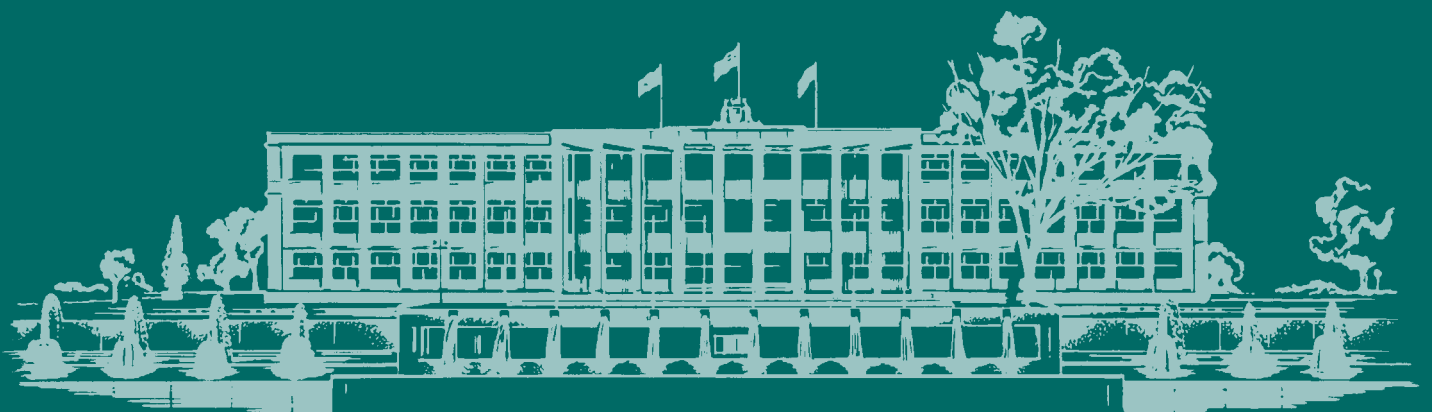




2004-05 BUDGET

ECONOMIC AND FISCAL OUTLOOK

PRESENTED TO THE LEGISLATIVE ASSEMBLY
ON 6 MAY 2004



Budget Paper No. 3

2004–05 Budget Paper set includes:

Budget Paper No. 1 – Budget Speech

Budget Paper No. 2 – Budget Statements (Volumes 1–3)

Budget Paper No. 3 – Economic and Fiscal Outlook

Budget Overview

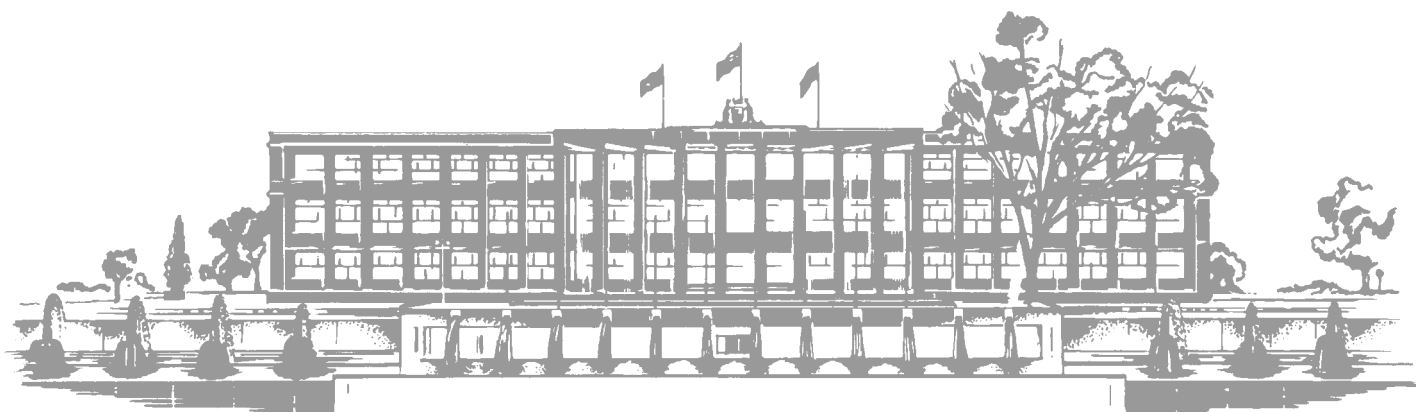
Reader's Guide to the 2004–05 Budget Statements



2004-05 BUDGET

ECONOMIC AND FISCAL OUTLOOK

PRESENTED TO THE LEGISLATIVE ASSEMBLY
ON 6 MAY 2004



Budget Paper No. 3

2004–05 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 9117

Website: <http://ourstatebudget.wa.gov.au>

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ECONOMIC AND FISCAL OUTLOOK
TABLE OF CONTENTS

UNDER TREASURER’S CERTIFICATION	i
CHAPTER 1: ECONOMIC AND FISCAL OUTLOOK - OVERVIEW	1
Fiscal Outlook	1
Key Areas of Expenditure	3
Capital Investment	4
Economic Outlook	6
CHAPTER 2: FISCAL STRATEGY AND FINANCIAL PROJECTIONS	9
Overview	9
Fiscal Strategy	10
Financial Targets.....	10
Summary of Financial Projections	15
General Government Sector	17
<i>Summary</i>	17
<i>Operating Statement</i>	18
Revenue	21
Expenses	22
<i>Balance Sheet</i>	27
<i>Cash Flow Statement</i>	28
Total Public Sector	29
<i>Summary</i>	29
<i>Public Non-Financial Corporations</i>	30
<i>Public Financial Corporations</i>	30
Capital Investment	30
Net Debt.....	32
<i>Total Public Sector</i>	32
<i>General Government</i>	34
<i>Public Non-Financial Corporations</i>	34
<i>Public Financial Corporations</i>	34
Statement of Risks	34
Estimating Assumptions	35
Revenue Estimates	35
Expenses	39
Capital Works	39
Contingent Liabilities.....	40
Issues in Public Sector Finances	41
A Comparison of General Government Net Operating Surpluses	41

CHAPTER 3: FINANCIAL PROJECTIONS – EXPENDITURE	51
Overview51
Expenses by General Government Agencies51
Premier; Minister for Public Sector Management; Federal Affairs; Science; Citizenship and Multicultural Interests	52
Deputy Premier; Treasurer; Minister for Energy	54
Minister for Agriculture; Forestry and Fisheries; The Mid-West, Wheatbelt and Great Southern	56
Minister for Local Government and Regional Development; Heritage; The Kimberley, Pilbara and Gascoyne; Goldfields-Esperance	58
Minister for Consumer and Employment Protection; Indigenous Affairs; Minister Assisting the Minister for Public Sector Management	59
Attorney General; Minister for Health; Electoral Affairs	60
Minister for the Environment	67
Minister for Police and Emergency Services; Justice; Community Safety	69
Minister for Planning and Infrastructure	72
Minister for State Development	73
Minister for Education and Training	74
Minister for Community Development; Women’s Interests, Seniors and Youth; Disability Services; Culture and the Arts	76
Minister for Tourism; Small Business; Sport and Recreation; Peel and the South West	78
Minister for Housing and Works; Racing and Gaming; Government Enterprises; Land Information	80
Public Sector Capital Investment	81
Premier; Minister for Public Sector Management; Federal Affairs; Science; Citizenship and Multicultural Interests	83
Deputy Premier; Treasurer; Minister for Energy	83
Minister for Agriculture; Forestry and Fisheries; The Mid-West, Wheatbelt and Great Southern	84
Minister for Local Government and Regional Development; Heritage; The Kimberley, Pilbara and Gascoyne; Goldfields-Esperance	85
Attorney General; Minister for Health; Electoral Affairs	86
Minister for the Environment	89
Minister for Police and Emergency Services; Justice; Community Safety	90
Minister for Planning and Infrastructure	92
Minister for State Development	97
Minister for Education and Training	97
Minister for Community Development; Women’s Interests, Seniors and Youth; Disability Services; Culture and the Arts	99
Minister for Tourism; Small Business; Sport and Recreation; Peel and the South West	99
Minister for Housing and Works; Racing and Gaming; Government Enterprises; Land Information	100

CHAPTER 4: FINANCIAL PROJECTIONS – REVENUE	107
Overview	107
Operating Revenue Projections	108
Summary	108
Revenue Relief Measures	110
<i>Summary</i>	110
<i>Stamp Duty – Property Conveyance</i>	112
<i>Land Tax</i>	115
<i>Household Charges</i>	116
Taxation Revenue Estimates	117
<i>Taxes on Employers’ Payroll and Labour Force</i>	118
<i>Taxes on Property and Financial Institution Taxes</i>	118
<i>Taxes on the provision of goods and services</i>	119
<i>Taxes on the use of goods and performance of activities</i>	120
Other Revenue	120
<i>Commonwealth Grants</i>	120
<i>Sales of Goods and Services</i>	122
<i>Interest Income</i>	123
<i>Revenue from Public Corporations</i>	123
<i>Royalty Income</i>	124
CHAPTER 5: THE WESTERN AUSTRALIAN ECONOMY	129
Overview	129
2003-04.....	129
Outlook	131
State Final Demand	133
Household Consumption.....	133
Business Investment.....	133
Dwelling Investment.....	135
Public Activity	136
Net Exports	137
Exports	138
Imports.....	139
Labour Market	139
Employment.....	139
Unemployment	140
Prices	140
Consumer Price Index	140
Wages.....	140
Implicit Price Deflator.....	141
Regional Economies	141
Risks to the Outlook	143
International Conditions	143
Interest Rates	144
The Australian Dollar	144
Wages.....	144


CHAPTER 6: FEDERAL AFFAIRS	145
Overview	145
The Commonwealth Grants Commission's 2004 Review	146
Horizontal Fiscal Equalisation.....	146
Outcome of the 2004 Review	147
Major Changes	148
Continuing Deficiencies	149
Future Work Program.....	150
Developments in GST Funding Arrangements	150
Benefits of Tax Reform.....	150
Specific Purpose Payments	152
SPPs Monitoring Report	154
Developments in Major SPPs.....	154
Reform of SPPs.....	156
Inter-State Redistribution of Resources by the Commonwealth	157
Long Term Reform of Commonwealth-State Financial Relations	159
State-Local Financial Relations	160
CHAPTER 7: STRUCTURAL REFORM	165
Overview	165
Electricity Industry Reform	166
Structural Reform and Market Design	166
Regulatory Reform and Retail Contestability	167
Consumer Protection	169
Implementation Timetable	169
Gas Market Reform	169
Water Market Reform	171
Rail Access Reform	171
Economic Regulation	172
Insurance Law Reform	173
National Competition Policy	174

APPENDIX 1: DETAILED FINANCIAL PROJECTIONS	177
General Government	178
Public Non-Financial Corporations	181
Total Non-Financial Public Sector	184
Public Financial Corporations	187
Total Public Sector	190
Spending by Government Purpose Classification.....	193
Loan Council Allocations.....	194
Agency Classification	195
APPENDIX 2: GENERAL GOVERNMENT OPERATING REVENUE	199
APPENDIX 3: 2003-04 GENERAL GOVERNMENT OPERATING REVENUE	203
APPENDIX 4: TAX AND ROYALTY EXPENDITURE STATEMENT	207
APPENDIX 5: STATE GOVERNMENT SOCIAL CONCESSIONS EXPENDITURE STATEMENT	211
APPENDIX 6: CAPITAL WORKS PROGRAM - SUMMARY OF EXPENDITURE AND SOURCE OF FUNDS	219
Table 1: Capital Works Program Summary of Expenditure and Funding.....	220
Table 2: Capital Works Program Source of Funds	226
APPENDIX 7: PUBLIC CORPORATIONS - REVENUE AND EXPENSES	227
Table 1: Revenue to Government from Public Corporations.....	229
Table 1(a): Revenue from Public Corporations	231
Table 2: Expenses from Government to Public Corporations.....	232
APPENDIX 8: TARIFFS, FEES AND CHARGES - IMPACT ON 'REPRESENTATIVE HOUSEHOLD' MODEL	235

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 5 April 2004 and which had a material effect on the Government's financial projections.

It has been prepared in accordance with applicable Australian Accounting Standards and Government Finance Statistics principles, and is based on the economic assumptions outlined in Chapter 5: *The Western Australian Economy*. These assumptions were finalised on 5 April 2004.

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

J L Langoulant
UNDER TREASURER

6 May 2004

CHAPTER 1

Economic and Fiscal Outlook – Overview

Fiscal Outlook

The outlook for the State's finances has improved since the 2003-04 *Government Mid-year Financial Projections Statement* (mid-year review), with a general government sector net operating surplus of \$243 million now forecast for 2004-05, up from \$50 million at the time of the mid-year review.

Consistent with the Government's financial targets, general government operating surpluses are forecast across the entire projection period, underpinned by average revenue growth of 3.4% per annum and average expense growth of 3.3% per annum (see following table). Expense growth of this magnitude is consistent with the Government's target to limit growth in expenses to real per capita growth.

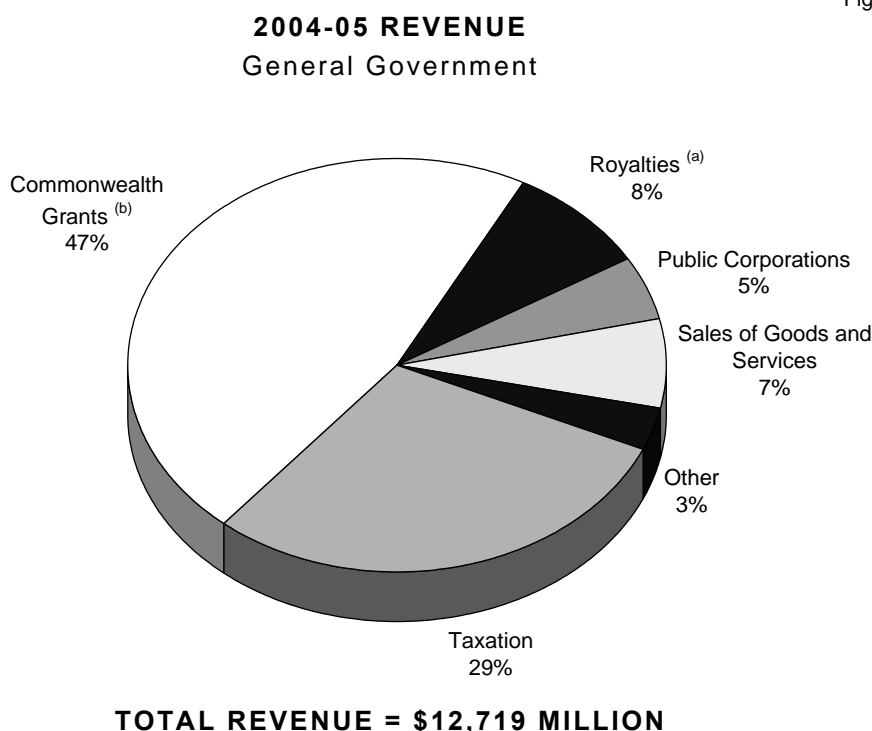
Table 1

KEY BUDGET AGGREGATES						
Western Australia						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated Actual	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
GENERAL GOVERNMENT						
Net Operating Balance (\$m)	254	207	243	224	198	321
Revenue (\$m)	11,771	12,266	12,719	13,056	13,481	14,042
Revenue Growth (%)	6.7	4.2	3.7	2.6	3.3	4.2
Expenses (\$m)	11,518	12,060	12,477	12,832	13,283	13,721
Expense Growth (%)	6.3	4.7	3.5	2.8	3.5	3.3
TOTAL NON-FINANCIAL PUBLIC SECTOR						
Net Debt to Revenue Ratio (%)	32.5	35.5	39.6	41.3	41.7	39.1
TOTAL PUBLIC SECTOR						
Net Debt at 30 June (\$m)	4,497	5,086	5,930	6,323	6,577	6,339

The improved fiscal outlook since the mid-year review reflects a stronger revenue outlook, notwithstanding an expected downturn in property market activity (and associated stamp duty revenue) in 2004-05. The improved revenue outlook is mainly the result of an increase in Western Australia’s share of national GST revenue following a review by the Commonwealth Grants Commission of how it distributes Commonwealth grants to the States, as well as the impact of strong demand for the State’s mineral exports on mining royalty revenue.

The following chart shows the major sources of general government revenue, and illustrates the importance of Commonwealth grants and royalties in the State’s revenue base. Together, these two revenue sources are estimated to account for 55% of total general government revenue in 2004-05 (up from an estimated 52% in 2003-04).

Figure 1



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

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

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

The improved revenue outlook, combined with a continuing focus on expense restraint in lower priority areas of public sector activity, has enabled the Government to deliver a substantial revenue relief package to Western Australian households and businesses. This package is centred around stamp duty on property conveyances, land tax (including the Metropolitan Region Improvement Tax) and household fees and charges, and is estimated to cost \$133 million in 2004-05 (rising to \$160 million in 2007-08), with a total cost of \$585 million across the forward estimates.

In addition to the revenue relief package, the 2004-05 Budget also provides significant funding boosts in the areas of health, education and training, law and order and community support. The major expenditure initiatives contained in the Budget are summarised later in this Chapter, with further detail provided in Chapter 3: *Financial Projections – Expenditure*.

Consistent with previous projections, net debt of the total public sector is projected to increase over the forward estimates period. This increase is in support of the Government's record Capital Works Program (estimated at \$3.9 billion in 2004-05), as well as a \$2.7 billion capital investment program over the next 13 years in health reform and broader health initiatives.

Importantly, however, the operating surpluses projected over the forward estimates period limit the increase in net debt to sustainable levels, with the net debt to revenue ratio of the total non-financial public sector (a key ratio for the State's credit rating) projected to remain comfortably below the 47% target limit in all years.

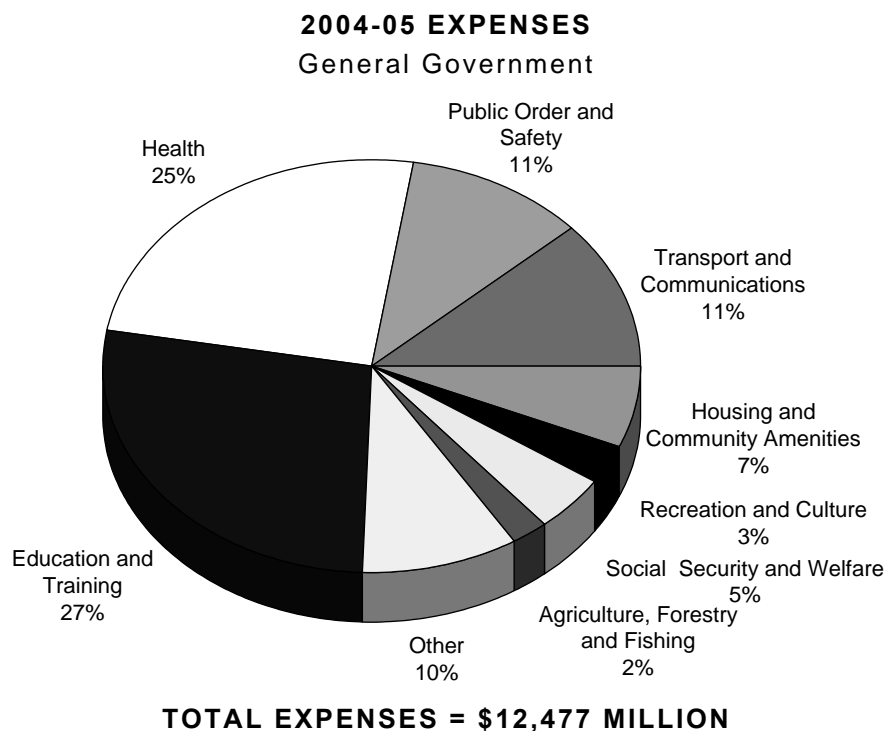
Key Areas of Expenditure

The 2004-05 Budget continues to deliver increased expenditure in the Government's priority areas. In particular:

- a \$163 million or 5.4% increase in expenses for health services initiatives, including commencing the implementation of the Health Reform Committee's recommendations. These include a major restructure of metropolitan hospitals associated with increased capacity at the existing secondary hospitals and the recruitment of an additional 115 nurses delivering more hospital beds. Clinical services are also to be reconfigured with the establishment of specialist centres of excellence for major trauma, neurosurgery and heart, lung and renal transplants. Hospital emergency departments will be provided with relief with the establishment of four after-hours bulk-billing medical centres and additional funding to St John's Ambulance Association to improve ambulance response times. The Government is also implementing a winter bed strategy, which provides an additional 332 general acute beds;
- a \$73 million or 2.5% increase in expenses for the Department of Education and Training, including expenditure on the implementation of the recommendations of the review of Educational Services for Students with Disabilities in Government Schools, the Getting It Right Literacy and Numeracy strategy, the Education to Community strategy and the Employment Directions Network strategy (a regionally based careers and training communications framework);
- a \$59 million or 4.8% increase in law and order expenses, including the establishment of a Court of Appeal within the Supreme Court, the recruitment of 75 additional police officers and commencing the implementation of the Police Royal Commission recommendations. In addition, a number of new initiatives will be implemented throughout 2004-05, including the creation of a police assistance call centre and the opening of six metropolitan police district stations on a 24 hours a day, 7 days a week basis, which will enable the release of police officer resources to focus on operational imperatives and improve service delivery;

- a \$16 million or 6.0% increase in expenses on disability services, including funding for 107 new accommodation places and increased services in the areas of family support, therapy and local area coordination;
- the provision of an additional 50 staff for the Department for Community Development including caseworkers, crisis care workers and support workers to work with children in care, their families and foster carers; and
- an additional \$79 million in grants over the forward estimates period under the National Action Plan for Salinity and Water Quality (bringing the State’s total contribution under this Plan to \$158 million).

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



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

Capital Investment

The provision of an appropriate level of public sector capital investment is a major factor the Government considers when framing the Budget. Schools, hospitals, public housing, water and power supplies, roads and transport services are examples of priority infrastructure delivered by the Government. Such infrastructure equips the State’s economy for the future, boosting economic growth, exports and jobs.

As noted earlier, the 2004-05 Capital Works Program is a record \$3.9 billion, with major areas of investment including:

- the health sector (\$162 million), with key initiatives including investment in a new hospital for the southern suburbs, the rebuilding of King Edward Memorial hospital for women, the replacement of Geraldton Regional and Moora hospitals, expansions to outer metropolitan hospitals in Joondalup, Swan Districts, Armadale/Kelmscott and Rockingham/Kwinana, the establishment of specialist services at tertiary hospitals and upgrades to hospital emergency departments and various regional hospitals and health facilities;
- government schools and TAFE college infrastructure (\$190 million), including construction of four new and four replacement primary schools for the 2005 school year as well as refurbishment and upgrades of existing schools and ongoing development of new facilities to meet future needs;
- law and order-related projects, such as:
 - the continuation of the development of the Central Business District Courts complex that involves the construction of a new District Court and superior criminal courts complex and the refurbishment of the Central Law Courts; and
 - work on a number of new police facilities including District Police Complexes in Albany and Broome, replacement of six police stations (three located in the regions) and eight new multi-functional police facilities in remote locations to serve aboriginal communities (in response to the Gordon Inquiry recommendations);
- the electricity system (\$419 million, an increase of \$82 million (or 24%) over 2003-04). Western Power's capital program is focused on a longer-term plan to improve the quality and reliability of electricity supply in both regional and metropolitan areas, and to provide increased capacity to serve existing and new customers. Around two thirds of the capital program (\$275 million) is being spent in Western Power's networks business, and includes:
 - transmission works totalling \$138 million, which includes the construction of new substations at Padbury, Meadow Springs, Clarkson and Rangeway, and new 132kV lines from Pinjar to Cataby-Eneabba and from Muja to Bridgetown-Manjimup;
 - more than \$100 million allocated to new connections, capacity enhancement, public safety and replacement of ageing assets within the distribution network;
 - a special fund totalling \$12 million to cater for non-commercial safety and reliability issues in the distribution network, including those raised by the Director of Energy Safety; and
 - \$19 million for the continuation of the underground power project;

- the New MetroRail project, including completion of the Northern Suburbs Railway extension and progress on the infrastructure works for the Southern Suburbs Railway, including underground works in the Perth central business district and bridge and road works along the Kwinana Freeway;
- port facilities, including construction of the North Quay Rail Loop and Rail Terminal at Fremantle, construction of a new bulk liquid jetty at Dampier as part of the Burrup Infrastructure Package and capacity-related works at various regional ports;
- \$376 million for the road construction and maintenance program, including major projects to extend the Roe Highway to Kwinana Freeway, Tonkin Highway to Thomas Road, the Mitchell Freeway to Burns Beach Road and the construction of the Geraldton Southern Transport Corridor. This program is in addition to work associated with the New MetroRail project; and
- water, wastewater and drainage services capital expenditure of \$356 million to provide high quality reliable water services across the State. Major projects include the ongoing Infill Sewerage Program, the Kalgoorlie Pipeline, securing water supply to Perth and country areas, work on the Burrup Peninsula to serve new industrial developments and the Kwinana wastewater re-use plant.

Economic Outlook

The Western Australian economy, as measured by gross State product (GSP), is expected to grow at 6.75% in 2003-04 – the highest rate in almost a decade. This growth is being largely underpinned by a record level of business investment and a return to normal seasonal conditions in the agricultural sector.

In 2004-05, GSP growth is expected to remain strong at 4.5%. Strong demand for commodities, particularly from China, and recent production capacity expansions (especially in the mining sector) are expected to drive healthy export growth. Some consolidation in business investment from record levels and a minor downturn in the dwelling sector will see growth ease from its very high levels in 2003-04.

Employment is expected to grow by a healthy 2.25% in 2004-05. The unemployment rate is expected to fall marginally to 5.75% over the period, with most of the increase in employment being accommodated by labour force growth. Wages growth is expected to moderate as more labour becomes available.

In 2005-06, solid GSP growth of 4.0% is forecast, with exports still expected to be a major contributor to the economy. Employment growth should be maintained at 2.25%, while the unemployment rate should remain low at 5.75%.

Similar to trends nationally, growth in the consumer price index (CPI) is expected to ease to 2.0% in 2004-05, as wages growth moderates and as the full impact of the recent appreciation of the Australian dollar flows through to consumer prices. The CPI in Perth is expected to increase modestly to 2.5% per annum in the outyears.

Table 2

MAJOR ECONOMIC PARAMETERS
Western Australia

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	%	%	Estimate	Estimate	Estimate	Estimate
			%	%	%	%
Real Gross State Product Growth	3.9	6.75	4.5	4.0	4.0	4.0
Employment Growth	2.5	1.75	2.25	2.25	2.25	2.25
Unemployment Rate	6.0	6.0	5.75	5.75	5.75	5.75
Wages Growth ^(a)	3.7	3.75	3.25	3.25	3.25	3.25
Consumer Price Index Growth	2.7	2.25	2.0	2.5	2.5	2.5
Implicit Price Deflator Growth	1.5	1.75	2.25	2.25	2.25	2.25

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

CHAPTER 2

Fiscal Strategy and Financial Projections

Overview

The financial strategy underpinning the 2004-05 Budget remains unchanged from the Government's previous three budgets, with expense restraint in lower priority areas of public sector activity contributing to the achievement of operating surpluses which, in turn, enable record levels of capital investment to proceed within debt levels that remain consistent with the State's triple-A credit rating.

Following four consecutive operating deficits in the mid to late 1990s, the Government has turned around the State's finances, with three consecutive general government operating surpluses recorded between 2000-01 and 2002-03, and a fourth surplus (of \$207 million) expected for the current financial year.

These surpluses have played a critical role in containing debt, with total public sector net debt at 30 June 2004 estimated to be \$816 million lower than the corresponding estimate in the 2000-01 *Pre-election Financial Projections Statement* (PFPS). Similarly, the net debt to revenue ratio for the total non-financial public sector is currently estimated at 35.5% for 2003-04, well below the Government's target limit of 47% and the 44.7% estimated in the PFPS.

Consistent with its financial targets, the Government has budgeted for continuing operating surpluses over the forward estimates period, including a forecast surplus of \$243 million in 2004-05. This is notwithstanding:

- significant funding increases in health, education and training, law and order and community support, with these areas accounting for \$352 million (or 84%) of the total increase in general government expenses in 2004-05; and

- a revenue relief package focused on stamp duty on property conveyances, land tax (including the Metropolitan Region Improvement Tax) and household fees and charges, costing \$133 million in 2004-05 (rising to \$160 million in 2007-08).

These outcomes have been assisted by the increase in Western Australia's share of national GST revenue arising from the Commonwealth Grants Commission review of how it distributes Commonwealth grants to the States (which was endorsed at the Ministerial Council meeting of Treasurers on 26 March 2004). This change in Western Australia's 'relativity' has increased the State's annual GST grants by \$231 million from 2004-05.

Tight expense management has also played an important role in framing the 2004-05 Budget. Overall, expenses are forecast to increase by 3.5% in 2004-05 and by an average of 3.3% per annum across the forward estimates period. These rates of expense growth are down significantly from the 6.9% annual average growth in expenses experienced over the second half of the 1990s.

The record \$3.9 billion Capital Works Program in 2004-05 and the Government's \$2.7 billion capital investment in health reform and broader health initiatives over the next 13 years have been framed within responsible outcomes for the net debt to revenue target. Importantly, the projected operating surpluses make important contributions in keeping net debt at sustainable levels, with the net debt to revenue ratio projected to remain comfortably below the 47% target limit.

The remainder of this Chapter outlines the Government's financial targets, discusses the detailed financial projections underlying the 2004-05 Budget and the risks surrounding the projections, and examines Western Australia's recent budget performance relative to other States.

Fiscal Strategy

The Government's fiscal strategy was outlined in broad terms in the preceding section as delivering operating surpluses through containing growth in expenses in order that the necessary investment in the State's economic and social infrastructure can proceed within sustainable debt levels. At a more detailed level, this strategy is reflected in a series of specific financial targets, which are discussed below.

Financial Targets

The Government's financial targets have remained unchanged from those adopted when it came to office (apart from a technical change to the net debt to revenue ratio target necessitated by the November 2002 restructure of the Grain Pool of Western Australia). These targets are to:

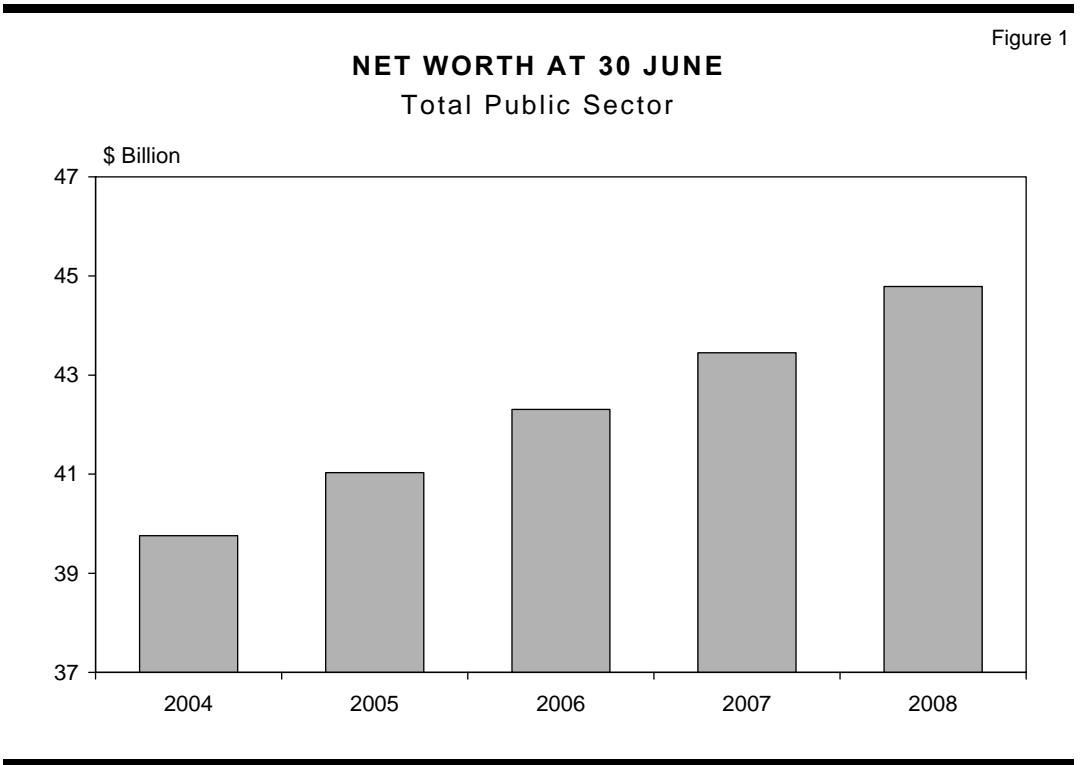
- maintain or increase the net worth of the total public sector;
- achieve an operating surplus for the general government sector;

- retain Western Australia’s triple-A credit rating, represented by the following two specific targets:
 - maintain the net debt to revenue ratio for the total non-financial public sector¹ at or below 47%; and
 - ensure that real per capita expenses for the general government sector do not increase; and
- maintain Western Australia’s tax competitiveness.

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

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

As illustrated below, the Government expects to meet this target in the budget year and each of the forward estimate years, with net worth rising from an estimated \$39.8 billion at 30 June 2004 to \$44.8 billion at 30 June 2008. Since 2001, the State’s net worth has increased by \$7.6 billion to 30 June 2004, and over the period to 30 June 2008 the estimated increase is \$12.6 billion.



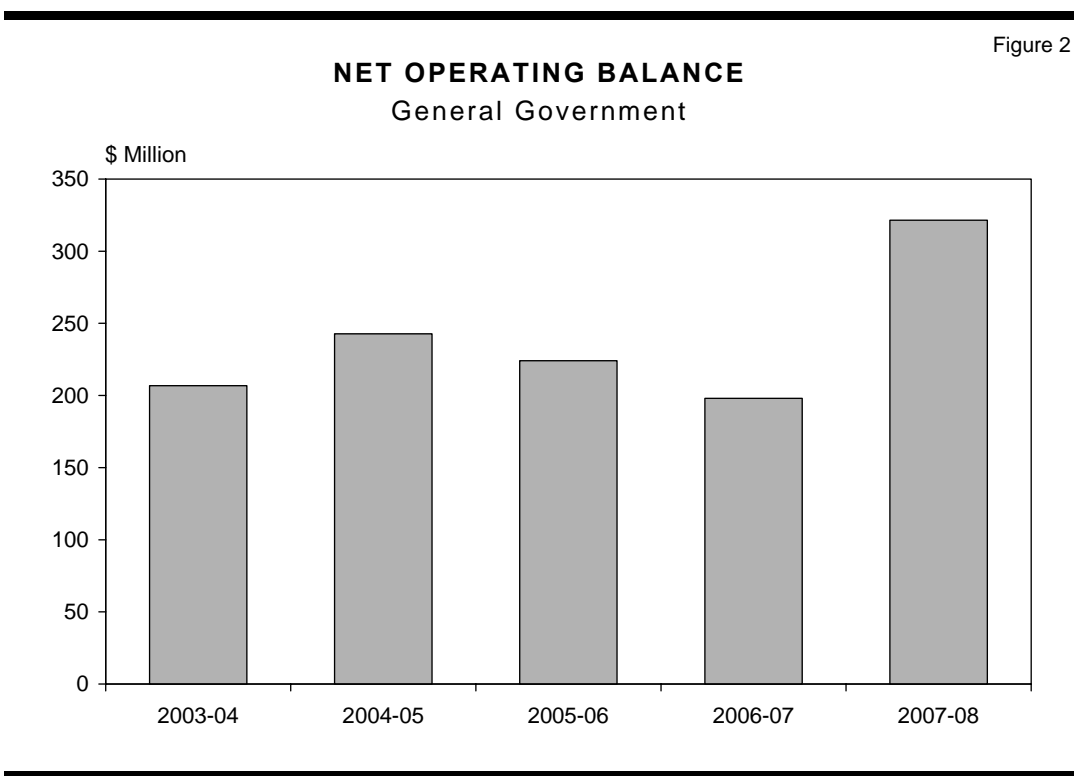
¹ Comprises the general government and public non-financial corporations sectors (the latter includes public corporations such as Western Power, the Water Corporation and the Public Transport Authority).

The projected increase in net worth over the forward estimates period primarily reflects increases in the value of the State’s land and fixed asset holdings more than offsetting moderate growth in liabilities (which in turn reflects a steadying and subsequent decline in the projected level of borrowings and unfunded superannuation liabilities).

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

The net operating balance is the excess of operating revenue over operating expenses, and is the principal budget ‘bottom line’. It excludes expenditure on the acquisition of capital assets, but includes non-cash costs such as accruing superannuation entitlements and the consumption of capital (i.e. depreciation). By including all accruing costs, the net operating balance encompasses the full costs of providing government services, making it a good measure of the sustainability of the Government’s operations over time.

Following the surpluses recorded in the Government’s first two full years (2001-02 and 2002-03), the Government is budgeting for further general government operating surpluses in the current financial year and each year of the forward estimates period (see following chart).



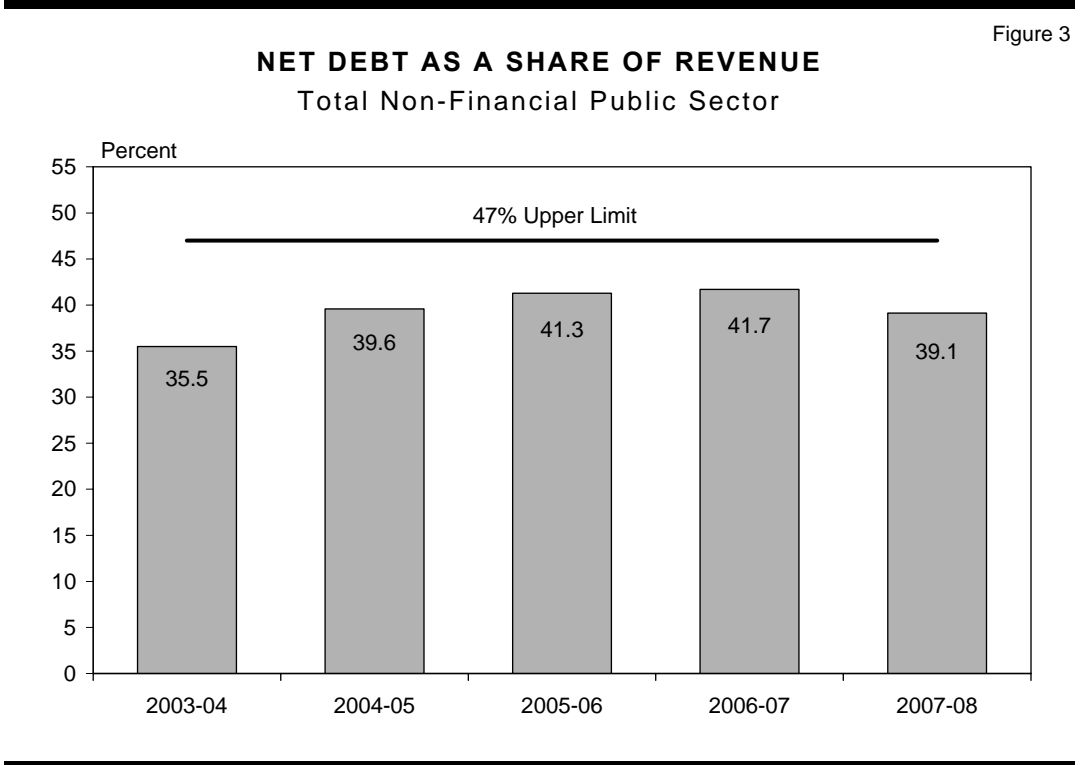
The \$243 million surplus estimated for 2004-05 is substantially above the forecast contained in the 2003-04 mid-year review (\$50 million), largely reflecting the increase in Western Australia’s share of national GST revenue arising from the Commonwealth Grants Commission review of how it distributes Commonwealth grants to the States (see Chapter 6: *Federal Affairs* for further detail).

The revenue and expense projections underlying the projected surpluses are discussed later in this Chapter.

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

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

As indicated in the following chart, the Government expects to remain well below the target limit in each year, with the ratio peaking at an estimated 41.7% in 2006-07.

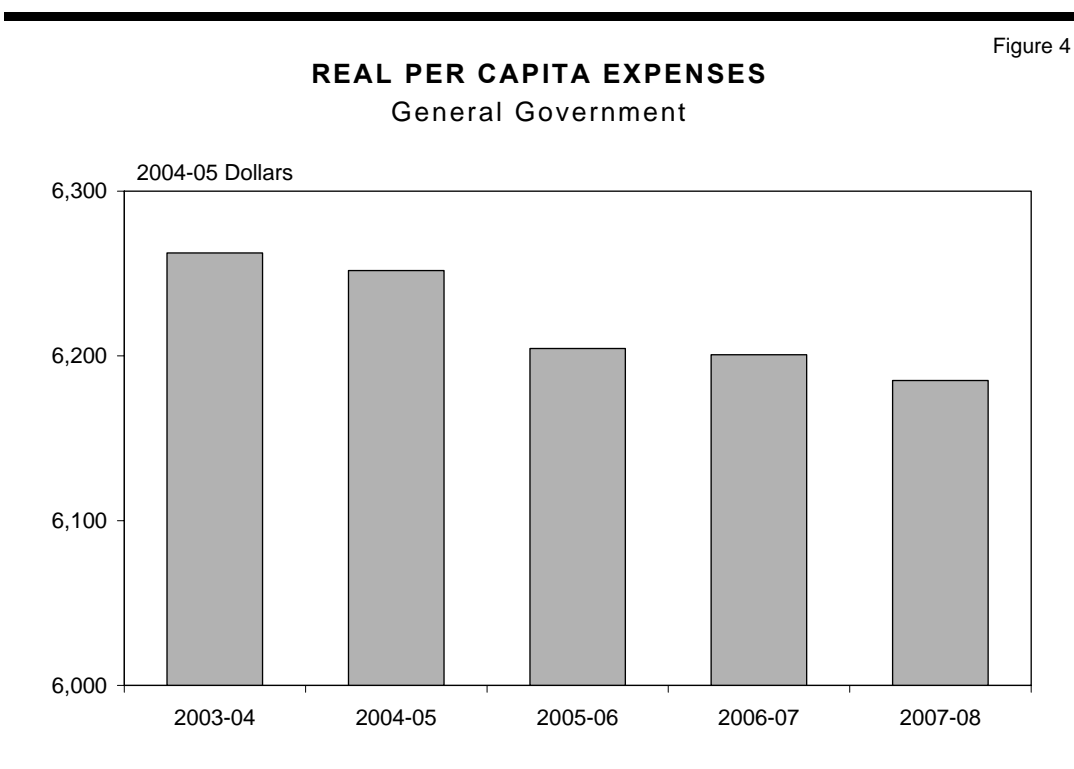


As can be seen from the chart, the net debt to revenue ratio is projected to increase in the early part of the forward estimates period before stabilising and then falling towards the end of the period. This pattern mainly reflects a similar pattern in projected capital works spending, which falls in the latter part of the forward estimates period as existing projects come to an end. The projected operating surpluses also play a critical role in containing the net debt to revenue ratio below the 47% target limit.

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

This is the second of the Government's targets to help ensure the State retains its triple-A credit rating. The aim of this target is to cap expense growth, allowing for an increase in expenses up to, but not exceeding, the combined growth in population and inflation². The general government sector is the focus of the target because this is the sector over which the Government has the most control over expenses.

As shown in the following chart, this target is expected to be met in the budget year and each of the outyears, with expenses forecast to grow at an average of 3.3% per annum across the forward estimates period (compared to real per capita growth of approximately 3.7% per year).



This target is not expected to be met in 2003-04, with growth in general government expenses estimated at 4.7% in the current financial year. However, expense growth in 2003-04 has been inflated by a 'carryover' of expenses from 2002-03 to 2003-04 (\$64.3 million), the on-passing of higher than expected specific purpose payments from the Commonwealth (\$33.7 million) and increased depreciation from a revaluation of the road network (\$9.5 million). Abstracting from these essentially one-off items, underlying growth in expenses in 2003-04 is estimated at 3.2%, which is consistent with the real per capita expense growth target.

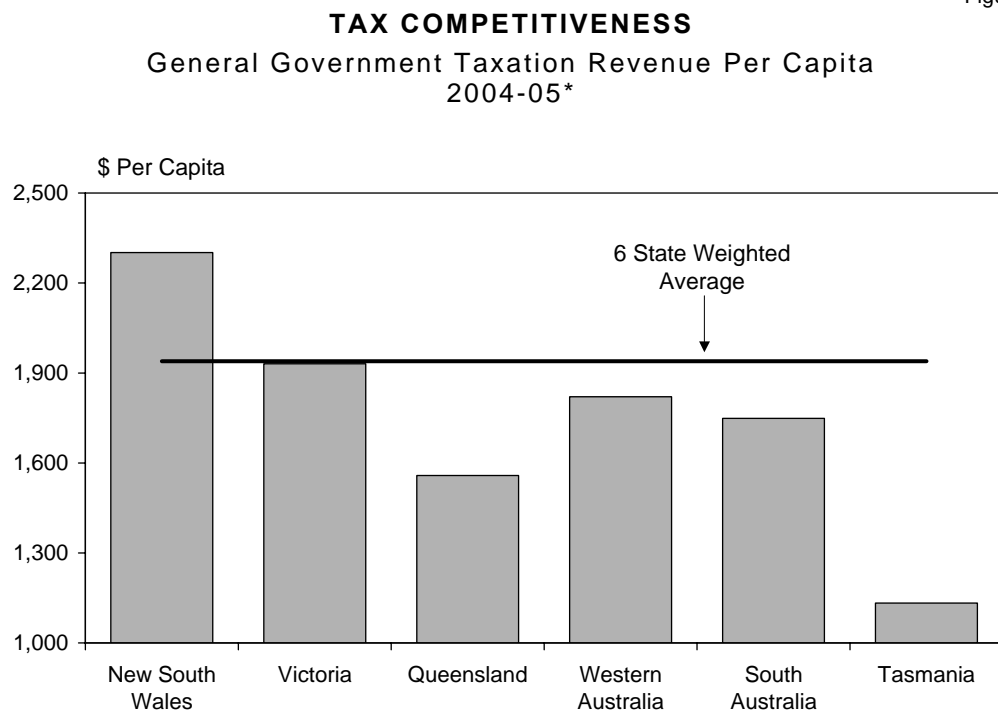
² Inflation as measured by growth in the implicit price deflator (IPD). The IPD is a measure of the total price of Western Australian production (gross State product) and, as such, is the widest measure of prices in the Western Australian economy.

Tax Competitiveness: Maintain Western Australia’s Tax Competitiveness

Recognising the importance of maintaining a competitive business environment, the Government aims to maintain Western Australia’s tax competitiveness relative to the other States, as measured by our interstate ranking in terms of taxation revenue per capita.

Western Australia’s interstate ranking is expected to remain unchanged in 2004-05 (with New South Wales and Victoria continuing to raise more taxation revenue per capita than Western Australia), thus meeting this target.

Figure 5



* Estimates of taxation revenue for the other States are based on their 2003-04 mid-year reviews, while the 2004-05 Budget estimate is used for Western Australia. The estimates have been adjusted for policies announced by New South Wales in the 2004 mini-budget, changes to land tax in Victoria and Queensland’s recently announced concessions for first homebuyers. The population projections are based on data from the Australian Bureau of Statistics.

Summary of Financial Projections

The major factors affecting the general government net operating balance since the 2003-04 Budget and mid-year review are summarised in the following table.

Table 1

**SUMMARY OF GENERAL GOVERNMENT REVENUE AND EXPENSE
VARIATIONS SINCE THE 2003-04 BUDGET**

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
2003-04 BUDGET – NET OPERATING BALANCE	83	111	339	389	-
Changes between the 2003-04 Budget and 2003-04 Mid-year Review ^(a)					
Revenue					
<i>Total Policy Decisions</i>	-19.6	-18.5	-25.3	-34.3	
<i>Total Parameter Changes</i>	295.3	128.2	12.7	112.6	
TOTAL REVENUE	275.6	109.7	-12.6	78.3	
Expenses					
<i>Total Policy Decisions</i>	100.0	68.1	97.7	103.6	
<i>Total Parameter Changes</i>	116.6	102.6	97.1	54.3	
TOTAL EXPENSES	216.6	170.7	194.8	158.0	
TOTAL VARIANCE	59.0	-61.0	-207.4	-79.7	-
2003-04 MID-YEAR REVIEW – NET OPERATING BALANCE	142	50	132	309	-
Changes between the 2003-04 Mid-year Review and 2004-05 Budget					
Revenue					
<i>Policy Decisions</i>					
Taxation relief	-	-112.7	-119.1	-124.8	-132.2
Freeze on household tariffs, fees and charges ^(b)	-	-17.3	-20.1	-21.8	-24.5
Extension of water restrictions	-	-14.3	-3.6	-	-
Restoration of 50% dividend payout ratio for Western Power	-	-33.3	-	-	-
Clearing the backlog of mining tenement applications	-	-2.0	-4.0	-2.0	4.0
Fees and charges ^(c)	1.6	3.5	3.5	3.5	3.5
<i>Total Policy</i>	1.6	-176.1	-143.3	-145.0	-149.1
<i>Parameter</i>					
Taxation	56.5	62.5	52.9	61.3	
Commonwealth grants:					
- North West Shelf royalties	19.1	6.0	8.3	-19.4	
- GST revenue grants	-2.6	280.1	268.1	250.8	
- Other Commonwealth grants	-4.7	-27.0	26.9	8.2	
Mining royalties	26.3	107.2	116.1	147.8	
Agency sales of goods and services	46.4	37.8	42.1	39.3	
Revenue from public corporations	5.5	-5.3	-43.5	-65.2	
Capital User Charge for Public Transport Authority	39.9	59.5	65.8	74.1	
Other	28.8	36.8	37.7	34.6	
<i>Total Parameter</i>	215.2	557.7	574.4	531.5	
TOTAL REVENUE	216.8	381.6	431.1	386.5	
Expenses					
<i>Policy Decisions ^(d)</i>	74.2	147.6	253.9	371.7	600.2
<i>Parameter</i>					
Capital User Charge for Public Transport Authority	39.9	59.5	65.8	74.1	
Other	37.6	-18.3	19.1	51.8	
<i>Total Parameter</i>	77.5	41.2	85.0	125.2	
TOTAL EXPENSES	151.7	188.8	338.8	497.6	
TOTAL VARIANCE	65.1	192.8	92.2	-111.0	-
2004-05 BUDGET – NET OPERATING BALANCE	207	243	224	198	321

(a) See the 2003-04 *Government Mid-year Financial Projections Statement* (released on 19 December 2003) for further detail.

(b) The freeze on household tariffs, fees and charges also has an expense impact (included in the expense policy decisions total) arising from additional central funding to the Water Corporation and the Public Transport Authority to cover the cost of the subsequent loss in revenue. The total impact of the freeze on the general government net operating balance is \$20.5 million in 2004-05, rising to \$27.5 million by 2007-08.

(c) Reintroduction of Business Names Renewal Fee and new fees for the plumbing industry related to compliance and inspections.

(d) Excludes the public debt net interest effect of policy measures. An agency breakdown is provided at Table 4.

Note: Columns may not add due to rounding.

General Government Sector

Summary

The 2004-05 Budget projections indicate that general government operating surpluses are forecast in each year of the forward estimates period, with a \$243 million surplus expected in the budget year (2004-05). Across the outyears, surpluses in the order of \$200 million to \$320 million are projected (see following table).

Table 2

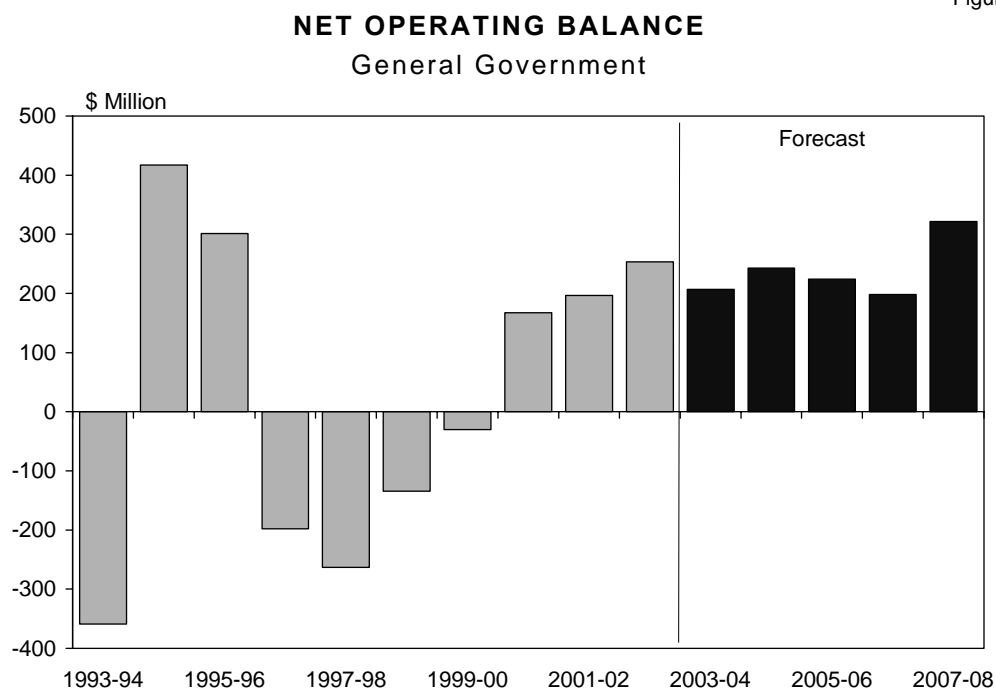
GENERAL GOVERNMENT Summary Financial Statements

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
OPERATING STATEMENT						
Revenue	11,771	12,266	12,719	13,056	13,481	14,042
Expenses	11,518	12,060	12,477	12,832	13,283	13,721
Net Operating Balance	254	207	243	224	198	321
BALANCE SHEET						
Assets	48,170	49,905	51,151	52,551	53,784	55,039
Liabilities	10,146	10,147	10,119	10,244	10,334	10,253
Net Worth	38,024	39,758	41,032	42,307	43,451	44,786
STATEMENT OF CASH FLOWS						
Change in net cash held	143	-97	-194	-16	8	-
Cash Surplus	259	32	-71	85	142	326
<i>Memorandum Item: Net Debt</i>	396	583	762	793	759	522

Note: Columns may not add due to rounding.

As illustrated in the following chart, this outlook is in contrast to the experience of the 1990s, with four consecutive operating deficits being recorded between 1996-97 and 1999-2000.

Figure 6



In framing the 2004-05 Budget, the Government has again concentrated the vast majority of the budgeted increase in general government expenses in the priority areas of health, education and training, law and order and community support, continuing the major shift in spending priorities evident in its first three budgets. By restricting expense growth in lower priority areas of public sector activity, overall expense growth has been limited to 3.5% in 2004-05 and an average of 3.3% per annum across the forward estimates period.

The 2004-05 Budget also includes a substantial revenue relief package that provides targeted relief in the areas of conveyance duty, land tax (including the Metropolitan Region Improvement Tax) and household fees and charges. This package has a total cost to the general government operating balance of \$133 million in 2004-05, rising to \$160 million by the end of the forward estimates period.

The Government is also investing a substantial amount in general government infrastructure, particularly in the area of health, resulting in a forecast rise in general government net debt of \$179 million in the budget year and a further \$31 million the following year. Thereafter, the level of net debt is projected to decline, reflecting a forecast easing in capital investment and the projected operating surpluses (which reduce the need for debt funding of capital works projects).

Operating Statement

A general government net operating surplus of \$243 million is forecast for 2004-05, up slightly from the \$207 million surplus estimated for 2003-04. As outlined in Table 3, consistent surpluses in the order of \$200 million to \$320 million are projected in each of the outyears.

Table 3

GENERAL GOVERNMENT
Operating Statement

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	Actual	Estimate	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
REVENUE						
Taxation	3,387	3,884	3,739	3,839	4,044	4,271
Current grants and subsidies	5,464	5,436	5,913	6,119	6,326	6,680
Capital grants	287	291	367	333	308	280
Sales of goods and services	990	912	896	899	900	909
Interest income	107	116	118	114	112	104
Revenue from public corporations						
Dividends	390	426	421	446	455	454
Tax equivalent payments	239	257	235	245	254	287
Royalty income	685	657	736	756	750	741
Other	222	287	296	303	333	316
<i>Total</i>	<i>11,771</i>	<i>12,266</i>	<i>12,719</i>	<i>13,056</i>	<i>13,481</i>	<i>14,042</i>
EXPENSES						
Gross operating expenses						
Salaries	4,486	4,701	4,916	5,053	5,214	5,385
Depreciation and amortisation	603	604	604	614	630	646
Superannuation	436	458	472	479	489	502
Other	2,931	2,953	3,021	3,014	3,098	3,237
Nominal superannuation interest	277	283	288	289	289	289
Other interest	195	186	206	206	212	215
Current transfers	2,287	2,504	2,571	2,766	2,951	3,082
Capital transfers	303	371	401	410	400	365
<i>Total</i>	<i>11,518</i>	<i>12,060</i>	<i>12,477</i>	<i>12,832</i>	<i>13,283</i>	<i>13,721</i>
NET OPERATING BALANCE	254	207	243	224	198	321

Note: Columns may not add due to rounding.

The \$207 million estimated outturn for 2003-04 is \$65 million higher than the estimate contained in the 2003-04 mid-year review. This improvement reflects a \$217 million upward revision to revenue, partly offset by higher expenses, up \$152 million.

The major factors accounting for the improved 2003-04 revenue estimate since the mid-year review include:

- upward revisions to stamp duty on property conveyances (\$30 million) and payroll tax (\$27 million), arising from stronger than expected property market activity in the year to date and employment and wages growth;
- higher royalties (up \$45 million, including North West Shelf petroleum royalties), reflecting the net impact of:
 - a revised oil price assumption (up from \$US27 to \$US31 a barrel for the remainder of 2003-04);
 - a rise in commodity prices, particularly nickel (which has risen to ten year highs on the back of strong growth in world stainless steel output and the absence of any expected increase in world nickel supply capacity in the near term);
 - increases in production volumes, particularly for iron ore; and

- acting to reduce royalty revenue, a revised \$A/\$US exchange rate assumption (up from 72.0 for the remainder of the year in the mid-year review to 76.0 currently);
- an increase in revenue from agency sales of goods and services (\$48 million), with rises evident in Health, Conservation and Land Management and Main Roads, as well as smaller increases across a range of general government agencies; and
- a technical change in revenue related to the capital user charge for the Public Transport Authority (\$40 million, matched by expenses)³.

