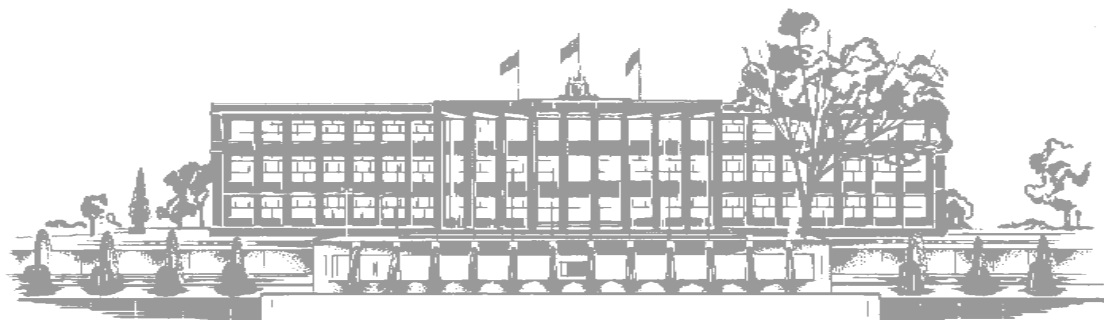




2003 - 04

**GOVERNMENT MID-YEAR FINANCIAL
PROJECTIONS STATEMENT**

DECEMBER 2003



2003–04 Government Mid-Year Financial Projections Statement
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For further information or enquiries related to this report, please contact one of the following officers:

Colin Murphy	Executive Director (Finance)	(08) 9222 9223
Michael Barnes	Director (Fiscal Strategy)	(08) 9222 9134
Chris Wright	Assistant Director (Fiscal Analysis and Budget)	(08) 9222 9826
Facsimile		(08) 9222 9338

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Foreword

This *Government Mid-year Financial Projections Statement* (mid-year review) outlines developments in the State's financial position and outlook since the 2003-04 State Budget, which was brought down on 8 May 2003. It was prepared under my instruction, and is based upon Government decisions I was aware of or that were made available to me by the Treasurer by the mid-year review cut-off date of 15 December 2003.

The financial projections are influenced by the economic assumptions outlined in Chapter 3: *The Western Australian Economy*, which were finalised on 15 December 2003.

The projections comply with the Australian Bureau of Statistics' government finance statistics (GFS) standards.

Financial data for 2002-03 included in this publication (for comparative purposes) are consistent with final audited data published in the 2002-03 *Government of Western Australia Consolidated Financial Statements*, released on 11 December 2003.



J L LANGOULANT
UNDER TREASURER

19 December 2003

CHAPTER 1

Financial Projections

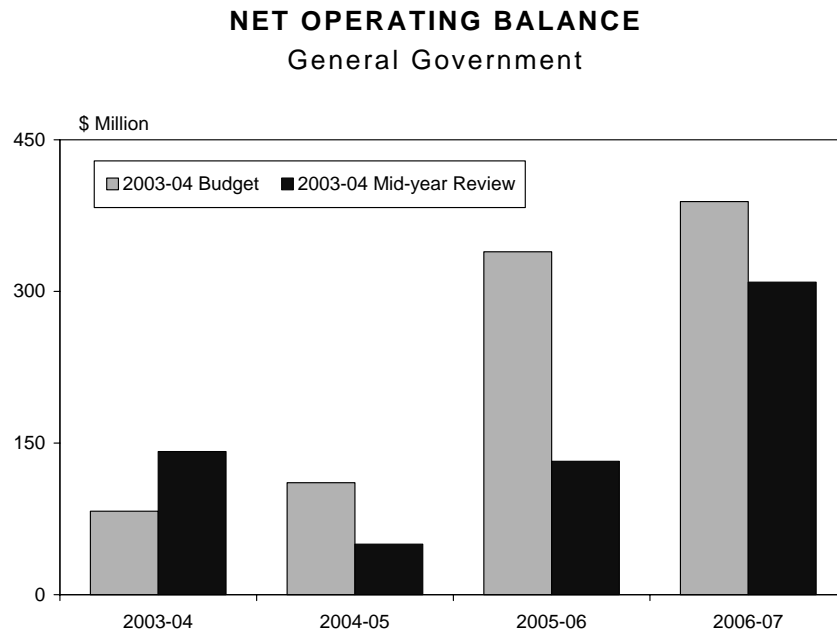
Overview

There have been a number of major developments since the 2003-04 Budget affecting the outlook for 2003-04 and the forward estimates. These include the continued strength of the property market in the first half of 2003-04 (which has substantially boosted budget-time expectations of stamp duty revenue in the current financial year), a significant appreciation in the value of the Australian dollar (adversely affecting mining royalty revenue, particularly in the forward estimates) and public sector wage negotiations (which have increased expenses across the forward estimates period)¹.

The overall impact of these developments on the budget 'bottom line' (the general government sector net operating balance) is an improved outlook for 2003-04 – with a surplus of \$142 million now expected, compared to the 2003-04 Budget estimate of \$83 million – but lower projected surpluses across each of the outyears (as indicated in the following chart).

¹ Increases in Police Service salaries were agreed to in November 2003. The Government remains in negotiations with teachers and other public sector employees, with the mid-year review estimates reflecting current offers.

Figure 1



The expected improvement in the general government sector operating surplus in 2003-04 is largely driven by higher stamp duty revenue from property conveyances, partly offset by increased salaries and a carryover of deferred expenses from 2002-03. Across the outyears, the lower projected surpluses primarily reflect the impact of the higher exchange rate on mining royalty revenue, an easing in conveyance duty revenue consistent with activity in the housing sector returning to more modest levels, and the impact of public sector wage negotiations on expenses.

As a result of the better than expected net debt outcome for 2002-03 (reported in the 2002-03 *Government Financial Results Report* released on 23 September 2003), combined with the improved revenue performance in 2003-04, the total non-financial public sector net debt to revenue ratio is projected to remain comfortably below the Government's target upper limit of 47% across the entire forward estimates period. Indeed, as indicated in the following table, total public sector net debt at 30 June 2004 is expected to be \$545 million lower than the 2003-04 Budget estimate.

Table 1

KEY BUDGET AGGREGATES
Western Australia

	2002-03 Actual ^(a)	2003-04 Budget Estimate	2003-04 Mid-Year Revision	2004-05 Forward Estimate	2005-06 Forward Estimate	2006-07 Forward Estimate
GENERAL GOVERNMENT						
Revenue (\$m)	11,771	11,774	12,049	12,338	12,625	13,095
Expenses (\$m)	11,518	11,691	11,908	12,288	12,493	12,786
Net Operating Balance (\$m)	254	83	142	50	132	309
TOTAL NON-FINANCIAL PUBLIC SECTOR						
Net Debt to Revenue Ratio (%)	32.5	42.6	38.1	41.9	42.3	41.0
TOTAL PUBLIC SECTOR						
Net Debt at 30 June (\$m)	4,497	5,960	5,415	6,149	6,349	6,318

(a) 2002-03 figures are consistent with the 2002-03 *Government of Western Australia Consolidated Financial Statements*, released 11 December 2003.

Note: Columns may not add due to rounding.

The major factors affecting the general government operating balance since the 2003-04 Budget are summarised in the following table and outlined in more detail in the remainder of this chapter. Policy decisions affecting expenses are discussed in Appendix 3: *Post-Budget Policy Decisions Affecting Expenses*.

Table 2

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

	2003-04	2004-05	2005-06	2006-07
	\$m	\$m	\$m	\$m
2003-04 BUDGET – NET OPERATING BALANCE	83	111	339	389
Revenue				
<i>Policy Decisions^(a)</i>				
Competition policy grants	-41.0	-42.0	-43.1	-44.3
Salinity grants	4.4	6.8	6.8	6.8
Police EBA	-0.1	-0.1	-0.1	-0.1
Community Legal Centres	1.0	1.0	1.0	1.0
Carnarvon Irrigation Scheme transfer	2.4	-	-	-
BHP additional water requirements at Port Hedland	3.9	12.9	4.5	-
Telstra Burns Unit	-	1.0	-	-
Electricity reform	9.8	1.9	5.6	2.3
<i>Total Policy</i>	<i>-19.6</i>	<i>-18.5</i>	<i>-25.3</i>	<i>-34.3</i>
<i>Parameter^(b)</i>				
Taxation	285.2	84.2	91.2	98.5
Commonwealth grants:				
- GST/BBA revenue grants	76.1	134.3	93.7	164.0
- Australian Health Care Agreement grants	-2.6	-8.0	-14.5	33.1
- Road grants	12.3	10.2	10.0	-
- Government schools grants	11.0	13.4	10.6	14.7
- SPPs 'through' the State	7.6	10.2	10.6	13.6
- Other grants	5.6	32.5	7.1	-1.6
Royalties (inc. North West Shelf royalties)	-41.7	-59.3	-121.3	-137.3
Creation of Public Transport Authority	-75.1	-75.0	-75.0	-75.0
Interest revenue	16.5	10.4	14.5	5.9
Revenue from public corporations	3.9	-27.2	-14.0	-10.2
Other	-3.5	2.5	-0.2	6.9
<i>Total Parameter</i>	<i>295.3</i>	<i>128.2</i>	<i>12.7</i>	<i>112.6</i>
TOTAL REVENUE	275.6	109.7	-12.6	78.3
Expenses				
<i>Policy Decisions^(a) – see Appendix 3 for further detail</i>	<i>100.0</i>	<i>68.1</i>	<i>97.7</i>	<i>103.6</i>
<i>Parameter^(b)</i>				
SPPs 'through' the State	7.6	10.2	10.6	13.6
Schools expenses funded from Commonwealth grants	11.0	13.4	10.6	14.7
First Home Owner Grants	1.2	11.1	19.9	20.8
Creation of Public Transport Authority	-75.1	-75.0	-75.0	-75.0
Salaries (exc. policy decisions and carryover)	31.9	42.1	41.9	60.0
Superannuation (exc. policy decisions)	23.4	23.2	21.7	20.9
Depreciation of road network	9.5	13.7	15.4	15.3
Carryover from 2002-03	64.3	33.2	22.0	1.5
Other	42.8	30.7	30.0	-17.5
<i>Total Parameter</i>	<i>116.6</i>	<i>102.6</i>	<i>97.1</i>	<i>54.3</i>
TOTAL EXPENSES	216.6	170.7	194.8	158.0
TOTAL VARIANCE	59.0	-61.0	-207.4	-79.7
2003-04 MID-YEAR REVIEW NET OPERATING BALANCE	142	50	132	309

(a) These figures reflect movements in agency revenue and expenses (on a GFS basis) arising from policy decisions of the Government. They exclude any transfers between general government agencies, which are eliminated on consolidation. They also exclude the public debt net interest effect of policy measures.

(b) Parameter variations refer to all movements in revenue and expenses that are not directly related to a policy decision of the Government.

Note: Columns may not add due to rounding.

General Government

Operating Statement

The estimated general government operating surplus for 2003-04 has been revised to \$142 million, up from the \$83 million surplus estimated at the time of the 2003-04 Budget, with higher revenue partly offset by increased expenses. Across the outyears, the estimated surplus ranges from \$50 million in 2004-05 (down from \$111 million at budget-time) to \$309 million in 2006-07 (down from \$389 million at budget-time).

Table 3

GENERAL GOVERNMENT Operating Statement

	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual \$m	Estimate \$m	Forward Estimate \$m	Forward Estimate \$m	Forward Estimate \$m
MID-YEAR REVIEW ^(a)					
Revenue	11,771	12,049	12,338	12,625	13,095
Expenses	11,518	11,908	12,288	12,493	12,786
Net Operating Balance	254	142	50	132	309
2003-04 BUDGET					
Revenue	11,527	11,774	12,228	12,637	13,017
Expenses	11,349	11,691	12,117	12,298	12,628
Net Operating Balance	178	83	111	339	389
VARIANCE					
Revenue	244	276	110	-13	78
Expenses	169	217	171	195	158
Net Operating Balance	75	59	-61	-207	-80

(a) 2002-03 figures are consistent with the 2002-03 *Government of Western Australia Consolidated Financial Statements*, released 11 December 2003.

Note: Columns may not add due to rounding

Revenue

General government sector revenue is estimated to rise to \$12,049 million in 2003-04, \$276 million or 2.3% higher than estimated in the 2003-04 Budget, mainly reflecting the impact of continued high levels of property market activity on stamp duty revenue. Considerably stronger than expected property market activity has generally been experienced across Australia during the first part of 2003-04, and most jurisdictions are expected to post substantial upward revisions to stamp duty revenue in their mid-year projections.

Movements in the key revenue aggregates in 2003-04 (relative to budget) are described below (further detail is provided in Appendix 2: *General Government Operating Revenue*).

- Taxation revenue has been revised up by \$285 million compared to budget. This includes:
 - an upward revision of \$220 million to stamp duty on conveyances, due mainly to the buoyant residential property market activity mentioned above, together with higher than expected revenue from large, one-off commercial property transactions. Conveyance duty revenue is projected to ease from the very high levels experienced in recent months. Over the balance of the year, these revenues are projected to track back to collection rates which are more consistent with those included in the 2003-04 Budget estimates;
 - a \$42 million upward revision to payroll tax, reflecting stronger than expected collections in the year to date, due in part to the strength of wages growth in recent quarters;
 - higher revenue from stamp duties on motor vehicle licence transfers (\$11 million) and mortgages (\$7 million), and an \$8 million increase in vehicle registration fees, reflecting stronger than expected collections in the year to date;
 - a downward revision to revenue from stamp duty on insurance policies (\$10 million), reflecting lower than expected growth in insurance premium revenues; and

2003-04 Government Mid-year Financial Projections Statement

- a downward revision to a range of stamp duties, of around \$1 million in total, to reflect the delayed introduction of some of the stamp duty measures of the Government's Business Tax Review package of tax reforms. In this regard, the stamp duty measures that were previously expected to commence on 1 July 2003 will commence on:
 - 1 January 2004 for most of these measures; and
 - 1 July 2004 for the stamp duty on rental business reforms and the abolition of stamp duty on life insurance.
- Grants and subsidies revenue from the Commonwealth has been revised up by \$50 million, mainly due to:
 - higher general purpose grants (\$35 million), as a result of higher GST revenue projected in the Commonwealth's *Mid-year Economic and Fiscal Outlook*, partly offset by a decline in budget balancing assistance (no longer expected to be required for Western Australia) and reduced payments for competition reform;
 - the Commonwealth Treasurer announced on 8 December 2003 his acceptance of the recommendations of the National Competition Council to reduce the State's competition payments by \$41 million in 2003-04, reflecting its assessment of the State's progress in implementing competition reforms;
 - an increase in education-related funding with grants for government schools up \$11 million and grants to non-government schools up \$6 million;
 - an additional \$12 million for roads; and
 - lower North West Shelf petroleum royalties², down \$23 million due to a higher \$A/\$US exchange rate assumption (averaging \$US0.68 so far in the financial year and now assumed to be \$US0.72 for the remainder of 2003-04, compared with a year average of \$US0.60 assumed in the 2003-04 Budget), partly offset by a higher oil price assumption (up from \$US25 per barrel to \$US27 per barrel for the remainder of 2003-04).

² These are shared between the State and the Commonwealth, with the State's component collected by the Commonwealth and on-passed to the State as a grant.

- A significant downward revision to revenue from the sale of goods and services (down \$65 million), primarily due to the loss from the general government sector of bus and ferry revenue previously collected by the Department for Planning and Infrastructure. This revenue (around \$76 million per annum) is now received by the new Public Transport Authority (PTA), a public non-financial corporation that commenced operations on 1 July 2003³. Partly offsetting this loss is an upward revision in revenue collected by the Department of Land Information, reflecting increased demand for services as a result of the buoyant property market.
- Higher revenue from public corporations (up \$20 million), with dividends up \$7 million and Tax Equivalent Revenue up \$13 million. These revisions are mainly due to forecast increased profitability for some public corporations and the funding of electricity reform through payments from Western Power (which are required to offset the small amount of expenditure to be undertaken by the general government sector on electricity reform).
- Lower royalty income (excluding North West Shelf petroleum royalties which, as noted earlier, are classified as a Commonwealth grant), down \$19 million due to the adverse impact of the higher exchange rate, partly offset by upward revisions to prices (particularly for oil, iron ore and nickel) and production volumes (mainly iron ore). The 'box' on the following page provides further information on the recent relationship between the exchange rate and commodity prices.

