

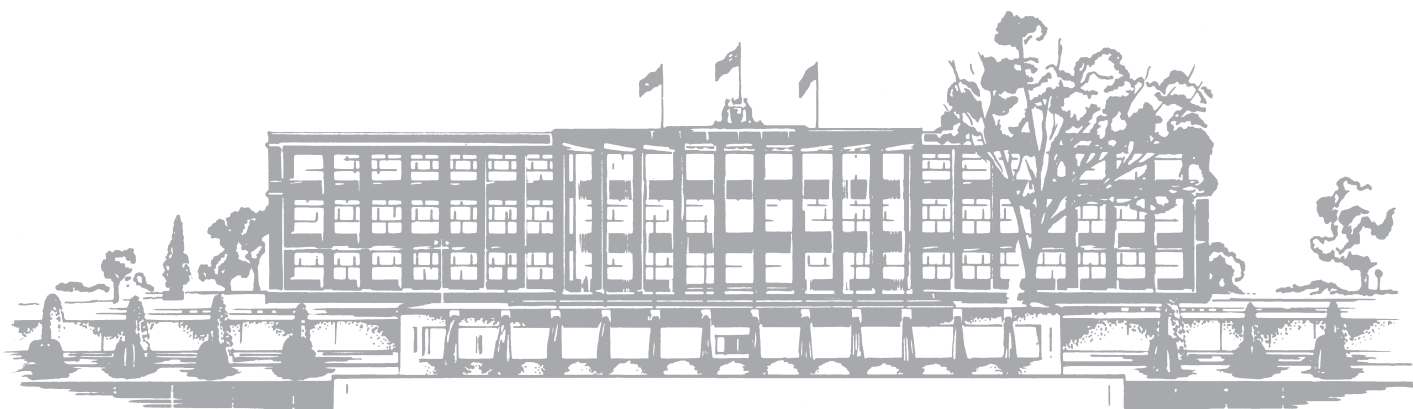


2006-07 BUDGET

ECONOMIC AND FISCAL OUTLOOK

Budget Paper No. 3

PRESENTED TO THE LEGISLATIVE ASSEMBLY
ON 11 MAY 2006



2006–07 Economic and Fiscal Outlook

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2006-07 BUDGET

ECONOMIC AND FISCAL OUTLOOK

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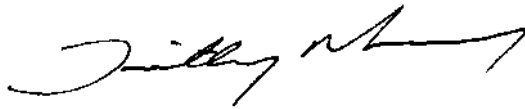
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Under Treasurer's Certification

This Government Financial Projections Statement is based upon government decisions I was aware of or that were made available to me by the Treasurer on or before the budget planning cut-off date of 18 April 2006 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 18 April 2006.

A handwritten signature in black ink, appearing to read 'Timothy Marney', with a stylized flourish at the end.

Timothy Marney
UNDER TREASURER

11 May 2006

CHAPTER 1

Economic and Fiscal Outlook – Overview

Fiscal Outlook

The outstanding performance of the Western Australian economy is reflected in very strong general government operating surplus outcomes forecast for 2005-06 and 2006-07.

A record \$1,981 million general government operating surplus is estimated for 2005-06, up \$680 million on the 2005-06 mid-year review estimate, and up \$789 million on the 2004-05 outcome.

The outlook for 2006-07 is for a \$1,275 million operating surplus, \$544 million higher than the mid-year review projection. The lower operating surplus projection for 2006-07 relative to 2005-06 reflects a combination of new initiatives introduced in this budget, and slower growth in revenue, primarily driven by an expected moderation in property market activity levels in 2006-07.

General government operating surpluses are also projected over the remainder of the forward estimates to 2009-10, albeit of a diminishing magnitude as:

- economic conditions stabilise at more normal levels;
- the lagged impact of the Commonwealth Grants Commission process results in a lower share of national GST revenue for Western Australia in the outyears; and
- the Government's new tax relief measures take effect.

Building on the benefits of the current boom conditions, the Government is:

- investing heavily in the State's Capital Works Program, which is expected to total \$18.1 billion over the four years to 2009-10;

- prudently managing public sector debt, by:
 - supporting high levels of capital spending through the application of surplus funds as a substitute for borrowings, ensuring a stronger balance sheet for the future; and
 - using surplus Consolidated Fund cash from 2005-06 to fully fund the New MetroRail project, leaving this substantial \$1.6 billion asset completely debt-free; and
- sharing the benefits of buoyant conditions by providing increases in service areas that address the needs of those in the community in greatest need of support (e.g. children in care and people with disabilities).

KEY BUDGET AGGREGATES
Western Australia

Table 1

	2004-05 Actual	2005-06 Estimated Actual	2006-07 Budget Estimate	2007-08 Forward Estimate	2008-09 Forward Estimate	2009-10 Forward Estimate
GENERAL GOVERNMENT						
Net Operating Balance (\$m)	1,192	1,981	1,275	889	571	447
Revenue (\$m)	14,222	16,123	16,510	16,414	16,575	16,994
Expenses (\$m)	13,030	14,141	15,234	15,528	16,004	16,547
TOTAL NON-FINANCIAL PUBLIC SECTOR						
Net Debt to Revenue Ratio (%)	25.2	26.2	30.0	33.9	38.3	39.8
TOTAL PUBLIC SECTOR						
Net Debt at 30 June (\$m)	4,001	4,501	5,413	6,204	7,252	7,730
Capital Works Program (\$m)	4,061	5,100	5,201	4,612	4,339	3,965

On any measure, the level of infrastructure investment provided for in this budget is unprecedented in the State's history. The strong operating surplus results delivered by the Government are providing the capacity for major infrastructure projects such as the Perth-Bunbury Highway, the New MetroRail project, the Perth Seawater Desalination Plant, and schools and hospital construction and maintenance, with minimised reliance on new borrowings.

In this regard, the key net debt to revenue ratio is projected to reach a maximum of 39.8% by 2009-10, well below the Government's 47% target limit.

Revenue Outlook

Growth in general government revenue is expected to ease in 2006-07 from the very high rate of growth experienced in 2005-06, largely driven by changes in the outlook for taxation (particularly property market taxes) and mining and petroleum royalties. In this regard:

- taxation revenue in 2005-06 was boosted by a very large, one-off commercial property transaction. In addition, underlying activity levels in the residential property market are expected to moderate in 2006-07, although fairly healthy growth in house prices (of around 10%) is still assumed; and
- mining and petroleum royalties in 2005-06 were substantially boosted by very significant commodity price increases, including a 71.5% increase in iron ore prices. In 2006-07, growth is expected to be more modest, with the iron ore price assumed to increase by around 10%.

The revenue estimates also accommodate Stage 1 State Tax Review relief measures announced by the Government in March 2006. Worth a total of \$631 million over the four years to 2009-10¹, these measures extend the Government's tax relief program, begun in the 2004-05 Budget. Together with further land tax relief announced in this budget (see Chapter 4), the Government is delivering extra tax relief of \$765 million over the four years to 2009-10, including \$117 million in 2006-07. Including measures announced since 1 July 2004, the estimated total value of tax relief to be provided over the next four years is \$3.3 billion.

In addition to this tax relief, the Government is also cutting Compulsory Third Party insurance premiums by 10%, saving motorists approximately \$25 per vehicle.

Key Areas of Expenditure

The 2006-07 Budget maintains the focus on the Government's priority service areas and the delivery of the 2005 election commitments. It includes almost \$220 million in new expense initiatives in the budget year, and a further \$710 million over the period 2007-08 to 2009-10. Significant increases in spending to address cost and demand pressures in existing services are also accommodated.

Relative to the 2005-06 estimated outturn, budgeted expenses for 2006-07 include:

- a \$304 million increase in the Department of Education and Training's expenses, including spending on: addressing skills shortages including increasing the number of apprenticeships and traineeships; additional Education Assistants (Special Needs) to provide for children with disabilities to join in mainstream classrooms; provision for the cost of the current Enterprise Bargaining Agreement offered to teachers; and continuation of 2005 election commitments such as additional spending under the learning and training guarantee;

¹ The estimate for tax relief announced on 21 March 2006 totalled \$587 million over the four year period to 2009-10, and was based on forecasts current at that time. This estimate has been revised to \$631 million to reflect the latest assessment of the property market outlook over the budget period.

- a \$241 million increase in expenses in the health sector, including: the continued implementation of the Health Reform Committee recommendations additional spending on the State's existing Mental Health Strategy; COAG health reform initiatives including Health Promotion, Prevention and Early Intervention as well as a national E-Records system and support for telehealth services;
- a \$102 million increase in law and order expenses, including: implementation of the Mahoney Inquiry recommendations (initiatives include additional prison officers to address issues of workplace safety, establishment of a new Prisoner Review Board, Community Justice Officers, a new prisoner classification system, and improved training and development of staff); the recruitment of an additional 90 police officers and 40 civilian staff to release sworn officers to operational duties; strategies to reduce aboriginal imprisonment; and the introduction of new road safety initiatives;
- a \$32 million increase in disability services spending, including additional accommodation support places and preventive services, and provision of a new subsidy as part of a continence management and support package; and
- a \$23 million increase in spending by the Department for Community Development for initiatives such as: 'At Risk Children In Out of Home Care', which helps address recommendations of the Murray Report², with provision for increased placements, training and recruitment of an additional 87 caseworkers and support staff; Supported Accommodation Assistance Program proposals; and expansion of the Responsible Parenting initiative.

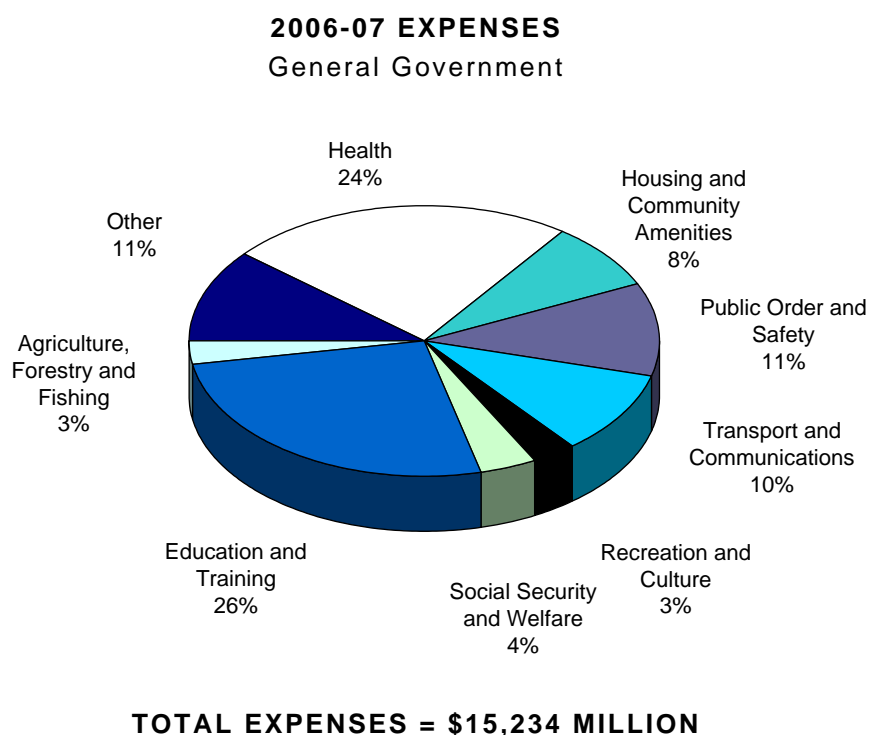
Over the four year forward estimates period, recurrent spending in the disability services and community development areas is up \$139 million and \$164 million respectively (relative to the 2005-06 Budget forward estimates).

Other major commitments in the 2006-07 Budget are an additional \$72 million over the forward estimates for science and innovation initiatives, and a further \$18 million for biodiversity conservation and protection, including management of native vegetation clearing.

The following chart shows general government expenses by spending area for 2006-07. The priority areas of health, education and training, and public order and safety are estimated to account for around 61% of total expenses.

² A Duty of Care to Children and Young People in Western Australia, Gwenn Murray, December 2005.

Figure 1



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

Capital Works Program

The Western Australian economy is experiencing strong economic growth, due to the confluence of a range of favourable factors, including a strong international economy, record commodity demand (and prices), a sustained upswing in the domestic housing cycle, buoyant consumer confidence and spending, and positive business sentiment. Growth is broadly based, and the State has now enjoyed several years of strong growth, with the Western Australian economy growing by an average annual rate of 5.5% over the four years to 2004-05 (compared to national average annual growth of 3.3% for the same period)³.

The public sector is an important contributor to this growth, with economic and social infrastructure development, provided through the Capital Works Program, helping to expand the State's capacity for growth and ensure that future generations will benefit from the provision of quality services.

³ See Chapter 5 for further details on the economic outlook for Western Australia.

The 2006-07 Capital Works Program is estimated at \$5.2 billion (and a total of \$18.1 billion over the four years to 2009-10) – the largest program on record – and provides for investment in major infrastructure such as:

- \$633 million on the State's electricity infrastructure with a focus on the long-term provision of electricity generation, transmission and distribution. Specific projects include: enhancements to the transmission network to cater for private sector power generators such as Alinta's Wagerup units; provision of sustainable energy infrastructure for Coral Bay and Hopetoun; safety initiatives including fire risk issues in the Esperance District; increased distribution capacity for customers; and continuing the underground power project;
- \$620 million on water, wastewater and drainage services to ensure a sustainable, high quality water supply for the State. The program provides for the completion of the Perth Seawater Desalination Plant; investigation into alternative water sources for Perth and country areas; construction of wastewater schemes at Alkimos and East Rockingham; and continued ongoing programs such as the Infill Sewerage program (including accelerated works from 2006-07), wastewater treatment schemes, and water distribution infrastructure;
- \$475 million on road construction and maintenance, including major projects to continue construction of the Karratha-Tom Price Link Road, commence construction of the New Perth-Bunbury Highway, the extension of the Mitchell Freeway to Burns Beach Road, and the reconstruction of the Eyre Highway between Caiguna and Balladonia. This program is in addition to roadworks associated with the New MetroRail project (see below);
- \$391 million for the planned completion of the New MetroRail project, including the Southern Suburbs Railway, underground works in the Perth central business district, and bridge and roadworks along the Kwinana Freeway, and the acquisition of new rail cars;
- \$313 million on public schools and TAFE college infrastructure, including works on 19 primary schools, 21 high schools and five District High Schools; completion of the Australian Centre for Energy and Process training facility for Challenger TAFE at Henderson; and redevelopments at Central TAFE;
- \$278 million for health service infrastructure, an increase of \$133 million (or 92%) over 2005-06. This investment continues the implementation of the Health Reform Committee recommendations with a number of projects entering the construction phase, along with other health sector priorities. Planning and construction of a number of new and redeveloped health facilities continues, including the Central Tertiary Hospital, New Swan Health Campus, Southern Tertiary Hospital, Rockingham Kwinana District Hospital, Joondalup Health Campus, Hedland Regional Resource Centre and Broome Regional Resource Centre. In addition, the program provides for Mental Health Strategy initiatives, equipment for the State Cancer Centre, and equipment replacement and information technology infrastructure across the health sector;

- \$234 million on law and order-related projects, such as:
 - the new Perth Watch House/Perth Police Centre/Crime Headquarters, counter terrorism equipment, continued construction on various new and replacement police complexes and stations (primarily in regional areas), and continued investment in state-of-the-art information technology and communication infrastructure;
 - new works including urgent remedial work to improve security to Broome Regional Prison, new security and fencing for Eastern Goldfields Prison, continued redevelopment work on Bandyup prison facilities, additions and upgrades to Bunbury Regional Prison, and accommodation expansion at Wooroloo Prison; and
 - an upgrade to the Kalgoorlie Court and further progress on the Central Business District Courts construction and Central Law Courts refurbishment; and
- \$88 million on port facilities, including upgrade of berthing facilities at Geraldton to accommodate iron ore exports, and upgrades to berths at North Quay and the Waterfront project on the western end of Victoria Quay at Fremantle.

Economic Outlook

Growth in Western Australia's economy is estimated to be 4.75% in 2005-06. Growth will be driven by a strong domestic economy, with household consumption and business investment the main contributors to economic growth, and dwelling investment and the public sector also making positive contributions. However, net trade (exports less imports) is forecast to detract from growth in 2005-06, as strong imports growth more than offsets a moderate increase in the volume of exports (despite exports growing strongly in value terms due to commodity price rises).

In 2006-07, gross State product (GSP) growth is forecast to strengthen to 5.25%, as net trade takes the lead as the major driver of economic growth. Exports are forecast to grow by 10.0% in 2006-07, as additional capacity resulting from the strong resource sector investment of recent years begins to generate increased production and exports. Domestic economic activity is expected to ease, with growth in household consumption expenditure, business investment and dwelling investment all slowing. However, this is more a reflection of the current record high levels of activity that have been reached through the strong growth in recent years than a downturn in underlying conditions.

In 2007-08, the State's domestic economic growth is forecast to moderate to 2.75%, somewhat below its longer-term trend, because of a minor dip in dwelling investment and weaker growth in business investment (both from very high levels). However, net trade is expected to partly offset this weaker growth in domestic demand, with export growth of 8.0%. As a result, the Western Australian economy is forecast to grow by 3.75% in 2007-08.

Conditions in the State's labour market are forecast to remain tight, reflecting the expected strength of the economy over the next couple of years. Employment is forecast to grow by 2.0% in 2006-07 (following growth of 4.5% expected in 2005-06), but this relatively slow growth reflects labour supply constraints rather than weak demand for workers. The unemployment rate is forecast to maintain a 29-year low of 4.25% over 2005-06 and through 2006-07. In 2007-08, labour market conditions are expected to remain relatively tight, with employment growth forecast to pick up slightly (to 2.25%), but with the unemployment rate also forecast to rise marginally (to 4.75%). Both these movements reflect a small increase in labour supply.

Wages are forecast to increase by 4.5% in 2005-06 and 4.25% in 2006-07, largely as a result of tight labour market conditions. Wages growth is expected to ease to 3.5% in 2007-08, as the supply of labour increases, and economic growth eases.

MAJOR ECONOMIC AGGREGATES
Western Australia

Table 2

	2004-05 Actual	2005-06 Estimated Actual	2006-07 Budget Estimate	2007-08 Forward Estimate	2008-09 Forward Estimate ^(d)	2009-10 Forward Estimate ^(d)
	%	%	%	%	%	%
Gross State Product Growth ^(a)	2.7	4.75	5.25	3.75	4.5	4.5
State Final Demand Growth ^(a)	5.8	6.75	4.0	2.75	4.0	4.0
Employment Growth	4.2	4.5	2.0	2.25	2.25	2.25
Unemployment Rate	4.7	4.25	4.25	4.75	4.75	4.75
Wages Growth ^(b)	4.3	4.5	4.25	3.5	3.25	3.25
Consumer Price Index Growth	3.2	4.0	3.0	2.5	2.5	2.5
GSP Implicit Price Deflator Growth ^(c)	6.4	8.0	2.5	2.5	2.0	2.0

Forecast notes:

(a) Gross State Product (GSP) and State Final Demand (SFD) growth in real (chain volume) terms (and so abstract from price effects).

(b) Wages growth refers to the wage price index.

(c) GSP Implicit Price Deflator forecasts include a technical assumption that import and export prices do not change.

(d) Beyond 2007-08, forward estimates are not forecasts, but projections based on long term changes.

Other notes: Currency exchange rates and interest rates assumed to be constant over forecast period, and ABS mid-series population projections are used as a basis for estimating population growth. The Reserve Bank of Australia's decision to raise the official interest rate by 25 basis points (from 5.5% to 5.75%) on 3 May 2006 was made after the economic forecasts for the 2006-07 Budget were finalised. However, the rate rise is not expected to materially affect the forecasts (a prior assumption was that the Reserve Bank held a tightening bias).

Fiscal Strategy and Financial Projections

Overview

The financial outlook for Western Australia remains buoyant. A general government sector operating surplus of \$1,275 million is forecast for 2006-07 (the highest surplus ever budgeted for Western Australia), continuing the unbroken sequence of operating surpluses recorded during the Government's first five years in office.

The magnitude of the surplus, following the estimated \$1,981 million surplus for the current financial year (the highest ever recorded), reflects the current boom conditions in the Western Australian economy.

Surpluses are also in prospect across the remaining forward estimate years, although these are forecast to decline to around \$450 million by 2009-10. This reflects an expectation that growth in commodity prices and the economy will moderate slightly over the next two years. It also reflects the impact of the Commonwealth Grants Commission process in the outyears, with GST grants to Western Australia forecast to increase by just 1.3% per annum on average between 2005-06 and 2009-10, significantly less than real per capita growth. This reflects forecast adjustments to Western Australia's GST share as a lagged impact of the current buoyant conditions.

In framing this budget, the Government based its decisions on the budgetary capacity expected to be available over the medium to longer term, rather than the temporary/cyclical nature of the current revenue position.

Nonetheless, this budget delivers:

- significant tax relief worth around \$765 million over four years (building on the tax relief program begun in the 2004-05 Budget);
- new expense initiatives worth around \$950 million across the forward estimates; and

- significant levels of investment in major economic and social infrastructure projects, with the projected surpluses providing a key funding source for a Capital Works Program worth a record \$5.2 billion in 2006-07, and \$18.1 billion over the forward estimates.

This strategy of delivering and budgeting for operating surpluses ensures that public sector net debt remains at affordable levels, and that the State's favourable financial outlook can be sustained over the longer term. In particular, it ensures the State's finances will remain sound when more typical revenue growth returns. This is reflected in the net debt to revenue ratio for the total non-financial public sector, which is forecast to remain comfortably below the Government's target limit of 47% in each of the forward estimate years, reaching a projected maximum of just 39.8% by 2009-10.

The remainder of this chapter outlines the Government's financial targets, discusses the financial projections underlying the 2006-07 Budget and summarises risks to the projections.

Fiscal Strategy

The Government is committed to investing in essential infrastructure and delivering quality services, within the bounds of sound financial management outcomes. The Government's financial targets are set to achieve these outcomes.

Financial Targets

The Government's financial targets remain unchanged from those included in the 2005-06 Budget. Specifically, the targets are to:

- maintain or increase the real 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 specific targets:
 - maintain the net debt to revenue ratio for the total non-financial public sector at or below 47%; and
 - ensure that real per capita own purpose expenses for the general government sector do not increase; and
- maintain Western Australia's tax competitiveness, as measured by maintaining tax revenue as a share of gross State product (GSP) below the average of other States.

These targets assist the Government in managing the competing demands for services and publicly funded infrastructure, while ensuring that the State's finances retain a sustainable outlook. Details of the individual targets, reflecting the 2006-07 Budget projections, are outlined below.

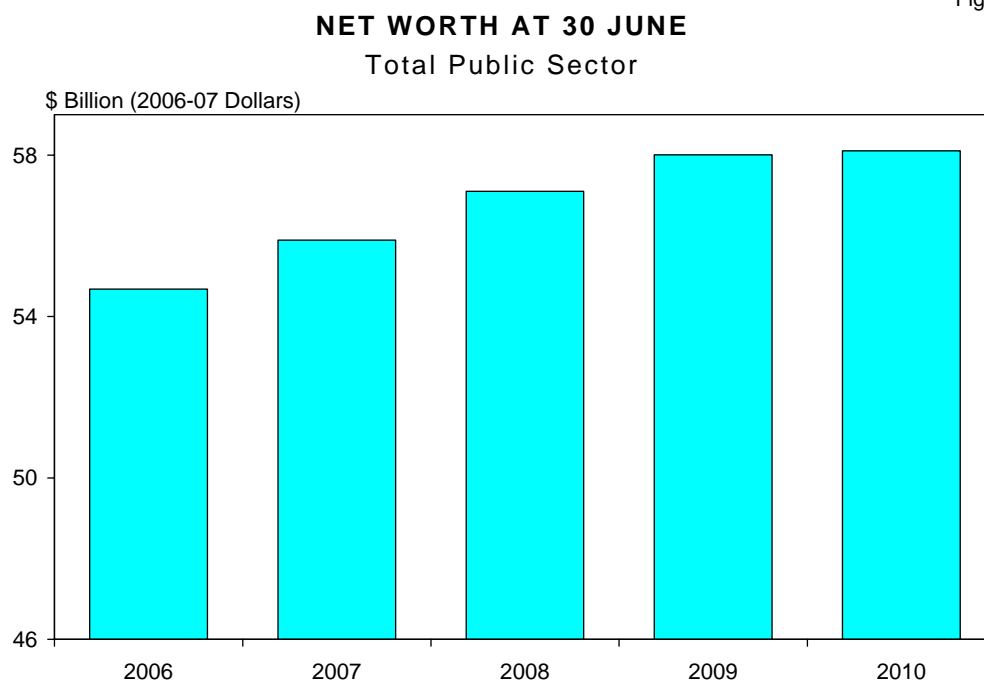
Net Worth: Maintain Or Increase Real Net Worth Of The Total Public Sector

This target is expected to be met in each year of the forward estimates.

Net worth provides an overall picture of the public sector's financial position. It consists of total assets (financial and non-financial) less total liabilities. Positive net worth indicates that the public sector has more assets under its control than the liabilities it must satisfy in the future. The Government's net worth target measures the public sector's value in real terms, incorporating expected changes in the time value of money from one year to the next (i.e. adjusting for inflation over time).

The projected increase over the forward estimate years reflects expectations of consistent operating surpluses across all sectors of government, and steadily rising land and fixed asset holdings.

Figure 1



Operating Balance: Achieve An Operating Surplus For The General Government Sector

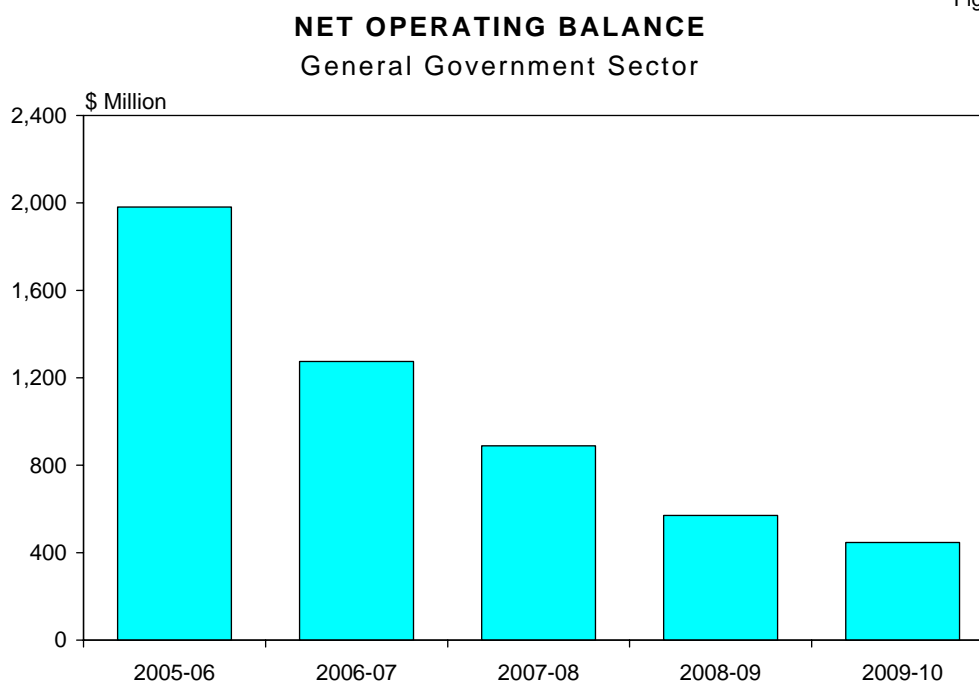
This target is expected to be met in each year of the projections.

The net operating balance is the excess of operating (or day-to-day) revenue over operating expenses, and is the key bottom line measure in Western Australia's whole-of-government financial publications.

The operating balance is a good measure of the sustainability of public sector operations over time. It includes non-cash costs such as accruing superannuation entitlements and the consumption of capital (i.e. depreciation). Essentially, all the day-to-day operating costs incurred in the provision of general government services are counted in this measure.

Reflecting the revenue impact of the current boom in the State's economy, the general government sector is expected to achieve a record operating surplus of \$1,981 million in 2005-06. Operating surpluses are projected to ease across the outyears, with economic conditions (and revenue growth) forecast to stabilise at more normal levels. In addition, the impact of higher revenue outcomes in recent years is reflected in a lagged reduction to forecast GST grants in the outyears (as a result of the Commonwealth Grants Commission process). This will cost the State an estimated \$668 million in lost GST revenue in annual terms by 2009-10 (compared to if Western Australia's 2006-07 share of national GST collections was maintained across the forward estimates period).

Figure 2

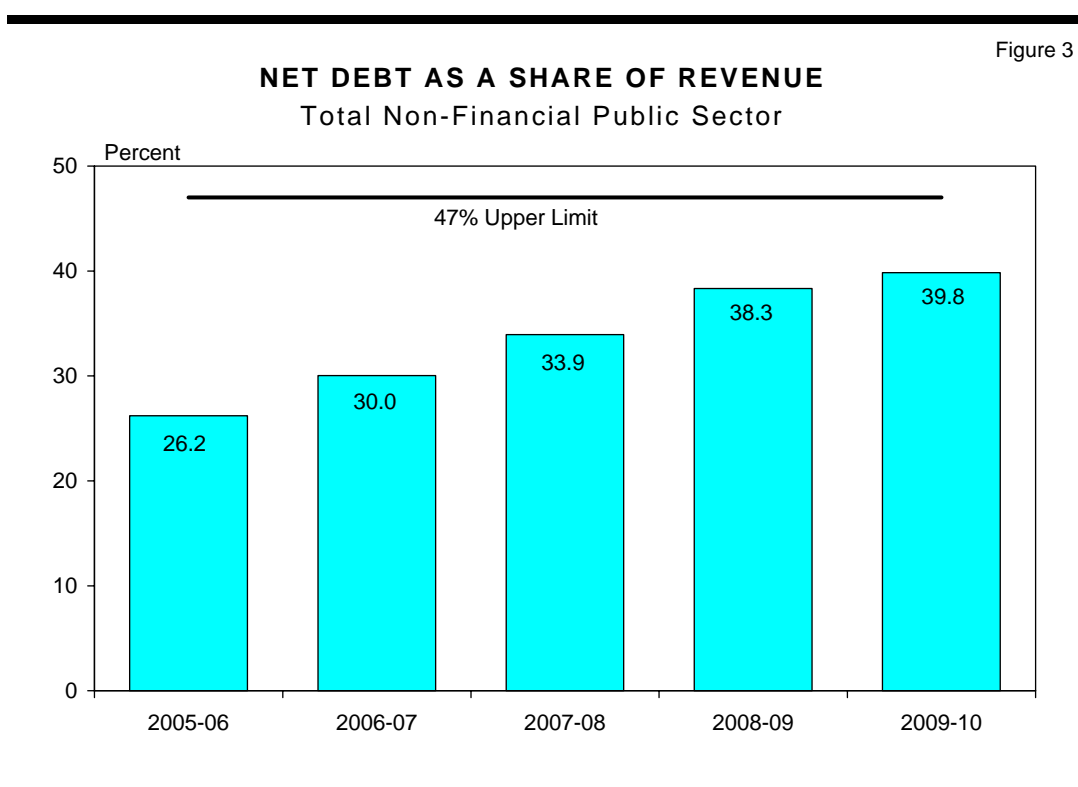


Maintain Net Debt To Revenue For The Total Non-Financial Public Sector At Or Below 47%

This target is expected to be met in each of the forward estimate years.

This is the Government's key measure of net debt growth and its sustainability in terms of the public sector balance sheet. Together with real per capita own purpose expenses (discussed overleaf), it gives effect to the Government's objective of maintaining the State's triple-A credit rating.

As indicated in the following chart, net debt as a share of revenue is forecast to remain well below the 47% target for the budget year and the forward estimate years, with the ratio reaching an estimated maximum of 39.8% in 2009-10.



The increase in the ratio over the projection period reflects the financing needs of the State's massive Capital Works Program, estimated to total \$18.1 billion over the four years to 2009-10. The Capital Works Program includes a range of significant new projects announced in this budget, as well as ongoing works such as the \$1.6 billion New MetroRail project, the \$500 million New Perth-Bunbury Highway development, and the \$387 million Perth Seawater Desalination Plant.

Importantly, the operating surpluses projected over the forward estimates period reduce the extent to which net debt is required to fund infrastructure spending, by providing an alternative funding source to new borrowings. This is clearly demonstrated in the Government's decision in this budget to inject surplus funds into the New MetroRail project, leaving this significant asset debt-free on completion.

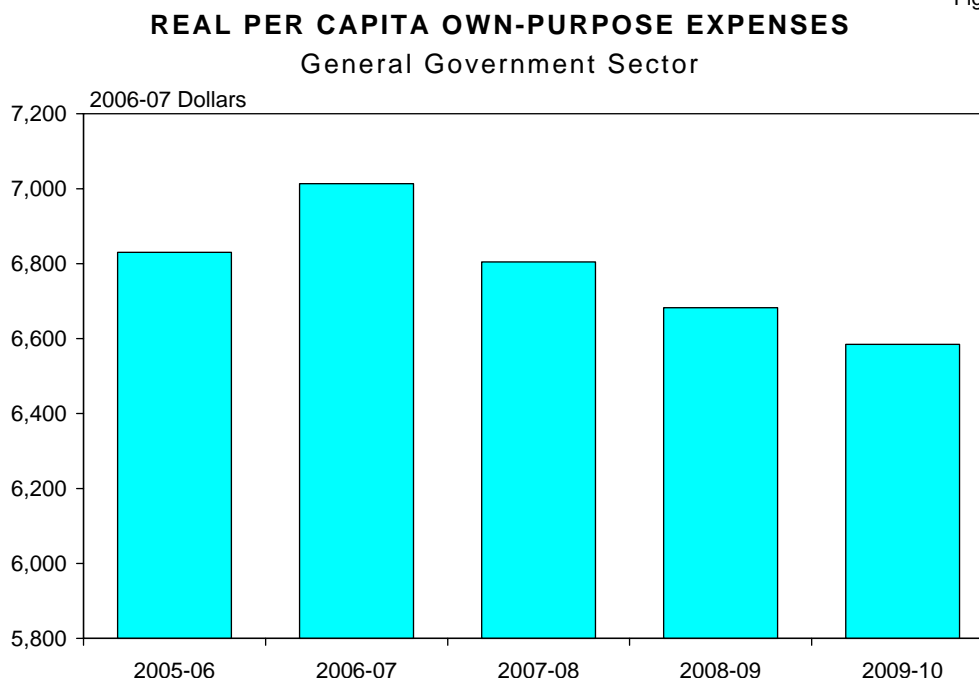
Ensure That Real Per Capita Own-Purpose Expenses For The General Government Sector Do Not Increase

Reflecting significant spending commitments in 2005-06 and 2006-07, this target is not expected to be met in those two years. However, the target is projected to be met in each of the remaining years to 2009-10.

This target allows for an increase in expenses up to the combined growth in population and inflation¹. The general government sector is the focus of the target as the Government exercises more direct control over expenses in this sector.

A range of spending initiatives have been accommodated in 2005-06 and 2006-07 since the time of the last budget in response to demands generated from a continuing strong State economy. These include significant wage outcomes and spending on a number of key initiatives such as those to address the current skills shortage, counter-terrorism and emergency response capability, costs associated with the installation of seatbelts on the Government's school bus fleet, the response to the recommendations of the Mahoney Inquiry, biodiversity, water reform and mental health initiatives. Adding to expense growth in 2005-06 and 2006-07 was a delay of some spending from 2004-05, and a bring forward to 2006-07 (from 2007-08) of the \$88 million debt write-off following commitment by the owners to expand the Dampier to Bunbury Natural Gas Pipeline.

Figure 4



¹ Inflation is measured by growth in the public final consumption expenditure deflator, a measure of growth in the price of delivering public services.

Notwithstanding the target breaches projected in 2005-06 and 2006-07, the Government remains committed to sustainable growth in spending, with the public sector's capacity to afford these higher rates of growth accommodated by the stronger revenue outlook and surplus outcomes evident in the projections for these two years.

When considered together with the net debt to revenue ratio projections, the State's triple-A credit rating assessment is expected to be maintained, reflecting the overall strength of the public sector's financial position and the State's economic prosperity more broadly.

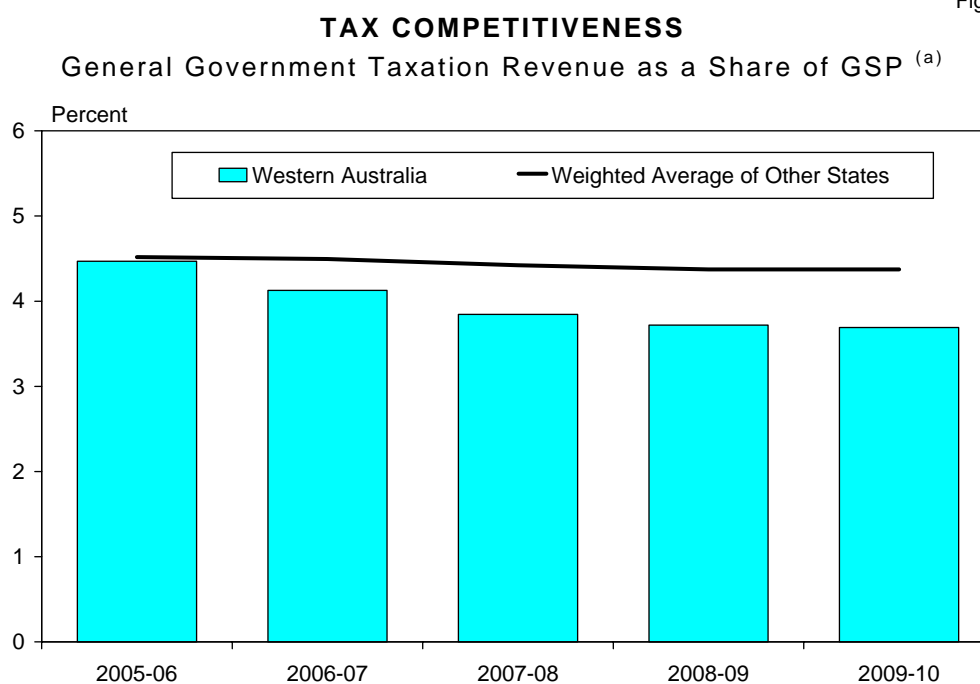
Tax Competitiveness: Maintain Western Australia's Tax Competitiveness, As Measured by Maintaining Tax Revenue As A Share of Gross State Product Below Other States' Average

This target is expected to be met in each year of the estimates.

Maintaining a competitive tax environment is a priority for the Government. Reflecting this, over the past two years the Government has announced four tranches of tax relief.

As indicated in the following chart, Western Australia is expected to retain a competitive tax environment relative to other States, with tax revenue as a share of GSP expected to remain below the average of other States across the forward estimates period. The State's competitiveness is expected to be further strengthened across the forward estimates as tax relief measures come into full effect.

Figure 5



(a) Estimates for other jurisdictions are based on the most recent published estimates available at the time these Budget Papers were finalised.

Summary of Financial Projections

General Government Sector

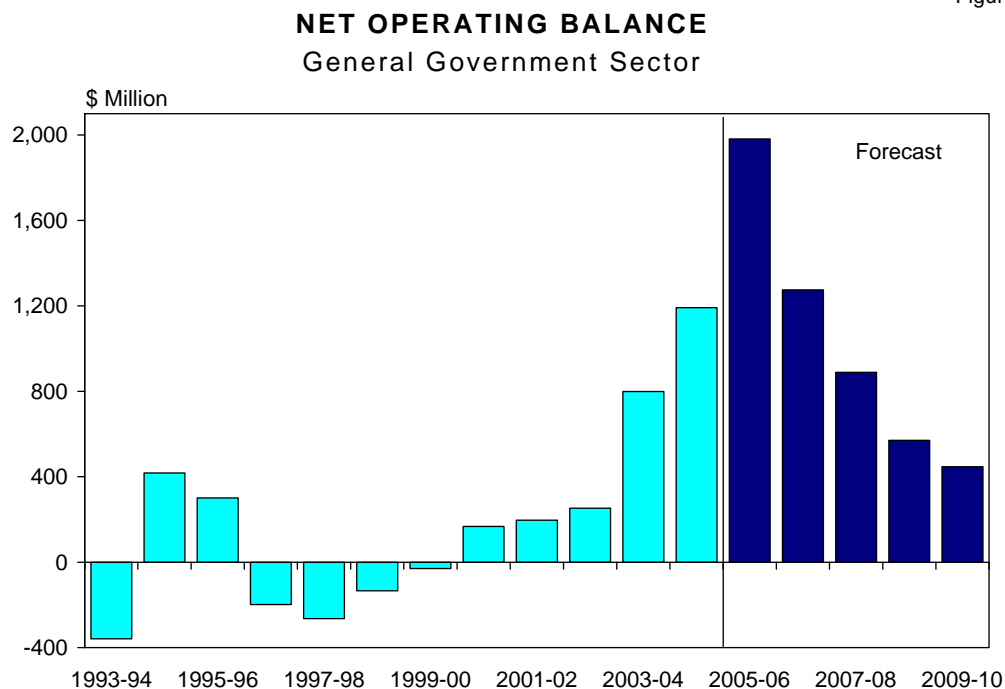
Summary

General government sector operating surpluses are forecast for 2006-07 and each year of the forward estimates period to 2009-10.

A surplus of \$1,275 million is projected for 2006-07, while across the outyears, surpluses are expected to moderate to around \$450 million by 2009-10. A record \$1,981 million operating surplus is expected in 2005-06, up from the estimate of \$1,302 million contained in the 2005-06 mid-year review. This largely reflects the impact on State revenue of strong commodity prices (especially oil) and continued strength of the Western Australian property market and general economic conditions.

The following chart puts the budget projections in context, showing general government sector operating balances since 1993-94 (the first year data are available on a consistent accrual government finance statistics basis). The chart illustrates the financial impact of the boom conditions currently being experienced in the State.

Figure 6



However, it is unlikely that factors underpinning the recent strength of the economy will continue unabated. Accordingly, the outyear projections for the surplus show an easing toward an 'underlying' surplus position in the medium term. The outyear projections also incorporate the tax relief package announced by the Government on 21 March 2006 and further changes to the land tax scale announced as part of this budget (see detail below), which has an estimated total cost to the general government operating balance of \$117 million in 2006-07, rising to an annual cost of \$257 million by 2009-10.

Net worth of the general government sector (that is, the overall value of public sector assets after accounting for all liabilities) is forecast to increase by \$2.5 billion in 2006-07, and by an average \$2.1 billion per annum thereafter to stand at \$62.1 billion at 30 June 2010. The increasing value of the public sector reflects operating surpluses across all sectors of government and the enduring value of the State's significant fixed asset holdings.

The general government sector is forecast to be free of net debt across the entire forward estimates period. This favourable outcome reflects a forecast general government cash surplus for 2006-07, the fifth such result in a row. Queensland and Tasmania are the only other two States to record such outcomes².

The following table provides summary financial information for the general government sector.

Table 1

GENERAL GOVERNMENT						
Summary Financial Statements						
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
OPERATING STATEMENT						
Revenue	14,222	16,123	16,510	16,414	16,575	16,994
Expenses	13,030	14,141	15,234	15,526	16,004	16,547
Net Operating Balance	1,192	1,981	1,275	889	571	447
Net Lending	899	1,394	515	-164	-186	56
BALANCE SHEET						
Assets	60,117	63,513	66,221	69,102	71,649	73,482
Liabilities	9,926	10,168	10,329	10,715	11,003	11,368
Net Worth	50,192	53,345	55,892	58,386	60,646	62,115
STATEMENT OF CASH FLOWS						
Change in net cash held	180	599	-608	-83	-55	370
Cash Surplus	859	1,463	862	9	-99	179
<i>Memorandum Item: Net Debt</i>	-997	-1,877	-1,017	-724	-517	-596

Note: Columns may not add due to rounding.

² Based on the most recent published estimates at the time these Budget Papers were finalised.

Operating Statement

A general government operating surplus of \$1,275 million is forecast for 2006-07, following an estimated record \$1,981 million surplus for 2005-06.

The estimated surplus for 2005-06 is \$680 million higher than the estimate published in the 2005-06 mid-year review, reflecting a substantial \$765 million upward revision to revenue, partly offset by an \$86 million rise in expenses.

The major factors accounting for the stronger 2005-06 revenue outlook include:

- upward revisions to stamp duty on property conveyances (\$353 million) and motor vehicles (\$25 million), and payroll tax (\$25 million), underpinned by stronger than previously forecast property market activity, consumer spending in general, and employment and wages growth during the year;
- higher mining revenue (up \$110 million, including North West Shelf petroleum royalties and lease rentals), reflecting the net impact of:
 - higher average oil prices through the year (up from an estimated \$US55 in the mid-year review, to an estimated \$US65.5 per barrel for the remainder of 2005-06) and higher than expected LNG prices;
 - higher than anticipated prices for many commodities including gold; and
 - a one-off increase in lease rentals, reflecting a large number of mining lease applications (and associated payments of rent in advance) received prior to the February 2006 commencement of the *Mining Amendment Act 2006*;
- higher specific purpose payments from the Commonwealth and agency sales of goods and services (up a combined \$108 million), both matched by offsetting expenses;
- an increase in revenue from public corporations (\$63 million), with higher dividend and tax equivalent revenue from Western Power (and its successor entities operating since 1 April 2006) arising from better than expected profit for the year; and
- an increase in investment income (\$50 million), due to higher than expected cash balances as a result of the upward surplus revisions.

The \$86 million increase in expenses in 2005-06 since the mid-year review is largely driven by parameter changes across the sector (totalling \$62 million), which are backed mainly by rises in agency own-source revenue and Commonwealth tied grants (as noted above). Around \$23 million in policy decisions impacting 2005-06 have also been taken by the Government since the mid-year review, including:

- the splitting of the former Department of Justice into the Departments of the Attorney General and Corrective Services, and the commencement of initiatives in response to the Mahoney Inquiry (\$4.8 million);

- introduction of a Renewable Energy Production subsidy scheme (\$3.0 million) to assist renewable energy generators over the period that the Government's electricity reforms are being implemented and the benefits realised;
- an 'Attraction and Retention' benefit, payable to specialist staff within the engineering and science fields, to enable the attraction and retention of suitably qualified and experienced personnel across the sector (\$2.6 million); and
- a range of small approvals across the general government sector (see Chapter 3 for details of agency spending initiatives).

Table 2

GENERAL GOVERNMENT
Operating Statement

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	Actual	Estimate	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
REVENUE						
Taxation	4,314	5,100	5,082	5,035	5,192	5,491
Current grants and subsidies	6,468	6,894	7,163	7,233	7,179	7,300
Capital grants	347	406	402	399	425	317
Sales of goods and services	982	1,027	1,046	1,069	1,095	1,123
Interest income	142	195	151	134	131	130
Revenue from public corporations						
Dividends	468	536	456	470	496	509
Tax equivalent payments	292	296	294	298	330	331
Royalty income	841	1,276	1,504	1,303	1,280	1,313
Other	368	394	410	472	447	480
<i>Total</i>	<i>14,222</i>	<i>16,123</i>	<i>16,510</i>	<i>16,414</i>	<i>16,575</i>	<i>16,994</i>
EXPENSES						
Gross operating expenses						
Salaries	5,253	5,559	5,904	6,168	6,444	6,734
Depreciation and amortisation	607	594	637	676	707	729
Superannuation	519	546	580	604	630	657
Services and contracts	1,263	1,545	1,753	1,765	1,805	1,845
Other	1,730	1,865	1,873	1,907	2,013	2,087
Nominal superannuation interest	294	304	306	307	306	304
Other interest	155	151	132	130	134	127
Current transfers	2,728	3,080	3,466	3,544	3,555	3,667
Capital transfers	482	497	583	426	410	397
<i>Total</i>	<i>13,030</i>	<i>14,141</i>	<i>15,234</i>	<i>15,526</i>	<i>16,004</i>	<i>16,547</i>
NET OPERATING BALANCE	1,192	1,981	1,275	889	571	447

Note: Columns may not add due to rounding.

The following table outlines variations in general government revenue and expenses since the 2005-06 mid-year review was released on 21 December 2005. The impact of policy decisions by the Government is shown separately to the impact of parameter changes over the same period³.

³ Parameter changes are those changes that arise due to changes in the economic environment, the timing of transactions, consequential interest and depreciation impacts, etc.

Table 3

**SUMMARY OF GENERAL GOVERNMENT REVENUE AND EXPENSE
VARIATIONS SINCE THE 2005-06 MID-YEAR REVIEW**

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
2005-06 MID-YEAR REVIEW – NET OPERATING BALANCE	1,302	731	678	646	-
Revenue					
<i>Policy Decisions</i>					
Taxation relief (net of measures)	-	-117.4	-152.7	-237.8	-257.2
- Abolition of mortgage duty	-	-73.0	-82.8	-161.9	-175.1
- Abolition of rental duty	-	-15.2	-38.0	-41.0	-44.0
- Land tax scales and exemptions	-	-39.2	-41.9	-44.9	-48.1
- Compliance measures (aggregation of land holdings)	-	10.0	10.0	10.0	10.0
Urban water pricing changes	-	8.0	14.8	15.5	8.5
Road traffic penalties	-	23.0	32.5	31.0	31.0
All other revenue ^(a)	-	0.4	0.3	0.4	0.4
<i>Total Policy</i>	-	-86.0	-105.1	-190.9	-217.4
<i>Parameter</i>					
Taxation:	430.6	649.3	431.7	422.4	
<i>Comprising:</i>					
- Payroll tax	25.0	47.6	58.0	71.5	
- Land tax	-	29.2	31.9	34.9	
- Conveyance duty	353.0	492.9	277.8	248.7	
- Mortgage duty	15.1	36.2	23.1	15.3	
- Motor vehicle taxes	25.0	32.5	36.5	45.5	
- All other taxes	12.6	11.0	4.3	6.5	
Commonwealth grants:					
- North West Shelf royalties	55.5	199.0	213.0	192.5	
- GST revenue grants	-37.7	16.4	-108.6	-250.6	
- National Competition Policy grants	31.3	-	-	-	
- All other Commonwealth grants ^(b)	78.7	140.6	111.7	96.8	
Mining royalties/lease rentals	54.5	155.0	87.5	70.5	
Interest income	49.5	-3.0	-14.7	-38.1	
Agency sales of goods and services	29.3	29.7	30.4	31.2	
Revenue from public corporations	62.6	26.3	47.1	119.7	
Capital User Charge for Public Transport Authority	-	53.4	98.6	96.3	
Other	11.0	0.5	15.3	16.1	
<i>Total Parameter</i>	<i>765.4</i>	<i>1,267.3</i>	<i>911.9</i>	<i>756.8</i>	
TOTAL REVENUE	765.4	1,181.3	806.8	565.8	
Expenses					
<i>Policy Decisions^(c)</i>	<i>23.4</i>	<i>219.3</i>	<i>246.2</i>	<i>225.1</i>	<i>238.8</i>
<i>Parameter</i>					
New MetroRail project interest subsidy	-	-50.0	-75.4	-76.1	
On-passing of SPPs ^(b)	46.8	107.3	109.9	112.3	
Capital User Charge for Public Transport Authority	-	53.4	98.6	96.3	
Salaries (excluding policy decisions)	35.8	156.5	212.9	258.8	
Superannuation (excluding policy decisions)	4.4	21.3	27.5	32.9	
Grants and subsidies to public corporations	24.7	61.0	56.8	60.6	
Other grants and subsidies	20.4	60.1	33.2	44.7	
Other	-69.8	8.5	-113.3	-113.3	
<i>Total Parameter</i>	<i>62.3</i>	<i>418.0</i>	<i>350.1</i>	<i>416.2</i>	
TOTAL EXPENSES	85.8	637.3	596.3	641.3	
TOTAL VARIANCE	679.6	544.0	210.5	-75.5	
2006-07 BUDGET – NET OPERATING BALANCE	1,981	1,275	889	571	447

(a) Includes new fees in relation to National Criminal History Records Checking for Commercial Entities.

(b) Estimates of Commonwealth grants for specific purposes vary from year to year, reflecting changes in parameters, changes in Commonwealth policy, etc. Additional revenue is generally matched by broadly equivalent expenses, including any additional resources required by matching arrangements.

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

Note: Columns may not add due to rounding.

General government expense decisions by agency since the 2005-06 mid-year review are summarised in Table 4. It should be noted that agency figures in this table may differ from those contained in Chapter 3: *Financial Projections - Expenditure*, as figures contained in the following table reflect movements in agency expenses on a net government finance statistics basis, and as such, any transfers between general government agencies are excluded as they are eliminated on consolidation.

Table 4

**SUMMARY OF EXPENSE POLICY DECISIONS BY AGENCY SINCE THE
2005-06 MID-YEAR REVIEW**

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Agriculture and Food	-	7.2	10.9	1.4	1.4
Attorney General	2.0	11.9	12.6	13.5	14.1
Auditor General	0.6	0.4	0.4	0.4	0.4
Botanic Gardens and Parks Authority	-	0.8	0.8	0.5	0.5
Community Development	-	24.0	28.8	35.6	40.8
Conservation and Land Management	-	8.4	4.5	0.8	0.8
Consumer and Employment Protection	4.1	1.8	0.8	-0.1	3.0
Corrective Services	3.3	22.2	25.1	25.1	26.5
Culture and the Arts	0.1	2.5	2.5	0.1	-
Director of Public Prosecutions	-	0.5	0.5	0.5	0.5
Disability Services Commission	-	6.3	6.7	20.8	35.6
Education and Training	1.6	3.3	0.6	0.6	0.6
Energy	3.0	4.5	1.0	6.0	-
Environment	0.1	4.8	5.1	0.8	0.8
Fire and Emergency Services Authority	-	0.9	-	-	-
Gascoyne Development Commission	0.1	0.2	0.2	0.2	0.2
Health	1.0	36.8	51.8	46.0	45.5
Housing and Works	-	8.4	13.4	10.9	8.4
Indigenous Affairs	-	0.5	-	-	-
Industry and Resources	0.9	25.9	27.4	21.3	21.3
Inspector of Custodial Services	0.1	0.1	0.1	0.1	0.1
Legal Aid Commission	1.0	2.4	2.5	2.5	2.6
Legislative Council	-	0.2	-	0.2	-
Local Government and Regional Development	-	2.5	3.3	0.7	0.7
Main Roads	0.1	0.7	0.5	0.6	0.6
Mid-West Development Commission	1.5	-	-	-	-
Parliamentary Commissioner for Administrative Investigations	-	0.2	0.2	0.2	0.2
Pilbara Development Commission	0.4	-	-	-	-
Planning and Infrastructure	0.2	2.5	1.9	1.9	1.9
Police Service	-	6.7	5.2	5.5	4.3
Premier and Cabinet	0.4	7.3	9.7	8.9	8.7
Public Sector Standards Commissioner	-	0.2	0.2	0.2	0.2
Small Business Development Commission	-	0.4	0.4	-	-
Sport and Recreation	-	2.9	2.9	2.4	2.4
Swan River Trust	-	1.0	1.9	1.6	1.4
Tourism Commission	-	5.7	5.5	0.2	0.2
Treasury and Finance ^(a)	1.5	6.1	6.9	5.1	5.3
Water and Rivers Commission	1.5	9.0	11.7	10.4	9.7
TOTAL	23.4	219.3	246.2	225.1	238.8

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

Movements in revenue and expenses for the years 2006-07 to 2009-10 are summarised below. Detailed analysis is provided in Chapters 3 and 4.

Revenue

Total operating revenue for the general government sector is estimated to be \$16.5 billion in 2006-07, an increase of \$387 million (or 2.4%) on the estimated outturn for 2005-06. This fairly moderate rate of growth follows extremely strong growth in revenue in 2004-05 and 2005-06. Over these two years, general government revenue is estimated to have grown by 26.4%, reflecting the current boom conditions in the Western Australian economy.

Current grants from the Commonwealth (up an estimated \$224 million, or 3.6%) and total mining revenue⁴ (up an estimated \$252 million, or 12.5%) are the main contributors to the increase in total revenue in 2006-07. The growth in current grants largely reflects the forecast increase in Commonwealth collections of GST revenue nationally. Growth in mining revenue is mainly due to:

- a forecast 10% increase in iron ore prices for Japanese Fiscal Year 2006-07;
- a higher forecast average oil price over the year relative to 2005-06; and
- a lower assumed average exchange rate of US73 cents over the year, compared with an estimated average exchange rate of US74 cents for 2005-06.

Taxation revenue is expected to decrease by around \$18 million (or 0.3%) in 2006-07. This reflects the impact of tax relief contained in this budget (including mortgage duty, rental business duty and land tax relief), as well as the impact of a very large one-off conveyance duty assessment in 2005-06. Strong economic growth associated with the commodities boom and continued property price growth (albeit at a slower rate than in 2005-06) are expected to support *underlying* growth in taxation revenue of around 5.5% in 2006-07⁵.

Total operating revenue is expected to increase by an average of 1.0% per annum over the outyears following growth of 2.4% in 2006-07. This modest rate of growth reflects anticipated declines in most commodity prices (including iron ore prices), slower forecast growth (off a very high base) in property market activity, and the lagged impact of recent growth in property taxes and mining royalties on Western Australia's share of GST revenue.

By 2009-10, the Commonwealth Grants Commission process is expected to result in Western Australia's GST revenue grant share being \$668 million less than it would be if the State's 2006-07 share was maintained. This reflects the lagged Grants Commission impact of the recent high growth in the State's property market related revenue and petroleum and iron ore royalties.

⁴ Includes territorial mining royalties, North West Shelf petroleum royalties (which are classified as a Commonwealth grant reflecting the Commonwealth's constitutional responsibility for off-shore areas) and lease rentals.

⁵ That is, growth abstracting from the impact of very large one-off revenue assessments and the effects of policy changes.

Table 5

IMPACT OF PROJECTED COMMONWEALTH GRANTS COMMISSION RELATIVITIES

	2006-07 Budget Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m
Impact on General Government Operating Revenue	-	-234	-499	-668

Note: This table measures the forecast annual loss in Western Australia's GST revenue as a result of the Commonwealth Grants Commission's 'equalisation' process. The basis of comparison is Western Australia's 2006-07 GST share (or 'relativity'). For example, if Western Australia's 2006-07 relativity continued unchanged through to 2009-10, it is estimated that the State's GST revenue would be \$668 million higher than currently forecast.

Total operating revenue is expected to decline by 0.6% in 2007-08. Lower conveyance duty collections are expected to be the major contributor to this decline in revenue. The decline in conveyance duty is predicated on a slowdown in property market activity that is characterised by steady house prices and a lower volume of property transfers.

Reasons for expecting the softening of property market conditions include:

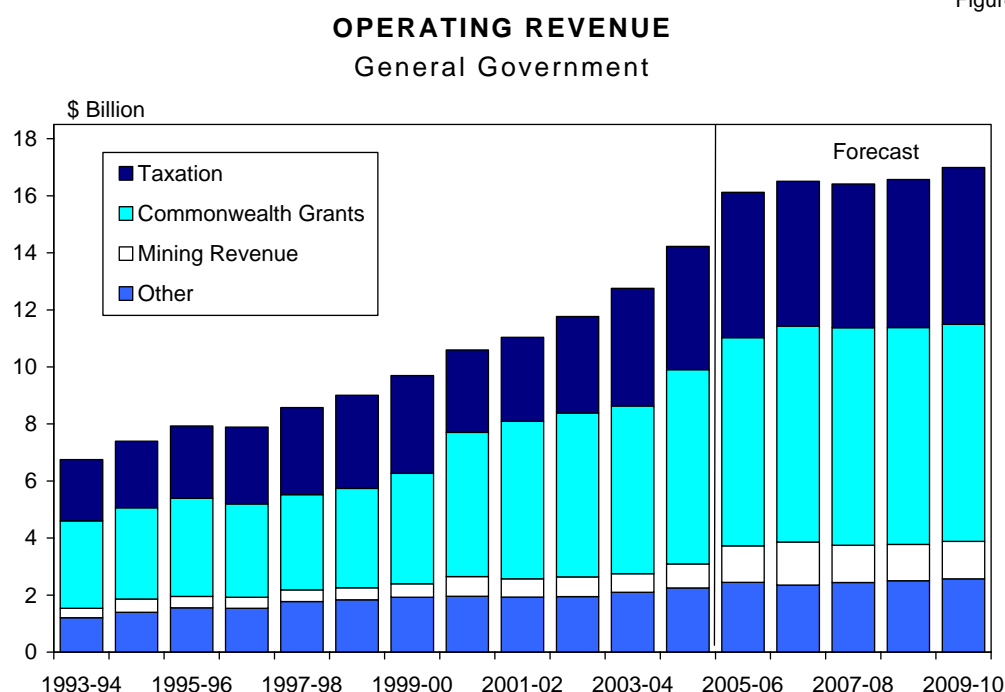
- reduced impetus from the mining sector as commodity prices begin easing;
- greater balance in the supply and demand for housing; and
- an anticipated upward bias in interest rate movements and the associated expectations for housing affordability (also impacted by the very strong price increases of recent years)⁶.

Lower iron ore prices are also expected to apply in 2007-08, as the impact of increases in global supply are felt in contract prices for that year.

Operating revenue is expected to return to positive growth in 2008-09 and 2009-10.

⁶ While the Reserve Bank of Australia's decision to raise the target cash rate by 25 basis points on 3 May 2006 was made after the economic forecasts and financial projections were finalised, the interest rate increase reinforces the assessment of the property market outlook underpinning the outlook.

Figure 7



Detailed information on the revenue estimates, including tax relief measures announced on 21 March 2006 and in this budget, is contained in Chapter 4: *Financial Projections - Revenue*.

Expenses

General government expenses are forecast to be \$15.2 billion in 2006-07. This represents a rise of \$1,093 million (or 7.7%) on the expected outturn for 2005-06.

Across the four year projection period, expenses are forecast to grow by an average 4.0% per annum. This rate of growth is consistent with the Government's expense growth financial target.

Meeting the needs of the State's strong economy, a total of around \$950 million worth of new policy initiatives have been added to general government expenses across the forward estimates since the mid-year review (see Tables 3 and 4).

Salaries are the largest component of general government expenses, accounting for nearly 40% of total expenses. In 2006-07, salaries expenditure is forecast to rise by \$344 million (or 6.2%), reflecting:

- an increase in the number of public sector employees required to deliver new service initiatives (outlined in more detail in Chapter 3: *Financial Projections - Expenditure*); and
- wage rises under enterprise bargaining agreements (EBAs), including recent Government offers to teachers and general public servants.

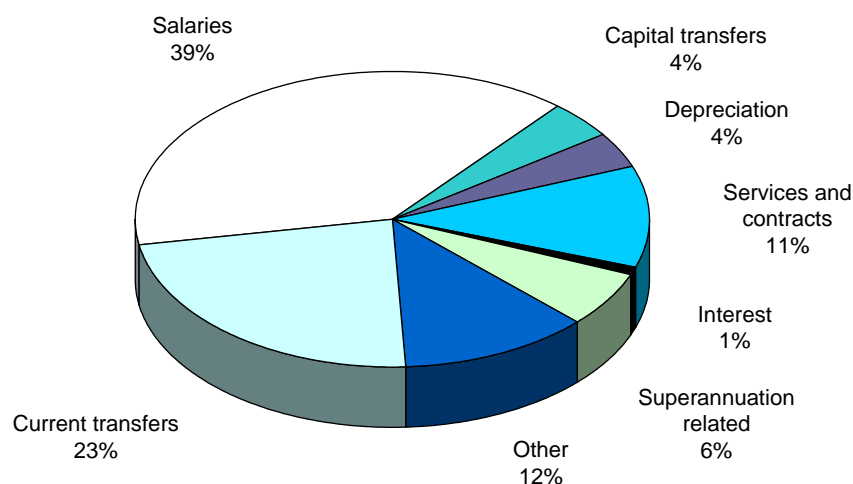
Across the three outyears, salaries are forecast to grow by around 4.5% per annum. These rates of growth are consistent with the Government's general wages policy, and also include expectations of parameter-driven increases in employee numbers.

Concurrent superannuation expenses (accruing employer contributions for current employees) are forecast to grow broadly in line with salaries growth, reflecting the related nature of these costs.

