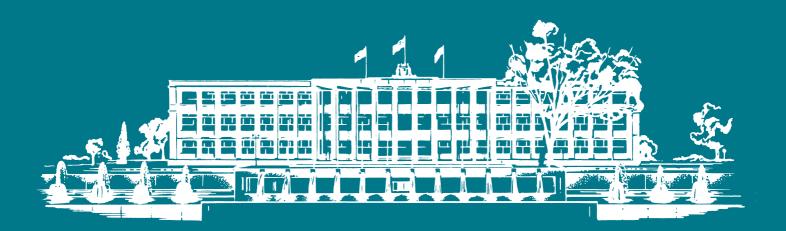


# 2007-08 BUDGET

### ECONOMIC AND FISCAL OUTLOOK

Budget Paper No. 3

PRESENTED TO THE LEGISLATIVE ASSEMBLY ON 10 MAY 2007



2007-08 Budget Paper set includes:

Budget Paper No. 1 – Budget Speech

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

Budget Paper No. 3 – Economic and Fiscal Outlook

Budget Overview

Reader's Guide to the 2007–08 Budget Statements

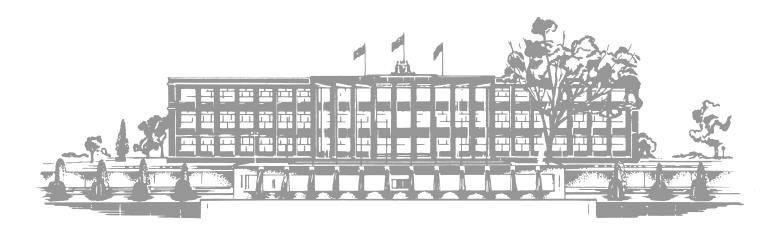


# 2007-08 BUDGET

### ECONOMIC AND FISCAL OUTLOOK

Budget Paper No. 3

PRESENTED TO THE LEGISLATIVE ASSEMBLY ON 10 MAY 2007



#### 2007–08 Economic and Fiscal Outlook

© Government of Western Australia

Excerpts from this publication may be reproduced, with appropriate acknowledgement, as permitted under the *Copyright Act*.

For further information please contact:

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

Telephone: +61 8 9222 9222 Facsimile: +61 8 9222 9117 Website: http://ourstatebudget.wa.gov.au

Published May 2007 John A. Strijk, Government Printer ISSN 1448–2630

### 2007-08 BUDGET ECONOMIC AND FISCAL OUTLOOK TABLE OF CONTENTS

### **UNDER TREASURER'S CERTIFICATION** i **CHAPTER 1: ECONOMIC AND FISCAL OUTLOOK - OVERVIEW** Key Areas of Expenditure ...... 4 **CHAPTER 2: FISCAL STRATEGY AND FINANCIAL PROJECTIONS** Financial Targets......10 Summary of Financial Projections ...... 19 Issues in Public Sector Finances ...... 40 The redistribution of the fiscal benefits of Western Australia's resources boom Statement of Risks...... 46 Revenue Estimates ...... 46

### **CHAPTER 3: GENERAL GOVERNMENT REVENUE**

Overview	53
Taxation Relief Measures	57
Taxation Revenue Estimates	65
Commonwealth Grants	69
Other Revenue	74

### **CHAPTER 4: GENERAL GOVERNMENT EXPENSES**

Overview	79
Policy Decisions Affecting Expense (by Portfolio)	83
Summary	83
Premier; Minister for Federal-State Relations; Trade;	
Innovation; Science; Public Sector Management	85
Deputy Premier; Treasurer; Minister for State Development	86
Minister for Agriculture and Food; Forestry;	
the Mid-West and Wheatbelt; Great Southern	87
Minister for Local Government; Racing and Gaming;	
Multicultural Interests and Citizenship; Government Enterprises	
Minister Assisting the Minister for Planning and Infrastructure;	00
Goldfields-Esperance; Youth	50
Minister for Police and Emergency Services; Community Safety; Water Resources; Sport and Recreation	20
Attorney General; Minister for Health; Electoral Affairs	
	92
Minister for Employment Protection; Housing and Works; Indigenous Affairs; Heritage; Land Information	٩ <i>١</i>
Minister for Planning and Infrastructure	
Minister for Disability Services; Tourism;	51
Culture and the Arts; Consumer Protection	99
Minister for the Education and Training; South West	
Minister for Energy; Resources; Industry and Enterprise	
Minister for Regional Development; Fisheries;	
the Kimberley, Pilbara and Gascoyne	03
Minister for Corrective Services; Small Business;	
Minister Assisting the Minister for Federal-State Relations	04
Minister for the Environment; Climate Change; Peel	
Minister for Child Protection; Communities; Womens's	-
Interests; Seniors and Volunteering10	08
=	

### **CHAPTER 5: CAPITAL INVESTMENT**

Overview	111
Cost and Demand Pressures 1	111
Major New Initiatives 1	112
Strategic Review 1	113
Capital Spending Aggregates 1	113
Capital Works Program 1	114
Capital Works Policy Decisions	117

### **CHAPTER 6: THE WESTERN AUSTRALIAN ECONOMY**

Overview	
State Final Demand	
Household Consumption	
Business Investment	
Dwelling Investment	
Public Demand	
Net Exports	
Exports	
Imports	
Labour Market	
Employment	
Unemployment	
Prices	
Consumer Price Index	
Wages	
Implicit Price Deflator	
Regional Economies	
Risks to the Economic Outlook	
Global Risks	
Domestic Risks	

### **CHAPTER 7: ECONOMIC REFORM**

Overview	
Taxation Reform	
Health Services Reform	
Procurement Reform	
Corporate Services Reform	
Functional Review	
Federal Affairs	
Electricity Industry Reform	
Domestic Gas Market Reform	
Water Reform	
A New National Reform Agenda	
Transport Reform	
Competition Reform	
Housing and Land Reform	

Financial Management Reform	178
Government Employee Superannuation	179
Reform of Government Agencies	180
APPENDIX 1: DETAILED FINANCIAL PROJECTIONS	183
General Government	184
Public Non-Financial Corporations	187
Total Non-Financial Public Sector	190
Public Financial Corporations	193
Total Public Sector	<b>196</b>
Spending by Government Purpose Classification	<b>199</b>
Loan Council Allocations	200
Agency Classification	201
APPENDIX 2: GENERAL GOVERNMENT OPERATING REVENUE	205
APPENDIX 3: 2006-07 GENERAL GOVERNMENT OPERATING REVENUE	209
APPENDIX 4: THE TREASURER'S ADVANCE	213
APPENDIX 5: TAX AND ROYALTY EXPENDITURE STATEMENT	219
APPENDIX 6: STATE GOVERNMENT SOCIAL CONCESSIONS EXPENDITURE STATEMENT	223
APPENDIX 7: CAPITAL WORKS PROGRAM – SUMMARY OF	
EXPENDITURE AND SOURCE OF FUNDS	231
APPENDIX 8: PUBLIC CORPORATIONS – IMPACT ON GENERAL GOVE REVENUE AND EXPENSES	RNMENT 241
APPENDIX 9: TARIFFS, FEES AND CHARGES - IMPACT ON 'REPRESENTATIVE HOUSEHOLD' MODEL	249
APPENDIX 10: ELECTRICITY TARRIFS	255
APPENDIX 11: STATE-LOCAL GOVERNMENT FINANCES	259
APPENDIX 12: CALCULATING STATES' NET FISCAL SUBSIDIES	263

## 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 10 April 2007 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 6: *The Western Australian Economy*. These assumptions were finalised on 10 April 2007.

ite My

Timothy Marney UNDER TREASURER

10 May 2007

# Economic and Fiscal Outlook – Overview

### Fiscal Outlook

Key features of this budget include:

- a new round of significant tax relief measures worth a total of \$2.1 billion over the next four years and \$433 million in 2007-08;
- new policy initiatives to address significant community issues such as climate change, housing affordability and child protection, with total recurrent and infrastructure spending decisions worth \$2.4 billion added to the estimates;
- a record Capital Works Program totalling \$21.6 billion across the forward estimates, including a \$750 million provision to develop new water sources;
- a robust financial and economic outlook.

The ongoing performance of the Western Australian economy continues to deliver strong outcomes for the State's finances.

A general government operating surplus of \$1,453 million is budgeted for 2007-08. This follows a \$1,853 million outcome expected for 2006-07. Strong surpluses, albeit of declining magnitude, are projected across the medium term to 2010-11.

The 2007-08 Budget forecasts are broadly in line with the projections contained in the 2006-07 mid-year review and are consistent with the Government's financial targets.

Relative to the mid-year review, stronger commodity price expectations (particularly for iron ore and nickel) are expected to boost mining revenue across the forward estimates. Expense growth since the mid-year review accommodates the Government's policy priorities for the coming year (adding \$136 million to general government expenses in 2007-08 and a total of \$754 million across the forward estimates period).

The forecasts assume:

- an easing in the residential property market, and the economy more generally, from recent boom levels; and
- a significant reduction in the State's share of national GST revenue in future years as a result of the lagged Commonwealth Grants Commission process.

Net debt continues to be managed at levels that are both affordable and sustainable. The total non-financial public sector net debt to revenue ratio is projected to reach a maximum 38.0% by 2010-11, well below the Government's 47% target limit.

A key decision in this budget is the application of surplus cash from 2006-07 to fully fund the construction of the Fiona Stanley Hospital. This major health reform asset, costing an estimated \$1.09 billion to build, will commence construction in the second half of 2008 and is expected to be completed by 2012-13.

This decision follows the 2006-07 Budget decision to fully fund the New MetroRail project from the 2005-06 surplus, and means that the two largest public sector capital works projects ever undertaken in this State will be delivered without any call on future budgets for ongoing debt servicing costs – a lasting legacy from the current economic boom.

western Australia						
	2005-06 Actual	2006-07 Estimated Actual	2007-08 Budget Estimate	2008-09 Forward Estimate	2009-10 Forward Estimate	2010-11 Forward Estimate
GENERAL GOVERNMENT						
Net Operating Balance (\$m)	2,265	1,853	1,453	1,447	1,336	848
Revenue (\$m) Revenue Growth (%)	16,207 14.0	17,278 6.6	17,593 1.8	18,008 2.4	18,357 1.9	18,529 0.9
Expenses (\$m) Expense Growth (%)	13,942 7.0	15,425 10.6	16,141 4.6	16,561 2.6	17,021 2.8	17,681 3.9
TOTAL NON-FINANCIAL PUBLIC SECTOR						
Net Debt to Revenue Ratio (%)	19.6	23.8	30.0	35.0	36.3	38.0
TOTAL PUBLIC SECTOR						
Net Debt at 30 June (\$m)	3,179	4,208	5,799	7,199	7,645	8,191
Capital Works Program (\$m)	4,479	5,484	5,755	5,794	5,151	4,942

### KEY BUDGET AGGREGATES Western Australia

Table 1

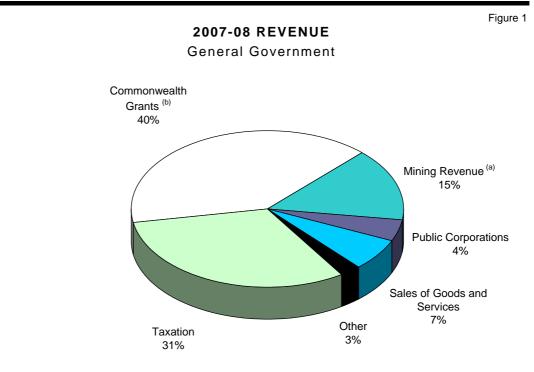
### Revenue Outlook

General government operating revenue is expected to grow modestly in 2007-08, following very robust growth in the three years up to and including 2006-07. The moderation in revenue growth is due to:

- an anticipated softening of the residential property market. In 2006-07, the boost to tax revenue from strong house price growth, particularly in the first half of the financial year, more than offsets a decline in turnover from peak levels in mid-2006. In 2007-08, conditions are expected to soften further. House prices are expected to remain flat through the year, while turnover is projected to decline by a further 10%;
- a smaller (albeit still robust) increase in mining revenue. Mining revenue increased by 22.0% in 2006-07, boosted by strong growth in commodity prices (most notably a 19.0% increase in iron ore prices) and a 12.1% weighted average increase in production volumes. Mining revenue is expected to grow by 12.8% in 2007-08. However, individual commodity prices are expected to either have peaked or be close to their peaks in 2007-08. In the case of iron ore, the recently negotiated benchmark price increase for 2007-08 is 9.5%; and
- a further reduction in Western Australia's share of the national GST pool in 2007-08. Despite projected growth in the national pool of 6.4%, Western Australia's GST revenue in 2007-08 is actually expected to decline by 0.2%. This follows an overall increase of 3.8% in 2006-07.

The revenue estimates also incorporate the Government's response to Stage 2 of the State Tax Review. The tax relief measures contained in this budget, including land tax relief, total \$2.1 billion over the four years to 2010-11 (\$433 million in 2007-08). The measures extend the Government's tax relief program begun in the 2004-05 Budget. Including measures introduced or announced since 1 July 2004, the estimated total value of tax relief provided over the next four years is \$5.8 billion.

Western Australia's tax competitiveness, as measured by taxation as a share of GSP, is expected to be the second best of all States in 2006-07 (after Tasmania), and is projected to become the best of all States in 2007-08.



#### TOTAL REVENUE = \$17,593 MILLION

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

(b) Comprises GST revenue grants and specific purpose payments.

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

### Key Areas of Recurrent Expenditure

The Government's focus for the 2007-08 Budget is the continued delivery of priority services such as health, education and training, and law and order, as well as specific initiatives including child protection, climate change, housing affordability and land supply, and reform of licensing services. Spending has also increased to address a range of cost and demand pressures in existing services.

Relative to the 2006-07 estimated outturn, budgeted expenses for 2007-08 include:

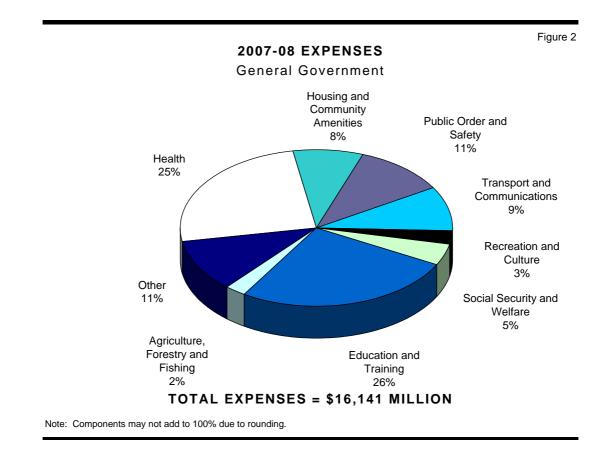
- a \$207 million increase in the Department of Health's expenses, including:
  - spending to increase access to a range of mental health services;
  - an increased focus on key health reform initiatives including health promotion, primary and community based care to avoid unnecessary hospital admissions, and more effective outpatient and elective surgery services;
  - the continuation of essential support services to the elderly and the disabled to enhance independent living; and
  - higher employee costs;

- a \$177 million increase in the Department of Education and Training's expenses, including:
  - spending on additional apprentices and trainees;
  - implementation of the recommendations of the Skills Formation Taskforce; and
  - improved teachers' wages and conditions. The estimates include the impact of over 300 teaching and other staff in 2007-08 compared to 2006-07;
- an \$87 million increase in law and order expenses, including:
  - provisions for the cost of the current Enterprise Bargaining Agreement offered to police officers;
  - recruitment of an additional 90 police officers;
  - the establishment of a 50 member Police Rail Unit to be located at Rockingham designed to enhance security on the Perth to Mandurah railway line; and
  - a range of offender management initiatives aimed at re-entry programs, prison system-wide drug strategy, specialised management of high-risk offenders in the community and implementation of a Regional Juvenile Justice Strategy at Kalgoorlie and Geraldton to provide intensive support programs for at-risk juveniles and their families; and
- additional spending of \$31 million by the new Department for Child Protection, including:
  - increased subsidies and additional support to foster carers;
  - the full year impact of an additional 133 caseworkers and support staff (announced in September 2006); and
  - a targeted local response to address child protection issues in Halls Creek.

Across the forward estimates, there is also recurrent spending of:

- \$80 million on a number of climate change initiatives across the sector (and \$101 million across the next five years including capital spending);
- \$252 million for housing stock and affordability (\$417 million for both recurrent and capital initiatives); and
- \$66 million to modernise the delivery of licensing services and improve motor vehicle inspections and motor license assessment wait times (a total of \$74 million including capital expenditure).

The following chart shows general government expenses by spending area for 2007-08. The priority areas of health, education and training, and public order and safety are estimated to account for 62% of total expenses.



### Capital Works Program

To expand the productive capacity of the State's economy, and to ensure quality service delivery into the future, it is critical to invest in essential infrastructure such as water (including a \$750 million provision for development of new water sources), power supplies, ports, transport, hospitals, schools and housing. This budget accommodates a record \$21.6 billion Capital Works Program over the four years to 2010-11.

In 2007-08, the Capital Works Program is forecast at \$5.8 billion, and includes:

- \$897 million of capital expenditure on the State's electricity infrastructure, including generation, transmission and distribution work to improve safety and reliability of supply, and to cater for the State's growing economy;
- \$755 million of capital expenditure by the Water Corporation on the State's water, wastewater and drainage infrastructure;
- \$706 million on road construction and maintenance, including major projects such as the New Perth-Bunbury Highway and Stage 2 of the Karratha-Tom Price Link Road;
- \$479 million of capital expenditure (excluding loans to homebuyers) on new and refurbished public housing for rental, provision of government regional officers' housing, continuation of the Community Housing and Urban Aboriginal Housing programs and land development for future housing;

- \$32 million to complete and commission the Southern Suburbs Railway. The \$1.613 billion New MetroRail project will add over 71 km of passenger rail services to the Perth Metropolitan transport network;
- \$324 million on health-related capital works, which is almost double that in 2006-07;
- \$295 million on public schools and TAFE college infrastructure;
- \$220 million on law and order-related projects; and
- \$99 million on port facilities across the State.

Further details on the Capital Works Program are provided in Chapter 5: *Capital Investment*.

### Economic Outlook

Western Australia's gross State product  $(GSP)^1$  is expected to grow by 6.0% in 2006-07, significantly faster than the long-term average of 4.6% a year for the past 15 years. This strong growth is in part due to growth of 5.5% in the State's domestic economy<sup>2</sup>, supported by household consumption and business investment, which are forecast to contribute 2.7 and 2.0 percentage points, respectively, to GSP growth.

Strong investment in the State's minerals and energy sector over the past few years is now starting to generate higher production levels and export volumes, with net exports expected to contribute 1.6 percentage points to GSP growth in 2006-07. This represents a significant turnaround from the previous two years, when net exports actually detracted from GSP growth, as imports rose rapidly while export volumes grew weakly, even though export values increased sharply because of rising commodity prices.

In 2007-08, GSP growth is forecast to ease to 4.5%, with an easing of growth in the State's domestic economy to 3.0%. Growth in household consumption and business investment is forecast to slow from recent high rates. A small decline in dwelling investment is also expected.

Growth in net exports of 11.75% is forecast over 2007-08. This is despite modest falls in commodity prices, as past strong levels of investment in the State's resources sector generate further growth in production volumes. Net exports contribute 2.6 percentage points to the 4.5% GSP growth rate forecast, and should help to partly offset slower growth in Western Australia's domestic economy.

<sup>&</sup>lt;sup>1</sup> GSP is the total output of the State's economy, comprising final demand (see note below), changes in inventories, plus exports minus imports from interstate and overseas. Unless otherwise stated, all growth rates in this 'Economic Outlook' section are in real (chain volume) terms, rather than nominal terms (that is, they abstract from any price movements).

<sup>&</sup>lt;sup>2</sup> State Final Demand (SFD) comprises expenditure on household and government consumption, dwelling investment, business investment, and public sector investment.

Strong economic growth has produced a tight labour market, with the State's unemployment rate at a 32-year low and labour force participation rates near historical highs. Business surveys and job vacancies data indicate that strong demand for labour will continue in the near to medium term. Tight labour market conditions are therefore expected to persist in 2007-08 and 2008-09. Forecast employment growth of 2.0% in both years is nonetheless somewhat below the average of 3.0% recorded over the past five years, but continues to be constrained by labour supply.

The tightness of the labour market also means that Western Australia is experiencing wages growth that is strong by historical standards, although fairly contained given the strength of labour demand. The Wage Price Index is forecast to increase by 4.25% in 2007-08 and 4.0% in 2008-09.

Exceptional price rises for fruit and automotive fuel generated strong growth in the Consumer Price Index (CPI) both nationally and in Perth in 2006. Perth's inflation was further boosted by its rapidly rising house prices, which were the main reason for the gap between CPI growth of 4.5% for Perth and 3.5% nationally over 2006. Growth in Perth's CPI over 2007-08 is forecast to ease to 3.0%, as house price growth tails off and the price spikes for fuel and food in 2006 disappear from the annual inflation rate.

Economic growth over the medium term is forecast to be steadier than the exceptionally strong growth of recent years, but the overall outlook remains very positive, with solid GSP growth, contained inflation, and low unemployment. There are risks, however, that activity could slow more sharply if commodity markets and prices or the housing market are weaker than expected. Further information on these risks and on the State's economic outlook can be found in Chapter 6: *The Western Australian Economy*.

Table 2

### MAJOR ECONOMIC AGGREGATES

Western Australia

	2005-06 Actual <sup>(a)</sup> %	2006-07 Estimated Actual %	2007-08 Budget Estimate %	2008-09 Forward Estimate %	2009-10 Forward Estimate <sup>(d)</sup> %	2010-11 Forward Estimate <sup>(d)</sup> %
Real Gross State Product Growth <sup>(D)</sup>	4.9	6.0	4.5	5.0	4.5	4.5
Real State Final Demand Growth <sup>(b)</sup>	10.9	5.5	3.0	2.5	4.75	4.75
Nominal State Final Demand Growth	15.8	10.5	5.5	5.0	7.25	7.25
Employment Growth	4.4	2.25	2.0	2.0	2.5	2.5
Unemployment Rate	4.1	3.0	3.25	3.5	4.75	4.75
Wage Price Index Growth <sup>(c)</sup>	4.5	4.5	4.25	4.0	3.5	3.5
Average Weekly Earnings Growth <sup>(c)</sup>	4.8	6.75	4.75	4.25	4.0	4.0
Consumer Price Index Growth	4.3	4.25	3.0	2.75	2.5	2.5

Forecast notes:

(a) Gross State Product (GSP) and State Final Demand data based on 2005-06 State Accounts data, released in November 2006 (ABS Catalogue Number 5220.0); all other data based on other various ABS data sources.

(b) Real (chain volume) terms - abstracts from price effects.

(c) 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).

(d) Forward estimates for 2009-10 and 2010-11 are not forecasts, but projections based on long-run averages.

Other notes: Currency exchange rates and interest rates assumed to be constant over the forecast period. Population growth assumptions are based on the Commonwealth Treasury's GST payment projections for all States and Territories, as well as long-term historical growth rate averages (for the outyears).

# Fiscal Strategy and Financial Projections

### Overview

Western Australia's public sector finances are projected to remain in a strong position for the foreseeable future. In 2007-08, a general government operating surplus of \$1,453 million is forecast, following an expected \$1,853 million surplus for 2006-07. The lower surplus for 2007-08 mainly reflects the impact of an anticipated softening in the residential property market, as well as the cost of further tax relief (\$433 million in 2007-08, and a total of \$2.1 billion over the four years to 2010-11).

Although the State is expecting a significant penalty (\$1.4 billion by 2010-11) from a declining share of national GST revenue as a result of the lagged Commonwealth Grants Commission process, surpluses are in prospect across the forward estimates period. These surpluses provide capacity for the Government to continue a substantial level of infrastructure investment, with the Capital Works Program worth a record \$21.6 billion over the next four years.

While net debt levels are projected to rise, the net debt to revenue ratio for the total non-financial public sector -a key measure for the State's credit rating assessment - is forecast to remain comfortably below the Government's target limit, reaching a maximum 38.0% by 2010-11.

The 2007-08 Budget also accommodates a range of new policy initiatives, addressing significant issues such as:

- housing affordability, with a suite of initiatives targeting public and community housing and innovative financing through shared equity arrangements;
- climate change, including a number of cross-agency initiatives that support the public sector, industry and the community in reducing the environmental impact of day-to-day activity;

- child protection, with the Government's response to the recommendations of the Ford Review Report, including the establishment of the new Department for Child Protection from 1 May 2007;
- implementation of major reforms recommended by the Skills Formation Taskforce to improve the quality, flexibility and responsiveness of the apprenticeship and traineeship system in Western Australia;
- improved customer service through the modernisation of vehicle licensing services; and
- a provision to develop new water sources, with \$750 million factored into the estimates for the impact of this significant decision currently before the Government.

These and other features of the 2007-08 Budget are expected to be accommodated within the Government's financial targets, although as previously reported, general government expense growth in 2006-07 is expected to exceed the target rate of growth.

The remainder of this chapter details the financial targets and projections underpinning this budget, and outlines a range of risks which may impact the outlook in the near-to-medium term.

### Fiscal Strategy

The Government's financial strategy is firmly based on achieving general government surpluses sufficient to maintain a Capital Works Program that meets the State's needs for essential social and economic infrastructure, while containing net debt to affordable and sustainable levels.

### **Financial Targets**

The Government's financial targets for the 2007-08 Budget remain unchanged from those included in the last two budgets. 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.

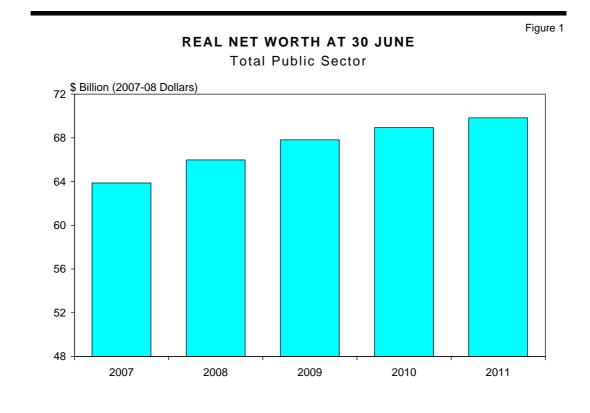
These targets assist the Government in achieving its financial strategy, providing a framework to manage the competing demands for services, publicly funded infrastructure, and tax relief. The outlook for each of these targets, based on the 2007-08 Budget projections, is described below.

### 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 is determined by total assets less total liabilities. Positive (and growing) net worth means that the Government has more assets under its control than liabilities it must satisfy in the future. This is the most comprehensive measure of the strength of the State's balance sheet.

In nominal terms, net worth is projected to steadily rise from \$62 billion at 30 June 2007 to almost \$75 billion by 30 June 2011. This increase mainly reflects the impact of general government operating surpluses across the forward estimates period.



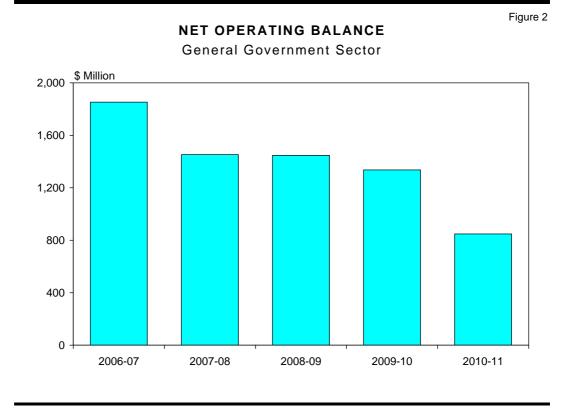
# **Operating Balance: Achieve an Operating Surplus for the General Government Sector**

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

The operating balance is the difference between income and expenses for the year. It is measured in accrual terms (i.e. it includes non-cash costs such as accruing superannuation entitlements and depreciation), and provides an indication of the financial sustainability of recurrent services and overall public sector operating performance.

An operating surplus indicates that current services for a given period can be fully funded using revenue earned in that period. An operating deficit indicates a borrowing requirement exists to meet current services. Where surpluses are achieved, these funds form a key source of non-debt funding for infrastructure investment, easing the burden of debt growth into the future.

The general government sector is expected to achieve an operating surplus of \$1,853 million in 2006-07, before declining to \$1,453 million in 2007-08 and \$848 million by the end of the forward estimates period.



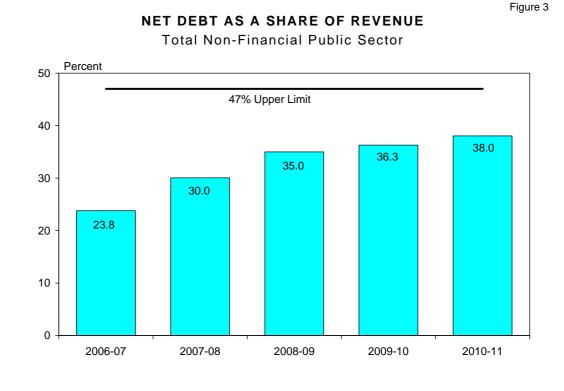
These outcomes reflect current strong conditions in the Western Australian economy, which have boosted tax collections and mining revenue. The surplus is expected to steadily ease over the forward estimates as economic conditions begin to moderate and as the Government's tax relief measures take full effect.

Compounding this are forecast reductions in the State's share of national GST revenue as a result of the lagged Commonwealth Grants Commission process. In annual terms, this will cost the State an estimated \$1.4 billion by 2010-11, reflecting the State's projected lower share of GST grants (7.5% in 2010-11) relative to our 2006-07 share (10.1%).

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

This target is expected to be met in each year of the forward estimates period. It is a key measure in assessing the affordability and sustainability of net debt. The ability to adequately service debt while also providing essential infrastructure is a key determinant of the annual credit rating assessment.

The net debt to revenue ratio is expected to remain comfortably below the Government's 47% upper limit, with a forecast maximum of 38.0% in prospect by 2010-11.

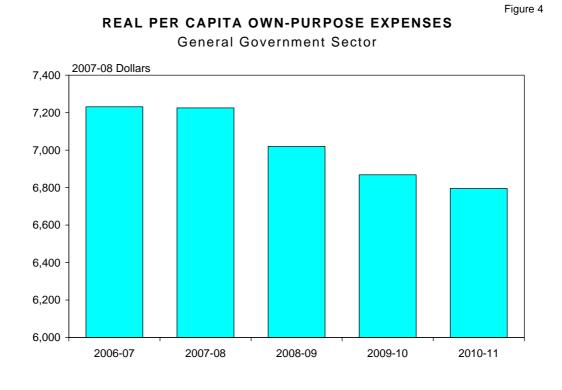


These outcomes highlight the importance of operating surpluses in generating non-debt funding for the Government's Capital Works Program. Importantly, these projections include the full non-debt funding of the \$1.09 billion Fiona Stanley Hospital, and also accommodate a \$750 million provision to develop new water sources from 2008-09, as well as ongoing spending on electricity, water, sewerage and other key infrastructure projects.

### **Retain Triple-A Credit Rating – Ensure that Real Per Capita Own-Purpose Expenses for the General Government Sector do not Increase**

This target is projected to be met in each of the forward estimate years (2007-08 to 2010-11). Consistent with estimates at the time of the 2006-07 Budget and mid-year review, this target will not be met in 2006-07.

This target is a broad measure of expenditure growth under the direct control of the Government, and excludes changes in spending due to Commonwealth tied grants, inflation and population growth.



The forward estimates assume an easing in expense growth from 2006-07 levels, with expenses forecast to grow by 4.6% in 2007-08 and an average of 3.1% per annum across the outyears. This reflects a number of factors, including:

- a range of significant one-off factors in 2006-07, such as an \$88 million expense associated with the sale of the Dampier to Bunbury Natural Gas Pipeline<sup>1</sup>;
- removal of Capital User Charge arrangements with the Public Transport Authority from 1 July 2007, following passage of the *Financial Management Act 2006* (\$182 million in 2007-08); and

<sup>&</sup>lt;sup>1</sup> Under the arrangements at the time of the sale, the Government provided assistance in the form of a loan, which would be extinguished when commitments regarding expansion of the pipeline were satisfied. These commitments, and the associated expense removing the loan asset in the State's Government Finance Statistics balance sheet, are expected to be met by 30 June 2007.

• a general easing in cost and demand pressures as economic conditions begin to moderate to more 'normal' levels.

### Tax Competitiveness: Maintain Western Australia's Tax Competitiveness, as Measured by Maintaining Tax Revenue as a Share of Gross State Product Below the Average of the Other States

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

Tax as a proportion of gross State product (GSP) is considered to be a better measure of tax competitiveness than tax per capita because the latter ignores the impact of differences in the size and composition of each State's economy on taxes. Furthermore, tax as a proportion of the economy is the internationally recognised measure of tax competitiveness.

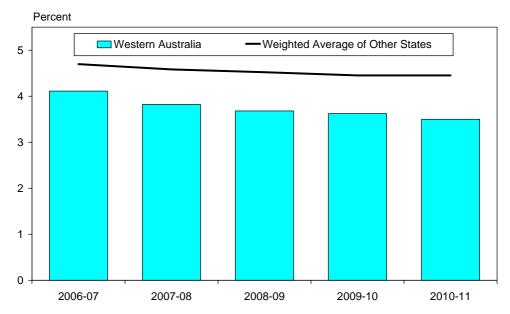
Maintaining a competitive tax environment in Western Australia is a priority for the Government, which has announced tax relief in each year since 2004-05. This includes a number of tax relief measures arising from the current State Tax Review, both this year and last.

Based on a comparison with the latest estimates published by other States, Western Australia's tax to GSP ratio is currently well below the average of the other States, and is expected to remain so over the budget period. Indeed, Western Australia's ratio is estimated to be the second lowest of all States in 2006-07 (after Tasmania), and is projected to become the lowest of all States by 2007-08, and to remain the lowest over the outyears.

### TAX COMPETITIVENESS

Figure 5

General Government Taxation Revenue as a Share of GSP (a)



(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**

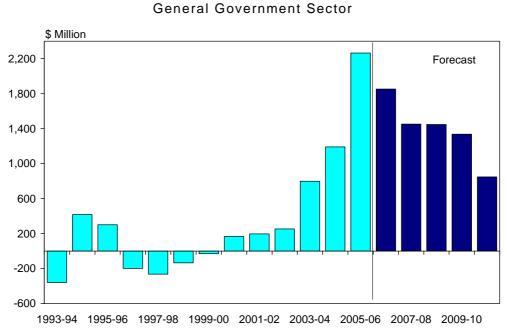
### Summary

Reflecting the strength of Western Australia's economic conditions, the general government sector is forecast to record strong operating surpluses in each year of the forward estimates period.

A surplus of \$1,453 million is projected for 2007-08, with broadly similar surpluses in prospect for 2008-09 and 2009-10. With economic conditions expected to moderate, and the expected penalty flowing from the lagged Commonwealth Grants Commission process, the surplus is forecast to ease back to around \$850 million by the end of the forward estimates period.

A surplus of \$1,853 million is expected for 2006-07, up from the \$1,739 million estimate contained in the December 2006 mid-year review, and following the record \$2,265 million surplus recorded in 2005-06.

The impact of the State's strong economy is reflected in the operating surplus outcomes shown in the following chart.



NET OPERATING BALANCE

19

Figure 6

These outcomes reflect the effect on revenue of recent boom conditions, including the impact on tax collections from on-going strength in the Western Australian economy and the impact on royalties from strong commodity prices such as iron ore, nickel and oil.

The operating surpluses delivered to date by the Government, and those forecast in this budget, provide an opportunity to deliver a record \$21.6 billion Capital Works Program over the forward estimates period. This includes commencement of the new \$1.09 billion Fiona Stanley Hospital, with construction to be funded from the 2006-07 surplus without any requirement for borrowings.

At the same time, the general government sector is forecast to remain net debt-free across the forward estimates period, with a net asset position averaging \$2.4 billion. This is a turnaround of almost \$3 billion since the Government came to office in 2001.

The following table summarises the financial outlook for the general government sector.

Table 1

<b>GENERAL GOVERNMENT</b> Summary Financial Statements							
	innary Fi			115			
	2005-06	2006-07 Estimated	2007-08 Budget	2008-09 Forward	2009-10 Forward	2010-11 Forward	
	Actual \$m	Actual \$m	Estimate \$m	Estimate \$m	Estimate \$m	Estimate \$m	
OPERATING STATEMENT							
Revenue	16,207	17,278	17,593	18,008	18,357	18,529	
Expenses	13,942	15,425	16,141	16,561	17,021	17,681	
Net Operating Balance	2,265	1,853	1,453	1,447	1,336	848	
BALANCE SHEET							
Assets	68,053	72,247	76,057	79,594	82,497	85,101	
Liabilities	10,112	10,119	10,292	10,310	10,283	10,295	
Net Worth	57,941	61,128	65,765	69,284	72,214	74,807	
STATEMENT OF CASH FLOWS							
Change in net cash held	1,587	-452	-35	320	482	75	
Cash Surplus	2,301	1,030	220	556	609	268	
Memorandum Item: Net Debt	-2,737	-2,183	-1,903	-2,235	-2,699	-2,786	
Note: Columns may not add due to roundin	g.						

### **Operating Statement**

At \$1,853 million, the estimated general government operating surplus for 2006-07 is \$114 million higher than the estimate published in the 2006-07 mid-year review. This increase predominantly reflects a \$123 million upward revision to revenue, with expenses largely unchanged.

The upward revision to revenue in 2006-07 reflects:

- the continued strength of the property market, with a corresponding rise in stamp duty on property conveyances (up by a net \$131 million after the impact of tax relief announced in this budget) and mortgages (\$12 million), and higher motor vehicle taxes (up \$18 million, reflecting continuing growth in vehicle sales and registrations), partly offset by lower expectations for payroll tax (down \$40 million, largely reflecting the impact of monthly collections through 2006-07);
- an increase in mining revenue (up \$15 million, including North West Shelf petroleum royalties and lease rentals), mainly due to higher nickel prices, partly offset by downward revisions to production volumes for some commodities and a higher average exchange rate (which is now forecast to be US 79 cents for the remainder of the year, compared with an average of US 76.5 cents in the mid-year review);
- higher interest revenue (up \$14 million), due mainly to higher than expected cash balances through 2006-07; and
- a decrease in revenue from public corporations (\$52 million), due largely to lower than anticipated dividend and tax equivalent revenue from Western Power (Networks), reflecting temporary lower profitability arising from a delay in establishing the Network Access Arrangement (to be recouped in 2007-08) and an increase in operating expenditure to meet cost and demand pressures.

General government expenses for 2006-07 have increased by \$9 million since the mid-year review, with policy decisions totalling \$37.2 million, partially offset by a parameter-driven reduction in expenses of \$28.3 million<sup>2</sup>. These changes mainly reflect:

- the Government's December 2006 decision to establish a \$30 million Compensation Fund settlement package for victims of the Finance Brokers Scandal; and
- a change in the expected timing of grants by a number of agencies, particularly the Office of Native Title and the Department for Planning and Infrastructure, from 2006-07 to 2007-08 and later years.

Parameter movements include adjustments to financial aggregates that arise due to the timing of transactions, changes in the economic environment, and consequential interest and depreciation impacts, etc.

Table 2

Operating Statement							
	2005-06	2006-07 Estimated	2007-08 Budget	2008-09 Forward	2009-10 Forward	2010-11 Forward	
	Actual	Actual	Estimate	Estimate	Estimate	Estimate	
	\$m	\$m	\$m	\$m	\$m	\$m	
REVENUE							
Taxation	5,195	5,622	5,527	5,704	6,088	6,373	
Current grants and subsidies	6,890	7,131	7,272	7,296	7,398	7,410	
Capital grants	375	431	513	556	430	344	
Sales of goods and services	1,115	1,141	1,181	1,222	1,265	1,309	
Interest income	170	219	213	213	236	270	
Revenue from public corporations							
Dividends	534	445	441	448	495	550	
Tax equivalent payments	304	316	327	308	346	377	
Royalty income	1,184	1,555	1,815	1,982	1,793	1,613	
Other	440	418	304	279	306	282	
Total	16,207	17,278	17,593	18,008	18,357	18,529	
EXPENSES							
Gross operating expenses							
Salaries	5,694	6,098	6,436	6,745	7,045	7,390	
Depreciation and amortisation	591	662	710	748	772	796	
Superannuation	557	594	625	652	679	710	
Services and contracts	1,367	1,842	2,018	2,095	2,162	2,215	
Other	1,876	1,890	1,999	1,992	2,007	2,105	
Nominal superannuation interest	242	275	279	274	271	268	
Other interest	120	122	118	135	133	134	
Current transfers	3,007	3,393	3,464	3,471	3,564	3,694	
Capital transfers	487	548	492	449	387	368	
Total	13,942	15,425	16,141	16,561	17,021	17,681	
NET OPERATING BALANCE	2,265	1,853	1,453	1,447	1,336	848	
Note: Columns may not add due to rounding	ŀ.						

**GENERAL GOVERNMENT** 

The major factors affecting projections of the general government net operating balance since the 2006-07 mid-year review are outlined in the following table. A reconciliation is provided for both revenue and expenses, with the impact of policy decisions separately identified from parameter movements.

Table 3

### SUMMARY OF GENERAL GOVERNMENT REVENUE AND EXPENSE VARIATIONS SINCE THE 2006-07 MID-YEAR REVIEW

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
2006-07 MID-YEAR REVIEW – NET OPERATING BALANCE	1,739	1,438	1,195	912	
Revenue					
Policy Decisions	44.0	400.0	404.5		5047
Taxation relief Comprising:	-11.0	-433.3	-484.5	-545.5	-594.7
<ul> <li>Increase in first home buyer exemption threshold</li> </ul>	-11.0	-80.1	-83.3	-89.7	-96.5
- Raise Motor Vehicle Duty thresholds (from 1 July 2007)	-	-27.3	-31.1	-32.9	-34.9
- Raise Motor Vehicle Duty thresholds (from 1 Jan. 2008)	-	-	-11.4	-28.9	-30.6
- Caravan exemption from Motor Vehicle Duty	-	-7.1	-8.1	-8.6	-9.1
- Single Motor Vehicle Duty for all heavy vehicles	-	-1.8	-2.0	-2.0	-2.0
- Reform of Land Tax and MRIT Scales - Aged care provider exemption from Land Tax	-	-316.0 -1.0	-347.6 -1.0	-382.4 -1.0	-420.6 -1.0
All other policy decisions <sup>(a)</sup>	1.7	8.7	9.3	9.3	9.4
Total Policy	-9.3	-424.6	-475.2	-536.2	-585.3
Parameter					
Taxation	127.3	487.2	522.7	627.3	
Comprising:					
- Payroll Tax	-39.9	-23.2	-14.5	6.4	
- Land Tax/MRIT	-	328.6	373.9	426.2	
- Conveyance Duty	142.0	118.8	110.4	129.1	
- Mortgage Duty - Motor Vehicle Taxes	11.8 18.5	14.1 46.0	1.4 49.3	0.4 63.3	
- All other taxes	-5.1	2.9	2.2	1.8	
Commonwealth grants					
- North West Shelf royalties	1.7	49.2	136.5	249.0	
- GST revenue grants	37.4	15.3	-25.8	-117.8	
- All other Commonwealth grants <sup>(b)</sup>	-31.9	61.5 258.9	51.5	88.4	
Mining royalties/lease rentals Interest income	13.4 13.8	256.9	502.6 40.8	415.3 90.5	
Agency sales of goods and services	8.5	12.4	24.4	37.7	
Revenue from public corporations	-52.4	-25.6	-87.1	-17.0	
Removal of Capital User Charge for PTA	-	-181.9	-186.5	-191.2	
Other	14.2	5.9	6.4	7.0	
Total Parameter	132.0	696.4	985.5	1,189.1	
TOTAL REVENUE	122.7	271.9	510.3	652.8	
Expenses					
Policy Decisions <sup>(c)</sup>	37.2	136.4	195.7	201.8	220.1
Parameter					
Salaries (excluding policy decisions)	51.2	89.7	102.0	105.2	
Superannuation (excluding policy decisions) Depreciation	5.1 13.2	12.1 30.8	7.9 40.2	7.9 44.2	
Grants and subsidies	-64.9	-97.3	-142.8	-158.4	
Comprising:					
- Agricultural grants	3.7	22.3	12.0	10.0	
- Health grants	2.6	25.8	28.4	25.9	
- Native Title grants	-23.6	10.5	13.1	-1.9	
<ul> <li>Planning and Infrastructure grants</li> <li>Sport and Recreation grants</li> </ul>	-28.7 -1.2	-1.7	1.7 -23.3	2.3 0.9	
- Removal of Capital User Charge for PTA	-	-181.9	-186.5	-191.2	
- All Other grants and subsidies	-17.7	27.7	11.8	-4.3	
Main Roads expense/capitalisation charge	-19.9	16.6	46.2	41.8	
Other Tate / Deveryon	-13.0	68.9	9.4	-14.0	
Total Parameter	-28.3	120.9	62.9	26.6	
TOTAL EXPENSES	~ ~ ~	257.2	258.7	228.4	
	8.9				
TOTAL VARIANCE	8.9 113.8 <b>1,853</b>	14.6	251.6	424.4 1,336	

(a) Includes new fees in relation to Water Licence Applications and Tobacco Licensing.
(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 at Table 4.

Note: Columns may not add due to rounding.

Expense policy decisions taken since the 2006-07 mid-year review are summarised by agency in Table 4. Further information on these initiatives is contained in Chapter 4: *General Government Expenses*.

# SUMMARY OF EXPENSE POLICY DECISIONS BY AGENCY SINCE THE 2006-07 MID-YEAR REVIEW

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Agriculture and Food	-	1.0	1.2	1.2	1.2
Attorney General	-	0.2	0.3	0.2	1.1
Child Protection	0.8	18.2	25.7	26.0	42.4
Communities	-	2.3	1.7	1.8	1.9
Consumer and Employment Protection	30.7	0.7	0.3	-	-
Department of Corrective Services	1.3	3.7	6.7	7.1	7.5
Education and Training	0.1	3.6	3.5	2.4	2.5
Environment and Conservation	1.4	4.6	12.9	11.9	12.3
Fire and Emergency Services Authority	-	1.2	1.2	1.2	1.2
Fisheries	0.1	-	-	-	-
Health	0.8	20.7	30.4	33.2	36.3
Housing and Works	-	44.3	68.9	69.0	69.4
Indigenous Affairs	-	0.6	0.6	0.6	0.6
Office of Energy	-	4.5	7.8	10.0	8.4
Planning and Infrastructure	1.1	17.2	15.9	21.1	17.8
Police Service	-0.1	1.6	2.7	1.8	2.4
Premier and Cabinet	0.1	0.2	0.2	0.2	0.2
Public Transport Authority <sup>(a)</sup>	-	2.2	0.6	1.2	1.8
Small Business Development Corporation	-	0.8	0.8	-	-
Sport and Recreation	0.8	0.3	0.3	0.3	0.3
Treasury and Finance	-	3.0	3.0	3.0	3.0
Western Australian Electoral Commission	-	-	5.0	-	-
Water and Rivers Commission	-	4.8	4.8	4.1	4.4
Western Australian Land Authority <sup>(a)</sup>	-	0.7	1.3	5.5	5.5
TOTAL	37.2	136.4	195.7	201.8	220.1

(a) Represented as general government expenses of Treasury and Finance as grants and subsidies from the Consolidated Account to these public corporations.

The following sections summarise movements in revenue and expenses for the budget projection period (2007-08 to 2010-11). A more detailed analysis is contained in Chapters 3 and 4.

### Revenue

Total operating revenue in the general government sector is estimated to be \$17.6 billion in 2007-08, an increase of \$316 million (or 1.8%) on the estimated outturn for 2006-07. This follows strong growth over the past three years.

Mining revenue<sup>3</sup> (up \$290 million) and specific purpose payments (SPPs) from the Commonwealth (up \$200 million) are the main drivers of growth in 2007-08. Sales of goods and services (up \$40 million) and revenue from public corporations (up \$7 million) also contribute to the increase in revenue in 2007-08.

<sup>&</sup>lt;sup>3</sup> Includes territorial mining royalties, North West Shelf petroleum royalties (which are classified as a Commonwealth grant reflecting the Commonwealth's constitutional responsibility for offshore areas) and lease rentals.

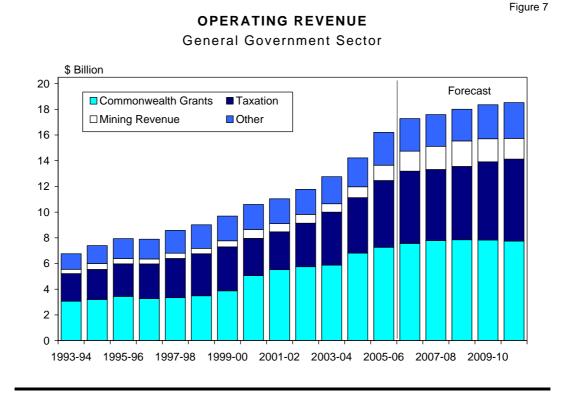
The strong growth in mining revenue is underpinned by an increase in key commodity prices (most notably an increase in iron ore prices of 9.5% and a higher average nickel price). The increase in SPPs is strongest in health payments (due to indexation), project-based road grants, and recurrent Commonwealth payments to private schools.

Increases in revenue from mining royalties and SPPs more than offset forecast declines in taxation revenue, GST revenue, interest income and 'other' revenue.

Taxation revenue is expected to decline by \$95 million (or 1.7%) in 2007-08, including the impact of the tax relief measures announced in this budget. In the absence of tax relief, taxation revenue would have increased by an estimated 5.8% (including strong growth in land tax that would have occurred in the absence of the revised scale). Softer conditions in the residential property market (including flat house prices and a 10% decline in turnover) also contribute to the decline. This underpins lower projected outcomes for conveyance duty and mortgage duty (with this latter tax abolished from 1 July 2008).

GST revenue is expected to drop by \$9 million (or 0.2%) in 2007-08, with a reduction in Western Australia's share of the national GST pool more than offsetting growth in that pool (6.4%).

Total operating revenue is expected to increase by an average of 1.7% per annum over the outyears. This modest rate of growth reflects the combined impact of a continuing decline in Western Australia's share of national GST revenue, and projected declines in most commodity prices (including iron ore prices) as global supply increases in response to current high prices.



By 2010-11, Western Australia's GST grant revenue is expected to be around \$1.4 billion lower than it would be if the State's 2006-07 share of the national pool was maintained.

#### Table 5 IMPACT OF PROJECTED COMMONWEALTH GRANTS COMMISSION RELATIVITIES ON WESTERN AUSTRALIA'S GST GRANTS

	2007-08 Budget Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	2010-11 Forward Estimate \$m	
Impact on General Government Operating Revenue	-291	-655	-976	-1,366	

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 2010-11, it is estimated that the State's GST revenue in that year would be \$1,366 million higher than currently forecast.

Detailed information on the revenue estimates, including the tax relief measures introduced in this budget, is contained in Chapter 3: *General Government Revenue*.

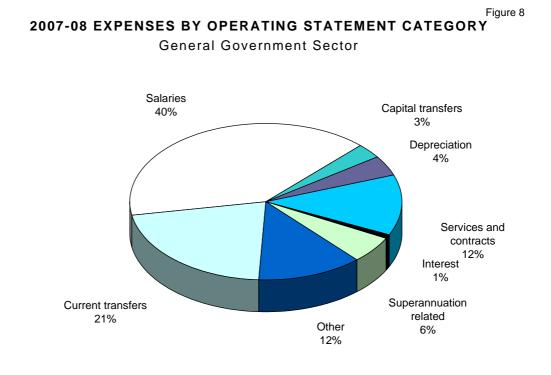
### Expenses

At \$16.1 billion, general government expenses are forecast to rise by \$716 million (or 4.6%) in 2007-08 compared with the expected outturn for 2006-07.

Expense growth averaging 3.5% per annum is forecast across the entire forward estimates period. These annual rates of growth are consistent with the Government's financial target to limit growth in expenses (discussed earlier) and, although delayed by implementation issues, incorporate the impact of shared corporate service savings of around \$55 million per annum from 2009-10.

Since the 2006-07 mid-year review was finalised, Government decisions have added around \$791 million to expenses over the years 2006-07 to 2010-11 (detailed in Tables 3 and 4, and discussed further in Chapter 4: *General Government Expenses*).

As illustrated in the following chart, salaries (at 40%) are the largest single item of general government expenses. The Departments of Health (\$2.1 billion) and Education and Training (\$1.9 billion), and the Police Service (\$0.5 billion) account for 70% of the sector's salaries costs in 2007-08.



TOTAL EXPENSES = \$16,141 MILLION

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

In 2007-08, salaries expenditure is forecast to increase by \$338 million (or 5.5%). This rate of growth incorporates:

- wage rises under Enterprise Bargaining Agreements (EBAs) that have been finalised since the 2006-07 Budget, particularly for police officers, teachers, liquor, hospitality and miscellaneous workers, and general public servants;
- the Government's current offer to other key service delivery personnel, such as firefighters; and

• an increase in the number of employees required to deliver new initiatives (outlined in more detail in Chapter 4: *General Government Expenses*).

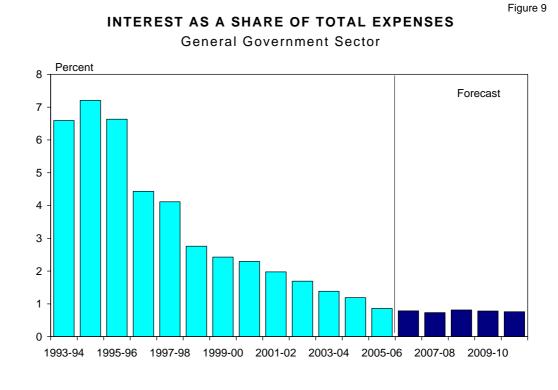
In 2008-09 and beyond, salaries expenses are projected to grow by around 4.7% per annum, underpinned by growth in both employee numbers and wage rates.

Associated with salaries costs, concurrent superannuation expenses (the accruing employer contributions for current employees) are projected to grow in line with wages, accounting for increases of around \$30 million per year over the period to 2010-11.

Nominal superannuation interest (the cost of carrying unfunded superannuation liabilities on the balance sheet) is forecast to marginally decline from 2007-08, reflecting projections of unfunded superannuation liabilities on the general government balance sheet. Given that the overwhelming majority of superannuation for current employees is fully funded, this expense will continue to decline over the longer term.

Following estimated growth of 12.0% in 2006-07, depreciation expenses (the annual cost of consumption of the useful life of an asset) are forecast to grow by a further 7.2% in 2007-08 and steadily rise in the outyears. This significant rate of growth reflects the substantial increase in infrastructure spending over recent years (in areas such as health, education and training, law and order, and roads), along with the impact of upward revaluations of buildings and other fixed assets over the last year.

At \$118 million, interest expenses account for just 0.7% of total expenses in 2007-08. Across the outyears, this proportion is forecast to remain steady at 0.8%. These are historically low levels for debt servicing costs and reflect lower borrowing requirements in an environment of strong surpluses, and the impact of Government decisions over the past three years to consistently apply surplus cash to retire debt. In total, the Government's debt management decisions have delivered savings of around \$150 million per year in general government-supported debt servicing costs.



Services and contracts expenses are forecast to rise by \$175 million (or 9.5%) in 2007-08, with just under half of this increase accounted for by building and maintenance spending undertaken by the Department of Housing and Works on behalf of other public sector agencies. Spending on Waste Management Recycling by the Department of Environment and Conservation (backed by increases in own-source revenue), the Collie River Salinity Recovery project by the Water and Rivers Commission (funded by both the Commonwealth and the Water Corporation), and road network maintenance account for a further \$60 million of this increase.

Across the outyears, service and contracts expenses are forecast to grow by around 3.2% per annum, broadly in line with expectations of inflation.

A large portion of the day-to-day non-labour costs of agencies is included in the spending aggregate 'other gross operating expenses'. Such items include purchases of supplies and consumables, advertising, accommodation and communication. These are forecast to grow by around 2.7% per annum on average over 2007-08 and the outyears, broadly in line with projected price growth.

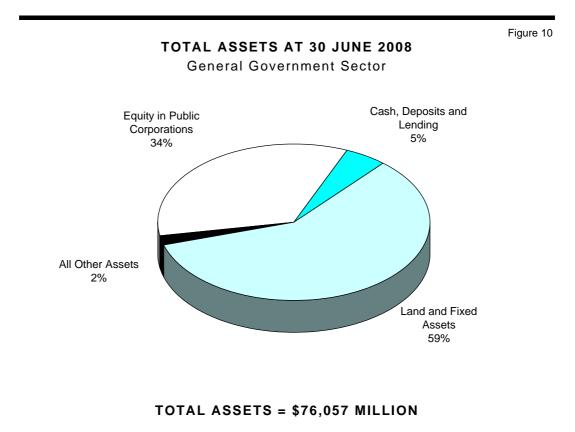
Current and capital transfers (mainly grants and subsidies) are forecast to account for around 25% of total general government expenses in 2007-08 and are the second largest component of total expenses (after salaries). In 2007-08:

- current transfers are projected to rise by \$71 million (or 2.1%) to \$3,464 million, including:
  - higher grants to the Housing Authority (up \$48 million), mainly reflecting part of the Government's housing affordability package announced as part of this budget (further details are provided in Chapter 4: *General Government Expenses*);
  - an increase in Commonwealth grants on-passed 'through' the State to non-government schools and local governments (up \$45 million and \$5 million, respectively);
  - the provision of grants by the Departments of Health (up \$36 million) for home and community care services, Industry and Resources (up \$23 million) for science and innovation, and the Office of Native Title (up \$22 million) for native title agreements;
  - a rise in the amount of funding provided to public corporations in the form of Community Service Obligations (CSOs), up \$22 million. This reflects higher subsidies (due to rising costs) to the Water Corporation for country water, sewerage and drainage operations, and higher support for pensioner and senior concessions. CSO payments to Horizon Power are also expected to increase (by around \$8.5 million) due to the full-year impact of costs associated with Stage 1 of the Aboriginal and Remote Communities Project; and
  - lower grants to the Public Transport Authority (PTA), down \$82 million, reflecting the end of Capital User Charge (CUC) arrangements from 1 July 2007. Abstracting from changes in CUC arrangements, grants to the PTA are up \$49 million (or 9.3%), due predominantly to increased spending on Transperth feeder services for the Southern Suburbs Railway component of the New MetroRail project, higher fuel costs, and an increase in depreciation related to the commissioning of rail infrastructure; and
- capital transfers are forecast to total \$492 million in 2007-08, \$55 million (or 10.1%) lower than the expected outturn for 2006-07. Grants to the Housing Authority (under the Commonwealth-State Housing Agreement), for local government roads, and for the First Home Owner Grants scheme account for around 70% of total capital transfers in 2007-08 and are expected to grow by an aggregate \$12 million (or 3.7%). Offsetting this growth is the impact of a one-off grant in 2006-07, extinguishing the loan associated with financial assistance arrangements extended to the purchasers of the Dampier to Bunbury Natural Gas Pipeline (as outlined earlier).