Across the outyears, the overall net movements in general government revenue relative to the projections for these years that were incorporated in the 2003-04 Budget estimates are relatively modest, with an increase of \$110 million in 2004-05, a reduction of \$13 million in 2005-06 and an increase of \$78 million in 2006-07. Upward revisions to conveyance duty, payroll tax and GST revenue are largely offset by reduced mining and petroleum royalties (as a result of the higher exchange rate), the loss of budget balancing assistance in 2005-06 (\$59 million) and the imposition of Commonwealth penalties for lack of progress with National Competition Agreement reforms.

³ Further information on the financial impact of the creation of the PTA is contained in Appendix 4: *Transfer of Bus and Ferry Operations to the Public Transport Authority*.

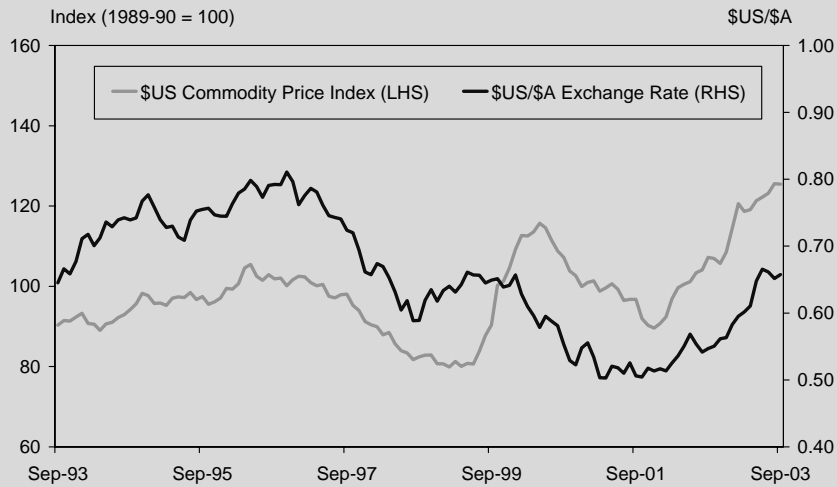
Australian Dollar, Commodity Prices and Revenue

The Australian dollar (\$A) has increased from US60 cents at budget-time to 6-year highs of in excess of US73 cents in recent weeks. Other things equal, movements in the exchange rate affect the returns to exporters and the royalty payments to the State. To date, the impact of the exchange rate appreciation has been generally offset by higher commodity prices and strong demand has buoyed export volumes, protecting returns to exporters and royalty revenue. For instance, the outlook for iron ore, nickel and gold royalties has remained stable, due to a combination of higher volumes and commodity prices.

This recent experience is consistent with the historically close relationship between the \$A and \$US commodity prices for the basket of commodities which Western Australia exports. As illustrated in the following chart, this relationship has been strong, except for a brief period in the second half of 1999 and 2000.

Figure 2

EXCHANGE RATE AND COMMODITY PRICES



Expenses

General government expenses for 2003-04 have been revised to \$11,908 million, up \$217 million (or 1.9%) relative to the 2003-04 Budget. Post-budget policy decisions account for \$100 million of the increase (details of these decisions are contained in Appendix 3: *Post-Budget Policy Decisions Affecting Expenses*), with the remainder due to various parameter-driven factors, such as a carryover of deferred expenses from 2002-03 (e.g. grants that were originally forecast to be expensed prior to 30 June 2003) and the on-passing of specific purpose payments from the Commonwealth.

The increase in expenses in 2003-04 is reflected in the general government operating statement as follows:

- increased salaries (up \$75 million), reflecting the cost of the new Enterprise Bargaining Agreement for police officers and the impact of the Government's offers to teachers and other public sector employees, as well as parameter increases across a range of agencies, including the Department of Education and Training, following a higher than estimated salaries outturn for 2002-03. The box at the end of this section provides further information on public sector wages;
- an increase in superannuation expenses (up \$27 million), reflecting the flow-on impact from the higher salaries discussed above and an adjustment to the underlying 2003-04 Budget projection to better reflect prevailing contribution rates;
- higher 'other' gross operating expenses (up \$14 million), due to higher parameter-driven expenses across a range of general government agencies, partly offset by the transfer of bus and ferry-related expenses to the PTA (see Appendix 4 for further detail);
- lower interest expenses (down \$10 million), reflecting the transfer of bus and ferry interest-bearing liabilities (and associated interest expenses) to the public non-financial corporations sector, as well as the impact of the lower net debt outcome at 30 June 2003 than estimated in the 2003-04 Budget;
- higher current transfers (up \$118 million), mainly due to the impact of new arrangements for the funding of bus and ferry services, additional grants for timber industry business exits (\$12 million), delayed timing of some grants originally expected to be expensed prior to 30 June 2003 (\$15 million) and the on-passing of specific purpose payments from the Commonwealth (\$8 million); and

- lower capital transfers (down \$8 million), due primarily to a change in the accounting treatment of the State's contribution to the Perth Convention and Exhibition Centre development⁴.

Expenses across the outyears have been revised up by \$158 million to \$195 million per annum, mainly reflecting the impact of policy decisions taken after the 2003-04 Budget cut-off date (see Appendix 3: *Post-Budget Policy Decisions Affecting Expenses*) and parameter-driven increases in salaries and superannuation expenses.

Public Sector Wages

Wage costs in the general government sector in 2003-04 are estimated to total approximately \$5.1 billion, which represents 43.1% of total expenses.

The Government's wages policy for the period 1 July 2003 to 30 June 2005 is to provide wage increases of no more than 3% per annum.

In light of the economic outlook for Western Australia (see Chapter 3: *The Western Australian Economy*), this policy is in line with current expectations of moderate wages growth.

The wage increase already agreed with the police, and the current offers to teachers and public servants have added \$235 million to wages costs over the period to 2006-07 when compared to the 2003-04 Budget, with \$37 million of this impacting in 2003-04. The claims made by teachers and public servants, if they were to be agreed to, would add a further \$1.0 billion to expenses over the period to 2006-07.

In broad terms, the full year cost of a 1% wage increase across the general government sector is approximately \$51 million.

⁴ Relative to the 2003-04 Budget, a change to the accounting treatment of the Perth Convention and Exhibition Centre was included in the 2002-03 *Government Financial Results Report*. This change recognised the full expense portion of the project in 2002-03 rather than partially recognising an asset in that year, as was the earlier treatment. This change was adopted to more appropriately reflect the expected 2003-04 completion of the project, and gives rise to a change in the expense/capital mix in 2002-03 and 2003-04. All cash flows remain unchanged from previous estimates.

Balance Sheet

Consistent with the 2003-04 Budget projections, the general government sector balance sheet is expected to remain in a sound position across the forward estimates period, as detailed in the following table.

GENERAL GOVERNMENT					
Balance Sheet at 30 June					
	2003	2004	2005	2006	2007
	Actual	Estimate	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate
			\$m	\$m	\$m
<i>MID-YEAR REVIEW</i> ^(a)					
Assets	48,170	49,146	50,298	51,478	52,459
Liabilities	10,146	9,744	9,748	9,691	9,475
Net Worth	38,024	39,402	40,549	41,787	42,984
<i>2003-04 BUDGET</i>					
Assets	46,533	47,311	47,964	48,620	49,294
Liabilities	9,864	10,090	10,124	9,858	9,604
Net Worth	36,669	37,220	37,840	38,762	39,690
<i>VARIANCE</i>					
Assets	1,637	1,836	2,333	2,858	3,165
Liabilities	282	-346	-376	-167	-129
Net Worth	1,355	2,182	2,709	3,025	3,294

(a) 2002-03 figures are consistent with the 2002-03 *Government of Western Australia Consolidated Financial Statements*, released 11 December 2003.

Note: Columns may not add due to rounding

The general government sector's net worth (i.e. assets less liabilities) is expected to be \$39.4 billion at 30 June 2004. This is up \$2.2 billion from budget-time, primarily reflecting:

- a \$1.6 billion increase in non-financial assets, including an upward revaluation of the State's road network reflected in the 2002-03 outturn (\$1.0 billion);
- a \$219 million increase in the estimated value of financial assets, largely reflecting the impact of higher than expected investments at the end of 2002-03, and higher general government ownership interests in public corporations;

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- a \$605 million reduction in borrowings, reflecting the Government's improved net debt position at the end of 2002-03, the improved operating surplus for 2003-04 now expected, and the transfer of bus and ferry-related debt to the public non-financial corporations sector; and
- relatively minor increases in other liabilities such as unfunded superannuation (up \$138 million) and other employee entitlements and provisions (mostly leave entitlements, up \$74 million due mainly to salary movements).

Net worth is projected to rise in each year of the forward estimates, reaching an estimated \$43.0 billion by 30 June 2007.

Net debt of the general government sector is discussed later in this chapter.

Cash Flow Statement

A cash deficit of \$83 million is now estimated for 2003-04, a \$69 million improvement on the \$152 million cash deficit forecast in the 2003-04 Budget. This improvement reflects the improved operating performance of the general government sector discussed earlier, with net cash flows from operating activities up \$68 million since budget.

Across the outyears, a similar pattern is expected to that projected in the 2003-04 Budget, with a cash surplus (of \$187 million) expected to emerge in 2005-06, reflecting growing operating surpluses across the forward estimates period and declining capital spending (as existing projects are completed).

Total Public Sector

Summary

The total public sector includes the general government sector (discussed above), the public non-financial corporations (PNFC) sector and the public financial corporations (PFC) sector. Movements in the operating and cash flow statements since the 2003-04 Budget are discussed below⁵.

⁵ Under GFS standards, the net worth of the general government sector includes the net worth of the PNFC and PFC sectors as an equity asset. Therefore, total public sector net worth is identical to that of the general government sector (discussed earlier).

Net Operating Balance

An operating surplus of \$406 million is expected in 2003-04 for the total public sector, up \$27 million from budget-time due to the improved operating position of the general government sector more than offsetting small declines in the expected surpluses for the PNFC and PFC sectors.

The PNFC sector is expected to record an operating surplus of \$116 million in 2003-04, largely unchanged from the budget-time estimate of \$122 million. Abstracting from the financial impact of the bus and ferry transfers⁶, both revenue and expenses of the PNFC sector have been revised up since budget by similar amounts. Increases in revenue for agencies such as the Totalisator Agency Board (TAB) (due to higher turnover), Homeswest (largely rent revenue) and the Gold Corporation (upward movements in precious metal prices) are evident. These movements in revenue are largely offset by higher expenses on TAB winners' dividends, Homeswest building maintenance and Goldcorp inventory purchases.

Across the outyears, the revised forecasts are for continued surpluses in the PNFC sector, with variances since budget driven by similar factors to those outlined above.

The net operating surplus of the PFC sector is estimated to be \$148 million in 2003-04, down \$27 million on the 2003-04 Budget estimate. This is due to an \$86 million decline in revenue (mainly due to lower interest income for the Western Australian Treasury Corporation (WATC) and lower investment income for the Insurance Commission of Western Australia) more than offsetting a \$60 million reduction in expenses (mainly due to lower insurance claims expenses and lower interest expenses for the WATC).

Across the outyears, the PFC sector is expected to remain in a surplus position, with similar factors affecting the forward estimate years to those outlined above.

⁶ As noted earlier, revenue, expenses and other financial aggregates previously shown in the general government sector have been transferred to the PNFC sector with the creation of the Public Transport Authority. Refer to Appendix 4: *Transfer of Bus and Ferry Operations to the Public Transport Authority* for further information.

Cash Flow Statement

A cash deficit of \$857 million is expected for the total public sector in 2003-04, broadly similar to the \$795 million deficit expected at budget-time. Net cash flows from operating activities are largely unchanged from budget, while fixed asset purchases are up \$84 million to an estimated \$2.8 billion, reflecting a catch-up of delayed capital spending from 2002-03.

Declining cash deficits are projected in 2004-05 and 2005-06, with a cash surplus projected to emerge in 2006-07, reflecting increasing operating surpluses combined with a gradual normalising in the level of currently high capital works spending.

Net Debt

Total public sector net debt at 30 June 2004 is expected to be \$545 million lower than estimated at budget-time, mainly due to the flow-on impact of the much lower net debt outcome at 30 June 2003 than estimated in the 2003-04 Budget. As indicated in the following table, net debt levels are forecast to increase over the forward estimates period, consistent with the 2003-04 Budget projections.

Table 5

NET DEBT OF THE TOTAL PUBLIC SECTOR AT 30 JUNE

	2003 Actual \$m	2004 Budget Estimate \$m	2004 Mid-Year Revision \$m	2005 Forward Estimate \$m	2006 Forward Estimate \$m	2007 Forward Estimate \$m
GENERAL GOVERNMENT						
Gross Debt ^(a)	3,004	3,136	2,586	2,566	2,418	2,140
Cash, Deposits and Lending ^(b)	2,608	2,209	2,272	2,055	2,015	2,031
Net Debt	396	926	315	511	403	110
PUBLIC NON-FINANCIAL CORPORATIONS						
Gross Debt ^(a)	6,769	7,300	7,788	8,443	9,017	9,457
Cash, Deposits and Lending ^(b)	2,006	1,568	1,980	2,025	2,225	2,334
Net Debt	4,764	5,732	5,809	6,418	6,792	7,122
TOTAL NON-FINANCIAL PUBLIC SECTOR						
Gross Debt ^(a)	9,020	9,728	9,651	10,348	10,786	10,953
Cash, Deposits and Lending ^(b)	3,861	3,069	3,528	3,419	3,591	3,721
Net Debt	5,159	6,659	6,123	6,929	7,195	7,232
PUBLIC FINANCIAL CORPORATIONS						
Gross Debt ^(a)	13,002	13,681	14,297	14,871	15,328	15,596
Cash, Deposits and Lending ^(b)	13,664	14,380	15,005	15,651	16,175	16,510
Net Debt	-662	-699	-708	-779	-847	-914
TOTAL PUBLIC SECTOR ^(c)						
Gross Debt ^(a)	12,576	13,530	13,756	14,221	14,371	14,365
Cash, Deposits and Lending ^(b)	8,079	7,570	8,341	8,071	8,022	8,047
Net Debt	4,497	5,960	5,415	6,149	6,349	6,318

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

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

(c) Individual asset and liability 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.

General government net debt at 30 June 2004 is projected to be \$612 million lower than the 2003-04 Budget estimate. This reflects the better than expected net debt outcome for 2002-03 and improved operating expectations for the current year, together with the transfer of bus and ferry-related debt from the Department for Planning and Infrastructure to the PNFC sector⁷.

In the longer term, rising general government operating surpluses, together with a projected levelling off in capital spending, relieve pressure for growth in borrowings, resulting in a forecast decline in net debt levels for the general government sector.

⁷ See Appendix 4: *Transfer of Bus and Ferry Operations to the Public Transport Authority*.

Net debt of the PNFC sector at 30 June 2004 is estimated to be slightly higher than the 2003-04 Budget estimate. However, this reflects the transfer of bus and ferry-related debt from the general government sector. Abstracting from this, net debt of the PNFC sector is down \$183 million from budget, mainly reflecting the flow-on impact of the lower net debt outcome at 30 June 2003, partly offset by higher capital spending expectations.