Nominal superannuation interest⁷ is expected to remain flat across the forward estimates period, consistent with the outlook for unfunded superannuation liabilities on the balance sheet. Over time, this expense is expected to decline as the vast majority of current employees' superannuation is fully funded.

Figure 8

2006-07 EXPENSES BY OPERATING STATEMENT CATEGORY
General Government Sector



TOTAL EXPENSES = \$15,234 MILLION

Depreciation expenses represent the cost of 'consuming' fixed assets (i.e. lower asset values as the useful life of assets gets shorter). Across the forward estimates, depreciation expenses are forecast to steadily increase by an average 5.3% per annum. Significant infrastructure spending is being undertaken by general government agencies such as the Departments of Health and Education and Training, law and order related agencies, and Main Roads (discussed below). At the same time, the impact of substantial fixed asset revaluations at the end of 2004-05 (worth around \$1.7 billion for depreciable assets such as plant and buildings) also contribute to higher annual depreciation costs.

⁷ Nominal superannuation interest expenses represent the cost of carrying unfunded superannuation liabilities on the balance sheet and are similar in concept to a debt servicing cost.

In 2006-07, interest expenses are forecast to be \$132 million, representing just 0.9% of total expenses, the lowest proportion on record. Annual interest expenses have fallen by over \$100 million since 2000-01, when they totalled \$239 million and accounted for 2.3% of total expenses.

These trends reflect the Government's decisions to retire large parcels of debt using surplus cash generated in the last three financial years. This topic is explored later in this chapter in the section *Issues in Public Sector Finances*.

Spending on 'services and contracts' and 'other gross operating expenses' incorporates many of the non-labour expenses incidental to the day-to-day operations of agencies in providing goods and services to the community. They include purchases of supplies and consumables, advertising, accommodation, communication and equipment repairs and maintenance.

During the 1990s, these expenses grew by a significant 8.7% per annum on average. Since coming to office in February 2001, the Government has made a concerted effort to reduce these costs, with average growth dropping to 3.9% between 2000-01 and the estimated outcome for 2005-06. These trends are forecast to continue across the forward estimates with these expenses projected to grow by an average 3.6% per annum, broadly in line with forecast inflation and service demand (reflected in population growth).

Current transfers (largely consisting of grants and subsidies, and representing the second largest component of general government expenses at around 23%) are forecast to total \$3,466 million in 2006-07, and rise by an average 4.5% per annum over the forecast period. Increases in 2006-07 are underpinned by:

- rises in community service obligations to public corporations (up around 5.0% to an estimated \$446 million), mainly due to Water Corporation subsidies for country water, sewerage and drainage operations (due to rising costs), and higher recoups for pensioner and senior concessions;
- an increase in Commonwealth grants on-passed 'through' the State to both non-government schools (up 9.5% to \$526 million) and local governments (up 3.8% to an estimated \$195 million), reflecting estimates included in the Commonwealth's *Mid-Year Economic and Fiscal Outlook*;
- the provision of grants by the health sector (up 6.8% to around \$369 million), education and training sector (up 10.0% to \$355 million), disability services (up 13.0% to \$199 million), and for science and innovation (around \$68 million in 2006-07 and \$167 million across the forward estimates period); and

- an increase in funding provided to the Public Transport Authority (PTA), up 17.4% to \$675 million, due mainly to a recent increase in the Capital User Charge applied to the Authority (that has the effect of grossing up both revenue and expenses)⁸, and the impact of recent EBA outcomes and rising oil prices on fuel costs.

The Government's announcement as part of this budget to apply surplus Consolidated Fund cash from 2005-06 to the New MetroRail project will leave that project debt-free. Accordingly, a reduction in the subsidy provided from central government to the PTA to meet debt servicing costs is also accommodated in the estimates. This reduction in the annual subsidy represents a saving to general government of around \$75 million per annum.

Capital transfers mainly comprise spending under the Commonwealth–State Housing Agreement, grants for local government roads, and the First Home Owner Grant scheme. These specific capital transfers are relatively constant across all years of the forward estimates period. However, in 2006-07, capital transfers are estimated to spike to \$583 million, up \$86 million on the estimated outturn for 2005-06, before declining to an average of \$411 million thereafter.

The sharp increase in 2006-07 reflects the financial assistance arrangements between the Government and the purchasers of the Dampier to Bunbury Natural Gas Pipeline (sold by Epic Energy in October 2004). Under the arrangements at the time, the Government provided assistance in the form of a long-term loan, which would convert to a non-repayable grant when commitments regarding expansion of the pipeline were satisfied. These commitments, and the associated recognition of an \$88 million expense, are expected to occur in 2006-07.

Balance Sheet

Net worth of the general government sector is projected to increase from an estimated \$53.4 billion at 30 June 2006 to around \$62.1 billion at 30 June 2010.

Total assets are forecast to grow to \$73.5 billion by 30 June 2010, an average increase of \$2.5 billion per annum. Around \$1.5 billion of the annual increase is driven by increased holdings in land and fixed assets (e.g. roads, hospitals, schools and other buildings), as a result of significant fixed asset spending by agencies, and the gradual increase in the value of land holdings.

⁸ The Capital User Charge (CUC) is a levy charged on appropriation-funded agencies based on the net value of assets used to deliver services. As the Public Transport Authority is classified as a public non-financial corporation, the appropriation of funds to the PTA, and the subsequent requirement to pay the CUC to the Consolidated Fund, has the effect of grossing up general government revenue and expenses (with no net impact on general government finances). Following the Government's decision to apply surplus Consolidated Fund monies from 2005-06 to the New MetroRail project, making this project debt-free, the net value of assets on the balance sheet of the PTA has subsequently risen in the estimates, resulting in an increase in CUC payable.

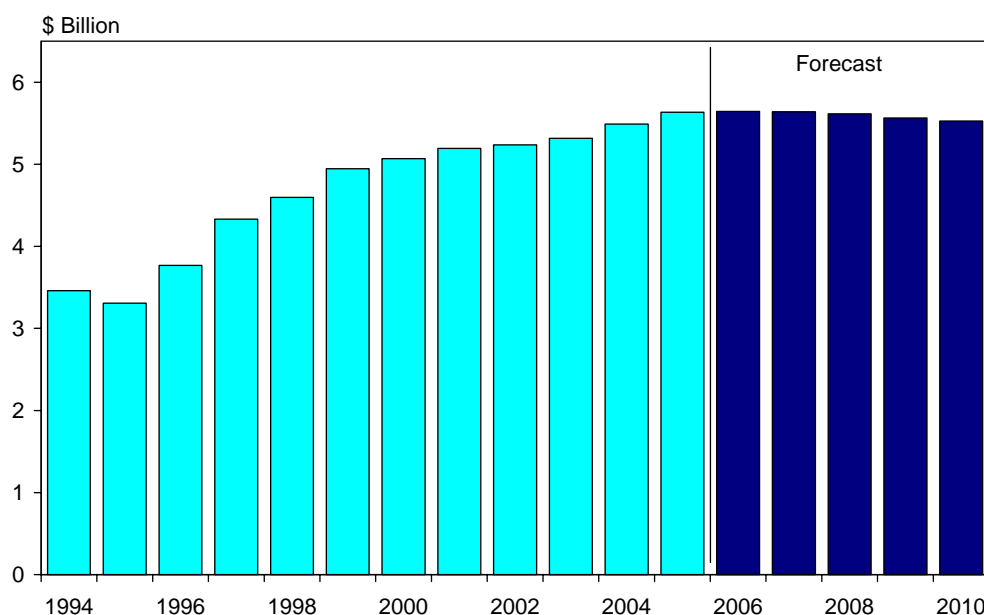
Equity holdings in public corporations such as the Water Corporation and the four new electricity entities (Horizon Power, Verve Energy, Synergy and Western Power (Networks)) are also expected to increase. Representing general government ownership interests in the public corporations sector, these holdings are projected to rise by around \$1.2 billion per annum on average between 30 June 2006 and 30 June 2010, with public corporation sector surpluses, and an equity injection of \$1.3 billion to the PTA (associated with the New MetroRail funding decision discussed above) significant factors in this movement.

General government liabilities are projected to grow by an average \$300 million per annum across the forward estimates period, in line with movements in borrowings (a major component of net debt, discussed later in this chapter).

Unfunded superannuation liabilities, which account for around 55% of total liabilities in the general government sector, are forecast to total \$5.6 billion at 30 June 2007. Across the outyears, these liabilities are forecast to slowly decline, reflecting the full concurrent funding of the West State Super scheme, the only public sector superannuation scheme still open to new members.

UNFUNDED SUPERANNUATION LIABILITIES AT 30 JUNE
General Government Sector

Figure 9



Cash Flow Statement

Net cash flows from operating activities (i.e. day-to-day operations of agencies) are projected to be in surplus throughout the forward estimates period, with the pattern of cash surpluses from operations reflecting movements in the accrual net operating surplus discussed earlier.

Mainly reflecting the cash receipts flowing from revenue movements noted above, a cash surplus from operations of \$2.3 billion is projected in 2006-07, down from the record \$2.6 billion expected in 2005-06. Across the outyears, cash surpluses from operations are projected to decline to a still significant \$1.3 billion by 2009-10.

Purchases of non-financial assets (i.e. the acquisition of fixed assets) are forecast to rise by \$239 million to \$1.6 billion in 2006-07, the fourth consecutive year that fixed asset spending has increased, and is a direct result of significant infrastructure spending contained in the State's Capital Works Program (see *Capital Investment* discussed below).

Across the outyears, the general government sector will spend an average \$1.6 billion on fixed assets over the period to 2009-10, more than double the average \$725 million per annum spending recorded a decade ago. Reflecting spending on a number of key projects, fixed asset spending is forecast to increase again in 2007-08 (reaching an estimated \$1.9 billion), before easing back somewhat in the outyears as existing projects near completion. Key projects underlying this movement include:

- new and existing hospitals (Fiona Stanley, Rockingham Kwinana, Central Tertiary, Joondalup, Busselton, Hedland);
- new schools and TAFE facilities (Landsdale, Coolamon, Hocking, South Halls Head, Southern River, Waikiki Gardens and Central TAFE);
- road infrastructure (Roe Highway-Great Eastern Highway interchange, Mitchell Freeway extension to Burns Beach Road, New Perth-Bunbury Highway, Fremantle Traffic Bridge); and
- law and order facilities (Perth Watch House/Perth Police Centre/Crime Headquarters, Geraldton and Kalgoorlie Juvenile Remand Centres, and court upgrades at Kalgoorlie and the Central Business District).

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 2006-07, a cash surplus of \$862 million is in prospect, down from an estimated record \$1.5 billion cash surplus in 2005-06.

Total Public Sector

Summary

The total public sector is the consolidation of the general government and public corporations sectors. Unlike the general government sector, which is predominantly funded from central revenue such as taxes, royalties and Commonwealth grants, the public corporations are generally market-based agencies which levy user charges to recover costs.

Summary financial outcomes for the total public sector are shown in the table below.

Table 6

TOTAL PUBLIC SECTOR
Summary Financial Statements

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
OPERATING STATEMENT						
Revenue	19,807	21,416	22,075	22,287	22,739	23,274
Expenses	18,117	19,348	20,636	21,254	21,976	22,718
Net Operating Balance	1,690	2,068	1,439	1,033	764	556
BALANCE SHEET						
Assets	75,074	80,275	83,936	87,528	91,073	92,893
Liabilities	24,882	26,931	28,044	29,141	30,427	30,778
Net Worth	50,192	53,345	55,892	58,386	60,646	62,115
STATEMENT OF CASH FLOWS						
Change in net cash held	419	513	-699	-60	29	423
Cash Surplus	32	-236	-566	-639	-622	-430
Memorandum Item: Net Debt	4,001	4,501	5,413	6,204	7,252	7,730

Note: Columns may not add due to rounding.

Operating surpluses are expected in each of the forward estimate years, building on the surplus outcomes recorded in recent actuals. Surpluses are expected from each sector of government, with the general government sector outcomes discussed earlier dominating the consolidated projections.

Total public sector net worth is expected to rise over the period to 30 June 2010, reflecting surplus outcomes and the value of fixed asset holdings across the public sector.

Total public sector net debt is forecast to rise over the medium term (reaching \$7.7 billion by 30 June 2010), driven by the impact of substantial infrastructure spending over the forward estimates. These are low levels of debt when measured in the context of the State's overall financial position, with the key net debt to revenue ratio ranging from an estimated 30.0% in 2006-07 to a maximum of 39.8% in 2009-10.

Public Non-Financial Corporations

The public non-financial corporation (PNFC) sector is expected to record an operating surplus of \$125 million in 2006-07. Surpluses between \$74 million and \$157 million are projected over the remaining period to 2009-10.

Growth in goods and services revenue (user charges) and grants revenue (including increases in Commonwealth-State Housing Agreement funding) are the significant factors in revenue growth over the forward years. Salaries growth, the cost of day-to-day operations (reflected in 'other gross operating expenses') and interest costs (associated with borrowings for significant infrastructure works) account for the majority of expense growth over the period.

Net worth is expected to rise over the projection period, reflecting the impact of accumulated surpluses, increasing land values, and the injection of surplus Consolidated Fund cash from 2005-06 to be applied to the funding of the New MetroRail project (leaving this major \$1.6 billion public transport investment debt-free on its completion).

The PNFC cash deficit is projected to be around \$1.5 billion in 2006-07, declining to a deficit of \$714 million by 2009-10. These deficits reflect the impact of substantial capital works spending over the period (see *Capital Investment* section below).

Public Financial Corporations

The public financial corporations sector is expected to remain in surplus over the forward estimates period. The Government's decision in this budget to cut the Insurance Commission's Compulsory Third Party insurance rates for vehicle owners by 10% from 2006-07 will reduce the projected surpluses by around \$25 million to \$30 million per annum.

Capital Investment

In recent years, the Government has invested heavily in social and economic infrastructure, and this will continue in 2006-07 with a high priority on public sector investment in hospitals, schools, water, power, public housing, roads, rail, and other transport capital works. Such investment supports growth in the economy and provides an investment in the future prosperity of the State, enhancing job creation and ensuring quality service delivery.

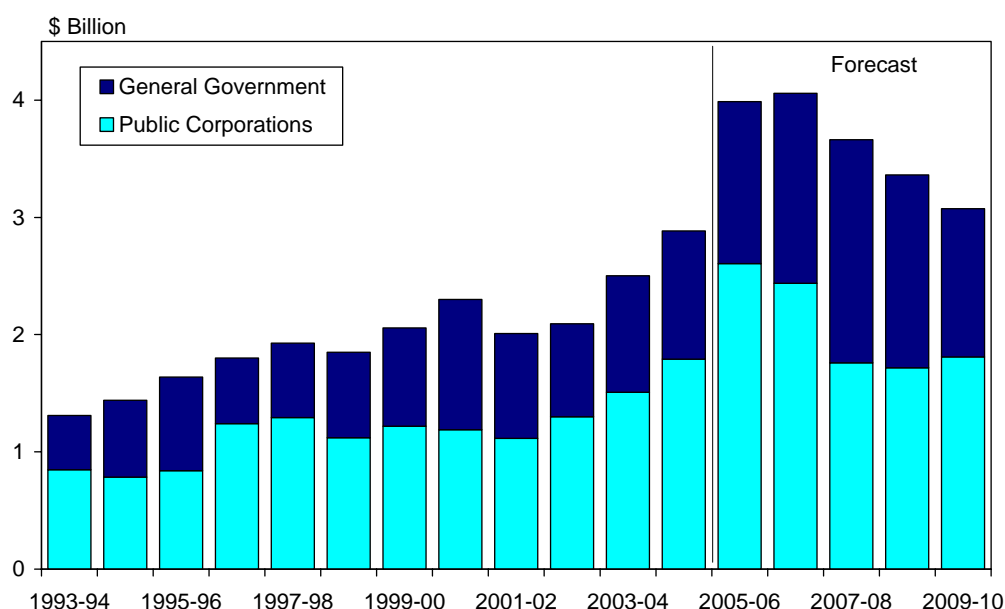
The Government's infrastructure plans are embodied in the Capital Works Program described at a detailed agency and project level in Budget Paper 2: *Budget Statements*. The program includes direct spending on fixed assets by the public sector, expensed capital works (largely maintenance and grants to external parties such as local governments) and other items such as lending to low income home buyers through the Keystart program.

In 2006-07, public sector spending on fixed assets is forecast to be a record \$4.1 billion, marginally higher than the estimated outturn for 2005-06 (\$4.0 billion). This spending will be funded by a mix of internally generated funds (i.e. operating surpluses and proceeds from the turnover of secondhand assets) and new debt.

Figure 10

CAPITAL INVESTMENT - PURCHASES OF FIXED ASSETS

Total Public Sector



Across the forward estimates period, key infrastructure investments are planned for:

- government schools and TAFE colleges (\$859 million);
- the health sector (\$1,805 million, including new and replacement hospitals as part of the Health Reform Committee recommendations);
- law and order projects (\$484 million, including the Perth Watch House/Perth Police Centre/Crime Headquarters);
- water and wastewater services (\$2,357 million, including the Perth Seawater Desalination plant and the Alkimos Wastewater Scheme);
- public transport (\$1,227 million, including the completion of the New MetroRail project and port investment);
- electricity generation, transmission and distribution projects (\$2,330 million, including expansion and upgrade of the Muja Power Station, development of new transmission infrastructure in the South-West Interconnected System and the upgrade of the Collie to Boddington transmission line); and
- road construction and maintenance (\$1,563 million).

The following table provides a breakdown of total public sector capital spending⁹ policy decisions made since the mid-year review.

⁹ Measured in terms of the purchase of fixed assets.

Table 7

**SUMMARY OF CAPITAL SPENDING POLICY DECISIONS BY AGENCY
SINCE THE 2005-06 MID-YEAR REVIEW**

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Agriculture and Food	-	1.0	1.0	47.0	-
Attorney General	-	1.5	1.0	-	-
Broome Port Authority	0.5	0.2	-	-	-
Consumer and Employment Protection	-	0.8	1.9	1.6	0.4
Corrective Services	4.9	30.7	7.8	-	-
Culture and The Arts	-	0.8	-	-	-
Curriculum Council	-	0.1	0.1	0.1	0.1
Dampier Port Authority	-	5.2	-	0.7	-
Education and Training	-	30.0	-	-	-
Western Power (Networks)	-	13.6	17.8	49.7	-
Fisheries	-	1.8	4.2	-	-
Geraldton Port Authority	10.5	24.5	-	-	-
Government Employees Housing Authority	-	15.0	20.0	25.0	-
Health	-	-4.1	2.1	-	-
Lotteries Commission	2.5	29.7	11.4	0.6	-
Main Roads	3.5	10.0	8.0	8.0	-
Midland Redevelopment Authority	-	10.0	3.9	-	-
Perth Market Authority	2.3	4.7	-	-	-
Police Service	-	0.9	-	0.6	-
State Housing Commission	-	1.0	6.0	3.5	1.0
Tourism Commission	-	0.7	-	-	-
Water Corporation	-	38.2	35.9	29.7	30.1
Western Australian Land Authority	20.0	-	-	-	-
TOTAL	44.2	216.2	121.2	166.5	31.6

As noted above, differences between the level of spending undertaken by the public sector for fixed asset acquisition and the overall size and composition of the Capital Works Program are significant. The following table reconciles the fixed asset spending shown in the financial statements at Appendix 1: *Detailed Financial Projections*, to the Capital Works Program discussed elsewhere in the Budget Papers.

Table 8

RECONCILING CAPITAL SPENDING AGGREGATES
Western Australia

	2005-06 Estimated Actual \$m	2006-07 Budget Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m
<i>PURCHASES OF FIXED ASSETS</i>					
General government	1,381	1,620	1,902	1,644	1,263
Public non-financial corporations	2,602	2,439	1,756	1,715	1,806
Public financial corporations	5	4	4	2	5
TOTAL PUBLIC SECTOR ^(a)	3,987	4,059	3,662	3,361	3,073
<i>plus</i>					
Expensed Capital Works Program ^(b)	173	244	194	181	152
Keystart home lending loans	780	665	572	585	613
All other ^(c)	169	235	187	215	128
<i>less</i>					
Capital spending by agencies outside the Capital Works Program ^(d)	9	2	2	2	2
CAPITAL WORKS PROGRAM	5,100	5,201	4,612	4,339	3,965

(a) Fixed asset spending for the respective sectors may not add to the total public sector due to inter-sector eliminations, which occur on consolidation.

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

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

(d) Agencies such as the Burswood Park Board and statutory marketing authorities.

Note: Columns may not add due to rounding.

Continued tightening of the contracting and sub-contracting markets in the building and construction industries has led to a substantial escalation in costs associated with the provision of capital infrastructure. To offset the impact of these cost escalations as they emerged, a global provision of \$553 million was included across the forward estimates at the time of the 2005-06 mid-year review. The table below details the allocation of this provision across the affected capital works agencies.

Table 9

PROVISIONS FOR COST ESCALATION

	2005-06 Estimated Actual \$m	2006-07 Budget Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	Total \$m
Albany Port Authority	1.2	-	-	-	-	1.2
Broome Port Authority	1.0	-	-	-	-	1.0
Community Development	0.7	-	-	-	-	0.7
Conservation and Land Management	-	-	-	1.7	-	1.7
Country High School Hostels Authority	-	-	2.7	-	-	2.7
Corrective Services/Attorney General	2.6	4.6	2.1	2.4	-	11.7
Education and Training	-	-	31.4	15.6	-	47.0
Fire and Emergency Services	-	3.8	0.9	1.1	-	5.8
Main Roads	8.3	43.3	66.1	54.7	17.0	189.4
Police Service	-	18.2	16.7	-	-	34.9
Public Transport Authority	0.2	56.4	1.6	3.7	1.2	63.0
Rottne Island Authority	3.9	0.2	1.9	-	-	6.0
Sport and Recreation	-	3.3	-	-	-	3.3
Western Australian Land Authority	0.8	10.2	3.1	9.7	-	23.7
Water Corporation	5.0	24.0	38.0	44.0	37.0	148.0
Residual global provision	-	-	13.2	-	-	13.2
TOTAL	23.7	163.8	177.7	133.0	55.2	553.0

Note: Columns may not add due to rounding.

Examples of specific projects that will receive funding for cost escalation from this provision include:

- the New MetroRail project (\$49.8 million in 2006-07);
- the Mitchell Freeway Extension from Hodges Drive to Burns Beach Road (\$39.8 million over the four years to 2008-09);
- the Karratha-Tom Price Link Road (\$36.8 million over the four years to 2008-09);
- an allocation for the Department of Education and Training's new primary schools program (\$28.3 million over 2007-08 and 2008-09); and
- an allocation for the metropolitan and country water distribution network due mainly to the raising cost of steel pipes (\$64 million over the period to 2009-10).

Net Debt

Net debt levels are an important indicator of the strength of the public sector's financial position, and of the sustainability of policy settings in the longer term¹⁰.

In assessing the level of net debt, it is important to consider the burden that debt levels impose on revenue flows with regard to debt servicing costs. If debt levels become excessive, a government's budget flexibility becomes restricted, with available resources diverted away from service delivery to meet debt repayments.

It is also important that the public sector borrows to deliver infrastructure assets for the economy and the community to enable continued economic growth and improvement in living standards. It is crucially important that borrowings are not undertaken for the purposes of supporting day-to-day operating activities, which is clearly unsustainable over the medium to longer term.

Accordingly, an increasing level of net debt does not necessarily translate to 'bad' financial management practices. Just as households and private sector enterprises borrow to expand their asset base and spread the cost of purchasing a new home or new equipment over several years, debt financing also allows the public sector to spread the cost of capital purchases over time without undue burden on the current generation of taxpayers.

The State's credit rating is an independent assessment of net debt (and other financial aggregates). Western Australia is currently rated at the highest possible rating (triple-A) by the major credit rating agencies, Moody's and Standard and Poor's. These credit ratings are reviewed annually, taking into account latest financial and economic fundamentals, and comparisons to other jurisdictions. When casting the budget, the Government is mindful of continuing to satisfy credit rating requirements and so retain the triple-A assessment into the future.

Recent budgets have all projected an increasing level of net debt for the public sector, reflecting the Government's substantial Capital Works Program. Net debt growth reflected in the 2006-07 Budget estimates is consistent with the pursuit of the triple-A credit rating outcome, while delivering historically high levels of infrastructure to a growing economy.

¹⁰ Net debt represents the total value of gross debt liabilities such as borrowings and finance leases, less the value of cash and liquid investments, loans to third parties, and other such financial assets.

Total Public Sector

The following table provides details of public sector net debt levels by sector over the forward estimates period.

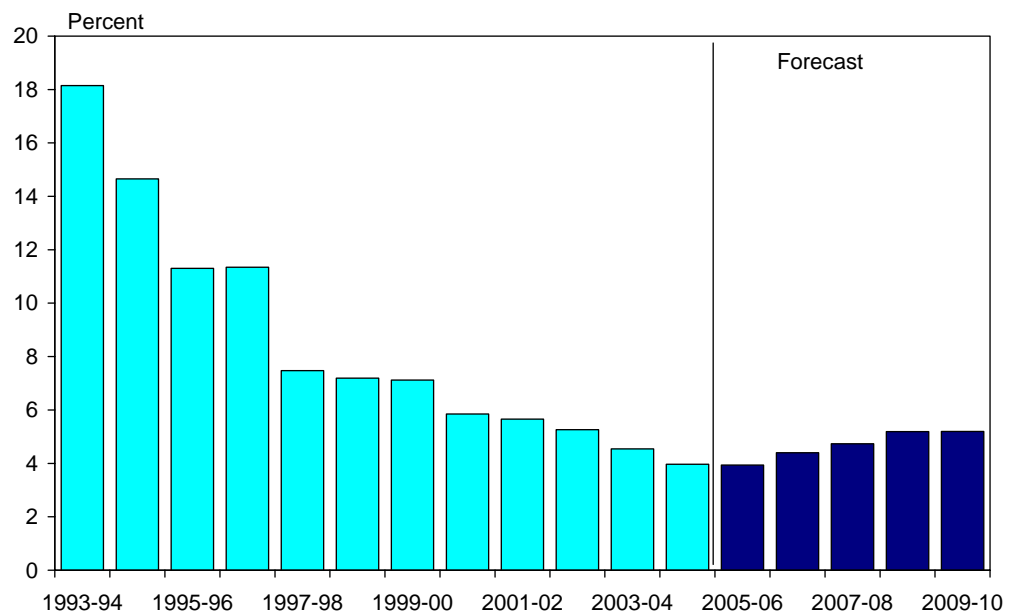
Table 10						
NET DEBT OF THE PUBLIC SECTOR AT 30 JUNE						
Summary						
	2005 Actual \$m	2006 Estimated Actual \$m	2007 Budget Estimate \$m	2008 Forward Estimate \$m	2009 Forward Estimate \$m	2010 Forward Estimate \$m
GENERAL GOVERNMENT						
Gross Debt ^(a)	2,202	1,985	1,993	2,209	2,359	2,610
Cash, Deposits and Lending ^(b)	3,199	3,862	3,010	2,933	2,875	3,206
<i>Net Debt</i>	-997	-1,877	-1,017	-724	-517	-596
PUBLIC NON-FINANCIAL CORPORATIONS						
Gross Debt ^(a)	8,271	9,763	9,879	10,533	11,587	12,335
Cash, Deposits and Lending ^(b)	2,533	2,461	2,450	2,513	2,673	2,798
<i>Net Debt</i>	5,738	7,303	7,429	8,020	8,914	9,537
TOTAL NON-FINANCIAL PUBLIC SECTOR ^(c)						
Gross Debt ^(a)	9,742	11,087	11,232	12,110	13,317	14,325
Cash, Deposits and Lending ^(b)	5,001	5,661	4,820	4,814	4,920	5,384
<i>Net Debt</i>	4,741	5,426	6,412	7,296	8,397	8,941
PUBLIC FINANCIAL CORPORATIONS						
Gross Debt ^(a)	14,377	15,372	16,333	16,914	17,523	17,552
Cash, Deposits and Lending ^(b)	15,117	16,297	17,332	18,006	18,668	18,763
<i>Net Debt</i>	-739	-925	-999	-1,092	-1,145	-1,211
TOTAL PUBLIC SECTOR ^(c)						
Gross Debt ^(a)	13,460	14,764	15,772	16,636	17,838	18,113
Cash, Deposits and Lending ^(b)	9,458	10,263	10,359	10,431	10,586	10,382
Net Debt	4,001	4,501	5,413	6,204	7,252	7,730
(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 projected to be \$5.4 billion at 30 June 2007, increasing from an estimated \$4.5 billion at 30 June 2006. Across the outyears, net debt is forecast to rise by an average \$772 million per annum, to be around \$7.7 billion at 30 June 2010.

These moderate increases in net debt are both sustainable and affordable, given the strength of the State's finances. In this regard, the net debt to revenue ratio is forecast to remain comfortably below the Government's 47% target limit across the forward estimates period, rising to a maximum of 39.8% by 2009-10 (see discussion under the *Financial Targets* section of this chapter). As a share of the economy, public sector net debt is forecast to remain at levels similar to those enjoyed since the late 1990s.

NET DEBT AS A SHARE OF GROSS STATE PRODUCT
Total Public Sector

Figure 11



The following table outlines the change in net debt estimates since the 2005-06 mid-year review.

Table 11

NET DEBT OF THE TOTAL PUBLIC SECTOR AT 30 JUNE

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
2005-06 Mid-year Review – Total Public Sector Net Debt	5,179	6,020	6,585	7,275	-
<i>Less change in net cash flows from operating activities and distributions paid</i>					
- General government	651.8	689.6	320.1	-110.3	
- Public non-financial corporations	-46.8	-157.3	-113.0	-48.8	
- Public financial corporations	-12.8	-24.7	-24.5	-7.0	
<i>Total public sector</i>	<i>592.2</i>	<i>507.6</i>	<i>182.6</i>	<i>-166.1</i>	
<i>Plus purchases of non-financial assets</i>					
Policy decisions ^(a)	44.2	216.2	121.2	166.5	31.6
Parameter movements					
- Allocation of global provision	-73.0	-128.0	-156.8	-182.0	
- Electricity utilities	24.3	112.1	23.4	10.6	
- Water Corporation	5.0	42.6	59.6	56.7	
- WA Land Authority	-51.2	18.7	77.2	14.9	
- Main Roads	89.4	106.3	185.5	56.1	
- Public Transport Authority	17.4	39.2	1.6	3.7	
- Health	-78.0	-14.1	42.3	85.5	
All other	-18.2	61.9	100.3	87.1	
<i>Total purchases of non-financial assets</i>	<i>-84.4</i>	<i>238.7</i>	<i>333.1</i>	<i>132.7</i>	
<i>Less proceeds from sale of non-financial assets</i>	<i>77.7</i>	<i>30.7</i>	<i>68.9</i>	<i>123.4</i>	
<i>Plus all other financing</i>	<i>32.2</i>	<i>154.4</i>	<i>23.6</i>	<i>15.8</i>	
<i>Cumulative impact on net debt at 30 June</i>	<i>-677.9</i>	<i>-606.9</i>	<i>-380.6</i>	<i>-22.9</i>	
2006-07 Budget – Total Public Sector Net Debt	4,501	5,413	6,204	7,252	7,730

(a) An agency breakdown is provided at Table 7.

General Government

The general government sector is projected to remain net debt-free across the entire forward estimates period, with financial assets exceeding gross debt liabilities in each year.

At 30 June 2007, the sector is forecast to be in a net asset position of \$1,017 million, down from a net asset position of \$1,877 million estimated for 30 June 2006.

As a result of the record operating surplus in prospect for 2005-06 (discussed earlier), the Government will provide an equity injection in 2006-07 to the PTA to eliminate all debt associated with the \$1.6 billion New MetroRail project (further details of this arrangement are discussed later in this chapter in *Issues in Public Sector Finances*).

Across the outyears, the general government sector net asset position is forecast to decline further, in support of fixed asset investment, to stand at \$596 million by 30 June 2010.

Public Non-Financial Corporations

Agencies within the PNFC sector, including the Water Corporation, the four new electricity utilities and the port authorities, hold all total public sector net debt in Western Australia. These agencies meet debt servicing costs through normal commercial operations and user charges.

Over the budget year, PNFC net debt is forecast to rise by \$127 million to stand at \$7.4 billion at 30 June 2007. This increase includes the impact of the retirement of an estimated \$913 million in outstanding borrowings held at 30 June 2006 by the PTA for the New MetroRail project (discussed earlier), partially offset by new borrowings for other projects by electricity and water utilities, and the ports.

Across the outyears, net debt in this sector is forecast to rise by an average \$703 million per annum, supporting electricity, water, port and land development activities. The rise in net debt also incorporates an increase in finance lease liabilities (held by Western Power's successor entities), previously disclosed in the 2005-06 mid-year review, reflecting recent changes to lease recognition under AASB 117: *Leases* (as part of the implementation of Australian equivalents to International Financial Reporting Standards).

Public Financial Corporations

Agencies within the PFC sector, such as the Western Australian Treasury Corporation and the Insurance Commission of Western Australia, deal primarily in financial assets and liabilities. The sector's holdings of financial assets are expected to continue to more than offset gross debt liabilities by around \$1.0 billion at 30 June 2007, mainly reflecting the Insurance Commission's investment assets held to fund non-debt insurance claim liabilities in the future. The strength of this net asset position is projected to increase across the budget projection period, reflecting surpluses from returns on investments.

Issues in Public Sector Finances

Building on the Boom – Utilising the Surplus

Background

A record operating surplus of \$1,981 million is estimated for the general government sector in 2005-06. This follows previous historically high surplus outcomes in 2003-04 (\$799 million) and 2004-05 (\$1,192 million).

These surpluses have arisen predominantly from the revenue impact of booming commodity prices (principally oil and iron ore) and a strong Western Australian economy (and property market in particular).

While spending has also increased in each of these years, the Government has been careful not to cast its budget on the basis of short term revenue windfalls or cyclical peaks.

In the absence of fully committing these significant surpluses to new spending, a substantial volume of cash has thus been available to the Government to either invest for the future or to apply to debt retirement.

In an environment where debt levels are projected to increase to fund capital works over future years, there is effectively little difference from either of these choices in terms of impact on State finances:

- investing surplus funds for the future (e.g. like the Commonwealth's *Future Fund* arrangements) generates a substantial financial asset which reduces net debt, while simultaneously generating a revenue flow from interest/investment earnings (benefiting the general government net operating balance); and
- repaying borrowings results in lower net debt through a decrease in borrowings, and a reduction in interest expenses (again resulting in an improved operating balance outcome).

The Government has chosen the latter approach for utilising surplus cash outcomes since 2003-04. This choice is attractive as a policy option as it reduces the debt servicing burden on future generations, and reduces the State's exposure to any unexpected interest rate rises in the future.

The Government applied this policy twice in the last two years, using the proceeds of the 2003-04 and 2004-05 surpluses.

- In September 2004, surplus cash balances on the Consolidated Fund were used to repay Consolidated Fund debt of \$481 million.
- This was followed a year later when surplus cash from 2004-05 was used to repay a further \$244 million in Consolidated Fund debt and \$322 million in residual debt left over from the 2000-01 privatisation of Westrail Freight.

The Government has chosen to again repay substantial public sector debt liabilities utilising the 2005-06 surplus outcome. This is reflected in this budget as an equity injection to the Public Transport Authority (PTA) for the purpose of ensuring that the New MetroRail project is completely debt-free upon completion.

This equity injection will enable the PTA to:

- repay all existing New MetroRail borrowings (estimated at \$913 million at 30 June 2006); and
- fund all remaining New MetroRail development without having to raise new borrowings (estimated to total \$362 million in 2006-07).

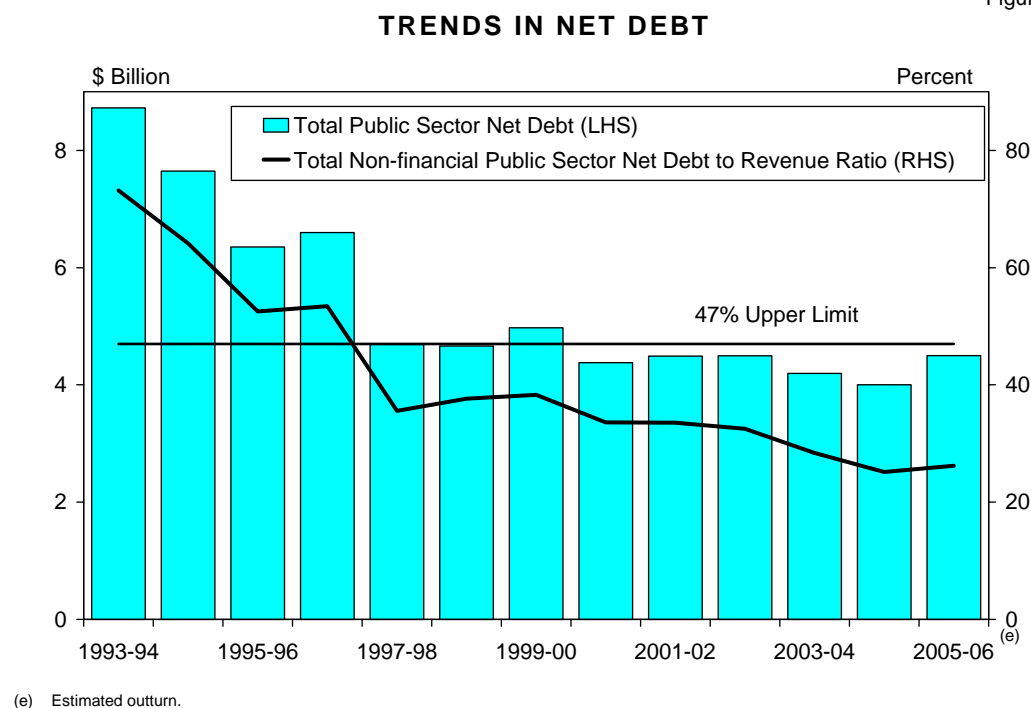
A consequence of this decision is a saving to general government of around \$75 million per year in interest subsidies that would otherwise have been paid to the PTA to service New MetroRail borrowings (reflected in the general government operating statement as a lower current transfer expense in each year from 2006-07). As a result, the State will have acquired a substantial public transport asset with no residual debt liabilities (and hence, significantly reduced interest rate risk), as well as the lower ongoing operating subsidy requirement.

Taken together, these decisions result in a reduced level of debt gearing on the public sector balance sheet totalling \$2.3 billion, and lower debt servicing costs of around \$145 million per year – money that can now be redirected to priority services like health, education and training, and law and order.

Historical Trends in State Debt

Total public sector net debt has been following a downward trend since 1993-94. Over the last twelve years, net debt has declined from a high of \$8.7 billion at 30 June 1994 (consistent with a 73.2% net debt to revenue ratio) to an estimated \$4.5 billion at 30 June 2006 (26.2% net debt to revenue ratio).

Figure 12

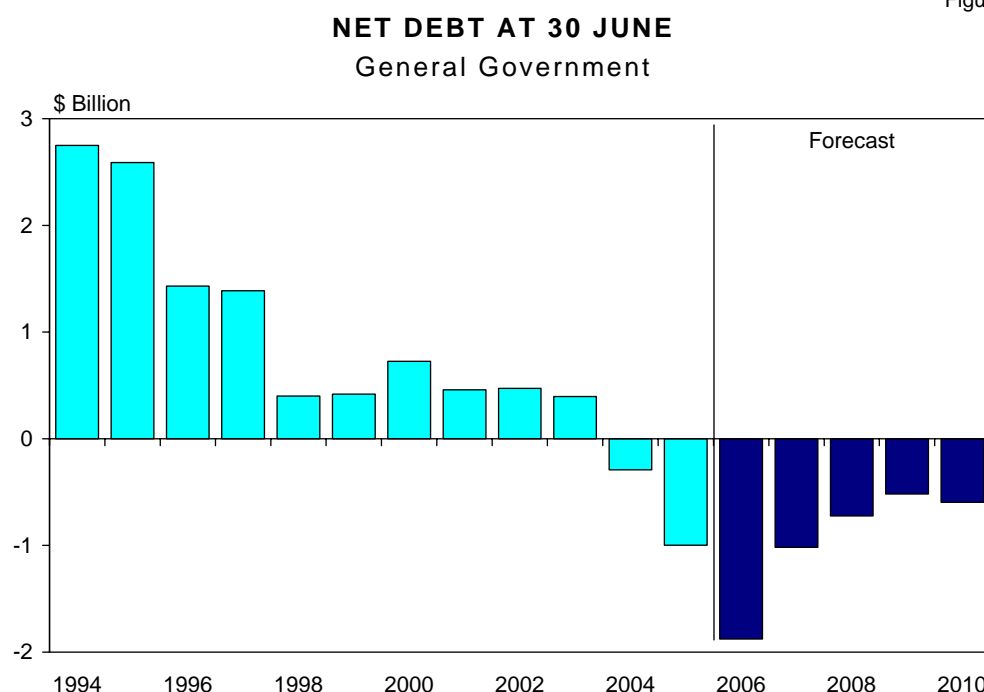


The reduction in net debt levels during the 1990s was largely achieved through the sale of State assets such as BankWest in 1995-96, the Dampier to Bunbury Natural Gas Pipeline in 1997-98, and AlintaGas and the freight division of Westrail in 2000-01 (proceeds from these asset sales totalled \$4.8 billion).

Rather than asset sales, the current Government has continued to reduce debt by running general government operating surpluses in each year since 2000-01, and by applying windfall revenue outcomes to early debt repayments.

As a result, the general government sector became 'net debt-free' for the first time in 2003-04, and is expected to remain so for the foreseeable future (see following chart). At the same time, in 2004-05, the net debt to revenue ratio for the total non-financial public sector (a key financial target, linked to retention of the State's triple-A credit rating) was the lowest on record. This ratio is expected to remain comfortably below the Government's 47% upper limit across the entire forward estimates period.

Figure 13



Following repayment of New MetroRail debt (expected to occur in September 2006), the Government will have removed a total of \$2.3 billion in general government-supported long-term debt from the State's balance sheet over a period of just two years.

These favourable financial outcomes increase flexibility, reduce risk to the State's finances, and increase capacity to accommodate demands for public services and infrastructure in the future.

The Benefits of Budget Surpluses into the Future

These outcomes highlight the key role budget surpluses play in reducing balance sheet risk and enhancing future financial capacity.

In addition, ongoing surpluses protect future State budgets from adverse movements in revenue and/or expenses, as a result of any unexpected downturn in the State's economy or sudden drop in commodity prices.

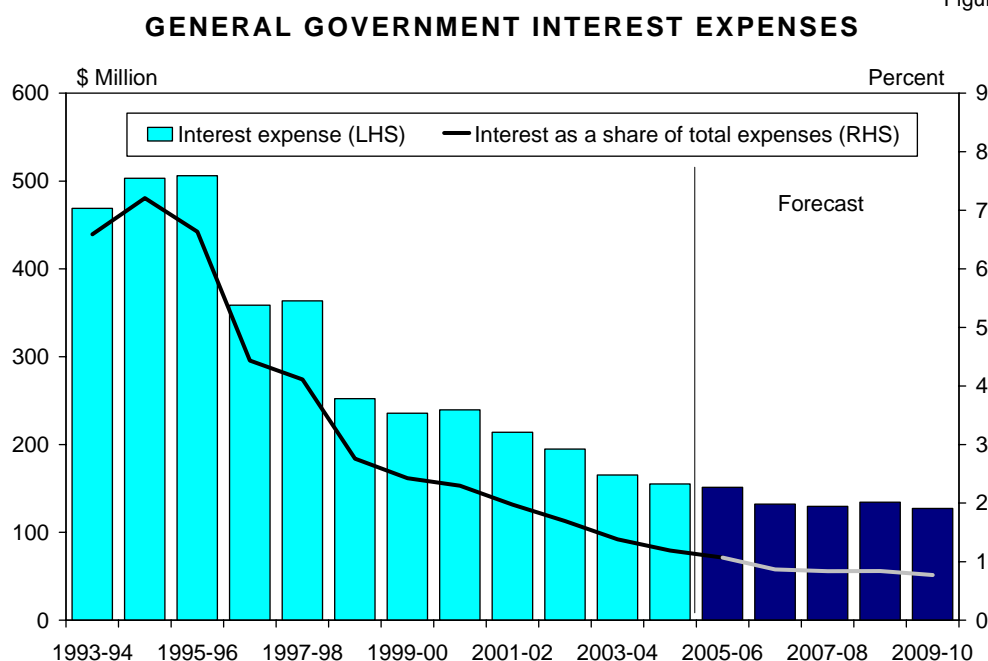
At the same time, the Government has factored surpluses into its financial plans as a source of non-debt financing for the Capital Works Program. This ensures that not all new infrastructure is funded from borrowings, maintaining sustainable financial outcomes well into the future.

The Government also needs to be mindful of the capacity to accommodate future policy changes over time. For instance, the Government has been able to use the capacity generated by larger budget surpluses in recent years for a variety of initiatives including:

- a range of tax relief and concession measures (e.g. reductions in conveyance duty, increases to thresholds for land tax and the first homebuyer stamp duty exemption, and cheaper public transport fares for students);
- election commitments and other new service initiatives; and
- the acceleration of development of major infrastructure projects (e.g. the Multipurpose Indoor Entertainment and Sports Stadium, the New Perth-Bunbury Highway, and the Perry Lakes Redevelopment project).

The capacity to do more in future budgets while still delivering sound financial outcomes relies on achieving sufficient surpluses to balance such demands. With this in mind, the Government has sought to maintain surpluses well into the future, while accommodating the inevitable moderation from the current boom conditions.

Increased capacity, and reduced risk for the operating surplus, are enhanced by lower interest costs following the Government's decisions to reduce debt, with the decreasing magnitude of general government interest costs over time shown in the following chart.



Conclusion

The current economic conditions in Western Australia – and the associated strength of the State’s finances – provide an opportunity to build on the boom and secure the State’s future.

The Government is doing this by using the strong surpluses of the last few years to repay long-term borrowings, thereby reducing the debt servicing burden on future generations of Western Australian taxpayers. It is also utilising the surpluses projected over the forward estimates period to fund a massive Capital Works Program within sustainable debt levels. This too will limit the debt burden on future generations, while at the same time resulting in new infrastructure that will benefit the community for many years to come.

Statement of Risks

Estimating Assumptions

The major economic parameters underlying the 2006-07 Budget are detailed in the following table.

MAJOR ECONOMIC PARAMETERS					
Western Australia					
	2005-06 Estimated Actual	2006-07 Budget Estimate	2007-08 Forward Estimate	2008-09 Forward Estimate ^(e)	2009-10 Forward Estimate ^(e)
Gross State Product Growth ^(a) (%)	4.75	5.25	3.75	4.5	4.5
State Final Demand Growth ^(a) (%)	6.75	4.0	2.75	4.0	4.0
Consumer Price Index Growth (%)	4.0	3.0	2.5	2.5	2.5
Public Consumption Deflator Growth ^(b) (%)	3.6	3.2	3.2	3.2	3.2
Wages Growth (AWE) ^(c) (%)	5.75	5.25	4.0	3.5	3.5
Employment Growth (%)	4.5	2.0	2.25	2.25	2.25
\$A/\$US (cents)	73.0 ^(d)	73.0	73.0	73.0	73.0
Oil price (\$US per barrel)	65.5 ^(d)	67.9	68.0	67.0	66.1

(a) Growth in Gross State Product and State Final Demand is in real (chain volume) terms (for further information see Chapter 5: *The Western Australian Economy*).

(b) Apart from 2005-06 (which is partly based on actuals to date), forecasts of growth in the public consumption deflator are based on long run averages.

(c) This table shows Average Weekly Earnings (AWE) growth. AWE is used in forecasting payroll tax revenue (rather than the Wage Price Index measure reported in Chapter 5: *The Western Australian Economy*).

(d) The 2005-06 estimated actual is the estimated average over the remainder of 2005-06.

(e) Apart from the oil price, all parameters for 2008-09 and 2009-10 are based on long run averages.

Other notes: Currency exchange rates and interest rates assumed to be constant over the forecast period, and ABS mid-series population projections are used as a basis for estimating population growth. The Reserve Bank of Australia's decision to raise the official interest rate by 25 basis points (from 5.5% to 5.75%) on 3 May 2006 was made after the economic forecasts for the 2006-07 Budget were finalised. However, the rate rise is not expected to materially affect the forecasts (a prior assumption was that the Reserve Bank held a tightening bias).

From a macroeconomic point of view, primary risks relate to the sustainability of the positive international outlook (including commodity prices), movements in exchange rates and interest rates, household balance sheets, 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 such as wages, employment and State final demand, the \$A/\$US exchange rate and the oil price. Approximate annual impacts of these changes are outlined in the following table¹¹.

¹¹ 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 US73 cent level. Furthermore, variations in the value of the \$A will impact on the sensitivity of petroleum royalty revenue to variations in the oil price.

Table 13

PARAMETER SENSITIVITY OF REVENUE ESTIMATES

Revenue Type	Parameter Change	Budget Impact (\$m)
Payroll tax	For each 1.0 percentage point increase/decrease in wages and/or employment growth	+/-14.5
Total mining revenue ^(a)	For each 1.0 cent decrease/increase in the \$A/\$US exchange rate	+/-30.0
Petroleum royalties ^{(a), (b)}	For each \$US1 increase/decrease in the price of a barrel of oil	+/-7.5
Iron ore royalties	For each 1.0 percentage point increase/decrease in the price of a dry metric tonne of iron ore	+/-9.5

(a) Includes North West Shelf petroleum royalties.

(b) The oil price sensitivity varies according to the extent of the flow-through to LNG prices. This flow-through depends on the aggregate effect of contract specific pricing arrangements.

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

Revenue from the Commonwealth

General Purpose Grants (\$3,929 million in 2006-07)

Growth in Western Australia's general purpose grants mainly depends on growth in the Commonwealth's GST collections (reflecting national, rather than State, economic conditions), and the recommendations of the Commonwealth Grants Commission.

The State budget uses the latest available Commonwealth forecasts of national GST revenue collections, at the budget cut-off (these forecasts were released as part of the Commonwealth's December 2005 *Mid-Year Economic and Fiscal Outlook*). The Commonwealth is expected to provide revised forecasts of GST collections in its May 2006 budget. However, these estimates will be published after the State budget estimates have been finalised.

Western Australia's share of GST revenue grants is based on the State's population share and the annual recommendations by the Commonwealth Grants Commission. These recommendations incorporate 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 is forecast to decline over the forward estimates period, due to the current strong growth in its own-source revenue capacity compared to other States. However, experience shows that the annual change in Western Australia's share beyond the budget year is difficult to predict with accuracy.

Specific Purpose Payments (\$2,916 million in 2006-07)

The forward estimates for specific purpose payments (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 funding arrangements, the Commonwealth indicated that it has no intention of cutting aggregate SPPs as part of these arrangements, reflecting the intention that the States should be better off. However, should GST revenue grow substantially in future years, there is a risk that the Commonwealth may allow SPPs to be eroded.

State Taxes (\$5,082 million in 2006-07)

The forward estimates of taxation revenue are based on projected growth in key economic parameters such as employment, wages and nominal State final demand. Risks to the assumed growth rates of these parameters include international economic 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 particularly difficult to forecast. The estimates of conveyance duty are predicated on continued growth in house prices in 2006-07, followed by an easing in activity in 2007-08 (greater detail is provided in Chapter 4: *Financial Projections – Revenue*). Experience indicates a high degree of uncertainty in forecasting changes in property market activity, and small variations between the assumptions underlying the estimates and actual outcomes can lead to large variations between forecast and actual conveyance duty revenue (e.g. a 1% variation between forecast and actual transaction volumes in 2006-07 is worth around \$15 million in conveyance duty revenue).

The issue of forecasting volatility is dealt with in further detail in the feature box in Chapter 4: *Financial Projections - Revenue*.

Mining Revenue (\$2,267 million in 2006-07¹²)

The mining royalty estimates are sensitive to movements in the \$A/\$US exchange rate and oil prices. A change in the exchange rate of US1.0 cent would vary royalty revenue in the order of \$30 million per annum. A change of \$US1 per barrel in the oil price would vary royalty revenue by up to \$7.5 million per annum.

The exchange rate and oil price are volatile. For example, the \$A/\$US exchange rate has ranged between US77.4 cents and US70.4 cents between 1 July 2005 and 18 April 2006.

The volatility of the oil price is also illustrated by recent history. In particular, the oil price in the lead-up to the budget (for West Texas Intermediate crude) averaged around \$US64 per barrel, compared to around \$US49 per barrel in 2004-05 (based on current sensitivities, a variation of this magnitude would increase royalties by around \$112.5 million). The oil price assumptions contained in this budget are based on the average of futures market oil prices in the lead-up to the budget cut-off date (18 April 2006). The adoption of this method for determining the oil price assumptions is expected to result in the risks associated with the oil price assumptions being more evenly balanced than under the previous methodology (see the text box *Review of Revenue Forecasting* in Chapter 4: *Financial Projections - Revenue*).

¹² Including North-West Shelf royalties and lease rentals.

A particular risk to the mining royalty estimates in this budget is the outcome of the protracted 2006-07 iron ore price negotiations between the major iron ore miners and their customers. Generally, past negotiations have concluded prior to the start of the Japanese Fiscal Year on 1 April, providing certainty about the price for iron ore exports for the budget year. However, as of the budget cut-off date (18 April 2006), iron ore prices for 2006-07 had not been announced. The budget estimates factor in a 10% increase in iron ore prices in 2006-07, but there is a risk that the negotiations will arrive at a different outcome.

More generally, most commodity prices are currently at historically high levels. The budget estimates factor in a decline in most commodity prices (including iron ore in 2007-08 and 2008-09) over the forward estimates as producers increase supply in response to current high prices. The assumption of declining commodity prices over the forward estimates is consistent with the Australian Bureau of Agricultural Economics' (ABARE) most recent published forecasts of commodity prices. The price assumptions used in this budget for a number of commodities are based on these ABARE forecasts.

However, the timing and extent of the anticipated decline in commodity prices depends on changes in the balance between the demand and supply for individual commodities on world markets. If demand grows more strongly or slowly than anticipated, or supply increases at a faster or slower pace, commodity prices may differ from that assumed in the estimates. In addition, the level of some commodity prices, notably gold, may reflect the impact of geopolitical tensions. Any change in the market's assessment of the impact of geopolitical developments would likely be reflected in changes in commodity prices, with consequent impacts on the royalty estimates.

Revenue from Public Corporations (\$750 million in 2006-07)

The former Electricity Corporation (Western Power Corporation) was disaggregated on 1 April 2006 into four new entities, Horizon Power (Regional Power Corporation), Synergy (Electricity Retail Corporation), Verve Energy (Electricity Generation Corporation) and Western Power (Electricity Networks Corporation).

A future risk from these successor entities is the possible impact of competition on profitability and revenue. Their forecasts are based on estimated projections of the effects of future competition and the operation of the new electricity market from 1 July 2006.

Expenses

Wages

The forward estimates include provision for all enterprise bargaining agreements that have been agreed and finalised. Beyond these agreements, provisions have also been included for the offers made for significant agreements that are due to expire up to 30 June 2007. Where wage outcomes are higher than expected, expenses will generally be higher. To illustrate the potential impact, a 1% increase in wages in 2006-07 amounts to around \$65 million per annum across the general government sector in both salaries and superannuation costs.

Health Expense Pressures

The health sector has particular cost and demand pressures that make budgeting and expense management a difficult task. However, given the continued commitment by the Department of Health to implement health reform, along with additional funding for core services and specific initiatives, the agency is expected to remain within budget, and within the annual expense growth target. Should any identified risks fail to be mitigated within the health system itself, they will be managed in accordance with the Government's financial priorities and objectives.

Capital Works

A number of capital works projects are predicated on the continuance of Commonwealth funding in accordance with existing arrangements (e.g. the Commonwealth provides around \$133 million in 2006-07 directly to the Commissioner for Main Roads in support of various road projects carried out with both Commonwealth and State monies, with some projects, such as the New Perth-Bunbury Highway, dependent on both levels of government).

Ongoing tightening of the contracting and sub-contracting markets in the building, construction and related industries has led to substantial escalations in the costs for the provision of infrastructure. To offset the impact of these cost escalations on the Capital Works Program, a global provision of \$553 million across the forward estimates was included in the 2005-06 mid-year review. All but \$13 million of this provision has been allocated to agencies in this budget. While the budget estimates are based on the latest available cost estimates, further cost increases could arise in the future depending on the constraints to the capacity of the construction industry.

The capital works budget includes assumptions about the utilisation of some proceeds of asset sales as a source of funding for some projects. If these asset sales do not eventuate, or are delayed, then the new capital works projects will not proceed or funding will be required from alternative sources.

The forward estimates allow for the impact of capital works projects that have been approved by the Government and that are subject to finalisation of contract negotiations and/or other events. If, for some reason, these projects do not proceed, the existing contingent allocations will be removed from the estimates.

Projects may also be under consideration, or have in-principle approval from Government, which may be subject to factors such as third party commitments, and for which there is not certainty on full scope and/or costs. A specific instance is the Government's decision to undertake works at the Bunbury Port, including deepening the port to accommodate larger vessels required for coal exports, subject to commitments by the relevant parties. Such projects are not factored into the current forward estimates but may impact State finances in the future.

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 2005, quantifiable contingent liabilities of the Treasurer¹³ were in the order of \$1,061 million, comprising:

- contingent liabilities under guarantees, indemnities and sureties (\$959 million); and
- guaranteed warranties of the Bank of Western Australia Ltd (\$102 million at credit risk equivalent).

¹³ 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.

Expenditure Initiatives

Overview

This chapter discusses two important areas of Government expenditure:

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

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. wages for nurses) referred to as expenses¹ or by investing in asset acquisition programs (e.g. building new hospitals).

The Government's focus for the 2006-07 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 are health, education and training, law and order, and community support.

The following section outlines the expenditure initiatives in the 2006-07 Budget. Details of the major policy decisions for each of the Government's ministerial portfolios are presented.

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.

Initiatives Approved in the 2006-07 Budget

PARLIAMENT

Table 1

EXPENDITURE ON NEW INITIATIVES					
	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Legislative Council					
- Regional Parliament and Awareness Programs	-	195	-	195	-
- Select and Standing Committees	439	439	439	439	439
Parliamentary Commissioner for Administrative Investigations					
- Additional Resources for Complex Investigations	-	235	235	235	235
TOTAL (RECURRENT)	439	869	674	869	674
CAPITAL EXPENDITURE					
Parliamentary Services Department					
- Chamber Air-Conditioning and Seating Modifications	-	2,286	-	-	-
TOTAL (CAPITAL)	-	2,286	-	-	-

Legislative Council

New Expenditure Initiatives – Recurrent

Regional Parliament and Awareness Programs and Select and Standing Committees

The Legislative Council has been provided with additional resources to allow for regional parliaments, awareness programs and for select and standing committee functions.

Parliamentary Commissioner for Administrative Investigations

New Expenditure Initiatives - Recurrent

Additional Resources for Complex Investigations

As a result of increasing demands arising from the *Public Interest Disclosure Act 2003* additional funding has been provided to assist with an increasing backlog of complex investigations.

Parliamentary Services Department

New Expenditure Initiatives – Capital

Chamber Air-Conditioning and Seating Modifications

The Parliamentary Services Department has been provided with an additional appropriation totalling \$2.3 million in 2006-07, to allow for chamber air-conditioning, modification to chamber seating to accommodate new members, and funding for minor capital upgrade works at Parliament House. Funding for the initiative is through sale proceeds from 34 Parliament Place, West Perth.

PREMIER; MINISTER FOR PUBLIC SECTOR MANAGEMENT; STATE DEVELOPMENT; FEDERAL AFFAIRS

EXPENDITURE ON NEW INITIATIVES

Table 1

	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Premier and Cabinet					
- Electorate Office Resources	3,173	3,268	3,467	3,571	3 571
- Leadership Development Initiatives	1,000	700	1,260	920	1,526
- Ministerial Air Charter	400	800	800	800	800
- Members of Parliament in the Legislative Council	373	1,387	1,387	1,387	1,387
- Western Australian Government – Canberra Office	-	500	500	500	-
- Security Planning and Coordination	1,000	250	250	250	250
- Public Sector Improvement	-	2,055	2,237	1,984	2,131
- Ministerial Offices	-	1,924	2,144	2,364	2,584
- Policy Office Resources	-	1,199	1,846	1,846	1,846
- Office of Road Safety – Road Safety Initiatives	-	250	450	87	-
Industry and Resources					
- Marine Industry Technology Park - Management Contract	150	150	-	-	-
- Management of the Dampier Archipelago	88	800	470	-	-
- Reform of the Project Approvals System	1,420	2,776	2,446	2,446	2,446
- Overseas Trade Offices	-	1,000	1,000	1,000	1,000
- Attraction and Retention Benefit	366	348	358	369	380
- Science and Innovation	-	18,000	18,000	18,000	18,000
- Continuation of IVEC Funding	-	1,950	1,950	1,950	1,950
- Assistance for Argyle Diamond Mine	-	-	26,250	-	-
- Kimberley Broadband Solutions	500	500	-	-	-
- Coal Industry Development	-	4,100	6,100	-	-
Office of the Public Sector Standards Commissioner					
- Public Interest Disclosure	-	200	200	200	200
TOTAL (RECURRENT)	8,470	42,157	71,115	37,674	38,071

Premier and Cabinet

New Expenditure Initiatives – Recurrent

Electorate Office Resources

Additional funding of \$13.9 million over the forward estimates has been approved to provide an additional electoral office for members where an electorate exceeds 50,000 square kilometres and the major centres are more than 200 kilometres apart.

Leadership Development Initiatives

The Government has acknowledged the age profile of the Senior Executive Service, and the traditional feeder group to the Service, and has committed \$5.4 million in funding towards addressing the future development of leadership skills in the public sector.

Ministerial Air Charter

An extra \$400,000 in 2005-06 and \$800,000 per annum thereafter has been provided for an anticipated increase in the leasing costs associated with the renegotiation of the ministerial air charter arrangements.

Members of Parliament in the Legislative Council

Funding of \$5.5 million across the forward estimates has been allocated to provide for Members of Parliament in the Legislative Council, with an additional staff resource of 0.6 FTE to service their electorates.

Western Australian Government - Canberra Office

Funding of \$500,000 per annum from 2006-07 to 2008-09 has been provided for the establishment of an office of the Western Australian Government in Canberra to promote awareness of Western Australian issues.

Security Planning and Coordination

The development of the Western Australian Counter Terrorism Action Plan will cost an additional \$1.0 million in 2005-06. An amount of \$250,000 per annum from 2006-07 has also been budgeted for security planning and coordination, including counter-terrorism exercises.

Public Sector Improvement

A total of \$8.4 million across the forward estimates has been allocated for implementing programs spanning attraction and retention, and workforce planning and development to address sector-wide needs emerging from the ageing workforce phenomenon, contracting labour market, skill shortage and ongoing public sector reform.

Ministerial Offices

Additional resources totalling \$9.0 million across the forward estimates have been budgeted for Ministerial Offices, and for the Office of the Leader of the Opposition. This need has arisen due to rising costs in areas such as rent and travel and extra staff including the transfer of staff from Departmental to Ministerial budgets.

Policy Office

Additional funding of \$1.2 million in 2006-07 and \$1.8 million per annum from 2007-08 has been provided for additional resources for the Department of Premier and Cabinet's Policy Office including the Community Cabinet and Liaison Unit.

Additional resources have also been provided for the Intergovernmental Relations Unit, which reflects the Government's decision to place additional emphasis on Commonwealth/State relations.

Office of Road Safety – Road Safety Initiatives

Funding has been allocated to assist in the implementation of road safety initiatives currently under consideration by Cabinet.

Industry and Resources

New Expenditure Initiatives – Recurrent

Marine Industry Technology Park – Management Contract

In 2006-07 \$150,000 will be expended to promote the central support facilities at the new Marine Industry Technology Park during the construction phase.

Management of the Dampier Archipelago

Amounts of \$800,000 in 2006-07 and \$470,000 in 2007-08 will be utilised to undertake heritage surveys of the Dampier Archipelago.

Reform of the Project Approvals System

Amounts of \$2.8 million in 2006-07 and \$2.4 million per annum from 2007-08 will be applied to streamline approval processes and reduce approval timelines for resource projects.

