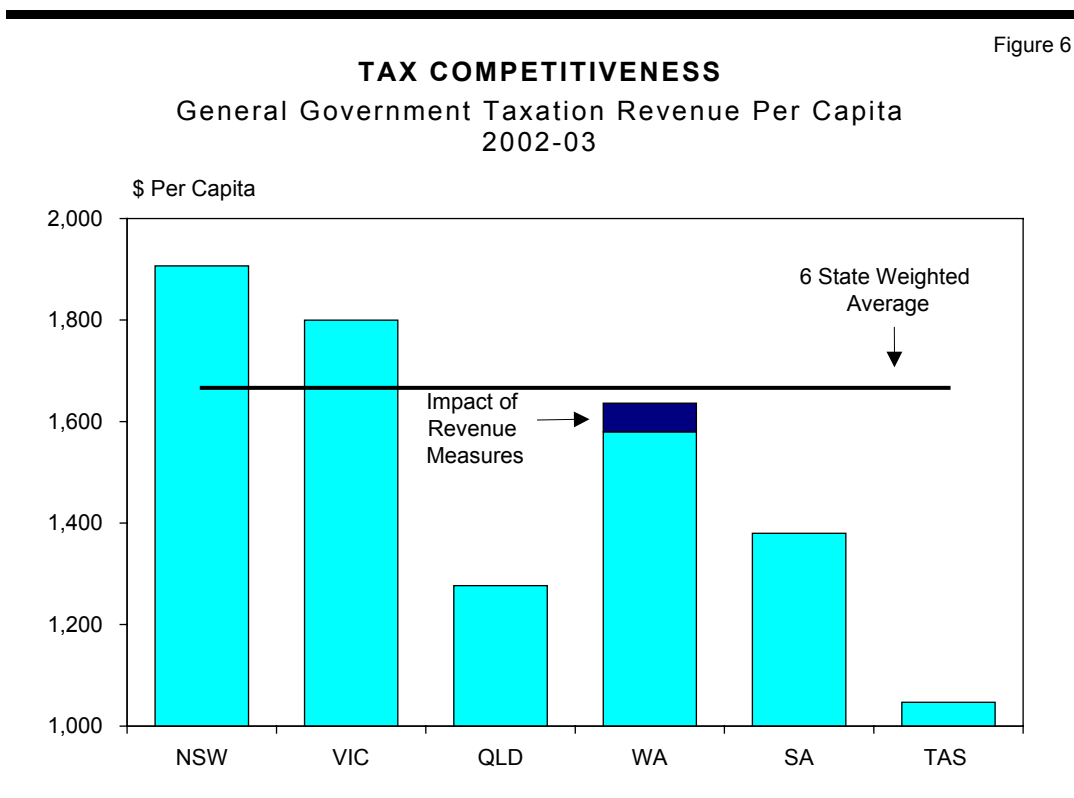


Tax Competitiveness: Maintain Western Australia's Tax Competitiveness

The Government recognises the importance of taxation levels in providing incentive and a competitive advantage to Western Australian business.

Reflecting this, the Government aims to maintain Western Australia's tax competitiveness, as measured by our interstate ranking in terms of taxation revenue per capita.

The following chart illustrates the level of general government taxation revenue per capita for each State in 2002-03. Estimates in the chart are based on financial publications for all States and population projections from the Australian Bureau of Statistics. Importantly, the ranking of Western Australia is unchanged throughout the forward estimates period, even after taking account of the new measures introduced in this budget and recently announced tax initiatives of other States.



Summary of Financial Projections

General Government Sector

Summary

As mentioned earlier, the general government sector represents the area of public sector activity which is subject to greatest control by government. Accordingly, financial projections of the operating statement for this sector are the primary focus, or ‘bottom line’, of the annual budget.

The general government sector’s finances are projected to strengthen across the budget projection period. The sector is expected to record a net operating surplus of \$119.1 million for the budget year (2002-03). This is relatively unchanged from the forward estimate published in the mid-year review, released on 23 December 2001.

Importantly, the outlook for the general government operating balance continues to be one of increasing surpluses, with the surplus growing to \$137.2 million in 2003-04 and to around \$370 million by the end of the projection period. This indicates that the Government has successfully managed the State’s finances over the 2002-03 Budget round.

In particular, the high growth in expenses which was evident in the late 1990s and which resulted in four consecutive net operating deficits between 1996-97 and 1999-2000, has eased, with the Government introducing further targeted reductions in funding to low priority areas following similar reductions in last year’s budget.

The projected outlook has also been assisted by the revenue measures announced in this budget. These have been required in order to ensure appropriate provision of public services in the future without having to resort to substantial borrowings.

Consistent with the overall strengthening in the sector’s finances, net worth is expected to increase by over \$550 million in the budget year to stand at \$33.4 billion at 30 June 2003.

Reflecting significant capital investment, general government net debt is forecast to rise by \$258.7 million over the budget year and by a further \$174.8 million the following year, to stand at \$1.4 billion by 30 June 2004. However, the level of general government net debt over the medium term is forecast to decline thereafter, reflecting both an easing in capital investment and the increasing ability to fund such investment through internally generated funds (via the improved operating position) rather than borrowings.

Operating Statement

The operating surplus of \$119.1 million for 2002-03 is projected to grow over the medium term, as shown in Table 1.

Table 1

GENERAL GOVERNMENT
Operating Statement

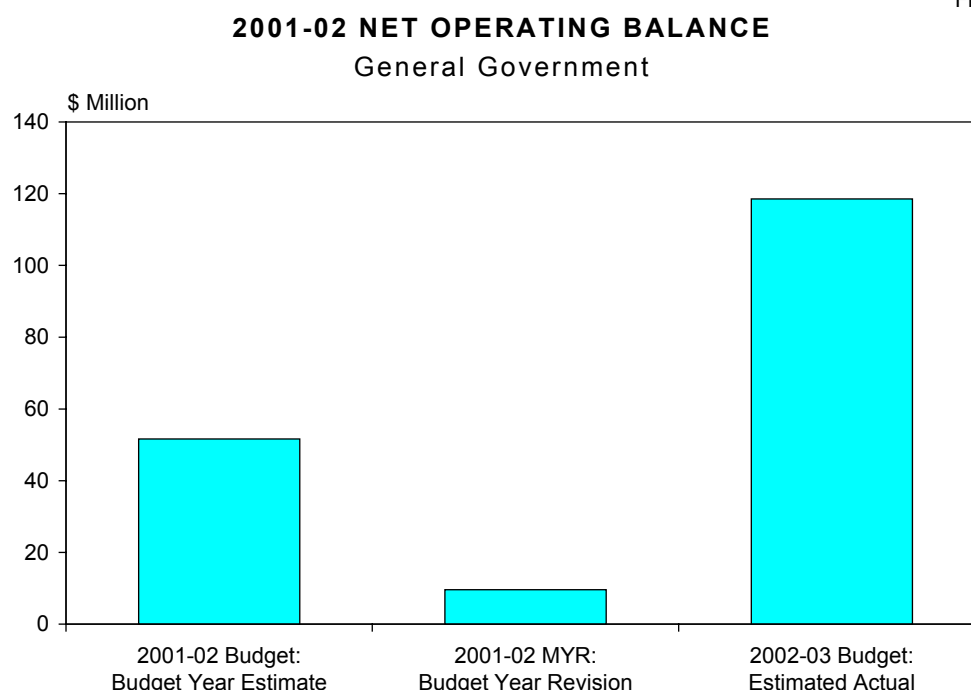
	2000-01 ^(a)	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Taxation	2,891.6	2,965.4	3,193.7	3,361.3	3,529.1	3,618.0
Current grants and subsidies	4,781.2	5,214.2	5,170.0	5,211.5	5,480.0	5,707.9
Capital grants	276.9	272.7	291.7	273.5	275.3	262.2
Sales of goods and services	863.3	896.0	919.3	903.7	878.4	883.8
Interest income	141.9	117.8	108.6	107.1	95.3	95.1
Revenue from public corporations						
Dividends	400.0	411.0	379.3	439.0	473.0	481.2
Tax equivalent payments	366.4	220.0	227.7	254.1	271.6	289.8
Royalty income	685.6	639.5	654.9	667.8	666.0	648.9
Other	189.7	233.5	218.1	222.1	224.1	206.0
Total	10,596.5	10,970.2	11,163.5	11,440.0	11,892.7	12,192.9
EXPENSES						
Gross operating expenses						
Salaries	3,953.3	4,135.1	4,320.0	4,439.8	4,563.0	4,660.5
Depreciation and amortisation	452.0	499.6	533.5	542.1	539.2	550.5
Superannuation	358.7	364.3	395.8	406.2	416.3	422.7
Other	2,809.8	2,709.1	2,698.3	2,766.5	2,873.2	2,939.5
Nominal superannuation interest	304.1	277.6	281.2	286.0	290.7	294.2
Other interest	239.5	226.3	247.3	258.8	266.6	283.4
Current transfers	2,048.9	2,411.2	2,313.0	2,343.1	2,391.0	2,468.9
Capital transfers	263.1	228.5	255.1	260.4	226.3	204.7
Total	10,429.4	10,851.6	11,044.4	11,302.8	11,566.4	11,824.3
NET OPERATING BALANCE	167.1	118.6	119.1	137.2	326.3	368.7

(a) Data quoted for 2000-01 update those published in the 2000-01 *Government Financial Results Report and 2001-02 Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2000-01 *Consolidated Financial Statements* in February 2002.

Note: Columns may not add due to rounding.

As illustrated in the following chart, the \$118.6 million surplus expected for 2001-02 is well above the revised estimate contained in the mid-year review and the estimate in last year's budget.

Figure 7



Factors which contributed to the decline in the projected surplus at the time of the mid-year review, in particular weak commodity price-based revenue in the wake of the 11 September terrorist attacks, have reversed in recent months. In addition, continued buoyancy in the residential property market has resulted in higher than expected collections of stamp duty on conveyances. A return to stronger economic growth and close monitoring of agency financial estimates have also helped to ensure that the Government delivers its promise of responsible fiscal management and, in particular, a net operating surplus.

As discussed below, expenses have grown very much in line with budget projections in 2001-02. The requirement on agencies to meet cuts in budgets from priority and assurance dividends have been met in virtually all areas. The most notable exception being in health. Reflecting this restraint, growth in expenses has moderated substantially from very high growth in recent years.

Revenue

Total operating revenue for the general government sector is expected to be \$11.2 billion in 2002-03. This represents an increase of \$193.3 million or 1.8% on the 2001-02 estimated outturn revenue.

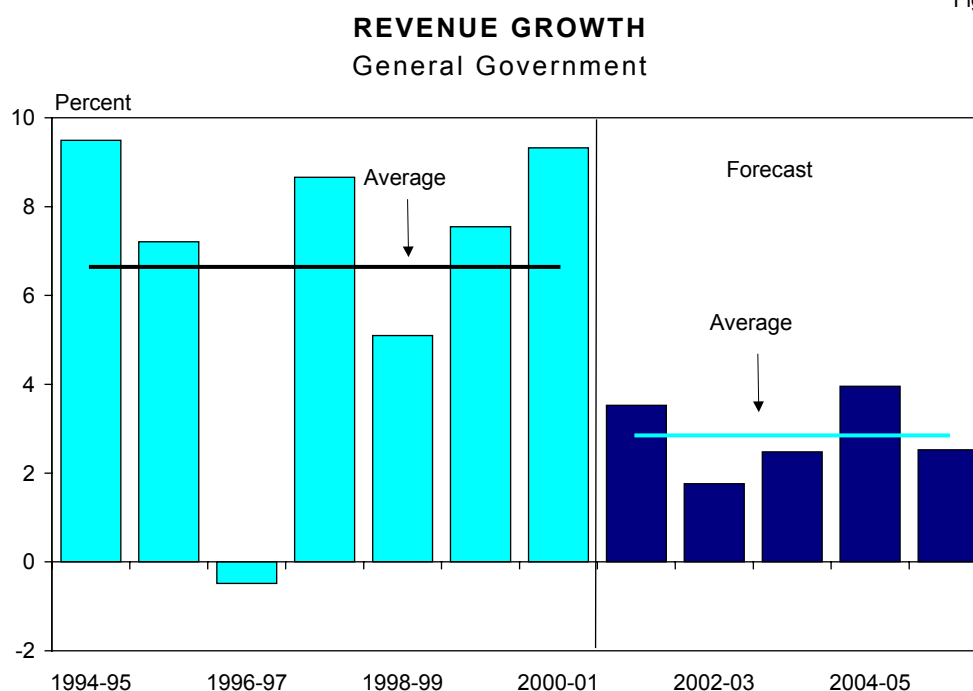
Even with the new taxation measures introduced in this budget to fund the community's growing needs for essential services, this growth rate is low by historical standards. Over the period 1993-94 to 2000-01, total operating revenue grew by an annual average of 6.6% (abstracting from the 'one-off' revenue impacts of major asset sales, underlying total operating revenue grew by an average of 6.3% per annum over this period).

The comparatively high rates of revenue growth in the 1990s reflected a combination of factors, including asset sale-related revenue in 1995-96, 1997-98 and 2000-01, tax increases and favourable movements in the oil price and exchange rate in 1999-2000 and 2000-01.

Following growth of 1.8% in 2002-03, total operating revenue is expected to increase by an average of around 3.0% per annum over the outyears.

The spike in revenue growth in 2004-05, whilst modest by historical standards, primarily reflects higher GST revenue grants from the Commonwealth. In aggregate, GST revenue grants and budget balancing assistance² are forecast to increase by just \$32.2 million in 2003-04, and by \$137.8 million in 2004-05. Also increasing in 2004-05 are estimates of North West Shelf royalties, which rise due to the increased output of the 4th LNG train.

Figure 8



Detailed information on the revenue estimates and the new taxation measures introduced in this budget is contained in Chapter 4: *Financial Projections – Revenue*.

Expenses

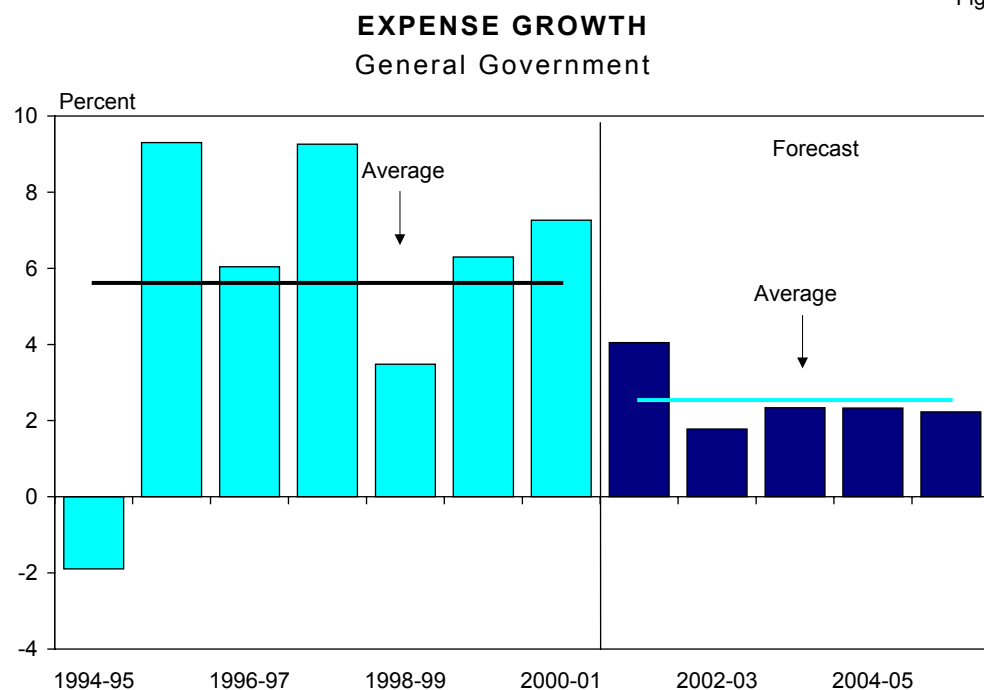
Total operating expenses of the general government sector are expected to be \$11.0 billion in 2002-03. This is an increase of \$192.8 million (or 1.8%) over the expected outturn for 2001-02, and follows expected growth of 4.0% in 2001-02.

² Prior to 2004-05 Western Australia expects to receive budget balancing assistance to top up its GST revenues to the funding that would have been received under pre-tax reform arrangements (according to Commonwealth estimates).

Unsustainable growth in expenses has been the major fiscal policy issue facing Western Australia in recent years. In its first budget, this Government made a concerted effort to address the 'structural imbalance' that had arisen in general government finances as a result of the significant historical expenses growth.

At the time of the 2001-02 Budget, expenses were forecast to rise by 3.8% in 2001-02, down significantly from previous years. The revised growth rate based on the estimated outturn for 2001-02 is 4.0%³. This compares with an average 5.6% per annum over the period 1993-94 to 2000-01. This containment in expense growth is forecast to continue over the budget projection period, as illustrated in the following chart.

Figure 9



³ Excluding the impact of the First Home Owner Grant scheme, over which the State Government has no control, the budget-time estimate of growth in expenses for 2001-02 was 3.6% and the expected outturn is now 3.2%.

Table 2

GENERAL GOVERNMENT
Operating Expenses

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	\$m	\$m	\$m
Gross operating expenses						
Salaries	3,953.3	4,135.1	4,320.0	4,439.8	4,563.0	4,660.5
Depreciation and amortisation	452.0	499.6	533.5	542.1	539.2	550.5
Superannuation	358.7	364.3	395.8	406.2	416.3	422.7
Other	2,809.8	2,709.1	2,698.3	2,766.5	2,873.2	2,939.5
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Capital transfers	263.1	228.5	255.1	260.4	226.3	204.7
<i>Total</i>	<i>10,429.4</i>	<i>10,851.6</i>	<i>11,044.4</i>	<i>11,302.8</i>	<i>11,566.4</i>	<i>11,824.3</i>

Note: Columns may not add due to rounding.

The general government sector's largest operating expense is salaries. Over the past year, the Government has entered into new enterprise bargaining agreements with a number of government employees, for example, doctors, police and nurses. The outcome of these negotiations are reflected in the above estimates.

The 2002-03 Budget continues the Government's integrated strategy to restore parity in wages and conditions across the public sector. Adjustments were made to agencies' budgets in 2001-02 to accommodate this policy.

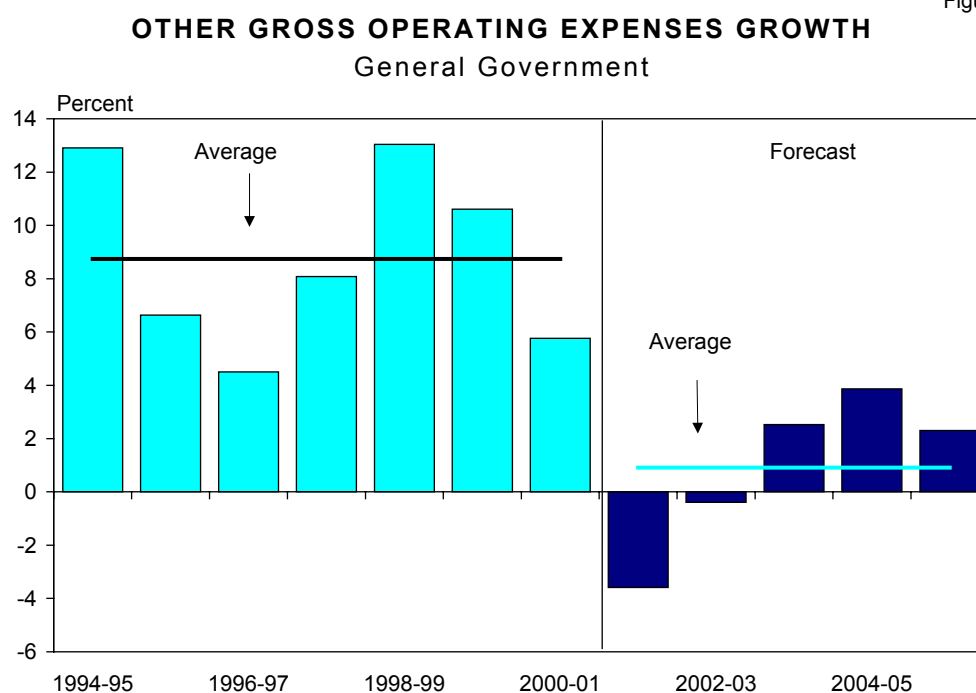
A further marginal adjustment was made in this budget round to account for the agreement reached in early 2002 with the Civil Service Association to cover public servants and government officers. In this regard, the benchmark rate for employees will increase by 1.5% on top of the 3.0% increase originally proposed under the policy for 1 January 2003. Thereafter, it is proposed that the wages policy will be applied to the benchmark, progressively lifting all like employees to the same rate of pay and conditions.

Reflecting these influences, the total wages bill for the general government sector is expected to increase by 4.5% in 2002-03. For 2003-04 and 2004-05, salaries are forecast to rise by 2.8% per annum while the current estimate for 2005-06 yields growth of 2.1%. The fall in the rate of growth in 2005-06 reflects the fact that a number of new enterprise bargaining agreements which are set to apply in the outyears (eg. teachers and police) are not yet finalised and, therefore, have not been reflected in the estimates.

Total expenses relating to superannuation comprise the expense related to employment in the year of the estimate and the nominal superannuation interest⁴. Movements in these superannuation-related expenses are closely related to trends in salaries expenses and the magnitude of unfunded liabilities carried on the balance sheet. Across the budget and outyears, concurrent expenses are forecast to rise by an average 2.8% per annum, broadly in line with salaries growth.

Other gross operating expenses include the purchase of goods and services by government agencies. A wide variety of items incidental to the day-to-day operations of agencies are covered by this item, including consumables (eg. stationery), advertising and promotion, consultants and travel. The Government has made a concerted effort to reduce expenses in low priority areas such as these. Reflecting this, other gross operating expenses are forecast to decline by 3.6% in 2001-02. Across the budget and forward estimate years, this aggregate is forecast to grow by a modest 2.1% per annum on average. This compares with average growth of 8.7% per annum over the period 1993-94 to 2000-01.

Figure 10



Depreciation expenses are forecast to increase by \$33.9 million in 2002-03 to \$533.5 million. This follows an expected increase of \$47.7 million in 2001-02. Increases of this magnitude are in line with trends in capital investment. Across the outyears, depreciation expenses are steady at around \$550 million, in line with a stabilisation in capital investment.

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.

Current transfers are forecast to decrease by \$98.1 million (or 4.1%) in 2002-03 following an estimated \$362.2 million (17.7%) increase in 2001-02. The expected rise in 2001-02 is skewed by a number of grants which were one-off in nature. These include the temporary increase in the First Home Owner Grant for new homes (funded from Commonwealth grants and administered by the States) and other areas such as national rail network funding, forests and emergency relief for drought affected farmers.

A component of current transfers that is increasing in 2002-03 are funds provided to the public non-financial corporations (PNFC) sector in the form of community service obligations (CSOs). In total, these expenses are forecast to increase by \$22.2 million to \$365.0 million.

The majority of these expenses are to the Water Corporation (total \$257.9 million, up \$20.3 million from 2001-02). Also increasing are CSO expenses to the Western Australian Land Authority (total \$27.2 million, up \$4.0 million). These rises are partially offset by a decline to the Western Australian Government Railways Commission (total \$46.5 million, down \$3.3 million), while Western Power is receiving an unchanged amount of \$31.2 million. Further details on CSOs, and other payments to the PNFC sector, are contained in Appendix 6: *Public Corporations - Revenue and Expenses*.

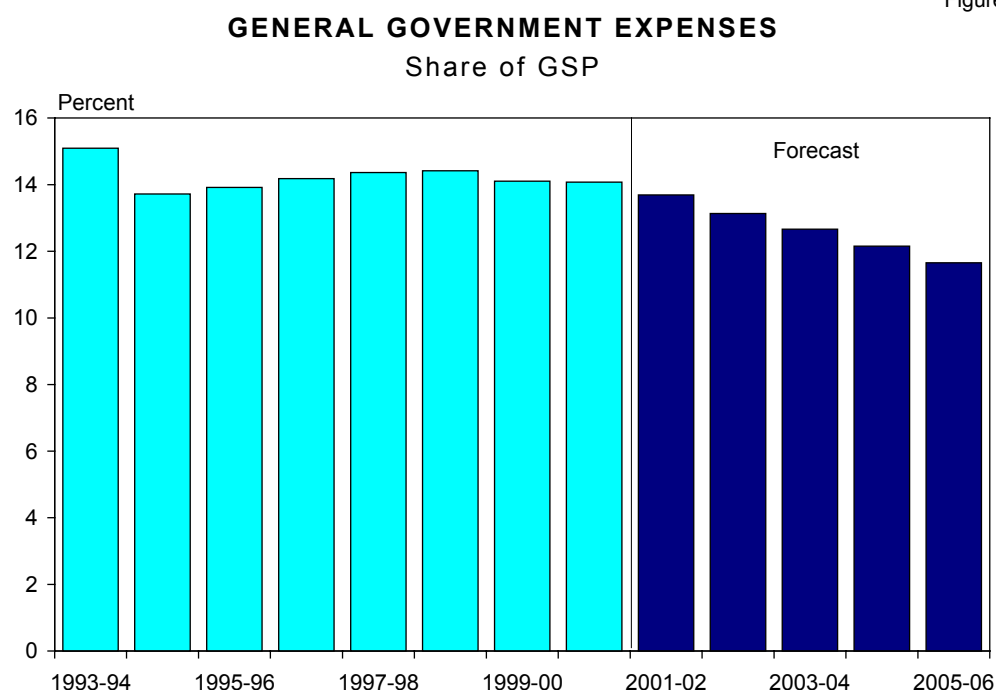
Funding under the Commonwealth-State Housing Agreement and for local government roads are the largest capital transfer items, totalling \$108.4 million and \$67.9 million respectively in 2002-03. These are estimated to remain relatively unchanged over time. In 2002-03 and 2003-04, a total of \$65.9 million in capital transfers is expensed for the Perth Convention and Exhibition Centre (PCEC)⁵. In addition, between 2002-03 and 2004-05, \$20.0 million of expenses relating to the Innovate WA program are included in estimates of capital transfers. These expenses were capitalised in the 2001-02 Budget.

The level of interest expense reflects movements in borrowings outstanding and the average rate of interest on those borrowings. Following the sale of AlintaGas in 2000-01, and subsequent retirement of debt, the level of interest expense decreased by around \$13 million in 2001-02. In 2002-03, interest expenses are forecast to rise by \$21.1 million reflecting the Government's increased capital investment. However, interest expenses remain at historically low levels and are expected to account for around 2.3% of total expenses on average over the forward estimates period.

Although general government expenses increase over the projection period, they are expected to decline relative to the size of the economy. In the budget year, expenses as a share of gross State product (GSP) are forecast to be 13.1%. This is expected to steadily decline to around 11.7% by 2005-06. As the following chart illustrates, this reduction continues the downward trend evident in the ratio since the peak of 14.4% in 1998-99.

⁵ A total amount of \$122.0 million is provided in cash terms for the PCEC. The operating expenses portion of this is treated as a grant provided to the developer. The balance represents the State's acquisition of the future rights to the PCEC.

Figure 11



Balance Sheet

The general government balance sheet records the Government's stocks of assets (financial and non-financial) and liabilities, and is shown in Table 3.

The general government's net worth (ie. net assets adjusted for liabilities) is expected to increase over the budget projection period, rising from \$32.8 billion at 30 June 2002 to \$35.8 billion by 30 June 2006.

Total assets are projected to increase by \$801.5 million in 2002-03. Reflecting the high level of capital investment spending, \$374.9 million of this increase is accounted for by increases in land and fixed assets (eg. buildings, roads and other infrastructure).

The general government's equity in other sectors of government, for example ownership interests in Western Power and the Water Corporation, is the other large asset on the general government balance sheet. This equity is forecast to increase by \$475.9 million in 2002-03 and by an average \$515 million each year over the outyears, largely reflecting the operating performance of these sectors.

General government liabilities are expected to rise over the first part of the projection period before declining in the later outyears. This mirrors movements in outstanding borrowings. Net debt, of which borrowings are a major component, is discussed later in this Chapter. Importantly, unfunded superannuation liabilities are forecast to remain relatively constant at around \$5.3 billion across the forward estimate years, reflecting the impact of both concurrent funding of the State's major superannuation scheme and gradual reductions due to employee retirements. This compares with growth of around \$250 million per annum between 1993-94 and 2000-01.

Table 3

GENERAL GOVERNMENT
Balance Sheet at 30 June

	2001 Actual \$m	2002 Estimated Actual \$m	2003 Budget Estimate \$m	2004 Forward Estimate \$m	2005 Forward Estimate \$m	2006 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	180.2	183.7	189.4	186.7	185.5	176.0
Advances paid	862.0	864.7	853.2	870.6	857.2	846.0
Investments, loans and placements	1,570.9	993.7	961.0	928.7	928.1	1,105.4
Other non-equity assets	759.4	770.5	736.4	758.0	774.0	783.1
Equity	15,208.5	15,663.9	16,139.7	16,712.4	17,169.0	17,684.0
<i>Total</i>	<i>18,581.1</i>	<i>18,476.4</i>	<i>18,879.8</i>	<i>19,456.5</i>	<i>19,913.9</i>	<i>20,594.5</i>
<i>Non-Financial assets</i>						
Land and fixed assets	23,469.5	24,062.8	24,437.7	24,710.4	24,960.4	25,163.2
Other non-financial assets	55.8	65.6	88.8	124.5	124.6	125.7
<i>Total</i>	<i>23,525.2</i>	<i>24,128.4</i>	<i>24,526.5</i>	<i>24,834.9</i>	<i>25,085.0</i>	<i>25,288.8</i>
TOTAL ASSETS	42,106.3	42,604.8	43,406.3	44,291.4	44,998.9	45,883.4
LIABILITIES						
Deposits held	222.0	227.0	236.4	235.0	217.7	215.3
Advances received	620.4	593.3	581.5	561.2	549.1	537.0
Borrowings	2,229.3	2,214.8	2,437.4	2,616.4	2,578.2	2,537.4
Unfunded superannuation liabilities	5,192.9	5,246.9	5,268.2	5,289.4	5,288.1	5,294.5
Other employee entitlements and provisions	1,055.3	1,104.2	1,149.9	1,204.5	1,071.6	1,025.5
Non-equity liabilities	582.2	423.1	371.6	348.6	420.3	483.0
TOTAL LIABILITIES	9,902.0	9,809.4	10,045.1	10,255.1	10,125.0	10,092.8
NET WORTH	32,204.3	32,795.4	33,361.2	34,036.3	34,874.0	35,790.5
<i>Memorandum Item: Net Debt</i>	<i>458.5</i>	<i>993.1</i>	<i>1,251.8</i>	<i>1,426.6</i>	<i>1,374.1</i>	<i>1,162.4</i>

Note: Columns may not add due to rounding.

Cash Flow Statement

The way the Government acquires and spends cash is recorded in Table 4. Flows of cash are distinguished according to operating, investing and financing activities. These flows result in an estimated rise in net cash held of \$42.3 million in 2002-03.

Net cash flows from operating activities (ie. current operations) are expected to be in surplus throughout the projection period, increasing from \$666.9 million in 2002-03 to almost \$900 million by 2005-06.

Cash operating payments are expected to increase by an average 2.5% per annum over the budget and outyears, reflecting increasing demand for government services. Receipts from operating activities are expected to increase at a marginally greater rate (3.0%) due to increases in tax receipts and grants from the Commonwealth.

The general government sector is forecast to record a cash deficit of \$95.2 million in 2002-03, falling to \$55.8 million in 2003-04. These compare with an estimated cash deficit of \$380.0 million in 2001-02.

In 2004-05, the general government is expecting a cash surplus of \$54.9 million, the first cash surplus since 1996-97. The forecast improvement in the cash surplus/deficit result reflects forecasts of increasing operating surpluses over the projection period.

Table 4

GENERAL GOVERNMENT
Cash Flow Statement

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	2,809.3	3,010.4	3,322.2	3,449.6	3,615.9	3,704.8
Receipts from sales of goods and services	972.8	793.3	1,035.2	1,043.7	1,035.9	1,039.9
Grants and other subsidies received	5,113.0	5,493.8	5,469.0	5,487.6	5,755.6	5,973.0
Other receipts	2,318.8	2,206.9	2,081.3	2,170.4	2,186.9	2,221.8
Total	11,213.9	11,504.4	11,907.7	12,151.2	12,594.2	12,939.5
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-7,130.8	-7,387.7	-7,794.3	-8,018.1	-8,380.9	-8,472.3
Grants and subsidies paid	-2,308.1	-2,450.2	-2,464.3	-2,497.2	-2,471.6	-2,523.6
Interest paid	-241.4	-226.5	-245.4	-257.1	-264.9	-281.2
Other payments	-623.1	-857.5	-736.7	-742.8	-749.0	-765.8
Total	-10,303.4	-10,921.8	-11,240.8	-11,515.2	-11,866.4	-12,042.9
Net Cash Flow from Operating Activities	910.5	582.6	666.9	636.1	727.8	896.6
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-1,109.6	-1,072.0	-889.6	-811.7	-772.8	-746.4
Sales of non-financial assets	70.8	109.4	127.5	119.8	99.8	89.5
Total	-1,038.9	-962.6	-762.1	-691.9	-672.9	-656.9
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	443.5	-120.0	-131.9	-94.8	-9.1	-13.0
Liquidity purposes	-75.9	55.4	63.8	23.0	14.0	13.9
Total	367.6	-64.6	-68.0	-71.8	4.9	0.9
Net Cash Flow from Investing Activities	-671.2	-1,027.2	-830.1	-763.7	-668.0	-656.0
FINANCIAL ACTIVITIES						
Advances received (net)	-116.2	-16.8	0.4	-7.7	0.5	0.5
Borrowings (net)	278.2	-0.6	224.1	181.2	-35.9	-38.2
Deposits received (net)	32.4	-14.2	0.0	0.0	0.0	0.0
Distributions paid	0.0	0.0	0.0	0.0	0.0	0.0
Other financing	-36.4	-47.1	-19.1	-49.4	8.1	-12.8
Total	158.1	-78.6	205.5	124.1	-27.3	-50.5
<i>Opening cash balance</i>	<i>769.4</i>	<i>1,166.8</i>	<i>643.6</i>	<i>685.9</i>	<i>682.4</i>	<i>714.8</i>
NET INCREASE IN CASH HELD	397.4	-523.2	42.3	-3.5	32.4	190.0
<i>Closing cash balance</i>	<i>1,166.8</i>	<i>643.6</i>	<i>685.9</i>	<i>682.4</i>	<i>714.8</i>	<i>904.8</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>-128.3</i>	<i>-380.0</i>	<i>-95.2</i>	<i>-55.8</i>	<i>54.9</i>	<i>239.7</i>
<i>Surplus</i>	<i>-128.3</i>	<i>-380.0</i>	<i>-95.2</i>	<i>-55.8</i>	<i>54.9</i>	<i>239.7</i>

Note: Columns may not add due to rounding.

Total Public Sector

Summary

The total public sector consolidates the general government, public non-financial corporations (PNFC) and public financial corporations (PFC) sectors. Full financial statements for all sectors are at Appendix 1: *Detailed Financial Projections*.

The following table provides a summary of the total public sector's financial statements.

Table 5

TOTAL PUBLIC SECTOR Summary Financial Statements						
	2000-01 Actual \$m	2001-02 Estimated Actual \$m	2002-03 Budget Estimate \$m	2003-04 Forward Estimate \$m	2004-05 Forward Estimate \$m	2005-06 Forward Estimate \$m
<u>OPERATING STATEMENT</u>						
Revenue	15,802.5	16,013.5	16,399.6	16,850.0	17,369.6	17,902.7
Expenses	15,359.3	15,657.8	15,976.4	16,377.7	16,746.8	17,177.5
Net Operating Balance	443.3	355.7	423.2	472.3	622.8	725.2
<u>BALANCE SHEET</u>						
Assets	54,612.8	57,095.0	57,573.2	58,906.6	60,328.0	61,828.2
Liabilities	22,408.1	24,299.6	24,212.0	24,870.4	25,454.1	26,037.7
Net Worth	32,204.3	32,795.4	33,361.2	34,036.3	34,874.0	35,790.5
<u>STATEMENT OF CASH FLOWS</u>						
Change in net cash held	-52.4	-477.0	97.4	109.9	61.4	261.8
GFS Cash Surplus	-661.1	-635.2	-534.9	-256.2	-104.9	126.2
<i>Memorandum Item: Net Debt</i>	4,381.1	5,272.1	5,857.3	6,162.4	6,330.9	6,224.1

Note: Columns may not add due to rounding.

The total public sector is forecast to record operating surpluses throughout the budget projection period, reflecting surpluses in all three sectors of government. In 2002-03, a total public sector operating surplus of \$423.2 million is forecast.

As outlined earlier, the net worth of the general government sector includes the net worth of the PNFC and PFC sectors (as equity assets). Accordingly, the total public sector's net worth is identical to that of the general government sector, with identical movements over the projection period.

Total public sector net debt is expected to increase by \$585.2 million in 2002-03, to be approximately \$5.9 billion at 30 June 2003. This reflects the Government's large capital works program. Further marginal increases in total public sector net debt are forecast in the following two years. However, with the level of capital works forecast to decline in later years, the level of net debt is projected to be \$6.2 billion at 30 June 2006, \$106.8 million lower than the preceding year. Further details on net debt are provided later in this Chapter.

Public Non-Financial Corporations

The PNFC sector is expected to record an operating surplus of \$124.3 million in 2002-03, similar to that estimated for 2001-02. Both revenue and expenses are forecast to increase by around \$100 million. Beyond 2002-03, the net operating surplus position of the PNFC sector is forecast to continue.

The sector's net worth is expected to increase over the projection period. Investment in infrastructure such as the Perth Urban Rail Development project, ports, water and wastewater services projects and power generation and distribution projects over the forward estimates period results in net worth increasing by around \$350 million per annum on average.

Reflecting the sector's substantial capital works spending, cash deficits are forecast over the medium term, although these are expected to decline from \$554.8 million in 2002-03 to \$222.2 million by 2005-06.

Public Financial Corporations

The State's public financial corporations are forecast to remain in surplus throughout the forward estimates period. Operating expenses and revenue are strongly influenced by interest payments and receipts for the PFC sector, reflecting the sector's role in managing financial assets and liabilities.

Capital Investment

Summary

The Capital Works Program reflects the total investment undertaken by the Western Australian public sector, encompassing both the general government sector and public corporations such as Western Power, the Water Corporation and Port Authorities.

Projects included relate to expenditure that creates, or maintains, the value of an asset held by an agency, and/or assistance provided to a capital project by a government agency (regardless of its accounting treatment by the provider of the assistance).

Examples of the investments by agencies include facilities such as schools, hospitals, roads, power, water and parks available to the community. It also includes projects required to maintain the State's asset base and promote economic development.

2002-03 Capital Works

The State's total planned Capital Works Program in 2002-03, including public corporations, is \$3.1 billion (or 3.8% of GSP), largely unchanged from the estimated 2001-02 outturn.

The capital forward estimates allow for ongoing funding of the Government's election commitments and include increased funding for the priority areas of health, education, law and order and public transport.

The Capital Works Program for 2002-03 is compared with 2000-01 and 2001-02 in Table 6. The Program is predicated on works in progress and new works as set out for each agency in Budget Paper No. 2. While the program is broadly unchanged over these years, it is at high levels compared with the average capital program over the preceding three years (\$2.8 billion).

Table 6

PUBLIC SECTOR CAPITAL WORKS PROGRAM

	2000-01	2001-02	2002-03
	Actual	Estimated	Budget
	\$m	\$m	Estimate
Sector			
General Government	1,295.2	1,227.8	1,044.4
Public Corporations	1,813.5	1,908.7	2,064.0
GRAND TOTAL	3,108.7	3,136.5	3,108.4

Note: Columns may not add due to rounding.

Total expenditure is expected to decrease in each of the forward estimate years, mainly due to a progressive decline in the capital programs of the public corporations. This is consistent with trends in previous presentations.

The forward estimates for capital projects are subject to revision 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.

Key Expenditures

The following provides a summary of key expenditures.

Health

It is projected that \$109.0 million will be spent on metropolitan and regional projects in 2002-03, including the following major works:

- \$9.4 million on developments in the Eastern Metropolitan Health Service;
- \$11.0 million on North Metropolitan Health Service Developments; and
- \$11.5 million on Women and Children's Health Services.

Education

A total of \$131.0 million will be spent in 2002-03 on government school infrastructure, including:

- The continuation of three new high schools at Eaton, Kinross Middle School and Mindarie;
- The completion of the Stanford Gardens Primary School;
- The commencement of the Canning Vale High School;
- The redevelopment of Mt Lawley Senior High School;
- The commencement of six new primary schools; and
- The second stage of the Secondary School Refurbishment Program benefiting six schools.

Public Order and Safety

Expenditure on capital works in this sector in 2002-03 totals \$85.0 million, comprising \$51.4 million by the Department of Justice and \$33.6 million by the Police Service. Projects include:

- The completion of a \$14.8 million upgrade and expansion of Bandyup women's prison facility;
- The commencement of the construction phase of a new low security women's facility at the Nyandi/Longmore site at a cost of \$5.0 million in 2002-03;
- The implementation of the civil systems component of the Integrated Courts Management system in the Supreme, District and Local courts;
- Completion of new and replacement police facilities at Newman in the State's north and Kensington in the Perth metropolitan area (\$5.0 million);
- Purchase of new equipment including finger print scanning units, surveillance apparatus, road safety equipment and new semi-automatic firearms (\$5.3 million);
- Commencement of works on new police facilities in Albany, Wanneroo and Laverton; and
- The continuation of the Delta Communication and Technology (DCAT) project (\$18.1 million).

Transport

A total of \$675.1 million will be spent on the Transport sector in 2002-03, including:

- \$322.4 million by Main Roads on a number of strategic road projects, including:
 - \$24.0 million for the extension of Roe Highway from Nicholson Road to South Street (Stage 6);
 - \$19.2 million for construction and sealing of the Youanmi to Agnew section of the Mt. Magnet-Sandstone-Agnew Road; and

- \$24.0 million for the commencement of Stage 1 of the Tonkin Highway Extension from Mills Road West to Thomas Road;
- \$245.1 million by the Western Australian Government Railways Commission, including the Perth Urban Rail Development and the upgrade of Armadale, Bassendean, Claremont and Kelmscott railway stations;
- \$40.9 million by the eight Port Authorities for various expansions and upgrades of infrastructure; and
- \$66.7 million by the Department of Planning and Infrastructure, including the ongoing Bus Acquisition Program (\$27.9 million).