#### **Balance Sheet**

General government sector net worth is projected to increase from an estimated \$62 billion at 30 June 2007 to almost \$75 billion at 30 June 2011.

Total assets are forecast to increase by an average of \$3.2 billion per annum. This largely reflects increases in the stock of land and fixed assets (i.e. buildings, roads and other infrastructure) with significant infrastructure investment underway across the sector as part of the Government's Capital Works Program. Equity holdings in public corporations (the general government sector's ownership in agencies such as Synergy, Horizon Power, Verve Energy and Water Corporation) are expected to increase at an average \$1.1 billion annually, reflecting growth in the value of fixed asset holdings.



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

General government liabilities remain relatively steady over the period 30 June 2007 to 30 June 2011, rising from \$10.1 billion to \$10.3 billion over this period.

Unfunded superannuation liabilities (which make up around 55% of total liabilities in the general government sector) are forecast to gradually decline over the forward estimates period. This reflects the full concurrent funding of the West State Super scheme, the only public sector superannuation scheme still open to new members.

Lower superannuation liabilities are expected to be more than offset by increases in provisions for accrued leave (mainly reflecting valuation changes due to wage growth) and forecasts of accounts payable (which are largely related to the timing of payments).

General government sector net debt is discussed later in this chapter.

## **Cash Flow Statement**

Cash surpluses are projected in each year of the forward estimates. Following record cash surpluses in recent years, the 2007-08 cash surplus is projected to be \$220 million. The projected cash surpluses are smaller than recent years, reflecting the easing in operating surplus projections while capital spending remains at high levels.

Net cash flows from operating activities (i.e. day-to-day operations of agencies) are projected to be in a surplus position throughout the forward estimates period.

Purchases of non-financial assets (i.e. the acquisition of fixed assets) are expected to increase from \$1.7 billion in 2006-07 to a record high of \$2.1 billion in 2007-08. Details of spending on fixed assets can be found later in this chapter (see Capital Investment) and in Chapter 5: *Capital Investment*.

## **Total Public Sector**

## Summary

The total public sector consolidates the general government sector, the public non-financial corporations (PNFC) sector and the public financial corporations (PFC) sector. The general government sector is primarily funded from central revenue such as taxes, royalties and Commonwealth grants, while the PNFC and PFC sectors include market-based agencies that seek to recover costs through user charges.

The total public sector brings the finances of all State agencies into a single set of financial statements and is relevant when considering overall net debt levels and the strength of the public sector balance sheet.

The following table provides summary financial outcomes for the total public sector.

Table 6

Summary Financial Statements								
	2005-06 Actual \$m	2006-07 Estimated Actual \$m	2007-08 Budget Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	2010-11 Forward Estimate \$m		
OPERATING STATEMENT Revenue	22,575	23,296	24,209	25,068	25,711	26,201		
Expenses Net Operating Balance	19,965 <b>2,610</b>	21,347 <b>1,949</b>	22,690 <b>1,519</b>	23,528 <b>1,540</b>	24,364 <b>1,347</b>	25,266 <b>936</b>		
BALANCE SHEET Assets Liabilities Net Worth	84,344 26,403 <b>57,941</b>	88,605 26,478 <b>62,128</b>	93,007 27,242 <b>65,765</b>	97,715 28,431 <b>69,284</b>	101,539 29,325 <b>72,214</b>	104,420 29,613 <b>74,807</b>		
STATEMENT OF CASH FLOWS Change in net cash held Cash Surplus	735 1,064	-490 -626	-56 -1,342	516 -994	533 -450	138 -572		
Memorandum Item: Net Debt	3,179	4,208	5,799	7,199	7,645	8,191		
Note: Columns may not add due to rounding	<b>]</b> .							

## TOTAL PUBLIC SECTOR Summary Financial Statements

The total public sector is expected to record operating surpluses across the entire forward estimates period, largely reflecting the general government surpluses outlined earlier in this chapter.

The net worth of the total public sector is projected to increase in each year of the forward estimates. This is consistent with the projected surplus outcomes and is reflected in the growing value of the sector's assets.

Total public sector net debt is projected to rise over the forward estimates period, reaching around \$8.2 billion by 30 June 2011. Investment in infrastructure is the key driver of this growth. However, net debt will remain at sustainable levels with the net debt to revenue ratio rising to a maximum 38.0% by 2010-11, well below the Government's 47% target limit.

## **Public Non-Financial Corporations**

The PNFC sector is expected to record near-balance results in 2006-07 (\$5 million operating surplus) and 2007-08 (\$2 million operating deficit), with a projected surplus of \$55 million by 2010-11.

For 2007-08 and beyond, goods and services revenue (the major source of the sector's income) is expected to grow at an average annual rate of around 6.4%, reflecting the impact of demand for services and, to a lesser extent, increases in electricity prices for large business customers.

Expenses are forecast to grow by an average annual rate of 4.9% from 2007-08, due in part to higher depreciation costs following significant revaluation over the last year, higher interest costs related to borrowings for the Capital Works Program, and higher operating costs for Verve Energy (due mainly to increases in projected fuel and maintenance costs).

Net worth of the PNFC sector is forecast to rise over the forward estimates period. This mainly reflects the higher value of fixed assets across the forward years.

Key economic infrastructure investment (discussed in more detail below and in Chapter 5: *Capital Investment*) will continue at high levels in line with projections for the Capital Works Program. Accordingly, the sector is expected to record cash deficits of between \$0.9 billion and \$1.7 billion across the forward estimates period.

## **Public Financial Corporations**

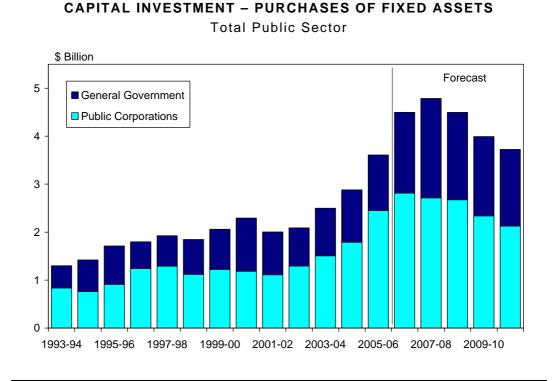
Operating surpluses of \$91 million and \$69 million are projected for 2006-07 and 2007-08 respectively, with further surpluses projected across the outyears. Revenue growth averaging around 2.5% per year across the forward estimates includes a general price increase in Compulsory Third Party insurance rates.

## **Capital Investment**

Infrastructure investment is an integral component of the Government's budget and economic strategy, with strong surpluses from booming economic conditions being utilised to support record capital spending. The Government is continuing to invest heavily in hospitals, schools, water, power, public housing, roads, and other transport infrastructure as part of this budget.

In 2007-08, the State's spending on fixed assets is projected to be a record \$4.7 billion, an increase of \$260 million from the estimated outturn for 2006-07. A combination of internally generated funds (i.e. operating surpluses, sales of second hand assets and cash holdings) and new borrowings is expected to fund this spending.

Figure 11



Significantly, the forward estimates include spending on the new Fiona Stanley Hospital (with construction to commence in 2008, and project completion in 2012-13) and a provision to develop new water sources.

In relation to the Fiona Stanley Hospital, the Government has set aside the cash surplus from 2006-07 to fully fund this significant health reform asset. This represents a tangible benefit from the State's boom conditions and follows the 2006-07 Budget announcement of the full debt-free funding of the New MetroRail project, which will commence service in early 2007-08.

With new water sources under consideration by Government, a provision of \$750 million has been incorporated in this budget. The Government has not yet made a decision on future major water sources, but it is prudent to make a provision in the forward estimates given that the issue will need to be addressed in the near term.

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

- electricity transmission, distribution and generation (\$3,059 million, including enhancements to the transmission network for private sector power generators and to supply new loads, increased distribution capacity for customers, and works to increase efficiency, reliability and environmental targets of generators);
- water and wastewater services (\$2,688 million, including Australia's first groundwater replenishment trial and the Alkimos, Beenyup and East Rockingham Wastewater Schemes);

- road construction and maintenance (\$1,754 million, including construction of the New Perth-Bunbury Highway, improvements to the Great Northern Highway, extension of the Mitchell Freeway and construction of the Karratha-Tom Price Link Road);
- public housing (\$1,610 million, including the First Start Shared Equity Scheme, a key part of the Government's housing affordability initiatives in this budget);
- the health sector (\$1,318 million, including major projects such as the construction of the Central Tertiary Hospital, Swan Health Campus and the redevelopment of the Rockingham/Kwinana Hospital);
- government schools and TAFE colleges (\$800 million);
- public transport (\$598 million, including the acquisition of railcars and buses);
- law and order (\$575 million, with major projects including the relocation of the Perth Police Complex, CBD Courts construction, Central Law Courts refurbishment and Stage 1 of the Kimberley Prison and Work Camp); and
- port investment (\$430 million, including works on the Outer Harbour, the North Quay berth upgrades and improvements to the Kwinana Bulk Jetty).

## **Net Debt**

The Government has substantially contained net debt growth in recent years, applying significant surplus funds to reduce existing borrowings or to avoid new borrowings altogether.

As part of last year's budget, the Government used 2005-06 surplus cash to fully fund the New MetroRail project (repaying existing borrowings and avoiding remaining borrowing requirements), leaving this \$1.6 billion project free of any debt.

The Government is continuing to apply windfall surpluses from the current boom to the benefit of the State's balance sheet. In this regard, \$1.09 billion of the 2006-07 cash surplus has been set aside for the full debt-free funding of the new Fiona Stanley Hospital. Construction of this key health reform asset commences in 2008 and is scheduled to be completed by 2012-13.

These initiatives significantly benefit the State's finances by reducing exposure to interest rate risk and increase the public sector's capacity to borrow when required in the future.

#### **Total Public Sector**

The following table summarises net debt by sector over the forward estimates period.

Table 7

	S	ummary				
	2006 Actual \$m	2007 Estimated Actual \$m	2008 Budget Estimate \$m	2009 Forward Estimate \$m	2010 Forward Estimate \$m	2011 Forward Estimate \$m
GENERAL GOVERNMENT						
Gross Debt <sup>(a)</sup>	1,931	1,758	1,925	1,924	1,880	1,834
Cash, Deposits and Lending <sup>(b)</sup>	4,668	3,941	3,828	4,158	4,580	4,620
Net Debt	-2,737	-2,183	-1,903	-2,235	-2,699	-2,786
PUBLIC NON-FINANCIAL CORPORA	TIONS					
Gross Debt <sup>(a)</sup>	9,572	9,629	10,678	12,634	13,690	14,491
Cash, Deposits and Lending <sup>(b)</sup>	2,594	2,089	1,744	1,895	1,959	2,046
Net Debt	6,978	7,541	8,934	10,739	11,731	12,445
TOTAL NON-FINANCIAL PUBLIC SE	CTOR <sup>(c)</sup>					
Gross Debt <sup>(a)</sup>	10,783	10,759	12,034	13,960	14,974	15,725
Cash, Deposits and Lending <sup>(b)</sup>	6,543	5,401	5,003	5,455	5,942	6,066
Net Debt	4,240	5,358	7,031	8,504	9,032	9,659
PUBLIC FINANCIAL CORPORATION	s					
Gross Debt <sup>(a)</sup>	13,957	13,456	13,748	14,327	15,065	15,059
Cash, Deposits and Lending <sup>(b)</sup>	15,018	14,606	14,980	15,632	16,452	16,527
Net Debt	-1,061	-1,150	-1,232	-1,306	-1,387	-1,469
TOTAL PUBLIC SECTOR (C)						
Gross Debt <sup>(a)</sup>	13,512	13,412	14,199	15,395	16.331	16,522
Cash, Deposits and Lending <sup>(b)</sup>	10,333	9,204	8,400	8,196	8,686	8,332
Net Debt	3,179	4,208	5,799	7,199	7,645	8,191
(a) Includes finance leases, loans and debt s	securities and	derivatives in a	a net liability po	sition. Exclud	les accounts p	payable and

## NET DEBT OF THE PUBLIC SECTOR AT 30 JUNE

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 rise to around \$8.2 billion over the forward estimates period in support of the State's record Capital Works Program.

Importantly, this increase is affordable, with the total non-financial public sector net debt to revenue ratio expected to reach a maximum 38.0% by 2010-11, up from an expected 23.8% for 2006-07, but well below the 47% upper bound specified in the Government's financial targets.

The following table summarises changes in the projected level of total public sector net debt since the time of the 2006-07 mid-year review.

Table 8

## NET DEBT OF THE TOTAL PUBLIC SECTOR AT 30 JUNE

	2007 \$m	2008 \$m	2009 \$m	2010 \$m	2011 \$m
2006-07 MID-YEAR REVIEW – TOTAL PUBLIC SECTOR NET DEBT	4,152	4,814	5,719	5,992	
Less change in net cash flows from operating activities and					
distributions paid					
- general government	25.5	-101.5	242.5	441.3	
<ul> <li>public non-financial corporations</li> </ul>	-27.4	-170.0	-243.8	-124.6	
<ul> <li>public financial corporations</li> </ul>	-13.0	16.9	6.2	6.4	
Total public sector	-14.9	-254.7	4.8	323.0	
Plus purchases of non-financial assets					
Policy decisions <sup>(a)</sup>	64.8	247.4	548.6	436.6	345.8
Parameter movements:	0.110		0.010		0.000
- Western Power (Networks)	203.8	279.5	168.2	61.3	
- Verve Energy	-	42.8	42.1	23.2	
- Water Corporation	-	110.3	86.3	76.2	
- Agriculture and Food	-6.8	-31.7	-51.0	21.4	
- Police Service	-45.1	17.6	6.9	13.9	
- Corrective Services	-38.8	47.3	12.8	7.5	
- Public Transport Authority	10.4	43.5	-42.1	-72.2	
- Main Roads	52.3	41.7	-2.4	18.2	
- Health	-126.5	-121.5	-161.6	50.9	
All Other	41.8	47.8	-23.9	-48.1	
Total parameter	91.1	477.2	35.4	152.2	
Total purchase of non-financial assets	156.0	724.6	584.0	588.8	
Less proceeds from sale of non-financial assets	-4.1	-37.1	-43.0	-37.1	
Plus all other financing	-118.9	-87.6	-127.5	-129.2	
Cumulative impact on net debt at 30 June	56.1	984.9	1,479.6	1,653.2	
2007-08 BUDGET – TOTAL PUBLIC SECTOR NET DEBT	4,208	5,799	7,199	7,645	8,191
a) Further information on initiatives is provided in Chapter 5: Capi	tal Investmen	t.			
Note: Columns may not add due to rounding.					

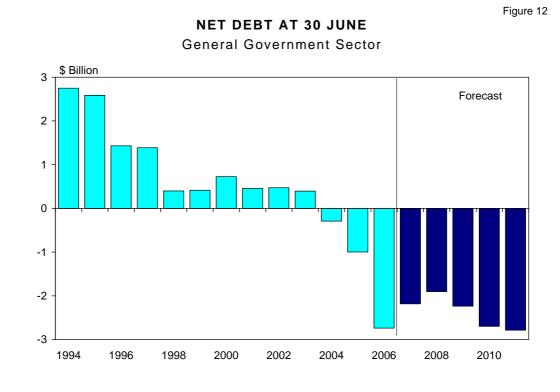
#### **General Government**

The general government sector is expected to remain net debt-free over the entire forward estimates period.

This reflects the impact of strong operating surplus outcomes in recent years and continuing surplus projections across the forward estimates.

The sector's balance sheet carries minimal gross borrowings, which provide support for assets such as the public sector vehicle fleet and the State's road program.

The State holds substantial financial assets in the form of cash and other liquid investments which more than offset these interest bearing liabilities, and form a critical pool of internally generated funds to support the sector's infrastructure spending program.



## **Public Non-Financial Corporations**

The PNFC sector holds the State's major debt liabilities, using borrowings to support the acquisition and commercial use of essential economic infrastructure.

This sector provides electricity, water, port, passenger transport and other major infrastructure supporting the State's growing economy.

PNFC net debt is projected to rise by \$1.4 billion in 2007-08, in support of capital investment of \$2.7 billion in the same year. Details of the sector's Capital Works Program are included in Chapter 5: *Capital Investment*.

Interest expenses are set to rise by around 8.5% in annual average terms, funded mainly by higher goods and services revenue set largely at commercial rates.

#### **Public Financial Corporations**

This sector is expected to maintain its overall net asset position across the forward estimates.

This largely reflects the value of the Insurance Commission of Western Australia's substantial financial asset holdings held against (non-debt) insurance claims. Similar arrangements exist across all Australian States with public sector insurance agencies.

# Issues in Public Sector Finances

## The redistribution of the fiscal benefits of Western Australia's resources boom within the Australian federation

## Overview

The recent and continuing domination of Australia's economic performance by the resource-rich States of Western Australia and Queensland - the so-called two-speed economy - is highlighting the powerful redistributive forces in the Australian federation.

Following a period of sustained growth in its tax and royalty revenue bases on the back of the resources boom, Western Australia's share of GST grants is projected to continue to fall substantially in the period to 2010-11, with a corresponding impact on the State's budget surpluses.

At the same time, Western Australia's net contribution to the Commonwealth budget is rising. In 2005-06, it is estimated that the Commonwealth took \$5 billion more out of Western Australia through its own taxes than it put back into the State through grants and other spending. This is up by \$1 billion on the previous year, primarily due to increased company taxes from Western Australia.

While it is fair that Western Australia's wealth is shared with other States, the Commonwealth Government, as a major beneficiary of Western Australia's growth, has a responsibility to better support Western Australia's burgeoning service and infrastructure needs, including to help sustain growth and prosperity nationally.

Reforms are also needed to ensure that incentives for State governments to develop their economies are not excessively eroded through the redistribution of the benefits.

## Western Australia's Declining Share of GST Grants

The Commonwealth Grants Commission determines States' GST grant shares annually, applying the principle of 'fiscal equalisation' and the latest available data. A State whose revenue bases have grown faster than other States, or whose relative costs of providing a 'standard' level of services have declined, will have its grant share reduced.

However, as grant shares are based on a rolling average of States' circumstances for five consecutive years of historical data, there is a significant time lag between (say) an increase in a State's relative fiscal strength, and the resulting decline in its GST grant share.

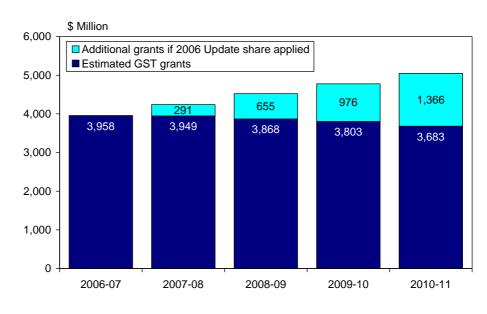
The Grants Commission's latest (February 2007) report resulted in a \$272 million cut in Western Australia's share of the GST pool in 2006-07 terms, which becomes \$291 million in 2007-08. Most of this is due to Western Australia's revenue raising capacity (which is essentially independent of its own tax rates) growing faster than that of the other States between 2000-01 and 2005-06.

Table 9 shows the impact of the Grants Commission's recommendations for all States in 2006-07 terms, both for the latest year and over a longer period. Notably, the latest result for Western Australia is part of a longer term trend that has seen Western Australia's grant share decline by far more, in per capita terms, than any other State's, reflecting Western Australia's strong economic and revenue base growth.

IMPACT OF GRA		7 Terms)		TIONS
	2007 Update		1994 – 2007	
	\$m	\$ per capita	\$m	\$ per capita
New South Wales	+277	+40	-132	-19
Victoria	+64	+13	+408	+79
Queensland	-166	-41	-377	-92
Western Australia	-272	-132	-757	-365
South Australia	+69	+45	+237	+152
Tasmania	-5	-10	+211	+430
Australian Capital Territory	+13	+40	+196	+592
Northern Territory	+20	+94	+214	+1,029

As the current strength of Western Australia's revenue raising capacity becomes fully reflected in the five data years used by the Grants Commission, Western Australia's GST grant share is forecast to drop from 10.1% in 2006-07 (about the same as its share of the national population), to only 7.5% by 2010-11, equivalent to a loss of \$1.4 billion in grant share in 2010-11 (see Figure 13).

## FORECAST GST GRANTS AND GRANTS COMMISSION CUTS



Source: Department of Treasury and Finance estimates.

Figure 13

## **Flaws in the Grants Commission Process**

While the Grants Commission comprehensively 'equalises' differences in States' revenue capacities, its current methods significantly understate Western Australia's service provision costs, including in the following areas:

- the Grants Commission does not recognise costs of State initiatives specifically aimed at promoting economic development (such as multi-user infrastructure and geological mapping programs);
- while the Grants Commission recognises depreciation costs, it does not recognise any of the interest costs of financing the infrastructure investment needed to cater for the State's rapid population and economic growth;
- the Grants Commission does not give States the capacity to provide uniform quality services across the State. Rather, it recognises only the extra costs of providing services in remote areas at the standard that these services are currently provided (based on national averages);
  - if Western Australia wishes to improve services in remote areas to facilitate economic development or respond to community demands for better services, it must levy higher taxes to do so;
- the Grants Commission is significantly under-recognising wage levels in Western Australia's economy, due to a combination of out-of-date data and method deficiencies; and
- the Grants Commission has not fully recognised costs in remote areas, due to distance from the capital city, higher demands on public health services from a lack of general practitioners, and the cost of subsidies to ensure affordable electricity services.

In addition, the Grants Commission has not fully recognised that some of the revenue derived from Western Australia's stamp duty provisions reflects its stronger policy on anti-avoidance rather than just stronger property market activity.

Ross Garnaut and Vince FitzGerald highlighted the adverse impact of the Grants Commission's processes on economic efficiency in their 2002 *Review of Commonwealth-State Funding Final Report* when they observed the following:

"The [Grants Commission's] approach distributes the revenue benefits from economic development around the nation, without similarly sharing many of the costs of economic development borne by State governments. ... Equalising away the fiscal effects of a State's good or poor economic performance dulls incentives for growth promoting policies." (page 2)

The Grants Commission has commenced a review of its current methods that will report in February 2010. However, issues surrounding the incentive effects of equalisation are likely to be particularly difficult to address without abandoning the current system altogether and fashioning an alternative system of assisting the financially weaker States.

#### **Redistribution of Resources across States by the Commonwealth Budget**

The distribution of GST revenue grants among the States by the Grants Commission according to 'equalisation', rather than 'State of origin' principles, is only one way in which Australia's federal system shifts resources from the richer States to the poorer States. The Commonwealth budget actually does much more.

The booming Western Australian resources sector has delivered windfall company and offshore petroleum tax revenue to the Commonwealth, helping to fund Commonwealth services and benefit payments (e.g. unemployment benefits) in other States, and income tax cuts for all Australians.

Commonwealth revenue from sources such as company tax, income tax and petroleum resource rent tax far exceeds the States' taxes (the Commonwealth collects about 80% of taxes nationally), and is used to finance expenditure (including welfare payments and Commonwealth services, as well as grants to the States) without regard to where the revenue was raised.

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 net redistribution of resources from each State arising from all Commonwealth fiscal transactions is its 'net fiscal subsidy' to the federation.

The Department of Treasury and Finance performs an annual estimation of States' net fiscal subsidies, details of which are set out in Appendix 12: *Calculating States' Net Fiscal Subsidies*. Results using the latest available data (for 2005-06) are shown in Table 10, together with the 'GST-only' subsidies for comparison purposes.

#### **REDISTRIBUTION OF RESOURCES**

2005-06<sup>(a)</sup>

Table 10

	GS <sup>-</sup>	T only <sup>(b)</sup>	Total I	Resources
	\$m	\$ per capita	\$m	\$ per capita
New South Wales	2,494	367	5,386	792
Victoria	1,549	306	518	102
Queensland	-861	-215	-2,264	-565
Western Australia	-301	-148	4,965	2,445
South Australia	-759	-490	-3,800	-2,454
Tasmania	-683	-1,401	-2,378	-4,879
Northern Territory	-1,439	-7,025	-2,428	-11,854
Total	-	-	-	-

(a) Estimates calculated by allocating all Commonwealth outlays and revenues relating to the ACT among the other States according to population shares. This approach reflects that, if the federation were to cease to exist, it is unlikely that the Australian Capital Territory would continue to exist as a separate entity.

(b) Difference between GST revenues raised from economic activity in each State and GST grants paid to the State.

Source: Department of Treasury and Finance estimates, using a range of data sources including the Commonwealth *Final Budget Outcome* publications and Australian Bureau of Statistics Nos. 3101.0 and 5220.0. Results are based on the latest available data. In some cases, data has been proxied by escalating earlier data using relevant economic indicators.

In 2005-06, it is estimated that the Commonwealth derived \$30 billion from Western Australia, while expenditure for the benefit of the State (including future benefits from the Commonwealth surplus) totalled only \$25 billion, a difference of \$5 billion. In per capita terms, Western Australia's contribution was substantially larger than the other two net contributors (New South Wales and Victoria).

This result was despite Western Australia receiving more GST revenue grants than it contributed to the pool in that year (which should no longer be the case by 2007-08).

Table 11 provides an estimated breakdown of the components of Western Australia's net contribution over the last three years. This is based on the extent to which Western Australia's share of each area of revenue and spending exceeds or falls short of its population share, and highlights the rapid growth in company and petroleum taxes from Western Australia.

#### COMPONENTS OF WESTERN AUSTRALIA'S NET CONTRIBUTION TO THE COMMONWEALTH

Table 11

	2003-04	2004-05	2005-06
	\$m	\$m	\$m
Personal Income Tax	146	567	538
GST collections	-239	-191	-181
Company Tax	940	1,067	1,893
Fuel Excise (net of rebates)	473	365	362
Taxes and Royalties on Petroleum Extraction <sup>(a)</sup>	725	1,155	1,290
Commonwealth Services (b)	674	865	985
Personal Benefit Payments	544	580	645
Grants to State and Local Governments (c)	173	-114	-191
Other	-181	-321	-376
Total	3,255	3,973	4,965

Relative to Western Australia's Population Share

(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: Department of Treasury and Finance estimates, using a range of data sources including the Commonwealth *Final Budget Outcome* publications and ABS Catalogue Nos. 3101.0 and 5220.0. Results are based on the latest available data. In some cases, data has been proxied by escalating earlier data using relevant economic indicators.

Again, it is only fair that Western Australia should help the rest of the nation, particularly as it was a net financial beneficiary of the federation in earlier years. However, there is evidence that Western Australia's subsidy is too large, as a consequence of inadequate Commonwealth support for its economic and social development needs:

- the Commonwealth's own spending (excluding grants to governments) on infrastructure in Western Australia is consistently lower than in other States (e.g. \$340 per capita in 2005-06, compared with \$480 per capita in other States);
- as noted above, Western Australia's share of GST grants is not fully reflective of its needs;

- Western Australia's share of the Auslink National Network Program of grant funding (which is primarily funding for road projects) is only 10.7%, which is much less than the State's 22% share of roads included in the Auslink National Network, and 34% contribution to national merchandise exports;
- below-average levels of Commonwealth service provision in rural and regional areas of Western Australia hinder economic development, by making it more difficult for resource developers and supporting businesses to attract and retain skilled staff:
  - particular areas of concern are telecommunications and funding for local governments (exacerbated by the requirement to pay even wealthy local governments a share of available grants, and the lack of real per capita growth in the grant pool); and
  - furthermore, the Commonwealth's income tax zone rebates have declined dramatically in real value;
- Western Australia has 25% of the nation's remote area indigenous population, but Commonwealth assistance falls well short of what could be considered a reasonable contribution towards delivering significant improvements in standards of living;
- the Commonwealth's Medicare and Pharmaceutical Benefit Schemes are of little benefit to many remote communities due to the lack of general practitioners in these areas. While national average Medicare and Pharmaceutical Benefits were \$827 per person in 2005-06, they are often less than \$100 per person in many rural and remote communities;
- Western Australia's share of a number of the Commonwealth's discretionary programs has been very low (e.g. food innovation, sports infrastructure); and
- the current Commonwealth Government has refused to agree to share revenue with Western Australia from any of the prospective new offshore petroleum projects (e.g. Gorgon), or to assist with the State's infrastructure growth needs.

Western Australia's remoteness from Canberra almost certainly counts against its particular needs being fully recognised. To the extent that Western Australia is a young economy with untapped potential, improved Commonwealth support and investment in the State is likely to yield a relatively high return for the national economy.

# Statement of Risks

## **Estimating Assumptions**

The major economic parameters underlying the 2007-08 Budget are detailed in the following table.

MAJOR ECONOMIC PARAMETERS Western Australia							
	2006-07 Estimated Actual	2007-08 Budget Estimate	2008-09 Forward Estimate	2009-10 Forward Estimate	2010-11 Forward Estimate		
Real gross State product <sup>(a)</sup> (%)	6.0	4.5	5.0	4.5	4.5		
Real State final demand <sup>(b)</sup> (%)	5.5	3.0	2.5	4.75	4.75		
Consumer price index (%)	4.25	3.0	2.75	2.5	2.5		
Public consumption deflator (%)	5.0	2.5	3.25	3.25	3.25		
Wages growth <sup>(c)</sup> (%)	6.75	4.75	4.25	4.0	4.0		
Employment growth (%)	2.25	2.0	2.0	2.5	2.5		
\$A/\$US (cents)	79.0 <sup>(d)</sup>	79.0	79.0	79.0	79.0		
Oil price (\$US per barrel)	61.8 <sup>(d)</sup>	66.4	67.6	67.3	66.7		
Population growth <sup>(e)</sup> (%)	2.0	2.1	2.0	1.5	1.5		

(a) Growth in Gross State Product and State Final Demand is in real (chain volume) terms (for further information see Chapter 6: *The Western Australian Economy*).

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

(c) This table shows average weekly earnings (AWE) growth (which is used in forecasting payroll tax revenue) rather than growth in the Wage Price Index (both measures are reported in Chapter 6: *The Western Australian Economy*).
 (d) Estimated average over the remainder of 2006-07.

(e) Growth in mean resident population over the year. Forecasts for 2006-07, 2007-08 and 2008-09 are based on the Commonwealth Treasury's "GST payment pool" population projections for Western Australia, while for 2009-10 and 2010-11, long-term historical growth rates have been used.

From a macroeconomic point of view, the primary risks are the sustainability of the positive international outlook, a sharper than expected easing in commodity prices (including oil), a more marked softening in the Western Australian housing market than anticipated, stronger growth in wages and prices, and movements in exchange rates. Most of these risks are discussed further in Chapter 6: *The Western Australian Economy*.

## **Revenue Estimates**

The revenue estimates are sensitive to changes in key economic parameters such as wages and employment growth, the A/US exchange rate and the oil price. Approximate annual impacts of these changes are outlined in the following table<sup>4</sup>.

<sup>&</sup>lt;sup>4</sup> These impacts are not mutually exclusive and can vary over time. For example, in the case of the exchange rate, the impact of a US1.0 cent change is larger in percentage terms at the US60 cent level than at the US79 cent level. Furthermore, variations in the value of the \$A will impact on the sensitivity of the revenue to variations in the oil price.

Table 13

Revenue Type	Variability (\$m)	Detail
Payroll tax	+/-18	For each 1.0 percentage point increase/decrease in wages or employment growth
Total mining revenue <sup>(a)</sup> Petroleum royalties <sup>(a), (b)</sup>	+/-32 +/-7	For each 1.0 cent decrease/increase in the \$A/\$US exchange rate For each \$US1 increase/decrease in the price of a barrel of oil
Iron ore royalties	+/-11	For each 1.0 percentage point increase / decrease in the price of a dry metric tonne of iron ore

#### PARAMETER SENSITIVITY OF REVENUE ESTIMATES

(a) Includes North West Shelf petroleum royalties.

(b) The oil price sensitivity varies according to the extent of the flow-through to LNG prices. The 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.

#### **State Taxes (\$5,527 million in 2007-08)**

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. Furthermore, small variations between forecast and actual outcomes can lead to large variations in conveyance duty revenue (e.g. a 1% variation between forecast and actual residential turnover in 2007-08 is worth around \$17 million in conveyance duty revenue).

## **Revenue from the Commonwealth**

#### GST Revenue Grants (\$3,951 million in 2007-08)

Growth in Western Australia's GST revenue grants 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 date (these forecasts were released as part of the Commonwealth's December 2006 *Mid-year Economic and Fiscal Outlook*). The Commonwealth is expected to provide revised forecasts of GST collections in its May 2007 Budget. However, these estimates will be published after the State budget estimates were finalised.

Western Australia's share of GST revenue grants is based on the State's population share and the annual recommendations of 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 raising 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.

The Grants Commission is currently undertaking a major review of its methods. The results of this review will be reported in February 2010, and will apply from 2010-11. The GST revenue grant estimate for 2010-11 assumes no net financial impact from this method review. However, this review is a major source of uncertainty, which could move Western Australia's grant share up or down by a substantial amount.

Western Australia's GST grants also include compensation for the deferral of GST revenues as a result of the introduction of an annual payment option for small businesses. Initial data suggests that this option has not been taken up to the extent expected. If this is confirmed by further data, the State may have to pay back compensation already received (estimated at around \$35 million) from the Commonwealth.

## Specific Purpose Payments (SPPs, \$3,134 million in 2007-08)

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

## Mining Revenue (\$2,557 million in 2007-08<sup>5</sup>)

The mining revenue estimates are sensitive to movements in the \$A/US exchange rate, oil prices and movements in other commodity prices.

Both the exchange rate and oil price assumptions used in this budget are based on average levels (in the case of oil, relevant average futures prices) in the lead-up to the budget cut-off date. Both the exchange rate and oil price are volatile. For example:

- the \$A/\$US exchange rate ranged from US74.18 cents to US81.86 cents between 1 July 2006 and 10 April 2007; and
- the oil price (West Texas Intermediate crude) has ranged from a low of around \$US51 per barrel to around \$US61 per barrel in the lead-up to budget cut-off.

The impact of oil price movements on petroleum royalties is significantly influenced by the extent of flow-through to the price of LNG exports. While this is largely determined by contractual arrangements for LNG, which are kept commercial-in-confidence, the strong increase in oil prices to historically high levels in recent years has not flowed through to LNG prices. However, it is expected that the extent of flow through is likely to increase across the budget period, as existing LNG contracts expire and replacement contracts and new contracts commence.

<sup>&</sup>lt;sup>5</sup> Including North West Shelf royalties and lease rentals.

Most commodity prices are currently at historically high levels. The budget estimates factor in a decline (including in iron ore prices in 2009-10 and 2010-11) over the forward estimates period as global production increases in response to current high prices. The assumption of declining commodity prices over the forward estimates period is consistent with the Australian Bureau of Agriculture and Resource Economics' (ABARE) most recent published forecasts of commodity prices. The price assumptions used in this budget for a number of commodities are based on ABARE forecasts.

However, the timing and extent of the anticipated decline in commodity prices depends on changes in the balance between supply and demand 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 are likely to differ from that assumed in the estimates. In addition, the level of some commodity prices, notably oil and gold, can be influenced by geopolitical developments. Any change in prices arising from the market's assessment of the impact of these developments would have consequent impacts on the royalty estimates.

#### **Revenue from Public Corporations (\$768 million in 2007-08)**

A future risk for the electricity entities is the possible effect of competition on profitability and payments to the general government sector. With the exception of Horizon Power, budget forecasts for these entities are based on estimated projections of the effects of future competition. The new Wholesale Electricity Market commenced on 21 September 2006, and as the market develops its effects on the entities may be different than those forecast.

In addition, Western Power's results are subject to a final decision from the Economic Regulation Authority regarding access arrangements and the subsequent effect on regulated revenue and future expenditure.

Verve Energy is also subject to gas supply constraints and ongoing volatility in gas, diesel and oil fuel prices.

For the Water Corporation, the forward estimates assume that current sprinkler restrictions remain in place. There is an ongoing review of restrictions and any change in restrictions could affect forecast revenue from the Water Corporation across the outyears.

In addition, the construction and operation of a required new future water source and also the effect of climate change on the Water Corporation's water source portfolio may have impacts on forecast profitability and payments to Government.

## Expenses

The following factors represent a potential risk to the forward estimates of expenses.

## Specific Purpose Payments (SPPs) and Matching Requirements

There is a general risk to the expense estimates from the SPP conditions imposed on the State by the Commonwealth (particularly for those SPPs that are due to be renegotiated during the forward estimates period). These payments often have a matching State-based component associated with them. Matching requirements may change due to Commonwealth policy and/or parameter changes.

## Wages

The forward estimates include provision for all Enterprise Bargaining Agreements (EBAs) that have been agreed and finalised, with appropriation-supported agencies required to fund one-third of the cost from annual base allocations (apart from some exceptions related to specialist groups). Where wage outcomes are higher than those provisions, expenses will generally be higher. For example, a 1% increase in general government wages in 2007-08 amounts to an increase in general government salaries and superannuation costs of around \$71 million.

## **Potential Under-expenditure**

There is a risk that agencies may not fully spend the currently estimated level of expenses in 2006-07, and may seek to carryover this under-expenditure into subsequent years. To the extent that this occurs, there is a risk that actual expense growth in 2006-07 may not be as high as currently estimated, and that expense growth in 2007-08 and later years may be higher than currently estimated.

## **Education and Training Expense Pressures**

The increasing demand for, and cost of providing, education services poses a potential budget pressure. This includes increasing demand for support staff, in particular education assistants working with students with special educational needs in mainstream schooling. However, any expense risks that materialise will be managed in accordance with the Government's financial priorities and objectives.

## **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**

The unprecedented level of activity in the contracting and sub-contracting markets in the building and construction industries associated with the economic boom continues to place pressure on the cost and operational capacity for the provision of infrastructure.

The Government has undertaken a Strategic Review of the Capital Works Program in order to minimise the impact of prevailing economic conditions on costs and ensure the timely delivery of the Government's infrastructure priorities.

As a result of the Strategic Review there have been some revisions to the cashflows and timeframes of a number of capital projects and this is expected to release some of the pressure in the construction market. However, as reflected in the private sector, there remain risks that unforeseen cost increases may arise in the Capital Works Program.

# **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 2006, quantifiable contingent liabilities of the Treasurer<sup>6</sup> were in the order of \$447 million, comprising:

- contingent liabilities under guarantees, indemnities and sureties (\$362 million); and
- guaranteed warranties of the Bank of Western Australia Ltd (\$85 million at credit risk equivalent).

<sup>&</sup>lt;sup>5</sup> 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.

# General Government Revenue

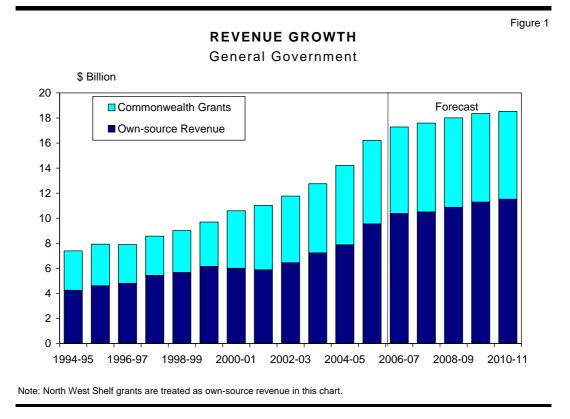
# Overview

Over the past three years, total operating revenue has grown at an average rate of 10.7% per annum, underpinned by very robust economic conditions generally, and by strong conditions in property and commodity markets in particular.

However, total operating revenue is expected to grow by only 1.8% in 2007-08, due to a softening in the housing market and a reduction in Western Australia's GST revenue. The decline in GST revenue is due to the lagged impact on Western Australia's share of the national pool of recent strong growth in its own-source revenue capacity, primarily mining revenue and property taxes, relative to other States. Taxation relief contained in this budget is also a contributor to the easing in overall revenue growth. These factors largely offset a substantial increase in mining royalties, particularly for iron ore and nickel.

Over the three outyears, total operating revenue is expected to increase by a modest 1.7 % per annum. Forecast growth is strongest for taxation revenue and specific purpose payments (SPPs) 'through' the State. However, this is offset by a continued decline in Western Australia's share of GST revenue, and a decline in mining royalty revenue as commodity prices ease in response to increases in global production capacity.

Total operating revenue over the period to 2010-11 is significantly impacted by reductions in Western Australia's share of GST revenue. This is a direct consequence of Australia's two-speed economy and a federal system which comprehensively redistributes wealth from strongly performing States to weaker States, albeit with a lag. By 2010-11, Western Australia's annual GST revenue grant, which currently accounts for more than a fifth of total operating revenue, is estimated to be \$1.4 billion lower than it would be if the State's 2006-07 share were maintained.



## 2006-07

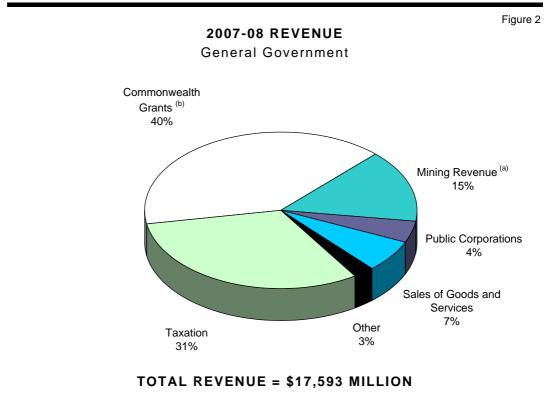
The estimated outturn for total operating revenue in 2006-07 is expected to be 6.6% higher than in 2005-06, with growth underpinned by very strong increases in mining revenue (up 22.0%) and taxation revenue (up 8.2%). High commodity prices boosted mining royalties directly, and provided impetus to employment and incomes growth, which flowed through to further strong growth in house prices. Payroll tax and property tax revenue both benefited, with the impact of higher house prices more than offsetting a moderation in housing market turnover.

These strong increases are accompanied by more modest growth in other revenue, most notably GST revenue grants (up 3.8%), SPPs (up 5.8%) and sales of goods and services revenue (2.3%).

#### 2007-08

Total operating revenue in 2007-08 is estimated to be \$17.6 billion, 1.8% (or \$316 million) higher than the estimated outturn for 2006-07. Higher mining revenue, including North West Shelf petroleum royalties (up \$290 million), and SPPs from the Commonwealth (up \$200 million) more than account for the forecast increase. Sales of goods and services (up \$40 million) and revenue from public corporations (up \$7 million) also contribute to the increase.

Commonwealth grants (including GST revenue grants and SPPs) are expected to remain the largest source of revenue (\$7.1 billion), followed by taxation revenue (\$5.5 billion), mining revenue (\$2.6 billion), sales of goods and service revenue (\$1.2 billion) and revenue from public corporations (\$768 million). Other revenue categories, including interest income, are estimated at (\$475 million).



- (a) Includes territorial mining royalties, North West Shelf petroleum royalties (which are classified as a Commonwealth grant for Government Finance Statistics purposes, reflecting the Commonwealth's constitutional responsibility for off-shore areas), and lease rentals.
- (b) Comprises GST revenue grants and specific purpose payments.

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

Mining royalties are projected to increase by 12.8% in 2007-08, underpinned by strong increases in production volumes (up around 8.0% in weighted average terms) and prices (most notably, a further 9.5% increase in iron ore prices). SPPs are projected to increase strongly, supported by growth in health payments (albeit at less than the growth in cost pressures), project-based road grants, and payments to private schools (but not for public schools).

These increases more than offset forecast declines in taxation revenue (down \$95 million), 'other' revenue (down \$113 million) and GST revenue grants (down \$9 million).

Taxation revenue is expected to decrease by 1.7% in 2007-08, partly as a result of the tax relief provided in this budget. Abstracting from this relief, taxation revenue would have grown by an estimated 5.8% in 2007-08. The strong growth in tax revenue in underlying terms is due to very strong increases in land values (up 49% on average), which in the absence of tax relief would have boosted revenue from land tax and Metropolitan Region Improvement Tax (MRIT) by 78% (although only a fraction of this growth had been factored into the previously published forward estimates).

While robust general economic conditions are expected to provide underlying support for the property market, low affordability and lower expected investor returns are anticipated to result in weaker housing market conditions (including flat house prices and a 10% decline in turnover), and consequently, in lower conveyance and mortgage duty. This also contributes to the reduction in forecast tax revenue in 2007-08.

Table 1

## GENERAL GOVERNMENT

**Operating Revenue** 

	2005-06 Actual \$m	2006-07 Estimated Actual \$m	2007-08 Budget Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	2010-11 Forward Estimate \$m
Taxation	5,195	5,622	5,527	5,704	6,088	6,373
GST revenue grants	3,816	3,960	3,951	3,870	3,805	3,684
Other Commonwealth grants to						
Western Australia (a)	2,108	2,168	2,314	2,378	2,319	2,322
SPPs 'through' the State <sup>(b)</sup>	731	766	820	877	938	1,004
Sales of goods and services	1,115	1,141	1,181	1,222	1,265	1,309
Interest income	170	219	213	213	236	270
Revenue from public corporations						
Dividends	534	445	441	448	495	550
Tax equivalent payments	304	316	327	308	346	377
Royalties <sup>(c)</sup>	1,794	2,223	2,514	2,709	2,559	2,357
Other	440	418	304	279	306	282
TOTAL	16,207	17,278	17,593	18,008	18,357	18,529

(a) Other Commonwealth grants to Western Australia comprise SPPs 'to' the State (and National Competition Policy payments up to 2005-06).

(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.

## 2008-09 Onwards

Over the outyears, total operating revenue is expected to continue increasing, but at a historically modest pace of 1.7% per annum on average. Growth is expected to be constrained by:

• a continuing substantial decline in Western Australia's share of GST revenue grants (translating also into a nominal drop in Western Australia's total GST revenue grants), as a result of the lagged impact of recent strong growth in Western Australia's property and mining royalty revenue bases relative to other States; and

• an anticipated decline in mining royalty revenue over the period as a whole. Projected declines in commodity prices, which are generally consistent with the Australian Bureau of Agriculture and Resource Economics (ABARE) expectations, more than offset the impact of anticipated increases in production volumes.

Declines in GST revenue grants and mining royalty revenue over the period largely offset solid growth in taxation revenue, reflecting generally robust economic conditions and an anticipated pick up in the property market, strong growth in SPPs 'through' the State (particularly payments to private schools) and solid growth in sales of goods and services revenue.

A more detailed breakdown of total operating revenue estimates by source of revenue, and by the Government Finance Statistics framework revenue categories, is provided in Appendix 2: *General Government Operating Revenue*.

The remainder of this chapter focuses on taxation relief measures in this Budget, and the detailed basis for the revenue estimates through to 2010-11 in each of the major revenue categories. Information on major tax and royalty exemptions and concessions is included in Appendix 5: *Tax and Royalty Expenditure Statement*.

# **Taxation Relief Measures**

#### Summary

The following table summarises the impact of policy measures included in the 2007-08 Budget on total operating revenue, which focus on first home buyer stamp duty relief, motor vehicle stamp duty cuts and reform of the land tax scale.

These tax relief measures are broadly in keeping with priorities identified in the Government's State Tax Review. It is expected that the Government will provide a more complete response to the Review after the budget.

The tax relief measures contained in this budget build on the Stage 1 State Tax Review measures announced in the lead up to the 2006-07 Budget, including the abolition of hiring duty (from 1 January 2007), mortgage duty (by 1 July 2008) and non-real business conveyance duty (from 1 July 2010).

	2007-08 Budget Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	2010-11 Forward Estimate \$m	Four Year Total \$m
From Budget Day: Conveyance Duty – Doubling the First Home Buyer Exemption Threshold to \$500,000 (with \$600,000 phase out) <sup>(a), (b)</sup>	-80.1	-83.3	-89.7	-96.5	-349.6
From 1 July 2007:					
Motor Vehicle Duty: Raise Thresholds by \$5,000	-27.3	-31.1	-32.9	-34.9	-126.2
Provide a Caravan Exemption Introduce a Single Rate for All Heavy	-7.1	-8.1	-8.6	-9.1	-32.9
Vehicles	-1.8	-2.0	-2.0	-2.0	-7.8
Land Tax (and MRIT): Adjustment to the Land Tax and					
MRIT Scales <sup>(c)</sup>	-316.0	-347.6	-382.4	-420.6	-1,466.6
Provide Aged Care Provider Exemption	-1.0	-1.0	-1.0	-1.0	-4.0
From 1 January 2009: Motor Vehicle Duty:			20.0	20.0	70.0
Raise Thresholds by \$5,000	-	-11.4	-28.9	-30.6	-70.9
TOTAL	-433.4	-484.5	-545.5	-594.7	-2,058.1
		a a <del>7</del>			

SUMMARY OF TAX RELIEF MEASURES IN THE 2007-08 BUDGET

Table 2

(a) This measure is estimated to have a cost of \$11.0 million in 2006-07.

(b) Vacant land threshold increased to \$300,000 (with \$400,000 phase out).

(c) The estimates shown are the additional revenue the Government could have expected to collect if the 2006-07 land tax and MRIT scales had been retained (i.e. due to a dramatic increase in land values and the progressivity of the land tax scale), although only a fraction of that growth had been factored into the previously published budget and mid-year review forward estimates on the basis of usual Government policy to adjust scales.

In total, these measures have an estimated total cost of \$433 million in 2007-08 and \$2.1 billion over the next four years.

## **Conveyance Duty – First Home Buyer Exemption Threshold**

From mid-night on 9 May 2007, the first home buyer exemption threshold will be doubled from \$250,000 (phasing out at \$350,000) to \$500,000 (phasing out at \$600,000). The estimated revenue cost is \$80 million in 2007-08 and \$350 million over the four years to 2010-11.

Strong house price growth in Western Australia in recent years has made it increasingly difficult for potential first home buyers to enter the market. To the extent that prospective home buyers are currently renting, assisting their move into home ownership may also reduce pressures in the currently very tight rental market.

As a result of strong house price growth, Perth's median house price is now the second highest of all capitals, after Sydney. The new eligibility thresholds for established homes are consistent with those in New South Wales.

To complement the concession for first home purchasers of established homes, the vacant land exemption threshold will also be doubled from \$150,000 (phasing out at \$200,000) to \$300,000 (phasing out at \$400,000). This will ensure that first home buyers purchasing a vacant lot and then building will receive broadly equivalent assistance to those purchasing an established home.

As a result of this measure, it is estimated that around 94% of first home buyers will receive a full (88%) or partial (6%) exemption from stamp duty. This compares to 53% receiving a full (22%) or partial (31%) exemption in the December quarter 2006.

The following table provides a comparison of stamp duty amounts paid by first homebuyers on a range of house prices, under the current and revised thresholds. Homebuyers purchasing a property at \$450,000 (the Perth median house price in the December quarter 2006) will save \$18,200 in stamp duty, while also remaining eligible for the State Government's \$7,000 First Home Owner Grant. In the December quarter 2006, the median first home purchase price for Perth was \$365,000 and for Western Australia was \$342,500.

#### STAMP DUTY PAYABLE ON FIRST HOME PURCHASE

Table 3

_		STAMP DUTY PAYABL	E
Home Value \$	Current \$	Revised \$	Difference (saving) \$
250,000	-	-	-
275,000	3,300	-	-3,300
300,000	6,600	-	-6,600
325,000	9,900	-	-9,900
350,000	13,200	-	-13,200
375,000	14,450	-	-14,450
400,000	15,700	-	-15,700
425,000	16,950	-	-16,950
450,000	18,200	-	-18,200
475,000	19,450	-	-19,450
500,000	20,700	-	-20,700
525,000	22,050	6,525	-15,525
550,000	23,400	13,050	-10,350
575,000	24,750	19,575	-5,175

The following table provides a comparison of this measure with current concessional arrangements for first home purchases in other capital cities<sup>1</sup>. Based on this comparison, Western Australia will have the most generous scheme in the nation.

As at 2 May 2007.

STAMP DUTY CONCESSIONS FOR FIRST HOME BUYERS							
	Perth Current Revised		Sydney	Melbourne <sup>(b)</sup>	Brisbane	Adelaide	Hobart
Median House Price <sup>(a)</sup> (\$)	450	,000	523,600	391,000	339,500	290,000	290,000
Normal Stamp Duty (\$)	18,200	18,200	19,052	16,360	3,883	10,855	9,150
First Home Buyers (\$)	18,200	0	5,308	13,360	883	10,855	5,150
Value of Concession (\$)	0	18,200	13,744	3,000	3,000	0	4,000
Concession as a % of Stamp Duty	0%	100%	72%	18%	77%	0%	44%

Table 4

(a) As at December quarter 2006. Latest available data published by the Real Estate Institute of Australia at 2 May 2007.
(b) In Victoria, first home owners are eligible for a first home bonus for homes purchased up to \$500,000. For established homes the bonus is \$3,000. For new homes, the bonus is valued at \$5,000.

## Land Tax

#### **General Relief**

The Valuer General's Office has provided preliminary advice that unimproved land values for the 2007-08 land tax assessment year will increase by an average 49% on 2006-07 values. Land values for the 2007-08 land tax assessment year are values as at August 2006.

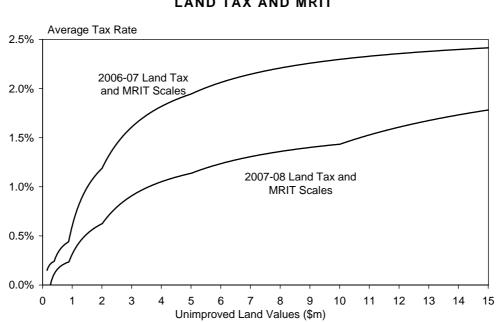
With no change to the scales, the resulting estimated increase in land tax and MRIT revenues in 2007-08 (82% and 61% respectively) would be much higher than the growth in land values (reflecting the strong progressivity of the current land tax scale) and generate an unprecedented revenue windfall (of \$280 million for land tax and \$36 million for MRIT).

The 2007-08 land tax scale adjustment is consistent with a recommendation of the State Tax Review to 'flatten the scale' as a means of reducing bracket creep, and the need for ad hoc annual changes to the scale and the inequities of 'aggregation' (which some landholders can circumvent by splitting the legal ownership of land). To be consistent with the way land tax has been levied since 2004-05, the MRIT scale has also been adjusted to only apply to the value of land above the land tax exemption threshold (rather than to the full value of land).

Under the new land tax scale, three (of the five) marginal rates have been reduced and each of the land value ranges substantially 'stretched'. This includes increases in the top two thresholds, which have not been changed since 2002-03, and an average increase in the thresholds of 114%. The smaller increase in the exemption threshold to \$250,000 will nonetheless reduce the number of taxpayers by about 80,000, compared to if the threshold remained unchanged at \$150,000.

ble	Tal	_ES	MRIT SCA	D TAX AND	LAN	
	i	2007-08 SCALES	_	2006-07 SCALES		
Э	Marginal Rate on Excess	'Base' Tax at Threshold	Unimproved Value of Land	Marginal Rate on Excess	'Base' Tax at Threshold	Unimproved Value of Land
	%	\$	\$'000	%	\$	\$'000
		LAND TAX			LAND TAX	
	Nil	Nil	0 - 250	Nil	Nil	0 - 150
	0.15	Nil	250 - 875	0.15	Nil	150 - 390
	0.75	938	875 - 2,000	0.45	360	390 - 875
	1.30	9,375	2,000 - 5,000	1.62	2,543	875 – 2,000
	1.55	48,375	5,000 - 10,000	2.30	20,768	2,000 - 5,000
	2.30	125,875	Over 10,000	2.50	89,768	Over 5,000
		MRIT			MRIT	
	Nil	Nil	0 - 250	Nil	Nil	0 - 150
	0.18	Nil	Over 250	0.15	225	Over 150

Compared to the current arrangement of levying the MRIT on the full value of the land, the reform of the MRIT scale will benefit around 90% of total MRIT payers.



LAND TAX AND MRIT

Figure 3

The total cost of the revised land tax and MRIT scales (i.e. the additional revenue which would be collected if there were no changes to the scale) is \$316 million in 2007-08 and \$1,467 million over four years. Beneficiaries are expected to include multiple property residential landlords, helping to reduce the pressure on rents, and owners of non-income producing properties such as holiday homes.

	LAN	D TAX P	AYABL	E AS AT	. 1 JULY	′ 2007 <sup>(a</sup>	)	Table 6
	W	Ą						
Land Value	Current	New	NSW	VIC	QLD	SA	TAS	ACT
	\$	\$	\$	\$	\$	\$	\$	\$
\$100,000	0	0	0	0	0	0	463	890
\$200,000	75	0	0	0	0	270	1,013	1,960
\$300,000	225	75	0	400	1,500	570	1,563	3,295
\$400,000	405	225	916	600	3,000	1,070	2,838	4,885
\$500,000	855	375	2,616	800	4,500	1,770	4,838	6,475
\$750,000	1,980	750	6,866	1,930	8,250	5,420	9,838	10,450
\$1 million	4,568	1,875	11,116	3,480	12,375	11,420	16,088	14,425
\$2.5 million	32,268	15,875	36,616	19,880	37,500	66,920	53,588	38,275
\$10 million	214,768	125,875	164,116	204,980	150,000	344,420	241,088	157,525
\$25 million	589,768	470,875	419,116	579,980	375,000	899,420	616,088	396,025
(a) As at 2 May 2	2007.							

The following table compares the land tax payable in each State and the ACT.

## Land Tax – Exemption for Private Aged Care Providers

The Government will provide a land tax exemption for private aged care providers from 1 July 2007. This measure is estimated to cost \$1 million in 2007-08 and \$4 million over the four years to 2010-11.

This will ensure consistent treatment of private and not-for-profit aged care providers (who compete in the same industry) and follows similar arrangements in other jurisdictions. About 60 aged care providers are expected to benefit.

## Motor Vehicle Stamp Duty – Increase thresholds by \$10,000 (in two stages).

The motor vehicle stamp duty scale thresholds will be increased by \$5,000 from 1 July 2007, with a further \$5,000 increase from 1 January 2009. The estimated revenue cost of this measure is \$27 million in 2007-08, \$43 million in 2008-09 and \$197 million over the four years to 2010-11.