Overseas Trade Offices

Funding of \$1.0 million per annum from 2006-07 has been provided for the maintenance of overseas trade offices, pending the outcome of a review of all overseas offices and the preferred operational modes.

Attraction and Retention Benefit

Additional funding of \$1.8 million across the forward estimates has been provided to implement a comprehensive attraction and retention benefit to specialist staff in the petroleum research branch.

Science and Innovation

Funding of \$18.0 million per annum, commencing in 2006-07, has been approved to implement a new Science and Innovation Strategy. This will foster the continued growth of the biotechnology sector (including medical research). It will also assist in building critical mass in scientific research and development, and enhance the State's competitiveness in the international market place.

Continuation of Interactive Virtual Environments Centre (IVEC) funding

Funding of \$2.0 million per annum from 2006-07 has been provided to maintain the IVEC program.

Assistance for Argyle Diamond Mine

The Government announced on 8 December 2005 that the royalty rate for the Argyle diamond mine would be reduced to 5 per cent of the value of production to secure the viability of the proposed underground operation. While the reduced royalty rate will take effect from 1 January 2006, Argyle will continue to pay the current royalty rate (22.5 per cent of net profit or 7.5 per cent of the value of production, whichever is the higher) until the underground operation commences. At the time of the Government's announcement the underground operations were expected to commence on 1 January 2008².

The estimated \$26.3 million payment to Argyle in 2007-08 accounts for the refund of the difference between the royalties paid under the current rate and that which would have been paid under the lower rate of 5 per cent for the period 1 January 2006 to 1 January 2008.

Kimberley Broadband Solutions

An amount of \$500,000 in 2006-07 will be utilised to upgrade telecommunications services in the Kimberley region.

² For accounting purposes, this payment is treated as an expense in the Department's financial statements. For Government Financial Statistics purposes, the whole-of-government aggregates in Chapter 1, 2 and 4, and in Appendices 1 and 2, this payment is netted against diamond royalty revenue.

Coal Industry Development

An allocation of \$4.1 million in 2006-07 and \$6.1 million in 2007-08 has been approved to establish the Collie Region and Coal Industry Infrastructure Fund. This fund will assist industry with projects that will enhance the commercial attractiveness of using Collie coal in the domestic market, or for infrastructure projects to enhance long term employment in the district.

Office of the Public Sector Standards Commissioner

New Expenditure Initiatives – Recurrent

Public Interest Disclosure

Funding of \$200,000 per annum has been provided to implement an effective and ongoing advice and assistance program, including a public interest disclosure hotline to:

- raise awareness within public authorities of the public interest disclosure legislation;
- build public sector confidence in the legislation;
- address concerns about not being adequately protected once disclosure is made; and
- focus on improving agencies' capacity to comply.

DEPUTY PREMIER; TREASURER; MINISTER FOR GOVERNMENT ENTERPRISES; MINISTER ASSISTING THE MINISTER FOR PUBLIC SECTOR MANAGEMENT

EXPENDITURE ON NEW INITIATIVES

Table 2

	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Treasury and Finance (Controlled)					
- Continuation of Procurement Reforms	-	213	488	4,880	5,356
- Land Data Management	-	384	408	-	-
- Revenue Service Assessing	-	354	375	-	-
- State Tax Review	230	230	-	-	-
Treasury and Finance (Administered)					
- Western Australian Council of Social Services	-	170	170	170	-
Office of Native Title					
- Ord River Project Stage 2 (Native Title)	10,237	5,020	4,645	4,365	2,000
Office of the Auditor General					
- New Executive Structure	144	208	208	208	208
- Audit Costs for Disaggregation of Western Power	324	400	400	400	400
- New Australian Auditing Standards	642	442	442	442	442
TOTAL (RECURRENT)	11,577	7,421	7,136	10,465	8,406
CAPITAL EXPENDITURE					
Lotteries Commission					
- Business Transformation Project	2,527	29,715	11,426	565	-
TOTAL (CAPITAL)	2,527	29,715	11,426	565	-

Treasury and Finance (Controlled)

New Expenditure Initiatives – Recurrent

Continuation of Procurement Reforms

Additional funding has been provided to support the increased operating costs in 2006-07 and 2007-08 and for the continuation of the achievement of the whole-of-government benefits from the reforms beyond 2007-08. In this regard the funding will support and deliver the:

- ongoing management and re-tendering of all the new common use contracting;
- ongoing management of the Regional Buying Centres in Bunbury, Kalgoorlie and Geraldton;

- growth in demand for Procurement Services by agencies as the amount of procurement increases each year;
- ongoing management of the new whole-of-government contracting systems;
- ongoing administration costs, including accommodation costs;
- ongoing external services, largely comprising expert consultancies for contract planning and tender; and
- additional corporate services costs, largely comprising IT services and infrastructure.

Land Data Management

Additional funding has been provided to continue maintaining the integrity associated with the land database, which is essential for efficient operation of a number of the Office of State Revenue compliance and enforcement areas.

Revenue Service Assessing

Additional funding has been provided to continue to maintain customer service levels, complex assessing and voluntary compliance initiatives in an environment of extremely high volumes of transactions.

State Tax Review

Extra funding has been provided to evaluate the Western Australian community's priorities for State tax relief and reform and to assist the Government's budgetary decisions over the next three years.

Treasury and Finance (Administered)

New Expenditure Initiatives – Recurrent

Western Australian Council of Social Services - Consumer Utilities Project

Funding of \$510,000 is provided for three years to 2008-09 for the Western Australian Council of Social Services to continue the Consumer Utilities Project, which assists financially disadvantaged utility consumers via consumer protection resources including a website and a telephone hotline.

Office of Native Title

New Expenditure Initiatives – Recurrent

Ord River Project Stage 2 (Native Title)

The Ord Final Agreement provides a package of benefits for the Miriuwung and Gajerrong people, in consideration and compensation for the acquisition, extinguishment and impairment of native title in the area of the proposed Ord River Project – Stage 2 development, and the release of the State liability arising under the Commonwealth's *Native Title Act 1993*.

Office of the Auditor General

New Expenditure Initiatives – Recurrent

The Office of the Auditor General has been provided with additional funding to allow for a revised / new executive structure, the extraordinary audit costs for the disaggregation of Western Power and costs associated with the new international auditing standards that will be implemented across government.

Lotteries Commission

New Expenditure Initiatives – Capital

Business Transformation Project

The Government has approved Lotterywest's Business Transformation Project. This project will provide the future technology platform and infrastructure requirements to position Lotterywest to meet the challenge of a rapidly changing lottery industry, while continuing to meet the ever increasing needs of its stakeholders and beneficiaries. This will allow for the maintenance of, and growth in current levels of hypothecated revenues to the Health, Arts and Sports areas.

MINISTER FOR AGRICULTURE AND FOOD; FORESTRY; THE MID-WEST AND WHEATBELT

EXPENDITURE ON NEW INITIATIVES

Table 3

	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Agriculture and Food					
- European House Borer	-	2,815	1,890	-	-
- Biosecurity and Agriculture Management Bill	-	500	600	600	600
- Emergency Response	-	150	150	150	150
- Indigenous Landholder Service	-	500	500	600	600
- National Action Plan for Salinity and Water Quality	-	3,200	7,700	-	-
Rural Business Development Corporation					
- Rural Adjustment Scheme Exceptional Circumstances Support	1,600	-	-	-	-
Forest Products Commission					
- Tree Farming Project - National Action Plan for Salinity	-	2,300	2,300	2,300	2,300
TOTAL (RECURRENT)	1,600	9,465	13,140	3,650	3,650
CAPITAL EXPENDITURE					
Agriculture and Food					
- Headquarters and Biosecurity Facilities	-	-	1,000	47,000	-
- Vasse Dairy Research Centre	-	1,015	-	-	-
Mid-West Development Commission					
- Geraldton Marine Services Precinct	1,500	-	-	-	-
TOTAL (CAPITAL)	1,500	1,015	1,000	47,000	-

Agriculture and Food

New Expenditure Initiatives – Recurrent

European House Borer

Funding of \$2.8 million in 2006-07 and \$1.9 million in 2007-08 has been provided to implement actions such as active surveillance, community awareness, research and implementation of regulatory control to minimise further spread of the European House Borer and enhance the likelihood of eradicating this pest.

Biosecurity and Agriculture Management Bill

Funding of \$2.3 million has been allocated over the forward estimates for the implementation of the proposed Biosecurity and Agriculture Management Bill. Once enacted by Parliament, this will deliver major legislative reform in relation to the control of harmful organisms (pests and diseases), the use of agricultural and veterinary chemicals and the safety and quality of agricultural products. It will consolidate 17 existing Acts and a number of regulations into one Act.

Emergency Pest and Disease Diagnostic and Operational Response Capacity

Funding of \$150,000 per annum from 2006-07 onwards has been provided to assist in meeting the continued increases in national funding liabilities. This program will establish the necessary foundation to assist in raising the level of the State's surveillance, diagnostic capacity and emergency response preparedness for Emergency Plant Pests and Emergency Animal Diseases.

Indigenous Landholder Service

Funding of \$2.2 million over the forward estimates has been provided to enhance the capacity and capability of Indigenous landholders in developing and managing pastoral leases. This training will develop the capacity of Indigenous landowners in farm management and business operating systems. Through the training process, Indigenous pastoralists will be involved in more mainstream pastoral field days and hence increase their exposure to new technologies and skills.

National Action Plan for Salinity and Water Quality

Funding of \$10.9 million has been allocated over two years for the National Action Plan for Salinity and Water Quality Committee to maintain the State's share of funding to the salinity effort which is a joint State / Commonwealth initiative.

New Expenditure Initiatives – Capital

Headquarters and Biosecurity Facilities

The Government has allocated funding of \$1.0 million in 2007-08 and \$47.0 million in 2008-09 for the proposed relocation of the Department of Agriculture and Food's headquarters and biosecurity facilities.

Vasse Dairy Research Centre

Expenditure of \$1.0 million has been approved in 2006-07 to replace the Vasse Dairy Research Centre to meet the demands of modern day production, including meeting current dairy research and development activities, and the dairy farm assurance audit standard.

Rural Business Development Corporation

New Expenditure Initiatives – Recurrent

Rural Adjustment Scheme - Exceptional Circumstances Support

\$1.6 million has been provided in 2005-06 to the Rural Business Development Commission in respect of the State's share in the expenditure associated with the Rural Adjustment Scheme Exceptional Circumstances scheme.

Forest Products Commission

New Expenditure Initiatives – Recurrent

National Action Plan for Salinity – Tree Farming Project

One of the major projects established under the National Action Plan initiative is the tree-planting program, jointly funded by the State and Commonwealth. The Forest Products Commission is undertaking this project through borrowings for which a new Community Service Obligation payment of \$9.6 million over the forward estimates has been established to cover the repayment and interest costs.

Mid-West Development Commission

New Expenditure Initiatives – Capital

Geraldton Marine Services Precinct (Boatlifter)

The State Government has approved \$1.5 million in 2005-06 towards a 200 tonne heavy boat lifter at the Geraldton Marine Services Precinct. This project will be a joint initiative with the Federal Government and private industry.

MINISTER FOR EDUCATION AND TRAINING

EXPENDITURE ON NEW INITIATIVES

Table 4

	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Education and Training					
- Outcomes and Standards Education	2,329	3,494	2,337	750	750
- Marketing the Apprenticeship System in Western Australia	410	-	-	-	-
- EG Green & Sons – Worker Support Package	1,550	-	-	-	-
- Skills Shortages	13,800	14,860	13,220	15,030	9,500
- Forest Heritage Centre	565	2,297	639	600	560
- Community Awareness Campaign	1,000	1,000	-	-	-
Curriculum Council					
- Outcomes and Standards Education	826	930	1,178	1,018	1,018
TOTAL (RECURRENT)	20,480	22,581	17,374	17,398	11,828
CAPITAL EXPENDITURE					
Education and Training					
- Australian Centre for Energy and Processing Training	2,000	4,000	-	-	-
- City Beach High School Site – Boarding Facilities	-	5,000	-	-	-
- AUIS Joondalup Campus Acquisition	-	25,000	-	-	-
TOTAL (CAPITAL)	2,000	34,000	-	-	-

Education and Training

New Expenditure Initiatives – Recurrent

Outcomes and Standards Education

An additional \$9.7 million will be spent to initiate strategies associated with the implementation of Outcomes and Standards Education in Years 11 and 12.

In particular, the growth in expenditure will:

- help develop and make available K-10 syllabus and support materials for teachers;
- ensure assessment and reporting consistency across public schools; and
- provide professional development on assessment, an assessment consultancy for schools and develop assessment support materials for classrooms.

Apprenticeship System Marketing

An amount of \$410,000 has been provided in 2005-06 to market and promote the apprenticeship system in Western Australia. The campaign involves using television, press and radio advertising as well as promotional material for schools, an updated career and training guide, updated expanded and improved Apprenticeship and Traineeship Support Network materials, and employer recruitment materials.

EG Green & Sons – Worker Support Package

An amount of \$1.6 million will be spent in 2005-06 to deliver a Worker Support Program to redundant employees of EG Green & Sons. This package will deliver training and job assistance measures for up to 300 former employees. The program is designed to provide support to employees and contractors retrenched by the Company to remain in the meat processing industry by assisting them to transfer to other meat processing operations or, where this is not possible, to obtain other employment.

Addressing Western Australia's Skills Shortages

With some assistance from the Commonwealth, the State has committed an additional \$66.4 million over the period 2005-06 to 2009-10 to address the current skills shortage in Western Australia. The State is contributing \$41.0 million to this initiative, with Commonwealth funding meeting the balance of the cost.

Funding will be directed towards the following:

- increasing the number of persons undertaking apprenticeships and traineeships in the State given current shortages of skilled tradespersons as a result of Western Australia's buoyant economy. The election commitment target of 30,000 by 2009 has already been achieved due to growth in demand from employers. It is expected that 32,700 apprentices and trainees will be in training by 2009;
- the School Apprenticeships Link program, which allows students to commence training in a trade area while still at school, and which leads to a reduced duration of an apprenticeship. The original commitment to train 2,000 students through the program by 2009 has been revised to 2,525 as a result of strong community acceptance of the program;
- increased trade skills recognition for individuals to have their existing skills recognised. In the current climate of a strong economy and low unemployment, many workers have gained experience in areas of expertise without actually gaining a qualification or trade certificate. This expertise could be lost, for both the individual and the company, if not recognised with a qualification. For industry it will increase the pool of identified skill workers. It is estimated that an additional 1,000 applicants for trade skills recognition could be processed per year over the next four years;

- increasing the number of funded Group Training Schemes (GTSs). The Department has reviewed the current funding arrangement for GTSs and is introducing a new model aimed at funding State priority target groups such as skill shortages occupations and equity groups such as indigenous people and people with disabilities. The new model also aims to increase the competition for funding by allowing all not-for-profit GTSs to be eligible for recurrent funding. This will encourage new entrants to the market and increase the number of apprentices and trainees. Overall, the number of GTSs is expected to increase from 14 in 2006 to 24 in 2009.

Forest Heritage Centre and Australian School of Fine Wood

An independent review of the viability of the Forest Heritage Centre and the Australian School of Fine Wood, which are located in Dwellingup, is being undertaken. A provision of \$4.7 million has been made for both capital upgrades and ongoing financial support.

A proposed two-stage capital works program has been developed to expand both the Centre and the School. Major Centre works include new interpretative displays and a restructure of the existing gallery to house a resource centre and conference room. The school will undergo a major building program including fit-out to boost its training capacity to 48 students. Works include machine rooms, short course facilities, training areas and an administration and training block.

Community Awareness Campaign

An amount of \$2.0 million has been allocated to develop and implement a comprehensive advertising campaign to inform the Western Australian community of the important changes to the education and training system taking place from 2006.

The campaign will promote the positive changes across the education and training portfolio including changes to the school leaving age, outcomes and standards education, post compulsory schooling and initiatives such as the *It Pays to Learn Allowance*. These changes need to be effectively communicated to parents, students, teachers and other major stakeholders.

New Expenditure Initiatives – Capital

Australian Centre for Energy and Processing Training

Additional capital works spending of \$6.0 million will be undertaken to complete works and equipment purchases associated with the Australian Centre for Energy and Processing Training project at Henderson. The new facility has a total cost of \$19.0 million and is intended to enhance the State's capacity to address the current shortage of skilled employees in the energy and chemical production sectors.

City Beach High School – Boarding facilities

Capital funding of \$5.0 million has been allocated in 2006-07 to purchase residential facilities on the former City Beach High School site from the International School of Perth. The acquisition of the boarding facilities is required under the break provisions of the existing lease and will allow the department to reclaim control of the site.

Joondalup Campus Acquisition

An amount of \$25.0 million has been allocated for the acquisition and refurbishment of the Australian Institute for University Studies' Joondalup campus. The purchase of the campus – which will be converted into a senior campus – provides a number of benefits given the quality of its buildings and environs and its situation along the northern corridor which is experiencing urban expansion.

Curriculum Council

New Expenditure Initiatives – Recurrent

Outcomes and Standards Education

An additional \$5.0 million will be spent to initiate strategies associated with the implementation of Outcomes and Standards Education in Years 11 and 12. In particular, the growth in expenditure will deliver:

- additional professional development to support teacher and school readiness for the new system;
- a communication strategy to inform the public of the changes being implemented; and
- the implementation of a General Achievement Test.

MINISTER FOR WATER RESOURCES; SPORT AND RECREATION

EXPENDITURE ON NEW INITIATIVES

Table 5

	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Water and Rivers Commission					
- Water Reform Initiatives	-	9,732	12,448	11,194	10,455
Sport and Recreation					
- Youth Futures – Talent Development	-	700	700	700	700
- Active Western Australians – Clubs are Families	-	500	500	500	500
- Active Western Australians – Outdoor Recreation Industry	-	500	500	500	500
- Physical Activity Taskforce	-	500	500	500	500
- Major Stadia Taskforce	-	500	500	-	-
TOTAL (RECURRENT)	-	12,432	15,148	13,394	12,655
CAPITAL EXPENDITURE					
Water and Rivers Commission					
- Kununurra Office Extension	-	300	-	-	-
Water Corporation					
- Coral Bay	3,027	4,386	766	-	3,476
- Hopetoun Wastewater Scheme	-	2,900	1,700	-	-
- Woodman's Point – Odour Control	-	2,800	13,300	12,700	1,200
- Integration Assets – Planning	-	1,400	6,600	-	-
- Nilgen Water Scheme	-	8,500	-	-	-
- Managed Aquifer Recharge	-	3,000	-	-	-
- Infill Sewerage	-	10,000	10,000	10,000	10,000
Bunbury Water Board					
- Land Purchase	1,200	-	-	-	-
- Enhancements to Distribution Network and Treatment Plants	420	3,569	-	805	4,000
- Reservoir Improvement	-	-	-	1,500	-
Busselton Water Board					
- 15 Mega Litre Storage Tank	-	2,366	-	-	-
TOTAL (CAPITAL)	4,647	39,221	32,366	25,005	18,676

Water and Rivers Commission

New Expenditure Initiatives – Recurrent

Water Reform Initiatives

Total funding of \$43.8 million over four years has been provided to commence the State's water reform objectives. The State's water reform agenda consists of a number of initiatives including Irrigation Reform, Drinking Water Source Protection, Improved Water Resource Management, Perth Region Sustainability, Drainage and Associated Functions and Floodplain Management, which are detailed below:

- the Irrigation Reform Program covers the implementation of a range of initiatives designed to increase productivity and efficiency of the State's water use. The Irrigation Reform is a fundamental part of the National Water Initiatives. A new entitlements regime will be introduced and water markets and trading will be reformed;
- the Drinking Water Source Protection program involves the preparation of drinking water source protection plans to ensure the State continues to have safe drinking water. The protection of public drinking water sources is an essential element in achieving sustainable water resources use within the State;
- the Improved Water Resource Management program involves increased water resource investigation and assessment to identify and prove up water resources for industry and water supply, increased emphasis on licensing and regulation of water use to ensure that users are not overdrawing resources and are using their allocations efficiently, and improving the provision of information to the community and industry;
- the Perth Region Sustainability initiative relates to the investigation of the impact of water abstraction on the groundwater resources of the Gnangara and Jandakot Mounds. This information will allow development of groundwater water management plans for these areas;
- the Drainage and Associated Functions program will provide integrated drainage plans to meet both urban and rural development, and environmental outcomes. This program of targeted drainage and water management planning will assist in alleviating the 40,000 lots under the Metropolitan Development Program currently constrained by water and environmental issues; and
- the Floodplain Management program has the objective of reducing the long term impact of natural hazards, such as flooding. The program consists of the development of a Floodplain Management Manual, progressing of the State's floodplain mapping program, the provision of advice to approving authorities to ensure acceptable floodplain development, improvement to the State's flood forecasting and warning service and promotion of community awareness of the risks of major flooding.

New Expenditure Initiatives – Capital

Kununurra Office Extension

Funding of \$300,000 in 2006-07 has been allocated to provide additional space to the regional office in Kununurra. The extension will improve the Occupational Health and Safety standards by providing a safe and efficient working environment.

Water Corporation

New Expenditure Initiatives – Capital

Coral Bay

Over the budget period, the Government has approved \$11.6 million of capital funding to provide a potable water supply scheme at Coral Bay. The demand for water in the area has increased significantly and a new potable water supply scheme is required to meet forecast demand. Coral Bay will experience rapid development through the planned construction of the Hilton Hotel, two caravan parks, and increased residential accommodation.

Hopetoun Wastewater Scheme

\$4.6 million of capital funding has been approved associated with the transfer of the Shire of Ravensthorpe's wastewater licence to the Water Corporation. This transfer will allow new services to be provided to meet the growth associated with BHP Billiton's Ravensthorpe nickel project.

Woodman Point – Odour Control

The Woodman Point Wastewater Treatment Plant catchment has been growing at a rate of 3 per cent per annum over the past ten years. Recently applied operating licence conditions for odour levels at the buffer boundary now require the Water Corporation to reduce odour by 50 per cent in three years. In response, the Water Corporation is undertaking a three stage odour control program at Woodman Point, with an estimated capital cost of \$93.3 million over the next five to 10 years. The Government has approved funding for stage one of this program.

Integration Assets - Planning

The Government has approved \$8.0 million over the period 2006-07 to 2007-08 to plan for the integration of assets needed to ensure the connection of future water developments to the Perth Integrated Water Supply Scheme.

Nilgen Water Scheme

\$8.5 million of additional capital funding has been approved associated with the Water Corporation's takeover of the Nilgen Service Company's water supply scheme. This will ensure the provision of reliable and safe water to approximately 175 lots in Nilgen.

Managed Aquifer Recharge

As part of the water sources development program and associated with the Security through Diversity strategy, the Government has approved \$3.0 million of funding for the Water Corporation to investigate Managed Aquifer Recharge (MAR) of recycled water. This has the potential to be a significant source of water for Perth and provides a high profile demonstration of MAR using recycled water after reverse osmosis treatment to deliver public water supply benefits.

Infill Sewerage

The Government has approved additional funding of \$10.0 million per annum for the Infill Sewerage Program. This will allow the program to be completed four years earlier than previously scheduled.

Bunbury Water Board

New Expenditure Initiatives – Capital

Land Purchase

The Government has approved the purchase of land to extend the buffer zone at the Spencer Water Treatment Plant. The treatment plant is located in a central city location and has been surrounded by commercial and residential properties. Extending the buffer zone will reduce the impact that the plant's operations will have on surrounding residents.

Enhancements to Distribution Network and Treatment Plants

Additional funding has been approved for the enhancement of the distribution network and treatment plants that are needed due to the high growth in the area. The Bunbury Water Board will enhance its distribution network by installing a trunk main between the Technical School site and the Roberts Reservoir site as identified by a recent network analysis.

This funding will also expand treatment plant capacity at the Technical School site. The City of Bunbury is expected to double its population by 2030 resulting in a significant increase in the quantity of water required.

Reservoir Improvement

The Government has approved funding to improve reservoir liner integrity at Mangles and Roberts reservoir sites. The existing liners have shown persistent leakage problems.

Busselton Water Board

New Expenditure Initiatives – Capital

15 Mega Litre Storage Tank

Funding for a 15 mega litre storage tank has been approved to service the high growth in the Busselton area.

Sport and Recreation

New Expenditure Initiatives – Recurrent

Youth Futures – Talent Development

Additional funding of \$700,000 per year has been provided to develop a sustainable sports system that has the capacity to produce national and world-class athletes in a range of sports. The program will focus on youth talent identification and development, especially in regional Western Australia and will develop and enhance the support systems required, including coaching, officiating and sports science.

Active Western Australians – Clubs are Families

The Government has allocated \$500,000 per annum over four years for the 'Clubs are Families' initiative which involves programs and campaigns to promote the benefits of sporting club involvement and membership to the general community.

Active Western Australians – Outdoor Recreation Industry

Funding of \$500,000 per year has been provided to assist the Outdoor Recreation industry increase the participation of the community in activities such as orienteering, rock climbing, bush walking, adventure sports, mountain cycling, canoeing etc.

Physical Activity Taskforce

Additional funding of \$500,000 per annum has been provided to the Premier's Physical Activity Taskforce to continue to improve the level of physical activity amongst people in the Western Australian community.

Major Stadia Taskforce

Provision of \$500,000 per annum has been made for two years to meet the costs associated with the State Government review of major sports stadia and associated infrastructure.

ATTORNEY GENERAL; MINISTER FOR HEALTH; ELECTORAL AFFAIRS

Table 6

EXPENDITURE ON NEW INITIATIVES

	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Attorney General					
- Early Release Boards - Victim's representation and victim's submissions	88	83	83	88	88
- Reducing Aboriginal Imprisonment	-	1,718	3,329	3,484	3,462
- Court of Appeal - support staff	204	463	476	489	504
- Implement the <i>Children and Community Services Act 2004</i>	364	988	1,001	1,035	1,051
- Additional Mandurah Magistrate	-	550	553	575	610
- Additional District Court Judge	-	1,372	1,133	1,156	1,179
- Aboriginal Justice Agreement	-	2,163	2,792	2,805	3,047
- Aboriginal Court Pilot	-	303	392	499	434
- Indigenous Court Liaison Officers	-	437	365	367	369
- Prisoner Review Board	-	1,669	1,578	1,618	1,645
- Public Advocate Services	-	483	439	449	459
- Road Safety Initiatives	-	1,000	1,000	1,000	1,000
- Departmental Split	1,500	2,300	2,700	2,900	3,100
- Workforce Planning	-	193	250	256	262
- Legal Representation Services	-	1,809	1,863	1,919	1,977
Office of the Director of Public Prosecutions					
- Additional Resources	3,413	7,151	7,318	7,488	7,488
- Relocation to International House	-	-	350	389	448
Health					
- COAG Health Reform Initiatives	-	11,690	11,148	8,182	7,644
- Continence Management	-	1,758	1,811	1,865	1,921
- Derby Aged Care	-	5,730	-	-	-
- Disaster Response – Counter Terrorism	2,242	2,242	2,242	2,242	2,242
- Mental Health Strategy – Ongoing Funding	-	8,787	30,000	30,000	30,000
- Road Safety Initiatives	1,000	1,000	1,000	1,000	1,000
Western Australian Electoral Commission					
- Electoral Boundaries Distribution	250	482	894	-	-
TOTAL (RECURRENT)	9,061	54,371	72,717	69,806	69,930
CAPITAL EXPENDITURE					
Attorney General					
- Prisoner Review Board	-	1,460	1,000	-	-
- CBD Courts Construction and Central Law Courts Refurbishment	-	379	1,227	40	4,449
- Kalgoorlie Courthouse	(266)	(800)	11,413	1,943	-
- Harvey Courthouse	-	400	-	-	-
Office of the Director of Public Prosecutions					
- Accommodation Costs (Additional Resources)	427	-	-	-	-
- Relocation to International House	-	3,405	-	-	-
Health					
- Metropolitan and Country Hospitals	-	75,458	201,219	178,039	137,819
TOTAL (CAPITAL)	161	80,302	214,859	180,022	142,268

Attorney General

New Expenditure Initiatives – Recurrent

Early Release Boards - Victim's Representation and Victim's Submissions

Funding has been provided to meet the cost of incorporating victims' statements in Early Release Board deliberations.

Reducing Aboriginal Imprisonment

An amount of \$12.0 million has been provided over the forward estimates, with the aim to reduce the Aboriginal over-representation and recidivism levels within the prison system. The number of Aboriginal people in prison has increased 37 per cent between September 2000 and November 2005. In contrast, the daily average prisoner population for non-aboriginal prisoners has remained relatively stable over the same period. Accordingly, the proportion of Aboriginal prisoners per prisoner population for that same period rose from 32 per cent to 39 per cent.

Recent initiatives associated with the strengthening of the management of Community Based Services as well as the approach adopted in relation to the strategy to refine fines enforcement are targeted towards reducing Aboriginal imprisonment rates. Early indications are that since the introduction of both of these strategies, Aboriginal imprisonment rates have stabilised, community orders are rising and fine defaulters have reduced.

Court of Appeal - Support Staff

Additional support staff have been provided for the Supreme Court Judge appointed in January 2006 as well as the provision of funding on a permanent basis for the successfully trialled case management team operations within the Court of Appeal. The case management team has become a permanent part of the structure and comprises one Supervisor (level 4) and three case management officers (level 2). The current judicial support structure is also proposed to increase by an additional Research Associate.

This approach will ensure that the initial appellate case management reforms can be sustained along with the performance gains already achieved via the permanent appointment of Court of Appeal Judges. These include the reduction of the average time from lodgement to finalisation for criminal appeals from 42 to 36 weeks, and an increase in the percentage of civil appeals finalised within the new 52 week time standard from 39 per cent to 42 per cent.

Implement the Children and Community Services Act 2004

An amount of \$4.1 million has been provided over the forward estimates to enable the implementation of the *Children and Community Services Act 2004* in the Children's Court of Western Australia, the State Administrative Tribunal and the Legal Aid Commission of Western Australia. The new legislation will change the way care and protection applications are dealt with by the Court. It will greatly increase demand for judicial time and the administrative supports that flow from that demand. The major legislative changes which impact upon the Court operations are, external pre-hearing conferences, Ex-Parte Warrant Applications, Court Initiated Reports, Extension of Care Orders, Protection/Supervision Orders, appeals to the State Administrative Tribunal and Separate Legal Representation for Children.

Additional Mandurah Magistrate

\$2.3 million has been allocated over the next four years to reduce the criminal case backlog in the Mandurah Magistrate's Court. The population of the Peel region is increasing rapidly and will continue to grow with the anticipated opening of the Perth to Mandurah rail link. This has and will continue to result in an increase in workload and demand for court hearings.

Additional District Court Judge

\$4.8 million has been allocated over the next four years for an additional District Court Judge, commencing in 2006-07 to arrest the growth in case backlogs and reduce delay to trial times in the District Court. Delays in hearing criminal proceedings are currently 64 weeks. The criminal backlog in 2004-05 was reduced from 628 cases down to 490 cases with the average trial delay shortened to 64 weeks from 71 weeks. This was only possible due to the Government temporarily appointing the equivalent of three additional judicial resources during February to June 2005, however this benefit no longer exists. It is intended that the gains made will be sustained with the additional resource.

Aboriginal Justice Agreement

Additional funding of \$10.8 million has been provided over the next four years to address the Western Australian Aboriginal Justice Agreement 2004, which was established in response to a Cabinet directive to the Department of Justice and the Department of Indigenous Affairs to develop a replacement structure for the Aboriginal Justice Council. The agreement which was formally signed in March 2004 by State Ministers and other parties, will enable localised planning frameworks to be established with regional and local reference groups addressing justice needs identified at the community level.

Aboriginal Court Pilot

\$1.6 million has been provided over the next four years for an Aboriginal Court Pilot, in order to address the continuing increase in the rate of Aboriginal imprisonment in Western Australia. Initiatives previously aimed at reducing the rate and cost of imprisonment have been successful in respect to non-Aboriginal and Torres Strait Islander (ATSI) but have had little or no effect in respect to ATSI people.

In an Aboriginal Court the legal process will be specifically adapted to be more culturally aware and less alienating to Aboriginal defendants as a result of support provided to the Magistrate by Aboriginal elders and an Aboriginal Court Support Officer.

Therefore, the Magistrate will be better equipped with greater information during sentencing to address the underlying issues behind the offending behaviour, which may help break the ongoing cycle of recidivism. The greater involvement by the Aboriginal community in the sentencing process also promotes the sense of Aboriginal ownership of the justice process, and may result in higher attendance rates and fewer breaches of bail by Aboriginal defendants.

Indigenous Court Liaison Officers

Funding of \$1.5 million to recruit and develop Indigenous Court Liaison Officers has been provided over the next four years, with the aim of overcoming cultural barriers impacting on Aboriginal court users accessing appropriate court services within all courts.

Prisoner Review Board

Funding of approximately \$1.6 million per annum is provided for a revised Prisoner Review Board model that replaces the Parole Board. It will enable improved handling of victims' issues, increased accountability and better communication with the public. The Board's focus however, will clearly remain on community safety as being the primary determining factor in any decisions that are made.

Public Advocate Services

An allocation of \$1.8 million funding over the forward estimates provides critical statutory guardianship and investigation services to protect adults with decision-making disabilities as well as providing a focus on Regional and Aboriginal communities.

Demand for both guardianship and investigation services continue to rise. Western Australia has an ageing population, the elderly are vulnerable to exploitation and abuse with many suffering from dementia and problems in decision-making. Western Australia has the third fastest growth rate in dementia within Australia and dementia cases now dominate the total number of investigations and new guardianship appointments. According to Access Economics, the number of people with dementia is expected to double in the next 10 years. Consistent with the Gordon Inquiry, the funding also provides for improved responsiveness and strategies to deal with family violence and support for people in Aboriginal communities. It also addresses the issue of providing equitable service levels throughout the State.

Road Safety Initiatives

Funding has been allocated to assist with the implementation of road safety initiatives, which are subject to final endorsement by Cabinet.

Departmental Split

On 21 November 2005 Cabinet decided to separate the Department of Justice into the Department of the Attorney General and the Department of Corrective Services in accordance with recommendation 73 of the Mahoney Inquiry. The split occurred as at 1 February 2006 and funding of \$12.5 million over the period 2005-06 to 2009-10 has been provided to ensure appropriate corporate service levels exist within both departments.

Workforce Planning

Additional resources of \$1.0 million have been allocated over the next four years to provide the Department with the capacity to deliver on essential human resource activities, which were highlighted as requiring attention as the result of the Mahoney Inquiry observations. The particular needs are in respect to the provision of workforce and succession planning, establishing an occupational health and safety framework and implementing an appropriate performance management system.

Legal Representation Services

This initiative at a cost of \$7.6 million over the forward estimates will enable the provision of legal representation to be provided to a further 1,100 persons on serious charges in the Courts, particularly in the Magistrates Courts throughout Western Australia. Included in this funding is a provision to enable the Legal Aid Commission to deal with the increase in work pressures also flowing from the appointment of an additional District Court Judge.

New Expenditure Initiatives – Capital

Prisoner Review Board

Additional accommodation and refurbishment funding totalling \$2.5 million has been provided to complement the increased staffing levels being supported as part of the establishment of the Prisoner Review Board.

CBD Courts Construction and Central Law Courts Refurbishment

Additional funding of \$6.1 million is required to address technology interface and network infrastructure issues associated with the new facility in order to enable the Western Liberty Group consortium to deliver upon their integration obligations as stated within the Public Private Partnership arrangements. It is designed to ensure that service level targets can be achieved and the State is able to meet its contractual obligations.

Kalgoorlie Courthouse

The current Kalgoorlie Courthouse, which is 32 years old requires a major upgrade. As such the Government, as part of the 2002-03 budget process, allocated funding of \$8.5 million within the Capital Works Program in order to undertake major refurbishment works on the existing court building. Since then a revised proposal seeking additional funds to undertake major additions to the former turn of the century Wardens Court, located across the road from the existing Courthouse, has been approved to enable a total of four additional courtrooms (with provision to expand to five when required) to be established in order to meet identified demand.

Harvey Courthouse

The Western Australia Police Service will commence a project to replace the Harvey Police Station. The Department has received funding of \$400,000 to ensure that the court needs of this proposal are addressed.

Office of the Director of Public Prosecutions

New Expenditure Initiatives – Recurrent

Additional Resources

The Office of the Director of Public Prosecutions will spend an additional \$29.4 million over the next four years to facilitate the implementation of the 'resource model' for prosecution services and reforms to corporate governance. The majority of the increase will accommodate the employment of 42 additional prosecutors and the introduction of paralegals throughout the Office.

Relocation to International House

The Office of the Director of Public Prosecutions will be relocating in 2006-07 closer to the Central Law Courts and the new District Courthouse. This will reduce prosecutors' travelling time to the Courts and improve convenience for witnesses and victims.

New Expenditure Initiatives – Capital

Accommodation Costs

Additional expenditure will be incurred due to the office space requirements to accommodate additional prosecutors and paralegals.

Relocation to International House

The relocation of the Office of the Director of Public Prosecutions will incur costs associated with vacating the existing premises at Westralia Square and fitting out the new office space. Funding of \$3.4 million in 2006-07 has been provided for this purpose.

Health

New Expenditure Initiatives – Recurrent

COAG Health Reform Initiatives

The Council of Australian Governments (COAG) announced a suite of health reform initiatives on 10 February 2006. Funding of \$38.7 million over four years has been committed as the State's contribution to the COAG health reform initiatives. These include:

- \$25.0 million to expand the current State health promotion programs to prevent chronic disease, and to motivate and support healthy lifestyle and behaviour change;
- \$7.7 million for the development of the National E-Health Records System which will provide a centralised health record system designed to be accessible to all participating consumers, health care providers and health care organisations; and
- \$6.0 million for Clever Networks – Telehealth for the development of infrastructure to support and expand Telehealth services across the State.

Continence Management

The Government has committed funding of \$10.7 million over four years for the establishment of a community based continence advisory service to be jointly managed by the Department of Health and Disability Services Commission. As part of this service, the Disability Services Commission will provide subsidies to seniors and adults who are currently ineligible for a continence management product subsidy under other schemes. An additional \$7.4 million over four years has also been provided to the Department of Health, to establish a state-wide continence support service responsible for conducting assessments, liaising with clinical specialists and for the provision of state-wide continence advice and counselling services.

Derby Aged Care

Funding of \$5.7 million has been converted from the existing capital provision for one-off capital grants for aged care facilities in Derby. The one-off operating grant will be used to redevelop the existing low care facilities in Derby, operated by a number of non-government organisations, to accommodate high care aged residents.

Disaster Response – Counter Terrorism

The Government has provided an additional \$2.2 million per annum to improve the Department of Health's disaster response capabilities, with the enhancement of radio networks and equipment stockpiles, the establishment of a dedicated disaster medical assistance team and the development of standardised plans to enable hospitals to respond to chemical, biological or radiological events.

Mental Health Strategy - Ongoing Funding

In September 2004, the Government announced additional funding of \$82.0 million over a three year period towards the implementation of the Mental Health Strategy. Specific initiatives included:

- the expansion of state-wide mental health emergency services;
- increased access to adult inpatient beds;
- increased access to community mental health services and alternatives to acute admissions; and
- workforce safety initiatives.

The Government has allocated additional funding of \$98.8 million over four years, commencing in 2006-07, for the continuation of the Mental Health Strategy including ongoing increased access to adult inpatient beds.

Road Safety Initiatives

The Government has allocated funding of \$1.0 million each year to assist with road safety initiatives, which are under consideration by Cabinet.

New Expenditure Initiatives – Health Facilities

The planned restructure of the State's health facilities is an integral part of the reforms to ensure the system can respond to the growing demands of an ageing population in a financially sustainable way.

Metropolitan and Country Health Facilities

In September 2005 the Government committed funding of over \$1.0 billion to significantly boost the Department of Health's capital works program over a 13 year period, including an additional \$843.2 million for 16 metropolitan public hospitals and \$171.1 million for country hospitals and health facilities. The spending increase provides for interim costs enabling essential works to be continued in hospitals until they are redeveloped or replaced, cost escalation and various scope changes and new projects.

The 2006-07 capital works program will see the continuation of the health reform program to deliver 2,045 beds in total by 2010-11 at metropolitan general hospitals and 2,477 beds in total by 2010-11 at tertiary hospitals, the redevelopment of Regional Resource Centres in rural areas and the development of new and enhancement of existing mental health facilities across the State.

New projects and ongoing works associated with the health reform program and broader health initiatives occurring in 2006-07 are outlined below.

Metropolitan Tertiary Hospitals

- \$19.6 million to commence construction of a new Southern Tertiary Hospital (Fiona Stanley Hospital) in the south metropolitan area at an estimated total cost of \$742.0 million;
- \$15.0 million to commence redevelopment and upgrade of the Central Tertiary Hospital (Sir Charles Gairdner Hospital) with a total project cost of \$536.2 million; and
- \$11.8 million of a \$126.0 million project cost to commence redevelopment of the Joondalup Health Campus to expand the emergency department and provide additional hospital and mental health beds.

Metropolitan General Hospitals

- \$12.0 million to commence construction of a \$92.1 million project to upgrade the status of the Rockingham Kwinana District Hospital to a general hospital;
- \$9.4 million to purchase land and commence development of planning for the new Swan Health Campus with a total cost of \$192.5 million;
- \$2.5 million to expand emergency capacity at Armadale Kelmscott Hospital; and
- \$1.4 million for the completion of a \$1.9 million upgrade of the Swan District Hospital Obstetrics Unit.

Country Health Facilities

- \$19.0 million of a \$44.2 million project to upgrade health facilities in the Kimberley Region, primarily at Fitzroy Crossing, Derby, Halls Creek and Kununurra;
- \$10.0 million to commence the redevelopment of the Broome Health Service into a Regional Resource Centre, with an estimated total cost of \$42.0 million;
- \$6.0 million to commence development of the Hedland Regional Resource Centre with a total project cost of \$90.0 million;
- \$4.9 million to develop the Kununurra Integrated District Health Service at an estimated total cost of a \$6.8 million;
- \$4.0 million to replace the Denmark Multi Purpose Centre at an estimated cost of \$18.0 million;
- \$3.0 million as part of a \$65.0 million replacement of the Busselton Integrated District Health Service;
- \$2.4 million to commence construction of the \$9.0 million Morawa and Perenjori Multi Purpose Centre replacement;

- \$2.0 million as part of a \$4.5 million project to develop the Wyndham Multi Purpose Centre;
- \$1.6 million to commence construction of the \$3.7 million Murray District Health Centre;
- \$1.5 million as part of a \$26.8 million development of the Albany Regional Resource Centre; and
- \$1.2 million to commence a \$7.7 million expansion of Peel Health Campus.

Mental Health Facilities

- \$8.0 million for the completion of projects associated with the Mental Health Strategy to increase the number of inpatient beds at Graylands Hospital to 12 secure treatment and four assessment beds and to 50 beds at other metropolitan locations, increase the number of mental health emergency department beds to 10 and expand/refurbish existing clinics across the state; and
- \$5.1 million of a \$9.0 million project to expand the inpatient mental health unit and construct a new mental health clinic at the South West Health Campus.

Other Projects

- \$31.0 million as part of a \$241.4 million 13 year ongoing program to replace and upgrade hospital equipment;
- \$25.0 million to undertake minor works/upgrades at all health facilities as part of a \$253.4 million 13 year ongoing program;
- \$5.5 million to continue upgrading staff accommodation in country areas, within a \$24.1 million ongoing project; and
- \$4.7 million to purchase linear accelerators for the recently completed State Cancer Centre at the Central Tertiary Hospital (Sir Charles Gairdner Hospital).

Western Australian Electoral Commission

New Expenditure Initiatives – Recurrent

Electoral Boundaries Distribution

\$1.6 million has been allocated for the distribution of electoral boundaries in accordance with the 'One Vote One Value' electoral reform. The review of electoral boundaries will now occur every four years instead of every eight years.

MINISTER FOR HOUSING AND WORKS; CONSUMER PROTECTION; HERITAGE; LAND INFORMATION

EXPENDITURE ON NEW INITIATIVES

Table 7

	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Housing and Works					
- Indigenous Housing and Infrastructure	-	7,000	7,000	7,000	7,000
- Halls Creek Housing – Supported Housing Assistance Program	-	130	134	138	143
TOTAL (RECURRENT)	-	7,130	7,134	7,138	7,143
CAPITAL EXPENDITURE					
Housing and Works					
- Multipurpose Indoor Entertainment and Sports Stadium	3,500	23,000	82,000	76,500	10,000
- Halls Creek Housing	-	1,000	6,000	3,500	1,000
Government Employees Housing Authority					
- Construction and Purchase of Accommodation	-	15,000	20,000	25,000	-
Land Information					
- Land and Property Information Services	-	11,181	-	-	-
TOTAL (CAPITAL)	3,500	50,181	108,000	105,000	11,000

Housing and Works

New Expenditure Initiatives – Recurrent

Indigenous Housing and Infrastructure

Following the signing of *An Agreement for the Provision of Housing, Infrastructure and Essential Services for Indigenous People in Western Australia November 2005 - June 2008* (the Indigenous Housing Agreement) additional funding of \$7.0 million per annum has been provided to meet housing and essential infrastructure requirements in remote Aboriginal communities.

Halls Creek Housing – Supported Housing Assistance Program (SHAP)

Increased funding of \$130,000 per year (escalated over the forward estimates) has been provided to extend the SHAP service in Halls Creek. This service, which is delivered through Anglicare and provides assistance to Homeswest tenants, will ensure that appropriate support is provided to the tenants of the new and refurbished houses being delivered as part of the Government's initiatives announced for Halls Creek.

New Expenditure Initiatives – Capital

Multipurpose Indoor Entertainment and Sports Stadium (MIESS)

On 12 September 2005, Cabinet approved a change in the method of procurement for the MIESS. Previous arrangements were to provide an incentive (by way of a grant) for a private developer to construct and operate a stadium. The Government's decision to directly construct the asset at a current estimated cost of \$195.0 million is now included in the Capital Works Program.

Halls Creek Housing

As part of a package of initiatives announced by the Government to address the issues being faced in Halls Creek, an additional \$11.5 million has been allocated to the State Housing Commission primarily for the construction of 36 new homes and the refurbishment of 20 houses in the town, commencing in 2006-07.

Government Employees Housing Authority

New Expenditure Initiatives – Capital

Construction and Purchase of Accommodation

An additional \$60.0 million will be allocated to fund the construction and purchase of 161 houses for teachers, police officers and other Government employees in towns affected by the State's resources boom and in remote indigenous communities.

Land Information

New Expenditure Initiatives – Capital

Land and Property Information Services

The Department of Land Information will spend \$11.2 million on projects relating to the provision of value-added land and property information services within an e-commerce environment, which includes the completion of the enabling framework of the Shared Land Information Platform.

MINISTER FOR PLANNING AND INFRASTRUCTURE

Table 8

EXPENDITURE ON NEW INITIATIVES

	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Planning and Infrastructure					
- Fair Share for WA Advertising Campaign	500	-	-	-	-
- Eastern Goldfields Railway Project	-	25,100	12,000	-	-
- Daddow Road Project	-	1,500	1,500	7,500	4,000
- Licensing Business Unit	2,026	12,015	3,350	3,550	3,650
- Multi-Purpose Taxi Fuel Subsidy Scheme	579	772	-	-	-
- Multi-Purpose Taxi Licence Plates Buy-Back Scheme	6,200	-	-	-	-
- Ord River Project – Stage 2 (Native Title)	235	565	-	100	-
- Perry Lakes Redevelopment project	550	2,750	4,233	11,077	3,327
- Road Safety Initiatives	-	1,530	896	896	896
- Southwest Plantation Timber Rail and Intermodal Terminal at North Greenbushes	-	5,750	-	-	-
- Strategic Tourism Sites Committee	-	112	116	119	119
Main Roads					
- High- Wide Load Corridor	9,500	3,000	-	-	-
- Heavy Vehicle Operations	-	500	525	550	575
- Planning Study for Great Eastern Highway	100	150	-	-	-
Public Transport Authority					
- Railcar Refurbishment	2,310	1,910	-	-	-
- Regional Bus Services	432	432	432	432	432
- Seatbelts on Designated School Buses	9,271	14,328	20,792	21,019	17,638
Broome Port Authority					
- Jetty Maintenance	600	900	-	-	-
Western Australian Land Authority					
- Albany Waterfront Development	-	1,600	1,700	1,700	-
- Australian Marine Complex – Common User Facility	-	-	6,421	6,421	6,421
- Hope Valley Wattleup Redevelopment Project	-	7,625	5,765	5,785	6,615
- Marine Industry Technology Precinct	4,028	228	228	228	228
- Rockingham Development Office	-	550	550	550	-
Western Australian Planning Commission					
- Strategic Tourism Sites Committee	-	30	31	32	-
TOTAL (RECURRENT)	36,331	81,347	58,539	59,959	44,901
CAPITAL EXPENDITURE					
Planning and Infrastructure					
- Licensing Business Unit	-	1,385	250	250	250
- Perry Lakes Redevelopment project	3,791	26,525	37,896	5,600	5,796
Main Roads					
- Gubinge Road – Broome Bypass	3,500	3,000	-	-	-
Public Transport Authority					
- New MetroRail	-	1,242,984	(35,651)	(35,651)	(35,651)
- Seatbelts on Designated School Buses	4,000	-	-	-	-
Armadale Redevelopment Authority					
- Champion Lakes – Land Development	4,230	13,286	744	3,540	-
- Champion Lakes – Safety and Access	-	1,800	-	-	-
- Kelmscott District Centre Works	-	1,500	-	-	-

Table 8

EXPENDITURE ON NEW INITIATIVES

	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
Midland Redevelopment Authority					
- Heritage Conservation and Contamination Remediation	-	10,043	3,916	-	-
Broome Port Authority					
- Fender and Deck Upgrade	500	200	-	-	-
Geraldton Port Authority					
- Berth 5 upgrade	10,500	24,500	-	-	-
Western Australian Land Authority					
- Australian Marine Complex – Common User Facility	20,000	50,200	19,900	-	-
- Gracetown Land Purchase and Development	-	8,000	-	-	-
- Townsite Development Program	-	11,000	8,000	14,000	2,000
TOTAL (CAPITAL)	51,521	1,396,423	49,055	(10,261)	(25,605)

Planning and Infrastructure

New Expenditure Initiatives – Recurrent

Fair Share for WA Advertising Campaign

Additional expenditure has been incurred in 2005-06 for an advertising campaign to highlight the level of funding provided to Western Australia under the Federal Government's Auslink program, primarily for roads.

Eastern Goldfields Railway Project

This project will increase the capacity of the interstate line by extending eight passing loops and re-sleepering 76 kilometres.

Daddow Road Project

Improve rail and road access and safety to the Kewdale and Forrestfield areas.

Licensing Business Unit

The Government has provided \$8.6 million in 2006-07 to the Licensing Business Unit to assist in implementing the necessary business processes to improve licensing service delivery and develop a strategic plan and implementation framework to deliver licensing services in the future.

Multi-Purpose Taxi Fuel Subsidy

To further improve the viability of the Multi-Purpose Taxi (MPT) industry the Government has introduced a \$5.00 fuel subsidy/lifting fee payable to the MPT operators for each wheelchair job undertaken under the Taxi Users Subsidy Scheme, in recognition of higher diesel fuel costs incurred.

Multi-Purpose Taxi Licence Plates Buy-Back Scheme

An amount of \$6.2 million has been provided to buy-back existing multi-purpose taxi licence plates and release new leased licence plates in order to improve the viability of the Multi-Purpose Taxi industry and services provided to people with disabilities.

Ord River Project – Stage 2 (Native Title)

The Ord Final Agreement provides a package of benefits for the Miriwung and Gajerrong people, in consideration and compensation for the acquisition, extinguishment and impairment of native title in the area of the proposed Ord River Project – Stage 2 development, and the release of the State's liability arising under the Commonwealth's *Native Title Act 1993*. The allocation of \$565,000 in 2006-07 and \$100,000 in 2008-09 provides for the cost of the implementation team and freeholding of a project buffer and conservation areas.

Perry Lakes Redevelopment Project

To enable the provision of new regional level rugby and basketball facilities and a State level athletics facility, the Government will proceed with the redevelopment of Perry Lakes. The expenditure provides for the costs associated with the land development and maintaining the new sporting facilities. These costs will be recouped from the Perry Lakes Trust Fund once the Perry Lakes land is developed and sold.

Road Safety Initiatives

Funding has been provided to implement initiatives to improve the safety on our roads in cooperation with the Office of Road Safety.

Southwest Plantation Timber Rail and Intermodal Terminal at North Greenbushes

In December 2004 the Government provided \$10.9 million to facilitate the construction of an intermodal terminal facility at North Greenbushes, rail infrastructure enhancements and a revitalised rail service to support the plantation industry. A further \$5.8 million has been provided to meet the rising cost of labour and materials mainly due to the State's economic boom in the construction industry, particularly in the Southwest.

Strategic Tourism Sites Committee

Funding of approximately \$100,000 per annum has been provided to provide secretarial support to the Strategic Tourism Sites Committee.

New Expenditure Initiatives – Capital

Licensing Business Unit

The Government has provided \$1.4 million in 2006-07 to implement infrastructure to improve licensing service delivery.

Perry Lakes Redevelopment Project

Once new sporting facilities at Perry Lakes are completed, the existing infrastructure will be demolished, and the land redeveloped for residential housing. Residual funds from the development will be returned to the Town of Cambridge.

Main Roads

New Expenditure Initiatives – Recurrent

High-Wide Load Corridor

To assist local industry, \$12.5 million has been provided for the High-Wide Load Corridor between Kwinana and Kewdale/Welshpool.

Heavy Vehicle Operations

As a result of amendments to the *Road Traffic Act* to incorporate the provisions of the National Transport Reform (Compliance and Enforcement) Bill additional funding of about \$500,000 per year has been provided to enable Main Roads to meet the requirements of the Act and carry out random audits under the Western Australian Heavy Vehicle Accreditation Scheme.

Planning Study for Great Eastern Highway

Additional funding totalling \$250,000 has been provided for planning and project development work on upgrading the Great Eastern Highway between Kooyong Road and the Great Eastern Highway Bypass in Redcliffe.

New Expenditure Initiatives – Capital

Gubinge Road – Broome Bypass

To resolve a number of safety and traffic congestion issues and accommodate the future growth of Broome, additional funding totalling \$6.5 million has been allocated for the extension of Gubinge Road as the bypass road connecting Broome Highway with Port Drive.

Public Transport Authority

New Expenditure Initiatives – Recurrent

Railcar Refurbishment

The early delivery of railcars for the Perth-Mandurah railway line has created the opportunity to undertake additional maintenance and refurbishment of existing railcars, without any disruption to services, requiring additional funding of \$2.3 million in 2005-06 and \$1.9 million in 2006-07.

Regional Bus Services

Additional funding of \$0.4 million per annum has been approved for the continuation of bus services trailed in regional areas during 2005-06, including additional services in Port Hedland, a service to link the communities of Wickham, Roebourne, Karratha and Dampier, and services in the Murray Region linking Waroona, North Pinjarra and Mandurah.

Seatbelts on Designated School Buses

Additional expenditure of \$83.1 million between 2005-06 and 2009-10 is associated with the Government commitment for the installation of seatbelts on the Government 'Orange' School Bus Fleet.

New Expenditure Initiatives – Capital

New MetroRail Project

The strong financial outturn for 2005-06 has provided Government with the opportunity to repay the borrowings associated with the New MetroRail Project (NMR), and to fully appropriate the remainder of the funding required for the project. Equity of \$1.2 billion is provided for in 2006-07 to meet the repayment of NMR debt held at 30 June 2006, and to meet the cost of capital works expenditure planned for 2006-07. The early repayment of this debt will reduce the capital repayments of the Public Transport Authority by \$35.6 million from 2007-08.

Seatbelts on Designated School Buses

An amount of \$4.0 million in capital funding has been provided in 2005-06 to allow for the purchase of a number of school buses to enable the efficient retro-fitting of seatbelts on designated government school buses without disruption to services.

Armadaale Redevelopment Authority

New Expenditure Initiatives – Capital

Champion Lakes - Land Development

\$21.8 million over the forward estimates has been committed to land acquisition and development at Champion Lakes, with \$15.0 million funded through land sales, and the remaining \$6.8 million in the form of an equity contribution from Government.

Champion Lakes – Safety and access

\$1.8 million has been provided to the Authority in 2006-07 for safety and access works for the Champion Lakes project, with the amount of final expenditure to be determined by a safety assessment.

Kelmscott District Centre Works

An additional \$1.5 million has been allocated in 2006-07 for new road linkages and the upgrade of civic facilities in the Kelmscott District Centre.

Midland Redevelopment Authority

New Expenditure Initiatives – Capital

Midland Railways Workshop Site –Contamination Remediation

The Midland Redevelopment Authority will spend \$10.0 million in 2006-07 of a total of around \$14.0 million towards remediation of contaminated soils. This expenditure will enable the adaptive re-use of the iconic heritage structures for potential commercial and community purposes that will be available for the benefit of Midland and the broader community.

Broome Port Authority

New Expenditure Initiatives – Recurrent

Fender and Deck Upgrade

To meet safety concerns, an administered appropriation of \$1.5 million over two years has been provided for expenditure on maintenance and upgrade of the Broome jetty.

New Expenditure Initiatives – Capital

Fender and Deck Upgrade

To extend the life and maintain service levels, an administered capital contribution of \$700,000 over two years has been provided to upgrade the inner berth fender system and replace old deck areas on the jetty.

Geraldton Port Authority

New Expenditure Initiatives – Capital

Berth 5 Upgrade

The Geraldton Port Authority will borrow an additional \$35.0 million over 2005-06 and 2006-07 to fund the modification of berth 5 into a specific iron ore berth, in order to service the growing iron ore industry in the Mid-West.

Western Australian Land Authority

New Expenditure Initiatives – Recurrent

Albany Waterfront Development

Additional funding of \$5.0 million between 2006-07 and 2008-09 has been approved for the Albany Waterfront Development project. This project, with a revised scope and cost of \$27.8 million, is a joint initiative of the Western Australian Land Authority and the Department for Planning and Infrastructure and is being undertaken in partnership with the Great Southern Development Commission.

Australian Marine Complex - Common User Facility

Community Service Obligation payments of \$6.4 million from 2007-08 will be made to support the further development at the Australian Marine Complex. This development will expand the capacity of the State to meet naval and marine repair, maintenance and construction requirements.

Hope Valley Wattleup Redevelopment Project

An additional Community Service Obligation will be made from 2006-07 to meet costs associated with the acquisition and development of land in the Hope Valley and Wattleup areas for the development of a mixed commercial and industrial precinct.

Marine Industry Technology Precinct

Additional funding has been provided for the development of serviced sites for the Departments of Education and Training, and Industry and Resources at the Marine Industry Technology Precinct in Henderson.

Rockingham Development Office

The extension of the Rockingham Development Office until June 2009 will support the ongoing development of the Rockingham area.

New Expenditure Initiatives – Capital

Australian Marine Complex - Common User Facility

The Government will fund the installation of additional common user infrastructure at the Australian Marine Complex in Henderson, including a floating dock, a rail transfer system and an extension and upgrade of the existing wharves to expand Western Australia's capacity to meet marine repair, maintenance and construction requirements, and to further advance the State's capacity to undertake major defence and naval contracts over the next 25 years.

Gracetown Land Purchase and Development

An amount of \$8.0 million will be spent in 2006-07 on the purchase of land for a limited tourist and residential development in the Gracetown area. A portion of the proceeds from subsequent land sales will be used to improve essential services in the area.

Townsite Development Program

Approval was provided to expand the acquisition, development and release of Crown land for residential and commercial needs in regional Western Australia. The net debt impact of this additional expenditure will not exceed \$20.0 million in any one year, as land sale proceeds are reinvested back into regional land development.

Western Australian Planning Commission

New Expenditure Initiatives – Recurrent

Strategic Tourism Sites Committee

The Western Australian Planning Commission will receive recurrent appropriation totalling \$93,000 over three years to facilitate the Strategic Tourism Sites Committee.

MINISTER FOR INDIGENOUS AFFAIRS; TOURISM; CULTURE AND THE ARTS

Table 9

EXPENDITURE ON NEW INITIATIVES

	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Indigenous Affairs					
- Provision for Indigenous Initiatives	-	3,382	3,453	3,246	3,311
- Management of Dampier Archipelago	242	642	312	477	312
- Reform of the Project Approvals Systems	454	812	454	303	303
Western Australian Tourism Commission					
- Red Bull Air Race	300	2,800	-	-	-
- Australian Tourism Exchange 2008	-	500	2,000	-	-
- Continuation of the Marketing Momentum	-	5,000	5,000	-	-
- e-Marketplace Initiative	-	1,022	1,704	2,009	1,715
- Aboriginal Tourism Strategy	-	220	220	220	220
Culture and the Arts					
- West Australian Ballet Tour to China	80	-	-	-	-
- Western Australian Symphony Orchestra Tour to China	500	-	-	-	-
- Western Australian Symphony Orchestra Funding	-	163	129	149	-
- Western Australian Museum - Additional Funding	973	2,000	2,000	-	-
- Maritime Museum – Welcome Wall Stage 2	-	150	-	-	-
- Swan Bells Additional Funding	265	-	-	-	-
- Swan Bells Airconditioning	-	211	-	-	-
- Designer Fashion Grants Program	-	350	350	-	-
TOTAL (RECURRENT)	2,814	17,252	15,622	6,404	5,861
CAPITAL EXPENDITURE					
Indigenous Affairs					
- Aboriginal Lands Trust Estate Management	-	500	-	-	-
Western Australian Tourism Commission					
- e-Marketplace Initiative	-	1,423	1,222	787	272
- Donnelly River Remediation	-	650	-	-	-
Culture and the Arts					
- New Performing Arts Theatre - Additional Funding	-	3,827	18,046	2,066	-
- Art Gallery – Upgrade of Early Warning Indicator and Fire Detection System	-	750	-	-	-
TOTAL (CAPITAL)	-	7,150	19,268	2,853	272

Indigenous Affairs

New Expenditure Initiatives – Recurrent

Provision for Indigenous Initiatives

As part of the 2006-07 Budget, indigenous initiatives were considered via a cross-government multilateral process. The adoption of a multilateral approach is considered an important step towards implementing a whole-of-government approach to service planning and budgeting for indigenous issues over the medium term, with the aim of improving indigenous outcomes.

Out of this process, additional funding of \$48.0 million over four years was allocated to specific indigenous programs, including housing and works issues. This funding has been allocated to the following programs:

- remote area essential services program (\$24.0 million over four years to the Department of Housing and Works);
- Aboriginal communities swimming pools maintenance and management program (\$4.0 million over four years to the Department of Housing and Works);
- Wiluna development project (\$1.9 million over four years to the Department of Local Government and Regional Development);
- Indigenous landholder service (\$2.2 million over four years to the Department of Agriculture);
- Aboriginal tourism strategy (\$880,000 over four years to Tourism Western Australia); and
- Aboriginal court pilot (\$1.6 million over four years to the Department of the Attorney General).

The remaining balance of \$13.4 million over four years has been quarantined within the Department of Indigenous Affairs' budget, and will be utilised for priority initiatives to be determined upon the finalisation of a State Indigenous Strategy and the functional review of the Department.

Management of Dampier Archipelago

Over the period 2005-06 to 2009-10, \$2.0 million will be spent by the Department on its part of the Government's plan to develop a management strategy for the Dampier Archipelago, undertake research and archaeological surveys of non-industrial land in the State's North West and establish an ongoing departmental presence in the area.

Reform of the Project Approvals System

Amounts of \$812,000 in 2006-07 (\$1.9 million over four years) will be applied to streamline approval processes and reduce approval timelines for resource projects.

New Expenditure Initiatives – Capital

Aboriginal Lands Trust Estate Management

Additional funding of \$500,000 in 2006-07 has been allocated to undertake highest priority remedial works on the Aboriginal Lands Trust Estate, with the aim of providing a safer environment for indigenous communities on the estate, as well as transferring properties to meet the Government's commitment under the Indigenous Land Partnership Program.