As a result of the above factors, estimated net debt of the total non-financial public sector at 30 June 2004 is down \$536 million on the 2003-04 Budget estimate. Combined with increased operating revenue, this has resulted in an expected net debt to revenue ratio for 2003-04 of 38.1%, down from 42.6% at budget-time. This ratio – which is a key determinant of the State's credit rating – is forecast to remain comfortably below the target limit of 47% across the entire forward estimates period (this key financial target is discussed further in Chapter 2: *Financial Strategy*).

The Government has revised the budget for the New MetroRail project to \$1,518 million, an increase of \$99 million on the previous budget, in light of recent tender results. These results are consistent with the upward trend in various building industry pricing indices that has been evident since late last year, reflecting the current state of the building and construction industry and the associated saturation of the sub-contract market. In addition, the Government has decided to bring forward completion of works under Package A of the South West Metropolitan Railway to enable commencement of rail services to Mandurah by December 2006.

Over the life of the project, the above changes result in an increase in net debt of \$122 million. The increase in net debt at 30 June 2007 (the end of the current forward estimates period) is \$255 million, of which \$137 million is due to the bring forward of works (and the associated debt) from 2007-08.

Relative to the 2003-04 Budget, the forward estimates also include an additional \$40 million to cover extra project costs for the Burrup Infrastructure Package. This takes the full cost of this package to \$183 million, with the State's economy expected to benefit significantly in the longer term from the associated private investment in the region.

Statement of Risks

An update of the budget-time Statement of Risks⁸ is provided below. The risk factors outlined in this section have the potential to impact the financial projections contained in this publication should certain events or circumstances transpire.

Estimating Assumptions

The major economic parameters underlying the mid-year review projections are outlined in the following table. The major change impacting the forward estimates since budget-time is the increase in the value of the \$A, from \$US0.60 at budget-time to \$US0.72⁹.

MAJOR ECONOMIC AGGREGATES

Table 6

	2003-04 Budget Estimate	2003-04 Mid-Year Revision	2004-05 Forward Estimate	2005-06 Forward Estimate	2006-07 Forward Estimate
Real gross State product ^(a) (%)	4.5	4.5	4.25	4.0	4.0
Real State final demand ^(b) (%)	4.0	4.75	2.0	3.75	3.75
Consumer price index (%)	2.5	2.5	2.5	2.5	2.5
Wages growth ^(c) (%)	4.0	4.0	3.5	3.75	3.75
Employment growth (%)	2.25	2.0	1.75	2.5	2.5
\$A/\$US	0.60	0.72 ^(d)	0.72	0.72	0.72
Oil price (\$US per barrel)	25.0	27.0 ^(d)	25.0	22.0	22.0

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

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

(c) This table shows average weekly earnings (AWE) growth (which is used in forecasting payroll tax revenue), rather than the wage cost index measure which is reported in Chapter 3: *The Western Australian Economy*.

(d) Forecast for remainder of 2003-04.

⁸ See 2003-04 Budget Paper No. 3: *Economic and Fiscal Outlook*, pp. 36-41.

⁹ Consistent with established practice, this was the average exchange rate in the period leading up to 15 December 2003, the cut-off date for these mid-year projections.

Revenue Estimates

The revenue estimates are sensitive to changes in key economic parameters. Approximate impacts of these changes are provided in the following table¹⁰.

PARAMETER SENSITIVITY OF REVENUE ESTIMATES

Table 7

	Variability (\$m)	Detail
Payroll tax	12	For each 1.0 pp variation in wages and/or employment growth
Total mining revenue ^(a)	13.5	For each 1.0 cent variation in the \$A/\$US exchange rate
Petroleum royalties ^(a)	16	For each \$US1 variation in the price of a barrel of oil

(a) Includes North West Shelf petroleum royalties.

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

Revenue from the Commonwealth

There is a risk to forecast revenue from the Commonwealth depending on the outcome of the Commonwealth Grants Commission's 2004 Review to be completed in February 2004, as it has the potential to significantly change Western Australia's share of GST revenue from 2004-05 onwards.

Variations in national GST revenue are also a risk. The upward revisions to the Commonwealth estimates of GST revenue included in its *Mid-year Economic and Fiscal Outlook* for 2003-04 have been incorporated in these estimates¹¹. A consequence of the higher estimated GST revenue is that Western Australia should not require budget balancing assistance in 2003-04 or beyond. In these circumstances, variations in GST revenue from those forecast will have a direct impact on the State's revenue.

¹⁰ These impacts are not mutually exclusive and can vary over time. For example, in the case of a change in the exchange rate, the impact of a US1.0 cent change represents a different (larger) impact in percentage terms at the US60 cent level than at the US72 cent level. Furthermore, variations in the value of the \$A will impact on the sensitivity of the revenue to variations in the oil price.

¹¹ It should be noted, however, that estimates of GST grants for 2004-05 to 2006-07 are based on State assumptions pertaining to the distribution of national GST revenue. These differ somewhat from the Commonwealth's assumptions, published in its *Mid-year Economic and Fiscal Outlook*.

Competition payments to the States will be reviewed by the National Competition Council later in 2003-04. Adjustments to grant reductions and suspensions announced by the Commonwealth Treasurer will be reassessed by the Council in light of any subsequent actions by the States. In addition, the Commonwealth Government has made budget provision for competition payments to the States and Territories beyond 2005-06, but has indicated that the final amounts will not be disclosed until negotiations with the States and Territories are concluded. The nature of those negotiations is unclear at this time.

Revenue from Public Corporations

In accordance with the Government's June 2003 decision, the costs of electricity reforms to disaggregate Western Power, establish a competitive wholesale electricity market and develop an appropriate regulatory and customer protection framework, are to be funded through increased Western Power capital borrowings and dividend payments (see related policy decision in Appendix 3: *Post-Budget Policy Decisions Affecting Expenses*).

Detailed work on the enhanced structural and market arrangements, including further investigation of the potential impact of increased competition on the on-going operations of Western Power's successor entities, is being undertaken jointly by the Electricity Reform Implementation Unit, Western Power and the Department of Treasury and Finance. This work will provide comprehensive estimates of the potential impact of the deregulated market arrangements on Western Power post-2006. Apart from the borrowing and dividend impacts referred to above, the mid-year review projections assume no other change in Western Power's tax equivalent or dividend payments.

The mid-year review assumes that current sprinkler restrictions are applied through the 2003-04 financial year. Restrictions are to be reviewed at the end of next winter. Should the restrictions be extended or become permanent from 2004-05, then forecast revenue from the Water Corporation would reduce by approximately \$20 million for each year the restrictions are in place.

Expenses

Specific Purpose Payments and Matching Requirements

There is a general risk to the expense estimates due to the conditions imposed by the Commonwealth on their specific purpose payments (SPPs) to the State (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 changes and parameter changes. An example is the possibility of additional expenditures for salinity to match the Commonwealth funding offer.

Functional Review Taskforce Savings

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

The primary FRT savings involve changes to the delivery of corporate services and the procurement of goods and services across the public sector. Considerable planning and consultation is occurring in developing these measures and preparing for their implementation.

The reforms as proposed by the FRT are being implemented on the timetable agreed by the Government. Further work undertaken on the business case for these reforms has confirmed the conclusions reached by the Taskforce. The 2004-05 Budget Papers will provide further details on the implementation arrangements, together with the projected net savings.

Asset Revaluations

Periodic revaluations are required under accounting standards to ensure the balance sheet fairly reports the magnitude of the State's asset base. These asset revaluations, which are very difficult to predict with any certainty, have the potential to increase expenses through subsequent increases in depreciation costs. As an example, a significant revaluation of the State's road network in 2001-02, and a further revaluation in 2002-03, resulted in unbudgeted increases in depreciation costs of \$35.2 million and \$9.5 million respectively.

Health Expense Pressures

The Department of Health (DoH) has advised of risks to its 2003-04 budget position and is currently projecting expenditure over the allocated budget position in the order of \$40 million. To mitigate these risks, expense reduction strategies are being implemented.

While current expectations are that the projected over-expenditure will be eliminated, the DoH budget position presents a risk to the 2003-04 financial projections. As an important step to managing this risk, the DoH budget and associated risks and expense reduction strategies will be closely monitored. Should the identified risks fail to be fully mitigated, they will be managed in conjunction with the Government's financial priorities and objectives.

Contingent Liabilities

Contingent liabilities are costs that the Government of Western Australia 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.

Details of the quantified contingent liabilities of the Treasurer as at 30 June 2003 are provided in the 2002-03 *Treasurer's Annual Statements*, released 19 November 2003.

CHAPTER 2

Financial Strategy

Overview

The Government's financial strategy is framed around a series of medium-term financial targets. These targets, as outlined in the 2003-04 Budget, are to:

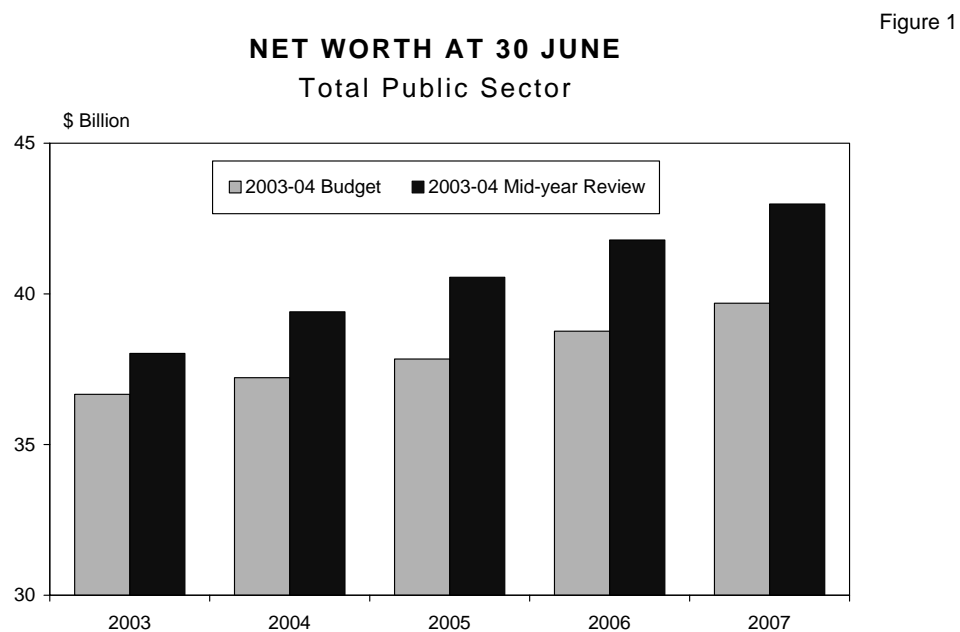
- maintain or increase the net worth of the total public sector;
- achieve an operating surplus for the general government sector;
- retain Western Australia's triple-A credit rating, represented by the following two specific targets:
 - maintain the net debt to revenue ratio for the total non-financial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

This chapter outlines adherence to these targets based on the mid-year review financial projections.

Financial Targets

Net Worth: Net worth of the total public sector be maintained or increased

Consistent with this target, total public sector net worth is projected to rise in each year of the forward estimates, with increases in assets (primarily land, as well as financial assets held by the public financial corporations) expected to more than offset modest projected growth in liabilities. Net worth is projected to increase from \$38.0 billion at 30 June 2003 to an estimated \$43.0 billion by 30 June 2007.



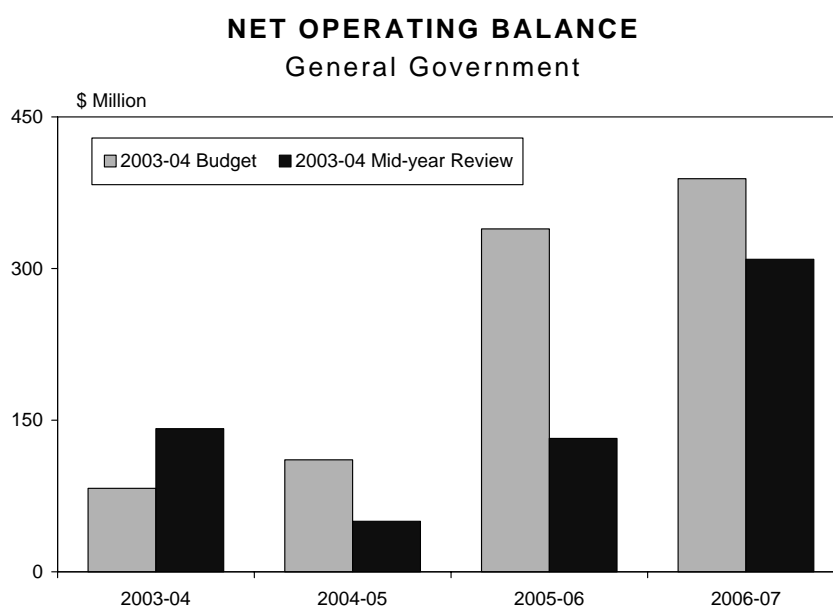
Positive (and growing) net worth indicates that the public sector has more assets at its disposal than the liabilities it must satisfy in the future, and is therefore a good measure of the overall strength of the State's financial position.

Operating Result: Achieve a net operating surplus for the general government sector

Following the surpluses recorded in the Government’s first two full years (2001-02 and 2002-03), further general government operating surpluses are expected in each year of the forward estimates, thus achieving the target. As explained in Chapter 1: *Financial Projections*, the estimated surplus for 2003-04 has been revised up since budget (to \$142 million), due largely to unexpected sustained strength in property market-related stamp duty revenue.

Operating surplus levels are expected to be lower in each of the outyears than estimated in the 2003-04 Budget, largely reflecting an expected return to more ‘normal’ levels of property market activity, the impact of wage negotiation outcomes and offers on expenses and the impact of a higher \$A/\$US exchange rate on royalty revenue.

Figure 2



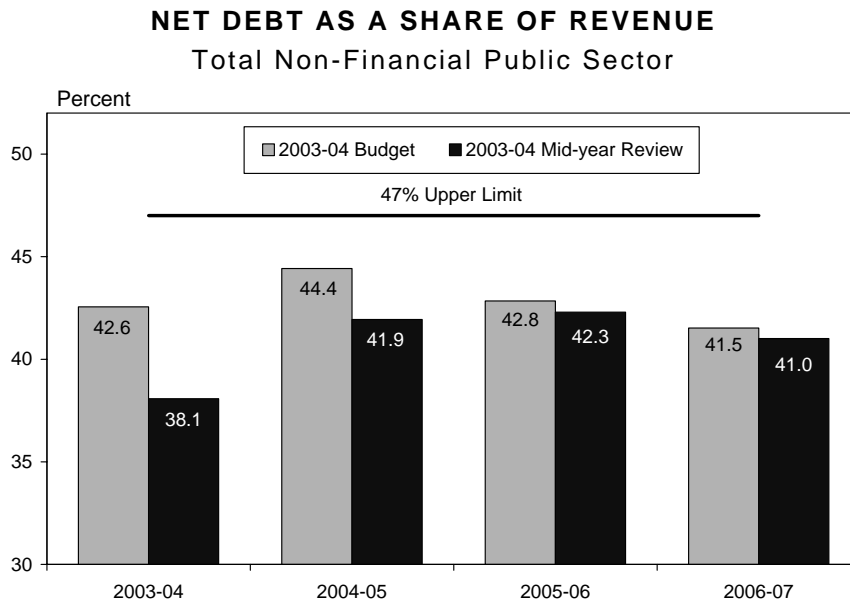
Operating surpluses are an important measure of financial performance, and a key component of the Government's debt management strategy. A surplus indicates that operating (or day-to-day) revenue from sources such as taxes, Commonwealth grants and mining royalties is sufficient to meet day-to-day expenses such as public sector wages, interest and depreciation, and that surplus funds are available for capital investment (thus reducing the need for new borrowings for that purpose).

The projected surpluses in 2003-04 and 2004-05 are small relative to the size of the expense and revenue aggregates. For instance, the projected surplus in 2004-05 of \$50 million represents less than 0.5% of both total revenue and expenses. It follows that a small adverse movement in either aggregate could threaten the surplus in that year.

