



2005-06

GOVERNMENT MID-YEAR FINANCIAL  
PROJECTIONS STATEMENT

DECEMBER 2005



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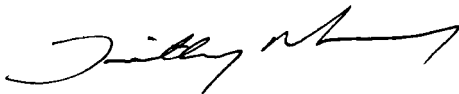
# Foreword

This *Government Mid-year Financial Projections Statement* (mid-year review) outlines developments in the State's financial position and outlook since the 2005-06 State Budget, which was brought down on 26 May 2005. 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 12 December 2005. The mid-year review does not include the impact of any decisions taken, or other issues arising, after the cut-off date (e.g. the release of the Commonwealth's *Mid-Year Economic and Fiscal Outlook*).

The financial projections are influenced by the economic assumptions outlined in Chapter 3: *The Western Australian Economy*, which were finalised on 12 December 2005.

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

Financial data for 2004-05 included in this publication (for comparative purposes) are consistent with final audited data contained in the 2004-05 *Government of Western Australia Consolidated Financial Statements*, released on 10 November 2005.



Timothy Marney

UNDER TREASURER

December 2005

CHAPTER 1

# Financial Projections

## Overview

The outlook for Western Australia's finances has strengthened since the 2005-06 Budget was delivered on 26 May 2005. Growth in the Western Australian economy continues to exceed expectations, with the property market, household spending in general, and employment growth proving to be more resilient than expected.

In addition, world oil prices have remained above budget time expectations, boosting petroleum royalties, while the exchange rate has depreciated slightly, which has provided further upward movement in royalties revenue more generally.

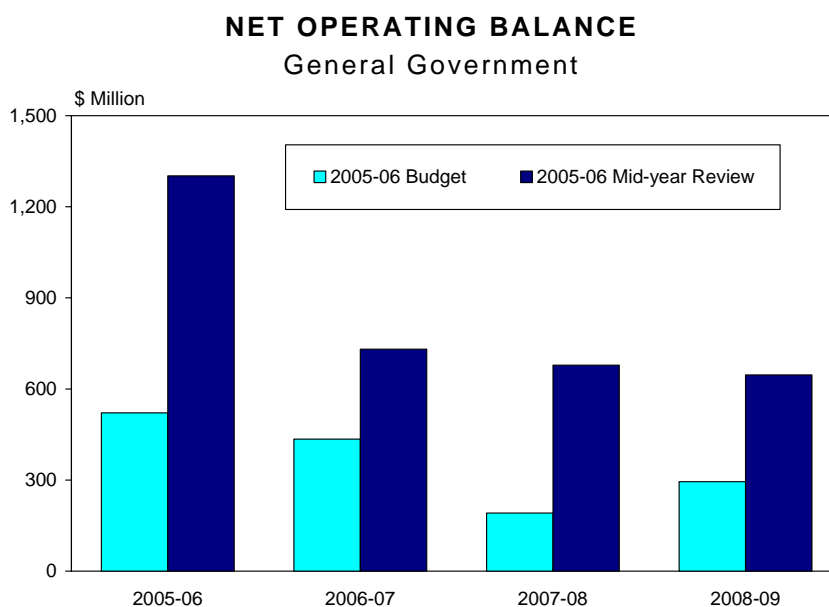
In responding to the ongoing strength of the Western Australian economy and other developments impacting the State through the year, the Government has announced a range of new initiatives, such as measures to address developing skills shortages, enhanced counter-terrorism measures, the installation of seat belts on school buses, and the streamlining of approval processes and approval timelines for resource projects.

With upward movement in revenue well in excess of increases in expenses, the overall impact on the general government sector net operating balance, the budget 'bottom-line' in Western Australia, is a substantial upward revision in the outlook for 2005-06. An operating surplus of \$1,302 million is now in prospect, up from \$521 million at budget time.

Other key results contained in this mid-year review include:

- stronger surpluses across the outyears, ranging between \$640 million and \$740 million, which are around \$375 million higher on average than at the time of the budget;
- a reduction in projected net debt levels since the 2005-06 Budget, reflecting the better than expected outturn for 2004-05 and the stronger surplus outlook over the forward estimates period; and
- continued record infrastructure spending across the forward estimates.

Figure 1



Net debt at 30 June 2006 is projected to be around \$5.2 billion, \$1.3 billion lower than the forecast at the time of the 2005-06 Budget. Relative to the 2005-06 Budget estimates, lower net debt outcomes are also in prospect over the remainder of the forecast period.

Building on the benefits of a stronger outcome for 2004-05 and the revised operating outlook, the Government has been able to accommodate significant expansion of infrastructure spending, particularly in the health sector and for new sporting, community and industry projects, while restraining growth in net debt to sustainable levels.

This outcome is reflected in lower projected levels for the key net debt to revenue ratio, which is expected to be around 30.7% in 2005-06, rising to a maximum 39.9% by 2008-09. These are significantly lower levels than the 39.2% budget time projected for 2005-06, and the peak of 43.4% previously expected for 2007-08.

Table 1

**KEY BUDGET AGGREGATES**  
Western Australia

	2004-05 Actual <sup>(a)</sup>	2005-06 Budget Estimate	2005-06 Mid-Year Revision	2006-07 Forward Estimate	2007-08 Forward Estimate	2008-09 Forward Estimate
<b>GENERAL GOVERNMENT</b>						
Revenue (\$m)	14,222	14,218	15,357	15,328	15,608	16,009
Expenses (\$m)	13,030	13,697	14,056	14,597	14,929	15,363
<b>Net Operating Balance (\$m)</b>	<b>1,192</b>	<b>521</b>	<b>1,302</b>	<b>731</b>	<b>678</b>	<b>646</b>
<b>TOTAL NON-FINANCIAL PUBLIC SECTOR</b>						
Net Debt to Revenue Ratio (%)	25.2	39.2	30.7	35.2	37.5	39.9
<b>TOTAL PUBLIC SECTOR</b>						
Net Debt at 30 June (\$m)	4,001	6,521	5,179	6,020	6,585	7,275

(a) Consistent with final audited data contained in the 2004-05 *Government of Western Australia Consolidated Financial Statements*, released 10 November 2005.

Note: Columns may not add due to rounding.



The mid-year review projections are consistent with achieving the Government's other financial targets, except the general government expense growth target in 2005-06. Expense growth is expected to exceed real per capita growth as a result of the range of policy and parameter<sup>1</sup> changes to recurrent spending since the budget.

The key factors influencing the improved outlook for the general government net operating balance are summarised in the following table and discussed in more detail in the remainder of this chapter. Policy decisions since the 2005-06 Budget, which are reflected in revised general government expenses and total public sector infrastructure spending, are outlined in more detail in Appendix 3: *Post-Budget Policy Decisions Affecting Spending*.

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<sup>1</sup> Parameter changes are those changes that arise due to changes in the economic environment, the timing of transactions, consequential interest and depreciation impacts, etc.

Table 2

**SUMMARY OF GENERAL GOVERNMENT REVENUE AND EXPENSE  
VARIATIONS SINCE THE 2005-06 BUDGET**

	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m
<b>2005-06 BUDGET NET OPERATING BALANCE</b>	<b>521</b>	<b>435</b>	<b>192</b>	<b>295</b>
<b>Revenue</b>				
<i>Policy Decisions</i>				
Argyle Diamonds - royalty relief	-	-	-29.3	-24.0
Stamp Duty Rebate Scheme	-6.0	-1.0	-	-
Perry Lakes Redevelopment Project - resumption of land	56.0	-	-	-
All other revenue <sup>(a)</sup>	1.0	1.7	2.3	3.3
<i>Total Policy</i>	<i>51.0</i>	<i>0.7</i>	<i>-27.0</i>	<i>-20.7</i>
<i>Parameter</i>				
Taxation	680.1	377.1	355.7	371.8
<i>comprising:</i>				
- Payroll tax	83.6	78.7	83.6	79.5
- Conveyance duty	484.0	196.3	174.7	188.6
- Mortgage duty	46.4	29.5	28.0	32.0
- Motor vehicle taxes	54.4	56.4	54.6	55.9
- All other taxes	11.7	16.3	14.8	15.9
Commonwealth grants:				
- North West Shelf petroleum royalties	114.3	115.2	89.1	101.4
- GST revenue grants	-16.4	-14.4	-47.2	-102.6
- SPPs 'through' the State	19.5	21.3	22.5	24.0
- Education and Training grants	26.1	28.4	30.7	35.4
- Road grants	20.8	6.0	10.0	11.1
- All other Commonwealth grants	1.1	13.1	22.0	42.8
Mining royalties	102.6	174.3	220.5	235.5
Agency sales of goods and services	54.1	48.6	48.6	48.8
Revenue from public corporations	61.2	6.6	3.8	-24.9
Other	24.5	31.3	17.9	17.9
<i>Total Parameter</i>	<i>1,087.7</i>	<i>807.7</i>	<i>773.6</i>	<i>761.5</i>
<b>TOTAL REVENUE</b>	<b>1,138.7</b>	<b>808.4</b>	<b>746.7</b>	<b>740.8</b>
<b>Expenses</b>				
<i>Policy Decisions<sup>(b)</sup> – see Appendix 3 for further detail</i>	<i>90.2</i>	<i>85.5</i>	<i>89.3</i>	<i>92.3</i>
<i>Parameter</i>				
Salaries (excluding policy decisions and carryovers)	96.6	65.4	65.5	66.0
Superannuation (excluding policy decisions and carryovers)	23.9	24.1	27.5	30.2
Carryovers and reschedulings	52.9	209.8	-86.7	0.8
Interest expenses	-17.5	-31.5	-27.1	-22.7
Depreciation	11.7	13.1	17.9	41.5
Grants on-passed from the Commonwealth <sup>(c)</sup>	45.3	76.3	84.7	103.8
CBD Courts (PPP treatment)	-	1.5	2.2	22.5
Grants to the Public Transport Authority	8.8	9.4	7.5	8.0
Other	46.6	58.5	79.2	46.8
<i>Total Parameter</i>	<i>268.4</i>	<i>426.7</i>	<i>170.6</i>	<i>297.0</i>
<b>TOTAL EXPENSES</b>	<b>358.6</b>	<b>512.2</b>	<b>259.9</b>	<b>389.4</b>
<b>TOTAL VARIANCE</b>	<b>780.1</b>	<b>296.2</b>	<b>486.7</b>	<b>351.4</b>
<b>2005-06 MID-YEAR REVIEW NET OPERATING BALANCE</b>	<b>1,302</b>	<b>731</b>	<b>678</b>	<b>646</b>

(a) Includes revenue from decisions such as the issuing of new taxi plates, and fees from industry in relation to further reforms of the Project Approvals System.

(b) Excludes the public debt net interest effect of policy measures.

(c) Includes Education and Training, Housing, Auslink Agreement, First Home Owner Grants and SPPs 'through' the State.

Note: Columns may not add due to rounding.

## General Government Sector

### Operating Statement

General government revenue and expenses have both been revised up since the 2005-06 Budget. An increase in revenue of \$1.1 billion, partially offset by a \$359 million upward revision to expenses, is expected to result in an operating surplus of \$1,302 million in 2005-06, up from \$521 million at budget time.

Across the outyears, revenue has been revised up by between \$740 million to \$810 million per annum, with smaller increases expected for expenses. Accordingly, stronger surpluses are in prospect across the forward estimates period (see following table).

Table 3

#### GENERAL GOVERNMENT Operating Statement

	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual \$m	Estimate \$m	Forward Estimate \$m	Forward Estimate \$m	Forward Estimate \$m
<i>MID-YEAR REVIEW <sup>(a)</sup></i>					
Revenue	14,222	15,357	15,328	15,608	16,009
Expenses	13,030	14,056	14,597	14,929	15,363
<b>Net Operating Balance</b>	<b>1,192</b>	<b>1,302</b>	<b>731</b>	<b>678</b>	<b>646</b>
<i>2005-06 BUDGET</i>					
Revenue	13,789	14,218	14,520	14,861	15,268
Expenses	13,158	13,697	14,085	14,669	14,973
<b>Net Operating Balance</b>	<b>631</b>	<b>521</b>	<b>435</b>	<b>192</b>	<b>295</b>
<i>VARIANCE</i>					
Revenue	434	1,139	808	747	741
Expenses	-127	359	512	260	389
<b>Net Operating Balance</b>	<b>561</b>	<b>780</b>	<b>296</b>	<b>487</b>	<b>351</b>

(a) 2004-05 figures are consistent with final audited data contained in the 2004-05 *Government of Western Australia Consolidated Financial Statements*, released 10 November 2005.

Note: Columns may not add due to rounding

## Revenue

General government operating revenue is estimated to rise to \$15,357 million in 2005-06, 8.0% higher than estimated in the 2005-06 Budget.

The revised estimate incorporates the effects of the higher than expected revenue outcome in 2004-05. In addition, strong economic conditions and other developments (e.g. a lower exchange rate) have contributed to better than expected revenue growth in the areas of taxation and mining royalties.

Movements in estimates of key revenue aggregates in 2005-06 (relative to the budget) are described below (further detail is provided in Appendix 2: *General Government Operating Revenue*).

- Taxation revenue has been revised up by \$674 million, incorporating upward revisions to:
  - stamp duty on conveyances (up \$478 million), reflecting the continued strength of property market activity and a significant boost from large, one-off transactions (such transactions are estimated to have contributed nearly \$200 million already in 2005-06, considerably higher than in previous years)<sup>2</sup>;
  - payroll tax (up \$84 million), mainly attributable to the strength of labour market conditions;
  - motor vehicle taxes (up \$54 million), reflecting the continued strength of motor vehicle sales;
  - mortgage duty (up \$46 million), mainly due to financing activity related to the property market; and
  - gambling taxes (up \$9 million), mainly due to higher TAB betting tax collections.

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<sup>2</sup> Consistent with accounting standards, assessments for these transactions are shown as revenue when they are issued.

- Grants and subsidies from the Commonwealth are estimated to be \$165 million higher than budgeted<sup>3</sup>, mainly due to:
  - an increase in estimated North West Shelf royalties of \$114 million (received as a grant from the Commonwealth). This largely reflects an average oil price of \$US63 per barrel to date in 2005-06 and a forecast price of \$US55 per barrel on average over the remainder of the year, compared to the budget estimate of an average oil price of \$US40 per barrel in 2005-06;
  - an increase in estimated capital grants of \$33 million, mainly due to increased road funding (up \$22 million) and increased assistance to non-government schools (up \$7 million);
  - higher than budgeted recurrent specific purpose payments (\$34 million), largely reflecting increased payments to both government and non-government schools (up \$26 million and \$10 million respectively), which have been partly offset by downward revisions to estimated payments for health and roads; and
  - a downward revision of \$16 million to estimated GST revenue grants, mainly due to a negative adjustment to correct for an overpayment in 2004-05 (national GST collections in 2004-05 were less than the Commonwealth had estimated for the final calculation of 2004-05 payments to the States).
- Mining royalties (excluding the North West Shelf petroleum royalties classified as a Commonwealth grant) have been revised up by \$103 million. This reflects the combined impact of a lower exchange rate assumption for the remainder of 2005-06 (US74 cents, compared to the budget estimate of US78 cents) and higher commodity prices relative to budget (including a projected 10% increase in iron ore prices from 1 April 2006 – the beginning of the Japanese Fiscal Year).
- ‘Other’ revenue has been revised up by \$80 million, largely reflecting the Government’s decision to resume land from the Town of Cambridge for the redevelopment of Perry Lakes (\$56 million) and additional grants from industry to the Department of Agriculture (\$19 million).

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<sup>3</sup> This mid-year review does not include the impact of the Commonwealth’s *Mid-year Economic and Fiscal Outlook*, released after the 12 December 2005 cut-off date for this publication.

- Revenue from public corporations has been revised up by \$61 million, reflecting increased dividend revenue (\$41 million) and tax equivalent regime payments (\$20 million). In particular, estimates for the Water Corporation have been revised up as higher than expected land development activity is resulting in increases in developers' contributions.
- Revenue from the sale of goods and services has been revised up by \$55 million reflecting increases across a range of agencies including the Departments of Health (largely health reform revenue enhancement measures), Land Information (land title revenue associated with increased property market activity), Education and Training and Conservation and Land Management (reimbursement for activity such as fire suppression work undertaken on behalf of third parties).

Across the outyears, the net increases in general government operating revenue compared to the 2005-06 Budget estimates are \$808 million in 2006-07, \$747 million in 2007-08 and \$741 million in 2008-09. These increases are mainly attributable to the following factors:

- the flow-through of higher taxation revenue in 2005-06 and upward revisions to mining royalties (mainly reflecting higher iron ore prices, as well as a lower exchange rate assumption of US74 cents);
- the mining estimates incorporate the estimated revenue impact (\$53 million across the forward estimates period) of the provision of financial assistance to the Argyle diamond mine in the form of a reduced royalty rate of 5% (partially offset by expected production volume changes as the mine is developed);
- compared to 2005-06, property market activity is expected to ease modestly in 2006-07, before growing again slowly in 2007-08, reducing the increase in stamp duties on property transfers and mortgages over the outyears;
- reductions in estimates of GST revenue grants from the Commonwealth (amounting to around \$100 million in 2008-09), which reflect the impact of higher than previously forecast petroleum and iron ore royalties on the State's share of national GST collections, also contribute to the smaller increases in general government operating revenue over the outyears; and
- interest income has been revised up by \$39 million in total across the forward estimates, primarily reflecting investment of increased surpluses available in the Public Bank Account (\$31 million).

## Review of Revenue Forecasting

The Department of Treasury and Finance's report on the findings and recommendations of its Review of Revenue Forecasting has been largely completed and will be published in January 2006. The Review included extensive consultation with stakeholders and a process of peer review (i.e. involving other Treasuries) and external review of the draft report by a private accounting firm.

Importantly, recommendations identified by the Review have been implemented progressively and have therefore already influenced the development of the revised revenue estimates in this mid-year review. Measures include: wider and more frequent consultation with industry experts; closer consultation with the Department of Industry and Resources on mining royalties estimates and more timely provision of these estimates; commencement of more formal and regular discussion of revenue trends in a new cross-departmental forum (the Joint Economic Forecasting Group); and additional quantification and highlighting of risks to the revenue estimates.

A number of other recommendations are expected to have longer-term benefits, with a particular emphasis on: improving the communication and transparency of revenue forecasts; an enhanced resource commitment to continual research and development of forecasting methodologies and other specific research and development projects.

## Expenses

General government expenses for 2005-06 are projected to be \$14,056 million. This is an increase of \$359 million (or 2.6%) on the 2005-06 Budget estimates.

Post-budget policy decisions account for just \$90 million of this increase (details of these decisions are contained in Appendix 3: *Post-Budget Policy Decisions Affecting Spending*). The remainder reflect a range of parameter-driven factors, such as: increased salaries associated with new enterprise bargaining agreements (EBAs) and higher staff numbers (particularly in the health and education sectors); on-payment of higher specific purpose payment grants from the Commonwealth; and spending deferred from 2004-05.

Relative to the 2005-06 Budget estimates, the increase in expenses in 2005-06 reflects:

- increased services and contracts and ‘other’ gross operating expenses (up by a net \$167 million), of which half reflects spending carried over from 2004-05. The remainder is divided between post-budget policy decisions such as: extension of the high-wide load road corridor program; funding for an increased counter-terrorism and emergency response capability; and cost and demand driven increases in a variety of areas including patient health service provision and building and road works;
- increased salaries and concurrent superannuation expenses (up \$127 million), including: increased resources for the Office of the Director of Public Prosecutions; further support to implement the Outcomes and Standards Education curriculum; and work value reclassifications for allied health professionals, as well as cost and demand driven increases in both the health and education sectors (including EBA salary increases for registered nursing staff, and vocational training lecturers);
- higher current transfers (up \$74 million), reflecting grants to address skills shortages, assistance to the Shire of Brookton for losses associated with a 1997 bushfire and the collapse of its insurance arrangements, a new north-west shipping contract, the impact of changes in the timing of expenditure from the Regional Investment Fund, and a range of small grants programs across the sector;
- increased depreciation expenses (up \$12 million) largely reflecting the impact of asset revaluations in the education and health sectors at the end of 2004-05; and
- lower interest expenses (down \$17 million) following the early repayment of Consolidated Fund debt in August 2005 (worth \$244 million) using surplus cash from 2004-05.

Expenses across the outyears have been revised upwards by an average \$387 million per annum, reflecting similar issues to those outlined above for 2005-06.



## Balance Sheet

The general government sector balance sheet is expected to remain in a sound position across the forward estimates period, as shown in the following table.

Table 4

<b>GENERAL GOVERNMENT</b>					
Balance Sheet at 30 June					
	2005	2006	2007	2008	2009
	Actual	Estimate	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate
			\$m	\$m	\$m
<i>MID-YEAR REVIEW</i> <sup>(a)</sup>					
Assets	60,117	62,554	64,547	66,901	68,965
Liabilities	9,926	10,183	10,352	10,734	10,925
<b>Net Worth</b>	<b>50,192</b>	<b>52,371</b>	<b>54,195</b>	<b>56,167</b>	<b>58,040</b>
Net Debt	-997	-1,178	-1,222	-909	-998
<i>2005-06 BUDGET</i>					
Assets	55,785	57,483	58,979	60,463	61,850
Liabilities	9,701	9,954	10,037	10,336	10,590
<b>Net Worth</b>	<b>46,083</b>	<b>47,530</b>	<b>48,941</b>	<b>50,127</b>	<b>51,260</b>
Net Debt	-275	138	142	373	332
<i>VARIANCE</i>					
Assets	4,333	5,071	5,568	6,438	7,115
Liabilities	224	230	315	398	335
<b>Net Worth</b>	<b>4,108</b>	<b>4,841</b>	<b>5,253</b>	<b>6,040</b>	<b>6,780</b>
Net Debt	-722	-1,317	-1,364	-1,282	-1,329

(a) 2005 figures are consistent with final audited data contained in the 2004-05 *Government of Western Australia Consolidated Financial Statements*, released 10 November 2005.

Note: Columns may not add due to rounding

Net worth (i.e. assets less liabilities) is expected to rise each year, from an estimated \$50.2 billion at 30 June 2005 to around \$58.0 billion by 30 June 2009.

Relative to the 2005-06 Budget estimates, projected net worth at 30 June 2006 has been revised up by \$4.8 billion, reflecting:

- a \$2.8 billion increase in the value of general government land and fixed asset holdings, mainly affecting the State's land under roads, and assets held by the education and health sectors<sup>4</sup>; and

<sup>4</sup> See the 2004-05 *Government Financial Results Report* for further information.