Western Australian Tourism Commission

New Expenditure Initiatives – Recurrent

Red Bull Air Race

An additional \$3.1 million has been provided to enable EventsCorp to secure the Red Bull Air Race World Series. The event will be held in Perth in November of 2006, 2007 and 2008 and involves single engine aircraft racing against time through an aerial obstacle course. The race will be the centrepiece of a citywide festival of aviation. Funding of the event in 2007 and 2008 is to be met from the reinstatement of funds previously allocated to Rally Australia.

Australian Tourism Exchange 2008

The State Government has contributed \$2.5 million to secure the 2008 Australian Tourism Exchange for Western Australia. The exchange is the largest and most important tourism trade show in Australia and attracts tourism buyers and journalists from all over the world. Hosting the event provides a unique opportunity to raise the profile of the State as a premier tourism destination.

Continuation of the Marketing Momentum

In 2005-06 an additional \$6.0 million was provided for media activities in core markets including the United Kingdom, New Zealand and Japan. In order to continue this expanded brand and trade marketing program a further \$10.0 million has been provided over 2006-07 and 2007-08. The funds will maintain Western Australia's marketing presence in these countries and link with strategies to achieve or expand direct flights to Perth, particularly from China, Japan and Korea.

e-Marketplace

Funding of \$6.5 million has been provided to meet ongoing support costs associated with the implementation of the e-Marketplace initiative. The objective of the initiative is to strengthen the position of Western Australia as a tourism destination by:

- providing an integrated network of websites for the dissemination of marketing and product information on the Internet;

- assisting the tourism industry by providing common online infrastructure for a real time reservation and payment system; and
- improving the level of consumer intelligence for Tourism WA, regional tourism organisations, visitor centres and industry through the use of Internet based Customer Relationship Management tools.

Aboriginal Tourism Strategy

An additional \$220,000 per annum for the next four years has been provided to implement the Aboriginal Tourism Strategy. The strategy seeks to assist Aboriginal people to participate effectively in the tourism industry through:

- training;
- developing partnerships with other tourism operators;
- linking investors with aspiring business operators; and
- promoting best practice models for presenting Aboriginal culture as a tourism product.

New Expenditure Initiatives – Capital

e-Marketplace

Additional funding of \$3.7 million has been allocated to meet the capital costs associated with the implementation of the e-Marketplace initiative. The objective of the initiative is to strengthen the position of Western Australia as a tourism destination.

Donnelly River Mill Remediation

An amount of \$650,000 has been provided to complete works to address the structural stability of the site and to complete asbestos removal pending a final decision regarding the future use of the site.

Culture and the Arts

New Expenditure Initiatives – Recurrent

West Australian Ballet Tour to China

The Government has provided \$80,000 in 2005-06 to assist the West Australian Ballet in its tour to China.

Western Australian Symphony Orchestra Tour to China

The Government has provided \$500,000 in 2005-06 to assist the Western Australian Symphony Orchestra in its tour to China.

Western Australian Symphony Orchestra Funding

The Government has provided total additional funding of \$441,000 for the three year period 2006-07 to 2008-09, to assist the Western Australian Symphony Orchestra to support specific strategies recommended by the National Orchestra Review in 2005. The Australian Government will co-fund this initiative with an additional funding of \$2.3 million.

Western Australian Museum - Additional Funding

Additional funding of \$973,000 in 2005-06 and \$2.0 million in 2006-07 and 2007-08 has been approved to support the additional operating costs of the museums at Geraldton, Fremantle Maritime and Kew Street, including the valuation and insurance of the Museum's collection.

Maritime Museum - Welcome Wall Stage 2

Funding of \$150,000 has been approved in 2005-06 for costs associated with the second stage of the Maritime Museum's Welcome Wall.

Swan Bells Additional Funding

Supplementary funding of \$265,000 has been approved in 2005-06 to cover the operating deficit of the Swan Bells Foundation.

Swan Bells Airconditioning

Funding of \$211,000 has been provided in 2006-07 to upgrade the Swan Bells' existing cooling system.

Designer Fashion Grants Program

The Government has provided a further \$350,000 per annum in 2006-07 and 2007-08 as a continuation of the program it commenced in 2004, to further assist in creating a competitive and economically sustainable designer fashion sector.

New Expenditure Initiatives – Capital

New Performing Arts Theatre - Additional Funding

The Government has provided total additional funding of \$23.9 million over the three year period 2006-07 to 2008-09, for the new theatre which was originally approved at a cost of \$42.3 million. This revised allocation of \$66.2 million will allow for the construction of a theatre in accordance with the winning design in a recent design competition.

Art Gallery - Upgrade of Early Warning Indicator and Fire Detection System

Funding of \$750,000 has been approved in 2006-07 to provide for a new fire and emergency warning system at the Art Gallery of Western Australia.

MINISTER FOR THE ENVIRONMENT; RACING AND GAMING

Table 10

EXPENDITURE ON NEW INITIATIVES					
	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Conservation and Land Management					
- Biodiversity Conservation	-	8,250	4,500	750	750
Botanic Gardens and Parks Authority					
- World Class Parks and Biodiversity Conservation	-	859	844	480	525
- Core Service Delivery Funding	-	1,845	2,047	2,091	2,453
Environment					
- Native Vegetation and Biodiversity Protection	-	1,898	1,948	-	-
- Hazardous Waste Precinct Development Process	-	1,006	1,391	339	339
- Air Quality Management Strategies	-	901	851	-	-
- Baigup Reserve Action Plan	-	500	400	-	-
- Greenhouse Strategy	125	500	500	500	500
Swan River Trust					
- Maintaining Critical River Oxygen Levels	-	667	1,657	1,160	1,015
- Drainage Nutrient Intervention - Ellenbrook	-	300	300	416	421
TOTAL (RECURRENT)	125	16,726	14,438	5,736	6,003
CAPITAL EXPENDITURE					
Botanic Gardens and Parks Authority					
- Revised Capital Program	-	2,664	4,604	5,364	4,365
TOTAL (CAPITAL)	-	2,664	4,604	5,364	4,365

Conservation and Land Management

New Expenditure Initiatives – Recurrent

Biodiversity Conservation

Funding totalling \$14.3 million has been provided over four years for a range of activities aimed at halting the decline in Western Australia's biodiversity due to habitat loss, feral animals, pests, weeds, dieback and salinity as well as continuing with the existing Cane Toad Management Initiative in the Kimberley area.

Botanic Gardens and Parks Authority

New Expenditure Initiatives – Recurrent

World Class Parks and Biodiversity Conservation

Funding of \$2.7 million has been allocated across the forward estimates to implement the World Class Parks and Biodiversity Conservation initiative. The initiative will allow for improvements to visitor services at Kings Park and assist to maintain pro-active management of public risk issues, which is a strategic priority for all botanic gardens across Australia. Additionally, this funding will assist additional research into seed conservation and physiology in order to build on previous scientific discoveries.

Core Service Delivery Funding

\$8.4 million has been allocated across the forward estimates to ensure appropriate funding levels to deliver essential operations and services. This will ensure appropriate asset management, maintain the quality of services to the public, and contribute to Kings Park remaining a premier tourist destination.

Environment

New Expenditure Initiatives – Recurrent

Native Vegetation and Biodiversity Protection

A total of \$3.8 million over two years has been provided to continue with the implementation of the native vegetation clearing provisions that were legislated in the *Environmental Protection Amendment Act 2003*.

Hazardous Waste Precinct Development Process

Additional funding of \$3.1 million over four years has been provided to continue with the Core Consultative Committee on Waste consultation process to establish new and better hazardous waste treatment facilities.

Air Quality Management Strategies

A total of \$1.8 million over two years has been provided to develop air quality strategies for Wagerup and Midland to facilitate economic development whilst protecting public health and the environment. The activities include emissions inventories, cumulative impact modelling, policy development, health risk assessment and compliance monitoring.

Baigup Reserve Action Plan

Funding of \$500,000 in 2006-07 and \$400,000 in 2007-08 has been provided to contain the acid sulphate soil drainage discharge from Baigup Reserve to the Swan River Estuary. This will enhance the ecological health of the river system and reduce the severity and frequency of fish kills, preserving biodiversity and habitats.

Greenhouse Strategy

Additional funding of \$125,000 in 2005-06 and \$500,000 per annum from 2006-07 has been provided for the whole-of-government coordination for Greenhouse issues, including the modelling work on the inter-jurisdictional emissions trading.

Swan River Trust

New Expenditure Initiatives – Recurrent

Maintaining Critical Oxygen Levels

A total of \$4.5 million over the forward estimates has been provided to continue the oxygenation of the Canning River and to investigate the feasibility of oxygenating the Swan River. This initiative aims to prevent fish deaths from low oxygen levels.

Drainage Nutrient Intervention - Ellenbrook

Funding of \$1.4 million has been provided over the forward estimates to implement the Drainage Nutrient Intervention Program in Ellenbrook. This initiative involves reducing the level of phosphorus entering the Swan River from the Ellenbrook tributary to mitigate the risk of algal blooms and fish kills.

MINISTER FOR ENERGY; SCIENCE AND INNOVATION

Table 11

EXPENDITURE ON NEW INITIATIVES

	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Office of Energy - Controlled					
- Renewable Energy Production Subsidy	3,000	2,000	1,000	-	-
- Underground Power	-	2,500	-	-	-
Office of Energy - Administered					
- Independent Market Operator	668	-	-	-	-
- Gas Disputes Arbitrator and Gas Review Board	1,104	-	-	-	-
TOTAL (RECURRENT)	4,772	4,500	1,000	-	-
CAPITAL EXPENDITURE					
Horizon Power					
- Broome Growth	-	100	1,000	4,500	-
- Esperance Safety	-	900	3,300	3,300	3,300
- Esperance Improved Interconnection	-	1,500	-	-	-
- Aboriginal and Remote Communities – Improvement	-	3,600	-	-	-
Verve Energy					
- Coral Bay Sustainable Energy	-	7,038	-	-	-
- Hopetoun Sustainable Energy	-	2,100	-	-	-
Western Power (Networks)					
- Southern Terminal	-	10,400	15,100	4,600	-
- Alinta 3 and 4 System Upgrades	-	12,200	-	-	-
- Boddington Transmission Line	-	3,550	17,750	49,700	-
- Rural Power Improvement Program	-	-	-	12,000	-
- Shared Services	-	1,600	2,400	2,000	-
TOTAL (CAPITAL)	-	42,988	39,550	76,100	3,300

Office of Energy - Controlled

New Expenditure Initiatives – Recurrent

Renewable Energy Production Subsidy

The Government has committed \$6.0 million from 2005-06 to 2007-08 to provide subsidies for renewable energy producers.

Underground Power

An additional \$5.0 million has been provided to supplement the ongoing Underground Power Project. The program contributes to the Government's long term goal of improving the reliability of the electricity network. All the underground power projects are jointly funded by the State Government (Office of Energy 25 per cent and Western Power 25 per cent) and the participating local government (50 per cent).

Office of Energy - Administered

New Expenditure Initiatives – Recurrent

Independent Market Operator

Additional funding has been provided in 2005-06 to meet additional costs associated with the establishment of the function. Following commencement of the wholesale electricity market in 2006-07, the agency will be funded by fees charged to market participants.

Gas Disputes Arbitrator and Gas Review Board

Additional funding has been provided to repay the outstanding Treasurer's Advance debt and to meet operating budget shortfalls to cover the costs of maintaining a state of readiness for the Arbitrator in relation to the electricity market.

Horizon Power

New Expenditure Initiatives – Capital

Broome Growth

The increase in population and land release in Broome and the surrounding satellite locations requires the acquisition of land, and construction of new switch rooms, substations and feeders to improve supply to the area, increase capacity and reduce demand on the Broome Road Feeder. The Government has approved \$5.6 million of additional capital expenditure over four years to service this growth.

Esperance Safety

\$10.8 million of additional capital expenditure has been approved to address safety issues in Esperance. The Tenterden Coronial Inquiry raised a number of recommendations relevant to the Esperance District related to safety and fire risk issues. These recommendations have been reinforced by other investigations, plans and inspections.

Esperance Improved Interconnection

The Government has approved \$1.5 million for additional feeders and substations to improve the coordination with the Independent generator in Esperance. These changes to network design will reduce to the risk of total system outages and the number of faults to both the power station and customers.

Aboriginal and Remote Communities - Improvement

The Government has initiated a process of 'regularisation' of power supplies to five permanent Aboriginal communities principally located in the Kimberley. Horizon Power will become the supply authority and retailer to these communities and will spend \$3.6 million to upgrade the distribution network to the required standard.

Verve Energy

New Expenditure Initiatives – Capital

Coral Bay Sustainable Energy

The Government has approved \$7.0 million of additional capital expenditure for sustainable energy in Coral Bay. Customer loads have increased significantly and thus increased generating capacity is required to meet load forecasts. Coral Bay will experience rapid development through the Hilton Hotel, two caravan parks, the Water Corporation's Desalination water supply scheme and increased residential accommodation.

Hopetoun Sustainable Energy

\$2.1 million of capital works has been approved for sustainable energy in Hopetoun. Hopetoun has experienced a rapid expansion of the towns electricity needs due to the influx of workers to support the Ravensthorpe Nickel Project and as a result increased generation capacity is needed to meet load forecasts.

Western Power (Networks)

New Expenditure Initiatives – Capital

Southern Terminal

The Government has approved \$30.1 million, over four years, of additional capital expenditure to be spent on the Southern Terminal network infrastructure as a result of works being triggered by new generators coming on stream in response to the introduction of a competitive market. These generators include Alinta's Wagerup units 1 and 2, Cockburn 3, Bluewaters 1 and Worsley Unit 2.

Alinta 3 and 4 System Upgrade

In addition to the general Southern Terminal works, \$12.2 million is required to cater for the expected system upgrades associated with the Alinta Wagerup connection to the network.

Boddington Transmission Line

The Boddington Gold Mine is proposing to purchase power from the Griffin Energy's Bluewaters Power Station. This would require Western Power (Networks) to upgrade the existing supply line from Collie to Boddington from 132kV to 330kV. The Government has approved a total capital expenditure of \$71.0 million, to meet Boddington Gold Mine's electricity demand requirements.

Rural Power Improvement Program

Established initially for four years, the Government is extending the Rural Power Improvement Program for at least one year to cater for customer-focused projects in rural areas that could not be justified within Western Power (Networks)'s normal investment processes.

Shared Services

The Government has approved \$6.0 million, over four years, of additional Shared Services capital spending needed to supply Western Power (Networks)'s existing and increased services needs. There is now greater clarity around work plans and the additional number of operational and field fleet units required. Fleet Services requires the additional capital to purchase these units and refurbish workshops to cater for the increased fleet.

Bremer Bay and Ravensthorpe Infrastructure

Increased demand in Bremer Bay and Ravensthorpe requires a \$1.1 million augmentation of the existing infrastructure. Customer loads have increased significantly and thus network augmentation is required to meet load forecasts.

MINISTER FOR RESOURCES AND ASSISTING THE MINISTER FOR STATE DEVELOPMENT; EMPLOYMENT PROTECTION; GOLDFIELDS-ESPERANCE AND GREAT SOUTHERN

EXPENDITURE ON NEW INITIATIVES

Table 12

	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Consumer and Employment Protection					
- Additional Labour Relations Negotiators	440	440	440	440	440
- Transport Inspectors Fatigue Management	-	260	260	260	260
- Attraction and Retention Benefit	2,187	2,078	2,140	2,205	2,271
- Trade Union Education Foundation Trust	1,500	-	-	-	-
TOTAL (RECURRENT)	4,127	2,778	2,840	2,905	2,971
CAPITAL EXPENDITURE					
Consumer and Employment Protection					
- Hazardous Materials Management System	-	500	730	120	120
- Safety Regulation	-	300	1,200	1,500	300
TOTAL (CAPITAL)	-	800	1,930	1,620	420

Consumer and Employment Protection

New Expenditure Initiatives – Recurrent

Additional Labour Relations Negotiators

Additional funding of \$2.2 million is provided across the forward estimates to employ additional labour relations negotiators to assist the Department of Consumer and Employment Protection negotiate wage agreements with major public sector occupational groups.

Transport Inspectors Fatigue Management

Additional funding of \$1.0 million is provided across the forward estimates for transport inspectors to continue to manage a heavy vehicle fatigue management enforcement project, which is broadly designed to improve safety within the Western Australian road transport industry.

Attraction and Retention Benefit

Funding of \$10.9 million across the forward estimates has been provided to implement a comprehensive Attraction and Retention Benefit to specialist staff. The resources boom has created a very strong market for staff with specialist engineering and science qualifications who have significant experience related to safety regulation of the resources sector.

\$1.8 million for the Attraction and Retention Benefit has also been allocated over the forward estimates to similarly qualified and experienced staff within the Department of Industry and Resources. The implementation of the benefit intends to both retain specialist staff and attract other qualified personnel to ensure that the State's statutory obligations for health and safety in the resources sector, especially at mine sites, is upheld.

Trade Union Education Foundation Trust

Once-off funding of \$1.5 million is to be provided to the Trade Union Education Foundation Trust for 2005-06. The funding will support an education program aimed primarily at improving employee representation skills and improving the capacity for enterprise bargaining for union representatives.

New Expenditure Initiatives – Capital

Hazardous Materials Management System (HAZMAN)

Capital funding of approximately \$1.5 million across the forward estimates has been allocated to the Department of Consumer and Employment Protection to implement the HAZMAN system. The system will monitor the licensing, supply and transport of hazardous materials – including those with a security risk implication such as ammonium nitrate. The system will be able to provide the Western Australia Police Service with the opportunity to assess in real time the credentials of those found in possession of hazardous materials. The HAZMAN initiative is an element of Western Australia's broader counter-terrorism capability, and its implementation fulfils the State Government's commitment to national counter-terrorism strategies endorsed by the Council of Australian Governments.

Safety Regulation Systems

\$3.3 million has been allocated across the forward estimates to assist the Department replace its existing Safety Regulation information technology systems. The implementation of the Safety Regulation information technologies will improve industry safety outcomes by establishing a more efficient mechanism to record and access industry performance information. It will also provide accessible data for the use of inspectors, mining engineers and other technical specialists in the field, and enable information to be shared across the Government.

MINISTER FOR POLICE AND EMERGENCY SERVICES; JUSTICE; COMMUNITY SAFETY

EXPENDITURE ON NEW INITIATIVES

Table 13

	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Police Service					
- Improved Counter-Terrorism Initiatives	5,441	2,618	3,108	2,885	2,887
- Road Safety Package	-	4,774	4,966	5,217	4,024
- Criminal Investigations Bill	-	1,600	-	-	-
Fire and Emergency Services Authority					
- Joint State and Commonwealth Urban Search and Rescue Initiative	600	600	500	500	500
- Community Emergency Management Office	-	900	-	-	-
Corrective Services					
- Mahoney Inquiry Recommendations	3,294	22,227	25,114	25,061	26,510
- Fines Enforcement Strategy	-	420	432	445	458
TOTAL (RECURRENT)	9,335	33,139	34,120	34,108	34,379
CAPITAL EXPENDITURE					
Police Service					
- Road Safety package	-	882	-	-	-
Corrective Services					
- Broome Prison Upgrade	-	11,226	-	-	-
- Safety and Security Strategy	-	7,322	6,328	-	-
- Eastern Goldfields Prison	-	3,000	-	-	-
- Prisons Reform Strategy	-	900	450	-	-
- Community and Juvenile Justice Office Establishment and Refurbishments	-	5,300	-	-	-
TOTAL (CAPITAL)	-	28,630	6,778	-	-

Police Service

New Expenditure Initiatives – Recurrent

Improved Counter-Terrorism Initiatives

The Government has approved funding of \$13.8 million over the forward estimates on various counter terrorism and emergency response capability initiatives. The funding is primarily for the training of police resources to deal with counter terrorism and emergency response matters and the operating costs of new equipment and infrastructure. This includes bomb response capability, dedicated resources for the North-West, and specialised facilities and systems.

Road Safety Initiatives

Funding has been allocated for a number of road safety initiatives, which are still subject to final endorsement by Cabinet.

Criminal Investigations Bill

Funding of \$1.6 million in 2006-07 has been provided for comprehensive training and for enhancement of Police IT systems as a result of the new Criminal Investigations Bill.

New Expenditure Initiatives – Capital

Road Safety Package

Funding has been allocated for a number of road safety initiatives, which are still subject to final endorsement by Cabinet.

Fire and Emergency Services Authority

New Expenditure Initiatives – Recurrent

Joint State and Commonwealth Urban Search and Rescue Initiative

Funding has been provided for the State's share of the Joint State and Commonwealth National Urban Search and Rescue: State Enhancement initiative. The strategy enables common national equipment, operational and technician training, and command training to facilitate interoperability.

Community Emergency Management Office

Funding has been provided in 2006-07 to assist communities to develop and implement emergency risk management initiatives, enhance protective measures for critical infrastructure and provide emergency management and security awareness training for local government staff.

Corrective Services

The management of prisoners and offenders in Western Australia has started to take a new direction following the formation of the Department of Corrective Services, from the Department of Justice, on 1 February 2006.

The creation of the Department of Corrective Services was a key recommendation of the Government's independent Mahoney Inquiry into Offender Management.

New Expenditure Initiatives – Recurrent

Mahoney Inquiry Recommendations

The Department will commence work on key recommendations from the Inquiry which will lay the foundation for improvements to the corrective services system to achieve the outcome of a safe and secure community. This will provide for appropriate Prison and Community Justice Officer staffing levels to meet demands on services, an emphasis on ongoing training and professional development of staff, an increased focus on intelligence gathering, analysis and dissemination to key stakeholders, establishment of an incident command centre, improved classification of prisoners through more comprehensive assessment and case management, and addressing improvements to prison infrastructure.

Fines Enforcement Strategy

\$1.8 million has been provided over the forward estimates for the continuation of a Fines Enforcement Strategy designed to increase the clearance rate of infringement notices and court fines and in turn reduce the number of fine defaulters going to prison.

New Expenditure Initiatives – Capital

Broome Prison Condition Upgrade

Funding of \$11.2 million has been allocated to address urgent remedial work related to improving security and the condition of the existing facility to an appropriate level.

Safety and Security Strategy

In order to directly address a number of staff safety and security concerns and in response to a number of recent high-profile incidents the prisons division developed a safety and security strategy. While initial steps have already been undertaken with the commencement of mobile duress alarms being implemented during this year, this strategy is aimed at developing sustainable solutions that will reduce the likelihood and consequence of future incidents.

In summary, the key issues address installation of observation windows to doors, removal of signage and curtains from existing observation points, installation of escape set locks to all areas where prisoners have access, continuation of the roll-out of mobile duress alarms to all prisons, and state of the art technology to enhance security and access controls for maximum security prisons.

Eastern Goldfields Prison

The Department of Corrective Services will master plan the existing prison site, as well as planning for structural repairs and upgrades. The work will extend the effective life of existing prison facilities and ensure that prisoners can be held at an appropriate level of security and containment. It will also improve the way programs are delivered in the prison to target and address offending behaviour.

Prisons Reform Strategy

Funding of \$900,000 in 2006-07 and \$450,000 in 2007-08 will be directed towards improving systems to ensure processes are standardised, staff are trained and data quality is improved all of which are considered essential in supporting the prison reform process.

Community and Juvenile Justice Office Establishment and Refurbishments

Additional accommodation and refurbishment funding of \$5.3 million has been provided to meet the requirements of the increased Community and Juvenile Justice staffing levels being supported as part of the Mahoney Inquiry recommendation outcomes.

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

Table 14

EXPENDITURE ON NEW INITIATIVES					
	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Local Government and Regional Development					
- Enhancing Local Government Efficiency	-	1,000	2,000	-	-
- Enforcing the <i>Animal Welfare Act 2002</i>	-	421	431	-	-
- Improved Monitoring and Compliance Programs for Local Governments in Western Australia	-	475	475	280	280
- Wiluna Development Project	-	595	435	435	435
Pilbara Development Commission					
- Wittenoom Relocation Trust Fund	400	-	-	-	-
Gascoyne Development Commission					
- Aboriginal Heritage and Cultural Centre	62	153	158	164	170
TOTAL (RECURRENT)	462	2,644	3,499	879	885

Local Government and Regional Development

New Expenditure Initiatives – Recurrent

Enhancing Local Government Efficiency

Funding of \$1.0 million in 2006-07 and \$2.0 million in 2007-08 is provided to support and promote reform measures in local government authorities such as joint sharing of facilities and/or resources and boundary changes or amalgamations. It is expected that economies of scale, through resource sharing or amalgamations, will enable local governments to deliver community services more efficiently and at a lower cost.

Enhancing the Animal Welfare Act 2002

The Government will provide funding of \$421,000 in 2006-07 and \$431,000 in 2007-08 for the appointment of six new general inspectors to monitor the livestock transportation from the Fremantle wharf, Katanning and the Midland sale yards and to deal with animal welfare issues under the *Animal Welfare Act 2002*.

Improved Monitoring and Compliance Programs for Local Governments in Western Australia

Additional funding of \$195,000 per annum in 2006-07 and 2007-08 has been allocated to review prudential ratios to be applied to local authorities in assessing financial performance. The task includes the need to review and revise legislation, processes and procedures to reflect the changing environment within which local governments operate.

Funding of \$280,000 per annum has been allocated from 2006-07 to 2009-10 to establish a Standards Panel to deal with complaints of improper behaviour or misconduct by elected members of local government councils.

Wiluna Development Project

Total funding of \$1.9 million has been provided over the forward estimates to establish a partnership between the State, the mining industry and the community to deliver infrastructure and employment strategies, such as education and training at Wiluna.

Pilbara Development Commission

New Expenditure Initiatives – Recurrent

Wittenoom Relocation Trust Fund

\$400,000 has been provided to purchase privately owned properties in Wittenoom that are voluntarily offered for sale.

Gascoyne Development Commission

New Expenditure Initiatives – Recurrent

Aboriginal Heritage and Cultural Centre

Provision has been made to meet the ongoing management and operations of the Aboriginal Heritage and Cultural Centre in Carnarvon.

**MINISTER FOR DISABILITY SERVICES; CITIZENSHIP AND
MULTICULTURAL INTERESTS; WOMEN'S INTERESTS;
MINISTER ASSISTING THE MINISTER FOR FEDERAL
AFFAIRS**

Table 15

EXPENDITURE ON NEW INITIATIVES					
	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Disability Services Commission					
- Accommodation Support and Preventative Services	-	2,100	2,100	15,634	29,834
- Continence Management Scheme Subsidy and Administration Costs	-	2,700	2,609	2,671	2,761
- Respite	-	1,000	1,000	1,000	1,000
- Young People in Nursing Homes	-	500	1,000	1,500	2,000
TOTAL (RECURRENT)	-	6,300	6,709	20,805	35,595

Disability Services

New Expenditure Initiatives – Recurrent

Accommodation Support and Preventative Services – Growth Funding

To ensure that the need for people requiring accommodation support and preventative services continues to be met, funding of \$13.5 million in 2008-09 and \$27.7 million in 2009-10 has been provided.

This will allow for increases to the following services by 2009-10:

- accommodation support places – 476 places;
- respite and family support – 800 people;
- alternatives to employment and post-school options – 520 people;
- therapy – 2,680 new and/or expanded services; and
- local area coordination – 1,000 additional families.

A further \$2.1 million per annum from 2006-07 onwards has been provided for the redevelopment of the Supported Accommodation Service.

Continence Management and Support Scheme for Western Australia

Funding totalling \$10.7 million over four years has been provided for the 'Continence Management and Support Scheme for Western Australia', to be operated in conjunction with the Department of Health. The Scheme will provide both a continence management/advice service and a subsidy for eligible seniors and adults who are ineligible under other Commonwealth schemes and may experience financial hardship due to the need to purchase continence products.

Respite – Additional Funding

Additional funding of \$1.0 million per annum has been allocated for respite services provided to families and carers looking after a family member with a disability. This will allow families to take a break from their carer role.

Young People in Nursing Homes

Under a joint initiative with the Commonwealth Government, the State will provide \$5.0 million over the forward estimates to reduce the number of younger people with a disability living inappropriately in residential aged care.

MINISTER FOR COMMUNITY DEVELOPMENT; SENIORS AND VOLUNTEERING; YOUTH; MINISTER ASSISTING THE MINISTER FOR PLANNING AND INFRASTRUCTURE

EXPENDITURE ON NEW INITIATIVES

Table 16

	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Community Development					
- At-Risk Children in Out-of-Home Care Initiatives	-	13,287	15,931	19,882	23,833
- Continuation of 2001 Election Commitments	-	5,394	5,532	5,532	5,532
- Supported Accommodation Assistance Program (SAAP) Initiatives	82	2,405	3,439	3,640	3,847
- Responsible Parenting Initiative	-	3,230	4,370	7,110	8,220
- Enhanced Child Care Licensing and Standards Unit	600	1,000	1,000	1,000	1,000
- State Emergency Management Arrangements	366	2,124	2,171	2,248	-
- Police Checks for Volunteers	-	70	70	70	70
- Indexation for Non-Government Human Services Sector	216	395	539	1,581	2,623
TOTAL (RECURRENT)	1,264	27,905	33,052	41,063	45,125

Community Development

New Expenditure Initiatives – Recurrent

At-Risk Children in Out-of-Home Care Initiatives

The Government has committed funding of \$13.3 million in 2006-07 (\$72.9 million over four years) to address workload issues, meet growth in demand and improve delivery of the care for children services.

This initiative includes:

- the employment of another 132 children in care staff (caseworkers, psychologists, team leaders and support staff) by 2009-10 to meet workload pressures due to increased demand in care for children services. This should assist in bringing the Department's service standards for children into line with international benchmarks;
- the establishment of a Duty of Care Unit in the Department to centralise investigations of allegations of maltreatment of children in care, and expansion of the Department's Fostering Services role to enable the recruitment, assessment, training and support of carers across the State;
- an additional 20 individualised intensive treatment and/or professional home based care placements to respond to the 'high needs' of children in care that are considered 'high risk' due to, for example, a history of abuse and neglect and multiple placements;
- funding to address cost and demand pressures in expenditure on children in care including professional services for children such as counselling and speech therapy, and supervised contact visits with parents;
- improvements in training for new and existing staff working with children, to improve service delivery through an enhanced level of skills and consistency, which should contribute to a reduction in the rate of staff turnover; and
- two new child sexual abuse treatment services (in Bunbury and Mandurah) to provide therapeutic services to children and families affected by child sexual abuse.

Continuation of 2001 Election Commitments

A total of \$5.4 million in 2006-07 (\$22.0 million over four years) has been provided for the continuation of 2001 election commitments, which are outlined below:

- Family Strength program (\$9.9 million over four years);
- Improve Domestic Violence program (\$4.6 million over four years);
- 'Caring for Carers' program (\$2.1 million over four years);
- assistance for Foster Carers Association (\$200,000 over four years);

- ‘Valuing Volunteers’ program (\$2.0 million over four years);
- YVolunteer (formerly Student Community Involvement Program) (\$400,000 over four years);
- youth accommodation in Fremantle and Broome (\$2.0 million over four years);
- Youth Outreach - South Kalgoorlie Youth Support Service (\$400,000 over four years);
- Seniors Resource Centre in Geraldton (\$318,000 over four years); and
- Geraldton Financial Counselling Service (\$60,000 over four years).

Supported Accommodation Assistance Program (SAAP) Initiatives

The SAAP is a joint Commonwealth, States and Territories agreement aimed at providing transitional supported accommodation, and a range of related support services, to help homeless people. Additional funding of \$2.4 million in 2006-07 (\$13.4 million over the five years from 2005-06) has been allocated to the following SAAP initiatives:

- \$5.4 million from 2005-06 to 2009-10 has been allocated to implement the SAAP V Agreement, while \$1.5 million has been allocated over the same period to apply the Non-Government Human Services Sector indexation policy to SAAP services;
- \$1.5 million over four years for a new domestic violence refuge service in the northern metropolitan area; and
- \$5.0 million over four years to address the cost and demand pressures of the SAAP sector, aimed at ensuring the viability of the sector and maintaining current service levels. This represents a 10 per cent increase in funding to the SAAP sector.

Responsible Parenting Initiative

The Government has allocated an additional \$3.2 million in 2006-07 (\$22.9 million over four years) for the continuation and further roll-out of the Responsible Parenting initiative. Responsibility for this initiative has been transferred from the Office of Crime Prevention in the Department of the Premier and Cabinet to the Department for Community Development.

Enhanced Child Care Licensing and Standards Unit

\$1.0 million in 2006-07 (\$4.6 million over the period 2005-06 to 2009-10) will be spent on the enhancement of the Child Care Licensing Unit, which is to include a new Investigations and Prosecutions branch.

State Emergency Management Arrangements

As part of the Government's counter-terrorism measures, \$6.9 million will be spent from 2005-06 and across the forward estimates on State emergency management arrangements. This includes the establishment of an 'on call' early response team trained to deal with human emergencies and a dedicated centre to coordinate services provided by government and non-government welfare agencies in an emergency situation.

Police Checks for Volunteers

Additional funding of \$70,000 in 2006-07 (\$280,000 over four years) has been allocated to the Office of Seniors Interests and Volunteering to enable it to provide a 'free second criminal check' for those volunteers that require both a general criminal record check and a similar check under the *Working With Children* legislation.

Indexation for Non-Government Human Services Sector

The Government has provided additional funding of \$5.4 million to the Department over the period 2005-06 to 2009-10 as part of the Non-Government Human Services Sector indexation policy, to reflect changes in economic parameters utilised for the policy's composite wage cost index.

MINISTER FOR SMALL BUSINESS; PEEL AND THE SOUTH WEST; MINISTER ASSISTING THE MINISTER FOR EDUCATION AND TRAINING

Table 17

EXPENDITURE ON NEW INITIATIVES

	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
RECURRENT EXPENDITURE					
Small Business Development Corporation					
- Small Business Centres	-	200	200	200	200
- Business Migration Program Expansion	-	400	400	-	-
TOTAL (RECURRENT)	-	600	600	200	200

Small Business Development Corporation

New Expenditure Initiatives – Recurrent

Small Business Centres

There are 28 Small Business Centres throughout Western Australia that offer free assistance and support to new and existing businesses. Following a review of the structure and funding of the centres, which consulted extensively with local governments, the centres and other key stakeholders, an additional \$200,000 per annum has been provided.

Business Migration Program Expansion

An additional \$400,000 has been provided in 2006-07 and 2007-08 to increase the number of sponsored migrants by developing new markets in China, Taiwan, South Africa, Italy and The Netherlands.

Financial Projections - Revenue

Overview

The strong revenue growth for the State in recent years has been exceptional. This has reflected the combined impact of high world commodity prices and a booming local housing market.

However, across the four years to 2009-10 much more modest revenue growth is forecast. While revenue from the State's own taxes is expected to stabilise at around current levels (abstracting from one-off impacts), royalty revenue is expected to decline (as commodity prices return to more historically sustainable levels), as is Western Australia's share of the national pool of GST revenue.

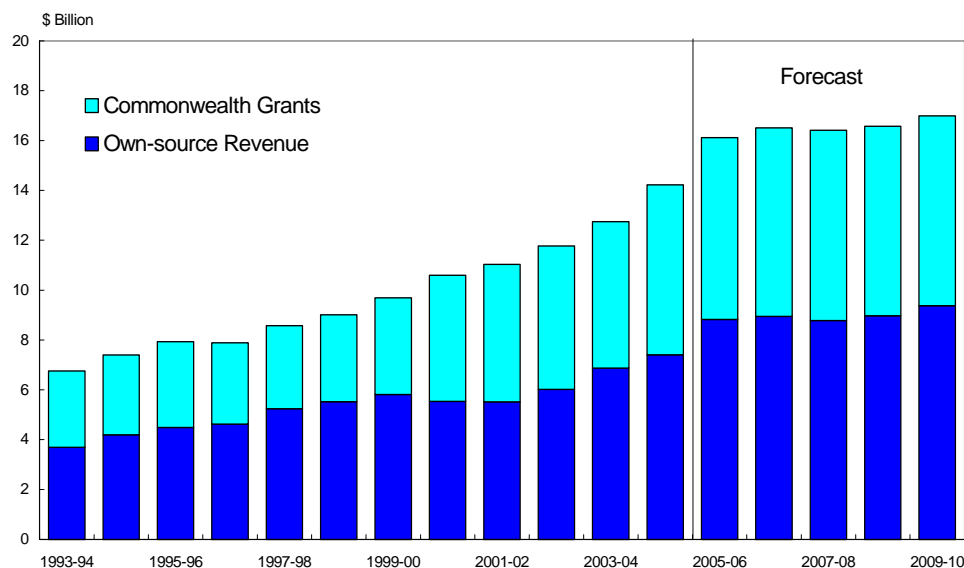
The State continues to remain heavily reliant on Commonwealth grants, with over 40% of revenue coming from GST revenue grants and SPPs¹. While the total pool of national GST revenue is expected to grow substantially, Western Australia's share will decline as a consequence of its current high own-source revenue relative to other States. By 2009-10, Western Australia's annual GST revenue grant is estimated to be \$668 million lower than it would be if the State's 2006-07 share was maintained.

Figure 1 illustrates the impact of Commonwealth grants on State revenue over the budget and forward estimates years.

¹ SPPs exclude North West Shelf royalties.

Figure 1

OPERATING REVENUE BY SOURCE General Government



Note: North West Shelf payments are treated as own-source revenue.

2006-07

Total operating revenue for the general government sector is expected to increase by 2.4% in 2006-07, following forecast growth of 13.4% in 2005-06. The slowing in revenue growth incorporates the dampening impact of a very large stamp duty assessment in 2005-06 (thereby inflating the base) and tax relief measures in 2006-07. Abstracting from these factors, operating revenue is expected to increase by around 4.2% in 2006-07.

This is primarily due to forecast increases in mining royalties of 14.0% and current grants from the Commonwealth of 3.6%, with underlying taxation revenue showing growth of 5.5% in 2006-07.

Strong growth in mining royalties is mainly due to an assumed 10% increase in iron ore prices, as well as increases in production volumes for key commodities, including iron ore and gold. Higher prices for oil and gold and a slightly lower average exchange rate assumption relative to 2005-06 also contribute to the increase in royalties.

Growth in Commonwealth current grants is mainly due to a forecast 4.3% increase in GST revenue grants despite a significant reduction in Western Australia's share of the national pool. Expected growth in the national pool of GST revenue is 6.8% in 2006-07.

Taxation revenue is expected to decrease by 0.3% in 2006-07. This decline reflects the impact of mortgage duty, rental business duty and land tax relief contained in this budget and the 'base effect' of a large one-off conveyance duty assessment in 2005-06. Abstracting from these factors, underlying taxation revenue is expected to grow by around 5.5% in 2006-07, on top of exceptional underlying growth in 2005-06 of an estimated 23.0%, and in 2004-05 of 8.6%.

Modest growth is forecast for several other revenue categories, including revenue from the sale of goods and services (up 1.9%) and 'Other' revenue, which includes revenue from lease rentals and fines (up 4.3%).

These increases are partly offset by a forecast decline in dividends from public corporations of 14.9%. Capital grants from the Commonwealth (down 0.8%), revenue from tax equivalent arrangements (down 0.9%) and interest income (down 22.4%) are also expected to be lower than in 2005-06.

2007-08 to 2009-10

Over the three outyears, operating revenue growth is low by historical standards, reflecting:

- the lagged impact on Western Australia's share of GST revenue of the recent growth in its own-source revenue relative to other States, reducing Western Australia's GST revenue grant for 2009-10 by an estimated \$668 million, compared to what it would be if the State's share in 2006-07 was maintained.
- slower forecast growth in property market activity;
- an anticipated decline in commodity prices mainly due to increased supply on global commodity markets; and
- the impact of tax relief measures contained in this budget. Taxation revenue is projected to increase by 2.6% per annum over the period. In the absence of these measures, it is estimated that taxation revenue would grow by 3.4% per annum over the period.

Total operating revenue is expected to decline by 0.6% in 2007-08 (which would be the first decline in operating revenue since 1996-97). Lower conveyance duty collections are expected to be the major contributor, and are predicated on a slowdown in property market activity that is characterised by steady house prices and a lower volume of property transfers (down around 10% in this year). Reasons for expecting the softening in the property market include reduced impetus from the mining sector as commodity prices begin easing, greater balance in the supply and demand for housing, and lower housing affordability and investment returns.

Growth in total operating revenue is expected to return to small positives in 2008-09 and 2009-10, in part reflecting the impact of Western Australia's reducing share of GST revenues.

Table 1

GENERAL GOVERNMENT OPERATING REVENUE

Level (\$ million) and Growth (%)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 Forward
	Actual	Estimated	Budget	Forward	Forward	Estimate
		Actual	Estimate	Estimate	Estimate	
Commonwealth Grants	6,309	6,624	6,845	6,937	6,982	7,072
	(14.4)	(5.0)	(3.3)	(1.3)	(0.6)	(1.3)
- GST revenue grants	3,646	3,766	3,929	3,924	3,894	3,972
	(15.5)	(3.3)	(4.3)	(-0.1)	(-0.8)	(2.0)
- Other Commonwealth grants to Western Australia ^(a)	1,982	2,150	2,143	2,193	2,218	2,176
	(13.9)	(8.4)	(-0.3)	(2.3)	(1.1)	(-1.9)
- SPPs 'through' the State ^(b)	681	709	773	820	870	924
	(10.4)	(4.2)	(9.0)	(6.1)	(6.1)	(6.2)
Total taxation	4,314	5,100	5,082	5,035	5,192	5,491
	(4.7)	(18.2)	(-0.3)	(-0.9)	(3.1)	(5.8)
- taxes on employers' payroll and labour force	1,211	1,351	1,428	1,530	1,621	1,717
	(6.3)	(11.6)	(5.7)	(7.2)	(6.0)	(5.9)
- taxes on property and financial institutions taxes	1,986	2,563	2,418	2,236	2,246	2,388
	(5.6)	(29.0)	(-5.7)	(-7.5)	(0.4)	(6.4)
- taxes on provision of goods and services	433	465	480	480	498	519
	(-6.0)	(7.2)	(3.3)	(0.1)	(3.7)	(4.3)
- taxes on use of goods and performance of activities	684	722	757	788	827	866
	(6.7)	(5.5)	(4.8)	(4.2)	(4.8)	(4.8)
Royalties ^(c)	1,347	1,951	2,225	1,998	1,902	1,858
	(32.5)	(44.8)	(14.0)	(-10.2)	(-4.8)	(-2.3)
Sales of goods and services	982	1,027	1,046	1,069	1,095	1,123
	(4.3)	(4.7)	(1.9)	(2.2)	(2.4)	(2.5)
Revenue from public corporations						
- Dividends	468	536	456	470	496	509
	(4.4)	(14.5)	(-14.9)	(3.1)	(5.5)	(2.5)
- Tax equivalent payments	292	296	294	298	330	331
	(-5.8)	(1.3)	(-0.9)	(1.6)	(10.6)	(0.3)
Other	368	394	410	472	447	480
	(35.4)	(6.8)	(4.3)	(15.1)	(-5.3)	(7.3)
Interest income	142	195	151	134	131	130
	(11.1)	(37.4)	(-22.4)	(-11.2)	(-2.1)	(-0.8)
Total Operating Revenue	14,222	16,123	16,510	16,414	16,575	16,994
	(11.5)	(13.4)	(2.4)	(-0.6)	(1.0)	(2.5)

(a) Other Commonwealth grants to Western Australia comprise SPPs 'to' the State and National Competition Policy payments.

(b) SPPs 'through' the State include payments distributed to local government and private schools.

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

Note: Columns may not add due to rounding.

Operating Revenue Projections

Summary

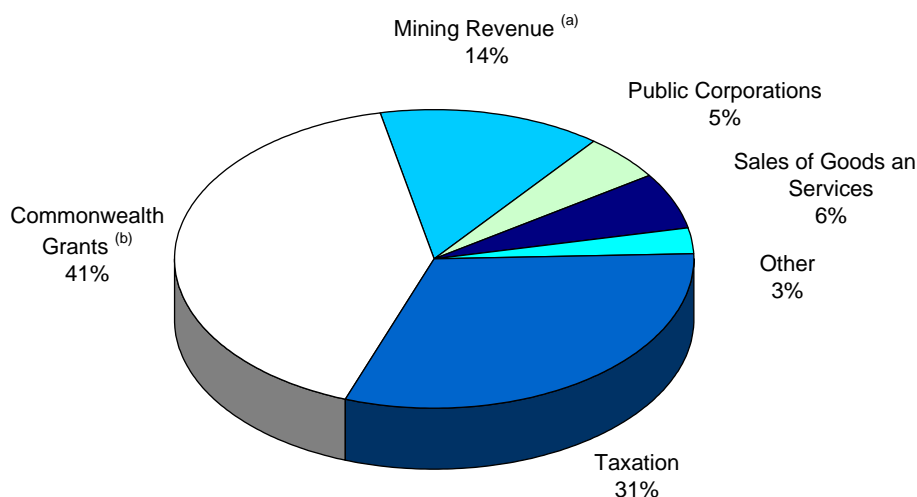
Total operating revenue for the general government sector is estimated to be \$16.5 billion in 2006-07, an increase of \$387 million (or 2.4%) on the estimated outturn for 2005-06. Higher mining royalties, including North West Shelf petroleum royalties (up \$274 million) and current grants from the Commonwealth (up \$224 million) more than account for the forecast increase in operating revenue. Smaller increases are forecast for revenue from the sale of goods and services (up \$19 million, or 1.9%), and 'Other' revenue (up \$17 million, or 4.3%).

These increases are expected to be partly offset by forecast decreases in dividends from public corporations (down \$80 million, or 14.9%), interest income (down \$44 million, or 22.4%), taxation revenue (down \$18 million, or 0.3%), revenue from tax equivalent arrangements (down \$3 million, or 0.9%) and capital grants from the Commonwealth (down \$3 million, or 0.8%).

Commonwealth grants remain the largest single source of revenue for the State. The most significant change in the composition of the State's revenue is the increased share of mining royalties (including North West Shelf petroleum royalties) from around 9.5% of operating revenue in 2004-05 to an estimated 13.5% in 2006-07.

Figure 2

2006-07 REVENUE
General Government



TOTAL REVENUE = \$16,510 MILLION

(a) Includes territorial mining royalties, North West Shelf petroleum royalties (which are classified as a Commonwealth grant reflecting the Commonwealth's constitutional responsibility for off-shore areas) and lease rentals.

(b) Comprises GST grants and specific purpose payments.

The relatively modest forecast for growth in total operating revenue in 2006-07 follows very strong estimated growth in 2005-06 of 13.4%. High levels of property market activity and an increase in the contribution of large, one-off conveyance duty assessments have resulted in an estimated 18.2% increase in taxation revenue for 2005-06. Abstracting from the tax relief measures announced in October 2004 and in the 2005-06 Budget, and large, one-off conveyance duty assessments, underlying growth in taxation revenue resulting from high levels of economic activity is estimated to be 23.0% in 2005-06.

The commodities boom also contributed to estimated revenue growth in 2005-06, with mining revenues (which includes territorial mining royalties, North West Shelf petroleum royalties and lease rentals) projected to increase by 44.3%. This is a result of:

- higher commodity prices (including the 71.5% increase in iron ore prices);
- oil prices averaging around US\$14 per barrel more over the year than in 2004-05;
- a lower average exchange rate over the year compared to 2004-05; and
- higher production volumes (in 2005-06, production volumes are estimated to increase by around 10% in weighted average terms).

Table 2

GENERAL GOVERNMENT
Operating Revenue

	2004-05 Actual \$m	2005-06 Estimated \$m	2006-07 Budget Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m
Taxation	4,314	5,100	5,082	5,035	5,192	5,491
GST revenue grants	3,646	3,766	3,929	3,924	3,894	3,972
Other Commonwealth grants to Western Australia ^(a)	1,982	2,150	2,143	2,193	2,218	2,176
SPPs 'through' the State ^(b)	681	709	773	820	870	924
Sales of goods and services	982	1,027	1,046	1,069	1,095	1,123
Interest income	142	195	151	134	131	130
Revenue from public corporations						
– Dividends	468	536	456	470	496	509
– Tax equivalent payments	292	296	294	298	330	331
Royalties ^(c)	1,347	1,951	2,225	1,998	1,902	1,858
Other	368	394	410	472	447	480
TOTAL	14,222	16,123	16,510	16,414	16,575	16,994

(a) Other Commonwealth grants to Western Australia comprise SPPs 'to' the State and National Competition Policy payments.

(b) SPPs 'through' the State include payments distributed to local government and private schools.

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

Note: Columns may not add due to rounding.

Weaker forecast growth in total operating revenue in 2006-07 reflects the impact of tax relief measures and slower assumed property market growth relative to 2005-06. Weaker growth also reflects a more modest increase in mining royalties. This in turn is due to a smaller forecast increase in iron ore prices for Japanese Fiscal Year 2006-07 (of 10%) and a more modest increase in oil prices over the year compared to 2005-06.

Over the outyears growth in total operating revenue is forecast to be constrained by several important revenue bases coming off cyclical highs. In particular, it is anticipated that activity in the property market will slow modestly in 2007-08 before picking up again in 2008-09 and 2009-10. The other factor contributing to weaker forecast growth in taxation revenue over the outyears is the impact of tax measures (detailed in the following section).

Most commodity prices (with the exceptions of petroleum prices and diamonds) are also forecast to fall over the outyears due to an anticipated rebalancing of supply and demand. This outlook is consistent with trends underlying commodity price forecasts published by the Australian Bureau of Agricultural and Resource Economics. The impact on mining revenue of falling commodity prices is partly offset by forecast growth in commodity export volumes as project expansions and new mines come on line.

GST revenue grants are expected to increase by an average of only 0.4% per annum over the outyears reflecting the lagged decline in Western Australia's share of national GST revenue in response to strong property market growth since 2004-05 relative to other States and higher North West Shelf petroleum royalties and iron ore royalties. If Western Australia's 2006-07 GST share remained constant over the outyears, it is estimated that the State would receive an additional \$668 million in 2009-10.

The Review of Revenue Forecasting

In 2005-06, the Department of Treasury and Finance undertook a major review of its revenue forecasting, prompted by the significant under-estimation of operating revenues in recent years and a desire to improve the quality of forecasts.

The Review involved a benchmarking of Western Australia's forecasting performance against other States, extensive consultation with stakeholders, and review by representatives of other jurisdictions and the private sector.

As shown in the following table, although average forecast errors were substantial, Western Australia's budget forecasting performance over the five years to 2004-05 was found to be comparable to that of other jurisdictions.

BUDGET FORECAST ERRORS							
Interstate Comparison							
Average	WA	NSW	VIC	QLD	SA	TAS	Average
2000-01 to 2004-05	%	%	%	%	%	%	%
Taxation	10.1	6.7	6.8	10.4	9.9	13.2	9.5
Current Grants and Subsidies	4.2	3.7	3.0	5.4	4.3	5.0	4.3
Mining Royalties	16.9	9.1	12.9	14.4	13.7	21.3	14.7
Revenue from public corporations	10.0	5.3	29.9	14.6	15.0	10.5	11.4

In all, the Review makes 29 recommendations on forecasting methodology, governance, resourcing and communication that are intended to make the forecasting process more informed, systematic and transparent.

The implementation of some of the Review's recommendations has been undertaken in time to influence the revenue estimates for the 2006-07 Budget. In particular, wider and more frequent consultation with industry experts has influenced the Department's assessment of the outlook for property market activity. The adoption of futures market contract prices as the basis for the oil price assumptions for the petroleum revenue estimates has also resulted in a substantial upward revision to estimated territorial and North West Shelf petroleum royalties relative to the 2005-06 mid-year review.

The following table summarises the impact of this new methodology on the mining revenue estimates after abstracting from changes to production volumes forecasts and the exchange rate assumption since the mid-year review.

IMPACT OF ADOPTING FUTURES CONTRACT PRICES FOR THE OIL PRICE ASSUMPTIONS				
	2006-07	2007-08	2008-09	2009-10
2005-06 mid-year review assumptions (\$US per barrel)	45.0	40.0	40.0	40.0
2006-07 Budget assumptions (\$US per barrel)	67.9	68.0	67.0	66.1
Revenue Impact (\$m)	171.8	196.0	175.5	130.5
Note: The 2005-06 mid-year review did not contain an oil price assumption for 2009-10. For the purpose of this table, it is assumed to be the same as the assumption for 2008-09.				

In addition to the adoption of futures market contract prices for oil, price assumptions used for a number of commodities in this budget are now based on forecasts published by the Australian Bureau of Agricultural and Resource Economics (rather than within-government estimates).

Other recommendations of the Review will be implemented over time. These recommendations have a particular emphasis on: improving the communication and transparency of revenue forecasts; an enhanced resource commitment to forecasting, including research and development of forecasting methodologies; and improved governance arrangements relating to the preparation of revenue forecasts. Where research suggests that new methodologies should be adopted, this will occur once the relative performance of the new methodologies has been rigorously assessed.

The Review was made public in March 2006 and a copy of the final report can be found at www.dtf.wa.gov.au.

Revenue Measures

Summary of State Tax Review Stage 1 Measures

The table below summarises the tax measures included in the 2006-07 Budget, including impact on operating revenue across the forward estimates period. These measures comprise Stage 1 of the State Tax Review (STR) undertaken since the 2005-06 Budget (see box).

IMPACT OF TAX MEASURES

Table 3

	2006-07 Budget Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	2010-11 Projection \$m
Mortgage Duty – Staged Abolition	-73.0	-82.8	-161.9	-175.1	-189.4
Hire of Goods Duty – Abolition	-15.2	-38.0	-41.0	-44.0	-47.2
Conveyance Duty on Non-Real Business Property - Abolition	0.0	0.0	0.0	0.0	-119.3
Land Tax and MRIT- Adjustments to Land Tax Scale	-37.2	-39.8	-42.6	-45.6	-48.8
Land Tax – Aggregation of Land Holdings – Minor Interests	10.0	10.0	10.0	10.0	10.0
Land Tax – Two year Exemption For Building New Residences	-2.0	-2.1	-2.3	-2.5	-2.7
Land tax and Local Government and Water Rates – Relief for Parents Providing Homes for Children with Disabilities ^(a)	n.a.	n.a.	n.a.	n.a.	n.a.
Conveyance Duty – Relief for Shared Equity Purchasers ^(a)	n.a.	n.a.	n.a.	n.a.	n.a.
Conveyance Duty – Relief for Property Transfers to Creditors Upon Bankruptcy ^(a)	n.a.	n.a.	n.a.	n.a.	n.a.
Conveyance Duty – Change Liable Party for Gifts ^(a)	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL	-117.4	-152.7	-237.8	-257.2	-397.4

(a) These measures are estimated to have a negligible impact on revenue.

Note: Columns may not add due to rounding.

Reflecting the views expressed in public submissions to the STR and early feedback from the STR Reference Group, the abolition of mortgage duty, hire of goods duty and conveyance duty on non-real business transactions (to be abolished outside the current forward estimates period, on 1 July 2010) was announced by the Premier and the Treasurer on 21 March 2006.

In addition to these previously announced measures, the 2006-07 Budget contains adjustments to the land tax scale to reduce the growth in land tax revenue and an extension of the land tax exemption period for the construction of new residences to two years. A land tax anti-avoidance provision (the revenue gains from which have been effectively 'reinvested' in the adjustments to the scale), and a range of measures (with negligible revenue costs) will also deliver improvements in the equity and administration of the taxation system.

Each of these measures has been identified in the interim report of the STR (which will be released shortly after the Budget) as measures that the Government should consider introducing.

In total, these measures are estimated to reduce taxation revenue by \$117 million in 2006-07 and by \$765 million over the four years to 2009-10.

State Tax Review

In the 2005-06 Budget, the Government announced that a State Tax Review (STR) would be undertaken in consultation with the Western Australian community, to shape tax reform over the next five years. On 5 July 2005, the Treasurer released the terms of reference for the Review and called for public submissions by 30 September 2005.

The objectives of the STR are to enhance the competitiveness, equity, and efficiency of the State tax system, including minimising distortions to economic activity and compliance costs for taxpayers. The STR is not restricted to a revenue-neutral outcome, but aims to identify the community's priorities for tax reform within the constraints of responsible financial management. A Reference Group (chaired by Mr Jonathan Ilbery (Partner, Jackson McDonald)) has been formed to represent key sectors of the community and be a source of independent advice to the Treasurer that balances competing interests. In addition, a Technical Committee of private sector taxation specialists has provided valuable feedback and advice on issues raised in the Review.

To date, the STR has received 136 public submissions and the Reference Group (which comprises 27 members, including the Chairman) has met on five occasions to provide feedback on issues raised in submissions to the Department of Treasury and Finance. The Treasurer has also consulted independently with the Chair of the Reference Group on the community's priorities for reform. Reflecting the views expressed in public submissions and feedback from the Reference Group, the Government has included a number of Stage 1 STR tax measures in the 2006-07 Budget. These include the staged abolition of mortgage duty, hire of goods duty and non-real business conveyance duty, announced by the Government on 21 March 2006.

Stage 1 of the STR is now complete and an interim report has been prepared for release for public comment. The interim report and instructions on how to submit public comments to the Review will be available at the following website: statetaxreview.wa.gov.au. Importantly, the interim report identifies a range of issues to be further examined in Stage 2 of the STR. A final report will be considered by the Government in framing the 2007-08 and future budgets.

Abolished Taxes

Mortgage Duty

The abolition of mortgage duty will occur in two stages - a 50% rate reduction on 1 July 2006 and full abolition on 1 July 2008. The estimated revenue cost is \$73 million in 2006-07 and \$493 million over the four years to 2009-10.

Mortgage duty is paid by the borrower on the basis of the amount secured. The current rate of duty is 25 cents per \$100 for home loans and 40 cents per \$100 for other loans. Abolishing this duty will benefit all borrowers (both home owners and businesses) who borrow funds that are secured over property.

Around 30% of mortgage duty is paid by home owners. Based on the median house price of \$325,000 in the December quarter 2005 and a 20% deposit, a typical home buyer will save around \$650 in duty on a \$260,000 loan when mortgage duty is fully abolished.

Small business also has a significant reliance on mortgage financing, in many cases involving mortgages over the family homes of the business owners. A business borrowing \$1,000,000 will save \$4,000 from the abolition of mortgage duty.

The table below shows a sample of business and home loans and the expected tax savings from full abolition of mortgage duty.

MORTGAGE DUTY			Table 4
Amount Secured \$	Duty Paid on Home Loan \$	Duty Paid on Business Loan \$	
100,000	250	400	
200,000	500	800	
300,000	750	1,200	
400,000	1,000	1,600	
500,000	1,250	2,000	
1,000,000	2,500	4,000	

Hire of Goods Duty

Hire of goods duty will be abolished from 1 January 2007. The estimated revenue cost is \$15 million in 2006-07, \$38 million in 2007-08 and \$138 million over the four years to 2009-10.

Stamp duty on hire of goods is paid by commercial hire businesses on hiring charges. However, it is understood to be the general practice of these businesses to pass on the duty to customers who hire the goods.

The rates of duty are 1.5% of hiring charges for ordinary hire and 0.75% for equipment financing arrangements (i.e. hire purchase agreements, equipment leases, and other hires that have a term greater than nine months) where there is an annual turnover of \$50,000 or more.

Abolishing the hire of goods duty will benefit both hiring businesses (in terms of savings in compliance costs) and customers (as no duty will be passed on).

The duty paid by hiring firms depends on the size and composition of a firm's turnover. The annual duty paid by a large scale car or equipment hire firm is typically more than \$200,000 per annum. Smaller hiring businesses (such as party hire and local video/DVD stores) would pay substantially less than \$100,000 per annum.

A significant additional benefit of abolishing hiring duty is the reduction in compliance costs, particularly for smaller businesses that will no longer have to collect and remit this duty to the Office of State Revenue.

The benefits for customers will depend on the nature of the hiring arrangement. The table below shows a sample of ordinary and equipment financing hiring arrangements, and the expected tax savings from the abolition of hire of goods duty.

HIRE OF GOODS DUTY			Table 5
Annual Hire Cost \$	Ordinary Hire \$	Equipment Financing \$	
1,000	15.0	7.5	
5,000	75.0	37.5	
10,000	150.0	75.0	
100,000	1,500.0	750.0	
250,000	3,750.0	1,875.0	

The Budget costings assume that hire of goods duty will be abolished on both new and existing contracts from 1 January 2007. However, there will be further consultation with the finance industry in relation to issues it has raised about the compliance costs of adjusting existing contractual arrangements to exclude hiring duty.

Conveyance Duty on Non-Real Business Property

Conveyance duty on non-real business property will be abolished from 1 July 2010. The estimated revenue cost in 2010-11 is estimated to be around \$119 million.

Non-real property is a component (and can be the only or major component) of many business transactions involving the transfer of ownership of assets. Some examples of non-real property are goodwill, intellectual property and statutory licences (such as commercial fishing licences, taxi licences and liquor licences).

Transfers of non-real business property are subject to the general conveyance duty rate scale, which has a top marginal rate of 5.4% for transactions over \$500,000.

It is estimated that non-real business property transfers account for around 7% of total conveyance duty (i.e. both residential and business).

The value of non-real property varies significantly. The table below shows a sample of tax savings from the abolition of conveyance duty on non-real business property.

NON-REAL BUSINESS CONVEYANCE DUTY		Table 6
Value of Transfer \$	Duty Paid \$	
100,000	1,500	
250,000	8,200	
500,000	20,700	
1,000,000	47,700	
10,000,000	533,700	

Land Tax

General Relief - Adjustment to Land Tax Scale

On the basis of preliminary land values for 2006-07, land tax and Metropolitan Region Improvement Tax (MRIT) revenues were forecast to grow more strongly than was included in the forward estimates at the time of the 2005-06 mid-year review. This is due to the impact of strong increases in land values taking land holdings into higher land tax brackets.

In order to reduce the growth in land tax liabilities for many businesses and other landholders, the Government will increase the lowest three thresholds of the land tax scale, from 1 July 2006. These changes are illustrated in the following table.

Table 7

LAND TAX SCALE

CURRENT 2005-06 SCALE			PROPOSED 2006-07 SCALE		
Unimproved value of land	'Base' Tax at Threshold	Marginal Rate on Excess	Unimproved Value of Land	'Base' Tax at Threshold	Marginal Rate on Excess
\$'000	\$	%	\$'000	\$	%
0 - 130	Nil	Nil	0 - 150	Nil	Nil
130 - 290	Nil	0.15	150 - 390	Nil	0.15
290 - 750	240	0.45	390 - 875	360	0.45
750 - 2,000	2,310	1.62	875 - 2,000	2,543	1.62
2,000 - 5,000	22,560	2.30	2,000 - 5,000	20,768	2.30
Over 5,000	91,560	2.50	Over 5,000	89,768	2.50

Around 18,000 (or 14%) of land tax payers will be freed from land tax altogether as a result of the 15% increase in the minimum threshold from \$130,000 to \$150,000 (compared to if the existing exemption threshold had been retained). All taxpayers will receive a lower land tax bill than they would have if the land tax scale had remained unchanged. For land holders with property valued at \$300,000 the land tax bill will reduce from \$285 to \$225 (a 21% cut). As MRIT is only payable if a property is also subject to land tax (and located in the metropolitan area), the increase in the minimum land tax threshold also reduces MRIT revenue.

Increasing thresholds in this manner is broadly consistent with proposals in many submissions to the STR.

The following table compares land tax payable in other States with the current and proposed new scale for Western Australia.

Table 8

**LAND TAX PAYABLE ON SELECTED UNIMPROVED VALUES
AS AT 1 JULY 2006^(a)(\$)**

	WA Current	WA Proposed	NSW ^(b)	VIC	QLD ^(b)	SA	TAS	ACT ^(b)
\$50,000	0	0	0	0	0	0	188	300
\$100,000	0	0	0	0	0	0	463	673
\$200,000	105	75	0	200	0	270	1,013	1,693
\$300,000	285	225	0	400	0	570	1,563	2,905
\$400,000	735	405	916	600	0	1,070	2,838	4,305
\$500,000	1,185	855	2,616	800	750	1,770	4,838	5,705
\$1,000,000	6,360	4,568	11,116	3,680	6,125	11,420	16,088	12,705
\$2,000,000	22,560	20,768	28,116	20,580	21,000	48,420	41,088	26,705
\$5,000,000	91,560	89,768	79,116	116,830	62,500	159,420	116,088	68,705
\$10,000,000	216,560	214,768	164,116	291,830	125,000	344,420	241,088	138,705

(a) Based on sources of other jurisdictions as at 18 April 2006. The NT does not impose land tax.