Retain Triple-A Credit Rating – Net Debt: Maintain the net debt to revenue ratio for the total non-financial public sector at or below 47%

The net debt to revenue ratio provides a measure of the affordability of public sector debt, and is a key determinant of the State’s credit rating. As indicated in the following chart, the ratio remains comfortably below the 47% upper limit in each year of the forward estimates, peaking at just 42.3% in 2005-06 (down from a peak of 44.4% at budget-time).

Figure 3

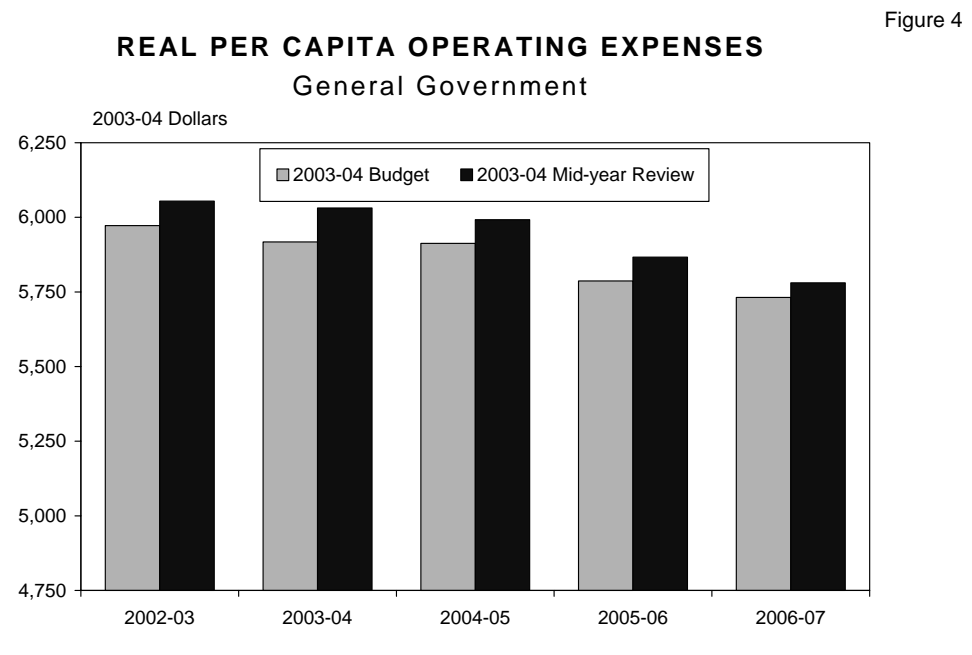


The estimated ratio has improved in each year relative to the 2003-04 Budget projections. This is mainly due to the flow-on impact of a much lower net debt outcome at 30 June 2003 than expected at budget-time (down \$634 million for the total non-financial public sector), partly offset across the outyears by lower general government operating surpluses and the changes to the New MetroRail project and the Burrup Infrastructure Package discussed in Chapter 1: *Financial Projections*.

Retain Triple-A Credit Rating – Operating Expenses: Real per capita expenses for the general government sector to not increase

Containing growth in general government expenses is critical to the achievement of operating surpluses. This target allows for an increase in expenses up to, but not exceeding, the combined growth in population and inflation¹².

As illustrated in the following chart, this target is expected to be met in each year of the forward estimates, with annual expenses forecast to decline in real per capita terms across the entire forward estimates period (albeit from a higher base than estimated at budget-time).



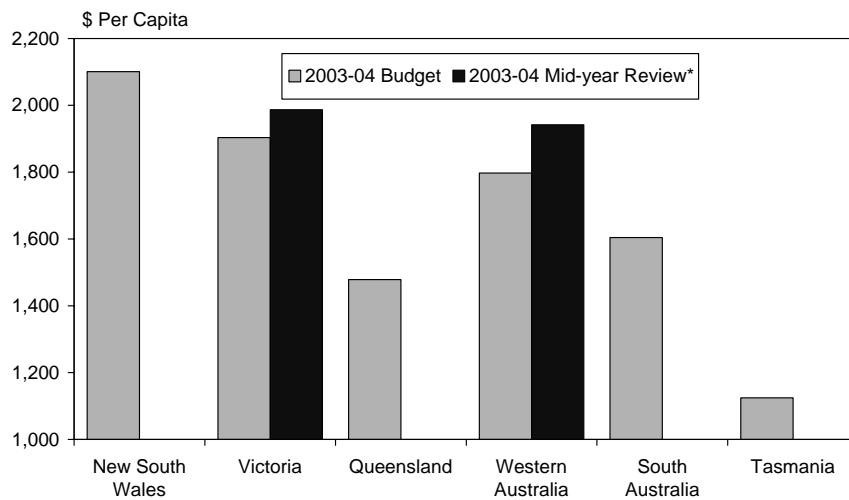
¹² Inflation as measured by growth in the gross State product (GSP) implicit price deflator (IPD). The GSP IPD is a measure of the total price of Western Australian production and, as such, is the widest measure of prices in the Western Australian economy.

Tax Competitiveness: Maintain Western Australia's Tax Competitiveness

Western Australia's tax competitiveness is measured by our interstate ranking in terms of taxation revenue per capita. Based on currently available estimates of other jurisdictions' taxation revenue for 2003-04, Western Australia's taxation revenue per capita ranking has remained unchanged from budget-time, thus meeting the target.

Figure 5

TAX COMPETITIVENESS
 General Government Taxation Revenue Per Capita
 2003-04



* Victoria is the only other State to have released its mid-year review by the cut-off date of 15 December 2003.

CHAPTER 3

The Western Australian Economy

Overview

Western Australia's economy grew by a solid 3.9% in 2002-03, slightly below the budget-time estimate of 4.25%. This was due to higher than forecast growth in both domestic demand and net exports being more than offset by a larger than anticipated negative contribution from the 'balancing item'¹³.

Growth in gross State product (GSP) is expected to increase to 4.5% in 2003-04. This is unchanged from the budget-time forecast, but incorporates a stronger performance in the domestic economy and a weaker result for net exports. A firmer than anticipated dwelling sector and a continued robust household sector are expected to underpin this upgrade in domestic demand growth.

2002-03

The domestic economy was the stand-out performer in 2002-03. State final demand (SFD) grew by 7.1% in 2002-03 (compared with 6.25% estimated in the 2003-04 Budget). Growth was driven by high levels of business investment, with dwelling activity also making a solid contribution to growth.

¹³ The balancing item contains unidentified movements in interstate trade, stocks and a statistical discrepancy. While some impact was predicted due to the drought, which saw a net run down of farm stocks, the balancing item detracted a larger than expected 3.3 percentage points from growth in 2002-03.

Major resource projects and a pull forward of expenditure from 2003-04 were the key factors driving a 22.3% rise in business investment in Western Australia over 2002-03. The pull forward of expenditure was due to companies (predominantly iron ore and nickel) attempting to bring forward production dates in order to service current strong demand from China. Additionally, dwelling investment defied expectations of a moderation, growing by 9.5%. Strong investor demand fuelled by low interest rates, and the residual impact¹⁴ from the extended First Home Owner Grant, drove activity in 2002-03.

Net exports increased by 2.9% in 2002-03, above the 2003-04 Budget forecast of a 0.25% contraction. A stronger than expected export performance underpinned the result, which more than offset higher than forecast import growth.

Overall, GSP grew by 3.9% in 2002-03, compared with the budget estimate of 4.25%, with the balancing item reducing growth.

Outlook

The outlook for growth of 4.5% in 2003-04 is unchanged from the budget-time forecast. However, the impetus behind this acceleration has shifted. The forecast now incorporates a stronger performance in the domestic economy (growth of 4.75% rather than 4.0%), but a weaker result for net exports (a fall of 4.25% down from a fall of 1.25%). A return to favourable seasonal conditions in the agricultural sector should also result in a rebuilding of grain stocks (which will be largely captured in a positive movement in the balancing item).

Underpinning the improved outlook for the domestic economy in 2003-04 is the firmer than previously anticipated dwelling sector. Anecdotal evidence in the housing industry suggests that strong levels of activity have created a backlog of construction work, which is likely to sustain high levels of activity over 2003-04.

The forecast for household consumption has also been revised up slightly, underpinned by continued solid dwelling-related household spending, higher incomes in the agricultural sector and the downwards impact of a stronger \$A on the price of imported consumer goods. These strong positive influences are likely to be only partly offset by the recent interest rate rises.

¹⁴ Although the extended First Home Owner Grant ended on 30 June 2002, construction contracts only had to be signed before this date to be eligible for the grant, with construction able to occur afterwards.

Business investment is expected to remain strong in 2003-04, with growth of 9.0% forecast, down slightly from the budget-time forecast of 10.0%. This downward revision is due to the acceleration in capital expenditure plans in 2002-03, which has pulled some expenditure forward that was previously expected in 2003-04.

Exports are predicted to rise by just 1.0% in 2003-04, with growth in mineral exports limited until several major capacity expansions currently underway are completed. Agricultural exports are also likely to be weaker in the first half of 2003-04, due to the impact of the drought in 2002-03. Import growth is predicted to remain robust, with the import of further capital items, robust consumer demand and a stronger \$A boosting imports of consumer items.

The forecast for economic growth in 2004-05 has been revised up to 4.25%, driven by an increase in exports from the addition of new export capacity. However, the domestic economy is expected to be weaker than previously anticipated. This is largely due to the expected fall in dwelling investment occurring a year later than predicted at budget-time and a clearer picture of business investment emerging.

Growth in State final demand (SFD) has been revised down to 2.0% (from 3.5% at budget-time), with dwelling investment predicted to fall by 5.0% in 2004-05 after three years of high activity levels.

Household consumption is likely to be affected by the downturn in dwelling investment and, with slightly higher interest rates also expected to subdue spending (especially in regard to large consumption items), the forecast for household consumption growth has been revised down to 3.25%.

While business investment levels are still expected to remain high in 2004-05, a slight contraction of 1.0% is now predicted in 2004-05 (down from an increase of 5.5% at budget-time). A number of major projects are scheduled for completion in 2003-04 and early 2004-05 and, at this stage, there do not appear to be sufficient new projects to drive a further increase in business investment in 2004-05 beyond the high levels already occurring and expected for 2003-04. However, this appears to be a function of the timing of projects rather than a downturn in the sector, with activity predicted to remain high.

2003-04 Government Mid-year Financial Projections Statement

Exports are forecast to rebound in 2004-05, with a combination of new capacity and strong international demand (including high commodity prices) expected to mitigate the impact of a higher \$A. With more modest growth in imports (of 5.25%), due to a moderation in business investment and household consumption, net exports are anticipated to grow by a robust 9.25% over the year.

Table 1

MAJOR ECONOMIC AGGREGATES
Western Australia

	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Mid-year Revision	Forward Estimate	Forward Estimate	Forward Estimate
	%	%	%	%	%
Real Gross State Product Growth	3.9 (4.25)	4.5 (4.5)	4.25 (4.0)	4.0 (4.0)	4.0 (4.0)
State Final Demand Growth	7.1 (6.25)	4.75 (4.0)	2.0 (3.5)	3.75 (3.5)	3.75 (3.5)
Employment Growth	2.5 (2.5)	2.0 (2.25)	1.75 (2.25)	2.5 (2.5)	2.5 (2.5)
Unemployment Rate	5.9 (6.0)	6.0 (5.75)	6.0 (5.75)	6.0 (6.0)	6.0 (6.0)
Wage Cost Index	3.7 (3.25)	3.25 (3.25)	3.0 (3.25)	3.25 (3.0)	3.25 (3.0)
Consumer Price Index Growth	2.8 (2.75)	2.5 (2.5)	2.5 (2.5)	2.5 (2.5)	2.5 (2.5)
Implicit Price Deflator Growth	1.6 (2.25)	2.25 (2.5)	2.25 (2.25)	2.25 (2.25)	2.25 (2.25)

Note: 2003-04 Budget forecasts shown in brackets.

Employment is forecast to rise by 2.0% (or 19,400 people) in 2003-04 and 1.75% in 2004-05 (down from previously forecast growth of 2.25% in both years). As a consequence of the weaker employment growth, the unemployment rate is now forecast to average 6.0% over both years.

For 2005-06 and 2006-07, forecasts for SFD and GSP growth are based on long-term averages. SFD and GSP are forecast to grow annually by 3.75% and 4.0% respectively. Employment growth is expected to return to its long run average growth of around 2.5% per annum in both years.

Table 2

COMPONENTS OF GROSS STATE PRODUCT						
Western Australia						
	2002-03		2003-04		2004-05	
	Budget Estimate	Actual	Budget Estimate	Mid-year Revision	Budget Forecast	Mid-year Revision
	%	%	%	%	%	%
Annual Average Growth						
Private						
Household Consumption	4.25	4.3	3.75	4.0	3.75	3.25
Business Investment	15.0	22.3	10.0	9.0	5.5	-1.0
Dwelling Investment	7.5	9.5	-5.75	3.25	5.0	-5.0
Public						
Consumption	2.5	0.8	2.5	4.5	3.0	3.0
Investment	15.5	10.3	8.5	2.25	-8.25	4.0
STATE FINAL DEMAND	6.25	7.1	4.0	4.75	3.5	2.0
External Sector ^(a)						
Exports	6.25	11.0	3.25	1.0	4.0	7.75
Imports	22.5	30.5	12.25	11.25	6.25	5.25
Net Exports	-0.25	2.9	-1.25	-4.25	2.75	9.25
GROSS STATE PRODUCT	4.25	3.9	4.5	4.5	4.0	4.25
Contributions to Growth						
Private						
Household Consumption	2.0	2.1	1.75	2.0	2.0	1.75
Business Investment	2.0	3.1	1.5	1.5	1.0	-0.25
Dwelling Investment	0.5	0.6	-0.5	0.25	0.25	-0.25
Public						
Consumption	0.5	0.1	0.5	0.75	0.5	0.5
Investment	0.5	0.4	0.25	-	-0.25	0.25
STATE FINAL DEMAND	5.5	6.3	3.5	4.5	3.25	1.75
External Sector						
Exports	2.5	4.5	1.5	0.5	1.75	3.25
Imports	2.75	3.6	1.75	1.75	1.0	0.75
Net Exports	-0.25	0.8	-0.25	-1.25	-	2.5
Balancing Item(b)	-1.5	-3.3	1.25	1.5	-	-
GROSS STATE PRODUCT	4.25	3.9	4.5	4.5	4.0	4.25

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

(b) The balancing item includes international services trade, interstate trade, changes in stocks, and a statistical discrepancy. Contrary to usual practice, the balancing item was adjusted in the 2003-04 estimates to account for the timing of the impact of the drought on production. Usually, most of the grain harvest is accumulated as stocks in the December quarter, which are rundown as the grain is exported over the next year. Agricultural production is expected to rebound in 2003-04 with a return to normal seasonal conditions. Therefore, the balancing item has been adjusted to reflect the higher production and a rebuilding of stocks.

Note: Columns may not add due to rounding.

State Final Demand

Household Consumption

Growth in household consumption is forecast to moderate slightly to 4.0% in 2003-04, after two years of solid growth. While partial indicators and consumer sentiment have been very strong, the recent increases in the official interest rate, and the expectation of a series of further small interest rate rises, are likely to see activity cool in coming months. In the latter half of the year, higher incomes and confidence in the agricultural sector (following the decimation of agricultural household income in 2002-03) should provide some overall impetus to household spending.

In 2004-05, household consumption is expected to slow, growing by a more modest 3.25%. Again, higher interest rates are likely to impact on consumption, with households adjusting their balance sheets to account for higher interest payments. In addition, the decline in dwelling activity is also expected to detract from activity in the household sector (and in particular, lower spending on household items such as white-goods and furniture).

Dwelling Investment

In contrast to earlier expectations, the dwelling sector ended 2002-03 with a full head of steam. Total dwelling investment grew by 9.5% over the year and partial indicators of the industry point to further growth in 2003-04.