- a \$2.2 billion increase in financial assets, due mainly to the value of the sector's equity holdings in public corporations (up \$1.2 billion, largely attributable to higher than expected balance sheet outcomes for 2004-05), and investments, loans and placements (up \$1.1 billion, reflecting the impact of the surplus achieved in 2004-05).

Liabilities have been revised up by \$230 million in 2005-06, and are expected to stand at around \$10.2 billion at 30 June 2006. Lower borrowings (down \$323 million following the August 2005 repayment of \$244 million in Consolidated Fund debt and better outcomes for 2004-05) are expected to be more than offset by:

- higher superannuation liabilities (up \$168 million), reflecting the annual actuarial revaluation of these liabilities at 30 June 2005;
- higher 'other' employee entitlements (up \$77 million), again reflecting 2004-05 valuation effects; and
- higher non-equity liabilities, mainly accounts payable (up \$302 million) due to changes in the timing of cash payments through the year.

Over the forward estimates period, surpluses across all sectors of government are expected to result in increasing asset values, while liabilities are expected to grow only modestly, reflecting low growth in gross borrowings and employee entitlements.

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

## **Cash Flow Statement**

The general government sector is expected to record a cash surplus of \$736 million in 2005-06, up significantly from the \$69 million surplus estimated in the 2005-06 Budget.

This primarily reflects the stronger forecasts of operating performance of the general government sector discussed earlier, with net cash flows from operating activities up \$788 million since budget. Partially offsetting the stronger operating surplus, net cash outflows for non-financial assets are expected to be around \$122 million higher than budget in 2005-06, largely due to some spending carried over from 2004-05, as well as \$50 million for installation of additional common user infrastructure at the Australian Marine Complex in Henderson, and the impact of cost escalations on capital works projects.

Across the outyears, cash surpluses are in prospect in 2006-07 and 2008-09, while a modest \$38 million deficit is expected in 2007-08. These outcomes are a key part of the Government's strategy to contain growth in net debt while still providing significant infrastructure investment over the medium term.

## Total Public Sector

### Summary

The total public sector<sup>5,6</sup> is projected to remain in surplus across all sectors in 2005-06 and across the forward estimates period. The State's balance sheet is forecast to remain in a strong position, reflecting the impact of surpluses on operations.

### Net Operating Balance

The total public sector is expected to record net operating surpluses in each of the forward estimates years. This reflects surpluses in all sectors of government.

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<sup>5</sup> The total public sector consolidates the general government sector (discussed above), the public non-financial corporations sector (which includes entities operating on a predominantly commercial basis like Western Power and the Water Corporation), and the public financial corporations sector (which includes agencies such as the Western Australian Treasury Corporation and the Insurance Commission of Western Australia).

<sup>6</sup> Under GFS standards, the net worth of the general government sector includes the net worth of the public corporations as an equity asset. Therefore, total public sector net worth is identical to that of the general government sector (discussed earlier).

An operating surplus of \$1.4 billion is forecast for 2005-06, up \$690 million on the budget estimate. The upward revision in the estimate for 2005-06 is largely due to the higher than budgeted surplus expected in the general government sector (discussed above). While the public corporations sectors are showing modest downward revisions relative to budget time, both of these sectors are expected to remain in surplus in 2005-06.

Across the outyears, the total public sector is forecast to record operating surpluses of around \$800 million per annum, reflecting the projected operating surpluses of all sectors.

The public non-financial corporations sector is forecast to record an operating surplus of \$58 million in 2005-06, down \$32 million since budget time, with similar reductions in prospect across the outyears. Both revenue and expenses have been revised up since budget reflecting:

- higher developers' contributions to the Water Corporation in support of on-going land development activity;
- higher revenue from the sale of enhanced lottery products, along with prize money and grants payments by the Lotteries Commission on the back of increasing turnover;
- record turnover growth for the Racing and Wagering Commission stemming from an increase in interest in wagering products and confidence and activity within the racing industry, with higher expenses driven by increases in distributions to the racing industry; and
- variations for Western Power due mainly to the effect of the implementation of *Australian equivalents to International Financial Reporting Standards* (AIFRS) from 2005-06, requiring Power Purchase Agreements to be recognised as finance leases with a resultant bring-forward of associated expenses.

The net operating surplus of the public financial corporations sector is forecast to be \$56 million in 2005-06, down \$58 million on the 2005-06 Budget estimates. Surpluses of a broadly similar magnitude are projected across the outyears. This reflects downward revisions to projections of interest earned on financial investments held by the sector.

## Cash Flow Statement

Relative to the 2005-06 Budget, the total public sector is expected to show a \$362 million improvement in the cash deficit projections for 2005-06. Additional cash from operating activities since budget (largely due to general government factors discussed earlier), are expected to more than offset an increase in capital spending arising from policy decisions<sup>7</sup> and parameter movements such as a global provision for cost escalations across the public sector Capital Works Program, and the rescheduling of some capital spending from 2004-05.

Across the outyears, the total public sector is forecasting to record diminishing cash deficits, broadly in line with expectations at the time of the 2005-06 Budget.

## Net Debt

Total public sector net debt is expected to be \$5.2 billion at 30 June 2006, \$1.3 billion lower than estimated in the 2005-06 Budget. This revision reflects the better than expected outcome for 2004-05 (reported in the 2004-05 *Government Financial Results Report*) and the stronger total public sector cash surplus discussed above.

Across the outyears, net debt is forecast to rise by an average \$700 million per annum, to stand at \$7.3 billion at 30 June 2009, \$560 million lower than at the time of the 2005-06 Budget.

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<sup>7</sup> See Appendix 3: *Post-Budget Policy Decisions Affecting Spending* for further details.

Table 5

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

	2005	2006	2006	2007	2008	2009
	Actual	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
<b>GENERAL GOVERNMENT</b>						
Gross Debt <sup>(a)</sup>	2,195	2,331	2,013	2,054	2,281	2,344
Cash, Deposits and Lending <sup>(b)</sup>	2,470	2,193	3,192	3,276	3,191	3,342
<b>Net Debt</b>	<b>-275</b>	<b>138</b>	<b>-1,178</b>	<b>-1,222</b>	<b>-909</b>	<b>-998</b>
<b>PUBLIC NON-FINANCIAL CORPORATIONS</b>						
Gross Debt <sup>(a)</sup>	8,402	9,475	9,716	10,799	11,264	12,259
Cash, Deposits and Lending <sup>(b)</sup>	2,220	2,306	2,418	2,537	2,654	2,816
<b>Net Debt</b>	<b>6,183</b>	<b>7,169</b>	<b>7,298</b>	<b>8,262</b>	<b>8,611</b>	<b>9,443</b>
<b>TOTAL NON-FINANCIAL PUBLIC SECTOR <sup>(c)</sup></b>						
Gross Debt <sup>(a)</sup>	9,904	11,157	11,088	12,229	12,933	14,010
Cash, Deposits and Lending <sup>(b)</sup>	3,997	3,850	4,968	5,189	5,231	5,565
<b>Net Debt</b>	<b>5,907</b>	<b>7,307</b>	<b>6,119</b>	<b>7,040</b>	<b>7,701</b>	<b>8,445</b>
<b>PUBLIC FINANCIAL CORPORATIONS</b>						
Gross Debt <sup>(a)</sup>	14,167	15,079	15,355	16,316	16,897	17,506
Cash, Deposits and Lending <sup>(b)</sup>	14,907	15,865	16,296	17,336	18,013	18,676
<b>Net Debt</b>	<b>-741</b>	<b>-786</b>	<b>-941</b>	<b>-1,020</b>	<b>-1,117</b>	<b>-1,170</b>
<b>TOTAL PUBLIC SECTOR <sup>(c)</sup></b>						
Gross Debt <sup>(a)</sup>	13,403	14,072	14,847	15,935	16,871	18,149
Cash, Deposits and Lending <sup>(b)</sup>	8,236	7,550	9,668	9,915	10,287	10,874
<b>Net Debt</b>	<b>5,167</b>	<b>6,521</b>	<b>5,179</b>	<b>6,020</b>	<b>6,585</b>	<b>7,275</b>

(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 non-financial public sector or 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.

The general government sector is projected to be free of net debt across the entire forward estimates period, with financial assets exceeding gross debt liabilities by around \$1.0 billion per annum. This reflects the significant improvement in the operating outlook for the sector, partially offset by expected changes in infrastructure spending.

Compared with the 2005-06 Budget estimates, net debt of the public non-financial corporations sector (which holds the vast majority of the State's debt in support of significant infrastructure assets) is expected to be \$129 million and \$1.0 billion higher at 30 June 2006 and 30 June 2009 respectively. In addition to minor changes in the timing of the sector's infrastructure investments, this upward revision incorporates a four year total increase of \$884 million in finance lease liabilities held by Western Power as a result of recent changes to lease recognition under the AASB 117: *Leases* as part of the implementation of AIFRS from 2005-06. These lease liabilities are fully offset by fixed assets, which do not impact the calculation of net debt, and which are also brought to book under the new standard.

For the total non-financial public sector, net debt is projected to be at levels lower than estimated in the 2005-06 Budget. Together with the stronger revenue outlook discussed earlier, the net debt to revenue ratio is expected to peak at an estimated 39.9% in 2008-09, well below the Government's target level of 47%. This key financial target is discussed further in Chapter 2: *Financial Strategy*.

Table 6 reconciles the change in total public sector net debt since the 2005-06 Budget. In addition to the better than expected net debt outcome for 30 June 2005, other key factors contributing to movements in net debt include:

- the improvement in the general government sector operating outlook discussed earlier; and
- adjustments to the Capital Works Program due to policy decisions taken by Government (discussed in more detail at Appendix 3: *Post-Budget Policy Decisions Affecting Spending*), and parameter changes.

Significant changes to the infrastructure spending since the time of the 2005-06 Budget include:

- a global provision of \$553 million to accommodate anticipated escalations in building costs over the forward estimates period;
- the rescheduling of projects between years as project timetables progress (\$348 million);

- changes in the scope and cost of the new Perth to Bunbury Highway (\$148 million, backed in part by additional land sales receipts and additional borrowings by the State to meet shortfalls in the Commonwealth contribution to the project); and
- increases in the cost of the State Housing Commission's housing program (up \$291 million), due to higher material and trades costs, and longer completion times (with the anticipated increase in spending to be met through increased proceeds and volumes of sales of housing stock).

The impact of AIFRS accounting changes since the 2005-06 Budget relating to Western Power (discussed above) adds significantly to net debt over the projection period. Partially offset by the impact of the move to a market value balance sheet for the Western Australian Treasury Corporation (compared with historical cost values used in previous whole-of-government reporting), AIFRS changes since the budget add \$731 million to net debt by 30 June 2009.



Table 6

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

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<i>Net debt at 30 June (2005-06 Budget)</i>	6,521	7,152	7,616	7,835
<i>Plus improvement from 2004-05 outturn</i>	-1,165.3	-	-	-
<i>Less change in net cash flows from operating activities and distributions paid</i>				
General government	788.4	379.7	404.9	322.7
Public non-financial corporations	-122.4	0.1	-21.6	-19.6
Public financial corporations	13.2	-15.5	6.9	1.0
<i>Total public sector</i>	679.1	364.4	390.2	304.1
<i>Plus purchases of non-financial assets</i>				
Policy decisions <sup>(a)</sup>	69.7	193.7	335.1	221.7
Parameter movements:				
- Capital Works Program escalations	73.0	128.0	170.0	182.0
- State Housing Commission Housing Program	77.7	125.4	41.9	45.7
- New Perth to Bunbury Highway (escalation and revised project)	19.0	39.0	55.0	34.7
- All other (including carryovers from 2004-05 and reschedulings)	162.7	88.9	29.6	66.9
<i>Total purchase of on non-financial assets</i>	402.1	575.0	631.6	551.1
<i>Less proceeds from sale of non-financial assets</i>				
Policy decisions:				
- Perry Lakes Redevelopment Project	-	-	9.5	38.5
- Gracetown Project	-	-	21.0	19.6
Parameter movements:				
- New Perth to Bunbury Highway (escalation and revised project)	13.7	20.0	10.0	15.0
- State Housing Commission Housing Program	69.2	140.0	65.1	79.9
- All other	1.7	-16.6	15.5	27.6
<i>Total sales of non-financial assets</i>	84.6	143.4	121.2	180.6
<i>Plus IFRS changes</i>	188.6	119.4	-	423.4
<i>Plus all other financing</i>	-4.5	24.1	-18.8	-19.1
<i>Cumulative impact on net debt at 30 June</i>	-1,342.9	-1,132.2	-1,030.8	-560.0
<b>Net debt at 30 June (2005-06 mid-year review)</b>	<b>5,179</b>	<b>6,020</b>	<b>6,585</b>	<b>7,275</b>

<sup>(a)</sup> Detail of policy decisions affecting the purchase of non-financial assets taken since the 2005-06 Budget is provided in Appendix 3: *Post-Budget Policy Decisions Affecting Spending*.

## Statement of Risks

This Statement of Risks updates the risk disclosure included in the 2005-06 Budget Papers<sup>8</sup>. 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.

Table 7

### MAJOR ECONOMIC PARAMETERS

	2005-06 Budget Estimate	2005-06 Mid-Year Revision	2006-07 Forward Estimate	2007-08 Forward Estimate	2008-09 Forward Estimate
Real gross State product <sup>(a)</sup> (%)	4.5	5.0	3.5	4.5	4.5
Real State final demand <sup>(b)</sup> (%)	2.25	5.75	3.0	4.0	4.0
Consumer price index (%)	2.5	4.0	3.0	2.5	2.5
Public consumption deflator (%)	3.5	4.5	3.75	3.75	3.75
Wages growth <sup>(c)</sup> (%)	4.75	4.75	3.5	3.5	3.0
Employment growth (%)	2.0	2.0	2.25	2.25	2.25
\$A/\$US	78	74 <sup>(d)</sup>	74	74	74
Oil price (\$US per barrel)	40	55 <sup>(d)</sup>	45	40	40

(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 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 growth is used in forecasting a number of State taxes, including stamp duties.

(c) This table shows average weekly earnings growth (which is used in forecasting payroll tax revenue) across the entire economy (i.e. both the private and public sectors), rather than the wage price index (WPI) measure. As discussed in Chapter 3: *The Western Australian Economy*, the WPI is forecast to grow by 4.5% in 2005-06.

(d) Forecast for remainder of 2005-06.

<sup>8</sup> See 2005-06 Budget Paper No. 3: *Economic and Fiscal Outlook*, pp. 37-43.

## Revenue Estimates

The revenue estimates are sensitive to changes in key economic parameters, particularly variations in wages and employment growth, the \$A/\$US exchange rate and the price of oil. Approximate impacts of these changes are provided in the following table<sup>9</sup>.

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### PARAMETER SENSITIVITY OF REVENUE ESTIMATES

Table 8

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	Variability (\$m)	Detail
Payroll tax	14.5	For each 1.0 pp variation in wages and/or employment growth
Total mining revenue <sup>(a)</sup>	24.0	For each 1.0 cent variation in the \$A/\$US exchange rate
Petroleum royalties <sup>(a), (b)</sup>	7.0	For each \$US1 variation in the price of a barrel of oil

(a) Includes North West Shelf petroleum royalties.

(b) The impact of oil price variations on petroleum royalties is significantly influenced by confidential contractual arrangements for LNG prices.

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In addition to the above parameter sensitivities, the following specific factors represent a potential risk to the revenue estimates.

### Revenue from the Commonwealth

The downward revisions to GST revenue grants since the 2005-06 Budget are based in part on the Commonwealth's May 2005 Budget and the carry-over from lower than expected actual GST collections in 2004-05. However, collections may vary significantly depending on the performance of the national economy. The Commonwealth's revised GST revenue estimates contained in its *Mid-year Economic and Fiscal Outlook* are not included in this mid-year review as they were not available by the 12 December 2005 cut-off date.

For 2006-07 onwards, there is uncertainty in the distribution of GST revenue between the States, which depends on the Commonwealth Grants Commission's annual updates of data used to determine these shares. Strong growth in State own source revenue in Western Australia relative to other States will reduce Western Australia's future share of GST grants.

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<sup>9</sup> These impacts are not mutually exclusive and can vary over time. For example, variations in the value of the \$A will impact on the sensitivity of revenue to variations in the oil price.

As in past years, competition grants for 2005-06 are subject to decisions by the Federal Treasurer after consideration of the National Competition Council's annual report on States' performance. This information was not available by the 12 December 2005 mid-year review cut-off date.

In early 2005, the Government took part in a review of the need to retain six stamp duties under the terms of the Intergovernmental Agreement on the GST funding arrangements. Three of these stamp duties had been abolished ahead of the review (on cheques, leases and unlisted marketable securities). Pending the recommendations of the State Tax Review on priorities for tax reform, the Government has decided to retain the three remaining stamp duties for now (stamp duty on conveyances of non-residential property, mortgage duty and rental/hiring duty). As the Commonwealth Government has demanded that these be abolished in 2006-07 and 2007-08 (except stamp duty on the real component of non-residential conveyances), there is a risk that the Commonwealth may take punitive action. However, the extent of this risk is unknown.

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

## **State Taxes**

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

Stamp duties linked to the historically volatile property market are inherently difficult to forecast. The mid-year review estimates for conveyance and mortgage stamp duties reflect an expected easing (albeit a minor one from a very high base) in property market activity in 2006-07. However, the risk that increases in fuel prices could flow through into wider inflation during 2005-06, increasing speculation about the prospects for interest rate increases, has also been factored into the estimates for 2005-06. Recent experience suggests that buyer sentiment in the property market is particularly sensitive to speculation about rising interest rates.

### **Mining Royalties**

The mining royalty estimates are sensitive to movements in the \$A/\$US exchange rate and oil and liquid natural gas (LNG) prices.

Oil prices and the exchange rate are also inherently volatile. For example, since 1 July 2005 the oil price (for West Texas Intermediate crude) has ranged between \$US56 per barrel and \$US70 per barrel.

The impact of oil price movements on petroleum royalties is influenced by the extent of the flow-through to the price of LNG. While the terms of contracts for sale of LNG are commercial-in-confidence, recent experience suggests that increases in oil prices to high levels have not resulted in a corresponding increase in LNG prices.

Contract iron ore prices reflect the outcome of protracted negotiations between the major producers and buyers each year. The negotiations are timed so that the new prices are agreed before the start of the Japanese fiscal year on 1 April. The estimates assume that iron ore prices will increase by around 10% next year, before declining by a total of 25% (relative to the 2006-07 price) over 2007-08 and 2008-09 as new projects and expansions of existing mines occurs.

Estimated royalty payments from proposed new mining projects and expansions of existing projects are included in the revenue estimates when the company commits to the project, and when all necessary government approvals have been received. As a result, there is a significant upside risk to the mining royalty estimates in the form of currently non-approved or uncommitted projects that may nonetheless commence production over the forward estimates period.

## **Revenue from Public Corporations**

There is a risk to revenue from public corporations from the impact of competition on profitability and revenue of Western Power. While Western Power's forecasts already incorporate lower operating profits as a result of reduced market share and contract prices, and higher costs in some areas, there is a risk that these impacts could be greater than anticipated. In the absence of other changes, this could result in Western Power's tax equivalent and dividend payments being lower than forecast.

It should be noted that, as part of electricity reforms, Western Power will be disaggregated into four separate entities from 1 April 2006.

## **Expenses**

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

### **Specific Purpose Payments and Matching Requirements**

There is a general risk to the expense estimates from the conditions imposed by the Commonwealth on 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/or parameter changes.

### **Health Expense Pressures**

The growing demand for health services represents a constant budget pressure. However, given the commitment made by the Department of Health to implement health reform, along with additional funding provided for reform and other initiatives, the agency is expected to remain within budget. Should any identified expense risks fail to be mitigated, they will be managed in conjunction with the Government's financial priorities and objectives.

## **Wages**

The forward estimates include provision for all EBAs that have been agreed and finalised, with appropriation-supported agencies required to fund one-third of the cost from their base allocations (apart from some exceptions related to specialist groups). Where wage outcomes are higher than these provisions, expenses will generally be higher. EBAs that are due to expire in the next 12 months include those for teachers, police, fire fighters, public transport employees and public servants covered by the Civil Service Association. A 1% increase in general government wages in 2005-06 amounts to around \$55 million across the general government sector.

## **Capital Works**

Continued tightening of the contracting and sub-contracting markets in the building and construction industries has led to a substantial escalation in costs for the provision of infrastructure. To offset the impact of these cost escalations when they emerge, a \$553 million provision has been included across the forward estimates in this mid-year review. Further unforeseen cost increases could arise and there exists a risk that this provision may not be sufficient.

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

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

## **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 2005, which totalled \$1.1 billion, are provided in the 2004-05 *Treasurer's Annual Statements*, released on 10 November 2005.

## **International Financial Reporting Standards**

The 2005-06 Budget included the impact of new International Financial Reporting Standards on State financial aggregates. As outlined in Budget Paper No. 3, Appendix 9: *Implementation of Australian Equivalents to International Financial Reporting Standards (AIFRS)*, the impact of the new standards on whole-of-government financial statements was expected to be largely reflected in the balance sheet.

Since the budget, interpretation of the new standards have resulted in some differences in expected balance sheet values of some classes of assets and liabilities (e.g. lease recognition under Power Purchase Agreements for Western Power discussed earlier in relation to debt).

There remains potential for further changes in relation to the interpretation of the new standards as the first time recognition of AIFRS changes proceed during 2005-06. These are still expected to be largely balance sheet valuation issues for the GFS presentation presented in the State's whole-of-government financial disclosures.



# Financial Strategy

## Overview

The Government's financial strategy is supported by a series of medium-term financial targets. Outlined in the 2005-06 Budget, these targets are to:

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

This chapter assesses the mid-year review financial projections against these financial targets.

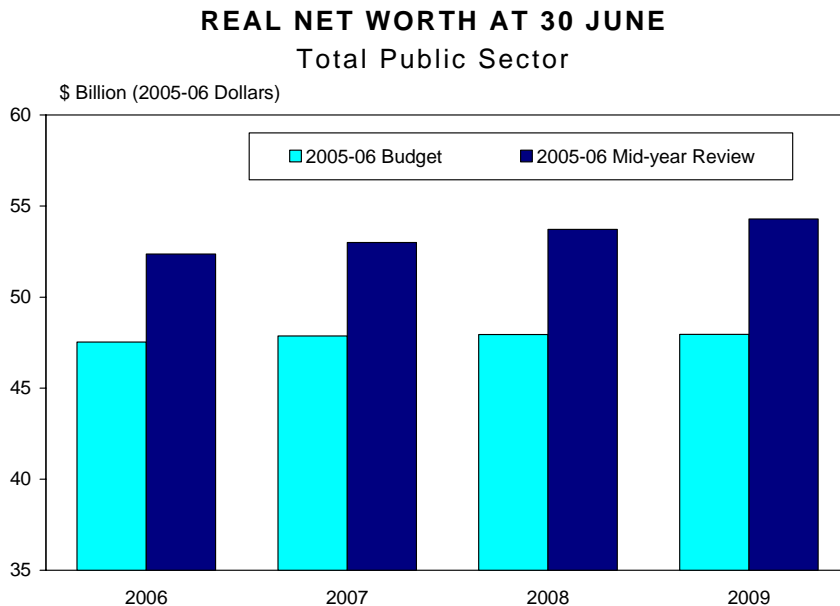
## Financial Targets

***Net Worth: Maintain or increase real net worth of the total public sector***

This target is expected to be achieved in the current year and across the forward estimates period, with real net worth projected to steadily increase in each year over the forward estimates period to 30 June 2009. These projected increases reflect continued expectations of consistent operating surpluses for all sectors of government.