(b) Land tax payable under general land tax scale for residential investment property owned by an individual (i.e. not owned by companies or trusts).

Aggregation of Landholdings - Minor Interests

It has been identified in the STR that owners of multiple land holdings sometimes avoid paying a higher aggregated land tax rate by transferring minor interests into a different ownership than the bulk of their land holdings. The 'different' owners are often relatives of the original owner (in some cases it may be a related company or trust). By so doing, the land tax aggregation provisions are circumvented, with each owner benefiting from the land tax threshold and possibly a lower rate of land tax than would apply to an aggregated land holding.

This practice undermines the equity of the taxation system (allowing people who have property holdings of similar aggregate value to pay different amounts of land tax). To counter this, an anti-avoidance provision will be inserted into the *Land Tax Assessment Act*. This is expected to increase land tax revenue by around \$10 million per annum. Importantly, this revenue impact has been directed to increasing the general land tax scale thresholds, thereby reducing the land tax bills for the many thousands of taxpayers who do not engage in this avoidance activity.

Two Year Exemption Period for Building New Residences

From 1 July 2006, the current 12 month land tax exemption period for the construction of new residences will be extended to two years. This measure is estimated to cost around \$2 million in 2006-07 and \$9 million over the four years to 2009-10.

Anecdotal evidence from the real estate and building industries indicates that it is currently taking longer than 12 months to construct many homes, due to high demand and skilled labour and materials shortages.

Extending the land tax concessions for new homes under construction to a maximum of two land tax assessment years will reduce the risk of persons constructing new homes as their principal place of residence incurring land tax bills while waiting for completion.

Transitional provisions are proposed where a person fails to qualify for the concession for the 2005-06 year of assessment because their residence was not completed prior to 30 June 2006. This will ensure that those already affected by the time it is currently taking to construct a home are not disadvantaged.

Other Measures

The following measures, which improve the equity of the taxation system and were identified during Stage 1 of the STR, are expected to have a negligible impact on tax revenue or the cost of concessions (where relevant) provided by the Government.

Land Tax and Local Government and Water Rates – Relief for Parents Providing Homes For Children With Disabilities

Parents or other family members who own a second property that is used to provide independent principal place of residence accommodation for disabled children are currently required to pay land tax on that property. This acts as a disincentive to the private provision of such accommodation.

From 1 July 2006, this disincentive will be removed by extending the principal place of residence land tax exemption to properties held in the name of the parents, grandparents or siblings (subject to certain conditions) as accommodation for a disabled relative. This measure will mean that the family members can access the land tax exemption without needing to transfer the property into a trust structure, thereby incurring capital gains tax or facing adverse pension income test implications.

Consistent with other land tax residential exemptions and rebates, the exemption will be conditional on no rental income being derived from the property.

Also for consistency, concessions for local government and water rates available under the *Rates and Charges (Rebates and Deferments) Act* are proposed in these situations.

This measure is expected to have a negligible impact on land tax revenue and the cost of local government and water rates concessions.

Conveyance Duty – Relief for Shared Equity Purchasers

Under the current stamp duty concession for first home buyers, a person who is able to obtain finance for all of the purchase of their first home will receive a stamp duty exemption or concessional rate in relation to the entire purchase price.

However, a person who cannot initially afford to finance all of the purchase and enters into a shared equity transaction with the Department of Housing and Works only receives an exemption or concession in respect of their initial equity acquisition. Any subsequent interest purchased is then subject to stamp duty at full conveyance rates on the value of the interest at that time.

Extending the first home buyer stamp duty concession to subsequent purchases of interests under shared equity arrangements will help facilitate home ownership for low income persons and restore equity with other first home buyers.

Conveyance Duty – Relief for Property Transfers to Creditors Upon Bankruptcy

Upon a declaration of bankruptcy, the beneficial ownership of the property of a bankrupt vests in the Official Trustee under section 58(1) of the *Commonwealth Bankruptcy Act 1966*.

Section 31B of the *Stamp Act* was amended from 1 January 2004 so as to no longer require there to be a "transaction" for stamp duty to apply. An unintended consequence of this amendment was that transfers of property from a bankrupt to creditors were captured by provisions requiring a dutiable statement to be prepared and duty paid on the transfer.

Retrospective amendments are proposed, with effect from 1 January 2004, to ensure that no transfers from a bankrupt to the creditors upon bankruptcy are subject to ad valorem conveyance duty.

Conveyance Duty – Change Liable Party for Gifts from the Donor to the Donee

Unlike traditional property conveyances where the liable party is the purchaser or transferee, the liable party in relation to a gift of property is currently the donor.

Charitable institutions will benefit from changing the liable party to the donee, to the extent that people who may consider gifting property to charitable organisations are often discouraged from doing so by the stamp duty cost. These gifts will effectively become non-dutiable, because charities are generally exempt from stamp duty under existing provisions of the *Stamp Act*.

This approach will also simplify the administration of the stamp duty concession for first home owners. Persons eligible for the First Home Owner Grant scheme are also eligible for the first home buyer stamp duty concession up to specified property values. However, special arrangements are required to cater for the situation where a person receives a house as a gift but would have been eligible to receive the first home owner grant if consideration had been paid for the property.

Other gifting arrangements are usually between family members or close relations, where there will still be a stamp duty liability (now falling on the donee rather than the donor). However, the passing of assets between family members is more commonly through a will, incurring only nominal duty.

Taxation Revenue Estimates

Summary

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

TAXATION REVENUE						
	2004-05 Actual \$m	2005-06 Estimated Actual \$m	2006-07 Budget Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m
TAXES ON EMPLOYERS' PAYROLL AND LABOUR FORCE						
Payroll tax	1,211	1,351	1,428	1,530	1,621	1,717
TAXES ON PROPERTY AND FINANCIAL INSTITUTIONS TAXES						
Land tax	315	320	342	365	391	419
Stamp duties on financial and capital transactions	1,394	2,040	1,866	1,652	1,628	1,731
Financial institutions transactions taxes	100	8	-	-	-	-
Other	176	195	209	219	226	238
<i>Total</i>	<i>1,986</i>	<i>2,563</i>	<i>2,418</i>	<i>2,236</i>	<i>2,246</i>	<i>2,388</i>
TAXES ON PROVISION OF GOODS AND SERVICES						
Taxes on gambling	134	139	141	131	133	137
Taxes on insurance	299	326	339	349	365	382
<i>Total</i>	<i>433</i>	<i>465</i>	<i>480</i>	<i>480</i>	<i>498</i>	<i>519</i>
TAXES ON USE OF GOODS AND PERFORMANCE OF ACTIVITIES						
Motor vehicle taxes	684	722	757	788	827	866
TOTAL TAXES	4,314	5,100	5,082	5,035	5,192	5,491

Note: Columns may not add due to rounding.

The estimated outturn for taxation revenue in 2005-06 is expected to be 18.2% higher than in 2004-05. Strong growth in taxation revenue is mainly due to the continuing strength of the property market (including the impact of a large, one-off conveyance duty assessment during the year), wage and employment growth, and growth in new motor vehicle sales.

Taxation revenue is forecast to decrease by 0.3% in 2006-07 and to contribute less than a third (around 30.8%) of total State revenue. This is largely due to the impact of tax relief measures announced on 21 March 2006 and in this Budget. Adjusting for tax relief and the impact of the large, one-off conveyance duty assessment noted above, underlying growth in taxation revenue is estimated to be 5.5%.

Taxes on Employers' Payroll and Labour Force

Payroll tax is the sole tax in this category and is expected to account for 28.1% of total taxation revenue in 2006-07.

Payroll tax is expected to grow by 5.7% in 2006-07, following growth of 11.6% in 2005-06. The forecast moderation in payroll tax growth is mainly due to a forecast easing in employment growth (to 2.0%), largely reflecting expected labour supply constraints. However, a tight labour market is also expected to contribute to continued growth in average weekly earnings of around 5.25% over the year. The one-off impact of the introduction of a quarterly payroll tax payment option for taxpayers with a payroll tax liability of between \$20,000 and \$100,000 per annum from 1 July 2006 will also reduce payroll tax growth in 2006-07².

Over the outyears payroll tax is expected to grow by an average of 6.3% per annum. This is consistent with forecasts for growth in employment and wages (as measured by average weekly earnings). However, this estimate does not incorporate a specific adjustment to take into account progressivity due to the structure of the payroll tax scale and the entry of new firms into the payroll tax base. This is the subject of further examination as part of the implementation of the recommendations from the Review of Revenue Forecasting.

Taxes on Property and Financial Institutions

This category comprises land tax, stamp duties on financial and other capital transactions (including stamp duty on property conveyances and mortgage duty), financial institutions taxes³, and other taxes (the MRIT and Emergency Services Levy (ESL)). Direct and indirect (which includes mortgage duty) taxes on property are estimated to account for 47.6% of total taxation revenue in 2006-07. Direct property taxes – land tax, stamp duty on conveyances, MRIT and the ESL – are estimated to account for 44.8% of total taxation revenue in 2006-07.

² This measure was announced in the 2005-06 Budget. The introduction of quarterly payment arrangements reduces measured payroll tax growth for the year as June quarter 2007 payments will be received in July 2007. Under the existing monthly payment arrangements payments for the month of June are received in the following month. As a result, there is a one-off delay to the receipt of payroll tax equivalent to two months of payroll tax payments for those employers taking up the quarterly payment option.

³ Following the abolition of debits tax from 1 July 2005, Western Australia no longer levies any taxes on financial institutions which are also included in this GFS category.

Property and financial institutions taxes are estimated to increase by 29.0% in 2005-06. This represents an increase of \$577 million compared with 2004-05, and is mainly due to strong growth in stamp duty on conveyances and stamp duty on mortgages as a result of the property market boom (which together are expected to raise around \$646 million more in 2005-06 than in 2004-05). Growth in conveyance duty in part reflects an increase in collections from large one-off assessments.

As an indication of the strength of the property market which has underpinned this strong increase in property taxes, the Real Estate Institute of Western Australia's Perth median house price rose by 18.2% in 2005⁴, while the total number of finance commitments for the purchase of established dwellings by owner-occupiers for the twelve months to February 2006 was 17.3% higher than commitments for the twelve months to February 2005. The increase in property taxes in 2005-06 was also boosted by a jump in the value of large, one-off assessments of conveyance duty on transfers of commercial property.

The contribution of conveyance duty and mortgage duty to growth in taxes on property and financial institutions in 2005-06 was partially offset by the abolition of debits tax from 1 July 2005, and the introduction of a mortgage duty concession for owner-occupier and small business refinancing from 1 January 2006. Debits tax raised \$100 million in 2004-05.

Overall, property and financial institutions taxes are forecast to decline by 5.7% in 2006-07. This forecast decline masks the impact of a strong property outlook in 2006-07. The forecast decline reflects the impact of tax relief measures contained in this budget and the impact of a large, one-off conveyance duty assessment reflected in the estimated outturn for 2005-06. In the absence of these factors, growth in property and financial institutions taxes is estimated to be 6.0% in 2006-07.

While the rate of growth of property market activity is expected to fall relative to 2005-06, the estimates no longer factor in a downturn in property market activity in 2006-07 as was the case in the 2005-06 mid-year review estimates. The improved property market outlook for 2006-07 reflects an assessment that 'fundamentals', including strong economic growth and growth in household incomes, will continue to support the housing market. Strong demand and continuing supply constraints in the residential construction industry are expected to underpin continued house price growth over the year (in the order of 10%). However, it is anticipated that declining affordability and reduced investor expectations of capital gains will result in a modest decline in dwelling sale volumes (of around 5%) in 2006-07.

Over the outyears, property and financial taxes are forecast to decline, reflecting the impact of the phased abolition of mortgage duty and the part-year impact of the abolition of hire of goods duty in 2006-07. However, the outyear estimates also reflect an expected softening in the housing market in 2007-08, as a result of:

⁴ Real Estate Institute of Australia, *Market Facts*, December Quarter 2005. Growth in the median house price relative to the December quarter 2004.

- a moderating impetus from weaker commodity prices and an accompanying slowdown in business investment growth and their flow-on impact on household incomes and employment growth;
- the emergence of a greater balance in the demand for, and supply of, housing as dwellings currently in the building pipeline are completed;
- the prospect of interest rate increases⁵; and
- declining housing affordability following several years of strong price growth.

The impact of these factors is expected to be moderated by supportive economic conditions generally. As a result, the softer housing market in 2007-08 is expected to be characterised by a stabilisation of house prices and a further decline in the volume of transfers of around 10%. Activity in the housing market and growth in property taxes are expected to pick up again in 2008-09 and 2009-10, but not to the levels experienced in 2005-06.

Taxes on the Provision of Goods and Services

This category includes taxes on gambling and insurance, and some minor levies. Taxes in this category are expected to account for 9.4% of total taxation revenue in 2006-07.

Taxes on gambling mainly comprise lotteries, casino and TAB betting taxes. Gambling taxes contribute significantly more to taxation revenues in other jurisdictions due to taxes on gaming machines in hotels and clubs (which are prohibited in Western Australia).

Gambling tax revenue is estimated to increase by around 1.6% in 2006-07. Beyond 2006-07, total gambling tax revenues will be affected by changes to the TAB betting tax announced in the 2005-06 Budget and which take effect from 1 July 2008 (costing \$11 million in 2007-08 and \$35 million over the three years to 2009-10). As a result of this policy change TAB betting tax revenue is expected to decrease by 24.1% in 2007-08. TAB betting tax revenue is then expected to grow by around 3.8% per annum on average in 2008-09 and 2009-10. Casino tax, levied on gross gaming revenue (total bets less winnings paid out) at the Burswood casino, is estimated to increase by 1.8% in 2006-07 and by around 1.7% per annum on average over the outyears. These increases are partly offset by an associated increase in GST rebates⁶. Lotteries Commission surpluses are estimated to increase by around 1.5% in 2006-07 and by an average of 1.6% per annum over the outyears.

⁵ While the Reserve Bank of Australia's decision to raise its target cash rate by 0.25 percentage points on 3 May 2006 was made after the economic and revenue forecasts were finalised, the interest rate rise reinforces the assessment of the property market outlook underpinning these forecasts.

⁶ As part of the intergovernmental agreement on the GST, the States agreed to adjust their gambling tax arrangements to offset the introduction of the GST. Western Australia does this using a rebate that reimburses gambling operators for their GST liability.

Taxes on insurance comprise stamp duty on insurance policies, the workers' compensation levy and the employers' superannuation indemnity supplementation levy. Revenue from stamp duty on insurance policies is expected to increase by 4.1% in 2006-07. Underlying growth in insurance duty is expected to grow in line with forecast growth of nominal State final demand (of around 6.1% per annum). However, the decision to reduce Compulsory Third Party insurance premiums in this budget reduces the stamp duty on these premiums (by \$3.6 million in 2006-07, rising to \$3.9 million in 2009-10). Over the outyears, stamp duty on insurance is forecast to grow at an average annual rate of 4.8%.

Taxes on the Use of Goods and Performance of Activities

This category is made up of motor vehicle taxes – stamp duty on the registration and transfer of motor vehicle licences, annual vehicle registration fees, permit fees for oversize vehicles and loads, and the motor vehicle recording fee – and is expected to account for 14.9% of total taxation revenue in 2006-07.

Motor vehicle stamp duty collections are expected to increase by 5.0% in 2006-07 following very strong estimated growth of 16.0% in 2005-06. Over the outyears, average annual growth of 4.6% is forecast. Revenue from annual motor vehicle licence fees is forecast to increase by similar magnitudes (i.e. 4.7% in 2006-07 and 4.6% per annum on average across the outyears).

Other Revenue

Commonwealth Grants⁷

At 41%, Commonwealth grants are the largest revenue source for the State and 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, compensation for GST deferral, and competition payments (around 57% of total Commonwealth grants); and
- specific purpose payments (SPPs) – which must be spent on specific activities and have various other conditions attached (around 43% of total Commonwealth grants).

The Commonwealth's national GST collections are distributed among the States according to the Commonwealth Grants Commission's recommendations. Under the Grants Commission's methodology, there is a significant inbuilt lag between changes in Western Australia's fiscal circumstances (relative to other States) and changes in its per capita share of the national GST pool (GST relativity).

GST revenue grants to Western Australia are projected to grow by 4.3% in 2006-07. This primarily reflects:

⁷ Due to the release of the Commonwealth Budget (on 9 May 2006) after Western Australia's budget cut-off date, these projections do not reflect the impact of the Commonwealth's 2006-07 budget estimates of national GST revenue on Western Australia's GST revenue grants.

- a forecast 6.8% growth in the national pool of GST revenue; and
- a \$96 million cut in Western Australia's share of GST collections, as recommended by the Commonwealth Grants Commission.

The forward estimates of Western Australia's GST revenue grants are based on projections of the national GST pool, the State's share of the national population and the State's GST relativity. The GST pool and population share projections are based on latest available estimates from the Commonwealth as at the budget cut-off date. The GST relativity projections are estimated by the Department of Treasury and Finance, assuming no change in Western Australia's expenditure requirements and revenue raising capacities (relative to other States) except for some royalties (on offshore petroleum, iron ore and export quality coal), stamp duty on conveyances and land tax. In these cases, changes in relative revenue raising capacities are estimated from estimated changes in revenue collections in Western Australia and other States^{8,9}.

Consistent with the Commonwealth's unilateral decision to cease National Competition Payments from 2006-07 onwards, these payments are no longer included in the forward estimates (see Chapter 7: *Structural Reform* for further details).

SPPs 'to' Western Australia are expected to increase by only 3.1% in 2006-07.¹⁰ Growth in health and education payments due to indexation is partly offset by reductions in Commonwealth project-based road funding and funding under the National Action Plan for Salinity and Water Quality.

Commonwealth SPPs that pass through the State's accounts, mainly to local governments and private schools, are expected to grow by 9.0% in 2006-07, primarily reflecting a large increase in recurrent Commonwealth payments to private schools (up by 9.5%). Strong growth is expected to continue in the outyears.

Over the three outyears, Commonwealth grants 'to' the State are expected to increase by an average of 0.4% per annum. Solid growth in the national pool of GST revenues is expected to be largely offset by a declining share of GST revenues for Western Australia relative to other States and low growth in SPPs 'to' the State.

By 2009-10 the Commonwealth Grants Commission process is expected to result in Western Australia's GST revenue grant share being \$668 million less than it would be if the 2006-07 distribution still applied. This reflects the lagged Grants Commission impact of the recent high growth in the State's property market related revenue, and petroleum and iron ore royalties.

⁸ Further details are provided in Chapter 6: *Federal Affairs*.

⁹ In line with the recommendations of the Revenue Forecasting Review recently undertaken by the Department of Treasury and Finance, work is being undertaken to further refine and quality assure the GST grants forecasting methodology.

¹⁰ 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 10

COMMONWEALTH GRANTS

	2004-05 Actual \$m	2005-06 Estimated Actual \$m	2006-07 Budget Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m
General Purpose Grants						
GST revenue	3,624	3,753	3,928	3,922	3,892	3,970
GST deferral compensation ^(a)	22	13	2	2	2	2
Competition payments	54	71	0	0	0	0
Total general purpose grants	3,700	3,836	3,929	3,924	3,894	3,972
SPPs 'to' the State ^(b)	1,929	2,079	2,143	2,193	2,218	2,176
TOTAL COMMONWEALTH GRANTS 'TO' THE STATE	5,629	5,915	6,072	6,117	6,111	6,148
SPPs 'through' the State	681	709	773	820	870	924
North West Shelf royalties	506	675	721	695	623	546
TOTAL COMMONWEALTH GRANTS ^(c)	6,815	7,299	7,566	7,632	7,604	7,617

(a) GST deferral compensation is paid to the States as a result of the Commonwealth's 2004-05 Budget measure to allow annual payment of GST by some taxpayers. The compensation reflects the higher level of GST that would have been collected in each year if it were not for the deferral measure.

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

(c) Government Finance Statistics (GFS) basis.

Note: Columns may not add due to rounding.

Sales of Goods and Services

Revenue from the sale of goods and services is forecast to increase by an average of 2.2% per annum across the forward estimates period. This rate of growth reflects movements in the volume of goods and services provided by agencies across the sector and the annual indexation of a range of agency fees and charges to movements in the consumer price index. It also includes a new fee for National Criminal History Records Checking for commercial entities (estimated to generate around \$0.3 million per annum).

Interest Income

Interest earnings from cash balances and other financial assets is projected to total \$151 million in 2006-07, following estimated earnings of \$195 million in 2005-06. The estimate for 2005-06 is \$49 million higher than the \$146 million projection at the time of the 2005-06 Budget, and reflects the significant upward revision to the general government net operating surplus, and income on the associated cash holdings accumulated through the year.

In 2006-07, interest earnings are forecast to be \$151 million, and progressively reduce to around \$130 million per annum in the outyears. This decline reflects the Government's decision, as part of this Budget, to inject surplus Consolidated Fund monies from 2005-06 into the New MetroRail project leaving this significant public transport investment debt-free on completion. This reduces interest earning balances held by the general government sector.

Revenue from Public Corporations

The major public corporations in Western Australia are liable for income tax equivalent and dividend payments to the State. A number of these public corporations are also liable for 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 2006-07 is estimated to be \$750 million, a decrease of \$82 million, or 9.9%, from the previous year.

REVENUE FROM PUBLIC CORPORATIONS							Table 11
	2004-05 Actual \$m	2005-06 Estimated Actual \$m	2006-07 Budget Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	
Income tax equivalent	286	289	285	289	321	321	
Local government rate equivalent	6	7	9	9	9	10	
Dividends	468	536	456	470	496	509	
TOTAL	760	832	750	768	826	839	

Note: Columns may not add due to rounding.

The reduction in revenue in 2006-07 mainly results from lower tax equivalent and dividend revenue from the Western Australian Land Authority (LandCorp) and the successor entities to Western Power Corporation, partially offset by higher tax equivalent and dividend revenue from the Geraldton Port Authority.

The former Western Power Corporation (Electricity Corporation) was disaggregated on 1 April 2006 into four new entities, Horizon Power (Regional Power Corporation), Synergy (Electricity Retail Corporation), Verve Energy (Electricity Generation Corporation) and Western Power Networks (Electricity Networks Corporation).

Underlying profitability for these entities in 2006-07 is forecast to increase, mainly due to increased developer contributions and other revenues. These increases are partially offset by cost increases, including wages and salaries.

In 2006-07 revenue to government from the electricity entities has been reduced relative to 2005-06, due to increases in deferred taxation liabilities (payable in later financial years), and the early payment by Western Power of dividends in 2005-06 arising from the disaggregation process.

The revenue reductions from LandCorp reflect lower forecast margins on land sales (mainly due to higher development costs) and the recognition of both the 2004-05 and 2005-06 financial years' dividends in 2005-06 due to revenue recognition changes as part of the implementation of Australian equivalents to International Financial Reporting Standards.

The increases from the Geraldton Port Authority are associated with increased profits due to a tripling of iron ore throughputs as a result of several projects in the Mid-West becoming fully operational.

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

Royalty Income¹¹

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

Projections of mining royalty revenue are based on:

- 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 US73.0 cents across all years (the average rate in the lead up to the estimates being finalised on the budget cut-off date of 18 April 2006), representing a 1.8% depreciation from the estimated average exchange rate of US74.3 cents in 2005-06 (and a decrease from the US74 cents assumed in the 2005-06 mid-year review);
- an average oil price of \$US65.5 per barrel over the remainder of 2005-06, \$US67.9 per barrel in 2006-07, \$US68.0 per barrel in 2007-08, \$US67.0 per barrel in 2008-09 and \$US66.1 per barrel in 2009-10 (based on average futures market prices in the lead up to the budget cut-off date); and
- only those new mining projects or project expansions assessed as having a strong likelihood of proceeding being included in the estimates (in most cases this will involve the new project or project expansion having been formally approved and committed).

Total mining revenue (including North West Shelf petroleum royalties and lease rentals) is expected to increase by around \$252 million (or 12.5%) to \$2.3 billion in 2006-07. This rise is mainly due to an assumed 10% increase in iron ore contract prices as well as increases in production volumes for key commodities including iron ore and gold. In addition, higher prices for oil and gold, and a slightly lower average exchange rate assumption relative to 2005-06 contribute to the increase in estimated royalties.

¹¹ For GFS reporting purposes North West Shelf petroleum revenues are included in Commonwealth grants rather than Western Australia's own source revenue, reflecting the Commonwealth's constitutional responsibility for off-shore areas and the royalty sharing arrangements between Western Australia and the Commonwealth.

Table 12

MINING ROYALTIES

	2004-05 Actual \$m	2005-06 Estimated Actual \$m	2006-07 Budget Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m
Iron ore	465	806	1,000	854	826	886
Petroleum – excluding North West Shelf royalties	47	61	61	53	44	39
Alumina	55	63	64	63	63	61
Diamonds ^(a)	36	68	58	10	34	24
Mineral sands	26	28	25	26	25	26
Nickel	92	85	100	102	89	80
Gold	74	94	125	120	121	121
Other	47	72	74	79	79	78
Mining Royalties (excluding North West Shelf grant)^(b)	841	1,276	1,504	1,303	1,280	1,313
Petroleum – North West Shelf grant ^(c)	506	675	721	695	623	546
Total Mining Royalties (including North West Shelf grant)	1,347	1,951	2,225	1,998	1,902	1,858
Lease Rentals ^(d)	50	65	43	43	43	43
TOTAL MINING REVENUE	1,397	2,015	2,267	2,040	1,945	1,901

(a) The estimate for diamond royalties in 2006-07 is net of a refund of the difference between the royalties paid under the current rate and that which would have been paid under the lower rate of 5 per cent for the period 1 January 2006 to 1 January 2008 (see Chapter 3: *Expenditure Initiatives* for further details).

(b) GFS Royalty Income category.

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

(d) Lease rentals are classified as 'Other revenue' for GFS purposes.

Note: Columns may not add due to rounding.

Iron Ore – Iron ore royalties are expected to increase strongly in 2006-07, reflecting a forecast 10% increase in iron ore prices and higher production volumes. It is anticipated that iron ore prices will decline by around 12.5% in both 2007-08 and 2008-09, before stabilising in 2009-10. This reflects the expectation that prices will ease as global supply from projects currently under construction in many producing countries comes on stream.¹² In 2007-08, iron ore volumes are expected to ease slightly from 2006-07 levels. This reflects assessments of production capacity in 2007-08 at some mines. From 2008-09 onward, additional production volumes from projects based in Western Australia will partly offset the impact on iron ore royalties of anticipated declines in contract prices.

Petroleum – In 2006-07, petroleum royalties are projected to increase, primarily as a result of a higher oil price assumption of \$US67.9/bbl compared to the estimated actual average oil price of \$US62.9/bbl in 2005-06. Petroleum royalties are expected to decline over the outyears mainly due to Western Australia's maturing oil fields. The current estimates assume that any LNG contracts expiring during the forward estimates period are renewed. The oil price assumptions have been revised up substantially since the 2005-06 mid-year review (which assumed an average price of \$US45 per barrel in 2006-07 and \$US40 per barrel in subsequent years).

¹² United Nations Commission on Trade and Development statistics show that while World iron ore production growth was modest in 2005, certain and probable capacity additions will add around 280 mtpa to global iron ore production between 2006 and 2008. This is well in excess of the forecast increase in demand of just under 200 mtpa.

Alumina – Alumina royalties are expected to remain relatively stable over the budget and forward estimates period, as forecasts for minor increases in production volumes are more than offset by weaker alumina prices in the outyears.

Diamonds – Diamond royalties are expected to decline over the forward estimates period as a result of the transition from open pit to underground mining, and the Government's decision to apply a reduced royalty rate to diamonds.

Mineral sands – Royalties from mineral sands are not expected to change significantly over the budget period. In the case of zircon, price increases are expected to be largely offset by a decline in volume. For ilmenite, a forecast decline in price is expected to be accompanied by a higher volume, while the price and volume of rutile is projected to increase over the period.

Nickel – Nickel royalties are expected to rise in 2006-07, reflecting strong nickel prices. Nickel production is expected to decline slightly in 2006-07 before growing strongly in 2007-08 and 2008-09, partly due to the ramping up of production from the new Ravensthorpe mine and higher production at a number of existing mines. However, in the later part of the forward estimates period, declining nickel prices result in a decline in estimated nickel royalties. Nickel prices are expected to decline from a level of around \$US14,900 per tonne in March 2006 to around \$US9,150 per tonne in 2009-10. This is within the range of analysts' expectations for the price of nickel in the longer term.

Gold – Gold royalties are expected to increase in 2006-07. This reflects a higher gold price assumption for 2006-07 (\$US580/oz) relative to the estimated actual average gold price in 2005-06 (around \$US500/oz) and higher production volumes. Over the outyears, gold production is expected to increase as current high gold prices encourage existing producers to increase output and the development of new mines. However, the impact on gold royalties from these higher volumes is expected to be offset by a gradual decline in the gold price. Based on ABARE forecasts, the gold price is expected to decline from an average of around \$US580/oz in 2006-07 to around \$US490/oz by 2009-10.

Lease rentals – These mining related charges are essentially for exploration and production licences. While lease rental payments are forecast to remain constant at \$43 million per annum in 2006-07 and across the outyears, a one-off increase is expected in 2005-06. This reflects a large number of mining lease applications (and associated payments of rent in advance) received prior to the February 2006 commencement of the *Mining Amendment Act 2004*.

Other Revenue

The 'other revenue' category incorporates a range of revenue not elsewhere classified, including¹³:

¹³ This includes mining-related lease rentals for exploration and production licences paid to the Department of Industry and Resources (discussed previously under aggregate mining revenue).

- fines for traffic-related infringements including on-the-spot, Multanova speed and red light camera infringements revenue, and judicial fines and penalties;
- Capital User Charge revenue from the Public Transport Authority (PTA)¹⁴;
- donations and grants from private organisations, local government and other levels of government within the Western Australia public sector; and
- net assets transfers.

Fines revenue is forecast to increase from an estimated \$83 million in 2005-06 to \$106 million in 2006-07, and to around \$115 million per annum thereafter. This increase reflects the implementation of the Government's State Road Safety Strategy, which involves the purchase of additional Multanova speed cameras for placement around school zones, and an increase in Road Traffic Code penalties.

CUC revenue from the PTA is forecast to be \$130 million in 2006-07 and to increase by an average 13.6% per annum across the remaining forward estimates period. This reflects a significant increase in the net value of assets on the balance sheet of the PTA following the Government's decision to make the New MetroRail project debt-free on completion.

Budget projections for donations and grants (around \$112 million in 2006-07) are generally fixed from year to year, reflecting the lumpy and indeterminant nature of this revenue.

Net asset transfers are often lumpy and one-off in nature and are the main factor for large movement in year-to-year growth in 'other revenue'. The forward estimates include the wind-up and transfer of residual net assets of the Subiaco Redevelopment Authority, with a transfer of \$6 million in 2006-07 (to be on-passed to the City of Subiaco) and a final estimated transfer of \$29 million in 2009-10.

¹⁴ The Capital User Charge (CUC) is a levy charged on appropriation funded agencies based on the net value of assets used to deliver services. As the PTA is classified as a public non-financial corporation, the appropriation of funds to that agency, and the subsequent requirement to pay the CUC to the Consolidated Fund, has the effect of grossing up general government revenue and expenses (with no net impact on general government finances).

The Western Australian Economy

Overview

The Western Australian economy is estimated to have grown by 4.75% in 2005-06, almost twice the 2.7% growth rate recorded over 2004-05¹. Growth will be driven by a strong domestic economy (up 6.75%), with consumer spending and business investment the main contributors. Spending on dwelling investment is also expected to contribute to growth, as the State's strong labour market and investor activity fuel housing demand. However, international trade is forecast to detract from growth in 2005-06, as strong imports growth more than offsets a moderate increase in the volume of exports.

In 2006-07, Gross State Product (GSP)² growth is forecast to strengthen to 5.25%, as net trade (exports less imports) takes the lead as the major driver of economic growth. Exports are forecast to grow by 10.0% in 2006-07, as additional capacity resulting from the strong resource sector investment of recent years begins to generate increased production.

Growth in domestic economic activity is expected to ease in 2006-07, with State Final Demand³ forecast to increase by 4.0%. This will follow what is likely to be the fifth consecutive year of above-trend growth in domestic activity, with the forecast moderation in domestic economic growth a result of softer growth in household consumption expenditure, business investment and dwelling investment. However, this reflects current historically high levels of activity, more than a downturn in underlying conditions.

¹ Gross State Product estimates compiled by the Australian Bureau of Statistics (ABS) can be subject to significant revisions.

² GSP is the total output of the economy, comprised of expenditure on State Final Demand (refer next footnote) plus net trade expenditure (i.e. exports less imports) from interstate and overseas.

³ State Final Demand comprises expenditure on household and government consumption, dwelling investment, business investment, and public sector investment.

Table 1

MAJOR ECONOMIC AGGREGATES
Western Australia

	2004-05 Actual %	2005-06 Estimated Actual %	2006-07 Budget Estimate %	2007-08 Forward Estimate %	2008-09 Forward Estimate ^(d) %	2009-10 Forward Estimate ^(d) %
Real Gross State Product Growth ^(a)	2.7	4.75	5.25	3.75	4.5	4.5
Real State Final Demand Growth ^(a)	5.8	6.75	4.0	2.75	4.0	4.0
Nominal State Final Demand Growth	9.1	10.5	6.5	5.0	6.25	6.25
Employment Growth	4.2	4.5	2.0	2.25	2.25	2.25
Unemployment Rate	4.7	4.25	4.25	4.75	4.75	4.75
Wage Price Index ^(b)	4.3	4.5	4.25	3.5	3.25	3.25
Average Weekly Earnings ^(b)	5.7	5.75	5.25	4.0	3.5	3.5
Consumer Price Index Growth	3.2	4.0	3.0	2.5	2.5	2.5
GSP Implicit Price Deflator Growth ^(c)	6.4	8.0	2.5	2.5	2.0	2.0

(a) Real (chain volume) terms abstract from price effects.

(b) The Wage Price Index (WPI) is preferred to Average Weekly Earnings as a measure of wages growth, as it is designed to measure wage changes rather than levels, and is not influenced by changes in the composition of the workforce (unlike Average Weekly Earnings).

(c) GSP Implicit Price Deflator forecasts include a technical assumption that export and import prices do not change.

(d) Beyond 2007-08, forward estimates are not forecasts, but projections based on long-term averages.

Other notes: Currency exchange rates and interest rates assumed to be constant over the forecast period, and ABS mid series population projections are used as a basis for estimating population growth. The Reserve Bank of Australia's decision to raise the official interest rate by 25 basis points (from 5.5% to 5.75%) on 3 May 2006 was made after the economic forecasts for the 2006-07 Budget were finalised. However, the rate rise is not expected to materially affect the forecasts (a prior assumption was that the Reserve Bank held a tightening bias).

In 2007-08, the State's domestic demand growth is forecast to moderate to 2.75%, somewhat below its longer-term trend, because of a minor dip in dwelling investment and weaker growth in business investment. However, net international trade is expected to partly offset this weaker growth in domestic demand, with export growth of 8.0%. As a result, the Western Australian economy is forecast to grow by 3.75% in 2007-08. Over the medium term, domestic demand and GSP are projected to return to long-term growth trends, with growth of 4.0% and 4.5% forecast for 2008-09 and 2009-10 respectively.

Conditions in the State's labour market are forecast to remain tight, reflecting the expected strength of the economy over the next couple of years. Employment is forecast to grow by 2.0% in 2006-07 (following growth of 4.5% expected in 2005-06), but this relatively slow growth reflects labour supply constraints rather than weak demand. The unemployment rate is forecast to maintain a 29 year low of 4.25% over 2005-06 and through 2006-07. In 2007-08, labour market conditions are still expected to remain tight, with employment growth forecast to pick up slightly (to 2.25%), and the unemployment rate forecast to rise marginally, to 4.75%. Both these movements reflect a small increase in labour supply. The unemployment rate is projected to remain below 5.0% throughout the forecast period.

Western Australia's Wage Price Index is forecast to increase by 4.5% in 2005-06, followed by similarly strong growth of 4.25% in 2006-07, largely as a result of tight labour market conditions. Wages growth is expected to ease to 3.5% in 2007-08.

Table 2

COMPONENTS OF GROSS STATE PRODUCT
Western Australia

	2004-05 Actual ^(a) %	2005-06 Estimated Actual %	2006-07 Budget Estimate %	2007-08 Forward Estimate %
REAL ANNUAL AVERAGE GROWTH RATES				
Private				
Household Consumption	6.1	5.0	3.5	3.75
Business Investment	2.7	15.0	5.0	3.0
Dwelling Investment	6.4	8.5	5.5	-2.0
Public				
Consumption	4.0	3.0	3.5	1.5
Investment	24.2	2.25	5.25	3.25
State Final Demand	5.8	6.75	4.0	2.75
External Sector ^(b)				
Exports	3.4	2.25	10.0	8.0
Imports	15.1	12.5	8.5	8.75
Net Exports	-4.5	-3.75	11.25	7.5
Balancing Item ^(c)	10.3	4.75	5.25	3.75
Gross State Product	2.7	4.75	5.25	3.75
CONTRIBUTIONS TO GROWTH				
Private				
Household Consumption	3.0	2.5	1.8	1.9
Business Investment	0.5	2.6	0.9	0.6
Dwelling Investment	0.5	0.7	0.4	-0.2
Public				
Consumption	0.6	0.4	0.5	0.2
Investment	0.8	0.1	0.2	0.1
State Final Demand	5.4	6.3	3.9	2.6
External Sector ^(b)				
Exports	1.4	0.9	3.7	3.1
Imports	-2.4	-1.7	-1.3	-1.4
Net Exports	-1.1	-0.9	2.4	1.7
Balancing Item ^(c)	-1.6	-0.8	-0.9	-0.6
Gross State Product	2.7	4.75	5.25	3.75

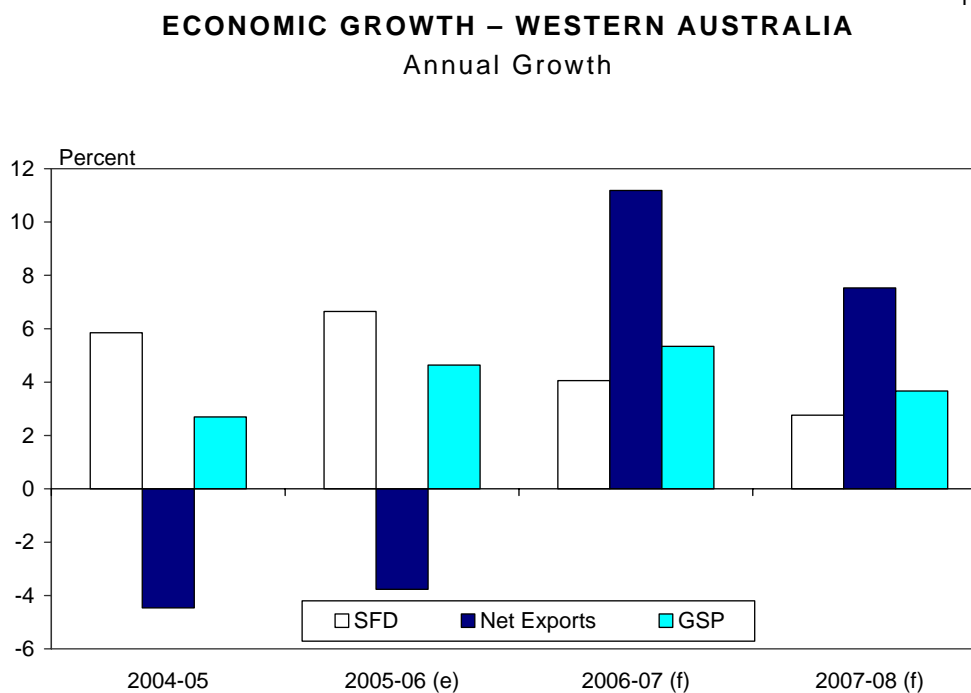
(a) Based on 2004-05 State Accounts data, released in November 2005 (ABS Catalogue Number 5220.0).

(b) International trade in merchandise exports and imports only. Does not include services.

(c) The balancing item includes interstate trade, changes in the level of stocks, and a 'statistical discrepancy'. Given the balancing item's significant size (over the past few years it has fluctuated between 15% to 17% of GSP), the forecasts in the table above include an estimation of the balancing item. However, given the difficulty of forecasting individual components of the balancing item, for any given forecast year, the estimation is based on a fixed ratio of gross State product (where the ratio is based on the balancing item's proportion of the domestic economy and net exports from the previous year).

Note: Columns may not add due to rounding.

Figure 1



(e) Estimate.

(f) Forecast.

Note: The parameters above are in real (chain volume) terms. SFD is State Final Demand (the domestic economy).

State Final Demand

Household consumption

Real household consumption spending has grown strongly in recent years, and is forecast to increase by 5.0% in 2005-06.

Several factors are supporting this spending:

- strong growth in the State's residential property prices and record share prices have boosted households' wealth;
- consumer confidence is high and relatively stable (and low) interest rates have supported borrowing;
- Western Australia's relatively high employment levels and earnings growth have contributed to growth in disposable incomes that may also have encouraged consumer spending; and
- export prices have risen strongly relative to import prices, making imports relatively more affordable.

Other positive fundamentals that have supported household consumption growth include a small increase in population growth, driven in part by rising net migration.

So far, these positive influences appear to have more than offset the negative effects of high fuel prices, with many households appearing to have adjusted their budgets to take account of persistent high petrol prices⁴.

Growth in household consumption is forecast to soften to 3.5% in 2006-07. This in part reflects an expected slight easing in the growth of dwelling investment, along with slower employment growth. Consumption spending growth is forecast to strengthen (marginally) in 2007-08 to 3.75% (although this will still be below its long-term trend rate of growth), due mainly to slightly stronger employment growth.

Business Investment

Recent strong growth in business investment in Western Australia has been dominated by a significant number of medium-to-large resource projects. Strong growth in global demand for many of Western Australia's key resource commodities has induced a commensurately strong investment response. Of the estimated \$11.6 billion worth of private sector projects currently under construction in Western Australia⁵, more than 90% of this value can be classified to a resource project, related infrastructure, or a project that involves the downstream processing of a resource.

Western Australian business expectations⁶ and the large pipeline of engineering construction work still to be done⁷ point to a continuation of very positive conditions in the near term, with business investment expected to grow by 15.0% in 2005-06.

Growth in business investment in 2006-07 is then forecast to moderate (to 5.0%) but remain at a very high level. Newly committed resource projects and continuing work on the large number of projects already under way (along with the broader positive economic environment) will also support business investment.

Business investment growth is forecast to ease further in 2007-08, to 3.0%. Some of the \$45.7 billion worth of private sector projects currently under consideration⁸ are likely to support activity in 2007-08 (and beyond). It is important to note, however, that not all these projects are likely to go ahead, and of the ones that do, many will not commence for some years.

Business investment in Western Australia can be very volatile. Given the lumpy nature of investments, changes to project status and timing could result in significantly different outcomes than forecast. Capacity constraints also create uncertainty about project timing, as labour and/or materials shortages could delay construction (as is currently happening in some industries).

⁴ While the latest ABS Household Expenditure Survey (HES) data (for 2003-04) indicate a 26% increase in average weekly household expenditure on automotive fuel (from the previous 1998-99 HES), the same 2003-04 HES data also show automotive fuel (petrol, LPG, and diesel) itself only represents just under 4.0% (or \$34.34) of the average weekly expenditure of Western Australian households.

⁵ Access Economics Investment Monitor (December quarter 2005).

⁶ ABS Private New Capital Expenditure and Expected Expenditure, Catalogue 5625.0 and Chamber of Commerce and Industry - Bankwest Survey of Business Expectations.

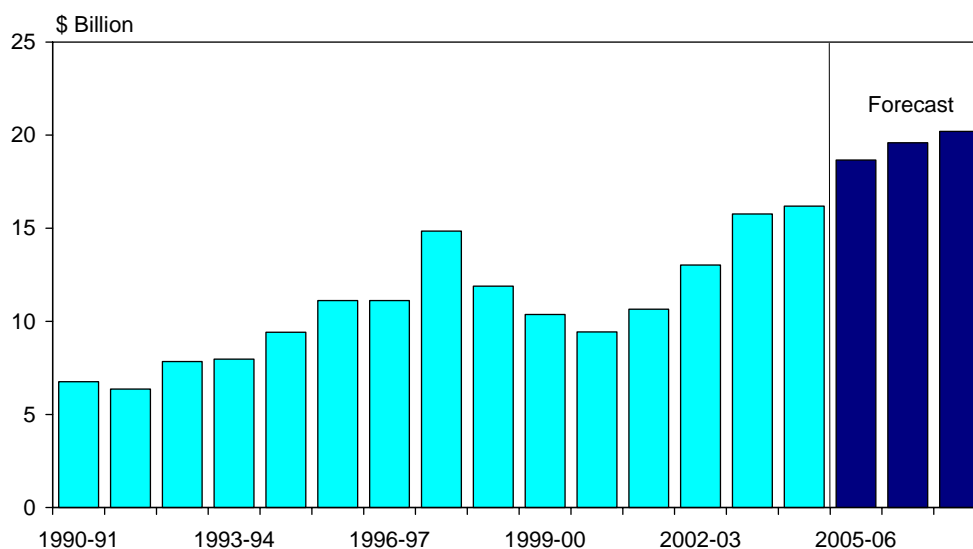
⁷ ABS Building Activity Survey, Catalogue 8752.0.

⁸ Access Economics Investment Monitor (December quarter 2005).

Proponents of major resource-related projects may be able to mitigate some of these capacity constraints. For example, various strategies have been employed to enable the North West Shelf Consortium's fifth LNG train to be constructed using an estimated five million person hours, compared to the similarly designed fourth LNG train, which required twelve million hours⁹.

BUSINESS INVESTMENT IN WESTERN AUSTRALIA

Figure 2



Note: Chain weighted reference year for measure is 2003-04. Excludes 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 \$2.1 billion in 1997-98.

While many potential resource projects are currently benefiting from very high commodity prices, higher input costs and capacity constraints may cause some crowding out of investment in the more marginal investment projects - particularly for those that are not resource-related, which may not be benefiting from higher rates of return due to strong world commodity prices.

⁹ Woodside LNG Phase V Expansion Update (Newsletter 1, December 2005).

Dwelling Investment¹⁰

The housing market in Western Australia has considerable momentum. Dwelling investment grew by 11.5% in the December quarter 2005, with residential construction activity at a historic high, and also strong activity in the established housing market. Indicators of residential construction activity, such as building approvals and the value of construction work yet to be done, as well as indicators of established housing market activity, point to a sustained high level of activity into 2006. Reflecting these factors, dwelling investment is forecast to grow by 8.5% in 2005-06.

A number of strong economic fundamentals are currently supporting Western Australia's housing market, and should underpin demand for new housing in 2006-07. Strong employment and earnings growth have boosted households' disposable incomes. Consumer confidence is high, interest rates remain low (and relatively stable, despite the Reserve Bank of Australia's recent decision to raise the official interest rate by one quarter of a percentage point to 5.75%). Population growth has picked up pace in recent quarters. Consequently, Western Australia's property market is more buoyant than other States, with prices for established houses in Perth growing by 22.5% in the year to the December quarter 2005, compared to 2.3% nationally.

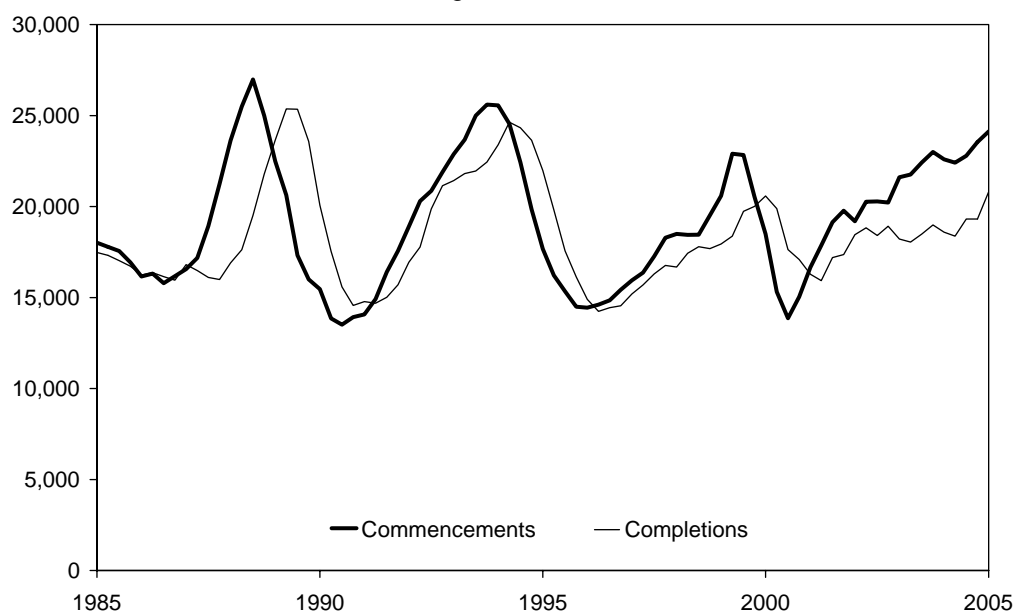
Capacity constraints have led to a large backlog of residential construction work. The stock of dwellings under construction in Western Australia is at a historic high, as completions have not kept pace with commencements (see chart below), while a large number of dwellings contracted to be built have yet to commence construction¹¹.

¹⁰ Dwelling investment includes ownership transfer costs, in addition to new dwelling construction, and alterations and additions. Ownership transfer costs (which typically comprise around a quarter of total dwelling investment for Western Australia) includes fees and charges paid to lawyers, real estate agents and auctioneers; as well as various government charges / taxes related to residential and commercial property transactions (such as stamp duty, title office charges and local government charges).

¹¹ The nominal value of residential work approved but not yet completed increased by 38.6% in 2005, from \$1.7 billion in December 2004 to \$2.4 billion in December 2005.

Figure 3

WESTERN AUSTRALIAN RESIDENTIAL CONSTRUCTION ACTIVITY
Moving Annual Total



ABS Catalogue 8752.0.

The large amount of work to be done, along with the strong economic fundamentals underpinning Western Australia's housing market, is expected to support residential construction activity in 2006-07, with dwelling investment forecast to grow by 5.5%.

Dwelling investment is forecast to decline by 2.0% in 2007-08, as activity eases from a peak in 2006-07, and the effects of increases in house prices on housing affordability dampen demand. Although dwelling construction activity is forecast to remain at historically high levels, supported by the large stock of construction work yet to be done, net additions to the stock of housing (completions less demolitions) over the period to 2007-08 are expected to help restore a better balance between supply and demand in the housing market. Additions to the stock of housing could also relieve pressure in the rental market. At the same time, pressure for house price growth is expected to ease, as growth in the domestic economy moderates¹². If the number of dwellings completed by 2007-08 exceeds new demand, this could lead to an over-supply of dwellings.

Public Sector Activity

Consumption and investment expenditure by the public sector (Commonwealth, State and local governments) in Western Australia typically accounts for around one fifth of the State's economy.

Public consumption is estimated to grow by 3.0% in 2005-06, by 3.5% in 2006-07 and by 1.5% in 2007-08. This is broadly in line with an expected moderation in overall government spending growth.

¹² Also see chapter four of this publication for information on the housing market.

Similar to business investment, public investment is typically volatile from year to year as it tends to occur in sizeable and discrete ‘lumps’, resulting from major projects.

Public investment growth is forecast to ease to 2.25% in 2005-06, following growth of 24.2% in 2004-05 and 13.5% in 2003-04. Public investment is then forecast to increase by another 5.25% in 2006-07, largely reflecting Western Australian Government investment on the New MetroRail project (expected to be completed during 2007) and further capital works projects¹³.

As well as currently committed projects, the likelihood of additional public sector investments being committed to in future years has been factored into a forecast modest increase in public investment of 3.25% in 2007-08.

Net Exports

Western Australia’s exports have enjoyed significant increases in value over the past few years because of record world prices for many of Western Australia’s key resource commodities. In volume terms, however, export growth has been surprisingly modest.

Net exports volumes (exports less imports) are forecast to contract by 3.75% in 2005-06, as moderate exports growth of 2.25% is expected to be more than offset by another strong increase in imports, of 12.5%. Robust demand for the State’s commodities has led many of its key commodity prices to be at or close to historical highs. However, long project lead times and construction phases in new resource projects, combined with delays caused by labour and materials shortages in some cases, have meant that the volume of Western Australian commodities exported has not yet responded strongly to these favourable prices.

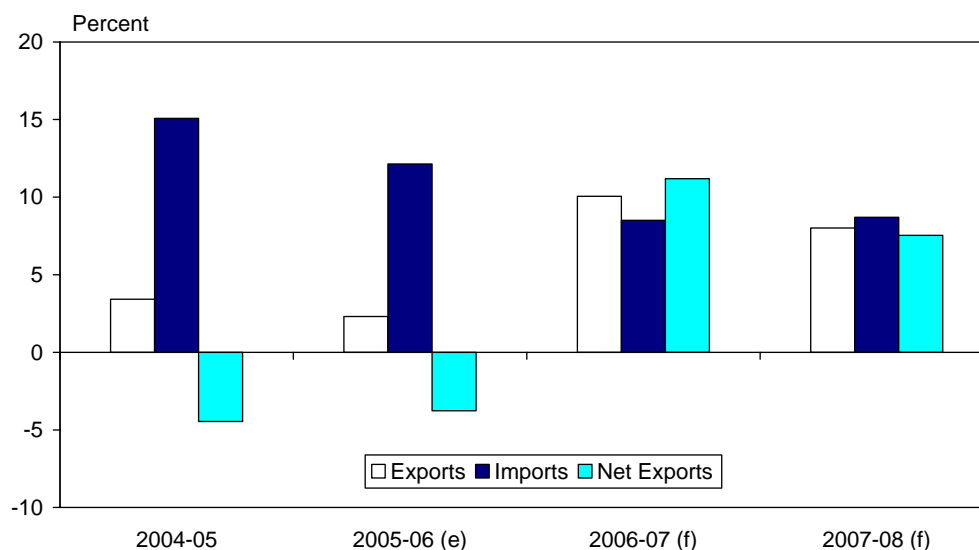
A more positive response is forecast in 2006-07, however, as export capacity is boosted by a full year’s production from a number of recently completed resource projects. Coupled with more moderate growth in imports, this is forecast to result in international trade becoming the major driver of growth in the Western Australian economy. Net exports are forecast to grow by 11.25% in 2006-07 and contribute 2.4 percentage points (almost half) of overall GSP growth of 5.25%.

Further boosts to export capacity, increased output from existing producers and moderate growth in imports are forecast to again see the external sector strengthen in 2007-08. Net exports are forecast to increase by 7.5% in 2007-08 and again be a major driver of economic growth, contributing 1.7 percentage points to the forecast GSP growth rate of 3.75%.

¹³ Other Western Australian government projects include the Alkimos Waste Water Treatment Plant, additional underground power and infill sewerage spending, road infrastructure, land and development at the former Midland Railway Workshops, housing for Government employees in rural areas and further expansions at Geraldton Port.

Figure 4

GROWTH IN THE EXTERNAL SECTOR Western Australia



(e) Estimate.

(f) Forecast.

Exports

Western Australian export volumes are forecast to increase by 2.25% in 2005-06. Despite strong growth in the value of exports to the State's major trading partners such as Japan and China, in volume terms Western Australia's exports in the December quarter 2005 were only 0.5% higher than the December quarter 2004. Long project lead times and delays in completion of some projects appear to be partly responsible for this weak volume response to strong global demand and prices.

Cyclones affected the Pilbara region in early 2006, resulting in a number of temporary shutdowns in iron ore and oil and gas operations. As most facilities are operating at full capacity to capitalise on record high commodity prices, lost exports are unlikely to be made up later in the year and so lost output will detract slightly from exports growth for 2005-06.

Global economic conditions are expected to provide a favourable environment for the State's export-oriented resource industry over the short to medium term. China's economy is undergoing robust industrial expansion that has largely driven Western Australia's exports growth. Exports to China have, on average, grown by more than 30% a year over the past five years, and China is now the State's second largest exports destination. Demand for the State's exports should remain strong in the short to medium term, with general global economic conditions expected to remain healthy over the next couple of years at least¹⁴.

Export volumes are forecast to rise markedly over the next year or two as recently completed resource projects move into production, and projects still under construction reach completion. Projects recently completed and commissioned, or expected to come on stream over the remainder of 2006, include:

- Rio Tinto's \$400 million Hismelt pig iron plant in Kwinana;
- Worsley's \$266 million alumina refinery capacity upgrade;
- Alcoa's \$440 million Pinjarra alumina refinery capacity upgrade;
- Stage One of Hamersley Iron's Yandicoogina mine expansion (which, along with its associated Stage One of the Dampier Port Upgrade, is worth a combined \$1.25 billion);
- Burrup Fertilisers' \$630 million ammonia plant;
- Woodside's \$1.5 billion Enfield oil field; and
- BHP Billiton's \$750 million Rapid Growth Project 2 for iron ore.

Although labour and materials shortages may cause some projects to be deferred or delayed, the output from this investment is expected to generate significant exports growth in the next two years. Exports are forecast to increase by 10.0% in 2006-07 and by 8.0% in 2007-08. As well as full-year production from projects completed in 2006-07, other new projects are also likely to underpin growth in exports for 2007-08. The most notable developments are the \$2.3 billion Ravensthorpe nickel project, which is due for completion in the last quarter of 2006-07, and the \$700 million Stage Two capacity expansion of the Yandicoogina mine by Hamersley Iron due for completion in late 2006.

¹⁴ International Monetary Fund (IMF) World Economic Outlook (April 2006) forecasts are for world output to grow by 4.9% in 2006, followed by 4.7% in 2007 (see shaded box entitled 'International Conditions' towards the end of this chapter for more information).

The agricultural sector is experiencing constraints from labour shortages and higher fuel and fertiliser costs, but above-average rainfall in 2005 is likely to result in a rebound in agricultural exports in 2005-06¹⁵. Improved weather conditions have resulted in above-average soil moisture levels, and the potential exists for a near record grain harvest. Coupled with a recent increase in the world price of grains, the rural sector should enjoy a rise in both the volume and the value of exports in 2005-06, although the recent improvement in Western Australia's rural commodity prices is very modest in comparison to the strong growth in mineral commodity prices in the past two years. For 2006-07, the volume of grain production is forecast to fall back to average levels (but with prices expected to move higher).

In 2006-07 and 2007-08, conditions should again be favourable for the agricultural sector, with preliminary data suggesting further growth in the industry (see also section on regional growth later in this chapter).

Imports

Import volumes are expected to record double-digit growth in 2005-06, for the fourth successive year. Strong business investment is driving capital equipment imports, while private consumption growth is generating demand for consumer goods imports. Growth in imports of 12.5% is forecast for 2005-06, following growth of 15.1% in 2004-05.

Imports are forecast to grow by 8.5% in 2006-07, which is just below the long-term average of 9.0%. This largely reflects the anticipated easing of household consumption growth after a number of years of above-average growth.

In 2007-08, growth in imports is forecast to strengthen slightly (to 8.75%) as consumption growth also moves slightly higher.

Labour Market

Employment

Strong economic activity and high demand for labour have underpinned robust employment growth in Western Australia recently. Employment is estimated to grow by 4.5% in 2005-06 after growth of 4.2% in 2004-05. Forward indicators of employment growth (such as the level of job vacancy advertisements) point to sustained demand for labour in the near term.

However, the extent to which the demand for labour translates into employment growth will increasingly depend on the availability of appropriately skilled labour. Western Australia's tight labour market, evident in its low unemployment rate and historically high labour force participation rate, means that there is less scope for additional labour demand to be met by Western Australian residents. These supply constraints, rather than weakening demand, are the reason for the forecast moderation of employment growth to 2.0% in 2006-07, with similar growth of 2.25% forecast for 2007-08.

¹⁵ Western Australian Department of Agriculture and Food.

Unemployment

Western Australia's strong labour demand has resulted in the State's unemployment rate in 2005 reaching its lowest levels since the 1970s. The strength in the economy and high demand for labour are expected to continue for the remainder of 2005-06, with the unemployment rate forecast to average 4.25%.

The labour market is forecast to remain tight in both 2006-07 and 2007-08, as continued strong economic growth fuels demand for labour. As a result, the unemployment rate is forecast to remain low, at 4.25% in 2006-07, before edging higher to 4.75% in 2007-08 (reflecting a small increase in labour supply). The unemployment rate is projected to remain below 5.0% throughout the forward estimates period.

Prices

Consumer Price Index

Inflationary pressures have intensified since the 2005-06 Budget, and Perth's Consumer Price Index (CPI) has increased at a faster pace than prices nationally. Perth's inflation rate is estimated at 4.0% in 2005-06 (in annual average terms), reflecting both the strength of housing market activity (particularly from sustained rises in input costs associated with building new houses) and strong growth in consumer demand underpinned by growth in disposable incomes and the tight labour market.

Consumer price growth is forecast to remain high in 2006-07, but softer than growth in 2005-06. Perth's CPI is forecast to increase by 3.0% in 2006-07, as both activity in the housing market and consumer spending growth ease.

In 2007-08, Perth's inflation is forecast to moderate further, largely as a result of an expected easing in activity in the property market, which has been an important driver of the growth in Perth's CPI recently.

Wages

Overall wages growth has picked up fairly modestly in Western Australia in recent quarters, although some industries, such as construction and mining, have experienced relatively strong wages growth. Firms report difficulties attracting skilled labour¹⁶, pointing to the possibility of wage pressures continuing in the period ahead.

¹⁶ Chamber of Commerce and Industry Western Australia / BankWest Survey of Business Expectations (March Quarter 2006) and The Hudson Report (April – June 2006).

The Wage Price Index¹⁷ is forecast to grow by 4.5% in 2005-06. The labour market is expected to remain tight in 2006-07 before easing slightly in the years following, and wages growth is similarly forecast to remain strong, with growth of 4.25% in 2006-07, before a moderation to 3.5% in 2007-08 (close to the long-term average annual rate of growth of 3.25%).

In comparison, Average Weekly Earnings are expected to grow by 5.75% in 2005-06. Growth is then forecast to slow to 5.25% in 2006-07, and to 4.0% in 2007-08 as the labour market eases. Average Weekly Earnings growth is projected to be 3.5% throughout the forward estimates period.

The higher forecast growth rates in Average Weekly Earnings than the Wage Price Index mainly reflect compositional effects – earnings growth is expected to be generated in part by above-average employment growth in industries and occupations that typically pay higher wages. Therefore, while Average Weekly Earnings is a helpful measure of overall earnings movements, the Wage Price Index is a better measure of wages pressures¹⁸.

Implicit Price Deflators

The State Final Demand implicit price deflator¹⁹ is forecast to rise by 3.5% in 2005-06, after increasing by 3.1% in 2004-05, underpinned by higher supply costs. Its growth is expected to moderate to 2.5% in 2006-07 and 2.25% in the outyears (based on projections of historical long-term average growth). The GSP implicit price deflator¹⁹ is expected to record a larger increase of 8.0% because of the large rise in the State's export prices (especially commodity prices). The GSP deflator's growth is projected to moderate to 2.5% in 2006-07 and 2.0% thereafter, as commodity price growth eases, to be broadly in line with its long-term trend rate of growth.

¹⁷ The Wage Price Index is preferred to Average Weekly Earnings as a measure of wages growth. Similar to the Consumer Price Index, it is an index measuring the cost of a fixed 'basket' of jobs, and it is designed to measure changes in wages over time for a fixed quantity and quality of labour input. Unlike average weekly earnings measures, the Index is designed to measure wage changes rather than levels. It is not influenced by changes in the composition of the workforce (unlike Average Weekly Earnings data) and hence is a better measure of wages pressures.

¹⁸ However, even the Wage Price Index has its shortcomings - it is not a definitive measure of employment-related costs, as it excludes non-wage remuneration (e.g. non-salary based incentives, such as the provision of accommodation). It also does not reflect individuals' earnings changes, as it tracks the pay associated with a fixed basket of jobs, rather than tracking a group of employees. So, if (for example), employers are using more rapid promotions to retain staff, the Wage Price Index will not capture this.