Anecdotal evidence suggests that materials and labour shortages meant that builders were not able to keep pace with demand over 2002-03. This has led to a large backlog of work on builders' books that is expected to sustain activity through 2003-04 and perhaps into the early part of 2004-05, even before new commitments are considered. Consequently, the previously anticipated downturn in dwelling investment in 2003-04 is now predicted to occur in 2004-05.

However, even though housing demand has continued, capacity constraints mean that any further large increases over the high levels reached in 2002-03 are unlikely. Overall, relatively subdued growth (of 3.25%) is predicted for 2003-04.

In 2004-05, a decline in dwelling investment is forecast. In this regard, the official interest rate increases in November and December 2003, and the possibility of a further (modest) tightening are expected to dampen demand for new housing over this year. Overall, a 5.0% decline in dwelling investment is predicted, approximately the same scale as that previously predicted for 2003-04 at budget-time.

Business Investment

Business investment over the next two years is expected to remain at solid levels, but uncertainty over the starting dates for some projects and similar uncertainty for the finishing dates of others means that the growth rate in each year is difficult to predict.

The forecast for business investment in 2003-04 has been revised downwards slightly (to 9.0% from 10.0% previously) due to revised information regarding several major projects, including those whose completion has been brought forward in order to meet demand from China for commodities such as iron ore and nickel. As such, some activity expected in 2003-04 occurred in 2002-03 (with growth of 22.3% observed compared to 15.0% previously expected). Nevertheless, business investment will reach a new record level of activity in 2003-04.

The revised forecast of a 1.0% fall in business investment in 2004-05 (compared with the budget-time forecast of 5.0% growth), reflects a consolidation of business investment in 2004-05 at current high levels. The slight decline is due to the timing of new major projects, rather than a downturn in the sector, with several large projects reaching completion in the year and relatively few new projects currently scheduled to commence. In addition, the bring forward of investment currently being observed is likely to reduce future prospects for continual strong growth in business investment.

Public Activity

Public consumption (i.e. by Federal, State and local governments) is forecast to rise steadily over the period, by 4.5% in 2003-04, then moderating to 3.0% in 2004-05.

Public investment increased by a rapid 10.3% in 2002-03, with investment spending by State government agencies being carried over from the previous year. Growth is expected to be more moderate in 2003-04 and 2004-05.

Net Exports

Following a better than expected performance in 2002-03, net exports are forecast to fall by 4.25% in 2003-04.

However, net exports are expected to increase from 2004-05, driven by strong export growth, with the current group of resource projects reaching production and expectations of strong international demand.

Exports

Exports are expected to grow by 1.0% in 2003-04 (down from 3.25% forecast at budget-time). Export growth in 2002-03 was larger than expected, which mostly reflected responses by producers to buoyant demand from Asian countries (mainly China) and a one-off increase in gold exports due to a consolidation of the Australian gold-refining industry. However, the potential for significant increases in the short term is likely to be limited until capacity extensions currently underway are completed. Also, the drought in 2002-03 is expected to continue impacting on exports in the first half of 2003-04.

In 2004-05, exports are projected to increase by 7.75%, underpinned by strong international conditions and new productive capacity coming on line. A potentially record wheat harvest in 2003-04 should also add to growth in the first half of 2004-05.

Imports

Imports of goods grew by a massive 30.5% in 2002-03, underpinned by the import of large capital items for resource projects and a large pick-up in gold imports for refining and re-export (a result of the one-off relocation of refining operations to Western Australia).

In 2003-04, import growth of 11.25% is expected. While growth in business investment is forecast to slow, it is still expected to generate some capital imports. In addition, the recent appreciation of the \$A, coupled with solid levels of household consumption, should underpin growth in the import of consumer goods.

In 2004-05, growth in imports is forecast to ease to 5.25%. The moderation is a combination of reduced household demand and a slowing of demand for capital goods, with various large projects reaching completion by late 2004.

Labour Market

Employment

Employment growth in 2003-04 is expected to be weaker than at budget-time. The labour market weakened unexpectedly in the September quarter 2003, an outcome that is likely to reduce the overall result for 2003-04. However, the labour market is expected to rebound in coming quarters, leading to growth of 2.0% over the year (down from 2.25% predicted at budget-time).

Employment is forecast to rise by 1.75% in 2004-05 (compared with an estimate of 2.25% at budget-time). The greater than expected moderation in domestic activity is the key reason behind this downwards revision.

Over the longer-term, employment growth is expected to return to its long run level of around 2.5%, with a return to positive net interstate migration driving the increased population growth needed for this outcome.

Unemployment

The unemployment rate is forecast to remain relatively steady over the forward estimates period at 6.0%, with growth in the labour force expected to offset employment growth. This represents a slight upwards revision (from 5.75%) in 2003-04, which is a consequence of the downward revision of the forecast for employment growth in that year.

Prices

Consumer Price Index

The Perth consumer price index (CPI) is forecast to increase by 2.5% in 2003-04, with recent statements of monetary policy by the Reserve Bank of Australia (RBA) suggesting that inflation is under control and expected to remain low in the near term. Official interest rate rises by the RBA should contain inflation broadly to the middle of the RBA's target range of 2-3% at 2.5%.

While there have been some increases in domestic price pressures, largely due to particularly strong price increases for housing materials and dwelling construction, these have been offset by cheaper prices for imported goods flowing from the appreciation of the \$A. The net impact is a fairly benign outlook for inflation.

Wages

Wages growth has been relatively high over the past two years (and above forecasts), but is expected to moderate slightly in 2003-04 and further in 2004-05, reflecting the projected moderation in employment growth in these years. The wage cost index (WCI) is forecast to grow by 3.25% and 3.0% in 2003-04 and 2004-05 respectively, before returning to the long-run average annual growth of 3.25% in the outyears.

Implicit Price Deflator

The implicit price deflator is expected to increase by 2.25% in 2003-04 and to continue growing at this pace across the outyears. While domestic prices are predicted to rise solidly, the higher average \$A/\$US exchange rate over 2003-04 to date means that the price of exports (as most of our commodity exports are priced in \$US terms) is likely to fall, despite some offsetting movements in \$US commodity prices.

Risks to the Outlook

The forecasts presented in this chapter are based on a series of assumptions for factors determined outside of the Western Australian economy. Therefore, unanticipated movements in these factors could pose a risk to the forecasts presented. Currently the main uncertainties stem from Australian monetary conditions, namely higher interest rates and a further appreciation of the \$A.

The Australian Dollar

The \$A has reached 6-year highs in recent weeks. To date, the impact on the State's revenues and economy more generally has been largely offset by a corresponding increase in \$US commodity prices. The major risk is that the correlation evident between commodity price rises and the \$A does not continue. This could put pressure on business investment, as a higher \$A will reduce the profitability of projects under consideration and, in turn, would reduce export levels in future years.

Interest Rates

The RBA has begun to move away from its expansionary monetary policy stance and, in November and December 2003, raised interest rates to move towards a neutral monetary policy setting. Given the likelihood that any further tightening of monetary policy would only raise rates by a small amount, any impact is expected to be moderate. However, there remains a risk that rates could be raised by more than expected or that the reaction of households and business will be stronger than generally anticipated.

Business Investment

There is a high level of uncertainty surrounding the business investment forecast for 2004-05. While Western Australia is currently in a period of substantial investment growth, it is unclear whether current growth rates can be maintained over the 2004-05 fiscal year. This is because many of the projects that have driven growth in recent times are scheduled for completion in 2003-04 and the first half of 2004-05.

International Conditions

Since the 2003-04 Budget, the world economy has shown signs of strengthening, with most recent figures from both the United States and Japan pointing to accelerating growth. The key concern regarding the United States economy, however, is the very high level of consumer debt that is being accrued. If monetary policy is tightened in the face of increased price pressures as the economic recovery gathers pace, there is a risk that consumer spending could falter under the strain of rising debt levels.

APPENDIX 1

Uniform Presentation of Public Sector Finances – Statistical Tables

This appendix contains detailed financial projections for the various sectors of the total public sector under the GFS framework. The tables in this section also satisfy Uniform Presentation Framework (UPF) requirements.

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Table 1.1

GENERAL GOVERNMENT
Operating Statement

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
REVENUE						
Taxation	3,387	3,543	3,828	3,796	3,914	4,117
Current grants and subsidies	5,464	5,386	5,426	5,655	5,835	6,091
Capital grants	287	278	289	365	314	304
Sales of goods and services	990	930	864	856	855	858
Interest income	107	95	112	108	106	103
Revenue from public corporations						
Dividends	390	428	436	466	479	508
Tax equivalent payments	239	228	241	253	270	277
Royalty income	685	650	631	630	644	604
Other	222	235	223	208	208	233
Total	11,771	11,774	12,049	12,338	12,625	13,095
EXPENSES						
Gross operating expenses						
Salaries	4,486	4,615	4,690	4,843	4,930	5,064
Depreciation and amortisation	603	615	610	607	615	626
Superannuation	436	418	445	467	474	487
Other gross operating expenses	2,931	2,837	2,851	2,944	2,938	2,988
Nominal superannuation interest	277	277	283	284	285	286
Other interest	195	214	204	225	227	221
Other property expenses	-	-	-	-	-	-
Current transfers	2,287	2,438	2,556	2,630	2,761	2,858
Capital transfers	303	276	268	289	264	256
Total	11,518	11,691	11,908	12,288	12,493	12,786
NET OPERATING BALANCE	254	83	142	50	132	309
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchase of non-financial assets	794	979	980	877	737	721
Sales of non-financial assets	-74	-172	-174	-144	-121	-120
less depreciation	603	615	610	607	615	626
plus change in inventories	7	-	-	2	1	4
plus other movements in non-financial assets	-	-	-	-	-	25
Total	124	193	196	129	2	3
NET LENDING/BORROWING	130	-110	-55	-79	130	306
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	254	83	142	50	132	309
less provisions for doubtful debts	-19	-	-	-	-	-
plus net gains on assets (including derivatives)	39	22	31	-10	-10	-5
plus capitalised interest	-	-	-	-	-	-
less revaluation of superannuation liabilities	47	-	-	-	-	-
plus all other adjustments	-	-	-	-	-	-
AAS OPERATING RESULT	265	104	172	40	122	303

Note: Columns may not add due to rounding.

GENERAL GOVERNMENT
Balance Sheet at 30 June

	2003	2004	2004	2005	2006	2007
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	301	286	294	293	285	283
Advances paid	867	858	858	843	836	824
Investments, loans and placements	1,440	1,065	1,119	919	894	923
Other non-equity assets	762	715	718	747	738	741
Equity	16,333	16,721	16,875	17,295	17,805	18,184
Total	19,703	19,645	19,864	20,097	20,558	20,955
<i>Non-Financial assets</i>						
Land and fixed assets	28,463	27,590	29,213	30,127	30,832	31,401
Other non-financial assets	4	76	69	74	88	102
Total	28,467	27,666	29,282	30,201	30,919	31,504
TOTAL ASSETS	48,170	47,311	49,146	50,298	51,478	52,459
LIABILITIES						
Deposits held	300	229	284	237	235	246
Advances received	581	561	561	549	541	529
Borrowings	2,122	2,346	1,741	1,780	1,642	1,366
Unfunded superannuation liabilities	5,315	5,187	5,325	5,324	5,320	5,303
Other employee entitlements and provisions	1,225	1,224	1,299	1,281	1,347	1,406
Non-equity liabilities	602	543	534	577	605	625
TOTAL LIABILITIES	10,146	10,090	9,744	9,748	9,691	9,475
NET WORTH	38,024	37,220	39,402	40,549	41,787	42,984
<i>Memorandum Item: Net Debt</i>	396	926	315	511	403	110
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	38,024	37,220	39,402	40,549	41,787	42,984
less equity (net worth) of PNFC and PFC sectors	16,045	16,331	16,362	16,732	17,171	17,468
less all other adjustments	-	-	-	-	-	-
AAS NET ASSETS	21,979	20,890	23,041	23,817	24,615	25,516

Note: Columns may not add due to rounding.

Table 1.3

GENERAL GOVERNMENT
Cash Flow Statement

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	3,339	3,544	3,829	3,797	3,916	4,117
Receipts from sales of goods and services	999	943	888	875	879	884
Grants and subsidies received	5,794	5,672	5,667	6,020	6,155	6,391
Other receipts	2,154	2,117	2,097	2,102	2,181	2,173
<i>Total</i>	<i>12,286</i>	<i>12,277</i>	<i>12,482</i>	<i>12,794</i>	<i>13,131</i>	<i>13,566</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-7,925	-8,029	-8,140	-8,495	-8,519	-8,720
Grants and subsidies paid	-2,417	-2,608	-2,718	-2,750	-2,836	-2,913
Interest paid	-193	-213	-203	-225	-226	-221
Other payments	-772	-771	-698	-720	-747	-759
<i>Total</i>	<i>-11,308</i>	<i>-11,621</i>	<i>-11,758</i>	<i>-12,191</i>	<i>-12,328</i>	<i>-12,612</i>
Net Cash Flow from Operating Activities	978	655	723	603	803	953
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-794	-979	-980	-877	-737	-721
Sales of non-financial assets	74	172	174	144	121	120
<i>Total</i>	<i>-720</i>	<i>-807</i>	<i>-806</i>	<i>-733</i>	<i>-616</i>	<i>-601</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-107	-74	-89	-44	-60	-73
Liquidity purposes	48	17	17	12	10	-5
<i>Total</i>	<i>-59</i>	<i>-57</i>	<i>-72</i>	<i>-32</i>	<i>-50</i>	<i>-78</i>
Net Cash Flow from Investing Activities	-778	-864	-878	-766	-666	-679
FINANCING ACTIVITIES						
Advances received (net)	-	-8	-8	-	-	-
Borrowings (net)	17	237	84	40	-138	-273
Deposits received (net)	-9	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	-65	-21	-30	-15	-11	15
<i>Total</i>	<i>-57</i>	<i>208</i>	<i>46</i>	<i>25</i>	<i>-150</i>	<i>-259</i>
<i>Opening cash balance</i>	<i>1,167</i>	<i>779</i>	<i>1,309</i>	<i>1,201</i>	<i>1,064</i>	<i>1,051</i>
NET INCREASE IN CASH HELD ^(a)	143	-1	-108	-137	-12	16
<i>Closing cash balance</i>	<i>1,309</i>	<i>778</i>	<i>1,201</i>	<i>1,064</i>	<i>1,051</i>	<i>1,068</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>259</i>	<i>-152</i>	<i>-83</i>	<i>-130</i>	<i>187</i>	<i>353</i>
Surplus	259	-152	-83	-130	187	353

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 1.4

PUBLIC NON-FINANCIAL CORPORATIONS
Operating Statement

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
REVENUE						
Current grants and subsidies	520	549	745	780	861	886
Capital grants	123	118	134	170	147	141
Sales of goods and services	4,742	4,688	4,847	5,026	5,264	5,467
Interest income	114	76	99	110	119	127
Other	226	94	107	124	110	108
<i>Total</i>	<i>5,724</i>	<i>5,526</i>	<i>5,931</i>	<i>6,210</i>	<i>6,501</i>	<i>6,727</i>
EXPENSES						
Gross operating expenses						
Salaries	424	415	435	452	468	512
Depreciation and amortisation	597	611	630	657	667	686
Superannuation	43	43	43	44	46	50
Other gross operating expenses	3,234	3,018	3,193	3,284	3,458	3,573
Nominal superannuation interest	-	-	-	-	-	-
Other interest	415	411	440	504	543	567
Other property expenses	627	649	662	714	744	781
Current transfers	254	257	411	436	448	455
Capital transfers	83	-	-	-	-	31
<i>Total</i>	<i>5,676</i>	<i>5,404</i>	<i>5,815</i>	<i>6,092</i>	<i>6,372</i>	<i>6,655</i>
NET OPERATING BALANCE	48	122	116	118	129	72
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchase of non-financial assets	1,294	1,735	1,816	1,596	1,471	1,382
Sales of non-financial assets	-367	-384	-424	-374	-407	-405
<i>less</i> depreciation	<i>597</i>	<i>611</i>	<i>630</i>	<i>657</i>	<i>666</i>	<i>686</i>
<i>plus</i> change in inventories	<i>-70</i>	<i>43</i>	<i>20</i>	<i>-9</i>	<i>-9</i>	<i>-10</i>
<i>plus</i> other movements in non-financial assets	<i>-88</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-31</i>
<i>Total</i>	<i>172</i>	<i>783</i>	<i>781</i>	<i>556</i>	<i>389</i>	<i>250</i>
NET LENDING/BORROWING	-124	-661	-665	-437	-260	-177
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	48	122	116	118	129	72
<i>less</i> provisions for doubtful debts	<i>7</i>	<i>-</i>	<i>3</i>	<i>3</i>	<i>3</i>	<i>3</i>
<i>plus</i> net gains on assets (including derivatives)	<i>165</i>	<i>51</i>	<i>70</i>	<i>84</i>	<i>108</i>	<i>83</i>
<i>plus</i> capitalised interest	<i>6</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>less</i> revaluation of superannuation liabilities	<i>2</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>plus</i> all other adjustments	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
AAS OPERATING RESULT	210	173	184	200	234	152

Note: Columns may not add due to rounding.