The increase in estimated expenses in 2003-04 since the mid-year review has been driven by:

- policy decisions taken by the Government (\$74 million), including:
 - compensation claims related to land acquisition at the Oakajee Land Settlement (\$9 million);
 - the Handgun Buyback Scheme administered by the Police Service and largely backed by Commonwealth funding (\$9 million);
 - the structure reclassification, and subsequent salary increases, for education assistants (\$8 million);
 - compensation to school bus contractors under the new contractual arrangements for school bus services (\$7 million);
 - a range of initiatives for the Department of the Premier and Cabinet including expenses related to the 175th Anniversary of the Swan River Colony Settlement celebrations, the Interactive Virtual Environment Centre and implementation costs for the Recruitment, Advertising and Management System (\$8 million);
 - an increase in community service obligation expenses to the Western Australian Land Authority (LandCorp) for the purchase of land in the Kemerton Industrial Estate (\$6 million);
 - prison-related expenses by the Department of Justice (\$5 million);
 - additional expenses by the Department of Conservation and Land Management to address fire management and control capacity (\$3 million); and
 - initiatives in the agriculture sector including programs under the State's Dairy Assistance Package and the cost of a producer rebate on electronic identification devices under the National Livestock Identification System (\$3 million); and

³ The capital user charge (CUC) is a levy charged by government to agencies on the net value of assets used by agencies in the delivery of services. It was introduced as part of the accrual appropriations regime in 2001-02. Since that time, only general government agencies have been subject to the accrual appropriations regime (including the CUC), and as such, the financial impact has been eliminated on consolidation. When the Public Transport Authority (PTA) was established, it was decided to provide funding in the form of output appropriations and as such, the PTA was subject to the full accrual appropriations regime (including the CUC). As the PTA is classified as a public non-financial corporation, the appropriation of funds to the PTA, and subsequent requirement to pay the CUC, has the effect of grossing up general government revenue and expenses from 2003-04 onwards.

- various parameter changes in expenses including the technical change associated with the Public Transport Authority outlined above (\$40 million, matched by revenue) and increases in day-to-day operating expenses of agencies across the sector (totalling \$38 million, and backed by rises in agency own-source revenue).

The following sections summarise the major revenue and expense factors underlying the projected operating surpluses across the budget and forward estimate years. Further detail is provided in Chapters 3 and 4.

Revenue

Total operating revenue for the general government sector is expected to be \$12.7 billion in 2004-05. This represents growth of \$453 million or 3.7% on the estimated outturn for 2003-04.

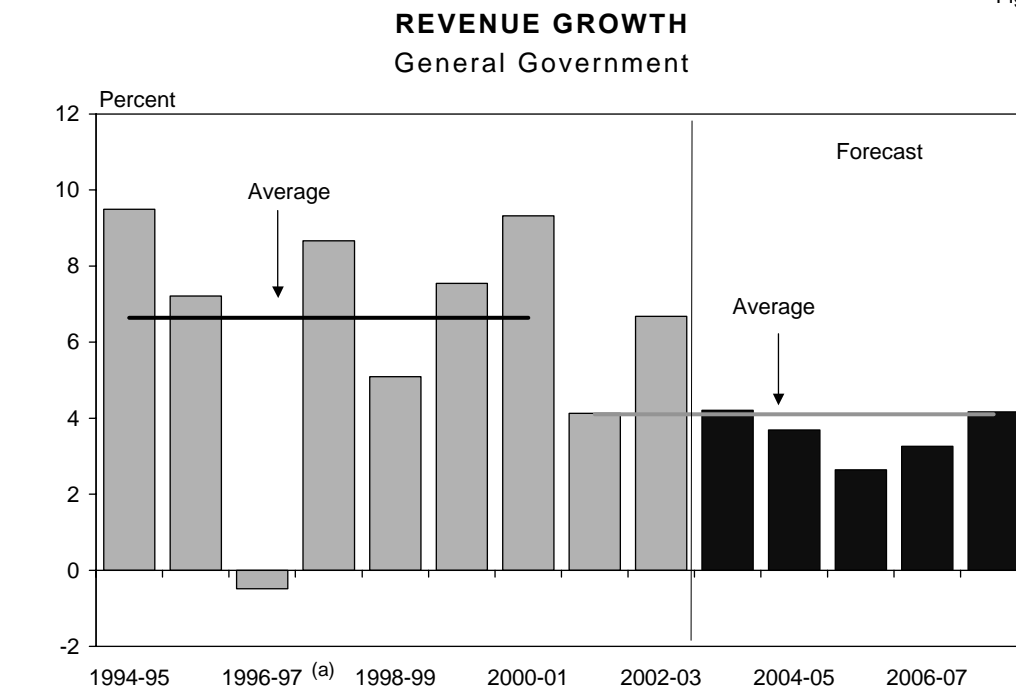
General purpose grants from the Commonwealth (comprising GST grants and competition payments) account for most (\$417 million) of the projected revenue growth in 2004-05. This reflects growth in national GST collections, as well as the increase in Western Australia's share of GST grants following the recently completed review of the Commonwealth Grants Commission's methodology for distributing grants to the States. Specific purpose payments from the Commonwealth are also projected to increase in 2004-05 (by \$156 million excluding North West Shelf petroleum royalties), with the major increases being in roads, non-government schools and health-related grants.

Mining royalties are the next largest source of revenue growth in 2004-05 (up an estimated \$58 million on the 2003-04 estimated outturn, including North West Shelf petroleum royalties). This primarily reflects a projected increase in iron ore royalties of \$86 million (due to higher prices negotiated and projected increases in production volumes), partly offset by lower petroleum royalties.

In contrast to Commonwealth grants and royalties, taxation revenue is expected to detract from overall revenue growth in 2004-05, falling by an estimated \$145 million relative to 2003-04. This reflects the Government's tax relief package (estimated to reduce taxation revenue in 2004-05 by \$113 million), combined with an expected slowdown in the housing market and an associated reduction in conveyance duty revenue. Revenue from public corporations is also expected to decline in 2004-05 (by \$26 million), due to the Government's decision to restore Western Power's 50% dividend payout ratio from 2004-05.

Following growth of 3.7% in 2004-05, revenue is expected to grow by an average of 3.4% per annum in the outyears. As illustrated in the following chart, these rates of growth are modest compared to those experienced in the 1990s.

Figure 7



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

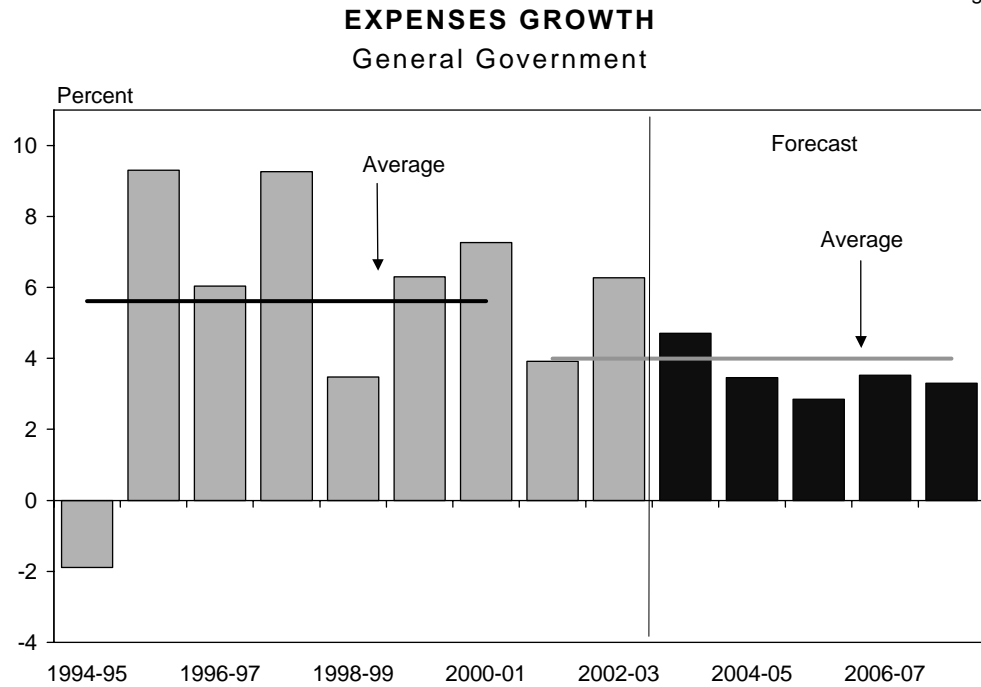
Detailed information on the revenue estimates, including the tax relief package introduced in this Budget, is contained in Chapter 4: *Financial Projections – Revenue*.

Expenses

Total general government expenses are expected to be \$12.5 billion in 2004-05. This represents a rise of \$417 million (or 3.5%) on the expected outturn for 2003-04.

Across the entire forward estimates period, expenses are forecast to grow by an average of 3.3% per annum, which is down significantly from the rates of expense growth experienced in the mid to late 1990s (see following chart).

Figure 8



Of the \$417 million projected increase in expenses in 2004-05 (relative to the estimated outturn for 2003-04), \$352 million (or 84%) is in the priority areas of health, education and training, law and order and community support. The remaining expense increase is spread across more than 100 general government agencies, many of which are required to manage with real declines in expenses (i.e. with nominal expense increases less than the rate of inflation).

Table 4 provides a breakdown of expense policy decisions by agency since the 2003-04 mid-year review. Further detail on agency expense trends is contained in Chapter 3: *Financial Projections – Expenditure*.

Table 4

**EXPENSE POLICY DECISIONS BY AGENCY
SINCE THE 2003-04 MID-YEAR REVIEW**

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Agriculture	2.9	1.2	29.5	66.3	69.5
Botanic Gardens and Parks Authority	-	0.2	0.5	1.6	1.7
Community Development	-	5.4	6.0	6.3	6.4
Conservation and Land Management	3.8	7.3	8.7	10.7	11.5
Consumer and Employment Protection	-	0.3	-0.3	-0.3	-0.3
Country High School Hostels Authority	-	0.1	0.1	0.1	0.1
Culture and the Arts	0.6	2.7	0.7	0.4	0.4
Curriculum Council	-	-	0.4	0.4	0.4
Disability Services Commission	-	5.0	10.4	16.1	30.5
Economic Regulation Authority	0.3	2.4	2.6	2.6	2.0
Education and Training	10.1	11.4	15.8	31.0	34.9
Education Services	2.3	1.1	-	-	-
Electoral Commission	-	-	0.2	0.3	0.1
Environmental Protection	0.1	0.9	0.9	0.9	0.9
Fire and Emergency Services Authority	-	0.2	0.2	0.3	3.4
Fisheries	-	1.1	2.1	2.4	1.9
Health	1.7	26.3	55.6	89.2	284.0
Heritage Council of WA	-	0.1	0.1	0.1	0.1
Housing and Works	0.8	1.8	0.9	-0.3	-0.3
Indigenous Affairs	0.8	0.5	0.4	0.3	0.3
Industrial Relations Commission	-	0.1	-	-	-
Industry and Resources	9.7	6.9	16.6	9.2	4.3
Justice	5.1	10.4	9.6	9.2	8.7
Legal Aid Commission of WA	0.9	0.1	0.1	0.1	0.1
Legislative Assembly	0.1	0.2	0.2	0.2	0.2
Legislative Council	0.4	0.3	0.3	0.3	0.3
Local Government and Regional Development	0.2	1.0	7.3	26.8	26.8
Main Roads	-	5.3	11.6	11.3	7.7
Office of Energy	0.1	-	0.9	1.2	-
Office of Health Review	-	0.1	0.1	0.1	0.1
Office of the Auditor General	0.1	0.8	0.9	0.9	0.9
Office of the Information Commissioner	-0.1	-0.1	-0.1	-0.1	-0.1
Office of the Inspector of Custodial Services	0.1	0.2	0.2	0.2	0.2
Office of the Public Sector Standards Commissioner	0.1	0.2	0.2	0.2	0.2
Parliamentary Inspector, Corruption and Crime Commission	0.1	0.4	0.5	0.5	0.5
Peel Development Commission	-	-	-	0.2	0.2
Pilbara Development Commission	0.9	4.3	3.1	1.2	-
Planning and Infrastructure	0.4	1.6	0.6	0.9	0.9
Police Service	9.8	11.7	10.8	11.2	13.4
Premier and Cabinet	7.8	7.8	16.2	20.0	27.0
South West Development Commission	-	0.5	0.5	-	-
Sport and Recreation	-	0.3	0.4	0.4	0.4
State Supply Commission	-	-0.7	-0.9	-0.9	-0.9
Swan River Trust	0.8	0.8	1.4	1.5	1.6
Tourism Commission	0.1	0.1	2.0	2.2	1.9
Treasury and Finance ^(a)	14.3	15.2	19.2	27.5	39.3
Water and Rivers Commission	-	2.3	3.6	3.7	3.7
Zoological Parks Authority	-	-	0.2	0.9	1.0
Provision for Wage Increases	-	10.1	13.9	14.4	14.5
TOTAL	74.2	147.6	253.9	371.7	600.2

(a) Includes the operations of the Consolidated Fund, such as subsidies for public corporations.

In terms of the broad expense aggregates on the operating statement, the largest expense of the general government sector is salaries, representing around 40% of total expenses. In 2004-05, salaries are forecast to rise by \$215 million or 4.6% (compared to the 2003-04 estimated outturn).

The forecast growth in salaries reflects increased staffing levels in key service delivery agencies such as Health, Education and Training, the Police Service and the Department for Community Development. It also reflects the impact of recent enterprise bargaining agreements with teachers, education assistants and police officers. In addition, the Government has made an offer to general public servants for which a provision has been made in the 2004-05 Budget estimates.

Across the outyears, salaries are forecast to grow by an average of 3.1% per annum, in line with the Government's wages policy.

Table 5

GENERAL GOVERNMENT
Operating Expenses

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
Gross operating expenses						
Salaries	4,486	4,701	4,916	5,053	5,214	5,385
Depreciation and amortisation	603	604	604	614	630	646
Superannuation	436	458	472	479	489	502
Other	2,931	2,953	3,021	3,014	3,098	3,237
Nominal superannuation interest	277	283	288	289	289	289
Other interest	195	186	206	206	212	215
Current transfers	2,287	2,504	2,571	2,766	2,951	3,082
Capital transfers	303	371	401	410	400	365
<i>Total</i>	<i>11,518</i>	<i>12,060</i>	<i>12,477</i>	<i>12,832</i>	<i>13,283</i>	<i>13,721</i>

Note: Columns may not add due to rounding.

Superannuation expenses on the operating statement consist of an expense related to employment in the year of the estimate and nominal superannuation interest⁴. Movements in salaries expenses and unfunded superannuation liabilities underpin changes in superannuation expenses.

Across the forward estimates period, concurrent superannuation expenses are forecast to rise by an average of 2.3% per annum. This is slightly lower than projected growth in salaries, reflecting an expected decline in the weighted average contribution rate to public sector superannuation schemes over time (as the West State Super scheme is the only one open to new members, the weighted average contribution rate across all public sector superannuation schemes will decline over time to a rate that is closer to the 9% contribution rate applicable to West State Super).

Depreciation expenses are forecast to total \$604 million in 2004-05, unchanged from levels in recent years. Following the projected peak in capital investment spending in 2004-05, depreciation expenses are forecast to rise by 2.3% per annum on average across the outyears. This is driven by increases in agencies such as Main Roads and the Police Service.

⁴ Nominal superannuation interest represents the cost of carrying unfunded superannuation liabilities on the balance sheet. It is effectively akin to a debt servicing cost.

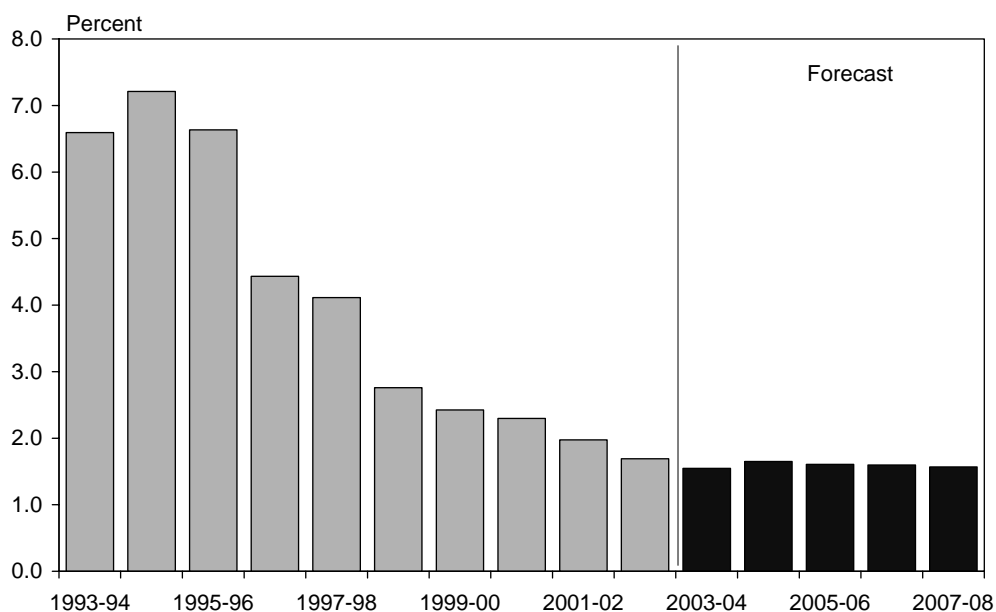
‘Other’ gross operating expenses incorporate many of the expenses that are incidental to the day-to-day operations of agencies. These include purchases of goods and services (e.g. consumables such as stationery), advertising and promotion, travel and consultants. Since coming to office, the Government has enforced discipline on agencies to reduce spending on these low priority items.

Between 1993-94 and 2000-01, these expenses grew by an unsustainable 8.7% per annum. In comparison, between 2000-01 and the end of the projection period (2007-08), these expenses are forecast to rise by just 2.4% per annum⁵.

Movements in borrowings outstanding and the average rate of interest on those borrowings drive the level of general government interest expenses. In 2004-05, interest expenses are forecast to rise by \$20 million to \$206 million. At this level, interest expenses represent just 1.6% of total general government expenses. Across the outyears, while interest expenses are projected to rise marginally in dollar terms, they are still expected to account for just 1.6% of total expenses (see following chart).

Figure 9

INTEREST EXPENSE AS A PROPORTION OF TOTAL EXPENSES
General Government



Current transfers (largely grants and subsidies) are forecast to rise by \$67 million (or 2.7%) in 2004-05. This increase is driven by a rise in Commonwealth grants to non-government schools that are on-passed by the State (up \$33 million), an increase in the capital user charge for the Public Transport Authority (which has the effect of grossing up both revenue and expenses by \$20 million) and a rise in community service obligation payments to public corporations (up \$7 million).

⁵ Abstracting from the impact of the creation of the Public Transport Authority, which resulted in a shift in ‘other’ gross operating expenses from the general government sector to the public non-financial corporations sector.

Across the outyears, current transfers are forecast to increase by an average of \$170 million (or 6.2%) per annum. In addition to those factors outlined above for 2004-05, other contributors are the State Government's additional \$79 million in grants under the National Action Plan for Salinity and Water Quality (bringing the State's total contribution under this Plan to \$158 million), and spending in the areas of disability services, health, education and training, science and technology, native title and public transport.

Capital transfers are principally Commonwealth grants provided for housing and local government roads which are on-passed by the State. In total, capital transfers are estimated at \$401 million in 2004-05, representing an increase of \$30 million on the 2003-04 estimated outturn. This rise mainly reflects a \$25 million increase in grants under the Community Housing and Infrastructure Program provided as part of the Indigenous Housing Agreement.

Across the outyears, capital transfers are forecast to remain relatively stable at just over \$400 million per annum. However, in 2007-08 capital transfers are forecast to decline by \$35 million, largely reflecting the expiration of the Community Housing and Infrastructure Program (which is to be renegotiated at that time).

Balance Sheet

Net worth of the general government sector is projected to increase from an estimated \$39.8 billion at 30 June 2004 to \$44.8 billion at 30 June 2008.

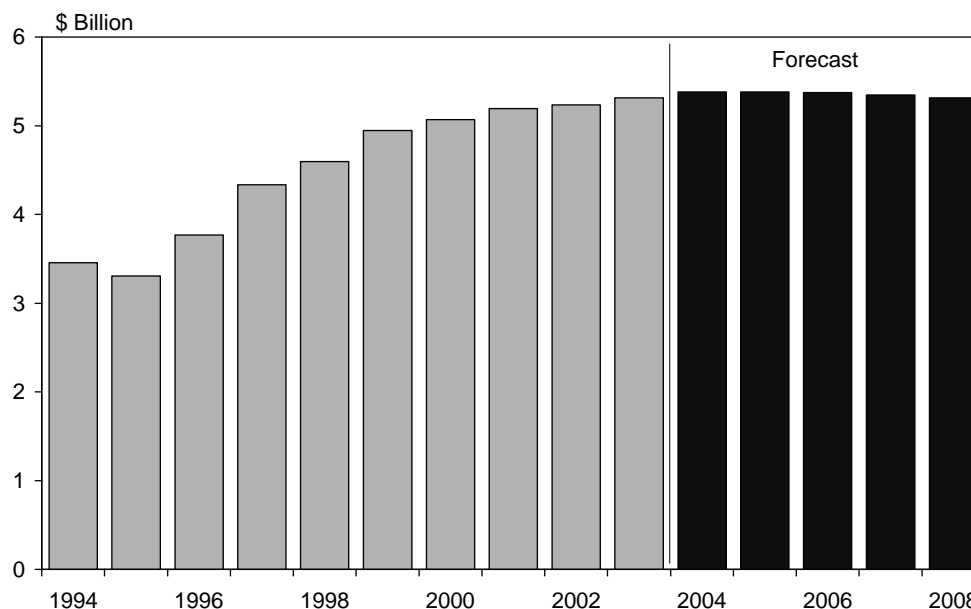
Total assets are forecast to rise by an average \$1.3 billion per annum over the forward estimates period, largely reflecting increased holdings of land and fixed assets (e.g. buildings, roads and other infrastructure), which accounts for two thirds of the annual increase. This, in turn, reflects rising land values and the projected increase in fixed asset purchases in the early part of the forward estimates period in areas such as health and law and order. The other major contributor to the annual rise in total assets is the general government sector's equity in public corporations such as Western Power and the Water Corporation, which is projected to rise by an average \$500 million per annum between 30 June 2004 and 30 June 2008.

General government liabilities are projected to remain relatively constant in 2004-05, before rising in the following two years and then declining by 30 June 2008. With the exception of 2004-05, this generally follows the pattern of outstanding borrowings, a major component of net debt. In 2004-05, net debt is forecast to increase by \$179 million with existing cash investments being run-down rather than an increase in new borrowings. As noted earlier, net debt levels are projected to remain consistent with the Government's target. An analysis of net debt is provided later in this Chapter.

A steady (and slowly declining) level of unfunded superannuation liabilities also assists in containing growth in the general government sector's liabilities (see following chart). This is a result of full concurrent funding of West State Super, the only public sector superannuation scheme still open to new members.

Figure 10

UNFUNDED SUPERANNUATION LIABILITIES AT 30 JUNE General Government



Cash Flow Statement

The cash flow statement records the way the general government sector acquires and spends its cash resources. Flows of cash are classified according to operating, investing and financing activities.

Net cash flows from operating activities (i.e. day-to-day operations of agencies) are projected to be in surplus throughout the projection period, increasing from \$893 million in 2004-05 to over \$1.1 billion in 2007-08.

Receipts from operating activities are expected to increase by an average of 3.5% per annum over the forward estimates period, while operating payments are forecast to grow by an average of 3.0%. These increases are consistent with those in operating revenue and expenses, discussed previously.

Purchases of non-financial assets (i.e. the acquisition of fixed assets or capital spending) are forecast to rise by \$222 million in 2004-05 to \$1.1 billion. Capital spending by Health, Justice, Agriculture, Conservation and Land Management and the Police Service, as well as implementation costs for procurement and corporate services reform across the general government sector, underpin this increase.

The combination of net cash flows from operating activities and net cash flows from investment in non-financial assets yields the cash surplus/deficit measure. In 2004-05, a cash deficit of \$71 million is forecast. However, with capital spending projected to ease from a record high in 2004-05, and growing cash surpluses on operating activities, cash surpluses for the general government sector are projected from 2005-06.

Total Public Sector

Summary

The total public sector is the consolidation of the three sectors of State government, these being the general government sector, the public non-financial corporations (PNFC) sector and the public financial corporations (PFC) sector.

The following table summarises the 2004-05 Budget estimates for the total public sector. A full set of financial statements for each individual sector and the consolidated public sector is at Appendix 1: *Detailed Financial Projections*.

Table 6

TOTAL PUBLIC SECTOR
Summary Financial Statements

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	Actual	Estimate	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
OPERATING STATEMENT						
Revenue	16,570	17,031	17,796	18,137	18,693	19,465
Expenses	16,197	16,467	17,242	17,624	18,226	18,827
Net Operating Balance	373	564	555	513	467	638
BALANCE SHEET						
Assets	61,191	64,190	65,971	67,533	68,817	70,132
Liabilities	23,167	24,432	24,940	25,226	25,367	25,346
Net Worth	38,024	39,758	41,032	42,307	43,451	44,786
STATEMENT OF CASH FLOWS						
Change in net cash held	579	-148	-227	38	34	46
Cash Surplus	30	-604	-825	-398	-230	250
<i>Memorandum Item: Net Debt</i>	4,497	5,086	5,930	6,323	6,577	6,339

Note: Columns may not add due to rounding.

With the general government and public corporations sectors estimating surpluses in all years of the projection period, the total public sector is forecast to record net operating surpluses across the entire forward estimates period.

Reflecting record levels of capital works spending, the total public sector is forecast to record cash deficits and rising net debt over the period to 2006-07, although the projected operating surpluses contain the increase in net debt to sustainable levels (the net debt projections are discussed in further detail later in this Chapter). By 2007-08, the sector is projected to record a cash surplus and a fall in net debt, in line with an expected easing in capital spending.

Public Non-Financial Corporations

The PNFC sector is forecasting a net operating surplus of \$132 million in 2004-05, with similar surpluses projected in the outyears. Western Power is projecting reduced profitability from 2005-06, although this is largely offset by the operating performance of other agencies in this sector, such as the port authorities and Water Corporation. Western Power's profitability is being affected by the impact of increased competition especially from the Alinta/Alcoa generation initiatives that are facilitated by deregulation in the electricity sector, higher fuel costs and increased expenditure on improving the safety and reliability of the network.

Net worth of the PNFC sector is projected to rise over the forward estimates period, underpinned by the Government's record Capital Works Program. In this regard, Western Power's capital program totals \$1.5 billion over the forward estimates period (up by \$236 million on previous estimates), and is focused on improving the quality and reliability of electricity supply in both regional and metropolitan areas, and providing increased capacity to serve existing and new customers. Other key infrastructure assets will continue to be developed including the New MetroRail project, enhancements to Fremantle Port, infill sewerage and wastewater treatment plants and land acquisition.

This significant investment in infrastructure assets results in projected cash deficits across the forward estimates period, although these are forecast to decline from \$887 million in 2004-05 to \$209 million in 2007-08.

Public Financial Corporations

The PFC sector is projected to deliver operating surpluses over the forward estimates period, reflecting the outcomes of net interest and investment returns for agencies such as the Western Australian Treasury Corporation and the Insurance Commission of Western Australia. An operating surplus of \$180 million is forecast for 2004-05, which reflects a return to long-term trends in financial market performance and associated earnings. Moderately smaller surpluses are projected after 2004-05, reflecting the latest market expectations for conditions in the insurance sector, particularly related to claims settlements.

Capital Investment

Capital investment is an integral part of the Government's budget and economic strategy. It is essential for the public sector to invest in social and economic infrastructure such as schools, hospitals, roads, electricity and water for the benefit of the Western Australian community, to maintain and expand the State's asset base, to promote economic development and to enhance the creation of jobs.

In 2004-05, the State's spending on fixed assets is projected to be a substantial \$2.9 billion, up from \$2.6 billion estimated for 2003-04. These are the highest levels on record, and are funded from a mix of internally generated funds (i.e. operating surpluses and sales of second hand assets) and debt.

Key areas which will benefit from investment commitments across the budget projection period include the health sector (with the adoption of most of the recommendations of the Health Reform Committee, such as the reconfiguration of hospitals in the metropolitan area), government school and TAFE college infrastructure, law and order-related projects, public transport and electricity generation, transmission and distribution projects.

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

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

RECONCILING CAPITAL SPENDING AGGREGATES					
Western Australia					
	2003-04 Estimated Actual \$m	2004-05 Budget Estimate \$m	2005-06 Forward Estimate \$m	2006-07 Forward Estimate \$m	2007-08 Forward Estimate \$m
<i>PURCHASES OF FIXED ASSETS</i>					
General government	917	1,139	944	933	930
Public non-financial corporations	1,657	1,785	1,556	1,456	1,178
Public financial corporations	5	2	3	3	4
TOTAL PUBLIC SECTOR	2,579	2,927	2,502	2,392	2,112
<i>plus</i>					
Expensed Capital Works Program ^(a)	283	320	236	272	162
Keystart home lending loans	480	506	527	547	562
All other ^(b)	333	184	76	25	79
<i>less</i>					
Capital spending by agencies outside the Capital Works Program ^(c)	4	3	3	3	4
Functional Review Taskforce asset management savings	-	-20	-35	-35	-
Global provisions for Capital Works ^(d)	31	37	20	35	8
CAPITAL WORKS PROGRAM	3,640	3,917	3,354	3,232	2,902

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

(b) Includes purchase of inventories and loans to external parties by agencies other than Keystart.

(c) Such agencies include the Western Australian Egg Marketing Board and other statutory marketing authorities.

(d) Provisions for projects yet to be committed to (e.g. components of the Burrup Infrastructure Package).

Note: Columns may not add due to rounding.

Net Debt

The level of net debt is one of several important indicators of the strength of the public sector's financial position.

Debt funding is essential for government, as it is for households and private sector enterprises, to expand the asset base that it owns. Just as households spread the cost of purchasing a new home over several years, debt financing by government allows the public sector to spread the cost of capital purchases over time. The alternative would be to absorb the total cost of a capital project during its construction phase with either a significant rise in taxes or charges, or a decline in service provision.

Another reason for spreading the cost of infrastructure projects over time is to maintain equity across generations. Current infrastructure will benefit the community well into the future so it is appropriate to distribute the cost of these assets over time.

It should be noted that while increased borrowings will result in increased fixed assets, these assets are not included in the calculation of net debt. However, the assets are included in the State's overall net worth position. Hence, it is important to consider a range of indicators when judging the strength of the State's financial position.

In assessing the appropriate level of net debt, the key point is that it remains affordable from a debt servicing point of view. Similarly, debt should be used to deliver assets, not to fund day-to-day operations.

Total Public Sector

The following table provides a breakdown of the State's net debt levels by sector. Net debt is equal to the excess of gross debt (largely borrowings) over financial assets.

Table 8

NET DEBT OF THE PUBLIC SECTOR AT 30 JUNE
Summary

	2003	2004	2005	2006	2007	2008
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	Actual	Estimate	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
GENERAL GOVERNMENT						
Gross Debt ^(a)	3,004	2,889	2,785	2,788	2,764	2,529
Cash, Deposits and Lending ^(b)	2,608	2,305	2,023	1,995	2,005	2,007
Net Debt	396	583	762	793	759	522
PUBLIC NON-FINANCIAL CORPORATIONS						
Gross Debt ^(a)	6,769	7,260	8,016	8,643	9,120	9,361
Cash, Deposits and Lending ^(b)	2,006	2,050	2,074	2,278	2,398	2,574
Net Debt	4,764	5,211	5,942	6,365	6,721	6,788
TOTAL NON-FINANCIAL PUBLIC SECTOR ^(c)						
Gross Debt ^(a)	9,020	9,416	10,134	10,761	11,211	11,227
Cash, Deposits and Lending ^(b)	3,861	3,622	3,430	3,603	3,731	3,918
Net Debt	5,159	5,794	6,704	7,158	7,480	7,310
PUBLIC FINANCIAL CORPORATIONS						
Gross Debt ^(a)	13,002	14,297	14,871	15,328	15,596	15,693
Cash, Deposits and Lending ^(b)	13,664	15,005	15,645	16,163	16,498	16,664
Net Debt	-662	-708	-774	-835	-903	-970
TOTAL PUBLIC SECTOR ^(c)						
Gross Debt ^(a)	12,576	13,740	14,137	14,274	14,260	14,066
Cash, Deposits and Lending ^(b)	8,079	8,654	8,207	7,950	7,683	7,726
Net Debt	4,497	5,086	5,930	6,323	6,577	6,339

(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 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.

Total public sector net debt is forecast to stand at \$5.9 billion at 30 June 2005, compared with the estimated outturn of \$5.1 billion at 30 June 2004. This increase in net debt is underpinned by capital spending by general government agencies and public non-financial corporations, including in health, public transport and electricity-related infrastructure. This infrastructure plays an important role in delivering services to the community and supporting the State's economic development.

Across the outyears, the level of net debt is forecast to peak at \$6.6 billion at 30 June 2007 before falling in 2007-08. This level of net debt is both affordable and sustainable. When expressed as a share of revenue the ratio's highest level is 41.7%, compared with a target ceiling of 47% (see discussion under the *Financial Targets* section of this Chapter).

Rising net debt levels have been projected for several years. At the time of the 2000-01 *Pre-election Financial Projections Statement* (PFPS), net debt was forecast to rise by around \$1.5 billion between 2000-01 and 2003-04. The current estimates forecast a similar increase over the three years to 2006-07.

Importantly, the rise in net debt levels projected over the outyears comes off a lower base at 30 June 2004 compared with the level projected at the time of the PFPS. In this regard, the level of net debt at 30 June 2004 is currently estimated at \$5.1 billion. This compares with \$5.9 billion at the time of the PFPS. Moreover, the PFPS projections did not include public funding of the State's car fleet and rolling stock for the New MetroRail project (worth a combined \$350 million).

General Government

The level of general government net debt is expected to rise by \$179 million in the budget year to stand at \$762 million at 30 June 2005.

A further rise of \$31 million is projected the following year with net debt peaking at \$793 million at 30 June 2006. Thereafter, net debt levels are forecast to decline, as key capital works projects currently approved are completed (e.g. road infrastructure).

The Government's continuing program of significant investment spending underpins the rise in net debt. In particular, the forward estimates include around \$633 million in capital spending on health reform and broader health initiatives.

Public Non-Financial Corporations

The PNFC sector holds the majority of total public sector net debt in Western Australia. Agencies within this sector, including the Water Corporation, Western Power and port authorities, meet associated interest and capital payments via their normal commercial operations.

Net debt of the PNFC sector is expected to increase by \$731 million in 2004-05 and by a further \$846 million in the three years thereafter. These increases reflect significant capital spending in this sector, including the New MetroRail project, electricity-related projects, port expansions, water infrastructure and public housing.

Public Financial Corporations

The PFC sector is projected to be in a net asset position over the forward estimates period. This sector includes the Western Australian Treasury Corporation (the State's central borrowing authority) as well as insurance agencies. In this sector, substantial financial assets more than offset gross debt.

Statement of Risks

As with any forecasts, the Government's financial projections are subject to a variety of risks. Details on risks that may have an impact on the Government's finances, but are not reflected in the forward estimates, are discussed below.

Estimating Assumptions

The major economic parameters underlying the 2004-05 Budget are detailed in the following table.

MAJOR ECONOMIC PARAMETERS					
Western Australia					
	2003-04 Estimated Actual	2004-05 Budget Estimate	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
Real gross State product ^(a) (%)	6.75	4.5	4.0	4.0	4.0
Real State final demand ^(b) (%)	7.5	2.25	2.5	3.75	3.75
Consumer price index (%)	2.25	2.0	2.5	2.5	2.5
Wages growth ^(c) (%)	5.25	3.75	3.5	3.5	3.5
Employment growth (%)	1.75	2.25	2.25	2.25	2.25
\$A/\$US (cents)	72.5 ^(d)	76.0	76.0	76.0	76.0
Oil price (\$US per barrel)	31.5 ^(d)	27.0	24.0	22.0	22.0

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

(b) State final demand (SFD) measures total domestic spending within the State. SFD is used in forecasting a number of stamp duties.

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

(d) Estimated average for 2003-04.

From a macroeconomic point of view, the primary risks pertain to the sustainability of the international economic recovery, conditions in global financial markets (including exchange rates and interest rates) and domestic wage pressures. These risks are discussed further in Chapter 5: *The Western Australian Economy*.

Revenue Estimates

The revenue estimates are sensitive to changes in key economic parameters. Approximate impacts of these changes are provided in the following table ⁶.

PARAMETER SENSITIVITY OF REVENUE ESTIMATES		
	Variability (\$m)	Detail
Payroll tax	12.0	For each 1.0 pp variation in wages and/or employment growth
Total mining revenue ^(a)	13.5	For each 1.0 cent variation in the \$A/\$US exchange rate
Petroleum royalties ^(a)	14.5	For each \$US1 variation in the price of a barrel of oil

(a) Includes North West Shelf petroleum royalties.

In addition to the above sensitivities, specific factors that are considered to represent a potential risk to the revenue estimates are discussed below.

⁶ These impacts are not mutually exclusive and can vary over time. For example, in the case of a change in the exchange rate, the impact of a US1.0 cent change represents a different (larger) impact in percentage terms at the US60 cent level than at the US76 cent level. Furthermore, variations in the value of the \$A will impact on the sensitivity of the revenue to variations in the oil price.

Revenue from the Commonwealth

General Purpose Grants

Growth in Western Australia's general purpose grants mainly depends on growth in the Commonwealth's GST collections, and the recommendations of the Commonwealth Grants Commission. The State Budget uses Commonwealth forecasts of GST revenue. The main drivers of growth in GST collections are household consumption and dwelling investment. While household consumption is the largest component, dwelling investment is regarded as more volatile. A sharper than forecast decline in dwelling investment would reduce the rate of GST revenue growth.

If GST revenue growth is significantly lower than projected, then Western Australia could receive budget balancing assistance from the Commonwealth. The level of this assistance is premised on ensuring that States are 'no worse off' under the GST-based tax reforms. However, GST collections would need to fall substantially before Western Australia once again became eligible to receive budget balancing assistance. The State's GST revenue is projected to exceed the guaranteed minimum amount below which budget balancing assistance is paid by \$147 million in 2004-05, \$110 million in 2005-06 and \$197 million in 2006-07.

Western Australia's share of GST revenue grants 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 cost of providing services, compared to other States. Western Australia's share of these grants was increased significantly by the Commission in 2004-05, reflecting a comprehensive review of its methodology. However, over the forward years the Commission will update these relativities and some decline in the State's share is forecast. Experience shows that the annual change in Western Australia's share can be quite significant and is difficult to predict.

Specific Purpose Payments (SPPs)

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

In the Intergovernmental Agreement on the GST-based tax reforms, the Commonwealth has indicated that it has no intention of cutting aggregate SPPs as part of the reform process, reflecting the intention that the States should be better off under the new arrangements. However, should GST revenue grow substantially in future years, there is a risk that the Commonwealth may allow SPPs to be eroded. The level of SPPs is monitored at the annual meeting of Commonwealth and State Treasurers in March each year.

Competition Payments

Competition payments are conditional on the State satisfying the Commonwealth on its progress in implementing National Competition Policy and related reforms. Western Australia is currently receiving 45% of its possible competition payments for 2003-04, following a decision by the Commonwealth Treasurer to withhold payments for a range of anti-competitive restrictions in the State's legislation, including retail trading hours, liquor licensing regulations and potato marketing arrangements.

The National Competition Council will review competition payments to the States for 2004-05 in June 2004 (and subsequently make recommendations to the Commonwealth Treasurer). A particular risk for Western Australia is any new penalty that could apply for not proceeding with the disaggregation of Western Power, which the Council has not quantified but has indicated will result in "an adverse assessment of considerable significance".

State Taxes

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

Stamp duties linked to the historically volatile property market are inherently difficult to forecast. This has particularly been the case for conveyance duty in recent years given the impact of the GST, the First Home Owner Grant and unexpected strength in property market activity in 2002-03 and 2003-04. There have been tentative signs of conveyance duty revenue returning to long term trend levels in recent months and the expected fall in 2004-05 reflects a forecast easing in housing market activity. However, the timing and extent of any dip in activity is difficult to forecast and has the potential to impact on the pattern of conveyance duty revenue over the projection period.

Mining Royalties

The mining royalty estimates are sensitive to movements in oil prices and the \$A/\$US exchange rate. A change of \$US1 in the oil price would vary royalty revenue by around \$14.5 million per annum. Similarly, a change in the exchange rate of US1.0 cent would vary the royalty revenue by around \$13.5 million.

Oil prices and the exchange rate are inherently volatile. For example, the oil price in the lead-up to the Budget (for West Texas Intermediate crude) averaged around \$US34/barrel, compared with \$US28/barrel a year ago. Similarly, the Australian dollar averaged around 76 US cents in the lead-up to the Budget, compared with 60 US cents in April 2003.

The factors underpinning the currently high oil price include strong international demand, production cuts by OPEC and market sensitivity to developments in the Middle East and Venezuela. Upward pressure on the oil price from these factors is expected to ease over time. As a result, the forward estimates assume an average oil price of \$US27/barrel in 2004-05, before falling to a long term average of \$US22/barrel by 2006-07.

The \$A/\$US exchange rate has been projected at 76 US cents, based on the six to eight week average leading up to the Budget cut-off date of 5 April 2004.

The forward estimates of mining revenue also incorporate significant iron ore production increases announced by the major producers. The additional iron ore royalty (ranging from \$85 million in 2004-05 to \$142 million by 2007-08) is dependent on production coming on stream in the expected timeframe.

Revenue from Public Corporations

Western Power's financial forecasts continue to include the costs associated with the Government's wholesale electricity market reforms. However, \$32 million in recurrent and capital expenditure associated with the disaggregation of Western Power has been deferred by 12 to 18 months, reflecting the Government's continued commitment to this reform and the expected timing of reintroduction of the necessary legislation. Postponement of disaggregation may require Western Power to undertake additional expenditure over this period to continue internal systems not required under the proposed reformed structure. Western Power management is examining whether additional expenditure is required for ongoing 'business as usual' activities and, if so, will submit a business case for approval by the Government.

A future risk is the impact of competition on Western Power's operations, and hence profitability and revenue to government. A Western Australian Electricity Access Code is to be in place by 1 July 2004, and there will be a reduction in the contestability threshold to 5.7kW from 1 January 2005.

In this context, Western Power's budget forecasts incorporate lower operating profits as a result of competition impacting on market share and prices. The most significant impact on Western Power is the proposed Alinta 140MW gas-fired cogeneration plant at Alcoa's Pinjarra alumina refinery, which is scheduled to commence operation on 1 July 2005.

There is a risk that the impact of competition from Alinta and other Independent Power Producers could be greater than anticipated, which, in the absence of other changes, could result in Western Power's tax equivalent and dividend revenue being lower than forecast.

Expenses

Wages

Provision has been made for wage increases of up to 3% a year, with appropriation-supported agencies required to fund one third of the cost from their base allocation (apart from some exceptions related to specialist groups). Where wage outcomes are higher than these provisions, expenses will generally be higher. For instance, a 1% increase in wages in 2004-05 amounts to around \$50 million across the general government sector. Enterprise bargaining agreements that are due to expire in the next 12 months include those for nurses, hospital support workers and firefighters.

The Government's exposure to wage growth risk has moderated during 2003-04 as a result of the finalisation of agreements with significant groups such as police officers and teachers.

Functional Review Taskforce Savings

As outlined in the 2003-04 *Economic and Fiscal Outlook* (Budget Paper No. 3), the forward estimates incorporate substantial savings from the recommendations of the Functional Review Taskforce. These savings commence in 2004-05 but have their largest impact from 2005-06. To the extent that these reforms are not implemented in full and/or do not yield the projected level of savings, there is a risk to the forward estimates.

Health Expense Pressures

The health sector has particular demand pressures and funding requirements that make expenses in this sector difficult to estimate. However, the Government's agreement to implement the majority of the reforms recommended by the Health Reform Committee will assist the health sector in providing accurate estimates and remaining within budget.

Asset Revaluations

Periodic revaluations of assets are required under accounting standards to ensure the magnitude of the State's asset base is reported fairly on the balance sheet. These asset revaluations, which are very difficult to predict with any certainty, have the potential to increase expenses through subsequent increases in depreciation costs.

Capital Works

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

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

There are a number of capital works projects that have been approved by the Government and reflected globally in the forward estimates that are subject to finalisation of contract negotiations and/or other events. If, for some reason, these projects do not proceed they will be removed from the financial estimates. The Hismelt Stage 2 project and Broome jetty extensions are examples of such projects.

The Capital Works Program does not provide for a major new water source development (such as a desalination plant at Kwinana, or the South West Yarragadee aquifer). A decision to proceed with a new water source could be made if winter rainfall is below average.

Contingent Liabilities

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

At 30 June 2003, quantifiable contingent liabilities of the Treasurer⁷ were in the order of \$1,135 million, comprising:

- contingent liabilities under guarantees, indemnities and sureties (\$651 million); and
- guaranteed obligations of the Bank of Western Australia Ltd (\$484 million at credit risk equivalent).

In addition, there are unquantifiable contingent liabilities for warranties given on the sale of BankWest and the Dampier to Bunbury Natural Gas Pipeline. These are detailed in the 2002-03 *Treasurer's Annual Statements* (released on 19 November 2003).

⁷ Excluding guaranteed borrowings and unfunded superannuation liabilities, which are identified as part of the liabilities determining net worth in the balance sheet of the total public sector. For the purposes of identifying contingent liabilities in the *Treasurer's Annual Statements*, guaranteed borrowings and unfunded superannuation liabilities are included in aggregate contingent liabilities. However, for the purposes of identifying additional risk, the balance sheet explicitly accounts for all borrowings (guaranteed or not) and unfunded superannuation as public sector liabilities.

Issues in Public Sector Finances

Western Australia's principal indicator of bottom line budget performance is the Government Finance Statistics (GFS) net operating balance for the general government sector.

Following four successive net operating deficits from 1996-97 to 1999-2000, the Western Australian Government has achieved operating surpluses in each of the last three years (ranging from a surplus of \$167 million in 2000-01 to \$254 million in 2002-03), with a fourth consecutive surplus expected for the current financial year (of \$207 million).

Managing budgets to achieve operating surpluses has several virtues. In the first instance they ensure we are not living beyond our means and that we are able to fund all the expenses that are associated with providing services to the community. A second virtue is that the surpluses work to moderate the growth in debt that may be needed to provide for new infrastructure across the community.

While the surpluses recorded in Western Australia in recent years have been important from both dimensions, they have been substantially below those achieved in the larger jurisdictions, particularly Victoria and New South Wales. This section examines likely reasons for this outcome by analysing revenue and expense data for each of the mainland States over the period 1998-99 to 2002-03⁸.

A Comparison of General Government Net Operating Surpluses

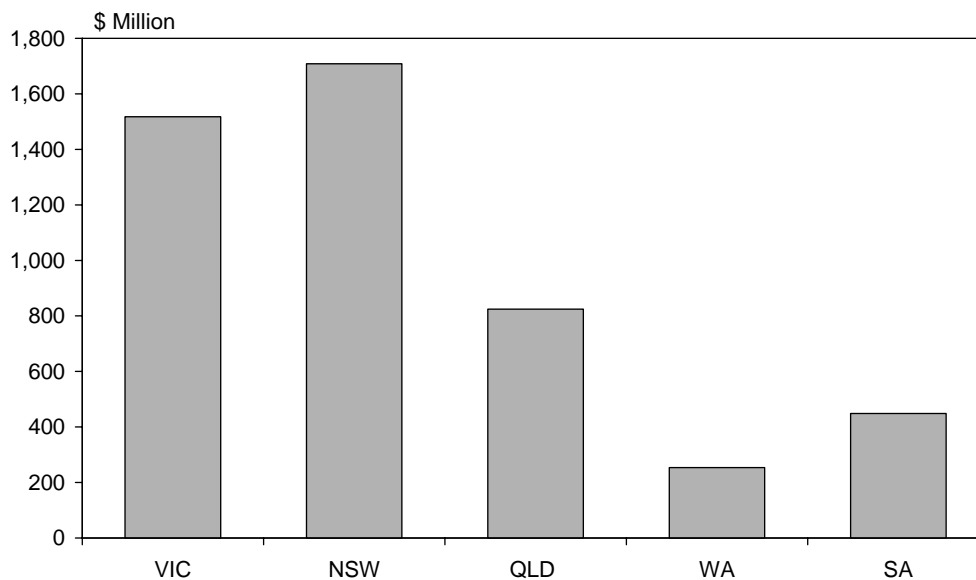
The GFS net operating balance provides a basis for identifying the relative strengths of each jurisdiction's financial performance. As shown in the following chart, in absolute dollar terms, Western Australia's general government operating surplus was substantially below the surpluses achieved in other jurisdictions in 2002-03⁹. A similar trend is also evident in previous years (although South Australia's net operating position has previously been in deficit).

⁸ This period was chosen because accrual GFS data for all jurisdictions are generally only available from 1998-99, while 2002-03 is the most recent actuals year.

⁹ Queensland data in Figures 11 and 12 are adjusted to reflect the estimated surplus if Queensland's superannuation arrangements were structured on the same basis as generally applies in other States.

Figure 11

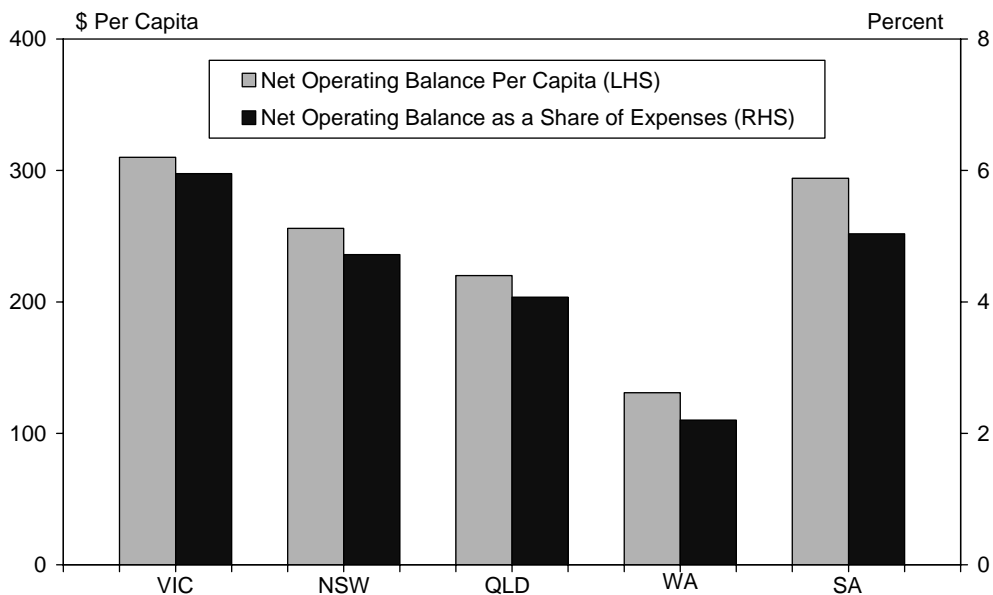
NET OPERATING BALANCE
General Government, 2002-03



In per capita terms, the story remains similar (see following chart). It is also noteworthy that Western Australia's operating surplus in 2002-03 represented just 2.2% of total general government expenses. This is a slim margin compared to the surpluses of other jurisdictions, which average around 5% of expenses.

Figure 12

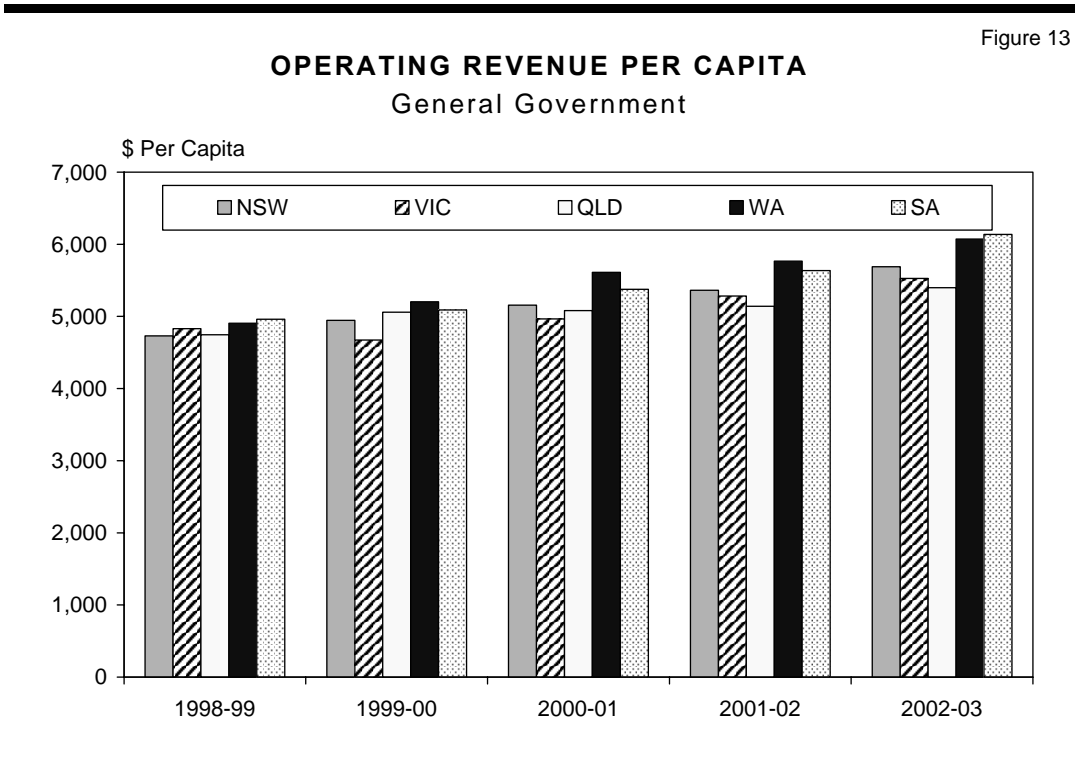
NET OPERATING BALANCE PER CAPITA AND AS A SHARE OF EXPENSES
General Government, 2002-03



To determine why Western Australia’s surpluses have generally been lower than those of the other jurisdictions, both revenue and expenses need to be analysed.

Operating Revenue

As indicated in the following chart, Western Australia was consistently the highest or second highest revenue raising State in per capita terms over the period 1998-99 to 2002-03.

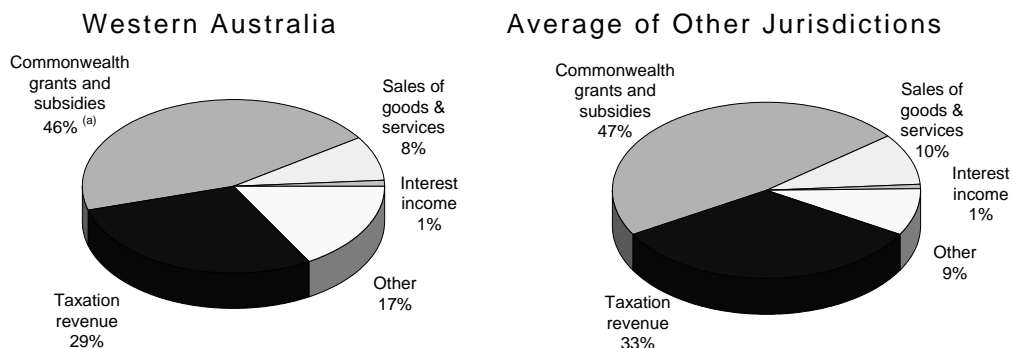


Western Australia’s revenue sources are broadly the same as the other jurisdictions, with Commonwealth grants accounting for nearly half of the State’s revenue base. However, as shown in Figure 14, Western Australia receives a much larger share of its total revenue from ‘other’ revenue¹⁰, reflecting the State’s large mining royalty base. Including North West Shelf petroleum royalties, Western Australia’s royalty revenue totalled \$1.1 billion or 9.5% of total general government revenue in 2002-03, compared with an average of 1.1% for the other jurisdictions.

¹⁰ Comprising revenue from dividends, royalties, fines and miscellaneous revenue not counted elsewhere.

Figure 14

GENERAL GOVERNMENT OPERATING REVENUE, 2002-03



(a) Under GFS classifications, North West Shelf royalties are classed as a Commonwealth grant. However, in order to ensure a consistent comparison between the States, these royalties have been classified as 'other' revenue for this analysis.

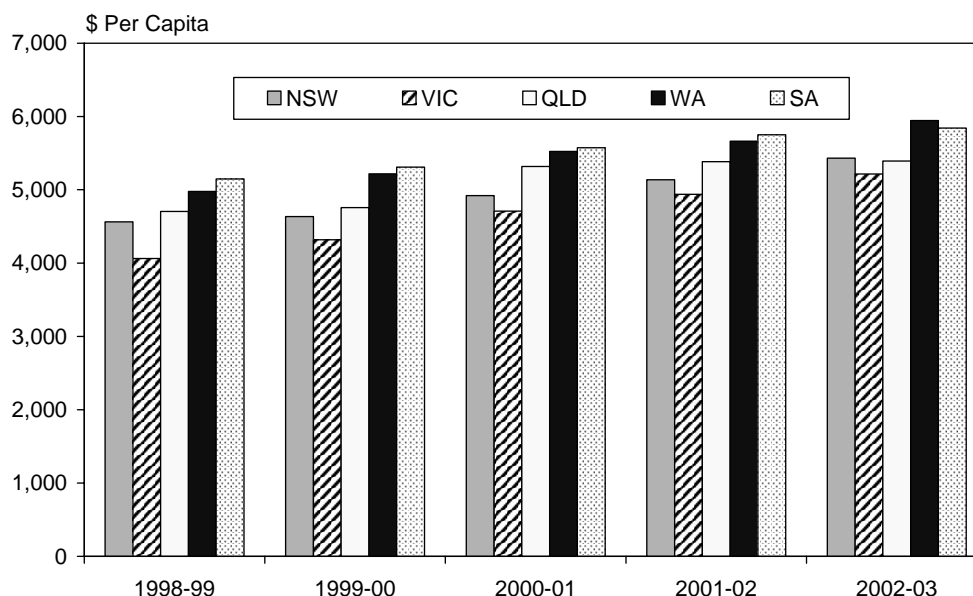
Western Australia also differs from other jurisdictions in that it receives a lower share of total revenue in the form of taxation revenue. This is mainly due to Western Australia's unique stance against the widespread use of poker machines (which are a source of significant gambling taxation revenue in other States), as well as the substantially higher share of 'other' revenue mentioned above (which subsequently reduces shares from other sources of revenue). This position is also consistent with the Government's fiscal target on tax competitiveness (discussed earlier in this Chapter).