		Thresholds	
Rates	Current	1 July 2007	1 Jan 2009
2.75%	Under \$15,000	Under \$20,000	Under \$25,000
2.75% - 6.50% (Sliding Scale)	\$15,000 - \$40,000	\$20,000 - \$45,000	\$25,000 - \$50,000
6.50%	Over \$40,000	Over \$45,000	Over \$50,000

The changes to the stamp duty scale are illustrated in the following table.

This measure targets relief to vehicles valued at between \$15,000 and \$50,000, which account for around 37% of annual new vehicle transfers and include typical 'family vehicles' such as Commodores and Falcons. The expected stamp duty savings for consumers are illustrated in the table below.

	201117/1		SAVINGS ON	OLLEOILD	
		Stamp Duty Payabl	e	Stamp Du	ty Savings
Price	Current	1 July 2007	1 Jan 2009	1 July 2007	1 Jan 2009
\$	\$	\$	\$	%	%
5,000	138	138	138	0	0
10,000	275	275	275	0	0
15,000	413	413	413	0	0
20,000	700	550	550	-21	-21
25,000	1,063	875	688	-18	-35
30,000	1,500	1,275	1,050	-15	-30
35,000	2,013	1,750	1,488	-13	-26
40,000	2,600	2,300	2,000	-12	-23
45,000	2,925	2,925	2,588	0	-12
50,000	3,250	3,250	3,250	0	0

As indicated in the following table, the sum of annual registration, compulsory third party insurance and other statutory charges for a typical vehicle in Western Australia are the lowest in Australia. After including stamp duty (on an annualised basis), the total amount in Western Australia is in the middle of the range of all jurisdictions.

MOT	OR VEH		ICENCE At 1 Ju			TAMP D	Ουτγ	Table 9
	WA	NSW	VIC	QLD	SA	TAS	ACT	NT
Holden Commodore <sup>(b)</sup> Motor vehicle	\$	\$	\$	\$	\$	\$	\$	\$
licence fees Compulsory third party (CTP)	216.42	372.00	168.60	311.45	178.00	202.65	346.00	152.00
insurance	235.56	332.00	339.00	284.00	371.00	338.00	396.60	426.30
Stamp duty on CTP insurance Admin/Recording	23.56	0.00	33.90	0.00	60.00	6.00	0.00	0.00
Fee	10.65	25.00	0.00	0.00	21.00	0.00	64.00	8.40
Total	486.19	729.00	541.50	595.45	630.00	546.65	806.60	586.70
Stamp Duty (annualised over 5 years)	339.60	206.94	172.45	137.96	263.92	206.94	206.94	206.94
Total including Stamp Duty	825.79	935.94	713.95	733.41	893.92	753.59	1,013.54	793.64

(a) Based on sources of other jurisdictions as at 2 May 2007.

(b) Based on a six cylinder Holden Commodore with a tare weight of 1,622 kg and a market value of \$34,490.

## Motor Vehicle Stamp Duty - Single Rate for Heavy Vehicles

From 1 July 2007, the single flat 3% stamp duty rate for new heavy vehicles will be extended to used heavy vehicles. This measure is estimated to cost around \$2 million in 2007-08 and \$8 million over the four years to 2010-11.

Currently, there are two different rate scales for heavy vehicle licence transfers (those vehicles over 4.5 tonnes), depending on whether the heavy vehicle is new or used. These scales are illustrated below.

Vehicle Value	Used Heavy Vehicles	New Heavy Vehicles
Jnder \$15,000	2.5%	3.0%
15,000 - \$40,000	2.5% - 5.0% <sup>(a)</sup>	3.0%
over \$40,000	5.0%	3.0%
Aaximum Duty (\$400,000		
and over)	\$20.000	\$12.000

This measure will simplify the stamp duty treatment of heavy vehicles, and remove an inequity whereby purchases of used heavy vehicles above \$20,000 currently incur more stamp duty than purchases of new vehicles of the same value.

Purchases of used heavy vehicles valued below \$20,000 will incur maximum additional stamp duty of \$75 (for a vehicle valued at \$15,000).

#### Motor Vehicle Stamp Duty - Caravan Exemption

From 1 July 2007, caravans (and camper trailers) will be exempt from stamp duty. This is estimated to cost \$7 million in 2007-08 and \$33 million over the four years to 2010-11.

Under the current arrangements, caravan licence transfers attract the same rate of stamp duty as standard vehicles. This measure will improve the competitiveness of the Western Australian caravan industry by reducing any incentive to purchase caravans in other States (where an exemption is already widely available).

# Taxation Revenue Estimates

The following table summarises the budget projections for State taxes, incorporating the revenue measures outlined on previous pages and forecast growth in key economic parameters (as outlined in Chapter 6: *The Western Australian Economy*).

The estimated outturn for taxation revenue in 2006-07 is expected to be 8.2% higher than in 2005-06, with growth boosted by a large increase in payroll tax (17.7%) and land tax (25.1%). Abstracting from revenue measures contained in the 2006-07 Budget, and a large one-off conveyance duty assessment in 2005-06, estimated taxation revenue in 2006-07 is 14.3% higher than in 2005-06.

Taxation revenue is expected to decline by 1.7% in 2007-08, partly as a result of the tax relief measures in this budget. Growth in the absence of these measures is estimated at 5.8%, reflecting the impact of strong increases in land values underpinning land tax and MRIT revenue (although only a fraction of this growth had been factored into the previously published forward estimates). A softening in the housing market and associated conveyance duty collections is the other major contributing factor.

Over the outyears, tax revenue is projected to grow by around 4.9% per annum. The lift in growth incorporates the expectation that conditions in the property market will return to longer-run trends.

						Table 11
	ΤΑΧΑΤ	ION REV	ENUE			
	2005-06 Actual \$m	2006-07 Estimated Actual \$m	2007-08 Budget Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	2010-11 Forward Estimate \$m
TAXES OF EMPLOYERS' PAYROLL Payroll tax	1,355	1,595	1,722	1,849	1,991	2,143
TAXES ON PROPERTY	,					,
Stamp duty on conveyances Stamp duty on mortgages Land Tax	1,906 173 313	1,969 120 391	1,697 108 430	1,746 9 472	1,880 - 518	1,873 - 568
Metropolitan Region Improvement Tax Other <i>Total</i>	53 185 <i>2,631</i>	71 177 2,728	78 167 2,479	86 170 2,483	95 179 2,670	104 186 2,731
TAXES ON GAMBLING Lotteries Commission <sup>(a)</sup> Casino Tax <sup>(a)</sup> TAB Betting Tax <sup>(a)</sup> Other <i>Total</i>	80 29 36 - 146	82 31 34 1 1 <i>4</i> 9	87 34 24 1 1 <i>4</i> 5	89 35 28 1 152	92 36 29 1 158	94 38 30 1 1 <i>64</i>
TAXES ON INSURANCE Stamp duty on insurance policies Other Total	296 30 <i>3</i> 26	312 23 335	324 23 347	337 23 359	354 23 377	373 23 396
MOTOR VEHICLE TAXES Stamp duty on motor vehicle licences Motor vehicle registrations Other Total	342 361 33 736	385 396 35 <i>816</i>	367 430 37 834	369 453 39 <i>860</i>	374 477 41 892	395 502 43 940
TOTAL TAXES	5,195	5,622	5,527	5,704	6,088	6,373
(a) Net of rebates.						
Note: Columns may not add due to roundin	ıg.					

#### **Payroll Tax**

Payroll tax is expected to grow by 17.7% in 2006-07, after increasing by 11.9% in 2005-06. The above-average growth in payroll tax over the past two years reflects very strong economic and labour market conditions in Western Australia, particularly in mining, which contributes around one sixth of the total payroll tax in Western Australia.

Growth in payroll tax is forecast to moderate to 7.9% in 2007-08, and to average around 7.6% per annum between 2007-08 and 2010-11. This growth profile reflects forecast trends in the labour market, with growth in both employment and average weekly earnings projected to settle at long-term average rates over the period, following very strong growth in recent years.

#### **Taxes on Property**

The expected outturn for stamp duty on property conveyances in 2006-07 is 3.3% higher than in 2005-06, which follows growth of 56.5% in 2005-06. The large decline in the growth rate in 2006-07 primarily reflects a softening of conditions in the residential property market since early in the financial year. In particular, the pace of house price growth has slowed significantly, and turnover in both the owner-occupier and investor segments of the market has declined. Another factor is the 'base effect' of a very large one-off commercial conveyance assessment in 2005-06. Abstracting from this effect, conveyance duty is estimated to have increased by 13.0% in 2006-07.

Conveyance duty is forecast to decline by 13.8% in 2007-08. This reflects the combined impact of a further moderation in residential property market activity and first home buyer stamp duty relief contained in this budget. Abstracting from taxation relief, conveyance duty is estimated to decline by 10.2% in 2007-08.

In 2007-08, the residential property market is expected to be characterised by:

- stable house prices (on average), with low levels of affordability likely to place downwards pressure on prices, but offset by continued strong population growth, very strong labour market conditions and robust wages growth; and
- a 10% decline in turnover, reflecting not only lower levels of affordability, but reduced expectations of capital gains on housing investment in Western Australia relative to other States (impacting on investor activity).

Forecasts for conveyance duty beyond 2007-08 are based on the expectation that conditions in the property market will return to long-term trends during 2008-09 and into 2009-10 and 2010-11. The conveyance duty estimate in 2010-11 is largely unchanged from 2009-10, due to the abolition of non-real business conveyance duty from 1 July 2010.

Remaining mortgage duty collections are also expected to decline in line with the anticipated softening in property market in 2007-08. Mortgage duty will be fully abolished from 1 July 2008.

Land tax revenue is estimated to grow by 25.1% in 2006-07, from \$313 million in 2005-06 to \$391 million in 2006-07. This reflects stronger than expected growth in land values and land holder numbers.

In 2007-08, land tax revenue is forecast to grow by around 10%, with the impact of large increases in land valuations (of around 49% on average) largely offset by reform of the land tax scale announced in this budget. Land tax revenue is assumed to grow by around 10.0% per annum over the period to 2010-11.

Other impacts on growth in revenue from property taxes in 2007-08 and beyond include the abolition of rental business duty from 1 January 2007 (with the first full year impact occurring in 2007-08) and stronger than previously projected growth in the Metropolitan Region Improvement Tax (which, like land tax, is now assumed to grow by around 10% per annum).

## **Taxes on gambling**

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

Taxes on gambling are estimated to decrease by 2.1% in 2007-08, largely as a result of changes to the TAB betting tax announced in the 2005-06 Budget. TAB betting tax is currently levied at the rate of 4.5% on TAB turnover. From 1 July 2007, this will be replaced by a tax rate of 21% applied to gross margins. This is equivalent to a tax rate of around 3.5% on TAB turnover. Growth in taxes on gambling is forecast to resume from 2008-09, averaging about 4.0% per annum between 2008-09 and 2010-11.

## **Taxes on Insurance**

Taxes on insurance comprise stamp duty on insurance policies, the workers' compensation levy and the employers' superannuation indemnity supplementation levy. Growth in revenue from insurance taxes is expected to follow a similar pattern to growth in Western Australia's domestic economy over the budget period.

#### **Motor Vehicle Taxes**

Motor vehicle taxes comprise stamp duty on the registration and transfer of vehicle licences, annual vehicle registration fees, permit fees for oversize vehicles and loads and the motor vehicle recording fee. Motor vehicle taxes are expected to increase by 2.1% in 2007-08, after increasing by 10.9% in 2006-07. The moderation is largely due to motor vehicle stamp duty relief in this budget. Motor vehicle taxes are projected to grow by 4.1% per annum across the outyears.

Revenue from stamp duty on motor vehicle licence transfers is estimated to decline by 4.7% in 2007-08, after growing by a very strong 12.5% in 2006-07. The decline incorporates the budget measure to increase the rate scale thresholds by \$5,000 from 1 July 2007. Stamp duty on licence transfers is projected to grow by an average 2.5% per annum over the outyears, with growth also impacted by a second \$5,000 increase in thresholds from 1 January 2009. Abstracting from threshold increases, stamp duty on motor vehicle licence transfers is estimated to increase by 4.7% in 2007-08, and an average 5.4% per annum over the outyear period.

Table 12

# Commonwealth Grants<sup>2,3</sup>

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 (around 56% of total Commonwealth grants to Western Australia are in this form). General purpose grants to Western Australia consist of GST revenue grants (and in the past, competition payments); and
- specific purpose payments (SPPs) which must be spent on specific activities and have various other conditions attached (around 44% of total Commonwealth grants).

COMMONWEALTH GRANTS								
	2005-06 Actual \$m	2006-07 Estimated Actual \$m	2007-08 Budget Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	2010-11 Forward Estimate \$m		
General Purpose Grants								
GST revenue	3,804	3,958	3,949	3,868	3,803	3,683		
GST deferral compensation (a)	13	2	2	2	2	2		
Competition payments (b)	67	-	-	-	-	-		
Total general purpose grants	3,883	3,960	3,951	3,870	3,805	3,684		
SPPs 'to' the State (c)	2,041	2,168	2,314	2,378	2,319	2,322		
TOTAL COMMONWEALTH GRANTS 'TO' THE STATE	5,924	6,127	6,265	6,248	6,124	6,006		
SPPs 'through' the State	731	766	820	877	938	1,004		
TOTAL COMMONWEALTH GRANTS	6,655	6,894	7,085	7,125	7,062	7,011		
North West Shelf royalties	610	669	699	727	767	744		
TOTAL COMMONWEALTH GRANTS GFS BASIS <sup>(d)</sup>	7.265	7.562	7.784	7.852	7.828	7.754		

## **COMMONWEALTH GRANTS**

(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) 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.

(c) 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.

(d) Government Finance Statistics basis.

Note: Columns may not add due to rounding.

# **GST Revenue**

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 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).

<sup>&</sup>lt;sup>2</sup> These projections do not reflect the impact of the Commonwealth's 2007-08 Budget estimates of national GST revenue on Western Australia's GST revenue grants (to be released as part of the Commonwealth Budget on 8 May 2007).

<sup>&</sup>lt;sup>3</sup> Unless otherwise indicated, Commonwealth grants exclude North West Shelf royalties.

GST revenue grants to Western Australia are projected to fall by \$9 million in 2007-08. The forecast 6.4% growth in the national pool of GST revenue is more than offset by the \$291 million cut in Western Australia's share of GST collections (from 10.1% of the pool in 2006-07 to 9.4% of the pool in 2007-08), as recommended by the Commonwealth Grants Commission.

Over the three outyears, GST grants are also forecast to decline in every year. Again, solid growth in the national pool of GST revenue is more than offset by a significant decline in the share for Western Australia.

## **Forecasts of Future GST 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 2006-07 *Mid-Year Economic and Fiscal Outlook*);
- Western Australia's share of the national population (as estimated by the Commonwealth); and
- Western Australia's relative per capita share of the national pool of GST grants (i.e. the GST 'relativity').

In line with the Grants Commission's approach, the GST relativity projections for each year of the forward estimates (2008-09 to 2010-11) 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 (with a lag reflecting data availability). For example, the relativity projections for 2010-11 are based on assessments for the years 2004-05 to 2008-09. Assessments for years up to 2005-06 were published in the Grants Commission's 2007 Update report (released in February 2007). Assessments for later years (i.e. 2006-07 to 2008-09) are projected on the basis of no changes in the methods used by the Grants Commission, and no revisions to historical data used.

The projections of assessments for 2006-07 to 2008-09 in general assume no change in Western Australia's relative revenue capacity and expenditure requirements compared to 2005-06. However, in some key areas, changes in revenue capacity after 2005-06 are estimated directly from projected underlying changes in revenue collections in Western Australia (based on the 2006-07 expected outturn and 2007-08 budget forward estimates) and other States (based on latest available data)<sup>4</sup>. These areas are royalties from metallic and precious minerals, coal royalties, off-shore petroleum royalties, payroll tax, stamp duty on conveyances and land tax.

The forecasting methodology has grown in sophistication over the last few budgets, reflecting the risks to Western Australia's GST grant share resulting from the State's exceptionally strong economic and revenue growth.

<sup>&</sup>lt;sup>4</sup> Where necessary, revenue collections are adjusted to exclude the impact of policy changes, to reflect underlying changes in revenue raising capacity.

Western Australia's GST grant share is projected to fall from 9.4% in 2007-08 to 7.5% in 2010-11. This reflects the impact of the recent high growth in the State's property market-related revenue and petroleum and mineral royalties (slightly offset by growth in export quality coal royalties in New South Wales and Queensland). Western Australia's declining grant share lags the growth in its own revenue, largely reflecting the impact of the rolling five year average used to calculate grant shares.

Table 13 shows the impact of the projected decline in Western Australia's GST relativity, compared to if the State's 2006-07 GST relativity remained unchanged over the forward estimates period.

Table 13
IMPACT OF PROJECTED COMMONWEALTH GRANTS COMMISSION
RELATIVITIES

	2006-07	2007-08	2008-09	2009-10	2010-11
GST grant share (%)	10.1	9.4	8.7	8.2	7.5
Impact on GST grants (\$m)	-	-291	-655	-976	-1,366

#### **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 between:

- 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 treated as mining revenue in the State budget papers, but are reported in official Government Finance Statistics as SPPs because of the Commonwealth's constitutional jurisdiction over offshore areas).

In 2007-08, Western Australia expects to receive around \$2.3 billion in SPPs 'to' the State, representing an increase of 6.8% compared with 2006-07. Growth in health payments (reflecting indexation) and project-based roads grants is partly offset by no growth in education payments. Estimates for SPPs are based largely on advice from State agencies.

Over the outyears there is minimal growth in SPPs 'to' the State reflecting uncertainty in funding levels for some programs up for renegotiation (e.g. Commonwealth-State Housing Agreement).

Commonwealth SPPs that pass 'through' the State's accounts, mainly to local governments and private schools, are expected to grow by 7.0% in 2007-08, primarily reflecting a large increase in recurrent Commonwealth payments to private schools (up by 8.6%). Strong growth is expected to continue in the outyears.

Appendix 11: *State-Local Government Finances* provides further details on local government finances and issues.

There are nearly 100 separate SPPs, although a small number account for a large proportion of the total annual payments (see Table 14).

SPECIFIC PURPOSE PAYM	ENTS 'T	O' WESTERN	I AUSTR	Table 14			
	2006-07 2007-08						
	Estima	ated Actual Percent of	Budget	Estimate Percent of			
	\$m	total SPPs 'to' WA	\$m	total SPPs 'to' WA			
SPPs 'To'		10 117		10 WA			
Australian Health Care Agreement	866	30	915	29			
Government Schools	306	10	305	10			
Other Health	283	10	293	9 7			
Road Programs	178	6	204	7			
Vocational Education and Training	114	4	114	4			
SPPs 'Through'							
Non-government Schools Assistance	537	18	582	19			
Local Government Financial Assistance Grants	116	4	122	4			
Other SPPs <sup>(a)</sup>	533	18	599	19			
Total SPPs	2,934	100	3,134	100			
(a) Comprise a large number of smaller 'to' and 'through'	specific purper	o povmonte					

(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. However, most SPPs are subject to the Grants Commission's 'equalisation' process, such that a higher share of SPPs may be offset by a lower GST share. In 2007-08, Western Australia expects to receive 10.2% of total Commonwealth SPPs 'to' States (compared with Western Australia's 10.1% share of the national population).

#### Impact of GST Arrangements

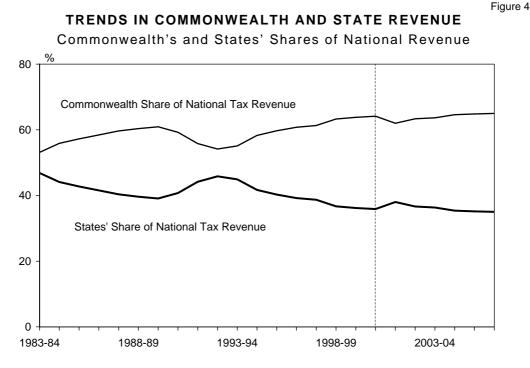
One of the main purposes of the current GST funding arrangements, introduced under the 1999 *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), was to improve the financial position of the States by ensuring that the States had access to a growing revenue base.

The Commonwealth agreed to pass all of its GST revenue collections to the States (distributed on the basis of the Grants Commission's recommendations) to 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)<sup>5</sup>.

<sup>&</sup>lt;sup>5</sup> 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.

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). However, the replacement of State taxes by GST revenue has increased the States' financial dependence on the Commonwealth. Furthermore, the tax reforms introduced in 2000-01 have not been sufficient to offset a continuing decline in the States' share of national tax revenue.

Figure 4 illustrates the difference between the States' and Commonwealth's share of national taxation revenue over time. In the first year following the introduction of tax reform, the States' share of national revenue collections increased slightly, but has since continued a long term trend decline.



Note: National tax revenue excludes local government revenues. Source: Northern Territory Treasury.

All States and Territories have committed to schedules for the abolition of taxes listed for review in the IGA, including stamp duties on non-real conveyances, unlisted marketable securities, leases, mortgages, credit/rental arrangements and cheques. The only exception is stamp duty on real business conveyances.

The decision to abolish stamp duties listed for review in the IGA has reduced the financial benefits from the GST reforms. Table 15 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. Since 2000-01, these payments had been authorised under the Commonwealth's GST grants legislation. Their abolition was justified on account of States receiving the GST revenue. Taking all relevant changes into account, the projected net fiscal benefit to Western Australia from the GST reforms in 2006-07 has been reduced to \$64 million.

Western Australia								
	2005-06 Actual \$m	2006-07 Estimated Actual \$m	2007-08 Budget Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m			
Impact of GST tax reform published by Commonwealth Treasurer <sup>(a)</sup>	224	302	428	555	586			
Less adjustment for Commonwealth changed assessment method <sup>(b)</sup> Less cost of abolishing stamp duties	-43	-53	-63	-75	-86			
subject to review under the IGA <sup>(c)</sup> Less NCP payments abolished <sup>(d)</sup>	-21 0	-123 -62	-148 -64	-244 -66	-208 -69			
Full impact of GST tax reform	160	64	153	170	223			

#### **BUDGET IMPACT OF GST TAX REFORM**

Table 15

(a) Press release following the March 2007 Treasurers' Conference. Impacts published by the Commonwealth Treasurer are net of cheque duty from 2006-07 onwards and net of stamp duties on leases and credit/rental arrangements from 2009-10 onwards, by which time all States will have abolished them.

(b) In 2002, the Commonwealth Treasurer unilaterally decided to remove the inflation component of petroleum safety net revenue escalation from the calculation of revenues forgone by States as a result of the GST reforms.

(c) Does not include the cost of abolishing cheque duty from 2006-07 or stamp duties on leases and credit/rental arrangements from 2009-10, which is included in the impact published by the Commonwealth Treasurer.
 (d) 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, plus an extra 5% from 2006-07 due to liquor reforms.

Source: Commonwealth Treasurer's Press Release 30 March 2007 and Department of Treasury and Finance.

# Other Revenue

#### **Sales of Goods and Services**

Revenue from the sales of goods and services is forecast to grow by around 3.5% per annum over the four years to 2010-11, broadly in line with inflation and the public demand for services. Since the 2006-07 Budget, a number of new fees have been introduced including tobacco regulation and licensing and Water Licence Application and Administration Fees. In addition, increased collections are also projected for the Land Information Authority (property market-related fees) and Planning and Infrastructure (motor drivers licences).

#### **Interest Income**

Interest income is forecast to total around \$213 million in both 2007-08 and 2008-09, rising to \$270 million by 2010-11. The growth in interest earnings is driven by the impact of the general government sector's operating surplus on projected holdings of cash and other liquid financial assets.

#### **Revenue from Public Corporations**

The State's major public corporations are liable for income tax equivalent and dividend payments. A number of these 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.

				5	Table 16
	OBLIO			, 	
2005-06 <sup>(a)</sup>	2006-07	2007-08	2008-09	2009-10	2010-11
Actual	Estimated	Budget	Forward	Forward	Forward
\$m	Actual	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m
297	304	314	294	331	362
7	12	13	14	15	15
534	445	441	448	495	550
838	761	768	756	841	928
g.					
	2005-06 <sup>(a)</sup> Actual \$m 297 7 534	2005-06 <sup>(a)</sup> 2006-07           Actual         Estimated           \$m         Actual           \$m         304           7         12           534         445           838         761	2005-06 <sup>(a)</sup> 2006-07       2007-08         Actual       Estimated       Budget         \$m       Actual       \$m         297       304       314         7       12       13         534       445       441         838       761       768	2005-06 <sup>(a)</sup> Actual \$\$m\$2006-07 Estimated Actual \$\$m\$2007-08 Budget Estimate \$\$m\$2008-09 Forward Estimate \$\$m\$2973043142947121314534445441448838761768756	Actual \$mEstimated Actual \$mBudget Estimate \$mForward Estimate \$mForward Estimate \$m297304314294331712131415534445441448495838761768756841

Revenue from public corporations in 2007-08 is estimated at \$768 million, which represents an increase of \$7 million, or 0.9%, from the previous year.

The increase in revenue in 2007-08 mainly results from increased tax equivalent and dividend revenue from Western Power (Networks) and dividends associated with the proposed winding up of the Subiaco Redevelopment Authority, partially offset by lower income tax equivalent revenue from the Insurance Commission of WA and lower dividend revenue from the Water Corporation.

The increases from Western Power (Networks) are due to increased profitability mainly from higher revenue partially offset by higher interest and depreciation costs. In addition, income tax equivalents have increased more than commensurately due to a reduction in deferred taxation liability (provided in earlier financial periods).

The lower income tax equivalent revenue from the Insurance Commission is due to lower profitability mainly due to increased insurance claims expenses.

The lower dividend revenue from the Water Corporation is due to lower profitability mainly from increased sales revenue being more than offset by reduced developers' contributions and increased staffing costs, interest, depreciation and other expenses. Income tax equivalents have not reduced commensurately due to a reduction in deferred taxation liability (provided in earlier financial periods). However, there will be a flow-on decrease in income tax equivalents in 2008-09.

Increases in 2009-10 and 2010-11 are mainly due to an expectation of improved returns from Western Power (Networks) and Water Corporation.

A more detailed overview of revenue from individual public corporations can be found in Appendix 8: *Public Corporations – Impact on General Government Revenue and Expenses.* 

# Mining Revenue<sup>6</sup>

The estimated outturn for mining revenue in 2006-07 is expected to be 22.0% higher than in 2005-06. This strong growth was driven by significant increases in iron ore prices (up 19.0%) and nickel prices (up by around 130%), and increases in production.

In 2007-08, mining revenue is forecast to increase by 12.8% (or \$290 million) to almost \$2.6 billion, primarily due to a further 9.5% rise in iron ore prices and increases in production in a number of key commodities, including iron ore, LNG and nickel. These increases are expected to more than offset the impact of a higher average exchange rate assumption relative to 2006-07 and an easing in a number of other commodity prices from very high levels in 2006-07.

Mining royalty revenue is forecast to increase further in 2008-09, with growth in iron ore and LNG production volumes more than offsetting the impact of expected declines in prices of most commodities. However, royalty revenue is projected to decline in 2009-10 and 2010-11, largely as a result of projected declines in most commodity prices, including a stepped decline in iron ore prices. These declines offset increases in production for several commodities (most notably iron ore and LNG) over the outyear period.

The mining royalty revenue estimates 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 average \$A/\$US exchange rate of US79.0 cents across all years (the average rate in the lead up to the budget cut-off date of 10 April 2007). This compares with an estimated average exchange rate of around US77.6 cents in 2006-07;
- an average oil price of \$US61.8 per barrel over the remainder of 2006-07, \$US66.40 per barrel in 2007-08, \$US67.60 per barrel in 2008-09, \$US67.30 per barrel in 2009-10 and \$US66.70 per barrel in 2010-11. These estimates are based on the average futures price 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 being formally approved or committed).

<sup>&</sup>lt;sup>6</sup> Mining revenue include mining royalties, North West Shelf royalties, and lease rentals. Mining royalties are paid to government by mining companies for the right to extract resources owned by the community.

Table 17

MINING ROYALTIES								
	2005-06 Actual \$m	2006-07 Estimated Actual \$m	2007-08 Budget Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	2010-11 Forward Estimate \$m		
Iron Ore	722	945	1,144	1,345	1,267	1,161		
Petroleum – excluding North West								
Shelf royalties	53	43	47	35	29	25		
Alumina	70	85	73	72	69	68		
Diamonds	44	21	26	31	24	31		
Mineral Sands	29	28	29	32	30	31		
Nickel	93	213	263	234	155	87		
Gold	92	118	124	122	121	117		
Other	82	101	109	110	98	94		
Mining Royalties (excluding North West Shelf grant) <sup>(a)</sup>	1,184	1,555	1,815	1,982	1,793	1,613		
Petroleum – North West Shelf grant <sup>(b)</sup> Total Mining Royalties (including	610	669	699	727	767	744		
North West Shelf Grant	1,794	2,223	2,514	2,709	2,559	2,357		
Lease Rentals <sup>(c)</sup>	63	43	43	43	43	43		
TOTAL MINING REVENUE	1,857	2,267	2,557	2,752	2,602	2,400		

(a) This is the GFS Royalty Income category.

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

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

Note: Columns may not add due to rounding.

*Iron ore* – Iron ore prices are assumed to increase by 9.5% in 2007-08, in line with the benchmark iron ore price settlement in December 2006. Production volumes are also expected to increase as existing producers expand their production capacity. Iron ore prices are expected to remain unchanged in 2008-09, before declining by 12.5% in both 2009-10 and 2010-11 as global production expands in response to increases in demand (and higher prices) in recent years. Price declines are projected to more than offset increases in production in these years from expansions of existing projects and new projects commencing production.

*Petroleum* – In 2007-08, petroleum royalties are expected to increase modestly, with the impact of higher LNG production volumes and a modestly higher assumed average oil price (\$US66.40/bl) relative to 2006-07 (\$US63.50/bl) more than offsetting a decline in crude oil production. The outyear estimates incorporate additional LNG volumes as the North West Shelf project's 5<sup>th</sup> LNG train commences production. This more than offsets an expected decline in crude oil production as a number of oil fields mature.

*Alumina* – Alumina royalties are forecast to decline through the budget period, with a large decline in 2007-08, followed by more modest declines in the outyears. With production volumes expected to remain steady, the projected decline in royalties reflects forecasts of an easing in alumina prices over the period.

*Diamonds* – After declining significantly in 2006-07, reflecting a combination of weaker prices and lower production, diamond royalties are forecast to rise in 2007-08, underpinned by an increase in production. In the outyears, trends in diamond royalties are significantly influenced by the transition of the Argyle diamond mine from open pit operations to underground mining. The first full year of production from the underground operations is expected to be 2010-11.

*Mineral Sands* – Royalties from mineral sands are expected to remain relatively stable over the forecast period, with increases in production volumes of ilmenite, leucoxene and rutile expected to be offset by weaker prices for ilmenite and leucoxene.

*Nickel* – Nickel royalties are anticipated to rise in 2007-08, boosted by a modest increase in the average nickel price (around \$US36,000/tonne, up from an estimated average of \$35,650/tonne in 2006-07). Volumes are projected to increase over the budget period, due to the commencement of production at the Ravensthorpe nickel mine. Increases in global nickel production are expected to result in nickel prices declining to longer term average levels by 2010-11.

Gold – Gold royalties are forecast to increase in 2007-08, due to increased production and a higher price assumption for 2007-08 (of \$US685/oz) relative to the average price in 2006-07 (of \$US629/oz). Over the outyears, the impact of increased gold production is expected to be more than offset by a gradual decline in gold prices. Based on ABARE forecasts, the gold price is expected to decrease steadily to \$US638/oz in 2010-11.

*Lease rentals* – these mining related charges are for exploration and production licences. Future lease rental payments will mainly be determined by the level of exploration activity and the measures adopted to address a backlog of mining lease applications. The commencement of the *Mining Amendment Act 2004* (in February 2006) led to a surge in mining lease applications (and associated payments of rent in advance), resulting in a one-off increase in lease rentals in 2005-06. Lease rentals have since returned to long-run average levels and are expected to remain constant at \$43 million per annum over the budget period.

# Other Revenue<sup>7</sup>

'Other' revenue is projected to decline by \$113 million in 2007-08, reflecting the removal of Capital User Charge arrangements with the Public Transport Authority from 1 July 2007 (following the passage of the *Financial Management Act 2006*). Across the outyears, 'other' revenue is projected to average around \$290 million per annum (or less than 2.0% of total average revenue).

<sup>&</sup>lt;sup>7</sup> The 'other' revenue category incorporates a range of revenue not elsewhere classified, including: fines for traffic-related infringements (e.g. on-the-spot, Multanova speed and red light camera infringements, and judicial fines and penalties; Capital User Charge revenue from the Public Transport Authority, donations and grants from private organisations, local governments and other levels of government within the Western Australian public sector; and net asset transfers. It also includes mining-related lease rentals for exploration and production licences paid to the Department of Industry and Resources (discussed previously under aggregate mining revenue)).

# General Government Expenses

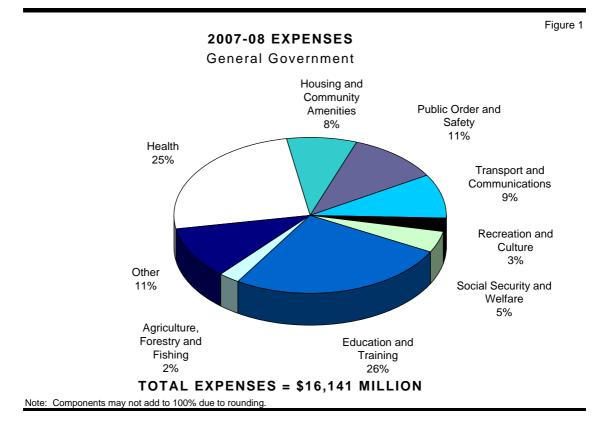
# Overview

This chapter is focused on spending by general government agencies and in particular the new policy decisions that have been taken by the Government in its key service delivery objectives.

This chapter is linked with information provided in the 2006-07 mid-year review and should be read in conjunction with that publication.

A key Government focus for the 2007-08 Budget is the continued resourcing of priority service delivery areas such as health, education and training and law and order, as well as specific initiatives and programs including child protection, climate change and housing affordability and land supply.

The following section outlines the expenditure initiatives in the 2007-08 Budget with details presented of major policy decisions for the relevant Government ministerial portfolios and agencies.



Total expenses in the areas of Health, Education and Training and Public Order and Safety account for 62% of general government annual expenses. While these areas remain a priority of government, the 2007-08 Budget also focuses on additional spending for Housing and Community Amenities, Social Security and Welfare and Transport and Communications.

# Health

General government spending on the health sector, which includes spending by the Department of Health and related agencies such as the Office of Health Review and the Health Promotion Fund, will increase by \$210 million (or 5.5%) in 2007-08.

Spending by the Department of Health will increase by \$206.8 million or by 5.4% and reflects the focus on implementing the State's health reform program, while continuing to meet the challenges of increasing demand for hospital and other health services. A significant portion of this increase will enable the continuation of the Mental Health Strategy reforms. In this regard, \$237.3 million will be spent in the Budget and forward estimate years to increase access to mental health emergency services, inpatient beds, community-based services and residential care, and to improve mental health workforce capacity, safety and quality.

In addition, over \$43 million of new State funding between 2007-08 and 2010-11 will be spent to continue a number of important programs jointly funded by the State and Commonwealth Governments, including the Home and Community Care program, which provides essential home-based support services to the elderly or disabled persons to enhance their capacity for independent living, thereby preventing admissions to hospitals or institutional care.

Substantial spending over the forward estimates will also meet wage cost pressures arising from existing Enterprise Bargaining Agreements for nurses and employees covered by the Health Services Union.

## **Education and Training**

Spending on the education and training sector, undertaken by the Department of Education and Training and other education-related agencies such as the Curriculum Council, the Department of Education Services, the Country High School Hostels Authority and TAFE colleges, is forecast to increase by \$228 million (or 5.6%) in 2007-08.

The increase relates predominantly to improvements in wages and conditions across the sector, including teachers, education assistants, cleaners and gardeners and the initial impact of the implementation of the policy to increase the school leaving age to 17 years.

The key policy decisions that will drive expenditure for the budget year focus on a continued emphasis on skills training as a strategy to respond to the skills shortages being experienced in Western Australia. The number of apprenticeship and traineeship places has increased and key recommendations of the Skills Formation Taskforce will be implemented to improve the responsiveness, flexibility and efficiency of the training system in Western Australia.

## **Public Order and Safety**

The Departments of Corrective Services and the Attorney General, Western Australia Police, and the Fire and Emergency Services Authority are the major agencies in this category. In 2007-08, spending in this area is forecast to rise by \$67 million (or 3.8%).

The increase in spending includes provision for the cost of the current Enterprise Bargaining Agreement for sworn police officers, recruitment of an additional 90 police officers and the establishment of a 50 member Police Rail Unit to be located at Rockingham, designed to enhance security on the Perth to Mandurah railway line. Also a range of offender management initiatives are aimed at re-entry programs, a prison system-wide drug strategy, specialised management of high-risk offenders in the community and implementation of a Regional Juvenile Justice Strategy at Kalgoorlie and Geraldton to provide intensive support programs for at-risk juveniles and their families.

#### **Transport and Communications**

In underlying terms<sup>1</sup>, spending on the transport and communications sector is forecast to increase by \$104 million (or 7.8%) in 2007-08. Spending in this sector includes the expenses of the Department for Planning and Infrastructure, Main Roads and central government grants to the Public Transport Authority.

<sup>&</sup>lt;sup>1</sup> Excludes the impact of the Capital User Charge for the Public Transport Authority (following passage of the *Financial Management Act 2006*). Also excludes financial assistance to the purchasers of the Dampier to Bunbury Natural Gas Pipeline. Under the arrangements at the time of the sale, the Government provided assistance in the form of a loan, which would be extinguished when commitments regarding expansion of the pipeline were satisfied. These commitments, and the associated expense removing the loan asset in the State's Government Finance Statistics balance sheet, are expected to be met by 30 June 2007.

Higher spending includes the extension of the LPG subsidy scheme, the implementation of improvements to the Department for Planning and Infrastructure's Licensing Business Unit, the preparation of a plan for the future extension of the Northern Suburbs rail line, the provision of additional car parking places at existing stations on the Northern Suburbs line and increased spending on road maintenance contracts by Main Roads.

#### **Housing and Community Amenities**

Spending in this area includes the operations of the Departments of Housing and Works and Environment and Conservation, the Water and Rivers Commission, the Land Information Authority, community service obligations to the Water Corporation, and grants to the Housing Authority. In 2007-08, these expenses are forecast to rise by \$155 million (or 12.9%).

The 2007-08 Budget contains a range of initiatives to improve housing affordability and land supply in Western Australia.

Additional spending has been committed to the Western Australian Housing Authority as a key part of the 2007-08 Budget to increase the availability of social housing. This will ensure the continuation of Western Australia's affordable housing programs through the sustained delivery of a combination of public and community housing, as part of an integrated social housing system.

An additional \$216 million will be spent to build the capacity of the Community Housing sector and expand the existing bond assistance scheme. Also \$35.3 million will be provided over four years to deliver a range of immediate and medium term actions for Aboriginal Town Based Communities.

The Government has focused on water management planning and improvements to information management through spending \$16.5 million over four years to maintain water resource investigation and management. Also \$7.5 million will be spent over three years to develop a sustainability strategy for the Gnangara Mound water system.

#### **Social Security and Welfare**

Expenditure in the Social Security and Welfare sector, which includes agencies such as the Departments for Communities and Child Protection, Indigenous Affairs, and the Disability Services Commission, is forecast to increase by \$57 million (or 8.3%) in 2007-08.

In September 2006 the Government announced a \$51 million (over four years) child protection package. In addition, in March 2007, as part of its response to the Ford Review of the Department for Community Development, the Government announced a package of structural reforms including the creation of the new Department for Child Protection and introduction of associated initiatives including:

- additional residential care placements;
- increased subsidies and support to foster carers;
- training;

Table 1

- other improvements to assist in retaining qualified staff; and
- specific plans to help Aboriginal children.

General government expense decisions by agency since the 2006-07 mid-year review are summarised in Table 1.

# SUMMARY OF EXPENSE POLICY DECISIONS BY AGENCY SINCE THE 2006-07 MID-YEAR REVIEW <sup>(a)</sup>

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Agriculture and Food	-	1.0	1.2	1.2	1.2
Attorney General	-	0.2	0.3	0.2	1.1
Child Protection	0.8	18.2	25.7	26.0	42.4
Communities	-	2.3	1.7	1.8	1.9
Consumer and Employment Protection	30.7	0.7	0.3	-	-
Department of Corrective Services	1.3	3.7	6.7	7.1	7.5
Education and Training	0.1	3.6	3.5	2.4	2.5
Environment and Conservation	1.4	4.6	12.9	11.9	12.3
Fire and Emergency Services Authority	-	1.2	1.2	1.2	1.2
Fisheries	0.1	-	-	-	-
Health	0.8	20.7	30.4	33.2	36.3
Housing and Works	-	44.3	68.9	69.0	69.4
Indigenous Affairs	-	0.6	0.6	0.6	0.6
Office of Energy	-	4.5	7.8	10.0	8.4
Planning and Infrastructure	1.1	17.2	15.9	21.1	17.8
Premier and Cabinet	0.1	0.2	0.2	0.2	0.2
Public Transport Authority <sup>(b)</sup>	-	2.2	0.6	1.2	1.8
Small Business Development Corporation	-	0.8	0.8	-	-
Sport and Recreation	0.8	0.3	0.3	0.3	0.3
Treasury and Finance	-	3.0	3.0	3.0	3.0
Western Australian Electoral Commission	-	-	5.0	-	-
Water and Rivers Commission	-	4.8	4.8	4.1	4.4
Western Australian Land Authority <sup>(b)</sup>	-	0.7	1.3	5.5	5.5
Western Australia Police	-0.1	1.6	2.7	1.8	2.4
TOTAL	37.2	136.4	195.7	201.8	220.1

(a) Information on policy decisions made prior to the 2006-07 mid-year review is contained in Appendix 3, 2006-07 Government Mid-year Review Financial Projections Statement. Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

(b) Represented as general government expenses by the Department of Treasury and Finance as grants and subsidies from the Consolidated Account to these public corporations.

# Policy Decisions Affecting Expense (by Portfolio)

# Summary

The 2007-08 Budget includes total general government expenses in 2007-08 of \$16,141 million which is approximately \$257 million greater than estimates presented in the December 2006 mid-year review, attributable to both policy decisions (\$136 million) and parameter variations (\$121 million).

Across the forward estimates to 2010-11, expense policy decisions since the 2006-07 mid-year review total approximately \$754 million.

#### **Areas of Strategic Priority**

The focus of the 2007-08 Budget since the mid-year review, is highlighted by major policy decisions in the following key service delivery objectives.

#### **Child Protection and Communities (\$108 million)**

The budget provides for implementation of the Ford Review Report – Review of the Department for Community Development recommendations, including the establishment of two new departments - the Department for Child Protection and the Department for Communities, and new initiatives and programs including additional residential care placements, increased subsidies to foster carers, and strategies to retain and attract staff.

## Climate Change (\$92 million)

A number of initiatives and programs are provided for in the budget, mainly within the Department of Environment and Conservation and the Office of Energy, as the State's response to climate change in Western Australia including the establishment of a Low Emission Energy Development Fund, government purchase of green power and an expanded Solar Schools Program.

## Housing Affordability and Land Supply (\$210 million)

An additional \$210 million over the next four years will be used to build the capacity of the Community Housing Sector with \$30 million allocated in 2007-08 to grow the sector, including rental accommodation managed by non-profit community organisations and local governments.

#### Health (\$117 million)

Additional expenditure of \$117 million has been approved for the continuation of the Mental Health Strategy, primarily focusing on enhancing the response of public hospital services, expanding community based services and the provision of long-term residential care to persons with a mental illness.

#### Halls Creek Response (\$16 million)

The budget provides for a targeted local response to address child protection in Halls Creek through the establishment of two hostels and other support services mainly delivered by the Departments for Child Protection, Housing and Works, Indigenous Affairs and Education and Training.

#### Licensing Business Unit (\$66 million)

The budget and forward estimates include provision for the implementation of a plan to modernise the delivery of licensing services and improve motor vehicle inspections and motor licence assessment wait times at a cost of \$66 million over the forward estimates period.

Detailed portfolio and agency commentary is provided below.

# Policy Decisions by Portfolio

# PREMIER; MINISTER FOR FEDERAL-STATE RELATIONS; TRADE; INNOVATION; SCIENCE; PUBLIC SECTOR MANAGEMENT

					Table 2				
POLICY DECISIONS SIN GENERAL GO				ECTING					
	2006-07	2007-08	2008-09	2009-10	2010-11				
	\$m	\$m	\$m	\$m	\$m				
CHANGES BETWEEN 2006-07 BUDGET AND 2006-07 MID-YEAR REVIEW <sup>(a)</sup>									
Premier and Cabinet									
<ul> <li>Perth Hindu Temple Grant</li> </ul>	0.6	-	-	-	-				
<ul> <li>Functional Review Program</li> </ul>	0.4	-	-	-	-				
<ul> <li>Association for the Blind of WA Grant</li> </ul>	0.2	-	-	-	-				
<ul> <li>Building WA Campaign</li> </ul>	0.2	0.1	0.1	0.1	-				
<ul> <li>Department for Community Development</li> </ul>	0.1	-	-	-	-				
<ul> <li>Department of Industry and Resources</li> </ul>									
Functional Review	0.1	-	-	-	-				
<ul> <li>ANZAC Day Small Grants Scheme</li> </ul>	0.5	0.5	-	-	-				
<ul> <li>Ministerial Air Charter</li> </ul>	4.9	1.9	2.0	2.2	2.4				
<ul> <li>Strategies to Enhance Aboriginal Peoples</li> </ul>									
Participation in the Economic and Cultural									
Growth of Western Australia	0.4	0.7	0.1	-	-				
- Total	7.4	3.1	2.2	2.3	2.4				
PORTFOLIO TOTAL	7.4	3.1	2.2	2.3	2.4				
CHANGES BETWEEN 2006-07 MID-YEAR REVIE	W AND 2007-	08 BUDGET							
Premier and Cabinet									
- Council for the Australian Federation	0.1	0.2	0.2	0.2	0.2				
- Total	0.1	0.2	0.2	0.2	0.2				
- /0(4)	0.1	0.2	0.2	0.2	0.2				
PORTFOLIO TOTAL	0.1	0.2	0.2	0.2	0.2				

(a) Further information is contained in Appendix 3, 2006-07 *Government Mid-year Review Financial Projections Statement.* Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

# **Premier and Cabinet**

# **Council for the Australian Federation**

Additional expenditure of \$0.8 million has been approved as the State Government's contribution to the Council for the Australian Federation, which will allow a coordinated State and Territory approach to negotiations with the Commonwealth government.

# DEPUTY PREMIER; TREASURER; MINISTER FOR STATE DEVELOPMENT

#### POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING GENERAL GOVERNMENT EXPENSES

Table 3

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m				
CHANGES BETWEEN 2006-07 BUDGET AND 200	06-07 MID-YE	AR REVIEW	(a)						
Industry and Resources - Mirambeena Timber processing Precinct – Common User Infrastructure	_	4.2	1.1	-	_				
<ul> <li>Boddington Gold Mine – Social Infrastructure Package</li> </ul>	2.5	4.3	2.3	-	-				
<ul> <li>Indigenous Economic Development Strategy</li> <li>Regional Partnership Agreement Fund</li> <li>Access 31</li> </ul>	1.4 0.2 0.3	-	-	-	-				
<ul> <li>Access 51</li> <li>Burrup Dampier Archipelago Bilateral</li> <li>Total</li> </ul>	0.5 0.5 <i>4.9</i>	0.6 9.1	0.6 <i>4.0</i>	0.6 <i>0.6</i>	-				
PORTFOLIO TOTAL	4.9	9.1	4.0	0.6	-				
CHANGES BETWEEN 2006-07 MID-YEAR REVIEW AND 2007-08 BUDGET									
Treasury and Finance - Works Centre of Expertise - Total	- -	3.0 3.0	3.0 3.0	3.0 3.0	3.0 3.0				
PORTFOLIO TOTAL	-	3.0	3.0	3.0	3.0				

(a) Further information is contained in Appendix 3, 2006-07 Government Mid-year Review Financial Projections Statement. Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

# **Treasury and Finance**

#### **Works Centre of Expertise**

A Works Centre of Expertise (CoE) will be established to improve collaboration and coordination across 'works' procurement. The benefits of reform through the CoE will primarily be cost minimisation through a focus on better planning and project management. The CoE will focus on benefits largely accruing from improved project definition, better costing and budgeting, and a minimisation of scope creep.

The Works CoE initiative will aim to achieve the best possible value-for-money for taxpayers' dollars from the Capital Works Program, through a focus on better planning, procurement practice and contract management. This will allow the Government to efficiently and effectively plan and approve forward Capital Works Programs, with an enhanced level of confidence that projects will be delivered within the financial parameters of the forward estimates.

Table 4

# MINISTER FOR AGRICULTURE AND FOOD; FORESTRY; THE MID WEST AND WHEATBELT; GREAT SOUTHERN

## POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING GENERAL GOVERNMENT EXPENSES

2006-07 §m       2007-08 §m       2008-09 §m       2009-10 §m       2010-11 §m         CHANGES BETWEEN 2006-07 BUDGET AND 2006-07 MID-VER REVIEW         Agriculture and Food       -       -         - Locusts outbreak       7.4       -       -         - Locusts outbreak       2.2       -       -         - Assistance for Regional Saleyards       -       8.5       -         - Total       9.6       0.8       -       -         Rural Business Development Commission       -       8.5       -       -         - 2006 Dry Seasons – Assistance Scheme       2.6       0.8       -       -       -         PORTFOLIO TOTAL       12.2       0.8       8.5       -       -       -         PORTFOLIO TOTAL       12.2       0.8       8.5       -       -       -         - Dried meat sausage wild dog bait       -       0.9       1.0       1.0       1.0         - Apiary products       -       0.1       0.2       0.2       0.2       0.2         - Total       -       -       0.1       1.0       1.0       1.0										
Agriculture and Food       7.4       -       -       -       -         - Locusts outbreak       7.4       -										
- Locusts outbreak       7.4       -       -       -       -         - European Starling outbreak       2.2       -       -       -       -         - Assistance for Regional Saleyards       -       8.5       -       -       -         - Total       9.6       -       8.5       -       -       -         Rural Business Development Commission       -       -       8.5       -       -         - 2006 Dry Seasons – Assistance Scheme       2.6       0.8       -       -       -         - Total       2.6       0.8       -       -       -       -         PORTFOLIO TOTAL       12.2       0.8       8.5       -       -       -         CHANGES BETWEEN 2006-07 MID-YEAR REVIEW AND 2007-UBUGET       -       -       -       -       -         Agriculture and Food       -       0.9       1.0       1.0       1.0       1.0         - Dried meat sausage wild dog bait       -       0.9       1.0       1.0       1.0       1.0         - Apiary products       -       0.1       0.2       0.2       0.2       0.2         - Total       -       1.0       1.2       1.2       1.2	CHANGES BETWEEN 2006-07 BUDGET AND 2	006-07 MID-YE	AR REVIEW	(a)						
European Starling outbreak       2.2       - <td< td=""><td>Agriculture and Food</td><td></td><td></td><td></td><td></td><td></td></td<>	Agriculture and Food									
- Assistance for Regional Saleyards       -       -       8.5       -       -         - Total       9.6       -       8.5       -       -         Rural Business Development Commission       -       -       8.5       -       -         - 2006 Dry Seasons – Assistance Scheme       2.6       0.8       -       -       -         - Total       2.6       0.8       -       -       -       -         PORTFOLIO TOTAL       12.2       0.8       8.5       -       -         CHANGES BETWEEN 2006-07 MID-YEAR REVIEW AND 2007-08       BUDGET       -       -       -         Agriculture and Food       -       0.9       1.0       1.0       1.0         - Dried meat sausage wild dog bait       -       0.9       0.1       0.2       0.2       0.2         - Total       -       1.0       1.2       1.2       1.2       1.2	<ul> <li>Locusts outbreak</li> </ul>	7.4	-	-	-	-				
- Total       9.6       -       8.5       -       -         Rural Business Development Commission       -       2.6       0.8       -       -       -         - 2006 Dry Seasons – Assistance Scheme       2.6       0.8       -       -       -       -         - Total       2.6       0.8       -       -       -       -       -         PORTFOLIO TOTAL       12.2       0.8       8.5       -       -       -         CHANGES BETWEEN 2006-07 MID-YEAR REVIEW AND 2007-08       BUDGET       -       -       -       -         Agriculture and Food       -       0.9       1.0       1.0       1.0       1.0         - Dried meat sausage wild dog bait       -       0.9       1.0       1.0       1.0         - Apiary products       -       0.1       0.2       0.2       0.2         - Total       -       1.0       1.2       1.2       1.2		2.2	-	-	-	-				
Rural Business Development Commission       2006 Dry Seasons – Assistance Scheme       2.6       0.8       -       -       -         - Total       2.6       0.8       -       -       -       -         PORTFOLIO TOTAL       12.2       0.8       8.5       -       -         CHANGES BETWEEN 2006-07 MID-YEAR REVIEW AND 2007-08       BUDGET       -       -         Agriculture and Food       -       0.9       1.0       1.0       1.0         - Dried meat sausage wild dog bait       -       0.9       0.1       0.2       0.2       0.2         - Total       -       1.0       1.0       1.0       1.0       1.0       1.0		-	-		-	-				
- 2006 Dry Seasons – Assistance Scheme       2.6       0.8       -       -       -         - Total       2.6       0.8       -       -       -       -         PORTFOLIO TOTAL       12.2       0.8       8.5       -       -         CHANGES BETWEEN 2006-07 MID-YEAR REVIEW AND 2007-08 BUDGET       -       -       -         Agriculture and Food       -       0.9       1.0       1.0       1.0         - Dried meat sausage wild dog bait       -       0.9       1.0       1.0       1.0         - Apiary products       -       0.1       0.2       0.2       0.2         - Total       -       1.0       1.2       1.2       1.2	- Total	9.6	-	8.5	-	-				
- Total       2.6       0.8       -       -       -         PORTFOLIO TOTAL       12.2       0.8       8.5       -       -         CHANGES BETWEEN 2006-07 MID-YEAR REVIEW AND 2007-US       BUDGET       -       -       -         Agriculture and Food       -       0.9       1.0       1.0       1.0         - Dried meat sausage wild dog bait       -       0.9       1.0       1.0       1.0         - Apiary products       -       0.1       0.2       0.2       0.2         - Total       -       1.0       1.2       1.2       1.2		0.0	0.0							
CHANGES BETWEEN 2006-07 MID-YEAR REVIEW AND 2007-08 BUDGET         Agriculture and Food       -       0.9       1.0       1.0       1.0         - Dried meat sausage wild dog bait       -       0.9       1.0       1.0       1.0         - Apiary products       -       0.1       0.2       0.2       0.2         - Total       -       1.0       1.2       1.2       1.2				-	-	-				
Agriculture and Food       -       0.9       1.0       1.0       1.0         - Dried meat sausage wild dog bait       -       0.9       1.0       1.0       1.0         - Apiary products       -       0.1       0.2       0.2       0.2         - Total       -       1.0       1.2       1.2       1.2	PORTFOLIO TOTAL	12.2	0.8	8.5	-	-				
- Dried meat sausage wild dog bait       -       0.9       1.0       1.0       1.0         - Apiary products       -       0.1       0.2       0.2       0.2         - Total       -       1.0       1.2       1.2       1.2	CHANGES BETWEEN 2006-07 MID-YEAR REVIEW AND 2007-08 BUDGET									
- Dried meat sausage wild dog bait       -       0.9       1.0       1.0       1.0         - Apiary products       -       0.1       0.2       0.2       0.2         - Total       -       1.0       1.2       1.2       1.2	Agriculture and Food									
- Apiary products - 0.1 0.2 0.2 0.2 - Total - 1.0 1.2 1.2 1.2		_	0.9	1.0	1.0	1.0				
- Total - 1.0 1.2 1.2 1.2	5 5	_								
		-		•	•	•				
PORTFOLIO TOTAL - 1.0 1.2 1.2 1.2	PORTFOLIO TOTAL	-	1.0	1.2	1.2	1.2				

(a) Further information is contained in Appendix 3, 2006-07 *Government Mid-year Review Financial Projections Statement.* Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.
 (b) Amount less than \$50,000.

Note: columns may not add due to rounding.

# Agriculture and Food

#### **Dried Meat Sausage Wild Dog Bait**

Expenditure of \$0.9 million in 2007-08 and \$1.0 million per annum thereafter has been approved for the manufacture of dried sausage meat bait to cater for the demand from farmers and government agencies to control wild dogs. This expenditure will be funded by full cost recovery from users.

#### **Apiary Products**

A new fee has been introduced to ensure the compliance of apiary products brought into Western Australia.

The new fee structure is based on full cost recovery and the Department of Agriculture and Food will incur expenditure of \$100,000 in 2007-08 and \$200,000 per annum thereafter. It is anticipated that this fee will enable greater assessment and testing of apiary products for disease control.

# MINISTER FOR LOCAL GOVERNMENT; RACING AND GAMING; MULTICULTURAL INTERESTS AND CITIZENSHIP; GOVERNMENT ENTERPRISES; MINISTER ASSISTING THE MINISTER FOR PLANNING AND INFRASTRUCTURE; GOLDFIELDS-ESPERENCE; YOUTH

## POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING GENERAL GOVERNMENT EXPENSES <sup>(a)</sup>

Table 5

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 BUDGET AND 2000	6-07 MID-YE	AR REVIEW			
Local Government and Regional Development - Wittenoom Relocation Fund - Total	0.4 0.4	_ (b) _ (b)	-	-	-
Racing, Gaming and Liquor <ul> <li>Implementation of Liquor Licensing Reforms</li> <li>Total</li> </ul>	1.7 1.7	0.9 <i>0.9</i>	0.9 <i>0.9</i>	0.9 <i>0.9</i>	1.0 1.0
PORTFOLIO TOTAL	2.1	0.9	0.9	0.9	1.0

(a) The above table identifies policy decisions impacting on general government expenses made for this portfolio between the 2006-07 Budget and the 2006-07 Mid-year Review. Further information on these decisions is contained in Appendix 3, 2006-07 Government Mid-year Review Financial Projections Statement.

(b) Amount less than \$50,000.