With significant revaluations at year end and the better than expected surplus outcome for 2004-05, net worth at 30 June 2005 was \$4.1 billion greater than the estimated outturn published in the 2005-06 Budget. This in turn has provided a higher base from which each year of the forward estimates has been calculated.

Figure 1



***Operating Result: Achieve an operating surplus for the general government sector***

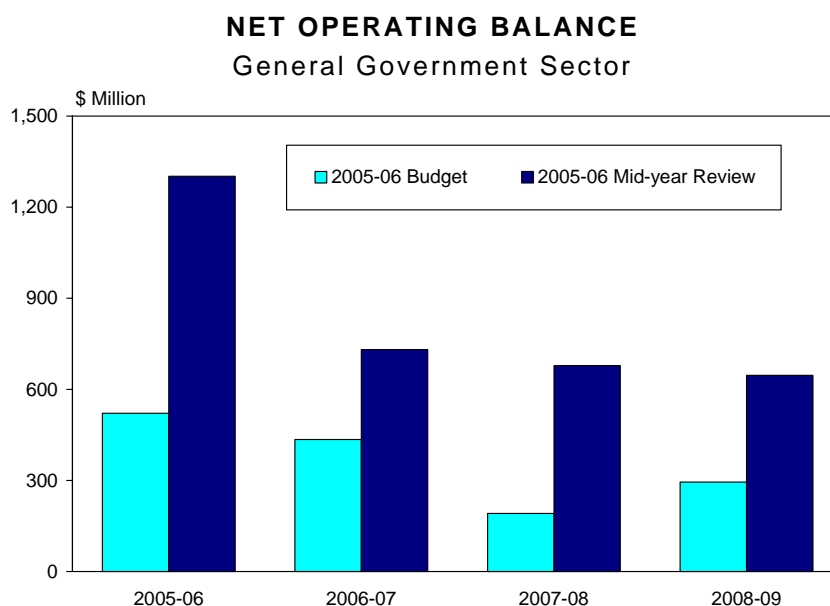
This target is expected to be achieved in all years of the current estimates period, with an operating surplus of \$1,302 million now forecast for 2005-06. Surpluses of between \$640 million and \$740 million are currently in prospect in each of the outyears.

The larger forecast surplus for 2005-06 is mainly a result of increased mining royalties and conveyance duties flowing from continuing strength in both the international price of oil and activity in the State's property market, combined with reductions in debt and associated charges as a consequence of the record operating surplus achieved in 2004-05.

Compared to the 2005-06 budget forecasts, surpluses in the outyears have also been revised upwards, by an average \$375 million per annum. Major revenue and expense variations since the 2005-06 Budget are discussed in detail in Chapter 1: *Financial Projections*.

Strong operating surpluses increase the State's capacity to finance capital infrastructure requirements within prudent debt levels that are consistent with maintaining the State's triple-A credit rating.

Figure 2

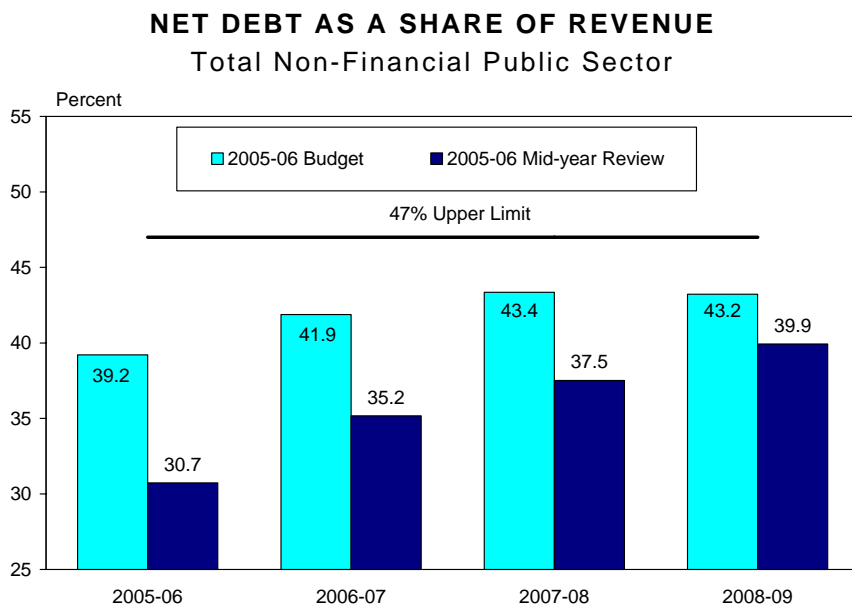


***Maintain net debt to revenue for the total non-financial public sector at or below 47%***

This target is expected to be met in each year of the current estimates period, with the net debt to revenue ratio remaining comfortably below the Government’s 47% target limit. The ratio for 2005-06 is now estimated to be 30.7% with a revised forecast peak of 39.9% in 2008-09 (3.5 percentage points lower than the 43.4% peak forecast in the 2005-06 Budget).

The ratio for the current year is well below the 39.2% forecast in the 2005-06 Budget. This reflects the continued strength of the operating outlook (see Chapter 1: *Financial Projections*).

Figure 3

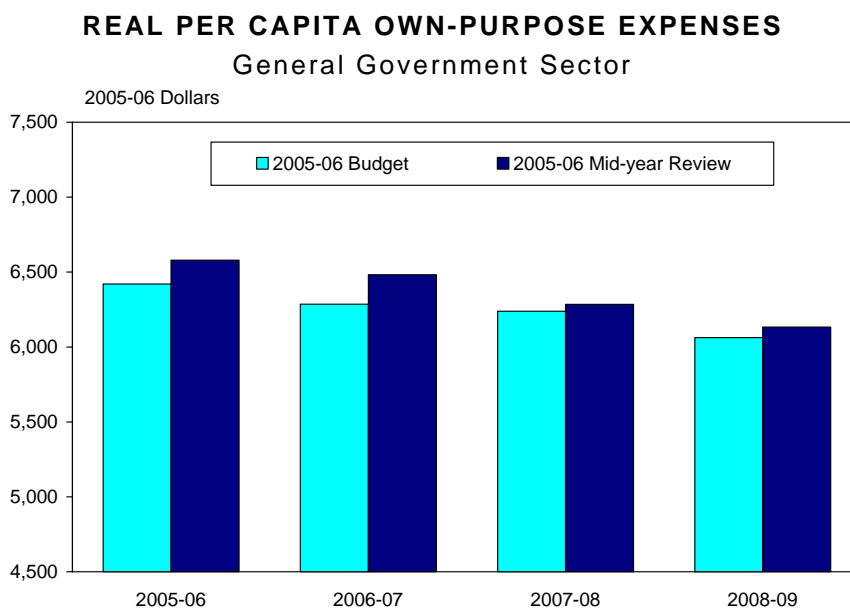


***Ensure that real per capita own-purpose expenses for the general government sector do not increase***

The general government expense growth target is not expected to be met in 2005-06. This outcome largely reflects funding for increased spending on service delivery in the priority areas of health, education and training, and law and order, and post-budget policy decisions (see details in Appendix 3: *Post-Budget Policy Decisions Affecting Spending*) which impact the expected outcome for 2005-06.

The expense growth target is expected to be met in each of the forward estimate years, with spending sufficient to meet anticipated inflation and population growth factors.

Figure 4



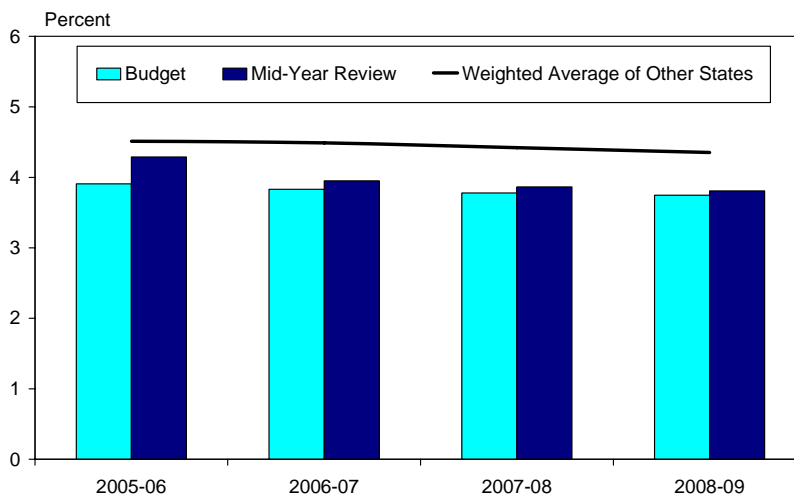
***Tax Competitiveness: Maintain Western Australia’s tax competitiveness, as measured by maintaining tax revenue as a share of gross state product below other States’ average***

This target is expected to be met in 2005-06 and the forward estimates years.

Notwithstanding the upward revisions to taxation revenue, Western Australia’s taxation revenue is expected to remain below the average of the other States in 2005-06 and each year of the forward estimates period.

Figure 5

**TAX COMPETITIVENESS**  
 General Government Taxation Revenue Per Capita <sup>(a)</sup>  
 2004-05



(a) Mid-year review estimates for other jurisdictions were not available at the time of going to print.

# The Western Australian Economy

## Overview<sup>10</sup>

Western Australia's economy is showing considerable strength across a range of indicators. The outlook, at least in the shorter term, is stronger than was expected at the time of the 2005-06 Budget handed down in May.

However, the Australia Bureau of Statistics (ABS) estimates that the State's real gross State product (GSP) increased by 2.7% in 2004-05. This result is lower than expected, compared to the 5.25% estimate at the time of the 2005-06 Budget.

Real GSP growth is not the only measure of improvements in prosperity, and at times of rapidly increasing export prices – such as the State is currently enjoying – it may not be the most appropriate<sup>11</sup>.

The GSP estimates also suffer from some measurement issues, and can be subject to significant revisions.

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<sup>10</sup> All data are in real (chain volume) terms and not nominal, therefore abstracting from any price effects.

<sup>11</sup> See feature box at the end of the chapter for a discussion of growth measures.

Economic growth in the State is coming off a high base, with Western Australia's GSP growing by a cumulative 20.5% in the three years to 2003-04, at an average annual rate of 6.4%. The feature box at the end of this chapter discusses GSP growth in 2004-05 in more detail.

GSP growth is expected to strengthen to 5.0% in 2005-06, a slight revision upwards from the 2005-06 budget time forecast of 4.5%. This improved outlook mainly reflects the buoyancy of domestic economic conditions. Household consumption, business investment, and dwelling investment are all forecast to make a stronger contribution to economic growth.

## **2004-05**

Western Australia's domestic economy grew strongly again in 2004-05, as it did in the previous two years. While all components of the domestic economy contributed to growth over 2004-05, the main drivers were private household consumption and public investment. The external sector partly offset the domestic economy's strong growth to yield a more modest increase in GSP, and the unexpectedly large 'balancing item' (see below) also detracted from growth.

Household consumption showed considerable resilience over the year, growing by 6.1%. The continued flow-on effects from strong employment growth, stable interest rates and healthy house price growth, coupled with increased migration into the State, underpinned the increase in consumption levels.

Business investment grew by 2.7% in 2004-05, supported by strong price growth in many of the State's commodities. While this increase is moderate, business investment levels have increased by 67.2% in the three years to 2003-04, an annual average growth rate of 18.7%. Resource related activity has helped boost business investment, due to continued strong commodity demand from China (which is a major destination for many of the State's commodities) and globally.

Net merchandise exports fell by 4.5% in 2004-05, in contrast to the 2.0% increase estimated in the 2005-06 Budget. Even though demand from Western Australia's key exporters has been strong, the lead times for major resource projects have meant that capacity has not been able to come on-line quickly enough to raise export volumes considerably. At the same time, buoyant domestic conditions have seen imports increase at a faster rate than forecast.



These measures of 'real' economic activity reflect only volume changes, and not the growth in the value of Western Australia exports resulting from current record high prices for some key commodity exports. Combined with only moderate growth in import prices, this has meant that Western Australia's trade balance (as measured in current price terms) increased by 19.7% in 2004-05.

The 'balancing item'<sup>12</sup>, which comprises total net interstate trade, changes in inventories and a statistical discrepancy, made a significant negative contribution to GSP growth in 2004-05, primarily due to a rundown in inventories and the 'statistical discrepancy' item. The balancing item detracted 1.6 percentage points from growth in the Western Australia.

Overall, GSP grew by 2.7% in 2004-05. Meanwhile, SFD, which abstracts from the impact of net exports, increased by 5.8% over the year, somewhat stronger than the 5.0% expected at budget time.

## Outlook

GSP is forecast to grow by 5.0% in 2005-06, slightly higher than the budget time forecast of 4.5%. This incorporates revised expectations of a stronger domestic economy, offset by a weaker external sector. It is anticipated that the domestic economy as measured by SFD will grow by 5.75% in 2005-06, which is much higher than the budget time forecast of 2.25%.

The improved outlook for the domestic economy is largely a result of higher than expected private household consumption expenditure. Household consumption is forecast to increase by 5.0% in 2005-06, underpinned by strong consumer sentiment, steady and relatively low interest rates and wealth effects from rising property prices.

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<sup>12</sup> The ABS estimates GSP using an income approach, where (broadly speaking) all the income flows that accrue to resident individuals, corporations and other entities in the production of goods and services in a State are aggregated. However, sectoral estimates of a State's economy (e.g. Dwelling Investment, Household Consumption and the like) and State Final Demand (SFD) are measured by the ABS using expenditure-based data. Conceptually, calculating GSP using either an incomes-based approach or an expenditure-based approach should provide the same GSP figure. However, the ABS admit that measurement difficulties arise because of the different data sources that are used in compiling both income and expenditure based estimates.

Accordingly, the ABS publishes what is referred to as a 'statistical discrepancy' on the expenditure side, which contains the residual differences between the two approaches. This statistical discrepancy is particularly large for Western Australia - in each of the past 15 years it has been a negative of over \$5 billion, and has represented some 11% to 17% of GSP.

For further information on ABS methodologies, see ABS 5216.0: *Australian National Accounts: Concepts, Sources and Methods*.

Dwelling investment is also expected to be stronger than previously forecast in 2005-06. Western Australia's housing sector has long defied expectations of a downturn, with strong consumer confidence, employment and earnings as well as positive net migration underpinning demand. Capacity constraints are reflected in labour and material shortages and have led to a large backlog of work in the sector. The pipeline of work yet to be done is expected to sustain high levels of activity through 2005-06 (although in the past, such pipelines have dissipated quickly in a downturn).

The forecast for business investment growth over 2005-06 has also been revised up since budget time, from 1.25% to 6.5%. Commodity prices have recorded a period of exceptional growth, are expected to stay firm in the near term. This has stimulated a number of expansions and mine developments, especially in the iron ore industry. In addition, project timing has also influenced business investment for both 2004-05 and 2005-06 - delays to construction starts for some projects have meant less work occurring in 2004-05 than initially anticipated.

Net exports are forecast to make a positive contribution to economic growth in 2005-06, although growth is now expected to be less than forecast in the 2005-06 Budget. Growth in the volume of merchandise exports was weaker than anticipated in 2004-05, and given timing lags between the construction and operational phases of resource projects, growth in exports is expected to improve only marginally in 2005-06.

Accordingly, the volume of exports is forecast to grow by 6.25% in 2005-06, down from the 8.25% growth forecast at budget time. Meanwhile, the stronger than previously forecast domestic economy is expected to underpin the upward revision to growth in imports. As a result, growth in net exports has been forecast at 3.0% in 2005-06, down from the budget time estimate of 9.75%.

GSP growth in Western Australia is forecast to ease to 3.5% in 2006-07, from 5.0% in 2005-06, somewhat lower than the 4.25% forecast at budget time. This reflects expectations that households will start to improve their balance sheets by repaying debt, and a general consolidation in most sectors of the State's economy after several years of above-trend growth since the downturn of 2000-01, as well as ongoing (but somewhat moderating) capacity constraints.

Growth in dwelling investment of 4.0% is forecast in 2006-07. The large backlog of work yet to be done, coupled with a modest amount of new work adding to construction demand, and current supply-side constraints, are expected to support further growth.

A period of debt consolidation by households following a long period of credit growth is expected to soften household demand growth in the outyears. As a result, household consumption expenditure growth is forecast to moderate to 3.5% in 2006-07.

Business investment is again expected to contribute to economic growth in 2006-07, extending the prolonged period of strong investment of recent years driven mainly by the State's export oriented resource industry.

The external sector is forecast to be a major contributor to economic growth in 2006-07. Ongoing capacity expansions and the strong demand for the State's commodities from China are expected to gradually lead to higher export volumes as investment decisions are brought forward to capitalise on this demand, with exports forecast to grow by 5.5% in 2006-07. However, a moderate increase in imports, reflecting the strength in business investment, is also expected. As a consequence, net exports are forecast to grow by 4.75% over the year.

Employment is forecast to grow by 3.75% in 2005-06 (substantially higher than the budget time forecast of 2.0%) and by 2.25% per annum in 2006-07 and beyond. This upward revision incorporates an expected increase in the working population (reflected in both net interstate and overseas migration figures) as the State's strong economy and healthy labour conditions attract workers.

The unemployment rate is forecast to average 4.5% over 2005-06 (consistent with the latest data) before increasing slightly to 4.75% in 2006-07 and beyond. Consequently, wages growth as measured by the Wage Price Index (WPI<sup>13</sup>) is forecast to remain strong, at 4.5% in 2005-06, before moderating to 3.5% in 2006-07 (this is higher than expected than at budget time). Tight labour conditions are expected to prevail over the next couple of years, particularly in the mining and construction industries as these sectors continue to expand.

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<sup>13</sup> The WPI is the preferred measure of wages growth, as it accounts for changes over time for a fixed quantity and quality of labour input. Unlike the Average Weekly Earnings measures, the WPI is designed to measure wage changes rather than levels. As such, it is less subject to the influence of compositional change compared to Average Weekly Earnings measures.

Table 1

**MAJOR ECONOMIC AGGREGATES**  
Western Australia

	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Mid-Year Revision	Forward Estimate	Forward Estimate	Forward Estimate
	%	%	%	%	%
Real Gross State Product Growth	2.7	5.0 (4.5)	3.5 (4.25)	4.5 (4.5)	4.5 (4.5)
State Final Demand Growth	5.8	5.75 (2.25)	3.0 (3.25)	4.0 (4.0)	4.0 (4.0)
Employment Growth	4.2	3.75 (2.0)	2.25 (2.0)	2.25 (2.25)	2.25 (2.25)
Unemployment Rate	4.7	4.5 (4.75)	4.75 (4.75)	4.75 (4.75)	4.75 (4.75)
Wage Price Index Growth	4.3	4.5 (3.75)	3.5 (3.25)	3.5 (3.25)	3.0 (3.0)
Average Weekly Earnings Growth	5.7	5.5 (4.75)	4.0 (3.5)	4.0 (3.5)	3.5 (3.5)
Consumer Price Index Growth	3.2	4.0 (2.5)	3.0 (2.5)	2.5 (2.5)	2.5 (2.5)
Implicit Price Deflator Growth	6.4	2.75 (2.25)	2.25 (2.25)	2.25 (2.25)	2.25 (2.25)

Note: 2005-06 Budget forecasts shown in brackets.

Continued strength in the domestic economy, combined with mounting wages pressures and higher consumer prices, have resulted in the implicit price deflator (or IPD – a broad measure of overall prices in the economy) for 2005-06 being revised up by 0.5 of a percentage point to 2.75% (from 2.25% at budget time). However, price pressures are expected to moderate in 2006-07.

For 2007-08 and 2008-09, SFD and GSP forecasts are based on long-term trends. SFD is projected to increase by 4.0% annually, while GSP is expected to grow by 4.5% per annum. Other key economic aggregates are also projected to rise by long-term averages in these two outyears.

Table 2

**COMPONENTS OF GROSS STATE PRODUCT**  
Western Australia

	2004-05		2005-06		2006-07	
	Estimated Actual	Actual	Budget Estimate	Mid-Year Revision	Budget Forecast	Mid-Year Revision
	%	%	%	%	%	%
<b>Annual Average Growth</b>						
Private						
Household Consumption	4.5	6.1	2.75	5.0	3.5	3.5
Business Investment	5.75	2.7	1.25	6.5	4.75	6.0
Dwelling Investment	3.5	6.4	-1.0	4.75	3.5	4.0
Public						
Consumption	4.75	4.0	3.25	2.0	2.0	0.75
Investment	15.0	24.2	3.75	24.0	-4.75	-8.0
<b>STATE FINAL DEMAND</b>	<b>5.0</b>	<b>5.8</b>	<b>2.25</b>	<b>5.75</b>	<b>3.25</b>	<b>3.0</b>
External Sector						
Exports	6.0	3.4	8.25	6.25	5.5	5.5
Imports	13.5	15.1	5.75	11.25	6.25	7.0
Net Exports	2.0	-4.5	9.75	3.0	5.0	4.75
Balancing Item <sup>(a)</sup>	-	10.3	-	5.0	-	3.5
<b>GROSS STATE PRODUCT</b>	<b>5.25</b>	<b>2.7</b>	<b>4.5</b>	<b>5.0</b>	<b>4.25</b>	<b>3.5</b>
<b>Contributions to Growth</b>						
Private						
Household Consumption	2.2	3.0	1.3	2.5	1.7	1.8
Business Investment	1.0	0.5	0.2	1.1	0.8	1.1
Dwelling Investment	0.2	0.5	-0.1	0.4	0.2	0.3
Public						
Consumption	0.7	0.6	0.5	0.3	0.3	0.1
Investment	0.6	0.8	0.2	1.0	-0.2	-0.4
<b>STATE FINAL DEMAND</b>	<b>4.7</b>	<b>5.4</b>	<b>2.0</b>	<b>5.2</b>	<b>2.9</b>	<b>2.9</b>
External Sector						
Exports	2.5	1.4	3.4	2.3	2.4	2.1
Imports	-1.9	-2.4	-0.9	-1.6	-1.0	-1.0
Net Exports	0.5	-1.1	2.5	0.7	1.4	1.1
Balancing Item <sup>(a)</sup>	-	-1.6	-	-0.8	-	-0.5
<b>GROSS STATE PRODUCT</b>	<b>5.25</b>	<b>2.7</b>	<b>4.5</b>	<b>5.0</b>	<b>4.25</b>	<b>3.5</b>

(a) The balancing item includes interstate trade, changes in the level of stocks, and a 'statistical discrepancy'. Previously, given the difficulty of forecasting individual components of the balancing item, an assumption of nil growth was made in respect to forecasts of the balancing item. However, given the balancing item's significant size (over the last few years it has fluctuated between 15% to 17% of GSP), the revised forecasts in the table above now include an estimation for the balancing item. For any given forecast year, this estimation is based on the balancing item's proportion of the domestic economy and net exports from the previous year. For further information on the balancing item (and in particular, the 'statistical discrepancy'), see also footnote number 12 earlier in this chapter.