¹⁹ The State Final Demand implicit price deflator is the average price of the total level of expenditure in the State's domestic economy. The Gross State Product implicit price deflator is the average price of the total level of expenditure in the State's overall economy, including both the domestic and external sectors. Both are broader price measures than the Consumer Price Index, which measures only prices for a basket of consumer goods and services.

Regional Economies

Regional areas contribute approximately 31% of the output of the Western Australian economy²⁰, making the regional economic outlook an important consideration in determining the outlook for the State as a whole, as well as being vital to the economic welfare of the 27% of the State's population that lives in the regions²¹.

The overall economic outlook for the regions is positive, with activity forecast to be strong across the different regional economies. Regional economies particularly benefit from the strong outlook for commodities exports, with the mining and agriculture, forestry and fishing industries representing a much larger share of regional than Metropolitan economic output.

More than 90% of the value of mining production is generated in the regions. Mining is particularly important to the Pilbara and Goldfields-Esperance regions, and to a lesser extent the South-West, Peel and Mid-West regions.

The nominal value of output²² from the mining industry grew by 29.4% in 2004-05 (although largely driven by higher prices), making it the largest contributor to economic growth across the State.

An important consequence of the significance of the mining sector in regional Western Australia is that the State's regional economy is very capital intensive. Resources investment typically makes a disproportionately large contribution to economic activity in the Western Australian regions.

The mining industry accounts for approximately 7% of regional employment, while the construction industry accounts for 8%. Most of the employment derived from major resource-related projects occurs during their construction phases, with employment during operation often relatively low in these (typically capital intensive) projects.

The mining and construction industries are expected to be key drivers of economic growth in regional Western Australia in 2005-06 and 2006-07.

The agriculture, forestry and fishing industry is also important to regional Western Australia, accounting for just under 15% of regional employment. The Australian Bureau of Agricultural and Resource Economics²³ forecasts that earnings for the farm sector will be fairly stable, at a high level, in coming years. This should support the economies of the Wheatbelt and, to a lesser extent, the South-West, Great Southern and Mid-West regions for which the agriculture, forestry and fishing industry comprises a significant share of output.

²⁰ Department of Local Government and Regional Development, ABS.

²¹ Regional population and employment figures for this section are based on published and unpublished ABS Census 2001 data.

²² Note that, unlike the State growth data discussed earlier in this chapter, these values are not in real (chain volume) terms, but are in nominal (current price) terms – only nominal data is available.

²³ 2006, Australian Commodities, vol. 13, no. 1.

International conditions

Strong economic growth in China, the United States of America and India, and the economic recovery in Japan, underpinned the pace of global expansion in 2005. The outlook for world growth remains similarly positive and broadly based for 2006.

The International Monetary Fund (IMF) forecasts that world output will grow by 4.9% in 2006 before moderating slightly to 4.7% in 2007²⁴. This is broadly in line with forecasts from Consensus Economics for the world economy to expand by 4.5% in 2006, and by 4.2% in 2007²⁵. Although there are some risks to growth (see below), the IMF notes that the current global expansion is becoming more broadly based²⁴.

Strong growth in China is currently a major driver of Western Australian investment and exports. Economic conditions in China are buoyant, with the Chinese authorities targeting annual GDP growth of 8.0% in 2006²⁶. Activity in China is providing stimulus to the economic growth in many of its neighbouring countries, many of which are also Western Australia's key trading partners.

There are some encouraging signs that growth in China is starting to become more balanced – away from investment-related projects in overheated sectors of the economy towards household consumption and exports. Current and expected economic growth is generating a rise in average living standards that is likely to underpin further increases in domestic demand for many years. China's continued industrialisation and high commodity demand bode well for Western Australia.

Positive economic conditions in the United States of America have also helped to support global economic growth. Recent indicators suggest the United States economy has picked up, after some softening towards the end of 2005. Economic activity in the United States has been underpinned by productivity growth, buoyant house prices and fiscal and monetary stimulus (although for more than 18 months the Federal Reserve has been gradually raising the federal funds rate in quarter of a percentage point increments, up to its current rate of 4.75%). Reconstruction spending in the hurricane-affected Gulf states, and ongoing strength in housing activity, business investment and exports also point to reasonably healthy growth in 2006. The IMF expects GDP in the United States to increase by 3.4% over 2006 and by 3.3% in 2007²⁴.

The Japanese economy has consolidated its recovery phase, with a range of key indicators suggesting that the recent rebound in economic activity will be sustained. Unprecedented high levels of consumer confidence and strong corporate earnings growth underpinned the current expansion – the longest expansion in activity in eight years. The IMF expects GDP in Japan to increase by 2.8% over 2006 and by 2.1% in 2007²⁴.

²⁴ IMF, World Economic Outlook, April 2006.

²⁵ Consensus Economics, Consensus Forecasts, February 2006.

²⁶ Although IMF forecasts are for growth of 9.5% in 2006 and 9.0% in 2007 (IMF, World Economic Outlook, April 2006).

Risks to the Outlook

A number of assumptions have been made in compiling the forecasts in this chapter. An outline of the major risks associated with some of these assumptions, and how these risks could affect the forecasts, is provided below.

Domestic

Interest rates are assumed to remain at current levels²⁷ over the forecast period. While this is in accordance with established forecasting practice, any significant increase in interest rates could adversely affect the economy. The immediate effects of any rise would probably be on consumer sentiment, household consumption and dwelling investment. As national economic conditions are showing some signs of emerging from their recent lull, a possible risk is that interest rates begin to rise at the same time that Western Australian economic growth begins to moderate (one consequence of which may be a sharper downturn in housing activity than is currently anticipated).

Asset prices also present a risk for household expenditure, as both house prices and the share market have recorded strong growth that may prove unsustainable. Just as the wealth effects associated with these asset price rises have helped support consumption expenditure, so a sharp fall in house prices and/or the share market could stress household balance sheets, particularly given current record debt levels and negative household savings²⁸.

There is a risk to Western Australia's economic growth if wages growth significantly exceeds the levels forecast. While there is evidence of labour shortages spreading (particularly for skilled workers), to date it appears that this has not resulted in substantial across-the-board increases in wages. Nevertheless, the possibility remains of wage pressures continuing and spreading in the period ahead. Pressure for substantial increases in wages could be expected to affect economic activity by making Western Australia a less attractive destination for business investment.

²⁷ The Reserve Bank of Australia's decision to raise the official interest rate by one quarter of a percentage point (from 5.5% to 5.75%) on 3 May 2006 was made after the economic forecasts for the 2006-07 Budget were finalised. However, the rate rise is not expected to materially affect the forecasts (a prior assumption was that the Reserve Bank held a tightening bias). Nonetheless, the potential for further rate rises over the forecast period cannot be discounted.

²⁸ Although net household savings are negative, national data on credit growth (not available at the State level) suggests households are now beginning to address their balance sheet positions and moderate consumption levels.

Global

While prospects for the global economy are strong, there are nevertheless risks to this outlook. The growing budget and current account deficits in the United States remain a risk to both the United States and global economies. If nervousness from global financial markets leads to an unexpectedly large depreciation in the United States dollar, this could lead to inflationary pressures, which in turn could trigger further interest rate rises in the United States. Furthermore, the IMF has recently identified the housing market in the United States as another key uncertainty for future growth, with house prices “now looking more richly valued” and moving away from underlying fundamentals (with signs that the market has already peaked)²⁹. If either (or both) of the above risks were to eventuate and lead to slower growth in the United States economy, this would adversely affect its trading partners by slowing growth substantially in countries heavily reliant on United States demand (notably China and other parts of Asia).

Global financial market nervousness about deteriorating economic conditions in the United States could also lead to instability in currency markets, and the global economic environment more broadly. Other precipitating causes of currency market instability could include the end of large capital outflows from East Asia (mainly to the United States), sustained increases in crude oil prices, and/or changing interest rate differentials. More broadly, the global economic environment may suffer from risks outside of economic fundamentals, such as geopolitical issues in the Middle East, or a serious global avian ‘flu pandemic. To the extent that such instability affects the economic prospects of Western Australia’s major trading partners, the State may face a reduction in demand for its commodities.

As well as being a risk to financial market stability, rising global oil prices comprise a risk to global economic growth in their own right. So far, the world economy has weathered the rise in energy prices in recent years remarkably well. The IMF notes that, in the past, higher energy prices have led to higher interest rates, a slowdown in growth, and changes in exchange rates and asset prices. The recent oil price rises have had a smaller effect, in part because of improved monetary frameworks and credibility²⁹. However, further increases in oil prices from their recent highs could generate more severe effects in the national and global economies.

While it appears likely that Western Australia will enjoy (at least) another year of strong commodity prices, the price increases (and corresponding economic impetus) experienced over the past few years will not last forever. A significant fall from current levels of commodity demand would probably lead to a slowdown in activity in the State’s key mining areas (unless alternative export markets were able to be sourced). As other commodity exporters would also be looking for alternative export markets, competition for customers could drive down prices as well as volumes, a problem that could be made more acute by capacity expansions currently under way in Western Australia and elsewhere worldwide in response to the current high levels of commodity prices.

²⁹ IMF, World Economic Outlook, April 2006.

Federal Affairs

Overview

The Commonwealth Grants Commission's latest annual recommendations will reduce Western Australia's GST grant share by \$96 million in 2006-07 (equivalent to a reduction of \$90 million in 2005-06 terms). Continued reductions in the State's grant share are likely in coming years, as the strong growth in Western Australia's revenue capacity, driven by the resources sector and property market, feeds more fully into the Grants Commission's calculations (which have significant inbuilt time lags).

By 2009-10, the Commonwealth Grants Commission process is expected to result in Western Australia's GST grant share being \$668 million less than it would have been if the 2006-07 distribution still applied.

Beyond 2009-10, GST funding shares will also reflect the outcome of the Grants Commission's next major review of its methods. The Commission has indicated an intention to radically overhaul current methods in pursuit of a simplified approach, but not to make changes until the review is completed in 2010 (with new methods to apply from 2010-11).

The Grants Commission process, and other elements of the current framework of Commonwealth-State financial relations, create a significant disincentive for economic development. The issues involved have been comprehensively canvassed in a recent Department of Treasury and Finance discussion paper (*Discussion Paper on Commonwealth-State Relations: An Economic and Financial Assessment of How Western Australia Fares*, available at www.dtf.wa.gov.au). The paper highlights better collaboration between Governments as a key to improved benefits from Australia's federal system.

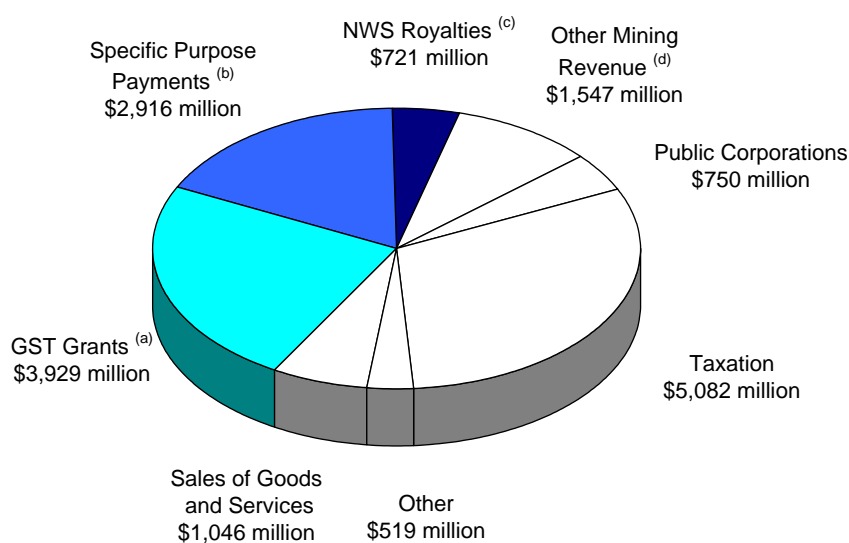
Updated estimates by the Department of Treasury and Finance indicate that Western Australia's net contribution to the Federation increased to \$4.1 billion in 2004-05, from \$3.2 billion in the previous year.

In March 2006, as an early outcome of the State Tax Review process, and reflecting the community consultation that has been an important part of this review, Western Australia proposed a schedule for the abolition of stamp duties listed for review in the Intergovernmental Agreement on the GST (apart from stamp duty on real business conveyances). This schedule was accepted by the Commonwealth at the March 2006 Treasurers' Conference (the issue of stamp duty on real business conveyances remains undecided).

Overall, Commonwealth grants to all the States and Territories (hereafter collectively referred to as the "States") in 2006-07 will total approximately \$67 billion (around half of the States' total revenues), mainly comprising \$39 billion in GST grants and \$27 billion in specific purpose payments (SPPs). Western Australia will receive 10.0% of total Commonwealth grants in 2006-07 (excluding North West Shelf petroleum royalties), which corresponds to its national population share and 41% of its total revenue¹.

Figure 1

WESTERN AUSTRALIAN GOVERNMENT REVENUE SOURCES
2006-07



TOTAL REVENUE = \$16,510 MILLION

(a) Includes compensation for GST deferred as a result of the Commonwealth's decision to allow extended payment arrangements for some taxpayers (mainly small businesses).

(b) Includes payments 'to' and 'through' the State (see later section on SPPs).

(c) 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.

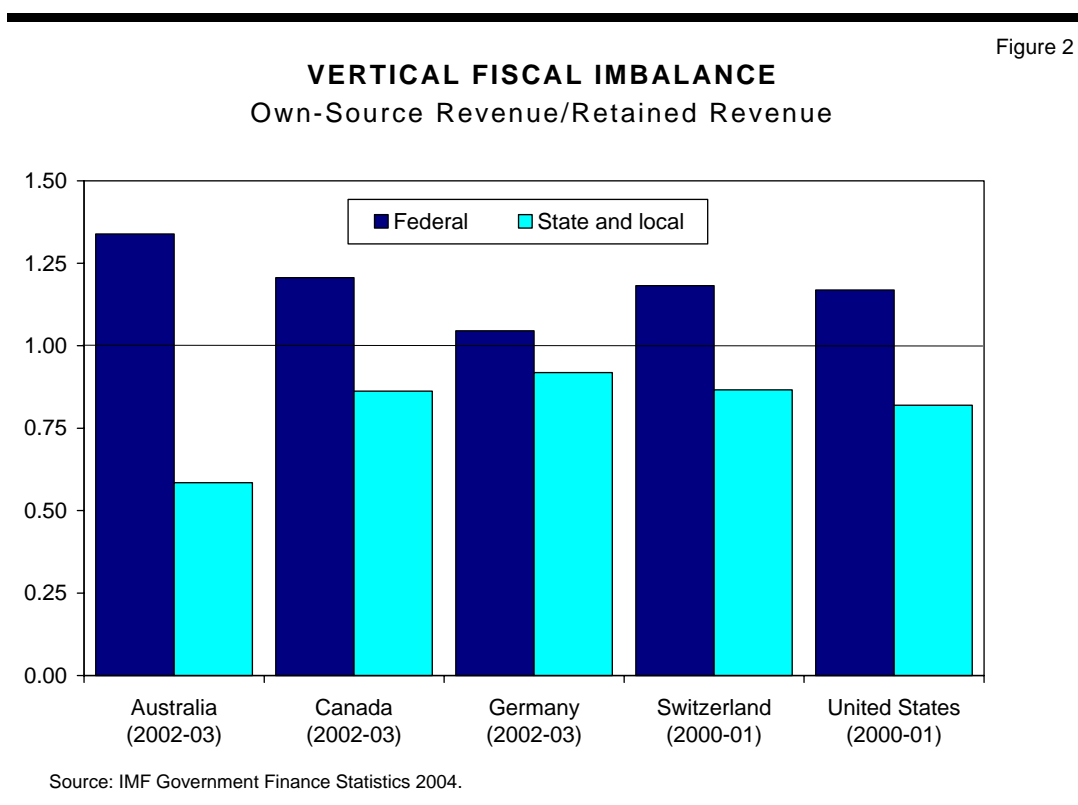
(d) Includes territorial mining royalties and lease rentals.

¹ 46% of total revenues if North West Shelf royalties are included.

Imbalances in the Federal System

In its recently issued *Discussion Paper on Commonwealth-State Relations*, the Department of Treasury and Finance found that Western Australia is particularly exposed, through its dependence on Commonwealth Government grants, to misalignment between Commonwealth and State Government policies, and disincentives for economic development.

A distinguishing feature of the Australian federation compared to other comparable federal systems around the world is the States' very high dependence on grants from the national government (see Figure 2). This dependence is referred to as *vertical fiscal imbalance* (VFI).



The high degree of VFI in Australia largely reflects the erosion since federation of the States' revenue powers, including as a result of:

- the Commonwealth Government's takeover of State income taxes in World War II, initially as a temporary wartime revenue raising measure; and
- expansive High Court interpretations of the Commonwealth Government's exclusive 'excise' power under section 90 of the Constitution.

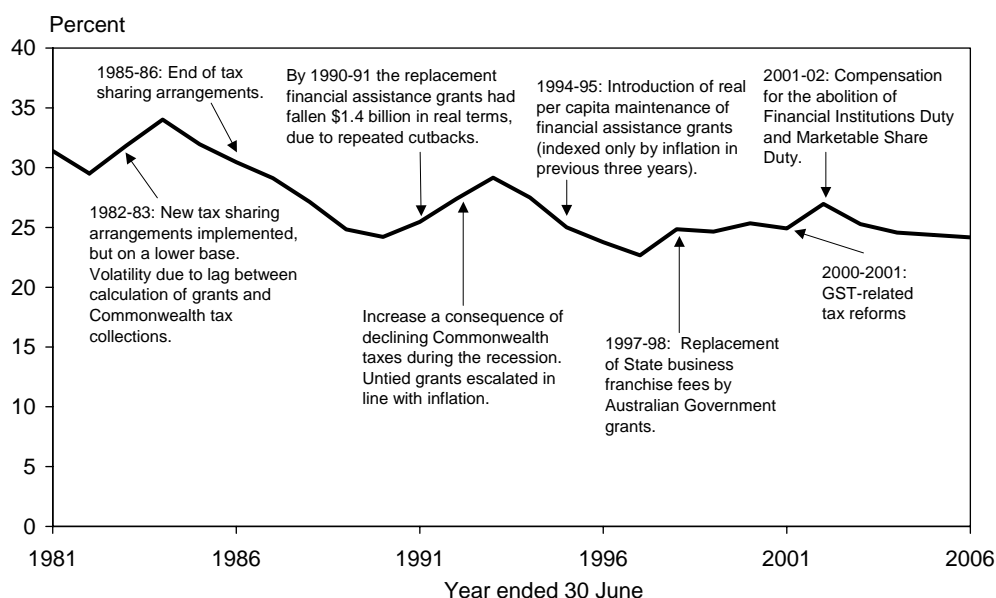
A degree of VFI ensures capacity for the central government to provide ‘equalisation’ grants to regional governments to help reduce differences in revenue generating capacity, and in the cost of delivering services.

However, unlike some other federations, the States’ dependence on grants from the Commonwealth goes well beyond what is necessary for equalisation purposes. While this provides a degree of financial security for the States against volatility in their own revenue bases, it is also recognised as having some serious downsides. In particular:

- it reduces the accountability of governments to their electorates, because it is not clear which level of government is responsible when community expectations for services and infrastructure are not met;
- it facilitates the attachment of conditions by the Commonwealth to a significant proportion of State funding, which if not consistent with overall community priorities can result in a misallocation of resources. Conditions are attached to around 40% of Commonwealth grants to the States;
- it reduces incentives for States to put in place growth-promoting policies and infrastructure, as the costs are borne by the State, while the tax benefits flow primarily to the Commonwealth (which retains the majority of the nation’s taxes) and other States (through the equity principles used to allocate Commonwealth grants among the States); and
- it exposes State governments to budget uncertainty vis-à-vis Commonwealth decisions about the level of grants, including the inherent temptation to shift any national budget shortfalls on to the States. A series of cutbacks over time has resulted in a long-term decline in Commonwealth grants to the States, as a share of Commonwealth taxes (see Figure 3). This has put pressure on States to limit outlays that could improve economic and social outcomes, and make more use of their narrower, less economically and socially desirable tax bases.

Figure 3

GRANTS TO THE STATES AS A SHARE OF COMMONWEALTH GOVERNMENT TAX COLLECTIONS



Source: Commonwealth's Final Budget Outcome and Commonwealth Budget papers.

While VFI facilitates central control, the *Principle of Subsidiarity* suggests that functions should be devolved to the lowest-tiered government that is sufficiently capable of delivery, to maximise accountability and responsiveness to local community needs and circumstances.

Western Australia's particular exposure to adverse community outcomes from Australia's high VFI reflects its remoteness from the seat of central power, its relatively small population (and hence influence), and needs associated with unique features that have not been well appreciated by the central government, including geographical size, stage of development, and the development demands that flow from its resource endowments.

- The Commonwealth (and other States through the allocation of GST grants) tend to receive the lion's share of the fiscal returns from resource developments, while Western Australia has to provide often-expensive infrastructure to facilitate these developments.

The *Discussion Paper on Commonwealth-State Relations* concluded that, in the absence of fundamental reform to reduce States' financial dependence on the Commonwealth, better collaboration between the Commonwealth and State Governments is a key to drawing out the benefits of Australia's federal system. In particular:

- Western Australia has a common interest with other States in pursuing coordinated initiatives with the Commonwealth Government (particularly through the Council of Australian Governments (COAG)) that will generate national welfare and economic benefits;

- there needs to be a fairer sharing of the costs and benefits of State initiatives that generate national benefits (including large fiscal gains for the Commonwealth Government), to help ensure that these initiatives are given sufficient priority by the States; and
- raising the profile of Western Australia's special needs among national government decision makers should be a priority. (This will be assisted by the State Government's decision to establish a Western Australian Government Office in Canberra.)

An important recent example of intergovernmental collaboration is the commitment by all jurisdictions, at the February 2006 COAG meeting, to a wide-ranging 'national reform agenda' encompassing improvements to human capital (particularly through better health and education), a new National Competition Policy reform agenda (encompassing energy, transport and infrastructure regulation and planning) and a program to reduce the regulatory burden imposed by the three levels of government. The State's decision to sign the National Water Initiative also provides greater opportunity to pursue water reforms in Western Australia.

- Much of the 'national reform agenda' covers areas of State responsibility, but is projected to yield fiscal benefits primarily for the Commonwealth. The Commonwealth has indicated that it will provide funding to States, if it is needed, to ensure a fair sharing of the costs and benefits of reform.

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 at www.dtf.wa.gov.au.

Developments in GST Funding Arrangements

Under the 1999 *Intergovernmental Agreement on the 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). This revenue would replace the previous financial assistance grants to the States, and finance the abolition or reduction of specified State taxes and increases in State expenditure responsibilities (i.e. the First Home Owners Scheme and the Australian Taxation Office's cost of administering the GST)². In addition, following the exclusion of food from the GST base, it was agreed to review by 2005 the need for retention of other specified State taxes.

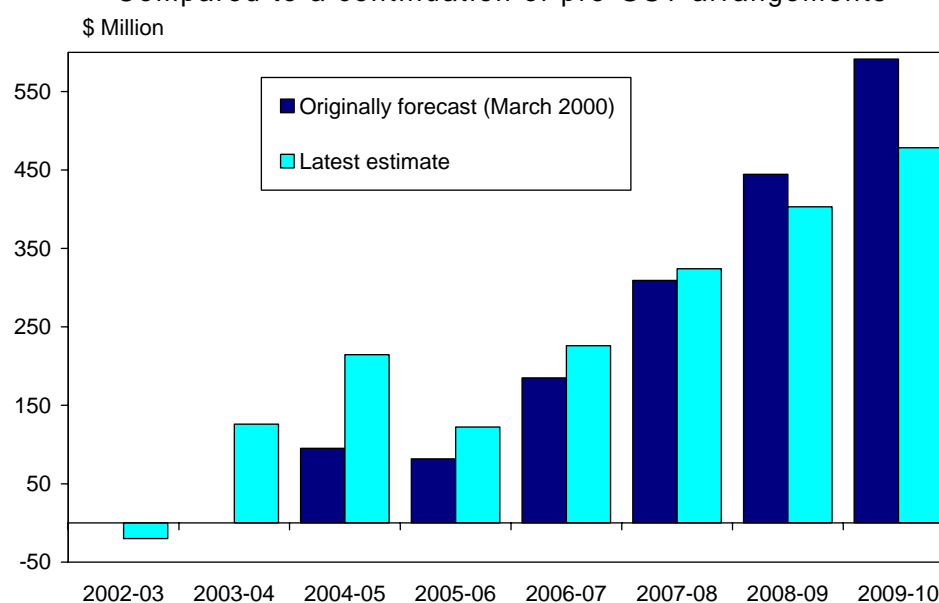
² The increased expenditure responsibilities are partly offset by expenditure savings from the abolition of wholesale sales tax, which had been embedded in the cost of many goods and services.

One of the main purposes of the GST funding arrangements was to improve the financial position of the States by ensuring that the States had access to a growing revenue base. All States are now financially better off than they would have been under the old arrangements (after an initial period in which top-up grants were needed)³. However, the replacement of State taxes by GST revenues has increased the States' financial dependence on the Commonwealth.

Figure 4 shows the financial impact on Western Australia of the GST funding arrangements, compared with a continuation of pre-GST funding arrangements. The analysis is based on methods agreed under the IGA, and does not include the impact of abolishing taxes subject to review under the IGA, or the abolition of National Competition Policy payments (see next section *Review of State Taxes*).

Figure 4

IMPACT OF GST TAX REFORM ON WESTERN AUSTRALIA'S BUDGET
Compared to a continuation of pre-GST arrangements



Notes: This chart takes into account the abolition of debits tax from 1 July 2005.

The cost of abolishing taxes subject to review under the IGA has not been taken into account.

Source: Original estimates are based on projections produced for the March 2000 Treasurers' Conference (the 2008-09 and 2009-10 estimates were produced for, although not reported to, this Treasurers' Conference). Latest estimates are based on the Commonwealth Treasurer's 2006 Statement of Estimated Payments (adjusted to reflect the same range of abolished taxes as the March 2000 projections, and the same petroleum revenue replacement payment indexation as stipulated in the Intergovernmental Agreement – the indexation was unilaterally removed in 2002 by the Commonwealth Government), and extended by one year (to 2009-10) using assumptions consistent with the previous year.

³ New South Wales benefits in 2004-05 and 2006-07 onwards, but not in 2005-06.

While GST revenue collections have grown faster than originally expected over the first five years, slower growth in the GST is projected going forward, and estimates of State revenues foregone have increased. As a result, the projected financial benefits to Western Australia from the GST reforms in the longer term are now substantially less than was expected at the time those arrangements were agreed to (and have been reduced further by the decision to abolish taxes listed only for review in the IGA – see following).

Review of State Taxes

Consistent with the IGA, a review of the need for retention of stamp duties on non-residential conveyances, unlisted marketable securities, leases, mortgages, credit/rental arrangements and cheques was undertaken for the March 2005 Treasurers' Conference, but an agreed outcome was not achieved, with the Commonwealth insisting that the States present schedules for the abolition of these taxes.

In April 2005, six of the States and Territories, excluding Western Australia and New South Wales, provided the Commonwealth with an offer committing to State-specific schedules for the abolition of the relevant taxes by 2010-11, with the exception of stamp duty on real business conveyances (which was proposed to be retained indefinitely, at the individual discretion of States).

In Western Australia, a State Tax Review was commenced, to ensure that any tax relief would be in line with the State's needs and priorities, rather than being determined by the Commonwealth. Reflecting an early outcome from this review, in March 2006 Western Australia announced a schedule for the abolition of stamp duty on mortgages, hire of goods⁴ and non-real business conveyances, by 1 July 2010. (Western Australia had already abolished stamp duties on leases, cheques and unlisted marketable securities by 2004-05.)

At the March 2006 Treasurers' Conference, the Commonwealth accepted the States' proposed schedules for the abolition of the taxes, but left open the issue of stamp duty on real business conveyances. Subsequently, New South Wales has also announced an abolition schedule. (New South Wales' circumstances are different from the other States, reflecting its relatively small net benefits to date from the GST funding arrangements.)

The decision to abolish stamp duties listed for review in the IGA has further reduced the financial benefits from the GST reforms. Table 1 shows Western Australia's estimated net benefits from the GST reforms, including the abolition of these stamp duties. The table also includes the impact of the Commonwealth's unilateral decision to abolish National Competition Policy payments after 2005-06 (see Chapter 7: *Structural Reform*). Since 2000-01, these payments had been authorised under the Commonwealth's GST grants legislation. Taking all these into account, the projected net fiscal benefit from the GST reforms in 2006-07 has been reduced to \$59 million.

⁴ In Western Australia, stamp duties on credit/rental arrangements comprise only stamp duty on hire of goods.

Table 1

BUDGET IMPACT OF GST TAX REFORM
Western Australia

	2004-05 Actual \$m	2005-06 Estimated Actual \$m	2006-07 Budget Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m
Impact of GST tax reform published by Commonwealth Treasurer ^(a)	250	166	273	382	471
Less adjustment for Commonwealth changed assessment method ^(b)	-35	-43	-53	-63	-75
<i>Equals latest estimated impact shown in Figure 4 ^(c)</i>	215	123	220	319	396
Less cost of abolishing stamp duties subject to review under the IGA ^(d)	-8	-21	-104	-138	-220
Less NCP payments abolished ^(e)	0	0	-57	-59	-61
Full impact of GST tax reform	207	102	59	122	115

(a) Press release following the March 2006 Treasurers' Conference. Impacts published by the Commonwealth Treasurer are net of cheque duty from 2006-07 onwards, by which time all States will have abolished it.

(b) In 2002, the Commonwealth Treasurer unilaterally decided to remove the inflation component of petroleum safety net revenues from the calculation of revenues forgone by States as a result of the GST reforms.

(c) Except that the estimates in Figure 4 take no account of the abolition of cheque duty, so as to maintain consistency with the originally forecast estimates. This affects 2006-07 onwards by about \$6.0 million per annum.

(d) Does not include the cost of abolishing cheque duty from 2006-07, which is included in the impact published by the Commonwealth Treasurer.

(e) Estimated on the assumption that Western Australia would continue to receive the same proportion of the maximum available payments as it did in 2005-06.

Source: Commonwealth Treasurer's Press Release 31 March 2006 and Department of Treasury and Finance.

Commonwealth Grants Commission

Horizontal Fiscal Equalisation

GST revenue grants are distributed among the States according to the recommendations of the Commonwealth Grants Commission, using the principle of Horizontal Fiscal Equalisation (HFE)⁵. The aim of HFE is to enable each State to provide the national average standard of services if it operates at the average level of efficiency and makes the average effort to raise revenues from its own sources.

HFE compensates for differences among the States in the costs they face in providing services and their capacities to raise their own revenues. Grants are allocated to offset these differences, to the extent that they can be identified and are due to unavoidable factors (such as population dispersion) rather than differences in State policies or efficiency of service delivery.

⁵ Strictly speaking, only the GST is allocated according to the HFE principle. However, the Grants Commission takes most SPPs into account in its assessments, effectively bringing them within the scope of HFE.

The Grants Commission updates its calculation of State grant shares annually, using the latest available data (for example, on State revenue bases and the composition of State populations). However, the methods used by the Commission are reviewed only periodically. The most recent methodology review was completed in 2004 and the next is due for completion in 2010.

The 2006 Update

In February 2006, the Grants Commission reported its annual update recommendations, to apply in 2006-07. The Commission recommended a 2% (or \$90 million) decrease in Western Australia's share of the GST pool. The main reason for the change (as discussed in more detail below) is the continuing strength of the Western Australian economy. The Commission also recommended decreases in the shares for Queensland, South Australia and Tasmania, and increases for the other States.

The March 2006 Treasurers' Conference accepted the Grants Commission's recommendations, with minor changes at the request of South Australia to incorporate some data corrections provided by that State. The changes resulted in a \$6 million increase in South Australia's grant share at the expense of all other States.

Table 2 shows the effect of the 2006 Update on each State's GST grant, in 2005-06 terms⁶. It also shows the cumulative annual effect of all changes since 1993-94, again in 2005-06 terms.

IMPACT OF GRANTS COMMISSION RECOMMENDATIONS
(2005-06 Terms)

Table 2

	2006 Update		1994 - 2006	
	\$m	\$ per capita	\$m	\$ per capita
New South Wales	+71	+10	-386	-57
Victoria	+220	+44	+320	+63
Queensland	-176	-44	-197	-49
Western Australia	-90	-44	-451	-222
South Australia	-50	-32	+157	+102
Tasmania	-4	-8	+204	+418
Australian Capital Territory	+2	+6	+171	+524
Northern Territory	+27	+131	+182	+887

Note: Includes the impact of correcting errors in data provided by South Australia for the 2006 Update.

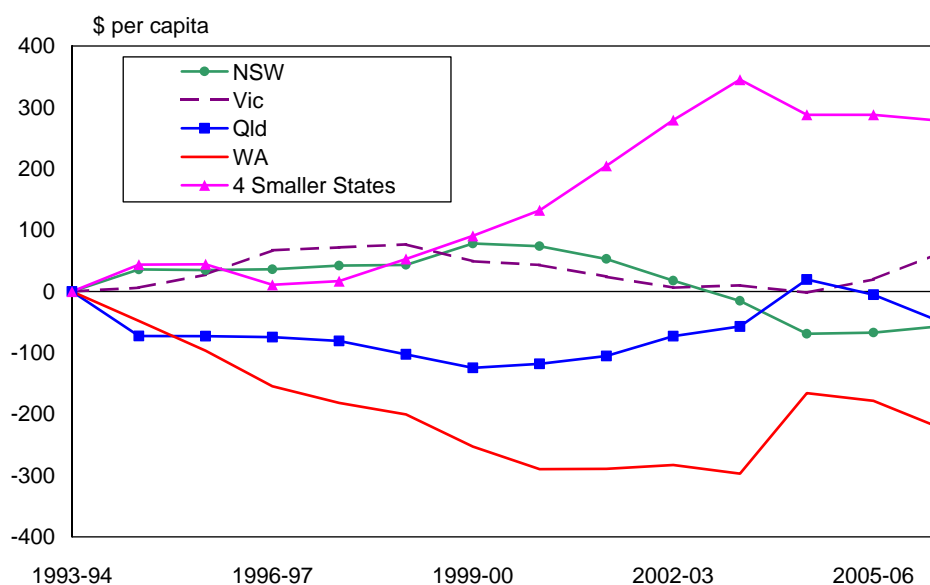
Western Australia's annual GST grant is now \$451 million less (in 2005-06 terms) than it would have been if the 1993-94 share still applied. This reflects mainly strong growth in the State's royalty revenues (particularly from the North West Shelf project and from iron ore royalties), which has resulted in a redistribution of funds to States with weaker revenue growth.

⁶ That is, the impact of the Grants Commission's recommendations is valued in terms of the 2005-06 GST pool and population shares, rather than the 2006-07 GST pool and population shares. This is consistent with the Grants Commission's method of reporting the impact of its recommendations.

Figure 5 depicts the cumulative effects of Grants Commission updates since 1993-94. The increase in Western Australia's grant share in 2004-05 was due to improvements to the Commission's methods resulting from its 2004 Review, but only partly offsets the State's losses over time.

**CUMULATIVE IMPACT OF THE GRANTS COMMISSION
PROCESS SINCE 1993-94 (2005-06 TERMS)**

Figure 5



Source: Department of Treasury and Finance estimates based on Commonwealth Grants Commission data.

Major Reasons for the Change in Western Australia's Grant Share

The Grants Commission's recommended grant shares are a rolling average of assessments for five consecutive years of data. For the 2006 Update, this period covers 2000-01 to 2004-05. The Commission also revised data for the years that did not change.

The \$90 million decrease in Western Australia's grant share from the 2006 Update is the net result of a number of factors. A net \$144 million loss resulted from replacing 1999-2000 data with 2004-05 data in the five year average. The major components of this loss were:

- an increase in our above-average capacity, relative to other jurisdictions, to collect mining and petroleum royalties, largely reflecting higher world prices for minerals and petroleum (\$32 million loss);
- an increase in our capacity, relative to other jurisdictions, to collect payroll tax, reflecting stronger economic growth in Western Australia than in other States (\$29 million loss);

- an increase in our capacity, relative to other jurisdictions, to collect stamp duty on conveyances, reflecting strength in our property market combined with a slowdown in New South Wales (\$31 million loss);
- a decrease in our assessed need to provide services to the Mining, Fuel and Energy sector, reflecting lower national expenditure in this area (\$11 million loss); and
- decreases in our assessed rates of hospital admissions and school enrolments (relative to other States), resulting in a decrease in our relative expenditure on inpatient services and government schools (\$17 million each, total \$34 million loss).

Partly offsetting these losses was a net gain of \$54 million from revisions to existing data. By far the most important revision was made by the ABS to its State Accounts data, which increased our grant share by \$61 million. These ABS revisions particularly affected data relating to compensation of employees, which reduced the Commission's assessment of our capacity to collect payroll tax relative to that of other States (particularly New South Wales).

Forecasts of Future Grant Shares

The forward estimates of Western Australia's GST grants are based on projections of:

- the national pool of GST grants, sourced from the Commonwealth's latest available estimates as at the budget cut-off date (consistent with the Commonwealth's *2005-06 Mid-Year Economic and Fiscal Outlook*);
- Western Australia's share of the national population (sourced from the Commonwealth Treasury); and
- Western Australia's *GST relativity* (i.e. relative per capita share of the national pool of GST grants), as estimated by the Department of Treasury and Finance.

In line with the Grants Commission's approach, the GST relativity projections for each year of the forward estimates (2007-08 to 2009-10) are based on a rolling average of assessments of Western Australia's revenue capacity and expenditure requirements (relative to other States) for five consecutive years of data. For example, the relativity projections for 2009-10 are based on assessments for the data years 2003-04 to 2007-08. Assessments for data years up to 2004-05 were published in the Grants Commission's 2006 Update report. Assessments for later data years (i.e. 2005-06 to 2007-08) were projected by the Department of Treasury and Finance. It was assumed that there would be no changes in the methods used by the Grants Commission, nor to historical data used by the Grants Commission.

The projections of assessments for data years 2005-06 to 2007-08 in general assume no change in Western Australia's relative revenue capacity and expenditure requirements compared to 2004-05. However, in some key areas, changes in revenue capacity from 2004-05 are estimated directly from estimated changes in revenue collections in Western Australia (based on the 2005-06 expected out-turn and 2006-07 budget forward estimates) and other States (based on latest available data)⁷. These areas are royalties from offshore petroleum, iron ore and export quality coal, stamp duty on conveyances and land tax.

The forecasting methodology has grown in sophistication over the last two budgets, reflecting the risks to Western Australia's GST grant share resulting from the State's exceptionally strong economic and revenue growth. In line with the recommendations of the Revenue Forecasting Review recently undertaken by the Department of Treasury and Finance, work is being undertaken to further refine and quality assure the forecasting methodology.

A large decline in Western Australia's GST grant share is projected over the forward estimates period (falling from 10.0% in 2006-07 to 8.7% in 2009-10). This reflects the impact of the recent high growth in the State's property market related revenue and petroleum and iron ore royalties (slightly offset by strong growth in export quality coal royalties in New South Wales and Queensland). Western Australia's declining grant share lags the growth in its revenues, largely reflecting the impact of the rolling five year average used to calculate grant shares.

Table 3 shows the impact of the projected decline in Western Australia's GST relativity, compared to if the 2006-07 GST relativity remained unchanged over the forward estimates period.

Table 3

IMPACT OF PROJECTED COMMONWEALTH GRANTS COMMISSION RELATIVITIES				
	2006-07 Budget Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m
Impact on GST grants	-	-234	-499	-668

⁷ Where necessary, revenue collections are adjusted to exclude the impact of policy changes, to reflect underlying changes in revenue raising capacity.

The 2010 Review

The March 2004 Treasurers' Conference asked Heads of Commonwealth, State and Territory Treasuries to examine simplification and data issues in relation to the Grants Commission process⁸. This resulted in Heads of Treasuries recommending terms of reference for the Commission's next methodology review, to be reported in 2010, with a focus on simplifying the Commission's processes (consistent with the principle of HFE). This was subsequently endorsed by the March 2005 Treasurers' Conference.

In March 2006, the Grants Commission presented an interim report to the Ministerial Council (available at www.cgc.gov.au), as required by its terms of reference. The Commission concluded that:

- a “clean slate, top-down approach” offers the best opportunity for simplifying its currently very detailed methods;
- there should be a rigorous application of materiality thresholds, to simplify the assessments by excluding ‘small’ influences;
- reliability of methods will be tested through continued, and enhanced, scrutiny by stakeholders and experts; and
- method changes should be made only in 2010, rather than being introduced piecemeal through annual updates (unless existing methods are heavily corrupted by poor data).

The report also includes interim assessment guidelines (which formalise the Commission's proposed approach and specify proposed materiality thresholds), a work plan for the review, an agreed protocol and timeline for data quality improvement with the States, and an outline of the Commission's draft strategic plan for quality assurance.

The Commission is required to provide another interim report in March 2007, and its final report by February 2010.

The review requires considerable involvement by State Treasuries (with the assistance of other State agencies) in the preparation of submissions and data, participation in working groups and attending conferences. During 2008, the Grants Commission will visit each State to hold discussions with Treasury officials and State service delivery staff (including in country areas).

⁸ The terms of reference for this review were very similar to a work program proposed by the Grants Commission in its 2004 Review Report.

Inter-State Redistribution of Resources by the Commonwealth

The distribution among States of GST grants (and, effectively, most SPPs) by the Grants Commission on the basis of HFE principles, rather than where the GST is generated, is one high-profile instance of the redistribution of resources across States by the Commonwealth. As noted earlier, HFE is aimed at 'equalising' the capacity of States to provide a similar standard/level of services to their constituents.

However, all Commonwealth revenue raising and spending tends to redistribute resources among States, usually in favour of State communities that are less well off. For example, States with higher incomes and business profits contribute more to total Commonwealth taxes, while those with younger, healthier populations draw less on social security and health benefits.

The Department of Treasury and Finance estimates the 'net fiscal subsidy' provided by each State to the Federation by comparing the State of origin of all revenues received by the Commonwealth (based on the location of economic activities generating these revenues) against the distribution across States of benefits generated by Commonwealth spending (based on the location of the recipients of benefits).

In 2004-05, it is estimated that Western Australia received \$430 million more in GST revenue grants than the amount of GST that was raised in Western Australia⁹. However, when all Commonwealth revenues and expenditures are taken into account, the Commonwealth raised around \$4.1 billion more in taxes and other revenues from Western Australia than it returned to Western Australia in expenditures. Table 4 shows that this net contribution to the Commonwealth represents a much larger per capita amount than the other two contributors (New South Wales and Victoria).

⁹ Estimated by applying Western Australia's share of relevant components of household final consumption expenditure, and tourist spending, to the total GST pool. It is estimated that, by 2007-08, Western Australia will receive less GST grants than it will contribute to the national GST pool.

Table 4

REDISTRIBUTION OF RESOURCES
2004-05^(a)

	GST only		Total Resources	
	\$m	\$ per capita	\$m	\$ per capita
New South Wales	2,753	408	5,768	855
Victoria	1,470	294	2,170	434
Queensland	-956	-244	-3,843	-979
Western Australia	-430	-215	4,107	2,059
South Australia	-744	-484	-3,485	-2,267
Tasmania	-700	-1,447	-2,318	-4,790
Northern Territory	-1,393	-6,928	-2,400	-11,936
Total	0	0	0	0

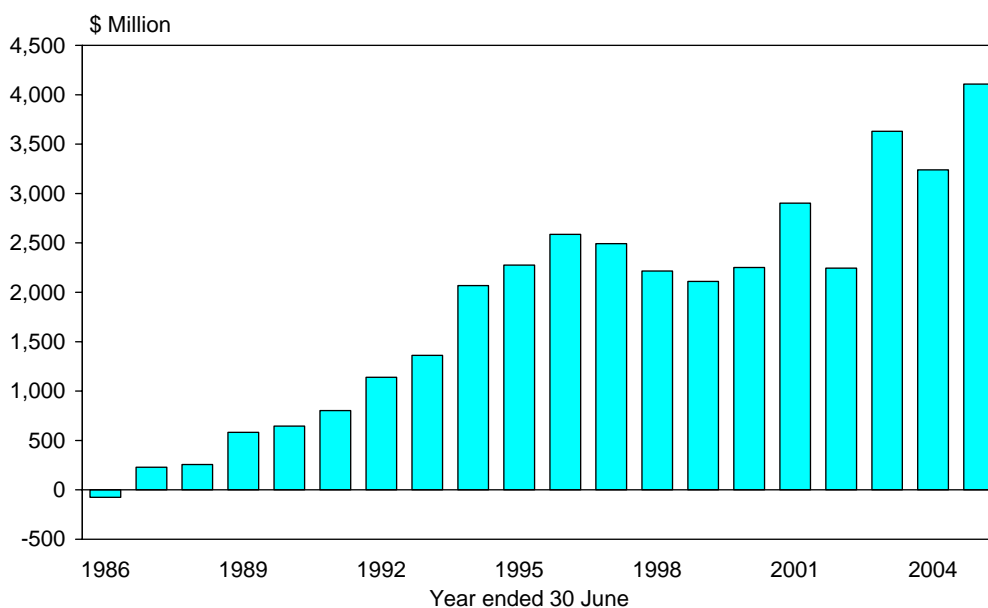
(a) Estimates calculated by allocating all Commonwealth outlays and revenues relating to the ACT among the other jurisdictions according to population shares. This approach reflects that, if the Federation were to cease to exist, it is unlikely that the ACT would continue to exist as a separate entity.

Source: Department of Treasury and Finance estimates, using a range of data sources including the Commonwealth's Final Budget Outcome publications and Australian Bureau of Statistics Catalogue Nos. 3101.0 and 5220.0. Results are based on the latest available data as at the budget cut-off date. In some cases, data has been proxied by escalating earlier data using relevant economic indicators.

Western Australia's net fiscal subsidy to the Federation has grown substantially over the last two decades, coinciding with the boom in petroleum production (including LNG) and the emergence of Western Australia as a force in the Australian economy generally.

Figure 6

**WESTERN AUSTRALIA'S NET FISCAL SUBSIDY
TO THE FEDERATION**



Source: As per Table 4.

The volatility in Western Australia's net fiscal subsidy reflects, among other things, fluctuations in exchange rates and oil and mineral prices, which influence the value of Commonwealth Government revenues sourced directly or indirectly from Western Australia's mining sector (including company tax, Petroleum Resource Rent Tax, royalties, excise and personal income tax).

Table 5 provides an estimated breakdown of the components of Western Australia's net contribution over the last three years. In most cases Commonwealth revenues are not earmarked for specific Commonwealth outlays (the GST, shown in Table 5, is an exception). However, a State's net contribution can be analysed as comprising the sum of:

- the extent to which Commonwealth revenues raised from the State exceed its population share of total revenues raised; and
- the extent to which Commonwealth spending for the State falls short of its population share of total spending¹⁰.

Accordingly, the component analysis of Western Australia's net contribution, shown in Table 5, is based on the extent to which each category of Commonwealth revenue and expenditure differs from the State's population share.

Apart from Western Australia's strong contribution to Commonwealth revenues (relative to its population share), the State draws significantly less than its population share of services and personal benefit payments (e.g. pensions) from the Commonwealth. Western Australia's low draw on national personal benefit payments would in part reflect that in recent times it has regularly had the lowest unemployment rate in the nation, combined with the highest labour force participation rate. The State's draw on medical benefit payments is also low, in part reflecting a shortage of GPs (especially in regional areas), as well as the State's younger age profile.

Updated data, primarily for company tax, has resulted in the previous estimates of Western Australia's net contribution being revised up significantly since the 2005-06 Budget.

¹⁰ Commonwealth spending includes the Commonwealth surplus, which provides benefits to States by enabling future spending or tax reductions.

Table 5

**COMPONENTS OF WESTERN AUSTRALIA'S
NET CONTRIBUTION TO THE COMMONWEALTH**
Relative to Western Australia's population share

	2002-03	2003-04	2004-05
	\$m	\$m	\$m
Personal Income Tax	-47	-78	-125
GST collections	-303	-303	-279
Company Tax	1,328	1,194	1,746
Fuel Excise (net of rebates)	373	528	630
Taxes and Royalties on Petroleum Extraction ^(a)	1,031	751	1,155
Commonwealth Services ^(b)	800	737	805
Personal Benefit Payments	464	542	600
Grants to State and Local Governments ^(c)	157	199	-89
Other	-174	-332	-335
Total	3,629	3,240	4,107

(a) Net of the share of North West Shelf royalties passed on to Western Australia by the Commonwealth.

(b) Departmental expenditures, including defence.

(c) Includes GST revenue grants. Excludes North West Shelf royalties paid as grants to Western Australia.

Source: As per Table 4.

Specific Purpose Payments

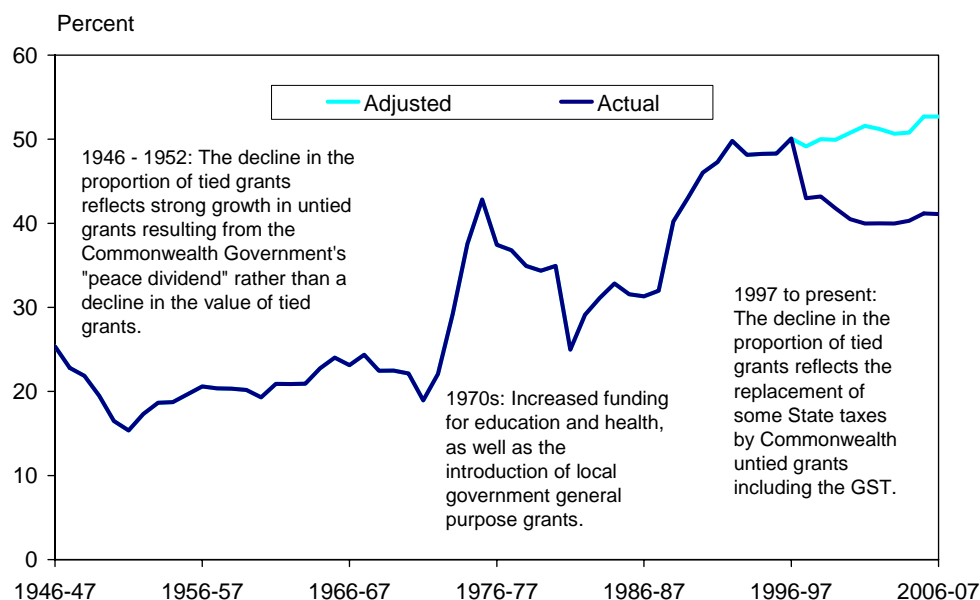
SPPs are grants from the Commonwealth to the States for specified activities, and with conditions attached to their uses that are usually set out in individual agreements. Distinctions are made among:

- SPPs 'to' the State, that support specific areas of State responsibility;
- SPPs that are channelled 'through' the State, primarily to local governments and private schools; and
- North-West Shelf royalty payments (which are reported in official 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), as can be seen in Figure 7. To allow a consistent comparison over time, an adjusted series is shown which removes the impact of the replacement of State taxes by Commonwealth grants.

Figure 7

SPPs AS A PROPORTION OF TOTAL PAYMENTS TO THE STATES ^(a)



(a) The "adjusted" data from 1997-98 to 2006-07 enable comparison on a consistent basis with data prior to the introduction of Commonwealth revenue replacement payments for State business franchise fees in 1997-98 and the GST funding arrangements in 2000-01.

Source: Commonwealth's Final Budget Outcome and Commonwealth Budget papers.

In 2006-07, Western Australia expects to receive around \$2.1 billion in SPPs 'to' the State, representing an increase of 3.1% compared with 2005-06. Growth in health and education payments due to indexation is partly offset by reductions in Commonwealth project-based road funding and funding under the National Action Plan for Salinity and Water Quality. Estimates for SPPs are based largely on advice from agencies.

There are nearly 100 separate SPPs, although a small number account for a large proportion of the total annual payments (see Table 6).

Table 6

**SPECIFIC PURPOSE PAYMENTS
'TO' WESTERN AUSTRALIA**

	2005-06 Estimated Actual		2006-07 Budget Estimate	
	\$m	Percent of total SPPs 'to' WA	\$m	Percent of total SPPs 'to' WA
SPPs 'To'				
Australian Health Care Agreement	821	29	870	30
Other Health	265	10	265	9
Government Schools	286	10	295	10
Vocational Education and Training	113	4	117	4
Road Programs	137	5	133	5
SPPs 'Through'				
Non-government Schools Assistance	505	18	545	19
Local Government Financial Assistance Grants	187	7	195	7
Other SPPs^(a)	474	17	496	17
Total SPPs	2,788	100	2,916	100

(a) Comprise a large number of smaller 'to' and 'through' specific purpose payments.

Note: Columns may not add due to rounding.

The distribution of individual SPPs among 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 2006-07, Western Australia expects to receive 9.8% of total Commonwealth SPPs 'to' States (compared with Western Australia's 10.0% share of the national population).

SPPs Monitoring Report

Clause 5(v) of the IGA 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. One of the functions of the Treasurers' Conference is to monitor compliance with the Commonwealth's undertaking.

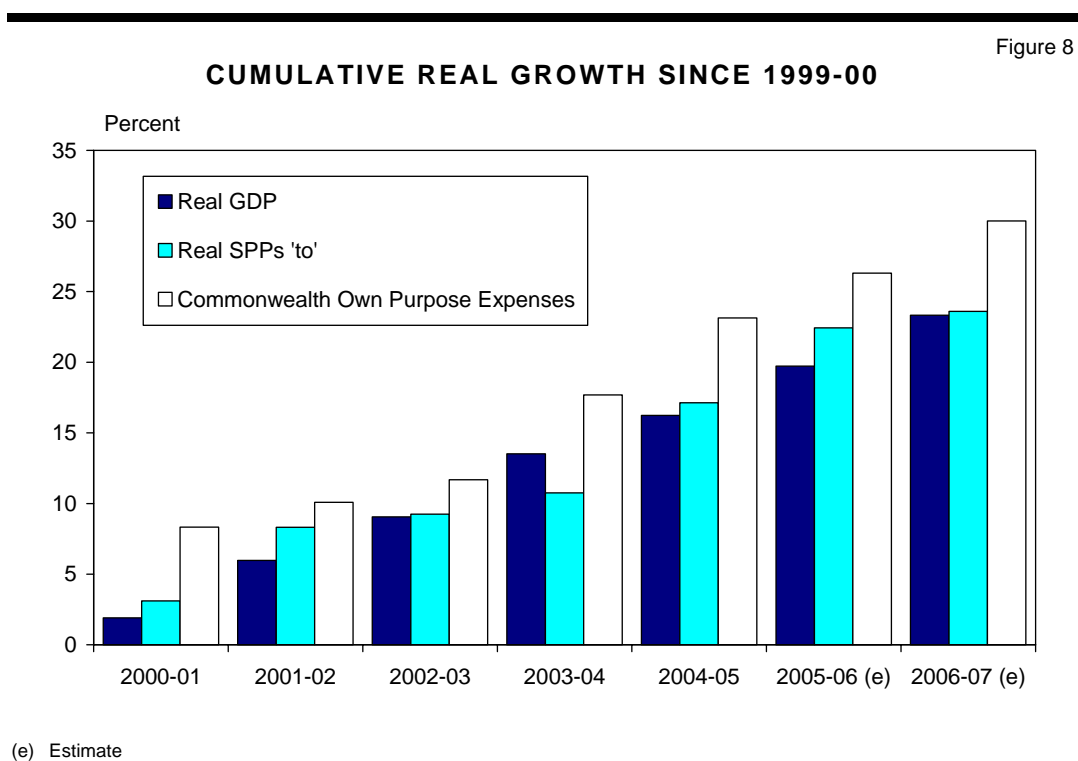
A mechanism for monitoring the Commonwealth's adherence to its commitment, which compares actual growth in SPPs since 1999-2000 against benchmarks of real and real per capita maintenance, was developed and agreed by Heads of Treasuries at their July 2000 meeting. Western Australia coordinates the production of an annual report on the SPP commitment as part of the process for briefing the Treasurers' Conference.

Based on this analysis, the Commonwealth's SPP commitment has been met comfortably in each year to 2004-05, and is also expected to be met in 2005-06 and 2006-07 (based on the Commonwealth's 2005-06 *Mid-Year Economic and Fiscal Outlook* projections).

However, the “real per capita” benchmark is not necessarily a realistic indicator of the increasing demands on States. Costs and demands for some State services have grown much faster than this, particularly in socially sensitive areas such as health. More appropriate benchmarks are:

- growth in GDP (which provides one measure of the rate of growth in revenue raising, and hence spending, that governments can sustain). It is estimated that SPPs will only just keep pace with economic growth over the period 1999-2000 to 2006-07; or
- growth in the Commonwealth’s own spending. It is estimated that Commonwealth own spending will have outpaced growth in SPPs by 6.5 percentage points over the period 1999-2000 to 2006-07.

Figure 8 illustrates the growth in SPPs ‘to’ States relative to these more appropriate benchmarks.



Source: Australian Bureau of Statistics and Commonwealth Budget-related documents (up to the 2005-06 Mid-Year Economic and Fiscal Outlook).

SPP Negotiations

SPP agreements that have been signed over the last year include:

- Supported Accommodation Assistance Program;
- Skilling Australia's Workforce;
- Government Schools Quadrennial Funding 2005-2008;
- Auslink; and
- National Water Initiative.

The Commonwealth has been taking an increasingly firm approach in some recent SPP negotiations with the States, using individual SPP negotiations to actively pursue particular policy objectives. Examples include using grant conditions to:

- apply Commonwealth industrial relations policies to training institutions and construction companies involved in Commonwealth-funded projects;
- determine timelines for construction of the Perth-Bunbury highway; and
- apply Commonwealth curriculum and assessment requirements in school education.

For Western Australia, the Auslink negotiations were particularly difficult. Western Australia's share of the Auslink National Network Programme (which is primarily funding for road projects) is only about 8%. This is much less than the State's 10% population share, 22% share of the National Road Transport Network and 31% contribution to national merchandise exports. Notably, Western Australia's low share of road funding in recent years has not been offset by an increase in its GST share under the HFE arrangements¹¹.

An important reason for Western Australia's low funding share is the relatively limited scope of the Auslink National Network in Western Australia compared with other States. For example, the Auslink network includes only one of the two major Perth-Darwin routes (the North West Coastal Highway, which connects three of the top six tonnage ports in Australia, is not part of the network). By comparison, the Network includes two routes from Melbourne to Brisbane, two routes from Brisbane to Darwin, and a series of routes from Sydney to Brisbane.

The Commonwealth also declined to increase its funding contribution to the Perth-Bunbury Highway project to reflect significant cost increases attributable largely to an overheated construction sector.

¹¹ Auslink is an exception to the Grants Commission's usual practice of effectively redistributing SPP grant shares through adjustments to GST grant shares.

Negotiations on the following SPP agreements will continue or are expected to commence in 2006-07:

- Home and Community Care;
- Commonwealth State Territory Disability Agreement (CSTDA); and
- National Heritage Trust.

SPPs Reform

Western Australia has for a number of years chaired an 'SPPs Working Group' comprising officials from the Treasuries of the Commonwealth and all States and Territories, and the Commonwealth Department of Finance and Administration. The objectives of the working group have been:

- to develop a better understanding of Commonwealth and State perspectives on SPP arrangements (including each party's concerns and issues of common interest); and
- to explore an SPP framework that will provide the best service delivery outcomes for the community (involving improved resource allocation and efficiency), while also providing the basis for assessment of Commonwealth objectives.

In 2005-06, the State and Territory members of the SPPs Working Group submitted a report to the Commonwealth proposing general parameters for renegotiating a new CSTDA to replace the existing agreement (which will expire on 30 June 2007). Consistent with States' general views on SPPs, the report recommended (among other things) that:

- the new CSTDA should have an outcomes/outputs focus, to encourage efficiency and innovation, and focus on results rather than spending. To achieve this, there needs to be continued progress towards a robust system of outcome and output performance monitoring; and
- there should be a shift away from Commonwealth prescriptions on the amounts of State funding contributions, to provide States with flexibility to best meet community needs. Alternatively, these prescriptions need to be made more flexible, for example, to recognise State expenditures in different areas that contribute to desired outcomes, or to allow States to use efficiency gains for their priorities (to ensure that States have incentives to be efficient).

The SPPs Working Group has recently been tasked with undertaking a review of the Australian Health Care Agreements, in the context of an agreement by the February 2006 COAG meeting that SPPs that significantly affect the health system should be reviewed prior to their renegotiation. The reviews are intended to identify any elements of SPPs that, if changed, could contribute to better health outcomes. COAG agreed that:

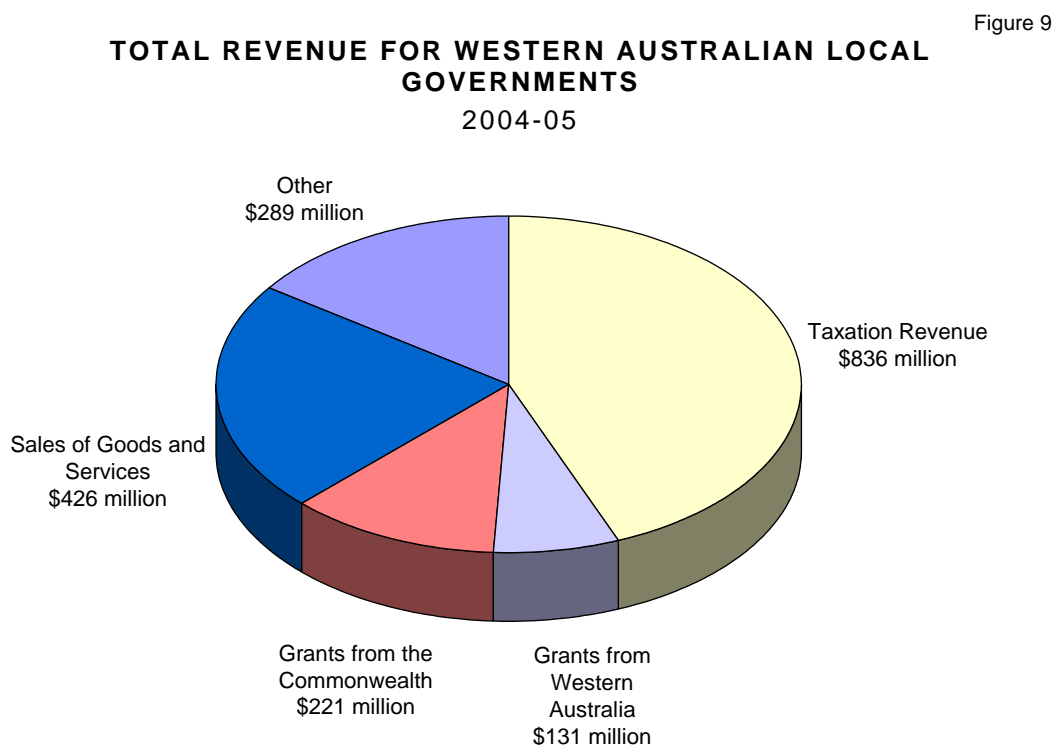
- any such reviews should be passed to Heads of Government prior to the commencement of renegotiations on health SPPs; and

- in light of the experience of reviews of SPPs in health, consideration be given to whether the design of major SPPs in other areas would benefit from a similar process before their renegotiation.

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 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 41% for the State Government. As a result, the local government sector as a whole has a much lower level of VFI than the State Government sector, although VFI varies widely across local governments.

Figure 9 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 22% of their revenues from sales of goods and services, compared with only 7% for the State Government.



Source: ABS 5512.0, Department of Treasury and Finance and Commonwealth Final Budget Outcome 2004-05.

In 2004-05, \$352 million in grants was provided to Western Australia's local governments. Of this amount, \$131 million was provided by the State, with the balance provided by the Commonwealth.

Most payments from the Commonwealth to local government are untied payments passed through the States (i.e. financial assistance grants, comprising general purpose funding and untied local roads funding). General purpose funding is distributed among the States on the basis of population shares, and then distributed to local governments within States mainly using HFE principles. Untied local roads funding is distributed among the States on the basis of historical shares, and then distributed to local governments within States on the basis of relative needs. The Commonwealth also provides specific purpose payments directly to local governments. State grants for local government mainly comprise funding for roads. Table 7 shows grants received by local governments in Western Australia in 2004-05 (the latest year for which this breakdown is available).