Housing and Community Services

A total of \$734.4 million will be spent by the State Housing Commission, including:

- \$518.9 million on Keystart loans;
- \$90.6 million for construction and refurbishment commencements; and
- \$36.5 million for Aboriginal Housing and associated programs.

In addition, \$353.0 million will be spent by the Water Corporation on infrastructure replacement, drought response, infill sewerage and wastewater treatment.

Recreation and Culture

An amount of \$47.5 million has been allocated for the first portion of the assistance to the developer of the Perth Convention and Exhibition Centre.

Fuel and Energy

Western Power will invest \$444.3 million on various power generation and distribution projects including the Waterloo-Busselton Transmission Line, Cockburn Combined Cycle Plant, Esperance Wind Farm and the Pinjar-Cataby-Eneabba Transmission Line.

Funding Sources

The State's total 2002-03 Capital Works Program is financed from capital contribution (10%), funds included in output appropriations (4%), Holding Account drawdowns (5%), borrowings by authorities (20%), Commonwealth grants (7%), asset sales (6%), internal funds and balances (2%) and other funds generated by agencies (46%).

The funding of the total public sector Capital Works Program is summarised in Table 7.

Table 7

FUNDING – PUBLIC SECTOR CAPITAL WORKS PROGRAM

	2000-01 Actual \$m	2001-02 Estimated Actual \$m	2002-03 Budget Estimate \$m
Sources			
APPROPRIATIONS			
Capital contribution	920.8	570.2	305.8
Funding included in recurrent appropriations	-	227.3	122.2
OTHER FUNDING			
Holding Account	-	3.0	141.5
Borrowings	504.5	417.1	634.4
Commonwealth grants	193.4	252.0	227.2
Land and property sales	234.6	198.5	180.7
Internal funds and balances	177.5	85.8	58.4
Other	1,077.9	1,382.5	1,438.3
GRAND TOTAL	3,108.7	3,136.5	3,108.4

Note: Columns may not add due to rounding.

Financing arrangements for individual agencies during 2002-03 and the outyears, along with details of capital expenditure and other funding sources, are summarised in Appendix 5: *Capital Works Program - Summary of Expenditure and Source of Funds*.

The capital contribution represents the annual contribution from general revenue sources, primarily to general government sector agencies such as Health, Education and Police.

Over the forward estimates these contributions are influenced by the introduction of accrual appropriations, which requires that a capital contribution is only made where an asset is created on the balance sheet of the respective agency. All other expenditure (such as that in the nature of capital grants or the acquisition of information technology and other minor equipment) should be included in the agency appropriation for the delivery of outputs (ie. the agency expenses), or other recurrent appropriations (eg. administered capital grants). Therefore, from 2001-02, a significant portion of the capital works presentation (around \$122.2 million in 2002-03) will be identified as being funded from appropriations made for recurrent purposes.

In addition, as agencies accumulate funds to cover the depreciation of assets in the Holding Account held by the Department of Treasury and Finance, the portion of the Capital Works Program funded from the Holding Account over the forward estimates will increase. In 2002-03, this source of funds accounts for around \$141.5 million of the Capital Works Program.

Capital expenditure which is funded from sources other than appropriations remains at high levels in 2002-03. This is primarily due to major expenditure on a number of strategic projects by Western Power (including the replacement of the Kwinana Power Station and improvements to the transmission and distribution systems) and the Water Corporation (on infrastructure replacement, drought response to enhance water supply, infill sewerage and wastewater treatment). These agencies use internal sources of funds and borrowings.

Borrowings, shown in Table 7, represent new borrowings raised to fund the required capital works⁶. The borrowings are primarily associated with the programs of:

- The Western Australian Government Railways Commission - \$151.0 million;
- Main Roads WA - \$110.0 million; and
- The Water Corporation - \$75.0 million.

Total public sector net debt is estimated to increase by \$585.2 million to around \$5.9 billion in 2002-03. Thereafter, debt across the forward estimates is estimated to remain around \$6.2 billion (refer to the following section on net debt).

In addition to the above, the Commonwealth contributes funding to agencies such as Education, Health, State Housing, Main Roads and Training and Employment under specific programs, usually involving dollar for dollar matching funding arrangements. These total \$227.2 million in 2002-03.

Asset sales in 2002-03 of \$180.7 million will be used to fund the construction of new infrastructure, and represent around 6% of capital funding sources. In 2002-03, the State Housing Commission proposes to finance capital investment by selling land estimated at \$134.5 million, while the East Perth Redevelopment Authority will spend over \$10.3 million acquiring and developing properties prior to resale.

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.

Net Debt

For investment in economic and social infrastructure, which yields benefits over many years, debt funding is consistent, in broad terms, with sound financial management principles, as long as the burden of debt servicing and depreciation costs are covered by revenue over the useful life of the infrastructure. In this case, service delivery levels may be indefinitely maintained.

⁶ As this does not take into account repayment of capital, it will not necessarily reconcile with the movement in net debt across the sector.

Total Public Sector

Table 8 shows a breakdown of Western Australia's net debt levels by sector and the composition of that debt. Net debt equals gross borrowings net of financial assets.

Overall, total public sector net debt is estimated to be around \$5.9 billion at 30 June 2003. This is \$585.2 million higher than the estimated outturn at 30 June 2002 and is due to increases in general government and PNFC debt levels, details of which are discussed below.

As a share of GSP, net debt is expected to fall steadily over the projection period, from 7.0% in 2002-03 to 6.1% in 2005-06.

General Government

General government net debt is expected to increase by \$258.7 million in the budget year to stand at almost \$1.3 billion at 30 June 2003. This is a result of the ongoing high levels of capital investment in the priority areas of health, education, transport and law and order.

The level of general government net debt is expected to rise further to \$1.4 billion at 30 June 2004 before falling in the last two forward years. These falls reflect both a decline in capital investment from the high levels currently in progress along with an ability to fund such investment via the substantial net operating surpluses forecast over the projection period.

The cost of servicing net debt is represented by net interest expenses. As a proportion of general government revenue, net interest expenses are clearly manageable, averaging around 1.4% over the projection period.

Public Non-Financial Corporations

The PNFC sector holds the majority of total public sector net debt. Agencies within this sector service this debt through normal commercial operations.

Net debt of the PNFC sector is expected to increase by \$391.8 million in 2002-03 and by an average \$200 million per annum thereafter. These increases reflect investment in a number of projects, including the Perth Urban Rail Development and the upgrade of various railway stations in the metropolitan area, ports infrastructure, water infrastructure, electricity generation and distribution projects and housing.

Public Financial Corporations

The PFCs are forecast to be in a net asset position over the budget projection period. In this sector, which includes the State's central borrowing authority and insurance agencies, large gross debt figures are more than offset by financial assets, which reduces total public sector net debt.

PFCs are expected to achieve a credit level of \$731.3 million at 30 June 2003, up from an expected \$666.0 million credit position at 30 June 2002. The size of this credit is forecast to increase steadily over time.

NET DEBT OF THE PUBLIC SECTOR AT 30 JUNE
Summary Financial Statements

Table 8

	2001 Actual \$m	2002 Estimated Actual \$m	2003 Budget Estimate \$m	2004 Forward Estimate \$m	2005 Forward Estimate \$m	2006 Forward Estimate \$m
GENERAL GOVERNMENT						
Gross Debt ^(a)	3,071.6	3,035.1	3,255.4	3,412.6	3,345.0	3,289.8
Cash, Deposits and Lending ^(b)	2,613.1	2,042.0	2,003.6	1,986.1	1,970.9	2,127.4
Net Debt	458.5	993.1	1,251.8	1,426.6	1,374.1	1,162.4
PUBLIC NON-FINANCIAL CORPORATIONS						
Gross Debt ^(a)	6,126.6	6,395.1	6,803.9	7,041.0	7,298.2	7,513.3
Cash, Deposits and Lending ^(b)	1,519.8	1,450.1	1,467.1	1,515.3	1,489.4	1,537.6
Net Debt	4,606.8	4,945.0	5,336.8	5,525.7	5,808.8	5,975.7
TOTAL NON-FINANCIAL PUBLIC SECTOR ^(c)						
Gross Debt ^(a)	8,489.7	8,756.6	9,388.0	9,795.9	10,014.8	10,189.1
Cash, Deposits and Lending ^(b)	3,424.4	2,818.5	2,799.4	2,843.6	2,831.9	3,051.1
Net Debt	5,065.3	5,938.1	6,588.6	6,952.2	7,182.9	7,138.1
PUBLIC FINANCIAL CORPORATIONS						
Gross Debt ^(a)	12,367.2	14,211.7	14,009.3	14,562.2	15,204.3	15,730.0
Cash, Deposits and Lending ^(b)	13,051.4	14,877.7	14,740.6	15,352.0	16,056.3	16,643.9
Net Debt	-684.2	-666.0	-731.3	-789.8	-852.0	-914.0
TOTAL PUBLIC SECTOR ^(c)						
Gross Debt ^(a)	12,461.7	14,297.3	14,087.9	14,632.8	15,248.8	15,749.8
Cash, Deposits and Lending ^(b)	8,080.6	9,025.3	8,230.7	8,470.4	8,917.8	9,525.7
Net Debt	4,381.1	5,272.1	5,857.3	6,162.4	6,330.9	6,224.1

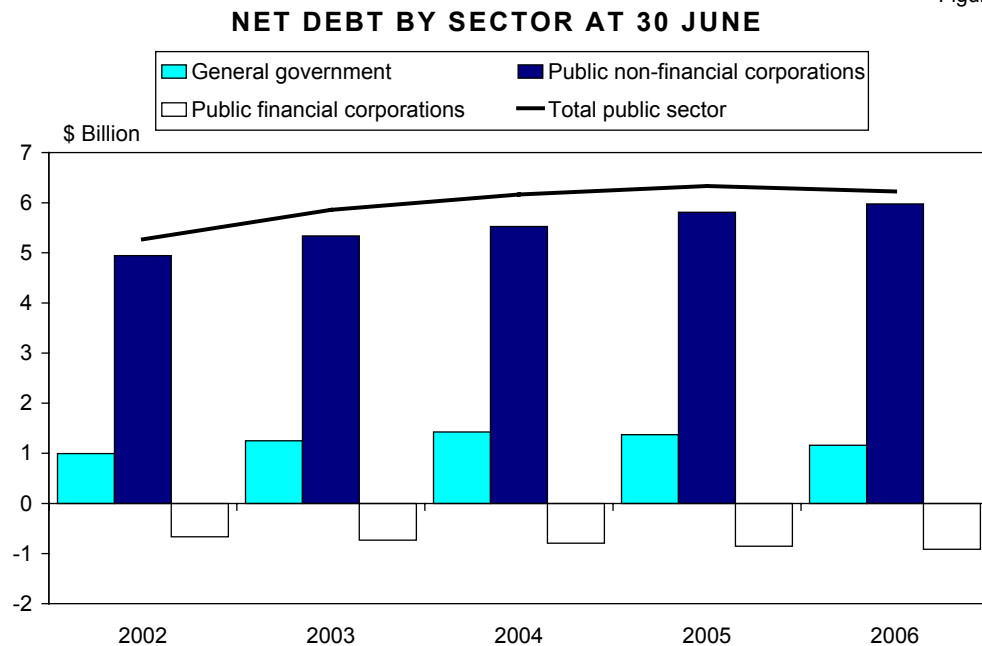
(a) Includes finance leases, loans and debt securities and derivatives in a net liability position. Excludes accounts payable and prepayments.

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

(c) 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.

Figure 12



Issues in Public Sector Finances

This section examines the necessity or otherwise of general government net operating surpluses, particularly in the context of the infrastructure requirements of a young and growing economy such as Western Australia.

The analysis shows that if significant infrastructure investment is taken as a given (to meet the needs of – and facilitate – a fast growing population and economy), substantial surpluses are the only outcome consistent with financial sustainability.

Nature of the Operating Surplus

The operating statement measures financial performance by displaying the economic benefits (revenue) arising from activity in a period, net of sacrifices made or committed to (expenses) as a result of activity in that period. The difference between revenue and expenses is the net operating surplus or deficit (that is, the net operating balance).

The operating balance differs from the cash flow statement and balance sheet in that it will recognise revenue from sales of goods and services whether or not the relevant cash payment has been received. If a sale transaction is recognised in the operating statement, but cash is not yet received, a trade debtor receivable will appear in the closing balance sheet of the period and cash will be recorded in the cash flow statement if and when received in a future period.

In recognising the economic effect of transactions as they occur, the operating balance gives a true picture of operational performance in a period. In the example mentioned above, if a trade debtor pays for goods and services in a future period, that may enhance the cash and/or debt position of that future period but occurs as a result of operational performance of the past. In other words, the operating statement records the sale when revenue was earned, the cash flow statement when cash is received.

Non-cash costs like depreciation and superannuation impact on a period's operational performance and so are measured in the operating statement for a period as and when they are incurred (that is, as they 'accrue'). In relation to these items, the balance sheet will show the depreciated value of physical assets controlled and superannuation liabilities owed on a balance date. The cash flow statement will show for a period, cash payments made to acquire physical assets and cash payments made to retirees in relation to superannuation accrued as employees retire.

A common confusion when interpreting the impact of transactions upon the operating balance relates to the idea that cash on hand is available to 'fund' expenses. Some may observe cash balances as being available to spend without affecting the 'bottom-line' operating balance. This view is typically incorrect. The question is: does a transaction incur additional expenses? If the answer is 'yes' then the transaction will negatively affect the operating balance, whether it is 'funded' by revenue in the period or available cash balances.

Infrastructure Requirements, Surpluses and Net Debt

Having examined the nature of the operating surplus measure in the preceding section, this section examines the necessity or otherwise of general government operating surpluses, particularly in the context of significant infrastructure requirements.

There are essentially two arguments for maintaining material net operating surpluses: the need to fund infrastructure projects in a sustainable manner; and risk arising from a variable revenue base. Both of these arguments have at their core, avoidance of high debt levels. The problems with such debt levels relate to:

- **Sustainability** – High and growing levels of debt can become unsustainable. There is no simple measure of the sustainability of public sector debt just as there is no single indicator of irretrievable insolvency of a firm. However, an unsustainable rate of debt growth is characterised by levels of interest payments that diminish the ability of governments to provide proper levels of services and by circumstances where debt is unobtainable at a reasonable price (interest rate);

- Avoidance of risk – Governments are in the unique position of having taxation powers which can in theory raise sufficient revenue to sustain high debt levels. However, the reality is that high debt levels present the community with significant risks. With high levels of debt come high levels of exposure to changes in interest rates and debt servicing costs which can limit budget flexibility. An increase in interest rates can place significant pressure on a budget and limit the State's capacity to provide essential services at standards expected by the community. Associated with debt is the issue of flexibility. Where a government increases debt to a high level, it limits its ability to respond to new service demands, or to use debt for new or unforeseen infrastructure requirements; and
- Intergenerational equity – A broad, commonsense rule of thumb is that the current generation should pay for the goods and services it consumes, including infrastructure used up in production of those goods and services. Debt is not necessarily a concern for intergenerational equity in and of itself. However, large debt burdens that are not matched by productive assets undermine intergenerational equity objectives. The Government's target to increase net worth is therefore an important intergenerational equity indicator.

The Government has set a target of maintaining the net debt to revenue ratio at or below 45% as a means of ensuring the net debt position remains within sustainable limits. As noted earlier in the Chapter, this target is expected to be achieved in the budget year and across the forward estimates period. The projected net operating surpluses make a significant contribution towards achieving this target, as the surplus each year goes to fund infrastructure investment, thereby relieving the pressure on debt for that purpose.

In this role, the net operating surplus needs to be set at levels which are sensitive to the infrastructure requirements of the time and to broader economic factors which can impact State finances. These factors include exchange rate fluctuations, commodity price movements, interest rate levels, etc.

Net Operating Surpluses – Significant infrastructure requirements and sustainable net debt

Significant surpluses provide a source of funds to meet infrastructure needs, thus reducing the requirement for increased debt. In short, surpluses reduce net debt.

In a relatively young and fast growing economy like Western Australia's, large capital investment requirements are necessary for the provision of community services such as health, education, policing and urban transit to the growing population. Infrastructure for provision of energy, water, waste treatment and transportation is required both to service new resource and industrial developments and to encourage optimal utilisation of the State's resources to the benefit of current and future generations.

There is no in principle reason that infrastructure requirements should not be funded by debt raisings. If government investments earn a financial return sufficient to return the cost of capital, then the financial position of the Government will not be harmed and may even be enhanced. However, government investments often do not make a direct financial return but do contribute necessary capital for the provision of community services.

In situations where a debt-funded asset does not provide a direct financial return equal to or greater than the interest cost, government is required to fund that cost through other revenue from operations-revenue which could be otherwise used for service delivery. Moreover, in the event that interest costs were not funded through revenue, the State could conceivably fall into the trap of funding interest costs through further borrowings. For obvious reasons this is an unsustainable scenario which must be avoided.

Forward estimates of capital investment are subject to revision from year to year and adjustments are often necessary to the outyears in order to accommodate changed circumstances and priorities. This includes, but is not limited to, changes associated with projects currently under consideration but for which reliable cost estimates are not yet available. Another factor is that key priorities are often only evident as the time to make the investment approaches.

As a result of these factors, high levels of capital investment are often seen at the beginning of a four year projection period with outyears tapering off.

If the forward estimates of capital investment (which assume such a tapering off) are realised, and if investment beyond the forward estimates period was maintained in real terms, the net debt to revenue ratio would gradually decline and move away from the 45% upper limit. At the same time, sizeable net operating surpluses would be in prospect, reflecting lower interest and depreciation costs.

However, in practice, infrastructure requirements often increase over time, an outcome which has been evident in Western Australia for many years. Reflecting this, if the estimated capital investment program for 2001-02 were to grow in line with the implicit price deflator (ie. held constant in real terms) and if it were to be funded by debt alone, net operating deficits would be in prospect in the medium term via higher interest costs and depreciation (all other things being equal). Furthermore, the net debt to revenue ratio would likely exceed the 45% upper limit, with net debt rising as a result of the increased infrastructure spending.

The clear conclusion that can be drawn is that significant infrastructure investments require substantial operating surpluses in order to be consistent with financial stability.

Net Operating Surpluses – Protection from External Shocks

The net operating balance is subject to influence from sources outside of its control. Economic downturns can increase the need for government expenditure or decrease the revenue available from economic activity. In other words, government finances are to some degree influenced by the cyclical nature of economic activity. Other parameters such as the exchange rate and world commodity prices (notably for oil and gold in Western Australia) can strongly affect the course of government revenue.

If such cycles are even and their duration and amplitude are small, this is not a great problem for government finances. However, economic shocks and, in recent history, variations in the oil price and exchange rate, have been large enough to significantly affect revenue collections over an extended period of time. Likewise, sizeable shocks on the expense side could have significant impacts on projections for the net operating balance.

In these circumstances it is possible for a shock to revenue to cause substantial changes in the outstanding stock of debt. Addressing this risk in a prudent manner requires maintenance of material planned operating surpluses.

By way of example, if the exchange rate were to appreciate from the current assumption of US\$0.535 across all years to US\$0.60 in 2002-03 and by a further US\$0.05 each year to reach US\$0.75 by 2005-06 (broadly its level four years ago), the direct impact on revenue, and consequently the net operating balance, would be declines of between \$123.5 million and \$408.5 million each year (all other things being equal). This would, in turn, quickly result in the net debt to revenue ratio rising above the 45% upper limit.

This scenario is in keeping with the magnitude and duration (albeit in the opposite direction) of the exchange rate shock actually experienced over the last four years. Clearly, a prudent financial risk management strategy when faced with potential shocks of this size is to maintain an expected sizeable surplus in forward years. This is not to say that in the face of such a shock a surplus could be maintained each year. It is, however, to say that failure to maintain material forecast surpluses would render the Government relatively impotent to weather and respond to such a shock.

Statement of Risks

The Government's financial projections are based on a number of judgments 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 judgments and/or economic assumptions will have an impact on the financial outlook. The uncertainty (or risk) associated with the financial projections increases as the forecasts extend into the forward estimates period.

The major risks surrounding the financial projections include:

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

- The realisation of contingent liabilities.

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

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

Estimating Assumptions

The 2002-03 Budget's major economic parameters are detailed in the following table. From a macroeconomic point of view the primary risk is a slower pick-up in world economic growth than forecast. This is discussed further in Chapter 5: *The Western Australian Economy*.

MAJOR ECONOMIC AGGREGATES

Table 9

	2001-02 Estimated Actual	2002-03 Budget Estimate	2003-04 Forward Estimate	2004-05 Forward Estimate	2005-06 Forward Estimate
Real gross State product ^(a) (%)	4.5	3.75	4.0	4.25	4.25
Real State final demand ^(b) (%)	6.25	3.25	3.0	3.25	3.25
Consumer price index (%)	3.0	3.0	2.75	2.75	2.5
Wages growth ^(c) (%)	4.0	3.5	3.25	3.25	3.25
Employment growth (%)	1.0	2.25	2.5	2.5	2.5
\$A/\$US	53.5 ^(d)	53.5	53.5	53.5	53.5
Oil Price \$US per barrel	25.0 ^(d)	23.0	20.0	20.0	20.0

(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. Growth in GSP is used in analysing movements in major budget aggregates.

(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 which is reported in Chapter 5: *The Western Australian Economy*.

(d) Forecast for remainder of 2001-02.

Parameter Sensitivity of Revenue Estimates

The estimated effects on 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 \$8 million for each 1.0 percentage point variation in nominal State final demand growth;
- The annual payroll tax estimate varies by around \$10.0 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 \$19.0 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 \$20.0 million for each \$US1 variation in the price of a barrel of oil;
- Commonwealth general purpose grants vary by around \$22 million for each 1.0 percentage point variation in the national Consumer Price Index; and
- Revenue from public corporations is sensitive to the business environment of operations of the relevant enterprise.

These impacts are 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. The sensitivities can therefore 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 determined according to a methodology agreed between the previous State Government and the Commonwealth.⁷ It is based on the premise that the assistance will be paid at a level to ensure that the State is 'no worse off' under the GST-based national tax changes. It is intended to offset any GST revenue shortfall.

As long as the State requires budget balancing assistance (currently expected up to and including 2003-04), 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.

If GST revenue growth is higher than projected, budget balancing assistance may cease earlier than 2004-05. Alternatively, lower than projected GST revenue growth could result in Western Australia receiving budget balancing assistance again in 2005-06 (when all States are due to abolish debits tax). The State's GST revenue is projected to exceed the guaranteed minimum amount below which budget balancing assistance is paid by \$43 million in 2004-05 and only \$14 million in 2005-06.

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.

⁷ Although the Commonwealth made a unilateral change to part of the methodology at the recent Ministerial Council of Treasurers meeting. This is discussed in Chapter 6: *Federal Affairs*.

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.

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 concludes that our obligations have been met and the Commonwealth Treasurer accepts that assessment. If not, funding from this source could be reduced.

Specific Purpose Payments (SPPs)

In the Intergovernmental Agreement on the GST-based national tax changes, the Commonwealth has indicated that it has no intention of cutting 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 revenues grow substantially in future years, there is a risk that the Commonwealth may allow SPPs to be eroded.

The forward estimates for SPPs also have a margin of uncertainty (particularly for new SPPs and in later years), reflecting the potential for Commonwealth policy changes, the reliance in some cases on successful State submissions for funding, the outcome of negotiations on detailed funding arrangements and parameter uncertainties (such as indexation for inflation and population growth).

For example, three major SPPs (the disability services, health and public housing SPPs) comprising over 50% of total SPPs to the State will be renegotiated by 30 June 2003. Forward estimates for these SPPs (which total \$834 million in 2002-03) assume current funding arrangements will continue to apply. However, actual revenue received could vary significantly from these estimates, depending on the outcome of the renegotiations.

For example, there is some concern that the Commonwealth may not continue the 'unmet needs' funding provided under the current Commonwealth-State Disability Agreement. This would cost Western Australia around \$10 million per annum. Other risks are less clear, but even a small percentage reduction in these major SPPs would have a substantial cost to the State.

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 and share markets are inherently difficult to forecast. This is particularly the case for conveyance duty in 2002-03, given the cessation of the extended First Home Owner Grant for new homes from 1 July 2002 and the expectation of increased interest rates.

The tax revenue estimates are prepared on the basis of including stamp duty assessments that have been issued rather than cash payments received. The conveyance duty estimate for 2001-02 includes a large stamp duty assessment (of around \$40 million) which is the subject of a formal objection by the liable party as provided for under the relevant tax legislation.

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 difficult to forecast.

The forward estimates of the gold royalty assume that an average gold price of \$US300/oz will prevail in 2002-03 and over the forward estimates period.

Contract negotiations between iron ore producers and major customers for 2002-03 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 2% price reduction which is incorporated into the budget year and across the forward estimates. In this regard, for each 1% reduction in price, iron ore royalties are estimated to fall by around \$4 million.

Revenue from Public Corporations

As noted in the 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 not being successful in its defence, or the magnitude of any impact should the Corporation's defence fail.

The Government has established an independent Electricity Reform Task Force to recommend measures to achieve a more efficient and competitive electricity industry in Western Australia.

One of the preliminary views of the Task Force is that structural separation of Western Power into multiple businesses will be a necessary first step toward creating an environment in which a competitive market can develop. A number of transitional restrictions on business investment and regulation of the conduct of the State-owned successor entities would also be required to mitigate their market power.

The extent of any necessary transitional restrictions on business activity cannot yet be determined. Private sector involvement in power generation will be fostered by the Government's power procurement process and investment decisions independent of this are also likely.

The transitional measures and the enhanced competitive environment may have some impact on the tax equivalent and dividend revenue received by general government from Western Power (or successor entities). However, Western Power's fuel and electricity supply costs will be reduced due to a more competitive primary fuel market.

It is also important to note that a successful structural solution will deliver economic, social and environmental gains as the State's electricity requirements are delivered with enhanced efficiency. This will have flow-on effects throughout the economy and impact positively on State revenue. Independent analysis of the magnitude and distribution of these effects will be undertaken prior to the Task Force's final report.

Expenses

Two important parameter influences on the course of expenses are growth in wages and the effects of inflation on the cost of goods and services. To the extent that estimated parameters do not occur, there may be pressure for supplementary funding or on service delivery levels. The 2002-03 Budget is based on agency funding sufficient to accommodate the wages policy described in the *Expenses* section of this Chapter. Non-wage components of agency funding have been inflated in line with the implicit price deflator in 2002-03.

The Government has agreed 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, including 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. For example, health sector demand pressures and funding requirements are currently difficult to estimate. Significant management and policy changes are also being implemented in this sector.

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

Capital Works

The projected capital works budget assumes that a number of projects will be progressed by private sector involvement (eg. CBD Courts development). A number of projects are also predicated on the continuance of Commonwealth funding in accordance with existing agreements (eg. Jervoise Bay).

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 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 but, due to unfinalised contract negotiations and/or other events, the impacts of such projects are not included in the financial estimates. The Geraldton Port Enhancement Project and further infrastructure assistance for the Burrup Peninsula are two such projects which are contingent upon contract arrangements with third parties.

Contingent Liabilities

Contingent liabilities are costs which 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. Contingent liabilities constitute an important component of risk around the financial position. As at 30 June 2001, the latest date at which published figures are available, quantified contingent liabilities of the Treasurer⁸ were in the order of \$1,132.0 million, comprising:

- Contingent liabilities under guarantees, indemnities and sureties (\$395.0 million); and
- Guaranteed obligations of the Bank of Western Australia Ltd (\$737.0 million at credit risk equivalent)⁹.

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.

With the sale of BankWest, the State gave warranties in respect of taxation and BankWest's previous land development activities. The taxation warranties apply for seven years from privatisation to 2002 for jurisdictions outside Western Australia. The warranties in respect of the bank's land development activities were provided to BankWest and to LandCorp (the land development activities were transferred to LandCorp) to ensure both were guaranteed for past and future liabilities arising from land development activities.

Under the Asset Sale Agreement relating to the sale of the Dampier to Bunbury Natural Gas Pipeline, the State issued the following indemnities:

- An indemnity in favour of Epic Energy in relation to certain aspects of the Alcoa Agreement covering the period from the sale to 30 June 2005; and
- An indemnity in favour of the six AlintaGas directors against any liability incurred as a consequence of acting in accordance with the Ministerial Direction to execute the Asset Sale Agreement.

⁸ 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 the aggregate. 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.

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

The warranties provided by AlintaGas under the Asset Sale Agreement expired at the end of March 1999. The liability under the warranty is limited in aggregate to \$50 million. Epic has raised five items under the warranty; these claims have yet to be resolved.

During the process of the sale of AlintaGas, the State issued the following indemnities:

- The provision of various indemnities to the directors of AlintaGas Limited, the directors of the Gas Corporation, certain employees of AlintaGas and representatives of the AlintaGas Sale Steering Committee in relation to matters pertaining to the sale of AlintaGas; and
- The provision of an indemnity to certain other persons acting on behalf of the State in respect of the sale of AlintaGas.

The sale of the Westrail Freight Business in December 2000 also led the State to provide a specific warranty in relation to pre-existing environmental contamination at certain freight terminals.

The State has provided various guarantees and indemnities arising from the sale of Westrail Freight Business in respect of cross border lease arrangements for the freight rollingstock transferred to the purchaser. The potential liability to the State is up to \$70 million in the event of default. The potential liability and risks are similar to what existed before the sale.

CHAPTER 3

Financial Projections – Expenses

Summary

The Government incurs expenditure in pursuing its key objectives of delivering services needed by the community. Agencies provide these services by incurring both expenses (eg. wage costs for nurses) or by spending on asset acquisition programs (eg. building new hospitals).

The Government's focus for the 2002-03 Budget is to continue its prioritisation on essential service requirements and to ensure economic and social infrastructure meets community requirements.

In keeping with this focus, additional recurrent funding has been provided in the 2002-03 Budget for key service delivery initiatives, including:

- Education – \$108.4 million (a funding increase of 5.8% and real growth of 3.4%) and Training – \$8.0 million (a funding increase of 2.5%);
- Health – almost \$100.0 million (a funding increase of 4.3% and real growth of 2.0%);
- Police – \$35.6 million (a funding increase of 7.2% and real growth of 4.8%);
- Justice – \$16.5 million (a funding increase of 3.4%); and
- Community Development – \$6.1 million (a funding increase of 3.6%).

This Chapter outlines the key service delivery initiatives in the 2002-03 Budget. Details of the major policy commitments for each of the Government's 13 ministerial portfolios is presented below as well as discussion of the longer term trend in total expenses over the forward estimates period.

Appropriations are provided for recurrent and capital purposes. Recurrent appropriations reflect the cash and accrual requirements of agencies to purchase their output and administered grants, subsidies and transfer payments. Capital appropriations provide for asset purchase and the payment of agency liabilities. Details of capital appropriations by agency can be found in Appendix 5: *Capital Works Program – Summary of Expenditure and Source of Funds* and are also shown in the agency capital works tables in Budget Paper No. 2.

The following discussion highlights major features of the agency expense appropriations proposed for 2002-03 and the forward estimates period.

Policy Decisions by Ministerial Portfolio – Key Service Delivery Initiatives of the 2002-03 Budget

Premier; Minister for Public Sector Management; Federal Affairs; Science; Citizenship and Multicultural Interests

Premier and Cabinet

Recurrent funding to the Department of Premier and Cabinet will total \$102.3 million in 2002-03, an increase of 22.4% from the level allocated in 2001-02, which largely reflects transfer of the science function from the Department of Industry and Technology to the Department of Premier and Cabinet.

Native Title

In recognition of the high priority the Government has accorded to resolving outstanding Native Title claims, \$14.3 million has been allocated over the forward estimate years for the establishment of the Office of Native Title. Of this amount, \$2.4 million is to be expended in 2002-03.

Office of Crime Prevention

The Office of Crime Prevention was established on 1 October 2001. The grant program previously administered by the Police Service, Department of Justice and the Department of Local Government and Regional Development has been transferred to the Office of Crime Prevention to better support community crime prevention initiatives.

An additional \$4.0 million over four years has been allocated to the Office of Crime Prevention for continuation of local government participation in crime prevention activities, with \$1.0 million provided in 2002-03.

Promotion of Science and Innovation

Investment in education and science is a priority for the Government. Over the next four years, \$100.0 million has been earmarked for science and innovation programs to ensure Western Australians have the skills and capabilities to maximise the opportunities the twenty-first century presents us.

Funding will be applied towards improving science education, increasing the research capacity of the State and maximising the commercialisation of ideas.

In 2002-03, \$32.6 million will be spent on science and innovation programs, administered under the new Office of Science and Innovation in the Department of Premier and Cabinet. Key initiatives will include:

- An injection of an additional \$20.4 million into the State's Centres of Excellence budget over 2002-03 to 2005-06. In total, \$34.3 million has been allocated over the forward estimates, including \$13.3 million in 2002-03;
- Scholarships for science teachers;
- Premier's Fellowships Grants to attract excellent researchers from overseas and interstate; and
- Cooperative Science Grants, designed to stimulate research collaboration across government agencies in areas of strategic priority for Western Australia.

Royal Commission into whether there has been any Corrupt or Criminal Conduct by Western Australian Police Officers

On 11 December 2001 the Premier announced the establishment of a Royal Commission into allegations of police corruption in Western Australia with an initial budget allocation of \$15.0 million for the Royal Commission. The Government has provided a further \$12.9 million for the period 2001-02 to 2003-04, with an additional \$5.2 million allocated in 2002-03, in recognition that additional resources will be required for the Royal Commission to be able to fulfil its obligations under its Terms of Reference.

The Government is also pursuing legislation to provide supplementary powers that will enable the Royal Commission to utilise appropriate measures to investigate allegations of corrupt or criminal conduct by police officers. Together with the additional funding, this demonstrates the Government's commitment to the 'Fight Against Corruption'.

Deputy Premier; Treasurer; Minister for Energy

Treasury and Finance

Compliance Enhancement

Additional funding of \$3.8 million (\$1.3 million in 2002-03) over four years has been provided for additional resources for compliance schemes administered by the Office of State Revenue. The resources will be directed to extending the current audit of land tax residential exemptions on properties for a further twelve months, and to enhance compliance capabilities in the areas of stamp duty and payroll tax. These resources are expected to generate additional revenue of \$24.2 million over the next four years.

Office of Energy

Sustainable Energy Development Office

A total of \$4.0 million has been provided in 2002-03 and each year of the forward estimates for the ongoing programs of a new Sustainable Energy Development Office (SEDO), which was established within the Office of Energy. The Office is charged with implementing the Government's Sustainable Energy Development Policy, which focuses on both greenhouse gas abatement and development of the sustainable energy sector. The budget for SEDO includes \$500,000 for 2002-03 and each year of the forward estimates period for a Solar Hot Water Heater incentive rebate package.

Electricity Reform Task Force

Additional funding of \$2.3 million will be provided for electricity reform with \$1.0 million allocated in 2002-03. Of this latter amount, \$400,000 will be utilised to conclude the work of the Electricity Reform Task Force that is to investigate and recommend upon:

- The disaggregation of Western Power;
- Establishment of a Western Australian Electricity Code;
- The regulatory arrangements for approval of new market participants (including retail arrangements); and
- The establishment of an appropriate Western Australian electricity market.

A further \$500,000 has been provided in 2002-03 to commence the implementation of those Task Force recommendations which are accepted by the Government.

Undergrounding of Electricity Distribution Wires

Funding of \$19.3 million in aggregate is provided over the next four years as the State's contribution to continuing the on-going program for retrospective undergrounding of electricity distribution wires. The State Underground Power Program is continuing to deliver increased reliability and security of power supply and safety coupled with improved urban amenity. The funding allocation for this initiative in 2002-03 is \$4.8 million.

Minister for Agriculture; Forestry and Fisheries; The Mid-West, Wheatbelt and Great Southern

Agriculture

Eradication Program for South American Red Imported Fire Ant

Funding of \$3.2 million will be provided in 2002-03 to continue the State Government's contribution towards the eradication of the exotic South American Red Imported Fire Ant, which was discovered in Brisbane in 2001.

The Federal and State Governments have previously agreed to jointly fund an eradication program, with Western Australia's commitment being \$6.0 million over four years commencing in 2002-03.

Salinity Initiatives

The Department of Agriculture will continue to be the major player in the fight against salinity, with expenditure of \$9.0 million in 2002-03 to address this problem. This year will see:

- Completion of further research projects by the new Cooperative Research Centre for plant-based management of dryland salinity;
- Completion of the Rapid Catchment Appraisals process, which will provide an assessment of salinity risk land options for approximately five million hectares;
- Completion of hydrological investigations of another nine rural towns;
- Development of an integrated Natural Resource Management website, providing critical information to farmers and rural communities; and
- Development of salinity management options for land managers and the role of revegetation in salinity management.

Other major agencies involved in delivering programs addressing salinity are Conservation and Land Management and the Waters and Rivers Commission.

Biosecurity of the State's Plant and Animal Industries

In response to risks posed by increased trade and travel, the Government has maintained a strong commitment to biosecurity of the State's plant and animal industries, particularly the critically important areas of animal health and domestic quarantine.

The Government's commitment to domestic quarantine is demonstrated by a \$3.5 million investment in 2002-03 in interstate air, road and freight inspections, passenger and mail screening and interstate livestock movement controls. The Department of Agriculture will continue to deliver international quarantine services for the Commonwealth Government on a cost recovery basis, including implementation of recent initiatives to bolster screening of international passengers, mail and sea freight.

Mid West Development Commission

Establishment of the Geraldton Universities Centre

By way of 'seed recurrent funding', \$592,000 over four years (\$77,000 in 2002-03) is allocated to the Mid West Development Commission for assisting with the establishment of the Geraldton Universities Centre – a joint venture between The University of Western Australia, Curtin University and Edith Cowan University. The four-year commitment by the State Government will help to secure continuing Commonwealth Government support for the Centre.

While 21 out of every 100 metropolitan persons of school exiting age enrol in university, the number for the Geraldton region is only eight. The establishment of a Universities Centre offering courses from the University of Western Australia, Curtin University of Technology and Edith Cowan University will address some of the educational inequities experienced by Mid West families.

The Centre is expected to grow and cater for more than 200 students by 2006 and provides a new model for the delivery of regional university education.

Great Southern Development Commission

In 2002-03, the Commission will continue to undertake a number of projects that will further sustain development in the Great Southern Region. Funding in 2002-03 has been provided for key activities to be undertaken, including:

- \$120,000 to identify and implement a range of Natural Resource Management initiatives;
- \$100,000 for a range of tourism industry initiatives; and
- \$400,000 from the Regional Development Scheme, which will be administered by the Commission, for a range of projects aimed at promoting job creation and enhancing business development opportunities.

Minister for Housing and Works; Local Government and Regional Development; The Kimberley, Pilbara and Gascoyne

Housing and Works

The Department of Housing and Works will receive a recurrent allocation of \$23.3 million in 2002-03. The Department will also receive a capital appropriation of \$1.2 million and a further \$50.2 million administered appropriation of which \$47.5 million will be spent on capital works. Details of capital appropriations for Housing and Works can be found in Appendix 5: *Capital Works Program – Summary of Expenditure and Source of Funds* and are also shown in the agency capital works tables in Budget Paper No. 2.

Significant Works Program

In relation to public works, the 2002-03 Budget includes the planning, development and construction of significant capital works projects on behalf of the Government and government agencies. These will include:

- An allocation of \$47.5 million in 2002-03 to be provided for the first portion of assistance to the developer of the Perth Convention and Exhibition Centre; and
- Expenditure of \$1.5 million in 2002-03 for the completion of the Fremantle Waterfront project, including the maritime museum.

The Department of Housing and Works will undertake asset management services on behalf of client government agencies in 2002-03 with an expected turnover of \$378.0 million. This turnover is mainly related to new works and improvements, contracts and maintenance works for metropolitan and regional clients.

On behalf of the Government, the Department will also make payments and collect rentals on government-owned and leased properties, totalling \$75.6 million.

Code of Conduct for the Western Australian Building Industry

Additional funds of \$125,000 per year for four years commencing in 2002-03 have been provided to establish a Code of Conduct for the Western Australian building industry.

State Housing Commission

In addition to the Department's activities, the State Housing Commission, which is also part of the Housing and Works portfolio, is involved in the following programs.

Construction and Refurbishment Commencements

In relation to public housing, the 2002-03 Budget will deliver programs equivalent to the high levels of the previous year, with construction and refurbishment commencements in excess of 1,500 units at a total estimated expenditure of \$108.0 million in 2002-03. This includes a total of \$17.3 million to be expended for Aboriginal Housing with commencements of 109 units – an increase of 31 over the previous year. More than 50% of expenditure on Aboriginal Housing and Infrastructure in 2002-03 will be sourced from the State Government, reflecting growing priorities in this area.

The building program also includes \$6.3 million for community housing and \$3.9 million on crisis accommodation.

The commitment of extensive resources to refurbishment of 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.

Community Loan Assistance

Loans to homebuyers on low to moderate incomes and disabled and Aboriginal households will exceed 5,000 in 2002-03 through the KeyStart, Goodstart and Access schemes. Funding of \$518.9 million will be provided for KeyStart loans in 2002-03.

Local Government and Regional Development

This Government has demonstrated a strong commitment to regional development. This focus will continue in 2002-03 through implementation of a number of important regional specific initiatives.

Regional Investment Fund

The Government will continue its commitment to the Regional Investment Fund. In 2002-03, \$24.1 million will be provided to improve the economic and social development of regional Western Australia.

A further \$2.0 million will be provided in 2002-03 through the Regional Collocation Scheme demonstrating the Government's continuing commitment to assist regional communities to improve their access to quality government and community services and associated infrastructure.

Community Facilities Grants Program

Funding of \$500,000 will be made available through the Community Facilities Grants Program in 2002-03 to assist local governments and community groups to provide playgrounds, dual use paths and other like facilities.