Note: Columns may not add due to rounding.

## State Final Demand

### Household Consumption

Household consumption showed considerable resilience during 2004-05, despite rising fuel prices, a 25 basis point increase in interest rates and the uncertainty of the global oil price outlook. The State's strong domestic economy underpinned household consumption expenditure during the year, which was helped by strong gains in house prices.

Household consumption grew by 6.1% in 2004-05, in part a result of low unemployment rates, reasonable wages growth and continued high levels of consumer confidence in the State's economy. The Reserve Bank of Australia's decision to raise the cash rate in March 2005 (to 5.5%) temporarily subdued confidence and discretionary spending, but these rebounded once it appeared increasingly unlikely that further rises would follow in the months afterwards.

Growth in household consumption is forecast to ease to 5.0% in 2005-06 reflecting steady property prices, concerns about a possible rise in interest rates and an expectation that high fuel prices may start to flow through into higher prices for goods and services. Growth of 5.0% is nevertheless above long-term trend growth of 3.9%.

In 2006-07, household consumption growth is expected to ease to 3.5% - slightly below the long-term average rate of growth. In part, this moderation is likely to be due to the continuation of a steady property market and the possibility of an additional interest rate rise. Sustained low rates of unemployment and the persistence of favourable economic conditions in the State more generally in 2006-07 are expected to lend support to a more modest increase in household consumption over the year.

### Dwelling Investment

Dwelling investment rose by 6.4% in 2004-05, following a 2.3% decline in 2003-04. The strong increase in 2004-05 was driven by high incomes, low unemployment, low interest rates and strong population growth. These factors should continue to support dwelling investment in 2005-06, with dwelling investment forecast to grow by 4.75% (revised from a projected fall of 1.0%).

Despite the value of residential work yet to be done moderating over the past year, the substantial amount of work still in the pipeline is expected to support activity over the next two years. Furthermore, strong house price growth and a robust established housing market should continue to drive growth in the components of dwelling investment in 2005-06 and 2006-07.

For 2006-07, dwelling investment is expected to grow by 4.0%, broadly reflecting a continuation of these conditions.

## **Business Investment**

In recent years, Western Australia has enjoyed a sustained period of exceptionally strong growth in business investment, with the global commodities boom underpinning higher commodity prices and leading to strong external demand for the State's key resources. As a consequence, many resource-related projects that may not have been viable in the past are now being developed, and existing ones expanded. Business investment growth in 2004-05 was moderate at 2.7%, but this followed three previous years of strong growth in business investment (by a cumulative 67.2%, or an annual average growth rate of 18.7%).

However, the typically 'lumpy' nature of investment and uncertainty about the timing of major resource related projects, including start and completion dates, means that growth in business investment in any given year for Western Australia is hard to predict. Potential volatility in commodity prices, the Australian dollar and terms of trade, global commodity demand (particularly from China), the cost and availability of labour and materials, geopolitical instability and even adverse weather events (such as cyclones in the northern part of the State) can all influence the expected start dates and duration of construction on major resource projects – sometimes quite independent of the timing of business cycles.

Continued solid commodity demand and generally positive business conditions are expected to support healthy business investment growth in 2005-06 and 2006-07. The upward revisions to the business investment growth rates forecast at Budget time mainly reflect a somewhat more optimistic outlook for major projects (particularly as a number of major projects have now moved from being 'committed' to being under construction). The revised growth rate of 6.5% for 2005-06 also relates to an expectation that delays in the start dates for some major projects will have pushed some work from 2004-05 into 2005-06 (growth of only 2.7% was recorded for business investment in 2004-05, lower than the 5.75% growth expected).

The upward revisions to the growth forecasts are despite ongoing capacity constraints in labour and continuing higher input costs for some materials (such as steel). A number of major projects are proceeding despite experiencing increases in expected construction costs, with project viability continuing to benefit from historically strong commodity prices (particularly for iron ore). Even though extra global supply is expected to come on-stream for a number of key commodities over the next few years (leading to a moderation in commodity prices growth), this is not likely to affect business investment growth in either 2005-06 or 2006-07.

## **Public Expenditure**

Public consumption (comprising expenditure by Commonwealth, State and local governments) increased by 4.0% in 2004-05. Public consumption expenditure is forecast to grow by 2.0% in 2005-06 (with growth primarily coming from State government agency spending carried over from 2004-05), while growth of only 0.75% is expected in 2006-07 (with growth moderating from a high base).

Public investment increased by 24.2% in 2004-05, largely reflecting delays in capital spending by State government agencies from 2003-04. In 2005-06, forecast public investment growth has been revised upwards to 24.0%, largely as a result of further expenditure rescheduling from the previous year. Public investment is expected to fall in 2006-07 as large projects (such as the New MetroRail project) draw to a close over the course of the year.



## Net Exports

The external sector detracted 1.1 percentage points from GSP growth in 2004-05, as net exports fell by 4.5% over the year. A combination of weaker than expected export growth and stronger than expected growth in imports contributed to the outcome.

Net exports are anticipated to grow by 3.0% and contribute 0.7 percentage points to economic growth in 2005-06, reflecting expectations of modest growth in exports and an easing in imports growth. The continued expansion of the State's export base, coupled with a further moderation in imports growth, is anticipated to result in the net exports sector being a major contributor to the economy in 2006-07.

## Exports

Export volumes are expected to grow by 6.25% in 2005-06, as export capacity gradually comes on-line. This is down from the 8.25% forecast at Budget-time, reflecting changing assumptions about the timing (including the start and completion dates) of major resource related construction process.

Timing issues and delays have resulted in exports growing by less than anticipated, at 3.4% in 2004-05. Notwithstanding this, Western Australia's exports have increased by 20.3% over the past four years, fuelled to a large extent by buoyant demand from neighbouring Asian countries (mainly China), as reflected by solid price growth for many of the State's key commodity exports (particularly for iron ore, alumina, nickel and oil).

Exports are forecast to increase by 5.5% in 2006-07, buoyed by the expected completion of a number of major projects that will then enter their production/export phase. For example, the current production capacity upgrade of Worsley's alumina refinery and Woodside's Enfield oil development (both scheduled for completion in early 2006) should add significant capacity to the State's export base. In addition, expansions by BHP and Rio Tinto are also expected to continue to add to the State's increasing iron ore production capacity.

## **Imports**

Western Australia's strong domestic economy (in particular, household consumption and business investment) resulted in imports increasing by 15.1% in 2004-05. Imports are expected to grow by 11.25% in 2005-06, reflecting a continuation of the State's positive economic conditions.

Growth in imports is forecast to ease to 7.0% in 2006-07. While growth in household consumption expenditure is forecast to slow to just under the long-term trend, sustained resource-related investment is expected to generate demand for capital equipment imports that should underpin imports growth.

## **Labour Market**

### **Employment**

Employment growth in 2005-06 is now expected to be stronger than anticipated at budget time. The Western Australian labour market was more buoyant than had been expected in 2004-05 and this strength has continued into the first quarter of 2005-06. Job advertisements and business surveys indicate that labour demand in Western Australia remains strong. As a result of these factors and, more broadly, the continued strong growth expected in the State's domestic economy, employment is forecast to grow by 3.75% over 2005-06.

Employment growth is then expected to moderate to 2.25% in 2006-07 (above the estimate of 2.0% at budget time) as the pool of suitable available labour reaches capacity. The moderation in employment growth is also consistent with an anticipated easing in domestic economic activity. The revised employment growth forecast is slightly below the State's long-term average employment growth rate.

### **Unemployment**

The State's unemployment rate is forecast to average 4.5% over 2005-06, slightly lower than the budget time estimate of 4.75%. This downward revision is consistent with the average unemployment rate over recent months and reflects an expectation that tight conditions in the labour market will continue over the remainder of the year.

There has been no change in the budget time unemployment rate forecast of 4.75% for 2006-07. The slight increase in the unemployment rate for 2006-07 is the result of an expectation for a continued moderation in employment growth over the same period combined with continuing high rates of labour force participation.

## Prices

### **Consumer Price Index**

Buoyant activity in Perth's housing market in 2004-05 had a noticeable impact on consumer prices, with rising housing costs pushing Perth's inflation rate above that of the other capital cities. In annual average terms, the Consumer Price Index (CPI) rose by 3.2% in Perth in 2004-05, higher than the national rate of growth of 2.4%.

In year-ended terms<sup>14</sup> for 2004-05, Perth's consumer prices increased by 3.8%, with other cities experiencing a more moderate increase in price pressures. Nationally consumer prices rose by 2.5% in year-ended terms. However it should be noted that the continuing strength in Western Australia's property market is likely to result in the State's inflation remaining above the weighted average of the eight capital cities in the near term. Over the past four years, however, Perth's CPI growth has been broadly in line with CPI growth nationally.

Perth's CPI is forecast to grow by 4.0% in 2005-06, with housing prices anticipated to underpin overall consumer price growth for the remainder of the year. The State's strong labour market, robust wages growth and continued positive economic fundamentals are also likely to provide a basis for broader price pressures. The possibility that producers may seek to pass on rising fuel costs to consumers to a greater extent than currently cannot be ruled out, with such a scenario likely to incrementally add to price pressures in Perth and across Australia.

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<sup>14</sup> 'Year ended terms' refers to the June quarter 2005, relative to the June quarter 2004, and is the growth rate most commonly reported in the media (whereas annual average growth is the average for the four quarters to the June quarter 2005, relative to the four quarters to the June quarter 2004).

In 2006-07, CPI growth for Perth is forecast to moderate to 3.0%. While conditions in the State's housing market are anticipated to remain positive during the year, recent high rates of growth in median house prices are not expected to continue into 2006-07. This could signal a respite in growth in the housing-related component of the CPI. However an anticipated healthy labour market and increases in wages during the year are still expected to exert pressure on consumer prices. Sustained high fuel costs also threaten to feed into consumer prices and have been incorporated into the inflation outlook.

## Wages

The Wage Price Index grew by 4.3% in 2004-05, in line with the 2005-06 Budget forecast of 4.25%. Wages growth was underpinned by tight labour market conditions across the State and in the construction and mining sectors particularly.

Wages growth is expected to strengthen to 4.5% in 2005-06, underpinned by ongoing tight labour market conditions. Wages growth of 4.5% in 2005-06 is higher than the budget time forecast of 3.75%. The anticipated moderation in wages growth previously forecast at budget time is now not expected to occur until 2006-07, when wages growth is expected to ease to 3.5%.

## Implicit Price Deflator

The GSP Implicit Price Deflator<sup>15</sup> is expected to increase by 2.75% in 2005-06, following an increase of 6.4% in 2004-05. The strong growth for 2004-05 mainly reflects growth in traded goods prices of 20.3%, with the deflator for domestic demand growing by a more modest 3.1%. In the outyears, growth in the GSP deflator is forecast to moderate to 2.25%, with increases in both domestic prices and commodity prices expected to soften (in \$A terms, as the \$A/\$US exchange rate depreciates, and \$US denominated commodity price growth moderates<sup>16</sup>).

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<sup>15</sup> The implicit price deflator is a measure of the average price of the total level of production in the State's economy (GSP), including domestic prices and import and export prices. It is the broadest measure of prices available for the Western Australian economy and is used to compare the real value of expenditures and receipts over time.

<sup>16</sup> Although exchange rate risks are also relevant, for forecasting purposes, the \$A/\$US exchange rate is assumed to be constant across all forecast years.

## Risks to the Outlook

### **International Conditions**

Economic activity in the United States of America, Japan and more recently China, is driving global growth. While economic conditions in the US and China are buoyant, and the recovery in the Japanese economy still tentative, there are some external vulnerabilities to the economic outlook for Western Australia.

A major risk to global markets is a slowdown in the economies of the US, Japan and/or China. While the short to medium term outlook remains reasonably positive for these economies, any shock to these environments would affect Western Australia's prospects. Risks to global growth from continued high oil prices could also have a detrimental effect on Western Australia's economy.

Unpredictable external shocks, such as geo-political events or the outbreak of disease (uncontained avian flu or other viral infections) present additional risks that could adversely impact upon (perhaps significantly) the economic growth rates of the State's key trading partners.

### **Commodity Prices**

The Western Australian economy has benefited from higher commodity prices over recent years, with the resulting increase in resource-related projects acting to directly boost both business investment (in respect to a project's construction phase) and exports from the State (in respect to a project's operational phase). Such projects have also led to other benefits, such as increasing income flows, higher employment, and (more broadly) boosting economic activity. Notwithstanding this, higher commodity prices have also had somewhat of a dampening effect on growth, as they have also led to higher business and consumer costs (particular in key areas such as crude oil and steel).

Commodity prices are both an upside and downside risk to growth. Prices could remain higher than expected if global growth and commodity demand (particularly from China) remain strong. Alternatively, there is a downside risk if such demand softens considerably, and/or the expected increase in global commodity supply comes online quicker than expected.

However, it is worth noting that the diversification of Western Australia’s commodity exports (and export markets) over the past 15 years has resulted in a decline in the volatility of growth in Western Australia’s exports compared with the late 1980s (although, as commodity prices tend to track the global economic cycle, they are still more volatile than other prices). The historical inverse relationship between the Australian dollar and commodity prices has also acted to dampen the revenue/profit impact of fluctuations in commodity prices, including any decline that may be associated with the tail end of the current resources boom<sup>17</sup>.

Beside the risk to global growth that higher crude oil prices represent (see section above on International Conditions), they also remain a risk to growth for Western Australia specifically. While it appears that the impact of high oil prices on the State’s overall economic growth has to this stage been moderate, high oil prices for a sustained period of time could be expected to place upward pressure on prices, interest rates and costs, and reduce profitability and production (particularly in energy intensive industries). Notwithstanding this, if higher crude oil prices are sustained (and similarly LNG prices), this would also benefit the Western Australian economy, given it is a large net exporter of energy.

## Interest Rates

In its Statement on Monetary Policy (November 2005), the Reserve Bank of Australia (RBA) indicated that its forecasts for underlying inflation will “rise modestly over the year ahead, (and) inflationary trends overall remain consistent with the target over the medium term”. Given this expectation, the RBA has left official interest rates unchanged since March 2005 (when interest rates were last raised).

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<sup>17</sup> Although it is also worth noting that this relationship has not *always* held in the past.

There are mixed opinions on the interest rate outlook for 2005-06. Some analysis indicates that the balance of risks to interest rates from rising inflation expectations “appears skewed to the upside at present”<sup>18</sup>. While the RBA notes that US Bond yields typically have a strong influence on domestic monetary policy settings, spreads between Australian and US 10-year bonds remain well below their average for the past few years and the Australian yield curve remains “unusually flat”. Where private sector commentators have anticipated an interest rate tightening in 2005-06, the magnitude of any rate increase is likely to be small given the increased sensitivity of the household sector to interest rates.

The interest rate outlook may also impact on business investment. If there are expectations of a rise in interest rates, borrowing capital at market rates could increase the cost of an investment. Rising interest rates may also impact the timing of projects and could result in their postponement or cancellation, although Western Australia’s business investment in the key resource sector is driven more by international commodity market conditions than domestic interest rates.

## **Capacity Constraints & Inflation**

With demand for labour forecast to remain strong, labour supply side constraints also represent a potential risk to the economic outlook.

Labour supply constraints, and in particular skilled labour shortages, have the potential to place upward pressure on wages. To date, across-the-board increases in wages have not occurred, although wages growth in some industries has been relatively strong. If wages growth was to accelerate it could make Western Australia a relatively less attractive location for business investment. Strong wages growth would also represent a significant increase in businesses input costs. Such a situation may result in projects at the margin becoming commercially unviable.

Additionally, an increase in wages could eventually lead to broader inflationary pressures in the State. Whilst some businesses may be able to absorb higher increases in wages, others may not. This may impact upon final consumer prices.

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<sup>18</sup> Source: ANZ Economic Outlook, December Quarter 2005

In addition to any wage pressures that labour shortages may represent, the inability of businesses to acquire the appropriate level of staff may in itself lead to project delays, deferrals, or the inability of businesses to take on additional work. In particular, this has the potential to impact on both business investment and dwelling investment.

Another area of capacity constraints relates to the risk that business input costs could be driven higher by continued strong demand for certain commodities and/or materials where this demand is not met by an adequate level of supply, thereby reducing the commercial viability of projects. This could remain an issue for overall building and engineering construction costs (as it already has in the case of inputs such as steel) and for industries such as transportation (if fuel costs remain high).

### **Measuring Western Australia’s Economic Growth**

The Australian Bureau of Statistics (ABS) publishes a number of different measures of economic growth for the Australian States and Territories. The most well known of these is gross State product (GSP), which is a broad measure of the total extent of value-adding that occurs from the production of goods and services within a State.

GSP data is published by the ABS on an annual basis. Past GSP estimates can be revised between publications – sometimes considerably<sup>19</sup>. While the real GSP growth rate of 2.7% for Western Australia in 2004–05 was lower than the growth rate of 5.25% forecast in the 2005–06 Budget, it should be taken in the context of the ABS’s recently revised growth rate for Western Australia for 2003–04, which saw GSP growth of 7.5% revised 0.6 percentage points higher to 8.1%. This new (higher) base for 2003–04 means the growth rate for 2004–05 of 2.7% is still broadly indicative of strong growth.

It is worth noting that due to a number of methodological concerns<sup>20</sup>, the ABS cautions that its GSP estimates are still ‘experimental’, and that “users should therefore exercise caution when using these estimates for economic analysis”.

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<sup>19</sup> Indeed, since 1997–98, the average difference between the maximum and minimum growth rates published by the ABS for Western Australian GSP for any given year is 1.5 percentage points.

<sup>20</sup> For further information, see ABS 5216.0: *Australian National Accounts: Concepts, Sources and Methods*.



GSP data and growth rates are typically presented two ways – in nominal terms, where the data reflect changes in both the volume of final goods and services produced and their associated prices, and in real (or ‘constant prices’) terms, where only volumes are measured, and prices are held constant. In contrast with real GSP growth of 2.7%, Western Australia’s nominal GSP for 2004-05 grew by a much higher 9.3%, primarily due to strong price rises for many of the State’s export commodities (such as iron ore).

Another measure of the State’s economic growth – real gross State income – rose by 6.4% over the year. Rather than measuring the volume of production (as real GSP does), real gross State income measures the purchasing power of income generated by domestic production, by adjusting the volume of exports to reflect changes in the terms of trade<sup>21</sup>. Real gross State income is arguably a better indicator of growth in the State’s economic conditions in 2004-05 than GSP, as it provides an indication of the growth in the State’s real purchasing power driven by the strong export commodity prices.

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<sup>21</sup> The ‘terms of trade’ is the ratio of export prices to import prices. When this ratio increases, Western Australia can import a larger volume of imports in exchange for its exports, and therefore the purchasing power of output will rise by more than the volume of output measured by GSP.

## 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**

	2004-05	2005-06	2005-06	2006-07	2007-08	2008-09
	Actual <sup>(a)</sup>	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
<b>REVENUE</b>						
Taxation	4,314	3,995	4,669	4,550	4,756	5,007
Current grants and subsidies	6,468	6,659	6,792	6,837	7,014	7,128
Capital grants	347	347	380	373	402	438
Sales of goods and services	982	943	998	1,016	1,038	1,064
Interest income	142	146	146	154	149	170
Revenue from public corporations of						
Dividends	468	463	504	460	430	425
Tax equivalent payments	292	245	265	256	277	266
Royalty income	841	1,140	1,243	1,349	1,215	1,209
Other	368	281	361	334	326	304
<b>Total</b>	<b>14,222</b>	<b>14,218</b>	<b>15,357</b>	<b>15,328</b>	<b>15,608</b>	<b>16,009</b>
<b>EXPENSES</b>						
Gross operating expenses						
Salaries	5,253	5,405	5,514	5,666	5,857	6,091
Depreciation and amortisation	607	585	597	637	670	690
Superannuation	519	524	542	555	572	593
Services and contracts	1,263	1,416	1,612	1,672	1,743	1,760
Other gross operating expenses	1,730	1,830	1,801	1,757	1,853	1,996
Nominal superannuation interest	294	296	304	305	306	305
Other interest	155	161	143	134	133	135
Other property expenses	-	-	-	-	-	-
Current transfers	2,728	3,012	3,086	3,274	3,357	3,384
Capital transfers	482	467	456	596	438	409
<b>Total</b>	<b>13,030</b>	<b>13,697</b>	<b>14,056</b>	<b>14,597</b>	<b>14,929</b>	<b>15,363</b>
<b>NET OPERATING BALANCE</b>	<b>1,192</b>	<b>521</b>	<b>1,302</b>	<b>731</b>	<b>678</b>	<b>646</b>
<b>NET ACQUISITION OF NON-FINANCIAL ASSETS</b>						
Purchase of non-financial assets	1,092	1,285	1,422	1,443	1,617	1,431
Sales of non-financial assets	-253	-192	-207	-189	-161	-169
less depreciation	607	585	597	637	670	690
plus change in inventories	2	-2	-7	-	-	-
plus other movements in non-financial assets	59	-	56	25	12	-
<b>Total</b>	<b>293</b>	<b>506</b>	<b>668</b>	<b>643</b>	<b>798</b>	<b>571</b>
<b>NET LENDING/BORROWING</b>	<b>899</b>	<b>15</b>	<b>634</b>	<b>88</b>	<b>-120</b>	<b>75</b>
<b>Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)</b>						
<b>NET OPERATING BALANCE</b>	<b>1,192</b>	<b>521</b>	<b>1,302</b>	<b>731</b>	<b>678</b>	<b>646</b>
less provisions for doubtful debts	15	1	1	1	1	1
plus net gains on assets (including derivatives)	24	6	20	23	-21	-35
plus capitalised interest	-	-	-	-	-	-
less revaluation of superannuation liabilities	131	-	-	-	-	-
plus all other adjustments	-130	-	-	3	-	-
<b>AAS OPERATING RESULT</b>	<b>939</b>	<b>527</b>	<b>1,321</b>	<b>756</b>	<b>657</b>	<b>611</b>

(a) Consistent with final audited data contained in the 2004-05 *Government of Western Australia Consolidated Financial Statements*, released 10 November 2005.