Operating Expenses

As with revenue, Western Australia's operating expenses per capita have consistently been the highest or second highest over the period 1998-99 to 2002-03.

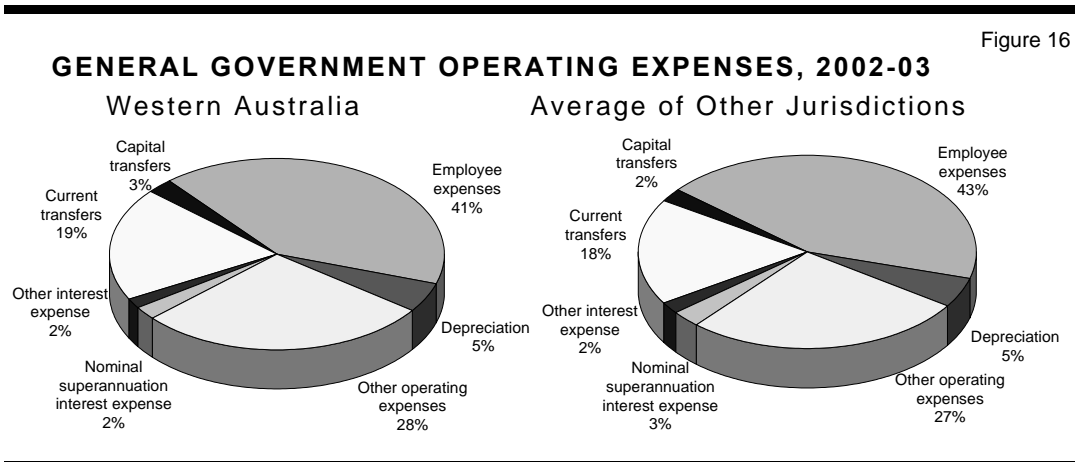
Figure 15

OPERATING EXPENSES PER CAPITA
General Government



As indicated in Figure 16, current and capital transfers (which include grants to the community and Community Service Obligation (CSO) payments to public corporations) account for a larger share of expenses in Western Australia than in other States. This is partly a reflection of relatively high CSO payments in Western Australia, particularly for water services.

In this regard, in 2001-02¹¹ Western Australia provided the highest CSO payments per capita for water (\$124.50), reflecting the necessity to provide water services to remote areas of the State. The next highest CSO payment was \$59.36 in South Australia, followed by New South Wales (\$13.04), Queensland (\$4.14) and Victoria (\$0).



In terms of gross operating expenses (consisting of employee expenses, depreciation and ‘other’ operating expenses¹²), Western Australia’s expenditure patterns are broadly similar to the average of the other jurisdictions. While Western Australia’s employee expenses account for a lower share than the average of the other jurisdictions (41% versus 43%), this partly reflects high employee expenses in Queensland and South Australia. Western Australia’s share of employee expenses has consistently been higher than in New South Wales and Victoria, primarily reflecting the higher level of general government employees per 1,000 population in Western Australia (at 60.4 for Western Australia in 2002-03 compared with 51.5 for New South Wales and 52.2 for Victoria).

A fundamental issue in examining why Western Australia’s expenses are high relative to the other States is the extent to which this reflects the inherently higher cost of delivering services in Western Australia (due to factors such as remoteness of the State’s communities) and the extent to which it reflects a policy of higher spending in Western Australia. This issue is analysed below using data from the Commonwealth Grants Commission.

¹¹ The latest year for which comparative data are readily available (source: *Financial Performance of Government Trading Enterprises 1997-98 to 2001-02*, Productivity Commission Research Paper, June 2003).

¹² Comprising expenses associated with the day-to-day activities of government agencies such as stationery, advertising, travel, consultants, etc.

Commonwealth Grants Commission's (CGC) Assessment

Under long-standing institutional arrangements, the CGC determines the allocation of a pool of Commonwealth general revenue grants between the States, taking into account each State's relative revenue raising capacity and relative cost of services¹³. Since 2000-01, this pool has comprised national GST collections.

Results from the CGC process can be used to help understand the reasons for large variations in per capita operating surpluses between jurisdictions, although caution is needed as the CGC methods are often controversial and undergo significant revisions every five years, and there are some data quality issues with the implementation of the CGC's methods.

Subject to these caveats, variations in per capita operating surpluses can largely be explained as the result of:

- different spending and revenue 'needs' and the extent to which these are recognised by the CGC in its distribution of Commonwealth grants; and
- differences in States' spending and revenue raising policies.

Needs

Needs are the extent to which States' per capita expenses and per capita own source revenues differ due to factors over which States have no control, such as land values, socio-demographic characteristics (e.g. age, income, English fluency, indigeneity) and the size and remoteness of communities.

The CGC's assessment of each jurisdiction's revenue raising capacity and relative cost of services is shown in Table 11. A figure greater than 1.0 means that a jurisdiction has a relatively high capacity to raise revenue or experiences relatively high costs of services.

Table 11

RELATIVE REVENUE RAISING CAPACITY AND COST OF SERVICES
All States = 1.00

	NSW	VIC	QLD	WA	SA
Revenue					
2002-03	1.09	0.93	0.99	1.18	0.78
2001-02	1.09	0.96	0.95	1.17	0.78
2000-01	1.07	0.96	0.96	1.20	0.81
1999-00	1.08	0.97	0.95	1.15	0.82
1998-99	1.07	0.96	0.99	1.13	0.82
Expenses					
2002-03	0.99	0.92	1.01	1.07	0.99
2001-02	0.99	0.92	1.01	1.07	0.99
2000-01	0.98	0.92	1.01	1.08	1.00
1999-00	0.98	0.92	1.01	1.10	1.00
1998-99	0.97	0.92	1.01	1.09	1.01

¹³ The CGC also takes into account the level of Specific Purpose Payments (SPPs) received by States.

As indicated in Table 11, the CGC has consistently assessed Western Australia as having the highest capacity to raise revenue, reflecting the State's rich mining base (resulting in a high capacity to raise royalties).

In terms of expenses, the CGC has assessed Western Australia as having higher costs of services than other jurisdictions, reflecting factors outside of the State's control such as its small population base, its high proportion of school-aged population and indigenous persons, and its remote communities and roads.

In theory, any fiscal advantages or disadvantages that States may have experienced due to above or below average revenue raising capacities or costs of services should have been offset through the CGC's distribution of GST grants. In practice this has not always been the case. In reporting the outcome of its 2004 Review the CGC has substantially revised its past assessments of States' revenue raising capacities and costs of services, and there is no provision for retrospective adjustments of the CGC's determinations¹⁴.

The outcome of the CGC's 2004 Review suggests that the CGC has been over-stating Western Australia's revenue capacity and under-stating its expenditure needs. This can be seen in Table 12, with differential GST grants from the Commonwealth contributing only \$35 per capita to Western Australia's operating surplus (compared to the five State average), while our differential needs (i.e. our higher cost of service delivery net of our higher revenue capacity) detracted \$103 per capita from the operating surplus (compared to the five State average).

¹⁴ Other reasons for the mismatch between States' needs and grants received include time lags in the CGC process (the GST distribution reflects relative needs from a few years previously, and relative needs can change significantly over time), and the uneven distribution of budget balancing assistance (BBA) across States. BBA was designed to 'top up' the GST to ensure that States were no worse off from the GST reforms. Differences in the per capita level of BBA paid to States mainly reflected differences across States in policies regarding rates of taxes that were abolished or reduced under the GST reforms. Hence BBA payments bore no relation to needs.

Table 12

PER CAPITA CONTRIBUTIONS TO OPERATING SURPLUSES, 2001-02

	NSW	VIC	QLD	WA	SA	Average
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
OPERATING SURPLUS	225	344	162	103	-115	203
comprising:						
- 5 State average	203	203	203	203	203	203
- differential needs	151	176	-243	-103	-504	0
- differential policy	-99	115	147	-15	-271	0
- differential grants	-30	-151	55	17	457	0
FURTHER DETAILS						
Differential needs	151	176	-243	-103	-504	0
comprising:						
- expenditure	-26	289	-117	-394	-26	0
- revenue	177	-113	-125	291	-477	0
Differential policy	-99	115	147	-15	-271	0
comprising:						
- expenditure (a)	39	24	143	-123	-437	0
- revenue (a)	-61	83	-110	121	115	0
- not identified (b)	-77	8	114	-12	50	0
Differential grants	-30	-151	55	17	457	0
comprising:						
- GST	-50	-123	87	35	354	0
- BBA	34	-3	-62	-21	36	0
- SPPs	-14	-25	30	3	67	0

(a) Policy impacts identifiable from the CGC's report.

(b) Impacts not identifiable from the CGC's report, due to scope and data related issues. May also include some residual non-policy effects.

Note: Queensland's operating surplus has been adjusted to remove the impact of volatility in returns on superannuation investments. North West Shelf royalties are treated as State royalty revenues (rather than Commonwealth grants). User charges are treated as revenues (consistent with GFS conventions) rather than expenditure offsets (the CGC convention). Competition payments are included in SPPs. 2001-02 is the latest year for which reliable data on differential policy are available.

Policy Effects

Policy effects are the extent to which States' per capita expenses and per capita own source revenues differ due to differences in the quality or efficiency of services (that is, after allowing for factors over which States have no control) and differences in the rates of taxes, charges and royalties.

As shown in Table 12, policy differences contribute significantly to the high operating surpluses in Victoria and Queensland (\$115 and \$147 per capita respectively, compared to the average of the five States). Western Australia's policy settings are in the middle of the pack, detracting \$15 per capita from our operating surplus, compared to the average of the five States. Policy settings in New South Wales and South Australia detract significantly from their operating surpluses.

In Western Australia's case, an above average revenue raising effort makes a positive contribution to the State's operating surplus, but this is offset by an above average spending effort in areas such as health, water subsidies, country transport and general public services¹⁵.

Western Australia's above average revenue effort has been necessitated by the CGC failing to fully recognise the State's higher costs of services in its allocation of Commonwealth grants, as discussed earlier.

Conclusion

Western Australia's finances have turned around in recent years, moving from general government operating deficits in the mid to late 1990s to consecutive surpluses in the last three years. However, these surpluses remain modest relative to other jurisdictions (particularly New South Wales and Victoria), both in absolute terms and in relative terms (per capita and as a share of expenses).

In per capita terms, both revenue and expenses are high in Western Australia relative to the other States, mainly reflecting the State's high cost of services (which necessitates a high level of revenue). In terms of explaining Western Australia's relatively low surpluses in recent years, the major factors appear to be that the CGC has not fully compensated the State for the inherently higher cost of delivering services in Western Australia (and has overestimated the State's revenue raising capacity), as well as a policy of higher spending in Western Australia.

The CGC's recently completed review of State shares of GST revenue should assist in achieving operating surpluses closer to those observed in other jurisdictions or, alternatively, provide the Government with more scope to deliver revenue relief or further increase its spending effort.

¹⁵ It should be noted that the general caveats about data quality and methodology issues with the CGC process apply more strongly at the detailed level of the CGC's assessments. In particular, it is the view of the Western Australian Government that the GCC has underestimated the State's health needs (see Chapter 6: *Federal Affairs*).

CHAPTER 3

Financial Projections - Expenditure

Overview

This Chapter discusses two important areas of government expenditure:

- spending by general government agencies; and
- total public sector capital investment.

Expenses by General Government Agencies

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

The Government's focus for the 2004-05 Budget is to continue to resource its priority service delivery areas, as well as expanding service delivery capacity by investing in economic and social infrastructure. Government's priority areas for this Budget remain health, education and training, law and order, and community support and child protection.

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

In keeping with this focus, the 2004-05 Budget will provide for additional operating expenses over and above the estimated 2003-04 outturn for key service delivery initiatives including:

- Health – \$163.2 million, an increase of 5.4%. In 2004-05, the Government will commit to spending \$3.2 billion towards the delivery of health services. The appropriation to Health is budgeted to increase by \$178.2 million or 6.8%;
- Education and Training – a \$72.5 million or 2.5% increase. In education, spending per student is budgeted to grow by 0.9% in real terms in 2004-05;
- Police – \$48.8 million, a substantial 8.2% rise to resource improvements in community safety;
- Justice – total spending is up by \$10.3 million (an increase of 1.6%);
- Community Development – \$5.5 million in additional funding. On an underlying basis, i.e. abstracting from the once-off impact on carryovers in 2003-04, total expenditure is projected to increase by 1.04% in real terms, through the provision of \$5.5 million in additional funding; and
- Disability Services – spending up by \$15.6 million, an increase of 6%.

The following section outlines significant variations in expenditure and the key service delivery initiatives in the 2004-05 Budget. Details of the major policy decisions for each of the Government's 14 ministerial portfolios are presented as well as discussion of the longer term trend in total spending by individual agencies over the forward estimates.

Key Service Initiatives of the 2004-05 Budget by Ministerial Portfolio

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

Premier and Cabinet

Total spending by the Department of Premier and Cabinet in 2004-05 is expected to increase by \$6.4 million to \$166.9 million. This is primarily a result of revised timings for the payment of grant funds by the Office of Science, Office of Native Title and Office of Crime Prevention.

Additional funding has also been provided for a number of major initiatives within the Department as outlined below.

Science

A total of \$132.0 million has been appropriated to the Department over the next four years for investment in science and innovation. This includes the provision of \$50.0 million over the next five years towards the continuation and expansion of the InnovateWA program. The program is aimed at promoting science and innovation as a driver of economic and technological change in Western Australia.

Another major science initiative is the continuation of the Centres of Excellence program that will receive a further \$16.0 million over the forward estimates period.

Water Research Foundation

The Premier's Water Foundation was launched in 2003-04 to promote and enhance water related research and development activities. A further \$3.3 million will be provided over three years from 2004-05 to provide grants for research into water management and water resource recovery.

The State Water Strategy will also be provided with \$345,000 in 2004-05 to continue existing programs.

Community Safety and Security

Community safety and security is a priority for the Government. In 2004-05, 2005-06 and 2006-07 a total of \$299,000 will be provided for extension of the Burglary Reduction Pilots to the burglary hot spots of Morley, Bentley and Rivervale, and implementation of a regional burglary reduction pilot site. A further \$344,000 in 2004-05 will be provided for the rollout of Local Government Partnerships and the State Crime Prevention Strategy.

A new grant program (Crime Prevention Through Environment Design) for local government and indigenous communities for implementation of strategies linked to the built environment to ameliorate crime risk will also be established with funding of \$500,000 in 2003-04 and \$1.5 million in 2004-05.

International Virtual Environment Centre

Funding of the International Virtual Environment Centre is set to continue with the provision of \$2.4 million in 2003-04 and \$700,000 over 2005-06 and 2006-07. The Centre has established a high performance computer network that enables a variety of research and development activities, such as climate modelling, that are not possible using normal bench-top computing infrastructure.

175th Anniversary of the Swan River Colony

The importance of commemorating the 175th anniversary of the Swan River Colony has been recognised through the provision of \$2.8 million over 2003-04 and 2004-05 for a range of initiatives across agencies aimed at raising awareness and celebrating the achievements of Western Australia.

Greenhouse Unit

The Government has committed additional funding of \$2.4 million over 5 years to establish a Greenhouse Unit to coordinate Western Australia's contribution to global efforts to reduce greenhouse emissions. In 2004-05, this will enable the establishment of an Industrial Greenhouse Inventory, a Greenhouse Registry and a Greenhouse Abatement Fund.

Public Sector Standards Commissioner

Additional funding of \$210,000 in 2004-05 has been provided to the Office of the Public Sector Standards Commissioner to assist the Office with the implementation and administration of the Public Interest Disclosure legislation.

DEPUTY PREMIER; TREASURER; MINISTER FOR ENERGY

Treasury and Finance

The Department's total expenses are projected to decrease by \$4.7 million or 5.8% in 2004-05, primarily due to the completion of a number of one-off projects in 2003-04, and the implementation of further savings from the Functional Review Taskforce in 2004-05. These decreases have been partially offset by additional funding provided to the Department in 2004-05, primarily for tax administration initiatives. Details on these movements in expenses are outlined below.

Taxation Administration Initiatives

Funding of \$3.5 million over four years (\$379,000 in 2004-05) has been provided to further improve the effectiveness of tax administration in the State by targeting non-compliance in high-risk areas. Around \$2.7 million of this amount will be used to increase the number of compliance investigator positions and support staff to enhance compliance schemes administered by the Office of State Revenue. The remainder, \$820,000 over two years from 2006-07, has been provided for a rewrite of the *Stamp Act* to reflect modern business practices and to include a general anti-avoidance provision. A rewrite of the *Stamp Act* was recommended by the recent Review of State Business Taxes and will complete the Government's program of updating all State taxation legislation.

The Taxation Administration initiatives are expected to result in additional revenue of \$2.4 million in 2004-05 and \$19.5 million over the forward estimates.

Facility Management and Vehicle Contracts

Funding of \$273,000 per annum has been provided to the Department to bring vehicle management and information co-ordination services, currently provided by an external party, within government. Bringing the services in-house will result in net savings to the State of \$402,000 in 2004-05 and \$627,000 per annum from 2005-06.

Reduction in 2004-05 Expenses

Completion of the Wireless West project (\$2.6 million in 2003-04), the Satellite Mobile Phone Scheme (\$1.5 million in 2003-04), the Service Net Disaster Recovery Project (\$300,000 in 2003-04) and the implementation of Functional Review Taskforce savings (\$1.7 million per annum from 2004-05 compared to \$1.3 million in 2003-04) have all contributed to the reduction in total expenses in 2004-05.

Auditor General

Additional funding of \$800,000 in 2004-05 has been provided to the Office of the Auditor General to support the Office in providing independent and impartial advice to Parliament, and the public of Western Australia, regarding the accountability and performance of the public sector. This additional funding, increasing to \$900,000 per annum from 2005-06, will assist with the introduction of the internationally-based financial reporting standards across the public sector, and will support the Office in the timely completion of public sector audits.

Economic Regulation Authority

The Economic Regulation Authority was formed on 1 January 2004. The establishment of the Authority will see an increase in independence, transparency and accountability in the governance of the electricity, gas, water and rail industries. The regulation of gas and rail was previously undertaken by two industry specific regulators whose functions have been transferred to the Authority. The Authority's total expenditure is expected to be \$5.4 million in 2004-05.

Energy

Aboriginal and Remote Communities Power Supply Project (ARCPSP)

The Government has allocated \$1.2 million in 2004-05 (\$11.6 million over five years) for the ARCPSP, a project jointly funded by the State and the Commonwealth (through the Aboriginal and Torres Strait Islander Services). This allocation will provide for the completion of the pilot phase of the project, as well as an expected expansion to include 11 other large, permanent, remote Aboriginal communities of over 200 residents. The funding will provide for recurrent project costs, capital funding for network upgrade refurbishment and Community Service Obligation payments to Western Power.

As a result, a total of 16 remote Aboriginal communities will enjoy the benefits of improved affordability, reliability and quality of electricity supplies.

Solar Water Heating Subsidy Scheme

The Government has committed an additional \$400,000 in 2004-05 to provide for the greater than expected uptake of the subsidy scheme (which promotes the uptake of renewable energy by encouraging a greater use of solar hot water systems). This funding is in addition to the \$2.0 million already provided for the scheme.

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

Agriculture

The Department's total spending of \$195 million in 2004-05 will be \$38.0 million less than in 2003-04. The major factor causing this apparent reduction from the 2003-04 expenditure is a large carryover of funds that occurred from 2002-03 to 2003-04, boosting the latter year's expenses. Seasonal factors such as drought and funding tied to Commonwealth and industry agreements were largely responsible for the carryover of funds into 2003-04. Abstracting from these timing effects, the Department's expenditure in 2004-05 will be down \$4.0 million from 2003-04. The \$4 million variation from 2003-04 to 2004-05 primarily reflects additional assistance of \$1.7 million provided to milk distributors from surplus Dairy Industry Assistance Package funds and an increase of \$700,000 in Service Delivery Agreement expenses in 2003-04, together with the introduction in 2004-05 of FRT savings of \$1 million in relation to research and development activities.

National Livestock Identification System (NLIS)

The Government has endorsed the use of \$2.2 million over 2003-04 and 2004-05 from the Cattle Industry Compensation Fund to fund infrastructure assistance and a producer rebate on the purchase of radio frequency devices (electronic ID) to enhance the implementation of NLIS in Western Australia. It is planned to implement the NLIS by 1 July 2005.

Animal Biosecurity

Additional funding of \$4.4 million over the forward estimates has also been provided to assist in establishing the necessary foundation to raise the level of the State's prevention, detection and response preparedness associated with exotic animal diseases.

National Action Plan for Salinity and Water Quality (NAP)

The State Government has previously committed \$31.4 million to the NAP for the period up to 2007-08. This comprises:

- \$18.7 million from the sale of AlintaGas;
- \$6.0 million for the Catchment Demonstration Initiative;
- \$4.0 million for the Engineering Evaluation Initiative;
- \$1.2 million for Regional Landcare Coordinators; and
- \$1.5 million for administration.

This expenditure has been accepted by the Commonwealth as suitable to match dollar for dollar.

Over the next four years the Government has allocated an additional \$79.4 million for the implementation of accredited regional Natural Resource Management strategies under the NAP. The Government will allocate a further \$32.2 million for plantation forestry initiatives and \$15.0 million for the recovery of the Collie River Catchment. These funds will be available for Regional NRM groups to allocate in accordance with their planning and investment processes and are subject to accreditation by both the State and Commonwealth.

This completes the State Government contribution under the NAP and brings the total State commitment to \$158.0 million. This will result in \$316.0 million of joint State and Commonwealth Government funding being spent over the next four years on projects to combat salinity and water quality issues.

Fisheries

Total expenditure for the Department is projected to increase to \$52.4 million in 2004-05, representing an increase of 4.9%. The increase in expenditure is mainly attributable to the compliance activity associated with marine parks and an increase in activity within the commercial fisheries sector.

Integrated Fisheries Management (IFM)

The Government is continuing to demonstrate its commitment to the sustainable management of fisheries. An allocation of \$4.1 million across the forward estimates is being provided to the Department to support the implementation of the IFM initiative. This will enable the determination of a total harvest level in each fishery and the allocation of explicit catch shares. This is aimed to allow for an ecologically sustainable level of fishing for use by each of the principle user groups including, commercial, recreational and the indigenous customary fishers.

Marine Parks

Funding of \$1.0 million over four years (\$250,000 in 2004-05) has been provided to the Department for the management of the Jurien Bay Marine Park. This funding will assist in ensuring achievement of the necessary level of compliance related to fishing activity, which is required to improve the overall effectiveness of the management of the park.

Great Southern Development Commission

Expenditure for the Great Southern Development Commission is expected to reduce in 2004-05 by \$600,000 due to the completion of several major projects in 2003-04, including the Albany University Centre and the Vancouver Waterways Project.

MINISTER FOR LOCAL GOVERNMENT AND REGIONAL DEVELOPMENT; HERITAGE; THE KIMBERLEY, PILBARA AND GASCOYNE; GOLDFIELDS-ESPERANCE

Local Government and Regional Development

The Department is expected to maintain its expenditure in 2004-05 at a level commensurate with the 2003-04 estimated outturn. Total expenditure in 2004-05 is estimated to be \$39.0 million. Major new initiatives funded in 2004-05 include:

City of Joondalup Inquiry

On 12 March 2004, the Minister for Local Government announced the establishment of an independent panel inquiry to examine all the issues surrounding the former Joondalup Council. To meet the operational costs of the inquiry, funding has been provided in 2003-04 (\$200,000) and 2004-05 (\$500,000). The inquiry will also provide some useful guidelines for local government generally on appropriate standards and processes for senior management recruitment and contracts.

Regional Investment Fund (RIF) – Continuation to 2008-09

The Government's current commitment to the regions through the four-year \$75.0 million RIF will be continued, following the decision to allocate \$20.0 million per annum from 2005-06 onwards. The Fund's primary objective is to encourage, promote and support the sustainable development of regional Western Australia.

Outer Metropolitan Community Program

In response to the problems faced by fringe or outer urban Local Governments, \$1.0 million per annum has been provided from 2004-05. The intention of the program is to assist Local Governments more effectively manage increasing pressures as a result of fast growing urban development and growth.

Heritage Council of Western Australia

The Council's expenditure will increase by \$1.1 million in 2004-05, however this is largely due to a change in the accounting treatment of the Council's Heritage Grants Program (\$1.0 million per annum). After allowing for this revision, the Council's expenses will still increase marginally in 2004-05.

National Trust of Australia (WA)

A reduction in expenditure in 2004-05 primarily reflects a reduction in grants due to the completion of large projects, such as the Golden Pipeline and Luisini Winery, in 2003-04.

Pilbara Development Commission

The Pilbara Development Commission continues to initiate a number of projects that will further the sustainable development of the Pilbara region.

An increase in 2004-05 expenditure of \$2.7 million is mainly due to revised cashflows associated with the Port Hedland and Roebourne Enhancement Schemes (total expenditure on the schemes are \$9.0 million and \$3.5 million respectively). Projects funded from the schemes are specifically aimed at developing the social and physical amenities for the residents of the Port Hedland and Roebourne communities. There have been unforeseen delays in both of these schemes primarily due to delays in the evaluation and finalisation of projects.

Gascoyne Development Commission

Total expenses of the Gascoyne Development Commission will be \$1.3 million lower in 2004-05 than in 2003-04. This is due to:

- revised cashflow for the Aboriginal Heritage Cultural Centre (AHCC) project now predicted to be \$1.9 million in 2003-04 and \$850,000 in 2004-05; and
- completion of the Carnarvon storm surge barrier (\$1.0 million) in 2003-04.

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

MINISTER FOR CONSUMER AND EMPLOYMENT PROTECTION; INDIGENOUS AFFAIRS; MINISTER ASSISTING THE MINISTER FOR PUBLIC SECTOR MANAGEMENT

Consumer and Employment Protection

The Department's expenses are expected to total \$63.6 million in 2004-05. An additional \$100,000 has been provided over a two-year period (2004-05 to 2005-06) for a mature workers promotional campaign. Following on from the initiative announced in the 2003-04 Budget, an additional six WorkSafe inspectors will be employed in 2004-05 to lift awareness of, and commitment to, workplace safety in Western Australia. A total of 20 additional inspectors will be employed by 2005-06.

Indigenous Affairs

An additional \$100,000 per annum from 2004-05 onwards has been provided to expand existing Aboriginal Community Patrols in the metropolitan area. This takes the total commitment to this initiative to \$1.3 million per annum.

ATTORNEY GENERAL; MINISTER FOR HEALTH; ELECTORAL AFFAIRS

Justice

Total expenditure for the Department is projected to be \$632.3 million in 2004-05, an increase of \$10.3 million compared to the 2003-04 expected outturn. The increase in expenditure is mainly attributable to the following:

New Initiatives

- a Court of Appeal (\$1.1 million) will be established as a division of the Supreme Court of Western Australia;
- an additional magistrate will be appointed to assist in the Goldfields region (\$513,000);
- there will be improved case management of offenders in the community by creating a Professional Practice and Standards Unit in Community Justice Services and implementing more training for staff (\$470,000); and
- an additional guardian position and a Community Guardianship Program Co-ordinator position (\$177,000) will be created. This will reduce the risk exposure to vulnerable clients and the community.

Existing Programs

- accommodation in the community for newly released prisoners is a key concern and the Department now coordinates transitional arrangements from prison/detention into the community;
- the Government has made significant progress towards developing a State Administrative Tribunal. Once established, it will replace the functions of nearly 50 industry and public sector boards and tribunals, providing access to a single one-stop tribunal system with a focus on informality and mediation;
- in response to the Gordon Inquiry, Justice initiatives include development of violent offender perpetrator programs for delivery through Regional Programs Officers to regional communities, development of community agreements for perpetrator release from prison into regional communities and extension of the Child Witness Service and Victim Support Service to regional communities;
- the Government is committed to making Western Australia a safer community with important changes to how it manages offenders as part of its Community Re-entry for Prisoners Program. This \$5.3 million initiative improves support to offenders in prison – particularly for three months prior to release and for up to six months after release – so that they can better re-establish themselves in the community;

- since the State Government's Drugs Roundtable in 2003, the Justice Drugs Plan and the prison Drugs Management Strategy have been developed. Management of the complex drug use issue involves a broad range of initiatives which encompass reducing the supply and demand for drugs in prison and addressing the addiction behaviours of offenders in prison and on release into the community; and
- renegotiation of the Court Security and Custodial Services contract. This process involves the restructuring and renegotiation of the contract to achieve efficiencies and savings to Government.

Corruption and Crime Commission

The *Corruption and Crime Commission Act 2003* was passed and proclaimed on 1 January 2004.

The operating costs for the Commission are estimated to be \$7.1 million in 2003-04 and approximately \$20.0 million per annum from 2004-05 onwards.

The operating expenses will enable the Commission to improve integrity and reduce the incidence of misconduct in the public sector as well as address organised crime through the appropriate use of special investigative powers.

Parliamentary Inspector of the Corruption and Crime Commission

The *Corruption and Crime Commission Act 2003* established the Office of the Parliamentary Inspector of the Corruption and Crime Commission.

The operating costs for the Parliamentary Inspector are estimated to be \$120,000 in 2003-04, \$390,000 in 2004-05 and approximately \$500,000 per annum from 2005-06 onwards.

The expenses will allow the Parliamentary Inspector to evaluate the effectiveness and appropriateness of the Corruption and Crime Commission.

Health

Expenditure on health services accounts for around 24.6% of total general government expenses in Western Australia. In 2004-05, public sector health expenses are projected to be \$3.2 billion, an increase of \$163.2 million on the estimated outturn for 2003-04. This represents an increase of 5.4%. Appropriation from the State to support this increase in expenditure is budgeted to increase by \$178.2 million or 6.8%. Commonwealth expenses on health will fall in 2004-05 from the 2003-04 levels.

To ensure that the Western Australian Health system meets the health needs of Western Australians now and into the future, the Government is increasing health expenses by \$733.6 million over the next four years, to take total expenses to \$13.9 billion over this period.

Health Reform Agenda

The Health Reform Committee (HRC) was established by the Government in March 2003 and charged with developing system-wide reforms, for improving the delivery of health services and enabling better management of health system costs so that growth in health costs remains sustainable now and into the future. The Committee reported to the Expenditure Review Committee through the Minister for Health and the Treasurer, and released its final report on 29 March 2004.

The final report of the HRC, *A Healthy Future for Western Australians* puts forward a comprehensive 10-year vision and blueprint for strategic reform of the State's health system.

Integral to the HRC vision is a significant reconfiguration of hospitals in the metropolitan area and the revamp of clinical services to minimise clinical duplication in tertiary hospitals enhancing the quality of care and patient safety, as well as increasing efficiency.

Key reform recommendations in these areas include:

- establishing north and south of the river tertiary hospitals by building a new 600 bed Southern Tertiary Hospital and amalgamating Royal Perth Hospital and Sir Charles Gairdner Hospital to create a Northern Tertiary Hospital;
- establishing specialist centres of excellence for major trauma, neurosurgery and heart, lung and renal transplantation at the two new adult tertiary hospitals;
- rebuilding and co-locating King Edward Memorial Hospital at a tertiary hospital;
- expanding Joondalup Health Campus, Swan District Hospital, Armadale Kelmscott Memorial Hospital and Rockingham/Kwinana Hospital to 300 bed general hospitals and increasing the range of medical services available. These facilities will provide clinical services in areas such as general surgery, orthopaedics, emergency, cardiology, general medicine, obstetrics and general paediatrics;
- providing a range of general hospital services including rehabilitation, community care, aged care, mental health services, day surgery ambulatory care, sub-acute care and supported palliative care services at Fremantle, Bentley, Kalamunda and Osborne Park hospitals;
- building a more integrated and patient centred health system with greater emphasis to be placed on health promotion, and primary and community based care. This would include implementing targeted health promotion programs for chronic and complex diseases, expansion of early intervention and prevention programs in mental health care, improved hospital discharge processes, transitional care programs and home care programs and the introduction of a system-wide clinical information system including electronic patient records;

- expansion of emergency departments in each of the four metropolitan general hospitals to accommodate emergency adult and paediatric care, excluding major trauma and establishing purpose-built facilities to provide in-patient, day and ambulatory palliative care hospice services at the four designated metropolitan general hospitals;
- developing Regional Resources Centres at Albany, Broome, Bunbury, Geraldton, Port Hedland, and Kalgoorlie-Boulder to provide more locally accessible hospital care, where clinically appropriate;
- implementing a reduced average length of stay for a range of clinical services and targets for increasing the overall percentage of day procedures and day of surgery admissions;
- streamlining the delivery of pathology services within metropolitan health services, reform of hospital food services and pharmacy services;
- implementation of an improved accountability, resource allocation and governance arrangements and mechanisms, and a statewide clinical governance framework covering clinical audit, clinical risk, consumer values and professional development and management; and
- improving financial sustainability by implementing an ongoing program that analyses cost drivers within hospitals to enable managers to identify continuing efficiency improvements and better manage cost growth within the hospital sector, progressing a series of revenue raising initiatives aimed at increasing the health system's per capita own source revenue to the national average.

Consistent with the health reform program, the Government has committed to spend \$2.7 billion in capital funding over the next 13 years to improve health infrastructure. This includes capital funding of \$1.7 billion over the next 13 years to significantly increase health infrastructure, consistent with the HRC.

The Department will be required to submit business cases, including planning details, to Government for approval to access funding from the global allocations in the forward estimates.

Table 1

INDICATIVE TIMEFRAMES FOR CAPITAL INVESTMENT IN HEALTH

	Total	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Carryover
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
WORK IN PROGRESS	164,691	73,867	60,343	25,181	5,300							
COUNTRY & SOUTH WEST HOSPITALS & HEALTH CENTRES												
HRC - Albany Regional Hospital Redevelopment	20,000						1,500	2,500	10,000	6,000		
Broome Regional Hospital Redevelopment Stage 1	25,000	81	2,900	2,819	6,700	5,000	7,500					
Hedland Health Campus Redevelopment Stage 1	11,000	6,000	5,000									
HRC - Hedland Health Campus Redevelopment Stage 2	65,000		2,500	3,500	27,000	32,000						
Kununurra Dental Clinic	400	400										
Moora Hospital - Redevelopment	6,000	6,000										
Various - 12 year program commencing 2005-06	166,700		2,500	3,500	3,500	15,500	17,200	33,500	24,000	13,000	14,000	40,000
Wyndham/Kununurra Redevelopment	8,500	500	1,500	5,500	1,000							
METROPOLITAN GENERAL HOSPITALS												
HRC - Armadale General Hospital	75,000						6,000	42,000	27,000			
HRC - Joondalup Health Campus	24,000		2,000	15,000	7,000							
HRC - Rockingham-Kwinana General Hospital	95,300	1,052	28,148	24,500				22,000	19,600			
HRC - Swan District General Hospital	67,500				5,500	37,000	25,000					
METROPOLITAN PRIMARY, REHABILITATION, AGED, CONTINUING CARE & MENTAL HEALTH												
HRC - Fremantle Hospital	65,000									29,300	35,700	
HRC - Osborne Park Hospital	20,000							1,500	5,500	13,000		
STATE TERTIARY HOSPITALS												
HRC - KEMH for Women - relocation	153,000									5,000	24,500	123,500
HRC - Northern Tertiary Hospital redevelopment	347,450			1,000	6,000	20,500	100,000	38,000				181,950
HRC - Southern Tertiary Hospital	420,000	500	1,000	1,200	11,500	42,300	149,100	150,500	63,900			
HRC - PMH for Children	50,000		500	1,500	15,000	33,000						
EQUIPMENT & INFRASTRUCTURE DEVELOPMENT												
Corporate & shared services reform	11,700	9,100	2,600									
Country Staff Accommodation	15,000	1,000	2,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	4,000
Equipment Replacement	260,000	25,000	19,176	20,000	20,000	22,000	22,000	18,000	18,000	18,000	18,000	59,824
Fremantle Hospital Magnetic Resonance Imaging (MRI) Service	4,100	4,100										
HRC - IT & Communication Infrastructure	335,000	7,500	15,000	22,500	25,000	25,000	25,000	30,000	35,000	35,000	35,000	80,000
Minor Works - Buildings & Services	260,000	18,000	18,000	20,000	20,000	20,000	22,000	18,000	18,000	18,000	18,000	70,000
Royal Perth Hospital Telstra Burns Centre	3,000	3,000										
State Cancer Centre Stage 1 (Linear Accelerators)	12,000	6,000	6,000									
GRAND TOTAL	2,685,341	162,100	169,167	147,200	154,500	253,300	376,300	357,000	222,000	138,300	146,200	559,274

Winter Demand Strategy

To address the increasing demand for hospital services in winter the Government has allocated \$30.0 million in 2004-05 for the Winter Demand Strategy. The Strategy comprises a number of key components, which are aimed at reducing bed blocking, ambulance bypass and ramping, and long waiting times at emergency departments. This includes:

- an increase of 332 general acute beds across the metropolitan area to ensure timely access for all emergency patients requiring inpatient accommodation. The additional beds comprise the 132 additional beds opened temporarily in 2003 to cater for peak demand periods, 200 new beds across the metropolitan area in 2004, including an innovative 20 bed rehabilitation-in-the-home program;
- enhanced ambulance service response times, through additional funding for St John's Ambulance Association and improvements in the control and direction of ambulances;
- four new after hours bulk-billing medical centres to be established near Royal Perth Hospital, Fremantle Hospital, Rockingham/Kwinana Hospital and Joondalup Health Campus. These centres will be staffed by general practitioners and will provide emergency primary medical care to people with minor injury or illness or exacerbated chronic conditions requiring immediate care;
- greater use of general hospitals to improve access and provide appropriate treatment for patients close to their home;
- extension of a number of existing initiatives to provide care and treatment in the community rather than at emergency departments, such as the Residential Care Line as well as the introduction of new alternative strategies such as 'Rehabilitation in the Home'; and
- strengthening of management arrangements in emergency departments and hospital bed management through improved information systems and reporting, as well as an increase in collaboration and departmental control of patient transport systems.

Cost and Demand Pressures

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

The increases in spending by major cost categories include:

- labour costs, estimated to increase by \$100.5 million reflecting increases in salary, wage and superannuation costs for health workers. This includes costs associated with the re-negotiation of a number of awards and agreements including nurses, doctors, hospital administration and miscellaneous workers. It also provides for the recruitment of an additional 115 nurses;

- grants and subsidies to external organisations, estimated to increase by \$18.0 million. This reflects the increased cost of purchasing services including ambulance and transport services, and home care services; and
- direct and indirect patient support costs, estimated to increase by \$25.6 million. This is mainly as a result of higher costs for patient and diagnostic supplies, anticipated to rise by 10.0% and the cost of pharmaceuticals, anticipated to increase by 11.0%.

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

Other Key Budget Initiatives

Other key budget initiatives to be undertaken in 2004-05 include:

- the Telstra Centre for Burns Reconstruction and Rehabilitation Unit will open in 2004-05. The Unit will provide Western Australia with a state of the art Burns Centre and significantly improve the treatment of burns patients;
- opening of phase 2 of the Rockingham Emergency Department. This will further reduce the need for patient transfers to busy metropolitan tertiary hospitals and allow patients to be treated in an appropriate setting closer to home;
- the official opening of the soon to be completed emergency department redevelopment at Sir Charles Gairdner Hospital. The upgrade will improve access by emergency vehicles with an expanded six ambulance covered set-down area and space for ancillary emergency vehicles. It will also improve triage and treatment facilities with higher levels of safety, and better staff and visitor amenities.

The redevelopment of the emergency department will overcome operational inefficiencies, eliminate excessive overcrowding, prevent occupational health and safety problems and enable the delivery of contemporary emergency services. The improved facility will cater for up to 45,000 patients per year (20,000 to 22,000 admissions), an increase on current levels of around 38,000 persons per year;

- introduction of an after hours acute angioplasty service at Fremantle Hospital; and
- enhancement of the South West 24 service which provides a 24 hour, seven days a week telephone support, information, triage, case management and crisis management service.

Indexation Funding for the Non-Government Human Services Sector (NGHSS)

The Government has approved a revised indexation policy at an additional cost of \$19.5 million. The policy has been developed within the context of an Industry Plan for the NGHSS. The Industry Plan will seek to articulate Government's relationship with the sector and outline long-term strategies to address the financial viability of the sector through reforms that ensure efficiency and effectiveness in service delivery.

Under the revised indexation policy, funding to the NGHSS by the Departments of Health, Community Development and the Disability Services Commission will be indexed in line with an index reflective of movements in both wages and costs. The revised arrangements recognise the effect of both wage and operating cost increases on organisations delivering human services.

Western Australian Electoral Commission

The spike in expenditure in 2004-05 is largely attributable to \$9.0 million provided to the Commission to conduct the State general election. The State general election is held once every four years and is the largest election conducted by the Commission.

In 2004-05 the Commission is also conducting the biennial Local Government postal elections with a provision of \$2.5 million. This amount will be recouped from the relevant Local Government Authorities.

MINISTER FOR THE ENVIRONMENT

Conservation and Land Management (CALM)

The Department's spending is expected to increase by \$7.0 million to \$163.2 million in 2004-05. The increase will help to ensure that Western Australia's natural diversity of native plants, animals, and other organisms is conserved in an ecologically sustainable manner for the benefit of present and future generations.

Bushfire Management and Suppression

An additional \$3.6 million in 2004-05, increasing to \$5.6 million in 2005-06 and \$7.6 million per annum thereafter, will be directed into bolstering resources for fire management across the State. Total additional funding to CALM over 2004-05 to 2007-08 for fire fighting, including further provision for improvements to fire fighters working conditions, is \$24.3 million.

Forest Management Plan 2004-2013 (FMP)

The Government has allocated an additional \$1.5 million in 2004-05 to implement the FMP, supplemented by contributions of \$500,000 per annum from the Forest Products Commission and \$900,000 per annum from existing resources within CALM. Total resources of \$11.5 million over 2004-05 to 2007-08 will be allocated to ensure native forests are managed in a sustainable way.

Indigenous Joint Management

The Government will provide a further \$250,000 per annum on an ongoing basis specifically for the Purnululu World Heritage property and a further \$1.0 million in 2004-05 for CALM to commence Statewide planning for indigenous joint management of relevant national parks.

Environmental Protection

The Department's expenditure is expected to total \$37.6 million in 2004-05 and includes additional expenditure of \$250,000 per annum from 2004-05 onwards on the implementation of the Perth Air Quality Management Plan. Additional funding of \$750,000 per annum is also being provided for additional strategic air quality monitoring and emergency response activities. This amounts to a total injection of \$1 million per annum from 2004-05 onwards to improve the State's capacity to manage air pollution and prevent adverse impacts on public health and the environment.

Following the 1 January 2004 creation of the new Economic Regulation Authority and the dissolution of the Office of Water Regulation, the Office of Water Policy was established in the Department to provide advice to the Minister. While this re-assignment of responsibility has no impact on whole of government expenses, it has increased the Department's total spending across the forward estimates.

Swan River Trust

The Trust received additional recurrent funding of \$1.2 million in July 2003 to boost both long and short-term projects to manage and protect the Swan and Canning rivers, especially focusing on nutrients. Additional recurrent and capital funding totalling over \$15.5 million across the forward estimates was announced in January 2004, coinciding with the announcement of the Swan River as Western Australia's first official heritage icon in the State's 175th anniversary of the Swan River Colony.

The programs receiving increased funding under the new \$15.5 million package include riverbank foreshore protection and restoration, drain rehabilitation, nutrient stripping works, monitoring programs for the river, catchment and drains, and community based nutrient programs.

Water and Rivers Commission

The Commission received \$2.3 million of additional monies in 2004-05 (as part of a total of \$13.5 million from 2003-04 across the forward estimates) for improved water resource management. The additional funding addresses the Auditor General's report on the management of the State's water resources.

From an agency total funding perspective, this injection of funding is outweighed by once-off seasonally influenced factors including the provision of an additional \$1.5 million for 'On Farm Water Grants' as part of the State's 'Response to Dry Season 2002' in 2003-04 and the carryover of approximately \$3.0 million of salinity expenditure from 2002-03 into 2003-04.

MINISTER FOR POLICE AND EMERGENCY SERVICES; JUSTICE; COMMUNITY SAFETY

Police Service

The Police Service's budget of \$646.8 million represents an increase of \$48.8 million or 8.2% compared to the estimated outturn for 2003-04. This represents growth in real terms of 5.7%.

Police Officers

As part of the Government's commitment to employ an extra 250 police officers and 40 Aboriginal Police Liaison Officers (APLO) over four years, additional funding of \$6.2 million has been provided in 2004-05. An additional 75 police officers and 10 APLOs will be recruited in 2004-05 to complete the Government's commitment. Additional funding of \$16.9 million has also been provided in 2004-05 to meet increases in officers' salaries and leave liability expenses as a result of the police officers' Enterprise Bargaining Agreement.

Gordon Inquiry

Funding of \$1.0 million has been provided in 2004-05 to meet the operating costs of new police stations to be constructed in remote areas as part of the Government's response to the Gordon Inquiry.

Vehicle Lease Costs

To meet the increase in motor vehicle lease costs resulting from the realignment of leases and increased vehicle usage, funding of \$1.0 million has been allocated in 2004-05.

Delta Communication and Information Technology (DCAT) Project

Additional funding of \$2.5 million has been provided in 2004-05 to maintain and continue the DCAT Project. This investment supports the operations of the Police Service by improving systems and technology to enable a greater degree of intelligence-led policing and the release of more officers to front-line policing duties.

New Initiatives

Funding of \$8.7 million from 2004-05 for new initiatives has been provided as part of the Government's commitment to ensuring community safety and security. These initiatives will allow the Police Service to:

- expand its focus on child abuse to protect the vulnerable in the community;
- release police officer resources to focus on operational imperatives; and
- improve service delivery to the community and target anti-social behaviour and volume crime hot spots.

The new initiatives include:

Creation of a Child Protection Offender Register and an Online Covert Unit

Ongoing funding of \$647,000 has been provided for the expansion of the Child Abuse Investigation Unit through the creation of the Child Protection Offender Register. The register is being implemented in all Australian police jurisdictions to contribute to the effective management of high-risk child sex offenders and other specified individuals within the community.

This unit will monitor the movements of Child Sex Offenders and high-risk individuals throughout the state, nationally and internationally in order to reduce the risk to vulnerable persons in the community. As part of the increased focus on paedophilia additional funding of \$223,000 has been allocated to enable the Police Service to create a covert online unit to target online child predators who actively operate over the Internet.

24-Hour Police Stations

Additional funding of \$1.5 million has been provided to ensure the six metropolitan Police District stations (Perth, Fremantle, Cannington, Midland, Mirrabooka and Joondalup) remain open to the public on a 24 hour, 7 days a week basis through applying additional public servant staff to resource the counters at these stations. This initiative will release police officers from the counters and allow them to focus on operational imperatives within these districts.

Police Assistance Centre

Funding of \$4.9 million has been allocated to create a Police Assistance Centre. The Police Assistance Centre will be primarily staffed by public servants with police officers being on hand to assist if required and will handle all non-emergency phone calls within the metropolitan area.

The centre will also have some capabilities to enter data information and intelligence sourced by police officers into the police information technology systems. The centre will 'free-up' police officers' time from administrative duties to further focus on operational imperatives as well as improving service delivery aspects to the community.

Regional Operations Group, Targeting of Volume Crime Initiatives and Drug Impaired Driving Program

The Government has provided funding of \$970,000 for the recently created Regional Operations Group, which was established to target anti social behaviour (out of control parties, hoon gatherings and hotspots). This unit will have the capability to rapidly deploy police resources to these locations. Funding of \$300,000 has also been provided to continue the targeting of volume crime initiatives, which has had significant results within the metropolitan area since January this year. The ongoing funding will allow the police to continue to target these volume crime initiatives into the future. In addition, funding of \$158,000 has been allocated to meet the costs associated with the introduction of legislation for the Drug Impaired Driving Program. This program will result in an increased and more accurate level of detection of drug impaired drivers by the Police Service and improved prosecution and conviction rates through the courts.

Royal Commission Recommendations

The Government has set aside \$1.5 million in 2004-05 to begin the implementation of the Police Royal Commission concerns by responding to those recommendations that can be addressed immediately.

Fire and Emergency Services Authority

The Fire and Emergency Services Authority's total budget spending of \$156.1 million in 2004-05 reflects an increase of \$10.9 million (7.5%) when compared to the 2003-04 estimated outturn of \$145.2 million.

Fire Fighter Enterprise Bargaining Agreement (EBA)

To meet the cost of a salary increase for fire fighters under a new EBA, expenses including superannuation have increased by \$400,000 in 2003-04 and \$4.1 million in 2004-05 and the outyears.

Kwinana Fire Station

In 2004-05, \$2.0 million will be applied to the operating costs of the new Career Fire and Rescue Service fire station at Kwinana to meet the increasing demand resulting from potential risks in the surrounding industrial areas and to lend support to the existing Volunteer Fire and Rescue Service.

Volunteer Marine Rescue Service Funding

An additional \$300,000 per year in grants was approved for the Volunteer Marine Rescue Service (VMRS) in order to replace vessels and equipment. Grants to the VMRS will total \$1.3 million in 2004-05.

Inspector of Custodial Services

Following the passage of the Inspector of Custodial Services Bill through Parliament, the Inspector's function has been expanded to cover Juvenile Detention Centres. As a result, the Government has approved additional funding of \$95,000 for an extra position and \$129,000 to meet cost and demand pressures arising from general operations.

MINISTER FOR PLANNING AND INFRASTRUCTURE

Planning and Infrastructure

The Department for Planning and Infrastructure (DPI) has assumed responsibility for Crown Land Administration functions. However, it has transferred its public transport and school bus operation functions to the Public Transport Authority. Expenditure for the DPI is forecast to total \$217.5 million in 2004-05.

Bicycle Path Network

In 2004-05, \$5.0 million is being provided towards the bicycle path network. This will facilitate the continued development of a network of cycling infrastructure comprised of shared paths (bicycle, pedestrian and disabled access) along rail, freeway and river foreshore areas and upgrading the on-road bicycle network. This will provide safe, accessible routes for cyclists and facilitate cycling's positive benefits to the community in areas such as health and the environment.

LPG Subsidy Scheme

An additional \$880,000 has been provided for the LPG subsidy scheme in order to continue assisting in the conversion of motor vehicles to the use of LPG as a fuel.

Planning

The Government is providing \$500,000 towards additional resources for the Planning Division of the Department. The land development and housing industries play a significant role in the development of the State. The additional resources provided are to assist in the timely processing of planning applications and the implementation of appropriate strategic plans for medium to long-term new lot production. This will benefit amongst other things, employment, land availability and pricing.

Main Roads

Main Roads' total expenditure is estimated to be \$896.6 million in 2004-05. This includes some works on the New MetroRail project and rail related works on the Geraldton Southern Transport Corridor.

In 2004-05, expenditure on road network maintenance is estimated to be \$403.7 million and expenditure on the local government road network is estimated to be \$80.7 million.

The grants to local government will be maintained at \$23.6 million, the same level as in 2003-04.

Public Transport Authority

The Public Transport Authority (PTA) commenced operations on 1 July 2003 and it incorporates the functions of the former Western Australian Government Railways Commission and the public transport and school bus operation functions within the Department for Planning and Infrastructure. The PTA is responsible for providing public transport services throughout the State. Planned expenditure by the PTA in 2004-05 is \$564.0 million, an increase of \$39.7 million from the 2003-04 estimated outturn.

School Bus Services

Agreement on a new funding model for school bus contractors was reached during 2003-04. Additional expenditure of \$7.4 million over the forward estimates has been approved, primarily to meet the cost of compensation to the contractors for agreeing unconditionally to the new contractual arrangements. In the long term the new contractual arrangements will deliver more efficient and effective school bus services.

MINISTER FOR STATE DEVELOPMENT

Industry and Resources

In 2004-05, the Government will continue its strong commitment to the development of the State's industry and resources with budgeted expenditure of \$128.2 million.

Pre-Competitive Geoscience Information Program - Minerals

An additional \$3.0 million per annum for four years commencing in 2004-05 will be funded by the Government to boost the Pre-Competitive Geoscience Information Program, with the aim of reversing a decline in Western Australia's market share of world mineral exploration.

Clearance of the Backlog of Mining Tenement Applications

Funding of \$300,000 per annum for three years from 2004-05 has been budgeted to help clear the backlog of mining tenement applications and stimulate exploration activity. This will be achieved by allowing applicants to convert to exploration titles. Refunds for mining leases of the first year's mining lease rentals that have been paid in advance, of \$18.0 million in total, are expected over the forward estimates period, including \$4.0 million in 2004-05.

Release of Company Exploration Data

To further stimulate exploration spending, a provision of \$400,000 per annum for three years has been made from 2004-05 to enable the release of geoscience information contained in 20,000 reports collected during past exploration activities.

New Trade Office in South Korea

An allocation of \$290,000 per annum from 2004-05 has been made to re-open the trade office in South Korea.

Increased Running Costs of Overseas Trade Offices

A contribution of \$360,000 is planned to be made in 2004-05 to meet the increased running costs of overseas trade offices.

2005 World Exposition – Aichi Japan

Funding of \$600,000 in 2004-05 and \$250,000 in 2005-06 has been provided for Western Australia to participate in the Aichi Expo, thereby enabling the State to showcase its trade and investment success and potential.

Ravensthorpe Infrastructure Package

The Government has committed \$18.4 million over the forward estimates period towards the provision of infrastructure and services to support the \$1.4 billion Ravensthorpe nickel project, of which \$2.3 million has been allocated in 2004-05, \$11.9 million in 2005-06 and \$3.8 million in 2006-07. Items to be funded could include the upgrade of roads, new school facilities and power, water and sewerage services.

MINISTER FOR EDUCATION AND TRAINING

Education and Training

Consistent with the Government's commitment to resource its priority areas, Education and Training spending will increase by \$72.5 million.

The average amount spent on each student in a government school is expected to rise to \$10,416 – a real increase of 0.9%. Since 2000-01, per student expenditure has risen by \$2,123.

Wages Policy

The new Teachers' Certified Agreement is in place in schools. This is based on salary increases of 9.3% over two and half years (however, with changes to career structures and additional Level 3 teachers, a number of teachers may be eligible for an extra 14.3% over the period). The Agreement also includes a significant number of workforce initiatives, such as expanded behaviour management programs (see below), professional development, additional time for Duties Other Than Teaching and more incentives for staff who teach at selected schools that are difficult to staff.

Behaviour Management Programs

An additional \$8.0 million in 2004-05 and \$9.5 million each year thereafter will be spent on Behaviour Management Programs in schools. The programs will be expanded into an additional 100 primary schools in each of 2004 and 2005, and a further 30 secondary schools in 2004. The program provides additional teachers to schools with significant numbers of 'difficult to manage' students.

Getting it Right Literacy and Numeracy Strategy

The Getting it Right Literacy and Numeracy Strategy is a targeted program of additional specialist teaching personnel, professional development and support provided to schools across the government school system. The focus of the strategy is on early intervention, and support for students most at risk of not meeting literacy and numeracy standards.

As many specialist teachers work part time in the role, the number of schools involved in the strategy will far exceed 200 by 2005. In 2004, with 160 FTE available, 254 schools have been allocated a specialist teacher. With a further allocation of 40 FTE planned for 2005, it is projected that the total number of primary schools involved in this strategy could reach 300.

Students with Disabilities

Annual expenditure on students with disabilities in Western Australian schools will be increased to \$136.9 million. The major recommendations of the Review of Educational Services for Students with Disabilities in Government Schools will be implemented including strategies to ensure compliance with the Australian Government's *Disabilities Discrimination Act* Standards for Education. The cost of these strategies is \$39.9 million over four years, including \$3.2 million in 2004-05.

Australian National Training Authority (ANTA)

The ANTA agreement relating to the years 2004 to 2006 has not been finalised and issues relating to reporting are still being negotiated. However, additional funding of \$53.9 million will be provided by the State over the period 2004-05 to 2007-08 to meet its funding obligations under the draft agreement.

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

Apprenticeships and Traineeships

The Government is strongly committed to creating skill and learning opportunities for Western Australians. The Department of Education and Training allocates around \$254 million to publicly funded training programs each year, creating around 122,000 training places across an extensive range of industry skill areas.

A target of 25,500 apprentices and trainees in training has been set for 2004-05. The target includes an increase in school based traineeships to 800 in 2004-05 and 1,000 by 2006.

Regional Forests Agreement Workers Assistance Package (RFWAP)

Under the RFWAP, the Department will continue to deliver services to workers in the native forest hardwood timber industry directly impacted by the Government's forest policy. Although the RFWAP will be completed in June 2004, workers are entitled to support for two years from the date of their redundancy, which will extend the service delivery period through to June 2006. There will be funding of \$4.0 million in 2004-05 to continue assistance to displaced timber workers.

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

Community Development

Total expenditure for the Department is projected to increase to \$218.9 million in 2004-05, reflecting new funding of around \$5.5 million provided for a range of initiatives including additional care workers, indexation of funding provided to non-government organisations and Active Ageing initiatives.

Care for Children Caseworkers and Support Staff

The Government has committed \$4.5 million in 2004-05 (\$18.9 million over four years) to provide for an additional 50 caseworkers and support staff to improve service delivery and address workload issues in the care for children service area. This boost to staffing numbers in 2004-05 brings the total number of protection and care workers to 409, compared to 294 workers in 2000-01 (representing an increase of 39%). It will enable the Department's service standards for children to be brought in line with international benchmarks.

This provision builds on the significant funding of \$23.1 million over five years provided in the 2003-04 Budget to meet the growth in demand for care for children services and increases in foster care subsidies and allowances. These initiatives will contribute towards ensuring that quality services can be provided to children in care, their families and foster carers.

Indexation Funding for the Non-Government Human Services Sector (NGHSS)

The Government has allocated an additional \$419,000 to the Department in 2004-05 (\$3.3 million over four years) to implement a revised indexation policy for the NGHSS. This funding is part of an additional package of \$19.5 million provided to key agencies engaged in the purchase of services from the sector. (See details under Health section of this chapter.)

Community Partnerships Fund

The Community Partnership Fund (\$400,000 per annum from 2004-05 to 2006-07) has been transferred from the Department of Premier and Cabinet to the Department for Community Development. The Fund was established as part of the Government's response to the Gordon Inquiry and its purpose is to facilitate partnerships between Government and aboriginal communities.