Table 1.5

PUBLIC NON-FINANCIAL CORPORATIONS

Balance Sheet at 30 June

	2003	2004	2004	2005	2006	2007
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	301	238	260	230	276	272
Advances paid	156	146	115	69	73	67
Investments, loans and placements	1,548	1,184	1,605	1,726	1,876	1,995
Other non-equity assets	731	831	750	790	832	870
Equity	8	1	6	6	6	6
<i>Total</i>	<i>2,745</i>	<i>2,400</i>	<i>2,735</i>	<i>2,821</i>	<i>3,063</i>	<i>3,210</i>
<i>Non-Financial assets</i>						
Land and fixed assets	21,939	23,232	23,421	24,263	25,027	25,649
Other non-financial assets	144	114	163	164	163	164
<i>Total</i>	<i>22,082</i>	<i>23,346</i>	<i>23,584</i>	<i>24,427</i>	<i>25,191</i>	<i>25,813</i>
TOTAL ASSETS	24,827	25,746	26,319	27,248	28,253	29,023
LIABILITIES						
Deposits held	2	1	2	2	2	2
Advances received	573	561	561	549	541	529
Borrowings	6,194	6,739	7,225	7,893	8,474	8,926
Unfunded superannuation liabilities	260	247	246	229	210	194
Other employee entitlements and provisions	224	186	229	245	256	265
Non-equity liabilities	1,440	1,574	1,432	1,387	1,375	1,367
TOTAL LIABILITIES	8,693	9,307	9,695	10,305	10,858	11,283
Shares and other contributed capital	288	390	513	563	634	716
NET WORTH	15,846	16,049	16,111	16,381	16,761	17,024
<i>Memorandum Item: Net Debt</i>	<i>4,764</i>	<i>5,732</i>	<i>5,809</i>	<i>6,418</i>	<i>6,792</i>	<i>7,122</i>
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	15,846	16,049	16,111	16,381	16,761	17,024
<i>plus</i> shares and other contributed capital	288	390	513	563	634	716
<i>less</i> all other adjustments	-	-	-	-	-	-
AAS NET ASSETS	16,134	16,439	16,624	16,944	17,395	17,740
Note: Columns may not add due to rounding.						

PUBLIC NON-FINANCIAL CORPORATIONS

Cash Flow Statement

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Receipts from sales of goods and services	4,949	4,627	4,792	4,972	5,177	5,379
Grants and subsidies received	638	667	864	931	992	1,009
Other receipts	500	321	388	399	425	438
<i>Total</i>	6,087	5,616	6,045	6,302	6,593	6,827
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-3,667	-3,400	-3,609	-3,727	-3,864	-4,049
Grants and subsidies paid	-209	-141	-326	-351	-360	-366
Interest paid	-428	-415	-452	-511	-553	-574
Other payments	-564	-397	-491	-485	-508	-517
<i>Total</i>	-4,868	-4,353	-4,878	-5,074	-5,284	-5,506
Net Cash Flow from Operating Activities	1,219	1,262	1,166	1,228	1,309	1,320
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-1,294	-1,735	-1,816	-1,596	-1,471	-1,382
Sales of non-financial assets	367	384	424	374	407	405
<i>Total</i>	-926	-1,351	-1,391	-1,221	-1,064	-977
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	-19	-14	35	-11	-33	-4
<i>Total</i>	-19	-14	35	-11	-33	-4
Net Cash Flow from Investing Activities	-945	-1,365	-1,356	-1,232	-1,097	-981
FINANCING ACTIVITIES						
Advances received (net)	-11	-12	-12	-12	-13	-13
Borrowings (net)	240	630	661	576	478	350
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-655	-641	-658	-688	-751	-773
Other financing	212	140	159	108	124	107
<i>Total</i>	-215	116	150	-16	-162	-329
<i>Opening cash balance</i>	375	386	434	394	374	425
NET INCREASE IN CASH HELD ^(a)	58	14	-39	-20	51	11
<i>Closing cash balance</i>	434	400	394	374	425	436
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	-363	-731	-883	-681	-506	-429
Surplus	-363	-731	-883	-681	-506	-429

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 1.7

TOTAL NON-FINANCIAL PUBLIC SECTOR
Operating Statement

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
REVENUE						
Taxation	3,227	3,402	3,677	3,643	3,758	3,956
Current grants and subsidies	5,464	5,386	5,426	5,655	5,835	6,091
Capital grants	288	278	289	365	314	304
Sales of goods and services	5,581	5,472	5,557	5,725	5,964	6,182
Interest income	189	141	177	186	195	199
Royalty income	685	650	631	630	644	604
Other	433	317	324	317	302	299
<i>Total</i>	15,866	15,647	16,081	16,522	17,012	17,635
EXPENSES						
Gross operating expenses						
Salaries	4,910	5,030	5,125	5,295	5,398	5,576
Depreciation and amortisation	1,200	1,226	1,240	1,264	1,282	1,312
Superannuation	478	461	488	512	520	537
Other gross operating expenses	5,911	5,608	5,788	5,966	6,133	6,307
Nominal superannuation interest	277	277	283	284	285	286
Other interest	578	595	610	696	738	757
Other property expenses	-	-	-	-	-	-
Current transfers	1,946	2,087	2,155	2,218	2,278	2,357
Capital transfers	265	158	134	118	117	122
<i>Total</i>	15,565	15,442	15,823	16,354	16,751	17,254
NET OPERATING BALANCE	302	204	258	168	261	382
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non financial assets	2,088	2,714	2,796	2,472	2,208	2,103
Sales of non-financial assets	-442	-555	-599	-518	-529	-525
<i>less</i> depreciation	1,200	1,226	1,240	1,263	1,281	1,312
<i>plus</i> change in inventories	-63	43	20	-7	-8	-6
<i>plus</i> other movements in non-financial assets	-88	-	-	-	-	-6
<i>Total</i>	295	976	977	684	391	253
NET LENDING/BORROWING	6	-771	-720	-516	-130	129
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	302	204	258	168	261	382
<i>less</i> provisions for doubtful debts	-12	-	3	3	3	3
<i>plus</i> net gains on assets (including derivatives)	204	73	101	75	98	77
<i>plus</i> capitalised interest	6	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	48	-	-	-	-	-
<i>plus</i> all other adjustments	-	-	-	-	-	-
AAS OPERATING RESULT	475	277	356	239	356	456

Note: Columns may not add due to rounding.

Table 1.8

TOTAL NON-FINANCIAL PUBLIC SECTOR
Balance Sheet at 30 June

	2003	2004	2004	2005	2006	2007
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	\$m	Revision	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	422	376	391	411	453	440
Advances paid	450	444	412	364	368	363
Investments, loans and placements	2,988	2,249	2,724	2,644	2,770	2,919
Other non-equity assets	1,310	1,371	1,236	1,261	1,282	1,299
Equity	207	282	257	357	416	450
<i>Total</i>	<i>5,378</i>	<i>4,722</i>	<i>5,021</i>	<i>5,038</i>	<i>5,289</i>	<i>5,470</i>
<i>Non-Financial assets</i>						
Land and fixed assets	50,402	50,822	52,635	54,390	55,859	57,050
Other non-financial assets	148	190	232	237	251	266
<i>Total</i>	<i>50,550</i>	<i>51,012</i>	<i>52,866</i>	<i>54,628</i>	<i>56,110</i>	<i>57,317</i>
TOTAL ASSETS	55,927	55,734	57,887	59,665	61,399	62,786
LIABILITIES						
Deposits held	122	83	124	127	129	132
Advances received	581	561	561	549	541	529
Borrowings	8,317	9,085	8,966	9,673	10,116	10,292
Unfunded superannuation liabilities	5,575	5,435	5,571	5,553	5,530	5,498
Other employee entitlements and provisions	1,382	1,363	1,464	1,448	1,516	1,576
Non-equity liabilities	1,927	1,988	1,798	1,767	1,780	1,775
TOTAL LIABILITIES	17,903	18,514	18,485	19,116	19,612	19,802
NET WORTH	38,024	37,220	39,402	40,549	41,787	42,984
<i>Memorandum Item: Net Debt</i>	<i>5,159</i>	<i>6,659</i>	<i>6,123</i>	<i>6,929</i>	<i>7,195</i>	<i>7,232</i>
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	38,024	37,220	39,402	40,549	41,787	42,984
less equity (net worth) of the PFC sector	199	281	251	351	410	444
less all other adjustments	-	-	-	-	-	-
AAS NET ASSETS	37,826	36,939	39,151	40,198	41,376	42,541
Note: Columns may not add due to rounding.						

Table 1.9

TOTAL NON-FINANCIAL PUBLIC SECTOR
Cash Flow Statement

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	3,180	3,404	3,683	3,649	3,764	3,961
Receipts from sales of goods and services	5,785	5,431	5,534	5,695	5,904	6,120
Grants and subsidies received	5,794	5,673	5,667	6,020	6,155	6,391
Other receipts	1,950	1,747	1,770	1,757	1,800	1,784
Total	16,709	16,255	16,654	17,121	17,623	18,256
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-11,420	-11,281	-11,593	-12,061	-12,221	-12,616
Grants and subsidies paid	-1,981	-2,069	-2,165	-2,154	-2,188	-2,253
Interest paid	-590	-598	-620	-704	-748	-765
Other payments	-1,176	-1,030	-1,045	-1,059	-1,105	-1,121
Total	-15,167	-14,978	-15,423	-15,978	-16,262	-16,755
Net Cash Flow from Operating Activities	1,542	1,276	1,231	1,143	1,361	1,501
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-2,088	-2,714	-2,796	-2,472	-2,208	-2,103
Sales of non-financial assets	442	555	599	518	529	525
Total	-1,646	-2,159	-2,197	-1,954	-1,680	-1,577
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	16	15	15	13	11	9
Liquidity purposes	30	3	52	1	-22	-9
Total	45	18	67	13	-11	-
Net Cash Flow from Investing Activities	-1,601	-2,141	-2,130	-1,941	-1,691	-1,578
FINANCING ACTIVITIES						
Advances received (net)	-11	-20	-20	-12	-13	-13
Borrowings (net)	256	867	745	617	340	76
Deposits received (net)	-9	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	24	31	26	36	41	41
Total	260	878	751	641	368	104
<i>Opening cash balance</i>	<i>1,883</i>	<i>1,505</i>	<i>2,083</i>	<i>1,936</i>	<i>1,779</i>	<i>1,817</i>
NET INCREASE IN CASH HELD ^(a)	201	13	-148	-157	38	27
<i>Closing cash balance</i>	<i>2,083</i>	<i>1,518</i>	<i>1,936</i>	<i>1,779</i>	<i>1,817</i>	<i>1,844</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>-104</i>	<i>-883</i>	<i>-966</i>	<i>-811</i>	<i>-318</i>	<i>-76</i>
Surplus	-104	-883	-966	-811	-318	-76

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 1.10

PUBLIC FINANCIAL CORPORATIONS
Operating Statement

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
REVENUE						
Current grants and subsidies	-	1	1	1	1	1
Capital grants	-	-	-	-	-	-
Sales of goods and services	490	605	573	605	628	650
Interest income	893	983	929	1,002	1,015	1,030
Other	6	-	1	-	-	-
<i>Total</i>	1,389	1,589	1,503	1,608	1,644	1,681
EXPENSES						
Gross operating expenses						
Salaries	18	20	19	20	21	22
Depreciation and amortisation	4	4	4	3	4	4
Superannuation	2	2	2	2	2	2
Other gross operating expenses	493	568	553	544	611	662
Nominal superannuation interest	-	-	-	-	-	-
Other interest	790	805	758	830	838	849
Other property expenses	7	8	14	5	5	4
Current transfers	2	3	2	2	2	2
Capital transfers	1	5	2	2	2	3
<i>Total</i>	1,318	1,414	1,354	1,408	1,485	1,547
NET OPERATING BALANCE	71	175	148	200	159	133
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	6	2	4	2	3	3
Sales of non-financial assets	-1	-	-	-	-	-
<i>less</i> depreciation	4	4	4	3	4	4
<i>plus</i> change in inventories	-	-	-	-	-	-
<i>plus</i> other movements in non-financial assets	-	-	-	-	-	-
<i>Total</i>	1	-2	-	-1	-1	-1
NET LENDING/BORROWING	70	177	148	202	159	134
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	71	175	148	200	159	133
<i>less</i> provisions for doubtful debts	-	1	-	-	-	-
<i>plus</i> net gains on assets (including derivatives)	-44	-	-	-	-	-
<i>plus</i> capitalised interest	-	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	-1	-	-	-	-	-
<i>plus</i> all other adjustments	-	-	-	-	-	-
AAS OPERATING RESULT	27	174	148	200	159	133

Note: Columns may not add due to rounding.

Table 1.11

PUBLIC FINANCIAL CORPORATIONS**Balance Sheet at 30 June**

	2003	2004	2004	2005	2006	2007
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	19	38	19	14	13	11
Advances paid	1,353	1,653	1,475	1,601	1,737	1,861
Investments, loans and placements	12,291	12,688	13,511	14,036	14,425	14,638
Other non-equity assets	445	470	422	416	413	413
Equity	696	688	761	844	927	1,008
Total	14,805	15,538	16,188	16,911	17,515	17,931
<i>Non-Financial assets</i>						
Land and fixed assets	301	337	328	361	394	427
Other non-financial assets	-	16	11	11	11	10
Total	301	353	339	372	405	437
TOTAL ASSETS	15,106	15,891	16,527	17,283	17,921	18,368
LIABILITIES						
Deposits held	-	-	-	-	-	-
Advances received	3	3	3	3	3	3
Borrowings	12,998	13,678	14,294	14,868	15,325	15,593
Unfunded superannuation liabilities	16	17	15	15	14	13
Other employee entitlements and provisions	6	7	6	6	6	6
Non-equity liabilities	1,883	1,904	1,958	2,040	2,162	2,310
TOTAL LIABILITIES	14,907	15,609	16,277	16,932	17,510	17,925
Shares and other contributed capital	-	-	-	-	-	-
NET WORTH	199	281	251	351	410	444
<i>Memorandum Item: Net Debt</i>	-662	-699	-708	-779	-847	-914
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	199	281	251	351	410	444
<i>plus</i> shares and other contributed capital	-	-	-	-	-	-
<i>less</i> all other adjustments	-	-	-	-	-	-
AAS NET ASSETS	199	281	251	351	410	444
Note: Columns may not add due to rounding.						