Note: Columns may not add due to rounding.

Table 1.2

**GENERAL GOVERNMENT**  
Balance Sheet at 30 June

	2005 Actual <sup>(a)</sup> \$m	2006 Budget Estimate \$m	2006 Mid-Year Revision \$m	2007 Forward Estimate \$m	2008 Forward Estimate \$m	2009 Forward Estimate \$m
<b>ASSETS</b>						
<i>Financial assets</i>						
Cash and deposits	350	385	300	297	301	306
Advances paid	934	944	930	827	814	800
Investments, loans and placements	1,916	864	1,962	2,152	2,076	2,236
Other non-equity assets	1,071	904	900	881	879	901
Equity	19,883	20,116	21,277	21,756	22,517	23,321
<b>Total</b>	<b>24,154</b>	<b>23,213</b>	<b>25,369</b>	<b>25,913</b>	<b>26,587</b>	<b>27,564</b>
<i>Non-Financial assets</i>						
Land and fixed assets	35,864	34,055	36,868	38,305	39,957	41,126
Other non-financial assets	100	215	318	329	357	275
<b>Total</b>	<b>35,964</b>	<b>34,270</b>	<b>37,185</b>	<b>38,634</b>	<b>40,313</b>	<b>41,402</b>
<b>TOTAL ASSETS</b>	<b>60,117</b>	<b>57,483</b>	<b>62,554</b>	<b>64,547</b>	<b>66,901</b>	<b>68,965</b>
<b>LIABILITIES</b>						
Deposits held	338	247	263	265	270	267
Advances received	549	547	536	523	510	497
Borrowings	1,315	1,537	1,214	1,266	1,501	1,580
Unfunded superannuation liabilities	5,633	5,467	5,635	5,628	5,601	5,549
Other employee entitlements and provisions	1,390	1,393	1,470	1,549	1,637	1,710
Non-equity liabilities	701	762	1,064	1,121	1,215	1,323
<b>TOTAL LIABILITIES</b>	<b>9,926</b>	<b>9,954</b>	<b>10,183</b>	<b>10,352</b>	<b>10,734</b>	<b>10,925</b>
<b>NET WORTH</b>	<b>50,192</b>	<b>47,530</b>	<b>52,371</b>	<b>54,195</b>	<b>56,167</b>	<b>58,040</b>
<i>Memorandum Item: Net Debt</i>	-997	138	-1,178	-1,222	-909	-998

**Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)**

<b>NET WORTH</b>	<b>50,192</b>	<b>47,530</b>	<b>52,371</b>	<b>54,195</b>	<b>56,167</b>	<b>58,040</b>
<i>less equity (net worth) of PNFC and PFC sectors</i>	19,341	19,093	20,212	20,511	21,167	21,869
<i>less all other adjustments</i>	88	-	-	-	-	-
<b>AAS NET ASSETS</b>	<b>30,762</b>	<b>28,437</b>	<b>32,158</b>	<b>33,683</b>	<b>35,000</b>	<b>36,172</b>

(a) Consistent with final audited data contained in the 2004-05 *Government of Western Australia Consolidated Financial Statements*, released 10 November 2005.

Note: Columns may not add due to rounding.

Table 1.3

**GENERAL GOVERNMENT**  
**Cash Flow Statement**

	2004-05	2005-06	2005-06	2006-07	2007-08	2008-09
	Actual <sup>(a)</sup>	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
<b>RECEIPTS FROM OPERATING ACTIVITIES</b>						
Taxes received	4,328	4,002	4,686	4,557	4,770	5,021
Receipts from sales of goods and services	1,031	961	1,037	1,044	1,072	1,077
Grants and subsidies received	6,786	7,007	7,171	7,192	7,397	7,551
Other receipts	2,481	2,756	2,973	3,061	2,880	2,905
<i>Total</i>	<b>14,626</b>	<b>14,726</b>	<b>15,867</b>	<b>15,854</b>	<b>16,118</b>	<b>16,554</b>
<b>PAYMENTS FOR OPERATING ACTIVITIES</b>						
Payments for goods and services	-9,002	-9,390	-9,674	-9,852	-10,238	-10,642
Grants and subsidies paid	-2,966	-3,250	-3,274	-3,497	-3,492	-3,479
Interest paid	-162	-153	-144	-125	-124	-126
Other payments	-798	-770	-824	-816	-846	-831
<i>Total</i>	<b>-12,928</b>	<b>-13,563</b>	<b>-13,916</b>	<b>-14,289</b>	<b>-14,700</b>	<b>-15,078</b>
<b>Net Cash Flow from Operating Activities</b>	<b>1,698</b>	<b>1,163</b>	<b>1,951</b>	<b>1,565</b>	<b>1,419</b>	<b>1,476</b>
<b>INVESTMENT IN NON-FINANCIAL ASSETS</b>						
Purchase of non-financial assets	-1,092	-1,285	-1,422	-1,443	-1,617	-1,431
Sales of non-financial assets	253	192	207	189	161	169
<i>Total</i>	<b>-839</b>	<b>-1,094</b>	<b>-1,215</b>	<b>-1,254</b>	<b>-1,457</b>	<b>-1,262</b>
<b>INVESTMENT IN FINANCIAL ASSETS</b>						
Policy purposes	-122	-471	-527	-153	-94	-102
Liquidity purposes	-62	15	16	1	-	-
<i>Total</i>	<b>-184</b>	<b>-456</b>	<b>-512</b>	<b>-153</b>	<b>-94</b>	<b>-102</b>
<b>Net Cash Flow from Investing Activities</b>	<b>-1,022</b>	<b>-1,550</b>	<b>-1,727</b>	<b>-1,407</b>	<b>-1,550</b>	<b>-1,364</b>
<b>FINANCING ACTIVITIES</b>						
Advances received (net)	-	-	-	-	-	-
Borrowings (net)	-395	418	-871	-208	6	-106
Deposits received (net)	-1	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	-100	-21	-29	-23	-28	-29
<i>Total</i>	<b>-496</b>	<b>398</b>	<b>-900</b>	<b>-231</b>	<b>-22</b>	<b>-135</b>
<i>Opening cash balance</i>	<b>2,690</b>	<b>1,936</b>	<b>2,869</b>	<b>2,194</b>	<b>2,121</b>	<b>1,967</b>
<b>NET INCREASE IN CASH HELD</b>	<b>180</b>	<b>10</b>	<b>-675</b>	<b>-73</b>	<b>-154</b>	<b>-23</b>
<i>Closing cash balance</i>	<b>2,869</b>	<b>1,946</b>	<b>2,194</b>	<b>2,121</b>	<b>1,967</b>	<b>1,945</b>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	<b>859</b>	<b>69</b>	<b>736</b>	<b>311</b>	<b>-38</b>	<b>214</b>
<i>less finance leases and similar arrangements</i>	-	-	-	-	-	-
<b>Surplus</b>	<b>859</b>	<b>69</b>	<b>736</b>	<b>311</b>	<b>-38</b>	<b>214</b>

(a) Consistent with final audited data contained in the 2004-05 Government of Western Australia Consolidated Financial Statements, released 10 November 2005.

Note: Columns may not add due to rounding.

Table 1.4

**PUBLIC NON-FINANCIAL CORPORATIONS**  
Operating Statement

	2004-05 Actual <sup>(a)</sup> \$m	2005-06 Budget Estimate \$m	2005-06 Mid-Year Revision \$m	2006-07 Forward Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m
<b>REVENUE</b>						
Current grants and subsidies	906	1,035	1,067	1,126	1,197	1,237
Capital grants	143	154	157	152	143	143
Sales of goods and services	5,402	5,264	5,395	5,593	5,803	6,002
Interest income	142	115	135	135	143	145
Other	314	198	262	200	191	194
<i>Total</i>	<i>6,907</i>	<i>6,767</i>	<i>7,017</i>	<i>7,206</i>	<i>7,478</i>	<i>7,721</i>
<b>EXPENSES</b>						
Gross operating expenses						
Salaries	487	529	550	582	610	622
Depreciation and amortisation	653	670	675	732	784	808
Superannuation	48	51	54	57	60	60
Services and contracts	421	309	397	412	419	393
Other gross operating expenses	3,327	3,281	3,283	3,385	3,462	3,593
Nominal superannuation interest	-	-	-	-	-	-
Other interest	452	529	576	647	700	782
Other property expenses	753	704	763	710	700	684
Current transfers	505	584	640	619	645	670
Capital transfers	1	20	22	52	25	13
<i>Total</i>	<i>6,648</i>	<i>6,676</i>	<i>6,959</i>	<i>7,195</i>	<i>7,405</i>	<i>7,626</i>
<b>NET OPERATING BALANCE</b>	<b>259</b>	<b>90</b>	<b>58</b>	<b>11</b>	<b>72</b>	<b>95</b>
<b>NET ACQUISITION OF NON-FINANCIAL ASSETS</b>						
Purchase of non-financial assets	1,788	2,336	2,600	2,156	1,587	1,628
Sales of non-financial assets	-432	-418	-488	-602	-524	-501
<i>less</i> depreciation	653	670	675	732	784	808
<i>plus</i> change in inventories	54	9	-2	-6	1	-2
<i>plus</i> other movements in non-financial assets	-4	-	-	-25	-12	-
<i>Total</i>	<i>753</i>	<i>1,257</i>	<i>1,435</i>	<i>792</i>	<i>267</i>	<i>317</i>
<b>NET LENDING/BORROWING</b>	<b>-493</b>	<b>-1,167</b>	<b>-1,377</b>	<b>-780</b>	<b>-194</b>	<b>-223</b>
<b>Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)</b>						
<b>NET OPERATING BALANCE</b>	<b>259</b>	<b>90</b>	<b>58</b>	<b>11</b>	<b>72</b>	<b>95</b>
<i>less</i> provisions for doubtful debts	5	6	6	6	6	6
<i>plus</i> net gains on assets (including derivatives)	78	72	98	166	112	131
<i>plus</i> capitalised interest	4	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	-68	-	-	-	-	-
<i>plus</i> all other adjustments	-14	-	-	-	-	-
<b>AAS OPERATING RESULT</b>	<b>391</b>	<b>156</b>	<b>151</b>	<b>171</b>	<b>178</b>	<b>220</b>

(a) Consistent with final audited data contained in the 2004-05 *Government of Western Australia Consolidated Financial Statements*, released 10 November 2005.

Note: Columns may not add due to rounding.

Table 1.5

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

	2005	2006	2006	2007	2008	2009
	Actual <sup>(a)</sup>	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
<b>ASSETS</b>						
<i>Financial assets</i>						
Cash and deposits	308	212	220	221	253	270
Advances paid	96	8	20	9	9	9
Investments, loans and placements	2,128	2,086	2,178	2,307	2,392	2,537
Other non-equity assets	1,089	1,174	1,176	1,263	1,380	1,511
Equity	5	7	5	5	5	5
<i>Total</i>	<i>3,627</i>	<i>3,487</i>	<i>3,599</i>	<i>3,805</i>	<i>4,038</i>	<i>4,332</i>
<i>Non-Financial assets</i>						
Land and fixed assets	26,040	27,636	28,632	29,869	30,831	32,272
Other non-financial assets	244	179	213	204	212	200
<i>Total</i>	<i>26,284</i>	<i>27,815</i>	<i>28,845</i>	<i>30,073</i>	<i>31,043</i>	<i>32,471</i>
<b>TOTAL ASSETS</b>	<b>29,910</b>	<b>31,302</b>	<b>32,445</b>	<b>33,877</b>	<b>35,081</b>	<b>36,804</b>
<b>LIABILITIES</b>						
Deposits held	2	1	2	2	2	2
Advances received	549	547	536	523	510	497
Borrowings	7,720	8,927	9,178	10,274	10,752	11,760
Unfunded superannuation liabilities	110	169	103	97	91	85
Other employee entitlements and provisions	293	191	217	208	207	213
Non-equity liabilities	1,888	1,774	1,900	1,856	1,902	1,871
<b>TOTAL LIABILITIES</b>	<b>10,561</b>	<b>11,609</b>	<b>11,936</b>	<b>12,960</b>	<b>13,464</b>	<b>14,428</b>
Shares and other contributed capital	542	1,023	1,064	1,244	1,350	1,453
<b>NET WORTH</b>	<b>18,807</b>	<b>18,670</b>	<b>19,445</b>	<b>19,673</b>	<b>20,267</b>	<b>20,923</b>
<i>Memorandum Item: Net Debt</i>	<i>5,738</i>	<i>7,169</i>	<i>7,298</i>	<i>8,262</i>	<i>8,611</i>	<i>9,443</i>
<b>Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)</b>						
<b>NET WORTH</b>	<b>18,807</b>	<b>18,670</b>	<b>19,445</b>	<b>19,673</b>	<b>20,267</b>	<b>20,923</b>
<i>plus</i> shares and other contributed capital	542	1,023	1,064	1,244	1,350	1,453
<i>less</i> all other adjustments	-	-	-	-	-	-
<b>AAS NET ASSETS</b>	<b>19,349</b>	<b>19,693</b>	<b>20,509</b>	<b>20,917</b>	<b>21,617</b>	<b>22,376</b>

(a) Consistent with final audited data contained in the 2004-05 *Government of Western Australia Consolidated Financial Statements*, released 10 November 2005.

Note: Columns may not add due to rounding.

Table 1.6

**PUBLIC NON-FINANCIAL CORPORATIONS**  
Cash Flow Statement

	2004-05	2005-06	2005-06	2006-07	2007-08	2008-09
	Actual <sup>(a)</sup>	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
<b>RECEIPTS FROM OPERATING ACTIVITIES</b>						
Receipts from sales of goods and services	5,525	5,222	5,434	5,613	5,787	5,969
Grants and subsidies received	976	1,114	1,137	1,179	1,228	1,267
Other receipts	555	467	510	476	448	478
<i>Total</i>	<i>7,057</i>	<i>6,803</i>	<i>7,081</i>	<i>7,268</i>	<i>7,464</i>	<i>7,714</i>
<b>PAYMENTS FOR OPERATING ACTIVITIES</b>						
Payments for goods and services	-4,170	-3,976	-4,182	-4,264	-4,410	-4,517
Grants and subsidies paid	-386	-475	-529	-495	-503	-524
Interest paid	-446	-530	-529	-636	-678	-771
Other payments	-775	-644	-688	-687	-665	-686
<i>Total</i>	<i>-5,777</i>	<i>-5,624</i>	<i>-5,929</i>	<i>-6,082</i>	<i>-6,255</i>	<i>-6,498</i>
<b>Net Cash Flow from Operating Activities</b>	<b>1,280</b>	<b>1,179</b>	<b>1,151</b>	<b>1,186</b>	<b>1,208</b>	<b>1,216</b>
<b>INVESTMENT IN NON-FINANCIAL ASSETS</b>						
Purchase of non-financial assets	-1,788	-2,336	-2,600	-2,156	-1,587	-1,628
Sales of non-financial assets	432	418	488	602	524	501
<i>Total</i>	<i>-1,356</i>	<i>-1,918</i>	<i>-2,112</i>	<i>-1,555</i>	<i>-1,063</i>	<i>-1,128</i>
<b>INVESTMENT IN FINANCIAL ASSETS</b>						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	13	-8	-13	-35	-78	-90
<i>Total</i>	<i>13</i>	<i>-8</i>	<i>-13</i>	<i>-35</i>	<i>-78</i>	<i>-90</i>
<b>Net Cash Flow from Investing Activities</b>	<b>-1,344</b>	<b>-1,926</b>	<b>-2,125</b>	<b>-1,590</b>	<b>-1,140</b>	<b>-1,218</b>
<b>FINANCING ACTIVITIES</b>						
Advances received (net)	-12	-13	-13	-13	-13	-13
Borrowings (net)	640	900	1,071	862	482	552
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-741	-734	-829	-695	-665	-686
Other financing	232	550	617	242	184	198
<i>Total</i>	<i>119</i>	<i>703</i>	<i>846</i>	<i>396</i>	<i>-12</i>	<i>50</i>
<i>Opening cash balance</i>	<i>454</i>	<i>384</i>	<i>509</i>	<i>382</i>	<i>375</i>	<i>431</i>
<b>NET INCREASE IN CASH HELD</b>	<b>55</b>	<b>-44</b>	<b>-127</b>	<b>-7</b>	<b>56</b>	<b>48</b>
<i>Closing cash balance</i>	<i>509</i>	<i>339</i>	<i>382</i>	<i>375</i>	<i>431</i>	<i>480</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>-817</i>	<i>-1,474</i>	<i>-1,789</i>	<i>-1,063</i>	<i>-520</i>	<i>-597</i>
<i>Surplus</i>	<i>-817</i>	<i>-1,474</i>	<i>-1,789</i>	<i>-1,063</i>	<i>-520</i>	<i>-597</i>

(a) Consistent with final audited data contained in the 2004-05 Government of Western Australia Consolidated Financial Statements, released 10 November 2005.

Note: Columns may not add due to rounding.



Table 1.7

**TOTAL NON-FINANCIAL PUBLIC SECTOR****Operating Statement**

	2004-05	2005-06	2005-06	2006-07	2007-08	2008-09
	Actual <sup>(a)</sup>	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
<b>REVENUE</b>						
Taxation	4,141	3,831	4,490	4,367	4,582	4,830
Current grants and subsidies	6,468	6,659	6,792	6,837	7,014	7,128
Capital grants	347	347	380	373	402	438
Sales of goods and services	6,186	6,043	6,216	6,431	6,658	6,878
Interest income	242	217	244	245	249	273
Royalty income	841	1,140	1,243	1,349	1,215	1,209
Other	626	402	548	415	407	392
<i>Total</i>	<i>18,850</i>	<i>18,640</i>	<i>19,912</i>	<i>20,016</i>	<i>20,528</i>	<i>21,149</i>
<b>EXPENSES</b>						
Gross operating expenses						
Salaries	5,740	5,934	6,065	6,248	6,468	6,712
Depreciation and amortisation	1,260	1,255	1,271	1,369	1,455	1,499
Superannuation	567	576	596	612	631	653
Services and Contracts	1,684	1,725	2,009	2,084	2,161	2,153
Other gross operating expenses	4,745	4,841	4,792	4,847	5,025	5,293
Nominal superannuation interest	294	296	304	305	306	305
Other interest	565	646	682	737	791	875
Other property expenses	-	-	-	-	-	-
Current transfers	2,204	2,423	2,512	2,601	2,632	2,637
Capital transfers	340	333	321	471	308	279
<i>Total</i>	<i>17,399</i>	<i>18,029</i>	<i>18,552</i>	<i>19,274</i>	<i>19,777</i>	<i>20,408</i>
<b>NET OPERATING BALANCE</b>	<b>1,451</b>	<b>612</b>	<b>1,359</b>	<b>743</b>	<b>751</b>	<b>741</b>
<b>NET ACQUISITION OF NON-FINANCIAL ASSETS</b>						
Purchases of non financial assets	2,881	3,622	4,023	3,600	3,204	3,059
Sales of non-financial assets	-686	-610	-696	-791	-685	-670
<i>less</i> depreciation	1,260	1,255	1,271	1,369	1,455	1,499
<i>plus</i> change in inventories	56	6	-9	-5	-	-2
<i>plus</i> other movements in non-financial assets	55	-	56	-	-	-
<i>Total</i>	<i>1,045</i>	<i>1,763</i>	<i>2,102</i>	<i>1,434</i>	<i>1,065</i>	<i>888</i>
<b>NET LENDING/BORROWING</b>	<b>405</b>	<b>-1,152</b>	<b>-743</b>	<b>-692</b>	<b>-314</b>	<b>-147</b>
<b>Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)</b>						
<b>NET OPERATING BALANCE</b>	<b>1,451</b>	<b>612</b>	<b>1,359</b>	<b>743</b>	<b>751</b>	<b>741</b>
<i>less</i> provisions for doubtful debts	21	6	6	7	7	7
<i>plus</i> net gains on assets (including derivatives)	102	78	118	189	91	96
<i>plus</i> capitalised interest	4	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	62	-	-	-	-	-
<i>plus</i> all other adjustments	-144	-	-	3	-	-
<b>AAS OPERATING RESULT</b>	<b>1,330</b>	<b>683</b>	<b>1,472</b>	<b>928</b>	<b>835</b>	<b>831</b>

(a) Consistent with final audited data contained in the 2004-05 *Government of Western Australia Consolidated Financial Statements*, released 10 November 2005.

Note: Columns may not add due to rounding.

Table 1.8

**TOTAL NON-FINANCIAL PUBLIC SECTOR**  
Balance Sheet at 30 June

	2005 Actual <sup>(a)</sup> \$m	2006 Budget Estimate \$m	2006 Mid-Year Revision \$m	2007 Forward Estimate \$m	2008 Forward Estimate \$m	2009 Forward Estimate \$m
<b>ASSETS</b>						
<i>Financial assets</i>						
Cash and deposits	476	495	414	417	450	480
Advances paid	481	405	414	313	313	312
Investments, loans and placements	4,044	2,950	4,140	4,458	4,468	4,773
Other non-equity assets	1,743	1,722	1,793	1,749	1,754	1,772
Equity	539	430	773	843	905	951
<i>Total</i>	<i>7,283</i>	<i>6,002</i>	<i>7,535</i>	<i>7,781</i>	<i>7,890</i>	<i>8,288</i>
<i>Non-Financial assets</i>						
Land and fixed assets	61,904	61,692	65,500	68,174	70,788	73,398
Other non-financial assets	344	394	530	533	569	475
<i>Total</i>	<i>62,248</i>	<i>62,086</i>	<i>66,031</i>	<i>68,706</i>	<i>71,356</i>	<i>73,873</i>
<b>TOTAL ASSETS</b>	<b>69,530</b>	<b>68,087</b>	<b>73,565</b>	<b>76,488</b>	<b>79,246</b>	<b>82,161</b>
<b>LIABILITIES</b>						
Deposits held	158	145	160	165	169	173
Advances received	549	547	536	523	510	497
Borrowings	9,035	10,464	10,392	11,540	12,254	13,341
Unfunded superannuation liabilities	5,743	5,636	5,739	5,724	5,692	5,634
Other employee entitlements and provisions	1,581	1,572	1,671	1,740	1,830	1,904
Non-equity liabilities	2,273	2,193	2,697	2,600	2,625	2,572
<b>TOTAL LIABILITIES</b>	<b>19,339</b>	<b>20,558</b>	<b>21,194</b>	<b>22,293</b>	<b>23,080</b>	<b>24,120</b>
<b>NET WORTH</b>	<b>50,192</b>	<b>47,530</b>	<b>52,371</b>	<b>54,195</b>	<b>56,167</b>	<b>58,040</b>
<i>Memorandum Item: Net Debt</i>	<i>4,741</i>	<i>7,307</i>	<i>6,119</i>	<i>7,040</i>	<i>7,701</i>	<i>8,445</i>

**Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)**

<b>NET WORTH</b>	<b>50,192</b>	<b>47,530</b>	<b>52,371</b>	<b>54,195</b>	<b>56,167</b>	<b>58,040</b>
<i>less equity (net worth) of the PFC sector</i>	<i>534</i>	<i>423</i>	<i>768</i>	<i>838</i>	<i>900</i>	<i>946</i>
<i>less all other adjustments</i>	<i>88</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<b>AAS NET ASSETS</b>	<b>49,569</b>	<b>47,107</b>	<b>51,603</b>	<b>53,356</b>	<b>55,267</b>	<b>57,095</b>

(a) Consistent with final audited data contained in the 2004-05 *Government of Western Australia Consolidated Financial Statements*, released 10 November 2005.