Regional Investment Tours

The Government will continue to support regional investment tours with some \$190,000 being allocated in 2002-03 for this program.

RSPCA Funding

An annual grant of \$250,000 will be provided to the RSPCA to acknowledge its role in enforcing animal cruelty legislation on behalf of the State Government.

Pilbara Development Commission

The Government has provided the Pilbara Development Commission with funding to continue to initiate a number of projects that will further the sustainable development of the Pilbara region, including:

- \$450,000 in 2002-03 for improving the region's telecommunications infrastructure and the expansion of the CDMA mobile telephone network along National Highway 1; and

- Development of a Roebourne Enhancement Scheme and the Marble Bar Community Plan to improve the quality of life as well as economic, social and environmental outcomes for those communities.

Minister for Consumer and Employment Protection; Training

Training

The Government's commitment to an educated and skilled future for all Western Australians will continue during 2002-03 through promotion and support of quality vocational education and training services and employment programs. State funding to the vocational, education and training (VET) sector will increase by \$8.0 million in 2002-03 to \$324.5 million, an increase on the 2001-02 estimated outturn of 2.5%.

Additional State ANTA funding

Additional funding of \$33.7 million will be provided by the State in the outyears 2003-04 to 2005-06 to meet its Australian National Training Authority (ANTA) funding obligations.

Review of the Western Australian Training Sector

During 2002-03, a number of changes designed to enhance the TAFE system will be 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. No students will lose their places under the planned changes, which include:

- The amalgamation of Eastern Pilbara and West Pilbara Colleges to form Pilbara TAFE;
- The amalgamation of South East Metropolitan College, Midland College and Balga campus of West Coast College to form Swan 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;
- The establishment of a new world class Northern Suburbs Hospitality Centre that will offer VET programs from school through to advanced training. The project is to be completed by 2003-04 with \$2.8 million to be expended in 2002-03. Given the jobs growth in the tourism and hospitality industry, this project is seen as a priority; and
- A \$2.0 million funding commitment to support the teaching, learning and assessment skills of TAFE lecturers.

Through strategic funding arrangements with publicly funded TAFE colleges and private providers, approximately 25.7 million student contact hours (SCHs) will be delivered to more than 125,000 students during the year, an increase of 1.6% on the level of SCHs provided in 2001-02.

Review of Labour Market Programs

In line with the Government's objective of strong and vibrant regions, a review of the Department's labour market programs was completed and presented to the Minister. The review recommends the further development of regionally based services in partnership with Western Australian communities. This will assist individuals develop employment and entrepreneurial skills and support the development of new and emerging industries, resulting in growth and diversification of the State's regional economy.

Apprenticeship and Traineeship Growth Strategy Plan

The Department has implemented an Apprenticeship and Traineeship Growth Strategy Plan consistent with the Government's election commitment to increase the number of apprenticeships and traineeships. The strategy incorporates a multi-dimensional approach and is underpinned by a total marketing strategy. The Department will increase the number of apprenticeships and traineeships in 2002-03, with apprentice and trainee commencements of 12,500 expected.

Research will be conducted into the factors associated with the barriers that prevent small businesses employing apprentices and trainees. To assist this research, a task force comprising representatives from small business associations and government agencies has been established.

Priority Access Initiative

Under the Priority Access Initiative, the Government requires contractors to demonstrate commitment to the employment and training of young people. It is expected that over 600 new employers will register under the initiative this year, with up to one third in regional areas. The program will be expanded to include the:

- Development of partnerships with the private sector to increase the number of apprenticeships and traineeships in the tourism and hospitality industries; and
- Expansion of the range of traineeships available to Indigenous people in rural and remote communities in the areas of construction, community housing management and community services and infrastructure.

Information and Communications Technology Strategy

There will be a continued focus on the provision of training for the information economy, with further development of the Information and Communications Technology (ICT) Strategy. Included in this strategy is the First Click Program to which \$1.0 million has been allocated in 2002-03 to provide grants to community-based organisations for initiatives to increase computer literacy.

The ICT Strategy also incorporates the Technology Training Institute which will cater to the training needs of industry with a focus on technical skills.

Science and Technology Innovation Strategy

Under the Science and Technology Innovation Strategy, which aims to enhance the science and technology capacity of the VET sector, funding of \$1.0 million will be made available in 2002-03 in grants through competitive tendering processes. The program provides financial support for Western Australian training providers to collaborate with industry, university, government and other bodies to undertake innovative science and technology projects.

This commitment is designed to ensure a highly skilled workforce and position Western Australia nationally and internationally as a progressive and innovative place to do business.

Skilling WA Program

In line with the election commitment to improve skills and training for the current workforce, the Skilling WA program will continue to fund short training programs for workers to gain new skills to assist them in their workplace. Funding of \$1.0 million will be allocated this year following a tender process.

Regional Forests Agreement Workers Assistance Package

Under the Regional Forests Agreement Workers Assistance Package (RFWAP), the Department will continue to deliver services to workers in the native forest hardwood timber industry directly affected by the Government's new forest policy. An increase in activity related to the management of the RFWAP is expected in 2002-03 due to the release of logging quotas and the closure of mills. An allocation of \$16.0 million will be provided in 2002-03 for the RFWAP to continue assistance to displaced timber workers.

Attorney General; Minister for Justice and Legal Affairs; Electoral Affairs; Peel and the South West

Justice

The recurrent funding allocation for Justice in 2002-03 is \$498.9 million, a \$16.5 million increase from 2001-02, representing 3.4% growth. Details of capital appropriations for Justice can be found in Appendix 5: *Capital Works Program – Summary of Expenditure and Source of Funds* and are also shown in the agency capital works tables in Budget Paper No. 2.

Major issues to be addressed in the Department's 2002-03 recurrent budget are a reduction in prison population, the implementation of law reform initiatives directed at changing criminal law penalties and further civil and criminal law reform.

Additional Funding for Adult Community Justice

Additional funding of \$12.5 million has been provided for the adult community justice operations over the forward estimates period (\$2.7 million in 2002-03) to address demand.

Integrated Courts Management System in the Supreme, District and Local Courts and Development of the Western Australian Civil and Administrative Appeals Tribunal

The civil systems component of the Integrated Courts Management System in the Supreme, District and Local courts will continue to be implemented with \$3.7 million to be expended in 2002-03. The Western Australian Civil and Administrative Appeals Tribunal will also be developed.

Minister for the Environment and Heritage

Conservation and Land Management

The 2002-03 Budget is a landmark in terms of ensuring the State's native forests will be managed on an ecologically sustainable basis. The 2002-03 recurrent funding allocation to Conservation and Land Management will be \$111.9 million and includes an additional allocation of \$10.6 million per annum to the Department for management of non-commercial activities in native forests. This will address any remaining conflicts of interest in the management and protection of native forests.

The initiative will ensure effective management of the multiple-use forest areas irrespective of the level of commercial operations such as timber harvesting.

Protecting Our Old-growth Forests Policy

Recurrent funding for management of the new South West parks and reserves will be increased by \$2.0 million over the previous year's allocation to a total of \$4.8 million to meet the Government's commitment made under the 'Protecting Our Old-growth Forests' policy to provide adequate funding for management of new national parks and conservation reserves.

Management of Pastoral Leases in Gascoyne-Murchison

In line with the Government's commitments, recurrent funding of \$1.1 million per annum will be provided for management of pastoral leases in the Gascoyne-Murchison area to create an adequate regional reserve system.

Funding for Wildfire Suppression

A prudential \$3.0 million annual contingency to meet the Department's expected costs of wildfire suppression in the State will continue.

Funding for Salinity Initiatives

In 2002-03, \$9.1 million will be provided for salinity initiatives, particularly those aimed at conserving biodiversity in affected areas. This includes \$4.5 million from the sale of AlintaGas, with further provisions in the following two years.

The Department of Agriculture and the Waters and Rivers Commission are also making major contributions to the fight against salinity.

Implementation of Fire Management Initiatives

Additional funding of \$500,000 per annum will be provided for fire management and to commence implementation of initiatives including the Urban Bushland Advisory Service and for joint management of national parks with Aboriginal communities.

Environment Protection

The 2002-03 Budget continues initiatives in the area of environmental regulation, which will see the implementation of Contaminated Sites legislation and new regulations relating to unauthorised environmental discharges and landfill registrations.

Major highlights within the budget include:

- Continued funding of \$3.0 million in 2002-03 for the completion of environmental impact assessment of major resource proposals including: the commercial Hismelt plant at Kwinana, titanium mineral mines south of Bunbury, iron ore mining and processing in the Pilbara, and a methanol complex and ammonia/urea plant at the Burrup Peninsula. There are also significant impact assessments in relation to major infrastructure proposals in terms of the port expansion at Geraldton and a strategic assessment of future power generation plants for Western Australia;
- The development of Environmental Protection Plans in the areas of air and water quality and coastal zone protection;
- The introduction of Contaminated Sites legislation which will provide the State with additional powers relating to the clean up and reporting of contaminated sites, which will reduce the potential liability to the State;
- Implementation of regulations relating to unauthorised discharges, landfill registrations and environmental performance agreements, all of which are aimed at improving the efficiency of environmental regulation;
- Proclamation of the Waste Management Bill and expansion of Environmental Protection (Liquid Waste) Regulations to Kalgoorlie, Bunbury and other regional areas;
- Initiation of priority actions identified within the Perth Air Quality Management Plan at a cost of \$1.1 million in 2002-03;
- Finalisation of environmental quality criteria for Perth's coastal waters, with particular emphasis on Cockburn Sound; and
- Re-determination of the allocation of Kwinana industry emissions limits, while maintaining environmental standards using improved predictive capabilities of air dispersion models.

Funds for Clean Up of Bellevue Site

Funding of \$5.6 million over the forward estimate years (\$400,000 to be provided in 2002-03) has been committed for further clean up of the Bellevue site formally occupied by Waste Control Pty Ltd to ensure all pollutants are removed in line with the expectations of the community.

Office of Water Regulation

The Economic Regulation Implementation Committee continues the implementation process for the establishment of the independent Economic Regulator. The recurrent funding allocation to the Office will increase in 2002-03 to \$3.2 million, representing an increase of 5.5%.

The Plumbers Licensing function has been transferred to the Department of Consumer and Employment Protection.

Swan River Trust

Swan Canning Clean Up Program

An amount of \$3.2 million in 2002-03 will be expended for implementation of the Swan Canning Cleanup Program Action Plan. Of this:

- \$2.1 million will support catchment management;
- \$57,500 will be for work to improve land use planning controls;
- \$258,200 is provided for improving conditions in the waterways; and
- \$765,500 is funded for assessing water quality, improving our understanding of the river ecosystem and providing information to the community.

Waters and Rivers Commission

Population growth and associated economic and social activity is increasing the demand for water. The pressure placed on the divertible water varies geographically depending on the relative magnitudes of the demands and the water available. Lower than average rainfall has placed pressure on South West resources impacting on water supply and environmental systems for Perth and the region as a whole.

Sustainable Water Resources Management and Protection

In 2002-03, to ensure sustainable water resources management and protection, the Commission will undertake work in the following areas:

- \$750,000 towards the continued development and review of existing surface and ground water allocation plans. Priority plans include the Perth Basin, regional planning frameworks for the Collie, Busselton-Capel, Arrowsmith Rivers and determining environmental water provisions (EWP) for Gnangara, Ord, Jandakot and Millstream. Groundwater development plans are focused on the Kemerton Local Plan; the Busselton-Capel Local Plan; and the Pilbara Regional Plan;
- \$1.8 million towards maintaining and implementing legislation, policies and guidelines for water planning and management within Western Australia;
- \$12.6 million on the collection and analysis of water and environmental information to support resource and catchment planning and management efforts throughout the State;
- \$6.0 million towards on-the-ground additional management initiatives. Surface and groundwater licensing activities will continue to be improved through increased compliance surveillance and field contact with approximately 24,000 licensed water users. Funds are also to be provided for working with local water users in ensuring the efficient use of water; and
- \$2.1 million to encourage and support rural communities and individual farmers to adopt a more strategic long term approach to water supply planning and ensure the implementation of water supply improvements to complement efforts to address dryland salinity and land degradation.

Implementation of the State Salinity Action Plan

As part of the government's election commitments, the Commission will dedicate approximately \$5.5 million towards:

- Establishing six demonstration catchments for salinity;
- Evaluation of engineering solutions for salinity; and
- Ongoing catchment planning and on-the-ground restoration efforts within recovery and bio-diversity catchments as outlined in the State Salinity Action Plan.

Floodplain Management and Drainage

Funding of \$500,000 in 2002-03 is directed towards defining and implementing agreed actions for the Floodplain Management Taskforce which remains a priority for the Government. A priority for 2002-03 is to continue to define and implement a new approach to arterial drainage to ensure water quality issues are appropriately managed in addition to the traditional issue of stormwater (water quantity) management and to encompass the management of the environment in an urban setting, in particular high value wetlands.

Heritage Council

Development of a Conservation and Management Plan for the Cossack Townsite

Funding of \$620,000 has been provided in the forward estimates period for the Heritage Council to develop a Conservation and Management plan for the Cossack town site, which is a significant heritage place and tourism attraction for Western Australia.

Minister for Police and Emergency Services; Minister Assisting the Minister for Planning and Infrastructure

Police

The 2002-03 recurrent budget allocation of \$529.7 million for the Western Australian Police Service will increase by \$35.6 million (7.2%), compared to the estimated outturn for 2001-02. This represents growth in real terms of 4.8%.

These additional resources will enhance the ability of the Police Service to address the priority offences of burglary, motor vehicle theft, drugs, robbery and assault, and enable police to utilise the latest forensic and technological techniques to solve and prevent crime within our community.

More Police Officers

Significant progress has been made in 2001-02 to fulfil the Government's commitment to deploy more police officers within our community with 100 extra police officers and 10 extra Aboriginal Police Liaison Officers recruited. In 2002-03, the recruitment program will progress to ensure the Government fulfils its commitment to employ an extra 250 police officers and 40 Aboriginal Police Liaison Officers over four years.

Also in recognition of the dedicated work undertaken by our State's police officers more than \$52.0 million over four years has been provided to fund increases in officers' salaries.

Over the next four years provision has also been made in the forward estimates for the following initiatives.

Implementation of DNA Legislation

Funding of \$6.3 million has been allocated this year to implement the Government's DNA legislation including the back capture of samples from convicted persons. More than 6,000 serious offenders throughout Western Australia will have their DNA profiles taken for inclusion in the DNA database which will both significantly assist in the expeditious solving of crime and act as a powerful deterrent to the commissioning of crime.

Boosting Police Operational Budgets

In accordance with the Government's commitment to boost police operational budgets by \$20.0 million over four years, at least \$4.0 million this year will be devoted to boosting police operational activities to ensure an appropriate policing response to community requests for assistance. This reflects the Government's commitment to community safety and security through improved policing services and will enable an enhanced and more visible police presence on our streets, including an enhanced deployment of the Mounted and Canine units.

Communications and Information Technology Project

Up to \$60.4 million over the forward estimates period has been allocated to continue the Delta Communications and Information Technology Project including the decommissioning of the mainframe computer and operational efficiency and effectiveness projects such as CAP:Speed and the Incident Management System. This investment in systems and technology will underpin the ongoing operations of the Police Service and enable a greater degree of intelligence-led policing and the release of more officers to front line policing duties.

Computer Aided Dispatch Communications

Up to \$27.4 million over four years has been provided to continue the implementation and maintenance of the Computer Aided Dispatch Communications (CADCOM) project. CADCOM will provide a new level of strategic and tactical management that will enable new and existing resources to be more effectively deployed, resulting in a greater visible police presence, improved responsiveness to calls for assistance, increased community security and officer safety.

Transport

The Government will provide \$18.4 million for enhanced transport-related activities in 2002-03, an increase of 24.7% over the 2001-02 estimated outturn, which is driven by an increase in depreciation expenses attributable to the commissioning of the Transport Executive and Licensing Information System (TRELIS).

Transport Executive Licensing System

Funding of \$1.4 million per annum over the forward estimates has been provided for operating TRELIS which has been developed to replace the existing licensing and registration systems (motor vehicle and driver licensing) running on the Western Australian Police Service mainframe. TRELIS is a client centred system, which will improve data quality and provide flexibility to address a range of e-commerce and business initiatives, thereby providing enhanced operational efficiency.

Road Safety Initiatives

The Government's commitment to road safety is further demonstrated through continued funding in 2002-03 of a number of important initiatives, including:

- \$5.7 million to conduct new Road Safety Council community education campaigns to reduce the incidence of speeding, drink driving, non-use of seatbelts and fatigue as factors in road crashes;
- Continuation of the expanded State Blackspot Program on which the Government has allocated an additional \$8.0 million over four years. This program is funded from the Road Trauma Trust Fund and Main Roads appropriation;
- \$950,000 for new education initiatives to improve road safety for children and young people as part of the Government's four-year commitment;
- \$475,000 to RoadWise, the local government road safety program for grants to local community-based road safety projects in regional areas;
- \$350,000 to support the Graduated Driver Training and Licensing system for young learner drivers;
- \$300,000 sponsorship to the Western Australian Country Football League to promote the 'Belt Up' message in regional areas to reduce the incidence of people not wearing seatbelts;
- \$250,000 to WorkSafe Western Australia for the enforcement of the fatigue management code of conduct for the transport industry; and
- \$200,000 for education campaigns to inform the community about the new Double Demerits road safety trial operating over holiday long weekends until Easter 2003.

Minister for Planning and Infrastructure

Planning and Infrastructure

Recurrent funding of \$377.5 million will be provided to the Department for the ongoing provision of public transport services and planning of the State's land use and transport infrastructure to ensure its long term social and economic sustainability.

School Buses

Additional funding of \$8.4 million has been allocated in 2002-03 (\$45.1 million over the forward estimates) to maintain the provision of school bus services throughout Western Australia and meet growth in demand.

Consolidation of Planning Legislation

In 2002-03, the Government will consolidate planning legislation into one simplified, easy to read Act, with legislative amendment to streamline and improve the planning system. The consolidation will also include the outcomes of the review of the *Western Australian Planning Commission Act*.

Finalisation and Implementation of Revised Residential Planning Codes

Revised Residential Planning Codes will replace existing R Codes gazetted in 1991 and provide comprehensive, up to date residential development provisions for use throughout the State.

Creation of the Western Australian Transit Authority

Legislation will be introduced in 2002-03 to create the Western Australian Transit Authority, responsible for the provision of public bus and rail transport services on behalf of the State.

Consolidation and Modernisation of Western Australia's Maritime Legislation

Legislation will be introduced in 2002-03 that will enable the consolidation and modernisation of Western Australia's maritime legislation.

Main Roads

The Government is committing \$755.4 million in 2002-03 to the State's road network asset, which has a replacement value in excess of \$10 billion. While \$292.0 million is capitalised expenditure, the majority of operating expenditure is spent in the road maintenance and minor modifications output with an estimated total cost of \$354.0 million in 2002-03.

The 2002-03 Budget contains \$87.8 million in Commonwealth allocations under the National Highways and the Roads of National Importance programs, and \$126.9 million for depreciation. Local government councils will share in \$100.0 million to be spent on local roads in addition to substantial funding received direct from the Commonwealth.

Details of the capital works program for Main Roads can be found in Appendix 5: *Capital Works Program – Summary of Expenditure and Source of Funds* and are also shown in the agency capital works tables in Budget Paper No. 2.

Funding for State Black Spot program

A total of \$17.0 million in 2002-03 will be invested in the State Black Spot program, maintaining the Government's high priority for driver, pedestrian and cyclist safety. In accordance with the election commitment to allocate an additional \$8.0 million over four years, 2002-03 is the second year of this commitment. As noted in the section on Transport, funding for the additional State Black Spot Program will be sourced from both the Road Trauma Trust Fund and additional Main Roads appropriation.

Perth Bicycle Network Plan

An amount of \$6.3 million has been made available in 2002-03 for the Perth Bicycle Network Plan, Stage 2, for various shared path improvements along highways and main roads in the metropolitan area.

Minister for State Development; Tourism; Small Business

Industry and Technology

The Government's focus is on sustainable economic development through the cultivation of markets, growth of industry, application of innovation and technology and formation of partnerships with industry and the community.

The Government will continue to promote key strategic infrastructure that encompasses technology and innovation. Diversification of Western Australia's industrial capacity is an essential component of future strategies to sustain economic wellbeing including the competitiveness of the existing economic base.

Continued Implementation of the South West Forest Policy

The Government will allocate \$3.0 million in 2002-03 for attracting new businesses to, or expanding existing businesses in, the South West region. Continued implementation of the South West Forest Policy will see increased demand on the Timber Industry Assistance Program to meet expenditure associated with reduced jarrah sawlog allocations and the South West Industry Assistance Scheme.

Implementing the Strategic Partnering in Resourcing Information Technology

The Strategic Partnering in Resourcing Information Technology (SPIRIT) procurement framework for whole of government information technology services will be implemented in 2002-03 with a funding allocation of \$850,000.

The continued scoping and piloting of the application of new technologies in government and the community is planned with a focus on multi-application 'smart cards', enhancement of the OnlineWA single doorway initiative and extending the Gem capability to business-to-business transactions.

Additional Funding for Business Exits under the Regional Forests Agreement Workers Assistance Package

The Government will provide an additional \$7.0 million in 2002-03 to accommodate an increase in demand for funds in the Government's Business Exits program under the Regional Forests Agreement Workers Assistance Package umbrella, to assist an increasing number of businesses wishing to leave the timber industry.

Mineral and Petroleum Resources

The Government has provided \$94.3 million of recurrent funding to the Department of Mineral and Petroleum Resources in 2002-03 so that it can continue to effectively facilitate and regulate the State's mineral and petroleum resources industries.

Funding for Additional Pre-competitive Geoscience Mapping and Data Distribution Programs

The Government has provided another \$5.0 million in the 2002-03 Budget to fund additional pre-competitive geoscience mapping and data distribution programs by the Department. This is part of an on-going \$17.0 million per annum funding commitment to geoscience mapping.

These mapping programs will encourage explorers to find new deposits to replace those being depleted, and assist in ensuring the economic benefits we all enjoy can continue.

Western Australian Tourism Commission

The Government is committed to continuing its strong support for the Western Australian tourism industry, particularly in regional and rural areas. The Department will receive a recurrent allocation of \$33.3 million in 2002-03, representing an increase of 2.9%. Major initiatives in 2002-03 include:

- \$5.0 million in crisis funding allocated over two years (commencing in 2001-02) to help support the Western Australian tourism industry in response to the events in the United States and the collapse of Ansett Airlines. Campaigns and marketing strategies funded through this strategy will continue to run in the first half of 2002-03;
- \$500,000 as part of a \$2.0 million, four-year commitment towards specifically marketing tourism in regional and rural Western Australia and at initiatives aimed at increasing the sustainability of Country Visitor Centres;
- \$335,000 to the newly created Sustainable Product Development Unit to continue developing environmental tourism packages, in recognition of Western Australia's potential to be one of the world's premier nature-based tourism destinations; and
- \$150,000 a year to Emirate Airlines over the next two years (as part of a \$450,000 assistance package) for marketing support to promote services on the Dubai and Perth route, which will commence in August 2002. This initiative will increase tourism to the State and facilitate trade with the Middle East region.

Minister for Education; Sport and Recreation; Indigenous Affairs

Education

The Department of Education's core responsibility is to create the best possible conditions for teaching and learning in each and every one of the State's government schools.

The \$1.99 billion recurrent allocation to the Department for 2002-03 represents an increase of \$108.4 million or 5.8% over the estimated outturn for this year – a real increase of 3.4%.

Reduction in Class Sizes

An additional allocation of \$45.1 million (\$5.5 million in 2002-03) has been provided over the next four years to reduce class sizes where it matters most – in years 1-3 of primary school. As a consequence, the Department in 2003 will need to employ an estimated 347 extra teachers.

Development of On-line Education Services

A further \$56.0 million of recurrent funding has been allocated over the next four years for the development of on-line education services and to enable teachers to transform their teaching methods and realise better outcomes for children. This will capitalise on the Department's \$129.0 million investment in Information and Communication Technology (ICT) infrastructure, as part of the education to community (e2c) strategy. The additional funding allocation for 2002-03 for this project is \$13.8 million. Over the forward estimates, 100 schools in lower socio-economic areas will be provided with state of the art ICT equipment.

The distribution of laptop computers to teachers will be coordinated with the introduction of improved communication facilities and associated infrastructure.

Getting it Right Literacy and Numeracy Program

Funding of \$6.4 million for the Getting it Right Literacy and Numeracy Program will continue in 2002-03. An additional 40 teachers will be required under the second year of the program. Literacy and numeracy are the keys not only to a good school education, but also active citizenship and work after school. This budget provides for the continuation of key government initiatives in the Getting it Right Literacy and Numeracy Program, and the Family Links program.

Clear and explicit standards that all children in government education are expected to achieve will be specified at key phases of schooling in mathematics, english and science and their application trialed in a number of districts. Students and parents need to know what the standards are to be considered successful, and teachers need to be able to make reliable judgments of students' achievement against those standards. Schools will be assisted to adopt a common approach to reporting to parents.

Implementation of the Robson Taskforce Recommendations

Implementation of the Robson Taskforce recommendations will continue with an emphasis on re-aligning central and district office structures to ensure a focus on supporting schools to achieve better outcomes for students.

Continued Implementation of the Behaviour Management and Discipline Strategy

Behavioural problems in government schools will continue to be addressed through an allocation of \$7.0 million in each of the forward estimate years.

Curriculum Council

Implementation of Changes to Post-compulsory Education

Recurrent and capital funding of \$7.2 million over the forward estimates period has been provided for implementation of changes to the post-compulsory schooling system as set out in the report *Our Youth, Our Future*. Funding of \$2.3 million is allocated in 2002-03.

The report, *Our Youth, Our Future*, sets out clear directions for implementing a system of post-compulsory education for students in years 11 and 12, that will accommodate the needs of a diverse range of students, increase the number of students completing year 12 to 90% and raise standards of achievement.

The new system will:

- Maximise educational opportunities for all students, particularly those who are currently disadvantaged in rural and remote areas;
- See significant improvements in standards of achievement for all students, especially in the fundamental areas of literacy and numeracy; and
- Increase the use of learning technologies across all learning.

The report's recommendation for an adaptive approach to implementation of the proposed new system will involve trialing, testing, evaluation and consultation, with the trialing process being divided into three phases. Initially, 10 courses of study will be developed and trialed, followed by two groups of 20 courses over the subsequent years. The first 10 courses of study will be implemented in all schools from 2006 and the system will be entirely operational by 2009.

Education Services

Establishment of the College of Teaching

The Government has allocated recurrent start up funding of \$200,000 per annum over four years to establish the Western Australian College of Teaching. This will fulfil a key pre-election commitment of the Government. The prime purpose of the College will be to promote the status of teaching as a profession and to put in place processes to ensure high teaching standards in all Western Australian schools.

Recreation Camps and Reserves Board

Substantial Investment in the Recreation Camps Network

The Government has taken a decision to dispose of the Noalimba Camp (principally an accommodation only facility) and to complement this decision with a substantial investment in the remainder of the Camps network. This will ensure that a quality low cost network of facilities are available that can enable the agency to focus on delivery of recreation and physical activity experiences consistent with the charter of the Department of Sport and Recreation. Noalimba will close in October 2002.

In addition to the above, additional funding of \$830,000 over four years (\$250,000 in 2002-03) has been committed to meet ongoing maintenance needs at the Camps.

Sport and Recreation

The Department will receive an allocation of \$34.9 million in 2002-03, representing an increase of 23.9% over the previous year. Funding totalling \$12.7 million will be provided in 2002-03 to support the development of sporting facilities statewide through the Community Sport and Recreation Facilities Fund.

In addition, \$9.0 million will be allocated in 2002-03 for ongoing development of the sport and recreation industry and in particular grants to ensure the ongoing viability of State sporting associations.

State Sporting Facilities Plan – Major Initiatives

The development of the first State Sporting Facilities Plan has been complemented with additional funding of \$600,000 over four years (2002-03 to 2005-06) for a series of feasibility studies. This will ensure that the State's potential investment in the development of sporting facilities is underpinned by accountability in decision making, and thorough testing of design, planning and management aspects for projects.

Initiatives from the State Sporting Facilities Plan will see the development of three major projects:

- A baseball stadium in Gosnells, to which the State Government is contributing \$1.5 million in 2002-03;
- The development of Perth Oval, to which the State Government is contributing \$4.5 million in 2003-04 and \$2.3 million in 2004-05; and
- The development of Leederville Oval, with funding of \$1.7 million in 2004-05 being provided by the State Government.

Indigenous Affairs

Aboriginal Street Patrols

Additional recurrent funding of \$160,000 per annum (bringing the budget allocation up to \$1.15 million per annum) has been provided for the continuation of Aboriginal Street Patrols in indigenous communities. These patrols are an indigenous community initiative involving indigenous people helping members of their community who are at risk of self-harm and contact with the criminal justice system.

Aboriginal Reconciliation Funding Initiative

Recurrent funding of \$160,000 over the forward estimates period (\$40,000 in 2002-03) has been provided for the continuation of the Aboriginal Reconciliation Funding Initiative. The program provides grants to eligible organisations to undertake reconciliation activities throughout the State.

Minister for Community Development; Women's Interests; Seniors and Youth; Disability Services; Culture and the Arts

Community Development

The Department's total recurrent budget in 2002-03 will increase by \$6.1 million to \$176.8 million. This represents an increase of 3.6%.

Foster Care Subsidies and Support Costs

The Government has allocated an additional \$4.9 million from 2002-03 onwards to meet the needs of the growing numbers of children in care. This includes continuation of funding of \$2.7 million to recognise continued demand for care for children's services. Funding will be used for foster care subsidies and support costs.

Establishment and Expansion of a Range of Sexual Abuse Counselling and Treatment Services to Aboriginal Families

To respond to sexual abuse in Aboriginal and Torres Strait Islander communities, the Government has allocated an additional \$400,000 in 2002-03 and each year of the forward estimates, to establish and expand a range of sexual abuse counselling and treatment services to Aboriginal families in metropolitan and rural locations. These services will include individual, family and group counselling and treatment services.

Funding in 2002-03 has also been provided for the following:

- \$310,000 towards the Government's commitment to support volunteers and volunteering; and
- \$305,000 towards the development of women's policy initiatives.

Disability Services Commission

In 2002-03, the Disability Services Commission will receive \$194.9 million to deliver an extensive range of services that focus on meeting the whole-of-life needs of people with a disability. This represents an increase of 6.6% from the 2001-02 estimated outturn. The budget provides for accommodation, respite, therapy, post school options and many other services delivered directly by the Commission and the more than 150 non-government organisations funded by the Commission.

Specifically, an additional:

- \$4.0 million will be provided through the Disability Services Commission for 75 new accommodation options for Western Australians with a severe disability; and
- \$1.1 million is provided to meet increased operational pressures on non-government service providers.

The State Government contributes approximately 84% towards the government funding of disability in Western Australia with the balance coming from the Commonwealth.

Culture and the Arts

The 2002-03 recurrent allocation for the Department of Culture and the Arts is \$112.0 million. Key initiatives for the Department are outlined below.

Performing Arts and Cultural Centre for Broome

An allocation of \$2.0 million in 2002-03 and \$3.0 million in 2003-04 has been provided to meet the Government's election commitment to build a Performing Arts and Cultural Centre for Broome.

Accommodation Needs of the West Australian Symphony Orchestra

Funding of \$4.0 million in each of the years 2002-03 and 2003-04 is provided to meet the accommodation needs of the West Australian Symphony Orchestra.

Minister for Health

Health

The Government will commit \$2.4 billion of recurrent funding to the Western Australian health system in 2002-03. This demonstrates the Government's strong commitment to investing in the health system to ensure it meets the health needs of Western Australian people both now and into the future.

This represents a total increase of almost \$100.0 million over the 2001-02 estimated appropriation, an increase of 4.3% or real growth of 2.0% in State government recurrent funding to the health system.

The additional funding is in recognition of the increasing demand for public health services, reflecting Western Australia's growing and ageing population, together with the growing costs of delivering health services, which presents a particular challenge to the Government, as it is does to all governments nationally and internationally.

Government's Reform Program

The key emphasis in this year's Health budget is on supporting the achievement of the Government's medium to long-term agenda for Health through its reform program. The reform program will build on initiatives commenced in 2001-02 and will provide the foundation for the future. The Government's 2002-03 Health budget focuses on investing in the health system to ensure health services are funded and provided on a sustainable basis now and into the future.

The Health Administrative Review Committee (HARC) Report produced the blueprint for achieving a single, unified health system, working with a common vision, allowing for leadership, accountability and transparency.

The Government's health reforms started, and will continue, with administrative reform to the health system. The Department of Health will continue to pursue a vigorous program of corporate reform in 2002-03 with an emphasis on streamlining and rationalising the Health bureaucracy. Savings achieved through corporate reform will support a greater investment in health care service delivery.

The continued emphasis on reform of the health system is an integral element of the 2002-03 Budget, with the Government's program of clinical reform focusing on ensuring the delivery of high quality, safe and cost-effective health services, which are responsive to the needs of all Western Australians.

The planned program of clinical reform will build on a number of significant reviews currently being undertaken by the Department of Health, including reviews of the:

- Provision of renal dialysis services, neuroradiology and neurosurgery services in the metropolitan teaching hospitals;
- Services provided in peripheral metropolitan hospitals; and
- Provision of obstetric services, paediatric services and intensive care services across the metropolitan area.

Increased Emphasis on Preventive Health Measures

In keeping with the Government's strategic direction for Health there will be an increased emphasis on preventive approaches. In 2002-03, strategies will be developed and implemented to support a greater emphasis on preventative health. This will strengthen efforts to address factors that determine health and the causes of illness with the objective of protecting and promoting health and preventing illness and disability.

Development and Implementation of the Government's Rural Health Strategy

The development and implementation of the Government's rural health strategy will be a continued emphasis for 2002-03. The strategy will focus on ensuring the provision of high quality, safe and affordable services for country people as well as on enhancing and improving access to health services.

Continued Achievement of the Government's Election Commitments

In addition to pursuing a vigorous program of reform, the 2002-03 Budget supports the continued achievement of the Government's election commitments in the health system, including commitments to:

- Increase funding for hospitals (with \$10.5 million allocated in 2002-03);
- Increase the emphasis on strategies for health improvement;
- Increase funding for specialist services and allied health initiatives in the country (\$2.5 million in 2002-03);
- Expand the delivery of regional dental services (\$250,000 in 2002-03);
- Enhance community-based health initiatives for Aboriginal people with an allocation of \$375,000 in 2002-03; and
- Recruit additional nurses across the health system in 2002-03.

Negotiation of a New Health Care Agreement with the Commonwealth

The 2002-03 year will also see the State Government negotiating a new Australian Health Care Agreement with the Commonwealth. The Australian Health Care Agreement is the key mechanism by which the State receives health funding from the Commonwealth Government. The new agreement will be of major importance given the influence of the Commonwealth's funding and health policies on Western Australia.

CHAPTER 4

Financial Projections - Revenue

Overview

Total operating revenue for the general government sector is expected to grow by 1.8% in 2002-03. This is low by recent standards.

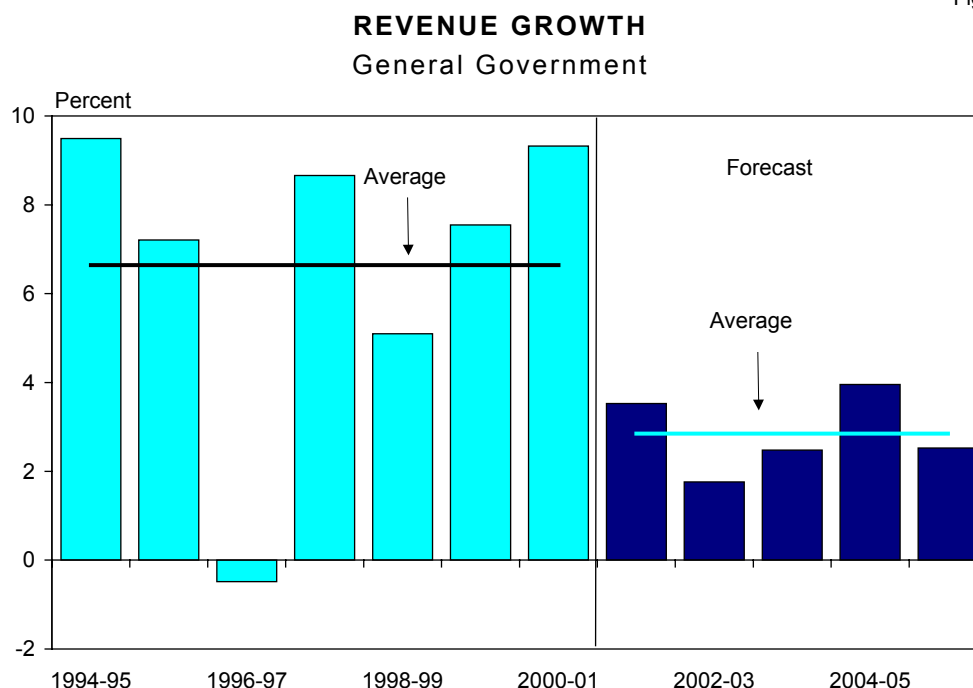
Over the period 1993-94 to 2000-01, even after abstracting from the 'one-off' revenue impacts of major asset sales, underlying total operating revenue has grown by, on average, 6.3% per annum (see Figure 1). In 2001-02, total operating revenue is expected to grow by 3.5% (or 6.0% abstracting from the impact of major asset sales). With unchanged taxation policies, growth in total operating revenue for 2002-03 was expected to be only 0.8%.

This relatively low forecast growth in total operating revenue in 2002-03 is mainly attributable to growth in revenues from taxation being offset by lower revenue from Commonwealth grants (down 0.5%), reduced payments from public corporations (down 3.8%) and a decline in interest income (down 7.8%) and other revenue¹ (down 6.6%).

Over the three outyears total operating revenue is expected to increase by around 3.0% per annum. While taxation revenue should remain relatively strong, growth in Commonwealth grants, revenue from public corporations and royalties is expected to be lower than has been experienced in the past. These revenue sources show little relationship to growth in the domestic economy and represent areas of major risk for State revenues in the future.

¹ 'Other revenue' comprises lease rentals, fines and other revenue not elsewhere counted. This latter item includes donations and asset transfers, which are lumpy and one-off in nature.

Figure 1



Operating Revenue Projections

Summary

The general government sector is the focus of the annual budget. It represents that area of public sector activity which is subject to greatest control by government.

Total operating revenue for the general government sector is estimated to be \$11.2 billion in 2002-03. This represents an increase of \$193.3 million (or 1.8%) on 2001-02 estimated outturn revenue, which is largely attributable to growth in revenues from taxes (up \$228.3 million, or 7.7%, including the impact of new revenue measures), royalties (up \$15.4 million, or 2.4%, following a decline of \$46.1 million in estimated outturn royalty revenue in 2001-02) and sales of goods and services (up \$23.3 million, or 2.6%).

These areas of increasing revenue in 2002-03 are partially offset by lower revenue from Commonwealth grants (down \$25.2 million, or 0.5%), payments from public corporations (down \$23.9 million, or 3.8%), interest income (down \$9.2 million, or 7.8%) and other income (down \$15.4 million, or 6.6%).

Significantly, estimated growth in total operating revenue in 2002-03 is substantially less than expected growth in the domestic economy and annual average growth in total operating revenue of 6.6% over the period 1993-94 to 2000-01. In the absence of new taxation measures introduced in this budget, total operating revenue growth expected in 2002-03 was estimated at 0.8%.

Total operating revenue is expected to increase by \$1.0 billion (or around 3.0% per annum) over the three outyears. This reflects growth in revenue from Commonwealth grants (up \$508.4 million, or 3.0% per annum), taxation (up \$424.3 million, or 4.2% per annum) and payments from public corporations (up \$164.0 million, or 8.3% per annum).

Table 1

GENERAL GOVERNMENT
Operating Revenue

	2000-01 ^(a)	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
Taxation	2,891.6	2,965.4	3,193.7	3,361.3	3,529.1	3,618.0
Current grants and subsidies	4,781.2	5,214.2	5,170.0	5,211.5	5,480.0	5,707.9
Capital grants	276.9	272.7	291.7	273.5	275.3	262.2
Sales of goods and services	863.3	896.0	919.3	903.7	878.4	883.8
Interest income	141.9	117.8	108.6	107.1	95.3	95.1
Revenue from public corporations						
Dividends	400.0	411.0	379.3	439.0	473.0	481.2
Tax equivalent payments	366.4	220.0	227.7	254.1	271.6	289.8
Royalty income	685.6	639.5	654.9	667.8	666.0	648.9
Other	189.7	233.5	218.1	222.1	224.1	206.0
TOTAL	10,596.5	10,970.2	11,163.5	11,440.0	11,892.7	12,192.9

(a) Data quoted for 2000-01 update those published in the 2000-01 *Government Financial Results Report* and 2001-02 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2000-01 *Consolidated Financial Statements* in February 2002.

Note: Columns may not add due to rounding.

Total operating revenue for 2001-02 is now estimated to be \$11.0 billion. This is around \$257 million higher than forecast at the time of last year's budget and represents an increase of \$373.6 million, or 3.5%, over the previous year.

The higher revenue than previously forecast for 2001-02 is largely attributable to the impact of stronger than anticipated property market activity (accounting for \$150 million of the \$257 million increase), including from large one-off commercial transactions, larger than expected Commonwealth payments for the First Home Owner Grant (FHOG) scheme (\$73.5 million higher than estimated in the previous budget) and increased revenue from stamp duty on insurance (up \$20 million since last budget). Royalty revenue, including the Commonwealth payments from North West Shelf royalties, are \$39.4 million below the estimate at last budget.

However, the factors contributing to revenue growth in 2001-02 are not expected to continue growing at the same rate in 2002-03 and beyond.

The need for new revenue measures has been minimised by the Government through an exhaustive Expenditure Review Committee process which has held the growth in expenses to an expected 1.8% (or a decline of 0.4% in real terms) in 2002-03, following growth of 4.0% (or 1.6% in real terms) in 2001-02.