Note: columns may not add due to rounding.

Table 6

# MINISTER FOR POLICE AND EMERGENCY SERVICES; COMMUNITY SAFETY; WATER RESOURCES; SPORT AND RECREATION

## POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING **GENERAL GOVERNMENT EXPENSES**

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 BUDGET AND 200	6-07 MID-YE	AR REVIEW	(a)		
Sport and Recreation <ul> <li>Adventure Tourism Standards</li> <li>Indigenous Sport and Recreation Services and</li> </ul>	0.1	0.1	-	-	-
Infrastructure Plan - Total	0.1 <i>0.2</i>	0.1 <i>0.2</i>	-	-	-
Water and Rivers Commission – Farm Water Grants Scheme – Total	- -	2.0 2.0	-	-	-
Water Corporation <sup>(b)</sup> - Wiluna waste water - Total	0.2 0.2	0.4 0.4	0.4 0.4	0.4 0.4	0.4 <i>0.4</i>
PORTFOLIO TOTAL	0.4	2.6	0.4	0.4	0.4
CHANGES BETWEEN 2006-07 MID-YEAR REVIEW	W AND 2007-	08 BUDGET			
<ul> <li>Western Australia Police</li> <li>Carnarvon Police and Justice Complex</li> <li>Rockingham Police Rail Unit</li> <li>Secret Harbour Police Station</li> <li>Recruitment Campaign</li> <li>Total</li> </ul>	-0.1 - -0.1	-0.2 0.8 0.1 1.0 1.6	0.6 0.8 0.3 1.0 2.7	0.9 1.0 1.8	1.2 1.2 2.4
Fire and Emergency Services Authority - Community Emergency Management Officers - Total	-	1.2 1.2	1.2 1.2	1.2 1.2	1.2 1.2
Sport and Recreation - Stamp Duty Relief - Tom Hoad Cup – Assistance for event expansion - Total	0.5 0.3 <i>0.8</i>	0.3 0.3	0.3 0.3	0.3 0.3	0.3 - 0.3
<ul> <li>Water and Rivers Commission</li> <li>Maintain Water Resource Investigation and Management</li> <li>Gnangara Sustainability Strategy</li> <li>Total</li> </ul>	- - -	3.5 1.4 <i>4</i> .8	3.6 1.2 4.8	4.1 - 4.1	4.4 - 4.4
PORTFOLIO TOTAL	0.7	7.9	9.0	7.4	8.3

(a) Further information is contained in Appendix 3, 2006-07 Government Mid-year Review Financial Projections Statement. Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period. Represented as general government expenses by the Department of Treasury and Finance as grants and subsidies from the

(b) Consolidated Account to these public corporations.

Note: columns may not add due to rounding.

# Western Australia Police

#### **Carnarvon Police and Justice Complex**

Additional expenditure of \$2.4 million over the forward estimates period has been approved to meet the operational costs associated with a Justice centre to be shared by the Western Australia Police and the Department of the Attorney General.

#### **Rockingham Police Rail Unit**

\$1.6 million over two years has been approved to meet the operational costs of a new \$5.7 million purpose-built police facility, to be constructed adjacent to the Rockingham railway station, to accommodate the new Police Rail Unit established to service the Southern Suburbs railway line.

#### **Secret Harbour Police Station**

\$2.5 million has been approved over the forward estimates to meet operational costs associated with the new \$10 million Secret Harbour Police Station.

#### **Recruitment Campaign**

Additional expenditure of \$1.0 million in 2007-08 and 2008-09 has been approved to assist in the marketing campaign for the recruitment of additional police officers and to provide extra resources to assist the Police Academy in meeting the demand for extra recruits.

# Fire and Emergency Services Authority

#### **Community Emergency Management Officers**

Additional expenditure of \$1.2 million per annum has been approved from 2007-08 onwards to continue the Community Emergency Management Officers initiative in order to assist communities in developing and implementing emergency risk management initiatives, enhancing protective measures for critical infrastructure and providing emergency management and security awareness training for local government.

## **Sports and Recreation**

#### Tom Hoad Cup – Assistance for event expansion

Additional expenditure of \$300,000 in 2006-07 has been approved for the expansion of the Tom Hoad Cup, a water polo teams event that attracts international teams to Western Australia.

#### **Stamp Duty Relief**

An amount of \$1.7 million over five years will be spent to establish a funding scheme for financial relief to sports organisations whose sponsorship arrangements with vehicle dealers were adversely affected by a stamp duty ruling by the Commissioner of State Revenue.

## Water and Rivers Commission

#### **Maintain Water Resource Investigation and Management**

Additional expenditure of \$15.6 million over four years from 2007-08 has been approved to continue improvements in surface water and groundwater monitoring, bore maintenance, groundwater assessment and modelling, a water information database, water source protection plans and environmental water provision assessment.

#### **Gnangara Sustainability Strategy**

\$7.5 million over three years from 2007-08 has been approved to develop a sustainability strategy for the Gnangara Mound water system, which provides approximately 80% of Perth's water supply. This will result in a water management regime that identifies sustainable yields, while also funding a number of complementary activities, including prescribed burning to increase groundwater recharge and a study of biodiversity issues.

The Gnangara Sustainability Strategy will be developed by an interagency taskforce consisting of the Departments of Environment and Conservation, Planning and Infrastructure, Agriculture and Food, the Forest Products Commission and the Water Corporation. Of the total allocation, \$2.6 million will fund activities to be implemented by the Water and Rivers Commission.

# ATTORNEY GENERAL; MINISTER FOR HEALTH; ELECTORAL AFFAIRS

Table 7

POLICY DECISIONS SINCE 2 GENERAL GOVER				TING	
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 BUDGET AND 2006	-07 MID-YE	AR REVIEW	(a)		
Attorney General - Interim ex-gratia payment - <i>Total</i>	0.2 0.2	:	-	-	-
Health - Alzheimers Australia (WA) - <i>Total</i>	2.2 2.2	-	-	-	-
Equal Opportunity Commission - Establishment of a Housing Rights Project Team - Total	0.2 <i>0.2</i>	0.2 0.2	0.3 0.3	0.3 0.3	- -
<ul> <li>Western Australian Electoral Commission</li> <li>Funding of candidates contesting Western Australian elections</li> <li>Total</li> </ul>	0.2 0.2	0.2 <i>0.2</i>	0.1 <i>0.1</i>	2.9 2.9	0.1 <i>0.1</i>
PORTFOLIO TOTAL	2.8	0.4	0.4	3.2	0.1
CHANGES BETWEEN 2006-07 MID-YEAR REVIEW	AND 2007-	08 BUDGET			
<ul> <li>Attorney General</li> <li>Carnarvon Police and Justice Complex</li> <li>Recruitment and Development – Parliamentary Counsel</li> <li>Total</li> </ul>	-	- 0.2 0.2	- 0.3 <i>0.3</i>	- 0.2 0.2	1.0 0.1 <i>1.1</i>
Health - Mental Health - Tobacco Licensing Scheme Fees - Total	0.8 <i>0.8</i>	20.0 0.7 20.7	29.5 0.8 30.4	32.4 0.8 33.2	35.4 0.9 36.3
Western Australian Electoral Commission - Referendum on Daylight Saving - Total	-	-	5.0 5.0	-	-
PORTFOLIO TOTAL	0.8	20.9	35.7	33.4	37.4

(a) Further information is contained in Appendix 3, 2006-07 *Government Mid-year Review Financial Projections Statement.* Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

# **Attorney General**

#### **Carnarvon Police and Justice Complex**

Capital expenditure has been approved for the construction of a major new facility to be shared by the Department of the Attorney General (DOTAG) and the Western Australia Police. The complex will comprise a courthouse and Community Justice Services Centre. Operational expenditure of \$1 million per annum will be incurred by DOTAG in relation to this complex commencing in 2010-11.

## **Recruitment and Development – Parliamentary Counsel**

In order to ensure the continued provision of specialised services in the area of legislative drafting, an additional \$0.8 million over four years will be spent by the Parliamentary Council on the recruitment and training of staff.

# Health

# **Mental Health**

Additional expenditure has been approved to enable the continuation of the Mental Health Strategy 2004-07. Consistent with the principles of the State's health reform agenda, the Strategy advocates an increased focus on community-based accommodation and long-term residential care options.

In addition, the Strategy enhances access to mental health emergency services and inpatient beds, and seeks to improve mental health workforce capacity, safety and quality.

## **Tobacco Licensing Scheme Fees**

A new fee regime, related to changes in tobacco regulation and licensing, has been approved requiring the licensing of sellers of tobacco products at wholesale and retail levels. The new fee structure is based on full cost recovery and will enable more extensive monitoring of the sale of tobacco.

# Western Australian Electoral Commission

# **Referendum on Daylight Saving**

\$5.0 million will be spent to conduct a Referendum on Daylight Saving in 2009.

# MINISTER FOR EMPLOYMENT PROTECTION; HOUSING AND WORKS; INDIGENOUS AFFAIRS; HERITAGE; LAND INFORMATION

POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING
GENERAL GOVERNMENT EXPENSES

Table 8

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m			
CHANGES BETWEEN 2006-07 BUDGET AND 2006	-07 MID-YE	AR REVIEW	(a)					
Consumer and Employment Protection <ul> <li>Employment Law Centre</li> <li>Incorporated Associations Legislation</li> <li>Total</li> </ul>	0.1 - 0.1	0.5 0.5	0.5 0.5	0.5 <i>0.5</i>	0.5 0.5			
Heritage Council of Western Australia - St Mary's Cathedral - Maley's Bridge - Greenough - Total	2.0 0.1 2.1	-	- - -	- - -	- -			
Housing and Works <ul> <li>Pyrton Site demolition costs</li> <li>Building WA</li> <li>Total</li> </ul>	2.5 0.6 3.1	-	- - -	- - -	- -			
Indigenous Affairs <ul> <li>Regional Partnership Agreement Fund</li> <li>Gordon Inquiry Evaluation</li> <li>Aboriginal Town Based Communities</li> <li>Total</li> </ul>	0.3 0.2 0.7 1.2	0.2 0.1 0.3	- - 0.1 <i>0.1</i>	- - -	- - -			
PORTFOLIO TOTAL	6.5	0.8	0.6	0.5	0.5			
CHANGES BETWEEN 2006-07 MID-YEAR REVIEW AND 2007-08 BUDGET								
<ul> <li>Consumer and Employment Protection</li> <li>Compensation Fund – Finance Broker Victims</li> <li>Employment Law Centre</li> <li>Establishment of a Fair Employment Advocate in Western Australia</li> <li>Total</li> </ul>	30.0 - 0.7 <i>30.7</i>	0.3 0.4 0.7	0.3 - 0.3	- - -	- - -			
<ul> <li>Housing and Works</li> <li>Indigenous Housing – Town Based Communities</li> <li>Growing the Community Housing Sector</li> <li>Halls Creek Response - Project Team</li> <li>Increased Bond Assistance</li> <li>Total</li> </ul>	- - - -	8.3 30.0 0.3 5.7 44.3	8.7 60.0 0.3 - 68.9	9.0 60.0 - - 69.0	9.4 60.0 - - 69.4			
Indigenous Affairs <ul> <li>Halls Creek Response - East Kimberley Priority</li> <li>Initiatives</li> <li>Total</li> </ul>	-	0.6 <i>0</i> .6	0.6 <i>0.6</i>	0.6 <i>0.6</i>	0.6 <i>0.6</i>			
PORTFOLIO TOTAL	30.7	45.6	69.8	69.6	70.0			

(a) Further information is contained in Appendix 3, 2006-07 *Government Mid-year Review Financial Projections Statement*. Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

# **Consumer and Employment Protection**

#### **Compensation Fund for Finance Broker Victims**

Additional expenditure of \$30.0 million has been approved to establish a compensation fund/settlement package to resolve the *Van Stokkum v State of Western Australia* Supreme Court damages claim. The package will ensure that all victims of the Finance Broking Scandal will benefit from access to the compensation fund.

#### **Employment Law Centre**

Expenditure of \$0.5 million over two years has been approved to enable the Employment Law Centre (ELC) to continue its operations following the Federal Government's decision to cease funding from 30 November 2006.

The ELC is a community legal centre that provides specialist employment related legal services to disadvantaged workers. It provides a diverse range of services, which include free information, advice, support, advocacy, referrals, training, community legal education and representation.

#### Establishment of a Fair Employment Advocate in Western Australia

Expenditure of \$1.2 million over two years has been approved for the establishment of a Fair Employment Advocate (FEA), which is one of the first in a range of reforms in response to the Commonwealth Government's Work Choices Legislation. The FEA's role will be to seek to ensure fairer, safer and more productive workplaces in Western Australia.

The FEA will be involved in educating and providing advice to employers and employees about their rights, as well as monitoring and reporting on the impact of the federal industrial relations system in Western Australia.

## **Housing and Works**

#### **Indigenous Housing – Town Based Communities**

The Government has committed \$35.3 million over four years to deliver a range of immediate and medium term actions for Aboriginal Town Based Communities. These actions include:

- critical maintenance and repairs for health and safety;
- community cleanup, including demolitions where required;
- major upgrades and refurbishments where required;
- stock replacements and new housing where identified as a high priority; and
- acquisition and establishment of transitional accommodation in towns where community closures result in a high need.

#### Growing the Community Housing Sector

Over the next four years, an additional \$210.0 million will be invested to build the capacity of the Community Housing sector (in addition to a further \$157.0 million for the construction/purchase of public housing). In 2007-08, \$30.0 million will be committed to growing the sector under the key provider strategy. Community Housing includes rental accommodation managed by non-profit community organisations, housing associations and local governments. It provides tenants with an affordable alternative to renting in public or private rental markets.

Over the last decade, the Housing Authority has focussed on refurbishing its stock, through the New Living Program and diversifying the location of public housing. As a consequence of this strategy the quality of the Authority's stock has significantly improved, although overall stock numbers have remained stable. The additional expenditure provided for Community Housing and for the construction/purchase of public housing will maintain the existing overall stock numbers over the next four years.

#### Halls Creek Response - Project Team

A Halls Creek Project Management team is to be established within the Department of Housing and Works at a cost of \$250,000 per annum in 2007-08 and 2008-09. The project, which will seek to build the capacity of the local Halls Creek community, is a cooperative initiative between the Government and the Shire of Halls Creek, in pursuit of agreed objectives such as improving education outcomes, training and home ownership.

#### **Increased Bond Assistance**

An additional \$5.7 million has been approved in 2007-08 to facilitate expansion of the bond assistance scheme through an increased bond loan limit, along with higher income eligibility limits. This will result in more families and singles being assisted with entry costs into private rental accommodation. In addition, clients in hardship or at risk of being homeless can increase their bond loan to meet ingoing fees that are in addition to bond requirements. The ingoing fees loan will cover letting fees and rent required to be paid in advance.

## **Indigenous Affairs**

#### Halls Creek Response - East Kimberley Priority Initiatives

As part of the total \$21.6 million planned expenditure on the Halls Creek Response, including infrastructure funding, \$2.4 million has been allocated over four years to address priority initiatives within the East Kimberley region.

Table 9

# MINISTER FOR PLANNING AND INFRASTRUCTURE

POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING **GENERAL GOVERNMENT EXPENSES** 

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 BUDGET AND 2006	6-07 MID-YE	AR REVIEW	(a)		
Planning and Infrastructure					
<ul> <li>Contribution to the Code Management Company</li> <li>LPG Subsidy Scheme</li> </ul>	0.1 6.4	0.1 9.4	- 10.6	- 11.9	- 12.3
<ul> <li>Oakajee Port and industrial estate essential</li> </ul>	-				
studies	1.3	1.2	-	-	-
<ul> <li>Owner/Drivers (Contracts and Disputes) Bill 2006</li> <li>Planning Services</li> </ul>	0.3 6.2	0.3	0.2	0.2	0.2
- Total	14.2	11.1	10.8	12.1	12.5
Public Transport Authority <sup>(b)</sup>					
<ul> <li>Eastern Goldfields Transport Board</li> </ul>	0.4	0.4	0.4	0.4	0.4
<ul> <li>Procurement of Additional Railcars</li> </ul>	1.0	2.9	5.9	11.8	11.3
- Total	1.4	3.3	6.3	12.2	11.7
PORTFOLIO TOTAL	15.6	14.4	17.1	24.3	24.2
CHANGES BETWEEN 2006-07 MID-YEAR REVIEW	AND 2007-	08 BUDGET			
Planning and Infrastructure					
<ul> <li>North West Corridor Co-ordinating Committee</li> </ul>	0.2	0.3	-	-	-
<ul> <li>National Reform Rail Safety Bill</li> </ul>	1.0	1.2	1.4	1.5	1.5
Licensing Business Unit	-	15.7	14.4	19.6	16.2
- Total	1.1	17.2	15.9	21.1	17.8
Public Transport Authority <sup>(b)</sup>					
<ul> <li>Clarkson to Jindalee Rail Extension –Master Planning</li> </ul>	-	2.1			
- Northern Suburbs Public Transport	-	2.1	-	-	-
Improvements – Car Park Expansion	-	0.1	0.6	1.2	1.8
- Total	-	2.2	0.6	1.2	1.8
Western Australian Land Authority <sup>(b)</sup>					
<ul> <li>Australian Marine Complex Common User</li> </ul>					
Facility Upgrade	-	-	-	5.5	5.5
<ul> <li>Mounts Bay Foreshore Development Master Planning</li> </ul>	_	0.7	1.3	_	_
- Total	-	0.7	1.3	5.5	5.5
PORTFOLIO TOTAL	1.1	20.1	17.8	27.8	25.1

(a) Further information is contained in Appendix 3, 2006-07 *Government Mid-year Review Financial Projections Statement*. Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.
 (b) Represented as general government expenses by the Department of Treasury and Finance as grants and subsidies from the Consolidated Account to these public corporations.

Note: columns may not add due to rounding.

# **Planning and Infrastructure**

#### North West Corridor Coordinating Committee

Additional expenditure of \$0.5 million over two years has been approved to meet the operational costs of the North West Corridor Coordinating Committee that was established to prepare an economic development plan for the Upper Northern Metropolitan Region. This plan will better inform Government policy development and planning in the Joondalup and Wanneroo local government areas.

#### National Reform Rail Safety Bill

The *National Reform Rail Safety Bill* provides for rail safety legislation that will form part of a system of nationally consistent rail safety laws. These laws are intended to deliver a higher degree of regulatory harmonisation across jurisdictions and, when enacted, replaces the current *Rail Safety Act 1998*. Additional expenditure is required for the ongoing administration of the new legislation, which will be fully funded from revenue raised from new fees and charges.

#### **Licensing Business Unit**

The Government has approved additional operating expenses of \$65.9 million over four years to implement the Licensing Business Unit's strategic development plan. Implementation of the plan will improve customer service through the modernisation of delivery of licensing services including:

- improved payment facilities;
- upgrades to infrastructure; and
- consistent information across all licensing centres and the internet.

Additional resources will be utilised to improve motor vehicle inspections and motor drivers licence assessment wait times.

# **Public Transport Authority**

## **Clarkson to Jindalee Master Planning**

Expenditure of \$2.1 million in 2007-08 has been approved to enable the Public Transport Authority to undertake detailed investigation and planning for the extension of the Northern Suburbs Transit System from Clarkson to Jindalee.

#### **Northern Suburbs Car Park Expansion**

Additional expenditure of \$3.7 million between 2007-08 and 2010-11 has been approved to support the capital program to expand car-parking facilities at the Greenwood, Edgewater, Whitfords and Stirling train stations. An additional 1,400 bays will be provided by 2010 as a means of improving access to Northern Suburbs rail services.

# Western Australian Land Authority

## Australian Marine Complex Common User Facility Upgrade

Community Service Obligation payments (CSOs) of \$5.5 million per annum from 2009-10 will be made to support the additional development of the Australian Marine Complex. This development will expand the capacity of the State to meet naval and marine repair, maintenance and construction requirements.

## **Mounts Bay Foreshore Development – Master Planning**

Expenditure of \$0.7 million in 2007-08 and \$1.3 million in 2008-09 has been approved for the preparation of feasibility studies and the development of a business case, identifying and evaluating development options for the revitalisation of the Mounts Bay Foreshore area.

# MINISTER FOR DISABILITY SERVICES; TOURISM; CULTURE AND THE ARTS; CONSUMER PROTECTION

## POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING GENERAL GOVERNMENT EXPENSES <sup>(a)</sup>

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 BUDGET AND 200	6-07 MID-YE	AR REVIEW			
Culture and the Arts <ul> <li>ScreenWest Production Attraction Fund</li> <li>Total</li> </ul>	0.8 0.8	0.5 <i>0.5</i>	-	-	-
<ul> <li>Western Australian Tourism Commission</li> <li>Adventure Tourism – Visitor Safety</li> <li>National Tourism Accreditation Program</li> <li>Total</li> </ul>	0.1 0.2 0.3	0.1 0.2 <i>0</i> .3	0.1 0.1 <i>0.2</i>	- - -	- - -
PORTFOLIO TOTAL	1.1	0.8	0.2	-	-

(a) The above table identifies policy decisions impacting on general government expenses made for this portfolio between the 2006-07 Budget and the 2006-07 Mid-year Review. Further information on these decisions is contained in Appendix 3, 2006-07 Government Mid-year Review Financial Projections Statement.

Note: columns may not add due to rounding.

Table 10

# MINISTER FOR EDUCATION AND TRAINING; SOUTH WEST

#### POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING GENERAL GOVERNMENT EXPENSES

Table 11

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m	
CHANGES BETWEEN 2006-07 BUDGET AND 200	6-07 MID-YE	AR REVIEW	(a)			
<ul> <li>Education and Training</li> <li>Additional places for apprentices and trainees</li> <li>Skills Formation Taskforce - support for Indigenous apprenticeships and traineeships</li> <li>Total</li> </ul>	5.5 1.3 6.8	10.6 3.9 14.5	6.3 4.5 10.8	6.5 - 6.5	6.5 - 6.5	
South West Development Commission <ul> <li>Bunbury Cathedral</li> <li>Total</li> </ul>	2.5 2.5	-	-	-	-	
PORTFOLIO TOTAL	9.3	14.5	10.8	6.5	6.5	
CHANGES BETWEEN 2006-07 MID-YEAR REVIEW AND 2007-08 BUDGET						
<ul> <li>Education and Training</li> <li>Skills Formation Taskforce – Implementation of recommendations</li> <li>Halls Creek Response – education and truancy program</li> <li>Total</li> </ul>	- 0.1 0.1	3.4 0.2 3.6	3.3 0.2 3.5	2.2 0.2 2.4	2.2 0.2 2.5	
PORTFOLIO TOTAL	0.1	3.6	3.5	2.4	2.5	

(a) Further information is contained in Appendix 3, 2006-07 *Government Mid-year Review Financial Projections Statement.* Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

# **Education and Training**

#### **Skills Formation Taskforce**

A total of \$11.1 million will be spent across the forward estimates to implement major reforms recommended by the Skills Formation Taskforce to improve the quality, flexibility and responsiveness of the apprenticeship and traineeship system in Western Australia. The reforms include:

- streamlining processes to reduce the complexity and paperwork involved to make it easier for employers to take on apprentices and trainees;
- increasing the number of field officers that support employers and apprentices and trainees, from 21 to 29;
- launching a comprehensive and fully integrated campaign encouraging employers to take on more apprentices and also individuals to pursue an apprenticeship or traineeship;
- increasing the qualification profile of the workforce by providing opportunities for existing workers with significant industry experience, but without formal qualification, to have their skills formally recognised;

- implementing strategies to improve the quality and consistency of assessment outcomes of vocational education and training graduates, to ensure they meet industry standards; and
- forming a team of 'best practice' practitioners to promote and assist cultural change within training providers.

# Halls Creek Response – Education and Truancy Program

As part of the total \$21.6 million approved for the Halls Creek Response, \$0.9 million has been allocated over five years to fund an education and truancy program.

# MINISTER FOR ENERGY; RESOURCES; INDUSTRY AND ENTERPRISE

Table 12

#### POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING GENERAL GOVERNMENT EXPENSES

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 BUDGET AND 200	6-07 MID-YE	AR REVIEW	(a)		
Regional Power Corporation (Horizon Power) <sup>(b)</sup> <ul> <li>Coral Bay power system</li> <li>Total</li> </ul>	-0.5 <i>-0.5</i>	1.4 1.4	2.0 2.0	2.5 2.5	3.5 3.5
PORTFOLIO TOTAL	-0.5	1.4	2.0	2.5	3.5
CHANGES BETWEEN 2006-07 MID-YEAR REVIEW	AND 2007-	08 BUDGET			
Office of Energy Government Purchase of GreenPower Expanded Solar Schools Program Beat the Peak Campaign Mandatory Energy Efficiency Program Renewable Energy Target Australian Energy Market Commission Total	- - - - - -	1.3 1.0 0.2 0.4 1.5 0.1 4.5	2.6 1.4 0.2 2.4 1.2 0.1 7.8	5.2 1.4 0.2 2.4 0.8 0.1 10.0	5.2 0.3 0.2 1.9 0.8 0.1 8.4
PORTFOLIO TOTAL	-	4.5	7.8	10.0	8.4

(a) Further information is contained in Appendix 3, 2006-07 *Government Mid-year Review Financial Projections Statement*. Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.
 (b) Represented as general government expenses by the Department of Treasury and Finance as grants and subsidies from the Consolidated Account to these public corporations.

Note: columns may not add due to rounding.

# Office of Energy

#### **Government Purchase of GreenPower**

Expenditure of \$14.3 million over the forward estimates period has been approved for the purchase by the Government of 20% of its electricity requirements from accredited renewable energy sources by 2010. The Government's purchase of accredited renewable energy demonstrates its commitment to developing effective measures for managing greenhouse emissions from its operations.

#### **Expanded Solar Schools Program**

The Government's successful Solar Schools Program will be expanded at a cost of \$4.1 million over four years to enable more than a quarter of the State's schools to use renewable energy by 2011. One-kilowatt solar power systems will be installed at an additional 254 Western Australian primary, middle and secondary schools to reduce power consumption and as an educational tool to raise awareness of sustainable energy.

# **Beat the Peak**

Expenditure of \$250,000 per annum has been approved over four years to continue the Beat the Peak campaign, which encourages consumers to conserve energy and reduce greenhouse gas emissions. The campaign will assist in reducing peak demand on infrastructure, the environmental cost of excessive power use and the increased greenhouse gases it produces. Raising awareness of energy use and offering simple, practical ways to save energy encourages all electricity users in Western Australia to use the energy they need more wisely, reducing the cost to themselves, the community as a whole and to the environment.

# Mandatory Energy Efficiency Program

The Government has committed \$7.1 million over the forward estimates period to implement a mandatory energy efficiency requirement for large and medium sized energy consumers to invest in energy efficiency opportunities with a three year (or less) payback period. The program will help cushion industry from future increases in energy prices and increase competitiveness. Increasing the energy efficiency of Western Australian businesses will maintain the State's competitiveness in an already increasingly competitive international market.

# **Renewable Energy Target**

A total of \$4.4 million will be spent over the forward estimates period for the implementation and administration of the 2020 Renewable Energy Target for the South West Interconnected System.

#### **Australian Energy Market Commission**

An allocation of \$100,000 per annum from 2007-08 has been approved as Western Australia's contribution to the operation of the Australian Energy Market Commission.

Table 13

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

# POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING GENERAL GOVERNMENT EXPENSES

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 BUDGET AND 200	06-07 MID-YE	AR REVIEW	(a)		
Fisheries					
<ul> <li>Ship Inspections Unit</li> </ul>	0.2	0.2	-	-	-
<ul> <li>Marine Parks</li> </ul>	-	0.1	-	-	-
<ul> <li>Wetline Review</li> </ul>	2.3	5.3			
- Total	2.5	5.6	-	-	-
Pilbara Development Commission <ul> <li>Paraburdoo Swimming Pool</li> <li>Total</li> </ul>	0.5 0.5	-	- -	- -	-
PORTFOLIO TOTAL	3.0	5.6	-	-	-
CHANGES BETWEEN 2006-07 MID-YEAR REVIE	W AND 2007-	08 BUDGET			
<b>Fisheries</b> - Shark Tagging Trial - <i>Total</i>	0.1 <i>0.1</i>	-	-	-	-
PORTFOLIO TOTAL	0.1	-	-	-	-

(a) Further information is contained in Appendix 3, 2006-07 *Government Mid-year Review Financial Projections Statement.* Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

# **Fisheries**

#### **Shark Tagging Trial**

Spending on a shark tagging trial has been approved to complement the current Aerial Surveillance Program. The trial will operate via the electronic tagging of potentially dangerous sharks, white pointers in particular. This will enable early detection and response to the presence of these sharks by sending out signals to multiple agencies, potentially reducing the risk of shark attacks.

# MINISTER FOR CORRECTIVE SERVICES; SMALL BUSINESS; MINISTER ASSISTING THE MINISTER FOR FEDERAL-STATE RELATIONS

#### POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING GENERAL GOVERNMENT EXPENSES

Table 14

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 BUDGET AND 200	06-07 MID-YE	AR REVIEW	(a)		
Corrective Services - Acacia Contract Retender - Total	4.8 4.8	5.6 5.6	6.5 <i>6.5</i>	7.4 7.4	8.4 8.4
Small Business Development Corporation <ul> <li>Interstate Skills Attraction Campaign</li> <li>Total</li> </ul>	1.2 1.2	-	- -	- -	-
PORTFOLIO TOTAL	6.0	5.6	6.5	7.4	8.4
CHANGES BETWEEN 2006-07 MID-YEAR REVIE	W AND 2007-	08 BUDGET			
Corrective Services <ul> <li>Offender Management</li> <li>Regional Juvenile Justice Strategy</li> <li>Total</li> </ul>	1.3 - 1.3	2.4 1.2 3.7	2.7 4.0 6.7	2.9 4.1 7.1	3.2 4.3 7.5
Small Business Development Corporation <ul> <li>Skilled Migration Unit</li> <li>Total</li> </ul>	-	0.8 <i>0.8</i>	0.8 <i>0.8</i>	- -	-
PORTFOLIO TOTAL	1.3	4.5	7.5	7.1	7.5

(a) Further information is contained in Appendix 3, 2006-07 Government Mid-year Review Financial Projections Statement. Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

# **Corrective Services**

#### **Offender Management**

Expenditure totalling \$5.6 million has been approved to enable Community Justice Services to fulfil its legal obligation to deliver long-term supervision and specialist case management of dangerous and high-risk sex offenders in the community.

A range of offender-targeted re-entry and other human services programs, provided by community-based groups and non-government organisations, have been particularly successful in materially reducing recidivism rates. Additional expenditure of \$2.3 million has been approved to ensure these specialised programs can be delivered on an ongoing basis in the future.

Additional expenditure of \$2.4 million has been approved to maintain an effective drug strategy across the prison system. This includes drug testing and drug/contraband detection capability, which in turn assists in increasing the effectiveness of the various drug treatment programs available to prisoners. A provision of \$2.2 million has also been approved to achieve wages parity for Adult Education Officers working in Corrective Services.

#### **Regional Juvenile Justice Strategy**

Following extensive community consultation, in early 2007 the Geraldton and Kalgoorlie Reference Groups endorsed an alternate strategy to address juvenile offending behaviour in their respective regions. The strategy, at a cost of \$3.6 million over the forward estimates period, comprises targeted programs including the provision of an outreach program and intensive support for at-risk juveniles and their families, and the formation of agreements with various bodies to house juveniles on bail in locations other than police lock-ups.

# **Small Business Development Corporation**

# **Skilled Migration Unit**

Following a review of the activities of the Skilled Migration program, annual expenditure of \$0.8 million has been approved in 2007-08 and 2008-09 for the continuation of this initiative.

# MINISTER FOR THE ENVIRONMENT; CLIMATE CHANGE; PEEL

#### POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING GENERAL GOVERNMENT EXPENSES

Table 15

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 BUDGET AND 2006	-07 MID-YE	AR REVIEW	(a)		
Environment and Conservation - Implementation of Marine Policy Commitments - Residential Land Shortages - Proposed Gorgon Gas Development,	1.0 0.9	1.4 1.1	1.4 1.1	0.8	0.8 -
Environmental Mitigation and Offset Measures - Optical Telescope Loaned from Lowell Observatory - Total	- 1.9	0.8 0.1 3.4	0.9 0.1 3.5	0.4 0.1 1.3	0.4 0.1 1.3
<ul> <li>Peel Development Commission</li> <li>Pinjarra Brunswick Sustainability Strategy</li> </ul>	0.7	1.2	0.7	1.5	1.5
<ul> <li>Boddington Gold Mine expansion - social infrastructure package</li> <li>Total</li> </ul>	0.1 0.8	0.2 1.4	0.7 0.2 0.9	-	-
Burswood Park Board - Swan and Canning River Projects - Total	1.1 1.1	3.4 3.4	4.7 <i>4.</i> 7	4.8 <i>4.8</i>	-
PORTFOLIO TOTAL	3.8	8.2	9.1	6.1	1.3
CHANGES BETWEEN 2006-07 MID-YEAR REVIEW	AND 2007-	08 BUDGET			
Environment and Conservation - Reducing Impacts of Climate Change on					
Western Australia <ul> <li>Low Emission Energy Development Fund</li> <li>Office of Climate Change</li> <li>Household Sustainability Audit and Education</li> </ul>	1.4 - -	2.0 0.2 0.7	1.9 8.7 0.7	2.2 8.7 0.7	1.7 9.5 0.7
<ul> <li>Program</li> <li>Public Awareness and Education Campaign</li> <li>National Emissions Trading Team</li> <li>Total</li> </ul>	- - 1.4	0.8 0.7 0.3 4.6	0.8 0.6 0.3 12.9	0.1 0.3 11.9	0.1 0.3 12.3
PORTFOLIO TOTAL	1.4	4.6	12.9	11.9	12.3

(a) Further information is contained in Appendix 3, 2006-07 *Government Mid-year Review Financial Projections Statement*. Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

# **Environment and Conservation**

#### **Reducing Impacts of Climate Change on Western Australia**

On 29 March 2007, the Premier announced expenditure of \$8.6 million over five years, commencing in 2006-07, to research climate change and its link to extreme weather events across Western Australia. This expenditure has been allocated to the following programs:

- \$4.0 million over five years to undertake Phase 3 of the Indian Ocean Climate Initiative (a climate research partnership between the State Government, the Commonwealth Scientific and Industrial Research Organisation and the Bureau of Meteorology);
- \$4.0 million over five years for policy, planning and assessment; and
- \$0.6 million over five years for advice to the community on adapting to the impact of climate change.

A further \$0.6 million will be spent in 2006-07 to initiate a common branding and public awareness program.

#### **Climate Change Package**

As part of the total \$82.9 million Climate Change Package, the Government has approved expenditure of \$34.0 million over four years by the Department of Environment and Conservation for the implementation of various initiatives as outlined in the Climate Change Package. The Office of Climate Change and the Office of Energy will manage the Package jointly. Specific initiatives include:

- expenditure of \$27.0 million over four years to establish and manage the Low Emission Energy Development Fund. The fund will support technology breakthroughs and large-scale reductions in greenhouse gas emissions. The fund will focus on innovative greenhouse technologies that align with the State's strategic objectives and market advantages. The Government will also be seeking matching investments to the fund from industry and the Commonwealth Government;
- annual expenditure of \$0.7 million over four years has been approved to establish and operate the new Office of Climate Change to support the Minister for Climate Change and coordinate the implementation of the Government's climate change policies and programs;
- annual expenditure of \$0.8 million over two years for the Household Sustainability Audit and Education Program. This program will provide integrated education and information addressing a range of climate change factors including energy, water, waste and transport with focus on how householders can reduce emissions;
- expenditure of \$1.5 million over four years for the Public Awareness and Education Campaign. This includes:
  - the development and use of a common logo and brand for a range of Government communication and education programs on climate change and environmental issues;

- advertising campaigns and communication activities;
- the development and ongoing administration of a web portal to provide easy access to relevant information and services such as Waterwise programs and rebates, solar energy rebates, Travelsmart initiatives, waste and recycling initiatives, all of which are currently on a range of Government websites; and
- a community education mobile display; and
- expenditure of \$1.2 million over four years for the National Emissions Trading Team (NETT). The NETT will engage in the final phase of the design of the national emissions trading scheme to ensure the best outcome for Western Australia, undertake a full examination of the implications of the national emissions trading scheme and advise the Government on future implementation requirements.

# MINISTER FOR CHILD PROTECTION; COMMUNITIES; WOMEN'S INTERESTS; SENIORS AND VOLUNTEERING

POLICY DECISIONS SINCE 2	2006-07	BUDGET		TING	Table 16
GENERAL GOVER					
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 BUDGET AND 2006	6-07 MID-YE	AR REVIEW	(a)		
Child Protection - Child Protection and Children in Care Additional Staff	6.9	12.8	13.4	13.8	14.2
- Total	6.9	12.8	13.4	13.8	14.2
PORTFOLIO TOTAL	6.9	12.8	13.4	13.8	14.2
CHANGES BETWEEN 2006-07 MID-YEAR REVIEW	AND 2007-	08 BUDGET			
<ul> <li>Child Protection</li> <li>Halls Creek Response – Hostel Initiative</li> <li>Ford Review Report Recommendations</li> <li>Child Care Licensing and Standards Unit –</li> </ul>	-	3.1 15.0	2.8 22.6	2.9 23.0	3.0 39.4
Additional staff - Yarloop Community Support Program Extension - Homelessness – Private Rental Accommodation	0.7 0.1	0.1	0.3	0.1	- - -
- Total	0.8	18.2	25.7	26.0	42.4
Communities <ul> <li>Ford Review Report Recommendations</li> <li>Child Care Licensing and Standards Unit –</li> </ul>	-	1.1	0.6	0.6	0.6
Additional staff - Yarloop Community Support Program extension - <i>Total</i>	- - -	1.1 0.1 2.3	1.1 0.1 <i>1.7</i>	1.1 0.1 <i>1.8</i>	1.2 0.1 <i>1.9</i>
PORTFOLIO TOTAL	0.8	20.5	27.4	27.8	44.3

(a) Further information is contained in Appendix 3, 2006-07 *Government Mid-year Review Financial Projections Statement.* Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

# **Child Protection**

#### Halls Creek Response – Hostel Initiative

As part of the Government's focus on improving Indigenous outcomes, additional expenditure of \$11.9 million over four years has been approved to:

- operate two residential care hostels in Halls Creek (one for zero to six year olds and another for six to 15 year olds) with resourcing for an extra 17 placements and an additional 19 child protection and support workers; and
- provide an extra eight foster care placements along with additional assistance to children in foster care through developmental, educational and health support services.

#### **Ford Review Report Recommendations**

As part of its response to the Ford Review Report – Review of the Department for Community Development, the Government has committed additional expenditure of \$100 million over four years to implement a number of structural reforms to child protection operations in Western Australia.

A new Department for Child Protection has been established to provide a clear focus on the protection and safety of children and young people. A number of initiatives will be undertaken to improve service delivery including:

- providing additional residential care placements and options through a two-tiered regime for at-risk children, along with additional direct care workers to support these placements;
- increased subsidies to foster carers in recognition of the increased complexity of children's needs in care;
- additional support to foster carers through the recruitment of extra carers to provide respite care for the existing foster carers and additional training provisions for carers;
- recruitment, training and dedicated support for additional Aboriginal carers;
- strategies to retain and attract staff including improved measurement and management of caseloads and a broader approach to workforce planning;
- introduction of mandatory minimum qualifications for every caseworker in the department and increased opportunities for staff to undertake further training and tertiary education; and
- the establishment of an Aboriginal Reference Group to provide input into policy, practice, staff training and development and provide feedback on the Department's impact on Aboriginal children and youth.

#### Child Care Licensing and Standards Unit – Additional staff

Additional expenditure of \$0.7 million in 2006-07 has been approved to recruit five child care licensing officers and support staff to enable annual site visits and increased random spot checks of licensed child care related services. This spending is part of a \$5.2 million package over five years for this initiative with the service undertaken by the Department for Community Development (renamed the Department for Child Protection on 1 May 2007) in 2006-07 and to be provided by the new Department for Communities from 2007-08 onwards.

#### Homelessness – Private Rental Accommodation

A grant totalling \$480,000 over three years will be provided to UnitingCare West to expand the HomeLink program through a new HomeConnect project that will provide assistance to people who are currently homeless, or about to become homeless, and to provide support in finding rental accommodation.

# Communities

#### **Ford Review Report Recommendations**

The Ford Review – Review of the Department for Community Development recommended the creation of a Department for Communities. The Government has approved expenditure of \$2.9 million over four years for the establishment of the new agency and the ongoing costs associated with the new executive structure and operating costs.

#### Child Care Licensing and Standards Unit - Additional staff

Ongoing expenditure of \$4.5 million over four years commencing in 2007-08 has been provided to the new Department for Communities for additional staff in the Child Care Licensing and Standards Unit.

#### **Yarloop Community Support Program extension**

In approving Alcoa's proposed Wagerup expansion, the Government committed \$70,000 per annum for five years to extend the counselling services provided to Yarloop as part of its Community Support Program. This service was undertaken by the Department for Community Development (renamed the Department for Child Protection on 1 May 2007) in 2006-07 and will be provided by the new Department for Communities from 2007-08 onwards.

# Capital Investment

# Overview

Western Australia is currently enjoying a period of extremely high economic growth, and to ensure the State maintains its capacity to grow into the future, the Government is investing heavily in essential economic and social infrastructure.

The Government's reputation for investing in the priority areas of energy, water, health, education, law and order, and transport is to be maintained into 2007-08 with a record Capital Works Program of \$5.8 billion, and a total capital budget of \$21.6 billion across the forward estimates.

The 2007-08 Capital Works Program is framed around meeting the strong growth in customer demand for infrastructure services associated with the economic boom, and the resulting cost pressures. It also contains a number of new priority infrastructure initiatives, as well as revisions to the timing of a number of projects following a strategic review of existing commitments.

# **Cost and Demand Pressures**

In order to ensure the delivery of priority infrastructure projects, the 2007-08 Budget primarily focuses on meeting increased costs associated with capacity constraints in the construction industry, as well as increased consumer demand for infrastructure services throughout the State.

Significant cost and customer demand adjustments include:

- an additional \$1.2 billion of capital investment in the State's electricity infrastructure over five years. This includes an additional \$1,006 million to be spent by Western Power (Networks) on improving the safety and reliability of electricity networks in the South West Interconnected System (SWIS), and developing the network infrastructure required to support the State's fast growing economy, growth in new residential development and asset replacement. A further \$141 million will be spent across the forward estimates to enable Verve Energy to maintain reliable performance of its existing generation plant and meet the electricity market's capacity requirements;
- an additional \$309 million of capital investment by the Water Corporation over five years. The Water Corporation will use this funding to continue the State's commitment to the provision of high quality and reliable water services based on the principles of sustainable water resource management and for the provision of water related services to meet the continuing growth of the State;
- an additional \$156 million over four years for the construction and purchase of public housing to ensure the effective continuation of the Housing Authority's public housing program;
- an additional \$131 million to meet the increased cost of the New Perth-Bunbury Highway; and
- an additional \$84 million over two years (2007-08 and 2008-09) for the upgrade of the Australian Marine Complex Common User Facility.

# **Major New Initiatives**

While the focus of the 2007-08 Budget has been on delivering existing commitments, there are some significant new capital works initiatives, including:

- a provision of \$750 million over the period 2008-09 to 2010-11, for the development of new water sources for the State;
- \$300 million over four years for the implementation of the FirstStart shared equity home loan scheme (as announced in February 2007);
- \$104 million for the Department of Corrective Services to construct a replacement Kimberley Prison and Work Camp;
- \$45 million for the construction of the new Fire and Emergency Services Authority headquarters;
- \$43 million over 2007-08 to 2009-10 for Vocational Education and Training infrastructure and equipment across the State;
- \$38 million for the Carnarvon Police and Justice Complex; and
- \$34 million for the Gnangara Mound Rehabilitation Project.

# Strategic Review

The Government has undertaken a review of existing commitments in the Capital Works Program in order to ensure the delivery of key infrastructure priorities, particularly those where the current high level of economic activity reflects customer demand, such as electricity, water and ports.

The review was undertaken in response to the tight labour market conditions that have created cost pressures in the contracting and sub-contracting markets, and identified a number of projects where the expected timeframes were not realistic in the current market. Some cashflows have therefore been revised by six to 12 months. This includes the Perth Police Complex, the new Department of Agriculture and Food Headquarters, and Stage 3 of Challenger TAFE Fremantle.

The funding previously allocated for the construction phase of a small number of other projects has been suspended, with decisions to proceed to construction now deferred pending further planning and statutory approvals, greater certainty over the project cost and achievability in the current market, or certainty in relation to customer demand. This includes:

- the Northbridge Link project the original master-plan for this project is now being reviewed in light of public submissions. A decision on the timeframe over which the project proceeds will be made following further progress on planning, environmental and other necessary approvals and the development of more detailed and reliable estimates of construction costs; and
- Members Equity Stadium redevelopment a decision to proceed with this project has been deferred pending the Government's consideration of recommendations by the Major Stadia Taskforce.

Overall, these revisions have resulted in a reduction of \$565 million of capital expenditure across the forward estimates.

# **Capital Spending Aggregates**

The largest component of the Capital Works Program is the fixed asset spending undertaken by the public sector (encompassing both the general government sector and public corporations such as the electricity utilities, the Water Corporation and port authorities). This expenditure creates, or maintains the value of an asset held by an agency (i.e. reflected on the agency's balance sheet). However, by long-standing convention, the Capital Works Program also includes expenditure provided by the Government in support of fixed asset spending outside of the State public sector. This includes:

- assistance facilitating construction of strategic assets which have flow-on benefits to the economy;
- grants to local government and non-government agencies to purchase fixed assets; and

• the Keystart housing loan program, which enables lower-income home buyers to be active in the housing market, as well as other home lending programs that feature in the Capital Works Program, including the FirstStart and GoodStart programs.

In 2007-08, the Capital Works Program is estimated at \$5.8 billion – the highest on record. Fixed asset spending in 2007-08 is estimated at \$4.7 billion – also the highest on record. That is, regardless of the definition used, the Government's infrastructure investment program is currently at an historical high.

The following table reconciles the key capital spending aggregates (purchase of fixed assets, expensed capital works and Keystart home lending loans) to the Government's Capital Works Program.

# RECONCILING CAPITAL SPENDING AGGREGATES

Table 1

	2006-07 Estimated Actual \$m	2007-08 Budget Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	2010-11 Forward Estimate \$m
PURCHASES OF FIXED ASSETS General government Public non-financial corporations Public financial corporations	1,686 2,812 5	2,070 2,716 4	1,822 2,675 4	1,653 2,339 3	1,597 2,127 3
<i>plus</i> Expensed Capital Works Program <sup>(a)</sup> Keystart home lending loans All other <sup>(b)</sup>	245 447 295	269 420 278	244 780 274	193 782 185	198 783 236
<i>less</i> Capital spending by agencies outside the Capital Works Program <sup>(c)</sup>	6	3	3	3	3
CAPITAL WORKS PROGRAM	5,484	5,755	5,794	5,151	4,942

Western Australia

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

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

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

Note: Columns may not add due to rounding.

# Capital Works Program

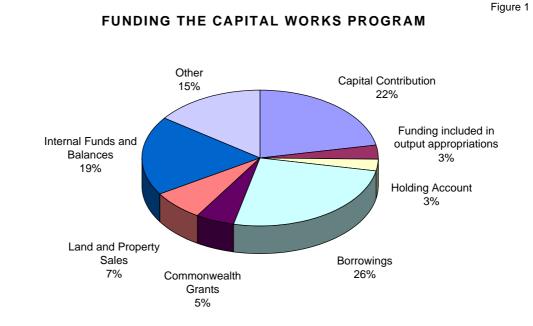
#### Summary

The 2007-08 Capital Works Program is forecast to be \$5.8 billion and includes significant expenditure on the following areas:

- \$897 million of capital expenditure on the State's electricity infrastructure with a focus on improving the safety and reliability of electricity supply and to cater for the State's fast growing economy. Specific projects include:
  - enhancements to the transmission network to cater for private sector power generators and to supply new sites and bulk loads, such as Alinta's number 2 generation unit at Pinjarra and connection works for Boddington Gold mine;

- increased distribution capacity for customers to support growth;
- works to increase efficiency, reliability and environmental targets of generators;
- continuation of the Bushfire Mitigation program; and
- the continuation of the underground power project;
- \$755 million by the Water Corporation on the State's water, wastewater and drainage infrastructure to provide high quality and reliable water services and to provide water related services to meet the continuing growth of the State. The program provides for:
  - the construction of wastewater schemes at Alkimos and East Rockingham, and expanding capacity at the Beenyup wastewater treatment plant;
  - the investigation into alternative water sources for Perth and country areas;
  - Australia's first groundwater replenishment trial; and
  - continued ongoing programs such as the Infill Sewerage program, wastewater treatment schemes and water distribution infrastructure;
- \$706 million on road construction, with continued construction on major projects such as:
  - the New Perth-Bunbury Highway;
  - Stage 2 of the construction and sealing of the Karratha to Tom Price Link Road;
  - construction of the Mitchell Freeway from Hodges Drive to Burns Beach Road; and
  - construction of Stages 1 to 3 of the Broome Bypass of the Broome Highway;
- \$32 million to complete and commission the Southern Suburbs Railway (SSR). The SSR is part of the \$1.6 billion New MetroRail project and this will add over 71 kilometres of passenger rail services to the Perth Metropolitan transport network and enable travel between Perth and Mandurah in under 50 minutes. The service will be supported by 10 new stations, and the provision of an underground platform at William Street where the rail line will link with the Northern Suburbs Railway;

- \$324 million on Health capital works funding, which is almost double the expected outturn in 2006-07. This investment continues the implementation of the Health Reform Committee recommendations with a number of projects entering the construction phase, including the Rockingham Kwinana Hospital, the Hedland Regional Resource Centre and the Murray District Health Centre. Planning has also commenced on a number of major projects that are pivotal to the Health Reform Committee recommendations, including the Fiona Stanley Hospital (Southern Tertiary), the New Swan Health Campus, the Central Tertiary Hospital (QEII site), and the Joondalup Health Campus. In addition, the program provides for Mental Health Strategy initiatives, equipment replacement and information technology infrastructure across the health sector;
- \$295 million on public schools and TAFE college infrastructure, including works on 25 high schools and 14 primary schools, and the ongoing redevelopment of the Central TAFE Perth Campus;
- \$220 million on law and order related projects including:
  - the commencement of planning of the Kimberley Prison and Work Camp (Stage 1), major upgrade work to improve security and facilities at the Broome Regional Prison, improved fencing for the Eastern Goldfields Prison and continuation of the redevelopment of facilities and expansion of accommodation at the Bandyup Women's Prison, the Bunbury Regional Prison and the Wooroloo Prison;
  - continuing work on the upgrade of the Kalgoorlie Court, as well as the construction of the Central Business District Courts and the Central Law Courts refurbishment; and
  - land purchases associated with the relocation of the Perth Police Complex; continued work on Police Stations in regional centres such as Derby, Harvey and Leonora, the Kimberley and Pilbara District Police Complexes; and ongoing investment in state-of-the-art information technology and communication infrastructure; and
- \$99 million on port infrastructure, including the completion of upgrades of berthing facilities at Geraldton to increase the State's iron ore export capacity, the upgrade to infrastructure at the Kwinana bulk terminal, and upgrades to berths at North Quay at Fremantle.



#### 2007-08 CAPITAL WORKS PROGRAM = \$5,755 MILLION

# **Capital Works Policy Decisions**

The following table provides a breakdown of total public sector capital spending<sup>1</sup> policy decisions made since the mid-year review.

SUMMARY OF CAPITAL SPEND SINCE THE 2006				BY AG	Table 2 ENCY
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Attorney General	-	-	8.5	17.0	-
Child Protection	3.1	1.4	-	-	-
Corrective Services	-1.5	-7.1	23.8	41.7	28.3
Communities	-	0.2	-	-	-
Education and Training	-	24.8	10.8	7.4	-
Fisheries	0.2	-	-	-	-
Fire and Emergency Services Authority	0.7	2.0	10.2	31.6	3.9

52.9

-

-

-

-

-

-0.1

64.8

9.5

157.2

3.5

11.1

1.0

1.0

11.0

36.1

2.5

2.6

247.4

158.9

2.0

6.0

6.0

1.5

16.0

48.1

6.9

250.0

548.6

66.7

0.2

5.9

5.0

1.0

7.0

2.9

250.0

436.6

Housing Authority

Perth Market Authority

Treasury and Finance

Water Corporation

TOTAL

Planning and Infrastructure

Port Hedland Port Authority

Western Australian Land Authority

Western Australian Sports Centre Trust

Provision to Develop New Water Sources

Public Transport Authority

Western Australia Police

41.0

0.2

6.0

6.7

0.5

9.2

250.0

345.8

<sup>&</sup>lt;sup>1</sup> Measured in terms of the purchase of fixed assets.

The following discussion provides details on new policy decisions since the previous budget. It should be read in conjunction with the 2006-07 mid-year review.

# **Attorney General**

	Table 3
POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING	
TOTAL PUBLIC SECTOR CAPITAL SPENDING	

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 MID-YEAR REVIE	EW AND 2007-	-08 BUDGET	-		
Attorney General <ul> <li>Carnarvon Police and Justice Complex</li> <li>Total</li> </ul>	-	-	8.5 <i>8.5</i>	17.0 <i>17.0</i>	- -
Note: columns may not add due to rounding.					

#### **Carnarvon Police and Justice Complex**

A total of \$25.5 million will be spent on the construction of a major new facility for the Department of the Attorney General and Western Australia Police. The court and justice facility will comprise a courthouse and Community Justice Services Centre with the court component including two courtrooms, pre-trial and mediation rooms, facilities for juries and vulnerable and protected witnesses, in addition to accommodation for the judiciary and courts administration.

# **Child Protection**

POLICY DECISIONS SINCE TOTAL PUBLIC SECT					Table 4
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 BUDGET AND 200	6-07 MID-YE	AR REVIEW	( <sup>a)</sup>		
<ul> <li>Child Protection</li> <li>Accommodation – Child Protection and Children in Care Additional Staff</li> <li>Total</li> </ul>	1.8 <i>1.8</i>	2.4 2.4	-	-	-
CHANGES BETWEEN 2006-07 MID-YEAR REVIEW	V AND 2007	-08 BUDGET	г		
<ul> <li>Child Protection</li> <li>Halls Creek Response – Hostel Initiative</li> <li>Ford Review Report Recommendations</li> <li>Total</li> </ul>	3.1 - 3.1	1.4 1.4	- - -	- - -	- - -

(a) Further information is contained in Appendix 3, 2006-07 Government Mid-year Review Financial Projections Statement. Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

# Halls Creek Response – Hostel Initiative

As part of the Government's focus on improving indigenous outcomes, additional capital expenditure of \$3.1 million has been approved in 2006-07 to undertake modifications and refurbishment of two existing facilities in Halls Creek to enable those buildings to operate as residential care hostels for children in care.

#### **Ford Review Report Recommendations**

Capital expenditure of \$1.4 million in 2007-08 will be made to implement the recommendations of the Ford Review – Review of the Department for Community Development. This includes modifications to an existing Departmental facility to become the State's Intensive Therapeutic Unit and costs associated with the establishment of the new Department for Child Protection.

# Communities

POLICY DECISIONS SING TOTAL PUBLIC SE					
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 MID-YEAR REV	/IEW AND 2007	-08 BUDGET	r		
Communities	-	0.2	-	-	-
– Total	-	0.2	-	-	-

# **Ford Review Report Recommendations**

The Ford Review – Review of the Department for Community Development, recommended the creation of a Department for Communities. The Government has approved \$0.2 million of capital expenditure in 2007-08 as a part of the establishment costs of the new Department.

# **Corrective Services**

POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING
TOTAL PUBLIC SECTOR CAPITAL SPENDING

Table 6

2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m				
CHANGES BETWEEN 2006-07 BUDGET AND 2006-07 MID-YEAR REVIEW <sup>(a)</sup>								
0.5 <i>0</i> .5	0.7 0.7	-	-	-				
W AND 2007	-08 BUDGE1	Г						
-1.5 - -1.5	-17.0 9.8 -7.1	- 23.8 23.8	- 41.7 <i>4</i> 1.7	- 28.3 28.3				
	\$m 0.5 0.5 W AND 2007 -1.5 -	\$m \$m <b>3</b> <b>3</b> <b>3</b> <b>3</b> <b>3</b> <b>3</b> <b>4</b> <b>5</b> <b>4</b> <b>5</b> <b>5</b> <b>1</b> <b>5</b> <b>1</b> <b>5</b> <b>1</b> <b>5</b> <b>1</b> <b>1</b> <b>1</b> <b>5</b> <b>1</b> <b>1</b> <b>1</b> <b>1</b> <b>1</b> <b>1</b> <b>1</b> <b>1</b>	\$m         \$m           \$m         \$m         \$m           06-07 MID-YEAR REVIEW         (a)           0.5         0.7         -           0.5         0.7         -           W AND 2007-08 BUDGET         -           -1.5         -17.0         -           -         9.8         23.8	\$m         \$m         \$m           06-07 MID-YEAR REVIEW         (a)           0.5         0.7         -           0.5         0.7         -           0.5         0.7         -           0.5         0.7         -           -1.5         -17.0         -           -         9.8         23.8         41.7				

(a) Further information is contained in Appendix 3, 2006-07 Government Mid-year Review Financial Projections Statement. Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

#### **Regional Juvenile Justice Strategy**

Following extensive community consultation, in early 2007 the Geraldton and Kalgoorlie Juvenile Justice Reference Groups endorsed an alternate strategy to address juvenile offending behaviour in their respective regions. The strategy comprises targeted programs including the provision of an outreach program and intensive support for at-risk juveniles and their families and forming agreements with various bodies to house juveniles on bail in locations other than police lock-ups.

The alternate strategy replaces a former commitment to build a juvenile remand centre in each region. Capital spending of \$5.6 million in 2007-08 has been approved for the alternate strategy, sourced from funds previously approved for the former remand centres strategy, which has resulted in overall capital savings totalling \$18.4 million.

#### New Kimberley Prison and Work Camp - Stage 1

At a total cost of \$104 million over four years, a 120 bed multi-security prison will be built in the West Kimberley, together with an associated 20-bed work camp in the East Kimberley, to address the existing chronic shortage of custodial bed capacity within the region.

This initiative is designed to replace outdated existing local custodial facilities and enable prisoners from the region to be accommodated locally, significantly reducing physical dislocation from family, community and social support networks.