Table 7

GRANTS TO LOCAL GOVERNMENT IN WESTERN AUSTRALIA
2004-05

	\$m
State Grants	
Main Roads	81
Fire and Emergency Services	17
Sport and Recreation	10
Planning and Infrastructure	9
Local Government and Regional Development	5
Other	8
Total	131
Commonwealth Grants	
Financial Assistance Grants	
General Purpose Funding	105
Untied Local Roads Funding	73
Specific Purpose Payments	
Children's Services	3
Roads to Recovery Program	40
Total	221

Source: Department of Treasury and Finance and Commonwealth Final Budget Outcome 2004-05.

In June 2005, the Commonwealth released its response to the report of the House of Representatives *Inquiry into Local Government and Cost-Shifting* (the Hawker report). This response included:

- support for the development of an inter-governmental agreement on funding, roles and responsibilities for local government relations (see below);
- opposition to the payment of rates by Federal and State Governments, recognising local government benefits from land and payroll tax exemptions;
- support for the continuation of councils' minimum financial assistance grant entitlement (based on population share), contrary to the recommendations of the Hawker report;
- a commitment to ask the Commonwealth Grants Commission to review the interstate distribution of untied local roads funding, as a response to the apparent disadvantage to South Australia in the current distribution¹²; and

¹² This review is currently proceeding, to be reported by end June 2006.

- a commitment to ask the Productivity Commission to examine any constraints on the capacity of local government authorities to raise revenue from their own sources.

An intergovernmental agreement to guide local government relations was recently signed by the Commonwealth, the States and the Australian Local Government Association. It provides for greater financial transparency among the three spheres of government in relation to local government services and functions. It also requires that when a responsibility is devolved to local government, local governments are consulted and the financial and other impacts on local government are taken into account.

The Western Australian Government and local governments are committed to improving cooperation to enhance the sustainable social, environmental and economic development of the State. The two levels of government agreed to establish a State/Local Government Council in December 2002¹³. The State/Local Government Council:

- receives reports on specific partnership agreements;
- addresses issues that may arise from the implementation of partnership agreements; and
- addresses strategic issues relating to the relationship between State and Local Government.

A number of agreements have recently been signed, including the following:

- a Memorandum of Understanding between the City of Geraldton and the Western Australian Government, to achieve the sustainable social, environmental and economic development of Geraldton, in May 2005;
- a Memorandum of Understanding between the City of Wanneroo and the Western Australian Government, to advance the revitalisation of the Wanneroo Town Centre, in July 2005; and
- a Memorandum of Agreement between the City of Albany and the Western Australian Government, for the planning, funding, construction and management of the Albany Waterfront Project, in September 2005.

In March 2006, the Local Government Advisory Board reported to the Minister for Local Government and Regional Development on its review of structural and electoral reform in the local government sector.

During 2005-06, the Department of Treasury and Finance negotiated and implemented Commonwealth-State assistance arrangements in relation to the Shire of Brookton, which was adversely affected by the collapse of HIH Insurance.

¹³ The State/Local Council is supported by a Partnership Steering Group of officers from State agencies and local government peak bodies.

Structural Reform

Overview

Structural reform of the Western Australian economy is an important means of ensuring the State's continued successful economic performance. Recent reforms – in key areas such as electricity, gas and transport – have enhanced the efficiency of the Western Australian economy and allowed the State to respond quickly and with flexibility to the current opportunities for growth.

Major structural reform achievements in 2005-06 were predominantly in the electricity sector and included:

- the disaggregation of Western Power Corporation into four separate entities on 31 March 2006;
- preparation for the introduction of new wholesale electricity market arrangements in July 2006; and
- the first stages of independent regulation of network access and new electricity access arrangements. Among other things these reforms have already seen an increase in private investment into the electricity industry.

In the water industry progress is being made with implementing the irrigation review and the State's water strategy. Western Australia's signing of the National Water Initiative will foster efficient and sustainable water industry reforms. The adoption of significant metropolitan water pricing reforms, based on recommendations of the Economic Regulation Authority, will also see the implementation of a cost based system of pricing that introduces pricing signals to convey the full cost to consumers of this important resource.

Reviews and reforms have also been progressed in the areas of ports and sea freight, aviation licensing, grain marketing arrangements, and water and health legislation.

Challenges for the Western Australian economy into the future – including an expected return of commodity prices to more normal levels, higher costs and continued labour constraints and, over the longer term, the impact of an ageing population reducing workforce participation and productivity – will demand a continued reform effort.

In 2006-07, the Government's major structural policy focus will be on:

- progressing Western Australia's obligations under the Council of Australian Governments' (COAG's) new National Reform Agenda (NRA), agreed at COAG's meeting of 10 February 2006, in areas ranging from competition and regulation involving infrastructure to 'human capital';
- progressing further reform within the Western Australian water industry, including progressing proposed water market reforms consistent with National Water Initiative principles and consideration of the findings (once complete) from the Economic Regulation Authority's (ERA's) Inquiry on Country Water and Wastewater Pricing in Western Australia.

Electricity Industry Reform

Despite not being able to participate in the national electricity market, Western Australia has vigorously pursued reform of the State's electricity industry to introduce greater competition. This is essential reform if the State is to maintain its international and national competitiveness as a place to do business.

Impediments to competition are being removed in the wholesale and retail sectors of the industry. The former Western Power Corporation has been restructured to establish four new Government-owned energy businesses. An independent regulator is approving access arrangements for the transmission and distribution network. More than half the electricity market in the South West Interconnected System (SWIS) is now contestable and private sector involvement in the industry is increasing.

The Government endorsed the recommendations of the Electricity Reform Task Force (ERTF) in November 2002 and subsequently established the Electricity Reform Implementation Steering Committee (ERISC) to implement the reforms.

Wholesale Electricity Market

The development of the WEM is a key aspect of the electricity reforms and will promote greater competition and private sector investment in the SWIS.

The WEM is to commence in July 2006 and will be operated by the new Independent Market Operator (IMO).

The objectives of the WEM 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;
- minimise the long-term cost of electricity supplied to consumers from the SWIS; and
- encourage demand side management of electricity.

The IMO, which was established in December 2004, is responsible for the administration and operation of the new market. This includes scheduling the dispatch of electricity generation to meet customer load and balancing electricity supply with demand. The market is to be administered in accordance with the market rules approved by the Minister for Energy in October 2004.

The IMO will also be responsible for ensuring adequate reserves of electricity supply to Western Australian consumers within the SWIS. During 2005, the IMO completed its first Reserve Capacity Cycle which successfully ensured that sufficient private sector and government owned capacity would be available in the SWIS to meet the forecast requirement in 2007-08.

Reducing Market Power

In order to ensure end-use customers benefit from increasing competition in the electricity industry, it has been important to undertake measures to constrain the market power of the Government owned electricity businesses.

This market power has been addressed through a range of measures implemented as part of the Government's structural reform program, including:

- the restructure of Western Power Corporation, which established strong commercial disciplines between the successor entities; and
- the incumbent generation business, which has been constrained through a cap on its generating capacity.

As a result, the former Western Power Corporation split into four independent entities on 31 March 2006:

- Horizon Power (Regional Power Corporation);
- Synergy (Electricity Retail Corporation);
- Verve Energy (Electricity Generation Corporation); and
- Western Power (Electricity Networks Corporation).

The Government retains ownership of these entities, which will deal with each other on an arm's length basis. This approach is an effective mitigation measure against the potential market power resulting from Western Power Corporation's previous vertical integration.

However, as the incumbent generation business Verve Energy will initially have potential market power by virtue of its large portfolio of generation plant. To mitigate the potential market power associated with this inherited plant portfolio, the then Minister for Energy issued a direction to the Western Power Corporation Board on 7 April 2005 to cap the Corporation's generating capacity at 3,000 megawatts. This direction now applies to Verve Energy.

The direction restricts Verve Energy from building any new power generation plant until sufficient old plant owned by the utility has been retired such that the cap would not be breached. The cap will allow private companies to develop the new generation capacity required to meet the State's ongoing electricity needs and, over time, will significantly reduce the market share of Verve Energy. However, Verve Energy's ability to replace generation plant that is near the end of its economic life with more efficient new plant, will ensure that its generation assets remain competitive and environmentally efficient over time, increasing competitive pressures in the WEM.

Additionally, at disaggregation, vesting arrangements were established as a transitional measure, between Verve Energy and Synergy, to mitigate their market power by governing the terms on which electricity is supplied in the early stages of the market. These contracts ensure that a significant majority of Verve Energy's capacity is contracted, reducing scope for market power to be exerted in the short-term energy market. To promote competition and new entry investment in the electricity market, the details of the vesting arrangements have been publicly released.

Electricity Access Code

Open, transparent and non-discriminatory access to network services is also a prerequisite to a competitive electricity market. As part of the new market framework established under the *Electricity Industry Act 2004*, an Electricity Access Code providing for open access to network assets has been developed to suit conditions prevailing in Western Australia. This Code will be administered by the Economic Regulation Authority (ERA) which is responsible for regulating third party access to 'covered' electricity networks in the State.

The Access Code incorporates the use of incentive regulation (so-called because regulated entities are encouraged to minimise costs through efficiency improvements), including the use of price and/or revenue caps and, where efficient and practicable, cost reflective network pricing. Where appropriate, it is also consistent with the National Electricity Code and National Gas Code and ultimately has been designed to meet the requirements for certification under the Part IIIA of the *Trade Practices Act 1974*.

On 25 August 2005, the former Western Power Corporation submitted its proposed Access Arrangement, Access Arrangement Information and technical rules to the ERA. Upon its approval, the Access Arrangement will form the framework under which access seekers will negotiate and contract with the network business to use the electricity network. After assessing the compliance of the proposed Access Arrangement with the requirements of the Access Code and undertaking a public consultation process, the ERA published its Draft Decision on 21 March 2006. Public submissions on the draft decision are due by 19 May 2006, after which the ERA will make a final decision that will be applicable to Western Power (Networks).

Contestability

In recent years, retail contestability thresholds for electricity have been lowered progressively. On 1 January 2005, the threshold for contestability was reduced to an average load of 5.7 kilowatts (or 50 megawatt hours per annum), a level of consumption typical of small businesses with an average electricity bill of approximately \$8,000 per annum.

More than half the electricity sold in the SWIS is now subject to competition. Approximately 12,500 contestable customers are able to choose their electricity supplier and this competition promotes improved price and service outcomes and increased economic efficiency in the electricity supply industry.

The Government intends to ultimately implement full retail contestability (FRC), which would allow all customers, including households, to choose their supplier. However, FRC will only be practical when effective wholesale market competition has been established and the WEM is functioning successfully.

Gas Market Reform

With the State's gas access regime certified as effective in May 2000, and the introduction of FRC in the Western Australian gas market on 31 May 2004, reform of this market is largely complete.

It remains for Western Australia to implement required legislative amendments to the *Petroleum Act 1967*, and the *Petroleum (Submerged Lands) Act 1982*, in line with the findings of the national review. In addition, the State will be required to implement reforms to be agreed as part of the national Review of the Gas Access Regime.

Water Reform

Water Market Reform

Water is an increasingly scarce and valuable commodity. Efficient water trading is recognised as an important tool to ensure that wastage is minimised and high value users have access to the water traded. The Irrigation Review Steering Committee report recommended the removal of trade restrictions, separation of land and water titles, enhancement of entitlements and development of an efficient market mechanism to facilitate the trade of water.

The Government response to this review established the Water Reform Implementation Committee, with instructions to prepare advice and implementation options to apply the proposed reforms to the State's trading and entitlements arrangements. These proposed reforms are consistent with the principles and obligations of the National Water Initiative (of which Western Australia has recently become a signatory) and would meet many of the obligations the State has under the Initiative.

As a signatory to the National Water Initiative, Western Australia has access to, and will apply for, the State's share of funding from the \$2 billion Australian Water Fund. Such funding will be sought to develop practical on-ground water projects that will improve Western Australia's water efficiency and environmental outcomes.

The Water Reform Implementation Committee is expected to deliver advice to the Government on the proposed reforms and their application to Western Australia in late 2006.

Water and Wastewater Pricing

The Western Australian Government continues to progress key reforms essential to the development of an efficient and sustainable Western Australian water industry. The 2006-07 Budget introduces a cost-based pricing system of metropolitan water pricing. The introduction of a cost-based system transparently links the costs incurred in providing these services to the prices charged, ensuring that the appropriate pricing signals are sent to consumers (an important aspect in a dry climate like Western Australia's). These pricing reforms will result in sustainable prices that provide for the development of future water sources.

In this vein the Government will also consider the findings (when released) from the ERA's Inquiry on Country Water and Wastewater Pricing in Western Australia, currently underway. The completion of the country inquiry ensures Western Australia's continuing compliance with the National Water Initiative (previously National Competition Policy) pricing obligations, forming part of COAG's Strategic Framework for Water Reform.

Transport Market 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, comprising the *Railways (Access) Act 1998* and the *Railways (Access) Code 2000* (the Code), which provides a framework for the negotiation of access to railway infrastructure on fair and reasonable terms. The aim of the Rail Access Regime is to encourage the efficient use of, and investment in, railway facilities within a contestable market.

As part of the Government's ongoing commitment to refine and improve the effectiveness and efficiency of the State's railway infrastructure, a full review of the Rail Access Regime commenced in January 2005 with the publication of an issues paper by the ERA. The purpose of the review was to assess the suitability of the provisions of the Code to give effect to the Competition Principles Agreement (CPA) in respect of railways to which the Code applies. The final report on the review was publicly released in December 2005, and negotiations are proceeding as to implementation of the recommendations.

On Pilbara rail access issues, the Commonwealth has until end-May 2006 to issue a decision on declaration of the Mount Newman Railway line, owned in part and used exclusively by BHP Billiton, under Part IIIA of the *Trade Practices Act 1974*. Declaration would allow potential users the right to negotiate rail track access on commercial terms and conditions.

National Competition Policy

With the Federal Government's unilateral decision in early 2005 to redirect competition payments to the States, scheduled for 2006-07 and 2007-08, to projects under the National Water Initiative, 2005-06 is the final year for competition payments under the current NCP reform agenda.

National Competition Policy (NCP) legislation review and reform activity has continued in accordance with the State's obligations under the CPA. The revised Public Interest Guidelines for Legislation Review released by the Government in November 2001 ensure that, in making recommendations for reform, assessments of the public interest include consideration of social objectives such as regional development and environmental protection as well as economic efficiency.

Significant progress was made throughout 2005 in implementing NCP review recommendations for reform in the public interest. Particular areas included grain marketing arrangements and regional aviation services.

Grain Marketing

On grain marketing the NCC recommended, and the Federal Treasurer actioned, the backpayment of \$3.8 million suspended in 2004-05 and the reinstatement of the equivalent \$4.0 million amount in Western Australia's 2005-06 payments entitlement, for reducing the restrictions on competition in the State's grain market.

The *Grain Marketing Act 1975* previously prohibited the bulk export from the State of barley, canola and lupins, other than by the Grain Pool of Western Australia. Partial deregulation of the industry under NCP has allowed competing private traders to export grain in bulk, when licensed to do so by the Grain Licensing Authority (GLA).

The GLA is an independent body, charged with issuing export licences to traders where it is satisfied that proposed exports would not harm either the state's reputation as a grain exporter or the grain industry generally, nor significantly undermine any price premium that the Grain Pool captures through the exercise of market power.

With Grain Pool Pty Ltd (GPPL) now competing to obtain grain from Western Australian growers, increased competition in grain exports has clearly been of net benefit to the community. The benefits have arisen through the change from a single purchaser of these grains to robust competition, with ten private trading companies also purchasing grain.

Market commentators have attributed a \$10 per tonne increase in barley prices in 2005-06 to have resulted from this competition, a finding generally consistent with the 2004-05 independent review, which found benefits to growers totalling \$3.4 million in the first year of operation of the new arrangements.

The NCC noted in its 2005 assessment that liberalisation of Western Australia's grain marketing arrangements "substantially exceeds that achieved so far by the Australian Government in the export wheat market ... notwithstanding the lack of evidence that (that) single desk is in the public interest."

Regional Aviation

Maintaining appropriate air services for rural communities is part of the Government's commitment to the regions. It is important at the same time that the regions benefit from the advantages of increased air service competition, and the lower prices this can bring.

The 1999 NCP review of the *Transport Co-ordination Act 1966* recommended that the Act be reformed so that licences for commercial passenger transport vehicles are required only where there is a public benefit from restricting service provision by licensing. This potentially opens more routes up to competition and likely lower prices.

The previous monopoly licence for servicing the 'non-jet' air routes - those with passenger movements below 55,000 to 60,000 per year - connecting Perth with major regional towns was replaced from 1 January 2006 with operational licences awarded by competitive tender.

Competitive allocation of the licence rights to operate the new regulated routes allows competing potential service providers to be selected on the basis of lowest prices and highest service standards. As a result of the new arrangements, for example, Kalbarri and Monkey Mia receive additional services and improved service levels with larger aircraft, with expected flow-on benefits for tourism in the Mid-West and Gascoyne regions.

Separate licences were awarded for the coastal and northern goldfields networks, with a proportion of the profitable Perth-Geraldton route assigned to the two networks, to facilitate cross-subsidisation of the marginal or loss-making routes in each cluster.

An independent NCP review of the new arrangements will be completed before the five year tender period is concluded, in addition to an analysis of the comparative costs and benefits of cross-subsidies under network tender arrangements versus direct, and transparently reported, budget funded subsidies targeted to only the loss-making aviation routes.

Health Professions

In December 2005, a package of legislation was enacted for key health professions, including for chiropractors, optometrists, podiatrists, occupational therapists, osteopaths, physiotherapists and psychologists. Similar reforms based on template legislation are also to be applied to nurses and dentists, among other health professions.

The new template legislation means that all registration laws for health professionals in Western Australia will be modelled on consistent, modern and standardised provisions. The template legislation controls the use of professional title (e.g. “osteopath”) and seeks to prevent conduct from non-qualified persons that may be misleading to consumers and the general public. The new legislation adequately identifies members of the health professions, enabling the consumers of health services to make informed decisions when engaging practitioners.

Despite the Government’s work in 2005 on progressing required reforms to the health professions, a 5% deduction penalty remains due to outstanding reform obligations. The 2001 NCP review recommended that current practice protection provisions, for the various professions, should be replaced by protection of a narrower scope of practices known as ‘core practices’ for each profession. This would allow greater competition in the provision of ‘non-core’ health services in each profession – for example, the licensing requirements for hypnosis will be changed to remove the restrictions on who can practice hypnosis.

The core practices reforms have the potential to deliver substantial benefits to the Western Australian community and the economy more generally. Throughout 2005 and the first half of 2006, the Government has moved to progress these reforms via extensive consultation with stakeholders. The substantial input already received from health practitioners, and other interested parties with the expertise able to identify practices that should be restricted to health practitioner groups, is currently being developed into an overarching Government position on final reform.

Competition Payments to Western Australia

Western Australia has been penalised \$23.8 million, or 30%, of its potential \$79.4 million Competition Payments entitlement in 2005-06, as the Federal Treasurer accepted in full the National Competition Council’s (NCC’s) 2005 assessment of the State’s progress in achieving NCP-related reforms. The payments penalty comprises:

- continued deductions totalling 20% of annual payments (or \$15.9 million in 2005-06) that have continued since 2003-04 for the regulation of retail trading hours (10% or \$7.9 million), the delayed transition to competitive liquor licensing arrangements (5% or \$4.0 million) and the regulation of potato marketing (5% or \$4.0 million); and
- a pool suspension of 10% or \$7.9 million for failure to progress a range of outstanding high priority legislation review and reform obligations, chiefly in health and consumer protection.

However, Western Australia has received once-off backpayments of specific and pool suspensions from 2004-05 (worth 20% of 2004-05 payments or \$15.4 million) for the implementation of reforms as follows:

- timely passage of the *Electricity Corporations Act 2005* prompted backpayment of the 2004-05 specific penalty for electricity (worth 15% or \$11.5 million in 2004-05), and avoided the equivalent \$11.9 million penalty otherwise expected in 2005-06; and
- a portion (5%) of the 15% pool suspension from 2004-05 (5% of 2004-05 payments or \$3.8 million) was backpaid, due to progress in liberalising grain marketing arrangements, with the expected \$4.0 million component of that pool penalty additionally avoided in 2005-06.

A New National Reform Agenda

Both the Productivity Commission and COAG reviewed NCP arrangements in late 2005:

- the Productivity Commission review estimated that NCP reforms have permanently increased the level of Australia's GDP by 2.5%, or \$20 billion – meaning a sustained increase in the average household's annual income of \$7,000 per annum; and
- the COAG review noted that, despite the striking gains from NCP reforms already achieved, the ageing of Australia's population and intensifying global competition mean that complacency is not an option. Further reform is necessary to ensure continued growth and safeguard Australian living standards into the future.

Accordingly, the COAG meeting of 10 February 2006 recommitted to the principles contained in the original Competition Principles Agreement, and endorsed a new National Reform Agenda (NRA) encompassing the transport and energy sectors, infrastructure regulation and the reduction of the burden of regulatory red tape on business.

The NRA embraces human capital, competition and regulation reform streams. Concrete, practical initiatives were agreed in the areas of health services, skills recognition, infrastructure regulation and planning and a lessened regulatory burden on business.

The human capital reforms aim to further raise living standards by lifting the nation's productivity and workforce participation over the next decade. The competition stream focuses on infrastructure through a supportive policy framework for productive investment in infrastructure, and for the efficient use of infrastructure. It also focuses on energy and transport, especially appropriate pricing signals and competitive markets to achieve efficient resource allocation and lower costs. The purpose of the legislation stream is to ensure that there is no unjustifiable regulatory burden on business.

The costs of implementing reforms fall mainly on State and Territory Governments, while the benefits of national reform, accruing at household and business level, filter through mainly to the Commonwealth in the form of increased income and company taxes. Although a final financing framework to share the benefits of the reforms remains to be determined, COAG agreed on 10 February 2006 that the performance of all governments in pursuing reforms will be subject to measurement and reporting against appropriate progress measures, with payments linked to specific actions or outcomes.

Both the Productivity Commission and COAG Reviews of NCP noted that institutional arrangements were major contributors to the overall success of implementing NCP, and that, whatever the specific frameworks employed to progress the NRA, it is important that they provide for public input to processes, provide for independent monitoring of progress in implementing changes according to agreed timetables, and embody mechanisms to lock-in the gains of past reforms and prevent backsliding.

APPENDIX 1

Detailed Financial Projections

This appendix contains detailed financial projections for the various sectors of the total public sector under the Government Finance Statistics (GFS) framework. The tables in this section also satisfy Uniform Presentation Framework (UPF) requirements (with the exception of general government sector taxes, contained in Chapter 4: *Financial Projections – Revenue*).

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Table 1

GENERAL GOVERNMENT**Operating Statement**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Taxation	4,314	5,100	5,082	5,035	5,192	5,491
Current grants and subsidies	6,468	6,894	7,163	7,233	7,179	7,300
Capital grants	347	406	402	399	425	317
Sales of goods and services	982	1,027	1,046	1,069	1,095	1,123
Interest income	142	195	151	134	131	130
Revenue from public corporations						
Dividends	468	536	456	470	496	509
Tax equivalent payments	292	296	294	298	330	331
Royalty income	841	1,276	1,504	1,303	1,280	1,313
Other	368	394	410	472	447	480
Total	14,222	16,123	16,510	16,414	16,575	16,994
EXPENSES						
Gross operating expenses						
Salaries	5,253	5,559	5,904	6,168	6,444	6,734
Depreciation and amortisation	607	594	637	676	707	729
Superannuation	519	546	580	604	630	657
Services and contracts	1,263	1,545	1,753	1,765	1,805	1,845
Other gross operating expenses	1,730	1,865	1,873	1,907	2,013	2,087
Nominal superannuation interest	294	304	306	307	306	304
Other interest	155	151	132	130	134	127
Other property expenses	-	-	-	-	-	-
Current transfers	2,728	3,080	3,466	3,544	3,555	3,667
Capital transfers	482	497	583	426	410	397
Total	13,030	14,141	15,234	15,526	16,004	16,547
NET OPERATING BALANCE	1,192	1,981	1,275	889	571	447
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchase of non-financial assets	1,092	1,381	1,620	1,902	1,644	1,263
Sales of non-financial assets	-253	-241	-227	-173	-179	-173
less depreciation	607	594	637	676	707	729
plus change in inventories	2	-6	1	-	-	-
plus other movements in non-financial assets	59	46	4	-	-	29
Total	293	587	760	1,053	757	390
NET LENDING/BORROWING	899	1,394	515	-164	-186	56
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS						
NET OPERATING BALANCE	1,192	1,981	1,275	889	571	447
less provisions for doubtful debts	15	1	1	1	1	1
plus net gains on assets (including derivatives)	24	154	106	83	-24	13
plus capitalised interest	-	-	-	-	-	-
less revaluation of superannuation liabilities	131	-	-	-	-	-
plus all other adjustments	-130	-	3	-	-	-
AAS/AIFRS RESULT ^(a)	939	2,135	1,383	971	546	460

(a) Consistent with all accounting data in these Budget Papers, 2004-05 results are based on data complying with AAS, while data for 2005-06 and beyond are consistent with the implementation of AIFRS, reflected for the first time in the 2005-06 Budget Papers.

Note: Columns may not add due to rounding.

Table 2

GENERAL GOVERNMENT**Balance Sheet at 30 June**

	2005 Actual \$m	2006 Estimated Actual \$m	2007 Budget Estimate \$m	2008 Forward Estimate \$m	2009 Forward Estimate \$m	2010 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	350	311	306	309	312	312
Advances paid	934	930	739	726	712	690
Investments, loans and placements	1,916	2,621	1,965	1,898	1,852	2,204
Other non-equity assets	1,071	979	913	884	951	955
Equity	19,883	21,398	23,313	24,218	25,220	26,114
<i>Total</i>	<i>24,154</i>	<i>26,239</i>	<i>27,236</i>	<i>28,034</i>	<i>29,047</i>	<i>30,275</i>
<i>Non-Financial assets</i>						
Land and fixed assets	35,864	36,973	38,664	40,720	42,332	42,963
Other non-financial assets	100	301	320	348	271	245
<i>Total</i>	<i>35,964</i>	<i>37,274</i>	<i>38,985</i>	<i>41,068</i>	<i>42,603</i>	<i>43,208</i>
TOTAL ASSETS	60,117	63,513	66,221	69,102	71,649	73,482
LIABILITIES						
Deposits held	338	284	281	288	303	316
Advances received	549	536	523	510	497	475
Borrowings	1,315	1,165	1,189	1,410	1,559	1,819
Unfunded superannuation liabilities	5,633	5,642	5,639	5,615	5,564	5,527
Other employee entitlements and provisions	1,390	1,472	1,554	1,644	1,720	1,795
Non-equity liabilities	701	1,069	1,143	1,248	1,360	1,436
TOTAL LIABILITIES	9,926	10,168	10,329	10,715	11,003	11,368
NET WORTH	50,192	53,345	55,892	58,386	60,646	62,115
<i>Memorandum Item: Net Debt</i>	<i>-997</i>	<i>-1,877</i>	<i>-1,017</i>	<i>-724</i>	<i>-517</i>	<i>-596</i>

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET WORTH	50,192	53,345	55,892	58,386	60,646	62,115
<i>less equity (net worth) of PNFC and PFC sectors</i>	<i>19,341</i>	<i>20,353</i>	<i>20,809</i>	<i>21,616</i>	<i>22,545</i>	<i>23,370</i>
<i>less provisions for doubtful debts</i>	<i>-</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>
<i>less all other adjustments</i>	<i>88</i>	<i>88</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
AAS/AIFRS NET ASSETS ^(a)	30,762	32,902	35,082	36,770	38,101	38,744

(a) Consistent with all accounting data in these Budget Papers, 2004-05 results are based on data complying with AAS, while data for 2005-06 and beyond are consistent with the implementation of AIFRS, reflected for the first time in the 2005-06 Budget Papers.

Note: Columns may not add due to rounding.

Table 3

GENERAL GOVERNMENT**Cash Flow Statement**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	4,328	5,119	5,097	5,048	5,208	5,510
Receipts from sales of goods and services	1,031	1,055	1,072	1,098	1,107	1,153
Grants and subsidies received	6,786	7,292	7,556	7,625	7,598	7,629
Other receipts	2,481	3,161	3,480	3,298	3,224	3,311
<i>Total</i>	<i>14,626</i>	<i>16,626</i>	<i>17,206</i>	<i>17,069</i>	<i>17,137</i>	<i>17,603</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-9,002	-9,723	-10,313	-10,661	-11,116	-11,574
Grants and subsidies paid	-2,966	-3,293	-3,683	-3,673	-3,658	-3,775
Interest paid	-162	-142	-123	-121	-126	-111
Other payments	-798	-865	-832	-875	-871	-874
<i>Total</i>	<i>-12,928</i>	<i>-14,023</i>	<i>-14,951</i>	<i>-15,330</i>	<i>-15,771</i>	<i>-16,334</i>
Net Cash Flow from Operating Activities	1,698	2,603	2,255	1,739	1,366	1,269
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-1,092	-1,381	-1,620	-1,902	-1,644	-1,263
Sales of non-financial assets	253	241	227	173	179	173
<i>Total</i>	<i>-839</i>	<i>-1,140</i>	<i>-1,393</i>	<i>-1,730</i>	<i>-1,465</i>	<i>-1,090</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-122	-505	-1,453	-95	-73	-37
Liquidity purposes	-62	-42	-21	-37	-12	-7
<i>Total</i>	<i>-184</i>	<i>-547</i>	<i>-1,474</i>	<i>-133</i>	<i>-84</i>	<i>-44</i>
Net Cash Flow from Investing Activities	-1,022	-1,687	-2,867	-1,862	-1,549	-1,134
FINANCING ACTIVITIES						
Advances received (net)	-	-	-	-	-	-
Borrowings (net)	-395	-296	27	69	157	262
Deposits received (net)	-1	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	-100	-20	-23	-28	-29	-27
<i>Total</i>	<i>-496</i>	<i>-316</i>	<i>4</i>	<i>41</i>	<i>128</i>	<i>235</i>
<i>Opening cash balance</i>	<i>2,690</i>	<i>2,869</i>	<i>3,468</i>	<i>2,860</i>	<i>2,777</i>	<i>2,723</i>
NET INCREASE IN CASH HELD ^(a)	180	599	-608	-83	-55	370
<i>Closing cash balance</i>	<i>2,869</i>	<i>3,468</i>	<i>2,860</i>	<i>2,777</i>	<i>2,723</i>	<i>3,093</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>859</i>	<i>1,463</i>	<i>862</i>	<i>9</i>	<i>-99</i>	<i>179</i>
<i>Surplus</i>	<i>859</i>	<i>1,463</i>	<i>862</i>	<i>9</i>	<i>-99</i>	<i>179</i>

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 4

PUBLIC NON-FINANCIAL CORPORATIONS
Operating Statement

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Current grants and subsidies	906	1,093	1,211	1,306	1,335	1,372
Capital grants	143	172	158	140	140	124
Sales of goods and services	5,402	5,485	5,735	6,069	6,355	6,555
Interest income	142	139	136	142	146	152
Other	314	274	290	260	279	255
<i>Total</i>	<i>6,907</i>	<i>7,162</i>	<i>7,531</i>	<i>7,918</i>	<i>8,256</i>	<i>8,458</i>
EXPENSES						
Gross operating expenses						
Salaries	487	556	640	672	676	692
Depreciation and amortisation	653	673	731	785	812	843
Superannuation	48	55	63	66	66	67
Services and contracts	421	412	404	418	399	402
Other gross operating expenses	3,327	3,402	3,488	3,672	3,790	3,883
Nominal superannuation interest	-	-	-	-	-	-
Other interest	452	568	624	663	745	825
Other property expenses	753	825	744	762	819	833
Current transfers	505	637	673	749	771	791
Capital transfers	1	22	40	20	20	48
<i>Total</i>	<i>6,648</i>	<i>7,151</i>	<i>7,405</i>	<i>7,807</i>	<i>8,099</i>	<i>8,384</i>
NET OPERATING BALANCE	259	11	125	111	157	74
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	1,788	2,602	2,439	1,756	1,715	1,806
Sales of non-financial assets	-432	-532	-594	-581	-614	-572
less depreciation	653	673	731	785	812	843
plus change in inventories	54	16	13	13	22	-1
plus other movements in non-financial assets	-4	-	-6	-	-	-29
<i>Total</i>	<i>753</i>	<i>1,412</i>	<i>1,120</i>	<i>403</i>	<i>310</i>	<i>361</i>
NET LENDING/BORROWING	-493	-1,401	-995	-292	-153	-287

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET OPERATING BALANCE	259	11	125	111	157	74
less provisions for doubtful debts	5	6	6	6	6	6
plus net gains on assets (including derivatives)	78	136	135	144	183	202
plus capitalised interest	4	-	-	-	-	-
less revaluation of superannuation liabilities	-68	-	-	-	-	-
plus all other adjustments	-14	-	-	-	-	-
AAS/AIFRS RESULT ^(a)	391	141	255	249	334	270

(a) Consistent with all accounting data in these Budget Papers, 2004-05 results are based on data complying with AAS, while data for 2005-06 and beyond are consistent with the implementation of AIFRS, reflected for the first time in the 2005-06 Budget Papers.

Note: Columns may not add due to rounding.

Table 5

PUBLIC NON-FINANCIAL CORPORATIONS**Balance Sheet at 30 June**

	2005 Actual \$m	2006 Estimated Actual \$m	2007 Budget Estimate \$m	2008 Forward Estimate \$m	2009 Forward Estimate \$m	2010 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	308	257	240	265	287	325
Advances paid	96	26	15	15	15	15
Investments, loans and placements	2,128	2,178	2,195	2,233	2,371	2,458
Other non-equity assets	1,089	1,229	1,355	1,503	1,647	1,759
Equity	5	5	5	5	5	5
Total	3,627	3,694	3,810	4,020	4,325	4,562
<i>Non-Financial assets</i>						
Land and fixed assets	26,040	28,889	30,680	31,993	33,715	35,024
Other non-financial assets	244	233	236	266	265	269
Total	26,284	29,122	30,916	32,259	33,980	35,293
TOTAL ASSETS	29,910	32,816	34,726	36,279	38,305	39,855
LIABILITIES						
Deposits held	2	1	1	1	1	1
Advances received	549	536	523	510	497	475
Borrowings	7,720	9,226	9,355	10,022	11,090	11,859
Unfunded superannuation liabilities	110	103	100	97	94	91
Other employee entitlements and provisions	293	213	198	204	208	211
Non-equity liabilities	1,888	2,126	2,062	2,085	2,097	2,047
TOTAL LIABILITIES	10,561	12,206	12,239	12,919	13,986	14,684
Shares and other contributed capital	542	1,045	2,505	2,602	2,676	2,743
NET WORTH	18,807	19,566	19,982	20,759	21,644	22,428
<i>Memorandum Item: Net Debt</i>	5,738	7,303	7,429	8,020	8,914	9,537

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET WORTH	18,807	19,566	19,982	20,759	21,644	22,428
<i>plus</i> shares and other contributed capital	542	1,045	2,505	2,602	2,676	2,743
<i>less</i> provision for doubtful debts	-	6	6	6	6	6
<i>less</i> all other adjustments	-	-	-	-	-	-
AAS/AIFRS NET ASSETS ^(a)	19,349	20,605	22,481	23,354	24,313	25,165

(a) Consistent with all accounting data in these Budget Papers, 2004-05 results are based on data complying with AAS, while data for 2005-06 and beyond are consistent with the implementation of AIFRS, reflected for the first time in the 2005-06 Budget Papers.

Note: Columns may not add due to rounding.

Table 6

PUBLIC NON-FINANCIAL CORPORATIONS**Cash Flow Statement**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
RECEIPTS FROM OPERATING ACTIVITIES						
Receipts from sales of goods and services	5,525	5,564	5,769	6,061	6,380	6,572
Grants and subsidies received	976	1,181	1,276	1,341	1,369	1,388
Other receipts	555	542	505	474	515	534
<i>Total</i>	<i>7,057</i>	<i>7,287</i>	<i>7,551</i>	<i>7,876</i>	<i>8,264</i>	<i>8,493</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-4,170	-4,404	-4,587	-4,762	-4,901	-4,962
Grants and subsidies paid	-386	-518	-499	-514	-535	-544
Interest paid	-446	-524	-598	-637	-743	-787
Other payments	-775	-724	-765	-789	-814	-853
<i>Total</i>	<i>-5777</i>	<i>-6,171</i>	<i>-6,449</i>	<i>-6,701</i>	<i>-6,994</i>	<i>-7,147</i>
Net Cash Flow from Operating Activities	1,280	1,116	1,102	1,174	1,270	1,347
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-1,788	-2,602	-2,439	-1,756	-1,715	-1,806
Sales of non-financial assets	432	532	594	581	614	572
<i>Total</i>	<i>-1,356</i>	<i>-2,070</i>	<i>-1,844</i>	<i>-1,175</i>	<i>-1,101</i>	<i>-1,234</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	13	22	-17	-82	-85	-77
<i>Total</i>	<i>13</i>	<i>22</i>	<i>-17</i>	<i>-82</i>	<i>-85</i>	<i>-77</i>
Net Cash Flow from Investing Activities	-1,344	-2,048	-1,862	-1,256	-1,186	-1,311
FINANCING ACTIVITIES						
Advances received (net)	-12	-13	-13	-13	-13	-22
Borrowings (net)	640	1,094	-114	670	622	725
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-741	-841	-768	-744	-789	-827
Other financing	232	609	1,583	215	166	124
<i>Total</i>	<i>119</i>	<i>849</i>	<i>689</i>	<i>128</i>	<i>-14</i>	<i>-</i>
<i>Opening cash balance</i>	<i>454</i>	<i>509</i>	<i>426</i>	<i>355</i>	<i>401</i>	<i>471</i>
NET INCREASE IN CASH HELD ^(a)	55	-83	-71	46	70	36
<i>Closing cash balance</i>	<i>509</i>	<i>426</i>	<i>355</i>	<i>401</i>	<i>471</i>	<i>507</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	<i>-817</i>	<i>-1,794</i>	<i>-1,510</i>	<i>-745</i>	<i>-619</i>	<i>-714</i>
<i>less finance leases and similar arrangements</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Surplus</i>	<i>-817</i>	<i>-1,794</i>	<i>-1,510</i>	<i>-745</i>	<i>-619</i>	<i>-714</i>

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 7

TOTAL NON-FINANCIAL PUBLIC SECTOR
Operating Statement

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Taxation	4,141	4,921	4,898	4,861	5,015	5,307
Current grants and subsidies	6,468	6,894	7,163	7,233	7,179	7,300
Capital grants	347	406	402	399	425	317
Sales of goods and services	6,186	6,323	6,587	6,939	7,243	7,464
Interest income	242	287	245	236	236	242
Royalty income	841	1,276	1,504	1,303	1,280	1,313
Other	626	593	545	525	526	501
<i>Total</i>	<i>18,850</i>	<i>20,700</i>	<i>21,346</i>	<i>21,496</i>	<i>21,904</i>	<i>22,444</i>
EXPENSES						
Gross operating expenses						
Salaries	5,740	6,116	6,544	6,839	7,119	7,426
Depreciation and amortisation	1,260	1,267	1,368	1,461	1,520	1,571
Superannuation	567	601	643	669	695	724
Services and contracts	1,684	1,957	2,157	2,183	2,204	2,247
Other gross operating expenses	4,745	4,962	5,049	5,273	5,487	5,643
Nominal superannuation interest	294	304	306	307	306	304
Other interest	565	673	713	752	838	912
Other property expenses	-	-	-	-	-	-
Current transfers	2,204	2,481	2,707	2,706	2,717	2,804
Capital transfers	340	347	459	306	290	291
<i>Total</i>	<i>17,399</i>	<i>18,708</i>	<i>19,945</i>	<i>20,496</i>	<i>21,177</i>	<i>21,923</i>
NET OPERATING BALANCE	1,451	1,992	1,400	1,000	728	521
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	2,881	3,982	4,054	3,658	3,359	3,069
Sales of non-financial assets	-686	-773	-822	-754	-793	-745
<i>less</i> depreciation	1,260	1,267	1,368	1,461	1,520	1,571
<i>plus</i> change in inventories	56	10	13	13	22	-1
<i>plus</i> other movements in non-financial assets	55	46	-2	-	-	-
<i>Total</i>	<i>1,045</i>	<i>1,998</i>	<i>1,876</i>	<i>1,456</i>	<i>1,067</i>	<i>751</i>
NET LENDING/BORROWING	405	-6	-475	-456	-339	-231

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
NET OPERATING BALANCE	1,451	1,992	1,400	1,000	728	521
<i>less</i> provisions for doubtful debts	21	6	7	7	7	7
<i>plus</i> net gains on assets (including derivatives)	102	290	241	227	159	215
<i>plus</i> capitalised interest	4	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	62	-	-	-	-	-
<i>plus</i> all other adjustments	-144	-	-	-	-	-
AAS/AIFRS RESULT ^(a)	1,330	2,276	1,638	1,221	880	729

(a) Consistent with all accounting data in these Budget Papers, 2004-05 results are based on data complying with AAS, while data for 2005-06 and beyond are consistent with the implementation of AIFRS, reflected for the first time in the 2005-06 Budget Papers.

Note: Columns may not add due to rounding.

Table 8

TOTAL NON-FINANCIAL PUBLIC SECTOR**Balance Sheet at 30 June**

	2005 Actual \$m	2006 Estimated Actual \$m	2007 Budget Estimate \$m	2008 Forward Estimate \$m	2009 Forward Estimate \$m	2010 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	476	442	429	452	467	492
Advances paid	481	420	231	230	230	229
Investments, loans and placements	4,044	4,799	4,160	4,131	4,223	4,663
Other non-equity assets	1,743	1,906	1,898	1,922	1,961	1,961
Equity	539	793	831	863	906	948
Total	7,283	8,360	7,549	7,598	7,787	8,293
<i>Non-Financial assets</i>						
Land and fixed assets	61,904	65,862	69,344	72,713	76,047	77,987
Other non-financial assets	344	534	557	614	535	514
Total	62,248	66,396	69,901	73,327	76,582	78,501
TOTAL ASSETS	69,530	74,755	77,449	80,925	84,370	86,794
LIABILITIES						
Deposits held	158	159	165	168	172	172
Advances received	549	536	523	510	497	475
Borrowings	9,035	10,392	10,544	11,432	12,649	13,678
Unfunded superannuation liabilities	5,743	5,745	5,739	5,712	5,658	5,619
Other employee entitlements and provisions	1,581	1,673	1,745	1,839	1,916	1,993
Non-equity liabilities	2,273	2,906	2,841	2,877	2,832	2,742
TOTAL LIABILITIES	19,339	21,411	21,558	22,538	23,724	24,679
NET WORTH	50,192	53,345	55,892	58,386	60,646	62,115
<i>Memorandum Item: Net Debt</i>	4,741	5,426	6,412	7,296	8,397	8,941

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET WORTH	50,192	53,345	55,892	58,386	60,646	62,115
<i>less equity (net worth) of the PFC sector</i>	534	788	826	857	901	943
<i>less provision for doubtful debts</i>	-	6	7	7	7	7
<i>less all other adjustments</i>	88	88	-	-	-	-
AAS/AIFRS NET ASSETS ^(a)	49,569	52,463	55,059	57,522	59,738	61,165

(a) Consistent with all accounting data in these Budget Papers, 2004-05 results are based on data complying with AAS, while data for 2005-06 and beyond are consistent with the implementation of AIFRS, reflected for the first time in the 2005-06 Budget Papers.

Note: Columns may not add due to rounding.

Table 9

TOTAL NON-FINANCIAL PUBLIC SECTOR**Cash Flow Statement**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	4,151	4,942	4,915	4,876	5,034	5,328
Receipts from sales of goods and services	6,375	6,428	6,643	6,961	7,281	7,511
Grants and subsidies received	6,786	7,292	7,556	7,625	7,598	7,629
Other receipts	2,191	2,745	3,031	2,783	2,712	2,783
<i>Total</i>	<i>19,503</i>	<i>21,407</i>	<i>22,146</i>	<i>22,245</i>	<i>22,625</i>	<i>23,251</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-12,986	-13,932	-14,696	-15,220	-15,806	-16,317
Grants and subsidies paid	-2,362	-2,613	-2,883	-2,817	-2,806	-2,914
Interest paid	-566	-629	-689	-727	-838	-875
Other payments	-1,352	-1,355	-1,288	-1,312	-1,327	-1,356
<i>Total</i>	<i>-17,266</i>	<i>-18,529</i>	<i>-19,556</i>	<i>-20,076</i>	<i>-20,778</i>	<i>-21,462</i>
Net Cash Flow from Operating Activities	2,237	2,879	2,589	2,169	1,847	1,789
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-2,881	-3,982	-4,054	-3,658	-3,359	-3,069
Sales of non-financial assets	686	773	822	754	793	745
<i>Total</i>	<i>-2,195</i>	<i>-3,209</i>	<i>-3,233</i>	<i>-2,905</i>	<i>-2,565</i>	<i>-2,324</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	-49	-21	-43	-119	-97	-84
<i>Total</i>	<i>-49</i>	<i>-21</i>	<i>-43</i>	<i>-119</i>	<i>-97</i>	<i>-84</i>
Net Cash Flow from Investing Activities	-2,244	-3,230	-3,276	-3,023	-2,662	-2,408
FINANCING ACTIVITIES						
Advances received (net)	-12	-13	-13	-13	-13	-22
Borrowings (net)	245	798	-87	739	779	987
Deposits received (net)	-1	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	10	83	107	92	64	59
<i>Total</i>	<i>242</i>	<i>868</i>	<i>8</i>	<i>818</i>	<i>830</i>	<i>1,025</i>
<i>Opening cash balance</i>	<i>3,144</i>	<i>3,378</i>	<i>3,895</i>	<i>3,215</i>	<i>3,178</i>	<i>3,194</i>
NET INCREASE IN CASH HELD ^(a)	234	516	-679	-37	15	406
<i>Closing cash balance</i>	<i>3,378</i>	<i>3,895</i>	<i>3,215</i>	<i>3,178</i>	<i>3,194</i>	<i>3,600</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>42</i>	<i>-330</i>	<i>-644</i>	<i>-736</i>	<i>-718</i>	<i>-534</i>
<i>Surplus</i>	<i>42</i>	<i>-330</i>	<i>-644</i>	<i>-736</i>	<i>-718</i>	<i>-534</i>

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 10

PUBLIC FINANCIAL CORPORATIONS
Operating Statement

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Current grants and subsidies	1	1	1	1	1	1
Capital grants	-	-	-	-	-	-
Sales of goods and services	754	635	626	655	684	709
Interest income	947	915	933	1,007	1,065	1,089
Other	6	4	-	-	-	-
<i>Total</i>	<i>1,709</i>	<i>1,554</i>	<i>1,560</i>	<i>1,662</i>	<i>1,749</i>	<i>1,798</i>
EXPENSES						
Gross operating expenses						
Salaries	20	21	22	23	24	25
Depreciation and amortisation	4	8	8	7	7	7
Superannuation	2	2	2	2	2	2
Services and contracts	16	12	12	14	14	14
Other gross operating expenses	530	594	619	652	681	706
Nominal superannuation interest	-	-	-	-	-	-
Other interest	888	833	850	921	976	999
Other property expenses	7	7	6	6	6	6
Current transfers	3	2	2	2	2	2
Capital transfers	-	-	-	1	1	1
<i>Total</i>	<i>1,470</i>	<i>1,479</i>	<i>1,521</i>	<i>1,630</i>	<i>1,713</i>	<i>1,764</i>
NET OPERATING BALANCE	239	76	39	33	36	35
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	3	5	4	4	2	5
Sales of non-financial assets	-1	-	-	-	-	-
less depreciation	4	8	8	7	7	7
plus change in inventories	-	-	-	-	-	-
plus other movements in non-financial assets	-	-	-	-	-	-
<i>Total</i>	<i>-1</i>	<i>-3</i>	<i>-4</i>	<i>-4</i>	<i>-5</i>	<i>-3</i>
NET LENDING/BORROWING	241	78	43	36	41	38

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET OPERATING BALANCE	239	76	39	33	36	35
less provisions for doubtful debts	-	-	-	-	-	-
plus net gains on assets (including derivatives)	-24	-	-	-	-	-
plus capitalised interest	-	-	-	-	-	-
less revaluation of superannuation liabilities	-5	-	-	-	-	-
plus all other adjustments	1	-	-	-	-	-
AAS/AIFRS RESULT ^(a)	221	75	39	33	36	35

(a) Consistent with all accounting data in these Budget Papers, 2004-05 results are based on data complying with AAS, while data for 2005-06 and beyond are consistent with the implementation of AIFRS, reflected for the first time in the 2005-06 Budget Papers.

Note: Columns may not add due to rounding.

Table 11

PUBLIC FINANCIAL CORPORATIONS**Balance Sheet at 30 June**

	2005 Actual \$m	2006 Estimated Actual \$m	2007 Budget Estimate \$m	2008 Forward Estimate \$m	2009 Forward Estimate \$m	2010 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	23	19	22	18	29	25
Advances paid	1,682	1,808	1,956	1,995	2,040	2,116
Investments, loans and placements	13,411	14,470	15,354	15,993	16,599	16,622
Other non-equity assets	514	506	500	495	491	486
Equity	960	1,045	1,099	1,156	1,230	1,318
<i>Total</i>	<i>16,590</i>	<i>17,848</i>	<i>18,931</i>	<i>19,657</i>	<i>20,390</i>	<i>20,567</i>
<i>Non-Financial assets</i>						
Land and fixed assets	363	381	397	412	428	442
Other non-financial assets	2	8	8	8	8	8
<i>Total</i>	<i>365</i>	<i>389</i>	<i>405</i>	<i>421</i>	<i>435</i>	<i>450</i>
TOTAL ASSETS	16,955	18,237	19,336	20,078	20,825	21,017
LIABILITIES						
Deposits held	-	-	-	-	-	-
Advances received	3	3	3	3	3	3
Borrowings	14,374	15,369	16,330	16,910	17,520	17,549
Unfunded superannuation liabilities	6	6	6	5	5	5
Other employee entitlements and provisions	6	5	5	5	5	5
Non-equity liabilities	2,031	2,066	2,166	2,296	2,391	2,512
TOTAL LIABILITIES	16,421	17,449	18,510	19,220	19,924	20,075
<i>Shares and other contributed capital</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
NET WORTH	534	788	826	857	901	943
<i>Memorandum Item: Net Debt</i>	<i>-739</i>	<i>-925</i>	<i>-999</i>	<i>-1,092</i>	<i>-1,145</i>	<i>-1,211</i>

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET WORTH	534	788	826	857	901	943
<i>plus</i> shares and other contributed capital	-	-	-	-	-	-
<i>less</i> provision for doubtful debts	-	-	-	-	-	-
<i>less</i> all other adjustments	-	-	-	-	-	-
AAS/AIFRS NET ASSETS ^(a)	534	788	826	857	901	942

(a) Consistent with all accounting data in these Budget Papers, 2004-05 results are based on data complying with AAS, while data for 2005-06 and beyond are consistent with the implementation of AIFRS, reflected for the first time in the 2005-06 Budget Papers.

Note: Columns may not add due to rounding.

Table 12

PUBLIC FINANCIAL CORPORATIONS**Cash Flow Statement**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	Actual	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Receipts from sales of goods and services	593	602	612	642	657	681
Grants and subsidies received	1	1	1	1	1	1
Other receipts	962	1,000	982	1,057	1,141	1,156
<i>Total</i>	<i>1,556</i>	<i>1,603</i>	<i>1,594</i>	<i>1,699</i>	<i>1,799</i>	<i>1,838</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-527	-575	-563	-574	-619	-620
Grants and subsidies paid	-1	-	-	-	-	-
Interest paid	-910	-833	-850	-921	-976	-999
Other payments	-119	-88	-93	-96	-99	-103
<i>Total</i>	<i>-1,557</i>	<i>-1,497</i>	<i>-1,506</i>	<i>-1,593</i>	<i>-1,694</i>	<i>-1,722</i>
Net Cash Flow from Operating Activities	-1	106	88	107	105	115
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-3	-5	-4	-4	-2	-5
Sales of non-financial assets	1	-	-	-	-	-
<i>Total</i>	<i>-2</i>	<i>-5</i>	<i>-4</i>	<i>-4</i>	<i>-2</i>	<i>-5</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	-298	-226	-234	-125	-125	-138
<i>Total</i>	<i>-298</i>	<i>-226</i>	<i>-234</i>	<i>-125</i>	<i>-125</i>	<i>-138</i>
Net Cash Flow from Investing Activities	-300	-231	-239	-128	-127	-142
FINANCING ACTIVITIES						
Advances received (net)	-	-	-	-	-	-
Borrowings (net)	495	128	137	5	43	51
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-7	-7	-6	-6	-6	-6
Other financing	-2	-	-	-	-	-
<i>Total</i>	<i>486</i>	<i>121</i>	<i>131</i>	<i>-1</i>	<i>36</i>	<i>44</i>
<i>Opening cash balance</i>	<i>2,783</i>	<i>2,968</i>	<i>2,964</i>	<i>2,945</i>	<i>2,922</i>	<i>2,935</i>
NET INCREASE IN CASH HELD ^(a)	185	-4	-19	-23	14	17
<i>Closing cash balance</i>	<i>2,968</i>	<i>2,964</i>	<i>2,945</i>	<i>2,922</i>	<i>2,935</i>	<i>2,953</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	<i>-10</i>	<i>94</i>	<i>78</i>	<i>97</i>	<i>96</i>	<i>104</i>
<i>less finance leases and similar arrangements</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Surplus</i>	<i>-10</i>	<i>94</i>	<i>78</i>	<i>97</i>	<i>96</i>	<i>104</i>

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 13

TOTAL PUBLIC SECTOR
Operating Statement

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
REVENUE						
Taxation	4,139	4,920	4,897	4,860	5,013	5,305
Current grants and subsidies	6,468	6,894	7,163	7,233	7,179	7,300
Capital grants	347	406	402	399	425	317
Sales of goods and services	6,802	6,777	7,047	7,418	7,740	7,977
Interest income	592	557	522	556	582	567
Royalty income	841	1,276	1,504	1,303	1,280	1,313
Other	618	586	539	519	519	494
<i>Total</i>	<i>19,807</i>	<i>21,416</i>	<i>22,075</i>	<i>22,287</i>	<i>22,739</i>	<i>23,274</i>
EXPENSES						
Gross operating expenses						
Salaries	5,760	6,137	6,566	6,863	7,144	7,452
Depreciation and amortisation	1,264	1,274	1,376	1,468	1,527	1,579
Superannuation	569	603	645	672	698	726
Services and contracts	1,700	1,969	2,169	2,197	2,217	2,261
Other gross operating expenses	5,136	5,375	5,502	5,749	5,982	6,153
Nominal superannuation interest	294	304	306	307	306	304
Other interest	856	861	906	986	1,095	1,148
Other property expenses	-	-	-	-	-	-
Current transfers	2,198	2,477	2,707	2,706	2,717	2,803
Capital transfers	340	348	459	307	291	292
<i>Total</i>	<i>18,117</i>	<i>19,348</i>	<i>20,636</i>	<i>21,254</i>	<i>21,976</i>	<i>22,718</i>
NET OPERATING BALANCE	1,690	2,068	1,439	1,033	764	556
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	2,883	3,987	4,059	3,662	3,361	3,073
Sales of non-financial assets	-686	-773	-822	-754	-793	-745
<i>less depreciation</i>	<i>1,264</i>	<i>1,274</i>	<i>1,376</i>	<i>1,468</i>	<i>1,527</i>	<i>1,579</i>
<i>plus change in inventories</i>	<i>56</i>	<i>10</i>	<i>13</i>	<i>13</i>	<i>22</i>	<i>-1</i>
<i>plus other movements in non-financial assets</i>	<i>55</i>	<i>46</i>	<i>-2</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Total</i>	<i>1,044</i>	<i>1,996</i>	<i>1,872</i>	<i>1,452</i>	<i>1,062</i>	<i>748</i>
NET LENDING/BORROWING	646	72	-433	-420	-299	-193

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET OPERATING BALANCE	1,690	2,068	1,439	1,033	764	556
<i>less provisions for doubtful debts</i>	<i>21</i>	<i>6</i>	<i>7</i>	<i>7</i>	<i>7</i>	<i>7</i>
<i>plus net gains on assets (including derivatives)</i>	<i>78</i>	<i>290</i>	<i>241</i>	<i>227</i>	<i>159</i>	<i>215</i>
<i>plus capitalised interest</i>	<i>4</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>less revaluation of superannuation liabilities</i>	<i>58</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>plus all other adjustments</i>	<i>-143</i>	<i>-</i>	<i>3</i>	<i>-</i>	<i>-</i>	<i>-</i>
AAS/AIFRS RESULT ^(a)	1,551	2,351	1,677	1,253	915	764

(a) Consistent with all accounting data in these Budget Papers, 2004-05 results are based on data complying with AAS, while data for 2005-06 and beyond are consistent with the implementation of AIFRS, reflected for the first time in the 2005-06 Budget Papers.

Note: Columns may not add due to rounding.

Table 14

TOTAL PUBLIC SECTOR
Balance Sheet at 30 June

	2005 Actual \$m	2006 Estimated Actual \$m	2007 Budget Estimate \$m	2008 Forward Estimate \$m	2009 Forward Estimate \$m	2010 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	499	460	451	470	496	516
Advances paid	2,159	2,225	2,183	2,222	2,266	2,342
Investments, loans and placements	6,800	7,578	7,725	7,739	7,824	7,524
Other non-equity assets	2,039	2,177	2,167	2,187	2,234	2,236
Equity	965	1,050	1,104	1,161	1,235	1,323
<i>Total</i>	<i>12,462</i>	<i>13,490</i>	<i>13,631</i>	<i>13,780</i>	<i>14,055</i>	<i>13,942</i>
<i>Non-Financial assets</i>						
Land and fixed assets	62,266	66,242	69,740	73,125	76,475	78,430
Other non-financial assets	346	543	565	622	543	522
<i>Total</i>	<i>62,612</i>	<i>66,785</i>	<i>70,305</i>	<i>73,748</i>	<i>77,018</i>	<i>78,951</i>
TOTAL ASSETS	75,074	80,275	83,936	87,528	91,073	92,893
LIABILITIES						
Deposits held	158	159	164	168	171	172
Advances received	549	536	523	510	497	475
Borrowings	12,753	14,069	15,085	15,958	17,170	17,466
Unfunded superannuation liabilities	5,749	5,751	5,745	5,718	5,663	5,623
Other employee entitlements and provisions	1,586	1,679	1,751	1,844	1,921	1,999
Non-equity liabilities	4,087	4,737	4,776	4,944	5,004	5,043
TOTAL LIABILITIES	24,882	26,931	28,044	29,141	30,427	30,778
NET WORTH	50,192	53,345	55,892	58,386	60,646	62,115
<i>Memorandum Item: Net Debt</i>	<i>4,001</i>	<i>4,501</i>	<i>5,413</i>	<i>6,204</i>	<i>7,252</i>	<i>7,730</i>

**Reconciliation of GFS net worth to net assets result obtained in accordance with
Australian Accounting Standards (AAS)/AIFRS**

NET WORTH	50,192	53,345	55,892	58,386	60,646	62,115
<i>less provision for doubtful debts</i>	<i>-</i>	<i>6</i>	<i>7</i>	<i>7</i>	<i>7</i>	<i>7</i>
<i>less all other adjustments</i>	<i>88</i>	<i>88</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
AAS/AIFRS NET ASSETS ^(a)	50,104	53,250	55,885	58,379	60,639	62,108

(a) Consistent with all accounting data in these Budget Papers, 2004-05 results are based on data complying with AAS, while data for 2005-06 and beyond are consistent with the implementation of AIFRS, reflected for the first time in the 2005-06 Budget Papers.

Note: Columns may not add due to rounding.

Table 15

TOTAL PUBLIC SECTOR
Cash Flow Statement

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	4,112	4,905	4,877	4,837	4,994	5,287
Receipts from sales of goods and services	6,836	6,867	7,088	7,425	7,755	7,998
Grants and subsidies received	6,786	7,292	7,556	7,625	7,598	7,629
Other receipts	2,529	3,089	3,314	3,120	3,061	3,123
<i>Total</i>	<i>20,263</i>	<i>22,154</i>	<i>22,835</i>	<i>23,007</i>	<i>23,408</i>	<i>24,037</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-13,381	-14,343	-15,092	-15,616	-16,242	-16,743
Grants and subsidies paid	-2,362	-2,613	-2,883	-2,817	-2,806	-2,913
Interest paid	-870	-823	-853	-942	-1,033	-1,070
Other payments	-1,422	-1,398	-1,336	-1,364	-1,381	-1,412
<i>Total</i>	<i>-18,034</i>	<i>-19,176</i>	<i>-20,164</i>	<i>-20,738</i>	<i>-21,462</i>	<i>-22,139</i>
Net Cash Flow from Operating Activities	2,229	2,978	2,671	2,269	1,946	1,898
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-2,883	-3,987	-4,059	-3,662	-3,361	-3,073
Sales of non-financial assets	686	773	822	754	793	745
<i>Total</i>	<i>-2,197</i>	<i>-3,214</i>	<i>-3,237</i>	<i>-2,908</i>	<i>-2,567</i>	<i>-2,328</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	-347	-247	-278	-244	-222	-222
<i>Total</i>	<i>-347</i>	<i>-247</i>	<i>-278</i>	<i>-244</i>	<i>-222</i>	<i>-222</i>
Net Cash Flow from Investing Activities	-2,544	-3,461	-3,515	-3,152	-2,790	-2,550
FINANCING ACTIVITIES						
Advances received (net)	-12	-13	-13	-13	-13	-22
Borrowings (net)	740	926	50	744	822	1,038
Deposits received (net)	-1	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	8	83	107	92	64	59
<i>Total</i>	<i>735</i>	<i>996</i>	<i>145</i>	<i>823</i>	<i>873</i>	<i>1,075</i>
<i>Opening cash balance</i>	<i>5,927</i>	<i>6,346</i>	<i>6,859</i>	<i>6,160</i>	<i>6,100</i>	<i>6,129</i>
NET INCREASE IN CASH HELD^(a)	419	513	-699	-60	29	423
<i>Closing cash balance</i>	<i>6,346</i>	<i>6,859</i>	<i>6,160</i>	<i>6,100</i>	<i>6,129</i>	<i>6,552</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>32</i>	<i>-236</i>	<i>-566</i>	<i>-639</i>	<i>-622</i>	<i>-430</i>
<i>Surplus</i>	<i>32</i>	<i>-236</i>	<i>-566</i>	<i>-639</i>	<i>-622</i>	<i>-430</i>

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 16

SPENDING BY GOVERNMENT PURPOSE CLASSIFICATION ^(a)
General Government

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
<i>Expenses</i>						
General public services	360	503	645	654	721	807
Public order and safety	1,423	1,550	1,666	1,726	1,814	1,841
Education	3,646	3,664	3,898	4,101	4,270	4,378
Health	3,196	3,528	3,716	3,886	4,074	4,291
Social security and welfare	593	614	668	696	733	770
Housing and community amenities	949	1,122	1,166	1,151	1,148	1,136
Recreation and culture	411	407	459	401	407	413
Fuel and energy	90	110	119	118	118	122
Agriculture, forestry, fishing and hunting	305	390	382	368	257	257
Mining and mineral resources (other than fuels), manufacturing and construction	132	142	186	155	138	139
Transport and communications	1,183	1,303	1,559	1,505	1,571	1,648
Other economic affairs	288	348	323	324	308	311
Other purposes	454	459	447	439	444	435
Total General Government Expenses	13,030	14,141	15,234	15,526	16,004	16,547
<i>Purchases of Non-financial Assets</i>						
General public services	115	187	156	143	140	143
Public order and safety	105	206	221	185	93	47
Education	185	233	295	232	156	171
Health	182	145	278	477	569	481
Social security and welfare	8	25	20	11	8	8
Housing and community amenities	77	80	96	139	135	73
Recreation and culture	59	59	59	103	43	35
Fuel and energy	1	10	3	3	2	6
Agriculture, forestry, fishing and hunting	24	22	21	54	67	11
Mining and mineral resources (other than fuels), manufacturing and construction	3	12	13	5	2	2
Transport and communications	321	381	427	535	419	275
Other economic affairs	13	22	30	16	12	10
Other purposes	-	-	-	-	-	-
Total Purchases of Non-financial Assets	1,092	1,381	1,620	1,902	1,644	1,263

(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: *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

	2005-06 Budget	2005-06 Estimated Actual	2006-07 Budget Estimate
	\$m	\$m	\$m
General Government deficit	-69	-1,463	-862
Public Non-financial Corporations' net financing requirement	1,474	1,794	1,510
Net Capital Advances	-	-	-
Adjustments	-	-1	-4
<i>Total non-financial public sector deficit</i>	<i>1,404</i>	<i>330</i>	<i>644</i>
<i>Memorandum Items ^(b)</i>	<i>-102</i>	<i>-188</i>	<i>-88</i>
Loan Council Allocation	1,302	142	555

(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	Gascoyne Development Commission
Agriculture Protection Board of Western Australia	Goldfields-Esperance Development Commission
Agricultural Produce Commission	Governor's Establishment
Anzac Day Trust	Great Southern Development Commission
Botanic Gardens and Parks Authority	Great Southern TAFE
Building and Construction Industry Training Board	Heritage Council of Western Australia
Central TAFE	Independent Market Operator
Central West TAFE	Keep Australia Beautiful Council (W.A.)
Challenger TAFE	Kimberley Development Commission
Commissioner of Main Roads	Kimberley TAFE
Corruption and Crime Commission	Law Reform Commission of Western Australia
Country High School Hostels Authority	Legal Aid Commission of Western Australia
Curriculum Council	Legal Costs Committee
C.Y. O'Connor College of TAFE	Legislative Assembly
Department of Agriculture and Food	Legislative Council
Department for Community Development	Local Health Authorities Analytical Committee
Department of Conservation and Land Management	Mid-West Development Commission
Department of Consumer and Employment Protection	Minerals and Energy Research Institute of Western Australia
Department of Corrective Services	Office of Energy
Department of Culture and the Arts	Office of Health Review
Department of Education and Training	Office of Native Title
Department of Education Services	Office of Shared Services
Department of Environment	Office of the Auditor General
Department of Fisheries	Office of the Director of Public Prosecutions
Department of Health	Office of the Information Commissioner
Department of Housing and Works	Office of the Inspector of Custodial Services
Department of Indigenous Affairs	Office of the Parliamentary Inspector of the Corruption and Crime Commission
Department of Industry and Resources	Office of the Public Sector Standards Commissioner
Department of Land Information	Parliamentary Services Department
Department of Local Government and Regional Development	Peel Development Commission
Department for Planning and Infrastructure	Pilbara TAFE
Department of the Attorney General	Pilbara Development Commission
Department of the Premier and Cabinet	Police Service
Department of Racing, Gaming and Liquor	Professional Combat Sports Commission
Department of Sport and Recreation	Professional Standards Council
Department of the Registrar, Western Australian Industrial Relations Commission	Racing Penalties Appeal Tribunal of Western Australia
Department of Treasury and Finance	Rural Business Development Corporation
Department of Water	Salaries and Allowances Tribunal
Disability Services Commission	Small Business Development Corporation
Economic Regulation Authority	South West Development Commission
Equal Opportunity Commission	South West Regional College of TAFE
Fire and Emergency Services Authority of Western Australia	
Gaming and Wagering Commission of Western Australia	

General Government (cont.)