However, the community's need for core services and infrastructure (such as the Perth Urban Rail Development) will continue to grow strongly in the future. While revenue growth is assisting the Government to meet current spending pressures and maintain an operating surplus in 2001-02, the factors which are making significant contributions to revenue growth (such as the impact of strong property market activity and the FHOG) are not expected to grow at the same rate in 2002-03 and across the forward estimates period. The need to manage risks associated with variations in revenue to maintain net operating surpluses, particularly in the context of a substantial capital works program, is discussed in more detail in Chapter 2: *Fiscal Strategy and Targets*.

The remainder of this chapter outlines new taxation revenue measures and the revenue estimates through to 2005-06 in each of the major categories. Information on major exemptions and concessions is included in Appendix 3: *Tax and Royalty Expenditure Statement*.

New Taxation Measures

Summary

The table below summarises the impact on taxation revenue of new measures which have been introduced by the Government in the 2002-03 Budget. All of these measures will take effect from 1 July 2002.

SUMMARY OF TAXATION REVENUE MEASURES					Table 2
	2002-03 Budget Estimate \$m	2003-04 Forward Estimate \$m	2004-05 Forward Estimate \$m	2005-06 Forward Estimate \$m	
Replace the nominal 25 cents stamp duty for motor vehicle compulsory third party insurance policies with an ad valorem rate of 8% of the premium	24.5	25.6	26.7	27.8	
Increase rate of stamp duty on motor vehicle licence transfers (excluding heavy vehicles)	38.3	39.8	41.5	43.2	
Reduce rate of stamp duty on new registrations of heavy vehicles to a flat 3.0% and provide a cap on the amount of stamp duty payable on registrations and transfers of heavy vehicles	-3.9	-4.1	-4.3	-4.4	
Increase in conveyance duty rates	57.0	61.2	64.7	68.1	
Payroll tax and contractors – not proceed with new provisions	-6.0	-6.0	-6.0	-6.0	
TOTAL IMPACT	109.9	116.5	122.6	128.7	

Note: Columns may not add due to rounding.

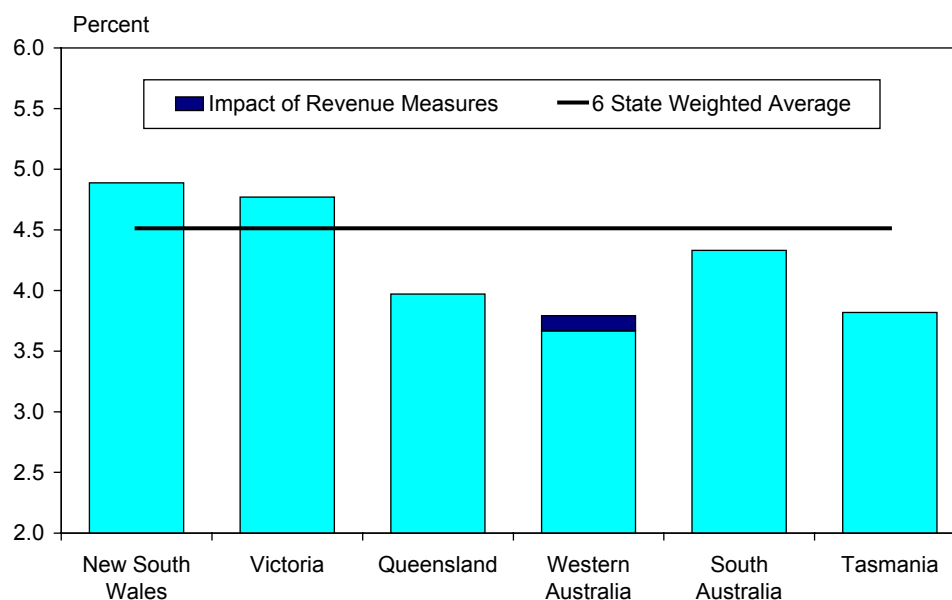
The specific revenue measures introduced in this budget are targeted at the three largest stamp duty bases available to the State – stamp duty on property conveyances, insurance and motor vehicle licence transfers. Beyond these and payroll tax and land tax, the State has very few revenue raising options available to it, reflecting Constitutional constraints and the Commonwealth's monopoly on income tax. Other jurisdictions have also used a heavy reliance on gambling tax revenues to take the pressure off the other revenue sources available to the States and Territories.

The revenue measures are also consistent with the Government's commitment to maintain Western Australia's tax competitiveness. In 2002-03, the measures are estimated to have no impact on Western Australia's interstate ranking – in terms of both taxation revenue per capita and as a share of gross State product (GSP) – compared to the ranking that would have been observed in the absence of these measures.

Specifically, in 2002-03, Western Australia is estimated to continue to be the fourth lowest taxing State on a per capita basis. When measured as a share of GSP (which is a better indicator of the tax burden because it reflects the capacity to pay tax), Western Australia's taxation level is projected to continue to be the lowest of all States in 2002-03.

Figure 2

TAX COMPETITIVENESS
General Government Taxation Revenue as a Percent of GSP,
2002-03 ^(a)



(a) Based on policies of other jurisdictions as at 7 May 2002.

The following provides further details on each of the new taxation revenue measures.

Stamp duty – motor vehicle compulsory third party (CTP) insurance

From 1 July 2002, the nominal amount of stamp duty (25 cents per policy) for CTP insurance policies will be replaced by an ad valorem rate of 8% of the premium – the same rate that applies to general insurance policies. While there will be no change in base CTP insurance premiums, this measure will increase effective CTP premiums by \$19.21 for a standard passenger vehicle. Nevertheless, CTP premiums in Western Australia will remain the lowest of all the States and Territories.

CTP PREMIUMS ^(a) – PRIVATE MOTOR VEHICLE							Table 3
	NSW ^(b)	VIC	QLD ^(b)	WA	SA	TAS	
Current (\$)	348.00	336.60	290.00	243.45	350.00	294.00	
1 July 2002 (\$)	348.00	336.60	290.00	262.66	350.00	294.00	

(a) Based on CTP premiums including stamp duty
(b) Based on lowest premium on offer amongst the private insurers.

Stamp duty – motor vehicle licence transfers

From 1 July 2002, the rate of stamp duty on motor vehicle licence transfers (including new registrations) will be increased progressively across the rate scale, except for heavy vehicles (ie. those with a mass rating for charging exceeding 4.5 tonnes). The new scale is illustrated below.

MOTOR VEHICLE STAMP DUTY RATES ^(a)			Table 4
Market Value	Current Rate	New Rate	
\$0 to \$15,000	2.50%	2.75%	
\$15,000 to \$40,000	2.50% - 5.00% ^(b)	2.75% - 6.50% ^(c)	
Over \$40,000	5.00%	6.50%	

(a) For vehicles with a mass rating for charging of 4.5 tonnes or less.
(b) Rate = 2.50% + {(V-\$15,000)/(\$40,000-\$15,000)}x{5.00%-2.50%}
(c) Rate = 2.75% + {(V-\$15,000)/(\$40,000-\$15,000)}x{6.50%-2.75%}

The new scale incorporates a 10% increase for vehicles valued at \$15,000 or less, which rises to around 20% for vehicles valued at around \$23,000 and 30% for vehicles valued over \$40,000. By way of example, the increase in stamp duty for a vehicle valued at \$15,000 will be \$37.50, and \$300 for a vehicle valued at \$30,000.

An interstate comparison of stamp duty on motor vehicle licence transfers is provided in the following table.

Table 5

STAMP DUTY ON SELECTED MOTOR VEHICLE VALUES - \$

Value \$	WA		NSW	VIC		QLD	SA		TAS
	Current	New		New vehicle	Used vehicle		Comm- ercial	Private	
5,000	125	138	150	125	200	100	120	140	150
10,000	250	275	300	250	400	200	270	340	300
15,000	375	413	450	375	600	300	420	540	450
20,000	600	700	600	500	800	400	570	740	600
30,000	1,200	1,500	900	750	1,200	600	870	1,140	900
40,000	2,000	2,600	1,200	1,600	1,600	800	1,170	1,540	1,600
45,000	2,250	2,925	1,350	2,250	1,800	900	1,320	1,740	1,800
60,000	3,000	3,900	2,100	3,000	2,400	1,200	1,770	2,340	2,400

Stamp duty in Western Australia will remain broadly comparable to other States for vehicles valued up to \$20,000, and remain above other States for higher value vehicles. In this regard, the vast majority of motor vehicle licence transfers in this State (78.5%) are for vehicles valued below \$20,000.

Although stamp duty on the transfer of motor vehicle licences will be higher for high value vehicles than in other States, this is partly offset over the period a vehicle is held, as Western Australia has the lowest CTP insurance premiums and generally lower motor vehicle registration costs relative to other States. For low value vehicles, Western Australia will continue to have the lowest State charges on motor vehicles² of all States.

Heavy vehicles (ie. those with a mass rating for charging exceeding 4.5 tonnes) and vehicles currently exempt from stamp duty (eg. certain off-road vehicles used in farming and mining and vehicles purchased by certain charities) will not be affected by this measure. Furthermore, new registrations of heavy vehicles (including heavy trailers) will be subject to a reduced stamp duty rate of 3.0% (transfers of used heavy vehicles will continue to be subject to the current stamp duty scale).

The measure to reduce the stamp duty rate on new registrations of heavy vehicles and heavy trailers to a flat 3.0% is aimed at addressing particular problems being experienced in the State's heavy vehicle industry. In this regard, there has been a significant reduction in the number of new heavy vehicle and trailer registrations since the previous Government increased stamp duty on 1 July 1999. This, in turn, has had adverse consequences for investment and employment in the heavy vehicle industry.

² This refers to annualised State charges, being the sum of the CTP insurance premium, motor vehicle licence fee and stamp duty on motor vehicle licence transfers.

In addition, the Government has decided to introduce a cap on the maximum amount of stamp duty payable on new registrations and second hand transfers of heavy vehicles and heavy trailers. The stamp duty will be capped at the duty payable at a market value of \$400,000. At the new stamp duty rate of 3.0%, this means that the maximum amount of duty payable on a new heavy vehicle will be \$12,000. By way of comparison, duty currently payable on a \$800,000 heavy vehicle is \$40,000.

Stamp duty – property conveyances

From 1 July 2002, a more progressive conveyance duty scale will be introduced, as shown in the following table. The increases in the marginal rates across the various property values range from 2.6% for property valued at \$80,000 or less, to 13.4% for property valued at over \$500,000.

STAMP DUTY ON PROPERTY CONVEYANCES

Table 6

Property Value	Current Marginal Rate	New Marginal Rate
\$0 to \$80,000	1.95%	2.00%
\$80,001 to \$100,000	2.85%	3.00%
\$100,001 to \$250,000	3.70%	4.15%
\$250,001 to \$500,000	4.55%	5.15%
Over \$500,000	4.85%	5.50%

An interstate comparison of conveyance duty rate scales is shown in the following tables. It illustrates that the increase in the top rate of conveyance duty to 5.5% will bring Western Australia into line with the existing top rates in New South Wales and Victoria, albeit introduced at a lower threshold.

CONVEYANCE DUTY SCALES AS AT 1 JULY 2002 ^(a)

Table 7

		WA	NSW	VIC	QLD	SA	TAS
	Current	New					
Minimum Rate %	1.95	2.00	1.25	1.40	1.50	1.00	1.50
Minimum Threshold (\$'000)	0	0	0	0	0	0	0
Maximum Rate %	4.85	5.50	5.50	5.50	3.75	5.00	4.00
Maximum Threshold (\$'000)	500	500	1,000	870	500	1,000	225

(a) Based on sources of other jurisdictions as at 28 March 2002.

Table 8
STAMP DUTY PAYABLE ON SELECTED PROPERTY VALUES (a)

Value (\$'000)	WA		NSW	VIC	QLD	SA	TAS
	Current \$	New \$	\$	\$	\$	\$	\$
50	975	1,000	765	1,000	975	1,080	1,050
100	2,130	2,200	1,990	2,200	2,350	2,830	2,425
150	3,980	4,275	3,740	4,660	3,975	4,830	3,925
250	7,680	8,425	7,240	10,660	7,225	8,830	7,550
500	19,055	21,300	17,990	25,660	15,975	18,830	17,550
1,000	43,305	48,800	40,490	55,000	34,725	41,330	37,550
5,000	237,305	268,800	260,490	275,000	184,725	241,330	197,550
10,000	479,805	543,800	535,490	550,000	372,225	491,330	397,550
50,000	2,419,805	2,743,800	2,735,490	2,750,000	1,872,225	2,491,330	1,997,550

(a) Based on sources of other jurisdictions as at 28 March 2002.

The amount of conveyance duty payable on the purchase of a median-priced house in Perth will still be substantially lower than that in Sydney, Melbourne and (to a lesser extent) Brisbane, as illustrated in the following table.

Table 9
STAMP DUTY PAYABLE ON MEDIAN-PRICED HOUSE (a)

Price (\$'000) ^(b)	Perth		Sydney	Melbourne	Brisbane	Adelaide	Hobart
	Current	Proposed					
	171,800	171,800	350,000	316,000	200,000	158,000	123,000
Duty (\$)	4,787	5,180	11,240	14,620	5,600	5,150	3,115

(a) Median price as at December quarter 2001.

(b) Based on sources of other jurisdictions as at 28 March 2002.

Conveyance duty – wholesale unit trusts

In light of some concerns that have been raised by the commercial property industry, the Government has decided to legislate to provide relief from the private unit trust provisions of the *Stamp Act* for genuine 'wholesale' unit trusts.

Details of this measure are being finalised in consultation with the Property Council of Australia. However, the measure will improve Western Australia's tax competitiveness and assist investment in commercial property in the State, while at the same time restricting possible avoidance opportunities through trading in properties held in sub-trusts.

This measure is not expected to have a cost to revenue, given that little or no stamp duty is currently being collected from the unit trusts in question.

Payroll tax and contractors

In the 2001-02 Budget, it was announced that the payroll tax base would be extended, from 1 July 2002, to include payments for the labour of ‘employee-like’ contractors. In addition, it was announced that a number of tests would be developed, in consultation with tax professionals and key industry groups, to ensure that payments to contractors who operate as independent businesses would not be subject to payroll tax.

That consultation process has been completed, and has highlighted the difficulty of introducing new provisions which appropriately target employee-like contractors (as opposed to genuine independent contractors) without imposing substantial additional compliance costs on employers.

Such increases in compliance costs would be inconsistent with the objectives of the Review of State Business Taxes, which had a major focus on reducing compliance costs for business.

In view of this, the Government has decided not to progress with new contractor provisions, as the additional compliance costs for all businesses utilising contract labour (not just those being employee-like contractors) would largely outweigh the additional revenue benefit to the State.

Furthermore, the Office of State Revenue will be implementing further strategies (including greater taxpayer education) aimed at increasing taxpayer awareness of the existing legislation, in order to assist employers to correctly self-assess whether a contract payment should be subject to payroll tax. This should lead to a higher level of voluntary compliance.

As a result, revenue from this measure is expected to be \$10 million per annum.

Review of State Business Taxes

In the 2001-02 Budget, the Government announced a review of State taxes. The objective was to make recommendations on how to improve the efficiency, equity and simplicity of the State’s tax system, with a particular focus on minimising compliance costs.

Following a process of considerable consultation with industry, taxpayer and community groups, and the use of an expert Reference Group as a ‘sounding board’ for reform proposals, the final report of the Review was provided to Government on 28 February 2002.

The report proposes an extensive package of reforms, ranging from the proposed abolition of a number of taxes, to measures to simplify some of the State’s larger tax bases, and initiatives to improve tax administration. Given the extent of the proposed reforms, the Government has decided to release a draft white paper, outlining the proposed package, for public comment in the near future. The Government will consider these comments before progressing further reform of the tax system.

Taxation Revenue Estimates

Summary

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

TAXATION REVENUE							Table 10
	2000-01 Actual \$m	2001-02 Estimated Actual \$m	2002-03 Budget Estimate \$m	2003-04 Forward Estimate \$m	2004-05 Forward Estimate \$m	2005-06 Forward Estimate \$m	
TAXES ON EMPLOYERS' PAYROLL AND LABOUR FORCE							
<i>Payroll taxes</i>	832.6	900.5	1,021.6	1,082.0	1,146.8	1,214.8	
TAXES ON PROPERTY							
Land taxes	220.7	226.5	266.5	284.0	303.5	325.0	
Stamp duties on financial and capital transactions	720.8	812.8	799.2	849.9	893.9	939.3	
Financial institutions transaction taxes	237.8	113.3	97.5	97.5	97.5	8.1	
Other	44.6	48.4	50.8	53.6	56.7	60.2	
<i>Total</i>	1,224.0	1,200.9	1,214.0	1,284.9	1,351.5	1,332.6	
TAXES ON PROVISION OF GOODS AND SERVICES							
Taxes on gambling	121.0	114.8	117.3	119.4	121.5	124.0	
Taxes on insurance	218.3	270.9	306.3	317.6	329.9	342.3	
<i>Total</i>	339.3	385.7	423.6	437.1	451.4	466.3	
TAXES ON USE OF GOODS AND PERFORMANCE OF ACTIVITIES							
Motor vehicle taxes	453.5	478.3	534.5	557.4	579.4	604.3	
Franchise fees	42.3	0.0	0.0	0.0	0.0	0.0	
<i>Total</i>	495.8	478.3	534.5	557.4	579.4	604.3	
TOTAL TAXES	2,891.6	2,965.4	3,193.7	3,361.3	3,529.1	3,618.0	

Note: Columns may not add due to rounding.

Estimated outturn taxation revenue for 2001-02 is expected to grow by a modest 2.6%, primarily due to the windfall nature of taxation revenue growth in 2000-01, which was largely the result of 'one-off' stamp duty revenues related to the sales of AlintaGas and Westrail Freight.

The expected increase in total tax revenue in 2002-03 of \$228.3 million, or 7.7%, is largely a result of the revenue measures introduced as part of the 2001-02 and 2002-03 Budgets (with the former relating to those measures commencing from 1 July 2002). In the absence of these measures, taxation revenue growth would have been significantly lower (ie. 2.0%).

Beyond 2002-03, the growth in tax revenue is expected to stabilise at around 4.2% per annum. This compares with annual average growth in taxation revenue of around 7.5% 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 32.0% of total taxation revenue in 2002-03. Its share of total taxation revenue is estimated to rise to 33.6% by 2005-06.

Strong growth in payroll tax collections is expected in 2001-02 and 2002-03 (8.2% and 13.4% respectively), primarily due to the payroll tax measures in the 2001-02 Budget (which took effect from 1 January 2002), and forecast increases in employment and earnings. Growth in payroll tax collections is expected to moderate to 5.9% per annum by 2005-06, in line with forecast employment and earnings growth.

This budget does not introduce any new payroll tax measures.

Taxes on property

This category comprises land taxes, stamp duties on financial and other capital transactions, financial institution transaction taxes and other property-related taxes (such as the Metropolitan Region Improvement Tax). These taxes are estimated to account for around 38.0% of total taxation revenue in 2002-03 (having fallen from 42.3% in 2000-01 and 40.5% in 2001-02 largely as a result of the abolition of Financial Institutions Duty (FID) from 1 July 2001). This share is expected to decline to 36.8% by 2005-06 due to the intended abolition of debits tax in 2005-06 as part of the national tax reform program.

The growth in land taxes is expected to be around 2.6% in 2001-02 and 17.7% in 2002-03. The low growth in land tax in 2001-02 reflects the deferment of the payment of some land tax from 1999-2000 into 2000-01. Abstracting from this, underlying growth in land tax is estimated at around 6.0% in 2001-02. The strong expected growth in 2002-03 largely reflects the land tax measures announced in the 2001-02 Budget (to take effect from 1 July 2002). Excluding the impact of these measures, land tax is estimated to grow by 0.3% in 2002-03. Growth in land tax collections is expected to stabilise at its long term average of around 7.0% per annum by 2005-06.

Stamp duties on financial and other capital transactions include stamp duties on property conveyances, mortgages and marketable securities. The recovery in conveyance duty collections experienced in the second half of 2000-01, reflecting the impact on property activity of the temporary \$7,000 increase in the First Home Owner Grant for new homes and successive reductions in interest rates, continued through into 2001-02. In combination with increased non-residential conveyances (including a number of large 'one-off' assessments), expected growth in conveyance duty is a relatively strong 22.1%. Growth in conveyance duty collections is expected to fall by 2.7% in 2002-03 (even after the increase in conveyance duty rates announced as part of this Budget), with underlying activity in the property market expected to ease from the levels recorded in 2001-02.

Taken together, land taxes and stamp duties on financial and other capital transactions is estimated to fall from 35.0% of total taxation revenue in 2001-02 to 33.4% in 2002-03 before rising to 34.9% in 2005-06.

Financial institutions transaction taxes comprise FID and debits tax. The estimated fall in financial institutions transaction taxes in 2001-02 is due to the abolition of FID from 1 July 2001. Debits tax 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. In addition, under the national tax reform program, debits tax is earmarked for abolition in 2005-06 (subject to review by the Ministerial Council of Commonwealth, State and Territory Treasurers).

The growth in other property taxes mainly reflects growth in Metropolitan Region Improvement Tax collections.

Taxes on the provision of goods and services

This category includes taxes on gambling and insurance, and some minor levies. These tax revenues are expected to account for around 13.3% of total taxation revenue in 2002-03. This share is expected to decline to 12.9% by 2005-06 due to slow growth in revenue from gambling taxes.

Taxes on gambling mainly comprise lotteries, casino tax and the TAB betting tax. The reduction in revenues from gambling from 2000-01 is due to the reimbursement of GST on gambling operators' margins under the national tax reform program, to ensure that the net tax impost on gambling does not increase, as well as the introduction of a rebate to return 0.5% of betting turnover to the racing industry from 1 February 2001.

Whilst taxes on gambling contribute significantly to strong growth in the taxation revenues of other jurisdictions, this is not the case in Western Australia, largely due to the Government's ban on poker machines. Indeed, gambling tax revenues are estimated to grow by only 2.2% in 2002-03, moderating to 1.9% across the outyears.

The estimates for lotteries revenue are based on the Lotteries Commission's projections of turnover for existing games. Casino tax revenue is expected to grow at a relatively slow pace, mainly reflecting subdued growth in 'high roller' activity (although the domestic segment of Burswood Casino's turnover is expected to continue to grow steadily). TAB betting tax revenue is expected to grow by around 3.0% in 2001-02 and 3.4% in 2002-03, abstracting from the introduction of the rebate to return 0.5% of betting turnover to the racing industry from 1 February 2001.

Taxes on insurance comprise stamp duty on insurance policies, the fire service levy paid by insurance companies and the employers' indemnity supplementation fund levy, which recommenced on 25 June 2001 in order to meet the liability of compensation payments for injured workers who were covered by HIH Insurance prior to its collapse on 14 March 2001. Taxes on insurance are estimated to increase by 24.1% in 2001-02 and 13.1% in 2002-03, reflecting very strong growth in insurance premiums, particularly since the collapse of HIH and the 11 September 2001 terrorist attacks, and the measure to replace the nominal 25 cents stamp duty for motor vehicle compulsory third party insurance policies with an ad valorem rate of 8.0% of the premium from 1 July 2002. However, growth in taxes on insurance is expected to stabilise at around 4.0% per annum across the outyears.

Taxes on the use of goods and performance of activities

This category comprises motor vehicle taxes and is expected to account for around 16.7% of total taxation revenue in 2002-03. 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 7.4% in 2001-02, reflecting a significant improvement in motor vehicle sales after the distortionary impact on the motor vehicle market due to the introduction of the GST on 1 July 2000. These collections are expected to increase by 23.9% in 2002-03 as a result of the measure to increase the stamp duty rate on motor vehicle licence transfers from 1 July 2002, which is partially offset by the measures to reduce the rate of duty on new heavy vehicles and to provide a cap on the amount of stamp duty payable on heavy vehicles. However, growth in motor vehicle stamp duty collections is expected to stabilise at around 4.0% per annum across the outyears.

Revenue from annual motor vehicle licence fees is estimated by the Department of Transport to increase by around 5.0% per annum in 2002-03 and by 4.3% per annum across the outyears. This revenue is earmarked for road construction and maintenance.

Hypothecated Revenues

This category includes a number of taxes which are applied to trust funds for expenditure on specific purposes. A summary of these hypothecated revenues in 2001-02 and 2002-03 is shown in the table below.

HYPOTHECATED REVENUES ^(a)

Table 11

	2001-02 Estimated Actual \$m	2002-03 Budget Estimate \$m
MAIN ROADS TRUST FUND		
Permit Fees	1.6	1.6
Motor Vehicle Licences	303.7	318.5
METROPOLITAN REGION IMPROVEMENT FUND		
Metropolitan Region Improvement Tax	39.0	40.5
LOTTERIES COMMISSION		
Sports Lotteries Account	8.8	9.0
Arts Lotteries Account	8.8	9.0
Hospital Fund	70.3	71.8

(a) Permit fees and annual motor vehicle licence fees are classified as taxes on the use of goods and services, the Metropolitan Region Improvement Tax is classified as a tax on property and taxes on lotteries are classified as taxes on the provision of goods and services.

Note: Columns may not add due to rounding.

Other Revenue

Commonwealth Grants

Commonwealth grants to the States take two forms:

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

In 2002-03, general purpose grants will 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 will 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 are projected to grow by 2.2% in 2002-03, which is less than the rate of inflation. This low growth reflects a projected reduction in FHOG expenses (States are compensated for these expenditures through the budget balancing assistance). It also reflects a cut to budget balancing assistance, made by the Commonwealth at the recent Ministerial Council of Treasurers whereby the Commonwealth will no longer compensate the States for the impact of inflation on the fuel safety net revenues that they have given up under tax reform (this is discussed further in Chapter 6: *Federal Affairs*).

The Commonwealth Grants Commission recommended a small increase in Western Australia's grant share in 2002-03. However, forecasts of general purpose grants beyond 2002-03 reflect expectations of a continuation of the long term decline in the State's share of grants through the Grants Commission process.

Western Australia is expected to continue to receive budget balancing assistance until 2004-05, when GST revenues 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.

Specific purpose payments (SPPs) to Western Australia are expected to decrease by 1.1% in 2002-03, excluding payments through the State (ie. the payments on-passed to local government, private schools and first home buyers) and North West Shelf royalties received through the Commonwealth. This reflects one-off payments in 2001-02, particularly for Jervoise Bay infrastructure and the national rail network. Declines in 2002-03 are also expected for payments through the State (due to the cessation of the extended First Home Owners Grant) and North West Shelf royalties.

Forward estimates of SPPs are provided by the responsible State agencies based on advice received from Commonwealth agencies.

COMMONWEALTH GRANTS

Table 12

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
GENERAL PURPOSE GRANTS ^(a)						
GST revenue						
Grant	2,374.6	2,562.1	2,821.4	2,936.0	3,108.3	3,269.1
Budget balancing assistance	213.0	312.1	116.9	34.5	-	-
Competition payments	45.5	71.1	72.6	74.8	76.9	79.1
<i>Total General Purpose Grants</i>	<i>2,633.1</i>	<i>2,945.3</i>	<i>3,010.9</i>	<i>3,045.3</i>	<i>3,185.2</i>	<i>3,348.2</i>
SPECIFIC PURPOSE PAYMENTS						
SPPs "to" the State ^(b)	1,460.6	1,613.5	1,595.1	1,601.3	1,654.4	1,710.9
SPPs "through" the State ^(c)	490.9	548.2	532.2	569.8	601.6	601.6
North West Shelf royalties	473.5	380.0	323.6	268.6	314.1	309.5
<i>Total SPPs</i>	<i>2,425.0</i>	<i>2,541.7</i>	<i>2,450.8</i>	<i>2,439.7</i>	<i>2,570.1</i>	<i>2,621.9</i>
TOTAL GRANTS	5,058.1	5,486.9	5,461.7	5,485.0	5,755.3	5,970.1

(a) Safety net revenues received in 2000-01 are treated as taxes.

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

(c) Payments on passed to local government, private schools and, in 2001-02, 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 increase by \$23.3 million (2.6%) in 2002-03. This increase accommodates the impact of modest increases in some agencies' fees and charges.

Over the medium term, goods and services income contracts marginally. This reflects changes to the accounting treatment of the transitional arrangements associated with previous motor vehicle fleet leasing (also accompanied by lower expenses) and lower income for the restructured Department of Conservation and Land Management (with plantation income now reflected in the books of the Forest Products Commission in the public non-financial corporations sector).

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 in 2002-03 and over the forward estimates. This is predominantly due to the draw down of proceeds from the 2000-01 sale of AlintaGas for capital investment purposes. 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 assets delivering minor impacts on investment income.

Revenue from Public Corporations

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 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 2002-03 is estimated at \$607.0 million, which represents a decrease of \$23.9 million, or 3.8%, 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 receipts in the budget and forward years.

REVENUE FROM PUBLIC CORPORATIONS

Table 13

	2000-01 Actual \$m	2001-02 Estimated Actual \$m	2002-03 Budget Estimate \$m	2003-04 Forward Estimate \$m	2004-05 Forward Estimate \$m	2005-06 Forward Estimate \$m
Income Tax Equivalent	357.5	213.3	219.8	245.9	263.6	281.7
Sales Tax Equivalent	1.8	0.1	-	-	-	-
Local Government Equivalent	7.1	6.5	7.9	8.2	8.0	8.1
Dividends	400.0	411.0	379.3	439.0	473.0	481.2
TOTAL	766.5	630.9	607.0	693.0	744.6	771.0

Note: Columns may not add due to rounding.

The reduction in revenue is driven by reduced dividend payments from the Water Corporation, which will return to a 85% dividend pay out ratio in 2002-03 following a one-off increase to 95% in 2001-02. In total, revenue from the Water Corporation is down \$8.5 million in 2002-03. Revenue from Western Power is also expected to fall by \$8.5 million in 2002-03, despite an increase in its dividend pay out ratio, due to lower electricity sales, partly attributable to increased contestability in retail markets and a forecast slowdown in residential dwelling construction. Revenue from other public corporations is expected to fall by \$7.0 million in 2002-03.

Revenue growth from public corporations in the outyears is driven largely by a forecast upward trend in the profitability of the Water Corporation. This largely reflects an increase in revenue to the Water Corporation from CSO payments associated with odour management, Australian Drinking Water Guidelines and dam safety initiatives.

A more detailed overview of payments by individual public corporations can be found in Appendix 6: *Public Corporations – Revenue and Expenses*.

Royalty Income

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

Iron ore accounts for the largest share of mining royalties. Although the North West Shelf petroleum revenues which the State receives under royalty sharing arrangements with the Commonwealth are currently greater than the amount of iron ore royalties, these revenues 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 fall by around \$140.1 million (or 11.7%) in 2001-02. This fall mainly reflects the impact on petroleum royalties (including North West Shelf royalties) of a fall in the oil price from a very high average of around \$US30 per barrel in 2000-01 to an average of around \$US24 per barrel in 2001-02. Other major contributing factors are substantial declines in diamond royalties (partly reflecting market disruptions arising from the 11 September 2001 terrorist attacks), nickel royalties (reflecting current financial difficulties in that industry) and 'other' royalties (reflecting price falls for base metals such as zinc and cobalt). The main contributions to growth are from iron ore royalties (reflecting volume and price growth under annual contracts negotiated in early 2001) and a slight depreciation by the \$A/\$US exchange rate from an average of 53.8 in 2000-01 to an expected average of around 52.0 in 2001-02.

Table 14

MINING ROYALTIES						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
Iron Ore ^(a)	279.0	287.2	302.8	319.0	330.5	334.0
Petroleum – excluding North West Shelf ^(b)	45.5	32.8	31.1	21.3	14.5	12.4
Alumina	62.0	62.0	62.5	63.5	64.0	64.0
Diamonds	83.0	67.5	62.0	66.0	63.0	48.5
Mineral Sands	24.5	26.0	27.0	26.5	27.5	28.0
Nickel	62.5	38.5	49.5	58.5	54.5	51.5
Gold	78.5	81.5	80.0	70.5	68.0	67.0
Other	50.6	44.0	40.0	42.5	44.0	43.5
TOTAL ROYALTIES	685.6	639.5	654.9	667.8	666.0	648.9
Petroleum – North West Shelf grant ^(c)	473.5	380.0	323.6	268.6	314.1	309.5
ROYALTIES RELATED REVENUE – INCLUDING NORTH WEST SHELF PETROLEUM GRANT	1,159.1	1,019.5	978.5	936.4	980.1	958.4
Lease Rentals ^(d)	36.0	35.5	36.5	35.5	35.5	35.5
ROYALTIES RELATED REVENUE – INCLUDING LEASE RENTALS	1,195.1	1,055.0	1,015.1	971.9	1,015.6	993.9

(a) Net amount which incorporates refunds and other payments to producers.

(b) Net amount which incorporates refunds and petroleum related payments to the Commonwealth.

(c) These monies are collected from off-shore fields under Commonwealth jurisdiction, and are classified as a Commonwealth grant for GFS purposes.

(d) Lease rentals on mining and petroleum tenements. This revenue is included in 'other revenue' under GFS classifications.

Note: Columns may not add due to rounding.

The projections for mining royalty revenue in 2002-03 and across the forward estimates period incorporate:

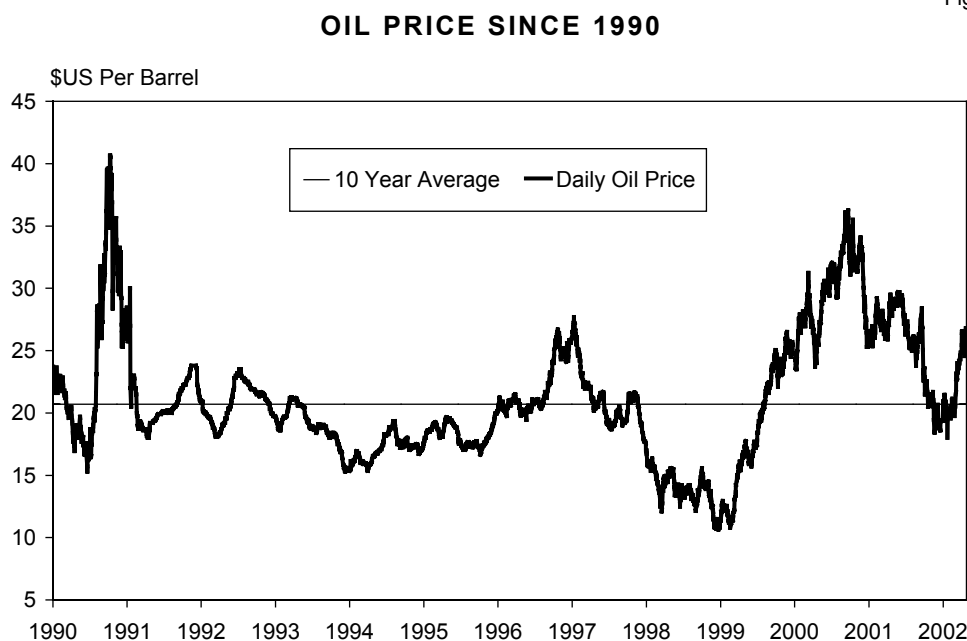
- individual mining company projections of sales, prices and operating costs supplied to the Department of Mineral and Petroleum Resources;
- an assumed \$A/\$US exchange rate across the forward estimates period of 53.5 (the average rate in the lead-up to the 2002-03 Budget); and
- no provision for any planned new mining projects, unless they have already been formally approved and committed to.

Iron Ore – Iron ore royalties are forecast to continue to increase due to ongoing growth in export volumes, partly offset by market expectations of a small price reduction of around 2% (the outcome of current contract negotiations between major producers and Asian buyers were not available at the time of the finalisation of these estimates). The estimates incorporate the impact of the 'Area C' joint venture between BHP/Billiton and the Korean steel producer POSCO, which is expected to generate royalties of around \$7 million per annum in 2002-03 and beyond.

Petroleum – Western Australia’s off-shore petroleum royalties are largely received as a specific purpose payment from the Commonwealth in relation to the North West Shelf project area. As a result of Commonwealth Grants Commission assessments, increases in petroleum royalties have a negative impact on Western Australia’s share of GST revenue grants in future years.

The decline in the petroleum royalty estimates incorporates an easing in oil prices from an assumed price of \$US23-24 per barrel on average over 2002-03 to the projected long term average of \$US20-21 per barrel in 2003-04 and thereafter. In 2004-05 and beyond, petroleum royalties will be boosted by the increased output of the 4th LNG train.

Figure 3



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 price and sale volumes are expected to stabilise in 2002-03, following disruption to market activity in the wake of the 11 September terrorist attacks. The forward estimates for 2003-04 and beyond incorporate the current output expectations for the Ashton joint venture and new Ellendale venture.

Mineral sands – Prices are expected to be generally steady in 2002-03, primarily reflecting expected stability in international demand conditions for illmenite and rutile. In the longer term, future growth is expected to be constrained by increased world supply capacity for illmenite, rutile and zircon.

Nickel – The growth in nickel royalties in 2002-03 and 2003-04 incorporates expected increases in production by the Murrin Murrin laterite project and a moderate improvement in nickel prices from low levels during 2001-02. In the longer term, excess supply is expected to place downward pressure on nickel prices.

Gold – 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 the 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. The decline in gold royalties across the forward estimates period largely reflects an expected fall in production capacity at existing operations.

Lease rentals – These mining-related charges are essentially for exploration and production licences. The estimates incorporate a 2.6% increase in annual rentals in 2002-03 to reflect CPI growth. Future growth in lease rentals revenue will be mainly determined by the level of mining exploration activity and reductions in the backlog of mining lease applications arising from native title processes.

CHAPTER 5

The Western Australian Economy

Summary

The Western Australian economy has, to this point, weathered the global downturn and the aftermath of the terrorist attacks in the United States on 11 September 2001 remarkably well. State final demand (SFD) grew by 4.0% over 2001, compared with a contraction of 1.6% over 2000.

The principal reasons behind the economy's strong performance have been substantial rebounds in business investment and dwelling investment.

Solid economic growth is, therefore, expected to be recorded in 2001-02, and gross State product (GSP) growth of 4.5% is forecast.¹ This is slightly stronger than the estimate of 4.0% growth in the 2001-02 Budget.

However, this rate of growth is not expected to be sustained, and a moderation in GSP growth in 2002-03 to 3.75% is forecast primarily due to slower growth in residential construction. Continuing strong business investment, however, should sustain high levels of economic activity.

2001-02

Economic growth in 2001-02 has been driven by strong domestic demand. SFD is forecast to grow by 6.25% in 2001-02, with growth in business investment (19.75%) and dwelling investment (12.0%) the main contributors.

¹ The economic estimates are based on data available as at mid-April 2002, which included GSP data for 2000-01, SFD, consumer price index and wage cost data to the December quarter 2001, international trade data to January 2002 and labour market data to March 2002.

This follows a fall of 1.2% in GSP (and a fall of 1.5% in SFD) in 2000-01, reflecting the negative impact of the introduction of the GST on housing and export sluggishness before 11 September 2001.

After three years of decline, the long-awaited recovery in business investment emerged in 2001. The 4th train expansion of the North West Shelf project has been the major contributor to the recovery, but, importantly, a large number of small (less than \$100 million) resource projects have also started in the last six months, ensuring a broader recovery in investment activity.

Dwelling investment, after a significant 20.9% decline in 2000-01, has grown strongly in 2001-02 due to low interest rates and the \$7,000 extension to the first home owner grant (FHOG) announced in March 2001. Additionally, household consumption has grown solidly, demonstrated in particular by strong growth in retail turnover. The reduction in interest rates has also provided a fillip to growth, boosting affordability and consumer sentiment.

In contrast to the domestic economy, net merchandise exports are forecast to detract 1.25 percentage points from GSP growth in 2001-02, with weak international economic activity reducing the demand for commodities and leading to lower international prices. At the same time, the recovery in SFD (particularly business investment) has boosted imports.

A recovery (albeit modest) in the United States economy throughout 2002 is a key assumption behind the forecasts, as is a stable Japanese economy. Any deterioration in the international economy will impact on Western Australia's growth.

Outlook

The State's economy will continue to grow robustly in 2002-03, although the rate of growth is forecast to ease to 3.75%. The main features will be a slowing in growth in State final demand to 3.25%, while net exports are expected to be stronger despite an acceleration in import growth.

Business investment is forecast to remain strong in 2002-03. The potential long term downturn in capital market conditions after the terrorist attacks in the United States on 11 September does not appear likely to eventuate and resource projects are finally beginning to obtain funds that were diverted to high technology investments over the last few years.

Dwelling investment is expected to contract by 2.75% in 2002-03, mainly because the extended FHOG has been much more successful than expected in 2001-02 in drawing forward housing starts from future years.

A rebound in external activity in 2002-03, driven by a recovery in the world economy is expected to partially offset the slowdown in the domestic economy. Export growth is expected to be around 5.25% in 2002-03, with stronger international demand for commodities offsetting a potential appreciation of the Australian dollar.

Import growth is forecast to outpace export growth at 9.0% in 2002-03, driven by the relatively import-intensive business investment sector.

Economic growth is expected to remain steady through 2003-04 with growth of 4.0% forecast. The main features, as best as can be predicted, are a lift in household consumption growth, underpinned by stronger employment growth, being offset somewhat by a slowing in business investment as major projects are completed.

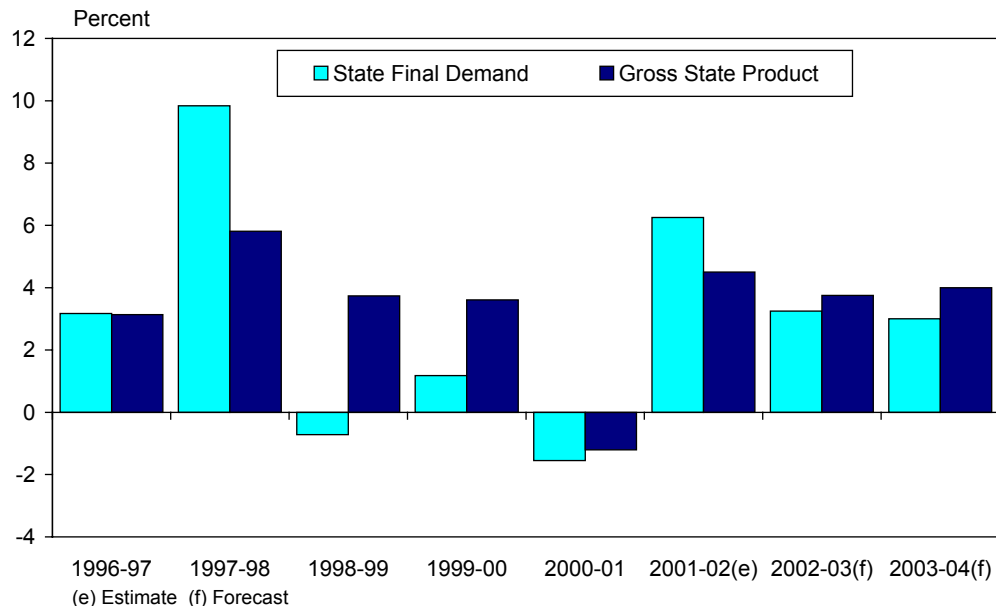
Stronger growth in the external sector is forecast for 2003-04, underpinned by a strengthening in exports (predicated on a further rise in external demand and additional domestic capacity) and a slight softening in import growth. The main reason for a strong export outlook in 2003-04 is that it may take some time for the full effect of the turnaround in the world economy to flow through to demand for the State's exports. Demand from those Asian nations dependent on growth in the United States should add to exports over this period.