Note: Columns may not add due to rounding.

Table 1.9

**TOTAL NON-FINANCIAL PUBLIC SECTOR**  
Cash Flow Statement

	2004-05	2005-06	2005-06	2006-07	2007-08	2008-09
	Actual <sup>(a)</sup>	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
<b>RECEIPTS FROM OPERATING ACTIVITIES</b>						
Taxes received	4,151	3,837	4,507	4,375	4,596	4,846
Receipts from sales of goods and services	6,375	6,023	6,298	6,482	6,680	6,861
Grants and subsidies received	6,786	7,007	7,171	7,192	7,397	7,551
Other receipts	2,191	2,380	2,537	2,711	2,526	2,555
<i>Total</i>	<b>19,503</b>	<b>19,248</b>	<b>20,513</b>	<b>20,761</b>	<b>21,199</b>	<b>21,813</b>
<b>PAYMENTS FOR OPERATING ACTIVITIES</b>						
Payments for goods and services	-12,986	-13,201	-13,677	-13,935	-14,463	-14,970
Grants and subsidies paid	-2,362	-2,595	-2,650	-2,794	-2,748	-2,717
Interest paid	-566	-653	-636	-728	-769	-866
Other payments	-1,352	-1,191	-1,277	-1,247	-1,256	-1,253
<i>Total</i>	<b>-17,266</b>	<b>-17,640</b>	<b>-18,239</b>	<b>-18,704</b>	<b>-19,237</b>	<b>-19,806</b>
<b>Net Cash Flow from Operating Activities</b>	<b>2,237</b>	<b>1,608</b>	<b>2,274</b>	<b>2,057</b>	<b>1,962</b>	<b>2,007</b>
<b>INVESTMENT IN NON-FINANCIAL ASSETS</b>						
Purchase of non-financial assets	-2,881	-3,622	-4,023	-3,600	-3,204	-3,059
Sales of non-financial assets	686	610	696	791	685	670
<i>Total</i>	<b>-2,195</b>	<b>-3,012</b>	<b>-3,327</b>	<b>-2,809</b>	<b>-2,519</b>	<b>-2,389</b>
<b>INVESTMENT IN FINANCIAL ASSETS</b>						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	-49	7	3	-34	-77	-90
<i>Total</i>	<b>-49</b>	<b>7</b>	<b>3</b>	<b>-34</b>	<b>-77</b>	<b>-90</b>
<b>Net Cash Flow from Investing Activities</b>	<b>-2,244</b>	<b>-3,005</b>	<b>-3,324</b>	<b>-2,843</b>	<b>-2,596</b>	<b>-2,480</b>
<b>FINANCING ACTIVITIES</b>						
Advances received (net)	-12	-13	-13	-13	-13	-13
Borrowings (net)	245	1,318	200	654	488	445
Deposits received (net)	-1	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	10	58	61	65	62	67
<i>Total</i>	<b>242</b>	<b>1,364</b>	<b>248</b>	<b>706</b>	<b>537</b>	<b>499</b>
<i>Opening cash balance</i>	<b>3,144</b>	<b>2,320</b>	<b>3,378</b>	<b>2,576</b>	<b>2,496</b>	<b>2,398</b>
<b>NET INCREASE IN CASH HELD</b>	<b>234</b>	<b>-34</b>	<b>-802</b>	<b>-80</b>	<b>-98</b>	<b>26</b>
<i>Closing cash balance</i>	<b>3,378</b>	<b>2,286</b>	<b>2,576</b>	<b>2,496</b>	<b>2,398</b>	<b>2,424</b>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	<b>42</b>	<b>-1,404</b>	<b>-1,053</b>	<b>-752</b>	<b>-558</b>	<b>-383</b>
<i>less finance leases and similar arrangements</i>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Surplus</b>	<b>42</b>	<b>-1,404</b>	<b>-1,053</b>	<b>-752</b>	<b>-558</b>	<b>-383</b>

(a) Consistent with final audited data contained in the 2004-05 Government of Western Australia Consolidated Financial Statements, released 10 November 2005.

Note: Columns may not add due to rounding.

Table 1.10

**PUBLIC FINANCIAL CORPORATIONS**  
Operating Statement

	2004-05 Actual <sup>(a)</sup> \$m	2005-06 Budget Estimate \$m	2005-06 Mid-Year Revision \$m	2006-07 Forward Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m
<b>REVENUE</b>						
Current grants and subsidies	1	1	1	1	1	1
Capital grants	-	-	-	-	-	-
Sales of goods and services	754	610	637	654	680	715
Interest income	947	975	915	933	1,009	1,068
Other	6	-	4	-	-	-
<i>Total</i>	<i>1,709</i>	<i>1,585</i>	<i>1,556</i>	<i>1,588</i>	<i>1,689</i>	<i>1,783</i>
<b>EXPENSES</b>						
Gross operating expenses						
Salaries	20	21	21	22	23	24
Depreciation and amortisation	4	7	8	8	7	7
Superannuation	2	2	2	2	2	2
Services and Contracts	16	15	12	12	14	14
Other gross operating expenses	530	617	616	619	652	705
Nominal superannuation interest	-	-	-	-	-	-
Other interest	888	801	833	849	921	975
Other property expenses	7	5	7	6	9	11
Current transfers	3	2	2	2	2	2
Capital transfers	-	1	-	-	1	1
<i>Total</i>	<i>1,470</i>	<i>1,472</i>	<i>1,501</i>	<i>1,521</i>	<i>1,631</i>	<i>1,741</i>
<b>NET OPERATING BALANCE</b>	<b>239</b>	<b>114</b>	<b>56</b>	<b>67</b>	<b>58</b>	<b>42</b>
<b>NET ACQUISITION OF NON-FINANCIAL ASSETS</b>						
Purchases of non-financial assets	3	4	5	4	4	2
Sales of non-financial assets	-1	-1	-	-	-	-
<i>less</i> depreciation	4	7	8	8	7	7
<i>plus</i> change in inventories	-	-	-	-	-	-
<i>plus</i> other movements in non-financial assets	-	-	-	-	-	-
<i>Total</i>	<i>-1</i>	<i>-5</i>	<i>-3</i>	<i>-4</i>	<i>-4</i>	<i>-5</i>
<b>NET LENDING/BORROWING</b>	<b>241</b>	<b>118</b>	<b>58</b>	<b>71</b>	<b>62</b>	<b>47</b>
<b>Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)</b>						
<b>NET OPERATING BALANCE</b>	<b>239</b>	<b>114</b>	<b>56</b>	<b>67</b>	<b>58</b>	<b>42</b>
<i>less</i> provisions for doubtful debts	-	-	-	-	-	-
<i>plus</i> net gains on assets (including derivatives)	-24	-	-	-	-	-
<i>plus</i> capitalised interest	-	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	-5	-	-	-	-	-
<i>plus</i> all other adjustments	1	-	-	-	-	-
<b>AAS OPERATING RESULT</b>	<b>221</b>	<b>113</b>	<b>55</b>	<b>67</b>	<b>58</b>	<b>42</b>

(a) Consistent with final audited data contained in the 2004-05 *Government of Western Australia Consolidated Financial Statements*, released 10 November 2005.

Note: Columns may not add due to rounding.

Table 1.11

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

	2005	2006	2006	2007	2008	2009
	Actual <sup>(a)</sup>	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
<b>ASSETS</b>						
<i>Financial assets</i>						
Cash and deposits	23	174	19	22	18	29
Advances paid	1,682	1,770	1,808	1,956	1,995	2,040
Investments, loans and placements	13,411	13,920	14,469	15,358	16,000	16,607
Other non-equity assets	514	446	512	511	509	507
Equity	960	1,028	1,042	1,115	1,193	1,273
<i>Total</i>	<b>16,590</b>	<b>17,338</b>	<b>17,850</b>	<b>18,962</b>	<b>19,715</b>	<b>20,456</b>
<i>Non-Financial assets</i>						
Land and fixed assets	363	368	380	396	412	428
Other non-financial assets	2	24	9	8	9	8
<i>Total</i>	<b>365</b>	<b>392</b>	<b>389</b>	<b>404</b>	<b>420</b>	<b>436</b>
<b>TOTAL ASSETS</b>	<b>16,955</b>	<b>17,730</b>	<b>18,239</b>	<b>19,367</b>	<b>20,136</b>	<b>20,892</b>
<b>LIABILITIES</b>						
Deposits held	-	-	-	-	-	-
Advances received	3	3	3	3	3	3
Borrowings	14,374	15,076	15,352	16,313	16,893	17,503
Unfunded superannuation liabilities	6	11	6	6	5	5
Other employee entitlements and provisions	6	6	5	5	5	5
Non-equity liabilities	2,031	2,212	2,105	2,201	2,328	2,430
<b>TOTAL LIABILITIES</b>	<b>16,421</b>	<b>17,307</b>	<b>17,471</b>	<b>18,528</b>	<b>19,236</b>	<b>19,946</b>
Shares and other contributed capital	-	-	-	-	-	-
<b>NET WORTH</b>	<b>534</b>	<b>423</b>	<b>768</b>	<b>838</b>	<b>900</b>	<b>946</b>
<i>Memorandum Item: Net Debt</i>	-739	-786	-941	-1,020	-1,117	-1,170
<b>Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)</b>						
<b>NET WORTH</b>	<b>534</b>	<b>423</b>	<b>768</b>	<b>838</b>	<b>900</b>	<b>946</b>
<i>plus</i> shares and other contributed capital	-	-	-	-	-	-
<i>less</i> all other adjustments	-	-	-	-	-	-
<b>AAS NET ASSETS</b>	<b>534</b>	<b>423</b>	<b>768</b>	<b>838</b>	<b>900</b>	<b>946</b>

(a) Consistent with final audited data contained in the 2004-05 *Government of Western Australia Consolidated Financial Statements*, released 10 November 2005.

Note: Columns may not add due to rounding.

Table 1.12

**PUBLIC FINANCIAL CORPORATIONS**  
Cash Flow Statement

	2004-05	2005-06	2005-06	2006-07	2007-08	2008-09
	Actual <sup>(a)</sup>	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
<b>RECEIPTS FROM OPERATING ACTIVITIES</b>						
Receipts from sales of goods and services	593	590	602	638	666	687
Grants and subsidies received	1	1	1	1	1	1
Other receipts	962	934	996	980	1,057	1,143
<i>Total</i>	<i>1,556</i>	<i>1,525</i>	<i>1,599</i>	<i>1,619</i>	<i>1,723</i>	<i>1,831</i>
<b>PAYMENTS FOR OPERATING ACTIVITIES</b>						
Payments for goods and services	-527	-532	-558	-563	-574	-643
Grants and subsidies paid	-1	-	-	-	-	-
Interest paid	-910	-802	-833	-849	-921	-975
Other payments	-119	-88	-88	-93	-96	-99
<i>Total</i>	<i>-1,557</i>	<i>-1,421</i>	<i>-1,480</i>	<i>-1,506</i>	<i>-1,592</i>	<i>-1,717</i>
<b>Net Cash Flow from Operating Activities</b>	<b>-1</b>	<b>103</b>	<b>119</b>	<b>113</b>	<b>132</b>	<b>114</b>
<b>INVESTMENT IN NON-FINANCIAL ASSETS</b>						
Purchase of non-financial assets	-3	-4	-5	-4	-4	-2
Sales of non-financial assets	1	1	-	-	-	-
<i>Total</i>	<i>-2</i>	<i>-3</i>	<i>-5</i>	<i>-4</i>	<i>-4</i>	<i>-2</i>
<b>INVESTMENT IN FINANCIAL ASSETS</b>						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	-298	-307	-222	-232	-127	-131
<i>Total</i>	<i>-298</i>	<i>-307</i>	<i>-222</i>	<i>-232</i>	<i>-127</i>	<i>-131</i>
<b>Net Cash Flow from Investing Activities</b>	<b>-300</b>	<b>-310</b>	<b>-227</b>	<b>-236</b>	<b>-130</b>	<b>-133</b>
<b>FINANCING ACTIVITIES</b>						
Advances received (net)	-	-	-	-	-	-
Borrowings (net)	495	204	111	137	5	43
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-7	-5	-7	-6	-7	-9
Other financing	-2	-	-	-	-	-
<i>Total</i>	<i>486</i>	<i>200</i>	<i>104</i>	<i>131</i>	<i>-2</i>	<i>34</i>
<i>Opening cash balance</i>	<i>2,783</i>	<i>2,790</i>	<i>2,968</i>	<i>2,964</i>	<i>2,972</i>	<i>2,971</i>
<b>NET INCREASE IN CASH HELD</b>	<b>185</b>	<b>-7</b>	<b>-4</b>	<b>8</b>	<b>-</b>	<b>15</b>
<i>Closing cash balance</i>	<i>2,968</i>	<i>2,784</i>	<i>2,964</i>	<i>2,972</i>	<i>2,971</i>	<i>2,986</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>-10</i>	<i>96</i>	<i>107</i>	<i>103</i>	<i>121</i>	<i>103</i>
Surplus	-10	96	107	103	121	103

(a) Consistent with final audited data contained in the 2004-05 *Government of Western Australia Consolidated Financial Statements*, released 10 November 2005.

Note: Columns may not add due to rounding.

**TOTAL PUBLIC SECTOR**  
Operating Statement

Table 1.13

	2004-05 Actual <sup>(a)</sup> \$m	2005-06 Budget Estimate \$m	2005-06 Mid-Year Revision \$m	2006-07 Forward Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m
<b>REVENUE</b>						
Taxation	4,139	3,830	4,489	4,366	4,581	4,829
Current grants and subsidies	6,468	6,659	6,792	6,837	7,014	7,128
Capital grants	347	347	380	373	402	438
Sales of goods and services	6,802	6,503	6,689	6,920	7,164	7,408
Interest income	592	546	494	484	519	575
Royalty income	841	1,140	1,243	1,349	1,215	1,209
Other	618	397	541	409	400	385
<i>Total</i>	<i>19,807</i>	<i>19,421</i>	<i>20,626</i>	<i>20,737</i>	<i>21,295</i>	<i>21,972</i>
<b>EXPENSES</b>						
Gross operating expenses						
Salaries	5,760	5,955	6,086	6,270	6,491	6,737
Depreciation and amortisation	1,264	1,262	1,279	1,377	1,462	1,506
Superannuation	569	578	598	614	634	655
Services and contracts	1,700	1,740	2,021	2,096	2,176	2,167
Other gross operating expenses	5,136	5,308	5,244	5,300	5,502	5,813
Nominal superannuation interest	294	296	304	305	306	305
Other interest	856	800	850	892	973	1,084
Other property expenses	-	-	-	-	2	4
Current transfers	2,198	2,423	2,508	2,601	2,632	2,637
Capital transfers	340	334	321	471	309	280
<i>Total</i>	<i>18,117</i>	<i>18,696</i>	<i>19,211</i>	<i>19,927</i>	<i>20,486</i>	<i>21,188</i>
<b>NET OPERATING BALANCE</b>	<b>1,690</b>	<b>725</b>	<b>1,415</b>	<b>810</b>	<b>809</b>	<b>784</b>
<b>NET ACQUISITION OF NON-FINANCIAL ASSETS</b>						
Purchases of non-financial assets	2,883	3,626	4,028	3,604	3,208	3,062
Sales of non-financial assets	-686	-611	-696	-791	-685	-670
<i>less</i> depreciation	<i>1,264</i>	<i>1,262</i>	<i>1,279</i>	<i>1,377</i>	<i>1,462</i>	<i>1,506</i>
<i>plus</i> change in inventories	<i>56</i>	<i>6</i>	<i>-9</i>	<i>-5</i>	<i>-</i>	<i>-2</i>
<i>plus</i> other movements in non-financial assets	<i>55</i>	<i>-</i>	<i>56</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Total</i>	<i>1,044</i>	<i>1,758</i>	<i>2,100</i>	<i>1,431</i>	<i>1,061</i>	<i>884</i>
<b>NET LENDING/BORROWING</b>	<b>646</b>	<b>-1,033</b>	<b>-685</b>	<b>-621</b>	<b>-252</b>	<b>-100</b>
<b>Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)</b>						
<b>NET OPERATING BALANCE</b>	<b>1,690</b>	<b>725</b>	<b>1,415</b>	<b>810</b>	<b>809</b>	<b>784</b>
<i>less</i> provisions for doubtful debts	<i>21</i>	<i>7</i>	<i>6</i>	<i>7</i>	<i>7</i>	<i>7</i>
<i>plus</i> net gains on assets (including derivatives)	<i>78</i>	<i>78</i>	<i>118</i>	<i>189</i>	<i>91</i>	<i>96</i>
<i>plus</i> capitalised interest	<i>4</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>less</i> revaluation of superannuation liabilities	<i>58</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>plus</i> all other adjustments	<i>-143</i>	<i>-</i>	<i>-</i>	<i>3</i>	<i>-</i>	<i>-</i>
<b>AAS OPERATING RESULT</b>	<b>1,551</b>	<b>797</b>	<b>1,527</b>	<b>995</b>	<b>893</b>	<b>873</b>

(a) Consistent with final audited data contained in the 2004-05 *Government of Western Australia Consolidated Financial Statements*, released 10 November 2005.

Note: Columns may not add due to rounding.

Table 1.14

**TOTAL PUBLIC SECTOR**  
Balance Sheet at 30 June

	2005	2006	2006	2007	2008	2009
	Actual <sup>(a)</sup>	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
<b>ASSETS</b>						
<i>Financial assets</i>						
Cash and deposits	499	668	432	439	468	509
Advances paid	2,159	2,172	2,219	2,266	2,304	2,348
Investments, loans and placements	6,800	4,710	7,017	7,211	7,514	8,017
Other non-equity assets	2,039	1,993	2,070	2,031	2,039	2,060
Equity	965	1,034	1,047	1,120	1,198	1,278
<b>Total</b>	<b>12,462</b>	<b>10,578</b>	<b>12,786</b>	<b>13,067</b>	<b>13,524</b>	<b>14,212</b>
<i>Non-Financial assets</i>						
Land and fixed assets	62,266	62,059	65,880	68,570	71,199	73,826
Other non-financial assets	346	418	539	541	577	483
<b>Total</b>	<b>62,612</b>	<b>62,477</b>	<b>66,419</b>	<b>69,111</b>	<b>71,777</b>	<b>74,309</b>
<b>TOTAL ASSETS</b>	<b>75,074</b>	<b>73,055</b>	<b>79,205</b>	<b>82,178</b>	<b>85,301</b>	<b>88,520</b>
<b>LIABILITIES</b>						
Deposits held	158	145	160	165	168	172
Advances received	549	547	536	523	510	497
Borrowings	12,753	13,379	14,151	15,247	16,193	17,480
Unfunded superannuation liabilities	5,749	5,647	5,745	5,730	5,697	5,639
Other employee entitlements and provisions	1,586	1,578	1,676	1,746	1,835	1,909
Non-equity liabilities	4,087	4,230	4,567	4,572	4,730	4,782
<b>TOTAL LIABILITIES</b>	<b>24,882</b>	<b>25,526</b>	<b>26,835</b>	<b>27,983</b>	<b>29,134</b>	<b>30,480</b>
<b>NET WORTH</b>	<b>50,192</b>	<b>47,530</b>	<b>52,371</b>	<b>54,195</b>	<b>56,167</b>	<b>58,040</b>
<i>Memorandum Item: Net Debt</i>	4,001	6,521	5,179	6,020	6,585	7,275
<b>Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)</b>						
<b>NET WORTH</b>	<b>50,192</b>	<b>47,530</b>	<b>52,371</b>	<b>54,195</b>	<b>56,167</b>	<b>58,040</b>
<i>less all other adjustments</i>	88	-	-	-	-	-
<b>AAS NET ASSETS</b>	<b>50,104</b>	<b>47,530</b>	<b>52,371</b>	<b>54,195</b>	<b>56,167</b>	<b>58,040</b>

(a) Consistent with final audited data contained in the 2004-05 *Government of Western Australia Consolidated Financial Statements*, released 10 November 2005.

Note: Columns may not add due to rounding.