PUBLIC FINANCIAL CORPORATIONS

Cash Flow Statement

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Receipts from sales of goods and services	598	567	563	590	614	636
Grants and subsidies received	-	1	1	1	1	1
Other receipts	887	959	892	964	976	992
<i>Total</i>	<i>1,486</i>	<i>1,526</i>	<i>1,456</i>	<i>1,554</i>	<i>1,590</i>	<i>1,629</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-452	-537	-481	-481	-512	-543
Grants and subsidies paid	-1	-3	-2	-	-	-
Interest paid	-787	-807	-761	-828	-838	-849
Other payments	-98	-80	-85	-86	-89	-92
<i>Total</i>	<i>-1,338</i>	<i>-1,428</i>	<i>-1,328</i>	<i>-1,395</i>	<i>-1,439</i>	<i>-1,484</i>
Net Cash Flow from Operating Activities	148	98	128	159	151	145
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-6	-2	-4	-2	-3	-3
Sales of non-financial assets	1	-	-	-	-	-
<i>Total</i>	<i>-5</i>	<i>-2</i>	<i>-4</i>	<i>-2</i>	<i>-3</i>	<i>-3</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	-162	-265	-237	-266	-271	-253
<i>Total</i>	<i>-162</i>	<i>-265</i>	<i>-237</i>	<i>-266</i>	<i>-271</i>	<i>-253</i>
Net Cash Flow from Investing Activities	-167	-267	-241	-269	-274	-256
FINANCING ACTIVITIES						
Advances received (net)	-	-	-	-	-	-
Borrowings (net)	404	178	108	112	129	116
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-8	-8	-14	-5	-5	-4
Other financing	1	-	-	-	-	-
<i>Total</i>	<i>397</i>	<i>170</i>	<i>94</i>	<i>108</i>	<i>124</i>	<i>111</i>
<i>Opening cash balance</i>	<i>2,916</i>	<i>2,778</i>	<i>3,294</i>	<i>3,274</i>	<i>3,272</i>	<i>3,273</i>
NET INCREASE IN CASH HELD ^(a)	378	1	-19	-2	1	-
<i>Closing cash balance</i>	<i>3,294</i>	<i>2,778</i>	<i>3,274</i>	<i>3,272</i>	<i>3,273</i>	<i>3,273</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>134</i>	<i>88</i>	<i>109</i>	<i>152</i>	<i>143</i>	<i>137</i>
Surplus	134	88	109	152	143	137

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 1.13

TOTAL PUBLIC SECTOR
Operating Statement

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
REVENUE						
Taxation	3,225	3,401	3,676	3,642	3,757	3,955
Current grants and subsidies	5,464	5,386	5,426	5,655	5,835	6,091
Capital grants	288	278	289	365	314	304
Sales of goods and services	5,944	5,930	5,988	6,197	6,450	6,680
Interest income	539	545	498	488	460	453
Royalty income	685	650	631	630	644	604
Other	425	308	309	312	297	294
<i>Total</i>	16,570	16,498	16,817	17,289	17,756	18,381
EXPENSES						
Gross operating expenses						
Salaries	4,928	5,050	5,145	5,315	5,419	5,598
Depreciation and amortisation	1,205	1,230	1,244	1,267	1,285	1,316
Superannuation	480	463	490	514	522	539
Other gross operating expenses	6,278	6,028	6,199	6,377	6,602	6,817
Nominal superannuation interest	277	277	283	284	285	286
Other interest	825	821	760	826	826	830
Other property expenses	-	-	-	-	-	-
Current transfers	1,939	2,087	2,154	2,217	2,278	2,357
Capital transfers	266	162	136	120	119	124
<i>Total</i>	16,197	16,119	16,411	16,921	17,336	17,866
NET OPERATING BALANCE	373	379	406	368	420	515
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	2,094	2,717	2,800	2,475	2,211	2,106
Sales of non-financial assets	-442	-555	-599	-518	-529	-526
<i>less</i> depreciation	1,204	1,230	1,244	1,267	1,285	1,316
<i>plus</i> change in inventories	-63	43	20	-7	-8	-6
<i>plus</i> other movements in non-financial assets	-88	-	-	-	-	-6
<i>Total</i>	296	974	978	683	390	253
NET LENDING/BORROWING	76	-595	-571	-315	30	262
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	373	379	406	368	420	515
<i>less</i> provisions for doubtful debts	-12	1	3	3	3	3
<i>plus</i> net gains on assets (including derivatives)	160	73	101	75	98	77
<i>plus</i> capitalised interest	6	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	48	-	-	-	-	-
<i>plus</i> all other adjustments	-	-	-	-	-	-
AAS OPERATING RESULT	502	451	504	440	514	589

Note: Columns may not add due to rounding.

Table 1.14

TOTAL PUBLIC SECTOR
Balance Sheet at 30 June

	2003	2004	2004	2005	2006	2007
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	\$m	Revision	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	439	415	410	424	465	450
Advances paid	1,800	2,093	1,884	1,961	2,101	2,220
Investments, loans and placements	5,840	5,062	6,047	5,686	5,455	5,377
Other non-equity assets	1,557	1,679	1,480	1,513	1,542	1,568
Equity	704	689	767	850	933	1,014
<i>Total</i>	<i>10,341</i>	<i>9,937</i>	<i>10,588</i>	<i>10,434</i>	<i>10,497</i>	<i>10,629</i>
<i>Non-Financial assets</i>						
Land and fixed assets	50,702	51,158	52,962	54,751	56,253	57,478
Other non-financial assets	148	206	243	248	262	276
<i>Total</i>	<i>50,850</i>	<i>51,365</i>	<i>53,205</i>	<i>55,000</i>	<i>56,515</i>	<i>57,754</i>
TOTAL ASSETS	61,191	61,302	63,794	65,434	67,012	68,383
LIABILITIES						
Deposits held	120	82	124	126	129	132
Advances received	581	561	561	549	541	529
Borrowings	11,875	12,887	13,071	13,546	13,700	13,705
Unfunded superannuation liabilities	5,591	5,451	5,587	5,568	5,544	5,511
Other employee entitlements and provisions	1,387	1,368	1,469	1,453	1,521	1,582
Non-equity liabilities	3,613	3,732	3,579	3,643	3,790	3,941
TOTAL LIABILITIES	23,167	24,081	24,391	24,884	25,225	25,398
NET WORTH	38,024	37,220	39,402	40,549	41,787	42,984
<i>Memorandum Item: Net Debt</i>	<i>4,497</i>	<i>5,960</i>	<i>5,415</i>	<i>6,149</i>	<i>6,349</i>	<i>6,318</i>
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	38,024	37,220	39,402	40,549	41,787	42,984
<i>less all other adjustments</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
AAS NET ASSETS	38,024	37,220	39,402	40,549	41,787	42,984

Note: Columns may not add due to rounding.

Table 1.15

TOTAL PUBLIC SECTOR
Cash Flow Statement

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	\$m	Revision	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	3,151	3,375	3,648	3,613	3,727	3,924
Receipts from sales of goods and services	6,262	5,865	5,972	6,162	6,381	6,607
Grants and subsidies received	5,794	5,673	5,667	6,020	6,155	6,391
Other receipts	2,245	2,103	2,013	1,993	1,996	1,973
<i>Total</i>	<i>17,452</i>	<i>17,016</i>	<i>17,300</i>	<i>17,788</i>	<i>18,259</i>	<i>18,895</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-11,750	-11,685	-11,949	-12,418	-12,596	-13,010
Grants and subsidies paid	-1,981	-2,072	-2,166	-2,154	-2,187	-2,253
Interest paid	-813	-827	-759	-820	-819	-822
Other payments	-1,226	-1,065	-1,081	-1,099	-1,149	-1,170
<i>Total</i>	<i>-15,771</i>	<i>-15,649</i>	<i>-15,955</i>	<i>-16,491</i>	<i>-16,752</i>	<i>-17,254</i>
Net Cash Flow from Operating Activities	1,681	1,366	1,345	1,297	1,507	1,642
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-2,094	-2,717	-2,800	-2,475	-2,211	-2,106
Sales of non-financial assets	442	555	599	518	529	526
<i>Total</i>	<i>-1,651</i>	<i>-2,161</i>	<i>-2,202</i>	<i>-1,957</i>	<i>-1,683</i>	<i>-1,580</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	16	15	15	13	11	9
Liquidity purposes	-132	-262	-185	-266	-293	-262
<i>Total</i>	<i>-117</i>	<i>-247</i>	<i>-170</i>	<i>-253</i>	<i>-282</i>	<i>-253</i>
Net Cash Flow from Investing Activities	-1,768	-2,409	-2,372	-2,210	-1,965	-1,834
FINANCING ACTIVITIES						
Advances received (net)	-11	-20	-20	-12	-13	-13
Borrowings (net)	660	1,045	854	729	468	192
Deposits received (net)	-9	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	25	31	26	36	41	41
<i>Total</i>	<i>665</i>	<i>1,056</i>	<i>860</i>	<i>753</i>	<i>497</i>	<i>220</i>
<i>Opening cash balance</i>	<i>4,456</i>	<i>3,940</i>	<i>5,035</i>	<i>4,868</i>	<i>4,708</i>	<i>4,747</i>
NET INCREASE IN CASH HELD ^(a)	579	13	-167	-159	39	27
<i>Closing cash balance</i>	<i>5,035</i>	<i>3,954</i>	<i>4,868</i>	<i>4,708</i>	<i>4,747</i>	<i>4,775</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>30</i>	<i>-795</i>	<i>-857</i>	<i>-659</i>	<i>-175</i>	<i>61</i>
Surplus	30	-795	-857	-659	-175	61

(a) The GFS concept of net increase in cash held is identical to the AAS 31 concept of net increase in cash held.

Note: Columns may not add due to rounding.

Table 1.16

LOAN COUNCIL ALLOCATIONS
Western Australia

	2002-03 Actual ^(a) \$m	2003-04 Estimated \$m	2004-05 Projected \$m
General Government deficit	-270	83	130
Public Non-financial Corporations' net financing requirement	353	883	681
Net Capital Advances	16	15	13
Total Non-financial Public Sector Deficit	67	951	798
<i>Memorandum Items</i> ^(b)	-390	-155	-170
Loan Council Allocation	-324	796	628
Tolerance limit ^(c)	-	-	322

(a) Consistent with the LCA final outcome disclosure in the 2002-03 *Government Financial Results Report* released on 23 September 2003.

(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).

(c) The tolerance limit is set at 2% of total non-financial public sector revenue and is specified at the time of the nomination. The limit provides an upper and lower bound for LCA variation reporting purposes.

Note: Columns may not add due to rounding.

Loan Council Allocations

The Australian Loan Council oversees State, Territory and Commonwealth governments' public sector borrowings using a system of Loan Council Allocations (LCAs). LCAs are based on net borrowings as indicated by a government's deficit position¹⁵.

The State's LCA outcome has moved from an estimated \$736 million deficit position in the 2003-04 Budget to a \$796 million deficit outcome.

This increase reflects movements in operating and capital spending aggregates that impact the general government and public non-financial corporation sectors' cash deficits (discussed in Chapter 1: *Financial Projections*). In addition, the LCA memorandum items contribute \$23 million to the change, with lower home lending by Keystart the principal factor.

¹⁵ For the purposes of LCAs, deficits are positive and surpluses are negative.

APPENDIX 2

General Government Operating Revenue

This appendix contains general government revenue estimates prepared on an accrual basis consistent with the GFS framework.

2003-04 Government Mid-year Financial Projections Statement

Table 2.1

OPERATING REVENUE
General Government

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	\$m	Revision	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
TAXATION						
Taxes on employers' payroll and labour force						
<i>Payroll tax</i>	1,004	1,060	1,102	1,161	1,236	1,316
Property taxes						
<i>Land tax</i>	260	277	277	297	317	340
Conveyances and transfers	833	842	1,062	943	993	1,040
Mortgages	96	95	102	100	106	112
Other stamp duties	49	32	44	31	33	35
<i>Total stamp duties on financial and capital transactions</i>	978	969	1,207	1,074	1,132	1,186
Financial Institutions Duty	2	-	-	-	-	-
Debits Tax	95	96	96	96	8	-
<i>Total financial institutions taxes</i>	97	96	96	96	8	-
Metropolitan Region Improvement Tax	39	43	43	46	49	52
Emergency Services Levy	-	76	76	118	124	130
Loan guarantee fees	10	11	10	11	12	13
<i>Total other property taxes</i>	49	129	128	175	184	195
Taxes on provision of goods and services						
Lotteries Commission	94	93	94	95	97	98
less rebates	-19	-20	-20	-21	-21	-21
Video lottery terminals	-	1	1	1	1	1
Casino Tax	38	47	43	43	46	47
less rebates	-21	-28	-25	-24	-25	-25
TAB betting tax	48	49	50	53	55	58
less rebates	-21	-22	-22	-24	-25	-26
<i>Total taxes on gambling</i>	119	119	121	124	128	132
Contribution to fire brigades	69	30	30	-	-	-
Stamp duty on insurance policies	220	289	279	260	272	284
Other	18	10	6	6	6	6
<i>Total taxes on insurance</i>	307	330	315	266	278	290
Taxes on use of goods and performance of activities						
Stamp duty on vehicle licences	232	230	241	249	260	272
Permits – oversize vehicles and loads	2	2	2	2	2	2
Motor vehicle recording fee	42	41	41	43	44	44
Motor vehicle registrations	299	290	298	312	327	342
<i>Total motor vehicle taxes</i>	574	563	582	605	632	659
Total Taxation	3,387	3,543	3,828	3,796	3,914	4,117

Note: Columns may not add due to rounding.

Table 2.1 (cont)

OPERATING REVENUE						
General Government						
	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
CURRENT GRANTS AND SUBSIDIES						
<i>General Purpose Grants</i>						
GST revenue:						
Grants ^(a)	2,910	2,946	3,082	3,216	3,361	3,515
Budget balancing assistance	44	61	-	-	-	-
Competition reform	72	75	34	34	35	36
<i>Specific Purpose Grants to the State</i>						
Australian Health Care Agreement	718	734	731	774	818	866
Other health	268	230	223	231	233	243
Schools assistance – government schools	209	189	200	209	215	224
Vocational training	83	86	86	91	89	89
Roads	34	28	30	32	30	29
Other	133	99	115	113	102	79
<i>Specific Purpose Grants through the State</i>						
Schools assistance – non-government schools	380	414	420	453	487	523
Local government grants	102	102	102	106	110	114
Local government roads	71	70	71	73	76	79
First Home Owner Grants – Extension	6	-	-	-	-	-
<i>Other Grants</i>						
North West Shelf royalties	435	355	332	325	279	293
Total Current Grants and Subsidies	5,464	5,386	5,426	5,655	5,835	6,091
CAPITAL GRANTS						
<i>Specific Purpose Grants to the State</i>						
Roads	53	39	49	76	40	37
Schools assistance – government schools	7	23	23	23	23	23
Vocational training	21	20	20	16	18	14
Other	195	187	188	241	224	220
<i>Specific Purpose Grants through the State</i>						
Schools assistance – non-government schools	10	9	9	10	10	10
Total Capital Grants	287	278	289	365	314	304

(a) Estimates of GST grants for 2004-05 to 2006-07 are based on State assumptions pertaining to the distribution of national GST revenue. These differ somewhat from the Commonwealth's assumptions, published in its 2003-04 *Mid-year Economic and Fiscal Outlook*, released on 8 December 2003.

Note: Columns may not add due to rounding.