Active Ageing Initiatives

In response to the recommendations of the Active Ageing Taskforce, the Government has established an Active Ageing Strategy at a total cost of \$3.2 million over four years. The Strategy aims to ensure that programs and policies across government are better directed and coordinated to meet the demands of demographic change. As part of this strategy, \$204,000 has been allocated to the Department in 2004-05 to provide for a range of new initiatives, including community linkage officers, active ageing scorecard, active ageing diversity analysis, transitions in ageing research, elder abuse strategic alliance and an initiative to address depression in older people.

Disability Services Commission

The Government is continuing to deliver on its commitment to assist Western Australians with disabilities and their families to enable them to build better lives within a supportive community. The Disability Services Commission will receive an additional \$68.0 million in recurrent funding over the next four years. This significant funding boost will enable the State to deliver a sustainable disability services program.

Total expenditure by the Disability Services Commission is projected to increase by \$15.6 million to \$276.8 million in 2004-05. This represents an increase of 6.0%, an increase of 3.6% in real terms.

A total of \$5.7 million is to be allocated in 2004-05 to provide accommodation support for a further 107 people. It is also anticipated that an additional 19 people will be assisted through more efficient management of existing resources. A total of 126 new accommodation places will be provided in 2004-05, which is 20 places more than the 106 places recommended in the Accommodation Blueprint Report and 23 places higher than the estimated 103 people who will be provided with accommodation options in 2003-04.

Preventive support services will receive an additional \$5.6 million in funding in 2004-05 to provide support to people with disabilities to enable them to live meaningful and supported lives within their local communities. Services in the following areas will be increased:

- respite and family support – 200 additional people;
- alternatives to employment and post-school options – 130 new services;
- therapy – 670 new services; and
- local area coordination – 250 new services.

Indexation funding for the non-government human services sector (NGHSS)

The Government has allocated an additional \$1.2 million to the Commission in 2004-05 (\$11.4 million over four years) to implement a revised indexation policy for the NGHSS. This funding is part of an additional package of \$19.5 million provided to key agencies engaged in the purchase of services from the NGHSS, as previously outlined in the Heath section of this chapter.

Culture and the Arts

The Department's total expenditure is expected to increase by \$4.1 million to \$138.3 million in 2004-05, mainly due to increases in funding towards the screen and fashion industries.

An amount of \$2.0 million has been provided in 2004-05 for the continuation of Screen West's industry partnership funding. Provision of \$350,000 in each of 2004-05 and 2005-06 has also been made for the commencement of a fashion industry grants pilot program.

MINISTER FOR TOURISM; SMALL BUSINESS; SPORT AND RECREATION; PEEL AND THE SOUTH WEST

Western Australian Tourism Commission

The Western Australian Tourism Commission's (WATC) planned expenditure for 2004-05 is \$45.3 million, 1% lower than underlying expenses in 2003-04 (after discounting the effects of carryover expenditure from 2002-03 on the 2003-04 aggregate).

Major initiatives funded in the WATC budget include:

Australian Tourism Exchange 2005

Western Australia will for the first time host the Australian Tourism Exchange, which is Australia's largest and most influential international travel trade event, at the Perth Convention and Exhibition Centre in June 2005. The Government has provided funding totalling \$2.0 million towards this event, which is expected to attract 2,500 delegates.

Value of Tourism Campaign

A Value of Tourism Campaign will be undertaken across 2003-04 and 2004-05 (total spending of \$250,000), with the aim of increasing business and key stakeholder awareness of the economic value and business impact of tourism. A key component of the campaign will be to raise understanding that tourism creates broad and diverse employment.

EventsCorp

Of the \$9.5 million available in 2004-05, the WATC has secured events, including the Hopman Cup Tennis Tournament, Ironman Western Australia, X-adventure Raid Series, Australian University Games and Rally Australia.

Shanghai (China) Office

A dedicated office (under the Western Australian Trade Office) in Shanghai will establish strategic partnerships to build tourism traffic for Western Australia.

Recreation Camps and Reserve Board

The major objective for the Board in 2004-05 is to fund critical upgrades and restorative work of the camps following the sale of land at Noalimba to LandCorp.

This strategic approach to reinvest the Noalimba land sale proceeds will ensure future operational and capital replacement sustainability of the remaining camps including Woodman Point, Point Walter and Ern Halliday, thus enabling the Board to better meet Government objectives and community service provision demand. In addition, through the restorative maintenance and capital upgrades, high quality and affordable recreation programs can be delivered to the community.

Sport and Recreation

Total expenditure is expected to increase by \$2.1 million to \$41.3 million in 2004-05, an increase of 5.3%. The increase mainly reflects a \$1.7 million increase in grant expenditure to \$29.5 million.

These grants represent the Government's commitment to both community and elite sports development and to ensure that all Western Australians have access to sporting opportunities and facilities of the highest quality.

Peel Development Commission

A reduction in expenditure in 2004-05 primarily reflects the completion of large grants for capital projects in 2003-04, such as the reconstruction of the Pinjarra to Boddington Railway (\$1.0 million) and the first stage of the Pinjarra Rail Heritage Centre (\$919,000). After allowing for the cessation of these finite projects, the Commission will maintain its contribution towards the development and promotion of the Peel region during 2004-05.

South West Development Commission

The Commission's spending will increase by \$4.6 million in 2004-05, however this is largely due to the carryover from 2003-04 of expenditure associated with the Bunbury Back Beach project. In addition, the Commission has been provided with \$478,000 in grant funding in 2004-05 for projects designed to contribute towards the development of the South West region. Major new projects funded in 2004-05 include:

Bunbury

The Commission has been provided with grant funding of \$200,000 to complete a series of projects in the Bunbury region including the provision of basic infrastructure at Turkey Point, the establishment of a memorial at the Pioneer Park Cemetery and the capping of the Koombana Bay groyne.

Collie

Grant funding of \$278,000 has been provided in 2004-05 to complete restorations to the Collie Rail Footbridge, the expansion of the Collie Public Library and the restoration of the Collie River foreshore and boardwalk.

MINISTER FOR HOUSING AND WORKS; RACING AND GAMING; GOVERNMENT ENTERPRISES; LAND INFORMATION

Housing and Works

The Department's expenses are expected to total \$49.4 million in 2004-05, a small increase over 2003-04. These expenses relate to the Department's core 'works' functions involving the delivery, management and maintenance of government buildings, projects and office accommodation.

Other initiatives to be funded as part of the 2004-05 Budget include projects related to Western Australia's 175th Anniversary Celebrations. Funding has been provided for the following projects:

- State War Memorial reconstruction – a \$445,000 contribution towards the restoration and repairs of the water-damaged State War Memorial in Kings Park (matched dollar for dollar by the Commonwealth).
- John Curtin Statue - John Curtin will be remembered with the erection of a statue in his former electorate of Fremantle at a cost of \$200,000.

Land Information

On 1 July 2003 the Department of Land Administration (DOLA) became the Department of Land Information (DLI) and transferred its Crown Land Administration function to the Department for Planning and Infrastructure. The purpose of this transfer was to help facilitate further effective planning and management of government land, and to enable the DLI to focus on the further development of its activities along commercial lines.

On a comparable basis, DLI's 2004-05 forecast expenditure has increased by 2.7% to \$89.3 million.

Public Sector Capital Investment

Summary

This section provides an outline of public sector capital investment. The capital works program is split by sector, portfolio and funding sources.

The total public sector capital works program for 2004-05 is forecast to be \$3.9 billion, an increase of \$277.6 million compared to the estimated 2003-04 outturn of \$3.6 billion.²

The value of investment in public infrastructure in 2004-05 represents around 4.1% of Western Australia's total economy.

The total public sector Capital Works Program encompasses all works in progress and new works as set out for each agency in Budget Paper 2.

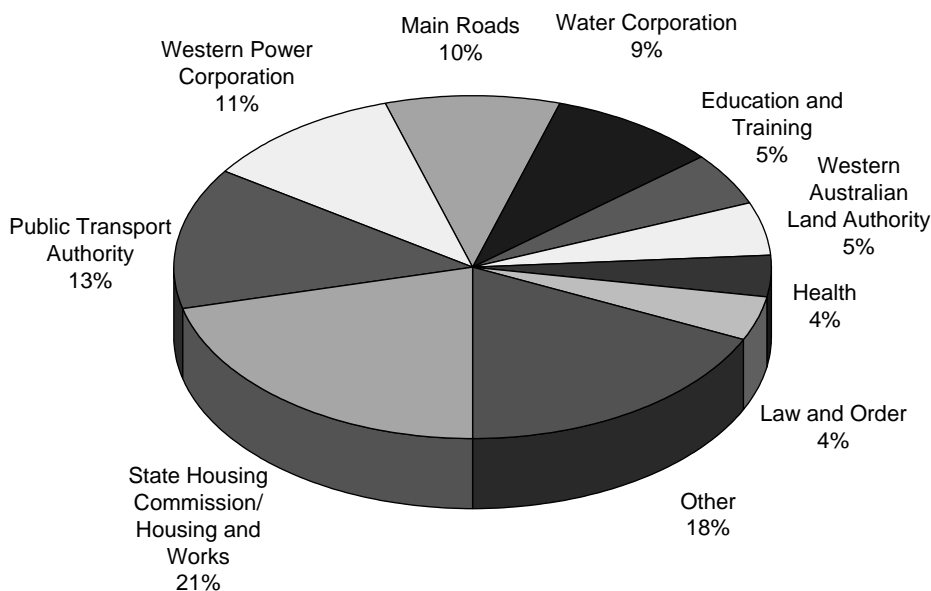
PUBLIC SECTOR CAPITAL WORKS PROGRAM			
			Table 2
	2002-03	2003-04	2004-05
	Actual	Estimated	Budget
	\$m	Actual	Estimate
	\$m	\$m	\$m
Sector			
General Government	1,048.3	1,295.4	1,362.3
Public Corporations	1,841.2	2,344.4	2,555.2
GRAND TOTAL	2,889.5	3,639.8	3,917.4

Note: Columns may not add due to rounding.

² An explanation of the difference and a reconciliation of the capital works program to capital expenditure is provided in Chapter 2: *Fiscal Strategy and Financial Projections*.

Figure 1

2004-05 CAPITAL WORKS PROGRAM



As illustrated by the chart above, 82% of total public sector capital works are undertaken by nine agencies. The graph also shows substantial increases in capital works of the Public Transport Authority and the Department of Health, due to the New MetroRail project and the commencement of the Health reform program respectively.

Consistent with trends in previous years the total investment in 2005-06, 2006-07 and 2007-08 is expected to ease. Although, the increase in investment for the New MetroRail and Health reform program have resulted in this being less pronounced than in previous years.

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 being planned or under consideration but for which reliable cost estimates are not currently available. As the business cases and cost estimates for such projects are further defined over time, they are likely to bolster the capital works program across the forward estimates.

Key Expenditures

The following is a summary of key expenditures.

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

Premier and Cabinet

The Department's capital works program incorporates \$20.0 million for the Office of Science and Innovation's Innovate WA Program, with \$7.7 million to be invested in 2004-05.

DEPUTY PREMIER; TREASURER; MINISTER FOR ENERGY

Western Power Corporation

Western Power's capital expenditure program in 2004-05 totals \$418.6 million, which is an increase of \$82.1 million (or 24%) over the 2003-04 program. It represents a substantial stimulus for the State's electricity system and is focused on improving the quality, reliability and safety of supply in both regional and metropolitan areas.

Around two thirds of the program (\$274.6 million) is being spent in the networks business and includes:

- transmission works totalling \$138.1 million, which includes the construction of new substations at Padbury, Meadow Springs, Clarkson and Rangeway, and the continuation of the following projects:
 - Pinjar to Cataby - Eneabba 132kV line to meet load growth in the north country area;
 - Muja to Bridgetown - Manjimup 132kV line to provide additional capacity and reliability of supply;
 - East Perth - Cook Street 132kV line Underground Circuit;
 - Southern Terminal - East Perth Terminal 132kV line upgrade;
 - Southern Terminal - Cannington Terminal new 132kV line;
 - Rivervale Substation upgrade; and
- distribution expenditure totalling \$136.5 million, which is allocated to new connections, capacity enhancement, public safety and replacement of ageing assets. This allocation includes a special fund totalling \$12.0 million to cater for rural reliability and safety issues (including those raised by the Director of Energy Safety), as well as for continuing the Underground Power Project (\$18.8 million) which involves undergrounding the existing aerial distribution system in both country and metropolitan areas in conjunction with State and Local Governments.

Western Power has advised the Government this increased expenditure will lead to a 25% improvement in reliability, a 30% reduction in pole-top fires, and a reduction in the length of outages. Bushfire risk will be significantly reduced and public safety enhanced.

The capital works program also provides:

- generation expenditure of \$34.7 million to support the achievement of efficiency, reliability and environmental targets. The provision of spare parts for Cockburn 1 power station is the most significant item within this allocation and seeks to ensure any interruptions to supply are kept to a minimum;
- the continuation of a number of renewable and sustainable energy projects in both the South West Interconnected System and the non-interconnected system, including:
 - provision for a large grid-connected wind farm as part of the Renewable Energy Power Procurement process;
 - installation of a wind/diesel plant at Bremer Bay; and
 - installation of high efficiency diesel generation plant to support the recently completed wind turbine at Hopetoun;
- undergrounding the existing aerial distribution system in Port Hedland, focusing on continuity of supply and system reinforcement within the isolated regional and Pilbara systems. Expenditure within the isolated regional system provides for the progressive connection of facilities as they become available through the Regional Power Procurement process; and
- \$31.4 million for the development of systems to support initiatives arising from the recently enacted legislation to establish a wholesale electricity market and for the development of related information technology systems, reflecting the Government's continued commitment to electricity reform.

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

Agriculture

An amount of \$12.0 million in 2004-05 has been allocated to allow the Department to plan and commence construction on the staged replacement of its South Perth headquarters facility and the relocation of the Integrated Agriculture and Natural Resource Management Institute. The funding recognises the infrastructure costs associated with the concept of integrating the Department's Research and Development activities with the university sector and the poor condition of the accommodation at the South Perth site.

In addition, the Frank Wise Research Institute in the Kimberley region will be redeveloped at a total cost of \$2.0 million. The redevelopment will include new facilities to replace the existing substandard office and laboratory buildings.

Fisheries

The Department has an approved capital works program of \$9.4 million in 2004-05, which includes funding of \$7.8 million for the finalisation of the Research and Community Education Centre at Hillarys. The total expenditure on this facility is \$16.0 million.

The facility is expected to be commissioned in February 2005 and will provide a world-class fisheries research facility to support research to enhance the sustainability of the State's fisheries, and provide fisheries and marine science education to schools and the general public.

Forest Products Commission

The Commission will be investing \$5.2 million in plantation timber development in 2004-05. The benefits include not only yields from timber production but also direct economic, social, environmental and regional benefits to the State.

Great Southern Development Commission

The \$12.7 million Albany Small Boat Harbour project will continue in 2004-05, with \$4.3 million committed through the Great Southern Development Commission. Work will also commence on a new footbridge (\$1.0 million), designed to integrate the new boat harbour development with the Albany foreshore precinct.

The Commission will also be investing \$820,000 in 2004-05 in the development of a Day Therapy Centre for the aged in Albany. This centre will provide multi-disciplinary services for older citizens in the region, including occupational therapy, physiotherapy and speech pathology.

MINISTER FOR LOCAL GOVERNMENT AND REGIONAL DEVELOPMENT; HERITAGE; THE KIMBERLEY, PILBARA AND GASCOYNE; GOLDFIELDS-ESPERANCE

Local Government and Regional Development

The regional collocation scheme is providing \$7.3 million in funding for capital works to enable the collocation of Government and non-Government organisations.

An investment of \$1.2 million will be made in 2004-05 to encourage local governments and community groups to work together in collocation activities, which can increase the availability of services and communications facilities to communities.

Metropolitan Cemeteries Board

Construction of a new mausoleum at the Fremantle Cemetery will continue, with expenditure of \$5.0 million in 2004-05.

Gascoyne Development Commission

The Gascoyne Development Commission's capital works program includes the \$4.5 million Aboriginal Heritage and Cultural Centre in Carnarvon, which is anticipated to be completed in 2005-06. The centre is aimed at increasing the economic independence of aboriginal people including employment and training during the construction phase, and ongoing tourism, arts and marketing opportunities once it is completed.

ATTORNEY GENERAL; MINISTER FOR HEALTH; ELECTORAL AFFAIRS

Justice

Total capital works expenditure for the Department is \$70.5 million in 2004-05, with the major items being:

- CBD Courts (\$13.9 million) – The initiative involves construction of a new, purpose-built District Court and superior criminal courts complex on the Hay/Irwin Street site in the Perth CBD. This is currently planned to be provided under a Public Private Partnership approach.

The associated refurbishment of the Central Law Courts will be State funded. It will provide additional courts, registry areas and general facilities to meet projected demand. The collocation will be designed to maximise the efficiency of the courts process. Other aims include provision of an acceptable level of security for judiciary, jurors, staff, victims of crime and the public and to provide improved service to victims of crime and other clients who access services in stressful situations;

- Albany Justice Complex (\$7.0 million) – Additions and alterations to the existing court building will ensure an adequate number of courtrooms, as well as facilities for Community Justice Services, to meet present and forecast demand, secure and separate circulation for the judiciary and other court users, and adequate facilities for waiting, interviewing, meeting and mediation;
- metropolitan low-security prison for women (\$545,000) – This funding will complete the redevelopment of the Longmore/Nyandi site into a 70 bed purpose-designed low-security prison for women. The innovative project provides additional metropolitan beds for women and a progressive new model for service delivery to female prisoners;
- Juvenile Accommodation Strategy (\$2.4 million) – This project will involve planning additional facilities to complement Banksia Hill Juvenile Detention Centre. This will improve delivery of programs and services to address juvenile offending behaviour as well as special-purpose program facilities for targeted groups of offenders;
- Bandyup facilities redevelopment (\$1.2 million) – Visitors' facilities that more appropriately reflect the needs of women in custody will be provided through this expenditure;

- an amount of \$500,000 has been allocated to the Kalgoorlie Eastern Goldfields Regional Prison to allow for the long-term master planning for the existing prison site as well as planning for structural repairs and upgrades. The work will extend the effective life of existing facilities and ensure that prisoners can be held at an appropriate level of security and containment, while being close to their home and family support. It will also improve delivery of programs addressing offending behaviour;
- continuing development of the integrated court management systems (\$3.0 million) which will replace the existing civil and criminal court legacy systems. This project will be completed in 2005-06 at a total cost of \$17.3 million;
- commencement of the community based services information system (\$2.2 million) which is designed to enhance the operational requirements associated with the management and supervision of offenders subject to community based orders. A further \$1.5 million will be spent in 2005-06 to complete this system.

Health

The Department of Health's capital works program for 2004-05 is estimated at \$162.1 million and represents an increase of \$63.0 million (63.6%) compared to 2003-04. The projects address new areas of need, while progressively reconfiguring existing health infrastructure in line with the HRC reforms, to enhance quality and efficiency of health service delivery.

The 2004-05 capital works program also sees the commencement of the Health reform program to develop metropolitan general hospitals. The first priority will be to commence development of the Rockingham/Kwinana General Hospital and planning for the new Southern Tertiary Hospital and the new Northern Tertiary Hospital.

Health Reform and Broader Health Initiatives

New projects associated with the Health reform program and broader health initiatives include:

- \$25.0 million as part of a \$260.0 million thirteen year ongoing program to replace and upgrade equipment at all health facilities;
- \$18.0 million as part of a \$260.0 million thirteen year ongoing program to undertake minor works/upgrades at all health facilities;
- \$9.1 million as part of \$11.7 million project to develop financial and human resource systems as part of the corporate and shared services reforms;
- upgrade information technology infrastructure in all health facilities (\$7.5 million);
- \$1.0 million as part of a \$95.3 million project to upgrade the status of the Rockingham/Kwinana Hospital to a Metropolitan General Hospital; and
- \$500,000 to commence planning the construction of the new Southern Tertiary Hospital in the south metropolitan area at an estimated total cost of \$420.0 million.

New Projects

Other investment commencing in 2004-05 includes:

- \$6.0 million as part of an \$11.0 million project to build a new residential care facility at South Hedland;
- \$6.0 million to replace the existing Moora Hospital with a health care facility that meets identified health care needs of the community;
- \$6.0 million as part of a \$12.0 million project to start the construction at Sir Charles Gairdner Hospital to house two new linear accelerators for radiotherapy treatment for people with cancer;
- \$4.1 million for the purchase of a new Magnetic Resonance Imaging machine for Fremantle Hospital;
- \$3.0 million for the establishment of a new Burns Unit at Royal Perth Hospital partly funded by a \$1.0 million donation from Telstra;
- \$1.0 million as part of a \$15.0 million 13 year project to upgrade staff accommodation in country areas;
- \$500,000 as part of a \$8.5 million four year project to redevelop the Wyndham/Kununurra Health Services;
- \$400,000 for a new dental clinic at Kununurra; and
- commencement of a \$25.0 million project over five years to redevelop the Broome Regional Hospital.

Works in Progress

The planned investment in health infrastructure for 2004-05 includes the following works in progress:

- \$20.1 million for the completion of the Geraldton Regional Hospital redevelopment (total cost of \$49.0 million);
- \$10.6 million as part of \$32.7 million project for equipment replacement and redevelopment/refurbishment of the Princess Margaret Hospital and King Edward Memorial Hospital;
- \$10.2 million as part of a \$41.7 million project over five years to upgrade health facilities in the Kimberley, primarily at Derby, Fitzroy, Kununurra and Halls Creek;
- \$2.6 million as part of a \$6.0 million project to finalise the upgrade of the operating theatre at Fremantle Hospital;
- \$2.5 million as part of an \$11.0 million five year project to upgrade communication infrastructure in rural health services;
- \$2.1 million to finalise the \$11.6 million Osborne Park Hospital theatre replacement;

- \$2.0 million as part of a \$3.8 million project to relocate the Community Health Service to the Peel Health Campus (Mandurah);
- \$1.6 million as part of \$2.8 million four year project to replace the Warburton Clinic;
- \$1.5 million to finalise the development of a new \$1.7 million dental clinic in Joondalup;
- \$1.3 million to fund ward upgrades and general repairs at the Carnarvon Hospital;
- \$1.3 million as part of \$1.5 million for a new dental clinic at Spearwood;
- \$1.0 million as part of a \$24.0 million Royal Perth Hospital redevelopment; and
- completion of the Albany Hospital Paediatric Ward (\$1.1 million).

MINISTER FOR THE ENVIRONMENT

Conservation and Land Management

For 2004-05 the Department has an approved capital works program of \$24.4 million. This represents an increase of approximately \$10.0 million compared to 2003-04.

An additional \$8.1 million will be provided in 2004-05 to improve facilities and roads in national parks. The total additional investment over 2004-05 to 2007-08 for the environment and the development of sustainable tourism and employment opportunities in Western Australia is \$35.7 million.

Botanic Gardens and Parks Authority

The Botanic Gardens and Parks Authority's capital works program is forecast to be \$3.8 million in 2004-05. Planned capital works expenditure includes approximately \$1.8 million for the ongoing bushland conservation programs in Kings Park and Bold Park, and a further \$800,000 is planned for the completion of the Mt Eliza restoration work.

Swan River Trust

An amount of \$10.0 million over the forward estimates has been provided for riverbank foreshore restoration and protection, as well as drain rehabilitation and nutrient stripping as part of the Swan River Park funding initiative.

Zoological Parks Authority

The Zoological Parks Authority has an approved capital works program of \$2.5 million in 2004-05. This includes the Authority's planned capital works expenditure of \$1.5 million to continue the major redevelopment to the Perth Zoo's elephant exhibit at an estimated total cost of \$4.7 million.

MINISTER FOR POLICE AND EMERGENCY SERVICES; JUSTICE; COMMUNITY SAFETY

Police Service

To support the delivery of Police Services a total of \$88.1 million is budgeted to be spent on capital works in 2004-05. The estimated outturn for 2003-04 is currently \$41.4 million. The main projects to proceed in 2004-05 include:

- the commencement of new police stations at Carnarvon, Kimberley (District Complex), Canning Vale and the Town of Vincent;
- the construction of remote multifunctional police facilities at Balgo, Kalumburu, and Warburton, and the commencement of facilities at Jigalong, Dampier, Bidyadanga, Warakurna, and Warmun. The establishment of these facilities is a key element of the State's commitment to addressing family violence and child abuse in Aboriginal Communities in response to the recommendations of the Gordon Inquiry.
- the continuation of works on police stations at Albany, Laverton, Wanneroo, and Newman;
- the commencement of construction of a new Forensic Facility, at a total cost of \$25.0 million, and the \$14.4 million development of a traffic support facility. Both projects form part of the Operations Support Facility at Midland;
- the continuation of the Delta Communications and Technology (DCAT) project with estimated expenditure of \$23.6 million in 2004-05 to improve systems and information technology in the Police Service. This stage of the DCAT project commenced in 2002-03 and will be completed in 2007-08 at a total cost of \$112.8 million. This investment will improve the delivery of services by the Police Service through better systems and business process improvements which will release more officers to front-line policing duties;
- continuation of planning and acquisition of the new Police Metropolitan Radio Network (previously CADCOM stage 1C) at an estimated total cost of \$59.4 million with expenditure of \$14.6 million in 2004-05. This project will improve police communications, resulting in increased community security and officer safety;
- the purchase of further specialist counter terrorism equipment at a cost of \$2.0 million in 2004-05 with the total estimated cost of the program being \$4.9 million;
- ongoing building modifications at a cost of \$5.8 million in 2004-05 to address health and safety issues arising from the inclusion of police officers under the Occupational Safety and Health Act. The total cost of this four year program is \$10.7 million and should bring a substantial improvement in the safety and working conditions for police officers;
- the purchase of new and replacement equipment to support police officers, including a telephone interception system, photographic, scientific and other operational equipment at a total cost of \$4.8 million in 2004-05; and

- a four year \$4.0 million police station accommodation upgrade program, commencing in 2004-05 with budgeted expenditure of \$1.0 million, which will upgrade the functionality of police stations to enhance the delivery of policing services.

Fire and Emergency Services Authority

The approved capital works program for the Fire and Emergency Services Authority (FESA) in 2004-05 amounts to \$17.8 million. This comprises \$14.2 million in works in progress and \$3.6 million in new works. The major components are:

- completion of the construction of the Career Fire and Rescue Service fire stations at Kwinana and Murdoch. These two new fire stations will meet the increasing demand from potential risks in the surrounding industrial areas and replace the existing O'Connor fire station;
- replacement of the Volunteer Fire and Rescue Service Light Pumper (\$2.5 million). This is part of an on-going replacement program of fire appliances in the metropolitan, rural and regional districts;
- adaptation of the FESA Emergency Services Computer Aided Dispatch and Communications (ES-CADCOM) system (\$2.5 million) to improve the emergency response by FESA personnel and emergency services volunteers. This will enhance network coverage and provide potential expansion to cater for other emergency services if required;
- construction of new fire stations at Broome (Volunteer Fire and Rescue) and at Belmont (Career Fire and Rescue);
- replacement of the Career Fire and Rescue Service fire fighting appliances (\$1.0 million) and the Volunteer fire fighting appliances (\$300,000); and
- commencement of the Volunteer Marine Rescue Service's \$300,000 vessel and equipment replacement program, which is part of an on-going plant and equipment (including specialised) replacement program.

MINISTER FOR PLANNING AND INFRASTRUCTURE

Planning and Infrastructure

The Department's approved capital works program in 2004-05 is projected to be \$21.3 million. This expenditure predominately comprises the following projects.

Zero Emission Hydrogen Fuel Cell Buses

In 2004-05 \$7.6 million is being spent on trialling three fuel cell buses in Western Australia. This trial will investigate pioneering technology in a public transport environment. The results of the trial should help inform decisions on the most appropriate fuel and form of power for the Transperth fleet.

Coral Bay Access Road and Boat Launching Facilities

This \$3.8 million development will provide support to the boating public and the local tourist industry in accessing coastal waters at Coral Bay. The project's aim is to provide ocean access for trailable boats, safer access for charter boat passengers, reduce environmental risks in regards to the fuelling system on the jetty, and reduce damage to coral formations.

Hillarys Boat Harbour

This project, costing \$2.6 million in 2004-05, will focus on resolving parking and access issues as well as upgrading existing assets with the intention of improving the appearance, quality, variety of attractions, comfort and efficiency of the harbour for its tenants, residents, pen holders and the visiting public.

Carnarvon Land Backed Wharf

In 2004-05, \$2.2 million is being provided for the construction of a 100-metre long land backed wharf with associated hardstand, access road, power and water supplies and cyclone moorings. It also includes minor dredging of the harbour area adjacent to the berth face. The project will see increased access to wharfing facilities, which will result in greater efficiencies and safety to the public.

Mews Road Commercial Centre

The old workshops and boat sheds at the Fremantle Fishing Boat Harbour (FFBH) will be demolished and the land cleared, which can then be subdivided for leasing. A total of \$1.9 million is being provided in 2004-05 for the new facility that will accommodate the Department for Planning and Infrastructure (DPI), the Department for Fisheries and other government agencies that presently use several separate buildings. It is beneficial for support industries and relevant government services to be conveniently located at key maritime facilities such as FFBH, for the efficient operation of Western Australia's maritime industries. This is particularly true in regard to the DPI's Maritime Safety functions.

This is considered to be an important step towards achieving the intent of the recommendations of the 2001 Machinery of Government report. A joint facility is also considered a practical and cost-effective long-term accommodation option for both agencies' marine operations.

Wyndham Port Maintenance Program

These works relate mainly to building maintenance, repairs to the jetty concrete deck, corrosion control of the jetty under-deck steelwork, maintenance to the water distribution system and replacement of outdated electrical switchgear. Spending in 2004-05 will be \$1.6 million.

Main Roads

In 2004-05, Main Roads will spend \$376.2 million on the capital works program. Major projects included in the program include:

- the Great Eastern Highway where \$29.2 million will be spent on reconstruction and duplication from Sawyers Valley to The Lakes and a further \$9.5 million for reconstruction works from Hines Hill to Walgoolan;
- \$10.0 million on the reconstruction and widening of Eyre Highway between Caiguna-East and Balladonia;
- the Great Northern Highway, with \$5.2 million being spent on reconstruction and widening works from Roe Highway to the Metropolitan boundary and a further \$14.7 million for bridgeworks in the Kimberley Region;
- the extension of the Roe Highway from South Street to the Kwinana Freeway costing an estimated \$42.3 million;
- the continued construction of the Tonkin Highway to Thomas Road at a cost of \$26.1 million;
- the commencement of construction of the Mitchell Freeway from Hodges Drive to Burns Beach Road at a cost of \$30.0 million, with Stage 1 to Shenton Avenue estimated for completion in 2005 and Stage 2 to Burns Beach Road estimated for completion in 2008;
- the investment of \$20.0 million in the State Black Spot program maintaining the Government's high priority for driver, pedestrian and cyclist safety;
- the continued work on the road works associated with Geraldton Southern Transport Corridor at a cost of \$21.8 million, with estimated completion of Stage 1 in 2005-06; and
- the continued expansion of the Perth Bicycle Plan Stage 2 at a cost of \$5.9 million.

Public Transport Authority

The Public Transport Authority's planned capital works expenditure in 2004-05 is \$527.9 million. The expenditure provides for the continuation of the New MetroRail (NMR) project, the Bus Replacement Program, the SmartRider Ticketing System project, the commencement of the Concrete Resleepering program and some new projects to ensure the safety and security of rail and road coach passengers.

New MetroRail Project

The following is a summary of planned expenditure in 2004-05 on this project:

- \$14.1 million for the completion of the Northern Suburbs railway extension, including new stations at Currambine and Clarkson, and six kilometres of track which will be opened in October 2004;
- \$51.4 million for the completion of the Thornlie railway extension, including a tunnel at Kenwick, a rail bridge over the Canning River, a road bridge at Spencer Road and a station at Thornlie, which will open in February 2005;
- \$128.6 million to commence construction on the Southern Suburbs railway, which includes earthworks, 72 kilometres of double track railway between the Narrows Bridge and Mandurah, 18 bridges and underpasses (road, rail and pedestrian) and nine stations;
- \$134.0 million for the continuation of the City Project Works, including tunnelling under William Street and stations in William Street and at the Esplanade; and
- \$83.5 million for the delivery of 18 three rail car sets.

SmartRider Ticketing System Project

Estimated expenditure of \$10.4 million in 2004-05 will enable the continued implementation of the SmartRider Ticketing System, which will replace the existing MultiRider Ticketing System. Installation of the new ticketing machines on buses will commence in July 2004, and in trains in September 2004.

Bus Replacement Program

It is planned to purchase 72 replacement buses at a cost of \$34.1 million in 2004-05. The buses will be gas fuelled, making a significant contribution to the State's commitment to reducing greenhouse gas emissions.

Concrete Resleepering Program

In 2004-05, it is planned to spend \$3.5 million to commence Stage 2 of the concrete resleepering program. The Program will replace all existing sleepers on the metropolitan rail network over the next three years at an estimated total cost of \$60.1 million.

Armadale Redevelopment Authority

The Armadale Redevelopment Authority is to progress a capital works program of \$2.0 million for city centre improvements as part of the implementation of the Armadale Redevelopment Scheme and \$4.2 million for the first stage of core infrastructure to facilitate development of the Forrestdale Business Park.

East Perth Redevelopment Authority

The East Perth Redevelopment Authority will continue work in the redevelopment of areas of East Perth, The Village Northbridge and the Gateway to deliver social, environmental and economic returns to the Government at a cost of \$47.9 million in 2004-05.

Midland Redevelopment Authority

The Midland Redevelopment Authority capital works program for 2004-05 is projected at \$13.0 million, which is largely funded by its land sales revenue.

The Authority has indicated that in 2004-05, it will allocate \$1.6 million towards sub-divisional and developmental works in the Midland Central Precinct. The Authority will also further commit \$5.3 million to sub-divisional works at the Helena Precinct Sector 11A and a total of \$1.6 million towards various works at the Clayton and Helena Precincts, forming part of the Midland Railway Workshop site.

Subiaco Redevelopment Authority

The Subiaco Redevelopment Authority (SRA) will be finalising the redevelopment of Subi Centro to deliver social, environmental and economic returns to Government at a cost of \$4.7 million in 2004-05. The Authority will cease operating in 2005-06.

Bunbury Port Authority

The Port Authority's capital works program for 2004-05 is projected at \$6.3 million. This expenditure predominately comprises of:

- \$2.0 million for hardstand container facilities;
- \$1.0 million for the inner harbour storage shed; and
- \$1.0 million for a conveyor for new products.

Dampier Port Authority

As part of the Burrup Infrastructure Package, the Government is investing \$75.6 million to construct a new bulk liquids jetty and access channel at the Port of Dampier. This investment is specifically designed to meet the needs of the gas to liquids industry on the Burrup Peninsula.

The Port's approved capital works program in 2004-05 is projected to be \$32.0 million, comprised of \$31.1 million to complete the bulk liquids jetty, \$700,000 to upgrade the Dampier Cargo Wharf and \$200,000 for minor works.

Fremantle Port Authority

The Port's approved capital works program in 2004-05 is projected to be \$45.6 million. This expenditure comprises of:

- \$10.4 million on infrastructure to support the HIs melt Stage 1 project and other bulk users project;
- \$3.0 million on the upgrade of Common User Areas Berths 11/12 and capital dredging; and
- \$13.3 million on various works on the North Quay.

Port Hedland Port Authority

The Port's approved capital works program in 2004-05 is projected to be \$11.4 million. This expenditure is predominately made up of \$5.5 million for the extension to the No. 1 Wharf (total cost \$9.6 million) and \$4.0 million for channel dredging.

Western Australian Land Authority

LandCorp's planned capital works program for 2004-05 is \$193.8 million including:

- \$103.8 million on acquisition and development of land as part of the Government's asset disposal program;
- \$44.2 million on urban land development and town site development; and
- \$41.9 million on industrial land acquisition and development.

Western Australian Planning Commission

The Western Australian Planning Commission's planned capital expenditure in 2004-05 is projected to be \$80.5 million including:

- \$59.2 million for the continuation of the ten year program to facilitate the acquisition of land under the Metropolitan Region Scheme;
- \$10.0 million for the continuation of Perth's Bush Forever ten year program;
- \$7.0 million for the Regional Land Acquisitions program; and
- \$2.0 million for the Recreation Reserves Area Assistance program.

MINISTER FOR STATE DEVELOPMENT

Industry and Resources

A total of \$19.8 million will be spent by the Department of Industry and Resources on capital works projects in 2004-05. The major components are:

- \$3.4 million to progress the development of the Ord River Irrigation Stage 2 project in the Kimberley. Total funding of \$15.5 million has been committed to this project over the period 1998-99 to 2007-08;
- \$8.5 million to construct a Marine Industry Technology Park at Jervoise Bay, as the fourth and final component of the establishment of the Australian Marine Complex;
- \$3.2 million to upgrade customer e-commerce infrastructure, to enable the Department to provide more efficient service to its clients; and
- \$2.0 million for an asset replacement/upgrade program.

MINISTER FOR EDUCATION AND TRAINING

Education and Training

A total of \$189.9 million will be spent in 2004-05 on government school and TAFE college infrastructure, including:

- completion of four replacement primary schools at Melville, Onslow, Wanneroo and Willagee, and four new primary schools at Canning Vale (North), Carramar, East Marangaroo and Landsdale (Ashdale Gardens). The eight primary schools will be completed at a total cost of \$44.8 million for the 2005 school year;
- funding to commence the construction of four new primary schools and three replacement primary schools. Three new schools will be constructed at Hopetoun, Settlers Hill (Baldivis) and Two Rocks and a fourth at a location to be determined. The replacement schools will be constructed at Coolbellup (Koorilla), Manjimup and Shark Bay. The seven primary schools, which will be constructed at a total cost of \$37.1 million, will open in 2006;
- a new middle school will be built at Secret Harbour at a cost of \$17.0 million with expenditure of \$5.0 million in 2004-05. The school will open in February 2006 with an expected enrolment of 250 students;
- a commitment of \$26.0 million for the replacement of Kwinana Senior High School with expenditure of \$6.0 million in 2004-05. The current high school, built in 1956, will be progressively replaced with a middle school and a senior campus linked to TAFEWA and Murdoch University. Completion is expected by the end of 2006;
- a commitment of \$3.4 million to complete major additions at Warnbro Community High School;

- the redevelopment of Mount Lawley Senior High School will continue with an allocation of \$9.8 million in 2004-05 for stages 2 and 3. The completion of Stage 2 will include a specialist block comprising general learning areas, science laboratories, food technology and computing facilities. Stage 3 will provide learning facilities for students in years 11 and 12, and a new library and cafeteria. The redeveloped school will provide a modern learning environment for students; and
- major construction works for the Joondalup Hospitality Centre, the Henderson Marine project, Fremantle Stage 1 Maritime project, and the Batavia Coast Marine Centre at Geraldton.

Country High School Hostels Authority

An amount of \$1.4 million has been allocated for the ongoing maintenance program of all residential colleges in the State, to ensure that accommodation for boarding students is maintained at an acceptable level. Within this program \$750,000 will be spent at Esperance to undertake major re-roofing of the residential college.

Curriculum Council

The new Post Compulsory Education Review student records system tender has been finalised. The total cost of the project is \$4.2 million, which will provide an advanced database for student records. In 2004-05, \$1.5 million has been provided with the new system expected to be operational by January 2006.

The system will have the capacity to record and monitor student achievement for the new courses of study, their Vocational Education and Training (VET) including completed VET certificates and non-formal learning in community based activities such as Western Australian Cadets. The system will also facilitate the management of the Council's moderation processes and course development.

The new system will:

- be more efficient for the Council and for schools;
- simplify the transfer and verification of student achievement data between the major users;
- be capable of being uploaded from schools electronically and then be available online for teachers to update, and for students to monitor their progress; and
- enable students to receive a more comprehensive certification of achievement.

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

Culture and the Arts

The Department's capital works program for 2004-05 is estimated to be \$21.0 million. Funding has been provided towards the Department's existing projects such as the Broome Arts Centre, Bunbury Heritage Museum, Blue Room and Subiaco theatres, ongoing capital maintenance and the book purchase and art acquisition programs. New funding of \$10.3 million over four years has also been provided for additional public library resources, commencing with \$2.4 million in 2004-05.

MINISTER FOR TOURISM; SMALL BUSINESS; SPORT AND RECREATION; PEEL AND THE SOUTH WEST

Rottnest Island Authority

In December 2003, the Government established the Rottnest Island Taskforce to deliver a prioritised infrastructure plan for Rottnest Island consistent with sound management and commercial principles and viable island eco-systems. The taskforce will identify expenditure priorities for Rottnest Island to support long-term economic, environmental and social sustainability and provide recommendations for consideration by Government.

The Rottnest Island Authority has an approved capital works program of \$6.0 million in 2004-05, an increase of \$1.5 million from 2003-04 and meets the Government's \$14.0 million election commitment. Funding of \$2.9 million is provided for holiday and tourism facilities and a further \$3.1 million for infrastructure and operational service facilities.

Recreation Camps and Reserve Board

Recreation camps at Hillarys, Point Walter, Orange Grove, Woodman Point and Quaranup near Albany will receive a \$9.9 million upgrade.

A series of master plans have been developed for each of the camps to ensure a strategic and ordered program of upgrades over the next three years and form an integral part of the Government's sport and recreation policy.

The State Government will fund the upgrade through proceeds from the sale of the Noalimba Accommodation and Conference Centre at Bateman.

The Government's decision to re-invest these funds provides an opportunity for schools and community groups to enjoy physical activity and high quality recreation experiences (including abseiling, climbing, adventure activities, bush walking, canoeing, flying fox, team building, and high and low ropes courses) in a camp setting. The investment ensures the sustainability of the camps chain and includes maintenance of heritage facilities.

Sport and Recreation

Major capital works projects in 2004-05 include:

- the final payment (\$1.6 million) towards the \$11.0 million Perth Oval Redevelopment now known as Members Equity Stadium. In partnership with the Town of Vincent, the State has invested in the future of sports that require a rectangular playing surface such as soccer, the rugby codes and lacrosse;
- as part of the Government's election commitment, \$250,000 has been allocated to the Department to establish a West Coast Dive Park. On 28 April 2003, the Government released plans for the proposed Dive Park to be situated off the coast in Rockingham including the acquisition of vessels that are to be scuttled;
- \$850,000 has been allocated to develop the \$1.7 million indoor multi-purpose 'boutique' stadium, which is a priority project under the State Sporting Facilities Plan. It is intended that this facility be utilised by a variety of sports, including gymnastics, martial arts, billiards/snooker, etc; and
- \$1.0 million is to be spent in 2004-05, as part of the Government's total commitment of \$4.8 million, towards the construction of a State level athletics facility. This facility, to be built at AK Reserve adjacent to Challenge Stadium, will replace Perry Lakes stadium, which is more than 40 years old and will form part of the sporting precinct that will be created as part of the redevelopment of Perry Lakes' land.

South West Development Commission

The Commission's capital works program for 2004-05 is estimated at \$6.1 million, of which \$5.6 million relates to the Bunbury Back Beach project.

The Commission has also been allocated a further \$478,000 in 2004-05 for a series of one-off capital works projects in the Bunbury and Collie regions which are aimed directly at providing and improving core infrastructure.

MINISTER FOR HOUSING AND WORKS; RACING AND GAMING; GOVERNMENT ENTERPRISES; LAND INFORMATION

State Housing Commission

In 2004-05 over 6,000 households will benefit from strong public housing and home ownership programs. These programs are primarily funded through a combination of asset sales, amounts received from the Commonwealth under various Commonwealth/State agreements and matching contributions by the State under those agreements.

Construction and Refurbishment Commencements

In relation to public housing, the Budget will again deliver a significant program with commencements of almost 1,500 units. This represents a total investment of \$156.7 million for the construction of new units in 2004-05, an increase of \$11.8 million over 2003-04. In addition, a further 436 units will be refurbished as part of the new living program.

Aboriginal Housing

The commencement of the new Indigenous Housing Agreement in July 2002 resulted in all the funding provided by the Aboriginal and Torres Strait Islander Commission being program-managed by the Department of Housing and Works. The full transition to this arrangement will be completed in 2004-05 and as a result total funding for Aboriginal housing programs will be \$88.5 million compared to \$57.2 million in the previous year.

New Living Program

The award-winning New Living Program will continue, with total expenditure of \$43.0 million. The program, which includes upgrading parks and community facilities, has been highly successful in reducing crime rates and increasing property values. The 2004-05 program will see the refurbishment of more than 430 units including the commencement of two new projects in the suburbs of Queens Park and Hamilton Hill.

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

Brownlie Towers Project

Completing the re-vitalisation of Brownlie Towers and its precinct, in the suburb of Bentley, will involve expenditure of a further \$4.5 million in 2004-05. This represents a substantial investment in the facility and will lead to improved security and community lifestyle within the complex and surrounding areas.

Community Loan Assistance

Assistance is provided to Western Australians to realise home ownership through low-deposit, low-cost, affordable home ownership schemes.

Loans to homebuyers on low to moderate incomes, people with disabilities and Aboriginal and Torres Strait Islander households are made through a number of schemes including KeyStart and Goodstart. Funding of \$506.4 million equating to over 4,600 loans will be provided for KeyStart in 2004-05. In addition, the Goodstart scheme will provide loan assistance of \$9.2 million.

Country Housing Authority

It is estimated that the Country Housing Authority will approve loans totalling \$13.3 million in 2004-05. Combined, this assistance will help around 143 farmers and businesses with loans for homes and renovations in rural and regional communities.

Government Employees Housing Authority

The Government Employees Housing Authority's capital works program in 2004-05 will construct and purchase new government employee housing to support the provision of government services in regional Western Australia. It is expected that up to \$2.6 million of the \$13.7 million program will be spent on providing new housing for Police and other services in remote communities, continuing the support for the implementation of recommendations made by the Gordon Inquiry.

State Supply Commission

The normal ongoing replacement program for the Government's light vehicle fleet will see the expenditure of \$123.3 million on the purchase of passenger and light commercial vehicles in 2004-05, slightly less than the 2003-04 expenditure of \$125.5 million. This expenditure will be partly off-set by expected proceeds of \$75.7 million from the sale of the replaced vehicles. The difference is recovered by lease rents charged to the agencies using vehicles, and the full cost of vehicle use is included in agency expenditure budgets.

Racing and Wagering Western Australia

The Authority's approved capital works program in 2004-05 is projected to be \$6.7 million. This expenditure predominately comprises:

- \$1.1 million on IT Business Systems (total cost, \$5.3 million);
- \$2.8 million on the New Era Bet Engine (total cost, \$6.4 million); and
- \$900,000 on head office and retail outlet building improvements (total cost, \$5.2 million).

Water Corporation

A total of \$356.3 million will be spent on the provision of water related services to meet the continuing growth of the State and provide high quality and reliable water services based on the principles of sustainable management including:

- \$162.1 million on the distribution network to replace and augment existing infrastructure. Significant expenditures are \$16.5 million for the Kalgoorlie Pipeline capacity, \$8.5 million for Port Hedland augmentation for a major customer (BHP Billiton) and \$6.0 million for Albany Water Supply upgrade;
- \$44.0 million to continue the implementation of the Infill Sewerage Program, which is currently 75% complete. The program reduces health and environmental risks by replacing septic tanks with deep sewer in metropolitan and country areas. A further \$174.5 million is to be spent before the program is completed in 2008-09;
- \$30.7 million on projects focusing on securing water supply to Perth metropolitan and country areas (e.g. water storage tanks in the Sawyer's Valley, the Bridgetown Millstream dam raising and the Hopetoun desalination system);

- \$23.7 million as part of the five-year program to fulfil the requirements of the 1996 drinking water guidelines set by the Department of Health. A further \$6.6 million has been allocated to improved aesthetic water quality in selected country towns;
- \$18.4 million on commercial activities. Key projects include the completion of the Burrup Peninsula desalination plant and saline pipeline to provide water to new industrial developments, and the Kwinana wastewater re-use plant;
- \$15.7 million to enable corporate information systems to be renewed and enhanced;
- \$14.5 million on upgrading wastewater treatment plants in the metropolitan and country areas, to allow for growth in the number of customers and enhancement of the treatment process. Of this, \$3.5 million relates to completing the significant projects at both the Beenyup and Subiaco Wastewater Treatment Plants to upgrade capacity and reduce odour emissions;
- \$8.2 million for the continuing installation of Supervisory Control and Data Acquisition (SCADA) to enhance the management of infrastructure assets; and
- \$6.7 million on the Dam Safety Program, which includes the completion of remedial works at Churchman Brook Dam. The program covers a wide range of works in both metropolitan and country areas, responding to the national guidelines for large dams released in 1999.

Land Information

The Department of Land Information's planned capital expenditure in 2004-05 is \$7.1 million, including the upgrade of its core business infrastructure and the State's land information data quality, which is consistent with the Department's business strategy and ability to deliver on Government priorities.

Funding Sources

The funding of the total public sector capital works program is summarised in Table 3.

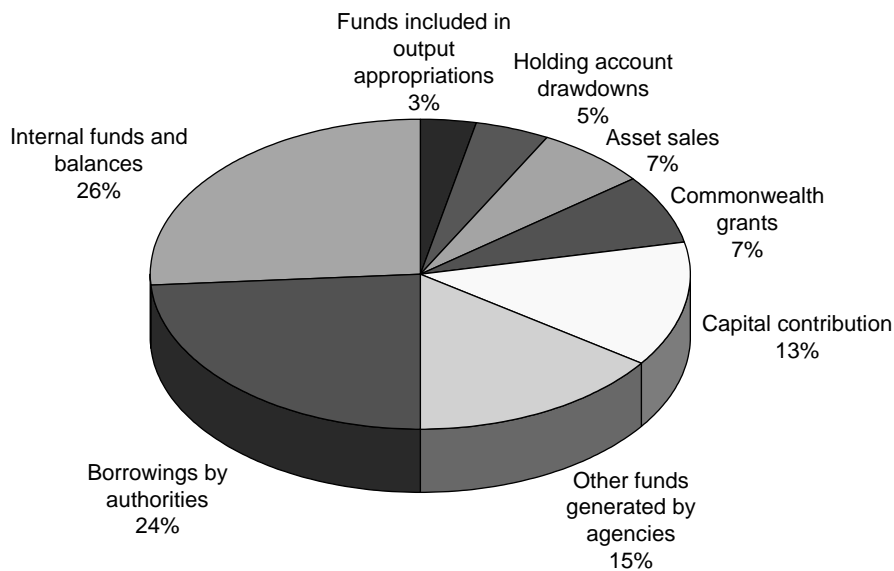
Table 3

FUNDING – PUBLIC SECTOR CAPITAL WORKS PROGRAM			
	2002-03 Actual \$m	2003-04 Estimated Actual \$m	2004-05 Budget Estimate \$m
Sources			
APPROPRIATIONS			
Capital contribution	358.8	487.7	510.0
Funding included in output appropriations	211.5	165.3	129.8
OTHER FUNDING			
Holding Account	134.3	178.4	178.6
Borrowings	475.9	711.9	935.1
Commonwealth grants	247.7	230.4	281.6
Land and Property Sales	205.7	263.0	255.5
Internal funds and balances	886.0	1,005.8	1,019.9
Other	369.6	597.3	606.9
GRAND TOTAL	2,889.5	3,639.8	3,917.4

Note: Columns may not add due to rounding.

2004-05 CAPITAL WORKS PROGRAM
Source of Funds

Figure 2



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

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

Another funding source for agencies is the Holding Account. The Holding Account is held by the Department of Treasury and Finance and includes accumulated non-cash output appropriations for depreciation. Funds can be utilised for the replacement of depreciated assets. A significant proportion of the capital works program is funded other than by appropriations. The majority of such capital projects are undertaken by agencies such as Western Power, the Water Corporation, the State Supply Commission and the Public Transport Authority and are funded from either internal funds or through borrowings.

Borrowings, shown in Table 3, represent new borrowings required to fund capital works³. The borrowings are primarily associated with the programs of:

- the Public Transport Authority - \$517.3 million;
- the State Supply Commission - \$123.3 million;
- Western Power - \$90.0 million;
- Fremantle and Dampier Port Authorities - \$60.6 million; and
- the Water Corporation - \$60.1 million.

In addition to the above, the Commonwealth contributes funding to agencies, such as Education and Training, the State Housing Commission and Main Roads, under specific programs, usually involving dollar for dollar matching funding arrangements.

The 'internal funds and balances' generally refer to funds accumulated by agencies such as cash surpluses and the carryover of funds not expended on projects in the prior year. The 'other' category may include minor asset sales or agency revenue set aside for expenditure of a capital nature, and the Keystart Lending Scheme.

³ As this does not take into account repayment of capital, it is a partial measure of movement in gross debt and will not reconcile with the movement in net debt across the sector.

CHAPTER 4

Financial Projections – Revenue

Overview

Total operating revenue for the general government sector is expected to increase by 3.7% in 2004-05. This includes strong growth in Commonwealth grants to Western Australia¹ (up 11.2%) as a result of the Commonwealth Grants Commission's recommendations to increase Western Australia's share of GST collections (worth an additional \$231 million in 2004-05) and healthy growth in national GST collections. Increased royalty income² (up 5.7%) has also contributed to revenue growth.

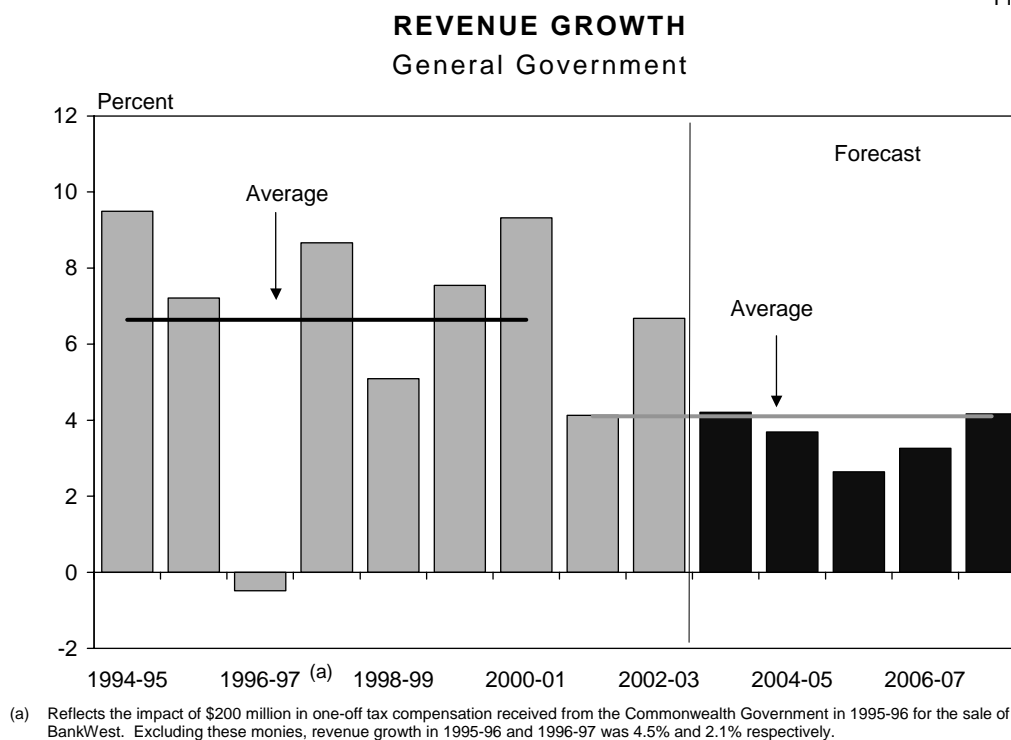
Offsetting the growth in these and other revenue components is a decline in taxation revenue (down 3.7%), reflecting the combined impact of a forecast weakening of property market activity and the package of revenue relief measures contained in this Budget. Revenue from public corporations is also expected to fall (by 3.9%), as is revenue from sales of goods and services (down 1.8%). The decline in these revenues is also in part due to the decision to freeze key household charges.

Over the three outyears, total operating revenue is expected to increase by around 3.4% per annum. Growth is expected to be strongest for Commonwealth grants to Western Australia and revenue from taxation across the outyears. With the exception of modest falls in income from royalties and interest income, most sources of revenue are expected to grow.

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

² Royalties comprise the GFS 'royalty income' revenue category plus North West Shelf royalties.

Figure 1



Operating Revenue Projections

Summary

Total operating revenue for the general government sector is estimated to be \$12.7 billion in 2004-05. This represents an increase of \$453 million (3.7%) on 2003-04 estimated collections and is mainly attributable to growth in Western Australia's GST revenue grants (up \$417 million or 13.5%), revenue from other Commonwealth grants to Western Australia³ (up \$117 million or 6.9%), royalty revenue (up \$58 million or 5.7%) and specific purpose payments (SPPs) 'through' the State (up \$40 million or 6.6%).

Growth in these revenue items in 2004-05 is expected to be partially offset by declines in revenue from taxes (down \$145 million or 3.7%), payments from public corporations (down \$26 million or 3.9%) and sales of goods and services (down \$16 million or 1.8%).

Forecast growth in total operating revenue remains lower than revenue growth of 6.3% per annum experienced on average over the period 1993-94 to 2000-01 (abstracting from the 'one-off' revenue impacts of major asset sales). Including the impact of asset sales, revenue grew by 6.6% between 1993-94 and 2000-01. More recently, revenue has grown on average by 5.0% per annum between 2000-01 and 2003-04, and is projected to grow by an average of 4.1% per annum between 2003-04 and 2007-08.

Total operating revenue is now estimated to grow by 4.2% or \$495 million in 2003-04, and be \$492 million higher than forecast at the time of last year's Budget.

³ Other Commonwealth grants to Western Australia comprise SPPs 'to' the State and National Competition payments.

Higher revenue in 2003-04 compared to last year's Budget is largely due to the impact of stronger than expected property market activity on conveyance duty revenue (accounting for \$250 million of the increase), higher than expected payroll tax collections (accounting for \$69 million of the increase), higher than expected GST and budget balancing assistance revenue⁴ (accounting for \$74 million of the increase) and other income (accounting for \$52 million of the increase, mainly due to the payment of a capital user charge by the Public Transport Authority⁵).

Over the forward estimates period, total operating revenue is expected to increase by \$1.3 billion (or around 3.4% per annum on average). This largely reflects growth in Western Australia's GST revenue grants (up \$513 million or around 4.7% per annum on average), SPPs 'through' the State (up \$129 million or around 6.3% per annum on average), other Commonwealth grants to Western Australia (up \$83 million or around 1.5% per annum on average), and taxation (up \$532 million or around 4.5% per annum on average).