State Supply Commission
 Swan TAFE
 Swan River Trust
 The Aboriginal Affairs Planning Authority
 The Burswood Park Board
 The Coal Miner's Welfare Board of Western Australia
 The National Trust of Australia (W.A.)
 The Parliamentary Commissioner for Administrative Investigations
 Trustees of the Public Education Endowment
 Water and Rivers Commission
 West Coast TAFE
 Western Australian Building Management Authority

Western Australian Electoral Commission
 Western Australian Gas Disputes Arbitrator
 Western Australian Greyhound Racing Association
 Western Australian Health Promotion Foundation
 Western Australian Institute of Sport
 Western Australian Meat Industry Authority
 Western Australian Planning Commission
 Western Australian Sports Centre Trust
 Western Australian Tourism Commission
 Wheatbelt Development Commission
 WorkCover Western Australia Authority
 Zoological Parks Authority

Public Non-Financial Corporations

Albany Port Authority
 Animal Resources Authority
 Armadale Redevelopment Authority
 Broome Port Authority
 Bunbury Port Authority
 Bunbury Water Board
 Busselton Water Board
 Dampier Port Authority
 East Perth Redevelopment Authority
 Electricity Generation Corporation (Verve Energy)
 Electricity Networks Corporation (Western Power (Networks))
 Electricity Retail Corporation (Synergy)
 Esperance Port Authority
 Forest Products Commission
 Fremantle Port Authority
 Geraldton Port Authority
 Gold Corporation
 Government Employees Housing Authority

Lotteries Commission
 Metropolitan Cemeteries Board
 Midland Redevelopment Authority
 Perth Market Authority
 Port Hedland Port Authority
 Potato Marketing Corporation of Western Australia
 Public Transport Authority of Western Australia
 Racing and Wagering Western Australia
 Regional Power Corporation (Horizon Power)
 Rottnest Island Authority
 Subiaco Redevelopment Authority
 The Eastern Goldfields Transport Board
 The State Housing Commission
 Water Corporation
 Western Australian Coastal Shipping Commission
 Western Australian Land Authority

Public Financial Corporations

Community Insurance Fund
 Country Housing Authority
 Insurance Commission of Western Australia
 Keystart Housing Scheme, comprising
 Keystart Bonds Ltd
 Keystart Housing Scheme Trust
 Keystart Loans Ltd
 Keystart Support Pty Ltd
 Keystart Support (Subsidiary) Pty Ltd
 Keystart Support Trust
 RiskCover
 Western Australian Treasury Corporation

Agencies Outside the State's Public Sector

Some State agencies are not covered in the whole-of-government reporting framework as defined under Australian Accounting Standards and/or the GFS framework. The entities listed below, which administer superannuation and like funds and/or hold private funds in trust or fidelity type funds, are examples of such agencies not included in the definition of the public sector used in this publication. This is because the assets are not available for the benefit of, and/or are not controlled by, the State.

Coal Industry Superannuation Board
Construction Industry Long Service Leave Payments Board
Curtin University of Technology and its subsidiaries
Edith Cowan University
Fire and Emergency Services Superannuation Board
Government Employees Superannuation Board
Legal Contribution Trust
Murdoch University and its subsidiaries
Public Trustee
The University of Western Australia and its subsidiaries
Other Professional and Trade Supervisory and Regulatory
Boards

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						
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
TAXATION						
Taxes on employers' payroll and labour force						
<i>Payroll tax</i>	1,211	1,351	1,428	1,530	1,621	1,717
Property taxes						
<i>Land tax</i>	315	320	342	365	391	419
Conveyances and transfers	1,218	1,833	1,741	1,568	1,619	1,729
Mortgages	140	171	101	83	7	-
Other stamp duties	36	36	24	1	2	2
<i>Total stamp duties on financial and capital transactions</i>	1,394	2,040	1,866	1,652	1,628	1,731
Debits Tax	100	8	-	-	-	-
<i>Total financial institutions taxes</i>	100	8	-	-	-	-
Metropolitan Region						
Improvement Tax	47	54	58	61	66	71
Emergency Services Levy	119	129	138	144	145	152
Loan guarantee fees	10	12	14	15	15	16
<i>Total other property taxes</i>	176	195	209	219	226	238
Taxes on provision of goods and services						
Lotteries Commission	98	101	103	104	106	107
less rebates	-21	-22	-23	-24	-26	-26
Video lottery terminals	-	1	1	1	1	1
Casino Tax	52	57	58	59	60	61
less rebates	-28	-32	-33	-34	-34	-35
TAB betting tax	59	62	64	49	51	53
less rebates	-25	-27	-28	-24	-24	-24
<i>Total taxes on gambling</i>	134	139	141	131	133	137
Contribution to fire brigades	-	-	-	-	-	-
Stamp duty on insurance policies	280	303	315	329	345	363
Other	19	23	24	21	20	19
<i>Total taxes on insurance</i>	299	326	339	349	365	382
Taxes on use of goods and performance of activities						
Stamp duty on vehicle licences	303	351	369	383	402	422
Permits - oversize vehicles and loads	3	3	3	3	3	3
Motor vehicle recording fee	37	30	31	33	34	36
Motor vehicle registrations	341	338	354	370	388	406
<i>Total motor vehicle taxes</i>	684	722	757	788	827	866
Total Taxation	4,314	5,100	5,082	5,035	5,192	5,491

Table 1 (cont.)

OPERATING REVENUE						
General Government						
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
CURRENT GRANTS AND SUBSIDIES						
<i>General Purpose Grants</i>						
GST revenue grants ^(a)	3,646	3,766	3,929	3,924	3,894	3,972
Competition reform	54	71	-	-	-	-
<i>Specific Purpose Grants to the State</i>						
Australian Health Care Agreement	796	821	870	919	973	1,029
Other health	285	265	265	277	274	287
Schools assistance – government schools	218	256	267	279	294	275
Vocational training	91	95	99	102	105	105
Roads	32	37	40	24	30	46
Other	171	223	220	213	138	138
<i>Specific Purpose Grants through the State</i>						
Schools assistance – non-government schools	493	480	526	564	606	651
Local government grants	105	111	116	120	124	129
Local government roads	72	76	79	82	85	88
Other	-	17	33	34	35	36
<i>Other Grants</i>						
North West Shelf royalties	506	675	721	695	623	546
Total Current Grants and Subsidies	6,468	6,894	7,163	7,233	7,179	7,300
CAPITAL GRANTS						
<i>Specific Purpose Grants to the State</i>						
Roads	73	100	92	110	124	39
Schools assistance – government schools	26	30	29	29	29	29
Vocational training	20	18	18	14	20	17
Other	218	233	244	225	231	212
<i>Specific Purpose Grants through the State</i>						
Schools assistance – non-government schools	11	25	20	20	20	21
Total Capital Grants	347	406	402	399	425	317

(a) Includes compensation for GST deferred as a result of the Commonwealth's decision to allow extended payment arrangements for some taxpayers (mainly small businesses).

Table 1 (cont.)

OPERATING REVENUE						
General Government						
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Estimated	Budget	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate	Estimate
SALES OF GOODS AND SERVICES						
Department for Planning and Infrastructure	98	123	131	135	140	145
Department of Health	177	221	227	230	235	240
Department of Education and Training	127	129	127	125	126	127
TAFE Colleges	78	80	83	84	86	91
Department of Land Information	75	72	73	78	79	83
Department of Justice	57	57	50	51	51	52
Department of Conservation and Land Management	36	34	27	27	27	27
Department of Consumer and Employment Protection	28	26	31	32	36	37
Department of Fisheries	24	23	24	24	25	25
Department of Culture and the Arts	21	18	17	17	18	18
Police Service	17	16	18	18	18	19
All Others	244	228	239	247	254	258
Total Sales of Goods and Services	982	1,027	1,046	1,069	1,095	1,123
INTEREST INCOME	142	195	151	134	131	130
REVENUE FROM PUBLIC CORPORATIONS						
Dividends	468	536	456	470	496	509
Tax Equivalent Regime	292	296	294	298	330	331
Total Revenue from Public Corporations	760	832	750	768	826	839
ROYALTY INCOME						
Revenue from Territorial less petroleum and other refunds	864	1,298	1,527	1,349	1,295	1,326
	-23	-23	-23	-45	-15	-13
Total Royalty Income	841	1,276	1,504	1,303	1,280	1,313
OTHER						
Lease rentals	50	65	43	43	43	43
Fines	88	83	106	116	114	114
Revenue not elsewhere counted	230	246	262	314	290	323
Total Other	368	394	410	472	447	480
GRAND TOTAL	14,222	16,123	16,510	16,414	16,575	16,994

Note: Columns may not add due to rounding.

APPENDIX 3

2005-06 General Government Operating Revenue

This appendix contains general government revenue estimates for the 2005-06 financial year comparing the original 2005-06 Budget estimates, mid-year review revisions and the current estimated outturn.

Table 1

2005-06 OPERATING REVENUE
General Government

	2005-06 Budget Estimate \$m	2005-06 Mid-Year Revision \$m	2005-06 Estimated Actual \$m
TAXATION			
Taxes on employers' payroll and labour force			
<i>Payroll tax</i>	1,242	1,326	1,351
Property taxes			
<i>Land tax</i>	320	320	320
Conveyances and transfers	1,002	1,480	1,833
Mortgages	109	156	171
Other stamp duties	31	36	36
<i>Total stamp duties on financial and capital transactions</i>	1,142	1,672	2,040
Debits Tax	8	8	8
<i>Total financial institutions taxes</i>	8	8	8
Metropolitan Region Improvement Tax	54	54	54
Emergency Services Levy	129	129	129
Loan guarantee fees	12	12	12
<i>Total other property taxes</i>	194	195	195
Taxes on provision of goods and services			
Lotteries Commission	98	101	101
less rebates	-22	-22	-22
Video lottery terminals	1	1	1
Casino Tax	52	52	57
less rebates	-28	-28	-32
TAB betting tax	56	62	62
less rebates	-27	-27	-27
<i>Total taxes on gambling</i>	129	138	139
Contribution to fire brigades	-	-	-
Stamp duty on insurance policies	295	293	303
Other	22	22	23
<i>Total taxes on insurance</i>	317	314	326
Taxes on use of goods and performance of activities			
Stamp duty on vehicle licences	299	326	351
Permits - oversize vehicles and loads	2	3	3
Motor vehicle recording fee	30	30	30
Motor vehicle registrations	312	338	338
<i>Total motor vehicle taxes</i>	642	697	722
Total Taxation	3,995	4,669	5,100
CURRENT GRANTS AND SUBSIDIES			
<i>General Purpose Grants</i>			
GST revenue grants ^(a)	3,820	3,803	3,766
Competition reform	39	40	71
<i>Specific Purpose Grants to the State</i>			
Australian Health Care Agreement	818	821	821
Other health	263	258	265
Schools assistance – government schools	231	256	256
Vocational training	94	95	95
Roads	33	31	37
Other	181	181	223

(a) Includes compensation for GST deferred as a result of the Commonwealth's decision to allow extended payment arrangements for some taxpayers (mainly small businesses).

2005-06 OPERATING REVENUE
General Government

Table 1 (cont.)

	2005-06 Budget Estimate \$m	2005-06 Mid-Year Revision \$m	2005-06 Estimated Actual \$m
<i>Specific Purpose Grants through the State</i>			
Schools assistance – non-government schools	490	500	480
Local government grants	109	111	111
Local government roads	75	76	76
Other	-	-	17
<i>Other Grants</i>			
North West Shelf royalties	505	620	675
Total Current Grants and Subsidies	6,659	6,792	6,894
CAPITAL GRANTS			
<i>Specific Purpose Grants to the State</i>			
Roads	67	89	100
Schools assistance – government schools	26	26	30
Vocational training	18	18	18
Other	225	228	233
<i>Specific Purpose Grants through the State</i>			
Schools assistance – non-government schools	10	18	25
Total Capital Grants	347	380	406
SALES OF GOODS AND SERVICES			
Department for Planning and Infrastructure	115	119	123
Department of Health	172	181	221
Department of Education and Training	134	139	129
TAFE Colleges	81	83	80
Department of Land Information	63	71	72
Department of Justice	54	55	57
Department of Conservation and Land Management	29	34	34
Department of Consumer and Employment Protection	23	24	26
Department of Fisheries	23	23	23
Department of Culture and the Arts	18	18	18
Police Service	16	16	16
All Others	215	235	228
Total Sales of Goods and Services	943	998	1,027
INTEREST INCOME	146	146	195
REVENUE FROM PUBLIC CORPORATIONS			
Dividends	463	504	536
Tax Equivalent Regime	245	265	296
Total Revenue from Public Corporations	708	770	832
ROYALTY INCOME			
Revenue from Territorial	1,153	1,265	1,298
less petroleum and other refunds	-13	-22	-23
Total Royalty Income	1,140	1,243	1,276
OTHER			
Lease rentals	43	43	65
Fines	79	83	83
Revenue not elsewhere counted	159	235	246
Total Other	281	361	394
GRAND TOTAL	14,218	15,357	16,123

Note: Columns may not add due to rounding.

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 treatment. 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 (data sources and methods used for estimating these expenditures are also subject to review each year).

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 2004-05 and estimates for 2005-06.

Specific tax and royalty expenditures

Notable movements in the value of specific tax and royalty expenditures between 2004-05 and 2005-06 include:

- an increase in the value of the payroll tax concession for small business due to an increase in the number of eligible taxpayers and wages;
- an increase in the value of the payroll tax concession for trainees and apprentices due to an increase in the number of apprentices and trainees;
- an increase in the value of the principal place of residence land tax exemption reflecting increased land values;
- an increase in the value of the primary production land tax exemption due to an increase in land values;
- a large increase in the value of the corporate reconstructions stamp duty exemption. The increase is primarily due to one very large transaction which was eligible for the concession;
- an increase in the value of the insurance duty exemption on workers' compensation due to growth in the number of insured workers and the value of their wages;
- the introduction of a mortgage duty exemption for loan refinancing undertaken by owner-occupiers and small businesses from 1 January 2006;
- an increase in the value of the family vehicle concession as a result of an increase in the concession from \$28 per vehicle to \$53 per vehicle from 1 July 2005; and
- an increase in the value of the iron ore royalty concession reflecting the 71.5% iron ore price increase in 2005-06 and an increase in the quantity of iron ore produced.

Table 1

SUMMARY OF MAJOR TAX AND ROYALTY EXPENDITURES
Western Australia

	2004-05 Actual \$m	2005-06 Estimated Actual \$m
PAYROLL TAX		
Small business exemption	616.0	651.6
Apprentices and trainees exemption	16.2	18.6
LAND TAX AND MRIT		
Principal place of residence exemption	235.2	248.4
Primary production exemption	40.0	40.6
STAMP DUTY ON CONVEYANCES		
Corporate reconstructions exemption	80.9	290.0
Family farm exemption	7.5	8.3
Concessionary rate for homes and businesses	1.1	0.8
First home buyers' exemption and concession	70.5	72.4
STAMP DUTY ON INSURANCE POLICIES		
Health insurance policies exemption	98.4	101.7
Workers' compensation insurance exemption	67.9	75.1
Marine hulls exemption	3.6	3.7
STAMP DUTY ON MORTGAGES		
Concessionary rate for homes	22.7	28.4
Owner-occupier and small business refinancing exemption ^(a)	n.a.	9.9
MOTOR VEHICLE LICENCE FEES		
Family vehicle concession	26.7	58.0
Primary producer vehicle concession	10.1	10.5
Pensioner vehicle concession	20.4	21.1
STAMP DUTY ON MOTOR VEHICLE LICENCE TRANSFERS		
New heavy vehicle concession	8.4	9.0
Used heavy vehicle concession	1.4	1.5
MINING ROYALTIES		
Iron Ore Agreement Act concessions	77.0	106.5
TOTAL	1,404.0	1,756.1

(a) Exemption applied from 1 January 2006.

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 23 agencies that provide social concessions.

In 2004-05, the State Government provided social concessions with an estimated value of \$418.8 million across a range of service areas. The cost to the State was partly offset by a \$16.7 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

SUMMARY OF STATE GOVERNMENT SOCIAL CONCESSIONS
Western Australia

Class of Concession	2003-04 Estimated Total Value \$m	2003-04 Estimated No. of Recipients	2004-05 Estimated Total Value \$m	2004-05 Estimated No. of Recipients
ENERGY				
Supply charge rebate	21.1	281,693	19.6	223,447
Dependent child rebate	11.5	77,206	8.4	47,103
Other	0.9	n.a.	1.0	n.a.
WATER, SEWERAGE & DRAINAGE				
Rates rebate for pensioners	28.8	116,622	29.1	117,095
Consumption concession for pensioners	5.1	137,446	5.5	133,393
Rates rebate for seniors	6.1	31,849	6.5	34,030
Other	0.2	1,525	0.2	1,739
HOUSING AND LAND				
Homeswest rental subsidy	95.0	27,775	90.9	27,307
Homeswest amenities fee waiver	1.4	13,096	0.8	10,369
Other	0.6	n.a.	0.6	n.a.
LOCAL GOVERNMENT				
Rates rebate for pensioners	44.5	299,847	50.2	337,910
TRANSPORT				
Contract school bus services	61.2	22,398	64.6	24,476
Transperth fares concession	46.4	90,750	50.6	91,750
Motor vehicle licence fee concession for pensioners ^(a)	19.8	181,020	20.4	186,451
Taxi user subsidy	6.8	19,108	6.8	18,963
Drivers licence fee concession for pensioners	5.9	122,771	6.5	135,109
Pensioners' annual free trip	3.2	77,614	4.0	85,648
Transwa fares concession	2.1	n.a.	2.2	n.a.
Subsidised student travel	1.2	830	1.2	811
Other	5.1	n.a.	1.7	n.a.
HEALTH				
Subsidised dental care	8.5	52,004	9.6	54,694
Spectacle subsidy scheme	2.6	54,942	2.8	55,976
Other	5.3	n.a.	6.0	n.a.
EDUCATION				
Secondary assistance scheme – school charges	3.9	24,882	4.0	24,464
Secondary assistance scheme - clothing	2.9	24,882	2.8	24,464
Department of Education and Training tuition fees	5.8	35,133	6.6	36,806
Boarding away from home allowance	1.4	2,290	1.5	2,203
Other	0.2	n.a.	0.2	n.a.
LEGAL SERVICES				
Legal assistance	9.8	48,850	10.5	48,797
Other	0.1	n.a.	0.2	n.a.
CULTURE, LEISURE & RECREATION				
Children's Zoo discount	0.7	98,535	0.8	94,708
Children under four years of age – free Zoo entry	0.7	46,782	0.9	54,943
Other	2.1	n.a.	2.3	n.a.
TOTAL	410.9	n.a.	418.8	n.a.

(a) Also included in Tax and Royalty Expenditure Statement.

Energy

Supply charge rebate (\$19.6 million)

Domestic customers of Western Power who are in possession of a PCC, a HCC or a SSC receive a full rebate of the fixed (daily) supply charge. The average value of the rebate per recipient is approximately \$88 per year.

Dependent child rebate (\$8.4 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 \$177 per year.

Other (\$1.0 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 (\$29.1 million)

Home owners in possession of a PCC or a 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 \$249 per year.

Consumption concession for pensioners (\$5.5 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 \$41 per year.

Rates rebate for seniors (\$6.5 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 (CSC) receive a rebate of up to 50% of the annual charges. The average value of the concession is \$190 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 (\$90.9 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 \$3,328 per year.

Homeswest amenities fee waiver (\$0.8 million)

Homeswest's low income tenants over 55 years of age are exempted from the amenities fee for room heating. The average value of the waiver is \$78 per year.

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 (\$50.2 million)

The Office of State Revenue pays local governments 50% of rates for persons who own and occupy their own home and hold a PCC or a SCC. Local governments pass this benefit on to pensioners by discounting their rates. The average value of the concession is \$149 per year.

Transport

Contract school bus services (\$64.6 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 \$7.06 per journey, or about \$2,641 per year.

Transperth fares concession (\$50.6 million)

Children, students and holders of a PCC or a SSC receive discounts of between 58% and 61% on Transperth fares, or free travel. The average value of the concession per recipient is \$1.38 per journey.

Motor vehicle licence fee concession for pensioners (\$20.4 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 \$109 per year.

Taxi user subsidy (\$6.8 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 2004 and 2005 there were respectively 19,108 and 18,963 active members of the scheme. The average value of the subsidy is \$9.61 per trip.

Drivers licence fee concession (\$6.5 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 \$48 per year.

Pensioners' annual free trip (\$4.0 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 \$47 per recipient.

Transwa fare concession (\$2.2 million)

Children under 15 years of age, students, Western Australian residents holding a PCC or a HCC or a SSC receive a 50% discount on fares for Transwa services. The average value of the concession is \$13.78 for per journey.

Subsidised student travel (\$1.2 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 \$1,455 per recipient.

Other (\$1.7 million)

Other transport concessions include the *intra town* and *inter town* travel concessions for pensioners, seniors and students.

Health

Subsidised dental care (\$9.6 million)

Holders of a PCC or a 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 \$175.

Spectacle subsidy scheme (\$2.8 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 subsidy per recipient is \$49.

Other (\$6.0 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 (\$4.0 million)**

The Department of Education and Training provides assistance to low income families with secondary school children to meet school charges, which averages at \$162 per recipient.

Secondary assistance scheme for clothing (\$2.8 million)

The Department of Education and Training provides assistance of \$115 per annum to low income families with secondary school children to meet clothing costs associated with schooling.

Department of Education and Training tuition fees concessions (\$6.6 million)

Holders of a PCC, HCC, SSC and SCC pay reduced tuition fees for courses offered by TAFE colleges. The average value of the concession is \$0.61 per hour of tuition for vocational education and training courses, and \$2.00 per hour of tuition for adult and community education courses.

Boarding away from home allowance (\$1.5 million)

Families in receipt of Commonwealth assistance for geographically isolated students receive a \$659 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 (\$10.5 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 Court for holders of a HCC and PCC, and the waiver of fees in the Small Claims Tribunal for financially disadvantaged persons.

Culture, Leisure and Recreation

Children's Zoo discount (\$0.8 million)

Children between four and 15 years of age receive a 50% discount on the entry fee for the Perth Zoo. The value of the discount is \$8.00 per child for each visit.

Children under four years of age - free Zoo entry (\$0.9 million)

Children under four years of age receive free entry to the Perth Zoo. The value of the discount is \$16 per child for each visit.

Other (\$2.3 million)

Concessional fees apply to students and various concession card holders in a range of culture, leisure and recreation areas, including admission to National Parks, exhibitions at the Art Gallery and Western Australia Maritime Museum, 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

	2005-06 Budget Estimate				2005-06 Estimated Actual				2006-07 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
PARLIAMENT												
Parliamentary Services	-	-	1,144	1,144	-	-	1,657	1,657	3,040	-	27	3,067
Parliamentary Commissioner for Administrative Investigations	-	-	72	72	-	-	111	111	-	-	107	107
PREMIER; MINISTER FOR PUBLIC SECTOR MANAGEMENT; WATER RESOURCES; FEDERAL AFFAIRS												
Office of Shared Services	-	-	-	-	38,798	-	-	38,798	12,461	-	-	12,461
Premier and Cabinet	47,289	-	3,973	51,262	500	-	4,030	4,530	2,855	-	2,285	5,140
Governor's Establishment	-	-	100	100	-	-	100	100	-	-	400	400
Office of the Public Sector Standards Commissioner	34	-	164	198	34	-	205	239	-	-	109	109
Salaries and Allowances Tribunal	-	-	6	6	-	-	6	6	-	-	6	6
Industry and Resources	6,220	-	13,847	20,067	7,220	-	13,160	20,380	5,034	-	27,733	32,767
DEPUTY PREMIER; TREASURER; MINISTER FOR GOVERNMENT ENTERPRISES; MINISTER ASSISTING THE MINISTER FOR PUBLIC SECTOR MANAGEMENT												
Treasury and Finance	-	-	2,541	2,541	5,891	-	14,595	20,486	1,255	-	9,375	10,630
Office of the Auditor General	27	-	419	446	27	-	632	659	-	-	479	479
Economic Regulation Authority	17	-	49	66	141	-	30	171	-	-	40	40
Western Australian Treasury Corporation	-	-	518	518	-	-	595	595	-	-	823	823
State Supply Commission	42	-	10	52	42	-	10	52	-	-	-	-
State Supply Fleet	-	-	119,692	119,692	-	-	126,832	126,832	-	-	121,907	121,907
Gold Corporation	-	-	2,045	2,045	-	-	2,690	2,690	-	-	3,004	3,004
Insurance Commission of Western Australia	-	-	3,235	3,235	-	-	4,413	4,413	-	-	3,585	3,585
Lotteries Commission	-	-	3,223	3,223	-	-	8,157	8,157	-	-	30,878	30,878

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2005-06 Budget Estimate				2005-06 Estimated Actual				2006-07 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 AGRICULTURE AND FORESTRY; THE MID-WEST AND WHEATBELT												
Agriculture and Food	3,531	-	4,923	8,454	3,531	-	6,590	10,121	5,200	-	6,115	11,315
Western Australian Meat Industry Authority	1,596	-	1,353	2,949	1,596	-	1,353	2,949	3,200	-	6,849	10,049
Perth Market Authority	-	3,300	2,200	5,500	-	-	11,312	11,312	-	7,500	452	7,952
Forest Products Commission	-	5,360	751	6,111	-	5,360	1,876	7,236	-	5,500	1,876	7,376
Mid-West Development Commission	-	-	2,661	2,661	-	-	4,347	4,347	229	-	2,967	3,196
Wheatbelt Development Commission	-	-	73	73	-	-	73	73	-	-	47	47
MINISTER FOR EDUCATION AND TRAINING												
Education and Training	160,738	-	66,141	226,879	162,238	-	91,313	254,551	245,210	-	67,471	312,681
Country High School Hostels Authority	5,096	500	2,745	8,341	1,496	500	2,745	4,741	6,020	5,920	612	12,552
Curriculum Council	1,570	-	206	1,776	70	-	1,933	2,003	1,625	-	147	1,772
Education Services	-	-	60	60	-	-	60	60	-	-	60	60
MINISTER FOR DISABILITY SERVICES; CITIZENSHIP AND MULTICULTURAL INTERESTS; WOMEN'S INTERESTS; MINISTER ASSISTING THE MINISTER FOR FEDERAL AFFAIRS												
Disability Services Commission	3,668	-	3,612	7,280	3,668	2,158	822	6,648	300	-	5,810	6,110

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2005-06 Budget Estimate				2005-06 Estimated Actual				2006-07 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
ATTORNEY GENERAL; MINISTER FOR HEALTH; ELECTORAL AFFAIRS												
Justice	78,828	-	40,620	119,448	26,101	-	22,013	48,114	15,488	-	17,191	32,679
Corruption and Crime Commission	10,257	-	1,698	11,955	-	-	9,359	9,359	-	-	1,583	1,583
Parliamentary Inspector of the Corruption and Crime Commission	10	-	-	10	10	-	-	10	-	-	10	10
Commissioner for Equal Opportunity	61	-	34	95	61	-	71	132	23	-	38	61
Law Reform Commission of Western Australia	-	-	10	10	-	-	10	10	-	-	20	20
Office of the Director of Public Prosecutions	-	-	200	200	427	-	180	607	3,605	-	148	3,753
Office of the Information Commissioner	-	-	30	30	-	-	30	30	-	-	35	35
Health	180,492	-	39,931	220,423	92,108	-	53,059	145,167	261,106	-	16,925	278,031
Western Australian Electoral Commission	-	-	565	565	-	-	385	385	173	-	757	930
MINISTER FOR RESOURCES AND ASSISTING THE MINISTER FOR STATE DEVELOPMENT; EMPLOYMENT PROTECTION; GOLDFIELDS-ESPERANCE AND GREAT SOUTHERN												
Consumer and Employment Protection Registrar, Western Australian Industrial Relations Commission	3,150	-	990	4,140	3,150	-	4,222	7,372	2,950	-	910	3,860
Goldfields-Esperance Development Commission	-	-	150	150	-	-	282	282	-	-	150	150
Great Southern Development Commission	12	-	26	38	12	-	26	38	-	-	-	-
Great Southern Development Commission	9,085	-	10,033	19,118	1,685	-	538	2,223	23	-	1,505	1,528
MINISTER FOR POLICE AND EMERGENCY SERVICES; JUSTICE; COMMUNITY SAFETY												
Department of Corrective Services	-	-	-	-	14,532	-	21,593	36,125	51,016	-	28,311	79,327
Police Service	38,838	-	69,946	108,784	43,671	-	79,166	122,837	49,262	-	73,028	122,290
Fire and Emergency Services Authority of Western Australia	5,060	1,655	21,863	28,578	5,426	1,265	32,179	38,870	250	7,294	18,321	25,865

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2005-06 Budget Estimate				2005-06 Estimated Actual				2006-07 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 PLANNING AND INFRASTRUCTURE												
Planning and Infrastructure	9,505	730	4,465	14,700	9,505	-	22,058	31,563	14,461	-	30,559	45,020
Commissioner of Main Roads	113,792	-	187,925	301,717	169,515	-	228,324	397,839	213,773	-	261,698	475,471
Public Transport Authority	26,996	504,039	-1,486	529,549	29,510	525,656	7,998	563,164	392,344	97,707	992	491,043
Armadale Redevelopment Authority	3,000	-	4,250	7,250	3,000	-	5,593	8,593	10,600	-	10,265	20,865
East Perth Redevelopment Authority	-	5,360	51,783	57,143	-	-	34,084	34,084	-	-	46,811	46,811
Midland Redevelopment Authority	3,440	2,392	4,404	10,236	3,440	2,392	8,897	14,729	12,715	3,000	14,177	29,892
Subiaco Redevelopment Authority	-	-	10,981	10,981	-	-	14,328	14,328	-	-	14,279	14,279
Albany Port Authority	2,600	2,000	750	5,350	3,785	2,000	750	6,535	-	-	750	750
Broome Port Authority	-	4,000	1,320	5,320	1,500	4,000	10,672	16,172	200	-	1,300	1,500
Bunbury Port Authority	-	-	6,325	6,325	-	-	11,125	11,125	-	-	8,025	8,025
Dampier Port Authority	-	-	600	600	-	35,162	2,765	37,927	-	3,522	4,050	7,572
Esperance Port Authority	-	35,600	1,200	36,800	-	31,000	10,158	41,158	-	-	3,200	3,200
Fremantle Port Authority	1,533	28,865	9,560	39,958	1,527	29,347	10,178	41,052	214	28,535	7,917	36,666
Geraldton Port Authority	-	1,300	1,334	2,634	-	11,800	1,334	13,134	-	24,500	1,374	25,874
Port Hedland Port Authority	-	-	4,509	4,509	-	-	6,609	6,609	-	-	4,049	4,049
Western Australian Land Authority	-	7,500	122,850	130,350	20,000	-	174,713	194,713	42,100	-	220,299	262,399
The Eastern Goldfields Transport Board	-	600	-	600	-	600	-	600	-	700	-	700
Western Australian Planning Commission	5,100	-	57,005	62,105	7,600	-	58,696	66,296	2,900	-	50,808	53,708
MINISTER FOR ENERGY; SCIENCE AND INNOVATION												
Horizon Power	-	-	-	-	-	9,024	-	9,024	-	12,840	18,781	31,621
Synergy	-	-	-	-	-	-	3,202	3,202	-	-	16,608	16,608
Verve Energy	-	-	-	-	-	15,998	-	15,998	-	-	101,209	101,209
Western Power (Networks)	-	-	-	-	-	34,756	105,993	140,749	-	300,410	182,789	483,199
Office of Energy	-	-	251	251	-	-	303	303	-	-	269	269
Western Power Corporation	-	308,626	290,750	599,376	-	300,059	169,619	469,678 ¹	-	-	-	-
Independent Market Operator	-	15,000	-	15,000	-	6,638	445	7,083	-	935	-	935

¹ Reflects Western Power's financial performance for the nine months of the financial year up until disaggregation in April 2006.

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2005-06 Budget Estimate				2005-06 Estimated Actual				2006-07 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 COMMUNITY DEVELOPMENT; MINISTER ASSISTING THE MINISTER FOR PLANNING AND INFRASTRUCTURE; SENIORS AND VOLUNTEERING; YOUTH Community Development	7,072	-	7,438	14,510	7,782	-	9,817	17,599	8,759	-	8,380	17,139
MINISTER OF INDIGENOUS AFFAIRS; TOURISM; CULTURE AND THE ARTS												
Indigenous Affairs	397	-	713	1,110	260	-	850	1,110	-	-	990	990
Culture and the Arts	6,001	-	17,291	23,292	6,001	-	19,539	25,540	10,913	-	21,069	31,982
Western Australian Tourism Commission	240	-	424	664	590	-	424	1,014	2,073	-	424	2,497
Rottne Island Authority	7,730	-	1,500	9,230	15,244	-	1,500	16,744	6,456	-	3,700	10,156
MINISTER FOR THE ENVIRONMENT; RACING AND GAMING												
Conservation and Land Management	11,700	-	10,923	22,623	10,500	-	16,415	26,915	11,110	-	12,307	23,417
Botanic Gardens and Parks Authority	550	-	2,552	3,102	593	-	2,061	2,654	500	-	2,164	2,664
Environment	358	-	1,326	1,684	358	-	1,299	1,657	850	-	400	1,250
Swan River Trust	-	-	100	100	-	-	100	100	1,000	-	100	1,100
Zoological Parks Authority	-	-	4,076	4,076	-	-	2,166	2,166	730	-	4,104	4,834
Racing, Gaming and Liquor	-	-	388	388	-	-	505	505	-	-	350	350
Racing and Wagering Western Australia	-	-	13,888	13,888	-	-	16,835	16,835	-	-	9,860	9,860
Western Australian Greyhound Racing Authority	-	-	1,525	1,525	-	-	2092	2092	-	-	592	592

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2005-06 Budget Estimate				2005-06 Estimated Actual				2006-07 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; CONSUMER PROTECTION; HERITAGE; LAND INFORMATION												
Housing and Works	5,100	-	4,045	9,145	4,176	-	1,769	5,945	30,450	-	1,495	31,945
Country Housing Authority	-	6,300	6,194	12,494	-	6,300	4,357	10,657	-	5,700	6,288	11,988
Government Employees' Housing Authority	-	6,000	7,806	13,806	-	-	15,100	15,100	-	25,000	8,910	33,910
Land Information	633	-	12,648	13,281	133	-	13,877	14,010	-	-	11,181	11,181
The State Housing Commission	-	10,000	982,400	992,400	-	13,351	1,103,145	1,116,496	-	20,000	990,975	1,010,975
Heritage Council of Western Australia	-	-	1,050	1,050	-	-	4,165	4,165	-	-	1,050	1,050
The National Trust of Australia (Western Australia)	521	-	374	895	521	-	374	895	618	-	255	873
MINISTER FOR LOCAL GOVERNMENT AND REGIONAL DEVELOPMENT; FISHERIES; THE KIMBERLEY; PILBARA AND GASCOYNE												
Fisheries	262	-	2,089	2,351	262	-	7,198	7,460	1,829	-	3,650	5,479
Local Government and Regional Development	124	-	1,250	1,374	124	-	1,252	1,376	94	-	1,550	1,644
Kimberley Development Commission	87	-	20	107	87	-	20	107	-	-	65	65
Pilbara Development Commission	-	-	-	-	-	-	12	12	85	-	120	205
Gascoyne Development Commission	-	-	1,040	1,040	-	-	1,054	1,054	-	-	40	40
Metropolitan Cemeteries Board	-	-	2,989	2,989	-	-	6,109	6,109	-	-	6,462	6,462

Table 1 (cont.)

CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

	2005-06 Budget Estimate				2005-06 Estimated Actual				2006-07 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 SMALL BUSINESS; PEEL AND THE SOUTH WEST; MINISTER ASSISTING THE MINISTER FOR EDUCATION AND TRAINING												
Small Business Development Corporation	184	-	116	300	184	-	551	735	134	-	116	250
Peel Development Commission	-	-	540	540	-	-	1,295	1,295	-	-	221	221
South West Development Commission	-	-	2,650	2,650	-	-	2,152	2,152	-	-	3,950	3,950
MINISTER FOR WATER RESOURCES; SPORT AND RECREATION												
Waters and Rivers Commission	5,610	-	1,446	7,056	2,480	-	2,946	5,426	2,253	-	4,314	6,567
Water Corporation	-	396,005	318,795	714,800	-	451,005	230,258	681,263	-	290,000	320,693	610,693
Busselton Water Board	-	-	1,146	1,146	-	-	1,650	1,650	-	-	3,681	3,681
Bunbury Water Board	-	-	1,849	1,849	-	-	4,687	4,687	-	-	5,838	5,838
Sport and Recreation	6,733	-	33,748	40,481	4,933	-	7,272	12,205	6,140	-	29,289	35,429
Western Australia Sports Centre Trust	900	-	-	900	900	-	-	900	-	-	1,350	1,350
TOTAL	775,789	1,345,132	2,624,974	4,745,895	716,945	1,488,371	2,893,450	5,099,766	1,443,626	839,063	2,918,238	5,200,927

Table 2

CAPITAL WORKS PROGRAM SOURCE OF FUNDS

	2004-05 Actual \$m	2005-06 Estimated Actual \$m	2006-07 Budget Estimate \$m	2007-08 Budget Estimate \$m	2008-09 Budget Estimate \$m	2009-10 Budget Estimate \$m
APPROPRIATIONS						
Capital contribution	554.1	716.9	1,401.5	1,374.0	1,168.5	824.5
Funding included in output appropriations	157.6	113.5	184.2	168.6	159.0	144.7
OTHER FUNDING						
Holding Account	161.9	159.6	182.8	157.0	113.3	126.3
Borrowings	739.7	1,488.4	839.1	500.9	481.9	552.1
Commonwealth grants	243.5	295.6	276.3	291.6	311.6	168.7
Land and Property Sales	339.9	399.9	445.0	358.3	367.4	343.7
Internal funds and balances	1,000.9	1,017.5	1,044.2	1,063.0	1,083.7	1,133.7
Other	863.8	908.4	827.8	698.9	653.9	671.0
TOTAL FUNDING	4,061.2	5,099.8	5,200.9	4,612.3	4,339.4	3,964.7

Note: Columns may not add due to rounding.

Public Corporations – Revenue and Expenses

The major public corporations are liable for income tax equivalent and dividend payments to the State. A number of public corporations are also liable for local government rate equivalent 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.

A detailed overview of revenue received by the general government sector from individual public corporations is provided in Table 1.

Revenue from public corporations in 2006-07 is estimated to be \$750 million, a decrease of \$82 million, or 9.9% from the previous year.

The reduction in revenue in 2006-07 mainly results from lower tax equivalent and dividend revenue from the Western Australian Land Authority (LandCorp) and the successor entities to Western Power Corporation, partially offset by higher tax equivalent and dividend revenue from the Geraldton Port Authority.

The former Western Power Corporation (Electricity Corporation) was disaggregated on 31 March 2006 into four new entities, Horizon Power (Regional Power Corporation), Synergy (Electricity Retail Corporation), Verve Energy (Electricity Generation Corporation) and Western Power (Networks) (Electricity Networks Corporation).

Underlying profitability for these entities in 2006-07 is forecast to increase, mainly due to increased developer contributions and other revenues. These increases are partially offset by cost increases, including wages and salaries.

In 2006-07, revenue to government from the electricity entities has been reduced relative to 2005-06, due to increases in deferred taxation liability (payable in later financial years), and the early payment by Western Power Corporation of dividends in 2005-06 arising from the disaggregation process.

The revenue reductions from LandCorp reflect lower forecast margins on land sales (mainly due to higher development costs) and the recognition of both the 2004-05 and 2005-06 financial years' dividends in 2005-06 due to the Australian equivalents to the International Financial Reporting Standards (AIFRS) dividend recognition changes.

The increases from the Geraldton Port Authority are associated with increased profits due to a tripling of iron ore throughputs, as a result of several projects in the MidWest becoming fully operational.

There are also significant payments from the general government sector to public corporations. Such payments include funding of 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.

Table 1

REVENUE TO GOVERNMENT FROM PUBLIC CORPORATIONS

Details of Payment	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
Western Power Corporation					
Income tax expense	51,927	-	-	-	-
Local Government Rates expense	1,060	-	-	-	-
Dividends	112,032	-	-	-	-
<i>Subtotal</i>	<i>165,019</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Horizon Power					
Income tax expense	-	-	898	4,368	5,473
Local Government Rates expense	42	504	520	532	537
Dividends	-	-	2,298	2,432	3,081
<i>Subtotal</i>	<i>42</i>	<i>504</i>	<i>3,716</i>	<i>7,332</i>	<i>9,091</i>
Synergy					
Income tax expense	2,400	7,039	7,457	9,582	10,394
Local Government Rates expense	75	150	226	188	207
Dividends	-	1,766	15,279	6,277	4,929
<i>Subtotal</i>	<i>2,475</i>	<i>8,955</i>	<i>22,962</i>	<i>16,047</i>	<i>15,530</i>
Verve Energy					
Income tax expense	-	-	4,328	15,063	1,364
Local Government Rates expense	70	576	589	604	609
Dividends	0	11,075	2,392	4,069	1,958
<i>Subtotal</i>	<i>70</i>	<i>11,651</i>	<i>7,309</i>	<i>19,736</i>	<i>3,931</i>
Western Power (Networks)					
Income tax expense	14,683	52,209	50,843	54,432	54,305
Local Government Rates expense	166	1,121	1,155	1,183	1,194
Dividends	-	62,429	64,090	58,287	62,368
<i>Subtotal</i>	<i>14,849</i>	<i>115,759</i>	<i>116,088</i>	<i>113,902</i>	<i>117,867</i>
Water Corporation					
Income tax expense	188,883	196,175	190,988	195,305	203,101
Local Government Rates expense	2,895	3,040	3,200	3,280	3,362
Dividends	353,418	348,485	338,443	370,581	387,313
<i>Subtotal</i>	<i>545,196</i>	<i>547,700</i>	<i>532,631</i>	<i>569,166</i>	<i>593,776</i>
Western Australian Land Authority (LandCorp)					
Income tax expense	18,322	12,013	15,813	19,430	20,048
Local Government Rates expense	1,606	1,939	1,872	1,827	2,248
Dividends	54,202	13,751	17,251	17,251	17,251
<i>Subtotal</i>	<i>74,130</i>	<i>27,703</i>	<i>34,936</i>	<i>38,508</i>	<i>39,547</i>
Gold Corporation					
Income tax expense	1,204	1,586	1,778	2,219	2,219
Dividends	493	1,630	2,221	2,489	3,107
<i>Subtotal</i>	<i>1,697</i>	<i>3,216</i>	<i>3,999</i>	<i>4,708</i>	<i>5,326</i>
Western Australian Treasury Corporation					
Income tax expense	2,066	2,839	2,918	2,972	3,020
Dividends	4,874	2,892	3,312	3,405	3,467
<i>Subtotal</i>	<i>6,940</i>	<i>5,731</i>	<i>6,230</i>	<i>6,377</i>	<i>6,487</i>

Table 1 (cont.)

REVENUE TO GOVERNMENT FROM PUBLIC CORPORATIONS

Details of Payment	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
Albany Port Authority					
Income tax expense	309	383	510	863	980
Local Government Rates expense	90	93	95	97	100
Dividends	468	448	595	1,007	1,144
<i>Subtotal</i>	867	924	1,200	1,967	2,224
Broome Port Authority					
Income tax expense	-	-	-	247	247
Local Government Rates expense	5	5	5	5	5
Dividends	-	-	-	288	288
<i>Subtotal</i>	5	5	5	540	540
Bunbury Port Authority					
Income tax expense	1,754	2,265	2,006	2,683	3,295
Local Government Rates expense	178	148	186	191	210
Dividends	1,781	2,300	2,037	2,724	3,345
<i>Subtotal</i>	3,713	4,713	4,229	5,598	6,850
Dampier Port Authority					
Income tax expense	451	801	803	822	786
Local Government Rates expense	13	13	14	14	15
Dividends	526	935	937	961	917
<i>Subtotal</i>	990	1,749	1,754	1,797	1,718
Esperance Port Authority					
Income tax expense	340	1,000	500	700	1,916
Local Government Rates expense	230	230	235	240	245
Dividends	1,218	2,432	3,205	3,915	3,855
<i>Subtotal</i>	1,788	3,662	3,940	4,855	6,016
Fremantle Port Authority					
Income tax expense	3,784	3,856	3,572	4,099	3,866
Local Government Rates expense	239	239	251	264	277
Dividends	4,929	3,641	3,906	3,559	4,076
<i>Subtotal</i>	8,952	7,736	7,729	7,922	8,219
Geraldton Port Authority					
Income tax expense	689	2,865	3,992	4,092	4,193
Local Government Rates expense	160	160	160	160	160
Dividends	804	3,343	4,657	4,774	4,892
<i>Subtotal</i>	1,653	6,368	8,809	9,026	9,245
Port Hedland Port Authority					
Income tax expense	1,144	1,079	2,030	2,976	4,481
Local Government Rates expense	215	224	233	242	252
Dividends	1,335	1,259	2,369	5,172	5,227
<i>Subtotal</i>	2,694	2,562	4,632	8,390	9,960
Bunbury Water Board					
Income tax expense	656	590	527	553	469
<i>Subtotal</i>	656	590	527	553	469
Busselton Water Board					
Income tax expense	224	227	231	250	800
<i>Subtotal</i>	224	227	231	250	800

Table 1 (cont.)

REVENUE TO GOVERNMENT FROM PUBLIC CORPORATIONS

Details of Payment	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
Forest Products Commission					
Dividends	-	-	370	1,988	1,572
<i>Subtotal</i>	-	-	370	1,988	1,572
Subiaco Redevelopment Authority					
Statutory contributions/Dividends	-	-	7,000	7,000	-
<i>Subtotal</i>	-	-	7,000	7,000	-
Other Agencies					
Local Government Rates expense	159	146	146	146	146
Statutory contributions/Dividends	18	18	18	18	-
<i>Subtotal</i>	177	164	164	164	146
Total Amounts					
Income tax expense	288,836	284,927	289,194	320,656	320,957
Local Government Rates expense	7,203	8,588	8,887	8,973	9,567
Statutory contributions/Dividends	536,098	456,404	470,380	496,197	508,790
Total	832,137	749,919	768,461	825,826	839,314

Table 1(a)

REVENUE FROM PUBLIC CORPORATIONS**Dividend Payout Ratios^(a)**

	2005-06 %	2006-07 %	2007-08 %	2008-09 %	2009-10 %
Western Power ^(b)	50.0	na	na	na	na
Horizon Power	50.0	50.0	50.0	50.0	50.0
Synergy	50.0	50.0	50.0	50.0	50.0
Verve Energy	50.0	50.0	50.0	50.0	50.0
Western Power (Networks)	50.0	50.0	50.0	50.0	50.0
Water Corporation ^(c)	85.0	85.0	85.0	85.0	85.0
Western Australian Land Authority (LandCorp) ^(d)	50.0	50.0	50.0	50.0	50.0
Gold Corporation	60.0	60.0	60.0	60.0	60.0
Western Australian Treasury Corporation	60.0	60.0	60.0	60.0	60.0
State Port Authorities	50.0	50.0	50.0	50.0	50.0
Forest Products Commission ^(e)	na	na	na	na	na

(a) From 2005-06 onwards, due to the new International Financial Reporting Standards, dividends based on profit at the end of a financial year are accrued in the next financial year (previously these were accrued in the same financial year).

(b) 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.

(c) The after-tax value of handover assets from developers is excluded from the calculation of the Water Corporation's dividend payments.

(d) Adjusted for the need to maintain adequate land stocks.

(e) 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 balance of \$1 million as working capital.

Table 2

EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Details of Payment	Payment Type	Funding Department	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
Water Corporation							
Burrup Water Supply System	Other	DolR	11,779	8,097	7,582	7,771	7,965
Country Water, Sewerage and Drainage Operations	CSO	DTF	229,765	247,941	256,735	271,741	278,555
Infill Sewerage Program	CSO	DTF	29,657	32,361	32,802	34,175	34,814
Pensioner and Senior Concessions	CSO	DTF	74,887	80,075	84,899	90,127	96,281
Rural Irrigation Schemes	CSO	DTF	6,481	7,270	7,379	7,459	7,522
Partial Reimbursement of Proceeds from the Sale of Surplus Land	Other	DTF	1,645	716	700	800	900
State Water Strategy – Rebates Scheme	Other	DTF	11,520	9,000	-	-	-
<i>Subtotal</i>			365,734	385,460	390,097	412,073	426,037
Western Power Corporation							
Air Conditioning Subsidy for Seniors (North of 26 th Parallel)	CSO	DTF	64	-	-	-	-
Community Service Concessions ^(a)	CSO	DTF	259	-	-	-	-
Energy Rebates for Eligible Permanent Caravan Park Residents	CSO	DTF	250	-	-	-	-
Gas Lateral Line to Murchison Area – Interest Costs	Other	DolR	624	-	-	-	-
High Wide Load Project	Other	MRD	1,838	-	-	-	-
Interval Electricity Meters	CSO	DTF	186	-	-	-	-
Onslow Gas Fired Power Station – Interest Costs	Other	DolR	137	-	-	-	-
Pensioner and Senior Concessions	CSO	DTF	27,445	-	-	-	-
Tariff Migration – Movement to L2 Tariff	CSO	DTF	7,765	-	-	-	-
Underground Power Program	Other	OoE	2,411	-	-	-	-
<i>Subtotal</i>			40,979	-	-	-	-
Horizon Power							
Aboriginal and Remote Communities Project	CSO	DTF	-	2,440	6,990	8,265	8,596
Air Conditioning Subsidy for Seniors (North of 26 th Parallel)	CSO	DTF	27	94	97	101	104
Coral Bay Electricity Supply	CSO	DTF	-	890	950	950	950
Gas Lateral Line to Murchison Area – Interest Costs	Other	DolR	208	832	832	832	832
Onslow Gas Fired Power Station – Interest Costs	Other	DolR	46	183	183	183	183
Pensioner and Senior Concessions	CSO	DTF	190	658	655	658	663
Tariff Migration – Movement to L2 Tariff	CSO	DTF	3,257	12,102	13,218	14,033	15,361
<i>Subtotal</i>			3,728	17,199	22,925	25,022	26,689

Table 2 (cont.)

EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Details of Payment	Payment Type	Funding Department	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
Synergy							
Community Service Concessions ^(a)	CSO	DTF	87	359	371	383	395
Energy Rebates for Eligible Permanent Caravan Park Residents	CSO	DTF	84	334	334	334	334
Pensioner and Senior Concessions	CSO	DTF	8,996	37,314	38,708	40,174	41,743
<i>Subtotal</i>			<i>9,167</i>	<i>38,007</i>	<i>39,413</i>	<i>40,891</i>	<i>42,472</i>
Western Power (Networks)							
High Wide Load Project	Other	MRD	612	2,375	2,300	2,300	2,300
Interval Electricity Meters	CSO	DTF	814	-	-	-	-
Underground Power Program	Other	OoE	2,409	7,320	4,820	4,820	4,820
<i>Subtotal</i>			<i>3,835</i>	<i>9,695</i>	<i>7,120</i>	<i>7,120</i>	<i>7,120</i>
Western Australian Land Authority (LandCorp)							
Albany Waterfront Development	CSO	DTF	-	1,600	1,700	1,700	-
Australian Marine Complex – Facilities Management	CSO	DTF	760	-	-	-	-
Australian Marine Complex – Rate of Return	CSO	DTF	2,502	2,502	8,914	8,914	8,914
Australian Marine Complex – Tech Park – Land Acquisition ^(b)	Other	DoIR	1,300	-	-	-	-
Australian Marine Complex – Tech Park	CSO	DTF	4,028	228	228	228	228
Forrestdale - Rate of Return (Armadale Redevelopment Authority)	CSO	DTF	200	200	200	200	200
Hope Valley / Wattleup – Land Acquisition	CSO	DTF	14,000	7,625	5,765	5,785	6,615
Kalgoorlie North West Sector	CSO	DTF	-	3,500	-	-	-
Karratha / Burrup Western Service Corridor	Other	DMPR	2,230	2,130	2,130	2,130	2,130
Kemerton Core Land Acquisition	CSO	DTF	1,977	-	-	-	-
Kemerton Expansion – Land Acquisition ^(b)	Other	DTF	1,805	-	-	-	-
Mungari – Replacement of TMW Evaporation Ponds	CSO	DTF	2,650	-	-	-	-
Oakajee Expansion – Land Acquisition ^(c)	Other	DoIR	5,000	-	-	-	-
PARC Funding	CSO	DTF	150	-	-	-	-
PIL Kwinana Land – Interest Costs	CSO	DTF	698	835	860	885	910
Rockingham Development Office	CSO	DTF	-	550	550	550	-
Rockingham Development Office	Other	DPI	140	-	-	-	-
Strategic Asset Management	Other	DTF	500	500	500	-	-
Townsite Development Program	CSO	DTF	4,000	4,000	6,500	4,000	4,000
<i>Subtotal</i>			<i>41,940</i>	<i>23,670</i>	<i>27,347</i>	<i>24,392</i>	<i>22,997</i>

Table 2 (cont.)

EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Details of Payment	Payment Type	Funding Department	2005-06 Estimated Actual \$'000	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000
Albany Port Authority	Other	DTF	151	-	-	-	-
Albany Woodchip Mill							
<i>Subtotal</i>			151	-	-	-	-
Broome Port Authority	Other	DTF	1,150	1,335	420	405	405
Jetty Extension – Subsidy							
<i>Subtotal</i>			1,150	1,335	420	405	405
Bunbury Port Authority	Other	DoIR	89	89	89	89	89
Casting Basin Loan – Interest Costs							
<i>Subtotal</i>			89	89	89	89	89
Dampier Port Authority	Other	DoIR	7,800	9,100	9,000	11,500	9,200
Burrup Infrastructure – Interest Support							
<i>Subtotal</i>			7,800	9,100	9,000	11,500	9,200
Armadale Redevelopment Authority	Other	DTF	1,470	1,250	1,200	1,200	1,250
Administration and Operating Costs							
Kelmscott District Centre Works			-	1,500	-	-	-
<i>Subtotal</i>			1,470	2,750	1,200	1,200	1,250
Forest Products Commission	CSO	DTF	1,070	1,070	1,070	1,070	1,070
Debt Servicing Costs - Non-Commercial Native Forest Related							
Debt			-	1,300	1,300	1,300	1,300
Debt Servicing Costs – Non-Commercial Plantations Related Debt	Other	DTF	-	1,000	1,000	1,000	1,000
Equity contribution – Non-Commercial Plantations							
<i>Subtotal</i>			1,070	3,370	3,370	3,370	3,370
Public Transport Authority (PTA)	Other	DTF	574,924	675,051	748,326	767,814	792,964
Net Amount Appropriated to Deliver Outputs							
<i>Subtotal</i>			574,924	675,051	748,326	767,814	792,964
Total			1,052,037	1,165,726	1,249,307	1,293,876	1,332,593

(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) Final payment to be finalised, based on timing of acquisition and valuation of land.

Tariffs, Fees and Charges – Impact on ‘Representative Household’ Model

The Department of Treasury and Finance has produced, for a number of years, a model that estimates the costs incurred by a ‘representative household’ through the consumption of certain State government goods and services. The model’s parameters are outlined in this appendix.

It should be noted that calculating the effects of changes in State government 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 State government goods and services.

The model simply seeks to highlight the impact of changes in major State government tariffs, fees and charges on a particular hypothetical household reflecting current average electricity and water consumption, an assumed level of public transport use and a specified consumption of a range of other State government goods and services (including select taxes).

Key Government Charges Affecting Households

The model covers the following annual State 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;
- stamp duty on both compulsory third party insurance and general insurance; and
- emergency service levy.

It should be noted that the model excludes State 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 child household. The characteristics of the 'representative household' are updated annually and it is assumed that the household:

1. consumes:
 - 5,625 kilowatt hours of electricity per annum, based on the 2004-05 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 by the Water Corporation.
2. purchase five standard 2-zone Transperth fares and ten Transperth school fares each week. Transperth fares are purchased using the lowest cost means available (i.e. using MultiRider Plus or SmartRider Autoload);
3. owns one car, a Holden Commodore (tare weight of 1568 kilograms – relevant for the purpose of determining the appropriate level of motor vehicle licence fee);
4. has two drivers in the household;
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 emergency service levy rating purposes).
 - the model has been adjusted to include, for the first time, the Emergency Services Levy (ESL) on the basis that its level is set by Government, it is paid by most (if not all) households and it is an annual fee.

Discussion

In 2006-07, representative household expenditure on selected State government goods and services will increase by significantly less than inflation.

From 1 July 2006, compulsory third party insurance premiums will decrease by 10%. This follows previous Government decisions that have held compulsory third party (CTP) insurance premiums unchanged for three out of the last four years. With stamp duty rates on insurance remaining unchanged, households will benefit from lower insurance duty on reduced CTP premiums.

For the sixth consecutive year there will be no increase in the level of electricity prices.

Transperth standard fares increase by a flat 10 cents. Transperth concession fares remain unchanged, with the exception of 2 section and 1 zone fares, which increase by 10 cents. A full year of the Government's new 50 cent student fare for all school students travelling to school on Transperth leads to savings for families.

Motor vehicle licence and driver's licence fees will increase by 3.6%. This partially is offset in the model by the Government's decision to also increase by 3.6% the family concession for motor vehicle registration in 2006-07 (the family discount will rise from \$53 to \$54.91).

The average metropolitan residential ESL will increase by 3.1%, while sewerage and drainage charges will rise by 3.6%. These measures are set to recover the increased cost of providing sewerage and drainage facilities and funding for the State's emergency services operations.

Following the release of the Economic Regulation Authority's (ERA) final report on urban water pricing, the 2006-07 Budget introduces a new system for metropolitan water pricing that will better provide for the development of future water sources, including the Perth Desalination Plant currently under construction. The introduction of a new cost-based system transparently links the costs incurred in providing these services to the prices charged, ensuring that the appropriate pricing signals are sent to consumers (an important aspect in a drying climate like Western Australia's). As a result the total water charges for the average household will increase by \$18.90 (or 5.9%) in 2006-07 and by \$68.50 over the next four years.

Results

Table 1 shows the impact of the changes in State tariffs, fees and charges on the 'representative household' consuming the assumed level of State government goods and services.

INCREASES IN TARIFFS, FEES AND CHARGES^(a)			Table 1
Impact on household expenditure and income based on AWOTE¹ (\$)			
	2005-06	2006-07	
Expenditure	\$3,347.84	\$3,379.30	
Change in Expenditure (\$)		\$31.46	
Change in Expenditure (%)		0.94%	
Household Income (after tax) ^(b)	\$42,601.44	\$44,620.66	
Change in Income (\$)		\$2,019.23	
Change in Income (%)		4.74%	
Expenditure as a percentage of disposable income	7.86%	7.57%	
(a) Figures are in nominal terms.			
(b) Based on average weekly ordinary time earnings (AWOTE)			

On the basis of the above assumptions and the 2006-07 levels of State government tariffs, fees and charges, the total expenditure of the 'representative household' on this basket of State government goods and services is \$3,379.30. This represents an increase of around \$31.46, or 0.94%, on 2005-06 expenditure levels.

This increase in the cost of the basket of State government goods and services is under the forecast CPI in 2006-07 of 3.0%. Therefore, the percentage of a 'representative household's after-tax income (as measured by average weekly ordinary time earnings) spent on the representative basket of State government goods and services falls from 7.86% to 7.57%, after taking account of forecast earnings growth.

Pensioner Concessions

A variant of the 'representative household' is also used to assess the impact these changes have on those that are eligible to receive pensioner concessions offered on a range of government charges². These concessions include:

- 50% concession on motor vehicle licence fees;
- 68% concession on driver's licence fees;
- 100% rebate on fixed daily supply charge for electricity;

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 Entitlement to a Pensioner Concession Card, and thus State concessions, is based on eligibility for:

- 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 aged over 60 and 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.

- 50% rebate on the first 150kL water consumption charges per year 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;
- 50% rebate on annual drainage charges; and
- 50% rebate on the emergency services levy.

Table 2 shows the impact of the changes in State government tariffs, fees and charges on a pensioner household holding a Pensioner Concession Card, consuming the same level of State government goods and services as the 'representative household'.

INCREASES IN TARIFFS, FEES AND CHARGES		
Impact on pensioner household expenditure		
	2005-06	2006-07
Expenditure	\$2,379.92	\$2,421.74
Change in Expenditure (\$)		\$41.82
Change in Expenditure (%)		1.76%

It is estimated that such a pensioner household would have a total expenditure of \$2,421.74 on State government tariffs, fees and charges, experiencing an increase of \$41.82, or 1.76%. This is below the forecast CPI in 2006-07 of 3.0%.