For 2004-05 and 2005-06, forecasts for SFD and GSP growth are based on long-term averages. SFD is forecast to increase by 3.25% in both years, with GSP growth of 4.25%.

ECONOMIC GROWTH

Annual Growth

Figure 1



COMPONENTS OF GROSS STATE PRODUCT^(a)
Western Australia

Table 1

	2000-01 Actual %	2001-02 Estimated Actual %	2002-03 Budget Estimate %	2003-04 Forward Estimate %
Annual Average Growth				
Private				
— Household Consumption	2.0	3.75	2.75	3.75
— Business Investment	-11.1	19.75	9.5	4.0
— Dwelling Investment	-20.9	12.0	-2.75	2.0
Public				
— Consumption	1.2	2.75	2.75	2.75
— Investment	10.9	4.0	0.75	-7.5
STATE FINAL DEMAND	-1.5	6.25	3.25	3.0
External Sector				
— Exports	-1.9	-0.75	5.25	5.5
— Imports	-13.7	7.25	9.0	6.5
Net Exports	4.4	-4.5	3.25	5.0
GROSS STATE PRODUCT	-1.2	4.5	3.75	4.0
Contributions to Growth				
Private				
— Household Consumption	1.0	2.0	1.5	2.0
— Business Investment	-1.5	2.5	1.25	0.5
— Dwelling Investment	-1.5	0.75	-0.25	0.0
Public				
— Consumption	0.25	0.5	0.5	0.5
— Investment	0.5	0.25	0.0	-0.25
STATE FINAL DEMAND	-1.5	5.75	3.0	2.75
External Sector				
— Exports	-0.75	-0.25	2.0	2.0
— Imports	2.0	-1.0	-1.0	-0.75
Net Exports	1.25	-1.25	0.75	1.25
Balancing Item	-1.0	0	0	0
GROSS STATE PRODUCT	-1.25	4.5	3.75	4.0

(a) Columns may not add due to rounding.

Despite quite strong economic growth in 2001-02, employment growth has been slower than expected. Employment growth usually lags other indicators of economic conditions by one to two quarters, but the gains in SFD in the first half of 2001-02 have not resulted in an acceleration in employment growth to this point.

However, employment growth is expected to strengthen to 2.25% in 2002-03 (which equates to the creation of 21,000 jobs) as the economy settles into a period of sustained growth. This is still reasonably subdued for such a strong economic expansion and is a product of relatively strong part-time employment growth over 2001. If current trends continue it is likely that firms will choose to convert part-time employees to full-time and increase overtime for existing full-time staff rather than take on new staff where practical.

Nevertheless, unemployment should fall by around 0.25 percentage points to 6.5%, with the fall primarily related to slow growth in the labour force (Western Australia's population growth has fallen from a peak of 1.9% in 1996-97 to 1.4% in 2000-01).

MAJOR ECONOMIC AGGREGATES
Western Australia

Table 2

	2000-01 Actual %	2001-02 Estimated Actual %	2002-03 Budget Estimate %	2003-04 Forward Estimate %	2004-05 Forward Estimate %	2005-06 Forward Estimate %
Real Gross State Product Growth	-1.2	4.5	3.75	4.0	4.25	4.25
State Final Demand Growth	-1.5	6.25	3.25	3.0	3.25	3.25
Employment Growth	1.5	1.0	2.25	2.5	2.5	2.5
Unemployment Rate	6.4	6.75	6.5	6.25	6.25	6.25
Wages Growth ^(a)	3.6	3.25	3.25	3.25	3.25	3.25
Consumer Price Index Growth ^(b)	2.5	3.0	3.0	2.75	2.75	2.5
Implicit Price Deflator Growth	8.9	2.5	2.25	2.25	2.25	2.25

(a) Wages growth now refers to growth in the wages cost index (previously average weekly earnings).

(b) Does not include any impact from the tax reform package.

State Final Demand

Household Consumption

Household consumption is anticipated to grow by 3.75% in 2001-02, supported by strong growth in retail turnover and new motor vehicles. Cuts in official interest rates of 2.0 percentage points and buoyant consumer confidence over 2001 have underpinned a strong rise in household consumption so far over 2001-02. The rebound in dwelling investment is also expected to contribute to the increase in retail turnover, as homebuyers furnish their new dwellings.

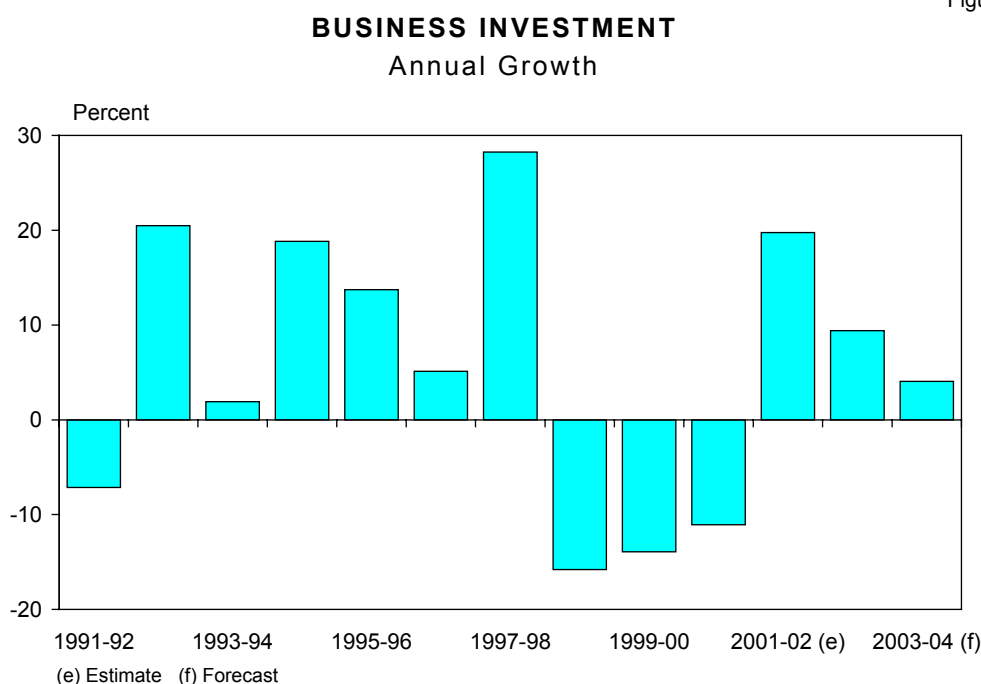
That rate of growth is unlikely to be sustained through 2002-03, with household consumption growth forecast to slow to 2.75%. The slowdown reflects a general easing in domestic demand, particularly from the forecast fall in dwelling investment which will not be helped if interest rates increase as is expected.

After this easing, growth in household consumption is again expected to strengthen in 2003-04, underpinned by an increase in employment growth and wages. A turnaround in dwelling investment should also contribute to consumption growth in that year.

Business Investment

The outlook for business investment is considerably brighter than in the aftermath of the terrorist attacks in the United States on 11 September 2001. Uncertainty in finance markets appears to have largely dissipated. In addition, there has been a resurgence in interest in “old” economy businesses, rather than the high technology companies that have starved the mining industry of capital over the last few years. Additionally, interest rates remain at very low levels, making business finance relatively low cost.

Figure 2



After falling for three successive years, business investment grew 20.9% over 2001. The 4th train expansion of the North West Shelf gas project is the largest resource project currently under construction, followed by the completion of the West Angelas iron ore mine.

Also, a large number of small (less than \$100 million) mining and resource projects have started in 2001-02. The lack of small projects was a feature of the investment slump between 1998-99 and 2000-01.

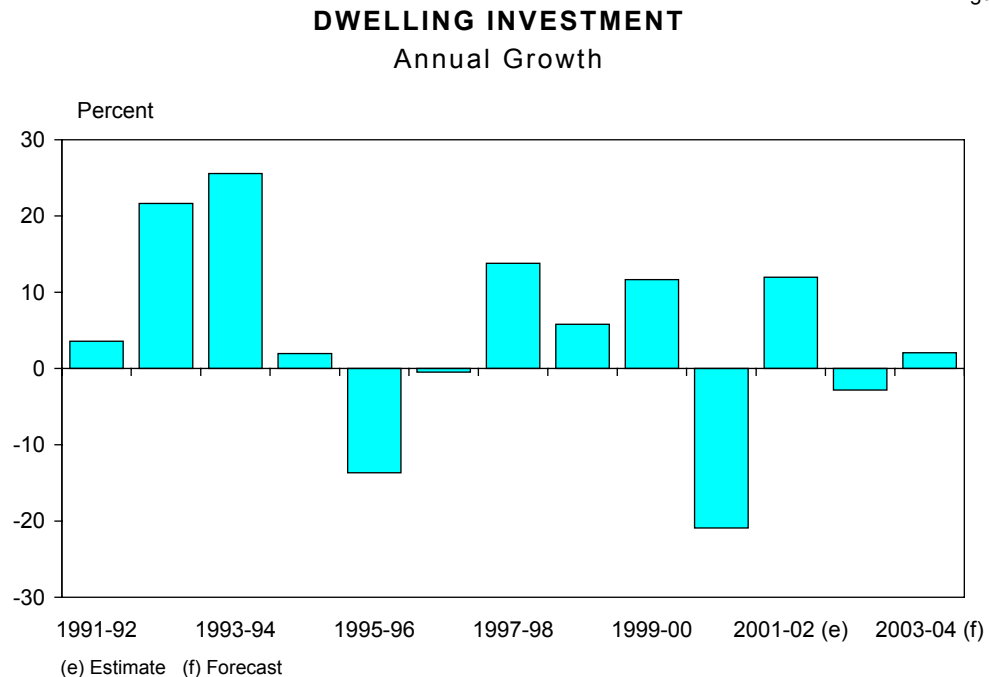
In the non-mining sector, construction of the new Woodside office, the David Jones stores upgrade and the Perth Convention Centre are also currently driving growth.

The outlook across 2002-03 looks positive, with a large number of projects confirmed or highly likely, such as the recently confirmed \$1.1 billion construction of the BHP/Billiton Mining Area C iron ore mine. Overall, business investment is forecast to grow by 19.75% in 2001-02 and by 9.5% in 2002-03, before moderating to 4.0% growth in 2003-04.

Dwelling Investment

Dwelling investment in the Western Australian (and Australian) economy is currently strong, where activity has been stimulated by the extended FHOG and a series of interest rate falls.

Figure 3



The extent which the current high levels of investment represent demand bought forward rather than pent-up demand is uncertain. However, given the strong growth in dwelling investment this financial year (dwelling investment increased by 22% in the September quarter 2001 and increased slightly again in the December quarter 2001), there is likely to be some reduction in activity in 2002-03.

Overall, dwelling investment is forecast to decline by 2.75% in 2002-03. While the secondary homebuilder market should remain resilient, the likely absence of first homebuilders will be felt by the industry. In historical terms, this is a very modest decline compared with other dwelling downturns over the last 15 years.

While a modest increase in interest rates has been assumed, if interest rates are raised substantially in 2002, then the downturn in the dwelling sector could be more pronounced than forecast.

In 2003-04 dwelling investment should grow moderately by 2.0%, fuelled by a growing economy and continued low interest rates (in historical terms).

In the out-years, dwelling investment should return to its long run trend as the impact of the introduction of the GST and the extended FHOG fade.

Public Activity

Government consumption (ie by Federal, State and local governments) is forecast to rise steadily over the forecast period. Moderate growth of 2.75% is expected in 2001-02, 2002-03 and 2003-04.

Public investment is anticipated to be more volatile, largely because it tends to occur in sizeable discrete lumps coinciding with major projects. After increasing by an estimated 4.0% in 2001-02, public investment is forecast to rise by 0.75% in 2002-03. A fall of 7.5% is forecast in 2003-04.

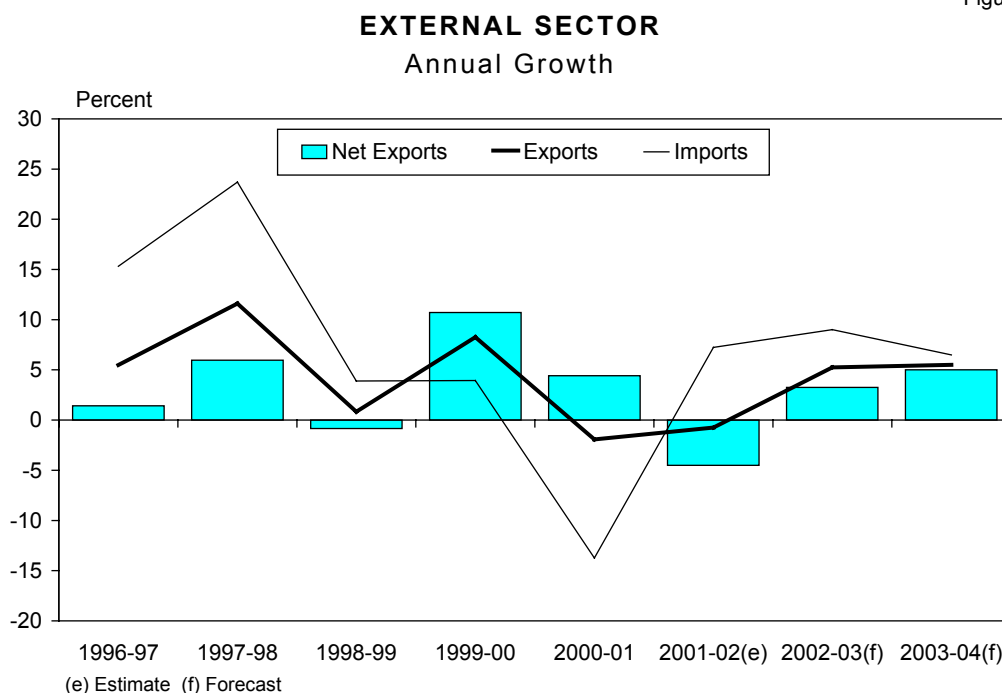
Net Exports

Net exports are forecast to fall by a substantial 4.5% in 2001-02, reflecting weak exports and solid growth in imports. Business investment and household consumption have buoyed import growth, while weak external demand has reduced exports.

Underpinned by a recovery in exports, net exports are forecast to rise by 3.25% in 2002-03, with strong export growth partially offset by robust growth in imports (due to strong growth in business investment).

In 2003-04, a further acceleration in exports and a slight reduction in the rate of import growth are forecast, which should lead to growth in net exports of 5.0%.

Figure 4



Exports

Western Australian exports have been dampened by the downturn in world economic growth in 2001-02. The value of Western Australia's exports to Singapore, Japan and the United States in particular is currently much lower than a year ago. In the December quarter 2001, Western Australia's real exports fell by a substantial 5.0%.

If the world economy recovers as expected this will stimulate Western Australia's exports. However, while signs of a pick-up in economic growth are evident in the United States, it may still be some time before Western Australia's export growth responds. The reason for the potential delay is that much of the expected boost to the State's exports is from the State's Asian trading partners and while exports from these countries to the United States and other markets may increase reasonably quickly, it may be some time before this stimulus flows through to consumer demand and investment in these economies and, therefore, to demand for Western Australian commodities.

Nevertheless, exports to the UK and Hong Kong have demonstrated robust growth over the past year, and exports to China have grown strongly over the past two years. Overall, a modest fall of 0.75% in exports is expected over 2001-02.

A recovery in international demand, offsetting a potential appreciation of the Australian dollar, is forecast to drive a recovery in exports in 2002-03, with growth of 5.25% expected.

Also, increased production capacity from iron ore, condensate and diamond expansions will enable increased demand to be met. Furthermore, agricultural exports are set to increase in 2001-02 following a surprisingly strong season in 2000-01. After a poor start to the season, the grain crop reached its fourth highest level on record, and a return to normal seasonal conditions should see overall agricultural production increase even further in the coming year.

Continued export growth is forecast in 2003-04 (with growth of 5.5%), reflecting the expectation of a pick-up in world growth in that year and new resource projects coming on line. Gold projects, in particular, generally have a short construction life and there are a large number of projects that are likely to become more feasible with a sustained increase in the world gold price.

The first delivery of LNG from the expansion of the North West Shelf is anticipated in 2004-05, and is expected to make a substantial contribution to exports in that year.

A decline in oil production is the main detractor from growth, as current oil projects reach the final years of production.

Imports

Reflecting the surge in business investment, imports are expected to grow strongly over the forecast period. In 2001-02, strong growth in household consumption as well as business investment is anticipated to underpin import growth of 7.25%.

Growth of 9.0% is forecast in 2002-03, due primarily to imports of large capital items associated with the North West Shelf Project expansion including turbines for the compressors and the second trunkline. In 2003-04, imports of capital items are expected to remain strong and healthy growth in household consumption is also expected to underpin import growth.

Labour Market

Employment

Despite improved economic conditions in the first half of 2001-02, the employment response has been relatively weak.

The current slow rate of growth is a function of the slowdown in the Western Australian economy in 2000-01, rather than the solid growth now being experienced. When business conditions improve after a downturn, firms are usually very reluctant to hire new staff, who they must assess and train, until they are certain the improvement in conditions is permanent, and instead will use any under-utilised resources in terms of increased hours worked and overtime.

Part-time employment has accounted for all of the employment generated over the past year, again a function of the cautiousness of employers. Over the past year, part-time employment grew by 5.5%, compared to a contraction in full-time employment of 1.1%.

As such, employers are expected to upgrade part-time workers to full-time status and increase hours worked to the extent practicable before putting on additional employees. Employment growth is therefore forecast to increase only slowly in 2001-02 (by 1.0%) before accelerating to 2.25% in 2002-03.

In 2003-04 and beyond, when the economy is forecast to gather momentum for a sustained period, employment growth should strengthen to 2.5% per annum.

Unemployment

Although employment growth is expected to be modest in 2001-02, the unemployment rate is estimated to increase by only 0.25 percentage points to 6.75% (in annual average terms), mainly because Western Australia's rate of population growth is currently quite low (1.4% in 2000-01 compared with a peak of 1.9% in 1996-97) and it will take some time for net migration to the State to respond to increasing employment opportunities.

The unemployment rate is forecast to fall back to 6.5% in 2002-03 as employment growth outpaces labour force growth. It is then forecast to fall further to 6.25% in 2003-04 as strong employment growth is maintained, offsetting growth in the labour force (particularly from a resurgence in interstate migration) expected as a consequence.

Prices

Consumer Price Index

Consumer prices are likely to continue increasing at a strong rate in coming quarters, but should remain within the Reserve Bank of Australia's (RBA's) target range overall.

There are a number of pressures currently exerting upward pressure on prices. For instance, insurance premiums have increased after the consolidation in the industry following the collapse of HIH and will flow through to prices as policies are renewed. Similarly related to a major business failure, airfares are likely to increase with the reduction of competition flowing from the exit of Ansett from the market.

Spurred by strong international demand, and with other suppliers being plagued by concerns about the health of their product (in particular foot and mouth disease and mad cow disease), prices for agricultural items are increasing in the domestic economy.

The CPI is estimated to increase by 3.0% in 2001-02, and forecast to grow at the same rate in 2002-03, which is at the top end of the RBA's target range. While the RBA is likely to take action to reduce the inflation rate back within the band, the timing will depend on the recovery in world economic growth and the strength of the Australian economy. Over the out-years, inflation is anticipated to remain within the RBA's band, increasing at around 2.75% per annum, before settling at about 2.5% per annum by the middle of the decade.

Wages

Wages growth² has moderated in recent quarters following strong increases after the introduction of the GST. Nevertheless, annual growth in wages was still a strong 3.8% over 2001.

The most likely reason for the slowing in wages growth in the first half of 2001-02 is that the economic recovery has not generated strong employment growth. Instead, cautious employers have elected to increase the use of existing labour resources by increasing the hours of existing workers or taking on part-time employees – both of which do not fuel underlying wage pressures.

It is anticipated that wages growth will moderate in the remainder of 2001-02 in response to slow employment growth. Nevertheless, the annual rate of growth in nominal wages in 2001-02 is still expected to be relatively robust, due to gains in the first part of 2001-02.

² 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.

Rising employment growth, partly fuelled by the recent moderation in wages should see underlying wages growth accelerate as 2002-03 progresses, with growth of 3.25% forecast in this year.

Growth in wages is forecast to continue at a rapid 3.25% in 2003-04 and the out-years as strong employment growth tightens labour market conditions.

Implicit Price Deflator³

The deflator is expected to increase by 2.5% in 2001-02, before declining to its long term growth rate of around 2.25% per annum in the out-years.

Risks to the Outlook

International Conditions

As a small export orientated economy, conditions in the economies of Western Australia's major trading partners have a substantial impact on the State's exports, and, to a lesser extent, imports.

While signs continue to be positive, the outlook for the United States economy is important for the prospects of the Western Australian economy. Any faltering by the United States economy will flow through to our exports, both directly in terms of exports to the United States and indirectly through our Asian trading partners that are heavily dependant on the United States market.

Also of particular concern is the economic situation in Japan. There appear to be no simple solutions to the problems being experienced there, and it may be some years before conditions improve. While no recovery in the Japanese economy has been factored into the forecasts, and growth in other markets such as China and South Korea should help balance the weakness in the Japanese economy, any further decline in Japanese activity will have some negative impact on the State's exports.

The Australian Dollar

The \$A fell consistently over 2000, in defiance of the historical relationship between high commodity prices and a strong \$A. The \$A generally stabilised over 2001 and has been trading in a band of \$US0.50 to \$US0.53 so far in 2002.

As is accepted forecasting practice, the \$A is assumed to remain at around its recent level over the forecast period. There is a very real risk that the level of the \$A will appreciate from its current low levels and reduce Western Australia's price competitiveness on world markets and lower \$A income from exports denominated in foreign currencies.

³ The implicit price deflator or GSP deflator is a measure of the total price of Western Australian production (GSP), and as such is a wider measure of prices in the Western Australian economy than the CPI.

Investment Climate

There are a number of issues impacting on the certainty of investment conditions in Western Australia.

The change in the treatment of accelerated depreciation by the Commonwealth Government has substantially increased the costs of undertaking long life capital intensive investment. While some projects are likely to be eligible for special project assistance, the costs of negotiating this assistance and the associated uncertainty may deter some investment.

The current low level of mineral exploration in Western Australia is also a concern (although a decline in exploration over the past four years is not unique to Western Australia). Without exploration, new mineral discoveries are likely to be hindered, reducing business investment in the future. While uncertainty connected with native title remains a risk, the Government has improved this by implementing an approach to native title based on negotiation rather than litigation.

Another risk is the concern over future greenhouse gas requirements, which may lead to companies undertaking exploration and development in countries without any restrictions. To this end, the Government recognises that the State's interests are best served by protocols that can have a universal application and will continue to work with the Commonwealth Government on this issue.

Commonwealth Policies

As the Commonwealth Government has substantial taxation and expenditure programs, decisions by the Commonwealth Government can impact on the State's economic performance. New policies may be announced in the Commonwealth's Budget (due on 14 May) which have not been incorporated in these forecasts. There are also changes to policies between budgets. For example, changes to the FHOG scheme have had large impacts on dwelling investment activity over the past year.

CHAPTER 6

Federal Affairs

Review of Commonwealth-State Funding

An independent *Review of Commonwealth-State Funding* was commissioned in 2001 by the governments of New South Wales, Victoria and Western Australia to examine the methods used to allocate Commonwealth grants between the States. The review is being conducted by economists Professor Ross Garnaut and Dr Vince FitzGerald, and has involved extensive community consultation.

The review reflects significant concerns held by the three States about the fairness, efficiency and transparency of current processes for distributing Commonwealth grants between the States. These grants total approximately \$50 billion per annum, or nearly one half of States' total revenues.

Issues for the Review

The review is covering the major features of current Commonwealth-State funding arrangements, which include:

- The horizontal fiscal equalisation process used by the Commonwealth Grants Commission to allocate GST revenues among the States; and
- The arrangements for Commonwealth payments to the States for specific purposes, such as education, health, welfare and roads.

Horizontal Fiscal Equalisation

The allocation of GST grants between the States (totalling nearly \$30 billion per annum) is on the basis of *horizontal fiscal equalisation* (HFE) principles, as implemented by the Commonwealth Grants Commission.

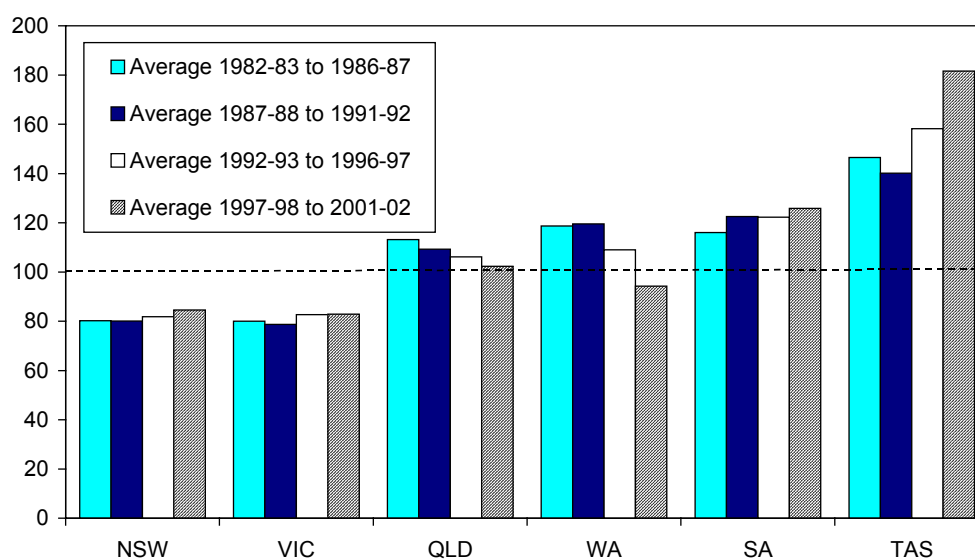
HFE in one form or another has been a feature of Commonwealth grant arrangements since the 1930s. However, the current comprehensive arrangements only commenced in the early 1980s.

HFE takes into account the different costs faced by State governments in providing all major State services, and their different capacities to raise revenues from their own sources (based on all sources actually tapped into by States). In an attempt to place all States on a level playing field, Commonwealth grants are allocated to offset these differences, to the extent that they can be identified and are not simply due to differences in State policies.

As indicated in Figure 1, Western Australia's funding share has declined significantly over the years, mainly reflecting a reduction in grants to offset the high growth in Western Australia's capacity to raise royalties. However, it is the Western Australian Government's view that the Grants Commission has not adequately recognised the costs faced by Western Australia in developing its revenue base and supporting the State's economic growth.

Figure 1

CHANGE IN RELATIVE PER CAPITA SHARES OF GENERAL PURPOSE GRANTS



Note: An index number of less than 100 denotes a share of grants that is below the State's share of national population and vice versa.

Source: Background Paper, Review of Commonwealth-State Funding

Some of the issues raised by Professor Garnaut and Dr FitzGerald in their Interim Report (released on 10 April) include:

- Does the system blunt the incentives for State governments to pursue development, given that the fiscal benefit of new revenue sources that may result will be largely "equalised away" by the Grants Commission?
- In focusing on recurrent costs and revenues, is the system adequately coming to grips with the infrastructure needed for growth?
- Does the system, which is partly based on demonstrating States' cost disabilities in delivering services, reduce incentives for efficient government?

- Does the system effectively promote equitable outcomes for all Australians, wherever they live (eg. HFE does not address differences in the level of services provided in cities compared to rural/remote areas)?

On a practical level, the system is also very complex, with annual documentation running to nearly 2,000 pages, and only a handful of specialists in each State having a good understanding of how it works.

Specific Purpose Payments

The Commonwealth provides around \$20 billion per annum in grants for specific purposes to the States.

The number of specific purpose payments has grown substantially over time, from only 20 in the late 1950s to approximately 120 in 2001-02. The States' increasing dependence on specific purpose payments is shown in Figure 2. The Commonwealth has also placed increasing controls on the use of these grants, and on the use of States' own revenues (eg. by requiring matching funding).

SPPs AS A PERCENTAGE OF TOTAL PAYMENTS TO STATES

Figure 2



Notably, in submissions to the *Review of Commonwealth-State Funding*, former Prime Ministers Malcolm Fraser and Bob Hawke both recognised the need for reform of specific purpose payments. They suggested that the Commonwealth should refocus on broad programs and national priorities, rather than continuing to micro-manage State activities.

In their Interim Report, Professor Garnaut and Dr FitzGerald pointed to the complexity of the current system, with most specific purpose payments having their own unique set of rules and processes of administration, and with widely varying methods for assessing each State's needs. They noted that:

- This complexity blurs responsibilities between Commonwealth and State governments and makes for high compliance costs for people and organisations seeking to utilise services funded by governments in areas of shared responsibility; and
- There is wide support for consolidating specific purpose payments into a small number of sectoral programs with jointly developed and agreed broad objectives, with performance to be monitored without Commonwealth involvement in management of the programs.

GST and Budget Balancing Assistance

Under the Intergovernmental Agreement that accompanied the introduction of the GST, the Commonwealth passes on all of its GST revenue collections to the States as general purpose grants. The distribution between States is based on recommendations by the Commonwealth Grants Commission.

The Commonwealth is also required to “top up” the 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 1 shows the calculation of Western Australia's budget balancing assistance for the period 2000-01 to 2005-06.

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.

This amount was intended to be calculated each year using methods agreed during the development of the Intergovernmental Agreement, and to be approved through a process involving the Ministerial Council of Treasurers (annual Ministerial Council meetings have replaced the previous financial Premiers' Conferences).

However, on the eve of the recent Ministerial Council meeting, the Commonwealth Treasurer unilaterally changed the rules by removing the escalation for inflation of the component of the GMA that relates to foregone petroleum safety net revenues.¹ The Commonwealth has effectively shifted onto the States some of the cost of its earlier policy decision to discontinue indexation of fuel excise.

CALCULATION OF BUDGET BALANCING ASSISTANCE
Western Australia

Table 1

	2000-01 Actual \$m	2001-02 Estimated Actual \$m	2002-03 Budget Estimate \$m	2003-04 Forward Estimate \$m	2004-05 Forward Estimate \$m	2005-06 Forward Estimate \$m
STATE REVENUES FOREGONE						
Financial assistance grants	1,623.2	1,669.7	1,759.3	1,777.9	1,846.9	1,899.3
Safety net revenues (including fuel)	878.7	1,009.8	1,004.2	1,028.0	1,052.4	1,075.0
Financial institutions duty	0.0	129.3	145.8	150.7	155.8	161.0
Debits tax	0.0	0.0	0.0	0.0	0.0	114.0
Marketable securities duty ^(a)	0.0	23.9	30.7	34.3	37.9	42.1
Wholesale sales tax equivalents ^(b)	19.0	19.0	19.0	-	-	-
plus REDUCED REVENUES						
Reduction in gambling taxes	53.3	57.9	61.0	62.3	63.0	63.9
plus Interest costs (on changed cashflows)	2.3	0.9	1.2	-	-	-
plus ADDITIONAL EXPENDITURES						
First Home Owners Scheme	117.8	152.7	112.3	122.3	125.2	127.7
GST administration costs	97.8	51.1	55.2	56.5	57.8	59.3
minus REDUCED EXPENDITURES						
Off road diesel subsidies	145.8	175.3	170.0	173.0	176.2	179.5
Low alcohol beer subsidies	-	-	7.8	8.0	8.2	8.4
Savings from indirect tax reform ^(c)	50.1	53.4	56.9	60.6	64.6	68.9
minus Growth dividend – State revenues^(d)	8.5	11.5	15.6	20.0	24.7	30.0
Equals						
GUARANTEED MINIMUM AMOUNT	2,587.6	2,874.2	2,938.3	2,970.5	3,065.3	3,255.5
GST REVENUE^(e)	2,374.6	2,562.1	2,821.4	2,936.0	3,108.3	3,269.1
BUDGET BALANCING ASSISTANCE	213.0	312.1	116.9	34.5	0.0	0.0

(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.

(e) The GST commenced from 1 July 2000, but because GST is paid monthly or quarterly in arrears, the 2000-01 GST collections only cover 11 monthly and 3 quarterly payments. Consequently, a significant increase in GST revenues is expected in 2001-02, when the first full year of collections occurs.

Note: Columns may not add due to rounding.

¹ Safety net revenues were excises collected by the Commonwealth on the States' behalf to replace State taxes on petroleum, tobacco and liquor after these were abolished following a High Court decision in 1997.

The States consider that the Commonwealth has breached the spirit, if not the letter, of the Intergovernmental Agreement. The estimated costs to the States of the funding cuts, which are manifested in a reduction in the States' budget balancing assistance payments, are shown in Table 2. For Western Australia, the cost is estimated to be \$18.3 million in 2002-03 and \$83.4 million in total (there is no cost when the State is no longer dependent on budget balancing assistance).

IMPACT OF COMMONWEALTH FUNDING CUT

Table 2

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2001-02	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2002-03	-41.8	-30.1	-24.9	-18.3	-10.4	-3.9	-2.1	-2.8	-134.3
2003-04	-61.5	-44.2	0.0	-26.8	-15.3	-5.8	-3.1	-4.1	-160.8
2004-05	-82.1	-59.0	0.0	0.0	-20.4	0.0	-4.2	0.0	-165.7
2005-06	-97.8	-70.3	0.0	-38.3	-24.4	-2.9	-5.0	0.0	-238.7
2006-07	-116.8	-83.1	0.0	0.0	0.0	0.0	0.0	0.0	-200.0
2007-08	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	-400.0	-286.7	-24.9	-83.4	-70.6	-12.6	-14.5	-6.9	-899.6

Source: Commonwealth Treasury.

In another new development, the Commonwealth has agreed to take over the States' low alcohol beer subsidies (which were also part of the old safety net arrangements), from 1 July 2002. The savings to the States will be deducted from their GMAs, so there will be no net financial benefit to the States in the short term.

Table 3 shows the latest estimates of the impact of the GST-based funding arrangements, after including the losses from the petroleum safety net revenue indexation cut. This Table shows losses while States are still receiving budget balancing assistance (reflecting the funding cut associated with fuel). The Commonwealth has published figures showing States breaking even while receiving budget balancing assistance (because the Commonwealth has not treated the changes associated with fuel as a loss to the States).

ESTIMATED IMPACT OF TAX REFORM

Table 3

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
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	+99	-27	-15	-6	-3	-4	-61
2004-05	-82	-59	+258	+11	-20	+8	-4	+11	+122
2005-06	-98	-70	+84	-30	-24	-1	-5	+19	-126
2006-07	-117	-83	+277	+68	+41	+28	+6	+41	+261
2007-08	+201	+111	+510	+197	+123	+57	+24	+64	+1,286

Notes: 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 by 2005.

Source: Based on parameters agreed by Heads of Treasuries, and funding cut advised by the Commonwealth.

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 also benefits at a relatively early stage 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).²

Table 3 shows Western Australia reverting to a loss in 2005-06. This is because of the scheduled abolition of Debits Tax in that year. However, because the Commonwealth is using a GMA reduced by the cut to foregone petroleum safety net revenues, Western Australia is not expected to receive budget balancing assistance in that year.

It should be noted that Table 3 only indicates each State's estimated financial position compared to the pre-tax reform arrangements. Not reflected in these estimates is the expectation that the States' share of total Commonwealth and State revenues will continue to decline, even in the longer term (because of limited growth in both States' own source revenues and specific purpose payments from the Commonwealth).³

Commonwealth Grants Commission

As discussed earlier, the Commonwealth Grants Commission makes recommendations on the distribution of general purpose grants (now mainly GST revenues) between the States using the HFE principle. The starting point under this principle is that each State receives its population share of general purpose grants. However, that share is then adjusted down (up) to the extent that:

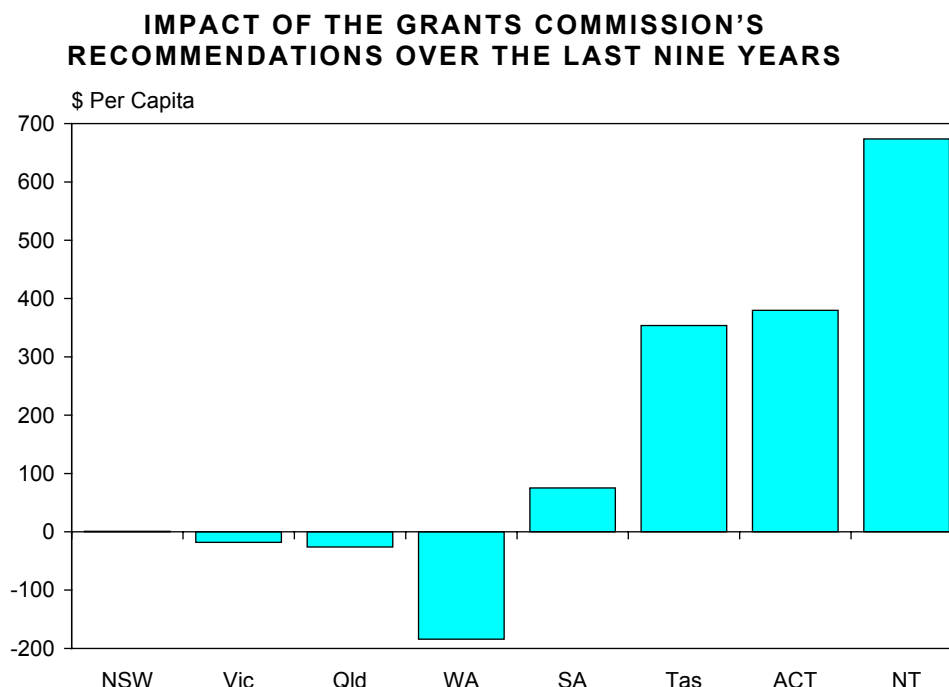
- The State is able to raise more (less) revenue from its own sources than other States.
- It is less (more) costly to provide services to the same standard as in other States.

Reflecting the Commission's recommendations, Western Australia's funding share in 2002-03 is \$354 million less than nine years ago. Western Australia's losses over this period are compared to changes in other States' grant shares in Figure 3.

² Only New South Wales and the Northern Territory collected accommodation taxes.

³ Source: Paper coordinated by the Northern Territory and presented to the March 2001 Ministerial Council of Treasurers meeting.

Figure 3



The decline in Western Australia's share of grants incorporates the increasing strength of the State's resources sector and economy generally, compared with the rest of Australia. The accompanying growth in Western Australia's capacity to raise revenues from its own royalties and taxes has led to a redistribution of grants by the Grants Commission to the weaker States.

Western Australia is concerned that the Commission does not adequately recognise the cost of providing infrastructure (eg. schools, hospitals and roads) to support the State's strong population and economic growth, or give credit for government policies (eg. provision of common-use infrastructure) which promote resource developments and strengthen the State's economy generally.

We are also concerned about the Commission's measurement of revenue raising capacities in some areas, such as land revenue and stamp duty on property transactions.

The independent *Review of Commonwealth-State Funding* commissioned by Western Australia, New South Wales and Victoria is considering alternatives to the horizontal fiscal equalisation principle, as well as broader conceptualisations of that principle.

2002 Update

The 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 Commission's recommended changes are considered by the Ministerial Council of Treasurers in March each year.

The Commission's final "2002 Update" recommendations (to apply in 2002-03) result in an increase in Western Australia's funding share of about \$10 million (partly reflecting relatively large recent increases in property market related revenues in New South Wales and Victoria). However, this increase does not significantly offset past falls in our grant share, and the results also indicate that the downward trend in Western Australia's share over the past decade will resume in future years.

2004 Review

In addition to the annual updates, the Commission undertakes a major review of the methods it uses to implement fiscal equalisation every five years. The Commission's latest review is to be completed by February 2004.

Western Australia recently provided the Commission with a major submission regarding our cost of providing services and capacity to raise revenue, relative to other States, in selected key areas. This submission was prepared in consultation with a range of State agencies, and can be viewed on the Department of Treasury and Finance website.

The Commission will be visiting Western Australia in late July/early August 2002. This will involve workplace discussions with agencies at various metropolitan and regional locations. The visit gives Western Australia the opportunity to highlight our particular circumstances, and concerns with the Commission's existing methods.

Table 4

PROGRAM OF MAJOR EVENTS FOR THE 2004 REVIEW

2002	
5 April	Main submissions due to be provided to the Commission
Mid-April	Copies of all States' and Territories' submissions circulated
31 May	Commission circulates discussion paper on indigenous service issues
26 July	Commission circulates additional discussion papers on other issues
29 July – 2 August	Commission's Work Place Discussions in Western Australia
23 October	Commission convenes general conference of all parties
20 November	Commission convenes technical conference of all parties
2003	
28 February	Rejoinder submissions due to be provided to the Commission
March	Commission convenes bi-lateral discussions with all parties
July	Commission circulates preliminary results/calculations
August	Commission convenes general conference on preliminary results
September	Final submissions due
2004	
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 National Competition Policy permits restrictions on competition where these can be shown to be in the public interest. There are a range of economic, social and environmental factors that need to be considered in making a public interest judgement.

A report by the Industry Commission in March 1995 estimated substantial benefits to the national economy and government revenues from proposed 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 annum from 1997-98, \$400 million per annum from 1999-2000 and \$600 million per annum 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.