Other revenue is also expected to increase over the period, including revenue from public corporations (up \$85 million or around 4.1% per annum on average), and sales of goods and services (up \$13 million or around 0.5% per annum on average).

Table 1

GENERAL GOVERNMENT
Operating Revenue

	2002-03 Actual	2003-04 Estimated Actual	2004-05 Budget Estimate	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Taxation	3,387	3,884	3,739	3,839	4,044	4,271
GST revenue and budget balancing assistance	2,954	3,080	3,496	3,629	3,766	4,009
Other Commonwealth grants to Western Australia ^(a)	1,794	1,693	1,811	1,854	1,869	1,894
SPPs 'through' the State ^(b)	568	603	642	683	726	771
Sales of goods and services	990	912	896	899	900	909
Interest income	107	116	118	114	112	104
Revenue from public corporations						
Dividends	390	426	421	446	455	454
Tax equivalent payments	239	257	235	245	254	287
Royalties ^(c)	1,120	1,009	1,066	1,043	1,023	1,028
Other	222	287	296	303	333	316
TOTAL	11,771	12,266	12,719	13,056	13,481	14,042

- (a) Other Commonwealth grants to Western Australia comprise SPPs 'to' the State and National Competition payments.
- (b) SPPs 'through' the State include payments on-passed to local government, private schools and first home buyers (as part of the now expired extended First Home Owners Scheme).
- (c) Royalties comprise the GFS 'royalty income' revenue category plus North West Shelf royalties.

Note: Columns may not add due to rounding.

⁴ Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, budget balancing assistance is provided by the Commonwealth to States with the intention of ensuring that no State budget is worse off as a result of the GST-based tax reforms.

⁵ See footnote 3 on page 20 of Chapter 2: *Fiscal Strategy and Financial Projections*.

The remainder of this Chapter outlines the revenue relief measures in this Budget and explains the basis for the revenue estimates through to 2007-08 in each of the major categories. Information on major tax and royalty exemptions and concessions is included in Appendix 4: *Tax and Royalty Expenditure Statement*.

Revenue Relief Measures

Summary

The table below summarises the impact of measures included in the 2004-05 Budget on total operating revenue. These measures will take effect from 1 July 2004.

Table 2

SUMMARY OF REVENUE RELIEF MEASURES				
	2004-05 Budget Estimate \$m	2005-06 Forward Estimate \$m	2006-07 Forward Estimate \$m	2007-08 Forward Estimate \$m
Exemption from conveyance duty for first home purchases up to \$220,000, phasing out to \$300,000	-45.5	-47.8	-50.2	-52.7
Decrease stamp duty rates on conveyance by 5% across the rate scale	-47.2	-49.6	-52.0	-54.6
Extend concessional scale for purchases of homes for owner occupiers and small businesses	-3.0	-3.2	-3.3	-3.5
Freezing of key household fees and charges ^(a)	-20.5	-23.0	-24.8	-27.5
Land tax exemption for land under an approved conservation covenant	-0.01	-0.01	-0.03	-0.05
Adjustment of the land tax scale and associated impact on MRIT revenue	-17.0	-18.6	-19.2	-21.4
TOTAL	-133.2	-142.2	-149.5	-159.7

(a) The estimated cost incorporates an increased community service obligation payment of around \$1.5 million per annum to the Water Corporation to cover increased losses in country areas as a result of this decision, and additional appropriations to the Public Transport Authority of around \$1.5 million to cover the loss of passenger fare revenue.

The revenue measures introduced in this Budget provide a mix of targeted and general relief to taxpayers. Individuals and businesses purchasing property will benefit from the 5% reduction in the rates of stamp duty on conveyance. First home buyers will receive substantially more support. Purchasers of first homes to the value of \$220,000 will pay no duty and a substantive new concession will apply for first home purchases up to \$300,000. Following the introduction of these measures, and taking into account the \$7,000 First Home Owner Grant, first home buyers purchasing a property valued at \$220,000 will effectively receive \$15,230 in assistance from the State.

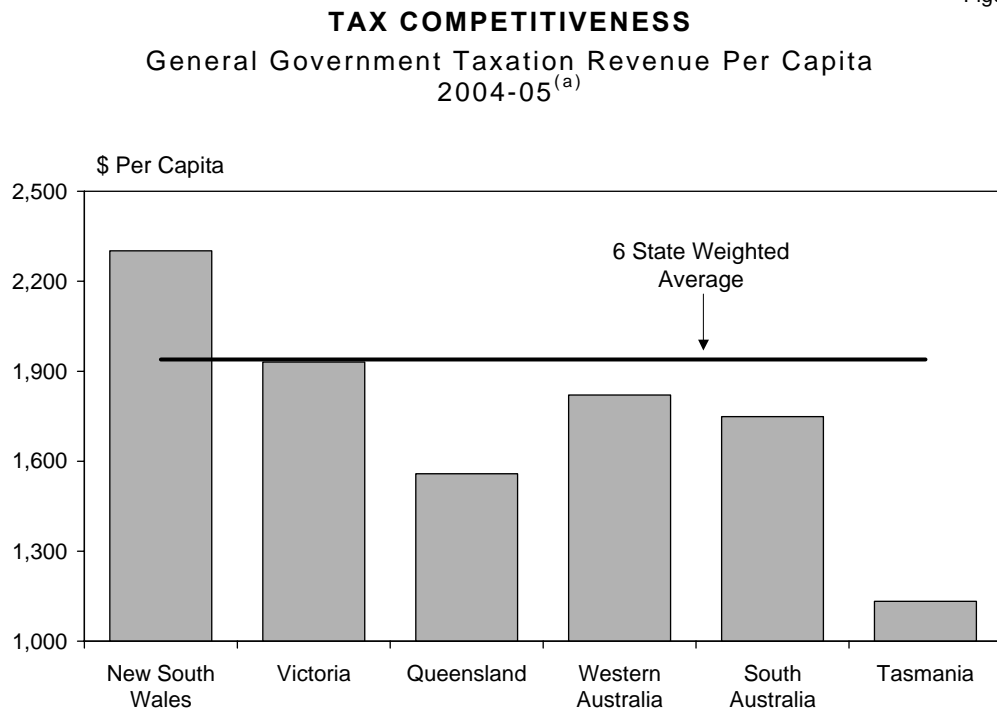
Key government fees and charges affecting Western Australian households, such as electricity fees, water and sewerage charges of the Water Corporation, public transport fares and motor vehicle registration costs and driver's licence fees will all be frozen in 2004-05.

The land tax thresholds have been adjusted to mitigate the impact of stronger than expected growth in property values on land tax and Metropolitan Region Improvement Tax (MRIT) revenues. This adjustment will free around 55,000 (or 36% of) taxpayers from paying land tax by doubling the minimum threshold, and reduce the liability of a further 58,000 land taxpayers.

The land tax exemption for land held under an approved conservation covenant will encourage and assist landholders to conserve environmentally significant pockets of native vegetation and fauna.

These taxation relief measures maintain Western Australia's tax competitiveness in line with the Government's financial target. In 2004-05, Western Australia will be the fourth lowest taxing State in tax revenue per capita terms and the lowest taxing State in terms of taxation revenue as a share of gross State product.

Figure 2



(a) Estimates of taxation revenue for the other States are based on their 2003-04 mid-year reviews, while the 2004-05 Budget estimate is used for Western Australia. The estimates have been adjusted for policies announced by New South Wales in the 2004 mini-budget, changes to land tax in Victoria and Queensland's recently announced concessions for first homebuyers. The population projections are based on data from the Australian Bureau of Statistics.

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

Stamp Duty – Property Conveyance

Assistance to First Home Buyers

From 1 July 2004, first home buyers who purchase a dwelling worth \$220,000 or less will pay no conveyance duty. This exemption for first home buyers will be phased out over property values between \$220,000 and \$300,000. Based on data from the First Home Owner Grant scheme for 2003, it is estimated that around 72% of first home buyers will effectively receive a full stamp duty exemption and a further 18% will receive a partial exemption.

This measure represents a substantial increase in the assistance provided to first home buyers in Western Australia. Currently, the maximum rebate for first home buyers is \$500 up to a property value threshold of \$185,000. Following the introduction of this measure, the maximum conveyance duty relief will be \$8,230.

The following table provides a comparison of this measure with concessional arrangements for first home purchasers in other States. Western Australia will provide a concession equal to 72.9% of the conveyance duty payable on the median-priced house sold in the December quarter 2003. This is substantially above the proportion of duty rebated on the median-priced home in all States and Territories other than New South Wales. (First home buyers in Sydney face a median price more than double that faced by Western Australian first home buyers.)

FIRST HOME BUYER CONCESSIONS								
	WA	NSW	VIC	QLD	SA	TAS	NT	ACT
Price (\$'000) ^(a)	236.3	500.0	371.0	350.0	240.0	226.3	230.0	332.0
Stamp duty (\$) ^(b)	9,004 ^(c)	17,990	17,920	10,725	8,530	6,602	8,269	11,260
Concession (\$)	6,566	17,990	0	5,641	0	0	2,630	0
Concession as a percentage of stamp duty	72.9%	100%	0%	52.6%	0%	0%	31.8%	0%

(a) Median capital city house price for all purchasers as at December quarter 2003. No consistent inter-State data is available on the median price for first home purchases. The most recent data for the median price of homes for other capital cities is December quarter 2003.

(b) Based on sources of other jurisdictions as at 7 April 2004. The concessions calculated for New South Wales and Queensland reflect recent policy announcements. The stamp duty in each State is based on the rates and thresholds applying to the purchase of a principal place of residence.

(c) Based on existing scale (i.e. before 5% general rate cut) and no \$500 first home owner rebate.

To complement the concession for first home purchases of established homes, from 1 July 2004 purchases of vacant land by first home buyers will effectively attract no conveyance duty for land valued up to \$100,000. The concession will phase out at a vacant land value of \$150,000. In most cases, relief will be available immediately, although in limited cases, where a contract to build is not signed at the same time, the duty will be required to be paid, and will be refunded later. This measure will ensure that first home buyers purchasing land and then building will receive broadly equivalent assistance to that received by first home buyers who purchase an established house.

The following table compares the conveyance duty currently paid by first home buyers on a range of values between \$220,000 and \$300,000 with duty paid following the introduction of these measures. First home purchasers of properties valued between \$220,000 and \$300,000 will also benefit from the 5% uniform cut in conveyance duty rates (discussed below).

Table 4

CONVEYANCE DUTY PAYABLE ON FIRST HOME PURCHASE									
Price (\$'000)	220	230	240	250	260	270	280	290	300
Existing duty (\$)	8,230	8,705	9,180	9,655	10,245	10,835	11,425	12,015	12,605
New duty (\$)	0	1,496	2,992	4,488	5,984	7,480	9,724	10,472	11,970
Saving (\$)	8,230	7,209	6,188	5,167	4,621	3,355	1,996	1,543	635

General Relief

From 1 July 2004, all marginal rates of stamp duty on conveyances will be decreased by 5% across the rate scale. A comparison of the current conveyance duty rate scale and new conveyance duty rate scale is provided below.

Table 5

STAMP DUTY ON PROPERTY CONVEYANCE ^(a)				
Property Value	Current		New	
	Base Value at Threshold	Marginal Rate on Excess	Base Value at Threshold	Marginal Rate on Excess
\$0 to \$80,000	Nil	2.30%	Nil	2.20%
\$80,001 to \$100,000	\$1,840	3.45%	\$1,760	3.30%
\$100,001 to \$250,000	\$2,530	4.75%	\$2,420	4.50%
\$250,001 to \$500,000	\$9,655	5.90%	\$9,170	5.60%
Over \$500,000	\$24,405	6.30%	\$23,170	6.00%

(a) This scale does not apply to first home buyers with values below \$300,000 for established homes and \$150,000 for vacant land.

As a result of the decrease in conveyance duty rates, the duty payable on a median-priced house in Perth will fall by \$467⁶. The following table illustrates the impact of the decreased conveyance duty rates on property transfers at selected values (excluding the impact of significantly increased concessions for first home purchasers).

Table 6

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

Property Value	Decrease in Stamp Duty
\$50,000	\$50
\$80,000	\$80
\$100,000	\$110
\$200,000	\$360
\$300,000	\$635
\$400,000	\$935
\$500,000	\$1,235
\$1,000,000	\$2,735

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

Table 7

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

Value ('000)	WA (current)	WA (new)	NSW	VIC	QLD	SA	TAS	NT	ACT
50	1,150	1,100	765	1,000	975	1,080	1,050	1,213	1,000
100	2,530	2,420	2,364	2,200	2,350	2,830	2,425	2,750	2,000
150	4,905	4,670	3,740	4,660	4,830	4,830	3,925	4,613	3,750
200	7,280	6,920	5,940	7,660	5,600	6,830	5,675	6,800	5,500
250	9,655	9,170	7,240	10,660	7,225	8,955	7,550	9,313	7,500
500	24,405	23,170	17,990	25,660	15,975	21,330	17,550	27,000	20,500
1,000	55,905	53,170	40,490	55,000	34,725	48,830	37,550	54,000	49,250
5,000	307,905	293,170	260,490	275,000	184,725	268,830	197,550	270,000	319,250

(a) Based on sources of other jurisdictions as at 7 April 2004. New South Wales has recently introduced an 'exit tax' on investment property which is paid by the vendor. This 'exit tax' is not included in this table.

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

⁶ Based on the median sale price of established dwellings sold in Perth during the month of March 2004 (\$242,800).

Table 8

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

	WA (Current)	WA (New)	NSW	VIC	QLD	SA	TAS	NT	ACT
Price ^(a) ('000)	236.3	236.3	500.0	371.0	350.0	240.0	226.3	230.0	332.0
Stamp duty ^(b)	9,004	8,554	17,990	17,920	10,725	8,530	6,602	8,269	11,260

(a) Median capital city house price as at December quarter 2003 (the most recent interstate data).

(b) Based on sources of other jurisdictions as at 7 April 2004.

Extending the concession for principal places of residence and business property

The existing concessional rate for lower value properties will also be extended. Currently, the concessional duty rate, which is as low as 1.5%, cuts out at a property value of \$135,000. This results in a sudden jump in conveyance duty for purchases just over the cut-off value. This anomaly will be removed by introducing a gradual phasing out of the concessional rate to \$200,000.

Land Tax

Preliminary data on land values for 2004-05 indicate that there has been strong growth in unimproved property values. Consequently, land tax and MRIT collections were likely to grow more strongly in 2004-05 than the historical average. In order to address the growth in land tax liabilities for landholders, the Government will adjust several value thresholds in the land tax scale from 1 July 2004. These changes are illustrated in the following table.

Table 9

LAND TAX SCALE

Unimproved Value of Land \$'000	CURRENT		NEW		
	Base Value at Threshold	Marginal Rate on Excess	Unimproved Value of Land \$'000	Base Value at Threshold	Marginal Rate on Excess
0 – 50	Nil	Nil	0 – 100	Nil	Nil
50 – 190	\$75	0.15%	100 – 220	\$150	0.15%
190 – 550	\$285	0.45%	220 – 570	\$330	0.45%
550 – 2,000	\$1,905	1.76%	570 – 2,000	\$1,905	1.76%
2,000 – 5,000	\$27,425	2.30%	2,000 – 5,000	\$27,073	2.30%
Over 5,000	\$96,425	2.50%	Over 5,000	\$96,073	2.50%

Around 55,000 land taxpayers (around 36%) will be freed from land tax altogether as a result of the doubling of the minimum threshold to \$100,000. In total, around 113,000 taxpayers will have a lower land tax payment than they otherwise would have had. As an example, a taxpayer who owns a taxable property with an unimproved land value of \$200,000 in 2004-05 will experience a 9% reduction in land tax (from \$330 to \$300) relative to the current scale.

The following table provides a comparison of the land tax arrangements across States and Territories after the implementation of this measure.

LAND TAX SCALES AS AT 1 JULY 2004 ^(a)								Table 10
	WA	NSW	VIC	QLD	SA	TAS	NT	ACT
Min threshold (\$'000)	100	0	175	275.9	50	15	Not Levied	0
Max threshold (\$'000)	5,000	500	2,700	1,500	1,000	500		200
Min tax rate	0.15%	0.40%	0.10%	0.20%	0.35%	0.55%		1.00%
Max tax rate	2.50%	1.40%	4.00%	1.80%	3.70%	2.50%		1.70%

(a) Based on sources of other jurisdictions as at 7 April 2004. Changes to the New South Wales land tax regime announced in the recent mini-Budget and changes recently announced by Victoria are included in this table.

In total, this measure will mean a loss to government in foregone revenue of \$17 million in 2004-05.

Land Tax – Exemption for land under conservation covenants

The Government will also provide a land tax exemption for land protected by an approved conservation covenant from 1 July 2004. This measure will provide land tax relief to land owners who are willing to set aside environmentally important areas of native bushland for the benefit of future generations under a covenant approved by the National Trust or the Department of Conservation and Land Management.

Household Charges

To assist Western Australian households with day to day living expenses, the Government will freeze key tariffs, fees and charges in 2004-05 that impact on household expenditure.

This means there will be no increase in the Water Corporation's water, sewerage and drainage charges; electricity charges; compulsory third party insurance premiums; motor vehicle registration costs and driver's licence fees; and Transperth fares.

As a result, the cost of a basket of government 'goods and services' that the 'representative household' consumes will not increase. Appendix 8 provides details of the Department of Treasury and Finance 'representative household' model.

The budgetary costs of the freeze in 2004-05 on key household charges is estimated to be \$20.5 million in 2004-05, \$23.0 million in 2005-06, \$24.8 million in 2006-07, and \$27.5 million in 2007-08.

Taxation Revenue Estimates

Summary

The following table summarises the Budget projections for State taxes, incorporating the revenue measures outlined above and forecast economic parameters (as outlined in Chapter 5: *The Western Australian Economy*).

Table 11						
TAXATION REVENUE						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
Taxes on Employers' Payroll and Labour Force						
Payroll taxes	1,004	1,128	1,202	1,273	1,349	1,428
Taxes on Property and Financial Institution Taxes						
Land tax	260	277	301	322	345	369
Stamp duties on financial and capital transactions	978	1,242	972	1,018	1,078	1,143
Financial institutions transaction taxes	97	96	96	8	-	-
Other	49	128	175	184	194	202
Total	1,384	1,743	1,544	1,532	1,616	1,713
Taxes on Provision of Goods and Services						
Taxes on gambling	119	121	124	128	132	136
Taxes on insurance	307	310	260	270	282	294
Total	426	431	384	398	413	430
Taxes on Use of Goods and Performance of Activities						
Motor vehicle taxes	574	582	610	636	666	700
TOTAL TAXES	3,387	3,884	3,739	3,839	4,044	4,271

Note: Columns may not add due to rounding.

The estimated outturn for taxation revenue in 2003-04 is expected to be 14.7% higher than in 2002-03, including the impact of revenue measures in the 2003-04 Budget. Abstracting from these measures, the estimated outturn for taxation revenue in 2003-04 is 9.9% higher than in 2002-03. This largely reflects the impact of higher than expected economic growth, and in particular the high level of property market activity, on the State's tax bases.

The expected decline in total taxation revenue in 2004-05 of \$145 million, or 3.7%, is largely a result of tax relief measures introduced in this Budget valued at \$113 million. In the absence of these measures, the decline in revenue is estimated to be 0.8%.

The decline in taxation revenue abstracting from tax relief reflects an anticipated fall in conveyance duties as activity in the housing market is expected to ease in 2004-05 and as conveyance duty revenue from very large 'one-off' dutiable transactions in 2003-04 returns to levels experienced in recent years. The expected decline in total conveyance duty compared to 2003-04 is 13.7%, abstracting from tax relief measures. Excluding large dutiable transactions, the conveyance duty decline is estimated at around 10.0% in line with the expected easing in property market activity.

Beyond 2004-05, growth in tax revenue is expected to stabilise at around 4.5% per annum. This compares with annual average growth of around 7.8% over the period 1993-94 to 2000-01 (after excluding 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, as defined in the Australian Bureau of Statistics' Government Finance Statistics classification, 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 32.1% of total taxation in 2004-05.

Payroll tax revenue is estimated to grow by 12.4% in 2003-04. This stronger than usual growth mainly reflects strong employment growth in industries with relatively large average firm sizes, which are more likely to pay payroll tax.

Growth in payroll tax is expected to ease to 6.5% in 2004-05, and to around 5.9% per annum on average over the outyears. This is in line with forecasts of employment and earnings growth.

Taxes on Property and Financial Institution Taxes

This category comprises land taxes, stamp duties on financial and other capital transactions, financial institution taxes and other taxes (the MRIT and the Emergency Services Levy (ESL)). These taxes are estimated to account for 41.3% of total taxation revenue in 2004-05. Together, direct property taxes - land tax, MRIT and stamp duty on conveyances - are estimated to account for 31.9% of total taxation revenue in 2004-05 (and 9.4% of total general government operating revenue).

Expected growth in property and financial institutions taxes of 26.0% in 2003-04 is extremely strong. The strength of growth is attributable to a variety of factors including:

- continuing strong growth in property market activity;
- property-related revenue measures introduced in the 2003-04 Budget;
- the introduction of the ESL from 1 July 2003; and
- conveyance duty reforms arising from the Review of State Business Taxes.

Excluding the impact of the policy changes, growth in revenue from property taxes and financial taxes in 2003-04 would have been substantially weaker at 8.8%.

Property and financial institution taxes are forecast to decline by 11.4% in 2004-05. This is primarily due to:

- revenue measures introduced in the 2004-05 Budget, which reduce conveyance duty collections by \$96 million in 2004-05; and
- an expected weakening in property market activity.

Within this category, revenue from stamp duties on financial and other capital transactions (which includes stamp duties on property conveyances, mortgages and marketable securities) is estimated to grow by 27.0% in 2003-04 (reflecting the strong property market activity) and decline by 21.8% in 2004-05 (reflecting tax relief measures and a forecast downturn in property market activity).

Growth in land tax is expected to be around 6.7% in 2003-04 and 8.7% in 2004-05. Without the impact of revenue measures, land tax revenue would have increased by 13.4% in 2004-05 (largely driven by increases in the unimproved value of taxable land). Over the past decade, land tax has grown by around 8.5% per annum on average.

The financial institutions tax category is comprised solely of debits tax. Debits tax revenue is expected to remain flat in 2004-05, reflecting the narrow and declining nature of this tax base as alternatives to cheque account facilities become more widespread. The abolition of debits tax from 1 July 2005 has been legislated as part of the Review of State Business Taxes (all States and Territories subsequently agreed to remove debits tax by that date).

Significant growth in other taxes in the property and financial institutions taxes category of 37.2% in 2004-05 mainly reflects the introduction of the ESL, from 1 July 2003. Special arrangements were put in place for 2003-04 to allow the former insurance-based funding system to be phased out and the new scheme introduced. Higher revenues in 2004-05 reflect a full year application of the ESL scheme.

Taxes on the provision of goods and services

This category includes taxes on gambling and insurance, and some minor levies. This revenue is expected to account for 10.3% of total taxation revenue in 2004-05.

Taxes on gambling mainly comprise lotteries, casino tax and the TAB betting tax. Gambling taxes contribute significantly to taxation revenue of other jurisdictions. However, this is not the case in Western Australia, largely due to the Government's ban on electronic gaming machines outside the Burswood casino.

Gambling tax revenue is estimated to grow by around 1.8% in 2003-04, and an average of 3.4% per annum across the outyears.

Taxes on insurance comprise stamp duty on insurance policies and the employers' indemnity supplementation fund levy. Revenue from stamp duty on insurance policies is estimated to grow by 24.4% in 2003-04, largely as a result of an increase in the rate of general insurance as part of the 2003-04 Budget. In 2004-05, revenue from insurance duty is projected to decline by 7.3%, reflecting the abolition of stamp duty on workers' compensation insurance and life insurance by 1 July 2004 and the phasing out of contributions via the insurance industry to emergency services following the introduction of the Emergency Services Levy.

Taxes on the use of goods and performance of activities

This category is made up of motor vehicle taxes and is expected to account for around 16.3% of total taxation revenue in 2004-05.

Motor vehicle taxes comprise stamp duty on the registration and transfer of vehicle licenses and revenue from annual vehicle registration fees. Motor vehicle stamp duty collections are expected to increase by 3.8% in 2003-04, 3.3% in 2004-05 and by around 4.2% per annum across the outyears.

Revenue from annual motor vehicle license fees is estimated to decline by 0.2% in 2003-04, increase by 6.0% in 2004-05 and average 5.3% per annum growth across the outyears. This revenue is earmarked for road construction and maintenance.

Other Revenue

Commonwealth Grants

Commonwealth grants to the State take two forms:

- general purpose grants – which have no restrictions on how the money can be spent. General purpose grants to Western Australia consist of GST revenue grants, competition payments and (prior to 2003-04) budget balancing assistance; and
- specific purpose payments (SPPs) – which must be applied to specific activities and have various other conditions attached.

The Commonwealth's national GST collections are distributed between the States according to the Commonwealth Grants Commission's recommendations. These grants to Western Australia are projected to grow by 13.5% in 2004-05. This primarily reflects:

- a \$231 million increase in Western Australia's share of GST collections, as recommended by the Commonwealth Grants Commission; and
- growth in national GST collections of 5.1%.

Western Australia is not expected to receive budget balancing assistance from 2003-04 onwards, as 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.

Competition payments are assumed to continue at the level decided by the Commonwealth Treasurer in December 2003, at 45% of the maximum annual payments. The Commonwealth is currently withholding \$41 million as a penalty for a range of anti-competitive restrictions in the State's legislation, including retail trading hours, liquor licensing regulations and potato marketing arrangements. A further considerable, but as yet unquantified, penalty is likely to be incurred for not proceeding with the disaggregation of Western Power. However, some recovery of payments is likely for introducing competition policy reforms, for example to taxi licensing, water pricing and grain marketing.

SPPs 'to' Western Australia are expected to increase by 7.0% in 2004-05⁷. This increase primarily reflects:

- a significant increase in Commonwealth project based road funding specific to 2004-05; and
- national heritage trust funding increasing after the transitional year of 2003-04.

Health and Education SPPs increase at about the rate of inflation.

SPPs that pass through the State's accounts, mainly to local governments and private schools, are expected to grow by 6.6% in 2004-05, primarily reflecting a large increase in Commonwealth payments to private schools.

From 2004-05 to 2007-08, Commonwealth grants to the State are expected to increase by an average of 3.6% per annum. Solid growth in the national pool of GST revenues is expected to be partly offset by a declining share of GST revenues for Western Australia (under the influence of future annual Commonwealth Grants Commission update recommendations) and low growth in SPPs 'to' the State and competition payments.

⁷ SPPs 'to' the State are funds provided by the Commonwealth for specific state services in areas such as health, education, roads and the environment.

Table 12

COMMONWEALTH GRANTS						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
General Purpose Grants						
GST revenue	2,910	3,080	3,496	3,629	3,766	4,009
Budget balancing assistance	44	-	-	-	-	-
Competition payments	72	34	34	35	36	37
Total general purpose grants	3,026	3,113	3,531	3,664	3,802	4,046
SPPs 'to' the State ^(a)	1,722	1,660	1,776	1,819	1,833	1,856
TOTAL COMMONWEALTH GRANTS 'TO' THE STATE	4,748	4,773	5,307	5,483	5,635	5,902
SPPs 'through' the State	568	603	642	683	726	771
North West Shelf royalties	435	351	331	287	273	286
TOTAL COMMONWEALTH GRANTS (GFS basis)	5,751	5,727	6,280	6,453	6,634	6,960

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

Note: Columns may not add due to rounding.

Sales of Goods and Services

Revenue from the sale of goods and services is estimated to fall by \$16 million (1.8%) in 2004-05, following a decrease of \$77 million (7.8%) in 2003-04.

The large decrease in 2003-04 primarily reflects the creation of the Public Transport Authority (PTA) on 1 July 2003, which resulted in the loss from the general government sector of bus and ferry revenue previously collected by the Department for Planning and Infrastructure. This revenue totalled \$76 million in 2002-03 and is now received by the PTA (a public non-financial corporation).

Goods and services revenue in 2004-05 also includes the impact of reducing car fleet-related income (down \$23 million relative to 2003-04). Financing arrangements for the Government's vehicle fleet were changed in 2001, resulting in transitional arrangements whereby the State received the rights to revenue from vehicles provided under a previous financing arrangement. The revenue stream from this arrangement has steadily declined since the new financing arrangement was put in place in June 2001, as the previously financed vehicles have been replaced. It is expected that this arrangement will be largely concluded within 2004-05.

Abstracting from these transitional issues and certain other 'lumpy' items, goods and services revenue is estimated to grow by around 1.5% per annum in underlying terms across the forward estimates period.

Interest Income

The general government sector’s holdings of cash assets and other financial assets generate interest income for the public sector. Across the budget and forward estimate years, these holdings are forecast to remain broadly stable, resulting in a relatively constant projected level of interest income of around \$112 million per annum.

Revenue from Public Corporations

The State-owned public corporations are liable for income tax equivalent and dividend payments. A number of these public corporations also pay local government rate equivalents payments to the State.

Tax and local government rate equivalents are levied by the State to ensure competitive neutrality (i.e. a level playing field) between significant government business activities and private sector businesses.

Revenue from public corporations in 2004-05 is estimated at \$656 million, which represents a decrease of \$26 million, or 3.9%, from the previous year.

Table 13

REVENUE FROM PUBLIC CORPORATIONS						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
Income Tax Equivalent	234	250	228	238	247	279
Local Government Rate Equivalent	5	7	7	7	7	8
Dividends	390	426	421	446	455	454
TOTAL	629	682	656	691	709	741

Note: Columns may not add due to rounding.

The decrease in revenue in 2004-05 mainly results from lower tax equivalent and dividend revenue from Western Power. This is associated with a reduction in Western Power’s profits, due to higher fuel costs and increased network expenditure on both corrective and preventative maintenance. These increased expenditures are only partly offset by increased electricity sales revenue and higher levels of contributions for customer driven capital works. A small increase in depreciation also contributes to the lower profit level in 2004-05. In addition, the level of Western Power dividends has reduced with the dividend payout ratio being restored to 50%.

The decision to freeze the Water Corporation’s residential water, sewerage and drainage charges in 2004-05 is expected to reduce tax equivalent and dividend revenue by around \$10 million per annum. This is relative to a consumer price index based increase in these charges (2.4%) which was originally proposed by the Water Corporation. In addition, the decision to extend the two day per week sprinkler restrictions into 2004-05 is estimated to reduce tax equivalent and dividend revenue from the Water Corporation by \$14 million in 2004-05 and \$4 million in 2005-06.

The reduction in revenue from Western Power and the Water Corporation is partly offset by increased payments of \$20 million from the Western Australian Land Authority (LandCorp) resulting from increased land sales.

A more detailed overview of revenue from individual public corporations can be found in Appendix 7: *Public Corporations – Revenue and Expenses*.

Royalty Income

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

North West Shelf petroleum revenues, which the State receives under royalty sharing arrangements with the Commonwealth, are the largest source of royalty revenue. These revenues are included in Commonwealth grants rather than own-source revenue, reflecting the Commonwealth's constitutional responsibility for off-shore areas. Iron ore is the next largest source of mining royalties in Western Australia.

Mining royalties (including North West Shelf royalties) are expected to decline by around \$111 million (or 9.9%) in 2003-04. This mainly reflects the impact of the higher \$A/\$US exchange rate in 2003-04 (projected to average around US72.4 cents in 2003-04, compared with a US58.4 cent average in 2002-03). Nonetheless, the impact of the stronger Australian dollar has been partially offset by commodity price increases (especially the oil price, which is projected to average around \$US32 per barrel) and increased production in a number of minerals, such as iron ore and nickel.

Mining royalties are projected to increase by around \$58 million (or 5.7%) in 2004-05. This is largely due to an anticipated increase in iron ore royalties. Iron ore volumes are projected to increase by 25.9%, incorporating production expansions by major producers to meet demand from China. In addition, iron ore prices are expected to increase by an average 18.6% in 2004-05, following recent price negotiations with key customers.

Mining royalty revenue is expected to decline by a modest 1.2% per annum on average across the forward estimate period, due mainly to lower production from the existing open cut operations at the Argyle diamond project and a further staged decline in the oil price to long term levels. Projections of mining royalty revenue in 2003-04 and the outyears incorporate:

- individual mining company projections of sales, prices and operating costs supplied to the Department of Industry and Resources on a confidential basis;
- an assumed \$A/\$US exchange rate of US76.0 cents across all years (the average rate in the lead-up to the estimates being finalised), representing a 5.0% appreciation from the estimated average exchange rate of US72.5 cents in 2003-04;
- an oil price of \$US27 per barrel in 2004-05, \$US24 per barrel in 2005-06, and \$US22 per barrel in the following years, representing a substantial decline from the expected average oil price of around \$US32 per barrel in 2003-04; and

- no provision for any planned new mining projects or expansions of existing projects, unless they have been formally approved and committed to.

Further details of the major mineral royalties are outlined in the following table and discussion.

MINING ROYALTIES						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Budget	Forward	Forward	Forward	Forward
	\$m	Estimate	Estimate	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
Iron Ore	290.5	312.5	399.0	423.0	453.0	468.5
Petroleum – excluding North West Shelf grant ^(a)	43.6	33.5	24.1	17.2	14.1	11.9
Alumina	51.5	52.5	57.0	60.0	61.0	63.0
Diamonds	90.9	47.5	51.0	62.0	39.5	7.5
Mineral Sands	25.4	25.0	21.0	22.5	23.5	22.0
Nickel	52.1	68.0	66.0	59.0	56.0	62.5
Gold	82.7	79.0	73.0	70.5	63.5	60.5
Other ^(b)	48.5	39.4	44.7	41.8	39.7	45.5
Mining Royalties (excluding North West Shelf grant)^(c)	685.1	657.4	735.6	756.2	750.2	741.4
Petroleum – North West Shelf grant ^(d)	434.6	351.4	330.7	286.8	273.1	286.3
Total Mining Royalties (including North West Shelf grant)	1,119.6	1,008.8	1,066.3	1,043.0	1,023.3	1,027.7
Lease Rentals ^(e)	36.4	39.0	41.0	43.0	43.0	43.0
TOTAL MINING REVENUE	1,156.1	1,047.8	1,107.3	1086.0	1066.3	1070.7

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

(b) Net amount which incorporates refunds to producers and lease rental refunds.

(c) GFS Mining Royalties revenue category.

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

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

Note: Columns may not add due to rounding.

Iron Ore - Iron ore royalties are forecast to increase significantly in 2004-05 and following years, reflecting substantial increases in projected iron ore production and a significant increase in iron ore prices secured by iron ore producers for the coming year (up by an average of around 18.6%), which flows through to following years in the mining royalties projections.

These significant upward revisions are consistent with the bringing forward of investment in capacity expansions, principally to meet strong demand from China. In particular, Rio Tinto is fast-tracking a \$1.3 billion expansion of its Pilbara mines and ports. This will increase production at the Yandicoogina project and also lift the export capacity of port facilities at Dampier. BHP-Billiton is also making significant investments to bolster production, which includes a significant increase in capacity of the Mining Area C operation.

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.

The decline in the petroleum royalty estimates incorporate a projected easing in the oil price from an average of around \$US32 per barrel in 2003-04 to around \$US27 per barrel in 2004-05, \$US24 per barrel in 2005-06 and a return to the long term average oil price of \$US22 per barrel in following years. In 2004-05 and beyond, petroleum royalties which are sourced from gas converted to LNG will be boosted by the commencement of output from the 4th LNG train and the beginning of the 25 year agreement with China National Off-shore Oil Corporation to export LNG to China.

The projected decline in non-North West Shelf petroleum royalties over the budget period is due to the impact of an assumed decline in oil prices and lower production, as existing oil fields mature.

Alumina - The gradual growth in alumina royalties reflects projected increases in production capacity resulting from planned expansions by producers.

Diamonds - Diamond royalties are expected to decline in 2006-07 and beyond, largely due to the winding down of the existing open cut operations at Argyle. Argyle is examining the viability of commencing underground operations. Any commitment to underground operations would significantly alter the outlook for production (and costs, which affect diamond royalties. Unlike other State royalties, diamond royalties are profit based).

Mineral sands - The low growth in mineral sands royalties reflects the impact of the higher projected \$A/\$US exchange rate and industry expectations of subdued price and production growth from existing operations.

Nickel - Nickel output and prices strengthened through 2003-04, with higher output from major producers more than offsetting the impact of the closure of the Bulong project. While nickel prices are expected to ease from the peaks experienced in 2003-04, total production is expected to remain firm and will be boosted in 2007-08 by the expected new production from BHP-Billiton's Ravensthorpe project.

Gold - Gold production from existing operations is expected to be steady in the near term and to decline slightly toward the end of the forward estimate period. Gold prices are assumed to ease over the long term (from the current level of around \$US420/oz to \$US350/oz in 2007-08). As a consequence, gold royalty revenue is forecast to decrease from \$79.0 million in 2003-04 to \$60.5 million in 2007-08.

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

Lease rentals - These mining-related charges are essentially for exploration and production licences. The estimates incorporate an increase in annual rentals to reflect growth in the consumer price index and an additional increase in revenue from exploration leases of around \$2 million in 2004-05 and \$4 million in 2005-06 and beyond. Future growth in lease rentals will mainly be determined by the level of exploration activity and the measures adopted to address a backlog of mining lease applications.

CHAPTER 5

The Western Australian Economy

Overview

The economy in Western Australia is expected to grow at its strongest rate in almost a decade in 2003-04, underpinned by a record level of business investment and an associated flow on to private consumption expenditure. Overall, gross State product (GSP) is expected to grow by 6.75% in 2003-04, which would represent the largest annual increase since 1994-95.

Growth in GSP is forecast to remain robust at 4.5% in 2004-05. The anticipated moderation in growth from the high levels in 2003-04 is largely due to growth in domestic activity easing, as business investment consolidates at near record levels and the dwelling sector experiences a slight downturn. Net exports are forecast to be the main contributor to GSP growth in 2004-05, as increased production from the current wave of business investment drives a sizeable increase in exports.

In 2005-06, the economy is forecast to grow by 4.0%, which is about the long-term average. Growth in the domestic economy should strengthen slightly, while current expansions in production capacity in the resource sector should underpin growth in net exports.

2003-04

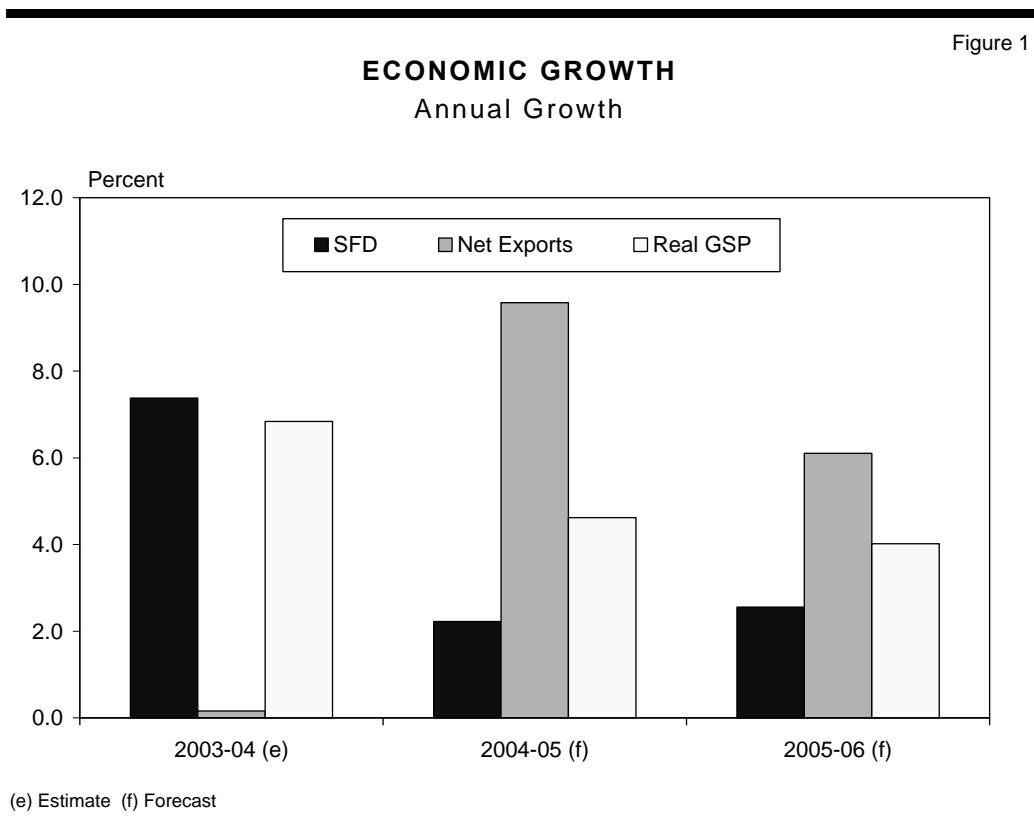
Growth in GSP is expected to be 6.75% in 2003-04, up from 3.9% in 2002-03, underpinned by very strong activity in the domestic economy as measured by State Final Demand (SFD), which is forecast to grow by 7.5%.

The strong domestic result is underpinned by strong business investment, which is expected to grow at the highest rate on record. At the same time, higher incomes in the agricultural sector and the downward impact of a stronger Australian dollar (\$) on the price of consumer goods are also expected to push household consumption higher in 2003-04.

Activity in the dwelling sector is also projected to remain at a high level. Labour and materials shortages appear to be continuing to impact on the sector, with a substantial backlog of construction work in the pipeline likely to sustain high levels of activity over 2003-04 and into the first part of 2004-05.

Exports are predicted to rise by 3.25% in 2003-04, with exporters under pressure to fully meet demand from a strengthening international economy until the large number of projects currently under construction come on line. Net export growth, which takes into account movements in imports, is expected to be very moderate in 2003-04, as the high levels of business investment, strong consumer demand and a higher \$A are expected to flow through to solid increases in imports of capital and consumer items.

Despite the strong economy, employment growth in 2003-04 has been sluggish. Nonetheless, the unemployment rate is predicted to average 6.0% over the year. Reflecting relatively tight labour market conditions, wages growth in 2003-04 is expected to be a solid 3.75%.



Outlook

While a moderation in economic growth has been forecast for 2004-05, it remains solid at 4.5%. The addition of new export capacity from the current wave of resource projects under construction is expected to see exports taking the lead on growth, while the contribution from the domestic economy is expected to be weaker than in 2003-04. SFD growth is forecast to moderate to 2.25%, largely due to a slight fall in dwelling investment and a consolidation of business investment (albeit at record levels).

Business investment in 2004-05 is expected to ease (by just 0.5%) after reaching a record level in 2003-04. However, investment spending on recently committed projects such as the \$1.5 billion Enfield oil development and the \$1.4 billion Ravensthorpe nickel mine should sustain business investment at close to 2003-04 levels. Although there is potential for further growth in 2004-05, this is dependent on construction commencing on projects currently under consideration.

Growth in household consumption, at 3.25% in 2004-05, is more modest than in preceding years. The moderation reflects an anticipated decline in dwelling activity detracting from demand in the household goods sector and the prospect that higher interest rates may lead households to rebuild equity in their homes (after a period of having used equity loans and withdrawals to finance investment properties, as well as large consumption items such as cars and boats).

Employment growth is expected to strengthen in 2004-05, with growth of 2.25% forecast. While the unemployment rate is also forecast to fall over the period (to 5.75%), the labour required to underpin the higher employment growth forecast is predominantly expected to be met by additions to the labour force. This is expected to limit the extent to which the unemployment rate declines.

Table 1

MAJOR ECONOMIC AGGREGATES Western Australia

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimate	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
	%	%	%	%	%	%
Real Gross State Product Growth	3.9	6.75	4.5	4.0	4.0	4.0
State Final Demand Growth	7.1	7.5	2.25	2.5	3.75	3.75
Employment Growth	2.5	1.75	2.25	2.25	2.25	2.25
Unemployment Rate	6.0	6.0	5.75	5.75	5.75	5.75
Wages Growth ^(a)	3.7	3.75	3.25	3.25	3.25	3.25
Consumer Price Index Growth	2.7	2.25	2.0	2.5	2.5	2.5
Implicit Price Deflator Growth	1.5	1.75	2.25	2.25	2.25	2.25

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

GSP growth of 4.0% is forecast for 2005-06, due to a moderate recovery in the domestic economy and continued impetus from exports. The full impact of the current capacity expansions in the State's iron ore industry is forecast to be the major contributor to export growth of 6.0%. Strong growth in agricultural exports is also expected to have a positive contribution to export growth. In 2006-07 and 2007-08, forecasts of SFD and GSP growth are based on long-term averages. SFD is forecast to grow by 3.75% in both years, while GSP is forecast to increase by 4.0%. Employment growth is forecast to continue at 2.25% over the same period, while the unemployment rate is forecast to remain steady at 5.75%.

Table 2

COMPONENTS OF GROSS STATE PRODUCT
Western Australia

	2002-03	2003-04	2004-05	2005-06
	Actual ^(a)	Estimate	Budget	Forward
	%	%	Forecast	Estimate
			%	%
ANNUAL AVERAGE GROWTH				
Private				
Household Consumption	4.3	4.75	3.25	3.5
Business Investment	21.5	25.0	-0.5	1.25
Dwelling Investment	8.0	-0.75	-5.0	6.5
Public				
Consumption	1.8	2.5	6.25	1.0
Investment	12.9	0.75	0.5	-5.0
State Final Demand	7.1	7.5	2.25	2.5
External Sector ^(b)				
Exports	11.0	3.25	8.25	6.0
Imports	30.5	9.25	5.75	6.0
Net Exports	2.9	0.25	9.5	6.25
Gross State Product	3.9	6.75	4.5	4.0
CONTRIBUTIONS TO GROWTH				
Private				
Household Consumption	2.1	2.4	1.6	1.7
Business Investment	3.0	4.1	-0.1	0.2
Dwelling Investment	0.5	-0.1	-0.3	0.4
Public				
Consumption	0.3	0.4	0.9	0.2
Investment	0.4	0.0	0.0	-0.2
State Final Demand	6.4	6.8	2.1	2.3
External Sector				
Exports	4.5	1.4	3.5	2.6
Imports	-3.6	-1.4	-0.9	-0.9
Net Exports	0.8	0.0	2.6	1.7
Balancing Item ^(c)	-3.3	0.0	0.0	0.0
Gross State Product	3.9	6.75	4.5	4.0

(a) All components of demand are based on December 2003 State final demand data.

(b) Merchandise exports only. Does not include services.

(c) The balancing item includes international services trade, interstate trade, changes in stocks, and a statistical discrepancy.

Note: Columns may not add due to rounding.

State Final Demand

Household Consumption

Household consumption expenditure is forecast to grow by a healthy 4.75% in 2003-04, following growth of 4.3% in 2002-03. This above historical average performance largely reflects strong consumer sentiment flowing on from a robust labour market, a relatively low interest rate environment and strong dwelling investment over the past few years. A recovery in agricultural income due to the breaking of the 2002 drought is also expected to boost consumption levels.

In 2004-05, growth in private consumption is forecast to ease to 3.25%, following three years of above trend growth (the long-term average growth rate is 3.6%). This expected moderation is consistent with a slight downturn in dwelling investment (and an associated downturn in spending on household goods) and higher debt servicing requirements, mainly as a result of slightly higher interest rates following the November and December 2003 interest rate rises.

Private consumption expenditure is forecast to accelerate slightly to 3.5% in 2005-06. Driving this pick-up is an expectation of continued growth in incomes, employment growth and an upturn in dwelling investment.

Business Investment

Business investment is expected to record a year of exceptionally strong growth in 2003-04, underpinned by construction on a large number of major resource projects and strong activity in the non-residential building sector. This will mark the third consecutive year of growth after business investment declined in each of the three years to 2000-01.

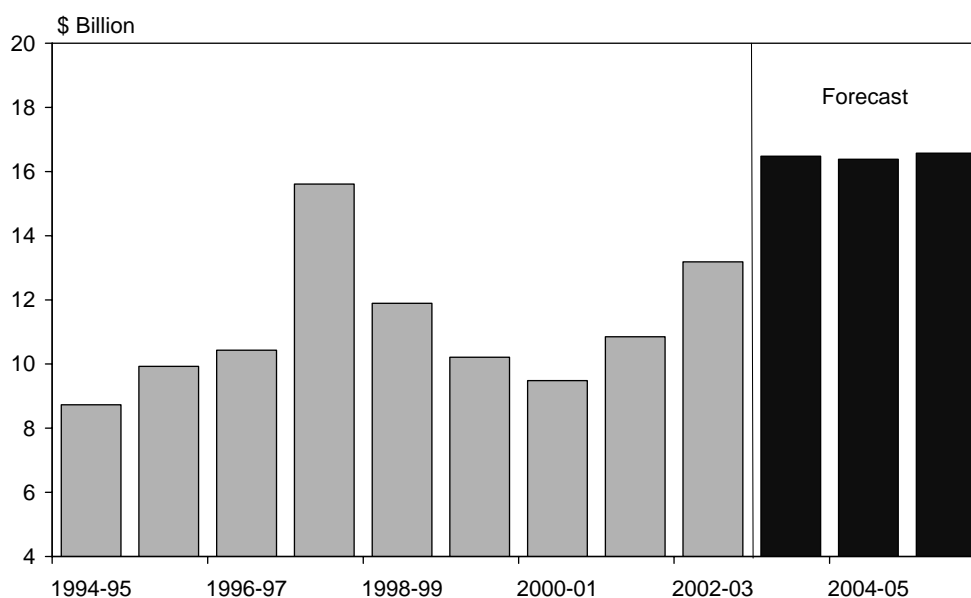
In part, the recent upswing in investment growth can be linked to the rapid pace of China's industrial expansion, which has resulted in very strong demand for a wide range of the State's resource commodities. Although demand in other major export markets has been more subdued, demand from China has been sufficiently high to prompt local producers to accelerate existing capital expenditure plans and announce a series of new capacity expansions.

Many other fundamental drivers of business investment have been supportive of growth. Interest rates remain low by historical standards, and despite a tightening of monetary policy by the Reserve Bank of Australia (RBA) in late 2003, the near term prospects of a significant rate increase appear to be remote. Moreover, business confidence in Western Australia appears to remain high and corporate profitability (at the national level) is growing at healthy rates. Importantly, current surveys of investment intentions also suggest that growth rates in new capital expenditure will be sustained for the remainder of 2003-04.

On this basis, it is estimated that business investment will grow by a substantial 25.0% in 2003-04, and contribute over four percentage points to growth in the State's economy. This would represent the highest growth rate in business investment¹ since GSP data for Western Australia first became available in 1989-90.

BUSINESS INVESTMENT IN WESTERN AUSTRALIA^(a)

Figure 2



(a) Chain weighted reference year for measure is 2001-02.

Note: Includes net purchases of second-hand public sector assets by the private sector. The most notable impact was the sale of the Dampier to Bunbury Natural Gas Pipeline for \$2.4 billion in 1997-98

The outlook for business investment in 2004-05 is for a consolidation of activity at existing levels. This reflects the high base of 2003-04, and that the decline in spending on projects scheduled for completion, including the 4th LNG train expansion on the North West Shelf, the Telfer Deeps gold mine expansion and the Hismelt pig-iron plant, will have to be offset by continued spending on existing projects and new spending on recently commenced projects.

Investment spending is expected to remain high for a number of existing developments, such as Burrup Fertilisers' ammonia plant, the Pinjarra alumina refinery expansion and the capacity upgrade to Rio Tinto's iron ore operations. The recent confirmation of several new projects, such as Woodside's Enfield oil development and BHP-Billiton's Ravensthorpe nickel mine will underpin investment on new projects in Western Australia over 2004-05.

Overall, business investment is forecast to decline by a modest 0.5% in 2004-05. Notwithstanding the projected decline, business investment in 2004-05 is projected to be around 70% higher than in 2000-01, and around 24% higher than in 2002-03.

¹ Excluding net purchases of second-hand public sector assets by the private sector.

Prospects for business investment in Western Australia over the longer term remain positive, with ongoing capital expenditure on recently committed projects expected to underpin investment in 2005-06. There are also a number of large developments in the pipeline, including a possible fifth LNG train on the North West Shelf and further upgrades to BHP Billiton's iron ore operations. Although there is some uncertainty over the likelihood of these projects proceeding, it is expected that current high levels of activity will be sustained in 2005-06. A moderate 1.25% increase in business investment is forecast for this year.

Dwelling Investment

Dwelling investment in Western Australia has been growing strongly for the past two years following the goods and service tax-induced downturn in 2000-01. In 2001-02, dwelling investment grew by 14.5%, followed by growth of 8.0% in 2002-03.

Partial indicators of dwelling investment are beginning to ease, with the recent increases in interest rates believed to be a key factor (the RBA has increased the target cash rate by a total of 50 basis points since November 2003). In this regard, new housing commitments and building approvals have all fallen in recent months.

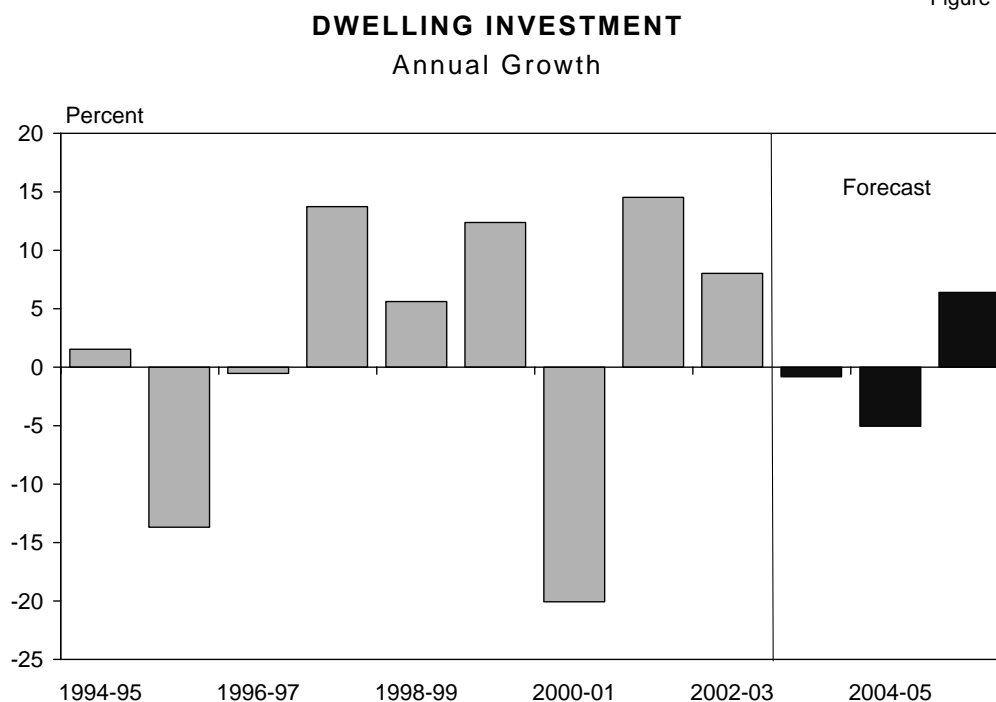
Despite the apparent drop off in demand for new dwellings, anecdotal evidence suggests that there is still a large amount of work in the pipeline yet to be started or completed, with the recent high level of activity leading to brick shortages and other supply-side constraints (notably for skilled tradespeople). The only leading indicator that has grown strongly in recent months is dwelling commencements. This is consistent with work in the pipeline moving into construction and points to sustained activity over the second half of 2003-04.

In the established home market, there are signs that Western Australia has passed the peak of activity in this growth cycle. According to the Real Estate Institute of Western Australia data, sales of established dwellings fell by 12.2% in the December quarter 2003, while the stock of properties available for sale jumped 54%.

Overall, dwelling investment in 2003-04 is expected to remain similar to the level in 2002-03. A modest fall of 0.75% is expected, with activity in both years limited by the number of dwellings the industry can produce at full capacity.

In 2004-05, the anticipation of further (albeit modest) interest rate rises is expected to dampen demand for new housing, although work yet to be started and currently in the pipeline could quite possibly flow into 2004-05. Reflecting the anticipated moderation in demand, dwelling investment is projected to decline by 5.0% in 2004-05. This is a relatively modest downturn when compared with previous corrections, such as the cumulative 22.8% decline over 1989-90 and 1990-91, the 13.7% decline in 1995-96 and the 20.1% decline in 2000-01.

Figure 3



For 2005-06, dwelling investment activity should rebound somewhat with moderate growth of 6.5% forecast. The main driver behind this pick-up is expected to be higher population stemming from a return to positive net interstate migration.

Public Activity

Public consumption, which includes the impact of changes in spending by the Commonwealth, State and local governments, is forecast to grow by 6.25% in 2004-05, after increasing by an estimated 2.5% in 2003-04. In 2005-06, public consumption spending is expected to taper off to growth of 1.0%.

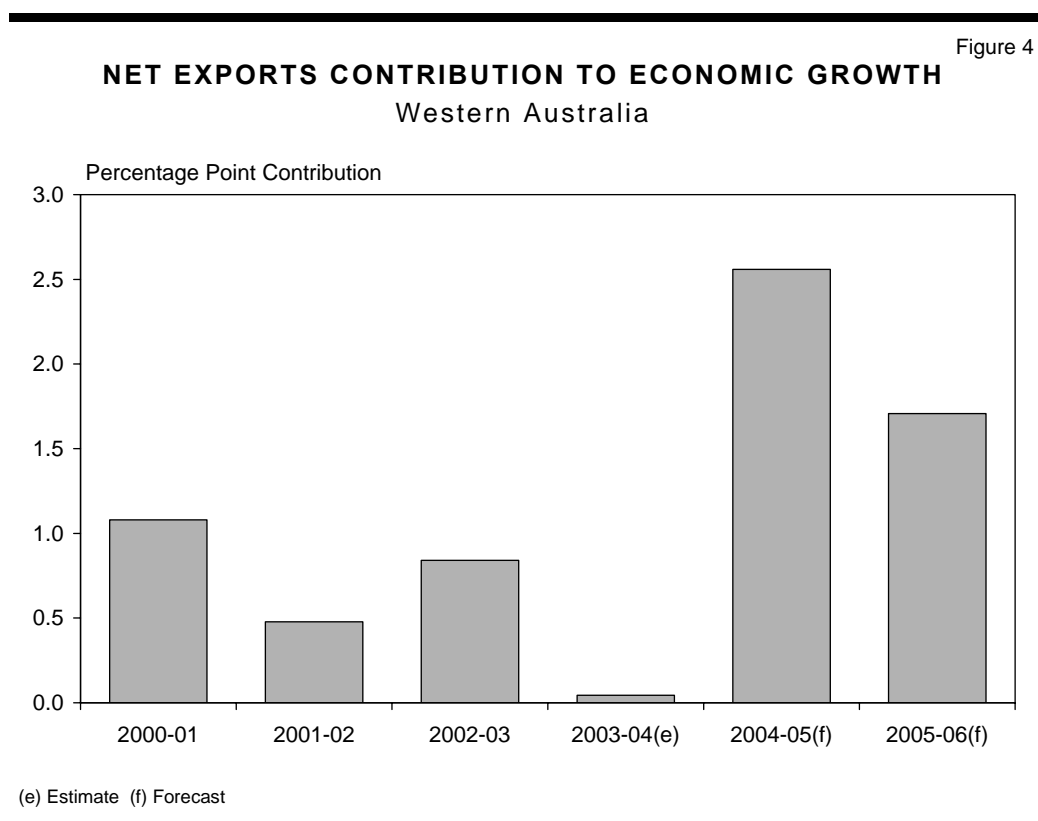
Public investment is inherently volatile as it tends to occur in sizeable and discrete lumps which coincide with major projects. Reflecting this, after increasing by a rapid 12.9% in 2002-03, public investment is expected to moderate to growth of 0.75% in 2003-04 and 0.5% in 2004-05, before falling by 5.0% in 2005-06.