Further benefits will result in a reduction in prisoner transport requirements to and from the region, as well as providing material relief from the population pressures currently evident at other regional and metropolitan custodial facilities.

# **Culture and the Arts**

		-
l abl	е	1

Table 8

#### POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING TOTAL PUBLIC SECTOR CAPITAL SPENDING

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m		
CHANGES BETWEEN 2006-07 BUDGET AND 2006-07 MID-YEAR REVIEW <sup>(a)</sup>							
Culture and the Arts							
Charles 2 of the Missenet Welseners Wells	0.8	_	_		-		
<ul> <li>Stage 3 of the Migrant Welcome Walls</li> </ul>	0.0						

(a) Further information is contained in Appendix 3, 2006-07 Government Mid-year Review Financial Projections Statement. Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

# **Education and Training**

# POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING TOTAL PUBLIC SECTOR CAPITAL SPENDING

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 MID-YEAR REVIEW	AND 2007	-08 BUDGET			
Education and Training <ul> <li>Vocational Education and Training Infrastructure</li> <li>Total</li> </ul>	-	24.8 24.8	10.8 <i>10.8</i>	7.4 7.4	-
Note: columns may not add due to rounding.					

# Vocational Education and Training (VET) Infrastructure

An amount of \$43.0 million will be spent over the period 2007-08 to 2009-10 to upgrade, replace and expand trade training equipment and VET facilities across the State to address the current skills shortages and corresponding growth in demand for apprenticeship training.

The facilities upgrades (\$29.7 million) and new equipment (\$13.3 million) will address critical skills shortages in the traditional trade areas of automotive, building and construction, electrical and metals and engineering, and allow for relevant industry standards to be maintained.

New work will commence at Curtin University's Vocational Training and Education Centre in Kalgoorlie with a total cost of \$3.7 million for a new metal fabrication, electrical and automotive trades workshop. Pilbara College of TAFE will spend \$2.4 million to build the metals and automotive workshop extension and South West Regional College of TAFE will invest \$2.3 million to commence the extension of the building and construction workshop.

Swan TAFE will spend \$8.9 million for trade realignment at Thornlie, Midland and Balga campuses (\$5.5 million) and construction of a metals and advanced trade workshop at Midland (\$3.4 million).

Construction will commence on the West Coast College of TAFE building and construction, metals and electrical trades facilities at Clarkson, at a cost of \$12.4 million. These facilities will be located on the high school site.

# **Environment and Conservation**

POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING	
TOTAL PUBLIC SECTOR CAPITAL SPENDING	

Table 9

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 BUDGET AND	2006-07 MID-YE	AR REVIEW	l <sup>(a)</sup>		
<ul> <li>Environment and Conservation</li> <li>Fire Management Equipment</li> <li>Optical Telescope loaned from Lowell Observatory</li> <li>Total</li> </ul>	5.5 0.1 <i>5.</i> 6	- 0.3 <i>0.3</i>	- - -	-	- - -

(a) Further information is contained in Appendix 3, 2006-07 Government Mid-year Review Financial Projections Statement. Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

# Fire and Emergency Services Authority

#### Table 10 POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING TOTAL PUBLIC SECTOR CAPITAL SPENDING

	2006-07	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
CHANGES BETWEEN 2006-07 MID-YEAR REVIE	EW AND 2007-	-08 BUDGET	Г		
Fire and Emergency Services Authority <ul> <li>New FESA Headquarters</li> <li>Ellenbrook Fire Station</li> <li>Total</li> </ul>	0.7	2.0	10.2	31.6	-
	-	-	-	-	3.9
	0.7	2.0	10.2	31.6	3.9
Note: columns may not add due to rounding.					

#### **Relocation of Fire and Emergency Services Authority's Headquarters**

Expenditure of \$44.6 million has been approved for the construction of a new headquarters that will accommodate the Fire and Emergency Services Authority's (FESA) management and operational functions. The new headquarters will improve both the efficiency and effectiveness of the authority.

Analysis and risk assessment has identified that the location of the current FESA headquarters, and its key emergency services control and despatch centre in Perth's CBD, may place the State's response to any terrorist attack or natural disaster in the CBD at unnecessary risk. This view is consistent with the current risk minimisation philosophy being adopted world wide by emergency response command centres to 'move away from risk' as the best approach to reducing risk. This means that rather than mitigate building design and alter infrastructure around emergency command centres, including road design and traffic control measures, the location of the building is moved to a less risky environment.

#### **Ellenbrook Fire Station**

Additional spending of \$3.9 million has been approved towards the construction of the Ellenbrook Fire station. The station was previously approved as a 'Volunteer' station. However, due to the combination of infrastructure, bush land and residential area changes, the station will now be established as a 'Career' fire station.

# Fisheries

POLICY DECISIONS SINCE TOTAL PUBLIC SECT					Table 11
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 MID-YEAR REVIEW	W AND 2007	-08 BUDGET	-		
Fisheries					
<ul> <li>Shark Tagging Trial</li> </ul>	0.2		-	-	-
– Total	0.2	-	-	-	-
Note: columns may not add due to rounding.					

#### **Shark Tagging Trial**

Funding for a shark tagging trial has been approved to complement the current Aerial Surveillance Program. The trial will operate via the electronic tagging of potentially dangerous sharks, in particular white pointers. This will enable earlier detection and response to the presence of these sharks by sending out signals to multiple agencies, thereby potentially reducing the risk of shark attacks.

# **Great Southern Development Commission**

# POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING TOTAL PUBLIC SECTOR CAPITAL SPENDING

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m		
CHANGES BETWEEN 2006-07 BUDGET AND 2006-07 MID-YEAR REVIEW <sup>(a)</sup>							
Great Southern Development Commission							
<ul> <li>Albany Entertainment Centre</li> </ul>	0.2	1.2	7.6	0.6	-		
- Total	0.2	1.2	7.6	0.6	-		
(a) Further information is contained in Appendix 3, 200							

Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

# Housing and Works

Table 13

Table 12

#### POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING TOTAL PUBLIC SECTOR CAPITAL SPENDING

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m			
CHANGES BETWEEN 2006-07 BUDGET AND 2006-07 MID-YEAR REVIEW <sup>(a)</sup>								
Housing and Works								
<ul> <li>Perth Arena site remediation</li> </ul>	7.5	-	-	-	-			
			00.5	00.0				
<ul> <li>Perth Arena increased scope</li> </ul>	-	41.5	63.5	20.0	-			

(a) Further information is contained in Appendix 3, 2006-07 Government Mid-year Review Financial Projections Statement. Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

# **Housing Authority**

POLICY DECISIONS SINCE 2006-07 TOTAL PUBLIC SECTOR CAF				Table 14
2006-07	2007-08	2008-00	2009-10	2010-11

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 MID-YEAR REVIE	W AND 2007	-08 BUDGET	г		
Housing Authority - FirstStart - Halls Creek Response - Additions to the stock of Public and Community	50.0 2.9	100.0	100.0 -	50.0 -	-
Housing - <i>Total</i>	- 52.9	57.2 157.2	58.9 158.9	16.7 66.7	41.0 <i>41.0</i>
Note: columns may not add due to rounding.					

# FirstStart (shared equity scheme)

Increased borrowings of \$300 million over four years has been approved for the implementation of the FirstStart shared equity home loan scheme, which will assist people on low to moderate incomes to buy or build a home. The scheme is expected to provide for 1,000 new home loans per annum, with 500 of these targeted to purchases from the Department of Housing and Works' land development, New Living and rental purchase programs. The remaining 500 loans will be used to purchase established homes or house and land packages from the private sector.

Under the scheme, the Government through Keystart is offering shared-equity home loans. The loan component is a Keystart low-deposit loan, with the Government purchasing the shared-equity component. Borrowers will be required to purchase the Government's equity component as their income increases above a pre-determined level. The proceeds from such purchases by the homebuyer, and from property sales, will be reinvested to grow the scheme.

#### Halls Creek Response

As part of the Government's Halls Creek response, \$2.9 million will be spent in 2006-07 for the provision of six houses for employees associated with the operations of a new hostel and the Responsible Parenting and Truancy programs.

#### Additions to the Stock of Public and Community Housing

To ensure the effective continuation of the Authority's Housing program through the delivery of a combined public and community housing program, an additional \$173.8 million will be invested in the construction/purchase of public and community housing (plus an additional \$210 million for grants for Community Housing).

Over the last decade, the Authority has focussed on refurbishing its stock, through the New Living program, and diversifying the location of public housing. As a consequence of this strategy, the quality of the Authority's stock has significantly improved although overall stock numbers has remained stable. The additional spending will ensure that the Authority can maintain the overall stock numbers over the next four years.

# Perth Market Authority

POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING TOTAL PUBLIC SECTOR CAPITAL SPENDING								
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m			
CHANGES BETWEEN 2006-07 MID-YEAR REVI	EW AND 2007-	-08 BUDGET	г					
Perth Market Authority								
<ul> <li>Market City Warehouse Expansion</li> <li>Total</li> </ul>	-	3.5 3.5	2.0 2.0	0.2 0.2	0.2 0.2			
<ul> <li>Further information is contained in Appendix 3, 2000</li> <li>Figures for 2010-11 were not published in the mid-yestimates period.</li> </ul>		t Mid-year Re	view Financia	al Projections	s Statement.			

Note: columns may not add due to rounding.

# Market City Warehouse Expansion

Additional capital expenditure has been approved for the expansion of a new warehouse, site control access and minor works at Market City in Canning Vale.

# **Planning and Infrastructure**

POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING TOTAL PUBLIC SECTOR CAPITAL SPENDING								
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m			
CHANGES BETWEEN 2006-07 MID-YEAR REVIE	EW AND 2007	-08 BUDGET	г					
Planning and Infrastructure <ul> <li>Electronic Land Development Project</li> <li>Licensing Business Unit</li> <li>Total</li> </ul>	- - -	3.2 7.9 11.1	6.0 - 6.0	5.9 - 5.9	6.0 - 6.0			
Note: columns may not add due to rounding.								

#### **Electronic Land Development Program**

The electronic Land Development Program (eLDP) will provide a modern, streamlined and transparent electronic subdivision approval management system, from the lodgement of applications for initial subdivision approval to the issue of titles, replacing the current paper based system. The eLDP will modernise tracking the State Government subdivision approvals process by linking 48 State Government agencies and all Local Government Councils, streamlining business processes and allowing developers to apply on-line for land development approvals, 24 hours a day seven days a week. The eLDP system will be introduced incrementally over four years, with stakeholders realising benefits in 2009.

# **Licensing Business Unit**

An additional \$7.9 million will be spent to modernise the Licensing Business Unit's service delivery through system enhancements. Enhancements include the ability for more transactions to be accessible via the internet, improved payment facilities and upgrades to telecommunications infrastructure for the Customer Contact Centre and Metropolitan Business Centres. This investment also provides for the establishment of new licensing centres in Rockingham and Midland to replace existing outdated and unsatisfactory facilities.

# **Port Hedland Port Authority**

POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING TOTAL PUBLIC SECTOR CAPITAL SPENDING								
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m			
CHANGES BETWEEN 2006-07 MID-YEAR REVIE	W AND 2007	-08 BUDGET						
Port Hedland Port Authority - Utah Point Dredging - <i>Total</i>	9.5 9.5	-	-	-	-			
Note: columns may not add due to rounding.								

# **Utah Point Dredging**

The Port Hedland Port Authority is investigating and planning the construction of a new multi-purpose berth and bulk loading facility at Utah Point at an estimated cost of \$186.0 million. Additional funding of \$9.5 million in 2006-07 has been approved to take advantage of a dredging plant currently operating at the Port.

# **Public Transport Authority**

POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING TOTAL PUBLIC SECTOR CAPITAL SPENDING										
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m					
CHANGES BETWEEN 2006-07 BUDGET AND 2006-07 MID-YEAR REVIEW <sup>(a)</sup>										
Public Transport Authority <ul> <li>Procurement of Additional Railcars</li> <li>Total</li> </ul>	31.9 <i>31.9</i>	28.4 28.4	79.6 79.6	20.1 <i>20.1</i>	-					
CHANGES BETWEEN 2006-07 MID-YEAR REV	IEW AND 2007	-08 BUDGEI								
<ul> <li>Public Transport Authority</li> <li>Northern Suburbs Public Transport Improvements – Car Park Expansion</li> <li>South Perth Train Station</li> <li>Total</li> </ul>		1.0 - 1.0	6.0 - 6.0	5.0 - 5.0	6.0 0.7 6.7					
(a) Further information is contained in Appendix 3, 2006-07 Government Mid-year Review Financial Projections Statement.										

a) Further information is contained in Appendix 3, 2006-07 Government Mid-year Review Financial Projections Statement. Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

#### Northern Suburbs Car Park Extension

An additional \$18.0 million will be spent on the expansion of car parking facilities at Greenwood, Edgewater, Whitfords and Stirling train stations. Almost 1,500 bays will be provided by 2010 as a means of improving access to Northern Suburbs rail services.

#### **South Perth Train Station**

Detailed planning and design for a station at South Perth will commence from 2010-11. As part of the New MetroRail project, provision was made through advanced infrastructure and rail alignment to accommodate the proposed station at South Perth following commissioning of rail services.

#### **Treasury and Finance**

POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING TOTAL PUBLIC SECTOR CAPITAL SPENDING								
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m			
CHANGES BETWEEN 2006-07 MID-YEAR REVIE	W AND 2007	-08 BUDGET	Г					
Treasury and Finance - Works Centre of Expertise - Total	- -	1.0 1.0	1.5 1.5	1.0 <i>1.0</i>	0.5 <i>0.5</i>			
Note: columns may not add due to rounding.								

#### **Works Centre of Expertise**

A Works Centre of Expertise (CoE) will be established to improve collaboration and coordination across 'works' procurement. The benefits of reform through the Works CoE will primarily be cost minimisation through a focus on better planning and project management with benefits largely accruing from improved project definition, better costing and budgeting and minimisation of scope creep.

Other benefits will include more reliable project timetables and more projects delivered on time and on budget. As part of this project, \$4 million over four years will be spent for the introduction of a common contracting and project management system.

# Water Corporation

#### Table 19 POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING TOTAL PUBLIC SECTOR CAPITAL SPENDING

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
CHANGES BETWEEN 2006-07 BUDGET AND 2	006-07 MID-YE	AR REVIEW	l <sup>(a)</sup>		
Water Corporation - Wiluna waste water - Total	3.7 3.7	-	-	-	-
CHANGES BETWEEN 2006-07 MID-YEAR REV	IEW AND 2007	-08 BUDGE1	-		
Water Corporation - Gnangara Mound Rehabilitation Project - Total	- -	11.0 <i>11.0</i>	16.0 <i>16.0</i>	7.0 7.0	-

(a) Further information is contained in Appendix 3, 2006-07 Government Mid-year Review Financial Projections Statement. Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

# **Gnangara Mound Rehabilitation Project**

As part of the water sources development program, and associated with the Security through Diversity strategy, the Water Corporation is securing another sustainable water source based on a large-scale groundwater replenishment trial. The trial will be based on using highly treated wastewater from the Beenyup Wastewater Treatment Plant in Perth's northern suburbs. Large scale recycling of water from Perth's wastewater treatment plants has the potential to be one of the State's future major new water sources.

# Western Australian Land Authority

POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING TOTAL PUBLIC SECTOR CAPITAL SPENDING								
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m			
CHANGES BETWEEN 2006-07 MID-YEAR REV	EW AND 2007	-08 BUDGET	r					
Western Australian Land Authority – Australian Marine Complex Common User								
Facility Upgrade	-	36.1	48.1	-	-			
– Total	-	36.1	48.1	-	-			
Note: columns may not add due to rounding.								

#### Australian Marine Complex Common User Facility Upgrade

The State Government has committed an additional \$84.2 million to the upgrade of the Australian Marine Complex Common User Facility. Works to be undertaken include a floating dock, a transfer system and the extension and upgrade of the existing wharves to expand Western Australia's capacity to meet marine repair, maintenance and construction requirements.

# Western Australia Police

POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING TOTAL PUBLIC SECTOR CAPITAL SPENDING										
2006-07 2007-08 2008-09 2009-10 2 \$m \$m \$m \$m										
CHANGES BETWEEN 2006-07 MID-YEAR REVIEW AND 2007-08 BUDGET										
Western Australia Police										
<ul> <li>Carnarvon Police and Justice Complex</li> </ul>	-0.1	-2.7	0.3	1.1	9.2					
<ul> <li>Rockingham Police Rail Unit</li> </ul>	-	2.3	1.8	-	-					
<ul> <li>Secret Harbour Police Station</li> </ul>	-	2.9	4.8	1.8	-					
– Total	-0.1	2.5	6.9	2.9	9.2					
Note: columns may not add due to rounding.										

Table 21

# **Carnarvon Police and Justice Complex**

Additional capital expenditure of \$7.8 million has been approved for the Police component of this major new facility that will include state-of-the-art video conferencing and digital recording facilities, public interview rooms, a modern custodial facility and staff amenities.

#### **Rockingham Police Rail Unit**

A total of \$5.7 million will be spent on a purpose-built police facility that will be constructed adjacent to the Rockingham railway station to accommodate the new Police Rail Unit, established to service the Southern Suburbs railway line. The capital component of the project is \$4.1 million with the balance being expensed.

#### **Secret Harbour Police Station**

The Government has approved \$10.0 million to be spent on the construction of a new police station in one of the fastest growing regions of the State.

# Western Australian Sports Centre Trust

POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING TOTAL PUBLIC SECTOR CAPITAL SPENDING									
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m				
CHANGES BETWEEN 2006-07 MID-YEAR RE	VIEW AND 2007	-08 BUDGET	Г						
Western Australian Sports Centre Trust									
receive and a spence contro much		0.0							
<ul> <li>Refurbishment of Challenge Stadium</li> </ul>	-	2.6	-	-	-				

# **Refurbishment of Challenge Stadium**

\$2.6 million will be spent in 2007-08 to refurbish the Challenge Stadium swimming pool, enabling the State to host the 2008 FINA Masters games.

# **Zoological Parks Authority**

POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING TOTAL PUBLIC SECTOR CAPITAL SPENDING									
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m				
CHANGES BETWEEN 2006-07 BUDGET AND 2	006-07 MID-YE	AR REVIEW	l <sup>(a)</sup>						
Zoological Park Authority									
<ul> <li>Perimeter Fence</li> </ul>	0.9	1.0	-	-	-				
– Total	0.9	1.0	-	-	-				
(a) Further information is contained in Appendix 3, 200	6-07 Governmen	t Mid-year Re	view Financia	al Projections	Statement.				

(a) Further information is contained in Appendix 3, 2006-07 Government Mid-year Review Financial Projections Statement. Figures for 2010-11 were not published in the mid-year review, which only provided details for the then official forward estimates period.

Note: columns may not add due to rounding.

# **Provision to Develop New Water Sources**

POLICY DECISIONS SINCE 2006-07 BUDGET AFFECTING TOTAL PUBLIC SECTOR CAPITAL SPENDING								
	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m			
CHANGES BETWEEN 2006-07 MID-YEAR REVI	EW AND 2007-	-08 BUDGET	• (a)					
<ul> <li>Provision to Develop New Water Sources</li> <li>Total</li> <li>Iote: columns may not add due to rounding.</li> </ul>	-	-	250.0 250.0	250.0 250.0	250.0 250.0			

#### **Provision to Develop New Water Sources**

New water sources are required to meet the growing demand for water for household and business use, particularly in Perth and areas served by the Integrated Water Supply Scheme. New water source developments will also be required throughout the State where there is increasing demand for water, and/or reductions in water supply available from existing schemes.

Major new water sources are becoming increasingly complex to develop and further work is being undertaken in this regard. A number of potential water supply options have been identified and it is considered prudent to include a funding provision for this purpose. In recognition of the need to develop new water sources, a provision of \$750 million has been budgeted within the forward estimates.

# The Western Australian Economy

# Overview

Western Australia's real gross State product  $(GSP)^1$  is estimated to increase by 6.0% in 2006-07, significantly higher than the long-term average growth rate of 4.6% a year for the past 15 years. The above-average growth is due to strong growth in the State's domestic economy<sup>2</sup> and an improving international trade balance.

Somewhat lower forecast GSP growth of 4.5% in 2007-08 and 5.0% in 2008-09 reflects slower expected growth in the State's domestic economy<sup>3</sup>, partly offset by further growth in the State's net international trade surplus.

# **Current conditions**

Most indicators show more favourable economic conditions in Western Australia than nationally. The unemployment rate is lower and labour force participation higher, average earnings are higher, and retail spending levels and growth are above the Australian average.

Labour market conditions have been tight for some years, and although this has led to wages growth in excess of the national average, wages pressures are nonetheless fairly contained.

<sup>&</sup>lt;sup>1</sup> GSP is the total output of the State's economy, comprising State Final Demand (see footnote below), changes in inventories, plus exports minus imports from interstate and overseas. Unless otherwise stated, all growth rates in this chapter are in real (chain volume) terms, rather than nominal terms (that is, they abstract from any price movements). Non-forecast data is typically sourced from the Australian Bureau of Statistics (ABS) unless otherwise indicated. All forecasts were finalised by budget cut-off date.

<sup>&</sup>lt;sup>2</sup> Measured by State Final Demand (SFD), which comprises expenditure on household and government consumption, dwelling investment, business investment, and public sector investment.

<sup>&</sup>lt;sup>3</sup> See previous footnote.

Perth's housing market was extremely strong in the three years to mid-2006, with rapid growth in house prices and building approvals, and a record build-up in the number of houses under construction. This had some negative consequences, including deteriorating housing affordability. Perth's strong house price growth has also been the main reason for its inflation rate exceeding the national average since June 2002.

A number of indicators show that Western Australia's housing market has now peaked, with weakening demand reflecting reduced investor interest and poorer affordability. Despite this, the current stock of residential work in the pipeline (equivalent to a strong year's worth) is expected to support residential building activity over the remainder of 2007.

Commodity price growth has slowed sharply in recent months from the very strong growth recorded in the three years to 2006<sup>4</sup>. Prices are forecast to fall from recent peaks over the next few years<sup>5</sup>, but are expected to remain well above the levels that existed before the boom. Business investment levels will also be supported over the next few years by the large pipeline of work on resources projects committed to or already under way.

Table 1

MAJOR ECONOMIC AGGREGATES										
Western Australia										
	2005-06 Actual <sup>(a)</sup> %	2006-07 Estimated Actual %	2007-08 Budget Estimate %	2008-09 Forward Estimate %	2009-10 Forward Estimate <sup>(d)</sup> %	2010-11 Forward Estimate <sup>(d)</sup> %				
Real Gross State Product Growth <sup>(b)</sup>	4.9	6.0	4.5	5.0	4.5	4.5				
Real State Final Demand Growth <sup>(b)</sup>	10.9	5.5	3.0	2.5	4.75	4.75				
Nominal State Final Demand Growth	15.8	10.5	5.5	5.0	7.25	7.25				
Employment Growth	4.4	2.25	2.0	2.0	2.5	2.5				
Unemployment Rate	4.1	3.0	3.25	3.5	4.75	4.75				
Wage Price Index <sup>(c)</sup>	4.5	4.5	4.25	4.0	3.5	3.5				
Average Weekly Earnings <sup>(c)</sup>	4.8	6.75	4.75	4.25	4.0	4.0				
Consumer Price Index Growth	4.3	4.25	3.0	2.75	2.5	2.5				
GSP Implicit Price Deflator Growth	10.5	8.25	1.25	2.0	3.75	3.75				

Forecast notes:

(a) Gross State product (GSP) and State Final Demand (SFD) data are based on 2005-06 State Accounts data, released November 2006 (ABS Catalogue Number 5220.0); all other data based on other various ABS data sources.

(b) Real (chain volume) terms abstracts from price effects.

(c) 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).

(d) Forward estimates for the budget outyears (2009-10 and 2010-11) are not forecasts, but projections based on long-run averages.

Other notes: Currency exchange rates and interest rates are assumed to be constant over the forecast period, and population growth assumptions are based on the Commonwealth Treasury's 'GST payment' projections for all States and Territories, as well as long-term historical growth rate averages for the budget outyears.

<sup>&</sup>lt;sup>4</sup> The Reserve Bank of Australia's index of commodity prices valued in Special Drawing Rights increased by 78.4% between October 2003 and October 2006, and by 2.3% between October 2006 and March 2007.

Source: Access Economics, Minerals Monitor, December quarter 2006.

# 2006-07

Western Australia's real GSP is forecast to grow by 6.0% in 2006-07. Growth will be driven by a strong domestic economy (forecast to grow by 5.5%), supported by consumer spending and business investment. Growth will also be boosted by an improving external sector, with net exports forecast to increase by 7.5% and contribute 1.6 percentage points to the forecast GSP growth rate. This represents a significant turnaround from the previous two years, when net exports detracted from GSP growth, as imports rose rapidly while export volumes grew weakly (although export values rose sharply because of high commodity prices).

The forecast increase in export volumes reflects expected increases in resource production resulting from strong business investment in Western Australia. In the past five years, real business investment has grown at an average of 19.0% a year.

# 2007-08

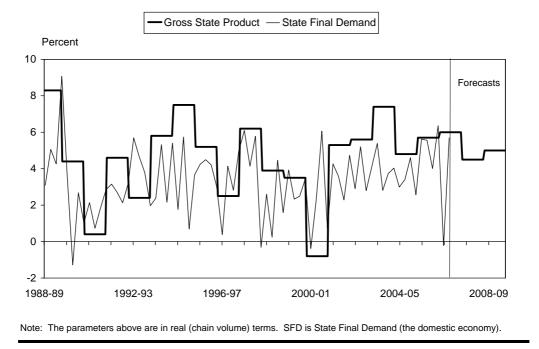
Several major resource projects will become operational in 2007-08. The resulting growth in commodity production is expected to boost exports further, and net trade is predicted to contribute 2.6 percentage points to the forecast GSP growth rate of 4.5%.

However, domestic demand growth is forecast to ease to 3.0% in 2007-08. Several factors will contribute to decelerating domestic demand:

- household consumption growth is forecast to slow from 5.75% in 2006-07 to 3.75%, in line with its 10-year average growth rate of 4.0%. Consumer spending will be dampened by the lagged impact of several interest rate rises combined with a diminished wealth effect from house and share price growth, although population, employment and wages growth will support an increase in spending in line with its long-term average;
- business investment growth is likely to slow from the rapid growth of recent years, although investment is forecast to moderate to levels that are high by historical standards; and
- dwelling investment is forecast to fall by 2.5%.

Even though domestic economic growth is forecast to slow, labour demand is expected to remain strong by historical standards while labour supply will be constrained, resulting in wages growth at rates above its eight-year average of 3.5%.

#### Figure 1 WESTERN AUSTRALIA – GROSS STATE PRODUCT (ANNUAL) AND STATE FINAL DEMAND (QUARTERLY)



# 2008-09

Further increases in export volumes, and lower imports growth, mean that net exports are forecast to be the main driver of growth in 2008-09, contributing 3.7 percentage points to forecast GSP growth of 5.0%.

Growth in State Final Demand is expected to slow to 2.5% in 2008-09, about half of its long-term annual average (over the past 15 years) of 4.8%.

The profile of domestic growth forecast for 2008-09 is similar to 2007-08:

- dwelling investment levels are forecast to decline by 1.5% over the fiscal year. Affordability is likely to improve as house prices level off while incomes continue to grow, and supply constraints such as shortages of materials, land, industry capability and labour should ease. These factors are expected to offset what could have otherwise been a sharper fall in dwelling investment;
- the forecast business investment growth rate of 2.25% in 2008-09 is slightly lower than the 3.5% forecast for 2007-08. The risk of a decline in commodity prices leading to significantly lower investment, however, is higher for later forecasts than those in the near-term (see *Risks to the Economic Outlook* section of this chapter); and
- consumption growth of 3.5% is forecast for 2008-09, similar to the 3.75% growth rate forecast for 2007-08.

Slower domestic demand growth should weaken labour demand, resulting in a forecast easing in wages growth in 2008-09.

While the commodity and housing cycles have dominated Western Australia's growth trends in recent years, the housing cycle now appears to have peaked and commodity prices are expected to fall over the next few years. As a result, the forecasts presented in this budget show growth consolidating at levels at or above the State's long-term average growth rate of about 4.6% a year for the past 15 years, but below the exceptional 5.6% growth averaged, in the past five years.

Prospects for Western Australia's economy over the next few years are very positive, but there is a risk that activity could turn down more sharply if the housing market or commodity demand and prices are weaker than expected (see *Risks to the Economic Outlook* section).

Table 2

# COMPONENTS OF GROSS STATE PRODUCT

Western Australia

	2005-06 Actual <sup>(a)</sup> %	2006-07 Estimated Actual %	2007-08 Budget Estimate %	2008-09 Forward Estimate %
REAL ANNUAL AVERAGE GROWTH RATES				
Household Consumption Business Investment Dwelling Investment Public	3.9 37.0 8.0	5.75 9.0 2.0	3.75 3.5 -2.5	3.5 2.25 -1.5
Consumption Investment	2.0 23.5	4.25 -2.25	3.75 -2.5	2.0 2.5
State Final Demand External Sector <sup>(b)</sup>	10.9	5.5	3.0	2.5
External Sector Exports Imports Net Exports Balancing Item <sup>(c)</sup> Gross State Product	-0.7 15.2 -11.7 12.5 <b>4.9</b>	8.5 9.5 7.5 6.0 <b>6.0</b>	10.0 7.5 11.75 4.5 <b>4.5</b>	11.25 5.25 15.75 5.0 <b>5.0</b>
CONTRIBUTIONS TO GROWTH				
Private Household Consumption Business Investment Dwelling Investment Public	1.9 6.1 0.6	2.7 2.0 0.2	1.8 0.8 -0.2	1.6 0.5 -0.1
Consumption Investment	0.3 0.9	0.6 -0.1	0.5 -0.1	0.3 0.1
State Final Demand External Sector <sup>(b)</sup>	9.7	5.3	2.8	2.3
Exports Imports Net Exports Balancing Item <sup>(c)</sup>	-0.3 -2.6 -3.0 -1.8	3.1 -1.5 1.6 -1.0	3.8 -1.2 2.6 -0.7	4.5 -0.9 3.7 -0.8
Gross State Product	4.9	6.0	4.5	5.0

(a) Based on 2005-06 State Accounts data, released November 2006 (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 stock levels, 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 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 (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.

# State Final Demand

## Household consumption

Real household consumption spending increased at an annual average rate of 5.5% over the three years to 2005-06, with growth in 2006-07 forecast at 5.75%.

A number of factors have supported strong household consumption in recent years:

- strong growth in employment and earnings has contributed to growth in household disposable income;
- increases in share prices and house prices in recent years have boosted household wealth, although the growth in house prices has slowed recently;

- accelerating growth in Western Australia's population (currently at 2.0%<sup>6</sup> the highest of all states and territories), driven mainly by overseas migration, has added to demand for goods, services and housing; and
- consumer confidence is strong despite the three rises in interest rates in 2006.

These factors have produced consumption growth rates well above the 4.0% long run (10-year) average for household consumption growth.

Household consumption is expected to return to more typical rates of growth in 2007-08, with growth of 3.75% forecast. A fall in dwelling investment and flatter house prices (see *Dwelling Investment* section below), as well as the expected lagged effect of the 2006 interest rate rises<sup>7</sup> are likely to dampen consumption growth from the 5.75% expected in 2006-07. The deceleration in household consumption growth in 2007-08 also in part reflects an expected softening in employment and wages growth during the year.

Household consumption growth is then forecast to weaken to 3.5% in 2008-09, for similar reasons to the deceleration in 2007-08 - declining wealth effects, the full outworking of the 2006 interest rate rises, and softer employment and wages growth.

## **Business Investment**

Business investment in Western Australia has grown rapidly over the past few years, largely driven by medium to large resource projects. This has been in response to strong growth in global demand and prices for many of Western Australia's key resource commodities. Of the estimated \$25.6 billion worth of private sector projects currently under construction in Western Australia, almost 90% can be classified as a resource project, related infrastructure, or a project that involves the downstream processing of a resource<sup>8</sup>.

A number of indicators point to business investment remaining at high levels over the next few years, although the rate of growth is forecast to slow.

Western Australian business expectations<sup>9</sup> and the large pipeline of engineering construction work still to be done<sup>10</sup> suggest a continuation of positive conditions in the near term, with business investment forecast to grow by 9.0% in 2006-07. If this is achieved, business investment will have grown by an annual average rate of 18.5% over the five years to 2006-07.

<sup>&</sup>lt;sup>6</sup> Based on data for the September quarter 2006 – the latest available data at the time of writing.

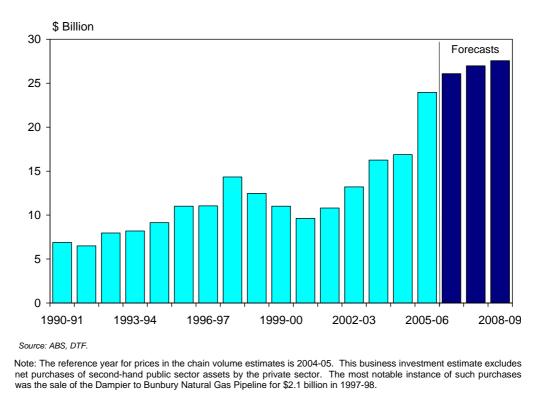
<sup>&</sup>lt;sup>7</sup> When this chapter was finalised in early April 2007, the Reserve Bank of Australia's monetary policy had a tightening bias.

<sup>&</sup>lt;sup>8</sup> Source: Access Economics, *Investment Monitor*, December quarter 2006.

<sup>&</sup>lt;sup>9</sup> ABS Catalogue number 5625.0, *Private New Capital Expenditure and Expected Expenditure*, December quarter 2006 and Commonwealth Bank – Chamber of Commerce and Industry, *Survey of WA Business Expectations*, March quarter 2007.

<sup>&</sup>lt;sup>10</sup> ABS Catalogue Number 8762.0, *Engineering Construction Activity*, December quarter 2006, Table 26.

Figure 2



**BUSINESS INVESTMENT IN WESTERN AUSTRALIA** 

Growth in business investment in 2007-08 is forecast to moderate to 3.5%. Investment levels will be supported by newly committed resource projects and continuing work on the large number of projects already under way (see *Exports* section below for a list of major projects currently under construction). However, some deceleration in the growth rate is likely after the extremely rapid growth of recent years. Many businesses face capacity constraints and skills shortages, which are limiting their ability to increase investment levels. Also, commodity prices are expected to ease from recent peaks over the next few years<sup>11</sup>, which has the potential to decrease the profitability of future business investment projects.

Business investment growth is forecast to ease further in 2008-09, to 2.25%. Some of the \$66.3 billion worth of private sector projects currently under consideration in Western Australia<sup>12</sup> are likely to support activity in 2008-09, although not all of these projects are likely to proceed. However, for those projects that do commence, many will not begin construction for some years.

Business investment in Western Australia can be very volatile, and a few large projects can often account for most of the State's private capital expenditure in any given year. Given the lumpy nature of investment, changes to project status and timing could result in significantly different capital expenditure outcomes than the forecasts presented above.

<sup>&</sup>lt;sup>11</sup> Source: Access Economics, *Minerals Monitor*, March quarter 2007 - although it is also worth noting that most commodity prices are expected to remain at historical highs.

<sup>&</sup>lt;sup>12</sup> Source: Access Economics, *Investment Monitor*, December quarter 2006.

Capacity constraints generate uncertainty about project timing, as labour, equipment and materials shortages can delay construction schedules (as is currently happening for some resource projects). Lengthy approvals processes and even the weather (e.g. cyclones) can also cause delays.

## Dwelling Investment<sup>13</sup>

Conditions in Western Australia's property market have been robust over the past five years, with house prices increasing by 111.8% (or an average of 16.2% a year) between 2000-01 and 2005-06. This reflects a combination of very strong demand growth and, more recently, a constrained supply of new dwellings.

However, this rapid increase in house prices has resulted in deteriorating housing affordability.

Forward indicators of building activity have turned down, with building approvals and housing finance commitments (excluding refinancing) trending downwards into early 2007, and residential commencements declining in the second half of 2006.

The recent decline in demand for new housing probably reflects a combination of the increase in prices and the effect of recent interest rate rises. There may also be a cyclical element, as demand for new housing has been above long-run average levels for several years.

Although new demand growth has begun to ease, a large volume of work under construction, and of dwellings contracted but not commenced, is expected to support dwelling investment levels over the remainder of 2007 (see Figure 3).

Dwelling investment is estimated to be fairly subdued over the second half of 2006-07, with growth of 2.0% expected for the full financial year.

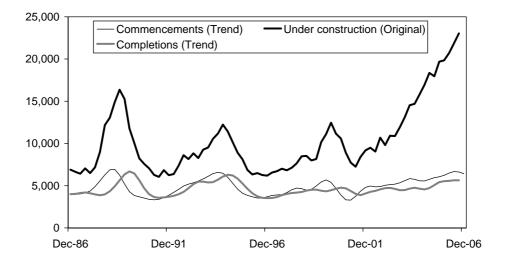
As the pipeline of current work clears in 2007-08, dwelling investment is forecast to decline by 2.5%.

A combination of weaker demand (due to poor affordability) and improvement in the capacity of the construction sector to add to the housing stock should reduce house price growth. A sharp decline in prices is not expected, however, as demand will be underpinned by the tight labour market and growth in population and wages. House prices are expected to stabilise by mid-2007, and remain relatively flat for a sustained period (perhaps a year or two).

Dwelling investment is forecast to decline by 1.5% in 2008-09, affected by similar affordability constraints as in 2007-08.

<sup>&</sup>lt;sup>13</sup> 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).





Note: The latest available data at the time of writing for "dwellings under construction" and for "dwellings completed" are September quarter 2006 data. December quarter 2006 data are available for "dwelling commencements". ABS Catalogue 8750.0, 8752.0.

## **Public Demand**

Public consumption in Western Australia comprises spending by the Commonwealth, State and local governments, and accounts for between 14% and 17% of GSP. Public consumption is estimated to grow in real terms by 4.25% in 2006-07, after increasing by 2.0% in 2005-06.

Public consumption growth of 3.75% is forecast in 2007-08, followed by 2.0% in 2008-09. This is consistent with an expected moderation in overall public sector spending growth, particularly at the State level, as short term spending pressures ease. For more detail see Chapter 2: *Fiscal Strategy and Financial Projections*.

Public investment by Commonwealth, State and local governments tends to occur in sizeable and discrete 'lumps', often resulting in volatile expense growth.

Public investment is at historically high levels in Western Australia, but is expected to fall slightly from current levels. After increasing by 23.5% in 2005-06, public investment is forecast to decline by 2.25% in 2006-07 and by 2.5% in 2007-08. This reflects a projected softening in Commonwealth and local government investment.

The State's Capital Works Program is currently at record levels. The forecasts reflect the completion of some large projects, notably the Perth Sea Water Desalination Project in early 2006-07, and the New MetroRail project in early 2007-08 (for details of the State Government's major public investment projects, see Chapter 5: *Capital Investment*)<sup>14</sup>.

Public investment across all tiers of government in Western Australia is projected to grow by 2.5% in 2008-09, below its 10-year long-term average growth rate of 6.5%.

# Net Exports

Investment in Western Australia's resources sector has grown in recent years in response to strong demand for commodities, with China's rapid industrialisation in particular stimulating global demand.

However, while high commodity prices have caused the value of the State's exports to increase, until recently the volume of exports been surprisingly flat, despite five years of strong business investment.

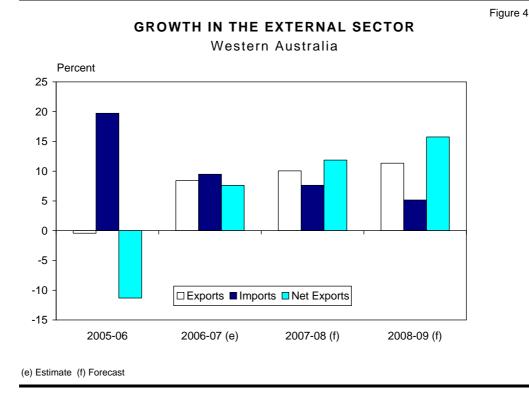
This is forecast to change over the forecast period, with Western Australian exports expected to rise substantially as the investment of the past few years yields higher output in the resources sector.

While imports growth will remain fairly strong, it is not expected to be of sufficient magnitude to offset exports growth. Imports growth is forecast to moderate over the next few years as business investment in the resources sector slows (see *Business Investment* section earlier in this chapter), and as household consumption growth eases (see *Household Consumption* section earlier in this chapter).

Growth in export volumes of 8.5% is expected to underpin an increase in the trade surplus in 2006-07, with net exports (exports less imports) forecast to rise by 7.5% in 2006-07, after falling by 11.7% in 2005-06.

Stronger exports growth is forecast in 2007-08, with net exports making a larger positive contribution to GSP as a result. Net exports are forecast to grow by 11.75% in 2007-08 and contribute 2.6 percentage points to GSP growth of 4.5%.

<sup>&</sup>lt;sup>14</sup> There are some important methodological differences between the Western Australian Government's Capital Works Program and the public investment forecasts presented in this chapter. Public investment incorporates investment from Commonwealth, State and local governments, whereas the Capital Works Program (with a few exceptions) only includes the State Government's contributions to infrastructure projects (and is measured in nominal terms, whereas the public investment forecasts in this chapter are in real [volume] terms).



In 2008-09 a number of resource projects (such as BHP Billiton's Ravensthorpe Nickel project and BHP Billiton's Rapid Growth Project 3) will record their first full year of production. The slower growth in imports expected for the year will also lead to further growth in net exports, which are forecast to increase by 15.75% and contribute 3.7 percentage points to forecast GSP growth of 5.0%.

#### Exports

China's rapid economic development is a major contributor to global growth, contributing about 1.5 percentage points of the increase in global output in 2006. The expansion of the Chinese economy is particularly important for Western Australia as it is fuelling growth in global commodity demand and commodity prices. In 2006 China overtook Japan to become Western Australia's largest trading partner, and it now accounts for around a fifth of the State's exports.

Commentators such as the Organisation for Economic Co-operation and Development (OECD)<sup>15</sup> and the International Monetary Fund (IMF)<sup>16</sup> expect that the industrialisation of China will continue over the medium term, and that economic activity in China will grow at around 10% in both calendar years 2007 and 2008. However, the IMF has also indicated that it expects economic activity in China to soften slightly in 2008 (but still remain strong), in part reflecting monetary policy tightening in response to concerns about the economy overheating. Demand for Western Australian commodities from other major trading partners – particularly Japan and South Korea (Western Australia's second and third largest trading partners) - is also strong and similarly influenced by economic activity in China.

<sup>&</sup>lt;sup>15</sup> Source: OECD, OECD Economic Outlook No. 80 - China, Nov 2006.

<sup>&</sup>lt;sup>16</sup> Source: IMF, *World Economic Outlook*, April 2007.

High commodity prices are favourable for Western Australian exporters. While most commentators (such as the IMF and Access Economics) expect commodity prices to retreat from recent highs as new capacity is supplied into world markets, most commodity prices are not expected to return to their historical averages (pre-resources boom levels), in part because higher wages, energy costs and equipment costs have boosted costs of production for most producers worldwide<sup>17,18</sup>.

Even if commodity prices soften, however, it is unlikely that a significant number of the larger resources projects already committed to in Western Australia will be significantly deferred or cancelled. So exports are forecast to grow over the budget period and be a major contributor to growth in GSP despite the fact that commodity prices are currently close to peaking.

Growth in export volumes out of Western Australia has been slow in recent years, perhaps reflecting long investment lead times, capacity and cost constraints and labour shortages. Cyclones in the Pilbara region in the first quarters of 2006 and 2007 resulted in temporary shutdowns of production facilities and major ports. Such disruptions are difficult to avoid, and as most facilities are operating at full capacity to capitalise on high commodity prices, lost exports cannot be recouped by increasing production later in the year.

Export volumes are expected to increase over the next few years, as strong business investment in the resources sector over recent years begins to feed into production and subsequently into exports.

Most major resources projects currently under construction in Western Australia are expected to enter their production phases in 2007-08, with 2008-09 the first full year of production for many. Export volumes are forecast to increase by 10.0% in 2007-08 and then by 11.25% in 2008-09, reflecting this additional capacity.

Some of the major resource projects (over \$1.0 billion) currently under construction in the State that are expected to underpin exports growth when they come online over the next few years include<sup>19</sup>:

- Fortescue Metals Group's \$3.7 billion Pilbara Iron ore and infrastructure project (expected date of March 2008 for production);
- BHP Billiton's \$2.8 billion Ravensthorpe nickel project (expected date of March 2008 for first production);
- North West Shelf Consortium's \$2.4 billion fifth LNG train project (expected date of August 2008 for first production);
- BHP Billiton's \$2.1 billion Rapid Growth Project 3 (expected date of December 2007 for first production);
- Newmont's \$2.0 billion expansion of the Boddington gold mine (expected date of late 2008 for first production);

<sup>&</sup>lt;sup>17</sup> Source: Access Economics, *Minerals Monitor*, December quarter 2006.

<sup>&</sup>lt;sup>18</sup> Source: IMF, *World Economic Outlook*, April 2007.

<sup>&</sup>lt;sup>19</sup> Source: Access Economics, *Investment Monitor*, December quarter 2006.

- North West Shelf Consortium's \$1.6 billion Angel gas field development (expected date of December 2008 for first production);
- Hancock Prospecting's \$1.3 billion Hope Downs iron ore project (expected date of early 2008 for first production);
- Rio Tinto's \$1.2 billion Argyle diamond mine expansion (expected date of March 2009 for first production); and
- Woodside Petroleum / Mitsui & Co's \$1.0 billion Vincent gas field project (expected date of January 2008 for first production).

Agricultural exports are forecast to rebound in 2007-08 after below-average production in 2006-07. However, the strong Australian dollar could affect export values. Severe flooding in parts of the Wheatbelt and the southern rangelands in mid 2006-07, followed by one of the driest years on record and a major locust infestation over much of the Wheatbelt, cut grain production volumes during 2006-07. These factors reduced the supply of many rural commodities, and prices rose reflecting the poor growing conditions<sup>20</sup>.

The Department of Agriculture and Food reports that, in 2007-08, grain volumes are expected to be strong following a return to normal seasonal conditions in Western Australia. While grain prices are expected to be somewhat lower during the year, prices are not forecast to fall dramatically due to the current tight world grain stocks in wheat and coarse grains and the increase in world demand for canola<sup>21</sup>.

#### Imports

Western Australia's strong import growth in recent years has been caused by growth in consumer spending and imports of capital equipment to support the State's business investment.

Following growth of 15.2% in 2005-06, imports are forecast to increase by 9.5% in 2006-07, 7.5% in 2007-08, and 5.25% in 2008-09.

This deceleration in import growth rates reflects a forecast easing of growth in household consumption and business investment, the two main sources of the State's import demand.

Import demand could be stimulated in the short term by the recent high in the Australian dollar $^{22}$ .

<sup>&</sup>lt;sup>20</sup> Source: Department of Agriculture and Food, *Western Australian Agri-Food and Fibre Industry Outlook*, December 2006.

<sup>&</sup>lt;sup>21</sup> Source: Department of Agriculture and Food, *Western Australian Agri-Food and Fibre Industry Outlook*, December 2006.

<sup>&</sup>lt;sup>22</sup> The Australian dollar reached \$US0.83 in mid-April 2007, its highest level since October 1990.

## Labour Market

## Employment

Robust economic conditions in Western Australia have generated strong labour demand, but employment growth has slowed due to constrained labour supply. Employment is estimated to grow by 2.25% in 2006-07 after growth of 4.4% in 2005-06.

Business surveys<sup>23</sup> and job vacancies data<sup>24</sup> indicate that strong demand for labour will continue in the near to medium term.

Some labour force growth is possible due to net overseas and interstate migration, together with increased labour force participation in some older age groups and higher female participation. With unemployment at 32-year lows and historically high level of labour force participation, however, the supply constraints that have emerged in the past year or so are likely to continue over the next few years.

Accordingly, employment is forecast to grow by 2.0% in both 2007-08 and 2008-09.

#### Unemployment

Western Australia's unemployment rate has fallen to its lowest levels since the current Australian Bureau of Statistics monthly labour force data series began in 1978<sup>25</sup>. The State recorded an unemployment rate of 2.7% in March 2007, while the seasonally adjusted unemployment rate has been below 4.0% since April 2006. The high demand for labour is expected to continue for the remainder of 2006-07 (and result in the average unemployment rate over 2006-07 remaining low, at 3.0%).

The State's labour market is forecast to remain tight in 2007-08. However, the average unemployment rate over 2007-08 is forecast to increase (marginally) to 3.25%, reflecting a slight increase in labour supply.

In 2008-09, Western Australia's unemployment rate is forecast to increase slightly to 3.5%, as demand for labour moderates.

## Prices

#### **Consumer Price Index**

Exceptional price rises for fruit (and in particular bananas) and automotive fuel underpinned strong growth in the Consumer Price Index (CPI) both nationally and in Perth over 2005-06. Rapid growth in house prices in Western Australia further fuelled inflation in the State, and was primarily responsible for the gap between the CPI growth rates for Perth and nationally over the past few years. Perth's CPI rose by 4.5% over 2006, compared to 3.5% inflation nationally.

<sup>&</sup>lt;sup>23</sup> Sources: Commonwealth Bank and Chamber of Commerce and Industry, *Survey of WA Business Expectations*, March 2007; Hudson, *Employment Expectations*, April-June 2007; Manpower, *Employment Outlook survey*, quarter 2 2007.

<sup>&</sup>lt;sup>24</sup> Source: ANZ, ANZ Job Advertisements series, March 2007.

<sup>&</sup>lt;sup>25</sup> Under the previous labour force estimates, which were produced quarterly and were not seasonally adjusted, the unemployment rate was last at this level in September 1974.

The exceptional price growth of fruit and fuel began to unwind in late 2006 and there is evidence that the Western Australian housing boom has peaked. However, the residual effects of these factors will see relatively high inflation for the 2006-07 financial year. These effects, together with strong consumer demand (underpinned by growth in disposable incomes and a tight labour market), are forecast to result in Perth CPI growth of 4.25% over 2006-07.

Growth in Perth's CPI over 2007-08 is forecast to decelerate to 3.0% as activity in the housing market slows and the effects of exceptional price growth experienced in 2006 dissipate. Inflation is expected to remain above its long-term (ten-year) average of 2.6%, however, due to strong economic conditions and consumer demand supported by wages growth and a tight labour market.

In 2008-09, Perth's CPI growth is forecast to moderate further, to 2.75%, bringing it closer in line with both the projected national inflation rate of  $2.5\%^{26}$  and the 2.6% average inflation rate for Perth over the past fifteen years. This forecast is based on anticipated slower domestic economic growth, including softer consumer demand, as well as house price growth easing to be closer to growth in the rest of Australia.

#### Wages

Western Australia is experiencing wages growth that is strong by historical standards, though relatively contained given the general tightness of the labour market. With employment growth in the State constrained by the availability of labour, wages are forecast to increase strongly over the next few years.

The Wage Price Index in Western Australia is expected to increase by 4.5% over 2006-07. To date, exceptionally strong wages growth has been confined to those industries most affected by the housing and resources booms such as mining, construction, and property and business services, with solid (but lower) growth in other industries.

In 2007-08, wages growth is expected to moderate slightly, with the Wage Price Index forecast to rise by 4.25%. Over 2008-09, an easing in the domestic economy, combined with slightly stronger labour supply, is expected to result in the Wage Price Index growth slowing to 4.0%. Although these forecasts suggest gradual deceleration in growth in the Wage Price Index, growth will be higher than the eight-year series average of  $3.5\%^{27}$ .

Average Weekly Earnings are expected to increase by 6.75% in 2006-07. Growth is then forecast to slow to 4.75% in 2007-08 and to 4.25% in 2008-09.

<sup>&</sup>lt;sup>26</sup> Source: Australian Treasury, *Mid Year Economic and Fiscal Outlook*, December 2006.

<sup>&</sup>lt;sup>27</sup> Only eight years of annual average growth is available because the Wage Price Index series began in 1997.

Average Weekly Earnings can reflect changes in the composition of the workforce as well as growth in pay levels, making the Wage Price Index a better measure of underlying wages pressures<sup>28</sup>. The higher forecast growth rate for Average Weekly Earnings than the Wage Price Index over the forecast period mainly reflects such compositional effects. These compositional changes are anticipated to have their largest effect in 2006-07 before slowly unwinding, bringing growth of Average Weekly Earnings closer to that of the Wage Price Index.

#### Implicit Price Deflators

The State Final Demand (SFD) implicit price deflator<sup>29</sup> is forecast to rise by 4.75% in 2006-07 as a result of strong domestic price pressures, before growth slows to 2.5% in both 2007-08 and 2008-09 (as domestic prices growth returns to more normal rates).

The gross State product (GSP) implicit price deflator<sup>30</sup> is expected to rise by 8.25% in 2006-07, largely the result of strong export prices that in turn reflect strong commodity prices. Growth in the GSP deflator is then forecast to slow over 2007-08 and 2008-09 (to 1.25% and 2.0% respectively), primarily the result of softening commodity prices.

## **Regional Economies**

Regional areas contribute approximately one third of the output of the Western Australian economy<sup>31</sup>. This makes 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 who live in regional areas<sup>32</sup>.

The mining industry accounts for approximately 7% of regional employment, while the construction industry accounts for 8%<sup>33</sup>. Most of the employment generated by major resource-related projects occurs during their construction, with employment during operational phases often relatively low in these (typically capital intensive) projects.

<sup>&</sup>lt;sup>28</sup> 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). Neither does it 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 awarding more rapid promotions to retain staff, the Wage Price Index will not capture this.

<sup>&</sup>lt;sup>29</sup> 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.

<sup>&</sup>lt;sup>30</sup> See previous footnote.

<sup>&</sup>lt;sup>31</sup> Sources: Department of Local Government and Regional Development, ABS.

<sup>&</sup>lt;sup>32</sup> Regional population and employment figures for this section are based on published and unpublished ABS Census 2001 data.

<sup>&</sup>lt;sup>33</sup> Source: Department of Local Government and Regional Development (data separately identifying the tourism industry is not included).

Mining accounts for a larger share of output for regional Western Australia than it does for the State as a whole. 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 output from the mining industry grew by 41.4% in 2005-06, making it the largest contributor to economic growth across the State<sup>34</sup>.

The agriculture, forestry and fishing industry is also important to regional Western Australia, accounting for just under 14% of regional employment.

The overall economic outlook for the regions is positive, with activity expected to be strong across the different regional economies. The construction and operation of a number of major resources projects is expected to contribute to economic activity in the regions over the next few years. Growth is therefore expected to be particularly strong in the regions where mining is a substantial part of the total economy, such as the Pilbara, Goldfields and the Great Southern.

Regional economies are expected to benefit from the strong outlook for commodities exports. However, Western Australia's gross value of agricultural production is forecast to fall in 2006-07, mainly due to a fall in crop production<sup>35</sup> (also see *Exports* section above for more information on the agricultural outlook).

The mining and agriculture, forestry and fishing industries represent a much larger share of regional than metropolitan economic output. While output growth in the mining regions is expected to be strong, significant income leakages can occur, particularly where fly-in fly-out operations are prevalent.

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.

<sup>&</sup>lt;sup>34</sup> 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, which is the only available data (ABS Catalogue Number 5220.0). The growth in the value of mining production is thus mainly a result of commodity price growth.

<sup>&</sup>lt;sup>35</sup> Department of Agriculture and Food, Western Australian Agri-food and Fibre Industry Outlook, December 2006.

#### **International conditions**

The International Monetary Fund (IMF) expects the world economy to grow by 4.9% in both 2007 and  $2008^{36}$ . If this is achieved it will be the sixth successive year of growth in excess of 4.5%, the longest sustained growth of this magnitude since the 1960s.

To date the global expansion has been broadly based. However, inflation concerns, tighter conditions in financial markets, and further rises in oil prices have highlighted risks to the global economy. Despite these risks, the IMF forecasts that world output will grow quite strongly in 2007 and 2008.

The dominance of China and its influence on the pace of global expansion is well established. China is Western Australia's largest trading partner, and its continued industrialisation and high commodity demand are advantageous to the State. The IMF forecast that China's economy will grow by 10% in 2007. The IMF believes that China's economy will withstand the effects of monetary policy tightening in response to concerns about the economy overheating. However, it is concerned that managing a transition to a more flexible exchange rate is a challenge to the Chinese economy that could endanger its future growth (see also the *Global Risks* section).

Strong trade and financial flows with large economies such as the United States and Japan have supported growth in China, positioning it as a major trading partner for many other (mainly export oriented) countries within our region.

Solid domestic demand growth in Japan has supported growth in the Japanese economy. The IMF expects GDP in Japan to increase by 2.3% over 2007, with indications that entrenched deflation has ended (although inflation is only marginally above zero). The transition from zero interest rates was handled smoothly by the Bank of Japan<sup>37</sup>.

Economic activity in the United States has eased recently as several interest rate rises over the past few years act to constrain growth, and uncertainties mount on the state of the United States housing market. The IMF expects GDP in the United States to increase by 2.2% over 2007<sup>38</sup>, buoyed by corporate investment, strong productivity and profitability (even while a cooling housing market dampens private consumption and residential investment). As the drag from the housing sector moderates through 2007 and into 2008, the IMF expects that the United States economy should gather some momentum and grow by 2.8% in 2008.

<sup>&</sup>lt;sup>36</sup> Source: IMF, World Economic Outlook, April 2007.

<sup>&</sup>lt;sup>37</sup> See previous footnote.

<sup>&</sup>lt;sup>38</sup> See footnote 36.

# Risks to the Economic Outlook

## **Global Risks**

Western Australia's reliance on exports means it has a relatively high exposure to global economic conditions. Forecasters including the IMF, ABARE and Access Economics are in broad agreement that growth in global activity will again be relatively strong over 2007. Strong demand for Western Australia's diverse commodities exports is therefore likely to persist for the next few years, but there are risks to the outlook.

China's economic growth currently adds about 1½ percentage points a year to growth in global output, and so its economic prospects are important for the world economy. China is also especially important to Western Australia's economic prospects, both because it is the State's largest export destination, and because it is an important export market for many of the State's other key trading partners.