Subject to a favourable assessment by the National Competition Council and subsequent approval by the Commonwealth Treasurer, Western Australia's competition payments are expected to rise from \$71.1 million in 2001-02 to an estimated \$72.6 million in 2002-03.

Specific Purpose Payments

Specific purpose payments (SPPs) are grants from the Commonwealth Government to the States and Territories for specified activities (such as hospitals, roads, housing, education etc). They have conditions attached to their use that are usually spelt out in individual agreements. SPPs comprise about 45% of total Commonwealth payments to the State, or about 20% of the State's total revenue.

Excluding payments through the State (for local governments and private schools) and North West Shelf royalty payments (which the Commonwealth reports as an SPP payment to Western Australia, because of the Commonwealth's constitutional jurisdiction over offshore areas), SPP funding to Western Australia is expected to decline by 1.1% in 2002-03.

While there are more than 120 SPPs in total, covering a broad range of State government functions, the majority of SPP funding is concentrated in the core areas of health, education, housing, training and roads. The 15 largest SPPs to Western Australia are listed in Table 5.

SPECIFIC PURPOSE PAYMENTS^(a)
Western Australia

Table 5

	2001-02 estimates		2002-03 forward estimates	
	\$m	Percent of total SPPs to WA	\$m	Percent of total SPPs to WA
Australian Health Care Agreement	660.8	41.0%	689.0	43.2%
Government Schools	174.8	10.8%	175.5	11.0%
Australian National Training Agreement	91.5	5.7%	103.8	6.5%
Housing – General Grant	80.3	5.0%	79.5	5.0%
Home and Community Care	60.0	3.7%	65.4	4.1%
Roads – National Highways	65.0	4.0%	62.1	3.9%
Commonwealth-State Disability Agreement	39.8	2.5%	39.8	2.5%
Highly Specialised Drugs	21.1	1.3%	23.0	1.4%
Public Health Outcome Funding	24.1	1.5%	19.6	1.2%
Indigenous Housing	15.9	1.0%	15.9	1.0%
Supported Accommodation Assistance	15.2	0.9%	15.7	1.0%
Blood Transfusion Services	10.2	0.6%	11.2	0.7%
Legal Aid	9.7	0.6%	10.5	0.7%
FBT Assistance for Public Hospitals	11.5	0.7%	10.4	0.7%
Multi-purpose Health Services	9.1	0.6%	9.4	0.6%
Other ^(b)	324.6	20.1%	264.3	16.6%
TOTAL SPPs	1613.5	100%	1595.1	100%

(a) Excludes:
- payments through the State (for local government and private schools); and
- royalty payments paid to Western Australia through the Commonwealth.

(b) Comprises a large number of small specific purpose payments.

The distribution of SPPs between the States is based on a variety of arrangements including population shares, Commonwealth discretionary allocations or various formulae that attempt to reflect relative costs or demand.

In many cases SPPs only comprise a relatively small portion of the total amount the State spends on particular services. For example, in health and education SPPs finance approximately 30% and 10% respectively of State expenditures.

Under the Intergovernmental Agreement on the GST-related tax reforms, the Commonwealth has undertaken not to cut aggregate SPPs as part of the reform process. The Intergovernmental Agreement states that this is “consistent with the objective of the State and Territory Governments being financially better off under the new arrangements”.

An assessment undertaken by the Western Australian Department of Treasury and Finance in March of this year for the Ministerial Council of Treasurers meeting indicated that total SPP funding had increased in real per capita terms between 1999-2000 and 2001-02. However, it is of some concern that SPP funding is expected to decline (in real per capita terms) in 2002-03.

SPP Reform

SPPs often impede the achievement of effective service delivery outcomes by restricting the States' budget and policy flexibility. This is particularly the case where SPPs:

- Focus on resources expended by the State (including from its own sources - under Commonwealth imposed matching conditions), rather than the results of the activity;
- Have escalation arrangements that do not accurately reflect the demand and cost pressures in delivering services over time; and
- Include the Commonwealth in project approval and consultation mechanisms involving multi-tiered committees and advisory systems and joint Ministerial approvals.

The Western Australian Department of Treasury and Finance is coordinating efforts by State and Territory Treasuries (in consultation with the Commonwealth) to improve SPP arrangements.

Reform initiatives undertaken to date by Treasuries include the development of "best practice" principles and guidelines for SPP agreements and a new national database on all SPPs (which is currently undergoing major enhancements so that it can be better used as an analytical tool). The guidelines have been adopted by all States and Territories (including in Western Australia), but are still being considered by the Commonwealth Government.

Implementation of the best practice principles should improve service delivery by shifting the focus from money spent (or other inputs) to the achievement of outcomes or results. This would allow the States more flexibility to tailor programs to suit local needs, avoid unnecessary duplication of functions between governments, and simplify administration and reporting arrangements.

At the same time as endorsing the best practice principles, the Western Australian Government has approved a new strategic framework for negotiating SPPs with the Commonwealth. Amongst other things, this encompasses enhanced central agency coordination and support to line agencies, and a systematic process for Cabinet scrutiny of SPPs, to ensure a whole-of-State Government approach.

Issues in Major SPPs

Three major SPPs will expire by the end of the 2002-03 financial year, namely the Commonwealth-State Disability Agreement (due to expire on 30 June 2002), the Australian Health Care Agreement and the Commonwealth-State Housing Agreement. Together these three SPPs represent over 50% of total SPP funding "to" the States. Western Australia is also currently finalising negotiations with the Commonwealth on a new SPP for salinity management.

Commonwealth-State Disability Agreement

The Commonwealth-State Disability Agreement (CSDA) helps to 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 CSDA funding is estimated to be \$40 million in 2002-03, representing 15% of the State's total expenditure on disability services.

Major issues in negotiations on the new CSDA (which are now well advanced) have included:

- Funding for unmet needs. At the time of writing (prior to the release of the Commonwealth's 2002-03 budget) the Commonwealth had not committed to maintaining the unmet need funding provided under the existing CSDA (which has been more than matched by Western Australia from its own sources).
- Inadequacies in the current cost indexation and growth funding arrangements.
- The development of a realistic and nationally consistent set of outcome/output based performance indicators for all jurisdictions to report against.

Australian Health Care Agreement

The aim of the Australian Health Care Agreement (AHCA) is to help 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.

Western Australia's AHCA funding is estimated to be \$689 million in 2002-03, representing about 25% of Western Australia's total expenditure on public health (primarily public hospitals).

AHCA funding is adjusted each year for population growth (including the impact of population ageing), increasing hospital utilisation and cost increases.

In addition to the issue of overall funding levels and escalation arrangements, key issues for the new agreement will include links to private health insurance utilisation, and the interface with aged care and general practitioner services.

Commonwealth-State Housing Agreement

The Commonwealth-State Housing Agreement (CSHA) helps pay for the provision of public housing assistance to people whose needs for appropriate housing cannot be met by the private market.

Western Australia's share of CSHA funding is estimated to be \$106 million in 2002-03, representing 20% of total expenditure on public housing in this State.

Major issues in negotiating the new agreement are likely to include the inadequacy of Commonwealth funding (including the 1% “efficiency dividend” deducted each year by the Commonwealth under the current agreement), the requirement for States/Territories to match the Commonwealth’s base funding (currently on a \$1:\$2 basis), and linkages between the CSHA and other social programs (eg. supported accommodation assistance, disability services).

Salinity Management

The Commonwealth has offered the States funding totalling \$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 has indicated that Western Australia’s share would be \$158 million.

However, 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. For example, Western Australia has already been spending in the order of \$40 million per annum on salinity management. Western Australia is continuing to negotiate with the Commonwealth to enable at least a portion of existing State expenditure on salinity to be counted as matching funds.

Other issues encountered in the negotiation of *National Action Plan* funding with the Commonwealth have revolved substantially around the Commonwealth’s insistence on mechanisms that maximise its influence on specific expenditure priorities in this State (eg. joint approval processes). Together with the matching requirements, such intrusion by the Commonwealth is inconsistent with the general SPP best practice principles.

Fiscal Subsidies within the Federation

States often compare their allocation of Commonwealth grants with other benchmarks (such as population shares), to determine the extent to which they are subsidising or, being subsidised by, the other States in the Federation.

However, such grant comparisons present only part of the story. The Commonwealth also provides benefits directly to State residents through its other outlays (eg. Medicare benefits, unemployment benefits and pensions). In addition, State residents and businesses contribute to the Commonwealth’s coffers by paying Commonwealth taxes.

Each year, the Western Australian Department of Treasury and Finance assesses the net redistribution of resources between States arising from all Commonwealth general government outlays and revenues. This analysis results in the calculation of each State’s “net fiscal subsidy” to the Federation, comprising of:

- The value of Commonwealth taxes and other revenues attributable to production and consumption activities in each State; less

- The value of Commonwealth expenditures on each State, including grants to State and local governments, salaries of Federal Government employees and benefits paid to individuals.⁴

As shown in Table 6, Western Australia provides the largest fiscal subsidy of any State, both in per capita terms and in absolute dollars. The other net contributors are New South Wales and Victoria.⁵

Table 6

EACH STATE'S NET FISCAL SUBSIDY TO THE FEDERATION
1999-2000 and 2000-01

	1999-2000		2000-01 preliminary	
	\$m	\$ per capita	\$m	\$ per capita
New South Wales	3,281	510	2,931	451
Victoria	1,709	361	2,369	494
Queensland	-2,168	-613	-3,102	-862
Western Australia^(a)	2,506	1,339	3,387	1,785
South Australia	-2,312	-1,546	-2,380	-1,587
Tasmania	-1,408	-2,991	-1,529	-3,252
Northern Territory	-1,607	-8,281	-1,676	-8,532
All States	0	0	0	0

(a) The subsidy paid by Western Australia in 2000-01 has been boosted by new company tax timing arrangements and high oil prices.

Western Australia's large net fiscal subsidy is partly a result of its high share of company tax payments (reflecting its large resource sector) and the low share of national social security benefits received by Western Australians (partly reflecting our relatively young and healthy population).

The net fiscal subsidy analysis for 2000-01 also incorporates the impact of tax reform for the first time.

⁴ The Commonwealth deficit or surplus is also allocated between States.

⁵ The analysis allocates all Commonwealth outlays and revenues relating to the ACT among the other jurisdictions according to population shares, reflecting the fact that if the Federation were to cease to exist it is unlikely that the ACT would continue to exist as a separate entity. If the ACT is treated on a par with the other States and the Northern Territory, it is estimated to provide a fiscal subsidy in 2000-01 of \$505 million (or \$1,615 per capita). Other States' net fiscal subsidies are \$27 per capita less than shown in Table 6.

CHAPTER 7

Structural Reform

Introduction

The Government has embarked on a series of reforms that will improve the efficiency and effectiveness of the public sector and encourage the provision of utility services at sustainable lower prices.

In its first year in office, the Government's structural reform achievements were significant:

- Public sector departments and agencies were restructured around key areas of government. As a result of the restructuring, the government sector will be more efficient and accountable as well as more accessible and understandable to the general public;
- A new position, the Minister for Government Enterprises, was created to exercise the Government's shareholder, owner and investor role in relation to government business enterprises;
- The Government has consulted on the design of an Economic Regulation Authority (ERA), which will have responsibilities across the electricity, gas, rail and water industries;
- The Electricity Reform Task Force was established and has engaged in widespread consultation and issued two public discussion documents; and
- The Gas Retail Deregulation Project Steering Group has been established and is considering a number of complex design issues involved with providing all consumers with a choice of gas provider.

The Government has also sought to improve the application of National Competition Policy in Western Australia by enhancing the guidelines that are used to consider whether competition reform is in the public interest.

The new public interest guidelines will ensure that more emphasis is placed on social and environmental objectives and better consideration is given to regional development.

The Government's focus for the coming year in terms of structural policy is to establish the ERA, commence the programme of reforms to the electricity industry following a consideration of the recommendations of the Electricity Reform Task Force, and finalise the design of the retail gas market.

These three important areas of reform are discussed further in the sections below.

Economic Regulation

A central feature of the Government's pre-election electricity reform platform was the establishment of an independent multi-industry economic regulator to assume responsibility for regulatory decisions affecting key infrastructure industries.

The Government has commenced processes for the establishment of an ERA to assume responsibility for economic regulatory functions currently preformed by a variety of Ministers, sector-specific regulators and public sector officials across the electricity, gas, rail and water industries. It is proposed that the ERA will:

- Independently regulate access to significant economic infrastructure under industry-specific access regimes. It will initially assume responsibility for the existing gas and rail access regimes. Responsibility for a future electricity access regime is likely to follow from the recommendations of the Electricity Reform Task Force;
- Independently grant industrial licences and ensure compliance with terms and conditions applying to licences;
 - the ERA will initially assume responsibility for water industry licensing;
 - Gas industry licensing functions will be transferred at a later date, which is expected to coincide with the implementation of full retail contestability;
 - Electricity industry licensing functions are likely to emerge from the recommendations of the Electricity Reform Task Force; and
- Make expert recommendations to Government about tariffs and charges for government monopoly services, and any other matters requested by the Government.

The proposed design of the ERA has focused on best practice regulatory principles and is consistent with the Government's vision of competitive utilities markets. Like the existing independent Gas Access and Rail Access Regulators, the ERA will be an independent, specialist regulatory body with technical expertise and a clear statute based regulatory mandate.

The proposed establishment of a single independent economic regulator aims to provide a number of improvements to the current industry-specific approach to regulation. It would consolidate scarce expertise, promote transparent and accountable regulation, achieve synergies and recognise the importance of economically efficient investment and pricing.

As is already the case for gas and rail access, an independent regulatory body would also remove the possible perception of political interference in regulatory decisions which, left unaddressed, has the potential to stifle competition, efficient investment and productivity gains.

An independent expert advisory function would also potentially improve the information upon which government makes decisions about regulation in general, commercial activities of government, the provision of essential services, and the funding of any community service obligations.

A number of steps have already been taken in the lead up to the creation of the ERA, including the appointment of the independent Gas Access Regulator, Dr Ken Michael, as the acting Rail Access Regulator. This was seen as an important first step towards establishing a single economic regulator.

A public consultation process on the proposed framework was held through March on the basis of a discussion paper outlining the key issues surrounding the establishment of the Authority. Submissions were received from a number of stakeholders and important aspects will be incorporated into the framework.

The Government intends to introduce legislation creating the ERA into Parliament during 2002. Subject to Parliamentary processes, it is anticipated that the Authority could be in operation by 1 January 2003.

Utilities Reform

Electricity Market Reform

Reflecting the economic, social and environmental significance and changing nature of the electricity industry, the Government has moved to reform the electricity industry in order to introduce genuine competition. The main purpose of the structural reform process is to remove impediments to competition in the wholesale and the retail sectors of the electricity supply industry in Western Australia. Competition in electricity generation, transport and trading is desired to promote efficient investment decisions and encourage efficiencies in operations. Competition in retailing electricity is desirable to pass on the lower costs in the supply chain to businesses and residential consumers.

The requisite conditions for the establishment of a fully competitive electricity market in Western Australia, either immediately or in the short term, do not yet exist. This is due to various factors such as the Western Australian electricity system being relatively small and isolated, the dominance of the vertically integrated Government owned utility and the lack of available private generating capacity. However, the Government is firmly committed to facilitating genuine competition and free trade in the Western Australian electricity market.

Competition in electricity generation provides the greatest potential gains from new, more efficient investment in infrastructure and may serve to drive more competitive fuel market outcomes. These are the most significant cost drivers in the supply of electricity. Competition in electricity retailing is desired to ensure that the gains from industry reforms are passed on to consumers. Participants in the competitive segments of the industry will require open access to the transmission and distribution networks together with system and market operation services to fairly compete.

The Government remains committed to maintaining the assets of Western Power in full public ownership.

In order to progress the electricity reform agenda, the Minister for Energy established the independent Electricity Reform Task Force in August 2001. The Task Force has been charged with responsibility for developing detailed recommendations on:

- The extent and phasing in of the disaggregation of Western Power;
- The structure of the electricity market to be established in Western Australia;
- A Western Australian Electricity Access Code; and
- Appropriate market and regulatory arrangements to move towards full retail contestability by the Government's target date of 2005.

The main objective 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. A reasonable balance between the interests of electricity generators, transmitters, distributors, retailers, customers and the broader community is to be achieved while ensuring consistency between gas and electricity access regulation.

The benefits of electricity reform can broadly be classified as benefits to:

- Electricity industry productivity, through competitive pressures;
- Consumers, through lower prices;
- Society, through more efficient use of limited resources; and
- Economic growth and employment, through better resource allocation in the economy.

To assist in formulating its final report, on 17 April 2002 the Task Force released a *Discussion Paper on the Reform of the Electricity Supply Industry in Western Australia*.

The Task Force believes that the most robust means of achieving the objectives set out in its Terms of Reference is by removing impediments to competition and putting in place structural, market and institutional arrangements to actively promote competition in the electricity supply industry. Achieving a competitive market will require determined implementation over a period of time and commitment from Government and industry alike.

The Task Force's current view is that separation of Western Power into at least three new and independent businesses, State Generation, State Networks and State Retail, is an essential element of reform. The potential for further regulatory or structural reform of State Networks is a particular issue under review at this stage. It is further proposed that State Generation and State Retail not be disaggregated horizontally, that is they should be retained as single businesses. Functional ring-fencing and other possibilities are suggested to mitigate the market power of these entities, such as auctions, transitional restrictions on investment and regulation of the conduct of the successor entities.

The Task Force has identified market arrangements to promote greater competition and private sector investment. This includes the introduction of a wholesale bilateral contract market accompanied by a Residual Trading Market, for the South West Interconnected System (SWIS), to allow for the adjustment of contractual positions in trading electricity at the wholesale level. The residual trading market is intended to incorporate price signals to facilitate an appropriate level of new generation investment as well as encourage demand management, energy conservation, end-use efficiency and the establishment of renewable energy generation and distributed generation, where appropriate.

While the reform issues examined by the Task Force have primarily been associated with the SWIS, consideration has also been given to the other supply systems in the State. The Task Force's current view on the structural reform of Western Power in respect of the North-West Interconnected System is that State Networks should have a similar role to that proposed in the SWIS and State Retail should serve both contestable and franchise customers with appropriate ring fencing. In the non-interconnected systems, the Task Force considers that electricity supply should remain vertically integrated and the responsibility of State Retail in the medium-term.

The Task Force's view is that the Government's commitment to the uniform tariff can be accommodated as part of the reform process. The potential for price reductions early in the reform process may be limited because the market will essentially comprise the existing infrastructure and participants. Over time however, new lower cost competitive generating facilities are likely to be built, and these will place competitive pressure on existing plant operators to reduce costs. As generation costs are reduced and new retail products emerge, consumers should start to experience the benefits of reform.

The Task Force will undertake further analysis of the financial viability of individual State-owned entities and the expected benefits from further reform prior to completion of its final report.

The Government has set a target date of 2005 for full retail contestability for electricity consumers. The deliberations of the Electricity Reform Task Force suggest a need to review this position, due to the significance and complexity of the structural and wholesale market reforms. The Task Force will make recommendations to the Government on the appropriate timing of further contestability based upon an analysis of the costs and benefits.

Full retail contestability means that all consumers will be able to choose their electricity supplier, either through direct access to competing generators (for the large consumers) or through competing retailers (for smaller consumers). The rationale behind full retail contestability in the electricity industry is that retail competition will increase consumer welfare by encouraging a reduction of prices and the development of new products. Delivering the choice of supplier to consumers will also encourage more informed decisions about energy consumption as it should heighten consumer awareness of the costs and potential savings associated with energy conservation.

Gas Market Reform

Western Australia has implemented a broad range of structural reform initiatives in the gas industry to ensure a competitive market conducive to private investment. These initiatives have included disaggregation of the major domestic gas supply contracts, separation and corporatisation of the former State-owned gas and electricity utilities, structural separation of the gas transmission and distribution functions, and privatisation of the separate state-owned transmission and distribution systems.

The Government is committed to the establishment of a competitive gas market in Western Australia. The final steps are now being taken towards having a fully contestable retail market. Allowing customers to choose their preferred gas retailer is an outcome of the Government's energy industry reform process, and is in line with the Competition Principles Agreement adopted by all the States, Territories and the Federal Government.

The phased implementation of gas contestability is an ongoing process in the Western Australian gas market. Competition between producers and retailers is intended to improve service delivery and reduce energy prices. Having a choice means that gas retailers must compete to win the community's business.

On 1 January 2002 the market became contestable for customers consuming one or more terajoules (TJ) of natural gas per annum, such as hospitals, hotels, restaurants, laundries and bakeries, allowing those customers to contract directly with any gas supplier. This followed twelve months after contestability was extended to customers consuming more than 100TJ of natural gas, such as refineries, smelters, chemical production plants, brickworks and other medium to large industrial establishments.

The last stage of legal contestability is scheduled to begin on 1 July 2002, when legal impediments to access for over 450,000 small business and household customers, consuming less than 1TJ per annum, are removed. However practical contestability is likely to be delayed, reflecting the longer than anticipated time required for putting in place the necessary rules, systems and regulatory framework to support a fully contestable gas market.

In preparing for full retail contestability, the Minister for Energy established the Gas Retail Deregulation Project Steering Group (GRDPSG) in July 2001 to consider issues necessary to facilitate full retail contestability.

The GRDPSG has been designed to involve all key stakeholders in an appropriate manner and to take advantage of the expertise and commitment of the gas industry, customer groups and other major stakeholders to achieve full retail contestability. Membership of the GRDPSG comprises gas industry participants and government agencies, and is supported by a series of technical working parties.

The principal responsibility of the GRDPSG is to ensure that a smooth transition of the Western Australian gas retail market from a regulated to a fully contestable retail market occurs, with due regard to inter-governmental agreements and with the objective of delivering net benefits to gas customers. The GRDPSG is also to ensure the market operates in an efficient and effective manner, and that regulatory arrangements reflect an appropriate balance between the interests of gas distributors, gas retailers and consumers.

In accordance with its Terms of Reference, the GRDPSG is to specifically address the following matters in relation to a fully contestable gas retail market:

- Determination of a market operator to manage systems, rules and provide services in order for the retail market to operate;
- Systems, rules, services and specific arrangements to manage customer transfers between retailers and for the determination and allocation to retailers of gas deliveries to consumers, balancing of gas supplies and deliveries and settlement of accounts;
- Consumer protection, including the need for and establishment of a Gas Industry Ombudsman to deal with disputes between gas suppliers and gas consumers in a fully deregulated market;
- Emergency gas supply management and procedures;
- Education of consumers on the operation of the market and any rights, obligations and opportunities available to them from full retail competition;
- Back-up retailer arrangements (retailer of last resort) and marketing code of conduct;

- Commercial and technical issues relating to infrastructure planning and operation in situations where a number of gas distribution systems are interconnected but are owned by different companies; and
- Pursuing consistency with other jurisdictions, where appropriate.

New Public Interest Guidelines for Competition Policy

The purpose of National Competition Policy is to introduce competition reform where it is in the overall community interest. However, in the past the public interest test has been poorly applied in many legislation reviews by focusing too much on efficiency at the expense of broader social objectives.

The public interest includes any goal that the community aspires to and that is relevant to the legislation under review. In addition to economic efficiency the public interest includes the environment, employment, social welfare, regional development, consumer interests and business competitiveness. Other goals may also be relevant depending on the circumstances.

In moving forward on competition policy, the Government has designed new guidelines to improve the practical application of the public interest test.

These revamped guidelines overhaul the application of the public interest test in Western Australia to ensure that more emphasis is placed on the impacts on social and environmental objectives and better consideration is given to regional development. The new guidelines make it mandatory for all reviews to explicitly consider whether there is any impact on social, environmental or regional development objectives and where this is the case to ensure these impacts are properly accounted for.

In addition to the need to consider the overall public interest as the basis for deciding whether or not to reform, it is also important that reviews address the impact of change on those sectors of the community which may be worse off as a consequence of reform.

Where the net benefit to the community from a reform measure is clear, government agencies must explicitly consider adjustment assistance wherever a particular sector of the community is severely affected by reform. In this regard it will be necessary to consider the possibility of transitional arrangements, such as:

- The phase-in of reforms over a sufficient period to help ease the adjustment of those adversely affected; and
- Financial support to assist those adversely affected.

These new guidelines provide a concise review process that clearly acknowledges that economic efficiency from increased competition is not Government's only goal. A balanced consideration of a range of socio-economic factors through the public interest test must be taken into account in pursuing reform.

APPENDIX 1

Detailed Financial Projections

Appendix 1 contains detailed financial projections for the various sectors of the total public sector under the GFS framework. The tables in this section also satisfy Uniform Presentation Framework (UPF) requirements with the exception of general government sector taxes, which is contained in Chapter 4: *Financial Projections - Revenue*, Table 10.

Data quoted for 2000-01 update those published in the 2000-01 *Government Financial Results Report* and 2001-02 *Government Mid-year Financial Projections Statement*. These data are consistent with the audited financial statements for the Government of Western Australia, published in the 2000-01 *Consolidated Financial Statements* in February 2002.

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Table 1

GENERAL GOVERNMENT
Operating Statement

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Taxation	2,891.6	2,965.4	3,193.7	3,361.3	3,529.1	3,618.0
Current grants and subsidies	4,781.2	5,214.2	5,170.0	5,211.5	5,480.0	5,707.9
Capital grants	276.9	272.7	291.7	273.5	275.3	262.2
Sales of goods and services	863.3	896.0	919.3	903.7	878.4	883.8
Interest income	141.9	117.8	108.6	107.1	95.3	95.1
Revenue from public corporations						
Dividends	400.0	411.0	379.3	439.0	473.0	481.2
Tax equivalent payments	366.4	220.0	227.7	254.1	271.6	289.8
Royalty income	685.6	639.5	654.9	667.8	666.0	648.9
Other	189.7	233.5	218.1	222.1	224.1	206.0
Total	10,596.5	10,970.2	11,163.5	11,440.0	11,892.7	12,192.9
EXPENSES						
Gross operating expenses						
Salaries	3,953.3	4,135.1	4,320.0	4,439.8	4,563.0	4,660.5
Depreciation and amortisation	452.0	499.6	533.5	542.1	539.2	550.5
Superannuation	358.7	364.3	395.8	406.2	416.3	422.6
Other	2,809.8	2,709.1	2,698.3	2,766.5	2,873.2	2,939.5
Nominal superannuation interest	304.1	277.6	281.2	286.0	290.7	294.2
Other interest	239.5	226.3	247.3	258.8	266.6	283.4
Other property expenses	-	-	-	-	-	-
Current transfers	2,048.9	2,411.2	2,313.0	2,343.1	2,391.0	2,468.9
Capital transfers	263.1	228.5	255.1	260.4	226.3	204.7
Total	10,429.4	10,851.6	11,044.4	11,302.8	11,566.4	11,824.3
NET OPERATING BALANCE	167.1	118.6	119.1	137.2	326.3	368.7
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Gross fixed capital formation	1,017.4	627.0	812.8	687.5	662.2	614.2
less depreciation	452.0	499.6	533.5	542.1	539.2	550.5
plus change in inventories	-5.9	-2.2	-0.8	0.5	0.2	0.4
plus other movements in non-financial assets	10.2	-16.0	-51.0	-0.8	32.3	43.4
Total	569.8	109.2	227.5	145.2	155.4	107.6
NET LENDING/BORROWING	-402.7	9.4	-108.4	-7.9	170.9	261.1
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	167.1	118.6	119.1	137.2	326.3	368.7
less provisions for doubtful debts	26.4	0.2	0.2	0.2	0.2	0.1
plus net gains on assets (including derivatives)	709.6	107.2	72.2	22.7	20.7	-13.7
plus capitalised interest	-	-	-	-	-	-
less revaluation of superannuation liabilities	70.1	63.5	-	-	-	-
plus all other adjustments	-20.3	-	-	-	-	-
AAS OPERATING RESULT	760.0	162.0	191.2	159.8	346.9	354.9

Note: Columns may not add due to rounding.

Table 2

GENERAL GOVERNMENT
Balance Sheet at 30 June

	2001 Actual \$m	2002 Estimated Actual \$m	2003 Budget Estimate \$m	2004 Forward Estimate \$m	2005 Forward Estimate \$m	2006 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	180.2	183.7	189.4	186.7	185.5	176.0
Advances paid	862.0	864.7	853.2	870.6	857.2	846.0
Investments, loans and placements	1,570.9	993.7	961.0	928.7	928.1	1,105.4
Other non-equity assets	759.4	770.5	736.4	758.0	774.0	783.1
Equity	15,208.5	15,663.9	16,139.7	16,712.4	17,169.0	17,684.0
Total	18,581.1	18,476.4	18,879.8	19,456.5	19,913.9	20,594.5
<i>Non-Financial assets</i>						
Land and fixed assets	23,469.5	24,062.8	24,437.7	24,710.4	24,960.4	25,163.2
Other non-financial assets	55.8	65.6	88.8	124.5	124.6	125.7
Total	23,525.2	24,128.4	24,526.5	24,834.9	25,085.0	25,288.8
TOTAL ASSETS	42,106.3	42,604.8	43,406.3	44,291.4	44,998.9	45,883.4
LIABILITIES						
Deposits held	222.0	227.0	236.4	235.0	217.7	215.3
Advances received	620.4	593.3	581.5	561.2	549.1	537.0
Borrowings	2,229.3	2,214.8	2,437.4	2,616.4	2,578.2	2,537.4
Unfunded superannuation liabilities	5,192.9	5,246.9	5,268.2	5,289.4	5,288.1	5,294.5
Other employee entitlements and provisions	1,055.3	1,104.2	1,149.9	1,204.5	1,071.6	1,025.5
Non-equity liabilities	582.2	423.1	371.6	348.6	420.3	483.0
TOTAL LIABILITIES	9,902.0	9,809.4	10,045.1	10,255.1	10,125.0	10,092.8
NET WORTH	32,204.3	32,795.4	33,361.2	34,036.3	34,874.0	35,790.5
<i>Memorandum Item: Net Debt</i>	458.5	993.1	1,251.8	1,426.6	1,374.1	1,162.4
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	32,204.3	32,795.4	33,361.2	34,036.3	34,874.0	35,790.5
<i>less equity (net worth) of PNFC and PFC sectors</i>	15,153.3	15,471.8	15,800.5	16,263.6	16,698.1	17,189.0
<i>less all other adjustments</i>	-	-	-	-	-	-
AAS NET ASSETS	17,051.0	17,323.6	17,560.6	17,772.7	18,175.9	18,601.5

Note: Columns may not add due to rounding.

Table 3

GENERAL GOVERNMENT**Cash Flow Statement**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	2,809.3	3,010.4	3,322.2	3,449.6	3,615.9	3,704.8
Receipts from sales of goods and services	972.8	793.3	1,035.2	1,043.7	1,035.9	1,039.9
Grants and subsidies received	5,113.0	5,493.8	5,469.0	5,487.6	5,755.6	5,973.0
Other receipts	2,318.8	2,206.9	2,081.3	2,170.4	2,186.9	2,221.8
<i>Total</i>	<i>11,213.9</i>	<i>11,504.4</i>	<i>11,907.7</i>	<i>12,151.2</i>	<i>12,594.2</i>	<i>12,939.5</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-7,130.8	-7,387.7	-7,794.3	-8,018.1	-8,380.9	-8,472.3
Grants and subsidies paid	-2,308.1	-2,450.2	-2,464.3	-2,497.2	-2,471.6	-2,523.6
Interest paid	-241.4	-226.5	-245.4	-257.1	-264.9	-281.2
Other payments	-623.1	-857.5	-736.7	-742.8	-749.0	-765.8
<i>Total</i>	<i>-10,303.4</i>	<i>-10,921.8</i>	<i>-11,240.8</i>	<i>-11,515.2</i>	<i>-11,866.4</i>	<i>-12,042.9</i>
Net Cash Flow from Operating Activities	910.5	582.6	666.9	636.1	727.8	896.6
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-1,109.6	-1,072.0	-889.6	-811.7	-772.8	-746.4
Sales of non-financial assets	70.8	109.4	127.5	119.8	99.8	89.5
<i>Total</i>	<i>-1,038.9</i>	<i>-962.6</i>	<i>-762.1</i>	<i>-691.9</i>	<i>-672.9</i>	<i>-656.9</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	443.5	-120.0	-131.9	-94.8	-9.1	-13.0
Liquidity purposes	-75.9	55.4	63.8	23.0	14.0	13.9
<i>Total</i>	<i>367.6</i>	<i>-64.6</i>	<i>-68.0</i>	<i>-71.8</i>	<i>4.9</i>	<i>0.9</i>
Net Cash Flow from Investing Activities	-671.2	-1,027.2	-830.1	-763.7	-668.0	-656.0
FINANCING ACTIVITIES						
Advances received (net)	-116.2	-16.8	0.4	-7.7	0.5	0.5
Borrowings (net)	278.2	-0.6	224.1	181.2	-35.9	-38.2
Deposits received (net)	32.4	-14.2	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	-36.4	-47.1	-19.1	-49.4	8.1	-12.8
<i>Total</i>	<i>158.1</i>	<i>-78.6</i>	<i>205.5</i>	<i>124.1</i>	<i>-27.3</i>	<i>-50.5</i>
<i>Opening cash balance</i>	<i>769.4</i>	<i>1,166.8</i>	<i>643.6</i>	<i>685.9</i>	<i>682.4</i>	<i>714.8</i>
NET INCREASE IN CASH HELD ^(a)	397.4	-523.2	42.3	-3.5	32.4	190.0
<i>Closing cash balance</i>	<i>1,166.8</i>	<i>643.6</i>	<i>685.9</i>	<i>682.4</i>	<i>714.8</i>	<i>904.8</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>-128.3</i>	<i>-380.0</i>	<i>-95.2</i>	<i>-55.8</i>	<i>54.9</i>	<i>239.7</i>
<i>Surplus</i>	<i>-128.3</i>	<i>-380.0</i>	<i>-95.2</i>	<i>-55.8</i>	<i>54.9</i>	<i>239.7</i>

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 4

PUBLIC NON-FINANCIAL CORPORATIONS
Operating Statement

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Current grants and subsidies	457.9	494.9	506.2	540.5	559.5	610.0
Capital grants	109.6	115.4	110.4	101.8	101.6	101.6
Sales of goods and services	5,269.9	5,050.3	5,142.7	5,333.4	5,454.4	5,649.4
Interest income	119.9	78.9	79.0	80.1	79.9	81.5
Other	185.2	92.7	94.6	107.7	96.9	117.1
<i>Total</i>	<i>6,142.4</i>	<i>5,832.3</i>	<i>5,932.8</i>	<i>6,163.5</i>	<i>6,292.2</i>	<i>6,559.7</i>
EXPENSES						
Gross operating expenses						
Salaries	411.0	408.0	431.5	441.4	445.6	454.4
Depreciation and amortisation	557.6	583.9	595.1	608.9	622.1	626.1
Superannuation	46.4	48.3	49.7	51.3	49.1	48.2
Other gross operating expenses	3,671.9	3,463.6	3,529.8	3,600.4	3,641.1	3,782.4
Nominal superannuation interest	-	-	-	-	-	-
Other interest	461.1	385.4	390.7	413.5	454.5	470.7
Other property expenses	752.8	613.4	600.5	685.4	740.1	767.0
Current transfers	203.3	204.8	211.2	216.3	220.0	224.5
Capital transfers	7.6	-	-	0.1	5.2	-
<i>Total</i>	<i>6,111.8</i>	<i>5,707.4</i>	<i>5,808.5</i>	<i>6,017.4</i>	<i>6,177.6</i>	<i>6,373.3</i>
NET OPERATING BALANCE	30.6	124.9	124.3	146.1	114.6	186.4
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Gross fixed capital formation	1,000.4	1,051.4	1,180.5	1,145.1	1,039.0	1,056.2
<i>less</i> depreciation	<i>557.4</i>	<i>583.9</i>	<i>595.1</i>	<i>608.9</i>	<i>622.1</i>	<i>626.1</i>
<i>plus</i> change in inventories	<i>-4.0</i>	<i>-28.5</i>	<i>5.2</i>	<i>-18.0</i>	<i>6.6</i>	<i>17.1</i>
<i>plus</i> other movements in non-financial assets	<i>-105.7</i>	<i>-118.5</i>	<i>-62.0</i>	<i>-196.3</i>	<i>-151.4</i>	<i>-173.1</i>
<i>Total</i>	<i>333.4</i>	<i>320.5</i>	<i>528.6</i>	<i>321.9</i>	<i>272.0</i>	<i>274.1</i>
NET LENDING/BORROWING	-302.8	-195.7	-404.3	-175.8	-157.3	-87.7
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	30.6	124.9	124.3	146.1	114.6	186.4
<i>less</i> provisions for doubtful debts	<i>0.6</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>plus</i> net gains on assets (including derivatives)	<i>-467.1</i>	<i>59.5</i>	<i>52.8</i>	<i>44.6</i>	<i>19.5</i>	<i>45.8</i>
<i>plus</i> capitalised interest	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>less</i> revaluation of superannuation liabilities	<i>19.6</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>plus</i> all other adjustments	<i>4.8</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
AAS OPERATING RESULT	-452.0	184.4	177.0	190.7	134.2	232.2

Note: Columns may not add due to rounding.

Table 5

PUBLIC NON-FINANCIAL CORPORATIONS**Balance Sheet at 30 June**

	2001 Actual \$m	2002 Estimated Actual \$m	2003 Budget Estimate \$m	2004 Forward Estimate \$m	2005 Forward Estimate \$m	2006 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	194.9	172.7	207.2	244.8	228.5	255.7
Advances paid	212.4	200.3	189.7	181.1	172.5	164.0
Investments, loans and placements	1,112.5	1,077.2	1,070.2	1,089.4	1,088.4	1,117.9
Other non-equity assets	676.6	626.2	640.0	674.5	701.4	712.9
Equity	6.9	0.9	0.9	0.9	0.9	0.9
<i>Total</i>	<i>2,203.3</i>	<i>2,077.2</i>	<i>2,108.0</i>	<i>2,190.7</i>	<i>2,191.7</i>	<i>2,251.4</i>
<i>Non-Financial assets</i>						
Land and fixed assets	20,574.3	21,352.6	22,123.9	22,779.4	23,379.8	23,972.9
Other non-financial assets	21.2	11.5	10.6	8.6	8.2	7.8
<i>Total</i>	<i>20,595.4</i>	<i>21,364.1</i>	<i>22,134.4</i>	<i>22,788.0</i>	<i>23,388.0</i>	<i>23,980.6</i>
TOTAL ASSETS	22,798.7	23,441.3	24,242.4	24,978.7	25,579.7	26,232.0
LIABILITIES						
Deposits held	-	-	-	-	-	-
Advances received	596.4	585.1	573.3	561.2	549.1	537.0
Borrowings	5,530.2	5,810.0	6,230.6	6,479.8	6,749.0	6,976.2
Unfunded superannuation liabilities	269.0	263.0	257.0	252.0	245.0	237.0
Other employee entitlements and provisions	227.7	205.2	201.6	220.5	230.5	241.5
Non-equity liabilities	1,170.5	1,120.5	1,127.9	1,131.0	1,097.0	1,086.3
TOTAL LIABILITIES	7,793.7	7,983.8	8,390.4	8,644.5	8,870.7	9,078.1
Shares and other contributed capital	55.8	192.2	339.4	449.0	471.1	495.1
NET WORTH	14,949.2	15,265.2	15,512.7	15,885.2	16,237.9	16,658.7
<i>Memorandum Item: Net Debt</i>	<i>4,606.8</i>	<i>4,945.0</i>	<i>5,336.8</i>	<i>5,525.7</i>	<i>5,808.8</i>	<i>5,975.7</i>
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	14,949.2	15,265.2	15,512.7	15,885.2	16,237.9	16,658.7
<i>plus</i> shares and other contributed capital	55.8	192.2	339.4	449.0	471.1	495.1
<i>less</i> all other adjustments	-	-	-	-	-	-
AAS NET ASSETS	15,005.0	15,457.4	15,852.1	16,334.2	16,709.0	17,153.9

Note: Columns may not add due to rounding.