A detailed analysis of the State component of public consumption and investment, on which these forecasts are partly based, is provided in Chapter 3: *Financial Projections – Expenditure*.

Net Exports

Net exports are forecast to make a modest contribution to economic growth in 2003-04. In contrast to most other States and Territories, merchandise exports in Western Australia have performed quite well over the past year despite a period of subdued global economic growth, the higher \$A and the lingering effects of the drought in 2002. In 2003-04, solid growth in exports is expected to offset another strong rise in imports, with net exports forecast to increase by 0.25% over the year.

In 2004-05, it is anticipated that net exports will be the key driver of economic growth in Western Australia. Merchandise exports are set to rise significantly as the current group of resource projects under construction reaches production and the international economy gathers momentum. At the same time, growth in imports is likely to temper in line with expectations of a moderation in domestic demand. Overall, net exports are expected to grow by 9.5% in 2004-05 and 6.25% in 2005-06.



Exports

Solid growth in real merchandise exports for Western Australia is forecast for 2003-04, notwithstanding the appreciation of the domestic currency and the lingering effects of the drought in the early part of the year.

This is, in part, due to a marked increase in the volume of gold exports (arising from a merger in the gold refining industry that led to a transfer of operations from the eastern States to Western Australia). However, it also reflects the expectation that a return to seasonal conditions will provide a significant boost to the State's agricultural exports. The Department of Agriculture in Western Australia estimates that the total value of the State's agricultural production will increase by around 35% in 2003-04. This incorporates expectations of a record wheat harvest of approximately 10.5 million tonnes, which should underpin a rise of around 20% in the value of agricultural exports over the year.

Despite a relatively subdued period of global economic growth, demand for many of the State's commodity exports has been quite strong, mainly due to the robust expansion in China's economy. As such, the modest growth in the volume of non-gold exports recorded in the first half of 2003-04 may reflect short-term supply constraints rather than insufficient demand. This view is consistent with the recent series of capacity expansions within the iron ore industry, which have had a focus on enhancing transport-related infrastructure, as producers attempt to service increasing demand from China.

Overall, the total volume of Western Australia's merchandise exports is forecast to rise by 3.25% in 2003-04, which is a strong performance in view of the 11.0% gain recorded in the previous year and modest conditions in many major markets.

In 2004-05, Western Australia's exports are forecast to accelerate significantly and become the key driver of growth in the State's economy. This reflects the ongoing recovery from the drought and the impact of the current expansionary phase in business investment, which should see production of resource commodities increase sharply.

In particular, exports of iron ore (the State's second largest export commodity) are set for a large rise on the back of recent capacity expansions in this industry. Underpinning this gain should be the recently completed Mining Area C iron ore mine (and associated rail and port infrastructure), and higher output from the West Angelas and Yandicoogina mines.

With the \$1.6 billion fourth train of the North West Shelf nearing completion, Western Australia's exports of LNG are also expected to rise substantially in 2004-05. This expansion should see production capacity increase by 4.2 million tonnes of LNG a year, on top of the 7.5 million tonnes per annum currently. Other projects likely to add to exports growth in 2004-05 include the HIsmelt pig-iron plant and the Telfer Deeps gold mine expansion.

On the basis of the expansions to productive capacity outlined above, and continued high demand for resource commodities (particularly from China), total merchandise exports in Western Australia are forecast to rise by a robust 8.25% in 2004-05.

Healthy growth in exports is expected to be maintained in 2005-06 as further production capacity comes on line. Specifically, the \$1.2 billion Dampier Port upgrade and Yandicoogina iron ore mine expansion will underpin growth, as will the Burrup Fertilisers ammonia plant, the Pinjarra alumina refinery expansion and the Mutineer Exeter oil well development. A solid 6.0% gain in the State's exports is forecast for this year.

Imports

A strong domestic economy is expected to fuel growth in imports in 2003-04, with robust levels of business investment and household consumption driving activity. Growth of 9.25% has been forecast for 2003-04, with the higher \$A also contributing to the higher demand for imported items.

This represents a moderation from the robust growth of 30.5% in 2002-03, but this was largely due to a one-off increase in the level of gold imports when refining activities were consolidated in Perth following a merger between Australian Gold Refineries and Johnson Matthey. In addition, over 2002-03, many resource projects reached an import intensive phase, which underpinned the strong result.

Growth in imports is expected to moderate further in 2004-05 (to 6.0%), as various import intensive business investment projects reach completion. New projects that are anticipated to begin this year are not expected to reach their import intensive stage until 2005-06, which should see import growth maintained at 6.0%.

Labour Market

Employment

Employment growth in Western Australia is forecast to ease to 1.75% in 2003-04, after reaching 2.5% in 2002-03. Employment growth was relatively flat over the first half of 2003-04, with strong growth in full-time employment of 1.2% (the largest component of employment) almost completely offset by a decline in part-time employment of 2.4% over this same period. However, employment growth is expected to pick-up in the second half of 2003-04, in line with the strengthening Western Australian economy.

Steadier employment growth in 2003-04 appears to reflect the change in composition of the workforce (towards full-time employment) and, despite demand, an apparent shortage in skilled tradespersons and professionals.

Employment growth is forecast to return to a more robust level of 2.25% in 2004-05, facilitated by an anticipated pick-up in labour force growth. The recent strength of wages growth (see below), together with plentiful job opportunities in Western Australia, is expected to lead to higher labour force growth which should be sufficient to satisfy labour demand in 2004-05.

Employment growth is forecast to be maintained at Western Australia's long-run average of 2.25% per annum over the outyears. As in 2004-05, demand for labour is expected to be met from interstate migration and higher participation led labour force growth.

Unemployment

The unemployment rate is forecast to average 6.0% in 2003-04. This is slightly below the unemployment rate of 6.2% in the September quarter 2003 and 6.1% in the December quarter 2003, and reflects the anticipated strengthening in employment growth in the latter half of the year.

Unemployment is forecast to decline to, and remain steady at, 5.75% over the forward estimates period. Employment growth over this period is expected to be offset by an increase in the working population and, as such, is not expected to result in a large reduction in the unemployment rate.

Prices

Consumer Price Index

Consumer price growth is expected to remain relatively subdued over the near term, largely driven by the dampening effects of the recent appreciation of the \$A. For 2003-04, the Perth consumer price index (CPI) is estimated to increase by 2.25%, which is in line with the national trend.

Reflecting the continued flow through from the recent appreciation of the \$A, the CPI is forecast to moderate further to 2.0% in 2004-05. However, partly reflecting the standard forecasting assumption of an unchanged \$A over the forecast period, the CPI is forecast to increase by 2.5% in 2005-06 as the deflationary impact of the appreciation of the \$A in 2003-04 fades. Importantly, the CPI forecasts are well inside the Reserve Bank of Australia's target range of 2% to 3% per annum.

Wages

Wages have grown strongly over the past two years, with relatively tight labour market conditions in the State leading to above long-run wages outcomes. Wages growth, as measured by the wage cost index, increased by 3.7% in 2002-03 and is forecast to grow by 3.75% in 2003-04.

The wage cost index is forecast to moderate to 3.25% in 2004-05 and the outyears, as an anticipated increase in labour force growth alleviates pressure on wages.

Implicit Price Deflator

Modest growth in the implicit price deflator² (IPD) of 1.75% is expected for 2003-04, with the appreciation of the domestic currency placing significant downward pressure on the price of tradeables. The recent appreciation of the \$A is also flowing through to domestic prices, but this is expected to be partially offset by price increases for housing materials and dwelling construction.

In 2004-05, growth in the IPD is forecast to strengthen to 2.25% as the deflationary impact of the \$A diminishes (despite consumer price growth moderating), and as commodity export contract prices rise in response to higher \$US spot prices.

Regional Economies

Western Australia's regions are set to record strong growth in 2003-04, with activity in agricultural areas likely to post the largest gains following the rebound from the drought in 2002. As noted earlier, the Department of Agricultural in Western Australia has forecast strong growth in agricultural production and exports in 2003-04.

The Wheatbelt, Great Southern and the Mid-West regions, which have large agricultural industries, are expected to record among the highest growth rates in Western Australia in 2003-04. Some moderation in growth in these regions is anticipated for 2004-05, as growth will no longer be boosted by the recovery from the drought. Nevertheless, overall growth should remain robust.

In general terms, those regions with large retail centres such as the South West (Bunbury), the Mid West (Geraldton) and the Great Southern (Albany) will benefit from above trend growth in private spending in 2003-04. Continued strength in tourism should add to private consumption growth in these regions, particularly in the South West and the Great Southern regions. The tourism sector is also expected to play a key role in the Gascoyne and the Kimberley regions, although growth in international tourism could be tempered by a continued appreciation of the \$A or the advent of serious geopolitical events.

The Peel region in Western Australia is forecast to record solid growth in both 2003-04 and 2004-05. The Perth-to-Mandurah railway line should create significant new economic opportunities in the Peel region and facilitate higher growth in dwelling investment and consumption. Output in the Peel region will also be supported by the \$400 million Pinjarra alumina refinery expansion.

The surge in activity in the resources industry is likely to result in significant economic benefits in the Pilbara over the medium term. In particular, the 4th LNG train expansion on the North West Shelf, various capacity expansions in the local iron ore industry, and the Telfer gold mine expansion should result in a substantial rise in production and export income in 2004-05.

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

The resources sector is also providing important economic benefits in the Mid West and Goldfields-Esperance regions, with high levels of activity currently evident due to strong demand from China and buoyant \$US commodity prices. The recently completed Mount Gibson iron ore mine and Geraldton port upgrade should facilitate growth in the Mid-West, while signs of a tentative recovery in exploration expenditure may be an important factor supporting activity in the Goldfields-Esperance region.

Perth is likely to be a key beneficiary of growth in Western Australia's non-farm sector in 2003-04. Although a very high level of business investment activity is being undertaken in the North West of the State, a large proportion of this construction workforce resides in the Perth metropolitan area³. Perth is also likely to accrue large benefits from the healthy levels of private spending and the buoyant housing market.

International Conditions

As a small, trade dependent economy, Western Australia is heavily influenced by conditions elsewhere in the world. This section details the outlook for the international economy on which the forecasts for the Western Australian economy are based.

The world economy has shown signs of strengthening in recent months, with the world's two largest economies, the United States and Japan, showing signs of continuing their respective recoveries.

China, however, remains the most important market for the State, growing rapidly in importance as a trading partner. Most recent official figures show that China's economy grew by 9.1% in 2003, its fastest rate in five years. This growth has fuelled demand for resource commodities, driving business investment in, and exports from, Western Australia. While it has been reported that the Chinese Government is attempting to slow its economy to more sustainable levels of growth, the forecast is that demand for Western Australia's exports will continue, with the signing of several major supply deals with China indicating that demand is not likely to subside in the short term. The rest of Asia also looks to be growing strongly, also benefiting from the current strong demand from China.

³ Due to data limitations, economic activity by region is calculated according to employment by industry and principal place of residence. This is different to GSP, which allocates to production according to the State where activity took place.

While the recovery in the United States is yet to fully flow through to employment, gross domestic product (GDP) increased by an estimated 4.1% (in annualised terms) in the December quarter 2003, taking annual average growth to its highest level in three years. While consumer spending (boosted by tax cuts and low interest rates) has been the major driver of growth to date, there is some indication that business investment is also showing signs of a recovery. Manufacturing, one of the hardest hit industries over the past three years, is also showing signs of a sustained upturn, aided by the more competitive \$US. While there have been some concerns surrounding the fact that the economic recovery has not been reflected in the labour market in the United States, there are now early signs that improved economic activity is flowing through to jobs.

In Japan (still Western Australia's largest export destination), the news is also positive, with the country's central bank confirming in its most recent report that the economy's gradual recovery is continuing and is now extending into personal consumption. Business investment is also beginning to strengthen, although exports remain the key driver of growth. Business confidence levels are high, buoyed by the outlook of strong demand from China and the United States. A major concern has been the rapid appreciation of the Yen in recent times, but recent intervention by authorities has managed to contain its rise to date.

The European Union (EU) has not shared the strong growth occurring elsewhere, with only modest gains reported across the region. There is some concern that growth may continue to be sluggish in the near-term. However, because the EU is a much smaller export market for Western Australia than Asia or the United States, any direct impacts from this are likely to be limited.

Risks to the Outlook

International Conditions

While the outlook for the international economy is more positive than it has been for some time, the still tentative nature of the upturns in the United States and Japan indicates that the world's two largest economies remain vulnerable to any negative shocks. Deflation and the appreciation of the Yen continue to concern authorities in Japan. In the United States, there is a concern that there would be no capacity to adjust its monetary stance in response to any adverse shocks on the economy (given that the official interest rate is only 1.0%). At the same time, growth in Europe remains weak.

There is always a risk that an economy growing at the rapid pace China has experienced recently will overheat. However, the Western Australian exposure to such an overheating is mitigated, in part, by the use of long-term supply contracts, as is the case with gas exports. Furthermore, the Chinese Government has recognised a risk that the economy may overheat and has indicated a desire to rein in growth to a more sustainable 7.0%.

Unforeseen external shocks remain a significant risk to the international economy. The continued threat of terrorism, highlighted by the recent bombings in Spain, and the impact of the outbreak of SARS in 2003, are reminders of this vulnerability.

Interest Rates

Interest rates are assumed to remain at current levels over the forecast period. While this is in accordance with established forecasting practice, any significant increase in interest rates would have the potential to impact on the economy. The immediate effects of any rise would most likely to be experienced in household consumption and dwelling investment. Additionally, an increase in interest rates is often linked to an appreciation of the \$A, which, as discussed below, could impact on our export competitiveness and hence business investment attractiveness.

The Australian Dollar

Consistent with accepted forecasting practices, the \$A is assumed to remain at around the budget forecast of \$US0.76 over the forecast period. There is however some risk that a further appreciation might occur.

To this point, the recent appreciation of the \$A appears to be accompanied by higher \$US commodity prices and, as a result, \$A commodity prices have been relatively stable. However, a major risk to the State's economy is a rise in the \$A without a corresponding rise in commodity prices. As a higher \$A will reduce the profitability of projects under consideration, this could effect future investment and exports.

Wages

There is a risk to the economic outlook if wages growth exceeds the levels forecast. In this regard, there is some evidence of labour shortages, particularly for skilled trades people and professional labour. This could lead to pressure for substantial wage raises to those groups, potentially reducing Western Australia's attractiveness as an investment destination.

The Budget forecasts assume that an increase in labour supply, led by a turn around to positive net interstate migration and increased participation, will address the current shortages. However, if the net interstate migration factored into the forecasts is not be realised, there could be further upward pressure on wages.

CHAPTER 6

Federal Affairs

Overview

The major development in 2003-04 was the release by the Commonwealth Grants Commission of its recommendations for a revised allocation of GST grants among the States. These were ratified at the annual Ministerial Council meeting of Commonwealth and State Treasurers in March 2004, resulting in a \$231 million increase in Western Australia's share of Commonwealth grants in 2004-05.

While this correction in Western Australia's grant share is welcome, and reflects the Grants Commission's re-assessments in a number of areas of State activity, significant problems remain with the Commission's process. Important amongst these shortcomings is the disincentive for the States to support economic development.

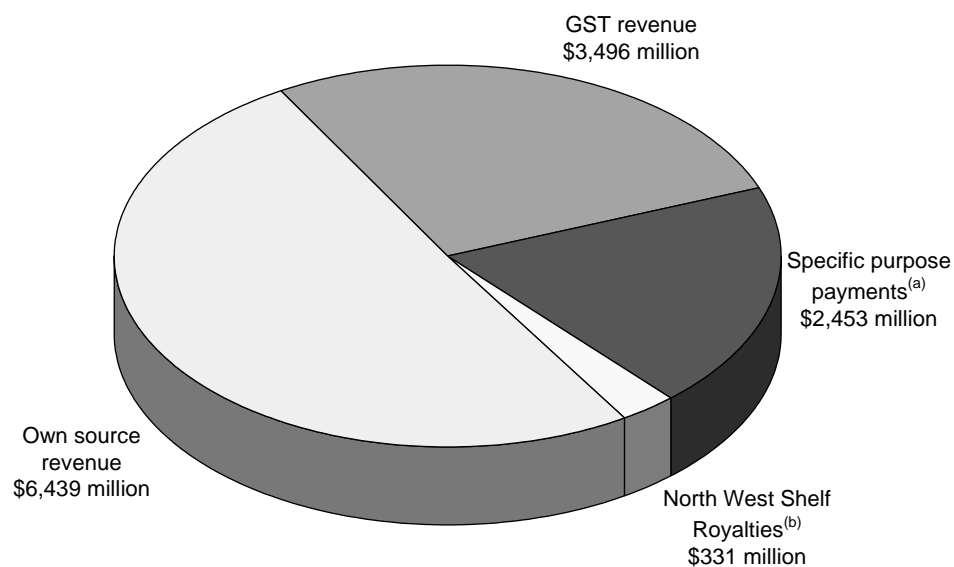
Also of significance in 2003-04 is that this is now expected to be the first year in which there will be net financial gains to Western Australia from the GST funding arrangements. This is a year earlier than previously forecast, and reflects faster than expected growth in the Australian economy and GST collections.

While the outlook for GST related grants has improved, urgent changes are needed to specific purpose payment arrangements (SPPs). The Commonwealth has continued to impose more onerous conditions that have little regard for States' individual circumstances, or the outcomes to be achieved. During 2003-04, States were forced to sign new five year Australian Health Care Agreements which provided reduced Commonwealth support for public hospitals and less flexibility for States to allocate funds across different areas of the health system, while also failing to tackle urgently needed reforms in areas of overlapping responsibilities.

Overall, Commonwealth grants to the States in 2004-05 will total approximately \$59 billion (around half of the States' total revenues), mainly comprising \$34 billion in GST grants and \$24 billion in SPPs. Western Australia will receive around \$5.9 billion or 10.0% of total Commonwealth grants in 2004-05 (excluding North West Shelf petroleum royalties), which approximates its 9.9% national population share and is up 11.2% from 2003-04.

WESTERN AUSTRALIAN GOVERNMENT REVENUE SOURCES
2004-05

Figure 1



(a) Includes payments 'to' and 'through' the State (see later section on SPPs) and competition payments (see chapter 7).

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

The Commonwealth Grants Commission's 2004 Review

Horizontal Fiscal Equalisation

GST revenues are distributed among the States according to recommendations by the Commonwealth Grants Commission, using the principle of horizontal fiscal equalisation (HFE).¹ The aim of HFE is to enable each State to provide the same standard of services, if it makes the same effort to raise its own revenues.

¹ Strictly speaking, only the GST is allocated according to HFE principles. However, in order to fully implement the HFE principle, the distribution of the GST takes into account the distribution of most SPPs, which effectively extends the reach of HFE to these SPPs.

HFE takes into account the different costs faced by State governments in providing services and States' different capacities to raise revenues from their own sources. Grants are allocated to offset these differences, to the extent that they can be identified and are due to unavoidable factors (for example high cost remote communities) rather than differences in State policies (or efficiency of service delivery).

The Grants Commission updates its calculation of State grant shares annually, using the latest available data (e.g. on State revenue bases and the composition of State populations). In addition, every five years the Grants Commission undertakes a major review of the methods it uses to implement fiscal equalisation. The Grants Commission completed its latest review in February 2004.

The Grants Commission process is highly technical, involving detailed examination across a wide range of government activities and the exercise of considered judgement by the Commission. In the course of the review, Western Australia provided extensive comments on the existing methods in a series of written submissions, and participated in a number of national conferences of State Treasuries, hosted by the Grants Commission, to discuss proposed directions in revising its methods. The Grants Commission also twice visited Western Australia, including a week long visit in 2002 to meet with representatives from State agencies in Perth, Mandurah, Karratha/Burrup Peninsula, Jigalong, Kalgoorlie and Katanning. These locations were chosen to illustrate the State's high expenditure needs for various services.

Western Australia raised many issues with the Grants Commission in this review, including the need to better reflect the State's economic development needs, its high costs in providing infrastructure for a fast growing population, and the high cost of providing services to Indigenous communities and remote areas.

Outcome of the 2004 Review

The Grants Commission's 2004 Review report recommended an increase in Western Australia's annual funding share of around \$231 million, or \$117 per person, following ten years of accumulated losses. As shown in Table 1, Queensland also gained in the 2004 Review, while other States' shares were reduced.

Table 1

**GENERAL GOVERNMENT IMPACT OF GRANTS COMMISSION
RECOMMENDATIONS (2003-04 TERMS) ^(a)**

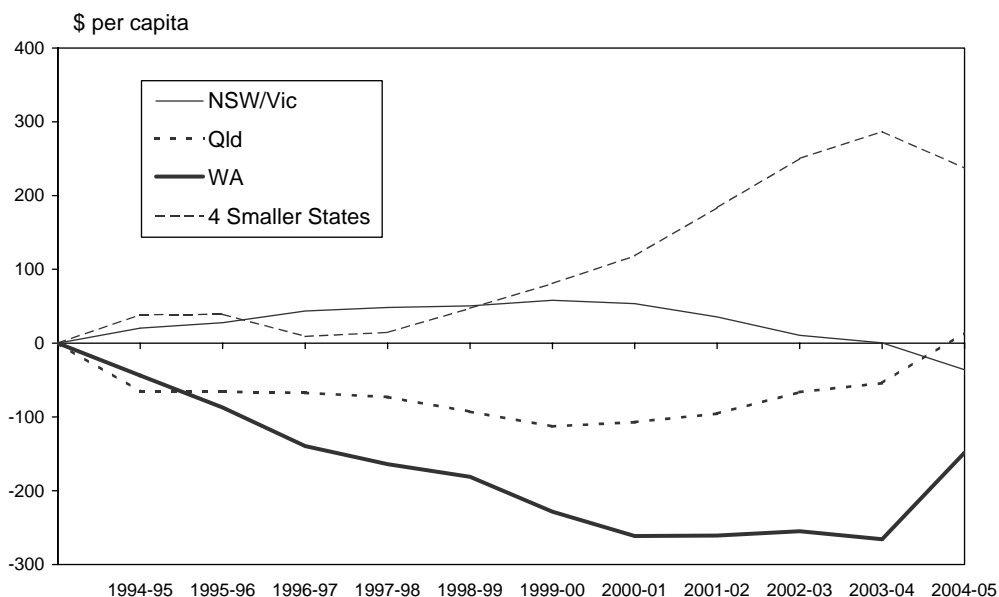
	2004 Review		1994 – 2004	
	\$m	\$ per capita	\$m	\$ per capita
New South Wales	-317	-47	-378	-56
Victoria	-51	-10	+15	+3
Queensland	+263	+69	+55	+14
Western Australia	+231	+117	-292	-148
South Australia	-26	-17	+175	+114
Tasmania	-38	-80	+173	+364
ACT	-13	-41	+139	+427
Northern Territory	-48	-240	+113	+571

(a) Based on changes in financial assistance grant (FAG) shares in the first ten years, and changes in GST shares for the 2004 Review. New South Wales is the only State that still expects to receive budget balancing assistance (see next section on Developments in GST Funding Arrangements) in 2004-05 (when the 2004 Review outcome applies), and its change in grants for 2004-05 will accordingly be based on the change in its FAG share (a reduction of \$376 million).

Western Australia’s annual losses in the previous decade totalled \$523 million.² Accordingly, Western Australia’s funding share remains well down on past levels (see Figure 2). This mainly reflects the rapid growth in the State’s royalties (particularly from the North West Shelf project), which has resulted in a redistribution of grants to other States with weaker revenue growth.

IMPACT OF GRANTS COMMISSION RECOMMENDATIONS
Cumulative Per Capita Gains/Losses Since 1993-94

Figure 2



Source: Department of Treasury and Finance estimates using Commonwealth Grants Commission data.

At the March 2004 Ministerial Council meeting of Commonwealth and State Treasurers, the Commonwealth Treasurer agreed to implement in full the Grants Commission’s recommendations in 2004-05.

Major Changes

The increase in Western Australia’s share of grants is the net result of method changes and data updates in many areas of the Grants Commission’s assessments. In a number of cases, the changes address concerns expressed by the State to the Grants Commission over a number of years.

Major gains for Western Australia included:

- a revised methodology for assessing States’ capacity to raise mining royalties, which has reduced the negative impact on Western Australia’s grant share from its large mining industry (+\$114 million);

² This comprises aggregate annual cuts of \$374 million announced by the Grants Commission over this period, escalated for the impact of inflation and population growth.

- increased allowances for the cost of providing services in Western Australia, including social capital (+\$104 million), roads maintenance (+\$73 million), electricity and water subsidies (+\$63 million), services to dispersed communities (+\$49 million) and services to indigenous communities; and
- discontinuation of the past practice of treating Commonwealth own-purpose expenditures on indigenous communities as reducing States' expenditure requirements (+\$50 million).

Not all changes worked in Western Australia's favour. Major losses for the State included reduced allowances for:

- relative wages, electricity and accommodation costs (-\$202 million) — in particular, the Grants Commission has now judged that Western Australia's public sector wage costs should be around 2% below the States' average (excluding policy differences across States), whereas the previous methodology had assumed that Western Australia's wage costs were above the States' average; and
- diseconomies of small scale (-\$37 million) — these diseconomies arise from the higher cost of providing services in small remote communities (e.g. remote schools have higher costs due to small class sizes) and the higher cost of providing head office type functions for small State populations (reflecting that these relatively fixed costs are shared over a smaller population base).

Continuing Deficiencies

Although a significant improvement, it is considered that the new Grants Commission methods still don't address the following issues:

- HFE in its current guise reduces incentives for States to encourage economic development, as the revenue benefits from economic growth are shared among the States through adjustments to grant shares, while many of the costs States incur in supporting economic development (such as common-use infrastructure for industrial developments) remain unrecognised; and
- a number of other costs have also not been fully recognised, including the high cost of providing health services in remote areas due to the lack of private practitioners, the greater needs of Western Australia's Indigenous people compared to other States, and the costs the State faces in addressing the lower levels of services in regional and remote areas.

Future Work Program

In its 2004 Review report, the Grants Commission expressed support for broader reviews of the 'financial architecture of the federation', and the principles and objectives of HFE.

While these proposals have not received wide support from governments, the March 2004 Ministerial Council meeting of Treasurers did agree to a forward work program (as recommended by the Grants Commission) to review issues concerning the complexity of the Grants Commission's processes, and the reliability and comparability of the data it uses. However, this work program will not examine the underlying principles of HFE. The work program will be overseen by Heads of Treasuries, with input from the Grants Commission and other parties.

Developments in GST Funding Arrangements

Under the *Intergovernmental Agreement on Reform of Commonwealth-State Financial Relations* (IGA) that accompanied the introduction of the GST, the Commonwealth agreed to pass all of its GST revenue collections to the States in the form of general purpose grants (distributed on the basis of the Grants Commission's recommendations), to replace the previous financial assistance grants to States, and finance the abolition or reduction of a range of State taxes.

The IGA also provides for budget balancing assistance, as necessary, to 'top up' GST payments to the States on the premise of ensuring that no State's budget is worse off as a result of the GST-based tax reforms. The budget balancing assistance grants make up the shortfall between:

- the GST revenues passed on by the Commonwealth to the States; and
- the Commonwealth financial assistance grants and State taxes foregone as a result of tax reform, after also allowing for new State expenditure responsibilities under the IGA (the First Home Owners Scheme and GST administration costs).

Western Australia is not expected to need budget balancing assistance in 2003-04 or subsequently, as a result of higher than expected growth in GST revenues in the last two years.

Benefits of Tax Reform

Table 2 shows the financial impact on each State of the GST funding arrangements, compared with a continuation of pre-tax reform arrangements. The table is based on methods agreed under the IGA. The negative impacts in some instances reflect the Commonwealth's unilateral decision in 2002 to cease compensating States, through 'top-up' grants, for the inflation component of petroleum safety net revenues.

Table 2

ESTIMATED FINANCIAL IMPACT OF TAX REFORM									
	NSW	VIC	QLD	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2000-01	0	0	0	0	0	0	0	0	0
2001-02	0	0	0	0	0	0	0	0	0
2002-03	-42	-30	+51	-18	-10	-4	-2	+7	-48
2003-04	-62	-44	+309	+50	+12	+34	+20	+77	+396
2004-05	-82	+15	+447	+111	+44	+47	+26	+82	+690
2005-06	-98	-42	+266	+61	+32	+40	+23	+81	+363
2006-07	+33	+132	+425	+134	+90	+64	+35	+85	+998
2007-08	+307	+344	+606	+236	+152	+83	+52	+89	+1,869
2008-09	+634	+578	+781	+338	+216	+101	+68	+89	+2,804
2009-10	+958	+788	+996	+451	+292	+129	+86	+112	+3,812

Note: This table includes the abolition of Debits Tax from 1 July 2005, (as now agreed by all States) but does not take into account the potential abolition of a range of business stamp duties, the ongoing need for which is to be reviewed by the Ministerial Council of Treasurers in 2005.

Source: Based on parameters agreed by Heads of Treasuries when the GST was introduced, and the latest Commonwealth estimates of national GST collections, consistent with the Commonwealth's December 2003 *Mid-Year Economic and Fiscal Outlook*.

The financial gains from the GST are markedly reduced in 2005-06, due to the scheduled abolition of debits tax from 1 July 2005, which was confirmed by all jurisdictions at the March 2004 Ministerial Council meeting of Commonwealth and State Treasurers. Financial Institutions Duty and stamp duty on listed marketable security transactions have already been abolished.

The IGA also stipulates that the Ministerial Council will, by 2005, review the need for retaining stamp duties on non-residential conveyances, unlisted marketable security transactions, leases, mortgages, credit/rental arrangements and cheques (agreement to the review was reaffirmed at the March 2004 meeting of the Council). Table 2 does not include the impact of abolishing the taxes to be reviewed. Abolishing all these taxes will impact on the States' ability to improve services to the community. An agreed aim of the IGA was to ensure that States would be financially better off under the new arrangements.

As part of its Review of State Business Taxes, the Western Australian Government has already abolished (or legislated to abolish) some of the taxes to be reviewed by the Ministerial Council, as set out in Table 3.

Table 3

ESTIMATES OF TAXES UNDER REVIEW
Western Australia

	2003-04
	\$m
Taxes abolished (or legislated to be abolished) under the Review of State Business Taxes ^(a)	
Lease Duty	13.2
Cheque Duty	6.0
Unlisted Securities Duty	8.0
Remaining IGA taxes	
Non-Residential Conveyance Duty	n.a.
Mortgage Duty	107.0
Rental Duty	27.0

(a) Full year amounts.

Source: Review of State Business Taxes and Department of Treasury and Finance.

Specific Purpose Payments

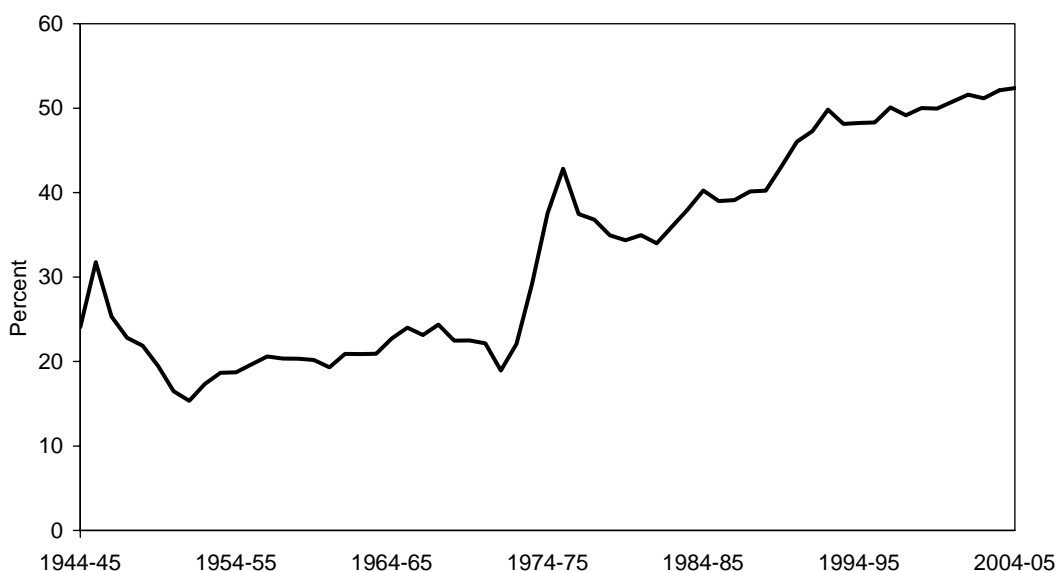
SPPs are grants from the Commonwealth to the States for specified activities, and with conditions attached to their use that are usually set out in individual agreements. Distinctions are made between:

- SPPs ‘to’ the State, that support specific areas of State responsibility;
- SPPs that are on-passed ‘through’ the State to local governments and private schools; and
- North-West Shelf royalty payments (which are reported in Government Finance Statistics as SPPs because of the Commonwealth’s constitutional jurisdiction over offshore areas).

Over the years SPPs have become a substantially larger component of Commonwealth grants to the States (and therefore of total State revenues).

Figure 3

**SPPS AS A PROPORTION OF TOTAL PAYMENTS
TO THE STATES**



Note: Data from 200-01 to 2004-05 are adjusted to enable comparison on a consistent basis between pre and post-GST years.
Source: Commonwealth's Final Budget Outcome and Commonwealth Budget papers.

In 2004-05, Western Australia expects to receive around \$1.8 billion in SPPs 'to' the State, representing a nominal increase of 7.0% compared with 2003-04 (driven by substantial growth in road programs).

Although there are around 100 SPPs, the majority of SPP funding is provided in the core areas of health, education and training, roads, housing and disabilities. These SPPs to Western Australia are expected to account for 77% of all SPPs 'to' the State in 2004-05.

Table 4

**SPECIFIC PURPOSE PAYMENTS
'TO' WESTERN AUSTRALIA**

	2003-04 Estimates		2004-05 Forward Estimates	
	\$m	Percent of total SPPs 'to' WA	\$m	Percent of total SPPs 'to' WA
Australian Health Care Agreement	729.9	44.0%	770.0	43.4%
Government Schools	201.5	12.1%	207.7	11.7%
Australian National Training Agreement	105.9	6.4%	106.0	6.0%
Road Programs ^(a)	49.2	3.0%	97.3	5.5%
Home and Community Care	68.4	4.1%	75.2	4.2%
Commonwealth-State Housing Agreement	69.6	4.2%	70.5	4.0%
Commonwealth-State/Territories Disability Agreement	44.3	2.7%	45.4	2.6%
Other ^(b)	390.9	23.6%	404.1	22.8%
Total SPPs	1,659.7	100%	1,776.2	100%

(a) Includes the Road Safety Blackspots Program, but excludes the Interstate Road Transport Program.

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

Note: Columns may not add due to rounding.

The distribution of individual SPPs between the States is based on a variety of arrangements, including population shares, historical shares, Commonwealth discretionary allocations and various formulae that attempt to reflect relative costs or demand. In 2004-05, Western Australia expects to receive 9.8% of total Commonwealth SPPs 'to' States (compared with Western Australia's 9.9% share of the national population).

SPPs Monitoring Report

The Intergovernmental Agreement (IGA) on GST-related tax reforms refers to the Commonwealth's intention not to cut aggregate SPPs as a result of tax reform, consistent with the objective of the IGA that State governments should be financially better off under the new arrangements.

In an annual report to the Ministerial Council (coordinated by Western Australia), States monitor the level of SPPs against a benchmark based on the 1999-2000 level of SPPs, adjusted for inflation and population growth. The Commonwealth has to date met its commitment against this benchmark.

However the 'real per capita maintenance' benchmark is not considered to be a realistic indicator of the increasing demands on States in areas covered by SPPs. Costs and demands for core State social services have grown much faster than inflation and population, particularly in the health sector.

Furthermore, total growth in State revenues (from State taxes, the GST and SPPs) hasn't been enough to maintain States' revenues as a share of either national revenues or GDP. Over the period of the latest SPPs analysis (1999-00 to 2004-05), States' total revenues as a share of GDP are forecast to decline from 14.5% to 13.4% of GDP. Accordingly, GST revenues should not be considered to be providing sufficient growth revenue to allow any reduction in SPP funding.

Developments in Major SPPs

Australian Health Care Agreements

The Australian Health Care Agreements (AHCAs) are the agreements through which the Commonwealth contributes towards the provision of public hospital services. Under the AHCAs, the Commonwealth and States agree that public hospital services should be available to public patients free of charge, and Australians should have equitable access to public hospital services regardless of where they live. For Western Australia, AHCA funding comprises about 35% of the State's total expenditure on hospital services, and about 25% of the State's expenditure on all health services.

The current five year agreements cover the period 1 July 2003 to 30 June 2008. Western Australia, along with most other States, signed the new agreement just before the end of the Commonwealth's deadline of end-August 2003. The Commonwealth had indicated little willingness to negotiate on its funding offer, and had threatened to impose financial penalties on any State that delayed signing.

Under the new AHCAs, the States receive less funding than they would have under a continuation of the previous AHCAs, and face additional conditions. In particular, States are required to provide more detailed performance reporting and to match the growth rate in Commonwealth funding to be eligible for their full funding entitlement from the Commonwealth.

The Commonwealth was not prepared to tackle reform issues of concern to the States within the AHCA negotiations — particularly the reduced accountability and cost shifting resulting from the current delineation of Commonwealth and State funding responsibilities for primary care, aged care and public hospital services.

Salinity Management

The State has agreed to match the Commonwealth Government's \$158 million offer under the National Action Plan on Salinity and Water Quality. This funding will provide programs to protect the State's biodiversity, agricultural resources, and water supplies.

Negotiations with the Commonwealth were difficult and prolonged, largely due to the offer being made conditional on the State matching Commonwealth funds with new salinity expenditure. This effectively penalises Western Australia, as it takes no account of its relatively high existing effort, with recent expenditures on salinity management of up to \$40 million per annum.

Under the bilateral agreement with the Commonwealth Government, Western Australia has already reached agreement on \$31.4 million of matching funding. The balance of \$126.6 million will comprise the following budget allocations over the period 2004-05 to 2007-08:

- \$79.4 million for the implementation of accredited regional Natural Resource Management strategies;
- \$15.0 million for the recovery of the Collie River and Wellington Reservoir; and
- \$32.2 million for plantation forestry.

AusLink Proposal

In 2002, the Commonwealth Minister for Transport and Regional Services launched the Commonwealth's Green Paper *AusLink –Towards the National Land Transport Plan*. AusLink aims to develop an integrated network of land transport links (road and rail) within corridors of strategic importance to the nation. It would include amalgamating the Commonwealth's various land transport funding programs into a single program.

All States and Territories have made submissions to the Commonwealth on the Green Paper, and are generally supportive of the Commonwealth's initiative. However, the States share concerns about:

- withdrawal of Commonwealth funding for the National Highway Network;

- the apparent focus on land freight at the expense of urban passenger transport, and seaports and airports; and
- lack of clarity regarding the responsibilities of the three tiers of government.

The Commonwealth is expected to release details of the Auslink program in its 2004-05 Budget.

Australian National Training Authority Agreement

Funding for vocational and educational programs is provided to States under the Australian National Training Authority (ANTA) Agreement. Negotiations for the 2004-2006 ANTA Agreement broke down at the end of 2003, primarily due to:

- disagreement over growth in funding offered by the Commonwealth; and
- infrastructure funding being made conditional on adherence to the National Code of Practice for the Construction Industry, as well as the associated Commonwealth implementation guidelines (which the States have never agreed to).

In December 2003, the Commonwealth Minister for Education, Science and Training issued States and Territories an ultimatum to accept the Commonwealth offer or face financial penalties. All States refused, expressing a preference, if issues could not be resolved, to roll-over the 2001-2003 Agreement for a further year while negotiations continued on a new agreement. This was agreed by the Commonwealth.

Schools Grants

Commonwealth SPPs currently contribute about 10% of total government funding for Western Australia's public schools. (The Commonwealth also provides funding support for private schools.)

In March 2004, the Commonwealth Minister announced that existing indexation arrangements for funding State public schools would be maintained over the next four years. However, the Commonwealth is also proposing to introduce new conditions, including a requirement for States to grow their own funding for public schools by at least the rate of inflation, and to commit to new performance and policy measures.

Reform of SPPs

Issues with SPPs

Through SPPs the Commonwealth now has substantial influence in many areas that are Constitutionally the States' responsibility. States have to meet conditions to qualify for the payments, which not only control the use of the Commonwealth funds but also often how the States spend their own revenues. For example, many SPPs require maintenance of State funding or dollar for dollar matching.

These conditions have tended to become more onerous over time, and apply even where the Commonwealth may only make a minority contribution to the total program (as in the areas of training and disability services). This enables the Commonwealth to override State policy choices to a degree that exceeds what is needed to reflect any national interests, and ignores that States are often better placed (through their experience in providing services, and closeness to their communities) to determine priorities.

There is broad consensus among the States and many commentators that SPP arrangements need to be refocused on community outcomes rather than inputs, and to provide States with more flexibility to meet community needs. To this end, all States have adopted a set of Best Practice Principles and Guidelines for Specific Purpose Payments as the basis for new SPP negotiations. The Commonwealth has not adopted these guidelines, but has expressed some support for a more outcome-oriented approach.

Western Australia continues to play a lead role in seeking SPP reforms, at the annual Ministerial Council of Treasurers meetings and through the Heads of Treasuries forum.

Budget Flexibility Exercise

Members of the Heads of Treasuries SPPs Working Group are developing a report that will provide evidence of the impact SPP conditions have on State budgets. In particular the report will look at:

- the proportion of State budgets that is controlled by SPPs;
- the appropriateness of retaining State matching and maintenance of effort requirements in SPP agreements; and
- in cases where matching-type conditions are retained, how these provisions can be redesigned in order to provide greater State budget flexibility and avoid perverse incentives.

Inter-State Redistribution of Resources by the Commonwealth

Fiscal transfers between the States are usually seen in the context of the distribution of Commonwealth grants between the States. Particular attention has been focused on the GST. The process of HFE governs the distribution of GST grants between States. This is significantly different from the State of origin of GST paid to the Commonwealth. In this context, 'State of origin' refers to the location of the economic activities generating the GST liabilities to the Commonwealth, rather than the locations at which GST is actually paid by taxpayers.³

³ The Department of Treasury and Finance has estimated the State of origin of GST payments on the basis of ABS data on consumption activity in each State.

However, redistribution across States through the GST represents only part of the picture. All Commonwealth fiscal policies redistribute resources between States, reflecting the use of nationally uniform taxation to fund expenditure programs. Differences between States in terms of their economic strength and need for government services ensure that there is no precise link between the Commonwealth's revenue take from a State and its provision of funding and services for the benefit of that State.

The Department of Treasury and Finance's assessment of the redistribution of resources between States by the Commonwealth (including through the GST arrangements) is shown in Table 5.⁴ This indicates that Western Australia is a major contributor to national welfare through the revenues it contributes to the Commonwealth Budget that are used to support expenditures in other States.

While Western Australia receives more GST revenue grants than the GST it generates, it provides around \$2 billion more to the Commonwealth in total taxes and other revenues than it gets back in Commonwealth expenditures, which is significantly larger in per capita terms than the other two contributors (i.e. New South Wales and Victoria).

REDISTRIBUTION OF RESOURCES
2002-03

Table 5

	GST only		Total Resources	
	\$m	\$ per capita	\$m	\$ per capita
New South Wales	733	110	5,522	829
Victoria	177	36	3,561	729
Queensland	-420	-112	-4,125	-1,099
Western Australia	-288	-148	2,083	1,075
South Australia	-87	-57	-2,675	1,757
Tasmania	-87	-183	-1,768	3,726
Northern Territory	-28	-140	-2,598	13,115

Source: Department of Treasury and Finance, Commonwealth's Final Budget Outcome 2003-04, Australian Bureau of Statistics Catalogue Nos. 3101.0 and 5220.0. Data calculated by redistributing revenues and expenses relating to the ACT (reflecting its role as central service provider to the rest of the Federation).

Table 6 illustrates the components of Western Australia's net contribution to the Federation. In many cases, Commonwealth revenues are not earmarked for specific Commonwealth outlays (the GST being one exception). Accordingly, the component analysis of Western Australia's net contribution is based on the extent to which each category of Commonwealth revenue and expenditure differs from the State's population share. The analysis indicates that Western Australia's large net contribution reflects the high level of company tax, fuel excise and petroleum extraction revenues derived from the State, as well as the low level of social security and health payments, and benefits from Commonwealth services, for Western Australia.

The volatility in Western Australia's net contribution to the Federation in recent years has partly reflected large annual variations in the Commonwealth's collections of Petroleum Resource Rent Tax (PRRT) from the State.

⁴ This has involved estimating the State of origin of revenues received by the Commonwealth (based on the location of economic activities generating these revenues), and the distribution across States of benefits generated by Commonwealth spending (based on the location of the recipients of benefits).

Table 6

**COMPONENTS OF WESTERN AUSTRALIA'S CONTRIBUTION TO THE
FEDERATION**

	2000-01 \$m	2001-02 \$m	2002-03 \$m
Personal Income Tax	-327	-375	-403
Company Tax	677	451	541
Fuel Excise (net of rebates)	152	156	138
Taxes & Royalties on Petroleum Extraction	1,348	705	1,041
Commonwealth Services ^(a)	647	702	770
Personal Benefit Payments	421	446	466
Payments to State and Local Governments ^(b)	-320	-258	-262
Other	-18	-71	-208
Total	2,579	1,755	2,083

(a) Includes defence.

(b) Includes GST revenue grants.

Source: ABS; Australian Taxation Office; Commonwealth's Final Budget Outcome; Commonwealth Department of Industry, Tourism and Resources.

Long Term Reform of Commonwealth-State Financial Relations

The existing structure of Commonwealth-State financial relations is a significant drag on the economic and social welfare of the nation. Problems include the following:

- An inadequate revenue base for States, reflecting their narrow tax bases and reliance on Commonwealth funding that has not kept pace with States' needs. Over the twenty years to 2004-05, Commonwealth funding to the States has declined from 32% to 21% of Commonwealth taxes, representing a \$20 billion reduction in 2004-05 terms.
 - Reduced Commonwealth funding has forced States to increase their tax effort (despite the economically and socially undesirable features of many of these taxes) to meet community demand for services. Nevertheless, States' revenue raising has not fully offset Commonwealth funding losses. The remaining fiscal gap has been accommodated through increased efficiencies and reduced services by States, and an increased Commonwealth role in providing benefits and services.
 - The GST has not resolved the problems that arise from States' narrow tax bases, nor their heavy reliance on Commonwealth grants. GST revenue grants are a non-discretionary revenue source for States. In addition, States are exposed to the risk of offsetting cuts in other Commonwealth grants (e.g. as seen in the recent cuts to States' health funding under the Australian Health Care Agreements).

- Disincentives for States to promote economic growth.
 - The Grants Commission process redistributes State revenues from economic development around the nation, but does not recognise many of the associated development costs.
 - States often bear a greater share of economic development costs than the Commonwealth, relative to the revenue benefits from economic development received by each government. For example, the Commonwealth receives the major share of revenue benefits from Western Australia’s resource developments (particularly through its corporate and personal income taxes), but does not contribute a commensurate share of development costs.
- Conditions for receiving SPPs are becoming more onerous over time and are preventing States from allocating scarce funds flexibly to get best value for the community.
- A lack of collaboration between the States and the Commonwealth in overlapping areas of responsibility (e.g. health) is leading to wasteful inefficiency and gaps in service delivery.

To increase public awareness of the need for reform, the Department of Treasury and Finance has established a website devoted to Commonwealth-State finances. This can be accessed through <http://www.dtf.wa.gov.au>.

State-Local Financial Relations

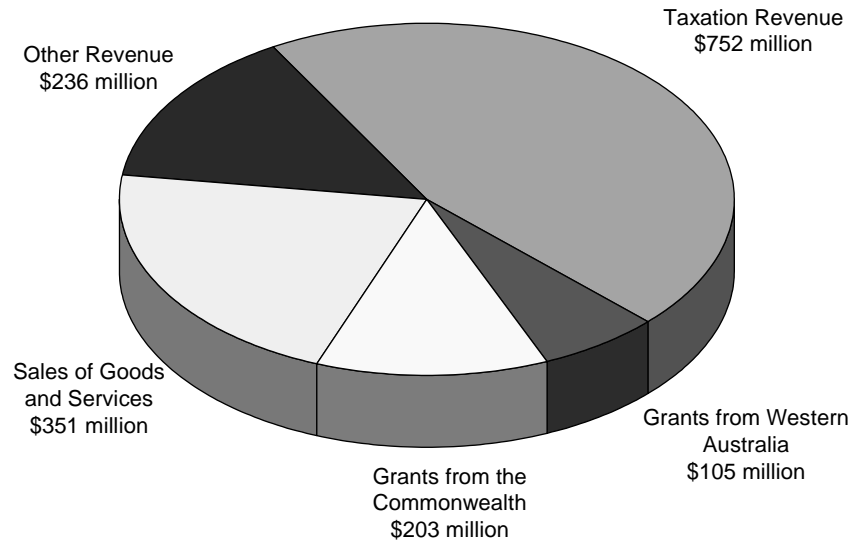
Of Western Australia’s 142 local governments, 20% are categorised as urban and 80% as regional and rural. Their ability to raise revenues and levy user charges varies considerably, due to differences in individual local governments’ rating bases and economic structure. However, overall, the Western Australian local government sector is significantly less reliant on grant funding than the State Government. In aggregate, 19% of local government revenues are derived from grants, compared with 46% for the State Government.

Figure 4 illustrates the composition of total revenues for Western Australian local governments. Just under half of total revenue is generated by local government rates. Local governments in Western Australia also derive 20% of their revenues from fees and charges, compared with only 8% for the State Government.

Figure 4

TOTAL REVENUE FOR WESTERN AUSTRALIAN LOCAL GOVERNMENTS

2002-03



Source: ABS, Department of Treasury and Finance and Commonwealth Final Budget Outcome 2002-03.

In 2002-03, \$308 million in grants was provided to Western Australia's local governments. Of this amount, \$105 million was provided by the State, with the balance provided by the Commonwealth.

Most payments from the Commonwealth to local government are untied payments that are passed through the States, and distributed mainly using HFE principles. The Commonwealth also provides specific purpose payments direct to local governments. Table 7 shows payments from the Commonwealth received by local governments in Western Australia in 2002-03.

Table 7

GRANTS TO LOCAL GOVERNMENT IN WESTERN AUSTRALIA
2002-03

	\$m
State Grants	
Main Roads	89
Planning and Infrastructure	6
Sport and Recreation ^(a)	3
Local Government and Regional Development	2
Other	5
Total	105
Commonwealth Grants	
Financial Assistance Grants	
General Purpose Funding	99
Untied Local Roads Funding	68
Specific Purpose Payments	
Aged Care Services	3
Children's Services	3
Roads to Recovery Program	29
Total	203

(a) In most years these grants are around \$14 million.

Source: Department of Treasury and Finance; Commonwealth Final Budget Outcome 2002-03.

The Western Australian State Government and local governments are committed to improving cooperation to enhance sustainable social, environmental and economic development of the State. A State/Local Government Council has been established under a Partnership Agreement between the two levels of government. The Council is finalising a communication and consultation agreement that will underpin the Partnership Agreement. A number of specific partnership proposals are under negotiation.

In May 2002 the Commonwealth Parliament's Standing Committee on Economics, Finance and Public Administration commenced an Inquiry into Local Government and Cost Shifting. The Committee's report — *Rates and Taxes: A Fair Share for Responsible Local Government* — was released in late 2003. The report suggested cost shifting to local governments by State governments nationally in the order of \$500 million to \$1 billion per annum (e.g. a perceived reduction in police services leading to councils providing security patrols). The report proposed a range of measures, including a Federal-State intergovernmental agreement on funding, roles and responsibilities for local government.

The Commonwealth is yet to make a formal response to the Inquiry. Notably, the Inquiry has ignored the substantial reduction in Commonwealth grant funding to States over the last 20 years (see the section above on long term reform of Commonwealth-State financial relations). The resultant financial stresses on States (and necessary adjustments to revenue and spending priorities) may have had some consequential impacts on local government. This suggests that the Inquiry's recommendations cannot be addressed in isolation from Commonwealth-State financial reform issues.

In October 2003, the Western Australian Parliament's Legislative Council Standing Committee on Public Administration and Finance initiated an Inquiry into the Local Government Rating System and Distribution of Funds. The Inquiry aims to determine whether changes are required to provide greater equity in respect to the distribution and level of State financial support available to regional Western Australia. It will examine rating limitations under State Agreement Acts, the distribution of State funding support to the regions, and the impact of Commonwealth-State financial arrangements on local government.

CHAPTER 7

Structural Reform

Overview

The Government remains strongly committed to implementing structural reforms to improve the efficiency of the Western Australian economy.

The major structural reform achievements by the Government in 2003-04 included:

- enactment of the *Economic Regulation Authority Act 2003* and commencement of the Economic Regulation Authority (ERA) as the independent economic regulator for gas, water, rail and electricity industries;
- passage of the *Electricity Industry Act 2004*, which provides a mechanism to establish a Western Australian electricity wholesale market, electricity access code, licensing regime and a range of customer protection measures; and
- implementation of full retail contestability for gas in May 2004. Allowing customers to choose their preferred gas retailer is an outcome of the Government's energy industry reform process and the national energy policy.

In addition, Western Australia has continued to progress structural, market and regulatory reforms for electricity and gas through measures including the enhancement of third party access arrangements and lowering retail contestability thresholds.

A range of reforms have also been undertaken impacting on the insurance industry and Western Australia continues to implement National Competition Policy reforms where a review has established they are in the public interest and Parliament is supportive.

In 2004-05, the Government's major structural policy focus will involve:

- continued electricity reform through the implementation of the Electricity Access Code and licensing regime, lowering of the contestability threshold and development of new wholesale market arrangements;

- an independent review of water pricing by the ERA; and
- implementation of the amendments for the Rail Access Code that are currently being considered and a more broad review of the Rail Access Regime.

Electricity Industry Reform

While not part of the national electricity market, Western Australia continues to give priority to reform of the electricity industry. Impediments to competition are being removed in the wholesale and retail sectors of the industry, access to the transmission and distribution systems is provided for in new legislation, the number of contestable customers is being increased and private sector involvement in the industry is being promoted.

Structural Reform and Market Design

To facilitate greater competition and sustainable lower electricity prices, the Government established the Electricity Reform Task Force (ERTF) in August 2001 to develop a framework for further reform of the State's electricity supply industry. The ERTF's final report, submitted in October 2002, recommended the creation of a new electricity market that balances the need for greater competition, lower prices and consumer protection. Specifically, the report recommended:

- the creation of a wholesale market;
- a strong and independent regulatory system;
- the disaggregation of Western Power into four new entities; and
- the retention of the uniform tariff and existing rebates.

The Government endorsed the recommendations of the ERTF in November 2002.

In January 2003 the Electricity Reform Implementation Steering Committee (ERISC) was established to implement the Government's electricity reform agenda. ERISC is chaired by the Coordinator of Energy and consists of representatives from relevant government agencies.

A significant achievement in the Government's reform agenda has included the *Electricity Industry Act 2004*, which received Royal Assent on 23 April 2004. This legislation provides greater opportunity for the development of competition in the generation and retail sectors of the electricity industry by:

- establishing a wholesale market for the South West Interconnected System (SWIS);
- establishing an Electricity Access Code to provide for third party access to electricity networks in Western Australia;
- establishing an independent licensing regime for electricity industry participants; and
- implementing measures to protect customers in a competitive electricity market.

The development of a wholesale market for electricity will promote greater competition and private sector investment in the SWIS. The objectives of a wholesale market are to:

- promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the SWIS;
- encourage competition among generators and retailers in the SWIS, including by facilitating efficient entry of new competitors;
- avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies; and
- minimise the long-term cost of electricity supplied to consumers from the SWIS.

In August 2003 the Electricity Reform Implementation Unit (ERIU) established the Market Rules Development Group (MRDG) and seven specific expert teams supporting ERISC, to assist it in developing the detailed design and drafting the market rules for the wholesale electricity market. The MRDG and participating expert teams comprise more than 40 representatives across industry, Western Power and Government. The market rules are expected to be finalised by 1 July 2004.

As the wholesale market for electricity will take two years to establish, the Government will be introducing transitional arrangements to assist independent power producers (IPP's) competing in the market. Under the new arrangements an IPP whose capacity is less than the load it is required to serve will be able to purchase electricity from Western Power in order to meet its demand. Similarly, where an IPP is producing more than its load to be served, it will be able to sell that excess production to Western Power. It is intended that the enhanced flexibility of the arrangement will lessen the risk exposure of IPP's considering market entry.

Regulatory Reform and Retail Contestability

Licensing

Effective regulation of a competitive electricity industry requires the commercial licensing of market participants. The *Electricity Industry Act 2004* details the framework for the licensing of market participants involved in electricity generation, transmission, distribution and retailing in Western Australia. Licensing will allow the State to identify operators, and to monitor and report their performance in relation to specific criteria for prudential and service standards. The licensing framework has been developed in full consultation with stakeholders.

Access

Open, transparent and non-discriminatory access to network services is a prerequisite to a competitive electricity market. As part of the new market framework to be established under the *Electricity Industry Act 2004*, an Electricity Access Code providing for open access to network assets is being developed to suit conditions prevailing in Western Australia. A draft of the Code has been completed and ERIU is currently conducting a public consultation on the draft.