According to Access Economics, economic activity in China will remain strong, but there are challenges for its economic policy managers. These include the overheating economy, the widening gap between urban and rural incomes, social unrest, an ageing population, and the slow pace of financial reforms such as making the exchange rate more flexible. These problems could impede China's economic expansion<sup>39</sup>.

As the world's largest economy, any deceleration of growth in the United States is likely to affect global growth, both because of its direct contribution to world output and because of flow-on effects on its major trading partners such as China, Japan and other parts of Asia. The IMF forecasts the United States' economic growth to slow from 3.3% in 2006 to 2.2% in 2007, but pick up to 2.8% in 2008<sup>40</sup>. A slowdown in the United States housing market has dampened domestic demand and consumer confidence, and also raised concerns about the management of mortgages to high-risk borrowers, and the solvency of companies offering them. The United States' large budget and current account deficits may pose a risk to global financial stability if these imbalances unwind too quickly.

Global financial market volatility has been low in recent years, and investors have been attracted to what would have been seen in the past as risky markets and assets. The IMF's latest World Economic Outlook warns that investors could retreat from riskier assets if market volatility picks up, representing another risk to financial market stability<sup>41</sup>. Such a retreat could cause currency readjustments and greater exchange rate volatility, falling asset prices, and inhibit trade flows, perhaps akin to the Asian currency crisis of the late 1990s.

Global commodity prices appear to have peaked, and oil prices have trended down somewhat from their July 2006 high, although they remain well above historical averages.

<sup>&</sup>lt;sup>39</sup> Source: Access Economics, *Minerals Monitor*, December quarter 2006.

<sup>&</sup>lt;sup>40</sup> Source: IMF, *World Economic Outlook*, April 2007.

<sup>&</sup>lt;sup>41</sup> See previous footnote.

However, oil prices remain volatile, affected by market fundamentals and geopolitical uncertainties. While the world economy has coped with recent high energy prices without any evidence of significant inflationary build-up, another spike in oil prices could rekindle inflation, especially in economies where several years of above-average economic growth have closed the gap between actual and potential output.

Western Australia is both positively and negatively affected by high oil prices. The State imports crude oil for refining, and the cost of imported crude oil increases as the price of oil rises, flowing through to users of refined petroleum products. Conversely, the State exports a number of petroleum products, with prices for the State's crude oil and condensate generally following trends in global prices.

High commodity prices resulting from strong global demand have underpinned the recent strength of economic activity in Western Australia. While strong commodity demand is expected to persist into 2007-08 and 2008-09, forecasters including ABARE<sup>42</sup>, Access Economics<sup>43</sup>, and the Reserve Bank of Australia<sup>44</sup> expect commodity prices to fall over the next few years, as capacity expansions and the development of new operations from recent investment in the resources sector generate increased production. The magnitude of the forecast decline in prices is relatively small because strong demand is expected to persist, and higher prices have induced producers to exploit higher-cost reserves. However, there remains a risk of sharper decreases in prices if either the increase in supply is stronger than expected, or global demand for commodities weakens. Falling commodity prices and/or demand could affect Western Australia's resources sector investment, output and exports.

As well as these specific and identifiable risks, the global economy is also vulnerable to less predictable events and shocks. Violence and political instability can unsettle global markets, especially when the countries affected are major commodity producers. Concern at the risk of a global pandemic appears to have abated in recent months, as cases of human-to-human transmission of avian flu have proved rare. However, a serious outbreak of disease is a small but significant risk to the movement of people, goods and services.

## **Domestic Risks**

The largest risk to Western Australia's generally favourable economic outlook is the domestic consequences of any significant downturn in prices and demand for commodity exports. As discussed above, such a shock would directly affect Western Australia's resource sector investment, output and exports, but would also have knock-on effects in the wider economy though reductions in construction activity and weaker employment, earnings and consumer confidence and spending.

<sup>&</sup>lt;sup>42</sup> Source: ABARE, *Australian Commodities*, December quarter 2006.

<sup>&</sup>lt;sup>43</sup> Source: Access Economics, *Minerals Monitor*, March quarter 2007.

<sup>&</sup>lt;sup>44</sup> Source: Reserve Bank of Australia, *Statement on Monetary Policy*, February 2007.

A second, related, risk is the exchange rate. The strength of Australia's export demand and prices may be a contributing factor behind the recent strength of the Australian dollar, which reached an 18-year high of US\$0.8367 against the US dollar on 18 April 2007. This was not just a reflection of weakness in the US dollar, as the Trade Weighted Index was also at a 21-year high in mid-April. A high exchange rate makes exports relatively more expensive and imports cheaper compared to domestically produced goods, which can harm the competitiveness of trade-exposed industries. As an especially trade-reliant economy, Western Australia is particularly vulnerable to this risk, although the very high prices its resource exports currently command will to some degree cushion minerals exporters, at least.

A third key risk is the housing market. The housing cycle appears to have peaked, but the forecasts presented in this chapter assume a soft landing as the market is supported by strong fundamentals including accelerating population growth, strong growth in earnings and household incomes, low unemployment and high consumer confidence. As a result, house prices are expected to level off rather than fall sharply, while dwelling investment is forecast to record only modest decreases in 2007-08 and 2008-09.

There is a risk of a sharper correction, however, if the market overshot in its cyclical upswing, or if investors leave the market in significant numbers now that the prospect of large capital gains has receded. In this event, house prices and construction activity could fall more sharply than forecast.

Conversely, there is a smaller risk that the housing market could be stronger than forecast, if the robust fundamentals driving underlying demand reassert themselves in the short term, and the recent drop in activity proves temporary. In this event, price growth and investment could be stronger than the forecasts indicate, although affordability improvements would also be slower.

A fourth risk to the outlook is an upturn in wage inflation. Although Western Australia's Wage Price Index growth has been ahead of both the national average and the State's longer-term trend in recent years, wage inflation has been relatively contained given the tightness of the labour market. Only those sectors at the heart of the economic boom, such as mining and construction, have recorded exceptional wages growth. However, the more volatile Average Weekly Earnings measure of wage pressures rose by 5.9% in the September quarter 2006 and a further 2.0% in the December quarter<sup>45</sup>. Given the variability of this indicator and its susceptibility to changes in the composition of the labour force, this probably represents no more than typical fluctuations. It could, however, signal the start of more sustained wage pressure, as the lagged effects of several years of low unemployment and strong labour demand feed into wage growth. Higher wage growth could lead to higher consumer price inflation and also dampen labour demand, although it could also boost households' disposable incomes and consumption.

<sup>&</sup>lt;sup>45</sup> Source: ABS Catalogue Number 6302.0, Average Weekly Earning, December quarter 2006. Data quoted are quarterly changes in seasonally adjusted average weekly total earnings.

The final, and related, risk to the outlook is higher consumer price inflation. Perth's inflation rate has been above the national average in recent years, but this has mainly reflected its relatively high house price growth. As Perth's house price growth slows, its inflation rate is forecast to fall back towards the average of other States. The national average inflation rate is also expected to decelerate, as the effects of one-off increases in fuel and food prices in 2005-06 pass through the annual inflation estimates. Hence, the forecasts in this chapter predict that inflation will begin to ease from 2007-08. However, if new pressures emerge to keep Perth's price movements ahead of the national average, resulting either from the stronger wages discussed above or from ongoing high levels of consumer demand, then inflation could exceed these forecasts.

# **Economic Reform**

## Overview

Western Australia continues to pursue a wide range of economic reforms in order to ensure the continuation of the State's economic growth and prosperity beyond the current resources boom.

The Government has a record of implementing challenging economic and policy reforms in the public interest. Although these reforms are often initially controversial, such reforms have delivered tangible benefits to the Western Australian community.

The ageing of the population is one of the most important economic challenges for Australia over the medium and longer-term. To offset this, faster growth in productivity and improved efficiency in the delivery of Government services is required, in order to maintain living standards into the future.

Reform is an ongoing task, essential in the long-term forward planning of government. In the face of the ageing population and the current experience of full employment, further reform is essential to ensure that the State's economy remains flexible and innovative, and allows private sector business to respond to opportunities internationally and nationally.

Well functioning, competitive markets are important drivers of efficiency and are the best means of achieving the greatest welfare for all Western Australians. However, intervention in some markets is required, either because markets are not sufficiently mature or there are other market failures (for example, where there are environmental impacts or where consumers have insufficient information about the transactions they are making).

The Government is committed to creating an environment fostering more efficient investment, and greater productivity, by assessing the purpose of new and existing regulations to ensure best regulatory design and practice, and removal of unnecessary red tape burdens on business. Ongoing removal of structural and legislative barriers to trade, increasing opportunities for private sector involvement in infrastructure provision (for example, in electricity generation), and appropriate oversight of monopoly elements in the economy, will also be pursued in a bid to further raise the welfare of Western Australians.

Important reforms to promote the social environment through a focus on health and lifestyle will also be ongoing.

In February 2007, the Productivity Commission estimated that competition and regulatory reforms arising from the National Reform Agenda could add significantly to national output, of up to around 2% of Gross Domestic Product, in the longer run. This equates to an increase in household disposable income of \$400 per person in Australia. Significant cost savings gains can also be achieved by more efficient delivery of government services.

Major elements of Western Australia's reform agenda include:

- reforms to improve the delivery of State's health service which will play an increasingly important role as the State's ageing population and an increasing incidence of lifestyle related illnesses exert pressure on taxpayer funded health costs and impinge on the wellbeing of the community;
- reforms to improve the efficiency of the public service through the introduction of shared corporate services arrangements and functional review of government agencies to ensure their appropriate focus on priorities of the Government;
- more rigorous financial accountability for government agencies and improvements in the efficiency of general government procurement (including 'works' procurement) which will result in greater value for money in public expenditure by the Government;
- enhancing superannuation options for public sector employees in order to provide a competitive and attractive public sector workplace;
- taxation reform aimed at streamlining State taxes to improve business competitiveness and reduce the tax burden on the community generally;
- consolidating competition reforms in electricity markets to provide competitively priced electricity to consumers;
- ensuring competitively priced access to Western Australia's gas reserves; and
- initiatives to secure the future of the State's water supply. Water reforms focus on water pricing, water markets, efficient water use and potential for introducing competition in water supply, and will work in tandem with initiatives linked to the Commonwealth's National Water Initiative, signed by Western Australia in April 2006.

The Council of Australian Governments (COAG) agreed to the new National Reform Agenda in February 2006. As a signatory to the agreement, Western Australia will implement productivity enhancing reforms in three broad areas of competition, regulation and human capital reforms. These reforms include:

- specific measures to enhance regulatory outcomes for access to nationally significant ports and rail networks and the streamlining of third-party access regimes;
- a commitment that each jurisdiction implement best practice regulation review for all new regulations including processes of public consultation and benefit cost analysis; and
- reforms to improve the quality of human capital in order to provide an economic driver into the future, including improvements to lifestyle by taking actions to reduce the incidence of Type II Diabetes, improved vocational education and training opportunities, improved literacy and numeracy in the community and improvements to early childhood education and child care.

## Taxation Reform

Three major tax reform programs have been an integral part of the Government's overall reform agenda. In total, 11 taxes have been abolished since 2001, including those required to be abolished under the GST agreement.

- The Business Tax Review (BTR) saw reforms implemented in two tranches during 2003 and 2004. The key outcomes included the abolition of six taxes (debits tax and stamp duties on leases, unlisted shares, workers compensation insurance, life insurance and cheques) and simplifying the tax scales for payroll tax (replacing a complicated multiple rates/thresholds scale with a much simpler single marginal rate) and land tax (reducing the number of thresholds from 10 to six). The BTR also involved a broadening of the conveyance duty base (by introducing the listed land holder provisions) and the commencement of the process for rewriting the *Stamp Act 1921*.
- The Parliament passed the *Taxation Administration Bill* in 2003. It amalgamated and standardised the administrative provisions of four major taxing Acts and saw all major taxing statutes, with the exception of the *Stamp Act 1921*, being rewritten in clear and contemporary language.
- The State Tax Review (STR) was announced in the 2005-06 Budget. Stage 1 reforms were incorporated into the 2006-07 Budget and an Interim Report of preliminary findings was released on 1 June 2006. The Stage 1 measures included the abolition of three taxes (stamp duty on the hiring of goods duty from 1 January 2007, mortgages from 1 July 2008 and non-real conveyances from 1 July 2010) and measures to improve the equity of the tax system (including extending the land tax exemption period for the construction of new houses from one to two assessment years and introducing a land tax exemption for parents who provide independent accommodation for disabled children).

The Government has also proactively led a payroll tax consistency project with other States (as recommended in the STR Interim Report). This culminated in an announcement by all State and Territory Treasurers on 29 March 2007 that provisions will be harmonised in eight important areas (motor vehicle allowances, accommodation allowances, fringe benefits, work performed outside a jurisdiction, employee share acquisition schemes, superannuation for non-executive directors and grouping of businesses). The required changes in Western Australia are planned to apply from 1 July 2008.

The tax measures included in the 2007-08 Budget are broadly consistent with the STR priorities, including cuts in the areas of first home buyer stamp duty and motor vehicle stamp duty, as well as reforming land tax (by flattening the scale and introducing an exemption for aged care providers) and stamp duty arrangements for heavy vehicles (by introducing a single rate for used and heavy vehicles). It is expected that the Government will provide a more complete response to the STR after the budget.

In addition, the exposure draft of the legislation for the rewrite of the *Stamp Act 1921* is expected to be released for public consultation after the 2007-08 Budget. This will incorporate the Government's decisions on major reforms proposed in the STR in the area of conveyance duty, including the possible introduction of a base-broadening 'land holder' regime that will improve equity in the taxation treatment of indirect acquisitions of property and potentially fund a general reduction in conveyance duty rates.

The Government has also introduced a significant number of measures to reform taxation arrangements for specific industries. These include a change in the casino tax (introduction of a three-tier tax rate for table games, gaming machines and internal business) and betting tax (to be levied on gross margin instead of turnover).

As a result of these reforms, Western Australia's tax system is fairer, simpler and more efficient than when the Government came to office.

# Health Services Reform

Ongoing structural reform of the Western Australian health sector is crucial to its long-term financial sustainability as well as the long-term sustainability of the State's finances. The Government has made significant progress towards long-term reform of the Western Australian health system. This includes implementing key initiatives such as the Clinical Services Framework, Metropolitan Infrastructure Development Plan and Regional Resources Centres in regional areas.

In addition, the Health Reform Implementation Taskforce is currently progressing a number of reform measures, including:

- implementation of cost-effective, non-hospital based services including Hospital in the Home and Chronic Disease Management teams;
- completion of the Clinical Service Plan (CSP) for the South Metropolitan Area Health Service and significant progress of the CSP for the North Metropolitan Area Health Service; and

• development of a suite of management tools that together form an integrated business-planning model, including demand, whole of health cost and resource allocation models.

Work is currently being progressed in the substantial reconfiguration of public health services. The rationalisation of health facilities is underpinned by the principles of providing health care closer to where people live, in the most appropriate setting and at the most appropriate cost. The majority of Western Australians who need hospital services require secondary level care as distinct from more expensive tertiary care provided in teaching hospitals. Accordingly, the reconfiguration of health service includes building the capacity of general hospitals to facilitate the redirection of non-tertiary care away from tertiary hospitals, and at locations that reflect population growth and changing demographics. This involves the redevelopment and expansion of Perth's general hospitals, including:

- the Rockingham Kwinana Hospital with planned construction to commence in 2007-08;
- the Armadale Kelmscott Memorial Hospital with work currently progressing on the expansion of emergency department capacity;
- the Joondalup Health Campus, which is currently in the early design phase; and
- the Swan Health Campus at Midland, which is currently in the planning phase.

In addition, substantial reconfiguration of tertiary facilities is also planned. It is envisaged that modern, innovative, well-designed hospital infrastructure will generate long-term efficiency gains and contribute towards financial sustainability in the health sector. This includes:

- the Fiona Stanley Hospital Development (Southern Tertiary Hospital), which has entered into the master planning and design phase; and
- the Central Tertiary Hospital (QEII site), with planning progressing through 2007-08.

## Procurement Reform

Implementation of the Government's Procurement Reform program commenced in 2003-04. The program stems from the recommendations of the Functional Review Taskforce and has the dual objectives of improving procurement outcomes across the State's public sector and achieving significant cost savings to Government.

The reform program has been centred on some 60 separate projects outlined in the Business Solution and Implementation Plan endorsed by Cabinet in December 2003. Most of these projects have now been successfully completed or have been incorporated as normal operations of the Departments of Treasury and Finance and Housing and Works.

As a result of the procurement reform, the Government has been able to redirect \$114 million in 2006-07 (rising to \$119 million in 2007-08) to areas of priority spending. With total estimated implementation costs removed, the program will have achieved cumulative net savings of around \$350 million over the last four years.

The procurement reform is extensive in its scope and is comprised of such dimensions as strategic sourcing, policy and process, people, regional procurement, technology, governance and communications, and building maintenance.

A particularly significant achievement has been the restructure of the procurement function across the general government sector. The implementation of a single team of procurement specialists (many based in their client agencies) has resulted in the delivery of more consistent and professional procurement services to both government agencies and suppliers.

Another major achievement has been the development of many new innovative common use contracting arrangements that have resulted in significant savings (over \$60 million in 2006-07) and improved outcomes for government agencies.

In the coming year, areas of particular focus will include - expanding the use of purchasing cards, further integrating procurement systems with the roll-out of shared services online systems, improving the quality and management of procurement data, and encouraging individual agencies to apply smarter buying principles to their own agency specific contracts. As indicated previously by the Auditor General<sup>1</sup>, purchasing cards are an important means of reducing the transaction costs of low value purchasing. They also provide for increased transparency and accountability.

# Corporate Services Reform

The implementation of shared corporate services across the public sector remains a sound strategy to deliver significant cost efficiencies in the State's public service delivery. The reform commenced in 2004 and is being rolled out progressively with an expected completion date of 2009-10. Once fully implemented, the reform will deliver annual savings of \$55 million as well as a range of other benefits to Government, public sector agencies, employees and suppliers.

The reform involves a significant investment in new technology and systems design, a shift in the employment arrangements of hundreds of public servants, and structural changes to the delivery of finance and human resources/payroll transactions across the sector.

Three shared service centres have been established - the Health Corporate Network, the Education and Training Shared Services Centre, and the Office of Shared Services (OSS) which will ultimately deliver services to 90 agencies. In January 2007, the OSS became a business unit of the Department of Treasury and Finance.

The Health and Education centres commenced operating in 2005-06, utilising their existing corporate service systems combined with some new tools. The OSS is currently testing and implementing the whole-of-government Oracle Business System. This testing is confirming the viability of the integrated suite of Oracle products.

Report 7 June 2006 Procurement Reform: Beyond Compliance to Customer Focus

During 2006-07, the OSS commenced delivering financial and some procurement services to 15 agencies. However, the project has experienced delays in the 'build' of the Oracle payroll system, which was originally planned to go live at the same time as the new financial system. This has distracted resources and meant that fewer agencies were rolled in to the OSS during 2006-07 than was anticipated, which has impacted negatively on both the reform's budget and savings target of \$55 million. There have also been increases in the project cost budget due to the longer period taken to build the Business System.

At this stage, it is planned for the Oracle payroll system to be ready for live operations by the first agency in late 2007.

During 2007-08, the focus of the reform will be on finalising the payroll system, the next release of the finance system, and rolling in agencies to meet targeted dates. The roll-in schedule is currently being reviewed to ensure achievable targets are set, while at the same time delivering the greatest benefit in relation to the reform savings.

## Functional Review

It is important that organisational systems and structures be the subject of ongoing review and active reform. The State Government has a history of positive reform and review of the public sector. Current challenges facing the public sector revolve around:

- the dynamic economic environment and skills shortage: at all times, and particularly in a tight labour market, the public sector needs to be able to respond flexibly to rapidly changing economic circumstances and demands for services;
- the ageing population: the provision of government services will need to change in the face of a shrinking workforce accounting for workers desire for different and new working arrangements; and
- changing industrial environment: the coming Federal election and controversy around the Federal Government's 'Work Choices' legislation has created some uncertainty in the labour relations landscape.

## The Objectives of Reform

Objectives guiding the reform agenda are:

- the achievement of a responsive public sector that delivers services on behalf of Government to the community at large;
- a public sector workforce with the capacity to deliver those services effectively in a constantly changing environment; and
- flexible public sector structures and processes that support the workforce in the delivery of the services.

## Achieving Reform – Functional Reviews

As part of the 2006-07 Budget, the Government announced a program of functional reviews aimed at improving the performance and efficiency of the public sector. The program is now underway with a number of reviews completed or substantially progressed.

The Government's response to the review of the Department of Community Development was released in March 2007. As a result of this review, the Government has invested an additional \$105 million to implement a raft of major structural reforms including a new Department for Child Protection.

The review of the Sports Centre Trust was also completed in 2006-07 and the Government is in the process of implementing changes arising from the review.

The review of the Department of Indigenous Affairs is being finalised, while the review of Department of Industry and Resources commenced in February 2007 and is currently nearing a stage suitable for consideration by Government.

These reviews illustrate the Government's commitment to continuously evaluate the operations of Government agencies and the services they provide to the community. The findings and subsequent recommendations support improved efficiency in service delivery.

## Federal Affairs

## **Specific Purpose Payments Reforms**

Around 40% of Commonwealth funding to the States is provided in the form of Specific Purpose Payments (SPPs), in areas such health, education, housing and roads. Conditions on the use of these monies are usually set out in agreements with the States.

The States have long argued that SPP arrangements limit flexibility to meet community needs, especially where SPP conditions include strict controls on the use of SPP funds and specify how much the States must spend from their own sources.

States consider that replacing restrictive input conditions (e.g. matching and maintenance of effort conditions) with an accountability framework based on reporting outcomes and outputs would provide greater flexibility, while still ensuring that national objectives are achieved.

In an attempt to engage the Commonwealth in reform discussions, 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. 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.

The major tasks undertaken by the SPP Working Group over 2006-07 have been a review of the Australian Health Care Agreements and the preparation of papers by State and Territory members to input to the Commonwealth's Inter-Departmental Committee process for reviewing expiring SPPs.

The February 2006 COAG meeting agreed that SPPs that significantly affect the health care system should be reviewed prior to their renegotiation. As a result of this agreement, in April 2006, the COAG Human Capital Working Group (HCWG) requested that the SPPs Working Group review the Australian Health Care Agreements. A report was provided to the HCWG in October 2006, and among other things, the report indicated that health outcomes could be enhanced by:

- the introduction of a national whole of health system reporting framework on the activities of both levels of government; and
- clarifying services eligible for counting towards matching requirements and flexibility in the provision of services generally provided under the Agreements.

The HCWG considered this report in November 2006, and agreed it should be forwarded to COAG for noting.

As input into the Commonwealth's Inter-Departmental Committee process, the States are preparing papers on the following major SPPs expiring in mid 2008:

- Australian Health Care Agreements;
- National Heritage Trust/National Action Plan for Salinity and Water Quality; and
- The Commonwealth-State Housing Agreement.

Negotiations are expected to commence in 2007-08 on renewing the Vocational Education and Training and Schools agreements, which expire at the end of 2008. Negotiations on renewals of the Home and Community Care Agreement and the Commonwealth State Territory Disability Agreement are continuing.

# Electricity Industry Reform

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 was restructured on 31 March 2006 to establish four new government-owned energy businesses:

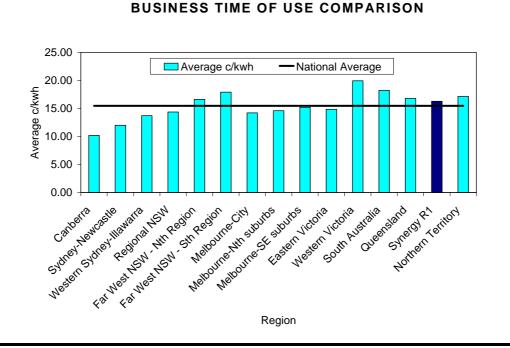
- Horizon Power (Regional Power Corporation);
- Synergy (Electricity Retail Corporation);
- Verve Energy (Electricity Generation Corporation); and

• Western Power (Electricity Networks Corporation).

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 following chart compares time-of-use tariffs (excluding GST) for businesses in other States with Western Australia's R1 Business Tariff. The chart assumes customers consume 60 MWh per annum with 25% off-peak consumption. The chart shows that after the 9% increase in the R1 Tariff announced in the current budget, Western Australia's price is only slightly above the national average. The chart reflects the proposed 7.7% increase in New South Wales electricity tariffs, also commencing on 1 July 2007. Given the current cost environment, tariff increases may be likely in the other States as well.

Figure 1



The Wholesale Electricity Market (WEM) commenced on 21 September 2006 and is operated by the Independent Market Operator (IMO).

The IMO is responsible for ensuring adequate reserves of electricity supply to Western Australian consumers within the SWIS. During 2006, the IMO completed its second 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 2008-09.

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, including:

- the disaggregation of Western Power Corporation, which has established strong commercial disciplines between the successor entities. Government ownership of these entities is retained, which deal with each other on an arm's length basis;
- the incumbent generation business (Verve Energy) has been constrained through a cap on its generating capacity at 3,000 megawatts; and
- as a transitional measure, 'vesting arrangements' have been introduced to govern electricity supply between Verve Energy and Synergy. These contracts ensure that the majority of Verve Energy's capacity is contracted to Synergy, reducing scope for market power to be exerted in the electricity market. To promote competition and new entry investment in the electricity market, the details of the vesting arrangements have been publicly released. The Vesting Contract will gradually be rolled back and expose Verve Energy and Synergy to competitive sourcing opportunities and support market development.

The cap on generating capacity 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 allows private companies to develop the new generation capacity required to meet the State's ongoing electricity needs and, over time, will significantly reduce the potential market power of Verve Energy.

## **Electricity Access Code**

An independent regulator is now approving access arrangements for the electricity transmission and distribution network. Open, transparent and non-discriminatory access to network services is 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 was developed for Western Australia. This Code is 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 26 April 2007, the ERA approved Western Power's Amended Proposed Access Arrangement, which will now form the framework under which access seekers will negotiate and contract with the network business to use the electricity network.

## Contestability

Previously, only very large electricity consumers could choose who supplied their electricity, meaning competition was limited to a small percentage of the electricity market. Recently, however, the threshold size of businesses able to choose their electricity provider (retail contestability) has been progressively lowered. 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, with approximately 14,000 contestable customers able to choose their electricity supplier. This competition promotes improved price and service outcomes.

The Government intends to implement full retail contestability (FRC), should an analysis of the costs and benefits of electricity FRC indicate that it is appropriate to do so. Electricity FRC would allow all customers, including households, to choose their supplier. However, it will only be practical when effective wholesale market competition has been established and the WEM is functioning successfully. The Government will be conducting a public review of electricity FRC in 2007, which will consider the costs and benefits, and the appropriate timing for implementation.

#### **Gas Moratorium**

Although FRC was introduced into the Western Australian gas market on 31 May 2004, a continuing moratorium prevents Synergy from selling gas to small-use customers (those that consume less than 1 terajoule per annum and, from 1 July 2007, less than 180 gigajoules per annum). The Gas Moratorium will be subject to future review as electricity FRC is implemented.

# Domestic Gas Market Reform

Access to competitively priced gas is essential to underpin Western Australia's economic growth and energy security. In order to ensure the long-term availability of domestic gas supplies, the *Western Australian Government Policy on Securing Domestic Gas Supplies* was released in October 2006.

The Government is also working to ensure the availability of domestic gas supplies in the immediate future.

A working group of relevant Government agencies, led by the Office of Energy, is examining competition in the Western Australia gas supply chain. This group will recommend ways to overcome barriers to the availability of gas to the Western Australian downstream market. The working group is expected to submit its report to Government in July 2007.

This report will be partially informed by the working of the national Joint Working Group on Natural Gas Supply, a joint initiative of the Ministerial Council for Mineral and Petroleum Resources and the Ministerial Council on Energy. Western Australia is the secretariat of this group, which is investigating gas industry issues at a national level.

## Water Reform

#### **Market Reform**

In February 2007, the Government released the Water Reform Implementation Committee's *Blueprint for Water Reform in Western Australia* as well as a Government Response. These documents underpin the Government's continuing commitment to provide security of supply in Western Australia, and build on the recommendations of the Irrigation Review and the State's commitments under the National Water Initiative (NWI) and will involve working on:

- changing the water entitlement system to facilitate water trading;
- implementing water metering;
- land and water planning for the longer term protection of agricultural land;
- increasing self-management; and
- investing in water use efficiency.

The State Water Plan will also provide a framework for the community, water users and other stakeholders to understand, engage and assess progress towards the strategic management of water in Western Australia.

Other innovative market reform has included the completion of the Harvey Water Piping Project. This project represents the first time in Australia that a significant volume of regional and agricultural water has been redirected for potable use. The Water Corporation paid for the piping of the Waroona irrigation system, delivering water savings of approximately 17.1 gigalitres. This saving was made available to the Integrated Water Supply System for potable use in the Perth metropolitan area, at a lower price than alternative sources, illustrating the mutually beneficial gains of water trading.

## Pricing of Water, Stormwater and Recycled Water

Appropriate pricing signals are a key measure in encouraging efficient water use and water saving as well as encouraging investment. In recent years, the ERA has completed a number of water pricing reviews, including reviews of urban and country water and wastewater pricing.

The ERA's 2005 report, *Urban Water and Wastewater Pricing* recommended the introduction of cost-based pricing, based on a smoothed price path. With some modifications to the ERA's final recommendations, a move to a cost based system of water pricing was approved in the 2006-07 Budget and cost-reflective pricing commenced on 1 July 2006.

The ERA's Inquiry on *Country Water and Wastewater Pricing*, released in June 2006, recommended a water pricing regime that balances the social objective of uniform pricing and the economic objective of cost reflective pricing for the use of water by residential, commercial and farming sectors. From 1 July 2007, the Government will introduce more cost-reflective pricing while retaining subsidised uniform pricing up to average levels of consumption for residential customers.

On 21 February 2007, the Treasurer of Western Australia gave written notice to the ERA to undertake an annual inquiry and make recommendations on the most appropriate level of tariffs for the Water Corporation's customers.

In accordance with the Terms of Reference, the ERA is to annually consider and report on the appropriate tariff levels for the Water Corporation's residential and non-residential services, and the impact of the recommended tariffs on Water Corporation customers and the State's public sector finances. The annual review will assist the State to move towards more transparent and economically efficient pricing.

## **Competition in Water Supply and New Source Development**

Competition encourages innovation and efficient productive processes, and can have flow-on benefits, including lower prices, for consumers. While the provision of water and wastewater infrastructure demonstrates significant natural monopoly characteristics, there is scope for increased competition in the supply of potable water.

For example, completed in late 2006, the Perth Seawater Desalination plant is the largest water project in Western Australia entailing an alliance with the private sector, with funding responsibility and ownership retained by the Water Corporation. The desalination plant demonstrates the Government's commitment to providing security of water supply to Western Australians and its intention to work with the private sector to identify and develop new and exciting water source opportunities.

Similarly, in October 2006, the Government appointed the Collie-Wellington Basin Water Source Options Steering Committee to investigate the future water source options of the Collie River Basin and Wellington Dam. Although the findings of this committee are yet to be finalised, a key task of the committee is to assess and prioritise current and potential water source options, including the opportunities for private sector involvement, and outline the direction of future assessment and stakeholder engagement. A final report is expected mid-2007.

Finally, the Government is proposing that the ERA undertake an inquiry into, and provide advice on, possible competitive enhancements for the delivery of water and wastewater services in Western Australia. This inquiry will allow the ERA to examine models for third party access to water and wastewater infrastructure (for example, as proposed in Sydney, and as those in operation in the United Kingdom) and consider possible approaches to third party access in Western Australia. The inquiry will also determine the benefits and costs of structural reform such as separating out the Water Corporation's bulk supply activities from its distribution and retail activities.

## Working with the Commonwealth on Water Initiatives

On 6 April 2006, the Western Australian Government became a signatory to the NWI. As a result, Western Australia is eligible for funding through the Australian Government Water Fund (Water Fund). The Water Fund is a \$2 billion Commonwealth Government program to invest in water infrastructure, improved water management, and better practices in the stewardship of Australia's scarce water resources. The Water Fund is intended to support practical on-ground water projects that will improve Australia's water efficiency and environmental outcomes.

The Western Australian Government has recommended a number of proposals to the Commonwealth for funding and has thus far received over \$30 million of funding in support of:

- the development of water management plans; and
- the Beenyup Reverse Osmosis Managed Aquifer Recharge.

The Government has also submitted a request for funding for two large projects - development of Collie Wellington Dam and the South West Yarragadee. These projects have been submitted in response to the Commonwealth Government's request for the States to present it with 'iconic projects' for funding consideration.

Funding received via these processes will aid Western Australia in securing water supplies into the future.

## A New National Reform Agenda

The COAG meetings of 10 February and 14 July 2006 endorsed a new National Reform Agenda encompassing human capital (productivity and participation), the transport and energy sectors, infrastructure regulation and the reduction of the burden of regulatory red tape on business.

- All jurisdictions committed to implementing the Competition and Infrastructure Reform Agreement (CIRA) which has broad implications for infrastructure regulation and investment, especially in ports and rail as discussed above.
- Practical initiatives were agreed in the areas of health services, skills recognition, and education, to further raise living standards by lifting the nations productivity and workforce participation over the next decade.
- The National Reform Agenda also focuses on energy and transport, especially on appropriate pricing signals and competitive markets to achieve efficient resource allocation and lower costs.

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.

Both the Productivity Commission's and COAG's Reviews of National Competition Policy (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 National Reform Agenda, the institutional arrangements should provide for public input to processes and public transparency of review results, independent monitoring of progress in implementing changes according to agreed timetables, and mechanisms to lock-in the gains of past reforms.

On 13 April 2007, COAG agreed the final institutional arrangements supporting implementation of the National Reform Agenda. An independent COAG Reform Council (CRC) has been appointed, to:

- monitor progress in implementing agreed National Reform Agenda reforms, initially referred to the CRC unanimously by COAG, through annual reports to COAG; and
- assess, ex-post, the costs and benefits of reforms, giving consideration to the differences between jurisdictions. Following receipt of these assessments, the Commonwealth, State and Territory Governments will consider if any payments are required by any government to ensure a fair sharing of the costs and benefits of reforms.

The Commonwealth confirmed its commitment to provide funding to the States and Territories on a case-by-case basis, which could take the form of either Commonwealth or shared funding towards specific new initiatives, or 'fair sharing' outcome payments linked to tangible results. Such Commonwealth payments would not include generic up-front payments, would be in addition to other Commonwealth funding, and would be decided on by the Commonwealth.

# Transport Reform

## Rail

Efficiently functioning rail networks and ports are critically important to the Australian economy, and especially so for an export oriented economy such as Western Australia's. Well-designed access arrangements play an important role in well functioning rail networks and ports.

## **Railways (Access) Code Review**

The Government is committed to creating an environment favourable to competition within the rail sector, while balancing the interests of access providers and access seekers. The State's Rail Access Regime, comprising the *Railways (Access) Act 1998* and the *Railways (Access) Code 2000* (the Code), provides an effective 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 Code was completed in December 2005, involving a process of consultation with access providers and access seekers. Final amendments to the Code gained approval in January 2007, and are currently being drafted for implementation.

At the 10 February 2006 meeting of the COAG, all jurisdictions agreed to implement a simpler and consistent national system of rail access regulation, modelled on the Australian Rail Track Corporation Undertaking to the Australian Competition and Consumer Commission, to apply to nationally significant railways. This will include the interstate rail track from Perth to Brisbane, subject to the outcome of commercial negotiations, and major intra-state freight corridors on an agreed case-by-case basis depending on the costs and benefits of inclusion under a national regime.

#### **Pilbara Rail Access**

The Pilbara iron ore railways were established under State Agreement Acts and contain provisions that railway operators (i.e. BHP Billiton and Rio Tinto) transport passengers and freight of the State and third parties on their railways, providing this does not unduly prejudice or interfere with their operations. The effectiveness of these provisions is debatable as, to date, no independent third party has gained access to the railways.

In May 2006, work commenced on the joint development of a State-based access regime for haulage on the Pilbara iron ore railways, initially between the State Government and BHP Billiton, but with potentially wider application throughout the Pilbara.

The development of a State-based haulage access regime capable of certification by the National Competition Council is intended to achieve the State's policy objectives of an effective third party access regime to iron ore transport services in the Pilbara.

The regime is being developed in parallel to the track declaration process currently being sought by the Fortescue Metals Group (FMG) with respect to BHP Billiton's Mount Newman and Goldsworthy railways under Part IIIA of the *Trade Practices Act 1974* (TPA).

The potential benefit of the State-based regime, if it can be achieved, is to expeditiously achieve a more efficient and effective regime at less cost than the highly legalistic TPA process.

It should be noted that the FMG railway currently being constructed will be covered under the State's Rail Access Regime.

#### **COAG-proposed Review of Ports**

In signing the CIRA on 10 February 2006, all jurisdictions committed to conducting a review of ports and port authorities', handling and storage facility operations at significant ports (including capital city ports, major bulk commodity export ports except those considered part of integrated production processes, and major regional ports), to determine:

- whether a clear need for economic regulation exists, in order to promote competition in upstream or downstream markets or to prevent the misuse of market power; and
- whether competition in the provision of port and related infrastructure facilities should be restricted in the public interest, to prevent the entry of new suppliers of port and related infrastructure services.

Specifically, the CIRA requires that:

- ports should only be subject to regulation where a clear need for it can be demonstrated;
- any price monitoring should be undertaken by an independent body which publishes relevant information;
- access to port facilities be provided in a competitively neutral manner;
- port planning should, consistent with the efficient use of port infrastructure, facilitate the entry of new suppliers of port and related infrastructure services; and
- each jurisdiction address any conflicts of interest between port owners, operators or service providers as a result of vertically integrated structures, with a view to facilitating competition.

#### **Review of School Bus Operators' Charter Work**

Formal terms of reference were issued to the ERA on 22 January 2007, to undertake an inquiry into school bus operators' charter bus operations. A draft report was released on 2 May 2007 to facilitate public comment, with further submissions to the ERA welcome until 31 May 2007. The Inquiry is currently expected to be completed by 29 June 2007, after which the Government will have 28 days to table the report in the Parliament.

Various parties have expressed concern that holders of generous government contracts to operate school buses may be undercutting privately-funded competitors in the charter bus market, at government expense. The existing school bus contracts allow limited adjustment to operator returns, through certain elements of the contract prices.

The ERA's draft report concluded that only a small percentage of school bus contractors engage frequently in charter work, with only localised impacts on competing charter operators. While school bus operators often provide commercial charter services ate variable cost alone, this encourages greater utilisation of the school bus fleet outside school hours. On the basis of submissions to date, investment and service standards in the charter bus industry appear unaffected by the participation of school bus operators in the private charter sector.

## Metropolitan Perth Taxi Reforms

The Government has substantially reformed the taxi industry and further reforms are being implemented. In the past, taxi scarcity has led to higher costs for drivers (in the form of higher plate costs and associated lease costs) and poor service for taxi patrons (because of longer wait times and unreliable attendance of taxis, even where taxis have been requested by patrons well in advance of the time they are required).

In 2003, following a review of the industry, the *Taxi Act 1994* was amended to allow the Government to lease (and not just sell) additional taxi plates. This was a first step to reversing many years of increasing restrictions, which had culminated in no new standard taxi licences being released between 1989 and 2003. Driver returns have also been improved by making lease plates available at a lease rate that is lower than that charged by private plate owners who on-lease their plates. The reforms have resulted in additional taxis on the road, (thereby improving the supply of taxis to customers) and higher driver returns (thereby encouraging taxi drivers to remain in, or enter, the industry).

Since 2003, the Government has approved the release of 212 standard plates, 157 peak period plates and a small number of plates for other categories. However, Perth's population has increased by more than 100,000 since 2003 and economic growth has been significant, meaning taxi shortages have persisted despite the number of plates being released. In February 2007, the Minister for Planning and Infrastructure announced significant increases to taxi numbers, recommending that 20 new plates be released each month. This policy response will improve Perth's taxi availability. If the rate of release is maintained for two years it is predicted to increase the ratio of taxis to population from the peak scarcity of 1:1,352 (in 2003) to 1:1,014 (by 2009), resulting in better services for taxi patrons and ultimately reducing costs to consumers and drivers alike.

## Competition Reform

## **Liquor Licensing**

The Government is committed to encouraging social environments that are more innovative and vibrant, and better meet the changing expectations of both Western Australian consumers and tourists.

The *Liquor and Gaming Legislation Amendment Act 2006*, which was assented in December 2006, represents the culmination of an extensive review and consultation process on the reform of Western Australia's liquor laws.

In 2003, the Government commissioned an independent review of the *Liquor Licensing Act 1988* which concluded, on the basis of broad public consultation and research, that extensive reform was required to provide greater flexibility for consumers and greater opportunities for small business, while minimising harm from alcohol consumption.

From December 2006, all metropolitan liquor stores were permitted to trade between 10am and 10pm on a Sunday, bringing them into line with hotel bottle shops, which previously had a monopoly on Sunday trade.

In regional Western Australia, liquor stores will only be able to trade on a Sunday under an extended trading permit, the criteria for which are based on the distance to the nearest hotel or tavern, or tourism requirements.

Hotel bottle shops retain their longer weekday opening times (from 6am to midnight, in comparison to liquor stores' 8am to 10pm opening hours).

The remainder of changes to the legislation will be implemented in stages during 2007.

- The current 'needs test' will be replaced with a new 'public interest' test. The licensing authority will be required to consider the 'public interest', rather than the existence and location of incumbent premises, in deciding whether or not to grant a liquor licence. Matters that the licensing authority may have regard to in determining the public interest will include:
  - the harm or ill-health that might be caused to people, or any group of people, due to the use of liquor;
  - the impact on the amenity of the locality in which the premises, are to be situated; and
  - whether offence, annoyance, disturbance or inconvenience might be caused to people who reside or work in the vicinity of the licensed premises or proposed licensed premises.
- Restaurants will, with an appropriate permit, be able to sell alcohol without a meal, while regulations will be designed to prevent restaurants trading as de facto bars.
- A new Liquor Commission will replace the current Liquor Licensing Court, in a significant departure from the current licensing regime.

## **Health Professions**

The NCP Review of Western Australian Health Practitioner Legislation, conducted in 2001 and involving extensive public consultation, recommended that all registration legislation for health professionals in the State be remodelled on template legislation containing consistent, modern and standardised provisions.

The new legislation provides for effective registration of health practitioners, controlling use of practitioner titles and seeking to prevent conduct from non-practitioners that may be misleading to consumers and the general public. Importantly, the new legislation:

- adequately identifies members of the various health professions, enabling the consumers of health services to make informed decisions when engaging practitioners; and
- removes various unnecessary restrictions on the advertising of health practitioner services, allowing greater competition between practitioners and improving information to consumers.

Health Practitioner Bills, implementing template legislation governing osteopaths, nurses and midwives, occupational therapists, optometrists, physiotherapists, psychologists, podiatrists and chiropractors were passed by Parliament and received Assent in late 2005.

The 2001 NCP Review also recommended that 'core' practices, to be reserved exclusively to the domain of each health profession in the interests of public protection, were to be justified and determined within three years of the Review. If core practices could not be determined within that timeframe, the current restriction of these services to particular professions was to be removed in the public interest, to allow greater contestability in service provision, with resultant choice and pricing benefits to consumers. For example, the new *Psychologists Act 2006* has removed the restriction on practicing hypnosis, allowing more qualified hypnotists to practise.

New commitments on health professionals in the National Reform Agenda involve national registration for all health practitioners, according to uniform national standards, and a national accreditation scheme to improve consistency in health professionals' education and training. On 13 April 2007, COAG endorsed a model agreeing the arrangements for the new national system of registration and the accreditation of training and education programs, for implementation by July 2008. National professional standards will deliver benefits to health consumers, and national registration will allow health professionals to practise across State and Territory borders without having to re-register, improving workforce mobility.

The new system will initially cover the nine professions of medical practitioners, nurses and midwives, pharmacists, physiotherapists, psychologists, osteopaths, chiropractors, optometrists and dentists (including dental hygienists, dental prosthetists and dental therapists). Key features of the new arrangements include a new national professional board for each of the nine professions - individual registration and accreditation decisions will remain the responsibility of the professions. Each profession will develop its own standards, for approval by Health Ministers.

## Housing and Land Reform

#### **Economic Study into Land and Housing Markets**

In 2007-08, the Department of Premier and Cabinet will carry out an economic review of housing and land supply issues in Western Australia. The review will examine regulatory and structural impacts and market failures in housing supply.

The review will examine how to bring sustained and genuine improvements to housing affordability for the Western Australian community.

The review will consider the reasons for the recent price rises and factors that might have inhibited the capacity of the market to respond to additional demand.

A better understanding of the causes of the rise in prices may also lead to the identification of policy solutions to mitigate adverse effects of future booms on housing affordability.

## Financial Management Reform

## **Financial Management Act and Auditor General Act**

The *Financial Management Act 2006* (FMA) and *Auditor General Act 2006*, which came into operation from 1 February 2007, replace the former *Financial Administration and Audit Act 1985*. The new legislation provides the financial management and audit framework for the Western Australian public sector, and enhances accountability for financial management practices and outcomes in the sector.

Key accountability improvements contained in the new legislation include:

- enhancing the Auditor General's status as an independent officer of Parliament, and the introduction of a fixed, non-renewable 10-year term for the position of Auditor General;
- legislating the requirement for Ministers and agencies to have an annual Resource Agreement with the Treasurer which articulates for each agency the Government desired outcomes, services to be delivered and the performance targets (both financial and non-financial) to be achieved;
- requiring agencies, within their annual reports to Parliament, to provide an acquittal of actual performance relative to the targets specified in their Resource Agreements;
- enabling the Treasurer to transfer excess funds from agencies' operating accounts to the Consolidated Account to facilitate a more proactive approach to cash management across the public sector;
- a significantly strengthened disclosure regime around confidential information, which requires Ministers to advise the Auditor General of decisions to withhold information from Parliament, gives the Auditor General access to that information, and requires the Auditor General to include in reports to Parliament an opinion on whether the Minister's decision to withhold information is reasonable and appropriate; and
- aligning government business enterprises' internal planning processes with the annual budget process.

Other key changes in the FMA include restructuring of the Treasurer's Accounts (now referred to as the Public Ledger), abolition of the capital user charge, revised requirements (including approval thresholds) in relation to write-offs and act of grace payments, and broader investment powers for the Public Bank Account.

The new legislation implements many of the recommendations of the 1995 Commission on Government, and represents a significant achievement in the Government's financial management reform program.

## **Financial Reporting**

Following enactment of the *Financial Administration Legislation Amendment Act 2005* (FALAA), accelerated reporting deadlines have applied to both agency-level and whole-of-government financial reporting.

At the whole-of-government level, the FALAA placed a 60-day deadline on the release and tabling of the *Quarterly Financial Results Reports*, which previously had no statutory deadline. The FALAA also provided for the *Annual Report on State Finances*, which was produced for the first time in September 2006. This report replaced three previous whole-of-government reports, has a 90-day deadline for release and tabling, and is subject to audit scrutiny, including the 'headline' Government Finance Statistics results – a first for any jurisdiction in Australia.

The FALAA also placed a 90-day deadline on tabling of agencies' annual reports in Parliament, which is a significant advance on the previous deadlines, which were up to 174 days for some agencies.

These changes have ensured best practice financial reporting in the Western Australian public sector. This has been recognised by Access Economics, which considers Western Australia the benchmark for other States and Territories in terms of fiscal transparency.

## Government Employee Superannuation

In October 2005, the Government requested a review (State Response to Choice) to examine whether Choice of Superannuation Fund (Choice) should be offered to Western Australian public sector employees.

The benefits of Choice for State government employees are to:

- encourage public servants to take greater control of what is likely to be their most important investment over their lifetimes;
- increase the attractiveness of the State public service as an employer by providing greater flexibility to its employees;
- increase the market focus of the monopoly superannuation provider, the Government Employees Superannuation Board (GESB); and
- encourage competition across the broader superannuation market as a whole.

The review, which was chaired the Department of Treasury and Finance, has recommended that Choice be offered to public sector employees who currently make superannuation contributions to an accumulation scheme (but not to a defined benefits scheme), subject to stakeholder consultation, which is currently underway.

The current structure of GESB requires that corporate and regulatory reforms be introduced to enhance the agency's competitiveness (and thereby reduce the risk of GESB losing market share and its existing 'economies of scale' in a competitive market), before Choice is introduced. A proposed corporate model, which mitigates current regulatory, scale and industry risks could result in GESB operating as a member-owned mutual fund and regulated by the Commonwealth, if adopted.

## Reform to Government Agencies

## Accountability and Performance

An important principle of corporatisation is that government business enterprises (GBEs) should operate at arms length from the Government (while being retained under Government ownership), in order to give management the authority and flexibility to manage their operations and performance on a commercial basis.

However, increased management autonomy must be accompanied by increased accountability for performance. An essential part of the accountability mechanisms is the requirement that corporatised and commercialised GBEs prepare Strategic Development Plans (SDPs) and Statements of Corporate Intent (SCIs) each financial year.

The SDP is a confidential document prepared annually which looks forward five years and sets out the agency's economic and financial objectives and operational targets and how these are to be achieved. The SCI is a public document prepared annually and is aimed at satisfying the accountability requirements of Government.

Recent legislative changes now require GESB, the Gold Corporation, the Insurance Commission of Western Australia, the Western Australian Land Information Authority and Lotterywest to prepare these important documents and in so doing, ensure the delivery of government priorities and the community's expectations. Legislation requiring the Rottnest Island Authority to prepare these reports is being currently drafted.

Furthermore, recent legislative changes have also aligned the GBEs' internal planning processes with the Government's Budget process. As a result, GBEs are now required to submit draft SDPs and SCIs at the same time as information for the budget process, which ensures that the financial position of the Budget Papers is consistent with the financial information contained in the main accountability documents prepared by GBEs.

### Western Australian Land Information Authority

The decision to establish a statutory authority to replace the Department of Land Information arose as part of the government's general reforms of the Western Australian public sector and followed extensive consultation and review with industry stakeholders, government agencies and the department.

The Department of Land Information became the Western Australian Land Information Authority (WALIA), trading as Landgate, with effect from 1 January 2007. WALIA will continue to deliver the same high quality core government services as its predecessor. It will maintain the State's official register of land ownership and surveying information and also manage land and property valuations in Western Australia. To ensure best practise operation when competing with private sector businesses, WALIA is subject to competitive neutrality principles and the competitive neutrality complaints process.

As a statutory authority, WALIA will provide greater operating and capital funding benefits than a department model through, for example having the ability to partner with the private sector to develop new products and services. With its strong commercial focus, it has the potential to be self-supporting in its response to the challenges of globalising and digitalising land information.

Under the *Land Information Authority Act 2006*, WALIA is required to prepare an SDP and SCI, and half-yearly reports.

# **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 3: *General Government Revenue*).

#### Contents

General Government	
Table 1: Operating Statement	184
Table 2: Balance Sheet at 30 June	185
Table 3: Cash Flow Statement	186
Public Non-Financial Corporations	
Table 4: Operating Statement	187
Table 5: Balance Sheet at 30 June	188
Table 6: Cash Flow Statement	189
Total Non-Financial Public Sector	
Table 7: Operating Statement	190
Table 8: Balance Sheet at 30 June	191
Table 9: Cash Flow Statement	192
Public Financial Corporations	
Table 10: Operating Statement	193
Table 11: Balance Sheet at 30 June	194
Table 12: Cash Flow Statement	195
Total Public Sector	
Table 13: Operating Statement	196
Table 14: Balance Sheet at 30 June	197
Table 15: Cash Flow Statement	198
General Government	
Table 16: Spending by Government Purpose Classification	199
Loan Council Allocations	
Table 17: Loan Council Allocations	200
Agency Classification	
General Government Sector	201
Public Non-Financial Corporations	202
Public Financial Corporations	202
Agencies Outside the State's Public Sector	203

## GENERAL GOVERNMENT

**Operating Statement** 

	2005-06 Actual \$m	2006-07 Estimated Actual \$m	2007-08 Budget Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	2010-11 Forward Estimate \$m
REVENUE	ψΠ	ψΠ	ψΠ	ψΠ	ψΠ	ψΠ
Taxation	5,195	5,622	5,527	5,704	6,088	6,373
Current grants and subsidies	6,890	7,131	7,272	7,296	7,398	7,410
Capital grants	375	431	513	556	430	344
Sales of goods and services	1,115	1,141	1,181	1,222	1,265	1,309
Interest income	170	219	213	213	236	270
Revenue from public corporations						
Dividends	534	445	441	448	495	550
Tax equivalent payments	304	316	327	308	346	377
Royalty income	1,184	1,555	1,815	1,982	1,793	1,613
Other	440	418	304	279	306	282
Total	16,207	17,278	17,593	18,008	18,357	18,529
EXPENSES						
Gross operating expenses						
Salaries	5,694	6,098	6,436	6,745	7,045	7,390
Depreciation and amortisation	591	662	710	748	772	796
Superannuation	557	594	625	652	679	710
Services and contracts	1,367	1,842	2,018	2,095	2,162	2,215
Other gross operating						
expenses	1,876	1,890	1,999	1,992	2,007	2,105
Nominal superannuation interest	242	275	279	274	271	268
Other interest	120	122	118	135	133	134
Other property expenses	-	-	-	-	-	-
Current transfers	3,007	3,393	3,464	3,471	3,564	3,694
Capital transfers	487	548	492	449	387	368
Total	13,942	15,425	16,141	16,561	17,021	17,681
NET OPERATING BALANCE	2,265	1,853	1,453	1,447	1,336	848
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchase of non-financial assets	1,161	1,686	2,070	1,822	1,653	1,597
Sales of non-financial assets	-203	-226	-202	-206	-211	-154
less depreciation	591	662	710	748	772	796
plus change in inventories	-	-	-	-		-
<i>plus</i> other movements in						
non-financial assets	51	3	0	0	29	0
Total	419	800	1,158	868	699	647
NET LENDING/BORROWING	1,846	1,053	294	580	638	201
	.,	.,				

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET	OPERATING BALANCE	2,265	1,853	1,453	1,447	1,336	848			
less	provisions for doubtful debts	18	1		-	-	1			
plus	net gains on assets									
	(including derivatives)	6	51	140	97	30	43			
plus less	capitalised interest revaluation of	-	-	-	-	-	-			
	superannuation liabilities	-335	36	35	33	32	30			
plus	all other adjustments	329	-33	-75	-115	-87	-13			
AAS/	AIFRS RESULT	2,916	1,834	1,483	1,395	1,248	848			
Note: 0	Note: Columns may not add due to rounding.									

## GENERAL GOVERNMENT

Balance Sheet at 30 June

	2006	2007 Estimated	2008 Budget	2009 Forward	2010 Forward	2011 Forward
	Actual \$m	Actual \$m	Estimate \$m	Estimate \$m	Estimate \$m	Estimat \$m
ASSETS	ψΠ	ψΠ	ψΠ	ψΠ	ψΠ	ψΠ
Financial assets						
Cash and deposits	378	393	442	466	484	504
Advances paid	910	721	707	693	680	666
Investments, loans and	0.0					
placements	3,380	2,828	2,678	2,999	3,416	3,450
Other non-equity assets	1,117	1,245	1,283	1,316	1,334	1,310
Equity	21,870	24,632	26,151	27,341	28,058	28,919
Total	27,655	29,817	31,261	32,815	33,971	34,849
Non-Financial assets						
Land and fixed assets	40,187	42,150	44,502	46,498	48,238	49,971
Other non-financial assets	211	280	294	282	287	281
Total	40,398	42,430	44,796	46,780	48,526	50,252
TOTAL ASSETS	68,053	72,247	76,057	79,594	82,497	85,101
JABILITIES						
Deposits held	369	297	253	300	312	330
Advances received	536	523	510	496	482	468
Borrowings	1,026	939	1,163	1,128	1,086	1,035
Jnfunded superannuation						
liabilities	5,459	5,513	5,387	5,323	5,241	5,123
Other employee entitlements and						
provisions	1,551	1,616	1,724	1,807	1,889	1,931
Non-equity liabilities	1,171	1,232	1,256	1,256	1,273	1,406
TOTAL LIABILITIES	10,112	10,119	10,292	10,310	10,283	10,295
NET WORTH	57,941	62,128	65,765	69,284	72,214	74,807
Memorandum Item: Net Debt	-2,737	-2,183	-1,903	-2,235	-2,699	-2,786

## Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET	WORTH	57,941	62,128	65,765	69,284	72,214	74,807	
less	equity (net worth) of PNFC and PFC sectors	20,830	22,055	23,303	24,303	24,927	25,669	
less	provision for doubtful debts	18	1	-	-	-	1	
less	all other adjustments	-235	-289	-213	-86	15	3	
AAS/	AIFRS NET ASSETS	37,328	40,361	42,675	45,066	47,271	49,135	
Note: Columns may not add due to rounding.								

## GENERAL GOVERNMENT

#### Cash Flow Statement

	2005-06 Actual	2006-07 Estimated Actual	2007-08 Budget Estimate	2008-09 Forward Estimate	2009-10 Forward Estimate	2010-11 Forward Estimate
RECEIPTS FROM OPERATING	\$m	\$m	\$m	\$m	\$m	\$m
ACTIVITIES Taxes received	5,119	5,653	5,556	5,731	6,117	6,403
Receipts from sales of goods and	,					
services Grants and subsidies received	1,194 7,583	1,166 7,528	1,215 7,721	1,248 7,729	1,296 7,758	1,342 7,753
Other receipts	3,094	3,428	3,821	4,048	4,164	4,115
Total	16,990	17,774	18,313	18,755	19,335	19,612
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services Grants and subsidies paid	-9,538 -3,207	-10,587 -3,613	-11,357 -3,690	-11,699 -3,625	-12,159 -3,669	-12,761 -3,753
Interest paid	-3,207 -122	-3,013	-3,090	-3,025	-3,009 -112	-3,755 -113
Other payments	-864	-966	-1,063	-1,144	-1,343	-1,274
Total	-13,730	-15,284	-16,225	-16,583	-17,284	-17,901
Net Cash Flow from Operating Activities	3,260	2,490	2,088	2,172	2,051	1,711
	0,200	2,400	2,000	2,172	2,001	1,7 11
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-1,161	-1,686	-2,070	-1,822	-1,653	-1,597
Sales of non-financial assets	203 -958	226 -1,460	202 -1,868	206 -1,616	211 - <i>1,44</i> 2	154 <i>-1,44</i> 3
i otai	-956	-1,400	-1,000	-1,010	-1,442	-1,443
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes Liquidity purposes	-488 74	-1,399	-271 -5	-190 -5	-93	-119
Total	-415	-1,399	-276	-195	-93	-119
Not Cook Flow from Investing						
Net Cash Flow from Investing Activities	-1,373	-2,859	-2,144	-1,811	-1,535	-1,562
FINANCING ACTIVITIES						
Advances received (net)	-1	-		-	-	-
Borrowings (net)	-286	-86	31	-10	-24	-35
Deposits received (net) Distributions paid	-	-		-	-	-
Other financing	-12	2	-10	-32	-11	-40
Total	-300	-83	21	-42	-35	-75
Opening cash balance	2,875	4,462	4,009	3,975	4,295	4,776
NET INCREASE IN CASH						
HELD <sup>(a)</sup>	1,587	-452	-35	320	482	75
Closing cash balance	4,462	4,009	3,975	4,295	4,776	4,851
Net cash from operating activities investments in non-financial						
assets and distributions paid less finance leases and similar	2,301	1,030	220	556	609	268
less finance leases and similar arrangements	-	-	-		-	-
Surplus	2,301	1,030	220	556	609	268
(a) The GFS concept of net increase ir	cash held is ic	lentical to the A	AS 31 concept	t of net increas	e in cash held.	