Table 6

PUBLIC NON-FINANCIAL CORPORATIONS**Cash Flow Statement**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
RECEIPTS FROM OPERATING ACTIVITIES						
Receipts from sales of goods and services	5,287.2	4,951.4	5,066.3	5,261.1	5,383.8	5,585.1
Grants and subsidies received	572.0	629.5	626.6	645.4	664.6	714.4
Other receipts	424.7	389.3	363.3	370.0	377.6	390.3
Total	6,283.9	5,970.2	6,056.2	6,276.5	6,426.0	6,689.8
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-4,094.7	-3,757.8	-3,839.7	-3,895.9	-3,980.0	-4,140.2
Grants and subsidies paid	-101.9	-107.8	-103.1	-108.4	-107.6	-116.6
Interest paid	-466.6	-420.8	-412.8	-434.0	-457.0	-470.9
Other payments	-524.2	-498.0	-520.7	-524.5	-528.2	-539.4
Total	-5,187.4	-4,784.4	-4,876.4	-4,962.8	-5,072.7	-5,267.1
Net Cash Flow from Operating Activities	1,096.5	1,185.8	1,179.9	1,313.8	1,353.3	1,422.7
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-1,184.2	-1,267.2	-1,427.3	-1,304.1	-1,212.3	-1,184.7
Sales of non-financial assets	283.4	334.3	308.9	355.2	303.9	301.6
Total	-900.8	-932.9	-1,118.5	-948.9	-908.4	-883.1
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	1,022.7	-	-	-	-	-
Liquidity purposes	7.8	-42.5	-12.2	0.5	-7.4	-6.9
Total	1,030.4	-42.5	-12.2	0.5	-7.4	-6.9
Net Cash Flow from Investing Activities	129.6	-975.4	-1,130.7	-948.4	-915.8	-889.9
FINANCING ACTIVITIES						
Advances received (net)	-13.6	-11.3	-13.1	-12.1	-12.4	-12.4
Borrowings (net)	-448.4	303.1	427.7	267.3	280.2	231.3
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-851.4	-629.6	-616.2	-670.0	-728.4	-761.8
Other financing	51.4	176.8	201.3	167.0	54.4	84.5
Total	-1,262.1	-161.0	-0.3	-247.8	-406.3	-458.5
<i>Opening cash balance</i>	<i>411.4</i>	<i>375.4</i>	<i>424.9</i>	<i>473.7</i>	<i>591.2</i>	<i>622.4</i>
NET INCREASE IN CASH HELD ^(a)	-36.0	49.5	48.8	117.5	31.1	74.3
<i>Closing cash balance</i>	<i>375.4</i>	<i>424.9</i>	<i>473.7</i>	<i>591.2</i>	<i>622.4</i>	<i>696.7</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>-655.8</i>	<i>-376.7</i>	<i>-554.8</i>	<i>-305.1</i>	<i>-283.6</i>	<i>-222.2</i>
	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Surplus	-655.8	-376.7	-554.8	-305.1	-283.6	-222.2

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 7

TOTAL NON-FINANCIAL PUBLIC SECTOR
Operating Statement

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Taxation	2,756.4	2,799.0	3,019.8	3,184.9	3,349.5	3,435.4
Current grants and subsidies	4,781.2	5,214.2	5,170.0	5,211.5	5,480.0	5,707.9
Capital grants	276.9	272.7	291.7	273.5	275.3	262.2
Sales of goods and services	5,997.3	5,840.6	5,958.7	6,117.3	6,212.3	6,417.7
Interest income	225.2	163.1	153.8	152.2	140.3	141.5
Royalty income	685.6	639.5	654.9	667.8	666.0	648.9
Other	348.9	330.6	305.7	323.5	311.7	313.5
<i>Total</i>	<i>15,071.4</i>	<i>15,259.8</i>	<i>15,554.6</i>	<i>15,930.7</i>	<i>16,435.1</i>	<i>16,927.1</i>
EXPENSES						
Gross operating expenses						
Salaries	4,364.3	4,543.1	4,751.5	4,881.2	5,008.5	5,114.9
Depreciation and amortisation	1,009.6	1,083.5	1,128.6	1,150.9	1,161.4	1,176.5
Superannuation	405.1	412.5	445.5	457.5	465.3	470.9
Other gross operating expenses	6,259.6	5,937.1	5,991.3	6,110.9	6,254.3	6,464.3
Nominal superannuation interest	304.1	277.6	281.2	286.0	290.7	294.2
Other interest	664.1	578.1	604.2	637.3	686.4	719.1
Other property expenses	-	-	-	-	-	-
Current transfers	1,715.1	2,071.7	1,964.3	1,965.2	1,997.3	2,028.7
Capital transfers	151.7	113.0	144.7	158.6	129.8	103.1
<i>Total</i>	<i>14,873.7</i>	<i>15,016.8</i>	<i>15,311.4</i>	<i>15,647.7</i>	<i>15,993.8</i>	<i>16,371.7</i>
NET OPERATING BALANCE	197.6	243.0	243.2	283.0	441.3	555.4
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Gross fixed capital formation	2,017.8	1,678.4	1,993.3	1,832.5	1,701.2	1,670.3
less depreciation	1,009.4	1,083.5	1,128.6	1,150.9	1,161.4	1,176.5
plus change in inventories	-9.9	-30.7	4.4	-17.5	6.7	17.5
plus other movements in non-financial assets	-95.4	-134.5	-112.9	-197.1	-119.1	-129.7
<i>Total</i>	<i>903.1</i>	<i>429.7</i>	<i>756.1</i>	<i>467.0</i>	<i>427.4</i>	<i>381.6</i>
NET LENDING/BORROWING	-705.5	-186.7	-512.9	-184.0	13.9	173.7
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	197.6	243.0	243.2	283.0	441.3	555.4
less provisions for doubtful debts	26.9	0.2	0.2	0.2	0.2	0.1
plus net gains on assets (including derivatives)	242.5	166.7	125.0	67.3	40.2	32.1
plus capitalised interest	-	-	-	-	-	-
less revaluation of superannuation liabilities	89.7	63.5	-	-	-	-
plus all other adjustments	-15.5	0.4	0.2	0.3	-0.3	-0.3
AAS OPERATING RESULT	308.0	346.5	368.3	350.5	481.1	587.1

Note: Columns may not add due to rounding.

Table 8

TOTAL NON-FINANCIAL PUBLIC SECTOR**Balance Sheet at 30 June**

	2001 Actual \$m	2002 Estimated Actual \$m	2003 Budget Estimate \$m	2004 Forward Estimate \$m	2005 Forward Estimate \$m	2006 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	263.6	267.8	298.6	335.0	334.8	354.7
Advances paid	478.0	479.8	469.6	490.5	480.6	472.9
Investments, loans and placements	2,682.8	2,070.8	2,031.2	2,018.1	2,016.5	2,223.4
Other non-equity assets	1,234.4	1,207.0	1,195.1	1,235.3	1,271.0	1,282.9
Equity	210.9	207.3	288.6	379.1	460.9	531.0
<i>Total</i>	<i>4,869.7</i>	<i>4,232.8</i>	<i>4,283.0</i>	<i>4,458.0</i>	<i>4,563.8</i>	<i>4,865.0</i>
<i>Non-Financial assets</i>						
Land and fixed assets	44,043.7	45,415.4	46,561.5	47,489.9	48,340.2	49,136.0
Other non-financial assets	76.9	77.1	99.4	133.1	132.8	133.4
<i>Total</i>	<i>44,120.7</i>	<i>45,492.5</i>	<i>46,660.9</i>	<i>47,622.9</i>	<i>48,473.0</i>	<i>49,269.4</i>
TOTAL ASSETS	48,990.4	49,725.2	50,943.9	52,081.0	53,036.8	54,134.4
LIABILITIES						
Deposits held	110.5	138.5	138.5	138.5	138.5	138.5
Advances received	620.4	593.3	581.5	561.2	549.1	537.0
Borrowings	7,758.9	8,024.8	8,668.0	9,096.2	9,327.2	9,513.6
Unfunded superannuation liabilities	5,461.9	5,509.9	5,525.2	5,541.4	5,533.1	5,531.5
Other employee entitlements and provisions	1,175.9	1,236.8	1,293.3	1,349.2	1,222.8	1,184.1
Non-equity liabilities	1,658.2	1,426.7	1,376.5	1,358.4	1,392.5	1,439.3
TOTAL LIABILITIES	16,785.7	16,929.9	17,583.0	18,044.9	18,163.1	18,344.0
NET WORTH	32,204.7	32,795.3	33,361.0	34,036.1	34,873.8	35,790.4
<i>Memorandum Item: Net Debt</i>	<i>5,065.3</i>	<i>5,938.1</i>	<i>6,588.6</i>	<i>6,952.2</i>	<i>7,182.9</i>	<i>7,138.1</i>
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	32,204.7	32,795.3	33,361.0	34,036.1	34,873.8	35,790.4
<i>less equity (net worth) of PNFC and PFC sectors</i>	<i>204.1</i>	<i>206.6</i>	<i>287.9</i>	<i>378.4</i>	<i>460.2</i>	<i>530.3</i>
<i>less all other adjustments</i>	<i>0.5</i>	<i>-0.2</i>	<i>-0.2</i>	<i>-0.2</i>	<i>-0.2</i>	<i>-0.2</i>
AAS NET ASSETS	32,000.2	32,588.9	33,073.3	33,657.9	34,413.8	35,260.3

Note: Columns may not add due to rounding.

Table 9

TOTAL NON-FINANCIAL PUBLIC SECTOR**Cash Flow Statement**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	2,623.2	2,765.4	3,069.9	3,194.6	3,358.3	3,445.9
Receipts from sales of goods and services	6,120.4	5,723.0	6,082.6	6,275.5	6,388.6	6,596.3
Grants and subsidies received	5,113.0	5,499.5	5,476.3	5,494.6	5,762.6	5,980.0
Other receipts	1,848.9	1,922.0	1,785.5	1,826.9	1,794.5	1,808.9
<i>Total</i>	<i>15,705.5</i>	<i>15,909.9</i>	<i>16,414.3</i>	<i>16,791.5</i>	<i>17,303.9</i>	<i>17,831.0</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-11,076.4	-11,114.5	-11,605.7	-11,875.1	-12,320.2	-12,574.2
Grants and subsidies paid	-1,838.1	-1,934.2	-1,948.2	-1,967.3	-1,921.6	-1,932.8
Interest paid	-673.2	-614.0	-624.7	-656.4	-687.9	-717.7
Other payments	-958.2	-1,108.3	-1,002.9	-1,010.0	-1,017.2	-1,044.0
<i>Total</i>	<i>-14,546.0</i>	<i>-14,771.1</i>	<i>-15,181.5</i>	<i>-15,508.8</i>	<i>-15,947.0</i>	<i>-16,268.7</i>
Net Cash Flow from Operating Activities	1,159.5	1,138.8	1,232.8	1,282.8	1,356.9	1,562.3
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-2,293.8	-2,339.2	-2,317.0	-2,115.8	-1,985.0	-1,931.1
Sales of non-financial assets	354.2	443.7	436.4	475.0	403.7	391.1
<i>Total</i>	<i>-1,939.7</i>	<i>-1,895.5</i>	<i>-1,880.6</i>	<i>-1,640.8</i>	<i>-1,581.4</i>	<i>-1,540.0</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	1,466.2	11.1	15.3	14.6	12.7	10.8
Liquidity purposes	-68.1	12.9	51.6	23.5	6.6	7.0
<i>Total</i>	<i>1,398.1</i>	<i>24.0</i>	<i>66.9</i>	<i>38.1</i>	<i>19.3</i>	<i>17.9</i>
Net Cash Flow from Investing Activities	-541.6	-1,871.5	-1,813.7	-1,602.7	-1,562.0	-1,522.1
FINANCING ACTIVITIES						
Advances received (net)	-129.8	-28.1	-12.7	-19.8	-11.9	-11.9
Borrowings (net)	-170.2	302.6	651.8	448.6	244.3	193.1
Deposits received (net)	32.4	-14.2	-	-	-	-
Distributions paid	-3.9	-	-2.2	-3.0	-4.3	-4.8
Other financing	15.0	-1.4	35.1	8.2	40.6	47.8
<i>Total</i>	<i>-256.4</i>	<i>258.9</i>	<i>672.0</i>	<i>433.9</i>	<i>268.6</i>	<i>224.2</i>
<i>Opening cash balance</i>	<i>1,521.1</i>	<i>1,882.6</i>	<i>1,408.8</i>	<i>1,499.9</i>	<i>1,614.0</i>	<i>1,677.5</i>
NET INCREASE IN CASH HELD ^(a)	361.4	-473.7	91.1	114.0	63.5	264.4
<i>Closing cash balance</i>	<i>1,882.6</i>	<i>1,408.8</i>	<i>1,499.9</i>	<i>1,614.0</i>	<i>1,677.5</i>	<i>1,941.8</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>-784.1</i>	<i>-756.7</i>	<i>-650.1</i>	<i>-361.0</i>	<i>-228.7</i>	<i>17.5</i>
<i>Surplus</i>	<i>-784.1</i>	<i>-756.7</i>	<i>-650.1</i>	<i>-361.0</i>	<i>-228.7</i>	<i>17.5</i>

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 10

PUBLIC FINANCIAL CORPORATIONS
Operating Statement

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Current grants and subsidies	-	-	-	-	-	-
Capital grants	2.0	-	-	-	-	-
Sales of goods and services	513.4	463.6	573.0	618.5	648.5	693.4
Interest income	958.4	964.9	984.3	1,052.7	1,098.2	1,134.5
Other	7.7	1.9	2.5	-	-	-
<i>Total</i>	<i>1,481.6</i>	<i>1,430.4</i>	<i>1,559.8</i>	<i>1,671.2</i>	<i>1,746.7</i>	<i>1,827.8</i>
EXPENSES						
Gross operating expenses						
Salaries	17.7	18.7	19.4	20.3	21.3	22.2
Depreciation and amortisation	2.4	3.0	3.2	3.1	3.0	2.9
Superannuation	3.4	2.5	2.6	2.7	2.8	3.0
Other gross operating expenses	441.5	503.0	542.7	583.9	626.3	681.3
Nominal superannuation interest	-	-	-	-	-	-
Other interest	756.7	771.2	800.3	861.7	904.0	941.3
Other property expenses	9.8	17.1	6.8	7.9	5.4	4.9
Current transfers	4.4	2.4	2.3	2.3	2.4	2.5
Capital transfers	-	-	2.5	-	-	-
<i>Total</i>	<i>1,236.0</i>	<i>1,317.8</i>	<i>1,379.8</i>	<i>1,481.9</i>	<i>1,565.2</i>	<i>1,658.0</i>
NET OPERATING BALANCE	245.6	112.7	180.0	189.3	181.5	169.8
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Gross fixed capital formation	5.7	4.7	2.3	1.5	1.5	1.5
less depreciation	2.4	3.0	3.2	3.1	3.0	2.9
plus change in inventories	-	-	-	-	-	-
plus other movements in non-financial assets	-	-	-	-	-	-
<i>Total</i>	<i>3.3</i>	<i>1.8</i>	<i>-0.9</i>	<i>-1.6</i>	<i>-1.5</i>	<i>-1.4</i>
NET LENDING/BORROWING	242.3	110.9	180.9	190.9	183.0	171.2
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	245.6	112.7	180.0	189.3	181.5	169.8
less provisions for doubtful debts	0.1	0.2	0.2	0.2	0.2	0.1
plus net gains on assets (including derivatives)	-15.4	-	-	-	-	-
plus capitalised interest	-	-	-	-	-	-
less revaluation of superannuation liabilities	-0.4	-	-	-	-	-
plus all other adjustments	-	-	-	-	-	-
AAS OPERATING RESULT	230.6	112.5	179.8	189.1	181.3	169.6

Note: Columns may not add due to rounding.

Table 11

PUBLIC FINANCIAL CORPORATIONS**Balance Sheet at 30 June**

	2001 Actual \$m	2002 Estimated Actual \$m	2003 Budget Estimate \$m	2004 Forward Estimate \$m	2005 Forward Estimate \$m	2006 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	24.8	28.1	20.8	14.7	8.5	7.3
Advances paid	1,515.1	1,952.8	2,052.2	2,147.4	2,242.6	2,337.7
Investments, loans and placements	11,511.5	12,896.8	12,667.6	13,189.9	13,805.2	14,298.9
Other non-equity assets	463.8	459.3	475.8	472.4	472.1	467.3
Equity	637.5	677.4	739.9	803.7	870.2	935.9
<i>Total</i>	<i>14,152.7</i>	<i>16,014.3</i>	<i>15,956.4</i>	<i>16,628.1</i>	<i>17,398.6</i>	<i>18,047.1</i>
<i>Non-Financial assets</i>						
Land and fixed assets	290.5	304.1	331.9	357.0	383.3	409.5
Other non-financial assets	-	-	-	-	-	-
<i>Total</i>	<i>290.5</i>	<i>304.1</i>	<i>331.9</i>	<i>357.0</i>	<i>383.3</i>	<i>409.5</i>
TOTAL ASSETS	14,443.2	16,318.5	16,288.3	16,985.1	17,781.9	18,456.6
LIABILITIES						
Deposits held	-	-	-	-	-	-
Advances received	3.5	3.4	3.4	3.3	3.3	3.3
Borrowings	12,363.8	14,208.3	14,005.9	14,558.8	15,201.0	15,726.7
Unfunded superannuation liabilities	16.0	16.0	15.0	14.0	14.0	14.0
Other employee entitlements and provisions	6.6	5.7	5.7	5.7	5.7	5.7
Non-equity liabilities	1,849.3	1,878.5	1,970.4	2,024.8	2,097.7	2,176.6
TOTAL LIABILITIES	14,239.1	16,111.9	16,000.4	16,606.7	17,321.7	17,926.3
Shares and other contributed capital	-	-	-	-	-	-
NET WORTH	204.1	206.6	287.9	378.4	460.2	530.3
<i>Memorandum Item: Net Debt</i>	<i>-684.2</i>	<i>-666.0</i>	<i>-731.3</i>	<i>-789.8</i>	<i>-852.0</i>	<i>-914.0</i>
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	204.1	206.6	287.9	378.4	460.2	530.3
<i>less</i> all other adjustments	-	-	-	-	-	-
<i>plus</i> shares and other contributed capital	-	-	-	-	-	-
AAS NET ASSETS	204.1	206.6	287.9	378.4	460.2	530.3

Note: Columns may not add due to rounding.

Table 12

PUBLIC FINANCIAL CORPORATIONS

Cash Flow Statement

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
RECEIPTS FROM OPERATING ACTIVITIES						
Receipts from sales of goods and services	566.6	498.3	540.3	573.4	616.3	647.4
Grants and subsidies received	2.0	-	2.5	-	-	-
Other receipts	898.6	931.3	1,007.2	1,063.8	1,068.2	1,103.5
Total	1,467.1	1,429.7	1,550.0	1,637.2	1,684.5	1,750.8
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-456.7	-472.5	-524.4	-566.2	-590.4	-632.5
Grants and subsidies paid	-	-1.6	-2.5	-	-	-
Interest paid	-795.9	-766.5	-850.3	-904.7	-907.8	-944.1
Other payments	-72.5	-44.8	-48.5	-52.2	-55.7	-59.2
Total	-1,325.1	-1,285.4	-1,425.7	-1,523.0	-1,553.8	-1,635.7
Net Cash Flow from Operating Activities	142.0	144.3	124.2	114.2	130.7	115.1
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-6.2	-4.7	-2.3	-1.5	-1.5	-1.5
Sales of non-financial assets	0.5	-	-	-	-	-
Total	-5.7	-4.7	-2.3	-1.5	-1.5	-1.5
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	-159.0	-232.5	-205.1	-190.1	-206.4	-190.9
Total	-159.0	-232.5	-205.1	-190.1	-206.4	-190.9
Net Cash Flow from Investing Activities	-164.7	-237.3	-207.4	-191.6	-207.9	-192.4
FINANCING ACTIVITIES						
Advances received (net)	-	-	-	-	-	-
Borrowings (net)	-378.4	107.8	96.4	81.2	80.5	79.7
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-13.3	-18.0	-6.8	-7.9	-5.4	-4.9
Other financing	0.5	-	-	-	-	-
Total	-391.2	89.7	89.5	73.4	75.1	74.8
<i>Opening cash balance</i>	<i>3,329.7</i>	<i>2,915.8</i>	<i>2,912.6</i>	<i>2,918.9</i>	<i>2,914.8</i>	<i>2,912.7</i>
NET INCREASE IN CASH HELD ^(a)	-413.9	-3.3	6.3	-4.1	-2.1	-2.6
<i>Closing cash balance</i>	<i>2,915.8</i>	<i>2,912.6</i>	<i>2,918.9</i>	<i>2,914.8</i>	<i>2,912.7</i>	<i>2,910.1</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>123.0</i>	<i>121.5</i>	<i>115.1</i>	<i>104.8</i>	<i>123.8</i>	<i>108.7</i>
	-	-	-	-	-	-
Surplus	123.0	121.5	115.1	104.8	123.8	108.7

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 13

TOTAL PUBLIC SECTOR						
Operating Statement						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Taxation	2,755.0	2,797.2	3,018.0	3,183.1	3,347.5	3,433.4
Current grants and subsidies	4,781.2	5,214.2	5,170.0	5,211.5	5,480.0	5,707.9
Capital grants	276.9	272.7	291.7	273.5	275.3	262.2
Sales of goods and services	6,412.9	6,191.3	6,398.3	6,597.4	6,714.3	6,955.0
Interest income	555.1	585.4	565.8	601.6	580.5	587.2
Royalty income	685.6	639.5	654.9	667.8	666.0	648.9
Other	335.8	313.0	300.9	315.2	305.9	308.1
<i>Total</i>	<i>15,802.5</i>	<i>16,013.5</i>	<i>16,399.6</i>	<i>16,850.0</i>	<i>17,369.6</i>	<i>17,902.7</i>
EXPENSES						
Gross operating expenses						
Salaries	4,382.0	4,561.8	4,771.0	4,901.5	5,029.8	5,137.1
Depreciation and amortisation	1,012.0	1,086.5	1,131.8	1,154.0	1,164.4	1,179.5
Superannuation	408.5	415.0	448.1	460.2	468.2	473.9
Other gross operating expenses	6,595.6	6,325.2	6,400.5	6,556.5	6,734.1	6,989.6
Nominal superannuation interest	304.1	277.6	281.2	286.0	290.7	294.2
Other interest	792.2	806.7	832.2	895.7	932.4	971.6
Other property expenses	-	-	-	-	-	-
Current transfers	1,715.0	2,071.9	1,964.3	1,965.2	1,997.3	2,028.7
Capital transfers	149.7	113.0	147.2	158.6	129.8	103.1
<i>Total</i>	<i>15,359.3</i>	<i>15,657.8</i>	<i>15,976.4</i>	<i>16,377.7</i>	<i>16,746.8</i>	<i>17,177.5</i>
NET OPERATING BALANCE	443.3	355.7	423.2	472.3	622.8	725.2
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Gross fixed capital formation	2,023.4	1,683.1	1,995.6	1,834.0	1,702.7	1,671.9
<i>less</i> depreciation	1,011.7	1,086.5	1,131.8	1,154.0	1,164.4	1,179.5
<i>plus</i> change in inventories	-9.9	-30.7	4.4	-17.5	6.7	17.5
<i>plus</i> other movements in non-financial assets	-95.4	-134.5	-112.9	-197.1	-119.1	-129.7
<i>Total</i>	<i>906.4</i>	<i>431.5</i>	<i>755.2</i>	<i>465.4</i>	<i>425.9</i>	<i>380.2</i>
NET LENDING/BORROWING	-463.2	-75.9	-332.0	6.9	196.9	345.0
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	443.3	355.7	423.2	472.3	622.8	725.2
<i>less</i> provisions for doubtful debts	27.0	0.4	0.3	0.3	0.3	0.2
<i>plus</i> net gains on assets (including derivatives)	227.1	166.7	125.0	67.3	40.2	32.1
<i>plus</i> capitalised interest	-	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	89.3	63.5	-	-	-	-
<i>plus</i> all other adjustments	-15.5	0.4	0.2	0.3	-0.3	-0.3
AAS OPERATING RESULT	538.6	459.0	548.1	539.6	662.4	756.8
Note: Columns may not add due to rounding.						

Table 14

TOTAL PUBLIC SECTOR
Balance Sheet at 30 June

	2001 Actual \$m	2003 Estimated Actual \$m	2002 Budget Estimate \$m	2004 Forward Estimate \$m	2005 Forward Estimate \$m	2006 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	286.2	295.6	319.2	349.4	343.0	361.8
Advances paid	1,989.6	2,429.3	2,518.4	2,634.5	2,719.9	2,807.4
Investments, loans and placements	5,804.8	6,300.4	5,393.1	5,486.5	5,854.9	6,356.5
Other non-equity assets	1,476.6	1,595.0	1,608.9	1,651.7	1,682.8	1,686.8
Equity	644.4	678.2	740.8	804.6	871.0	936.8
<i>Total</i>	<i>10,201.6</i>	<i>11,298.5</i>	<i>10,580.4</i>	<i>10,926.7</i>	<i>11,471.7</i>	<i>12,149.3</i>
<i>Non-Financial assets</i>						
Land and fixed assets	44,334.3	45,719.5	46,893.4	47,846.9	48,723.5	49,545.5
Other non-financial assets	76.9	77.1	99.4	133.1	132.8	133.4
<i>Total</i>	<i>44,411.2</i>	<i>45,796.6</i>	<i>46,992.8</i>	<i>47,979.9</i>	<i>48,856.3</i>	<i>49,678.9</i>
TOTAL ASSETS	54,612.8	57,095.0	57,573.2	58,906.6	60,328.0	61,828.2
LIABILITIES						
Deposits held	108.2	138.2	138.2	138.2	138.2	138.2
Advances received	620.4	593.3	581.5	561.2	549.1	537.0
Borrowings	11,733.1	13,565.9	13,368.2	13,933.4	14,561.5	15,074.6
Unfunded superannuation liabilities	5,477.9	5,525.9	5,540.2	5,555.4	5,547.1	5,545.5
Other employee entitlements and provisions	1,176.1	1,236.2	1,291.6	1,346.2	1,218.3	1,178.3
Non-equity liabilities	3,292.3	3,240.1	3,292.3	3,336.0	3,439.9	3,564.1
TOTAL LIABILITIES	22,408.1	24,299.6	24,212.0	24,870.4	25,454.1	26,037.7
NET WORTH	32,204.8	32,795.4	33,361.2	34,036.3	34,873.9	35,790.5
<i>Memorandum Item: Net Debt</i>	<i>4,381.1</i>	<i>5,272.1</i>	<i>5,857.3</i>	<i>6,162.4</i>	<i>6,330.9</i>	<i>6,224.1</i>
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	32,204.8	32,795.4	33,361.2	34,036.3	34,873.9	35,790.5
<i>less all other adjustments</i>	<i>0.5</i>	<i>-</i>	<i>-0.1</i>	<i>-0.1</i>	<i>-0.1</i>	<i>-0.1</i>
AAS NET ASSETS	32,204.3	32,795.5	33,361.2	34,036.3	34,874.0	35,790.6
Note: Columns may not add due to rounding.						

Table 15

TOTAL PUBLIC SECTOR						
Cash Flow Statement						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	2,621.5	2,763.9	3,068.3	3,192.9	3,356.6	3,444.1
Receipts from sales of goods and services	6,532.4	6,108.4	6,489.4	6,710.6	6,858.4	7,087.6
Grants and subsidies received	5,113.0	5,499.5	5,476.3	5,494.6	5,762.6	5,980.0
Other receipts	2,084.6	2,222.7	2,152.1	2,232.2	2,186.9	2,213.4
<i>Total</i>	<i>16,351.5</i>	<i>16,594.4</i>	<i>17,186.1</i>	<i>17,630.3</i>	<i>18,164.5</i>	<i>18,725.1</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-11,377.9	-11,473.7	-11,996.2	-12,302.5	-12,763.7	-13,050.1
Grants and subsidies paid	-1,833.6	-1,935.8	-1,948.2	-1,967.3	-1,921.6	-1,932.8
Interest paid	-834.8	-800.7	-866.6	-927.3	-936.8	-976.7
Other payments	-1,017.1	-1,119.2	-1,024.9	-1,044.1	-1,060.1	-1,093.0
<i>Total</i>	<i>-15,063.4</i>	<i>-15,329.3</i>	<i>-15,835.9</i>	<i>-16,241.2</i>	<i>-16,682.2</i>	<i>-17,052.6</i>
Net Cash Flow from Operating Activities	1,288.1	1,265.1	1,350.2	1,389.1	1,482.3	1,672.5
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-2,300.0	-2,343.9	-2,319.3	-2,117.2	-1,986.5	-1,932.6
Sales of non-financial assets	354.7	443.7	436.4	475.0	403.7	391.1
<i>Total</i>	<i>-1,945.3</i>	<i>-1,900.3</i>	<i>-1,882.9</i>	<i>-1,642.2</i>	<i>-1,582.8</i>	<i>-1,541.5</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	1,463.2	11.1	15.2	14.6	12.7	10.8
Liquidity purposes	-227.1	-219.6	-153.5	-166.7	-199.8	-183.9
<i>Total</i>	<i>1,236.1</i>	<i>-208.5</i>	<i>-138.3</i>	<i>-152.1</i>	<i>-187.1</i>	<i>-173.1</i>
Net Cash Flow from Investing Activities	-709.2	-2,108.8	-2,021.1	-1,794.3	-1,769.9	-1,714.6
FINANCING ACTIVITIES						
Advances received (net)	-126.9	-27.4	-12.7	-19.8	-11.9	-11.9
Borrowings (net)	-548.6	409.7	748.1	529.8	324.7	272.8
Deposits received (net)	32.4	-14.2	-	-	-	-
Distributions paid	-3.9	-	-2.2	-3.0	-4.3	-4.8
Other financing	15.5	-1.4	35.1	8.2	40.6	47.8
<i>Total</i>	<i>-631.3</i>	<i>366.7</i>	<i>768.4</i>	<i>515.1</i>	<i>349.1</i>	<i>303.8</i>
<i>Opening cash balance</i>	<i>4,508.3</i>	<i>4,455.9</i>	<i>3,978.9</i>	<i>4,076.3</i>	<i>4,186.3</i>	<i>4,247.7</i>
NET INCREASE IN CASH HELD ^(a)	-52.4	-477.0	97.4	109.9	61.4	261.8
<i>Closing cash balance</i>	<i>4,455.9</i>	<i>3,978.9</i>	<i>4,076.3</i>	<i>4,186.3</i>	<i>4,247.7</i>	<i>4,509.5</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>-661.1</i>	<i>-635.2</i>	<i>-534.9</i>	<i>-256.2</i>	<i>-104.9</i>	<i>126.2</i>
<i>Surplus</i>	<i>-661.1</i>	<i>-635.2</i>	<i>-534.9</i>	<i>-256.2</i>	<i>-104.9</i>	<i>126.2</i>

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

LOAN COUNCIL ALLOCATIONS ^(a)
Western Australia

Table 16

	2001-02 Budget \$m	2001-02 Estimated Actual \$m	2002-03 Budget Estimate \$m
General Government deficit	380.3	380.0	95.2
Public Non-financial Corporations' net financing requirement	292.9	376.7	554.8
Net Capital Advances	11.1	11.1	15.3
<i>Total non-financial public sector deficit</i>	<i>662.4</i>	<i>745.6</i>	<i>634.8</i>
<i>Memorandum Items ^(b)</i>	<i>-152.0</i>	<i>209.0</i>	<i>-154.7</i>
Loan Council Allocation	510.4	954.6	480.1

(a) Readers should note that the deficit/surplus data quoted here are consistent with the treatment of net capital advances paid (e.g. loans to private schools) as outlays. This is consistent with Loan Council treatment but differs from the GFS treatment used in the rest of this document (which treats net capital advances as financing transactions).

(b) Memorandum items are used to adjust the ABS deficit/surplus to include in LCAs certain transactions (e.g. operating leases) that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. Where appropriate, they are also used to deduct from the deficit/surplus certain transactions that Loan Council has agreed should not be included in LCAs (e.g. the funding of more than emerging costs under public superannuation schemes).

Note: Columns may not add due to rounding.

Agency Classification

The following is a comprehensive list of the State's agencies, classified by sector under the GFS framework.

General Government Sector

Agricultural Practices Board of Western Australia	Midland College of TAFE
Agriculture Protection Board of Western Australia	Mid-West Development Commission
Anti-Corruption Commission	Minerals and Energy Research Institute of Western Australia
Anzac Day Trust	Office of Energy
Betting Control Board	Office of the Auditor General
Botanic Parks and Gardens Authority	Office of the Director of Public Prosecutions
Building and Construction Industry Training Board	Office of the Information Commissioner
Central Metropolitan College of TAFE	Office of the Inspector of Custodial Services
Central West College of TAFE	Office of the Public Sector Standards Commissioner
Commissioner of Main Roads	Office of Water Regulation
Country High School Hostels Authority	Parliamentary Services Department
Curriculum Council	Peel Development Commission
Department of Agriculture	Perth International Centre for Application of Solar Energy
Department for Community Development	Pilbara Development Commission
Department of Conservation	Police Service
Department of Consumer and Employment Protection	Professional Standards Council
Department of Culture and the Arts	Racecourse Development Trust
Department of Education	Racing Penalties Appeal Tribunal of Western Australia
Department of Education Services	Recreation Camps and Reserve Board
Department of Environmental Protection	Royal Commission Into Whether There Has Been Any Corrupt or Criminal Conduct by Western Australian Police Officers
Department of Fisheries	Rural Adjustment and Finance Corporation of Western Australia
Department of Health	Salaries and Allowances Tribunal
Department of Housing and Works	Small Business Development Corporation
Department of Indigenous Affairs	South East Metropolitan College of TAFE
Department of Industry and Technology	South Metropolitan College of TAFE
Department of Justice	South West Development Commission
Department of Land Administration	South West Regional College of TAFE
Department of Local Government and Regional Development	State Supply Commission
Department of Minerals and Petroleum Resources	Swan College of TAFE
Department for Planning and Infrastructure	Swan River Trust
Department of the Premier and Cabinet	The Aboriginal Affairs Planning Authority
Department of Racing, Gaming and Liquor	The Burswood Park Board
Department of Sport and Recreation	The Coal Miner's Welfare Board of Western Australia
Department of the Registrar, Western Australian Industrial Relations Commission	The National Trust of Australia (W.A.)
Department of Training	The Parliamentary Commissioner for Administrative Investigations
Department of Transport	The Potato Growing Industry Trust Fund Advisory Committee
Department of Treasury and Finance	The Poultry Industry Trust Fund Committee
Disability Services Commission	Trustees of the Public Education Endowment
Eastern Pilbara College of TAFE	Water and Rivers Commission
Equal Opportunity Commission	West Coast College of TAFE
Fire and Emergency Services Authority	Western Australian Boxing Commission
Gaming Commission of Western Australia	Western Australian Building Management Authority
Gascoyne Development Commission	Western Australian Electoral Commission
Goldfields-Esperance Development Commission	Western Australian Greyhound Racing Authority
Governor's Establishment	Western Australian Health Promotion Foundation
Great Southern Development Commission	Western Australian Independent Gas Pipelines Access Regulator
Great Southern Regional College of TAFE	Western Australian Institute of Sport
Heritage Council of Western Australia	Western Australian Meat Industry Authority
Horticultural Produce Commission	Western Australian Sports Centre Trust
West Pilbara College of TAFE	Western Australian Tourism Commission
Keep Australia Beautiful Council (W.A.)	Wheatbelt Development Commission
Kimberley Development Commission	Workers' Compensation and Rehabilitation Commission
Kimberley Regional College of TAFE	Zoological Gardens Board
Landcare Trust	
Law Reform Commission of Western Australia	
Legal Aid Commission of Western Australia	
Legal Costs Committee	
Legislative Assembly	
Legislative Council	
Local Health Authorities Analytical Committee	

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 Grain Pool of W.A.
 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

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

The entities listed below, which administer superannuation and like funds, and/or hold private funds in trust or fidelity type funds, are not included in the public sector used in this publication. This is because the assets are not available for the benefit of, and/or are not controlled by, the State.

Coal Industry Superannuation Board
 Construction Industry Long Service Leave Payments Board
 Curtin University of Technology and its subsidiaries
 Edith Cowan University
 Government Employees Superannuation Board
 Legal Contribution Trust
 Murdoch University and its subsidiary
 Parliamentary Superannuation Board
 Public Trustee
 The University of Western Australia and its subsidiary
 Western Australian Fire Brigades Superannuation Board
 Other Professional and Trade Supervisory and Regulatory Boards

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						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
TAXATION						
Taxes on employers' payroll and labour force						
<i>Payroll tax</i>	832.6	900.5	1,021.6	1,082.0	1,146.8	1,214.8
Property taxes						
<i>Land tax</i>	220.7	226.5	266.5	284.0	303.5	325.0
Conveyances and transfers	549.2	670.3	652.3	695.0	731.0	767.9
Mortgages	74.7	85.5	89.5	94.5	99.5	105.0
Other stamp duties	96.9	57.0	57.5	60.5	63.5	66.5
<i>Total stamp duties on financial and capital transactions</i>	720.8	812.8	799.2	849.9	893.9	939.3
Financial Institutions Duty	138.0	15.8	-	-	-	-
Debits Tax	99.8	97.5	97.5	97.5	97.5	8.1
<i>Total financial institutions taxes</i>	237.8	113.3	97.5	97.5	97.5	8.1
Metropolitan Region						
Improvement Tax	36.1	39.0	40.5	43.0	46.0	49.5
Loan guarantee fees	8.5	9.4	10.3	10.6	10.7	10.7
<i>Total other property taxes</i>	44.6	48.4	50.8	53.6	56.7	60.2
Taxes on provision of goods and services						
<i>Statutory contribution</i>	-	-	-	-	-	-
Lotteries Commission	89.3	88.9	90.7	92.3	93.6	95.0
less rebates	-15.4	-16.9	-17.7	-18.0	-18.2	-18.4
Video lottery terminals	0.5	0.5	0.5	0.5	0.5	0.5
Casino Tax	42.2	44.0	46.0	47.0	47.0	48.0
less rebates	-23.6	-26.2	-27.4	-28.0	-28.2	-28.6
TAB betting tax	42.7	44.0	45.5	46.5	48.0	49.0
less rebates	-14.8	-19.5	-20.5	-20.9	-21.3	-21.5
Other gambling	0.1	0.1	0.1	0.1	0.1	0.1
<i>Total taxes on gambling</i>	121.0	114.8	117.3	119.4	121.5	124.0
Insurance companies contribution to fire brigades	62.4	63.9	65.4	67.1	69.8	71.6
Stamp Duty on insurance policies	155.9	179.0	230.5	240.1	249.7	260.3
Other	-	28.0	10.4	10.4	10.4	10.4
<i>Total taxes on insurance</i>	218.3	270.9	306.3	317.6	329.9	342.3
Taxes on use of goods and performance of activities						
Stamp Duty on Vehicle Licences	161.1	173.0	214.4	222.7	232.2	241.8
Permits - Oversize Vehicles and Loads	1.8	1.6	1.6	1.6	1.6	1.6
Motor Vehicle recording fee	36.7	38.5	39.9	41.1	42.2	43.5
Motor Vehicle registrations	253.8	265.2	278.6	292.0	303.4	317.5
<i>Total motor vehicle taxes</i>	453.5	478.3	534.5	557.4	579.4	604.3
Franchise fee safety net arrangements: ^(b)						
Petroleum	22.1	-	-	-	-	-
Tobacco	7.2	-	-	-	-	-
Liquor	13.1	-	-	-	-	-
<i>Total franchise fees</i>	42.3	-	-	-	-	-
Total Taxation	2,891.6	2,965.4	3,193.7	3,361.3	3,529.1	3,618.0

(a) Consistent with GFS principles, includes gross revenue less subsidies paid to petroleum and liquor distributors.

Table 1 (cont.)

OPERATING REVENUE						
General Government						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	Actual	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
CURRENT GRANTS AND SUBSIDIES						
<i>General Purpose Grants</i>						
Goods and Services Tax Revenue:						
Grants	2,374.6	2,562.1	2,821.4	2,936.0	3,108.3	3,269.1
Budget balancing assistance	213.0	312.1	116.9	34.5	-	-
Competition Reform	45.5	71.1	72.6	74.8	76.9	79.1
<i>Specific Purpose Grants to the State</i>						
Australian Health Care Agreement	585.7	660.8	689.0	733.9	781.8	832.8
Other health	170.6	197.3	202.7	187.8	195.2	197.2
Schools assistance – government schools	176.0	169.9	171.8	175.1	180.4	180.4
Vocational training	74.7	85.1	87.1	93.3	98.3	95.2
Roads	30.3	43.1	27.5	27.5	27.6	27.6
Other	158.5	193.6	134.1	119.4	105.3	124.9
<i>Specific Purpose Grants through the State</i>						
Schools assistance – non-government schools	326.7	333.0	359.3	390.9	416.3	416.3
Local government grants	89.2	92.8	96.1	99.5	103.1	103.1
Local government roads	63.0	65.5	67.9	70.2	72.8	72.8
First Home Owner Grants - Extension	-	48.0	-	-	-	-
<i>Other grants</i>						
North West Shelf royalties	473.5	380.0	323.6	268.6	314.1	309.5
Total Current Grants and Subsidies	4,781.2	5,214.2	5,170.0	5,211.5	5,480.0	5,707.9
CAPITAL GRANTS						
<i>Specific Purpose Grants to the State</i>						
Roads	44.8	44.0	60.3	51.4	51.7	37.4
Schools assistance – government schools	22.6	22.9	23.0	23.0	23.0	23.0
Vocational training	15.4	16.7	21.3	19.9	18.6	19.8
Other	182.0	180.2	178.3	170.1	172.7	172.7
<i>Specific Purpose Grants through the State</i>						
Schools assistance – non-government schools	12.1	9.0	8.9	9.1	9.3	9.3
Total Capital Grants	276.9	272.7	291.7	273.5	275.3	262.2
SALES OF GOODS AND SERVICES						
Department of Conservation	97.0	37.0	25.4	25.4	25.4	25.4
Department of Consumer and Employment Protection	16.6	15.6	17.8	18.3	18.1	18.1
Department of Culture and the Arts	4.2	13.2	12.6	12.8	12.8	12.8
Department of Education	76.8	73.9	73.8	77.1	80.4	80.4
Department of Fisheries	17.0	19.7	21.0	21.4	21.7	21.7
Department of Health	156.6	136.0	149.2	149.1	149.7	149.7
Department of Justice	28.6	40.0	43.2	43.5	43.5	43.4
Department of Land Administration	57.3	58.5	57.7	57.2	58.8	59.3
Department of Mineral and Petroleum Resources	11.3	14.0	13.8	13.9	13.9	13.9
State Supply Commission	-	50.7	67.1	24.3	0.7	0.8
Department of Training	11.6	12.8	12.9	13.0	13.1	13.2
TAFE colleges	73.3	76.9	72.1	74.3	78.2	83.3
All Others	312.9	347.6	352.7	373.6	362.2	362.0
Total Sale of Goods and Services	863.3	896.0	919.3	903.7	878.4	883.8

Table 1 (cont.)

OPERATING REVENUE						
General Government						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
INTEREST INCOME	141.9	117.8	108.6	107.1	95.3	95.1
REVENUE FROM PUBLIC CORPORATIONS						
Dividends	400.0	411.0	379.3	439.0	473.0	481.2
Tax Equivalent Regime	366.4	220.0	227.7	254.1	271.6	289.8
Total Revenue from Public Corporations	766.5	630.9	607.0	693.0	744.6	771.0
ROYALTY INCOME						
Revenue from Territorial	700.6	654.2	669.7	677.4	671.9	653.0
less petroleum and other refunds	-14.9	-14.7	-14.8	-9.6	-5.9	-4.1
Total Royalty Income	685.6	639.5	654.9	667.8	666.0	648.9
OTHER						
Lease rentals	35.7	35.5	36.5	35.5	35.5	35.5
Fines	72.7	94.9	90.3	90.3	90.3	90.3
Revenue not elsewhere counted	81.2	103.1	91.3	96.3	98.3	80.3
Total Other	189.7	233.5	218.1	222.1	224.1	206.0
GRAND TOTAL	10,596.5	10,970.2	11,163.5	11,440.0	11,892.7	12,192.9

Note: Columns may not add due to rounding.

APPENDIX 3

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?