Access arrangements will set out the terms and conditions for standard access services and will be approved and monitored by the ERA. It is currently proposed that the initial electricity network facilities to be covered by the Electricity Access Code will be parts of Western Power's SWIS network, and any other transmission or distribution facilities that meet the Code's coverage criteria.

The Electricity Access Code draft incorporates the use of incentive regulation, including the use of price and/or revenue caps and, where efficient and practicable, cost reflective network pricing. Incentive regulation promotes economic efficiency through enabling service providers to benefit from productivity gains they achieve during the period in which price and/or revenue is capped. Cost reflective network pricing promotes competition by enabling service providers to access essential infrastructure on competitive terms.

Where appropriate, the Code will be consistent with the National Electricity Code and National Gas Code and ultimately be designed to meet the requirements for certification under the Part IIIA of the *Trade Practices Act 1974*. ERIU anticipates that the Electricity Access Code will be completed by 1 July 2004.

Contestability

In recent years retail contestability thresholds for electricity have been progressively lowered. On 1 January 2003, contestability was extended to customers using an average load of at least 34 kW (or 300 MWh per annum). This represented an increase in the number of contestable customers from 450 to around 2,500, extending contestability to approximately 50% of Western Power's total sales by volume.

The Government initially had a target of introducing full retail contestability (FRC) in 2005. However, recognising that effective competition at all levels of the industry is required for FRC, this timing has been delayed. The threshold for contestability is now to be reduced to 5.7 kW average load (50 MWh per annum) on 1 January 2005. This level of consumption is typical of small businesses. The extension of access to Western Power's electricity networks will increase the number of contestable customers to around 12,500 and will result in approximately 60% of Western Power's total sales by volume in the SWIS being contestable.

Following the successful implementation of the above structural and market reforms a detailed analysis will be required of the costs associated with implementing FRC relative to the benefits of extending choice and competition to all end consumers.

Structural Reform

Included in the ERTF recommendations was the disaggregation of Western Power's activities in the SWIS into three independent entities – State Generation, State Networks and State Retail – and the establishment of a fourth entity, the Regional Power Corporation. The latter entity would have responsibility for electricity supply in the NWIS and Western Power's non-interconnected systems.

The *Electricity Corporation Bill 2003*, required to implement the disaggregation of Western Power, was introduced to the Legislative Assembly in October 2003. The Bill progressed to a second reading in the Legislative Council but has not proceeded, as publicised opposition made it evident that the Bill would not pass a third reading. However, the Government is still committed to the disaggregation of Western Power.

Consumer Protection

In an electricity market with increased competition a number of consumer protection mechanisms will be required to ensure appropriate service standards are maintained. Consumer protection for residential and small business customers will be addressed through the following measures:

- the implementation of a Customer Service Code;
- obligations on retailers to have a standard contract with associated standard tariff at or below a uniform tariff cap which is available to any existing or new tariff customer;
- obligations on network service providers to publish an approved customer connection and extension policy detailing the technical specifications and standard tariff charges for connection of customers;
- establishment of an Energy Ombudsman scheme providing consumers with a complaint resolution mechanism; and
- a retailer of last resort obligation on Western Power Corporation to ensure that supply is available to customers whose retailer exits the market.

Implementation Timetable

The Government has committed to an ambitious timetable for implementing the proposed structural, market and regulatory reforms. The key milestones include:

- the development of the Western Australian Electricity Access Code by 1 July 2004;
- the reduction in the contestability threshold to 5.7kW on 1 January 2005; and
- the implementation of new wholesale electricity market arrangements by 1 July 2006.

Gas Market Reform

Through its current gas market reform agenda the Western Australian Government is promoting the development of a competitive gas market under which customers are able to choose their preferred gas retailer. In July 2002, the last legal impediments to full contestability in the gas industry were removed, however practical FRC was delayed pending appropriate operational and administrative arrangements. Effective contestability in the gas industry will now be implemented in late May 2004.

A number of key milestones have been achieved in the progress towards practical FRC. These include:

- expanding the project to include South Australia. In recognition of the benefits of a coordinated approach to the introduction of FRC, market participants and the Governments of South Australia and Western Australia have agreed to work together on a joint project;
- registering the Retail Energy Market Company (REMCo) with the Australian Securities and Investments Commission on 8 January 2003. REMCo is responsible for the administration of the retail market rules that will support FRC in the Western Australian and South Australian gas retail markets, and for contracting of IT systems and services required to implement these rules;
- the development of a constitution for REMCo and the selection of Directors and a chief executive officer; and
- development of the Retail Market Rules.

In addition to these achievements the *Energy Legislation Amendment Act 2003*, which was given assent on 8 October 2003, consolidates a number of legislative initiatives that support the Government's gas market reform agenda, including:

- amendments to the gas licensing scheme in Part 2A of the *Energy Coordination Act 1994*;
- promoting reticulation of natural gas to greenfield areas, particularly regional communities;
- allowing the Coordinator of Energy to collect and disseminate information to facilitate planning in the energy sector; and
- consolidating Government's sustainable energy research functions, including the monitoring of greenhouse gases.

In a competitive gas market a number of consumer protection measures are required to ensure service standards are maintained. The *Energy Legislation Amendment Act 2003* also introduces protections such as:

- minimum standards for supply contracts for small use customers;
- a Gas Marketing Code of Conduct to regulate marketing behaviour;
- a Gas Industry Ombudsman Scheme enabling small use customers to obtain an independent dispute resolution service;
- a supplier of last resort scheme to ensure continued gas supply to small use customers in the event of an unplanned market exit by a gas retailer; and
- regulation of the quality of commingled gas supplied and billed to customers in the distribution system.

As part of its commitment to ensuring free and fair trading in the gas market the Government has also overseen the implementation and operation of a nationally consistent regime for access to gas pipelines within Western Australia. In April 2004, the Government made a submission to the national review of the Gas Access Regime conducted by the Productivity Commission. The purpose of the review is to identify any necessary improvements to the regime and ensure its continued relevance in light of the reforms, structural change and growth that has occurred in the gas industry over the last decade.

Water Market Reform

In 1994 the State signed up to the Council of Australian Governments (CoAG) Strategic Framework for Water Reform, which later was incorporated into National Competition Policy. The framework includes principles for trading in water allocations and entitlements that require “water be used to maximise its contribution to national income and welfare, within the social, physical and ecological constraints of catchments”.

In 2001 the *Rights in Water and Irrigation Act 1914* was amended to provide for the trading of water entitlements within and between catchment areas in Western Australia. Prior to 2003 only very minor trading of water entitlements occurred. However, in late 2003 the South West Irrigation District Growers Cooperative struck an agreement with the Water Corporation to temporarily trade three gigalitres (GL) of water for use by the Water Corporation in the Perth Integrated Water Supply System.

This temporary trade means that the Water Corporation will receive an extra 3 GL of water this year from the South West irrigation district and also opens the door to the possibility of further water trading in future years. This will go some way to promote a more efficient use of the water.

Rail Access Reform

The Western Australian Government is committed to creating an environment favourable to competition within the rail sector. The cornerstone of this policy is the Rail Access Regime, which provides a framework for the negotiation of access to railway infrastructure on fair and reasonable terms.

The Rail Access Regime, comprising the *Railways (Access) Act 1998* and the *Railways (Access) Code 2000*, became fully operative on 1 September 2001. Western Australia’s urban passenger rail network is operated by the Government, and the rail freight network was leased by the Government to the Australian Railroad Group in late 2000. The access regime does not cover other privately owned railways such as the iron ore railways in the Pilbara.

The development of this Code for rail services included two national public consultation processes. Although broad agreement was reached on its terms, the Western Australian Government continues to refine the Code and improve its effectiveness and efficiency. Most recently in late 2003 public consultation was undertaken on ten proposed amendments to the Code. Submissions were reviewed and appropriate amendments to the Code are being progressed.

A full review of the Rail Access Regime will commence in the second half of 2004, which will provide stakeholders with the opportunity to offer broader comment on the terms of the Regime.

Economic Regulation

The *Economic Regulation Authority Act 2003* was assented by Parliament on 5 December 2003. This provided the legal basis for establishing the independent Economic Regulation Authority (ERA) with functions across the gas, rail, water and electricity industries. Like the previous Gas Access and Rail Access Regulators, the ERA is an independent body with regulatory expertise, technical industry knowledge and a clear regulatory mandate. The design of the ERA has focussed on best practice regulatory principles and is consistent with the Government's commitment to utilities markets. The Government remains responsible for all laws administered by the ERA.

The ERA commenced operations on 1 January 2004, assuming responsibility for economic regulatory functions previously performed by a variety of sector specific regulators and public sector officials. Consolidation of these functions is aimed at reducing duplication of fixed and operational costs and consolidates scarce regulatory expertise.

Establishment of an independent, multi-industry regulator is a central feature of the Government's electricity reform policy and was a significant recommendation of the Machinery of Government Task Force report. The ERA's independence will minimise any perception of outside interference in regulatory decisions, which can potentially stifle investment and competition, and serve to establish an appropriate balance between the interests of service providers, infrastructure owners and consumers. A single independent regulatory body will also promote consistent regulatory outcomes across the key utilities industries, and be able to respond to changing regulatory needs.

Functions of the ERA include:

- independently regulating access to significant economic infrastructure under industry specific access regimes. Responsibility for the existing gas and rail access regimes has already been assumed by the ERA. Responsibility for the future electricity access regime is subject to implementation of the Western Australian Electricity Access Code. ERIU expects the Code to be completed by July 2004;
- independently granting industrial licences and ensuring compliance with terms and conditions applying to licences:
 - water industry licensing functions were transferred to the ERA effective from 1 January 2004;
 - gas industry licensing functions were transferred on 19 March 2004, in preparation for the implementation of FRC in May 2004;
 - electricity industry licensing functions will be carried out by the ERA following the development of the regime as part of the current electricity reform process; and

- making expert recommendations to Government about tariffs and charges for Government monopoly services, and any other matters requested by the Government.

In carrying out its regulatory functions the ERA is to have regard to the following objectives:

- public interest;
- the long-term interests of consumers;
- investment in relevant markets;
- competitive and fair market conduct;
- preventing the abuse of monopoly power; and
- promoting transparent decision-making through public consultation.

The Governor has appointed Mr Lyndon Rowe to the position of Chairman for a five-year tenure, and Mr Chris Field and Dr Ken Michael AM have been appointed as part-time Members of the governing body. These appointments took effect as of 8 March 2004.

The first inquiry of the ERA is expected to be in relation to the transparency of setting current urban water and wastewater prices, which the Government requires to comply with Council of Australian Government (CoAG) pricing principles. A National Competition Policy payment of \$7.5 million per annum depends upon compliance with these pricing principles.

Insurance Law Reform

After disruptions in recent years, which particularly affected the availability of public liability and professional indemnity insurance, evidence indicates that conditions in the insurance market have begun to stabilise. Insurance companies are reporting improved profit results and the rate of increase in public liability and professional indemnity insurance premiums has slowed in 2003 compared with 2002.

Continuing earlier reforms, the Government has passed or proposed further measures aimed at improving the availability and affordability of public liability and professional indemnity insurance.

The *Civil Liability Amendment Act 2003* commenced on 1 December 2003. The objective of the Act is to contain insurance claims costs, and help change social and legal attitudes towards the assumption of, and liability for, risk. It does this through:

- new measures to help protect operators of recreational activities from risk of liability, thus allowing for greater self-assumption of risk by persons engaging in sport and recreation;
- introducing a legal presumption of contributory negligence in circumstances where a claimant was intoxicated;
- allowing for a person to make a simple apology without this being able to be turned against them in litigation;

- protecting good Samaritans from legal action where they have acted in good faith attending to a person in danger; and
- replacement of joint and several liability with proportionate liability for damages claims other than for personal injuries. (These provisions have not yet commenced and are being further refined for introduction later this year.)

Amendments are also being developed to the *Professional Standards Act 1997* to make existing legislation consistent with the nationally agreed principles of the New South Wales' model. This reform will facilitate professional standards schemes being approved in Western Australia, provided that other jurisdictions legislate to close existing loopholes.

In addition, proposed new legal safeguards will give Western Australian health professionals greater protection from unreasonable litigation claims. The effect of this will be that the liability in negligence of health professionals for treatment and diagnosis will ordinarily be determined, not according to the judicial view of reasonable conduct, but according to whether the conduct would be widely accepted as reasonable by the professional's peers.

Legislation is also being drafted to reform Western Australia's limitations law regime, by modernising the *Limitations Act 1935* and other associated legislation. In general, the reforms will reduce the time available in which a potential plaintiff may bring an action to court.

The *Insurance Commission of Western Australia Amendment Act 2002*, which commenced on 1 January 2003, has enabled the Government to provide assistance in the form of the Community Insurance Fund (CIF). This fund provides insurance cover to eligible not-for-profit community groups that have been unable to find affordable insurance in the private market.

The fund has assisted a wide range of Western Australian community organisations to obtain affordable insurance cover. Since its inception, the CIF has provided cover to over 50 organisations including tourist railways, charity events, community festivals, toy libraries and youth clubs.

National Competition Policy

The Western Australian Government is continuing to implement National Competition Policy (NCP) reforms where review has established that they are in the public interest and where Parliament is supportive of the reforms. Reviews are based on rigorous public interest tests that take into account a wide range of economic, social and environmental considerations.

In December 2003, the Commonwealth Treasurer notified Western Australia that it would be penalised by \$41 million, in accord with the National Competition Council's (NCC) assessment.

The payments penalty includes:

- a deduction of 10% (\$7.52 million) for the regulation of retail trading hours;

- a deduction of 5% (\$3.76 million) for the delayed transition to competitive liquor licensing arrangements;
- a deduction of 5% (\$3.76 million) for the regulation of potato marketing;
- a specific suspension of 10% (\$7.52 million) for the lack of transparency in water pricing;
- a specific suspension of 5% (\$3.76 million) for the delayed transition period for deregulation of egg marketing arrangements; and
- a pool suspension of 20% (\$15.04 million) for a range of outstanding legislation review and reform compliance failures.

The deducted amounts are permanent penalties that will apply until a satisfactory outcome is achieved, at which time payments will be reinstated but no back-payments will be made.

Specific suspensions will be reinstated with back-payments to 1 July 2003, upon a satisfactory outcome being achieved by 30 June 2004. Specific suspensions will become permanent deductions if a satisfactory outcome is not achieved by 30 June 2004.

The suspension pool will be reassessed at the 2004 assessment. If satisfactory progress is made, the NCC may recommend that the suspension be lifted or reduced and the funds released. If satisfactory progress is not made, the NCC is likely to recommend that all or part of the suspension be converted to a permanent deduction and that the deduction be ongoing.

A particular risk for Western Australia is the new penalty that could apply for not proceeding with the disaggregation of Western Power, which the NCC has not quantified but has indicated will result in “an adverse assessment of considerable significance”.

A further risk is that the Commonwealth has not provided any guarantee that competition payments will continue after 30 June 2006. The 2003-04 Commonwealth Budget did not include NCP estimates in the forward year 2006-07. A footnote to the payments states that “provision has been made for National Competition Policy Payments in 2006-07, however the final amounts will not be disclosed until after the conclusion of negotiations.” Any proposal to renegotiate payments would be unacceptable as it would be at odds with the expectation the States and Territories had when they negotiated the payments in 1995. At that time, the expectation was that payments would continue indefinitely in recognition of the ongoing benefits that flow from the associated reform.

A number of important NCP reforms were progressed in 2003-04, including:

- the *Taxi Amendment Act 2003*, which was given assent in December 2003. The Act provides for the issuing taxi licences for lease in addition to sale by tender. The Government has subsequently leased 48 taxi plates and a formula is currently being developed to govern the progressive release of additional plates. Additional licences should be made available before the end of 2004;
- the *Legal Practice Act 2003*, which gained assent in December 2003. The Act allows legal firms to form multi-disciplinary partnerships and provides a greater role for non-lawyers in the provision of legal services; and

- the *Acts Amendment and Repeal (Competition Policy) Act 2003*, which gained assent in December 2003. The Act repeals two Acts and amends a further thirteen as recommended by NCP legislation reviews. Examples of the reforms are:
 - amendments to the *Chicken Meat Industry Act 1977* to remove the need for approval of a processing plant, as health, safety and planning laws already cover this area. The obligation for growers and processors to enter into a prescribed form of fixed-price contract is also removed; and
 - the introduction of tax equivalent arrangements for Gold Corporation and subsidiaries consistent with other significant government businesses to ensure a level playing field with competing private sector providers.

In addition, grain marketing reforms have been implemented in 2003-04 with the establishment of the Grain Licensing Authority (GLA). This Authority has granted the first special export licences that allow bulk exports of prescribed grains to grain traders other than the Grain Pool. These licences can be granted only in markets in which there is no evidence of the Grain Pool achieving a price premium through the market power of being a single seller. Since September 2003, the GLA has approved licences representing around 30% of the State's feed barley production, and has issued various licences for the export of lupins and canola. The first licences were effective from 1 November 2003, the start of the 2003 harvest.

A significant NCP reform that was approved by the Government in 2003-04 is the deregulation of the egg industry. An advisory group comprising government and industry representatives is currently developing the transitional path to deregulation.

An important NCP bill currently before Parliament is the *Retail Shop and Fair Trading Legislation Bill 2003*. This Bill extends weeknight trading to 9.00 pm for all general retail stores in the metropolitan area on 2 May 2005 and introduces the small business legislative protection package. The protection package prohibits unconscionable conduct in business to business transactions and seeks to ensure fair conduct in commercial tenancy disputes.

APPENDIX 1

Detailed Financial Projections

This appendix contains detailed financial projections for the various sectors of the total public sector under the Government Finance Statistics (GFS) framework. The tables in this section also satisfy Uniform Presentation Framework (UPF) requirements (with the exception of general government sector taxes, contained in Chapter 4: *Financial Projections – Revenue*).

Contents

General Government	
Table 1: Operating Statement	178
Table 2: Balance Sheet at 30 June	179
Table 3: Cash Flow Statement.....	180
Public Non-Financial Corporations	
Table 4: Operating Statement	181
Table 5: Balance Sheet at 30 June	182
Table 6: Cash Flow Statement.....	183
Total Non-Financial Public Sector	
Table 7: Operating Statement	184
Table 8: Balance Sheet at 30 June	185
Table 9: Cash Flow Statement.....	186
Public Financial Corporations	
Table 10: Operating Statement	187
Table 11: Balance Sheet at 30 June	188
Table 12: Cash Flow Statement.....	189
Total Public Sector	
Table 13: Operating Statement	190
Table 14: Balance Sheet at 30 June	191
Table 15: Cash Flow Statement.....	192
General Government	
Table 16: Spending by Government Purpose Classification.....	193
Loan Council Allocations	
Table 17: Loan Council Allocations.....	194
Agency Classification	
General Government Sector	195
Public Non-Financial Corporations	196
Public Financial Corporations	196
Agencies Outside the State’s Public Sector.....	197

Table 1

GENERAL GOVERNMENT**Operating Statement**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	Actual	Estimate	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
REVENUE						
Taxation	3,387	3,884	3,739	3,839	4,044	4,271
Current grants and subsidies	5,464	5,436	5,913	6,119	6,326	6,680
Capital grants	287	291	367	333	308	280
Sales of goods and services	990	912	896	899	900	909
Interest income	107	116	118	114	112	104
Revenue from public corporations						
Dividends	390	426	421	446	455	454
Tax equivalent payments	239	257	235	245	254	287
Royalty income	685	657	736	756	750	741
Other	222	287	296	303	333	316
<i>Total</i>	<i>11,771</i>	<i>12,266</i>	<i>12,719</i>	<i>13,056</i>	<i>13,481</i>	<i>14,042</i>
EXPENSES						
Gross operating expenses						
Salaries	4,486	4,701	4,916	5,053	5,214	5,385
Depreciation and amortisation	603	604	604	614	630	646
Superannuation	436	458	472	479	489	502
Other	2,931	2,953	3,021	3,014	3,098	3,237
Nominal superannuation interest	277	283	288	289	289	289
Other interest	195	186	206	206	212	215
Other property expenses	-	-	-	-	-	-
Current transfers	2,287	2,504	2,571	2,766	2,951	3,082
Capital transfers	303	371	401	410	400	365
<i>Total</i>	<i>11,518</i>	<i>12,060</i>	<i>12,477</i>	<i>12,832</i>	<i>13,283</i>	<i>13,721</i>
NET OPERATING BALANCE	254	207	243	224	198	321
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchase of non-financial assets	794	917	1,139	944	933	930
Sales of non-financial assets	-74	-176	-175	-154	-157	-121
less depreciation	603	604	604	614	630	646
<i>plus</i> change in inventories	7	-	2	1	4	3
<i>plus</i> other movements in non-financial assets	-	-	-	-	25	-
<i>Total</i>	<i>124</i>	<i>137</i>	<i>363</i>	<i>177</i>	<i>175</i>	<i>166</i>
NET LENDING/BORROWING	130	69	-120	48	23	155

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)

NET OPERATING BALANCE	254	207	243	224	198	321
<i>less</i> provisions for doubtful debts	-19	-	-	-	-	-
<i>plus</i> net gains on assets (including derivatives)	39	28	2	-13	-12	-18
<i>plus</i> capitalised interest	-	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	47	-	-	-	-	-
<i>plus</i> all other adjustments	-	-	-	-	-	-
AAS OPERATING RESULT	265	234	245	211	186	304

Note: Columns may not add due to rounding.

Table 2

GENERAL GOVERNMENT**Balance Sheet at 30 June**

	2003	2004	2005	2006	2007	2008
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	Actual	Estimate	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	301	294	287	281	279	282
Advances paid	867	866	851	843	831	823
Investments, loans and placements	1,440	1,146	885	872	896	902
Other non-equity assets	762	752	732	766	750	777
Equity	16,333	17,382	17,841	18,385	18,886	19,395
<i>Total</i>	19,703	20,439	20,595	21,146	21,641	22,179
<i>Non-Financial assets</i>						
Land and fixed assets	28,463	29,397	30,475	31,303	32,026	32,730
Other non-financial assets	4	69	81	102	117	130
<i>Total</i>	28,467	29,466	30,555	31,405	32,143	32,860
TOTAL ASSETS	48,170	49,905	51,151	52,551	53,784	55,039
LIABILITIES						
Deposits held	300	289	238	252	269	268
Advances received	581	561	549	541	529	520
Borrowings	2,122	2,038	1,998	1,995	1,966	1,740
Unfunded superannuation liabilities	5,315	5,383	5,381	5,374	5,348	5,312
Other employee entitlements and provisions	1,225	1,289	1,271	1,341	1,408	1,486
Non-equity liabilities	602	586	683	741	814	926
TOTAL LIABILITIES	10,146	10,147	10,119	10,244	10,334	10,253
NET WORTH	38,024	39,758	41,032	42,307	43,451	44,786
<i>Memorandum Item: Net Debt</i>	396	583	762	793	759	522

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)

NET WORTH	38,024	39,758	41,032	42,307	43,451	44,786
<i>less equity (net worth) of PNFC and PFC sectors</i>	16,045	16,494	16,852	17,280	17,650	18,057
<i>less all other adjustments</i>	-	-	-	-	-	-
AAS NET ASSETS	21,979	23,264	24,180	25,027	25,800	26,729

Note: Columns may not add due to rounding.

Table 3

GENERAL GOVERNMENT						
Cash Flow Statement						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	3,339	3,888	3,740	3,840	4,044	4,277
Receipts from sales of goods and services	999	924	920	927	927	937
Grants and subsidies received	5,794	5,677	6,281	6,458	6,633	6,960
Other receipts	2,154	2,173	2,300	2,296	2,366	2,353
<i>Total</i>	<i>12,286</i>	<i>12,662</i>	<i>13,242</i>	<i>13,522</i>	<i>13,970</i>	<i>14,527</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-7,925	-8,269	-8,651	-8,751	-9,011	-9,251
Grants and subsidies paid	-2,417	-2,734	-2,760	-2,944	-3,093	-3,173
Interest paid	-193	-190	-206	-206	-210	-216
Other payments	-772	-696	-732	-747	-738	-752
<i>Total</i>	<i>-11,308</i>	<i>-11,889</i>	<i>-12,349</i>	<i>-12,648</i>	<i>-13,052</i>	<i>-13,392</i>
Net Cash Flow from Operating Activities	978	773	893	874	918	1,135
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-794	-917	-1,139	-944	-933	-930
Sales of non-financial assets	74	176	175	154	157	121
<i>Total</i>	<i>-720</i>	<i>-742</i>	<i>-964</i>	<i>-790</i>	<i>-776</i>	<i>-809</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-107	-122	-96	-105	-122	-95
Liquidity purposes	48	23	17	16	-	-
<i>Total</i>	<i>-59</i>	<i>-99</i>	<i>-79</i>	<i>-89</i>	<i>-122</i>	<i>-95</i>
Net Cash Flow from Investing Activities	-778	-841	-1,043	-879	-898	-904
FINANCING ACTIVITIES						
Advances received (net)	-	-8	-	-	-	-
Borrowings (net)	17	16	-32	-	-26	-223
Deposits received (net)	-9	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	-65	-37	-12	-11	15	-8
<i>Total</i>	<i>-57</i>	<i>-29</i>	<i>-44</i>	<i>-11</i>	<i>-11</i>	<i>-231</i>
<i>Opening cash balance</i>	<i>1,167</i>	<i>1,309</i>	<i>1,212</i>	<i>1,019</i>	<i>1,003</i>	<i>1,011</i>
NET INCREASE IN CASH HELD ^(a)	143	-97	-194	-16	8	-
<i>Closing cash balance</i>	<i>1,309</i>	<i>1,212</i>	<i>1,019</i>	<i>1,003</i>	<i>1,011</i>	<i>1,011</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>						
	<i>259</i>	<i>32</i>	<i>-71</i>	<i>85</i>	<i>142</i>	<i>326</i>
Surplus	259	32	-71	85	142	326

(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

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	\$m	\$m	\$m	\$m
REVENUE						
Current grants and subsidies	520	824	858	945	1,019	1,086
Capital grants	123	135	154	144	146	119
Sales of goods and services	4,742	4,876	5,010	5,129	5,335	5,527
Interest income	114	99	111	119	126	139
Other	226	178	200	184	184	186
<i>Total</i>	5,724	6,112	6,333	6,521	6,810	7,057
EXPENSES						
Gross operating expenses						
Salaries	424	442	458	490	520	547
Depreciation and amortisation	597	624	647	659	688	718
Superannuation	43	43	44	46	49	51
Other gross operating expenses	3,234	3,245	3,421	3,422	3,560	3,686
Nominal superannuation interest	-	-	-	-	-	-
Other interest	415	424	453	518	543	562
Other property expenses	627	668	651	686	704	737
Current transfers	254	451	522	541	573	575
Capital transfers	83	5	5	5	36	5
<i>Total</i>	5,676	5,901	6,201	6,368	6,674	6,881
NET OPERATING BALANCE	48	211	132	153	136	177
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	1,294	1,657	1,785	1,556	1,456	1,178
Sales of non-financial assets	-367	-443	-420	-441	-422	-381
<i>less</i> depreciation	597	624	647	658	688	718
<i>plus</i> change in inventories	-70	16	-4	-6	2	-2
<i>plus</i> other movements in non-financial assets	-88	-	-	-	-32	-
<i>Total</i>	172	607	714	450	316	77
NET LENDING/BORROWING	-124	-396	-582	-297	-180	100
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	48	211	132	153	136	177
<i>less</i> provisions for doubtful debts	7	3	5	3	3	3
<i>plus</i> net gains on assets (including derivatives)	165	58	83	101	98	92
<i>plus</i> capitalised interest	6	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	2	-	-	-	-	-
<i>plus</i> all other adjustments	-	-	-	-	-	-
AAS OPERATING RESULT	210	266	210	252	231	266

Note: Columns may not add due to rounding.

Table 5

PUBLIC NON-FINANCIAL CORPORATIONS
Balance Sheet at 30 June

	2003 Actual \$m	2004 Estimated Actual \$m	2005 Budget Estimate \$m	2006 Forward Estimate \$m	2007 Forward Estimate \$m	2008 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	301	270	231	279	294	305
Advances paid	156	115	69	73	67	62
Investments, loans and placements	1,548	1,664	1,774	1,926	2,037	2,206
Other non-equity assets	731	839	915	1,039	1,112	1,238
Equity	8	1	1	1	1	1
Total	2,745	2,889	2,990	3,318	3,512	3,813
<i>Non-Financial assets</i>						
Land and fixed assets	21,939	23,251	24,263	25,078	25,788	26,213
Other non-financial assets	144	165	162	160	155	151
Total	22,082	23,415	24,425	25,238	25,944	26,365
TOTAL ASSETS	24,827	26,304	27,415	28,556	29,455	30,177
LIABILITIES						
Deposits held	2	1	1	1	1	1
Advances received	573	561	549	541	529	520
Borrowings	6,194	6,698	7,466	8,101	8,590	8,840
Unfunded superannuation liabilities	260	193	178	160	142	126
Other employee entitlements and provisions	224	236	208	242	243	279
Non-equity liabilities	1,440	1,482	1,502	1,491	1,463	1,455
TOTAL LIABILITIES	8,693	9,172	9,903	10,537	10,968	11,221
<i>Shares and other contributed capital</i>	<i>288</i>	<i>888</i>	<i>989</i>	<i>1,105</i>	<i>1,236</i>	<i>1,339</i>
NET WORTH	15,846	16,245	16,522	16,915	17,252	17,618
<i>Memorandum Item: Net Debt</i>	<i>4,764</i>	<i>5,211</i>	<i>5,942</i>	<i>6,365</i>	<i>6,721</i>	<i>6,788</i>

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)

NET WORTH	15,846	16,245	16,522	16,915	17,252	17,618
<i>plus</i> shares and other contributed capital	288	888	989	1,105	1,236	1,339
<i>less</i> all other adjustments	-	-	-	-	-	-
AAS NET ASSETS	16,134	17,133	17,512	18,019	18,488	18,956

Note: Columns may not add due to rounding.

Table 6

PUBLIC NON-FINANCIAL CORPORATIONS
Cash Flow Statement

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Receipts from sales of goods and services	4,949	4,845	5,062	5,104	5,371	5,527
Grants and subsidies received	638	899	945	1,018	1,072	1,099
Other receipts	500	406	434	435	439	425
<i>Total</i>	<i>6,087</i>	<i>6,150</i>	<i>6,441</i>	<i>6,556</i>	<i>6,883</i>	<i>7,050</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-3,667	-3,648	-3,808	-3,834	-4,017	-4,145
Grants and subsidies paid	-209	-365	-415	-426	-449	-438
Interest paid	-428	-440	-459	-521	-550	-563
Other payments	-564	-571	-603	-609	-621	-613
<i>Total</i>	<i>-4,868</i>	<i>-5,024</i>	<i>-5,284</i>	<i>-5,391</i>	<i>-5,637</i>	<i>-5,759</i>
Net Cash Flow from Operating Activities	1,219	1,126	1,157	1,165	1,245	1,291
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-1,294	-1,657	-1,785	-1,556	-1,456	-1,178
Sales of non-financial assets	367	443	420	441	422	381
<i>Total</i>	<i>-926</i>	<i>-1,214</i>	<i>-1,365</i>	<i>-1,115</i>	<i>-1,034</i>	<i>-797</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	-19	53	-1	-54	-8	-71
<i>Total</i>	<i>-19</i>	<i>53</i>	<i>-1</i>	<i>-54</i>	<i>-8</i>	<i>-71</i>
Net Cash Flow from Investing Activities	-945	-1,162	-1,366	-1,169	-1,042	-868
FINANCING ACTIVITIES						
Advances received (net)	-11	-12	-12	-13	-13	-13
Borrowings (net)	240	469	675	530	385	160
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-655	-655	-679	-654	-721	-704
Other financing	212	201	193	193	171	178
<i>Total</i>	<i>-215</i>	<i>4</i>	<i>177</i>	<i>56</i>	<i>-179</i>	<i>-379</i>
<i>Opening cash balance</i>	<i>375</i>	<i>434</i>	<i>402</i>	<i>370</i>	<i>423</i>	<i>448</i>
NET INCREASE IN CASH HELD ^(a)	58	-32	-32	53	25	44
<i>Closing cash balance</i>	<i>434</i>	<i>402</i>	<i>370</i>	<i>423</i>	<i>448</i>	<i>492</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>-363</i>	<i>-743</i>	<i>-887</i>	<i>-603</i>	<i>-510</i>	<i>-209</i>
Surplus	-363	-743	-887	-603	-510	-209

(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

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
REVENUE						
Taxation	3,227	3,734	3,585	3,681	3,880	4,103
Current grants and subsidies	5,464	5,436	5,913	6,119	6,326	6,680
Capital grants	288	291	367	333	308	280
Sales of goods and services	5,581	5,603	5,722	5,844	6,062	6,264
Interest income	189	182	193	201	206	213
Royalty income	685	657	736	756	750	741
Other	433	419	421	406	401	402
<i>Total</i>	15,866	16,323	16,937	17,341	17,934	18,683
EXPENSES						
Gross operating expenses						
Salaries	4,910	5,142	5,374	5,543	5,734	5,932
Depreciation and amortisation	1,200	1,228	1,251	1,273	1,318	1,364
Superannuation	478	501	516	525	538	553
Other gross operating expenses	5,911	5,909	6,153	6,145	6,374	6,636
Nominal superannuation interest	277	283	288	289	289	289
Other interest	578	577	623	692	723	747
Other property expenses	-	-	-	-	-	-
Current transfers	1,946	2,025	2,106	2,226	2,358	2,415
Capital transfers	265	240	252	271	265	250
<i>Total</i>	15,565	15,906	16,562	16,964	17,600	18,185
NET OPERATING BALANCE	302	417	374	377	334	498
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	2,088	2,574	2,924	2,499	2,388	2,108
Sales of non-financial assets	-442	-618	-595	-595	-579	-502
less depreciation	1,200	1,228	1,251	1,273	1,318	1,364
plus change in inventories	-63	16	-2	-5	6	1
plus other movements in non-financial assets	-88	-	-	-	-6	-
<i>Total</i>	295	744	1,076	627	491	243
NET LENDING/BORROWING	6	-327	-702	-250	-157	255

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)

NET OPERATING BALANCE	302	417	374	377	334	498
less provisions for doubtful debts	-12	3	5	3	3	3
plus net gains on assets (including derivatives)	204	86	86	88	86	74
plus capitalised interest	6	-	-	-	-	-
less revaluation of superannuation liabilities	48	-	-	-	-	-
plus all other adjustments	-	-	-	-	-	-
AAS OPERATING RESULT	475	500	455	462	417	569

Note: Columns may not add due to rounding.

Table 8

TOTAL NON-FINANCIAL PUBLIC SECTOR
Balance Sheet at 30 June

	2003	2004	2005	2006	2007	2008
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	422	393	400	430	430	445
Advances paid	450	420	371	375	369	365
Investments, loans and placements	2,988	2,810	2,659	2,798	2,932	3,108
Other non-equity assets	1,310	1,308	1,326	1,381	1,365	1,377
Equity	207	250	330	366	399	440
Total	5,378	5,180	5,087	5,350	5,496	5,734
<i>Non-Financial assets</i>						
Land and fixed assets	50,402	52,647	54,738	56,381	57,815	58,943
Other non-financial assets	148	234	242	262	272	282
Total	50,550	52,881	54,980	56,643	58,087	59,225
TOTAL ASSETS	55,927	58,061	60,067	61,993	63,583	64,959
LIABILITIES						
Deposits held	122	118	121	124	127	127
Advances received	581	561	549	541	529	520
Borrowings	8,317	8,737	9,464	10,096	10,556	10,581
Unfunded superannuation liabilities	5,575	5,576	5,558	5,533	5,490	5,437
Other employee entitlements and provisions	1,382	1,453	1,436	1,509	1,577	1,657
Non-equity liabilities	1,927	1,857	1,907	1,882	1,853	1,851
TOTAL LIABILITIES	17,903	18,303	19,035	19,685	20,132	20,173
NET WORTH	38,024	39,758	41,032	42,307	43,451	44,786
<i>Memorandum Item: Net Debt</i>	5,159	5,794	6,704	7,158	7,480	7,310

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)

NET WORTH	38,024	39,758	41,032	42,307	43,451	44,786
<i>less</i> equity (net worth) of PNFC and PFC sectors	199	249	329	365	399	439
<i>less</i> all other adjustments	-	-	-	-	-	-
AAS NET ASSETS	37,826	39,509	40,703	41,942	43,052	44,347

Note: Columns may not add due to rounding.

Table 9

TOTAL NON-FINANCIAL PUBLIC SECTOR
Cash Flow Statement

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	3,180	3,739	3,588	3,683	3,881	4,109
Receipts from sales of goods and services	5,785	5,592	5,804	5,847	6,125	6,291
Grants and subsidies received	5,794	5,677	6,281	6,458	6,633	6,960
Other receipts	1,950	1,831	1,945	1,963	1,961	1,944
<i>Total</i>	<i>16,709</i>	<i>16,838</i>	<i>17,617</i>	<i>17,952</i>	<i>18,601</i>	<i>19,304</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-11,420	-11,733	-12,273	-12,396	-12,849	-13,218
Grants and subsidies paid	-1,981	-2,186	-2,214	-2,336	-2,453	-2,494
Interest paid	-590	-596	-633	-700	-733	-752
Other payments	-1,176	-1,078	-1,125	-1,134	-1,124	-1,118
<i>Total</i>	<i>-15,167</i>	<i>-15,593</i>	<i>-16,245</i>	<i>-16,566</i>	<i>-17,159</i>	<i>-17,582</i>
Net Cash Flow from Operating Activities	1,542	1,245	1,372	1,386	1,442	1,722
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-2,088	-2,574	-2,924	-2,499	-2,388	-2,108
Sales of non-financial assets	442	618	595	595	579	502
<i>Total</i>	<i>-1,646</i>	<i>-1,956</i>	<i>-2,329</i>	<i>-1,905</i>	<i>-1,810</i>	<i>-1,606</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	16	15	13	11	9	8
Liquidity purposes	30	76	16	-39	-8	-71
<i>Total</i>	<i>45</i>	<i>91</i>	<i>29</i>	<i>-28</i>	<i>1</i>	<i>-64</i>
Net Cash Flow from Investing Activities	-1,601	-1,865	-2,301	-1,932	-1,809	-1,670
FINANCING ACTIVITIES						
Advances received (net)	-11	-20	-12	-13	-13	-13
Borrowings (net)	256	484	643	530	359	-63
Deposits received (net)	-9	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	24	28	73	66	54	67
<i>Total</i>	<i>260</i>	<i>492</i>	<i>703</i>	<i>583</i>	<i>400</i>	<i>-9</i>
<i>Opening cash balance</i>	<i>1,883</i>	<i>2,083</i>	<i>1,955</i>	<i>1,729</i>	<i>1,766</i>	<i>1,799</i>
NET INCREASE IN CASH HELD ^(a)	201	-129	-225	37	33	44
<i>Closing cash balance</i>	<i>2,083</i>	<i>1,955</i>	<i>1,729</i>	<i>1,766</i>	<i>1,799</i>	<i>1,843</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>-104</i>	<i>-711</i>	<i>-957</i>	<i>-518</i>	<i>-368</i>	<i>116</i>
Surplus	-104	-711	-957	-518	-368	116

(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

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
REVENUE						
Current grants and subsidies	-	1	1	1	1	-
Capital grants	-	-	-	-	-	-
Sales of goods and services	490	573	609	630	651	683
Interest income	893	879	1,029	1,018	1,010	1,052
Other	6	1	-	-	-	-
<i>Total</i>	<i>1,389</i>	<i>1,454</i>	<i>1,639</i>	<i>1,648</i>	<i>1,661</i>	<i>1,735</i>
EXPENSES						
Gross operating expenses						
Salaries	18	19	20	21	22	23
Depreciation and amortisation	4	4	3	4	3	3
Superannuation	2	2	2	2	2	2
Other gross operating expenses	493	556	568	635	664	693
Nominal superannuation interest	-	-	-	-	-	-
Other interest	790	709	857	841	828	865
Other property expenses	7	14	5	5	4	4
Current transfers	2	2	2	2	2	2
Capital transfers	1	2	2	2	3	3
<i>Total</i>	<i>1,318</i>	<i>1,307</i>	<i>1,459</i>	<i>1,512</i>	<i>1,528</i>	<i>1,595</i>
NET OPERATING BALANCE	71	147	180	136	133	140
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	6	5	2	3	3	4
Sales of non-financial assets	-1	-	-	-	-	-
<i>less</i> depreciation	4	4	3	4	3	3
<i>plus</i> change in inventories	-	-	-	-	-	-
<i>plus</i> other movements in non-financial assets	-	-	-	-	-	-
<i>Total</i>	<i>1</i>	<i>-</i>	<i>-1</i>	<i>-1</i>	<i>-</i>	<i>-</i>
NET LENDING/BORROWING	70	146	181	137	134	140
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	71	147	180	136	133	140
<i>less</i> provisions for doubtful debts	-	-	-	-	-	-
<i>plus</i> net gains on assets (including derivatives)	-44	-	-	-	-	-
<i>plus</i> capitalised interest	-	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	-1	-	-	-	-	-
<i>plus</i> all other adjustments	-	-	-	-	-	-
AAS OPERATING RESULT	27	146	180	136	133	140

Note: Columns may not add due to rounding.

Table 11

PUBLIC FINANCIAL CORPORATIONS
Balance Sheet at 30 June

	2003 Actual \$m	2004 Estimated Actual \$m	2005 Budget Estimate \$m	2006 Forward Estimate \$m	2007 Forward Estimate \$m	2008 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	19	19	15	15	13	14
Advances paid	1,353	1,475	1,601	1,737	1,861	1,973
Investments, loans and placements	12,291	13,510	14,029	14,412	14,624	14,677
Other non-equity assets	445	422	416	413	413	415
Equity	696	760	833	905	986	1,067
Total	14,805	16,187	16,894	17,481	17,898	18,146
<i>Non-Financial assets</i>						
Land and fixed assets	301	327	357	385	418	452
Other non-financial assets	-	11	11	11	10	9
Total	301	339	368	396	428	461
TOTAL ASSETS	15,106	16,526	17,262	17,877	18,326	18,607
LIABILITIES						
Deposits held	-	-	-	-	-	-
Advances received	3	3	3	3	3	3
Borrowings	12,998	14,294	14,868	15,325	15,593	15,690
Unfunded superannuation liabilities	16	15	15	14	13	12
Other employee entitlements and provisions	6	6	6	6	6	6
Non-equity liabilities	1,883	1,959	2,041	2,164	2,312	2,456
TOTAL LIABILITIES	14,907	16,277	16,933	17,512	17,927	18,168
<i>Shares and other contributed capital</i>	-	-	-	-	-	-
NET WORTH	199	249	329	365	399	439
<i>Memorandum Item: Net Debt</i>	-662	-708	-774	-835	-903	-970

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)

NET WORTH	199	249	329	365	399	439
<i>less</i> all other adjustments	-	-	-	-	-	-
<i>plus</i> shares and other contributed capital	-	-	-	-	-	-
AAS NET ASSETS	199	249	329	365	399	439

Note: Columns may not add due to rounding.

Table 12

PUBLIC FINANCIAL CORPORATIONS
Cash Flow Statement

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Receipts from sales of goods and services	598	564	594	615	638	669
Grants and subsidies received	-	1	1	1	1	-
Other receipts	887	843	991	979	971	1,014
<i>Total</i>	<i>1,486</i>	<i>1,407</i>	<i>1,585</i>	<i>1,595</i>	<i>1,610</i>	<i>1,683</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-452	-483	-504	-536	-544	-582
Grants and subsidies paid	-1	-2	-	-	-	-
Interest paid	-787	-712	-855	-841	-828	-865
Other payments	-98	-85	-86	-89	-92	-95
<i>Total</i>	<i>-1,338</i>	<i>-1,281</i>	<i>-1,446</i>	<i>-1,466</i>	<i>-1,464</i>	<i>-1,542</i>
Net Cash Flow from Operating Activities	148	126	139	128	145	141
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-6	-5	-2	-3	-3	-4
Sales of non-financial assets	1	-	-	-	-	-
<i>Total</i>	<i>-5</i>	<i>-4</i>	<i>-2</i>	<i>-3</i>	<i>-3</i>	<i>-4</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	-162	-235	-247	-248	-253	-237
<i>Total</i>	<i>-162</i>	<i>-235</i>	<i>-247</i>	<i>-248</i>	<i>-253</i>	<i>-237</i>
Net Cash Flow from Investing Activities	-167	-239	-249	-251	-256	-240
FINANCING ACTIVITIES						
Advances received (net)	-	-	-	-	-	-
Borrowings (net)	404	108	112	129	116	106
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-8	-14	-5	-5	-4	-4
Other financing	1	-	-	-	-	-
<i>Total</i>	<i>397</i>	<i>94</i>	<i>108</i>	<i>124</i>	<i>111</i>	<i>102</i>
<i>Opening cash balance</i>	<i>2,916</i>	<i>3,294</i>	<i>3,275</i>	<i>3,273</i>	<i>3,274</i>	<i>3,275</i>
NET INCREASE IN CASH HELD ^(a)	378	-19	-2	1	-	3
<i>Closing cash balance</i>	<i>3,294</i>	<i>3,275</i>	<i>3,273</i>	<i>3,274</i>	<i>3,275</i>	<i>3,277</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	<i>134</i>	<i>107</i>	<i>132</i>	<i>121</i>	<i>138</i>	<i>133</i>
<i>less finance leases and similar arrangements</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Surplus	134	107	132	121	138	133

(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

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Taxation	3,225	3,733	3,584	3,680	3,879	4,101
Current grants and subsidies	5,464	5,436	5,913	6,119	6,326	6,680
Capital grants	288	291	367	333	308	280
Sales of goods and services	5,944	6,031	6,193	6,329	6,558	6,781
Interest income	539	479	588	519	475	483
Royalty income	685	657	736	756	750	741
Other	425	404	416	401	396	398
<i>Total</i>	16,570	17,031	17,796	18,137	18,693	19,465
EXPENSES						
Gross operating expenses						
Salaries	4,928	5,162	5,394	5,564	5,756	5,955
Depreciation and amortisation	1,205	1,232	1,254	1,277	1,321	1,368
Superannuation	480	503	518	527	540	555
Other gross operating expenses	6,278	6,318	6,582	6,635	6,883	7,163
Nominal superannuation interest	277	283	288	289	289	289
Other interest	825	703	846	833	810	830
Other property expenses	-	-	-	-	-	-
Current transfers	1,939	2,025	2,106	2,226	2,358	2,415
Capital transfers	266	242	254	273	268	253
<i>Total</i>	16,197	16,467	17,242	17,624	18,226	18,827
NET OPERATING BALANCE	373	564	555	513	467	638
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	2,094	2,579	2,927	2,502	2,392	2,112
Sales of non-financial assets	-442	-618	-595	-595	-579	-502
less depreciation	1,204	1,232	1,254	1,276	1,321	1,368
plus change in inventories	-63	16	-2	-5	6	1
plus other movements in non-financial assets	-88	-	-	-	-6	-
<i>Total</i>	296	745	1,075	626	491	243
NET LENDING/BORROWING	76	-181	-521	-113	-24	395

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)

NET OPERATING BALANCE	373	564	555	513	467	638
less provisions for doubtful debts	-12	3	6	3	3	3
plus net gains on assets (including derivatives)	160	86	86	88	86	74
plus capitalised interest	6	-	-	-	-	-
less revaluation of superannuation liabilities	48	-	-	-	-	-
plus all other adjustments	-	-	-	-	-	-
AAS OPERATING RESULT	502	647	634	598	550	709

Note: Columns may not add due to rounding.

Table 14

TOTAL PUBLIC SECTOR
Balance Sheet at 30 June

	2003 Actual \$m	2004 Estimated Actual \$m	2005 Budget Estimate \$m	2006 Forward Estimate \$m	2007 Forward Estimate \$m	2008 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	439	412	415	445	443	458
Advances paid	1,800	1,891	1,968	2,108	2,227	2,334
Investments, loans and placements	5,840	6,351	5,823	5,398	5,013	4,934
Other non-equity assets	1,557	1,556	1,582	1,638	1,632	1,652
Equity	704	761	834	906	987	1,068
Total	10,341	10,970	10,623	10,494	10,302	10,446
<i>Non-Financial assets</i>						
Land and fixed assets	50,702	52,975	55,095	56,767	58,233	59,396
Other non-financial assets	148	245	253	273	282	291
Total	50,850	53,220	55,348	57,039	58,515	59,686
TOTAL ASSETS	61,191	64,190	65,971	67,533	68,817	70,132
LIABILITIES						
Deposits held	120	118	121	124	126	126
Advances received	581	561	549	541	529	520
Borrowings	11,875	13,061	13,468	13,609	13,605	13,419
Unfunded superannuation liabilities	5,591	5,591	5,573	5,547	5,504	5,450
Other employee entitlements and provisions	1,387	1,458	1,442	1,514	1,583	1,663
Non-equity liabilities	3,613	3,642	3,788	3,891	4,020	4,168
TOTAL LIABILITIES	23,167	24,432	24,940	25,226	25,367	25,346
NET WORTH	38,024	39,758	41,032	42,307	43,451	44,786
<i>Memorandum Item: Net Debt</i>	4,497	5,086	5,930	6,323	6,577	6,339

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)

NET WORTH	38,024	39,758	41,032	42,307	43,451	44,786
<i>less all other adjustments</i>	-	-	-	-	-	-
AAS NET ASSETS	38,024	39,758	41,032	42,307	43,451	44,786

Note: Columns may not add due to rounding.

Table 15

TOTAL PUBLIC SECTOR						
Cash Flow Statement						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	3,151	3,704	3,552	3,646	3,844	4,071
Receipts from sales of goods and services	6,262	6,026	6,270	6,323	6,611	6,794
Grants and subsidies received	5,794	5,677	6,281	6,458	6,633	6,960
Other receipts	2,245	2,045	2,271	2,216	2,162	2,163
Total	17,452	17,451	18,374	18,643	19,250	19,989
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-11,750	-12,086	-12,649	-12,792	-13,241	-13,634
Grants and subsidies paid	-1,981	-2,187	-2,214	-2,336	-2,453	-2,494
Interest paid	-813	-707	-839	-827	-801	-828
Other payments	-1,226	-1,115	-1,165	-1,179	-1,173	-1,172
Total	-15,771	-16,094	-16,867	-17,134	-17,668	-18,129
Net Cash Flow from Operating Activities	1,681	1,357	1,507	1,510	1,582	1,859
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-2,094	-2,579	-2,927	-2,502	-2,392	-2,112
Sales of non-financial assets	442	618	595	595	579	502
Total	-1,651	-1,960	-2,332	-1,907	-1,813	-1,610
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	16	15	13	11	9	8
Liquidity purposes	-132	-159	-230	-287	-261	-308
Total	-117	-144	-218	-276	-252	-300
Net Cash Flow from Investing Activities	-1,768	-2,104	-2,549	-2,183	-2,065	-1,910
FINANCING ACTIVITIES						
Advances received (net)	-11	-20	-12	-13	-13	-13
Borrowings (net)	660	593	755	659	474	43
Deposits received (net)	-9	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	25	28	73	66	54	67
Total	665	600	816	712	516	97
<i>Opening cash balance</i>	<i>4,456</i>	<i>5,035</i>	<i>4,887</i>	<i>4,660</i>	<i>4,698</i>	<i>4,732</i>
NET INCREASE IN CASH HELD^(a)	579	-148	-227	38	34	46
<i>Closing cash balance</i>	<i>5,035</i>	<i>4,887</i>	<i>4,660</i>	<i>4,698</i>	<i>4,732</i>	<i>4,778</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	<i>30</i>	<i>-604</i>	<i>-825</i>	<i>-398</i>	<i>-230</i>	<i>250</i>
<i>less finance leases and similar arrangements</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Surplus	30	-604	-825	-398	-230	250

(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 16

SPENDING BY GOVERNMENT PURPOSE CLASSIFICATION ^(a)
General Government

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
<i>Expenses</i>						
General public services	445	395	323	236	219	198
Public order and safety	1,193	1,303	1,361	1,406	1,441	1,467
Education	3,161	3,276	3,389	3,514	3,642	3,755
Health	2,799	2,926	3,088	3,249	3,433	3,635
Social security and welfare	484	540	563	587	609	641
Housing and community amenities	800	792	818	840	849	837
Recreation and culture	330	357	363	376	372	369
Fuel and energy	77	86	87	97	98	102
Agriculture, forestry, fishing and hunting	288	303	267	301	313	316
Mining and mineral resources (other than fuels), manufacturing and construction	100	147	108	127	117	115
Transport and communications	1,148	1,277	1,429	1,428	1,515	1,606
Other economic affairs	223	187	187	177	174	174
Other purposes	472	469	493	495	501	504
Total General Government Expenses	11,518	12,060	12,477	12,832	13,283	13,721
<i>Purchases of Non-financial Assets</i>						
General public services	112	70	188	140	198	178
Public order and safety	69	72	140	136	151	104
Education	147	163	163	161	163	154
Health	95	99	162	169	147	155
Social security and welfare	7	15	10	17	16	4
Housing and community amenities	62	109	84	66	66	64
Recreation and culture	40	58	58	51	49	51
Fuel and energy	1	1	2	2	1	1
Agriculture, forestry, fishing and hunting	12	22	33	22	11	10
Mining and mineral resources (other than fuels), manufacturing and construction	14	17	14	5	3	2
Transport and communications	194	282	277	161	124	204
Other economic affairs	41	10	10	12	5	4
Other purposes	-	-	-	-	-	-
Total Purchases of Non-financial Assets	794	917	1,139	944	933	930

(a) Data in this table are for consolidated general government aggregates. The data exclude internal transactions within the sector. This differs from the expenditure discussion at portfolio level in Chapter 3: *Financial Projections – Expenditure*. In relation to purchases of non-financial assets, the information in this table represents spending by function on fixed assets, which may be different to Capital Works Program spending which has a broader definition and different sectoral coverage.

Table 17

LOAN COUNCIL ALLOCATIONS ^(a)
Western Australia

	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget Estimate
	\$m	\$m	\$m
General Government deficit	152	-32	71
Public Non-financial Corporations' net financing requirement	731	743	887
Net Capital Advances	15	15	13
<i>Total non-financial public sector deficit</i>	<i>868</i>	<i>696</i>	<i>945</i>
<i>Memorandum Items ^(b)</i>	<i>-132</i>	<i>-140</i>	<i>-148</i>
Loan Council Allocation	736	556	796

(a) 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 State government agencies covered by the whole-of-government forward estimates, classified by sector under the GFS framework.

This list differs from the portfolio list that appears in Budget Paper No. 2. The listing in that budget paper covers only those agencies which receive appropriations and/or have a capital works program.

General Government

Agricultural Practices Board of Western Australia	Gaming and Wagering Commission of Western Australia
Agriculture Protection Board of Western Australia	Gascoyne Development Commission
Agricultural Produce Commission	Goldfields-Esperance Development Commission
Anti-Corruption Commission ^(a)	Governor's Establishment
Anzac Day Trust	Great Southern Development Commission
Betting Control Board ^(a)	Great Southern TAFE
Botanic Gardens and Parks Authority	Heritage Council of Western Australia
Building and Construction Industry Training Board	Keep Australia Beautiful Council (W.A.)
Central TAFE	Kimberley Development Commission
Central West College of TAFE	Kimberley College of TAFE
Challenger TAFE	Landcare Trust
Commissioner of Main Roads	Law Reform Commission of Western Australia
Corruption and Crime Commission	Legal Aid Commission of Western Australia
Country High School Hostels Authority	Legal Costs Committee
Curriculum Council	Legislative Assembly
C.Y. O'Connor College of TAFE	Legislative Council
Department of Agriculture	Local Health Authorities Analytical Committee
Department for Community Development	Mid-West Development Commission
Department of Conservation and Land Management	Minerals and Energy Research Institute of Western Australia
Department of Consumer and Employment Protection	Office of Energy
Department of Culture and the Arts	Office of Health Review
Department of Education and Training	Office of the Auditor General
Department of Education Services	Office of the Director of Public Prosecutions
Department of Environmental Protection	Office of the Information Commissioner
Department of Fisheries	Office of the Inspector of Custodial Services
Department of Health	Office of the Parliamentary Inspector of the Corruption and Crime Commission
Department of Housing and Works	Office of the Public Sector Standards Commissioner
Department of Indigenous Affairs	Office of Water Regulation ^(a)
Department of Industry and Resources	Parliamentary Services Department
Department of Justice	Peel Development Commission
Department of Land Information	Perth International Centre for Application of Solar Energy
Department of Local Government and Regional Development	Pilbara College of TAFE
Department for Planning and Infrastructure	Pilbara Development Commission
Department of the Premier and Cabinet	Police Service
Department of Racing, Gaming and Liquor	Professional Standards Council
Department of Sport and Recreation	Racecourse Development Trust ^(a)
Department of the Registrar, Western Australian Industrial Relations Commission	Racing Penalties Appeal Tribunal of Western Australia
Department of Treasury and Finance	Recreation Camps and Reserve Board
Disability Services Commission	Royal Commission Into Whether There Has Been Any Corrupt or Criminal Conduct by Western Australian Police Officers ^(a)
Economic Regulation Authority	Rural Business Development Corporation
Equal Opportunity Commission	Salaries and Allowances Tribunal
Fire and Emergency Services Authority of Western Australia	

(a) Subject to Machinery of Government changes from this Budget and/or agencies wound up in recent years.

General Government (cont.)