Table 1.15

**TOTAL PUBLIC SECTOR**  
Cash Flow Statement

	2004-05	2005-06	2005-06	2006-07	2007-08	2008-09
	Actual <sup>(a)</sup>	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
<b>RECEIPTS FROM OPERATING ACTIVITIES</b>						
Taxes received	4,112	3,801	4,471	4,337	4,557	4,806
Receipts from sales of goods and services	6,836	6,475	6,754	6,954	7,169	7,366
Grants and subsidies received	6,786	7,007	7,171	7,192	7,397	7,551
Other receipts	2,529	2,624	2,873	2,950	2,815	2,860
<i>Total</i>	<b>20,263</b>	<b>19,906</b>	<b>21,268</b>	<b>21,433</b>	<b>21,938</b>	<b>22,582</b>
<b>PAYMENTS FOR OPERATING ACTIVITIES</b>						
Payments for goods and services	-13,381	-13,594	-14,089	-14,331	-14,860	-15,430
Grants and subsidies paid	-2,362	-2,595	-2,649	-2,794	-2,748	-2,717
Interest paid	-870	-776	-822	-847	-934	-1,016
Other payments	-1,422	-1,235	-1,323	-1,296	-1,308	-1,307
<i>Total</i>	<b>-18,034</b>	<b>-18,200</b>	<b>-18,883</b>	<b>-19,269</b>	<b>-19,852</b>	<b>-20,471</b>
<b>Net Cash Flow from Operating Activities</b>	<b>2,229</b>	<b>1,706</b>	<b>2,385</b>	<b>2,164</b>	<b>2,087</b>	<b>2,112</b>
<b>INVESTMENT IN NON-FINANCIAL ASSETS</b>						
Purchase of non-financial assets	-2,883	-3,626	-4,028	-3,604	-3,208	-3,062
Sales of non-financial assets	686	611	696	791	685	670
<i>Total</i>	<b>-2,197</b>	<b>-3,014</b>	<b>-3,332</b>	<b>-2,813</b>	<b>-2,523</b>	<b>-2,392</b>
<b>INVESTMENT IN FINANCIAL ASSETS</b>						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	-347	-300	-219	-266	-204	-221
<i>Total</i>	<b>-347</b>	<b>-300</b>	<b>-219</b>	<b>-266</b>	<b>-204</b>	<b>-221</b>
<b>Net Cash Flow from Investing Activities</b>	<b>-2,544</b>	<b>-3,315</b>	<b>-3,551</b>	<b>-3,079</b>	<b>-2,727</b>	<b>-2,613</b>
<b>FINANCING ACTIVITIES</b>						
Advances received (net)	-12	-13	-13	-13	-13	-13
Borrowings (net)	740	1,522	312	791	493	488
Deposits received (net)	-1	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	8	58	61	65	62	67
<i>Total</i>	<b>735</b>	<b>1,568</b>	<b>359</b>	<b>843</b>	<b>542</b>	<b>542</b>
<i>Opening cash balance</i>	<b>5,927</b>	<b>5,110</b>	<b>6,346</b>	<b>5,540</b>	<b>5,468</b>	<b>5,370</b>
<b>NET INCREASE IN CASH HELD</b>	<b>419</b>	<b>-41</b>	<b>-806</b>	<b>-72</b>	<b>-98</b>	<b>41</b>
<i>Closing cash balance</i>	<b>6,346</b>	<b>5,069</b>	<b>5,540</b>	<b>5,468</b>	<b>5,370</b>	<b>5,411</b>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	<b>32</b>	<b>-1,308</b>	<b>-947</b>	<b>-649</b>	<b>-436</b>	<b>-280</b>
<i>less finance leases and similar arrangements</i>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Surplus</b>	<b>32</b>	<b>-1,308</b>	<b>-947</b>	<b>-649</b>	<b>-436</b>	<b>-280</b>

(a) Consistent with final audited data contained in the 2004-05 Government of Western Australia Consolidated Financial Statements, released 10 November 2005.

Note: Columns may not add due to rounding.

Table 1.16

**SPENDING BY GOVERNMENT PURPOSE CLASSIFICATION**  
General Government

	2004-05 Actual <sup>(a)</sup> \$m	2005-06 Budget Estimate \$m	2005-06 Mid-Year Revision \$m	2006-07 Forward Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m
<b>EXPENSES</b>						
General Public Services	360	499	485	552	516	550
Public Order and Safety	1,423	1,500	1,530	1,596	1,660	1,736
Education	3,646	3,583	3,679	3,856	4,020	4,192
Health	3,196	3,399	3,490	3,565	3,770	3,986
Social Security	593	615	635	652	680	691
Housing and Community Amenities	949	1,049	1,087	1,063	1,058	1,078
Recreation and Culture	411	425	407	443	392	403
Fuel and Energy	90	105	108	109	113	117
Agriculture, Forestry, Fishing and Hunting	305	335	394	373	358	254
Mining and mineral resources (other than fuels), manufacturing and construction	132	140	136	131	122	122
Transport and Communications	1,183	1,278	1,333	1,512	1,496	1,498
Other Economic Affairs	286	313	318	300	301	291
Other Purposes	454	457	455	445	443	444
<b>TOTAL EXPENSES</b>	<b>13,030</b>	<b>13,697</b>	<b>14,056</b>	<b>14,597</b>	<b>14,929</b>	<b>15,363</b>
<b>PURCHASES OF NON-FINANCIAL ASSETS</b>						
General Public Services	115	186	219	208	214	204
Public Order and Safety	105	223	219	144	142	88
Education	185	208	236	256	197	138
Health	182	221	223	296	432	484
Social Security	8	18	20	20	7	6
Housing and Community Amenities	77	79	82	73	68	60
Recreation and Culture	59	51	64	86	164	73
Fuel and Energy	1	17	18	2	2	1
Agriculture, Forestry, Fishing and Hunting	24	16	22	20	48	16
Mining and mineral resources (other than fuels), manufacturing and construction	3	9	14	13	5	2
Transport and Communications	321	235	287	299	328	352
Other Economic Affairs	13	24	20	26	12	9
Other Purposes	-	-	-	-	-	-
<b>TOTAL PURCHASES OF NON-FINANCIAL ASSETS</b>	<b>1,092</b>	<b>1,285</b>	<b>1,422</b>	<b>1,443</b>	<b>1,617</b>	<b>1,431</b>

(a) Consistent with final audited data contained in the 2004-05 *Government of Western Australia Consolidated Financial Statements*, released 10 November 2005.

Note: Columns may not add due to rounding.

Table 1.17

## LOAN COUNCIL ALLOCATIONS

### Western Australia

	2004-05 Actual <sup>(a)</sup> \$m	2005-06 Estimated \$m	2006-07 Projected \$m
General Government deficit	-862	-736	-311
Public Non-financial Corporations' net financing requirement	817	1,789	1,063
Net Capital Advances	-	-	-
Total Non-financial Public Sector Deficit	-45	1,053	752
<i>Memorandum Items <sup>(b)</sup></i>	<i>67</i>	<i>-159</i>	<i>-100</i>
<b>Loan Council Allocation</b>	<b>22</b>	<b>894</b>	<b>652</b>
Tolerance Limit <sup>(c)</sup>	322	373	400

(a) Consistent with the LCA final outcome disclosure in the 2004-05 *Government Financial Results Report* released on 21 September 2005.

(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 position<sup>22</sup>.

An LCA deficit of \$894 million is expected for 2005-06, declining to a forecast \$652 million in 2006-07. The stronger performance of the general government sector is expected to more than offset higher capital spending by public non-financial corporations in 2005-06, resulting in a \$408 million improvement on the LCA estimate at the time of the 2005-06 Budget.

<sup>22</sup> 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.

Table 2.1

## OPERATING REVENUE

### General Government

	2004-05 Actual <sup>(a)</sup> \$m	2005-06 Budget Estimate \$m	2005-06 Mid-Year Revision \$m	2006-07 Forward Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m
<b>TAXATION</b>						
Taxes on employers' payroll and labour force						
<i>Payroll tax</i>	1,211	1,242	1,326	1,380	1,472	1,550
Property taxes						
<i>Land tax</i>	315	320	320	342	365	391
Conveyances and transfers	1,218	1,002	1,480	1,248	1,290	1,370
Mortgages	140	109	156	138	143	153
Other stamp duties	36	31	36	39	41	44
<i>Total stamp duties on financial and capital transactions</i>	1,394	1,142	1,672	1,426	1,474	1,568
Debits Tax	100	8	8	-	-	-
<i>Total financial institutions taxes</i>	100	8	8	-	-	-
Metropolitan Region Improvement Tax	47	54	54	58	61	66
Emergency Services Levy	119	129	129	138	143	145
Loan guarantee fees	10	12	12	14	15	15
<i>Total other property taxes</i>	176	194	195	209	219	226
Taxes on provision of goods and services						
Lotteries Commission	98	98	101	103	104	106
less rebates	-21	-22	-22	-23	-24	-26
Video lottery terminals	-	1	1	1	1	1
Casino Tax	52	52	52	53	54	55
less rebates	-28	-28	-28	-29	-29	-30
TAB betting tax	59	56	62	64	49	51
less rebates	-25	-27	-27	-28	-24	-24
<i>Total taxes on gambling</i>	134	129	138	140	131	133
Contribution to fire brigades	-	-	-	-	-	-
Stamp duty on insurance policies	280	295	293	307	322	337
Other	19	22	22	21	22	22
<i>Total taxes on insurance</i>	299	317	314	329	344	358
Taxes on use of goods and performance of activities						
Stamp duty on vehicle licences	303	299	326	340	355	372
Permits – oversize vehicles and loads	3	2	3	3	3	3
Motor vehicle recording fee	37	30	30	31	32	33
Motor vehicle registrations	341	312	338	351	362	374
<i>Total motor vehicle taxes</i>	684	642	697	724	752	781
<b>Total Taxation</b>	<b>4,314</b>	<b>3,995</b>	<b>4,669</b>	<b>4,550</b>	<b>4,756</b>	<b>5,007</b>

Note: Columns may not add due to rounding.

Table 2.1 (cont)

**OPERATING REVENUE**  
**General Government**

	2004-05 Actual <sup>(a)</sup> \$m	2005-06 Budget Estimate \$m	2005-06 Mid-Year Revision \$m	2006-07 Forward Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m
<b>CURRENT GRANTS AND SUBSIDIES</b>						
<i>General Purpose Grants</i>						
GST revenue grants	3,646	3,820	3,803	3,913	4,033	4,144
Competition reform	54	39	40	-	-	-
<i>Specific Purpose Grants to the State</i>						
Australian Health Care Agreement	796	818	821	870	919	973
Other health	285	263	258	255	267	267
Schools assistance – government schools	218	231	256	267	279	294
Vocational training	91	94	95	99	102	105
Roads	32	33	31	40	24	21
Other	171	181	181	141	130	66
<i>Specific Purpose Grants through the State</i>						
Schools assistance – non-government schools	493	490	500	538	577	620
Local government grants	105	109	111	115	119	123
Local government roads	72	75	76	79	82	85
<i>Other Grants</i>						
North West Shelf royalties	506	505	620	522	482	430
<b>Total Current Grants and Subsidies</b>	<b>6,468</b>	<b>6,659</b>	<b>6,792</b>	<b>6,837</b>	<b>7,014</b>	<b>7,128</b>
<b>CAPITAL GRANTS</b>						
<i>Specific Purpose Grants to the State</i>						
Roads	73	67	89	67	118	142
Schools assistance – government schools	26	26	26	26	26	26
Vocational training	20	18	18	18	14	20
Other	218	225	228	244	225	231
<i>Specific Purpose Grants through the State</i>						
Schools assistance – non-government schools	11	10	18	18	18	18
<b>Total Capital Grants</b>	<b>347</b>	<b>347</b>	<b>380</b>	<b>373</b>	<b>402</b>	<b>438</b>

Note: Columns may not add due to rounding.

Table 2.1 (cont)

**OPERATING REVENUE**  
General Government

	2004-05 Actual <sup>(a)</sup> \$m	2005-06 Budget Estimate \$m	2005-06 Mid-Year Revision \$m	2006-07 Forward Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m
<b>SALES OF GOODS AND SERVICES</b>						
Department for Planning and Infrastructure	98	115	119	122	124	126
Department of Health	177	172	181	174	175	177
Department of Education and Training	127	134	139	138	136	137
TAFE Colleges	78	81	83	85	86	88
Department of Land Information	75	63	71	73	78	79
Department of Justice	57	54	55	55	55	55
Department of Conservation and Land Management	36	29	34	34	34	34
Department of Consumer and Employment Protection	28	23	24	29	29	33
Department of Fisheries	24	23	23	24	24	25
Department of Culture and the Arts	21	18	18	17	17	18
Police Service	17	16	16	17	17	17
All Others	244	215	235	250	262	274
<b>Total Sales of Goods and Services</b>	<b>982</b>	<b>943</b>	<b>998</b>	<b>1,016</b>	<b>1,038</b>	<b>1,064</b>
<b>INTEREST INCOME</b>	<b>142</b>	<b>146</b>	<b>146</b>	<b>154</b>	<b>149</b>	<b>170</b>
<b>REVENUE FROM PUBLIC CORPORATIONS</b>						
Dividends	468	463	504	460	430	425
Tax Equivalent Regime	292	245	265	256	277	266
<b>Total Revenue from Public Corporations</b>	<b>760</b>	<b>708</b>	<b>770</b>	<b>716</b>	<b>707</b>	<b>691</b>
<b>ROYALTY INCOME</b>						
Revenue from Territorial less petroleum and other refunds	864 -23	1,153 -13	1,265 -22	1,363 -15	1,252 -37	1,217 -7
<b>Total Royalty Income</b>	<b>841</b>	<b>1,140</b>	<b>1,243</b>	<b>1,349</b>	<b>1,215</b>	<b>1,209</b>
<b>OTHER</b>						
Lease rentals	50	43	43	43	43	43
Fines	88	79	83	80	80	80
Revenue not elsewhere counted	230	159	235	211	203	181
<b>Total Other</b>	<b>368</b>	<b>281</b>	<b>361</b>	<b>334</b>	<b>326</b>	<b>304</b>
<b>GRAND TOTAL</b>	<b>14,222</b>	<b>14,218</b>	<b>15,357</b>	<b>15,328</b>	<b>15,608</b>	<b>16,009</b>

Note: Columns may not add due to rounding.

## APPENDIX 3

## Post-Budget Policy Decisions Affecting Spending

This appendix provides a breakdown of the variations in general government expenses and total public sector capital spending<sup>23</sup> due to policy decisions made since the 2005-06 Budget cut-off date (26 April 2005).

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**SUMMARY OF SPENDING DECISIONS  
SINCE THE 2005-06 BUDGET**

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	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>GENERAL GOVERNMENT EXPENSES</b>				
Agriculture	1.6	-	-	-
Community Development	1.0	4.1	5.0	5.2
Conservation and Land Management	2.6	2.1	2.0	2.0
Culture and the Arts	0.5	-	-	-
Curriculum Council	0.8	0.9	1.2	1.0
Education and Training	18.1	18.4	15.6	15.8
Environment	1.0	2.4	2.3	2.3
Fire and Emergency Services Authority	0.6	0.6	0.5	0.5
Health	2.2	2.2	2.2	2.2
Heritage Council of Western Australia	0.6	-	-	-
Housing and Works	3.3	0.6	-2.5	-5.3
Indigenous Affairs	0.2	0.7	0.3	0.5
Industry and Resources	2.6	5.4	4.5	4.1
Justice	0.5	2.2	3.8	4.0
Main Roads	9.5	3.0	-	-
Office of the Director of Public Prosecutions	5.0	7.3	7.7	7.8
Planning and Infrastructure	8.1	4.1	4.2	11.2
Police Service	5.4	2.6	3.0	2.8
Premier and Cabinet	17.4	11.4	10.0	9.2
Salaries and Allowance Tribunal	0.1	0.2	0.2	0.2
Small Business Development Corporation	-	0.2	0.2	0.2
Treasury and Finance <sup>(a)</sup>	8.2	13.3	26.0	28.5
Water and Rivers Commission	0.1	-	-	-
Western Australian Electoral Commission	0.3	0.5	0.9	-
Western Australian Tourism Commission	0.5	3.3	2.0	-
Zoological Parks Authority	-	0.1	0.1	0.1
<b>TOTAL EXPENSE POLICY DECISIONS</b>	<b>90.2</b>	<b>85.5</b>	<b>89.3</b>	<b>92.3</b>

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<sup>23</sup> Measured in terms of the purchase of non-financial assets.



Cont.

**SUMMARY OF SPENDING DECISIONS  
SINCE THE 2005-06 BUDGET**

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>TOTAL PUBLIC SECTOR PURCHASE OF NON-FINANCIAL ASSETS</b>				
Conservation and Land Management	-	1.0	-	-
Education and Training	2.0	4.0	-	-
Fire and Emergency Services Authority	0.4	-	-	-
Health	-	75.5	201.2	178.0
Housing and Works	-	33.0	90.0	37.0
Office of the Director of Public Prosecutions	0.4	-	-	-
Planning and Infrastructure	3.8	26.5	37.9	5.6
Police Service	5.4	0.4	4.5	0.4
Premier and Cabinet	0.8	-	-	-
Public Transport Authority	4.0	-	-	-
Water Corporation	3.0	4.4	0.8	-
Western Australian Land Authority	49.9	48.2	-	-
Zoological Parks Authority	-	0.7	0.7	0.7
<b>TOTAL PURCHASE OF NON-FINANCIAL ASSETS</b>	<b>69.7</b>	<b>193.7</b>	<b>335.1</b>	<b>221.7</b>

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

Note: Columns may not add due to rounding.

Details of individual decisions by agency are provided below.

## Agriculture

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	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Rural Adjustment Scheme Exceptional Circumstances Support	1.6	-	-	-
<b>Total expenses</b>	<b>1.6</b>	<b>-</b>	<b>-</b>	<b>-</b>

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### Expenses

- \$1.6 million has been provided in 2005-06 to the Rural Business Development Corporation (RBDC) in respect of the State's share of expenditure associated with the Rural Adjustment Scheme Exceptional Circumstances scheme. In accordance with the Memorandum of Understanding, the Department of Agriculture provides business support services to the RBDC and, as such, reports the expense as part of its total expenses.

## Community Development

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	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Enhanced Child Care Licensing and Investigations Unit	0.6	1.0	1.0	1.0
Supported Accommodation Assistance Program V (SAAP V) Agreement	0.1	1.0	1.8	1.9
State Emergency Management Arrangements	0.4	2.1	2.2	2.2
<b>Total expenses</b>	<b>1.0</b>	<b>4.1</b>	<b>5.0</b>	<b>5.2</b>

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### Expenses

- \$3.6 million will be spent over the forward estimates for the enhancement of the Child Care Licensing Unit, which is to include a new Investigations and Prosecutions branch.

- The SAAP is a joint Commonwealth, States and Territories agreement aimed at providing transitional supported accommodation, and a range of related support services, to help homeless people. Additional spending of \$3.8 million over the forward estimates will be undertaken to implement the SAAP V Agreement, while \$1.0 million has been provided to apply the Non-Government Human Services Sector indexation policy to SAAP services.
- As part of the Government's counter-terrorism measures, \$6.9 million over the forward estimates will be spent for State emergency management arrangements. This includes the establishment of an 'on call' early response team trained to deal with human emergencies and a dedicated centre to coordinate services provided by government and non-government welfare agencies in an emergency situation.

## Conservation and Land Management

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
"Stop the Toad" campaign	1.0	-	-	-
Ord River Project - Stage 2 (Native Title)	1.0	1.0	1.0	1.0
Burrup heritage issues	0.1	0.1	0.1	0.1
Reform of the Project Approvals System	0.5	1.0	0.9	0.9
<b>Total expenses</b>	<b>2.6</b>	<b>2.1</b>	<b>2.0</b>	<b>2.0</b>
<b>Purchase of non-financial assets</b>				
Ord River Project - Stage 2	-	1.0	-	-
<b>Total purchase of non-financial assets</b>	<b>-</b>	<b>1.0</b>	<b>-</b>	<b>-</b>

### Expenses

- Additional expenditure of \$1.0 million for 2005-06 by the Department of Conservation and Land Management (CALM) has been approved as the State's matching contribution for the Conservation Commission's "Stop the Toad" campaign, aimed at encouraging and supporting community action to prevent the spread of cane toads into Western Australia.

- As part of the Ord River Project – Stage 2 Native Title Agreement, \$1.0 million in 2005-06 has been approved to establish a Regional Park Council and develop management plans for six new conservation parks. A further \$1.0 million per annum for four years commencing in 2006-07 will be applied to the management of the new parks.
- Additional expenditure of \$474,000 over four years has been approved to augment and consolidate the State’s management of heritage issues on the Burrup Peninsula, and further develop the Dampier Archipelago management strategy.
- A total of \$28.0 million will be expensed over the forward estimates by a number of government agencies to streamline approval processes and reduce approval timelines for resource projects. CALM’s share of this expenditure is \$3.3 million.

### Purchase of Non-Financial Assets

- \$1.0 million will be spent in 2006-07 on infrastructure associated with the establishment of the six new conservation parks to be established under the Ord River Project – Stage 2 Native Title Agreement.

### Culture and the Arts

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Western Australian Symphony Orchestra Tour to China	0.5	-	-	-
<b>Total expenses</b>	<b>0.5</b>	-	-	-

### Expenses

- \$500,000 will be spent by the Department of Culture and the Arts to assist the Western Australian Symphony Orchestra in its cultural exchange tour to China in 2006.

## Curriculum Council

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	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Outcomes and Standards Education	0.8	0.9	1.2	1.0
<b>Total expenses</b>	<b>0.8</b>	<b>0.9</b>	<b>1.2</b>	<b>1.0</b>

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### Expenses

- The Curriculum Council will spend \$4.0 million over four years to provide improved curriculum support for the implementation of Outcomes and Standards Education in Years 11 and 12.

## Education and Training

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	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Outcomes and Standards Education	2.3	3.5	2.3	0.8
E.G. Green & Sons Worker Support Package	1.6	-	-	-
Apprenticeship System Marketing	0.4	-	-	-
Addressing Western Australia's skills shortages	13.8	14.9	13.2	15.0
<b>Total expenses</b>	<b>18.1</b>	<b>18.4</b>	<b>15.6</b>	<b>15.8</b>
<b>Purchase of non-financial assets</b>				
Australian Centre for Energy and Processing Training	2.0	4.0	-	-
<b>Total purchase of non-financial assets</b>	<b>2.0</b>	<b>4.0</b>	<b>-</b>	<b>-</b>

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### Expenses

- An additional \$8.9 million will be expensed over the forward estimates to initiate strategies associated with the implementation of Outcomes and Standards Education in Years 11 and 12.
- \$1.6 million has been allocated in 2005-06 to deliver a Worker Support Program to redundant employees of E.G. Green & Sons. The package will deliver training and job assistance measures for 300 former employees.

- \$410,000 has been allocated in 2005-06 to market and promote the apprenticeship system in Western Australia.
- The Government has announced a \$56.9 million package over four years to address the current skills shortage in Western Australia. \$31.5 million of additional State funding has been allocated to this initiative, with Commonwealth funding to meet the balance of the cost.

### Purchase of Non-Financial Assets

- Additional capital works spending of \$6.0 million will be undertaken to complete works and equipment purchases associated with the Australian Centre for Energy and Processing Training project. The new facility has a total cost of \$19 million and is intended to enhance the State's capacity to address the current shortage of skilled employees in the energy and chemical production sectors.

## Environment

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	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Reform of the Project Approvals System	1.0	2.4	2.3	2.3
<b>Total expenses</b>	<b>1.0</b>	<b>2.4</b>	<b>2.3</b>	<b>2.3</b>

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### Expenses

- A total of \$28.0 million will be expensed over the forward estimates by a number of government agencies to streamline approval processes and reduce approval timelines for resource projects. The Department of Environment's share of this expenditure is \$8.0 million.