A tax or royalty expenditure can be defined as the revenue foregone by the Government, or the financial benefit to taxpayers, from an exemption or other concession that departs 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 tax and royalty expenditures requires identification of:

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

- A benchmark tax or royalty rate to apply to the preferentially taxed components of the base.

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 (it could be argued that these exemptions form part of the benchmark tax base). Very small exemptions or concessions are also excluded.

This year's statement includes estimates of tax and royalty expenditures for the period 1999-00 to 2001-02.

Specific tax and royalty expenditures

Full details of the methodology and assumptions employed in calculating specific tax and royalty expenditures can be obtained from the 1999-2000 Budget Paper No. 3.

In terms of significant movements in the value of specific tax or royalty expenditures:

- The increase in the value of the payroll tax concession for small and medium business in 2001-02 primarily reflects the increase in the top rate from 5.56% to 6.00% from 1 January 2002. The decrease in the value of concession for non-grossing up of fringe benefits is due to the removal of that concession from 1 January 2002;
- The nil value of concession in Financial Institutions Duty (FID) in 2001-02 reflects the abolition of the duty from 1 July 2001;
- The value of the stamp duty exemption for corporate reconstructions in this statement is based on the actual number of approved applications (previous Budget Papers reported the value of exemption based on the assumed number of corporate reconstructions which would have proceeded in the absence of the exemption provisions);
- The estimated value of the stamp duty exemption in 2001-02 is expected to be substantially lower than in 2000-01 due to the significantly lower average value of exempt corporate reconstructions compared with 2000-01. The number of exempt corporate reconstructions in 2001-02 is expected to be broadly comparable with the number in 2000-01;
- The increase in the value of stamp duty concession for workers' compensation insurance in 2001-02 is due to the introduction of an additional concession for small business (ie. employers with an annual payroll of less than \$675,000) in 2001-02. The additional concession means that for small business, stamp duty on workers' compensation insurance is set at 3%, compared with the concessional stamp duty rate on workers' compensation insurance of 5% for larger employers; and

- The decrease in the value of the gold royalty concession in 2000-01 was due to the normal rate of gold royalty (2.5% instead of 1.25%) applying for three quarters of 2000-01. The further decline in 2001-02 is due to the normal rate of the gold royalty applying over the full year, and the remaining value of concession relates to the revenue foregone as a result of the 2,500 ounce annual production exemption.

Table 1

SUMMARY OF MAJOR TAX AND ROYALTY EXPENDITURES
Western Australia

	1999-00	2000-01	2001-02
	Actual	Actual	Estimates
	\$m	\$m	\$m
PAYROLL TAX			
Small business exemption	377.5	403.5	438.5
Medium business concessions	102.0	108.5	126.0
Non-grossing up of fringe benefits	13.5	14.5	8.0
Apprentices and trainees exemption	6.0	6.5	7.5
LAND TAX & MRIT			
Principal place of residence exemption	146.0	166.5	186.0
Primary production exemption	19.0	20.5	22.5
Land developers' concession	3.5	5.5	4.5
FINANCIAL INSTITUTIONS DUTY			
Maximum duty limit	22.5	23.5	0
Social security payments exemption	3.0	3.0	0
STAMP DUTY ON CONVEYANCES			
Corporate reconstructions exemption	121.0	108.5	50.0
Family farm exemption	7.5	8.5	6.0
Concessional rate for homes and businesses	3.0	2.5	2.5
\$500 rebate for first home buyers	2.5	4.5	4.5
STAMP DUTY ON INSURANCE POLICIES			
Health insurance policies exemption	46.5	57.5	61.0
Motor vehicle third party concession	22.0	22.5	25.5
Workers' compensation insurance concession	17.0	16.5	23.5
Marine hulls exemption	3.0	2.5	2.5
STAMP DUTY ON MORTGAGES			
Concessional rate for homes	9.0	8.5	10.5
MOTOR VEHICLE LICENCE FEES			
Family vehicle concession	23.5	24.0	24.5
Primary producer vehicle concession	7.5	8.0	8.5
Pensioner vehicle concession	13.0	15.0	15.5
MINING ROYALTIES			
Concession for gold	35.0	11.0	2.0
Iron ore Agreement Act concessions	40.0	43.5	45.5
TOTAL	1,043.5	1,085.0	1,075.0

APPENDIX 4

State Government Social Concessions Expenditure Statement

Introduction

The State Government provides social concessions in the form of rebates, discounts and waivers to improve the affordability of key services and other services that improve the quality of life for eligible individuals and families. Eligibility is based on low income, age, service to country or community and/or special needs or disadvantage.

In many cases, eligibility for a concession is evidenced by possession of a social security card issued by the Commonwealth Government, or other card issued by the State Government. A synopsis of these cards is included at the end of this Statement.

The information in this Statement is mainly compiled from survey forms (developed with the assistance of the Australian Bureau of Statistics) returned to the Department of Treasury and Finance by 26 agencies that provide social concessions.

In 2000-01, the State Government provided social concessions with an estimated value of \$342.0 million across a range of service areas. The cost to the State was partly offset by a \$14.4 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 to take effect from 1 July 2001. These mainly deal with extending 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 will allow 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:

- Extend the 50% rebate (or deferment) for local government and water rates currently available to pensioner concession card (PCC) holders to Commonwealth Seniors Health Card (CSHC) holders;
- Provide a capped 25% local government rates rebate for State Seniors Card (SSC) holders without a CSHC;
- Provide a pro-rata rebate (or deferment) of local government and water rates to holders of PCC, CSHC or SSC who become eligible after the commencement of the rating year;
- Allow 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;
- Extend the 50% motor vehicle fee concession currently provided to PCC holders to CSHC holders;
- Extend the 100% driver's license fee concession currently provided to PCC holders to CSHC holders; and
- Introduce a new air-conditioning subsidy to holders of PCC or CSHC holders living north of the 26th parallel and other specified climatically harsh areas.

SUMMARY OF STATE GOVERNMENT SOCIAL CONCESSIONS

Table 1

Western Australia

Class of Concession	1999–00 Estimated Total Value \$m	1999–00 Estimated No. of Recipients	2000–01 Estimated Total Value \$m	2000–01 Estimated No. of Recipients
ENERGY				
Supply charge rebate	17.9	220,782	18.6	221,888
Dependent child rebate	8.4	55,218	9.3	62,898
Other	0.6	n.a.	0.8	n.a.
WATER, SEWERAGE & DRAINAGE				
Rates rebate for pensioners	21.1	100,305	22.0	99,708
Consumption concession for pensioners	4.4	125,209	4.6	127,116
Rates rebate for seniors	2.6	23,474	2.8	24,896
Other	0.1	n.a.	0.1	n.a.
HOUSING AND LAND				
Homeswest rental subsidy	82.4	27,752	84.6	27,687
Homeswest right to buy subsidy	3.7	180	3.2	171
Stamp duty concession for homes and small business ^(a)	2.1	6,229	1.9	5,942
Homeswest amenities fee waiver	1.0	13,007	1.0	13,254
First home buyers' stamp duty rebate ^(a)	1.8	3,756	1.8	3,724
Homeswest cash assistance grant	0.5	290	0.4	222
Other	0.3	n.a.	0.3	n.a.
LOCAL GOVERNMENT				
Rates rebate for pensioners	23.0	101,230	23.6	99,401
TRANSPORT				
Contract school bus services	47.6	25,100	45.3	25,734
Transperth fares concession	30.0	72,060	39.6	83,292
Motor vehicle license fee concession ^(a)	12.8	137,371	16.6	145,198
Student fares concession	5.9	6,050	3.0	2,352
Taxi User subsidy	5.4	17,207	6.6	21,896
Drivers license fee concession	4.1	98,116	4.4	101,657
Subsidised student travel	1.1	1,100	1.3	900
Pensioners' annual free trip	1.1	1,750	1.3	1,800
Other	5.1	n.a.	5.2	n.a.
HEALTH				
Subsidised dental care	11.8	79,143	10.3	79,464
Spectacle subsidy scheme	2.5	52,387	2.5	50,978
Other	2.6	n.a.	4.2	n.a.
EDUCATION				
Secondary assistance scheme – school charges	5.1	26,170	5.1	25,922
Secondary assistance scheme – clothing	3.0	26,170	3.0	25,922
Department of Training tuition fees	3.7	26,211	4.6	29,535
Boarding away from home allowance	1.3	2,222	1.1	1,901
Other	0.6	n.a.	0.5	n.a.
LEGAL SERVICES				
Legal assistance	8.8	43,019	9.8	45,317
Other	0.1	n.a.	0.1	n.a.
CULTURE, LEISURE & RECREATION				
Children's Zoo discount	0.6	116,024	0.8	128,698
Children under 4 years of age – Free Zoo entry ^(b)	n.a.	n.a.	0.7	57,038
Other	0.9	n.a.	1.0	n.a.
TOTAL	324.0	n.a.	342.0	n.a.

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

(b) This data was not available in 1999-2000.

Energy

Supply charge rebate (\$18.6 million)

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

Dependent child rebate (\$9.3 million)

Domestic customers of Western Power with dependent children listed on their PCC or HCC receive a partial rebate of electricity usage charges. Their account is reduced in proportion to the number of children. The average value of the rebate per family is approximately \$148 per year.

Other (\$0.8 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 (\$22.0 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 \$221 per year.

Consumption concession for pensioners (\$4.6 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 (\$2.8 million)

Home owners in possession of a SSC receive a rebate of up to 25% of the Water Corporation's annual charges for water, sewerage and drainage services. The average value of the concession is \$113 per year.

Other (\$0.1 million)

Other water concessions provided by the Water Corporation include a 25% concession on annual water, sewerage and drainage services for residents of retirement villages.

Housing and Land

Homeswest rental subsidy (\$84.6 million)

Low income individuals and families with accommodation needs can receive a rental subsidy from Homeswest. Eligibility for the subsidy is based on the applicant's capacity to pay rent (as determined by an income and assets test). The average value of the subsidy per recipient is approximately \$3,055 per year.

Homeswest right to buy subsidy (\$3.2 million)

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

Stamp duty concession for homes and small business (\$1.9 million)

In 2000-01, purchasers of homes and small businesses valued at less than \$100,000 paid a concessional stamp duty rate of 1.5%, compared to the normal rates (at the time) of between 1.95% and 2.13%. The concessional rate phases out for properties valued between \$100,000 and \$135,000 (see also the Tax and Royalty Expenditure Statement).

Homeswest amenities fee waiver (\$1.0 million)

Homeswest's low income tenants over 55 years of age are exempted from the amenities fee for room heating.

First home buyers' stamp duty rebate (\$1.8 million)

In 2000-01, first homebuyers who purchased a home valued at no more than \$135,000 could claim a stamp duty rebate of \$500. For first homes purchased north of the 26th parallel, the threshold house value for the rebate was \$202,500. For vacant land used for the first home of the purchaser, the threshold value for the rebate was \$52,000 (see also the Tax and Royalty Expenditure Statement).

Homeswest cash assistance grant (\$0.4 million)

People with disabilities and Aboriginal and Torres Strait Islanders who wish to buy their own homes may receive a cash grant from Homeswest. The average value of a grant is \$1,956.

Other (\$0.3 million)

Other housing and land concessions include the interest forgone by Homeswest under the *Bond Assistance Scheme*.

Local Government

Rates rebate for pensioners (\$23.6 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 \$238 per year.

Transport

Contract school bus services (\$45.3 million)

Full time students aged less than 19, who attend approved school 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 \$4.49 per journey, or about \$1,760 per year.

Transperth fare concessions (\$39.6 million)

Children, students and holders of a PCC or SSC receive discounts of between 41% and 50% on Transperth fares, or free travel. The average value of the concession per recipient is \$1.19 per journey.

Motor vehicle licence fee concession (\$16.6 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 \$115 per year.

Student fares concession (\$3.0 million)

Full time students pay concessional fares for regular non Transperth "school bus" passenger transport services. The average value of the concession is \$3.23 for each fare.

Taxi user subsidy (\$6.6 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 2000 and 2001 there were respectively 17,207 and 21,896 active members of the scheme. The average value of the concession is \$8.56 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 \$43 per year.

Subsidised student travel (\$1.3 million)

Full time student 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 \$1,433 per recipient.

Pensioners' free annual trip (\$1.3 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 the concession, the average value of which is \$711 per recipient.

Other (\$5.2 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 \$129 per treatment.

Spectacle subsidy scheme (\$2.5 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 \$48.

Other (\$4.2 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 (\$5.1 million)**

The Department of Education provides assistance of between \$160 and \$215 (depending on the year of schooling) to low income families with secondary school children to meet school charges.

Secondary assistance scheme for clothing (\$3.0 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 (\$4.6 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.

Boarding away from home allowance (\$1.1 million)

Families in receipt of Commonwealth assistance for geographically isolated students receive a \$600 concession each year from the Department of Education.

Other (\$0.5 million)

Other education concessions include the Department of Training *Adult Community Education tuition fee concession* and the Department of Education's *special subsidy for boarders at Agricultural Colleges (who are not eligible for Commonwealth assistance)*.

Legal Services

Legal assistance (\$9.8 million)

Provision of subsidised legal services by the Legal Aid Commission to low income persons. Eligibility is means tested, and the value of the concession varies with the type of legal services provided.

Other (\$0.1 million)

Other legal service concessions include 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 (\$0.8 million)

Children between 4 and 15 years of age receive a 50% discount on the entry fee for the Perth Zoo. The value of the discount is \$6 per child for each visit. It could be argued that this is a commercial concession (rather than a social concession), to the extent that the lower entry fee for children maximises overall income for the zoo.

Children under 4 years of age free Zoo entry (\$0.7 million)

Children under 4 years of age receive free entry to the Perth Zoo. The value of the discount is \$12 per child for each visit. Like the children's discount, it could be argued that this is a commercial concession (rather than a social concession), to the extent that the lower entry fee for children maximises overall income for the zoo.

Other (\$1.0 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. Again some of these concessions may be of a more commercial than social nature.

Eligibility Criteria for Concession Cards

Pensioner Concession Card (PCC)

The Commonwealth Government issues a PCC to long term welfare recipients 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 5

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

	2001-02 Budget Estimate				2001-02 Estimated Actual				2002-03 Budget Estimate			
	Capital	Borrowings	Other	Total	Capital	Borrowings	Other	Total	Capital	Borrowings	Other	Total
	Contribution		Funding	Expenditure	Contribution		Funding	Expenditure	Contribution		Funding	Expenditure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
PARLIAMENT												
Parliament	1,724	-	1,187	2,911	1,724	-	522	2,246	2,795	-	1,365	4,160
Parliamentary Commissioner for Administrative Investigations	50	-	-	50	50	-	3	53	92	-	-	92
PREMIER; MINISTER FOR PUBLIC SECTOR MANAGEMENT; FEDERAL AFFAIRS; SCIENCE; CITIZENSHIP AND MULTICULTURAL INTERESTS												
Premier and Cabinet	2,234	-	2,785	5,019	2,294	-	2,725	5,019	-	-	8,769	8,769
Anti-Corruption Commission	422	-	-	422	422	-	-	422	480	-	70	550
Governor's Establishment	270	-	-	270	270	-	-	270	1,325	-	185	1,510
Public Sector Standards Commissioner	70	-	25	95	70	-	75	145	431	-	85	516
Salaries and Allowances Tribunal	-	-	-	-	6	-	-	6	-	-	6	6
DEPUTY PREMIER; TREASURER; ENERGY												
Office of the Auditor General	379	-	-	379	379	-	-	379	29	-	379	408
Gas Access Regulator	-	-	101	101	-	-	101	101	-	-	23	23
Treasury and Finance	3,300	-	1,066	4,366	1,901	-	822	2,723	-	-	1,077	1,077
Treasury Corporation	-	-	4,787	4,787	-	-	794	794	-	-	1,254	1,254
Energy	247	-	-	247	247	-	8	255	74	-	69	143
Perth International Centre for Application of Solar Energy	24	-	-	24	24	-	-	24	24	-	-	24
Western Power Corporation	-	10,000	376,000	386,000	-	43,796	286,841	330,637	-	159,000	285,274	444,274

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2001-02 Budget Estimate				2001-02 Estimated Actual				2002-03 Budget Estimate			
	Capital	Borrowings	Other	Total	Capital	Borrowings	Other	Total	Capital	Borrowings	Other	Total
	Contribution		Funding	Expenditure	Contribution		Funding	Expenditure	Contribution		Funding	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	4,250	-	1,484	5,734	4,250	-	1,208	5,458	-	-	7,205	7,205
Meat Industry Authority	-	-	200	200	-	-	-	-	-	-	200	200
Perth Market Authority	-	-	3,442	3,442	-	-	2,465	2,465	-	1,500	1,280	2,780
Fisheries	4,769	-	4,207	8,976	4,769	-	4,213	8,982	2,951	-	2,589	5,540
Forest Products Commission	-	-	1,886	1,886	-	5,500	1,038	6,538	-	5,120	1,300	6,420
Mid West Development Commission	30	-	227	257	30	-	227	257	30	-	-	30
Wheatbelt Development Commission	45	-	260	305	45	-	260	305	19	-	153	172
Great Southern Development Commission	30	-	459	489	30	-	459	489	20	-	296	316
MINISTER FOR HOUSING AND WORKS; LOCAL GOVERNMENT AND REGIONAL DEVELOPMENT; THE KIMBERLEY, PILBARA AND GASCOYNE												
Housing and Works	2,715	-	15,027	17,742	4,114	-	15,607	19,721	1,246	-	50,677	51,923
Country Housing Authority	-	13,755	2,198	15,953	-	10,759	2,241	13,000	-	11,619	1,714	13,333
Government Employees Housing Authority	-	-	2,301	2,301	-	-	2,424	2,424	-	-	2,178	2,178
State Housing Commission	-	10,000	639,130	649,130	-	19,287	654,779	674,066	-	16,713	717,709	734,422
State Supply Commission	15	-	25	40	15	-	25	40	36	-	6	42
Building Management Authority	25	-	555	580	25	-	555	580				
Local Government and Regional Development	2,428	-	4	2,432	2,085	-	347	2,432	2,000	-	32	2,032
Fremantle Cemetery Board	-	2,500	240	2,740	-	1,500	240	1,740	-	4,000	1,535	5,535
Metropolitan Cemeteries Board	-	-	6,405	6,405	-	-	4,244	4,244	-	-	3,901	3,901
Kimberley Development Commission	30	-	-	30	30	-	-	30	-	-	25	25
Pilbara Development Commission	30	-	950	980	30	-	950	980	50	-	380	430
Gascoyne Development Commission	25	-	2,732	2,757	25	-	1,284	1,309	25	-	2,037	2,062

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2001-02 Budget Estimate				2001-02 Estimated Actual				2002-03 Budget Estimate			
	Capital	Borrowings	Other	Total	Capital	Borrowings	Other	Total	Capital	Borrowings	Other	Total
	Contribution		Funding	Expenditure	Contribution		Funding	Expenditure	Contribution		Funding	Expenditure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
MINISTER FOR CONSUMER AND EMPLOYMENT PROTECTION; TRAINING												
Consumer and Employment Protection	3,043	-	298	3,341	2,443	-	298	2,741	1,956	-	1,760	3,716
Commissioner of Workplace Agreements	-	-	-	-	-	-	-	-	-	-	-	-
Registrar, Western Australian Industrial Relations Commission	150	-	-	150	150	-	-	150	150	-	-	150
Training	-	-	29,262	29,262	-	-	28,605	28,605	-	-	29,073	29,073
ATTORNEY GENERAL; MINISTER FOR JUSTICE AND LEGAL AFFAIRS; ELECTORAL AFFAIRS; PEEL AND THE SOUTH WEST												
Justice	31,340	-	18,513	49,853	31,340	-	18,513	49,853	7,250	-	44,134	51,384
Commissioner for Equal Opportunity	53	-	-	53	53	-	-	53	32	-	25	57
Law Reform Commission	-	-	10	10	10	-	-	10	1	-	9	10
Office of Director of Public Prosecutions	257	-	6	263	257	-	6	263	102	-	98	200
Information Commissioner	25	-	1	26	25	-	1	26	-	-	25	25
Western Australian Electoral Commission	-	-	-	-	-	-	-	-	171	-	129	300
Peel Development Commission	30	-	1,207	1,237	30	-	1,207	1,237	50	-	370	420
South West Development Commission	122	-	5,476	5,598	86	-	2,634	2,720	66	-	3,488	3,554
MINISTER FOR THE ENVIRONMENT AND HERITAGE												
Conservation and Land Management	7,242	-	8,700	15,942	7,242	-	7,800	15,042	3,713	-	12,248	15,961
Botanic Gardens and Parks Authority	-	-	9,331	9,331	-	-	7,880	7,880	4,150	-	4,436	8,586
Environmental Protection	800	-	278	1,078	800	-	278	1,078	-	-	800	800
Office of Water Regulation	55	-	4	59	55	-	4	59	37	-	59	96
Swan River Trust	60	-	51	111	60	-	51	111	-	-	85	85
Water and Rivers Commission	2,500	-	16	2,516	2,500	-	16	2,516	1,700	-	800	2,500
Zoological Gardens Board	-	1,264	553	1,817	-	978	539	1,517	-	300	900	1200
Heritage Council of Western Australia	-	-	45	45	-	-	45	45	-	-	58	58
National Trust of Australia (WA)	382	-	4,000	4,382	382	-	2,700	3,082	343	-	2,839	3,182

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2001-02 Budget Estimate				2001-02 Estimated Actual				2002-03 Budget Estimate			
	Capital	Borrowings	Other	Total	Capital	Borrowings	Other	Total	Capital	Borrowings	Other	Total
	Contribution \$'000	\$'000	Funding \$'000	Expenditure \$'000	Contribution \$'000	\$'000	Funding \$'000	Expenditure \$'000	Contribution \$'000	\$'000	Funding \$'000	Expenditure \$'000
MINISTER FOR POLICE AND EMERGENCY SERVICES; MINISTER ASSISTING THE MINISTER FOR PLANNING AND INFRASTRUCTURE												
Police Service	25,618	-	11,748	37,366	25,618	-	9,749	35,367	24,633	-	8,926	33,559
Fire and Emergency Services Authority of Western Australia	1,410	6,290	8,943	16,643	1,410	6,290	8,943	16,643	350	5,650	3,820	9,820
Eastern Goldfields Transport Board	-	-	-	-	-	-	-	-	-	-	-	-
MINISTER FOR PLANNING AND INFRASTRUCTURE												
Planning and Infrastructure	2,766	34,200	33,227	70,193	6,666	45,200	15,518	67,384	5,849	27,900	32,916	66,665
East Perth Redevelopment Authority	-	-	36,617	36,617	-	-	34,700	34,700	-	-	26,470	26,470
Land Administration	4,991	-	7,334	12,325	11,514	-	811	12,325	1,550	-	755	2,305
Main Roads	230,867	69,150	87,713	387,730	239,335	19,150	137,095	395,580	104,620	110,000	107,770	322,390
Midland Redevelopment Authority	-	6,687	10,527	17,214	-	6,687	3,476	10,163	-	103,81	1,777	12,158
Subiaco Redevelopment Authority	-	-	11,275	11,275	-	-	8,130	8,130	-	-	8,623	8,623
Armadale Redevelopment Authority	-	-	-	-	-	-	-	-	-	-	500	500
Transport	6,361	-	-	6,361	6,361	5,200	-	11,561	105	-	-	105
Albany Port Authority	-	5,870	750	6,620	-	7,870	750	8,620	-	-	750	750
Broome Port Authority	-	-	1,565	1,565	-	-	1,565	1,565	-	-	400	400
Bunbury Port Authority	-	-	8,234	8,234	-	-	8,234	8,234	-	-	3,550	3,550
Dampier Port Authority	-	9,000	4,630	13,630	-	-	1,430	1,430	-	2,000	85	2,085
Esperance Port Authority	-	24,000	1,200	25,200	-	24,000	971	24,971	-	-	2,000	2,000
Fremantle Port Authority	-	11,000	24,826	35,826	-	-	19,970	19,970	-	10,000	10,390	20,390
Geraldton Port Authority	-	-	4,930	4,930	-	-	4,930	4,930	-	-	1,399	1,399
Port Hedland Port Authority	-	-	2,119	2,119	-	-	2,819	2,819	-	-	10,378	10,378
Western Australian Government Railways Commission	-	63,942	77,672	141,614	-	50,940	77,672	128,612	-	151,108	94,000	245,108
Western Australian Land Authority	-	-	192,685	192,685	-	-	199,964	199,964	-	38,500	104,093	142,593
Western Australian Planning Commission	7,000	-	90,523	97,523	7,000	-	89,973	96,973	5,000	-	68,500	73,500

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2001-02 Budget Estimate				2001-02 Estimated Actual				2002-03 Budget Estimate			
	Capital	Borrowings	Other	Total	Capital	Borrowings	Other	Total	Capital	Borrowings	Other	Total
	Contribution		Funding	Expenditure	Contribution		Funding	Expenditure	Contribution		Funding	Expenditure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
MINISTER FOR STATE DEVELOPMENT; TOURISM; SMALL BUSINESS												
Industry and Technology	60,813	-	58,756	119,569	2,856	-	116,713	119,569	400	-	27,576	27,976
Mineral and Petroleum Resources	8,981	-	1,776	10,757	3,657	-	2,975	6,632	3,595	-	4,636	8,231
Rottne Island Authority	-	-	2,763	2,763	-	-	2,763	2,763	-	-	2,727	2,727
Western Australian Tourism Commission	1,717	-	424	2,141	424	-	1,717	2,141	-	-	2,151	2,151
Small Business Development Corporation	120	-	-	120	120	-	-	120	196	-	104	300
MINISTER FOR EDUCATION; SPORT AND RECREATION; INDIGENOUS AFFAIRS												
Education	88,961	-	51,352	140,313	88,961	-	51,352	140,313	86,036	-	44,864	130,900
Country High School Hostels Authority	125	8,559	2,291	10,975	125	8,559	206	8,890	107	3,592	240	3,939
Curriculum Council	1,128	-	2	1,130	1,128	-	2	1,130	1,500	-	72	1,572
Education Services	5,050	-	-	5,050	5,050	-	-	5,050	-	-	50	50
Recreation Camps and Reserves Board	105	-	339	444	105	-	339	444	-	-	560	560
Sport and Recreation	150	-	5,821	5,971	150	-	5,821	5,971	-	-	6,620	6,620
Sports Centre Trust	136	-	1,200	1,336	2,044	-	-	2,044	-	-	889	889
Indigenous Affairs	630	-	200	830	630	-	200	830	100	-	250	350
MINISTER FOR COMMUNITY DEVELOPMENT, WOMEN'S INTERESTS, SENIORS AND YOUTH; DISABILITY SERVICES; CULTURE AND THE ARTS												
Community Development	4,817	-	9,462	14,279	4,817	-	9,462	14,279	736	-	6,819	7,555
Disability Services Commission	-	2,097	2,679	4,776	-	1,388	2,376	3,764	1,156	1,996	1,500	4,652
Culture and the Arts	14,640	-	2,441	17,081	12,740	-	2,441	15,181	9,092	-	11,704	20,796
MINISTER FOR HEALTH												
Health	93,086	-	9,793	102,879	80,790	-	14,205	94,995	29,447	-	79,600	109,047

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2001-02 Budget Estimate				2001-02 Estimated Actual				2002-03 Budget Estimate			
	Capital	Borrowings	Other	Total	Capital	Borrowings	Other	Total	Capital	Borrowings	Other	Total
	Contribution		Funding	Expenditure	Contribution		Funding	Expenditure	Contribution		Funding	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	419	-	-	419	419	-	-	419	-	-	395	395
Totalisator Agency Board	-	-	9,845	9,845	-	-	9,845	9,845	-	-	3,858	3,858
Western Australian Greyhound Racing Authority	-	-	900	900	-	-	900	900	-	-	1,443	1,443
Bunbury Water Board	-	-	3,291	3,291	-	-	2,541	2,541	-	-	3,532	3,532
Busselton Water Board	-	-	1,728	1,728	-	-	1,728	1,728	-	-	1,061	1,061
Gold Corporation	-	-	7,000	7,000	-	-	7,000	7,000	-	-	1,000	1,000
Insurance Commission of Western Australia	-	-	2,478	2,478	-	-	2,478	2,478	-	-	1,707	1,707
Lotteries Commission	-	-	7,390	7,390	-	-	3,891	3,891	-	-	6,585	6,585
Water Corporation	-	200,000	210,700	410,700	-	160,000	228,400	388,400	-	75,000	278,000	353,000
Goldfields-Esperance Development Commission	-	-	110	110	-	-	110	110	-	-	-	-
TOTAL	671,531	601,360	1,957,918	3,230,809	570,188	417,104	2,149,199	3,136,491	305,820	634,379	2,168,154	3,108,353

Table 2

CAPITAL WORKS PROGRAM SOURCE OF FUNDS

	2000-01 Actual \$m	2001-02 Estimated Actual \$m	2002-03 Budget Estimate \$m	2003-04 Budget Estimate \$m	2004-05 Budget Estimate \$m	2005-06 Budget Estimate \$m
APPROPRIATIONS						
Capital contribution	920.8	570.2	305.8	384.2	312.6	319.6
Funding included in output appropriations	-	227.3	122.2	185.4	179.9	125.6
OTHER FUNDING						
Holding Account	-	3.0	141.5	106.9	132.6	131.1
Borrowings	504.5	417.1	634.4	393.8	417.3	410.6
Commonwealth grants	193.4	252.0	227.2	199.1	197.3	183.5
Land and Property Sales	234.6	198.5	180.7	181.4	192.4	162.6
Internal funds and balances	177.5	85.8	58.4	2.7	0.6	2.0
Other	1,077.9	1,382.5	1,438.3	1,377.7	1,188.6	1,170.7
TOTAL FUNDING	3108.7	3,136.5	3,108.4	2,831.3	2,621.3	2,505.8

Note: Columns may not add due to rounding.

APPENDIX 6

Public Corporations - Revenue and Expenses

As discussed in Chapter 2: *Fiscal Strategy and Targets*, 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 general government from individual public corporations is provided in Table 1 below.

However, there are also significant payments from general government 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. An example is the establishment of multi-user infrastructure on the Burrup Peninsula to support up to six gas processing projects, with financial assistance to be provided to the Water Corporation, the Western Australian Land Authority (LandCorp) and Dampier Port, subject to project commitment. Funding will be used to provide a water supply system, port dredging and service corridors.

A detailed overview of expenses from general government to individual public corporations is provided in Table 2 below.

Table 1

REVENUE TO GOVERNMENT FROM PUBLIC CORPORATIONS

Details of Payment	2001-02 Estimated Actual \$'000	2002-03 Budget Estimate \$'000	2003-04 Forward Estimate \$'000	2004-05 Forward Estimate \$'000	2005-06 Forward Estimate \$'000
Western Power					
Income tax expense	83,269	79,662	79,792	81,412	94,387
LGRE	3,005	3,028	3,051	3,075	3,100
Dividends	122,567	117,690	118,663	123,275	117,130
<i>Subtotal</i>	<i>208,841</i>	<i>200,380</i>	<i>201,506</i>	<i>207,762</i>	<i>214,617</i>
Water Corporation					
Income tax expense	115,611	126,420	146,926	157,127	164,914
LGRE	1,700	2,500	2,500	2,500	2,563
Dividends	256,897	236,910	280,109	298,493	313,493
<i>Subtotal</i>	<i>374,208</i>	<i>365,830</i>	<i>429,535</i>	<i>458,120</i>	<i>480,970</i>
Western Australian Land Authority (LandCorp)					
Income tax expense	2,859	2,895	6,566	10,828	7,534
LGRE	929	1,376	1,660	1,401	1,401
Dividends	6,952	6,000	13,000	21,500	20,300
<i>Subtotal</i>	<i>10,740</i>	<i>10,271</i>	<i>21,226</i>	<i>33,729</i>	<i>29,235</i>
Gold Corporation					
Statutory contributions/Dividends	1,648	2,652	4,121	5,295	5,295
<i>Subtotal</i>	<i>1,648</i>	<i>2,652</i>	<i>4,121</i>	<i>5,295</i>	<i>5,295</i>
Western Australian Treasury Corporation					
Income tax expense	3,317	2,558	2,279	2,146	1,847
Dividends	13,769	4,243	5,581	3,191	3,005
<i>Subtotal</i>	<i>17,086</i>	<i>6,801</i>	<i>7,860</i>	<i>5,337</i>	<i>4,852</i>
Albany Port Authority					
Income tax expense	-	-	275	394	510
LGRE	61	60	60	60	60
Dividends	-	-	321	460	596
<i>Subtotal</i>	<i>61</i>	<i>60</i>	<i>656</i>	<i>914</i>	<i>1,166</i>
Broome Port Authority					
Income tax expense	118	187	239	292	292
LGRE	4	4	4	4	4
Dividends	144	101	169	237	237
<i>Subtotal</i>	<i>266</i>	<i>292</i>	<i>412</i>	<i>533</i>	<i>533</i>
Bunbury Port Authority					
Income tax expense	1,221	1,502	1,743	2,014	2,014
LGRE	123	112	116	119	119
Dividends	1,472	1,795	2,077	2,393	2,447
<i>Subtotal</i>	<i>2,816</i>	<i>3,409</i>	<i>3,936</i>	<i>4,526</i>	<i>4,580</i>

Table 1 (cont.)

REVENUE TO GOVERNMENT FROM PUBLIC CORPORATIONS

Details of Payment	2001-02 Estimated Actual \$'000	2002-03 Budget Estimate \$'000	2003-04 Forward Estimate \$'000	2004-05 Forward Estimate \$'000	2005-06 Forward Estimate \$'000
Dampier Port Authority					
Income tax expense	139	154	188	613	613
LGRE	12	12	12	13	13
Dividends	162	180	220	716	716
Subtotal	313	346	420	1,342	1,342
Esperance Port Authority					
Income tax expense	398	706	844	994	1,469
LGRE	80	80	80	80	80
Dividends	1,835	1,563	1,854	2,155	2,605
Subtotal	2,313	2,349	2,778	3,229	4,154
Fremantle Port Authority					
Income tax expense	4,360	4,020	4,354	4,203	4,416
LGRE	310	412	431	453	475
Dividends	4,349	3,734	4,224	4,110	3,855
Subtotal	9,019	8,166	9,009	8,766	8,746
Geraldton Port Authority					
Income tax expense	62	175	147	135	135
LGRE	140	140	140	140	140
Dividends	207	340	309	296	296
Subtotal	409	655	596	571	571
Port Hedland Port Authority					
Income tax expense	700	600	1,400	1,900	2,000
LGRE	164	164	164	164	164
Dividends	948	1,617	2,385	2,451	2,833
Subtotal	1,812	2,381	3,949	4,515	4,997
Bunbury Water Board					
Income tax expense	747	815	838	849	833
Subtotal	747	815	838	849	833
Busselton Water Board					
Income tax expense	130	130	130	130	130
Subtotal	130	130	130	130	130
Forrest Products Commission					
Income tax expense	403	-	140	563	600
Dividends	-	2,481	5,906	8,365	8,347
Subtotal	403	2,481	6,046	8,928	8,947
Total Amounts					
Income tax expense	213,334	219,824	245,861	263,600	281,694
Wholesale sales tax ^(a)	105	-	-	-	-
LGRE	6,528	7,888	8,218	8,009	8,119
Dividends	410,968	379,324	438,957	472,955	481,173
Total	630,935	607,036	693,036	744,564	770,986

(a) Wholesale sales tax (WST), and consequently WST equivalents, was abolished from 30 June 2000. The minor residual payment is attributable to the Water Corporation and relates to residual motor vehicle leases entered into prior to 30 June 2000.

Table 2

EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Details of Payment	Payment Type	Funding Department	2001-02 Estimated Actual \$'000	2002-03 Budget Estimate \$'000	2003-04 Forward Estimate \$'000	2004-05 Forward Estimate \$'000	2005-06 Forward Estimate \$'000
Western Power							
Air Conditioning Subsidy for Seniors (North of 26 th Parallel)	CSO	DTF	465	226	233	240	247
Community Service Concessions ^a	CSO	DTF	298	309	318	328	338
Gas Lateral Line to Murchison Area – Interest Costs	Other	DMPR	832	832	832	832	832
Onslow Gas Fired Power Station – Interest Costs	Other	DMPR	183	183	183	183	183
Pensioner and Senior Concessions	CSO	DTF	30,907	30,709	31,527	32,456	33,466
Underground Power Program	Other	OoE	3,340	4,813	4,813	4,813	4,813
Subtotal			36,025	37,072	37,906	38,852	39,879
Water Corporation							
Country Water, Sewerage and Drainage Operations	CSO	DTF	152,053	163,529	173,553	175,627	185,973
Infill Sewerage Program	CSO	DTF	18,709	20,120	21,251	21,943	22,905
Pensioner and Senior Concessions	CSO	DTF	60,009	63,629	66,546	70,133	73,906
Rural Irrigation Schemes	CSO	DTF	6,833	10,613	10,854	11,085	11,321
Partial Reimbursement of Proceeds from the Sale of Surplus Land	Other	DTF	400	1,000	1,400	-	-
Burrup Water Supply System	Other	DMPR	-	-	2,500	2,500	2,500
Subtotal			238,004	258,891	276,104	281,288	296,605
Western Australian Government Railways Commission							
Albany Woodchip Mill – Rail Spur – Interest Costs	CSO	DTF	85	85	85	85	-
Albany Woodchip Mill – Rail Spur – Purchase	Other	DTF	-	-	-	660	-
Country Rail (Prospector & Australind) and							
Inter-town Coach Services	CSO	DTF	21,361	21,383	26,073	27,443	28,658
Geraldton Southern Rail Corridor – Debt Servicing Costs	CSO	DTF	-	331	909	1,911	2,757
Freight Division – Infrastructure – Debt Servicing Costs	CSO	DTF	20,824	18,504	17,855	17,518	17,429
Freight Division – Superannuation – Debt Servicing Costs	CSO	DTF	1,150	1,127	1,095	1,061	1,061
Freight Network – Post-sale management costs	CSO	DTF	5,637	4,283	3,369	3,650	3,650
Metropolitan Urban Rail Services Contract	Other	DPI	119,792	111,806	128,916	153,051	185,311
Pensioner and Senior Concessions							
(Country Rail and Inter-town Coach only)	CSO	DTF	786	786	786	786	786
Perth Urban Rail Development Project	Other	DTF	67,000	94,000	83,000	-	-
Perth Urban Rail Development – Debt Servicing Costs	Other	DTF	-	580	4,293	12,296	19,717
Reimbursement of Proceeds from Sale of Surplus Land	Other	DTF	13,100	16,050	15,850	3,250	-
Subtotal			249,735	268,935	282,231	221,711	259,369

Table 2 (cont.)

EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Details of Payment	Payment Type	Funding Department	2001-02 Estimated Actual \$'000	2002-03 Budget Estimate \$'000	2003-04 Forward Estimate \$'000	2004-05 Forward Estimate \$'000	2005-06 Forward Estimate \$'000
Western Australian Land Authority (LandCorp)							
Albany Gasworks Site	CSO	DTF	3,000	5,100	-	-	-
BP Kwinana – Land Acquisition	Other	DMPR	5,000	-	-	-	-
Breton Bay – Study Costs	CSO	DTF	150	-	-	-	-
Exmouth Marina Village	CSO	DTF	3,500	8,000	-	-	-
Hope Valley / Wattleup Land Acquisition	CSO	DTF	14,000	12,000	18,750	5,500	6,450
Karratha / Burrup Western Service Corridor	CSO	DTF	10	340	411	375	375
Kemerton Industrial Estate	Other	DMPR	1,219	100	-	-	-
Mandurah Ocean Marina Development	CSO	DTF	1,740	1,015	-	-	-
Munster MITP	Other	DoIT	4,718	1,539	-	-	-
Oakajee Industrial Estate Buffer Expansion	Other	DMPR	2,444	-	-	-	-
Oakajee Monitoring Studies	Other	DMPR	35	75	75	75	-
Oakajee to Nargulu Rail Corridor	Other	DMPR	1,174	-	-	-	-
Omex Site Bellvue	Other	DEP/DTF	-	600	-	-	-
PIL Kwinana Land – Interest Costs	CSO	DTF	790	790	790	790	790
Service Corridor Hearson Cove to Dampier	Other	DMPR	-	700	700	700	700
Subtotal			37,780	30,259	20,726	7,440	8,315
Albany Port Authority							
Albany Woodchip Mill ^(b)	Other	DTF	173	173	173	173	173
Subtotal			173	173	173	173	173
Broome Port Authority							
Land Tax Reimbursement	Other	DTF	52	-	-	-	-
Subtotal			52	-	-	-	-

Table 2 (cont.)

EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Details of Payment	Payment Type	Funding Department	2001-02 Estimated Actual \$'000	2002-03 Budget Estimate \$'000	2003-04 Forward Estimate \$'000	2004-05 Forward Estimate \$'000	2005-06 Forward Estimate \$'000
Bunbury Port Authority							
Casting Basin Loan – Interest Costs	Other	DMPR	94	92	90	89	89
Land Tax Reimbursement	Other	DTF	-	-	-	-	-
Subtotal			94	92	90	89	89
Dampier Port Authority							
Multi-user Infrastructure – Interest Costs	Other	DTF	-	520	520	520	520
Subtotal			-	520	520	520	520
Fremantle Port Authority							
Fremantle Waterfront Project	Equity	DTF	3,820	-	-	-	-
Land Tax Reimbursement	Other	DTF	-	-	-	-	-
Multi-user Bulk Unloader – Interest Costs	Equity	DTF	219	221	219	215	211
Subtotal			4,039	221	219	215	211
Public Corporations							
TER tax refunds	Other	DTF	-	100	100	100	100
Subtotal			-	100	100	100	100
Forest Products Commission							
Forest Enhancement Program	CSO	DTF	500	500	230	-	-
Debt Servicing Costs - Non-Commercial Native Forrest Related	CSO	DTF	-	1,070	1,070	1,070	1,070
Debt	Other	DTF	1,285	-	-	-	-
Reimbursement of Proceeds from Asset Sales			1,785	1,570	1,300	1,070	1,070
Subtotal			1,785	1,570	1,300	1,070	1,070
Total			567,687	597,833	619,369	551,458	606,331

(a) The Community Service Concession is a concession of up to \$276 per year to eligible voluntary and charitable organisations.

(b) 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.