Table 2.1 (cont)

OPERATING REVENUE
General Government

	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	\$m	Revision	Estimate	Estimate	Estimate
			\$m	\$m	\$m	\$m
SALES OF GOODS AND SERVICES						
Department for Planning and Infrastructure	155	157	82	81	81	81
Department of Health	165	143	143	144	145	146
Department of Education and Training	98	104	105	102	103	104
TAFE Colleges	78	79	78	80	85	84
Department of Land Administration	67	62	66	66	64	65
Department of Justice	50	49	50	51	52	52
Department of Conservation and Land Management	34	26	26	25	25	25
State Supply Commission	58	26	26	2	1	-
Department of Consumer and Employment Protection	19	23	20	20	20	20
Department of Fisheries	21	22	22	23	24	24
Department of Culture and the Arts	17	14	15	15	15	15
Police Service	14	13	13	12	12	12
All Others	214	212	218	232	228	229
Total Sale of Goods and Services	990	930	864	856	855	858
INTEREST INCOME	107	95	112	108	106	103
REVENUE FROM PUBLIC CORPORATIONS						
Dividends	390	428	436	466	479	508
Tax Equivalent Regime	239	228	241	253	270	277
Total Revenue from Public Corporations	629	657	677	718	748	785
ROYALTY INCOME						
Revenue from Territorial less petroleum and other refunds	707	670	647	641	652	611
	-22	-20	-16	-11	-8	-7
Total Royalty Income	685	650	631	630	644	604
OTHER						
Lease rentals	36	38	38	38	38	38
Fines	69	77	75	75	75	75
Revenue not elsewhere counted	117	121	110	95	95	120
Total Other	222	235	223	208	208	233
GRAND TOTAL	11,771	11,774	12,049	12,338	12,625	13,095

Note: Columns may not add due to rounding.

APPENDIX 3

Post-Budget Policy Decisions Affecting Expenses

This appendix provides a breakdown of the variations in general government expenses due to policy decisions made since the 2003-04 Budget cut-off date (7 April 2003).

**SUMMARY OF EXPENSE DECISIONS
SINCE THE 2003-04 BUDGET**

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Agriculture	4.4	6.8	6.8	6.8
Economic Regulation Authority	-	1.7	1.7	1.8
Education and Training	32.2	31.7	51.3	60.0
Education Services	3.5	-	-	-
Fire and Emergency Services Authority	0.3	0.3	0.3	0.3
Health	13.0	-	-	-
Industry and Resources	11.5	-	-	-
Legal Aid Commission	1.0	1.0	1.0	1.0
Local Government and Regional Development	-	0.1	0.1	-
Office of Energy	9.8	-	3.7	0.4
Planning and Infrastructure	0.6	-	-	-
Police Service	12.4	18.9	25.2	26.7
Premier and Cabinet	1.4	-	-	-
Recreation Camps and Reserve Board	1.4	0.8	1.0	-
Swan River Trust	1.2	-	-	-
Treasury and Finance	3.0	0.7	0.2	0.2
Water and Rivers Commission	1.1	-	-	-
Western Australian Tourism Commission	0.2	-	-	-
Provision for Wage Increases	3.0	6.1	6.3	6.5
TOTAL	100.0	68.1	97.7	103.6

Note: Columns may not add due to rounding.

In addition to the agency-specific variations (discussed below), the mid-year review projections include provisions for wage increases currently offered to public sector employees in on-going negotiations as these stood at the mid-year review cut-off date (15 December 2003). These provisions cover general public servants and other miscellaneous workers. Current offers to teachers are included under Education and Training below.

Agriculture

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
National Action Plan on Salinity	4.4	6.8	6.8	6.8
Total	4.4	6.8	6.8	6.8

- Additional Commonwealth funding on the prevention and remediation of salinity will occur as a result of the signing of the agreement on the National Action Plan on Salinity, totalling \$31.4 million over the forward estimates to 2007-08. Negotiations are ongoing with the Commonwealth regarding further additional funding for the prevention and remediation of salinity.

Economic Regulation Authority

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Electricity reform implementation	-	1.7	1.7	1.8
Total	-	1.7	1.7	1.8

- The Economic Regulation Authority (ERA) will be established from 1 January 2004 from parts of existing general government regulatory bodies, and will be responsible for the regulatory activities associated with gas, rail, electricity and water. Funding of these ERA functions will be transferred in whole, or in part, from existing government bodies (e.g. Office of Gas Access Regulation, Office of the Rail Access Regulator and Office of Water Regulation), and additional expenses have been approved for electricity regulatory activities after electricity reform changes commence.

Education and Training

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
ANTA matching obligations	-	1.5	13.0	19.7
Provisional estimate for wages policy adjustments	22.2	30.2	38.3	40.3
School building maintenance	10.0	-	-	-
Total	32.2	31.7	51.3	60.0

- The State has increased its matching contribution towards the Australian National Training Authority (ANTA) agreement spending for 2004 to 2006. The new ANTA agreement is based on 2003 activity and expenditure levels, with an intention to continue the matching arrangements. The estimated impact is based on an annual indexation rate of 3%. It also provides for the maintenance of Student Curriculum Hours throughout the new agreement, which is the key performance indicator for both vocational education and training and the ANTA targets.
- The additional impact of the Government's offer to conclude the Teachers' Certified Agreements negotiations, based on salary increases of 9% over two and a half years (however, with changes to career structures and additional Level 3 teachers, a number of teachers may be eligible for an extra 14% over the period). The offer also includes a significant number of workforce initiatives, such as expanded behaviour management programs, professional development, additional time for Duties Other Than Teaching and more incentives for staff who teach at selected schools which are difficult to staff.
- Increased spending in 2003-04 will be undertaken to enhance the maintenance of school buildings and facilities. This expenditure will address both planned maintenance requirements as well as initiatives of a preventative nature.

Education Services

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Office of Catholic Education	3.5	-	-	-
Total	3.5	-	-	-

- A one-off grant of \$3.5 million to the Office of Catholic Education to assist future wage negotiation within this sector of education.

Fire and Emergency Services Authority

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
WA Emergency Rescue Helicopter Service	0.3	0.3	0.3	0.3
Total	0.3	0.3	0.3	0.3

- Additional costs of the Western Australian Emergency Rescue Helicopter Service (this service was transferred from the Department of Health to the Fire and Emergency Services Authority earlier this year).

Health

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Waiting list reduction	10.0	-	-	-
Braille and talking book library and resources centre	2.0	-	-	-
Royal Flying Doctor aircraft replacement	1.0	-	-	-
Total	13.0	-	-	-

- The Government will provide an extra \$10.0 million to meet costs associated with reducing the waiting list. Particular attention will be paid to those people on the waiting list for 500 days and more. Common elective surgery procedures such as cataracts, hip and knee replacements, hernia repairs, carpal tunnel procedures and grommet operations in children will be undertaken.
- Provision of a grant to the Association for the Blind of WA (Inc) for the development of a Braille and Talking Book Library and Resources Centre.
- A one-off grant to the Royal Flying Doctor Service to assist with its aircraft replacement campaign 'Flying into the Future'.

Industry and Resources

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Additional Business Exit Assistance under the <i>Protecting Our Old Growth Forests</i> Policy	11.5	-	-	-
Total	11.5	-	-	-

- Additional Business Exit Assistance of \$11.5 million in 2003-04 has been approved under the *Protecting Our Old Growth Forests* Policy. This has been as a result of the Government endorsing the Conservation Commission's recommendation on the level of native timber logging from South West forests to apply under the next ten year forest management plan.

Legal Aid Commission

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Community legal centres	1.0	1.0	1.0	1.0
Total	1.0	1.0	1.0	1.0

- Expenses for the operation of community legal centres throughout the State.

Local Government and Regional Development

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Support for the staging of the Western Australian Croc Festival	-	0.1	0.1	-
Total	-	0.1	0.1	-

- An allocation has been provided in both 2004-05 and 2005-06 to support the ongoing staging of the Western Australian Croc Festival. This contribution forms part of a whole-of-government commitment of up to \$0.2 million per annum over two years.

Office of Energy

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Electricity Reform Implementation Unit	9.8	-	3.7	0.4
Total	9.8	-	3.7	0.4

- The Electricity Reform Implementation Unit is overseeing the implementation of electricity reform in Western Australia. The above expenses are matched by increased dividend payments from Western Power, resulting in no net impact on the general government operating balance.
 - However, due to the Government's commitment to fund the costs of electricity reform through a commensurate increase in Western Power's capital borrowings and dividend payments, net debt is expected to rise by \$159 million by 2006-07, as previously announced. This includes offsetting expenditure by the Electricity Reform Implementation Unit as indicated above, as well as funding new IT and metering systems and associated staffing that will be used by Western Power following implementation of disaggregation, the reduction of the contestability threshold to 5.7 kW and the commencement of the wholesale electricity market.

Planning and Infrastructure

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Statutory Planning Division	0.6	-	-	-
Total	0.6	-	-	-

- Additional costs for the Department for Planning and Infrastructure for clearing a backlog of land planning applications. Thirteen additional staff will be employed in 2003-04 for this purpose, with the aim of clearing the backlog by the end of the year and assisting the property industry through timely processing of applications.

Police Service

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Counter-terrorism	0.6	0.6	0.6	0.7
Police Service Enterprise Bargaining Agreement	11.8	18.3	24.6	26.0
Total	12.4	18.9	25.2	26.7

- Purchase of counter-terrorism equipment to enhance the Police Service's capability to respond to a major terrorist threat in Western Australia.
- Salary increases and other benefits for police officers under a new Enterprise Bargaining Agreement negotiated earlier this year. The agreement is based on 3% wage increases, in accordance with the Government's wages policy, and some adjustments to provide for better relativities between the ranks.

Premier and Cabinet

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
State Water Strategy	1.0	-	-	-
Ningaloo Coast Options	0.4	-	-	-
Total	1.4	-	-	-

- Additional expenses for priority actions under the State Water Strategy initiative.
- Costs in relation to public consultation on the *Carnarvon-Ningaloo Coast Options* paper.

Recreation Camps and Reserve Board

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Reinvestment Project – expensed capital	1.4	0.8	1.0	-
Total	1.4	0.8	1.0	-

- A \$9.9 million capital works allocation has been provided to fund critical upgrades and restorative work of the camps following the sale of land at Noalimba to LandCorp. The expensed portion of the total allocation is shown above.
 - This strategic approach to reinvest the Noalimba land sale proceeds will ensure future operational and capital replacement sustainability of the remaining camps including Woodman Point, Point Walter and Ern Halliday, thus enabling the Board to better meet Government objectives and community service provision demand. In addition, through the restorative maintenance and capital upgrades, high quality and affordable recreation programs can be delivered to the community.

Swan River Trust

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Initiatives to protect the Swan River	1.2	-	-	-
Total	1.2	-	-	-

- Cost of action to improve the health of the Swan and Canning Rivers by reducing nutrient levels to limit algal blooms.

Treasury and Finance

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Electricity reform – monitoring of Western Power successor entities	-	0.2	0.2	0.2
CSO payment to the Water Corporation	2.3	-	-	-
Information campaign for Business Tax Review	0.1	-	-	-
Public Transport Authority	0.6	0.5	-	-
Total	3.0	0.7	0.2	0.2

- Additional funding has been allocated to monitor Western Power's successor entities as part of the Government's electricity reform initiative.
- Reimbursement of Water Corporation expenses for the transfer of the Carnarvon Irrigation Scheme to the Gascoyne Water Cooperative Ltd and the Gascoyne Water Asset Mutual Cooperative Ltd.
- Information campaign to advise business and the wider tax-paying community of pending tax changes arising out of the Review of State Business Taxes.
- Additional funding has been provided to the Public Transport Authority for programs related to rail transport issues.

Water and Rivers Commission

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Water resource management	1.1	-	-	-
Total	1.1	-	-	-

- Expenses for priority licensing and compliance activities to improve the State's water resource management.

Western Australian Tourism Commission

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
South West Forest Region	0.2	-	-	-
Total	0.2	-	-	-

- Costs for a short-term marketing campaign to encourage increased tourism to the South West forest region. The campaign is specifically aimed at:
 - assisting the South West communities with the transition away from logging of old growth forests; and
 - encouraging people to visit the South West's old growth forests and the proposed new national parks.

APPENDIX 4

Transfer of Bus and Ferry Operations to the Public Transport Authority

On 1 July 2003, the Public Transport Authority (PTA) was created to bring the management and provision of all public transport under the control of one agency. The PTA consists of what were previously the Western Australian Government Railways Commission, Transperth, the School Bus Service Unit and the Regional Town Bus Service Management. The latter three elements were formerly part of the Department for Planning and Infrastructure. The new PTA is a public non-financial corporation (PNFC).

The transfer of the Transperth functions to the PTA results in removal of fee-for-service activities from the general government sector, together with the transfer of related assets and liabilities (buses, ferries, infrastructure, debt, etc.). The following table shows that this transfer has an overall neutral impact on the general government operating balance, but that there are material movements in individual revenue and expense aggregates.

IMPACT OF BUS AND FERRIES TRANSFER				
	2003-04	2004-05	2005-06	2006-07
	\$m	\$m	\$m	\$m
REVENUE				
Sales of goods and services	-75.8	-75.8	-75.8	-75.8
Other	0.7	0.8	0.8	0.8
<i>Total</i>	-75.1	-75.0	-75.0	-75.0
EXPENSES				
Gross operating expenses				
Salaries	-4.5	-4.5	-4.4	-4.4
Depreciation and amortisation	-17.5	-18.0	-19.0	-19.0
Superannuation	-0.4	-0.4	-0.4	-0.4
Other gross operating expenses	-72.8	-75.9	-81.0	-86.0
Other interest	-17.0	-17.0	-17.7	-17.7
Current transfers				
Grants expenses for transport services	-138.4	-143.8	-149.0	-148.3
Appropriations to Public Transport Authority	175.5	184.5	196.4	200.8
<i>Total</i>	-75.1	-75.0	-75.0	-75.0
NET OPERATING BALANCE IMPACT	-	-	-	-
<i>Memo item: Net debt at 30 June</i>	258.8	271.9	282.8	309.4

The last line in the table shows the magnitude of net debt transferred to the PNFC sector as a result of this restructure. This transfer has no impact on the Government's net debt to revenue ratio target for the total non-financial public sector.

APPENDIX 5

2002-03 Final Outcome

The *Government Financial Results Report* (GFRR) for 2002-03 was released on 23 September 2003, in line with the *Government Financial Responsibility Act* requirement that an outcome report for public sector finances covering the financial year just ended be released no later than 30 September each year.

As indicated in the 2002-03 GFRR, the report was not based on audited data, reflecting its early release and its basis in statistical rather than accounting standards. As a result of the finalisation of the audit process, some adjustments were made which impact on the classification and recognition of financial aggregates in agencies' accounts. These in turn impact on the consolidated results presented in the GFRR.

Comparative data for 2002-03, both on a government finance statistics (GFS) and accounting basis, have been revised in this publication to reflect the final audited outcomes contained in the *Government of Western Australia Consolidated Financial Statements* for the year ended 30 June 2003, released on 11 December 2003.

The following table briefly reconciles the general government GFRR operating result to the final outcome for 2002-03. As indicated in the table, the final GFS net operating surplus for 2002-03 (\$254 million) is very close to the surplus reported in the GFRR (\$250 million).

**RECONCILIATION OF 2002-03 RESULTS REPORT TO FINAL
OUTCOME**

General Government Net Operating Balance

	\$m
<i>2002-03 Government Financial Results Report</i>	
GFS Net Operating Balance	250
<i>less</i> provision for doubtful debts	-10
<i>plus</i> net gains on assets (including derivatives)	250
<i>plus</i> capitalised interest	-
<i>less</i> revaluation of superannuation liabilities	47
<i>plus</i> all other adjustments	-
AAS Operating Result	463
<i>Variances</i>	
Asset recognition	
- Main Roads	-141
- Department of Industry and Resources	-10
- Department of Health	-17
- Department of Industry and Technology	11
- Crown land transfers	-41
Revenue	
- WorkCover	9
- Department of Justice	-10
All other	2
<i>Total</i>	<i>-197</i>
<i>Government of Western Australia Consolidated Financial Statements</i>	
AAS Operating Result	265
<i>plus</i> provision for doubtful debts	-19
<i>less</i> net gains on assets (including derivatives)	39
<i>less</i> capitalised interest	-
<i>plus</i> revaluation of superannuation liabilities	47
<i>less</i> all other adjustments	-
GFS Net Operating Balance	254

Note: Columns may not add due to rounding.