Small Business Development Corporation	Western Australian Boxing Commission
South West Development Commission	Western Australian Building Management Authority
South West Regional College of TAFE	Western Australian Electoral Commission
State Supply Commission	Western Australian Gas Disputes Arbitrator
Swan College of TAFE	Western Australian Greyhound Racing Association
Swan River Trust	Western Australian Health Promotion Foundation
The Aboriginal Affairs Planning Authority	Western Australian Independent Gas Pipelines Access Regulator ^(a)
The Burswood Park Board	Western Australian Independent Rail Access Regulator ^(a)
The Coal Miner's Welfare Board of Western Australia	Western Australian Institute of Sport
The National Trust of Australia (W.A.)	Western Australian Meat Industry Authority
The Parliamentary Commissioner for Administrative Investigations	Western Australian Planning Commission
The Potato Growing Industry Trust Fund Advisory Committee	Western Australian Sports Centre Trust
The Poultry Industry Trust Fund Committee	Western Australian Tourism Commission
Trustees of the Public Education Endowment	Wheatbelt Development Commission
Water and Rivers Commission	Workers' Compensation and Rehabilitation Commission
West Coast College of TAFE	Zoological Parks Authority

Public Non-Financial Corporations

Albany Port Authority	Metropolitan Cemeteries Board
Animal Resources Authority	Midland Redevelopment Authority
Armadale Redevelopment Authority	Perth Market Authority
Broome Port Authority	Port Hedland Port Authority
Bunbury Port Authority	Potato Marketing Corporation of Western Australia
Bunbury Water Board	Public Transport Authority of Western Australia
Busselton Water Board	Racing and Wagering Western Australia
Dampier Port Authority	Rottnest Island Authority
East Perth Redevelopment Authority	Subiaco Redevelopment Authority
Electricity Corporation (Western Power Corporation)	The Eastern Goldfields Transport Board
Esperance Port Authority	The State Housing Commission
Forest Products Commission	The Western Australian Government Railways Commission ^(a)
Fremantle Cemetery Board ^(a)	Totalisator Agency Board ^(a)
Fremantle Port Authority	Water Corporation
Geraldton Port Authority	Western Australian Coastal Shipping Commission
Gold Corporation	Western Australian Egg Marketing Board
Government Employees Housing Authority	Western Australian Land Authority
Lotteries Commission	
Metropolitan (Perth) Passenger Transport Trust ^(a)	

Public Financial Corporations

Community Insurance Fund
Country Housing Authority
Insurance Commission of Western Australia
Keystart Housing Scheme, comprising
Keystart Bonds Ltd
Keystart Housing Scheme Trust
Keystart Loans Ltd
Keystart Support Pty Ltd
Keystart Support (Subsidiary) Pty Ltd
Keystart Support Trust
Riskcover
Western Australian Treasury Corporation

(a) Subject to Machinery of Government changes from this Budget and/or agencies wound up in recent years.

Agencies Outside the State's Public Sector

Some State agencies are not covered in the whole-of-government reporting framework as defined under Australian Accounting Standards and/or the GFS framework. The entities listed below, which administer superannuation and like funds and/or hold private funds in trust or fidelity type funds, are examples of such agencies not included in the definition of the public sector used in this publication. This is because the assets are not available for the benefit of, and/or are not controlled by, the State.

Coal Industry Superannuation Board
Construction Industry Long Service Leave Payments Board
Curtin University of Technology and its subsidiaries
Edith Cowan University
Fire and Emergency Services Superannuation Board
Government Employees Superannuation Board
Legal Contribution Trust
Murdoch University and its subsidiaries
Public Trustee
The University of Western Australia and its subsidiaries
Other Professional and Trade Supervisory and Regulatory
Boards
Legal Contribution Trust

APPENDIX 2

General Government Operating Revenue

This appendix contains general government revenue estimates prepared on an accrual basis consistent with the GFS framework.

Table 1

OPERATING REVENUE						
General Government						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
TAXATION						
Taxes on employers' payroll and labour force						
<i>Payroll tax</i>	1,004	1,128	1,202	1,273	1,349	1,428
Property taxes						
<i>Land tax</i>	260	277	301	322	345	369
Conveyances and transfers	833	1,092	846	886	939	995
Mortgages	96	107	95	100	106	112
Other stamp duties	49	44	30	32	33	35
<i>Total stamp duties on financial and capital transactions</i>	978	1,242	972	1,018	1,078	1,143
Financial Institutions Duty	2	-	-	-	-	-
Debits Tax	95	96	96	8	-	-
<i>Total financial institutions taxes</i>	97	96	96	8	-	-
Metropolitan Region						
Improvement Tax	39	43	46	49	52	56
Emergency Services Levy	-	75	118	124	129	133
Loan guarantee fees	10	10	11	12	13	13
<i>Total other property taxes</i>	49	128	175	184	194	202
Taxes on provision of goods and services						
Lotteries Commission	94	94	95	97	98	99
less rebates	-19	-20	-21	-21	-21	-21
Video lottery terminals	-	1	1	1	1	1
Casino Tax	38	43	43	46	47	48
less rebates	-21	-25	-24	-25	-25	-26
TAB betting tax	48	51	53	56	59	62
less rebates	-21	-22	-24	-25	-26	-26
<i>Total taxes on gambling</i>	119	121	124	128	132	136
Contribution to fire brigades	69	30	-	-	-	-
Stamp duty on insurance policies	220	274	254	264	276	288
Other	18	6	6	6	6	6
<i>Total taxes on insurance</i>	307	310	260	270	282	294
Taxes on use of goods and performance of activities						
Stamp duty on vehicle licences	232	241	249	258	269	281
Permits - oversize vehicles and loads	2	2	2	2	2	2
Motor vehicle recording fee	42	41	44	45	47	48
Motor vehicle registrations	299	298	316	331	348	368
<i>Total motor vehicle taxes</i>	574	582	610	636	666	700
Total Taxation	3,387	3,884	3,739	3,839	4,044	4,271

Table 1 (cont.)

OPERATING REVENUE						
General Government						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
CURRENT GRANTS AND SUBSIDIES						
<i>General Purpose Grants</i>						
GST revenue:						
Grants	2,910	3,080	3,496	3,629	3,766	4,009
Budget balancing assistance	44	-	-	-	-	-
Competition reform	72	34	34	35	36	37
<i>Specific Purpose Grants to the State</i>						
Australian Health Care						
Agreement	718	730	770	812	857	906
Other health	268	229	211	215	226	228
Schools assistance –						
government schools	209	205	212	218	228	228
Vocational training	83	86	91	89	89	89
Roads	34	30	32	30	29	30
Other	133	99	104	132	106	106
<i>Specific Purpose Grants through the State</i>						
Schools assistance –						
non-government schools	380	420	453	487	523	561
Local government grants	102	102	106	110	114	118
Local government roads	71	71	73	76	79	82
First Home Owner Grants –						
Extension	6	-	-	-	-	-
<i>Other Grants</i>						
North West Shelf royalties	435	351	331	287	273	286
Total Current Grants and Subsidies	5,464	5,436	5,913	6,119	6,326	6,680
CAPITAL GRANTS						
<i>Specific Purpose Grants to the State</i>						
Roads	53	49	97	61	41	37
Schools assistance –						
government schools	7	23	23	23	23	23
Vocational training	21	20	16	18	14	14
Other	195	190	221	221	220	196
<i>Specific Purpose Grants through the State</i>						
Schools assistance –						
non-government schools	10	9	10	10	10	10
Total Capital Grants	287	291	367	333	308	280

Table 1 (cont.)

OPERATING REVENUE						
General Government						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
SALES OF GOODS AND SERVICES						
Department for Planning and Infrastructure	155	88	88	90	93	96
Department of Health	165	157	162	164	165	167
Department of Education and Training	98	105	103	104	105	105
TAFE Colleges	78	78	80	85	84	86
Department of Land Information	67	60	62	58	58	60
Department of Justice	50	49	51	52	52	52
Department of Conservation and Land Management	34	29	29	29	29	29
State Supply Commission	58	25	2	1	-	-
Department of Consumer and Employment Protection	19	19	23	24	24	25
Department of Fisheries	21	22	23	23	24	24
Department of Culture and the Arts	17	15	15	15	16	16
Police Service	14	13	13	13	13	14
All Others	214	252	245	241	236	238
Total Sales of Goods and Services	990	912	896	899	900	909
INTEREST INCOME	107	116	118	114	112	104
REVENUE FROM PUBLIC CORPORATIONS						
Dividends	390	426	421	446	455	454
Tax Equivalent Regime	239	257	235	245	254	287
Total Revenue from Public Corporations	629	682	656	691	709	741
ROYALTY INCOME						
Revenue from Territorial less petroleum and other refunds	707	681	751	772	763	747
	-22	-23	-15	-16	-12	-5
Total Royalty Income	685	657	736	756	750	741
OTHER						
Lease rentals	36	39	41	43	43	43
Fines	69	76	76	76	76	76
Revenue not elsewhere counted	117	172	178	184	213	197
Total Other	222	287	296	303	333	316
GRAND TOTAL	11,771	12,266	12,719	13,056	13,481	14,042

Note: Columns may not add due to rounding.

APPENDIX 3

2003-04 General Government Operating Revenue

This appendix contains general government revenue estimates for the 2003-04 financial year comparing the original 2003-04 Budget estimates, mid-year review revisions and the current estimated outturn.

Table 1

2003-04 OPERATING REVENUE
General Government

	2003-04 Budget Estimate \$m	2003-04 Mid-Year Revision \$m	2003-04 Estimated Actual \$m
TAXATION			
Taxes on employers' payroll and labour force			
<i>Payroll tax</i>	1,060	1,102	1,128
Property taxes			
<i>Land tax</i>	277	277	277
Conveyances and transfers	842	1,062	1,092
Mortgages	95	102	107
Other stamp duties	32	44	44
<i>Total stamp duties on financial and capital transactions</i>	969	1,207	1,242
Financial Institutions Duty	-	-	-
Debits Tax	96	96	96
<i>Total financial institutions taxes</i>	96	96	96
Metropolitan Region Improvement Tax	43	43	43
Emergency Services Levy	76	76	75
Loan guarantee fees	11	10	10
<i>Total other property taxes</i>	129	128	128
Taxes on provision of goods and services			
Lotteries Commission	93	94	94
less rebates	-20	-20	-20
Video lottery terminals	1	1	1
Casino Tax	47	43	43
less rebates	-28	-25	-25
TAB betting tax	49	50	51
less rebates	-22	-22	-22
<i>Total taxes on gambling</i>	119	121	121
Contribution to fire brigades	30	30	30
Stamp duty on insurance policies	289	279	274
Other	10	6	6
<i>Total taxes on insurance</i>	330	315	310
Taxes on use of goods and performance of activities			
Stamp duty on vehicle licences	230	241	241
Permits - oversize vehicles and loads	2	2	2
Motor vehicle recording fee	41	41	41
Motor vehicle registrations	290	298	298
<i>Total motor vehicle taxes</i>	563	582	582
Total Taxation	3,543	3,828	3,884
CURRENT GRANTS AND SUBSIDIES			
<i>General Purpose Grants</i>			
GST revenue:			
Grants	2,946	3,082	3,080
Budget balancing assistance	61	-	-
Competition reform	75	34	34
<i>Specific Purpose Grants to the State</i>			
Australian Health Care Agreement	734	731	730
Other health	230	223	229
Schools assistance – government schools	189	200	205
Vocational training	86	86	86
Roads	28	30	30
Other	99	115	99

Table 1 (cont.)

2003-04 OPERATING REVENUE
General Government

	2003-04 Budget Estimate \$m	2003-04 Mid-Year Revision \$m	2003-04 Estimated Actual \$m
<i>Specific Purpose Grants through the State</i>			
Schools assistance – non-government schools	414	420	420
Local government grants	102	102	102
Local government roads	70	71	71
<i>Other Grants</i>			
North West Shelf royalties	355	332	351
Total Current Grants and Subsidies	5,386	5,426	5,436
CAPITAL GRANTS			
<i>Specific Purpose Grants to the State</i>			
Roads	39	49	49
Schools assistance – government schools	23	23	23
Vocational training	20	20	20
Other	187	188	190
<i>Specific Purpose Grants through the State</i>			
Schools assistance – non-government schools	9	9	9
Total Capital Grants	278	289	291
SALES OF GOODS AND SERVICES			
Department for Planning and Infrastructure	157	82	88
Department of Health	143	143	157
Department of Education and Training	104	105	105
TAFE Colleges	79	78	78
Department of Land Information	62	66	60
Department of Justice	49	50	49
Department of Conservation and Land Management	26	26	29
State Supply Commission	26	26	25
Department of Consumer and Employment Protection	23	20	19
Department of Fisheries	22	22	22
Department of Culture and the Arts	14	15	15
Police Service	13	13	13
All Others	212	218	252
Total Sales of Goods and Services	930	864	912
INTEREST INCOME	95	112	116
REVENUE FROM PUBLIC CORPORATIONS			
Dividends	428	436	426
Tax Equivalent Regime	228	241	257
Total Revenue from Public Corporations	657	677	682
ROYALTY INCOME			
Revenue from Territorial less petroleum and other refunds	670 -20	647 -16	681 -23
Total Royalty Income	650	631	657
OTHER			
Lease rentals	38	38	39
Fines	77	75	76
Revenue not elsewhere counted	121	110	172
Total Other	235	223	287
GRAND TOTAL	11,774	12,049	12,266

Note: Columns may not add due to rounding.

APPENDIX 4

Tax and Royalty Expenditure Statement

Purpose

The purpose of the tax and royalty expenditure statement is to provide information about the cost or value of tax or royalty concessions that would not otherwise be reported in the budget papers in the years after the concessions were introduced.

What is a tax or royalty expenditure?

Tax and royalty expenditures include revenue foregone by the government and financial benefits to taxpayers from exemptions and other concessions that depart from the general tax norm. They are expenditures in the sense that their impact on the budget is similar to direct outlays, and they can be used to achieve similar goals as spending programs.

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

Measuring tax and royalty expenditures

Measuring a tax or royalty expenditure requires identification of:

- a benchmark tax or royalty base and rate; and
- concessionary tax treatment of components of the benchmark tax or royalty base (e.g. a concession or exemption for a particular industry, activity or class of taxpayer).

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

This statement is not exhaustive. For example, it does not include estimates of revenue foregone from exemptions provided to charities, religious organisations or government agencies. Nor has the revenue impact of differential royalty rates applying to some minerals under State legislation been fully quantified (it could be argued that these exemptions and differential rates form part of the benchmark tax and royalty base). Very small exemptions or concessions are also excluded.

This year's statement includes actual outcomes for 2002-03 and estimates for 2003-04.

Specific tax and royalty expenditures

Movements in the value of specific tax and royalty expenditures between 2002-03 and 2003-04 include:

- an increase in the value of the payroll tax concession for small business due to the increase in the exemption threshold of annual payroll from \$675,000 to \$750,000 from 1 July 2003 when the single marginal rate was introduced;
- an increase in the value of the payroll tax concession for trainees and apprentices due to a 17.9% increase in the number of trainees;
- a decrease in the value of the principal place of residence land tax exemption reflecting the revised land tax scale introduced from 1 July 2003 (which lowered tax liabilities that would apply without the concession);
- the abolition of the land developers' land tax concession from 1 July 2003;
- a significant increase in the value of the corporate reconstructions conveyance duty exemption due to a number of exceptionally high value transactions in 2003-04;
- a decrease in the total cost of the \$500 rebate for first home buyers reflecting a fall in the number of home buyers eligible for this rebate;
- an increase in the value of insurance concessions, due largely to the increase in the general rate of duty from 8% to 10% from 1 July 2003;
- an increase in the value of the home mortgage duty concession as a result of an increase in both the number and value of mortgage home loans;
- a decline in the value of gold royalty concession due to a lower average gold price in Australian dollar terms; and
- a decline in iron ore concession due to a lower quantity of beneficiated products for 2003-04.

Table 1

SUMMARY OF MAJOR TAX AND ROYALTY EXPENDITURES
Western Australia

	2002-03	2003-04
	Actual	Estimated
	\$m	Actual \$m
PAYROLL TAX		
Small business exemption	533.7	571.6
Apprentices and trainees exemption	12.0	14.5
LAND TAX		
Principal place of residence exemption	258.3	240.5
Primary production exemption	24.3	22.4
Land developers' concession	4.7	-
STAMP DUTY ON CONVEYANCES		
Corporate reconstructions exemption	21.5	133.5
Family farm exemption	6.9	6.0
Concessionary rate for homes and businesses	2.5	3.5
\$500 rebate for first home buyers	2.7	1.5
STAMP DUTY ON INSURANCE POLICIES		
Health insurance policies exemption	67.5	87.5
Workers' compensation insurance concession	22.5	36.5
Marine hulls exemption	2.5	3.5
STAMP DUTY ON MORTGAGES		
Concessionary rate for homes	12.2	17.0
MOTOR VEHICLE LICENCE FEES		
Family vehicle concession	25.5	26.1
Primary producer vehicle concession	9.7	10.1
Pensioner vehicle concession	17.9	18.6
STAMP DUTY ON MOTOR VEHICLE LICENCE TRANSFERS		
New heavy vehicle concession	9.0	10.0
Used heavy vehicle concession	2.0	2.0
MINING ROYALTIES		
Concession for gold	2.1	1.6
Iron Ore Agreement Act concessions	44.3	42.4
TOTAL	1,081.8	1,248.7

APPENDIX 5

State Government Social Concessions Expenditure Statement

Overview

The State Government provides social concessions in the form of rebates, discounts and waivers to improve the affordability of key services and other services that improve the quality of life for eligible individuals and families. Eligibility is based on low income, age, service to country or community and/or special needs or disadvantage.

In many cases, eligibility for a concession is evidenced by possession of a social security card issued by the Commonwealth Government, or other cards issued by the State Government. A synopsis of these cards is included below.

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 2002-03, the State Government provided social concessions with an estimated value of \$387.3 million across a range of service areas. The cost to the State was partly offset by a \$15.6 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 is the difference between the concession and the otherwise applicable price or fare. In others, such as those involving a fixed annual charge, the estimates reflect the rebate or subsidy paid.

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.

Table 1
(a)

SUMMARY OF STATE GOVERNMENT SOCIAL CONCESSIONS
Western Australia

Class of Concession	2001-02 Estimated Total Value \$m	2001-02 Estimated No. of Recipients	2002-03 Estimated Total Value \$m	2002-03 Estimated No. of Recipients
ENERGY				
Supply charge rebate	20.0	293,437	21.2	251,141
Dependent child rebate	10.7	87,961	11.5	67,169
Other	0.8	n.a.	0.9	n.a.
WATER, SEWERAGE & DRAINAGE				
Rates rebate for pensioners	25.9	114,235	27.4	116,307
Consumption concession for pensioners	4.7	131,529	4.9	138,017
Rates rebate for seniors	5.0	28,820	5.5	30,229
Other	0.2	n.a.	0.2	n.a.
HOUSING AND LAND				
Homeswest rental subsidy	96.7	27,835	94.6	28,381
Homeswest amenities fee waiver	1.1	8,724	1.4	13,108
Other	0.7	n.a.	0.6	n.a.
LOCAL GOVERNMENT				
Rates rebate for pensioners	33.6	148,795	38.3	160,187
TRANSPORT				
Contract school bus services	53.2	26,552	53.2	26,000
Transperth fares concession	42.9	90,085	42.3	88,250
Motor vehicle license fee concession for pensioners ^(b)	16.9	159,263	17.9	161,580
Student fares concession	3.8	2,817	3.9	3,027
Taxi User subsidy	6.4	27,835	6.7	20,376
Drivers license fee concession	4.4	97,750	4.5	98,116
Subsidised student travel	1.3	886	1.5	892
Pensioners' annual free trip	3.1	79,902	3.1	79,492
Other	3.3	n.a.	3.5	n.a.
HEALTH				
Subsidised dental care	10.3	76,256	8.6	67,900
Spectacle subsidy scheme	2.6	52,362	2.7	54,111
Other	5.7	n.a.	5.2	n.a.
EDUCATION				
Secondary assistance scheme – school charges	5.2	27,050	5.4	25,860
Secondary assistance scheme - clothing	3.1	27,050	3.0	25,860
Department of Training tuition fees	5.4	35,236	5.4	34,826
Boarding away from home allowance	0.8	1,340	1.3	2,220
Other	0.3	n.a.	0.2	n.a.
LEGAL SERVICES				
Legal assistance	8.8	45,701	8.9	44,358
Other	0.2	n.a.	0.2	n.a.
CULTURE, LEISURE & RECREATION				
Children's Zoo discount	1.0	165,611	1.0	144,959
Children under four years of age – Free Zoo entry	0.8	61,768	0.8	54,550
Other	2.3	n.a.	1.5	n.a.
TOTAL	381.2	n.a.	387.3	n.a.

(a) The State Government approved amendments to eligibility criteria for some social concessions from 1 July 2001. These amendments mainly extended the eligibility for the concessions to holders of the Commonwealth Seniors Health Card (CSHC) who are also State Seniors Card (SSC) holders.

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

Energy

Supply charge rebate (\$21.2 million)

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

Dependent child rebate (\$11.5 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 \$171 per year.

Other (\$0.9 million)

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

Water

Rates rebate for pensioners (\$27.4 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 \$236 per year.

Consumption concession for pensioners (\$4.9 million)

Holders of a PCC or a SCC receive a rebate of up to 50% of the Water Corporation's water consumption charges on the property that they occupy (provided they are responsible for paying the account). The average value of the rebate per recipient is approximately \$36 per year.

Rates rebate for seniors (\$5.5 million)

Home owners in possession of a SSC receive a rebate of up to 25% of the Water Corporation's annual charges for water, sewerage and drainage services while home owners in possession of both a SSC and Commonwealth Seniors Card receive a rebate of up to 50% of the annual charges. The average value of the concession is \$182 per year.

Other (\$0.2 million)

Other water concessions provided by the Water Corporation include a 25% concession on annual water, sewerage and drainage services for residents of retirement villages.

Housing and Land

Homeswest rental subsidy (\$94.6 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 \$3,333 per year.

Homeswest amenities fee waiver (\$1.4 million)

Homeswest's low income tenants over 55 years of age are exempted from the amenities fee for room heating.

Other (\$0.6 million)

Other housing and land concessions include the interest forgone by Homeswest under the *Bond Assistance Scheme*.

Local Government

Rates rebate for pensioners (\$38.3 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 \$239 per year.

Transport

Contract school bus services (\$53.2 million)

Full time students aged less than 19, who attend approved schools and reside more than 4.5 kilometres from the closest school travel free of charge on contract school bus services. The Public Transport Authority funds these services. The average value of the concession per student is estimated to be \$5.21 per journey, or about \$2,046 per year.

Transperth fare concessions (\$42.3 million)

Children, students and holders of a PCC or SSC receive discounts of between 58% and 61% on Transperth fares, or free travel. The average value of the concession per recipient is \$1.20 per journey.

Motor vehicle licence fee concession for pensioners (\$17.9 million)

Invalid pensioners receive a 100% concession on their annual motor vehicle licence fee. All other holders of a PCC receive a 50% concession. The average value of the concession per pensioner is \$111 per year.

Student fares concession (\$3.9 million)

Full-time students pay concessional fares for regular non-Transperth 'school bus' passenger transport services. The average value of the concession is \$3.24 for each fare.

Taxi user subsidy (\$6.7 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 2002 and 2003 there were respectively 27,835 and 20,376 active members of the scheme. The average value of the concession is \$8.73 per trip.

Drivers licence fee concession (\$4.5 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 \$46 per year.

Subsidised student travel (\$1.5 million)

Full-time students whose parents live in remote areas of the State receive four free return trips per year between home and school. The Department of Planning and Infrastructure funds this concession. The annual value of these return trips averages \$1,682 per recipient.

Pensioners' free annual trip (\$3.1 million)

Holders of a PCC who live north of the 26th parallel receive one free trip per year to Perth, or anywhere in the South West land division that can be reached for an equivalent fare. The Department of Planning and Infrastructure funds this concession. In addition, holders of a PCC also receive from Westrail, one free train return trip or two single train trips to any location within Western Australia. The average value of this concession is \$39 per recipient.

Other (\$3.5 million)

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

Health

Subsidised dental care (\$8.6 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 \$127 per treatment.

Spectacle subsidy scheme (\$2.7 million)

Age pensioners, disability pensioners and holders of a SSC receive a subsidy from the Department of Health to acquire spectacles or contact lenses. The average value of the concession per recipient is \$50.

Other (\$5.2 million)

Other health concessions include the *country patients' dental subsidy scheme*, the *patients assisted travel scheme* and the *metropolitan patients' dental subsidy scheme*.

Education**Secondary assistance scheme for school charges (\$5.4 million)**

The Department of Education and Training provides assistance to low income families with secondary school children to meet school charges, which averages at \$209 per recipient.

Secondary assistance scheme for clothing (\$3.0 million)

The Department of Education and Training provides assistance of \$116 per annum to low income families with secondary school children to meet clothing costs associated with schooling.

Department of Training tuition fees concessions (\$5.4 million)

Holders of a PCC, HCC, SSC and SCC pay reduced tuition fees for courses offered by TAFE colleges. The average value of the concession is \$0.56 per hour of tuition for vocational education and training courses, and \$3.50 per hour of tuition for adult and community education courses.

Boarding away from home allowance (\$1.3 million)

Families in receipt of Commonwealth assistance for geographically isolated students receive a \$586 concession each year from the Department of Education and Training.

Other (\$0.2 million)

Other education concessions include the Department of Education and Training's *special subsidy for boarders at Agricultural Colleges* (who are not eligible for Commonwealth assistance).

Legal Services**Legal assistance (\$8.9 million)**

Provision of subsidised legal services by Legal Aid Western Australia to low income persons. Eligibility is means tested, and the value of the concession varies with the type of legal services provided.

Other (\$0.2 million)

Other legal service concessions include a reduction or waiver of court fees in the Family Court and the Magistrates courts for holders of HCC and PCC, and the waiver of fees in the Small Claims Tribunal for financially disadvantaged persons.

Culture, Leisure and Recreation

Children's Zoo discount (\$1.0 million)

Children between four and 15 years of age receive a 50% discount on the entry fee for the Perth Zoo. The value of the discount is \$7.00 per child for each visit.

Children under four years of age free Zoo entry (\$0.8 million)

Children under four years of age receive free entry to the Perth Zoo. The value of the discount is \$14 per child for each visit.

Other (\$1.5 million)

Concessional fees 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.

APPENDIX 6

Capital Works Program – Summary of Expenditure and Source of Funds

This appendix contains two tables.

Table 1 shows expenditure on capital works and associated funding sources by agency within portfolio groups.

Table 2 shows detailed sources of funds for the aggregate capital works program by year.

Table 1

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2003-04 Budget Estimate				2003-04 Estimated Actual				2004-05 Budget Estimate			
	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
PARLIAMENT												
Parliament	1,525	-	910	2,435	1,758	-	2,488	4,246	750	-	920	1,670
Parliamentary Commissioner for Administrative Investigations	-	-	100	100	-	-	534	534	136	-	297	433
PREMIER; MINISTER FOR PUBLIC SECTOR MANAGEMENT; FEDERAL AFFAIRS; SCIENCE; CITIZENSHIP AND MULTICULTURAL INTERESTS												
Premier and Cabinet	-	-	8,320	8,320	8,000	-	9,261	17,261	42,000	-	10,478	52,478
Anti-Corruption Commission	380	-	270	650	380	-	712	1,092	-	-	-	-
Governor's Establishment	1,040	-	195	1,235	1,040	-	1,613	2,653	-	-	-	-
Office of the Public Sector Standards Commissioner	-	-	93	93	-	-	571	571	-	-	110	110
Salaries and Allowances Tribunal	-	-	6	6	-	-	6	6	-	-	6	6
DEPUTY PREMIER; TREASURER; MINISTER FOR ENERGY												
Office of the Auditor General	122	-	365	487	122	-	388	510	113	-	350	463
Gas Access Regulator	-	-	54	54	-	-	-	-	-	-	-	-
Economic Regulation Authority	-	-	-	-	-	-	75	75	-	-	71	71
Treasury and Finance	400	-	3,110	3,510	400	-	7,514	7,914	400	-	1,254	1,654
Treasury Corporation	-	-	430	430	-	-	1,079	1,079	-	-	392	392
Office of Energy	110	-	117	227	110	-	143	253	-	-	292	292
Western Power	-	95,000	300,355	395,355	-	-	336,500	336,500	-	90,000	328,600	418,600

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2003-04 Budget Estimate				2003-04 Estimated Actual				2004-05 Budget Estimate			
	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
MINISTER FOR AGRICULTURE, FORESTRY AND FISHERIES; THE MID-WEST, WHEATBELT AND GREAT SOUTHERN												
Agriculture	-	-	8,671	8,671	-	-	7,366	7,366	2,296	-	17,646	19,942
Meat Industry Authority	-	-	185	185	-	-	194	194	-	-	-	-
Perth Market Authority	-	1,560	1,345	2,905	-	1,560	1,781	3,341	-	1,560	1,360	2,920
Fisheries	5,000	-	3,770	8,770	5,000	-	10,746	15,746	7,150	-	2,260	9,410
Forest Products Commission	-	5,200	590	5,790	-	10,320	931	11,251	-	5,220	370	5,590
Mid West Development Commission	-	-	30	30	-	-	62	62	-	-	30	30
Wheatbelt Development Commission	-	-	48	48	-	-	48	48	-	-	445	445
Great Southern Development Commission	322	-	863	1,185	322	-	957	1,279	5,249	-	32	5,281
MINISTER FOR LOCAL GOVERNMENT AND REGIONAL DEVELOPMENT; HERITAGE; THE KIMBERLEY, PILBARA AND GASCOYNE; GOLDFIELDS-ESPERANCE												
Local Government and Regional Development	100	-	5,030	5,130	100	-	1,232	1,332	-	-	1,350	1,350
Heritage Council of Western Australia	22	-	63	85	22	-	63	85	-	-	1,050	1,050
National Trust of Australia (WA)	356	-	44	400	356	-	1,344	1,700	339	-	61	400
Metropolitan Cemeteries Board	-	2,000	7,504	9,504	-	-	6,537	6,537	-	-	8,017	8,017
Kimberley Development Commission	14	-	51	65	14	-	51	65	-	-	20	20
Pilbara Development Commission	45	-	35	80	45	-	35	80	-	-	-	-
Gascoyne Development Commission	40	-	4,087	4,127	40	-	2,850	2,890	-	-	890	890
Goldfields-Esperance Development Commission	-	-	-	-	-	-	-	-	33	-	52	85

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2003-04 Budget Estimate				2003-04 Estimated Actual				2004-05 Budget Estimate			
	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
MINISTER FOR CONSUMER AND EMPLOYMENT PROTECTION; INDIGENOUS AFFAIRS; MINISTER ASSISTING THE MINISTER FOR PUBLIC SECTOR MANAGEMENT												
Consumer and Employment Protection Registrar, Western Australian Industrial Relations Commission	1,372	-	1,334	2,706	1,372	-	3,704	5,076	1,283	-	877	2,160
Indigenous Affairs	42	-	258	300	42	-	258	300	137	-	713	850
ATTORNEY GENERAL; MINISTER FOR HEALTH; ELECTORAL AFFAIRS												
Justice	13,400	-	42,564	55,964	4,689	-	50,097	54,786	21,465	-	49,005	70,470
Health	9,086	-	96,045	105,131	9,086	-	90,009	99,095	44,400	-	117,700	162,100
Commissioner for Equal Opportunity	49	-	28	77	50	-	27	77	31	-	31	62
Law Reform Commission	-	-	10	10	-	-	18	18	-	-	10	10
Office of the Director of Public Prosecutions	48	-	152	200	48	-	297	345	-	-	200	200
Office of the Information Commissioner	-	-	25	25	-	-	34	34	-	-	30	30
Western Australian Electoral Commission	371	-	129	500	371	-	129	500	-	-	-	-
Corruption and Crime Commission	-	-	-	-	-	-	-	-	169	-	283	452
Parliamentary Inspector of the Corruption and Crime Commission	-	-	-	-	150	-	-	150	-	-	-	-
MINISTER FOR THE ENVIRONMENT												
Conservation and Land Management	4,550	-	7,414	11,964	4,550	-	9,836	14,386	11,670	-	12,713	24,383
Botanic Gardens and Parks Authority	3,550	-	6,728	10,278	3,550	-	10,903	14,453	1,042	-	2,783	3,825
Environmental Protection	497	-	823	1,320	497	-	1,972	2,469	-	-	857	857
Office of Water Regulation	11	-	60	71	-	-	-	-	-	-	-	-
Swan River Trust	-	-	135	135	-	-	138	138	2,000	-	100	2,100
Water and Rivers Commission	1,200	-	1,300	2,500	1,200	-	3,894	5,094	2,300	-	800	3,100
Zoological Parks Authority	-	-	1,600	1,600	-	500	1,736	2,236	-	-	2,456	2,456
Bunbury Water Board	-	-	4,384	4,384	-	-	3,436	3,436	-	-	1,414	1,414
Busselton Water Board	-	-	1,380	1,380	-	-	1,182	1,182	-	-	432	432

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2003-04 Budget Estimate				2003-04 Estimated Actual				2004-05 Budget Estimate			
	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000
MINISTER FOR POLICE AND EMERGENCY SERVICES; JUSTICE; COMMUNITY SAFETY												
Police Service	65,467	-	12,020	77,487	57,263	-	(15,884)	41,379	43,434	-	44,680	88,114
Fire and Emergency Services Authority of Western Australia	450	6,855	5,440	12,745	1,167	4,485	8,108	13,760	450	5,240	12,132	17,822
MINISTER FOR PLANNING AND INFRASTRUCTURE												
Planning and Infrastructure	144	-	4,996	5,140	144	-	15,203	15,347	6,471	7,900	6,928	21,299
Main Roads	187,647	20,000	120,662	328,309	152,827	20,000	191,200	364,027	171,606	-	204,597	376,203
Armadale Redevelopment Authority	-	-	2,000	2,000	-	-	2,219	2,219	-	-	6,250	6,250
East Perth Redevelopment Authority	-	-	21,910	21,910	-	-	23,598	23,598	-	-	47,912	47,912
Midland Redevelopment Authority	-	7,280	6,080	13,360	-	7,764	6,778	14,542	-	2,468	10,565	13,033
Subiaco Redevelopment Authority	-	-	11,210	11,210	-	-	11,329	11,329	-	-	4,680	4,680
Albany Port Authority	-	-	350	350	-	-	350	350	-	-	750	750
Broome Port Authority	-	-	500	500	-	-	794	794	-	-	500	500
Bunbury Port Authority	-	-	9,175	9,175	-	-	8,953	8,953	-	-	6,250	6,250
Dampier Port Authority	-	15,000	105	15,105	-	45,089	259	45,348	-	31,108	912	32,020
Esperance Port Authority	-	-	1,200	1,200	-	-	2,200	2,200	-	-	1,200	1,200
Fremantle Port Authority	-	24,760	17,935	42,695	924	25,098	13,500	39,522	1,222	29,498	14,873	45,593
Geraldton Port Authority	-	22,414	2,252	24,666	-	27,815	28,481	56,296	-	1,000	2,115	3,115
Port Hedland Port Authority	-	-	4,317	4,317	-	-	7,621	7,621	-	5,326	6,099	11,425
Public Transport Authority	36,290	217,252	26,581	280,123	56,459	245,841	-	302,300	10,558	517,347	-	527,905
Western Australian Land Authority	-	46,800	139,290	186,090	-	-	169,726	169,726	-	25,000	168,807	193,807
Eastern Goldfields Transport Board	-	500	-	500	-	500	-	500	-	-	-	-
Western Australian Planning Commission	42,500	-	54,000	96,500	43,000	-	68,938	111,938	7,500	-	75,500	83,000

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2003-04 Budget Estimate				2003-04 Estimated Actual				2004-05 Budget Estimate			
	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000
MINISTER FOR STATE DEVELOPMENT												
Industry and Resources	3,640	-	9,255	12,895	1,820	-	16,771	18,591	1,360	-	18,475	19,835
MINISTER FOR EDUCATION AND TRAINING												
Education and Training	94,823	-	71,995	166,818	95,823	-	80,065	175,888	101,451	-	88,451	189,902
Country High School Hostels Authority	9	300	1,022	1,331	167	6,000	462	6,629	24	-	1,370	1,394
Curriculum Council	1,070	-	80	1,150	70	-	508	578	70	-	1,580	1,650
Education Services	-	-	237	237	-	-	723	723	-	-	43	43
MINISTER FOR COMMUNITY DEVELOPMENT; WOMEN'S INTERESTS; SENIORS AND YOUTH; DISABILITY SERVICES; CULTURE AND THE ARTS												
Community Development	3,563	-	7,795	11,358	3,563	-	5,361	8,924	4,984	-	10,084	15,068
Disability Services Commission	1,921	-	1,394	3,315	1,921	3,008	1,774	6,703	2,252	-	1,414	3,666
Culture and the Arts	12,758	-	8,774	21,532	17,458	-	12,661	30,119	10,961	-	9,991	20,952
MINISTER FOR TOURISM; SMALL BUSINESS; SPORT AND RECREATION; PEEL AND THE SOUTH WEST												
Rottneest Island Authority	-	-	3,036	3,036	-	-	4,512	4,512	-	-	6,033	6,033
Western Australian Tourism Commission	35	-	424	459	1,550	-	598	2,148	-	-	424	424
Small Business Development Corporation	97	-	115	212	97	-	256	353	313	-	122	435
Recreation Camps and Reserves Board	-	-	265	265	100	-	732	832	1,793	-	3,827	5,620
Sport and Recreation	1,070	-	4,770	5,840	120	-	6,302	6,422	950	-	3,949	4,899
Sports Centre Trust	300	-	567	867	840	-	1,903	2,743	890	-	10	900
Peel Development Commission	50	-	1,500	1,550	50	-	1,984	2,034	-	-	92	92
South West Development Commission	330	-	(200)	130	330	-	887	1,217	-	-	6,108	6,108

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2003-04 Budget Estimate				2003-04 Estimated Actual				2004-05 Budget Estimate			
	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000
MINISTER FOR HOUSING AND WORKS; RACING AND GAMING; GOVERNMENT ENTERPRISES; LAND INFORMATION												
Housing and Works	-	-	77,385	77,385	500	-	78,976	79,476	500	-	3,531	4,031
Country Housing Authority	-	10,768	2,565	13,333	-	8,092	3,208	11,300	-	10,011	3,322	13,333
Government Employees Housing Authority	-	4,000	5,544	9,544	-	-	11,326	11,326	-	4,000	9,714	13,714
State Housing Commission	-	7,000	829,119	836,119	-	5,375	775,227	780,602	-	16,000	803,525	819,525
State Supply Commission ^(a)	-	112,692	-	112,692	-	125,468	6	125,474	19	123,319	12	123,350
Racing, Gaming and Liquor	-	-	449	449	-	-	717	717	-	-	30	30
Racing and Wagering	-	-	8,658	8,658	-	-	11,536	11,536	-	-	6,684	6,684
Western Australian Greyhound Racing Authority	-	-	1,390	1,390	-	-	2,235	2,235	-	-	1,160	1,160
Gold Corporation	-	-	2,000	2,000	-	-	3,879	3,879	-	-	2,068	2,068
Insurance Commission of Western Australia	-	-	2,000	2,000	-	-	3,240	3,240	-	-	1,900	1,900
Lotteries Commission	-	-	4,190	4,190	-	-	5,240	5,240	-	-	3,755	3,755
Land Information	7,991	-	1,915	9,906	7,991	-	3,734	11,725	278	-	6,788	7,066
Water Corporation	-	185,000	277,787	462,787	-	175,000	289,111	464,111	-	60,058	296,217	356,275
TOTAL	504,002	784,381	2,275,189	3,563,572	487,693	711,915	2,440,194	3,639,802	510,049	935,055	2,472,336	3,917,440

(a) The 2003-04 Budget estimate has been recast to include the State Supply Commission Capital Works Program, which was not included in last years' Budget.

Table 2

CAPITAL WORKS PROGRAM SOURCE OF FUNDS

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Estimated	Budget	Budget	Budget	Budget
	\$m	\$m	\$m	\$m	\$m	\$m
APPROPRIATIONS						
Capital contribution	358.8	487.7	510.0	501.7	524.6	450.3
Funding included in output appropriations	211.5	165.3	129.8	162.0	170.4	180.5
OTHER FUNDING						
Holding Account	134.3	178.4	178.6	175.3	133.6	130.2
Borrowings	475.9	711.9	935.1	749.9	615.9	410.8
Commonwealth grants	247.7	230.4	281.6	232.6	228.2	194.2
Land and Property Sales	205.7	263.0	255.5	217.7	219.4	205.6
Internal funds and balances	886.0	1,005.8	1,019.9	779.3	787.6	763.5
Other	369.6	597.3	606.9	535.1	552.7	567.2
TOTAL FUNDING	2,889.5	3,639.8	3,917.4	3,353.5	3,232.3	2,902.2

Note: Columns may not add due to rounding.

APPENDIX 7

Public Corporations – Revenue and Expenses

The State's major public corporations are liable for income tax equivalent and dividend payments. A number of public corporations are also liable for local government rate equivalent payments.

Tax and local government rate equivalents are levied by the State to ensure competitive neutrality (i.e. a level playing field) between significant government business activities and private sector businesses.

A detailed overview of revenue received by the general government sector from individual public corporations is provided in Table 1.

The decrease in total revenue in 2004-05 mainly results from lower tax equivalent and dividend revenue from Western Power. This is associated with a reduction in Western Power's profits, which is due to higher fuel costs and increased network expenditure on both corrective and preventative maintenance. These increased expenditures are only partly offset by increased electricity sales revenue and higher levels of contributions for customer driven capital works. A small increase in depreciation also contributes to the lower profit level in 2004-05. In addition, the level of Western Power's dividends has reduced with the dividend payout ratio restored to 50% in 2004-05.

The level of Western Power's operating profit and revenue to government is also expected to reduce in the forward estimates. This reflects the impact of increased competition from Independent Power Producers (including the proposed Alinta 140MW gas-fired cogeneration plant at Alcoa's Pinjarra alumina refinery), capacity constraints on the Dampier to Bunbury Natural Gas Pipeline (DBNGP), expenditure on network corrective and preventative maintenance, and measures to extend the life of the Kwinana B and the Muja AB generators.

In 2004-05, the reduction in revenue from Western Power is partly offset by increased payments of \$20.3 million from the Western Australian Land Authority (LandCorp) resulting from increased land sales.

The decision to freeze the Water Corporation's residential water, sewerage and drainage charges in 2004-05 is expected to reduce tax equivalent and dividend revenue by around \$10 million per annum. This is relative to a consumer price index based increase in these charges (2.4%) which was originally proposed by the Water Corporation. In addition, the decision to extend the two day per week sprinkler restrictions into 2004-05 is estimated to reduce tax equivalent and dividend revenue from the Water Corporation by \$14.3 million in 2004-05 and \$3.6 million in 2005-06.

There are also significant payments from the general government sector to public corporations. Such payments include funding of community service obligations (CSOs), which are non-commercial services provided by public corporations at the request of government to sections of the general public. Examples include funding of pensioner and senior concessions for electricity and water services.

In addition, funding may be provided to public corporations as part of government initiatives to attract and support the establishment of down-stream industries in Western Australia. Where possible, this form of financial assistance is directed at supporting the construction of infrastructure that will be available for common use.

A detailed overview of general government sector expenses arising from payments to individual public corporations is provided in Table 2.

A number of new CSOs will be introduced in 2004-05, particularly in relation to energy policy. These include the extension of the Aboriginal and Remote Communities Project; the transfer of government departments and trading enterprises from Western Power's previous 'government' electricity tariffs (N2/P2) to the lower business electricity tariff (L2); and the introduction of energy rebates for eligible permanent caravan park residents.

Table 1

REVENUE TO GOVERNMENT FROM PUBLIC CORPORATIONS

Details of Payment	2003-04 Estimated Actual \$'000	2004-05 Budget Estimate \$'000	2005-06 Forward Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000
Western Power					
Income tax expense	91,143	62,591	61,528	47,036	72,006
LGRE	1,293	1,332	1,372	1,413	1,456
Dividends	120,934	93,153	98,956	84,047	76,742
<i>Subtotal</i>	<u>213,370</u>	<u>157,076</u>	<u>161,856</u>	<u>132,496</u>	<u>150,204</u>
Water Corporation					
Income tax expense	140,289	145,745	158,792	177,222	182,441
LGRE	2,625	2,755	2,895	3,040	3,200
Dividends ^(a)	263,960	275,540	305,016	333,035	337,879
<i>Subtotal</i>	<u>406,874</u>	<u>424,040</u>	<u>466,703</u>	<u>513,297</u>	<u>523,520</u>
Western Australian Land Authority (LandCorp)					
Income tax expense	8,173	10,313	7,020	9,361	9,434
LGRE	1,400	1,450	1,500	1,550	1,600
Dividends	17,184	35,342	17,642	12,642	11,642
<i>Subtotal</i>	<u>26,757</u>	<u>47,105</u>	<u>26,162</u>	<u>23,553</u>	<u>22,676</u>
Gold Corporation					
Statutory contributions/Dividends	-	-	4,341	4,462	4,565
<i>Subtotal</i>	<u>-</u>	<u>-</u>	<u>4,341</u>	<u>4,462</u>	<u>4,565</u>
Western Australian Treasury Corporation					
Income tax expense	1,944	1,961	1,896	1,818	1,670
Dividends	12,311	2,722	2,746	2,654	2,121
<i>Subtotal</i>	<u>14,255</u>	<u>4,683</u>	<u>4,642</u>	<u>4,472</u>	<u>3,791</u>
Albany Port Authority					
Income tax expense	-	-	30	305	439
LGRE	66	67	68	69	70
Dividends	-	-	35	355	512
<i>Subtotal</i>	<u>66</u>	<u>67</u>	<u>133</u>	<u>729</u>	<u>1,021</u>
Broome Port Authority					
LGRE	4	4	4	4	4
<i>Subtotal</i>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>
Bunbury Port Authority					
Income tax expense	1,821	1,780	1,544	1,666	2,266
LGRE	136	140	144	148	186
Dividends	1,698	1,695	1,724	1,738	2,300
<i>Subtotal</i>	<u>3,655</u>	<u>3,615</u>	<u>3,412</u>	<u>3,552</u>	<u>4,752</u>

Table 1 (cont.)

REVENUE TO GOVERNMENT FROM PUBLIC CORPORATIONS

Details of Payment	2003-04 Estimated Actual \$'000	2004-05 Budget Estimate \$'000	2005-06 Forward Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000
Dampier Port Authority					
Income tax expense	169	-	197	244	138
LGRE	75	75	77	78	80
Dividends	219	24	230	359	163
Subtotal	463	99	504	681	381
Esperance Port Authority					
Income tax expense	-	-	213	867	1,113
LGRE	180	180	180	180	185
Dividends	1,025	1,301	1,419	728	2,775
Subtotal	1,205	1,481	1,812	1,775	4,073
Fremantle Port Authority					
Income tax expense	3,819	3,785	4,316	4,563	5,134
LGRE	352	281	300	315	330
Dividends	3,724	3,906	4,275	4,552	5,230
Subtotal	7,895	7,972	8,891	9,430	10,694
Geraldton Port Authority					
Income tax expense	1,165	626	1,008	1,107	1,780
LGRE	140	140	140	140	140
Dividends	126	128	-	1,271	1,631
Subtotal	1,431	894	1,148	2,518	3,551
Port Hedland Port Authority					
Income tax expense	645	546	568	1,866	1,818
LGRE	166	169	173	176	180
Dividends	853	738	763	1,538	2,221
Subtotal	1,664	1,453	1,504	3,580	4,219
Bunbury Water Board					
Income tax expense	834	699	670	709	701
Subtotal	834	699	670	709	701
Busselton Water Board					
Income tax expense	120	120	124	127	131
Subtotal	120	120	124	127	131
Forest Products Commission					
Dividends	1,470	4,339	3,787	7,365	6,342
Subtotal	1,470	4,339	3,787	7,365	6,342
Other Agencies					
LGRE	146	146	146	146	146
Statutory contributions/Dividends	2,018	2,018	5,018	18	18
Subtotal	2,164	2,164	5,164	164	164
Total Amounts					
Income tax expense	250,122	228,166	237,906	246,891	279,071
LGRE	6,583	6,739	6,999	7,259	7,577
Statutory contributions/Dividends	425,522	420,906	445,952	454,764	454,141
Total	682,227	655,811	690,857	708,914	740,789

(a) Includes a provision for the Infrastructure package on the Burrup Peninsula.

Table 1(a)

REVENUE FROM PUBLIC CORPORATIONS
Dividend Payout Ratios

	2003-04 %	2004-05 %	2005-06 %	2006-07 %	2007-08 %
Western Power ^(a)	50.0	50.0	50.0	50.0	50.0
Water Corporation	85.0	85.0	85.0	85.0	85.0
Western Australian Land Authority (LandCorp) ^(b)	50.0	50.0	50.0	50.0	50.0
Gold Corporation	60.0	60.0	60.0	60.0	60.0
Western Australian Treasury Corporation	60.0	60.0	60.0	50.0	50.0
State Port Authorities	50.0	50.0	50.0	50.0	50.0
Forest Products Commission ^(c)	na	na	na	na	na

(a) Western Power's dividend payout ratio does not include amounts paid to compensate for reduced tax equivalent payments arising from the costs of electricity reform. Please note in 2003-04 the dividend payout ratio of 50% was notional.

(b) Adjusted for the need to maintain adequate land stocks.

(c) The dividend payout ratio for the Forest Products Commission is based on the full cash surplus remaining at the end of each financial year being paid to the Consolidated Fund, allowing for a closing cash balance of \$1 million as working capital.

Table 2

EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Details of Payment	Payment Type	Funding Department	2003-04 Estimated Actual \$'000	2004-05 Budget Estimate \$'000	2005-06 Forward Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000
Water Corporation							
Burrup Water Supply System	Other	DoIR	-	7,921	8,127	8,316	8,523
Country Water, Sewerage and Drainage Operations	CSO	DTF	167,116	172,192	176,717	183,279	189,214
Infill Sewerage Program	CSO	DTF	22,844	24,638	25,863	27,590	28,641
Pensioner and Senior Concessions	CSO	DTF	67,434	68,447	71,804	75,373	79,322
Rural Irrigation Schemes	CSO	DTF	10,863	8,336	8,549	8,800	9,128
Partial Reimbursement of Proceeds from the Sale of Surplus Land	Other	DTF	1,400	-	-	-	-
State Water Strategy – Rebates Scheme	Other	DTF	3,900	-	-	-	-
<i>Subtotal</i>			273,557	281,534	291,060	303,358	314,828
Western Power							
Aboriginal and Remote Communities Project – Phase 1	CSO	DTF	-	1,306	3,939	4,182	4,415
Aboriginal and Remote Communities Project – Phase 2	CSO	DTF	-	-	-	-	3,850
Air Conditioning Subsidy for Seniors (North of 26 th Parallel)	CSO	DTF	123	128	133	138	143
Community Service Concessions ^(a)	CSO	DTF	318	328	338	348	358
Energy Rebates for Eligible Permanent Caravan Park Residents	CSO	DTF	-	394	334	334	334
Gas Lateral Line to Murchison Area – Interest Costs	Other	DoIR	832	832	832	832	832
Onslow Gas Fired Power Station – Interest Costs	Other	DoIR	183	183	183	183	183
Pensioner and Senior Concessions	CSO	DTF	35,682	37,152	39,255	41,459	43,651
Tariff Migration – Movement to L2 Tariff	CSO	DTF	2,047	8,622	9,382	10,004	10,517
Underground Power Program	Other	OoE	4,820	4,820	4,820	4,820	4,820
<i>Subtotal</i>			44,005	53,765	59,216	62,300	69,103

EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Table 2 (cont.)

Details of Payment	Payment Type	Funding Department	2003-04 Estimated Actual \$'000	2004-05 Budget Estimate \$'000	2005-06 Forward Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000
Western Australian Land Authority (LandCorp)							
Australian Marine Complex – Facilities Management	Other	DoIR	2,500	-	-	-	-
Australian Marine Complex – Facilities Management	CSO	DTF	-	2,733	782	-	-
Australian Marine Complex – Rate of Return	CSO	DTF	2,345	2,345	2,345	2,345	2,345
Australian Marine Complex – Tech Park – Land Acquisition ^(b)	Other	DoIR	1,830	335	350	-	-
Forrestdale - Rate of Return (Armadale Redevelopment Authority)	CSO	DTF	-	150	200	200	200
Hope Valley / Wattleup – Land Acquisition	CSO	DTF	19,500	14,000	14,000	-	-
Kalgoorlie North West Sector	CSO	DTF	3,600	3,500	-	-	-
Karratha / Burrup Western Service Corridor	Other	DoIR	1,930	1,930	1,930	1,930	1,930
Kemerton Core Land Acquisition	CSO	DTF	6,212	-	-	-	-
Kemerton Expansion – Land Acquisition ^(b)	Other	DoIR	971	-	2,500	2,500	2,600
Mandurah Ocean Marina Development	CSO	DTF	2,839	-	-	-	-
Oakajee Expansion – Land Acquisition	Other	DoIR	9,000	-	-	-	-
PARC Funding	CSO	DTF	150	-	150	-	-
PIL Kwinana Land – Interest Costs	CSO	DTF	727	810	810	810	810
Townsite Development Program	CSO	DTF	-	4,000	4,000	4,000	4,000
<i>Subtotal</i>			51,604	29,803	27,067	11,785	11,885
Albany Port Authority							
Albany Woodchip Mill	Other	DTF	173	173	149	-	-
<i>Subtotal</i>			173	173	149	-	-
Bunbury Port Authority							
Casting Basin Loan – Interest Costs	Other	DoIR	92	89	89	89	89
<i>Subtotal</i>			92	89	89	89	89

Table 2 (cont.)

EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Details of Payment	Payment Type	Funding Department	2003-04 Estimated Actual \$'000	2004-05 Budget Estimate \$'000	2005-06 Forward Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000
Dampier Port Authority							
Burrup Infrastructure – Interest Support	Other	DoIR	-	-	8,000	8,000	8,000
<i>Subtotal</i>			-	-	8,000	8,000	8,000
Forest Products Commission							
Debt Servicing Costs - Non-Commercial Native Forest Related							
Debt	CSO	DTF	1,070	1,070	1,070	1,070	1,070
Forest Enhancement Program	CSO	DTF	230	-	-	-	-
<i>Subtotal</i>			1,300	1,070	1,070	1,070	1,070
Public Transport Authority (PTA) ^(c)							
Net Amount Appropriated to Deliver Outputs	Other	DTF	415,781	455,170	520,351	596,191	644,414
<i>Subtotal</i>			415,781	455,170	520,351	596,191	644,414
Total			786,512	821,604	907,002	982,793	1,049,389

(a) The Community Service Concession is a concession available to eligible voluntary and charitable organisations.

(b) Further purchases are subject to ERC approval and funding provided on a 'case by case' basis.

(c) The PTA was created on 1 July 2003. The Authority brings together the services of Transperth, school bus services, local regional bus services and the Western Australian Government Railways Commission.

APPENDIX 8

Tariffs, Fees and Charges – Impact on ‘Representative Household’ Model

The Department of Treasury and Finance (DTF) has produced, for a number of years, a model that estimates the costs incurred by a ‘representative household’ through the consumption of certain ‘government’ goods and services. The model’s parameters are outlined in this appendix.

It should be noted that calculating the effects of changes in tariffs, fees and charges for a single ‘representative household’ can never capture the enormous diversity in household structures that occur in the community, and the widely differing patterns of usage of ‘government’ goods and services.

The model simply seeks to highlight the impact of changes in tariffs, fees and charges on a particular hypothetical household reflecting current average electricity and water consumption, assumed use of public transport and a specified consumption of a range of other ‘government’ goods and services (including select taxes).

Key Government Charges Affecting Households

The model covers the following annual government charges affecting the ‘representative household’:

- water, including both consumption and annual supply charges;
- sewerage;
- drainage;
- electricity, including both consumption and annual supply charges;

- public transport;
- compulsory third party insurance;
- motor vehicle registration costs;
- driver's licence fees;
- debits tax applied on bank accounts; and
- stamp duty on both compulsory third party insurance and general insurance.

It should be noted that the model excludes government charges relating to one off events such as stamp duty charges relating to property transactions.

Assumptions

The 'representative household' model is based on a single income (full-time work), two adult and two children household. It assumes that the household:

1. consumes:
 - 5,340 kilowatt hours of electricity per annum, based on the current 2002-03 average level of consumption for a household provided by Western Power; and
 - 300 kilolitres of water per annum, based on the current average level of water usage for a residential customer provided in Water Corporation's Rates and Charges Submission 2004-05.
2. purchases five standard 2-zone Transperth fares and ten concession 1-zone Transperth fares each week. Transperth fares are purchased using the lowest cost means available (i.e. using MultiRider Plus);
3. owns one car, a Holden Commodore (tare weight of 1549 kilograms – relevant for the purpose of determining the appropriate level of motor vehicle licence fee);
4. makes two withdrawals of between \$100 and \$499 per week (for the purposes of calculating debits tax);
5. pays average home and contents, and motor vehicle insurance, based on information from the insurance industry (for the purposes of calculating stamp duty payable on insurance policies); and
6. owns and occupies a property that has an average gross rental value (for sewerage and drainage rating purposes).

Costs of Government Charges

On the basis of the above assumptions and the levels of specified government fees and charges that applied in 2003-04 the total expenditure of the 'representative household' on this basket of 'government' goods and services was \$3,222.52. This represents around 8.6% of an average household's after-tax income (as measured by average weekly ordinary time earnings)¹.

As a result of the Government's decision in this Budget to freeze key household charges, the cost of the basket of 'government' goods and services and State taxes that the 'representative household' consumes will remain constant at 2003-04 expenditure levels. This is significantly under the forecast CPI in 2004-05 of 2.0%. Therefore, the percentage of an average household's after-tax income spent on the representative basket of 'government' goods and services and State taxes falls to 8.3%, after taking account of forecast earnings growth.

Pensioner Concessions

A variant of the 'representative household' is also used to assess the impact these charges have on those that are eligible to receive pensioner concessions offered on a range of government charges². These concessions include:

- 50% rebate on motor vehicle licence fees;
- pensioners 50% rebate and seniors 100% rebate on driver's licence fees;
- 100% rebate on fixed daily supply charge for electricity;
- 50% rebate on the first 150kL water consumption charges per year, up to a maximum \$28.45 if owning or renting. An additional 50% rebate is provided on annual water supply charge if, as assumed in the model, the property is owner-occupier.
- 50% rebate on annual sewerage charges; and
- 50% rebate on annual drainage charges.

¹ AWOTE is the best measure of household income for this purpose. It refers to the average week's earnings of a full-time employee for the reference period attributable to award, standard or agreed hours of work. It is calculated on an annualised basis before taxation and other deductions (e.g. superannuation) have been made. Thus, AWOTE represents a measure of an ordinary working week for a full-time employee and is not distorted by those that are employed part-time.

² You are entitled to a Pensioner Concession Card, and thus eligible for State concessions, if you receive:

- a pension, such as Age pension, Disability Support pension, Carer pension;
- Parenting Payment (single);
- Mature Age Allowance;
- Mature Age Partner Allowance;
- Carer payment; or
- If you are aged over 60 and have been receiving one (or a combination) of the following payments continuously for more than nine months; Newstart Allowance, Sickness Allowance, Widow Allowance, Partner Allowance, Parenting Payment, or Special Benefit.

Based on 2003-04 levels for the specified government charges, and the same assumed consumption levels as the 'representative household', the level of expenditure by this pensioner household was \$2,329.17. Again, due to the decision to freeze charges this will not increase in 2004-05.