Note: Columns may not add due to rounding.

#### **PUBLIC NON-FINANCIAL CORPORATIONS**

#### **Operating Statement**

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	2000 00	Estimated	Budget	Forward	Forward	Forward
	Actual	Actual	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
REVENUE						
Current grants and subsidies	1,070	1,190	1,174	1,218	1,251	1,278
Capital grants	163	157	172	146	86	86
Sales of goods and services	6,251	6,091	6,603	7,054	7,445	7,801
Interest income	149	145	121	120	124	134
Other	370	321	286	318	304	335
Total	8,003	7,904	8,356	8,857	9,210	9,634
EXPENSES						
Gross operating expenses						
Salaries	551	635	695	718	741	763
Depreciation and amortisation	682	741	829	892	953	992
Superannuation	49	62	67	69	71	73
Services and contracts	495	203	221	230	237	240
Other gross operating expenses	4,177	4,224	4,502	4,738	4,939	5,099
Nominal superannuation interest	-, 177	-,224	-,002	-,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	-,000	- 0,000
Other interest	525	589	631	716	780	817
Other property expenses	836	723	739	740	827	916
Current transfers	621	711	630	685	651	671
Capital transfers	5	10	45	17	37	8
Total	7,941	7,899	8,358	8,805	9,236	9,579
NET OPERATING BALANCE	61	5	-2	52	20	55
NET OPERATING BALANCE	01	5	-2	52	-26	55
NET ACQUISITION OF						
NON-FINANCIAL ASSETS						
Purchases of non-financial assets	2,448	2,812	2,716	2,675	2,339	2,127
Sales of non-financial assets	-572	-737	-763	-812	-811	-783
less depreciation	682	741	829	892	953	992
plus change in inventories	374	100	-16	-3	-1	-10
plus other movements in						
non-financial assets	-9	-6	-	-	-29	-
Total	1,559	1,428	1,108	967	545	342
NET LENDING/BORROWING	1 /09	1 400	1 1 1 0	-915	-571	-286
INET LEINDING/DUKKUWING	-1,498	-1,422	-1,110	-915	-971	-200

# Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET	OPERATING BALANCE	61	5	-2	52	-26	55
less	provisions for doubtful debts	1	4	8	8	9	9
plus	net gains on assets (including derivatives)	9	220	230	292	302	323
plus less	capitalised interest revaluation of superannuation liabilities	9 13	-		-	-	-
plus	all other adjustments	-	-	-	-	-	-
	AIFRS RESULT Columns may not add due to rounding	<b>65</b> g.	221	220	335	267	369

## PUBLIC NON-FINANCIAL CORPORATIONS

Balance Sheet at 30 June

	2006	2007 Estimated	2008 Budget	2009 Forward	2010 Forward	2011 Forward
	Actual \$m	Actual \$m	Estimate \$m	Estimate \$m	Estimate \$m	Estimate \$m
ASSETS	φιτι	φιιι	φιιι	φιτι	φιτι	ψΠ
Financial assets						
Cash and deposits	474	430	375	497	573	656
Advances paid	51	6	6	6	6	6
Investments, loans and	•	-		-	-	-
placements	2,070	1,653	1,364	1,392	1,381	1,384
Other non-equity assets	1,445	1,620	1,712	1,881	1,991	2,198
Equity	39	45	34	38	37	36
Total	4,078	3,753	3,491	3,814	3,987	4,280
Non-Financial assets						
Land and fixed assets	29,305	32,305	34,951	37,624	39,351	40,715
Other non-financial assets	253	440	489	519	328	334
Total	29,558	32,744	35,441	38,143	39,679	41,049
TOTAL ASSETS	33,636	36,498	38,931	41,957	43,667	45,329
LIABILITIES						
Deposits held	10	1	1	1	1	1
Advances received	536	523	510	496	482	468
Borrowings	9,026	9,105	10,167	12,136	13,207	14,022
Unfunded superannuation						
liabilities	151	148	145	142	140	140
Other employee entitlements and						
provisions	524	498	465	419	393	382
Non-equity liabilities	2,546	2,576	2,540	2,501	2,491	2,523
TOTAL LIABILITIES	12,792	12,851	13,827	15,695	16,714	17,537
Shares and other contributed						
capital	1,040	2,576	2,848	3,038	3,131	3,250
NET WORTH	19,803	21,070	22,256	23,224	23,822	24,542

## Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET WORTH	19,803	21,070	22,256	23,224	23,822	24,542		
plus shares and other contributed capital less provision for doubtful	1,040	2,576	2,848	3,038	3,131	3,250		
debts less all other adjustments	1	4	8	8	9	9		
AAS/AIFRS NET ASSETS	20,843	23,643	25,096	26,253	26,944	27,783		
Note: Columns may not add due to rounding.								

## PUBLIC NON-FINANCIAL CORPORATIONS

#### Cash Flow Statement

	2005-06	2006-07 Estimated	2007-08 Budget	2008-09 Forward	2009-10 Forward	2010-1 Forwar
	Actual \$m	Actual \$m	Estimate \$m	Estimate \$m	Estimate \$m	Estimat \$m
RECEIPTS FROM OPERATING ACTIVITIES						
Receipts from sales of goods and						
services	6,386	6,448	6,661	7,078	7,348	7,643
Grants and subsidies received	1,151	1,273	1,254	1,252	1,220	1,242
Other receipts	674	772	745	735	783	815
Total	8,211	8,494	8,660	9,066	9,351	9,700
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-5,108	-5,312	-5,490	-5,784	-5,890	-5,956
Grants and subsidies paid	-470	-524	-588	-629	-583	-600
nterest paid	-473	-585	-640	-740	-778	-811
Other payments	-867	-1,068	-911	-938	-951	-1,020
Total	-6,918	-7,489	-7,628	-8,093	-8,203	-8,387
Net Cash Flow from Operating						
Activities	1,293	1,004	1,031	973	1,147	1,313
NVESTMENT IN						
NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-2,448	-2,812	-2,716	-2,675	-2,339	-2,127
Sales of non-financial assets	572	737	763	812	811	783
Total	-1,876	-2,075	-1,953	-1,862	-1,528	-1,344
NVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
_iquidity purposes	-23	-18	49	75	47	46
Total	-23	-18	49	75	47	46
Net Cash Flow from Investing						
Activities	-1,899	-2,093	-1,904	-1,787	-1,481	-1,298
INANCING ACTIVITIES						
Advances received (net)	-13	-13	-13	-14	-14	-14
Borrowings (net)	1,080	373	1,316	1,558	1,080	827
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-855	-725	-746	-752	-778	-908
Other financing	578	1,403	274	197	73	120
Total	791	1,038	831	990	362	24
Opening cash balance	609	794	743	701	877	905
NET INCREASE IN CASH						
HELD <sup>(a)</sup>	185	-51	-42	176	28	39
Closing cash balance	794	743	701	877	905	944
Vet cash from operating activities, investments in non-financial						
assets and distributions paid	-1,437	-1,795	-1,669	-1,641	-1,159	-939
less finance leases and similar				-	-	
arrangements	-	-	-	-	-	-
2. malue	4 407	4 705	4.000	4.044	4 4 5 0	
Surplus	-1,437	-1,795	-1,669	-1,641	-1,159	-939

(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.

#### TOTAL NON-FINANCIAL PUBLIC SECTOR

#### **Operating Statement**

	2005-06	2006-07 Estimated	2007-08 Budget	2008-09 Forward	2009-10 Forward	2010-11 Forward
	Actual \$m	Actual \$m	Estimate \$m	Estimate \$m	Estimate \$m	Estimate \$m
REVENUE	ψΠ	φΠ	ψΠ	ψΠ	φΠ	ψΠ
Taxation	5,003	5,441	5,346	5,516	5,893	6,172
Current grants and subsidies	6,890	7,131	7,272	7,296	7,398	7,410
Capital grants	375	431	513	556	430	344
Sales of goods and services	7,179	7,030	7,580	8,065	8,487	8,883
Interest income	283	315	288	289	316	356
Royalty income	1,184	1,555	1,815	1,982	1,793	1,613
Other	745	619	590	595	576	609
Total	21,660	22,522	23,404	24,299	24,893	25,387
EXPENSES						
Gross operating expenses						
Salaries	6,245	6,733	7.130	7.463	7,785	8,153
Depreciation and amortisation	1,273	1,403	1,539	1,640	1,726	1,788
Superannuation	606	656	692	722	750	783
Services and contracts	1,863	2,045	2,238	2,324	2,399	2,455
Other gross operating expenses	5,748	5,794	6,184	6,399	6,601	6,849
Nominal superannuation interest	242	275	279	274	271	268
Other interest	609	662	703	807	869	903
Other property expenses	-	-	-	-	-	-
Current transfers	2,149	2,700	2,822	2,850	2,873	2,993
Capital transfers	330	394	366	320	309	291
Total	19,334	20,664	21,953	22,800	23,583	24,483
NET OPERATING BALANCE	2,326	1,858	1,450	1,499	1,310	904
NET ACQUISITION OF						
NON-FINANCIAL ASSETS						
Purchases of non-financial assets	3.557	4.442	4.703	4.424	3,939	3.664
Sales of non-financial assets	-723	-907	-881	-946	-969	-877
less depreciation	1,273	1,403	1,539	1,640	1,726	1,788
plus change in inventories	374	100	-16	-3	-1	-10
plus other movements in						
non-financial assets	42	-4	-	-	-	-
Total	1,978	2,228	2,266	1,835	1,243	989
	0.40	070	040	000	07	05
NET LENDING/BORROWING	348	-370	-816	-336	67	-85

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET	OPERATING BALANCE	2,326	1,858	1,450	1,499	1,310	904
less	provisions for doubtful						
	debts	19	5	9	9	9	10
plus	net gains on assets						
	(including derivatives)	14	271	370	389	332	366
plus	capitalised interest	9	-	-	-	-	-
less	revaluation of						
	superannuation liabilities	-322	36	35	33	32	30
plus	all other adjustments	329	-33	-75	-115	-87	-13
AAS/	AIFRS RESULT	2,980	2,055	1,702	1,731	1,515	1,218
Note: (	Columns may not add due to round	ding.					

#### TOTAL NON-FINANCIAL PUBLIC SECTOR

#### Balance Sheet at 30 June

	2006	2007	2008	2009	2010	2011
		Estimated	Budget	Forward	Forward	Forward
	Actual	Actual	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
ASSETS						
Financial assets						
Cash and deposits	679	727	768	872	953	1,039
Advances paid	425	203	203	203	203	204
Investments, loans and						
placements	5,439	4,470	4,031	4,380	4,786	4,823
Other non-equity assets	2,234	2,440	2,483	2,584	2,535	2,580
Equity	1,065	1,030	1,081	1,117	1,143	1,163
Total	9,843	8,870	8,567	9,157	9,620	9,808
Non-Financial assets						
Land and fixed assets	69,492	74,454	79,454	84,122	87,590	90,687
Other non-financial assets	465	720	783	801	615	615
Total	69,956	75,174	80,237	84,923	88,205	91,301
TOTAL ASSETS	79,799	84,045	88,804	94,080	97,825	101,109
LIABILITIES						
Deposits held	196	192	195	199	199	199
Advances received	536	523	510	496	482	468
Borrowings	10,052	10,044	11,330	13,264	14,293	15,057
Unfunded superannuation						
liabilities	5,610	5,660	5,532	5,465	5,381	5,263
Other employee entitlements and						
provisions	2,075	2,115	2,189	2,226	2,282	2,314
Non-equity liabilities	3,390	3,383	3,284	3,145	2,974	3,001
TOTAL LIABILITIES	21,858	21,917	23,039	24,796	25,611	26,303
NET WORTH	57,941	62,128	65,765	69,284	72,214	74,807
Memorandum Item: Net Debt	4,240	5,358	7,031	8,504	9,032	9,659

## Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET	WORTH	57,941	62,128	65,765	69,284	72,214	74,807	
less	equity (net worth) of the PFC sector	1.026	985	1,047	1.079	1.105	1,126	
less	provision for doubtful	,			,	,	,	
	debts	19	5	9	9	9	10	
less	all other adjustments	-235	-289	-213	-86	15	3	
AAS/	AIFRS NET ASSETS	57,130	61,427	64,923	68,282	71,084	73,668	
Note: 0	Columns may not add due to rour	nding.						

## TOTAL NON-FINANCIAL PUBLIC SECTOR

#### Cash Flow Statement

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Estimated	Budget	Forward		Forward
					Estimate
\$m	\$m	\$m	\$m	\$m	\$m
1 027	5 472	5 370	5 5 4 8	5 027	6,209
4,927	5,472	5,579	5,546	5,927	0,209
7 407	7 412	7 674	8 117	8 4 2 5	8,760
					7,753
					3,953
22,730	23,687	24,517	25,361	26,215	26,676
-14,469	-15,696	-16,644	-17,274	-17,831	-18,492
					-3,094
-560	-657	-710	-811	-847	-877
-1,477	-1,719	-1,793	-1,895	-2,100	-2,095
-19,032	-20,917	-22,144	-22,968	-23,795	-24,559
3,698	2,770	2,373	2,393	2,420	2,117
2 557	4 4 4 2	4 702	4 404	2 0 2 0	2 664
,	,				-3,664 877
					-2,787
-2,034	-3,030	-3,02 1	-3,470	-2,970	-2,707
-	-	-	-	-	-
51	-18	44	70	47	46
50	-18	44	71	47	46
-2.784	-3.552	-3.777	-3.408	-2.923	-2,741
2,707	0,002	0,777	0,100	2,020	_,
-14	-13	-13	-14	-14	-14
794	287	1,348	1,549	1,056	792
-	-	-	-	-	-
-	-	-	-	-	-
78	6	-7	-25	-31	-39
858	280	1,327	1,510	1,012	738
3,483	5,255	4,753	4,676	5,171	5,681
1,772	-503	-77	496	510	114
5,255	4,753	4,676	5,171	5,681	5,795
		4.440	-1,085	-550	-670
004	705				
864	-765	-1,448	-1,005	-000	-070
864	-765	-1,448	-1,005	-000	-070
864 -	-765 -	-1,448 -	- 1,000	-000	-070
	Actual \$m 4,927 7,407 7,583 2,813 22,730 -14,469 -2,527 -560 -1,477 -19,032 <b>3,698</b> -3,557 723 -2,834 -3,557 723 -2,834 -14 794 -51 50 <b>-2,784</b> -14 794 -78 858 3,483 3,483	Actual \$m       Estimated Actual \$m         4,927       5,472         7,407       7,412         7,583       7,528         2,813       3,275         22,730       23,687         -14,469       -15,696         -2,527       -2,845         -560       -657         -1,477       -1,719         -19,032       -20,917         3,698       2,770         -3,557       -4,442         723       907         -2,834       -3,535         -18       -18         50       -18         -2,784       -3,552         -14       -13         794       287         -       -         78       6         858       280         3,483       5,255         1,772       -503	Estimated Actual \$mBudget Estimate \$m4,9275,4725,3797,4077,4127,6747,5837,5287,7212,8133,2753,74422,73023,68724,517-14,469-15,696-16,644-2,527-2,845-2,998-560-657-710-1,477-1,719-2,944-3,6982,7702,373-3,557-4,442-4,703881-3,535-3,821-51-184450-184450-18-13786-78582801,3273,4835,2554,7531,772-503-77	Estimated Actual \$mBudget Actual \$mForward Estimate \$m4,9275,4725,3795,5487,4077,412 7,583 7,5287,721 7,729 3,7447,729 3,967 24,5178,117 7,729 3,967 25,361-14,469-15,696 -22,730-16,644 -2,988 -24,517-17,274 -25,361-14,477 -1,719 -1,719 -1,793 -19,032-16,644 -2,998 -22,144-17,274 -2,987 -22,144-3,557 -19,032-20,917 -20,9172,373 -22,1442,393-3,557 -2,834-4,422 -3,535-4,442 -3,535-4,424 -3,821-3,557 -2,834-4,424 -3,535-4,424 -3,478-3,557 -2,834-4,424 -3,535-4,424 -3,478-3,557 -2,834-4,424 -3,535-4,424 -3,821-3,557 -2,834-4,422 -3,535-4,424 -3,478-3,557 -2,784-3,552-3,777 -3,408-14 -13 -18-13 -14 -1,34-14 -13 -3,478-2,784-3,552-3,777 -3,408-14 -17 -78 -858 -8280-3,277 -2,25 -3,271-3,4835,2554,753 -4,6761,772-503-77 -77496	Actual SmEstimated Actual SmBudget Estimate SmForward Estimate SmForward Estimate Sm4,9275,4725,3795,5485,9277,4077,4127,6748,1178,4257,5837,5287,7217,7297,7582,8133,2753,7443,9674,10422,73023,68724,51725,36126,215-14,469-15,696-16,644-17,274-17,831-2,527-2,845-2,998-2,987-3,017-560-657-710-811-847-1,477-1,719-1,793-1,895-2,100-19,032-20,917-22,144-22,968-23,7953,6982,7702,3732,3932,420-3,557-4,442-4,703-4,424-3,939907-881-3,821-4,424-3,93992-907-881-3,478-2,970-51-1844704750-1844704750-184470477942871,3481,5491,066-14-13-13-14-147942871,3481,5491,012786-7-25-3185828001,3271,5101,0123,4835,2554,7534,6765,1711,772-503-77496510

Note: Columns may not add due to rounding.

## **PUBLIC FINANCIAL CORPORATIONS**

#### **Operating Statement**

	2005-06 Actual \$m	2006-07 Estimated Actual \$m	2007-08 Budget Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	2010-11 Forward Estimate \$m
REVENUE Current grants and subsidies						
Capital grants		-		-	-	-
Sales of goods and services	840	678	683	701	743	786
Interest income	871	969	964	976	1,039	1,036
Other	-	4	-	-	-	-
Total	1,711	1,652	1,648	1,677	1,782	1,822
EXPENSES						
Gross operating expenses Salaries	20	28	29	31	32	34
Depreciation and amortisation	20	20	29	9	8	8
Superannuation	1	3	3	3	3	3
Services and contracts	9	7	6	4	2	2
Other gross operating expenses	564	598	622	681	732	783
Nominal superannuation interest	-	-	-	-	-	-
Other interest	810	876	880	890	951	947
Other property expenses	12	38	29	16	13	11
Current transfers	2	2	2	2	2	2
Capital transfers	-	-	1	1	1	1
Total	1,426	1,561	1,579	1,636	1,745	1,790
NET OPERATING BALANCE	284	91	69	41	37	32
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	5	5	4	4	3	3
Sales of non-financial assets	-	-	-	-	-	-
less depreciation	7	9	9	9	8	8
plus change in inventories plus other movements in	-	-	-	-	-	-
non-financial assets	-	-	-	-	-	-
Total	-3	-4	-5	-5	-6	-5
NET LENDING/BORROWING	287	95	73	46	43	37

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS 

NET	OPERATING BALANCE	284	91	69	41	37	32
less	provisions for doubtful						
	debts	-		-	-	-	-
plus	net gains on assets						
	(including derivatives)	-1		-	-	-	-
plus	capitalised interest	-		-	-	-	-
less	revaluation of						
	superannuation liabilities	-		-	-	-	-
plus	all other adjustments	-	•	-	-	-	-
AAS/	AIFRS RESULT	283	91	69	41	37	32
Note: (	Columns may not add due to round	ina.					

Note: Columns may not add due to rounding.

## PUBLIC FINANCIAL CORPORATIONS

Balance Sheet at 30 June

			-	_		
	2006	2007 Estimated	2008 Budget	2009 Forward	2010 Forward	2011 Forward
	Actual \$m	Actual \$m	Estimate \$m	Estimate \$m	Estimate \$m	Estimate \$m
ASSETS	ψin	ψm	ψm	ψm	ψm	ψiii
Financial assets						
Cash and deposits	24	21	49	66	87	108
Advances paid	1,604	1,241	967	972	977	983
Investments, loans and						
placements	13,391	13,344	13,964	14,594	15,388	15,436
Other non-equity assets	481	459	457	455	452	450
Equity	1,085	1,184	1,265	1,345	1,430	1,517
Total	16,584	16,249	16,702	17,432	18,334	18,494
Non-Financial assets						
Land and fixed assets	421	452	469	486	504	523
Other non-financial assets	14	29	34	41	48	47
Total	435	480	503	528	552	570
TOTAL ASSETS	17,019	16,729	17,205	17,960	18,886	19,064
LIABILITIES						
Deposits held	-	-	-	-	-	-
Advances received	3	3	3	3	3	3
Borrowings	13,954	13,453	13,744	14,323	15,062	15,055
Unfunded superannuation						
liabilities	12	12	13	13	13	14
Other employee entitlements and						
provisions	5	169	180	193	206	220
Non-equity liabilities	2,018	2,107	2,218	2,349	2,496	2,645
TOTAL LIABILITIES	15,993	15,744	16,158	16,881	17,780	17,937
Shares and other contributed capital	-	-	-	-	-	-
NET WORTH	1,026	985	1,047	1,079	1,105	1,126
Memorandum Item: Net Debt	-1,061	-1,150	-1,232	-1,306	-1,387	-1,469

Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET	WORTH	1,026	985	1,047	1,079	1,105	1,126
plus	shares and other contributed capital	-	-	-	-	-	-
less	provision for doubtful						
	debts	-	-	-	-	-	-
less	all other adjustments	-	-	-	-	-	-
AAS/	AIFRS NET ASSETS	1,026	985	1,047	1,079	1,105	1,126
Note: 0	Columns may not add due to ro	unding.					

#### PUBLIC FINANCIAL CORPORATIONS

#### Cash Flow Statement

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
		Estimated	Budget	Forward	Forward	Forward
	Actual	Actual	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING						
ACTIVITIES						
Receipts from sales of goods and						
services	643	628	644	657	697	746
Grants and subsidies received	-	-	-	-	-	-
Other receipts	998	1,023	1,022	1,036	1,102	1,102
Total	1,642	1,652	1,666	1,693	1,799	1,848
PAYMENTS FOR OPERATING						
ACTIVITIES						
Payments for goods and services	-566	-538	-541	-594	-633	-685
Grants and subsidies paid	-1	-	-	-	-	-
Interest paid	-735	-878	-883	-890	-950	-946
Other payments	-123	-83	-88	-91	-97	-103
Total	-1,425	-1,499	-1,513	-1,576	-1,681	-1,734
	ŕ	,		,	,	,
Net Cash Flow from Operating						
Activities	217	152	153	118	118	115
INVESTMENT IN NON-FINANCIAL						
ASSETS						
Purchase of non-financial assets	-5	-5	-4	-4	-3	-3
Sales of non-financial assets	-	-	-	-	-	-
Total	-4	-5	-4	-4	-3	-3
	•	0			Ū	0
INVESTMENT IN FINANCIAL						
ASSETS						
Policy purposes	_	_	_		_	_
Liquidity purposes	112	229	192	-80	-87	-85
Total	112	229	192	-80	-87	-85
1 otal	112	225	192	-00	-07	-00
Net Cash Flow from Investing						
Activities	108	224	188	-83	-89	-88
Acuviles	100	227	100	-05	-05	-00
FINANCING ACTIVITIES						
Advances received (net)						
Borrowings (net)	-1,350	-356	-278	9	11	11
Deposits received (net)	-1,550	-330	-270	3		
Distributions paid	- -12	-8	-43	-24	- -16	-14
Other financing	-12	-0	-43	-24	-10	-14
Total	1 262	- -364	-320	-15	-5	-3
TOTAL	-1,362	-304	-320	-15	-5	-3
Opening cash balance	4.007	000	0.40	000	000	1 007
Opening cash balance	1,967	930	943	963	983	1,007
NET INCREASE IN CASH HELD <sup>(a)</sup>	4 007	40				
NET INCREASE IN CASH HELD	-1,037	13	21	20	24	24
Olasian sach halansa		0.40			4 007	4 00 4
Closing cash balance	930	943	963	983	1,007	1,031
Net cash from operating activities,						
investments in non-financial						
assets and distributions paid	200	140	107	90	100	98
less finance leases and similar						
arrangements	-	-	-	-	-	-
Surplus	200	140	107	90	100	98
(a) The GFS concept of net increase in ca	sh held is ida	ntical to the ^ ^	S 31 concept	of net increase	in cash held	
			o or concept			

Note: Columns may not add due to rounding.

## TOTAL PUBLIC SECTOR

Operating Statement

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Actual	Estimated Actual	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
REVENUE						
Taxation	5,001	5,440	5,344	5,514	5,891	6,170
Current grants and subsidies	6,890	7,131	7,272	7,296	7,398	7,410
Capital grants	375	431	513	556	430	344
Sales of goods and services Interest income	7,864 527	7,518 641	8,107 597	8,599 542	9,055 582	9,486 581
Royalty income	527 1,184	1,555	1,815	542 1,982	582 1,793	1,613
Other	732	581	561	579	563	597
Total	22,575	23,296	24,209	25,068	25,711	26,201
Total	22,070	23,290	24,209	20,000	20,711	20,201
EXPENSES						
Gross operating expenses						
Salaries	6,265	6,761	7.160	7,494	7,818	8,187
Depreciation and amortisation	1,280	1,412	1,548	1,649	1,734	1,796
Superannuation	608	659	695	725	753	786
Services and contracts	1,872	2,052	2,244	2,329	2,401	2,457
Other gross operating expenses	6,157	6,202	6,649	6,913	7,156	7,448
Nominal superannuation interest	242	275	279	274	271	268
Other interest	792	895	928	974	1,048	1,040
Other property expenses	-	-	-	-	-	-
Current transfers	2,419	2,697	2,822	2,850	2,873	2,992
Capital transfers	330	395	366	321	310	291
Total	19,965	21,347	22,690	23,528	24,364	25,266
NET OPERATING BALANCE	2,610	1,949	1,519	1,540	1,347	936
NET ACQUISITION OF						
NON-FINANCIAL ASSETS						
Purchases of non-financial assets	3.562	4,447	4.707	4,427	3,941	3,667
Sales of non-financial assets	-724	-907	-881	-946	-969	-877
less depreciation	1,280	1,412	1,548	1,649	1,734	1,796
plus change in inventories	374	100	-16	-3	-1	-10
<i>plus</i> other movements in	<b>.</b>			Ŭ	•	
non-financial assets	42	-4	-	-	-	-
Total	1,975	2,224	2,262	1,830	1,237	983
NET LENDING/BORROWING	636	-275	-743	-289	110	-48

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET	OPERATING BALANCE	2,610	1,949	1,519	1,540	1,347	936
less	provisions for doubtful						
	debts	19	5	9	9	9	10
plus	net gains on assets						
	(including derivatives)	14	271	370	389	332	366
plus	capitalised interest	9	-	-	-	-	-
less	revaluation of						
	superannuation liabilities	-322	36	35	33	32	30
plus	all other adjustments	329	-33	-75	-115	-87	-13
AAS/	AIFRS RESULT	3,264	2,146	1,771	1,772	1,551	1,250
Note: 0	Columns may not add due to round	ding.					

## TOTAL PUBLIC SECTOR

Balance Sheet at 30 June

				-		
	2006	2007 Estimated	2008 Budget	2009 Forward	2010 Forward	2011 Forward
	Actual \$m	Actual \$m	Estimate \$m	Estimate \$m	Estimate \$m	Estimate \$m
ASSETS		·		Ť	•	•
Financial assets						
Cash and deposits	702	747	817	938	1,040	1,146
Advances paid	2,025	1,441	1,167	1,171	1,177	1,183
Investments, loans and						
placements	7,606	7,015	6,416	6,087	6,469	6,002
Other non-equity assets	2,495	2,519	2,568	2,686	2,628	2,665
Equity	1,124	1,228	1,299	1,383	1,467	1,553
Total	13,952	12,951	12,267	12,265	12,781	12,549
Non-Financial assets						
Land and fixed assets	69,913	74,906	79,923	84,608	88,094	91,209
Other non-financial assets	478	749	817	842	663	661
Total	70,392	75,655	80,740	85,450	88,757	91,871
TOTAL ASSETS	84,344	88,605	93,007	97,715	101,539	104,420
LIABILITIES						
Deposits held	195	191	195	199	199	199
Advances received	536	523	510	496	482	468
Borrowings	12,782	12,698	13,495	14,700	15,650	15,856
Unfunded superannuation						
liabilities	5,622	5,673	5,544	5,478	5,394	5,276
Other employee entitlements and	,	,			,	,
provisions	2,080	2,120	2,194	2,231	2,287	2,319
Non-equity liabilities	5,189	5,273	5,304	5,328	5,313	5,496
TOTAL LIABILITIES	26,403	26,478	27,242	28,431	29,325	29,613
NET WORTH	57,941	62,128	65,765	69,284	72,214	74,807
Memorandum Item: Net Debt	3,179	4,208	5,799	7,199	7,645	8,191

## Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)/AIFRS

NET	WORTH	57,941	62,128	65,765	69,284	72,214	74,807	
less less	provision for doubtful debts all other adjustments	19 -235	5 -289	9 -213	9 -86	9 15	10 3	
AAS/	AIFRS NET ASSETS	58,156	62,412	65,970	69,361	72,189	74,794	
Note: 0	Columns may not add due to rou	unding.						

## TOTAL PUBLIC SECTOR

Cash Flow Statement

	2005-06 Actual	2006-07 Estimated Actual	2007-08 Budget Estimate	2008-09 Forward Estimate	2009-10 Forward Estimate	2010-11 Forward Estimate
RECEIPTS FROM OPERATING	\$m	\$m	\$m	\$m	\$m	\$m
ACTIVITIES Taxes received	4,890	5,437	5,343	5,511	5,888	6,168
Receipts from sales of goods and services	7,916	7,871	8,160	8,606	8,944	9,311
Grants and subsidies received	7,583	7,528	7,721	7,729	7,758	7,753
Other receipts <i>Total</i>	3,191 2 <i>3,580</i>	3,617 2 <i>4,4</i> 53	4,025 2 <i>5,24</i> 9	4,180 <i>26,0</i> 26	4,353 26,943	4,174 2 <i>7,4</i> 05
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-14,900	-16,065	-17,028	-17,699	-18,286	-18,982
Grants and subsidies paid	-2,527 -698	-2,845 -867	-2,998 -901	-2,987 -909	-3,017 -967	-3,094 -962
Interest paid Other payments	-696 -1,552	-007 -1,762	-1,839	-909 -1,944	-967 -2,151	-962 -2,151
Total	-19,677	-21,539	-22,765	-23,539	-24,421	-25,188
Net Cash Flow from Operating Activities	3,903	2,914	2,484	2,487	2,523	2,218
Addinaco	3,303	2,314	2,404	2,407	2,525	2,210
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-3,562	-4,447	-4,707	-4,427	-3,941	-3,667
Sales of non-financial assets	724	907	881	946	969	877
Total	-2,838	-3,540	-3,825	-3,482	-2,973	-2,790
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes <i>Total</i>	163 <i>163</i>	212 2 <i>1</i> 2	236 236	-9 <i>-9</i>	-40 <i>-40</i>	-39 <i>-39</i>
Net Cash Flow from Investing						
Activities	-2,676	-3,328	-3,590	-3,491	-3,012	-2,829
FINANCING ACTIVITIES	4.4	40	40	4.4	4.4	4.4
Advances received (net) Borrowings (net)	-14 -556	-13 -69	-13 1,070	-14 1,558	-14 1,067	-14 803
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	77	6	-7	-25	-31	-39
Total	-492	-76	1,050	1,519	1,023	749
Opening cash balance	5,450	6,185	5,695	5,639	6,155	6,688
NET INCREASE IN CASH HELD <sup>(a)</sup>	735	-490	-56	516	533	138
Closing cash balance	6,185	5,695	5,639	6,155	6,688	6.826
-	0,100	0,000	0,000	0,700	0,000	0,020
Net cash from operating activities, investments in non-financial						
assets and distributions paid less finance leases and similar arrangements	1,064 -	-626	-1,342	-994	-450	-572
Surplus	1,064	-626	-1,342	-994	-450	-572
	,					
<ul><li>(a) The GFS concept of net increase in</li></ul>	cash nelu is la	entical to the A	no or concept	or net increas	e in cash nela.	

(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.

## SPENDING BY GOVERNMENT PURPOSE CLASSIFICATION (a)

#### General Government

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
		Estimated	Budget	Forward	Forward	Forward
	Actual	Actual	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Expenses						
General public services	319	486	597	612	679	798
Public order and safety	1,598	1,774	1,841	1,942	1,974	2,027
Education	3,777	3,963	4,186	4,324	4,476	4,600
Health	3,527	3,824	4,033	4,252	4,467	4,721
Social security	634	685	742	786	821	869
Housing and community amenities	1,067	1,201	1,356	1,307	1,268	1,254
Recreation and culture	397	436	445	434	439	446
Fuel and energy	107	84	93	102	107	110
Agriculture, forestry, fishing and hunting	388	408	403	291	263	265
Mining and mineral resources (other than						
fuels), manufacturing and construction	145	216	243	208	182	183
Transport and communications	1,298	1,559	1,445	1,549	1,597	1,656
Other economic affairs	318	356	359	345	343	347
Other purposes	366	433	398	408	405	402
Total General Government Expenses	13,942	15,425	16,141	16,561	17,021	17,681
Purchases of Non-financial Assets						
General public services	207	211	197	207	190	185
Public order and safety	153	192	210	153	176	100
Education	182	347	282	180	165	163
Health	154	166	314	351	501	629
Social security and welfare	15	23	28	6	7	4
Housing and community amenities	66	125	195	268	125	103
Recreation and culture	49	67	107	44	34	38
Fuel and energy	5	4	1	1	6	-
Agriculture, forestry, fishing and hunting	16	18	23	15	31	93
Mining and mineral resources (other than	3	14	21	3	2	2
fuels), manufacturing and construction Transport and communications	299	481	660	538	2 405	270
Other economic affairs	299 12	37	32	530	405	270
Other purposes	12	37	32	54	13	9
	-	-	-	-	-	-
Total Purchases of Non-financial Assets	1,161	1,686	2,070	1,822	1,653	1,597
	.,	.,	_,	.,	.,	.,

(a) Data in this table are for consolidated general government aggregates. The data exclude internal transactions within the sector. 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.

#### LOAN COUNCIL ALLOCATIONS <sup>(a)</sup> Western Australia

	2006-07 Budget \$m	2006-07 Estimated Actual \$m	2007-08 Budget Estimate \$m
General Government deficit Public Non-financial Corporations' net financing	-862	-1,030	-220
requirement Net Capital Advances	1,510 -	1,795 -	1,669 -
Total non-financial public sector deficit	644	765	1,448
Memorandum Items <sup>(b)</sup>	-88	-542	-690
Loan Council Allocation	555	224	758

- (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 that receive appropriations and/or have a capital works program.

#### **General Government**

Agricultural Practices Board of Western Australia Agriculture Protection Board of Western Australia Agricultural Produce Commission Anzac Day Trust Botanic Gardens and Parks Authority Building and Construction Industry Training Board Central TAFE Central West TAFE Challenger TAFE Commissioner of Main Roads Corruption and Crime Commission Country High School Hostels Authority Curriculum Council C.Y. O'Connor College of TAFE Department for Planning and Infrastructure Department of Agriculture and Food Department of Child Protection Department of Communities Department of Consumer and Employment Protection Department of Corrective Services Department of Culture and the Arts Department of Education and Training Department of Education Services Department of Environment and Conservation Department of Fisheries Department of Health Department of Housing and Works Department of Indigenous Affairs Department of Industry and Resources Department of Local Government and Regional Development Department of the Attorney General Department of the Premier and Cabinet Department of Racing, Gaming and Liquor Department of Sport and Recreation Department of the Registrar, Western Australian Industrial Relations Commission Department of Treasury and Finance Department of Water **Disability Services Commission** Economic Regulation Authority Equal Opportunity Commission Fire and Emergency Services Authority of Western Australia Gaming and Wagering Commission of Western Australia

Gascoyne Development Commission Goldfields-Esperance Development Commission Governor's Establishment Great Southern Development Commission Great Southern TAFE Heritage Council of Western Australia Independent Market Operator Keep Australia Beautiful Council (W.A.) Kimberley Development Commission Kimberley TAFE Law Reform Commission of Western Australia Legal Aid Commission of Western Australia Legal Costs Committee Legislative Assembly Legislative Council Local Health Authorities Analytical Committee Mid-West Development Commission Minerals and Energy Research Institute of Western Australia Office of Energy Office of Health Review Office of Native Title Office of the Auditor General Office of the Director of Public Prosecutions Office of the Information Commissioner Office of the Inspector of Custodial Services Office of the Parliamentary Inspector of the Corruption and Crime Commission Office of the Public Sector Standards Commissioner Parliamentary Services Department Peel Development Commission Pilbara TAFE Pilbara Development Commission Professional Combat Sports Commission Professional Standards Council Racing Penalties Appeal Tribunal of Western Australia Rural Business Development Corporation Salaries and Allowances Tribunal Small Business Development Corporation South West Development Commission South West Regional College of TAFE State Supply Commission Swan TAFE Swan River Trust The Aboriginal Affairs Planning Authority

## General Government (cont.)

- 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 Australia Police Western Australian Building Management Authority Western Australian Electoral Commission
- **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) Electricity Retail Corporation (Synergy) Esperance Port Authority Forest Products Commission Fremantle Port Authority Geraldton Port Authority Gold Corporation

### **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

- Western Australian Greyhound Racing Association Western Australian Health Promotion Foundation Western Australian Institute of Sport Western Australian Land Information Authority 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
- 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 Water Corporation Western Australian Coastal Shipping Commission Western Australian Land Authority
- lia

202

### 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

# 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

	2005-06 Actual \$m	2006-07 Estimated Actual \$m	2007-08 Budget Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	2010-11 Forward Estimate \$m
<b>TAXATION</b> Taxes on employers' payroll and labour force <i>Payroll tax</i>	1,355	1,595	1,722	1,849	1,991	2,143
Property taxes Land tax	313	391	430	472	518	568
Conveyances and transfers Mortgages Other stamp duties Total stamp duties on financial and capital transactions	1,906 173 33 <i>2,113</i>	1,969 120 24 <i>2,113</i>	1,697 108 1 <i>1,806</i>	1,746 9 1 <i>1,757</i>	1,880 - 1 <i>1,881</i>	1,873 - 1 <i>1,</i> 874
Debits Tax Total financial institutions taxes	8 8	-	-	-	-	-
Metropolitan Region Improvement Tax Emergency Services Levy Loan guarantee fees Total other property taxes	53 130 13 <i>197</i>	71 139 14 224	78 152 14 244	86 155 14 255	95 163 15 <i>27</i> 2	104 170 15 289
Taxes on provision of goods and services Lotteries Commission less rebates Video lottery terminals Casino Tax less rebates TAB betting tax less rebates Total taxes on gambling	102 -22 - 59 -30 64 -27 146	106 -23 1 65 -34 64 -30 149	111 -24 1 -36 29 -5 145	114 -26 1 73 -38 31 -3 152	117 -26 1 75 -39 32 -3 158	121 -26 1 80 -42 33 -3 164
Stamp duty on insurance policies Other <i>Total taxes on insurance</i>	296 30 326	312 23 335	324 23 347	337 23 359	354 23 377	373 23 396
Taxes on use of goods and performance of activities Stamp duty on vehicle licences Permits - oversize vehicles and	342	385	367	369	374	395
loads Motor vehicle recording fee Motor vehicle registrations Total motor vehicle taxes	3 30 361 736	3 32 396 816	3 34 430 834	3 36 453 <i>860</i>	3 38 477 892	3 40 502 940
Total Taxation	5,195	5,622	5,527	5,704	6,088	6,373

Table 1 (cont.)

#### **OPERATING REVENUE**

General Government

	2005-06 Actual \$m	2006-07 Estimated Actual \$m	2007-08 Budget Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	2010-11 Forward Estimate \$m
CURRENT GRANTS AND SUBSIDIES						
General Purpose Grants GST revenue grants <sup>(a)</sup> Competition reform	3,816 67	3,960	3,951 -	3,870	3,805	3,684 -
Specific Purpose Grants to the State Australian Health Care						
Agreement	817	866	915	968	1,024	1,083
Other health	282	283	293	296	305	318
Schools assistance –	202	200	200	200	000	010
government schools	281	277	271	272	284	297
Vocational training	96	97	100	104	106	108
Roads	27	36	14	33	30	36
Other	180	197	228	170	162	157
Specific Purpose Grants through the State Schools assistance –						
non-government schools	526	517	562	611	664	722
Local government grants	111	116	122	126	131	136
Local government roads	76	80	83	86	89	93
Other	-	33	33	33	33	33
Other Grants North West Shelf royalties	610	669	699	727	767	744
Total Current Grants and						
Subsidies	6,890	7,131	7,272	7,296	7,398	7,410
CAPITAL GRANTS Specific Purpose Grants to the State						
Roads Schools assistance –	83	142	190	253	186	98
government schools	30	29	35	33	33	33
Vocational training	16	16	13	19	16	14
Other	229	224	255	231	174	177
Specific Purpose Grants through the State Schools assistance – non-government schools	18	20	20	21	21	22
Total Capital Grants	375	431	513	556	430	344
(a) Includes compensation for GST de	eferred as a	result of the	Commonwea	Ith's decision	to allow exte	nded pavment

(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

	2005-06 Actual \$m	2006-07 Estimated Actual \$m	2007-08 Budget Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	2010-11 Forward Estimate \$m
SALES OF GOODS AND SERVICES						
Department for Planning and						
Infrastructure	107	108	119	125	131	137
Department of Health	243	255	256	263	273	282
Department of Education and						
Training	127	142	140	142	144	144
TAFE Colleges	78	83	86	88	94	94
Department of Land Information	82	82	92	96	103	111
Departments of the Attorney						
General/Corrective Services	67	68	70	73	75	77
Department of Environment and						
Conservation	54	49	58	62	64	64
Department of Consumer and						
Employment Protection	30	32	36	41	40	40
Department of Fisheries	24	24	24	25	25	25
Department of Culture and the		47	47	40	10	10
Arts	21	17	17	18	18	18
Western Australia Police	20	24	20	21	20	21
All Others	262	256	262	269	278	296
Total Sales of Goods and						
Services	1,115	1,141	1,181	1,222	1,265	1,309
INTEREST INCOME	170	219	213	213	236	270
REVENUE FROM PUBLIC						
CORPORATIONS						
Dividends	534	445	441	448	495	550
Tax Equivalent Regime	304	316	327	308	346	377
Total Revenue from Public						
Corporations	838	761	768	756	841	928
corporations	000	701	100	100	041	520
ROYALTY INCOME						
Revenue from Territorial	1,205	1,569	1,830	1,993	1,800	1,619
less petroleum and other						
refunds	-20	-14	-15	-11	-7	-6
Total Royalty Income	1,184	1,555	1,815	1,982	1,793	1,613
OTHER						
Lease rentals	63	42	12	43	43	43
Fines	114	43	43	43 121		43 122
Revenue not elsewhere	114	97	122	121	122	122
counted	263	277	140	115	141	116
Total Other						
	440	418	304	279	306	282
GRAND TOTAL	16,207	17,278	17,593	18,008	18,357	18,529
Note: Columns may not add due to round		,	,	,	,	,
Note: Columns may not add due to found	an ig.					

# 2006-07 General Government Operating Revenue

This appendix contains general government revenue estimates for the 2006-07 financial year comparing the original 2006-07 Budget estimates, mid-year review revisions and the current estimated outturn.

#### 2006-07 OPERATING REVENUE

Table 1

General Government

	2006-07 Budget Estimate \$m	2006-07 Mid-Year Revision \$m	2006-07 Estimated Actual \$m
TAXATION Taxes on employers' payroll and labour force Payroll tax	1,428	1,635	1,595
Property taxes Land tax	342	391	391
Conveyances and transfers Mortgages Other stamp duties <i>Total stamp duties on financial and capital transactions</i>	1,741 101 24 <i>1,8</i> 66	1,838 108 22 1,967	1,969 120 24 2,113
Debits Tax Total financial institutions taxes	-	-	-
Metropolitan Region Improvement Tax Emergency Services Levy Loan guarantee fees <i>Total other property taxes</i>	58 138 14 <i>20</i> 9	71 139 14 224	71 139 14 224
Taxes on provision of goods and services Lotteries Commission less rebates Video lottery terminals Casino Tax less rebates TAB betting tax less rebates <i>Total taxes on gambling</i>	103 -23 1 58 -33 64 -28 141	106 -23 1 65 -34 66 -28 152	106 -23 1 65 -34 64 -30 149
Stamp duty on insurance policies Other <i>Total taxes on insurance</i>	315 24 339	317 23 <i>340</i>	312 23 335
Taxes on use of goods and performance of activities Stamp duty on vehicle licences Permits - oversize vehicles and loads Motor vehicle recording fee Motor vehicle registrations <i>Total motor vehicle taxes</i>	369 3 31 354 757	369 3 32 394 798	385 3 32 396 <i>816</i>
Total Taxation	5,082	5,506	5,622
CURRENT GRANTS AND SUBSIDIES General Purpose Grants GST revenue grants <sup>(a)</sup> Competition reform	3,929 -	3,922	3,960 -
Specific Purpose Grants to the State Australian Health Care Agreement Other health Schools assistance – government schools Vocational training Roads Other	870 265 267 99 40 220	866 270 277 97 48 223	866 283 277 97 36 197

(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).

### 2006-07 OPERATING REVENUE

Table 1 (cont.)

	2006-07 Budget Estimate \$m	2006-07 Mid-Year Revision \$m	2006-07 Estimated Actual \$m
Specific Purpose Grants through the State Schools assistance – non-government schools Local government grants Local government roads Other	526 116 79 33	531 115 79 28	517 116 80 33
Other Grants North West Shelf royalties	721	667	669
Total Current Grants and Subsidies	7,163	7,125	7,131
CAPITAL GRANTS Specific Purpose Grants to the State Roads Schools assistance – government schools Vocational training	92 29 18	142 29 18	142 29 16
Other	244	223	224
Specific Purpose Grants through the State Schools assistance – non-government schools	20	20	20
Total Capital Grants	402	430	431
<ul> <li>SALES OF GOODS AND SERVICES</li> <li>Department for Planning and Infrastructure</li> <li>Department of Health</li> <li>Department of Education and Training</li> <li>TAFE Colleges</li> <li>Department of Land Information</li> <li>Departments of the Attorney General/Corrective Services</li> <li>Department of Environment and Conservation</li> <li>Department of Consumer and Employment Protection</li> <li>Department of Culture and the Arts</li> <li>Western Australia Police</li> <li>All Others</li> </ul> Total Sales of Goods and Services INTEREST INCOME REVENUE FROM PUBLIC CORPORATIONS <ul> <li>Dividends</li> <li>Tax Equivalent Regime</li> </ul>	131 227 127 83 73 50 38 31 24 17 18 229 <b>1,046</b> <b>151</b> 456 294	108 227 141 83 79 62 38 32 24 17 24 297 <b>1,131</b> <b>205</b> 468 346	108 255 142 83 82 68 49 32 24 17 24 256 <b>1,141</b> <b>219</b> 445 316
Total Revenue from Public Corporations	750	813	761
ROYALTY INCOME Revenue from Territorial less petroleum and other refunds	1,527 -23	1,560 -18	1,569 -14
Total Royalty Income	1,504	1,542	1,555
OTHER Lease rentals Fines Revenue not elsewhere counted	43 106 262	43 95 265	43 97 277
Total Other	410	403	418
	16,510	17,155	17,278
Note: Columns may not add due to rounding.			

## The Treasurer's Advance

The Treasurer's Advance, provided for under the *Financial Management Act 2006* (FMA), authorises the Treasurer to make recoverable advances for the temporary financing of works and services (referred to as 'recoverable advances') and to provide supplementary funding during the year for extraordinary or unforeseen matters (known as 'excesses and new items'), either in excess of, or not covered by, existing annual appropriations.

The aggregate amounts drawn against recoverable advances, excesses and new items must remain within the limit authorised by the FMA unless the limit is adjusted by a *Treasurer's Advance Authorisation Act*. The FMA authorises a limit of \$365 million on the Treasurer's Advance for 2006-07. This follows an amended limit of \$500 million in  $2005-06^{1}$ .

Table 4.1 shows the projected position of the Treasurer's Advance for 2006-07. These projections are consistent with the agency data underlying the budget projections outlined elsewhere in the Budget Papers.

TREASURER'S ADV	ANCE AT 30 JUNE	Table 4.1
	2005-06 Actual \$m	2006-07 Projection \$m
AUTHORISED LIMIT	500.0	365.0
Total Drawn Against Treasurer's Advance authorisation Comprising:	348.4	335.9
Net recoverable advances as at 30 June Excesses and New Items	16.3	10.0
- recurrent - capital	247.1 85.0	277.4 48.4
Note: Columns may not add due to rounding.		

<sup>&</sup>lt;sup>1</sup> The 2005-06 limit for the Treasurer's Advance was originally set at \$300 million. Excesses and new items required extension of the limit to \$500 million, of which \$348.4 million was drawn by 30 June 2006.

#### Transfers, Excesses and New Items

Table 4.2 outlines excesses and/or new items that are projected to materialise during 2006-07 and which will impact the Treasurer's Advance under the authority of section 27 of the FMA.

It should be noted that the projections shown in Table 4.2 are subject to movements in agencies' appropriations through the remainder of 2006-07. Funding in excess of budget for appropriation items shown in the table will only occur if management responses do not achieve compensating shortfalls in other spending supported by these items prior to 30 June 2007.

Around \$103.2 million in appropriations originally allocated in the 2006-07 Budget have been transferred where responsibility for appropriation-funded services has been allocated to another agency. Such transfers are allowed under section 25 of the FMA and have no impact on the Treasurer's Advance. These include the transfer of:

- \$0.6 million between the Department of the Premier and Cabinet and the Department of Industry and Resources for the transfer of the Projects Approvals Coordination Unit;
- \$1.6 million between the Department of Treasury and Finance (DTF) and the Department of Health for procurement staff relocated to the Office of Government Procurement;
- \$62.4 million between DTF and the Department of Health following finalised business cases for health reform capital projects provisioned in DTF appropriations;
- \$38.5 million between the Office of Shared Services (OSS) and DTF for the incorporation of OSS into DTF from 1 January 2007; and
- \$0.1 million between Western Australia Police and the Department for Planning and Infrastructure for the transfer of the demerit point section.

Table 4.2

# TRANSFERS, EXCESSES AND NEW ITEMS

		Treasure	r's Advance	
ltern Appropriation		New Items	Excesses	Draw on Treasurer's Advance to date <sup>(b)</sup>
Item Appropriation Recurrent Appropriations	φm	\$m	\$m	\$m
Parliament 1 Output Appropriation - Legislative Council 2 Output Appropriation - Legislative Assembly 3 Output Appropriation - Parliamentary Services	- - -	- -	_ <sup>(c)</sup> 0.1 0.1	- - -
The Parliamentary Commissioner for Administrative Investiga 4 Output Appropriation	ations -	-	_(c)	-
Department of the Premier and Cabinet 5 Output Appropriation	0.6	-	5.7	-
Department of Industry and Resources 6 Output Appropriation	-0.6	-	-	-
Office of Shared Services 8 Output Appropriation	-15.4	-	2.8	
Governor's Establishment 9 Output Appropriation	-	-	_(c)	-
Department of Treasury and Finance				
12 Output Appropriation Community Service Obligations payments - Water	17.0	-	-	-
16 Corporation Community Service Obligations payments	-	-	0.2	-
<ul> <li>17 - Western Australian Land Authority</li> <li>24 GST Administration Costs</li> </ul>	-	-	14.0 0.1	-
28 Office of Health Review	-	-	0.1	-
29 On-road diesel subsidies Refund of past years revenue collections	-	-	0.5	-
34 - all other	-	-	16.3	15.6
<ul> <li>36 Stamp duty rebate scheme</li> <li>All other administered grants, subsidies and</li> <li>43 transfer payments</li> </ul>	-	-	4.7 1.0	2.5 1.0
Office of the Auditor General			1.0	1.0
45 Output Appropriation	-	-	0.8	-
Economic Regulation Authority 46 Output Appropriation	-	-	0.1	-
State Supply Commission 47 Output Appropriation	-	-	_(c)	-
Department of Agriculture and Food 48 Output Appropriation	-	-	0.1	-
Rural Business Development Corporation 50 Output Appropriation	-	-	2.6	1.8
Mid-West Development Corporation 51 Output Appropriation	-	-	_(c)	-
Wheatbelt Development Commission 52 Output Appropriation	-		_(c)	-
Department of Education and Training 53 Output Appropriation	-	-	39.6	-
<i>Curriculum Council</i> 55 Output Appropriation	-	-	0.2	-
<ul> <li>(a) Authorised under section 25 of the FMA.</li> <li>(b) Budget cut-off date, 10 April 2007.</li> <li>(c) Amount less than \$50,000.</li> </ul>				
Note: Columns may not add due to rounding.				

# TRANSFERS, EXCESSES AND NEW ITEMS

Table 4.2 (cont.)

		Treasure	's Advance	
Item Appropriation	– Transfers <sup>(a)</sup> \$m	New Items \$m	Excesses \$m	Draw on Treasurer's Advance to date <sup>(b)</sup> \$m
Department of Education Services	ф.н.	ψm	·	ψm
<ul><li>56 Output Appropriation</li><li>57 Administered grants and transfer payment</li></ul>	-	-	_ <sup>(c)</sup> 1.2	-
Western Australian Sports Centre Trust	-	-	1.2	-
62 Output Appropriation Department of the Attorney General	-	-	0.6	-
63 Output Appropriation	1.5	-	5.3	-
Equal Opportunity Commission 64 Output Appropriation	-	-	_(c)	-
Corruption and Crime Commission 65 Output Appropriation	-	-	0.3	-
Law Reform Commission of Western Australia 67 Output Appropriation	-	-	_(c)	-
Office of the Director of Public Prosecutions 68 Output Appropriation	-	-	0.6	-
Office of the Information Commissioner 69 Output Appropriation	-	-	_(C)	-
Department of Health	<i>,</i> -			
<ul><li>70 Output Appropriation</li><li>71 Contribution to Hospital Fund</li></ul>	-1.6 -	-	1.7 39.1	-
Department of Housing and Works 73 Output Appropriation	-	-	1.8	-
Heritage Council of Western Australia 78 Output Appropriation	-	-	2.1	1.4
Vational Trust of Australia (W.A) 79 Output Appropriation	-	-	_(c)	-
Department of Planning and Infrastructure 81 Output Appropriation	0.1	-	13.3	-
Department of Indigenous Affairs 86 Output Appropriation	-	-	0.5	-
Western Australian Tourism Commission 87 Output Appropriation	-	-	2.4	-
Department of Culture and the Arts 88 Output Appropriation	-	-	2.7	-
Botanic Gardens and Parks Authority 94 Output Appropriation	-	-	0.1	-
S <i>wan River Trust</i> 97 Output Appropriation	-	-	1.1	-
Zoological Parks Authority 98 Output Appropriation	-	-	0.1	-
Department of Racing, Gaming and Liquor 99 Output Appropriation	-	-	1.8	-
100 Administered grants and transfer payments Office of Energy 104 Output Appropriation	-	-	3.5	-
101 Output Appropriation Department of Consumer and Employment Protection	-	-	0.8	-
102 Output Appropriation - Administered grants and transfer payments	-	- 30.0	3.9	-
<ul> <li>a) Authorised under section 25 of the FMA.</li> <li>b) Budget cut-off date, 10 April 2007.</li> <li>c) Amount less than \$50,000.</li> </ul>				
Note: Columns may not add due to rounding.				

Table 4.2 (cont.)

sfers <sup>(a)</sup> Sm - -0.1 - - - - - - - - - - - - - - - - - - -	New Items \$m - - - - - - - - - - - - - - - - - -	Excesses \$m 0.1 _(°) 26.0 20.1 14.2 0.1 3.6 _(°) _(°) 2.6 5.0 0.8 2.5 247.4	Draw on Treasurer Advance t date <sup>(b)</sup> \$m - - - - - - - - - - - - - - - - - -
-	- - - - - - - - - - - - - - - - - - -	_(c) 26.0 20.1 14.2 0.1 3.6 _(c) _(c) 2.6 5.0 0.8 2.5	2.0
-	- - - - - - - - - - - - - - - - - - -	26.0 20.1 14.2 0.1 3.6 _(c) _(c) 2.6 5.0 0.8 2.5	2.0
-	- - - - - - - - - - - - - - - - - - -	20.1 14.2 0.1 3.6 _(c) _(c) 2.6 5.0 0.8 2.5	2.0
- - - -1.5 -	- - - - - - - - - - - - - - - - - - -	14.2 0.1 3.6 _(c) _(c) 2.6 5.0 0.8 2.5	2.0
- - - -1.5 -	- - - - - - - - - - - - - - - - - - -	0.1 3.6 _(c) 2.6 5.0 0.8 2.5	2.0
- - - -1.5 -	- - - - - - - - - - - - - - - - - - -	3.6 _(c) _(c) 2.6 5.0 0.8 2.5	2.0
- - -1.5 -	- - - - - 30.0	_(c) _(c) 2.6 5.0 0.8 2.5	2.0
- - -1.5 - -	- - - - 30.0	_(c) 2.6 5.0 0.8 2.5	2.0
- -1.5 - -	- - - - 30.0	2.6 5.0 0.8 2.5	2.0
-1.5 - -	- - - 30.0	5.0 0.8 2.5	2.0
-1.5 - -	- - - 30.0	0.8 2.5	2.0
-	- - 30.0	2.5	2.0
-	- 30.0		
-	30.0	247.4	25.0
_			
-	-	1.1	-
-23.0	-	20.7	-
23.0 -62.4	-	-	-
-	-	_(c)	-
-	-	0.4	-
62.4	-	-	-
-	-	20.7	-
-	-	0.8	-
-	-	4.6	-
-	-	0.2	0.2
-	-	48.4	0.2
-	30.0	295.9	25.2
	62.4 - - - - - -	· · ·	20.7 0.8 4.6 0.2 48.4

Note: Columns may not add due to rounding.