## Fire and Emergency Services Authority

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Joint State and Commonwealth Urban Search and Rescue Initiative	0.6	0.6	0.5	0.5
<b>Total expenses</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>
<b>Purchase of non-financial assets</b>				
Joint State and Commonwealth Urban Search and Rescue Initiative	0.4	-	-	-
<b>Total purchase of non-financial assets</b>	<b>0.4</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Expenses

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

### Purchase of Non-Financial Assets

- Investments in equipment will be required to support this initiative.

## Health

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Counter-Terrorism	2.2	2.2	2.2	2.2
<b>Total expenses</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>
<b>Purchase of non-financial assets</b>				
Various scope changes and new projects	-	75.5	201.2	178.0
<b>Total purchase of non-financial assets</b>	<b>-</b>	<b>75.5</b>	<b>201.2</b>	<b>178.0</b>

## Expenses

- As part of the Government's Counter-Terrorism package, the Department of Health will spend \$2.2 million per annum to enhance disaster response capabilities. Initiatives include the enhancement of the Department's radio network to enable communication with medical teams at multiple sites, the enhancement of the equipment stockpile, a staged establishment of a dedicated disaster medical assistance team and the development of standardised plans for hospitals be able to respond to a chemical, biological or radiological event.

## Purchase of Non-Financial Assets

- In September 2005, the Government approved a significant boost of over \$1.0 billion in the Department's capital works spending over a thirteen year period. This includes additional spending of \$843 million for 16 metropolitan public hospitals and \$171 million for country health facilities. The spending increase provides for interim costs (enabling essential works to be continued in hospitals until they are redeveloped or replaced), cost escalation and various scope changes and new projects.

## Heritage Council of Western Australia

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
St Patrick's Basilica	0.6	-	-	-
<b>Total purchase of non-financial assets</b>	<b>0.6</b>	-	-	-

## Expenses

- \$600,000 will be spent in 2005-06 on conservation works to be undertaken at St Patrick's Basilica in Fremantle.



## Housing and Works

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Old Treasury Buildings – Design Development and Internal Demolition	3.3	0.6	0.2	-
Multipurpose Indoor Entertainment and Sports Stadium	-	-	-2.7	-5.3
<b>Total expenses</b>	<b>3.3</b>	<b>0.6</b>	<b>-2.5</b>	<b>-5.3</b>
<b>Purchase of non-financial assets</b>				
Multipurpose Indoor Entertainment and Sports Stadium	-	33.0	90.0	37.0
<b>Total purchase of non-financial assets</b>	<b>-</b>	<b>33.0</b>	<b>90.0</b>	<b>37.0</b>

### Expenses

- On 25 October 2005, Cabinet approved \$4.1 million for the cost of design development and internal demolition as part of the redevelopment of the Old Treasury Buildings.
- On 12 September 2005, Cabinet approved a change in the method of procurement for the Multipurpose Indoor Entertainment and Sports Stadium (MIESS). Previous arrangements were to provide an incentive (by way of a grant) for a private developer to construct and operate a stadium. The incentive was to be paid over a 20 year period commencing on 1 January 2008. The Government's decision to directly construct the asset is now reflected as a reduction in expenses with the removal of the incentive from the forward estimates.

### Purchase of Non-Financial Assets

- The Cabinet decision referred to above estimated the cost of constructing a MIESS to be approximately \$160 million. This amount has been included in the Government's Capital Works Program over the three year period commencing in 2006-07.

## Indigenous Affairs

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Management of Dampier Archipelago	0.2	0.6	0.3	0.5
Reform of the Project Approvals System	-	0.1	-	-
<b>Total expenses</b>	<b>0.2</b>	<b>0.7</b>	<b>0.3</b>	<b>0.5</b>

### Expenses

- Over the forward estimates period, \$1.7 million will be spent on the development of a management strategy for the Dampier Archipelago, research and archaeological surveys of non-industrial land in the State's north-west and the establishment of an ongoing departmental presence in the area.
- A total of \$28.0 million will be expensed over the forward estimates by a number of government agencies to streamline approval processes and reduce approval timelines for resource projects. The Department's share of this expenditure is \$55,000.

## Industry and Resources

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Marine Industry Technology Park – Management Contract	0.2	0.2	-	-
Management of the Dampier Archipelago	0.1	0.8	0.5	-
Reform of the Project Approvals System	2.4	4.4	4.1	4.1
<b>Total expenses</b>	<b>2.6</b>	<b>5.4</b>	<b>4.5</b>	<b>4.1</b>

## Expenses

- \$150,000 in both 2005-06 and 2006-07 will be used to meet the cost of a management contract to promote the central support facilities at the Marine Industry Technology Park during the construction phase.
- \$88,000 will be spent in 2005-06 to establish a small team to develop a heritage management strategy for the Dampier Archipelago, with \$800,000 in 2006-07 and \$470,000 in 2007-08 used to undertake necessary heritage surveys of the area.
- A total of \$28.0 million will be spent over the forward estimates by a number of government agencies to streamline approval processes and reduce approval timelines for resource projects. The Department's share of this expenditure, is \$14.9 million.

## Justice

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Reducing Aboriginal Imprisonment Strategy	-	1.7	3.3	3.5
Early Release Board – Victim's representation and submissions	0.1	0.1	0.1	0.1
Fines Enforcement Strategy	0.4	0.4	0.4	0.4
<b>Total expenses</b>	<b>0.5</b>	<b>2.2</b>	<b>3.8</b>	<b>4.0</b>

## Expenses

- Implementation of the Reducing Aboriginal Imprisonment Strategy aimed at reducing the Aboriginal over-representation and recidivism levels within the prison system will result in additional spending of \$8.5 million over the forward estimates period.
- Additional expenditure of \$88,000 per annum has been approved to meet the cost of incorporating victims' statements in Early Release Board deliberations.

- Over \$400,000 per annum has been provided for the implementation of a Fines Enforcement Strategy designed to increase the clearance rate of infringement notices and court fines and in turn reduce the number of fine defaulters going to prison.

## Main Roads

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
High-Wide Load Corridor	9.5	3.0	-	-
<b>Total expenses</b>	<b>9.5</b>	<b>3.0</b>	-	-

## Expenses

- To assist local industry, Main Roads will spend \$12.5 million on the High-Wide Load Corridor between Kwinana and Kewdale/Welshpool.

## Office of the Director of Public Prosecutions

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Additional Resources	5.0	7.3	7.7	7.8
<b>Total expenses</b>	<b>5.0</b>	<b>7.3</b>	<b>7.7</b>	<b>7.8</b>
<b>Purchase of non-financial assets</b>				
Accommodation Costs	0.4	-	-	-
<b>Total purchase of non-financial assets</b>	<b>0.4</b>	-	-	-

## Expenses

- The Office of the Director of Public Prosecutions will spend an additional \$27.8 million over the forward estimates to facilitate the implementation of the 'resource model' for prosecution services and reforms to corporate governance. The majority of this increase will accommodate the employment of 42 additional prosecutors and the introduction of paralegals throughout the Office.

## Purchase of Non-Financial Assets

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

## Planning and Infrastructure

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Fair Share for W.A. Advertising Campaign	0.5	-	-	-
Reform of the Project Approvals System	-	0.1	-	-
Multi-Purpose Taxi Licence Plates Buy-Back Scheme	6.2	-	-	-
Multi-Purpose Taxi Fuel Subsidy	0.6	0.8	-	-
Ord River Project - Stage 2 (Native Title)	0.2	0.6	-	0.1
Perry Lakes Redevelopment project	0.5	2.7	4.2	11.1
<b>Total expenses</b>	<b>8.1</b>	<b>4.1</b>	<b>4.2</b>	<b>11.2</b>
<b>Purchase of non-financial assets</b>				
Perry Lakes Redevelopment project	3.8	26.5	37.9	5.6
<b>Total purchase of non-financial assets</b>	<b>3.8</b>	<b>26.5</b>	<b>37.9</b>	<b>5.6</b>

## Expenses

- Additional expenditure has been incurred in 2005-06 for an advertising campaign to highlight the level of funding provided to Western Australia under the Federal Government's Auslink program, primarily for roads.
- A total of \$28.0 million will be expensed over the forward estimates by a number of government agencies to streamline approval processes and reduce approval timelines for resource projects. The Department's share of this expenditure is \$55,000.

- \$6.2 million will be spent in 2005-06 to ‘buy-back’ existing multi-purpose taxi licence plates and release new leased licence plates in order to improve the viability of the Multi-Purpose Taxi (MPT) industry and services provided to people with disabilities.
- To improve the viability of the MPT industry, the Government has introduced a \$5.00 fuel subsidy/lifting fee payable to MPT operators for each wheelchair job undertaken under the Taxi Users Subsidy Scheme, in recognition of higher diesel fuel costs incurred.
- The Ord Final Agreement provides a package of benefits for the Miriuwung and Gajerrong people, in consideration and compensation for the acquisition, extinguishment and impairment of native title in the area of the proposed Ord River Project – Stage 2 development, and the release of State liability arising under the Commonwealth’s *Native Title Act 1993*.
- To enable the provision of new regional level rugby and basketball facilities and a State level athletics facility, the Government will proceed with the redevelopment of Perry Lakes. The expenditure provides for the ongoing cost of maintaining the sporting facilities, and costs associated with the advertising and promotion of the land development. These costs will be recouped from the Perry Lakes Trust Fund once the Perry Lakes land is developed and sold.

### **Purchase of Non-Financial Assets**

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

## Police Service

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Increased Counter-Terrorism and Emergency Response Capability	5.4	2.6	3.0	2.8
<b>Total expenses</b>	<b>5.4</b>	<b>2.6</b>	<b>3.0</b>	<b>2.8</b>
<b>Purchase of non-financial assets</b>				
Increased Counter-Terrorism and Emergency Response Capability	5.4	0.4	4.5	0.4
<b>Total purchase of non-financial assets</b>	<b>5.4</b>	<b>0.4</b>	<b>4.5</b>	<b>0.4</b>

### Expenses

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

### Purchase of Non-Financial Assets

- The acquisition of new equipment, infrastructure and IT systems will accompany the recurrent cost of the Government's counter-terrorism initiative.

## Premier and Cabinet

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Electorate Office Resources	3.2	3.3	3.5	3.6
Office of Citizens and Civics	0.1	-	-	-
Ord River Project – Stage 2 (Native Title)	10.2	5.0	4.6	4.4
Leadership Development Initiatives	1.0	0.7	1.3	0.9
Keating Report – Projects Approval Unit	0.3	0.5	0.5	0.3
Greenhouse and Energy Taskforce	0.6	-	-	-
Counter Terrorism Action Plan	1.0	-	-	-
Establishment of Justice Reforms	1.1	1.8	-	-
Parliament Research Resource	-	0.1	0.1	0.1
<b>Total expenses</b>	<b>17.4</b>	<b>11.4</b>	<b>10.0</b>	<b>9.2</b>
<b>Purchase of non-financial assets</b>				
Electorate Office Resources	0.8	-	-	-
<b>Total purchase of non-financial assets</b>	<b>0.8</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Expenses

- Additional spending will be incurred to provide an extra electoral office for parliamentarians where an electorate exceeds 50,000 square kilometres and the major centres are more than 200 kilometres apart.
- Additional spending will be undertaken to assist with office fit-out and staffing costs for the Office of Citizens and Civics.
- The Ord Final Agreement provides a package of benefits for the Miriuwung and Gajerrong people, in consideration and compensation for the acquisition, extinguishment and impairment of native title in the area of the proposed Ord River Project - Stage 2 development, and the release of the State liability arising under the Commonwealth's *Native Title Act 1993*.
- The Government has acknowledged the age profile of the Senior Executive Service, and the traditional feeder group to the Service, and has committed funding towards addressing future leadership development skills in the public sector.



- A total of \$28.0 million will be expensed over the forward estimates by a number of government agencies to streamline approval processes and reduce approval timelines for resource projects. The Department accounts for \$1.6 million of this initiative.
- Spending will be undertaken on the establishment of the Greenhouse Energy Taskforce.
- The development of the Western Australian Counter-Terrorism Action Plan will cost an additional \$10 million in 2005-06.
- Additional spending will be incurred for the establishment of the Justice Reform Implementation Committee, which is charged with overseeing the implementation of the recommendations of the 'Inquiry into the Management of Offenders in Custody and in the Community' conducted by the Hon. Justice Mahoney.
- Additional research assistance for Parliamentary members to deal with legislation.

### **Purchase of Non-Financial Assets**

- Approval for an additional electoral office for parliamentarians where an electorate exceeds 50,000 square kilometres and the major centres are more than 200 kilometres apart will be reflected in higher capital spending.

### **Public Transport Authority**

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Purchase of non-financial assets</b>				
Seat Belts on School Buses	4.0	-	-	-
<b>Total purchase of non-financial assets</b>	<b>4.0</b>	-	-	-

### Purchase of Non-Financial Assets

- \$4.0 million has been provided in 2005-06 to allow for the purchase of a number of buses to enable the efficient retro-fitting of seat belts on designated government school buses without disruption to services. Further information on this initiative is also reflected below under the Department of Treasury and Finance.

### Salaries and Allowance Tribunal

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	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Amendment to the <i>Salaries and Allowance Act 1975</i>	0.1	0.2	0.2	0.2
<b>Total expenses</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>

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### Expenses

- Additional costs are associated with amendments in early 2005 to the *Salaries and Allowance Tribunal Act 1975*, which requires the Tribunal to consider remuneration packages for local government Chief Executive Officers.

### Small Business Development Corporation

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	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Business Enterprise Centres – additional grants	-	0.2	0.2	0.2
<b>Total expenses</b>	<b>-</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>

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## Expenses

- Additional expenditure has been authorised for grants to Business Enterprise Centres located throughout the State. The centres, which exist to assist small businesses, are predominately funded by the Corporation and the grant increases allow for further assistance to small businesses across the State.

## Treasury and Finance

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
External Grants				
HIH Insurance - Assistance to Local Government	4.0	-	-	-
Ord River Project – Stage 2 (Native Title)	-9.9	-2.4	-2.4	-
Shark Hazard Mitigation	0.2	-	-	-
Search for HMAS Sydney (II)	0.5	-	-	-
Public Transport Authority				
Seat Belts on School Buses	9.3	14.3	20.8	21.0
Water Corporation				
Coral Bay water supply	0.1	0.5	0.4	0.3
Western Australian Land Authority				
Australian Marine Complex Common User Facility	-	-	6.4	6.4
Marine Industry Technology Park	4.0	0.2	0.2	0.2
Rockingham Development Office	-	0.6	0.6	0.6
<b>Total expenses</b>	<b>8.2</b>	<b>13.3</b>	<b>26.0</b>	<b>28.5</b>

## Expenses

- External grants:
  - The State Government is providing a grant to the Shire of Brookton to help pay out insurance claims resulting from a 1997 bushfire.
  - A previous approval has been amended, to allow for a more comprehensive settlement package for the Ord Final Agreement, responsibility for which has been transferred to the Departments of the Premier and Cabinet, Conservation and Land Management, Planning and Infrastructure and the Water and Rivers Commission.

- A grant will be provided to contribute to supporting the costs associated with aerial shark patrols over metropolitan beaches during the summer of 2005-06, and the collation and assessment of the observation data collected during the flights.
- A grant will be provided to support a project to locate the HMAS Sydney (II), sunk by German forces during World War Two.
- Public Transport Authority – Additional costs are associated with the installation of seat belts on the Government “Orange” School Bus Fleet. All new designated school buses purchased by School Bus Contractors will require the fitting of seat belts, while a program of progressively retro-fitting existing buses will be undertaken.
- Water Corporation – The decision to provide an in-house potable water supply scheme in Coral Bay requires Community Service Obligation (CSO) payments to the Water Corporation to offset costs that exceed the revenue from the scheme.
- Western Australian Land Authority – CSO payments:
  - An increase in CSO payments is required to support additional development at the Australian Marine Complex. This development will expand Western Australia’s capacity to meet marine repair, maintenance and construction requirements. The CSO will cover holding costs that are required to meet the Authority’s rate of return.
  - The development of serviced sites for the Departments of Education and Training and Industry and Resources at the Marine Industry Technology Park in Henderson will result in an additional grant to the Authority.
  - The extension of the Rockingham Development Office until June 2009 to support the ongoing development of the Rockingham area.

## Water and Rivers Commission

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	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Ord River Project - Stage 2 (Native Title)	0.1	-	-	-
<b>Total expenses</b>	<b>0.1</b>	-	-	-

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### Expenses

- As part of the Ord River Project – Stage 2 Native Title Agreement, a total of \$120,000 has been provided over four years for joint management of Reserve 31165 located in the region.

## Water Corporation

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	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Purchase of non-financial assets</b>				
Coral Bay water supply	3.0	4.4	0.8	-
<b>Total purchase of non-financial assets</b>	<b>3.0</b>	<b>4.4</b>	<b>0.8</b>	-

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### Purchase of Non-Financial Assets

- Capital costs associated with the development of a potable water supply scheme at Coral Bay, which will be limited to in-house use.

## Western Australian Electoral Commission

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Electoral Boundaries Distribution	0.3	0.5	0.9	-
<b>Total expenses</b>	<b>0.3</b>	<b>0.5</b>	<b>0.9</b>	-

### Expenses

- The “One Vote One Value” Electoral Reform Policy requires electoral boundaries to be evaluated every four years compared with eight year reviews undertaken previously.

## Western Australian Land Authority

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Purchase of non-financial assets</b>				
Australian Marine Complex Common User Facility	49.9	40.2	-	-
Gracetown Land Purchase and Development	-	8.0	-	-
<b>Total purchase of non-financial assets</b>	<b>49.9</b>	<b>48.2</b>	-	-

### Purchase of Non-Financial Assets

- Installation of additional common user infrastructure at the Australian Marine Complex in Henderson, including a floating dock, a rail transfer system and an extension and upgrade of the existing wharves to expand Western Australia’s capacity to meet marine repair, maintenance and construction requirements.
- \$8 million will be spent in 2006-07 on the purchase of land for a limited tourist and residential development in the Gracetown area. Part-proceeds from subsequent land sales will be used to improve essential services in the area.

## Western Australian Tourism Commission

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Red Bull Air Race	0.3	2.8	-	-
Australian Tourism Exchange	-	0.5	2.0	-
Tom Hoad International Water Polo Event	0.2	-	-	-
<b>Total expenses</b>	<b>0.5</b>	<b>3.3</b>	<b>2.0</b>	<b>-</b>

### Expenses

- The Western Australian Tourism Commission has secured the contract for the Red Bull Air Race in 2006, 2007 and 2008. The annual air race and associated festival, will be free community events on the Perth foreshore. Additional expenditure has been approved for costs associated with the 2006 event, while the 2007 and 2008 events will be funded through the reinvestment of Telstra Rally Australia funds, following the Government's decision to cease funding for this event.
- Additional expenditure has been approved to enable the Western Australian Tourism Commission to bid for the 2008 Australian Tourism Exchange (ATE). The ATE is the most prestigious tourism trade show held in Australia. It is owned and managed by Tourism Australia and provides a forum for Australian tourism businesses to meet with international wholesalers to showcase their products and services.
- A grant of \$150,000 has been provided in 2005-06 for the 2005 Tom Hoad International Water Polo event.

## Zoological Parks Authority

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Expenses</b>				
Service enhancements	-	0.1	0.1	0.1
<b>Total expenses</b>	-	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<b>Purchase of non-financial assets</b>				
Facilities enhancements	-	0.7	0.7	0.7
<b>Total purchase of non-financial assets</b>	-	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>

### Expenses

- The Government will provide funds from the 2005-06 surplus for repayment of loan liabilities held by the Zoo totalling \$17.6 million. At the same time, this approval has been extended to permit the Zoo to use monies previously applied to debt servicing costs to expand and enhance services and operations.

### Purchase of Non-Financial Assets

- The debt repayments described above will also be reflected in additional spending on fixed assets at the Zoo, using monies previously allocated to debt repayments.



## APPENDIX 4

### 2004-05 Final Outcome

The 2004-05 *Government Financial Results Report* (GFRR) was released on 21 September 2005. The *Government Financial Responsibility Act* requires that an outcome report (the GFRR) for public sector finances covering the financial year just ended, be released no later than 30 September each year.

As indicated in the 2004-05 GFRR, that report was based on unaudited data, reflecting its early release and its basis in statistical rather than accounting standards. As a result of the finalisation of the audited outcomes for 2004-05, minor adjustments were made in some agencies' accounts, which impact on the classification and recognition of financial aggregates. In turn, these changes impact on the consolidated results presented previously in the GFRR.

Comparative data for 2004-05, both on a government finance statistics (GFS) and accounting basis, have been revised in this publication to reflect the impact of the final audited outcomes published in the *Government of Western Australia Consolidated Financial Statements* for the year ended 30 June 2005, released on 10 November 2005.

The following table briefly reconciles the general government operating result published in the GFRR, to the final outcome for 2004-05. As shown in the following table, the final GFS operating surplus for 2004-05 was \$1,192 million, broadly in line with the \$1,240 million surplus reported in the GFRR. The variance of \$48 million is attributable to an increase in depreciation expenses, recognising a change in the accounting policy applying to school buildings held by the Department of Education and Training.

**RECONCILIATION OF 2004-05 RESULTS REPORT  
TO FINAL OUTCOME**

General Government Net Operating Balance

	\$m
<i>2003-04 Government Financial Results Report</i>	
<b>GFS Net Operating Balance</b>	<b>1,240</b>
<i>less</i> provision for doubtful debts	15
<i>plus</i> net gains on assets (including derivatives)	-188
<i>plus</i> capitalised interest	-
<i>less</i> revaluation of superannuation liabilities	426
<i>plus</i> all other adjustments	-133
<b>AAS Operating Result</b>	<b>477</b>
<i>Variances in accounting expenses</i>	
Depreciation on school buildings <sup>(a)</sup>	-48
Land inventory revaluations <sup>(b)</sup>	212
Revaluation of superannuation liabilities <sup>(c)</sup>	295
Other adjustments	3
<i>Total</i>	<i>462</i>
<i>Government of Western Australia Consolidated Financial Statements</i>	
<b>AAS Operating Result</b>	<b>939</b>
<i>plus</i> provision for doubtful debts	15
<i>less</i> net gains on assets (including derivatives)	24
<i>less</i> capitalised interest	-
<i>plus</i> revaluation of superannuation liabilities	131
<i>less</i> all other adjustments	-130
<b>GFS Net Operating Balance</b>	<b>1,192</b>

- (a) School buildings are now depreciated on a 40 year basis, in line with whole-of-government accounting policy.
- (b) Land inventories held by the Western Australian Planning Commission were subject to a revaluation already identified and accommodated in Valuer General's Office whole-of-government land valuation data for 2004-05
- (c) The impact of actuarial valuation of State superannuation liabilities was determined until after the finalisation of the 2004-05 GFRR.

Note: Columns may not add due to rounding.