2007-08 Economic and Fiscal Outlook

# Tax and Royalty Expenditure Statement

### Purpose

The purpose of this 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 expenditure includes revenue foregone by government and financial benefits to taxpayers from exemptions and other concessions that depart from the general tax treatment. They are expenditure 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 expenditure 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 2005-06 and estimates for 2006-07.

# Specific tax and royalty expenditures

Notable movements in the value of specific tax and royalty expenditure between 2005-06 and 2006-07 include:

- an increase in the value of the payroll tax concession for small business due to an estimated increase in the number of small businesses/employers and wages growth;
- 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, and an increase in the wages paid to them;
- a large increase in the principal place of residence land tax exemption as a result of a significant increase in land values between valuation dates underpinning the 2005-06 land tax assessments (August 2004) and 2006-07 land tax assessments (August 2005);
- a large decrease in the value of the corporate reconstructions stamp duty exemption. This reflects that there were a small number of very large transactions that were eligible for the concession in 2005-06 which has not been repeated in 2006-07;
- a large decline in the value of the first home buyers' stamp duty exemption and concession, arising from a decline in the number of first home buyers as a result of strong growth in house prices and increases in interest rates reducing affordability, and a decline in the average value of stamp duty relief received per eligible first home buyer;
- an increase in the value of the insurance duty exemption on workers' compensation premiums due to growth in the number of insured workers and strong growth in wages;
- a decrease in the value of the mortgage duty concession for homes due to the mortgage duty rate being halved from 1 July 2006;
- an increase in the value of the owner-occupier and small business refinancing exemption due to 2006-07 being the first full year of the concession. This impact was partially offset by the mortgage duty rates being halved from 1 July 2006; and

Table 1

an increase in the value of the State Agreement Act iron ore royalty concessions, • reflecting the 19.0% increase in the iron ore price in 2006-07 and an increase in the quantity of iron ore produced under State Agreement Acts.

#### SUMMARY OF MAJOR TAX AND ROYALTY EXPENDITURE Western Australia

	2005-06 Actual \$m	2006-07 Estimated Actual \$m
PAYROLL TAX		
Small business exemption	644.7	703.9
Apprentices and trainees exemption	19.5	22.5
LAND TAX AND MRIT		
Principal place of residence exemption	248.4	305.7
Primary production exemption	40.6	53.2
STAMP DUTY ON CONVEYANCES		
Corporate reconstructions exemption	270.8	27.3
Family farm exemption	12.6	11.1
Concessionary rate for homes and businesses	0.8	0.5
First home buyers' exemption and concession	65.2	27.2
STAMP DUTY ON INSURANCE POLICIES		
Health insurance policies exemption	107.5	111.7
Workers' compensation insurance exemption	77.2	84.2
Marine hulls exemption	5.3	5.5
STAMP DUTY ON MORTGAGES		
Concessionary rate for homes	30.8	17.1
Owner-occupier and small business refinancing exemption <sup>(a)</sup>	10.3	14.5
MOTOR VEHICLE LICENCE FEES		
Family vehicle concession	62.9	67.7
Primary producer vehicle concession	10.7	11.4
Pensioner vehicle concession	20.9	21.7
STAMP DUTY ON MOTOR VEHICLE LICENCE TRANSFERS		
New heavy vehicle concession	10.4	10.8
Used heavy vehicle concession	1.5	1.6
MINING ROYALTIES		
Iron Ore Agreement Act concessions	116.5	139.3
TOTAL	1,756.6	1,636.9
	.,	.,000.0
(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, or other cards issued by the State government. A synopsis of these cards is included below.

The information in this Statement is mainly compiled from survey forms (developed with the assistance of the Australian Bureau of Statistics) returned to the Department of Treasury and Finance by 26 agencies that provide social concessions.

In 2005-06, the State Government provided social concessions with an estimated value of \$442.7 million across a range of service areas. The cost to the State was partly offset by a \$17.3 million contribution from the Commonwealth, 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 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 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 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 State 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 for Community Development (responsibility transferred to the Department of Communities as at 1 May 2007) 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

	2004-05 Estimated Total Value \$m	2004-05 Estimated No. of Recipients	2005-06 Estimated Total Value \$m	2005-06 Estimated No. of Recipients
Class of Concession	φΠ		ψΠ	
ENERGY				
Supply charge rebate	19.6	223,447	19.1	235,390
Dependent child rebate	8.4	47,103	8.7	52,683
Other	1.0	n.a.	0.8	n.a.
WATER, SEWERAGE & DRAINAGE				
Rates rebate for pensioners	29.1	117,095	30.6	117,883
Consumption concession for pensioners Rates rebate for seniors	5.5 6.5	133,393 34,030	5.2 7.4	n.a. 37014
Other	0.5	1,739	.06	469
	0.2	.,		
HOUSING AND LAND	00.0	27 207	02.2	27 207
Homeswest rental subsidy Homeswest amenities fee waiver	90.9 0.8	27,307 10,369	93.3 0.8	27,307 10,051
Other	0.6	n.a.	0.5	n.a.
LOCAL GOVERNMENT Rates rebate for pensioners	50.2	337,910	51.9	327,638
	00.2	007,010	01.0	027,000
TRANSPORT Contract school bus services	64.6	24,476	68.6	23,081
Transperth fares concession	50.6	91,750	53.7	23,001 n.a.
Motor vehicle licence fee concession for pensioners <sup>(a)</sup>	20.4	186,451	21.1	193,163
Taxi user subsidy	6.8	18,963	7.0	15,902
Drivers licence fee concession for pensioners	6.5	135,109	7.7	154,640
Pensioners' annual free trip	4.0	85,648	3.2	n.a.
Transwa fares concession	2.2	n.a.	2.9	78,129
Subsidised student travel Other	1.2 1.7	811 n.a.	1.2 5.8	878 n.a.
	1.7	n.a.	5.0	n.a.
HEALTH Subsidised dental care	0.6	F4 604	11.0	F4 604
Spectacle subsidy scheme	9.6 2.8	54,694 55,976	2.7	54,694 54,942
Other	6.0	n.a.	6.9	n.a.
EDUCATION				
Secondary assistance scheme – school	4.0	24,464	4.2	26,197
charges		,		20,101
Secondary assistance scheme - clothing	2.8	24,464	3.0	26,197
Department of Education and Training tuition fees	6.6	36,806	7.7	39,481
Boarding away from home allowance	1.5	2,203	1.6	2,236
Other	0.2	n.a.	0.2	280
LEGAL SERVICES				
Legal assistance	10.5	48,797	10.4	n.a.
Other	0.2	n.a.	1.1	n.a.
CULTURE, LEISURE & RECREATION				
Children's Zoo discount	0.8	94,708	0.8	n.a.
Children under four years of age – free Zoo entry	0.9	54,943	1.0	n.a.
Other	2.3	n.a.	2.5	n.a.
TOTAL	418.8	n.a.	442.7	n.a.
a) Also included in Tax and Royalty Expenditure Statement				

(a) Also included in Tax and Royalty Expenditure Statement.

### Energy

#### Supply charge rebate (\$19.1 million)

Domestic customers of Synergy and Horizon 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 \$81 per year.

#### **Dependent child rebate (\$8.7 million)**

Domestic customers of Synergy and Horizon 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 \$165 per year.

#### Other (\$0.8 million)

Other concessions include Synergy and Horizon rebate on *account establishment fees* and *air conditioning subsidy*, for holders of a PCC, HCC or SSC.

#### Water

#### **Rates rebate for pensioners (\$30.6 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 \$260 per year.

#### **Consumption concession for pensioners (\$5.2 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 \$42 per year.

#### **Rates rebate for seniors (\$7.4 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 \$199 per year.

#### Other (\$0.06 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 (\$93.3 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 \$3,415 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 (\$0.5 million)

Other housing and land concessions include the interest forgone by Homeswest under the *Bond Assistance Scheme*.

#### Local Government

#### **Rates rebate for pensioners (\$51.9 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 \$159 per year.

#### Transport

#### **Contract school bus services (\$68.6 million)**

Full time students aged under 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 \$7.94 per journey, or about \$2,972 per year.

#### Transperth fares concession (\$53.7 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 \$1.45 per journey.

#### Motor vehicle licence fee concession for pensioners (\$21.1 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 (\$7.0 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 for Planning and Infrastructure. At 30 June 2005 and 2006 there were respectively 18,963 and 15,902 active members of the scheme. The average value of the subsidy is \$10.70 per trip.

#### **Drivers licence fee concession (\$7.7 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 \$49.63 per year.

#### Pensioners' annual free trip (\$3.2 million)

Holders of a PCC who live north of the 26<sup>th</sup> 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 for 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 \$19.47 per recipient.

#### Transwa fare concession (\$2.9 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 \$37 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 for Planning and Infrastructure funds this concession. The annual value of these return trips averages \$1,311 per recipient.

#### Other (\$5.8 million)

Other transport concessions include the *intra town* and *inter town* travel concessions for pensioners, seniors and students.

#### Health

#### Subsidised dental care (\$11.0 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 \$200 per treatment.

#### Spectacle subsidy scheme (\$2.7 million)

Age pensioners, disability pensioners and holders of a SSC receive a subsidy from the Department of Health to acquire spectacles or contact lenses. The average value of the subsidy per recipient is \$48.70.

#### Other (\$6.9 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 (\$4.2 million)

The Department of Education and Training provides assistance to low income families with secondary school children to meet school charges, which averages at \$161 per recipient.

#### Secondary assistance scheme for clothing (\$3.0 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 (\$7.7 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 \$0.63 per hour of tuition for vocational education and training courses, and \$2.08 per hour of tuition for adult and community education courses.

#### **Boarding away from home allowance (\$1.6 million)**

Families in receipt of Commonwealth assistance for geographically isolated students receive a \$700 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 (\$10.4 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 (\$1.1 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 \$8.50 per child for each visit.

#### Children under four years of age - free Zoo entry (\$1 million)

Children under four years of age receive free entry to the Perth Zoo. The value of the discount is \$17 per child for each visit.

#### Other (\$2.5 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.

# 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.

		2006-07 Bud	get Estima	te		2006-07 Est	imated Actu	al	:	2007-08 Bud	get Estimat	e
	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
PARLIAMENT												
Legislative Council	-	-	-	-	-	-	-	-	1,000		-	1,000
Parliamentary Services Department	3,040	-	27	3,067	3,040	-	304	3,344	500	-	645	1,145
The Parliamentary Commissioner for			107	107			513	513			106	106
Administrative Investigations	-	-	107	107	-	-	513	513	-	-	106	100
PREMIER; MINISTER FOR FEDERAL-STATE RELATIONS; TRADE; INNOVATION; SCIENCE; PUBLIC												
SECTOR MANAGEMENT												
Department of the Premier and Cabinet	2,855	-	2,285	5,140	2,200	-	4,109	6,309	655	-	4,399	5,054
Governor's Establishment	-	-	400	400	-	-	400	400	-	-	-	
Office of the Public Sector Standards												
Commissioner	-	-	109		-	-	154	154	-	-	121	121
Salaries and Allowances Tribunal	-	-	6	6	-	-	7	7	-	-	6	6
DEPUTY PREMIER; TREASURER; MINISTER FOR STATE DEVELOPMENT												
Department of Treasury and Finance	13,716	-	9,375	23,091	32,486	-	6,397	38,883	17,741	-	6,952	24,693
Office of the Auditor General	-	-	479	479	-	-	769	769	108	-	363	471
Economic Regulation Authority	-	-	40	40	-	-	40	40	-	-	71	71
Western Australian Treasury Corporation	-	-	823	823	-	-	682	682	-	-	259	259
State Supply Commission	-	-	-	-	-	-	-	-	-	-	18	18
State Supply Fleet	-	-	121,907	121,907	-	-	144,223	144,223		-	146,789	146,789
Department of Industry and Resources	5,034	-	27,733	32,767	1,395	-	18,288	19,683	11,109	-	17,274	28,383

#### CAPITAL WORKS PROGRAM SUMMARY OF EXPENDITURE AND FUNDING

Table 1

	:	2006-07 Bud	get Estima	te		2006-07 Est	imated Actua	al	2	2007-08 Bud	get Estimate	e
	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 FOOD; FORESTRY; THE MID-WEST AND WHEATBELT; GREAT SOUTHERN	·	·	·	·		·	·	·		·	·	·
Department of Agriculture and Food	5,200	-	6,115	11,315	4,050	-	5,997	10,047	560	-	8,000	8,560
Western Australian Meat Industry Authority	3,200	-	6,849	10,049	3,200	-	6,142	9,342	_	-	6,685	6,685
Perth Market Authority	-,	7,500	452	7,952	-	-	4,924	4,924		3,500	3,920	7,420
Forest Products Commission	-	5,500	1,876	7,376	-	5,500	2,376	7,876		5,800	2,576	8,376
Mid-West Development Commission	229	-	2,967	3,196	229	-	5,869	6,098		-	2,333	2,333
Wheatbelt Development Commission	-	-	47	47	-	-	80	80	-	-	24	24
Great Southern Development Commission	23	-	1,505	1,528	223	-	1,937	2,160	2,679	-	1,545	4,224
MINISTER FOR LOCAL GOVERNMENT; RACING AND GAMING; MULTICULTURAL INTERESTS AND CITIZENSHIP; GOVERNMENT ENTERPRISES; ASSISTING THE MINISTER FOR PLANNING AND INFRASTRUCTURE; GOLDFIELDS-ESPERANCE; YOUTH Department of Local Government and												
Regional Development	94	-	1,550	1,644	94	-	1,649	1,743		-	2,004	2,004
Metropolitan Cemeteries Board	-	-	6,462	6,462	-	-	6,693	6,693	-	-	5,845	5,845
Department of Racing, Gaming and Liquor	-	-	350	350	-	-	571	571	-		370	370
Racing and Wagering Western Australia Western Australian Greyhound Racing	-	-	9,860	9,860	-	-	25,350	25,350	-	-	18,670	18,670
Association Goldfields-Esperance Development	-	-	592	592	-	-	592	592	-	-	150	150
Commission Insurance Commission of Western	-	-	-	-	-	-	-	-	9	-	76	85
Australia	-	-	3,585	3,585	-	-	4,358	4,358	-	-	3,735	3,735
Lotteries Commission	-	-	30,878	30,878	-	-	14,479	14,479		_	20,560	20,560
Gold Corporation	_	_	3,004	3,004		-	3,758	3,758		_	5,460	5,460

	2	2006-07 Budg	get Estimate	•		2006-07 Est	imated Actu	al	2007-08 Budget Estimate			
	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000	Capital Contribution \$'000	Borrowings \$'000	Other Funding \$'000	Total Expenditure \$'000
MINISTER FOR POLICE AND EMERGENCY SERVICES; COMMUNITY SAFETY; WATER RESOURCES; SPORT AND RECREATION	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Police Service Fire and Emergency Services Authority of	49,262	-	73,028	122,290	38,415	-	72,641	111,056	85,300	-	11,902	97,202
Western Australia	250	7,294	18,321	25,865	250	-,	37,879	44,898	1,210	11,077	13,650	25,937
Water and Rivers Commission	2,253	-	4,314	6,567	1,503	-	5,987	7,490	3,850	-	2,880	6,730
Water Corporation	-	290,000	320,693	610,693	-	240,000	364,679	604,679	-	420,000	334,864	754,864
Bunbury Water Board	-	-	5,838	5,838	-	-	8,475	8,475	-	-	7,131	7,131
Busselton Water Board	-	-	3,681	3,681	-	-	2,141	2,141	-	-	3,590	3,590
Department of Sport and Recreation	6,140	-	29,289	35,429	6,140	-	5,888	12,028	100	-	9,087	9,187
Western Australia Sports Centre Trust	-	-	1,350	1,350	-	-	1,350	1,350	85	-	4,180	4,265
ATTORNEY GENERAL; MINISTER FOR HEALTH; ELECTORAL AFFAIRS												
Department of the Attorney General	15,488	-	17,191	32,679	8,437	-	31,079	39,516	· · · · ·	-	18,526	43,011
Equal Opportunity Commission	23	-	38	61	23	-	100	123		-	38	109
Corruption and Crime Commission Office of the Parliamentary Inspector,	-	-	1,583	1,583	-	-	5,390	5,390	-	-	2,139	2,139
Corruption and Crime Commission	-	-	10	10	-	-	10	10	-	-	10	10
Law Reform Commission of Western Australia	-	-	20	20	-	-	27	27	6	-	14	20
Office of the Director of Public												
Prosecutions	3,605	-	148	3,753	3,200	-	395	3,595	658	-	148	806
Office of the Information Commissioner	-	-	35	35	-	-	35	35	2	-	33	35
Department of Health	261,106	-	16,925	278,031	64,231	-	100,211	164,442	155,079	-	169,395	324,474
Western Australian Electoral Commission	173	-	757	930	23	-	470	493	150	-	550	700

	:	2006-07 Budg	get Estimate	•		2006-07 Est	imated Actu	al	2007-08 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 EMPLOYMENT PROTECTION; HOUSING AND WORKS; INDIGENOUS AFFAIRS; HERITAGE; LAND INFORMATION Department of Consumer and Employment											,		
Protection	2,950	-	910	3,860	2,950	-	4,535	7,485	4,753	-	1,120	5,873	
Department of the Registrar, Western Australian Industrial Relations	·			·			·				·		
Commission	-	-	150	150		-	150	150		-	180	180	
Department of Housing and Works	30,450	-	1,495	31,945	,	-	3,756	24,756	,	-	1,095	96,619	
Housing Authority	-	45,000	999,885	1,044,885	-	101,231	851,691	952,922	-	130,000	779,950	909,950	
Country Housing Authority	-	5,700	6,288	11,988	-	5,700	6,288	11,988		4,900	7,088	11,988	
Department of Indigenous Affairs	-	-	990	990	-	-	990	990		-	468	480	
Heritage Council of Western Australia	-	-	1,050	1,050	-	-	3,155	3,155		-	1,105	1,10	
The National Trust of Australia (WA) Western Australian Land Information	618	-	255	873	618	-	255	873		-	260	79'	
Authority	-	-	11,181	11,181	-	-	16,296	16,296	-	-	10,237	10,23	
MINISTER FOR PLANNING AND INFRASTRUCTURE													
Department for Planning and Infrastructure	14,461	-	30,559	45,020	6,272	-	21,368	27,640	,	-	67,552	97,82	
Commissioner of Main Roads Public Transport Authority of Western	213,773	-	261,698	475,471	247,959	-	337,493	585,452	,	-	332,323	705,90	
Australia	392,344	97,707	992	491,043	315,161	146,650	2,115	463,926	· · ·	134,323	43,957	212,37	
Armadale Redevelopment Authority	10,600	-	10,265	20,865	10,600	-	18,178	28,778	2,000	3,000	16,027	21,02	
East Perth Redevelopment Authority	-	-	46,811	46,811	-	-	13,727	13,727	-	-	10,792	10,79	
Midland Redevelopment Authority	12,715	3,000	14,177	29,892	16,448	3,000	4,092	23,540	· · ·	15,051	4,752	26,01	
Subiaco Redevelopment Authority	-	-	14,279	14,279	-	-	13,728	13,728	-	-	5,963	5,96	
Albany Port Authority	-	-	750	750		-	750	750	-,	-	750	4,53	
Broome Port Authority	200	-	1,300	1,500		500	1,650	2,350		-	500	50	
Bunbury Port Authority	-	-	8,025	8,025	-	-	13,179	13,179	-	-	9,496	9,496	

	2	2006-07 Budg	9		2006-07 Est	imated Actu	al	2007-08 Budget Estimate				
	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
MINISTER FOR PLANNING AND	+						+	+				+
INFRASTRUCTURE (cont.)												
Dampier Port Authority	-	3,522	4,050	7,572	-	6,598	4,050	10,648	-	-	3,500	3,500
Esperance Port Authority	-	-	3,200	3,200	-	26,000	1,978	27,978	-	-	2,700	2,700
Fremantle Port Authority	214	28,535	7,917	36,666	215	16,000	923	17,138	5,214	40,000	20,202	65,416
Geraldton Port Authority	-	24,500	1,374	25,874	-	40,559	1,374	41,933	-	6,250	2,915	9,165
Port Hedland Port Authority	-	-	4,049	4,049	-	15,000	7,704	22,704	-	-	4,100	4,100
Western Australian Land Authority	42,100	-	220,299	262,399	-	53,000	271,009	324,009	-	42,000	374,074	416,074
The Eastern Goldfields Transport Board	-	700	-	700	-	700	-	700	-	800	-	800
Western Australian Planning Commission	2,900	-	50,808	53,708	2,900	-	74,838	77,738	5,400	-	72,310	77,710
MINISTER FOR DISABILITY SERVICES; TOURISM; CULTURE AND THE ARTS; CONSUMER PROTECTION												
Disability Services Commission	300	-	5,810	6,110	300	1,583	4,080	5,963	-	-	2,419	2,419
Western Australian Tourism Commission	2,073	-	424	2,497	2,073	-	424	2,497	1,222	-	424	1,646
Rottnest Island Authority	6,456	-	3,700	10,156	6,839	-	5,543	12,382	1,689	-	3,700	5,389
Department of Culture and the Arts	10,913	-	21,069	31,982	11,713	-	26,504	38,217	61,866	-	11,246	73,112
MINISTER EDUCATION AND TRAINING; SOUTH WEST												
Department of Education and Training	245,210	-	67,471	312,681	237,210	-	131,759	368,969	226,963	-	68,054	295,017
Country High Schools Hostels Authority	6,020	5,920	612	12,552	6,020	2,220	3,694	11,934	2,400	8,900	2,335	13,635
Curriculum Council	1,625	-	147	1,772	1,625	-	753	2,378	131	-	190	321
Department of Education Services	-	-	60	60	-	-	80	80	-	-	60	60
South West Development Commission	-	-	3,950	3,950	-	-	4,906	4,906	-	-	4,645	4,645

	2	2006-07 Budg	get Estimate	Э		2006-07 Est	imated Actu	al	2	2007-08 Budg	get Estimate	9
MINISTER FOR ENERGY; RESOURCES;	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
INDUSTRY AND ENTERPRISE Office of Energy Independent Market Operator Electricity Networks Corporation (Western	-	- 935	269	269 935	-	- 4,187	269	269 4,187	-	- 1,075	255 -	255 1,075
Power)	-	300,410	182,789	483,199	-	502,809	184,149	686,958	-	586,571	174,691	761,262
Regional Power Corporation (Horizon Power) Electricity Retail Corporation (Synergy) Electricity Generation Corporation (Verve	-	12,840 -	18,781 16,608	,	-	20,102	26,340 16,693	46,442 16,693	-	11,756 -	17,042 17,577	28,798 17,577
Energy)	-	-	101,209	101,209	-	126,200	-	126,200	-	28,266	61,053	89,319
MINISTER FOR REGIONAL DEVELOPMENT; FISHERIES; THE KIMBERLEY; PILBARA AND GASCOYNE												
Department of Fisheries	1,829	-	3,650	,	1,829	-	2,164	3,993	8,481	-	5,513	13,994
Kimberley Development Commission Pilbara Development Commission	- 85	-	65 120		- 85	-	152 120	152 205	-	-	20 30	20 30
Gascoyne Development Commission		-	40			-	40	40	-	-	40	40
MINISTER FOR CORRECTIVE SERVICES; SMALL BUSINESS; MINISTER ASSISTING THE MINISTER FOR FEDERAL-STATE RELATIONS												
Department of Corrective Services Office of the Inspector of Custodial	51,016	-	28,311	79,327	18,007	-	29,797	47,804	54,642	-	24,800	79,442
Services	-	-	-	-	-	-	-	-	79	-	24	103
Small Business Development Corporation	134	-	116	250	134	-	512	646	313	-	122	435

	2	2006-07 Budg	get Estimate			2006-07 Esti	mated Actual		2	2007-08 Bud	get Estimat	е
	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure	Capital Contribution	Borrowings	Other Funding	Total Expenditure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
MINISTER FOR THE ENVIRONMENT; CLIMATE CHANGE; PEEL												
Botanic Gardens and Parks Authority	500	-	2,164	2,664	500	-	3,439	3,939	1,985	-	3,048	5,033
Swan River Trust	1,000	-	100	1,100	-	-	100	100	-	-	185	185
Zoological Parks Authority Department of Environment and	730	-	4,104	4,834	530	-	3,959	4,489	2,796	-	1,998	4,794
Conservation	11,960	-	12,707	24,667	16,540	-	22,745	39,285	20,212	-	12,920	33,132
Peel Development Commission	-	-	221	221	-	-	892	892	-	-	1,592	1,592
MINISTER FOR CHILD PROTECTION; COMMUNITIES; WOMEN'S INTERESTS; SENIORS AND VOLUNTEERING												
Department for Child Protection	8,759	-	8,380	17,139	4,428	-	16,258	20,686	23,276	-	4,080	27,356
Department for Communities	-	-	-	-	-	-	-	-	-	-	200	200
TOTAL	1,443,626	839,063	2,918,238	5,200,927	1,101,295	1,324,308	3,058,062	5,483,665	1,273,195	1,453,269	3,028,372	5,754,836

Table 2

CAPITAL	WORKS	PROGRA	M SOUR	CE OF F	UNDS	
	2005-06	2006-07 Estimated	2007-08 Budget	2008-09 Budget	2009-10 Budget	2010-11 Budget
	Actual \$m	Actual \$m	Estimate \$m	Estimate \$m	Estimate \$m	Estimate \$m
APPROPRIATIONS						
Capital contribution	630.9	1,101.3	1,265.2	833.9	470.8	374.1
Funding included in output appropriations	105.4	162.4	190.4	174.5	145.0	173.7
OTHER FUNDING						
Holding Account	159.4	176.7	162.3	129.0	137.6	147.5
Borrowings	1,001.2	1,324.3	1,461.3	1,738.5	1,202.8	1,002.7
Commonwealth grants	576.9	296.9	302.8	327.2	232.2	216.9
Land and Property Sales	429.7	503.5	422.1	465.7	506.9	432.9
Internal funds and balances	858.6	1,220.9	1,094.8	859.4	1,078.2	1,046.6
Other	717.2	697.7	856.0	1,266.2	1,377.1	1,547.2
TOTAL FUNDING	4,479.1	5,483.7	5,754.8	5,794.4	5,150.6	4,941.6
Note: Columns may not add due to	rounding.					

# Public Corporations – Impact on General Government 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.

Revenue from public corporations in 2007-08 is estimated to be \$768 million, comprising \$314 million in income tax equivalent payments; \$13 million in local government rate equivalent payments and \$441 million in dividends and statutory contributions. This is an increase of \$7 million or 0.9% compared to 2006-07.

The increase in revenue in 2007-08 mainly results from increased tax equivalent and dividend revenue from Western Power (Networks) and a once-off dividend associated with the proposed winding up of the Subiaco Redevelopment Authority, partially offset by lower income tax equivalent revenue from the Insurance Commission of Western Australia and lower dividend revenue from the Water Corporation.

The increases from Western Power (Networks) are due to increased profitability mainly from higher revenues partially offset by higher interest and depreciation costs. In addition, income tax equivalents have increased more than commensurately due to a reduction in deferred taxation liability (provided in earlier financial periods).

The lower income tax equivalent revenue from the Insurance Commission is due to lower profitability mainly due to increased insurance claims expenses.

The lower dividend revenue from the Water Corporation is due to lower profitability mainly from increased sales revenues being more than offset by reduced developers' contributions and increased staffing costs, interest, depreciation and other expenses. Income tax equivalents have not reduced commensurately due to a reduction in deferred taxation liability (provided in earlier financial periods).

A detailed overview of revenue received by the general government sector from individual public corporations is provided in Table 1.

There are also significant payments from the general government sector to public corporations. Such payments include funding of community service obligations (CSOs), which are non-commercial services provided by public corporations at the request of government. An example is the pensioner and senior concessions relating to 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 G	•••			••••••	
Details of Payment	2006-07 Estimated Actual	2007-08 Budget Estimate	2008-09 Forward Estimate	2009-10 Forward Estimate	2010-11 Forward Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
Horizon Power					
Income tax expense	-		-	-	-
Local Government Rates expense Dividends	-		-	-	4,800
Subtotal		-	-	-	4,800
Subiolai	-	-	-	-	4,000
Synergy					
Income tax expense	9,396	5,753	9,841	9,234	16,643
Local Government Rates expense	-	-	-	-	-
Dividends	10,962	6,711	8,527	5,756	14,530
Subtotal	20,358	12,464	18,368	14,990	31,173
/erve Energy					
Income tax expense	-	-	-	-	-
Local Government Rates expense	576	589	604	609	606
Dividends	-	-	-	-	-
Subtotal	576	589	604	609	606
Vestern Power (Networks)					
Income tax expense	23,299	38,642	35,725	50,501	59,811
Local Government Rates expense	4,421	4,532	4,645	4,761	4,854
Dividends	42,387	47,703	36,309	55,532	69,515
Subtotal	70,107	90,877	76,679	110,794	134,180
Water Corporation					
Income tax expense	194,041	195,950	179,829	197,326	208,506
Local Government Rates expense	3,040	3,200	3,280	3,362	3,446
Dividends	349,862	343,226	351,883	373,987	397,712
Subtotal	546,943	542,376	534,992	574,675	609,664
Nextern Australian Land Authority					
Western Australian Land Authority (LandCorp)					
Income tax expense	32,252	30,204	30,580	31,910	37,995
Local Government Rates expense	2,596	3,543	3,746	4,528	4,397
Dividends	18,751	17,751	17,251	26,129	26,129
Subtotal	53,599	51,498	51,577	62,567	68,521
Gold Corporation					
Income tax expense	1.828	2,022	2,219	2.219	2.219
Local Government Rates expense	110	110	110	110	110
Dividends	2,904	2,505	2,831	3,107	3,107
Subtotal	4,842	4,637	5,160	5,436	5,436
Nectorn Australian Traceury					
Nestern Australian Treasury Corporation					
Income tax expense	2.695	2,359	2,388	2,496	2,483
Dividends	5,151	3,144	2,752	2,786	2,403
Subtotal	7,846	5,503	5,140	5,282	5,395

#### REVENUE TO GOVERNMENT FROM PUBLIC CORPORATIONS

#### **REVENUE TO GOVERNMENT FROM PUBLIC CORPORATIONS**

Details of Payment	2006-07	2007-08	2008-09	2009-10	2010-11
-	Estimated	Budget	Forward	Forward	Forward
	Actual	Estimate	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
Albany Port Authority					
Income tax expense	597	427	894	1,176	1,315
Local Government Rates expense	93	95	97	100	104
Dividends	1,546	555	397	834	1,096
Subtotal	2,236	1,077	1,388	2,110	2,515
Broome Dort Authority					
Broome Port Authority Income tax expense	372	458	469	481	481
Local Government Rates expense	5	430	-+09		
Dividends	-	772	692	604	604
Subtotal	377	1,235	1,166	1.090	1.090
Custola	0//	1,200	1,100	1,000	1,000
Bunbury Port Authority					
Income tax expense	2,265	2,006	2,683	3,295	2,774
Local Government Rates expense	148	186	191	210	220
Dividends	2,300	2,037	2,724	3,345	3,236
Subtotal	4,713	4,229	5,598	6,850	6,230
Dampier Port Authority		220	200	206	260
Income tax expense Local Government Rates expense	14	239 14	390	306	269
Dividends	14	279	15 455	15 357	16 314
Subtotal	14	532	860	678	599
Subiolar	14	552	800	070	599
Esperance Port Authority					
Income tax expense	1,359	1,841	2,810	2,652	2,423
Local Government Rates expense	90	90	90	95	100
Dividends	1,585	2,148	3,279	3,094	2,827
Subtotal	3,034	4,079	6,179	5,841	5,350
Fremantle Port Authority	2.050	5 000	5.040	0.044	C 4 4 4
Income tax expense	3,856	5,062	5,949	6,211	6,141
Local Government Rates expense Dividends	239 4,891	274 3,907	288 5,330	302	317 6,503
Subtotal	8,986	9,243	11,567	6,259 12,772	12,961
Susidar	0,900	3,243	11,007	12,112	12,901
Geraldton Port Authority					
Income tax expense	321	2,399	5,787	9,121	9,190
Local Government Rates expense	160	160	160	160	160
Dividends	733	375	2,799	6,752	10,642
Subtotal	1,214	2,934	8,746	16,033	19,992
Dort Lladland Dort Authority					
Port Hedland Port Authority Income tax expense	1,079	2,030	2,976	4,481	4,481
Local Government Rates expense	224	2,000	242	252	252
Dividends	1,259	2,369	5,172	5,227	5,227
Subtotal	2,562	4,632	8,390	9,960	9,960
	-,	.,	- ,	-,	.,
Bunbury Water Board					
Income tax expense	679	511	541	647	677
Subtotal	679	511	541	647	677
Duesekan Mater Descut					
Busselton Water Board Income tax expense	227	301	325	1,040	1,060
Subtotal	227	301	325	1,040	1,060
Cusiciai	221	501	52.0	1,040	1,000

Tahla	1	(cont.)
rabic		(00111.)

#### **REVENUE TO GOVERNMENT FROM PUBLIC CORPORATIONS**

Details of Payment	2006-07 Estimated Actual \$'000	2007-08 Budget Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000	2010-11 Forward Estimate \$'000
Forest Products Commission	•	,	•	•	•
Dividends	2,700	666	883	1,206	1,267
Subtotal	2,700	666	883	1,206	1,267
Subiaco Redevelopment Authority					
Statutory contributions/Dividends	-	7,000	7,000	-	-
Subtotal	-	7,000	7,000	-	-
Insurance Commission of WA Income tax expense	29,888	23,287	10,456	8,125	5,945
Subtotal	29,888	23,287	10,456	8,125	5,945
Other Agencies Income tax expense Local Government Rates expense Statutory contributions/Dividends	- 161 -	- 165 -	- 170 -	- 175 -	- 180 -
Subtotal	161	165	170	175	180
Total Amounts Income tax expense Local Government Rates expense Statutory contributions/Dividends	304,154 11,877 445,031	313,491 13,196 441,148	293,862 13,643 448,284	331,221 14,684 494,975	362,413 14,767 550,421
Total	761,062	767,835	755,789	840,880	927,601

Table 1(a)

# **REVENUE FROM PUBLIC CORPORATIONS Dividend Payout Ratios**

	2006-07	2007-08	2008-09	2009-10	2010-11
	%	%	%	%	%
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 <sup>(a)</sup>	85.0	85.0	85.0	85.0	85.0
Western Australian Land Authority					
(LandCorp) <sup>(b)</sup>	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	50.0	50.0	50.0	50.0	50.0
State Port Authorities	50.0	50.0	50.0	50.0	50.0
Forest Products Commission <sup>(c)</sup>	na	na	na	na	na

(a) The after-tax value of handover assets from developers is excluded from the calculation of the Water Corporation's dividend payments. Adjusted for the need to maintain adequate land stocks.

(b)

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. (c)

Details of Payment	Payment Type	Funding Department	2006-07 Estimated Actual \$'000	2007-08 Budget Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000	2010-11 Forward Estimate \$'000
Water Corporation			• • • • •	- • • • • •	,	• • • • •	• • • • •
Burrup Water Supply System	Other	DolR	8,043	7,876	8,073	8,274	8,481
Country Water, Sewerage and Drainage Operations	CSO	DTF	248,130	250,623	250,591	259,721	255,025
Infill Sewerage Program	CSO	DTF	32,362	34,872	33,262	33,514	34,342
Hopetoun-Ravensthorpe Wastewater Treatment Plant	Other	DolR	700	5,200	-	-	-
Mirambeena Timber Processing Precinct	Other	DolR	-	3,200	-	-	-
Pensioner and Senior Concessions	CSO	DTF	80,075	92,206	95,943	99,962	104,231
Rural Irrigation Schemes	CSO	DTF	7,270	7,409	7,529	7,662	7,793
Partial Reimbursement of Proceeds from the Sale of Surplus Land	Other	DTF	716	700	800	900	1,000
State Water Strategy – Rebates Scheme	Other	DTF	9,000	9,000	9,000	-	-
Subtotal			386,296	411,086	405,198	410,033	410,872
Horizon Power							
Aboriginal and Remote Communities Project – Stage 1	CSO	DTF	833	6,451	6,792	7,024	7,299
Aboriginal and Remote Communities Project – Stage 2	CSO	DTF	-	-	3,850	4,004	-
Air Conditioning Subsidy for Seniors (North of 26 <sup>th</sup> Parallel)	CSO	DTF	94	100	100	100	100
Coral Bay Electricity Supply	CSO	DTF	440	2,310	2,900	3,490	3,490
Gas Lateral Line to Murchison Area – Interest Costs	Other	DolR	832	832	832	832	832
Onslow Gas Fired Power Station – Interest Costs	Other	DoIR	183	183	183	183	183
Pensioner and Senior Concessions	CSO	DTF	658	700	700	700	700
Tariff Migration – Movement to L2 Tariff	CSO	DTF	13,375	14,339	14,558	15,282	20,111
Subtotal			16,415	24,915	29,915	31,615	32,715
Verve Energy							
Part Reimbursement of Land Sales	Other	DTF	-	158	-	-	-
Subtotal			-	158	-	-	-
Synergy							
Community Service Concessions <sup>(a)</sup>	CSO	DTF	359	371	383	393	403
Energy Rebates for Eligible Permanent Caravan Park Residents	CSO	DTF	334	334	334	334	334
Pensioner and Senior Concessions	CSO	DTF	37,314	35,299	36,873	39,993	42,583
Subtotal		•	38.007	36.004	37,590	40.720	43,320

#### EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Table 2

#### EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Details of Payment	Payment Type	Funding Department	2006-07 Estimated Actual \$'000	2007-08 Budget Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000	2010-11 Forward Estimate \$'000
Western Power (Networks)							
High Wide Load Project	Other	MRD	1,254	-	-	-	-
Interval Electricity Meters	CSO	DTF	665	-	-	-	-
Underground Power Program	Other	OoE	7,300	4,820	4,820	4,820	4,820
Subtotal		-	9,219	4,820	4,820	4,820	4,820
Western Australian Land Authority (LandCorp)							
Albany Waterfront Development	CSO	DTF	1,600	1,700	1,700	-	-
Australian Marine Complex – Rate of Return Stage 1 and 2	CSO	DTF	2,502	2,502	2,502	14,452	14,454
Forrestdale - Rate of Return (Armadale Redevelopment Authority)	CSO	DTF	200	200	200	200	200
Hope Valley / Wattleup – Land Acquisition	CSO	DTF	15,125	18,265	7,785	6,615	6,610
Kalgoorlie North West Sector	CSO	DTF	3,500	-	-	-	-
Karratha / Burrup Western Service Corridor	Other	DoIR	2,231	2,131	2,131	2,131	2,131
Kemerton Core Land Acquisition	CSO	DTF	2,692	1,977	-	-	-
Kwinana Land – Holding Costs	CSO	DTF	835	860	885	910	935
Marine Industry Technology Precinct	CSO	DTF	4,028	228	228	228	228
Mounts Bay Development – Planning	CSO	DTF	-	700	1,300	-	-
Rockingham Development Office	CSO	DTF	550	550	550	-	-
Strategic Asset Management	Other	DTF	500	500	-	-	-
Townsite Development Program	CSO	DTF	4,000	6,500	4,000	4,000	4,000
Subtotal		-	37,763	36,113	21,281	28,538	28,558
Broome Port Authority							
Jetty Extension – Subsidy	Other	DTF	1,293	420	405	405	405
Subtotal		-	1,293	420	405	405	405

Details of Payment	Payment Type	Funding Department	2006-07 Estimated Actual \$'000	2007-08 Budget Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000	2010-11 Forward Estimate \$'000
Bunbury Port Authority	0.1		•			• • • •	•
Casting Basin Loan – Interest Costs Subtotal	Other	DolR	89 89	89 89	89 89	89 89	89 89
Dampier Port Authority		•					
Burrup Infrastructure – Interest Support	Other	DolR	7.005	7,715	10,196	7,811	8,353
Subtotal			7,005	7,715	10,196	7,811	8,353
Armadale Redevelopment Authority Administration and Operating Costs Kelmscott District Centre Works	Other Other	DTF DTF	1,250 1,500	1,200	1,200	1,250	1,250
Subtotal			2,750	1,200	1,200	1,250	1,250
Forest Products Commission Debt Servicing Costs - Non-Commercial Native Forest Related Debt Debt Servicing Costs – Non-Commercial Plantations Related Debt Equity contribution – Non-Commercial Plantations Subtotal	CSO CSO Other	DTF DTF DTF	1,070 1,300 1,000 <i>3,370</i>	1,070 1,300 1,000 3,370	1,070 1,300 1,000 <i>3,370</i>	1,070 1,300 1,000 <i>3,370</i>	1,070 1,300 1,000 3,370
Public Transport Authority (PTA) Net Amount Appropriated to Deliver Outputs Subtotal	Other	DTF	524,170 524,170	572,840 572,840	597,700 597,700	618,532 618,532	647,741 647,741
Total		•	1,026,377	1,098,730	1,111,764	1,147,181	1,181,493

EXPENSES FROM GOVERNMENT TO PUBLIC CORPORATIONS

Table 2 (cont.)

(a) The Community Service Concession is a concession available to eligible voluntary and charitable organisations.

# Tariffs, Fees and Charges – Impact on 'Representative Household' Model

For a number of years, the Department of Treasury and Finance (DTF) has produced 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 services 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:
  - 5,619 kilowatt hours of electricity per annum, based on the 2005-06 average level of consumption for a household provided by Synergy; 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. purchases 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. SmartRider Autoload);
- 3. owns one car, a Holden Commodore (tare weight of 1,568 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).

# Discussion

In 2007-08, representative household expenditure on selected State 'government' goods and services will increase by less than inflation.

For the seventh consecutive year there will be no increase in the level of electricity prices.

Compulsory third party insurance premiums will increase by less than inflation at 4.6%. While stamp duty rates on insurance will not increase.

Transperth standard fares increase by the reference rate of inflation of  $4.8\%^{1}$ , rounded to the nearest 10 cents. Transperth concession fares rise by a flat 10 cents, with the exception of the 50 cent student fare, 2 section and 1 zone fares which remain unchanged.

Motor vehicle licence and driver's licence fees will increase by an average 4.8%. This partially is offset in the model by the Government's decision to also increase by 4.8% the family concession for motor vehicle registration in 2007-08 (the family discount will rise from \$55 to \$58).

The average metropolitan residential emergency services levy will increase by 6.77%.

Sewerage and drainage charges will rise by 6.81% to reflect the increased costs of service provision.

Following the recommendations of the Economic Regulation Authority (ERA) on water pricing, the 2007-08 Budget continues the delivery of more transparent water pricing that will better provide for the development of future water sources. The change in prices charged reflects the increased costs incurred in providing water, ensuring that appropriate price 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 \$27.30 (or 8.07%) in 2007-08 and by \$90.90 over the next four years.

The reference rate of inflation is the change in the Perth consumer price index between the September quarter 2005 and the September quarter 2006.

### Results

Table 1 shows the impact of the changes in State 'government' tariffs, fees and charges on the 'representative household' consuming the assumed level of State 'government' goods and services.

INCREASES IN TARIFFS, FEES		_			
Impact on household expenditure and income based on AWOTE <sup>2</sup> (\$)					
	2006-07	2007-08			
Expenditure Change in Expenditure (\$) Change in Expenditure (%)	\$3,385.23	\$3,518.87 \$133.65 3.95%			
Household Income (after tax) <sup>(b)</sup> Change in Income (\$) Change in Income (%)	\$44,958.27	\$46,671.37 \$1,713.10 3.81%			
<ul><li>Expenditure as a percentage of disposable income</li><li>(a) Figures are in nominal terms.</li><li>(b) Based on average weekly ordinary time earnings (AWOTE)</li></ul>	7.54%	7.54%			

On the basis of the above assumptions and the 2007-08 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 \$3,518.87. This represents an increase of around \$133.65, or 3.95%, on 2006-07 expenditure levels.

This increase in the cost of the basket of State 'government' goods and services is under the reference rate of inflation of 4.8%. After taking account of forecast earnings growth, 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 remains constant at 7.54%

### 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 charges<sup>3</sup>. These concessions include:

<sup>&</sup>lt;sup>2</sup> 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.

Entitlement to a Pensioner Concession Card, and thus State concessions, is based on eligibility for:

<sup>•</sup> a pension, such as Age pension, Disability Support pension, Carer pension;

Parenting Payment (single);

Mature Age Allowance;

Mature Age Partner Allowance;

Carer payment; or

<sup>•</sup> 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% concession on motor vehicle licence fees;
- 68% concession on driver's licence fees;
- 100% rebate on fixed daily supply charge for electricity;
- 50% rebate on the first 150kL water consumption charges per year 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'.

Table 2 INCREASES IN TARIFFS, FEES AND CHARGES Impact on pensioner household expenditure				
Expenditure	2006-07 \$2,426.34	2007-08 \$2,501.92		
Change in Expenditure (\$) Change in Expenditure (%)		\$75.58 3.11%		

It is estimated that such a pensioner household would have a total expenditure of \$2,501.92 on State 'government' tariffs, fees and charges, experiencing an increase of \$75.58, or 3.11%. This is below the reference rate of inflation of 4.8%.

### **Electricity Tariffs**

Western Australia's strong economy has put substantial cost pressures on electricity suppliers in the form of increased capital, labour and other costs. In particular, the cost of generating electricity, and therefore the wholesale price of electricity, has increased substantially as a result of significant increases in fuel costs (especially gas).

Network expenditure has also increased substantially due to an increased focus on improving the safety and reliability of electricity networks in the South West Interconnected System (SWIS), and developing the network infrastructure required to support the State's fast growing economy.

These cost increases are putting upwards pressure on wholesale electricity prices and network tariffs, which are in turn putting upwards pressure on retail electricity prices.

These cost pressures are not the result of the reform program. The vertically integrated former Western Power Corporation would have been exposed to the same cost pressures that are currently being faced by the new electricity corporations had it not been disaggregated. Without reform to increase competition, it is likely that the impact of price pressures would have been greater.

### Residential and Small Business Tariffs

During the passage of the *Electricity Corporations Act 2005* in Parliament, the Government made a commitment not to increase tariffs for residential and small business customers until 2009.

With the exception of the introduction of the GST in 2000-01, residential tariffs have not increased since 1997-98 – this is a real price reduction of over 16%. Over this period, few other products have fallen in price in real terms.

### **Business Tariffs**

The Wholesale Electricity Market commenced on 21 September 2006 and aims to promote greater competition and private sector investment in the SWIS.

As a result, contestable power users have been able to enter into competitive contracts with different electricity suppliers. However, higher costs of electricity generation have been reflected in rising contract prices.

At the same time, retail tariffs have not been adjusted and are currently below the wholesale market price for electricity. In fact, business tariffs have not increased since 1991-92, which is a real reduction of over 30%.

There is increasing evidence in the marketplace that electricity contract offers that reflect current market costs are being rejected in favour of existing tariff arrangements that currently do not accurately reflect costs.

Tariffs should act as a price cap to protect customers in the new market. However, the impact of increased costs and the Government's commitment to freeze tariffs has resulted in tariffs currently being well below the cost of supplying electricity, and as a result, tariffs are instead acting as a price floor.

Since tariffs are too low relative to wholesale prices, electricity retailers and generators are currently discouraged from coming into the market. Retailers and generators will not be able to obtain customers until tariffs are increased.

#### **Vesting Arrangements**

The new tariffs will also allow the vesting arrangements between Verve Energy and Synergy to operate as intended.

The vesting contract is a contract for the supply of wholesale electricity and capacity credits from Verve Energy to Synergy. This contract, which include tariffs, is needed during the transition period to a competitive market, and allow Verve Energy to provide competitive supply to retailers and Synergy to make competitive purchases in the wholesale market.

The Vesting Contract and tariffs:

- mitigate the market power of Verve Energy in the wholesale market;
- support the supply of Synergy's customer base; and
- provide revenue stability to Synergy and Verve Energy in the transition to a competitive market.

The Vesting Contract has been designed to gradually expose Verve Energy and Synergy to competitive sourcing opportunities and to support market development.

Under the Vesting Contract, Verve Energy is required to supply the majority of its electricity output to Synergy. Pricing under the Vesting Contract is based on a 'netback' methodology, which allows Synergy to meet a set of defined costs including network costs, wholesale electricity costs, retail operating costs, and a set retail margin. After these costs are met, the balance is passed to Verve Energy. This effectively means that increased costs in other areas are passed on to Verve Energy and thus Verve Energy faces significant financial risks from any increases in these supply costs.

Given that all tariffs have remained constant for an extended period, Verve Energy is effectively carrying the cost burdens of escalations in generation costs, network charges to fund capital works requirements, and is effectively funding the Tariff Equalisation Fund (TEF). Further, under the netback pricing arrangements in the Vesting Contract, Verve Energy is also unable to simultaneously receive increased revenues to cover the recent significant escalations in operating costs (including increased fuel and maintenance costs).

Given these considerations, it is appropriate that all electricity tariff arrangements be revised to more cost reflective levels. This will encourage entry of new retailers and generators into the market, and help bring Verve Energy's revenues to more cost reflective levels.

These increases will make large business tariffs cost reflective, adjusted and smoothed to reflect the expected large increases in network tariffs at the next regulatory reset in 2009-10, removing the need for an additional step change in these tariffs in 2009-10.

This will allow:

- large customer tariffs to act as a price cap, rather than a price floor;
- retailers to compete against the large customer tariffs;
- the Vesting Contract to operate as intended, which will allow Verve Energy to provide competitive supply to retailers and Synergy to make competitive purchases in the wholesale market (see the box above); and
- Verve Energy to more fully recover costs.

### Future Tariff Changes

Future cost pressures, especially to reflect the impact of significant increases in network expenditure, are expected over the next five years.

The implementation of some form of carbon pricing and/or implementation of a Renewable Energy Target scheme, for example an emissions trading scheme, will add to price pressures.

Tariffs for residential and small business customers will need to increase after June 2009, potentially by a significant amount.

The Government, through the Office of Energy, is to review and assess electricity tariff arrangements for 2009-10 and beyond, for completion in December 2007. It is intended that the public review will result in the development of recommendations in respect to the appropriate structure and levels of tariffs, including consideration of the potential involvement of the Economic Regulation Authority in the setting of tariffs in the future.

### **Electricity Reform**

Importantly, the benefits of electricity reform will be realised over time, and will provide the foundation for sustainable lower prices.

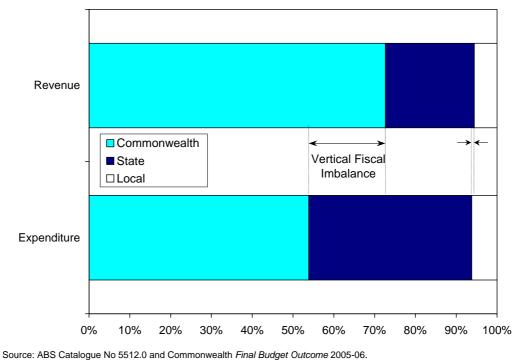
- The benefits of electricity reform are already emerging, as evidenced by additional private sector investment in generation.
- However, greater levels of participation in the electricity market will emerge over time, as Synergy and Verve Energy are exposed to more competitive market arrangements.
- Increased competition in the electricity market is still expected to place downward pressure on electricity prices. The impact of increases in upstream costs, such as fuel costs, would otherwise be higher in the absence of electricity reform.

## State-Local Government Finances

### Overview

Overall, the revenue raising capacity powers and expenditure responsibilities of local governments are fairly evenly matched, contrasting with the substantial mismatches (or 'vertical fiscal imbalance' - VFI) for the Commonwealth and State levels of government.

Figure 1 VERTICAL FISCAL IMBALANCE ACROSS LEVELS OF GOVERNMENT 2005-06

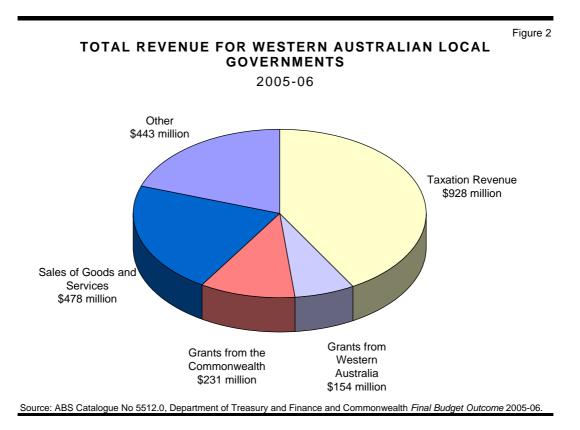


However, VFI does vary widely across local governments, being low in major urban areas and high in rural/remote areas (where local governments receive additional Commonwealth funding to help compensate for their lower fiscal capacity).

Of Western Australia's 142 local governments, 20% are categorised as urban and 80% as regional and rural. In aggregate, 17% of Western Australian local government revenue is derived from grants, compared with around 40% for the State government.

### **Financial Relations**

Figure 2 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 21% of their revenues from sales of goods and services, compared with only 7% for the State government.

In 2005-06, \$385 million in grants was provided to Western Australia's local governments. Of this amount, \$154 million was provided by the State, with the balance provided by the Commonwealth.

Table 1

Most payments from the Commonwealth to local governments 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 fiscal equalisation 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 1 shows grants received by local governments in Western Australia in 2005-06 (the latest year for which this breakdown is available).

GRANTS TO LOCAL GOVERNMENTS IN WESTERN AUSTRALIA				
	2005-06 Actual	2006-07 Estimated Actual	2007-08 Budget Estimate	
	\$m	\$m	\$m	
STATE GRANTS				
Main Roads	109	100	101	
Fire and Emergence Services	15	18	18	
Sport and Recreation Planning and Infrastructure	7 7	8	20	
Treasury and Finance	4	6	-	
Local Government and Regional Development	3	2	11	
Industry and Resources	1	4	6	
Other	9	11	9	
Total	154	149	166	
COMMONWEALTH GRANTS				
Financial Assistance Grants				
		440	100	
General Purpose Funding	111 76	116 80	122	
Untied Local Roads Funding	70	80	83	
Specific Purpose Payments				
Children's Services	4	3	3	
Regulation Incentive Fund	1	1	-	
Roads to Recovery Program	40	59	75	
Total	231	259	283	

### CRANTS TO LOCAL COVERNMENTS IN WESTERN AUSTRALIA

Source: Department of Treasury and Finance, Commonwealth Final Budget Outcome 2005-06 and Commonwealth Mid-Year Economic and Fiscal Outlook 2006-07.

Note: Columns may not add due to rounding.

### Local Government Reforms

In June 2006, following the release of a Local Government Advisory Board (LGAB) report on local government structural and electoral reform, the Western Australian Local Government Association (WALGA) commissioned its own review of the sustainability of local government. The final report of the Sustainability Study was released in December 2006. The 41 recommendations primarily relate to:

- additional State government funding, including to expand the Connecting Local Government program, to establish a new \$25 million program to fund capacity building and rejuvenation projects, and to help fund the additional \$120 million per annum which is said to be needed to eliminate the local government sector's infrastructure backlog;
- improving local government financial and asset management; and
- increasing the efficiency of service delivery.

Many of the recommendations cover similar issues to those in the LGAB report, including the need for better financial management and asset practices and expanding the scope of resource sharing. The Sustainability Study is far more circumspect regarding amalgamations than the LGAB report (which provides specific recommendations for amalgamations).

WALGA has established a Task Force to facilitate the recommendations of the Sustainability Study. It will undertake deliberations on the recommendations, engage with the local government sector; and propose final implementation plans at a Summit to be held in November 2007.

On 14 July 2006 the Council of Australian Governments (COAG) agreed that it would discuss local government funding arrangement at its next meeting. COAG Senior Officials agreed that a factual paper to facilitate COAG's discussion would be prepared by the Australian Local Government Association (ALGA) in consultation with officials representing jurisdictions.

The 13 April 2007 COAG meeting discussed the paper and noted that the Productivity Commission is conducting a study assessing local government own-source revenue raising capacity and that this would provide a further opportunity to consider these issues. The inquiry flows from the Commonwealth's response to the House of Representatives Inquiry into Local Government and Cost-Shifting (Hawker Report).

Also flowing from the Commonwealth's response to the Hawker report was a request to the Commonwealth Grants Commission to review the interstate distribution of untied local roads funding. The methodology is to ensure that the distribution of this funding is based on the relative needs of local government in States and Territories for local roads rather than the current historical share. The Commission provided a report to the Commonwealth Minister in June 2006 but it has yet to be released.

# Calculating States' Net Fiscal Subsidies

#### A State's net fiscal subsidy is calculated as:

the value of Commonwealth taxes and other revenues attributable to production and consumption activities in the State

less

the value of Commonwealth expenditures on the State, including grants to State and local governments, salaries of Federal Government employees located in the State and benefits paid to individuals

plus

the State's share of the Commonwealth budget surplus (recognising that the surplus will eventually provide benefits to the community through lower taxes or higher spending).

Commonwealth outlays and revenues relating to the ACT are reallocated to the other States on an equal per capita basis, recognising that net spending in the ACT is ultimately largely undertaken for the benefit of the Australian community as a whole.

The share of Commonwealth general government revenues contributed by individual States is estimated on the basis of the location of economic activities subject to Commonwealth taxes and other revenue measures. For example, the States' shares of:

- personal income taxes are based on estimated receipts in each State on a residence basis;
- company taxes are allocated according to gross operating surplus of relevant industries in each State;

- taxes and royalties on petroleum extraction are allocated according to the petroleum fields from which these revenues are derived; and
- GST is allocated according to the value of relevant components of household final consumption expenditure, and tourist spending, in each State.

Commonwealth expenditures are allocated between States on the basis of the location of services and the destination of grants and cash benefits, using mainly data from the ABS State Accounts and government agencies.

In the absence of any conceptually superior alternative, half the Commonwealth surplus is distributed according to States' shares of total Commonwealth revenue and half according to States' shares of total Commonwealth expenditure.