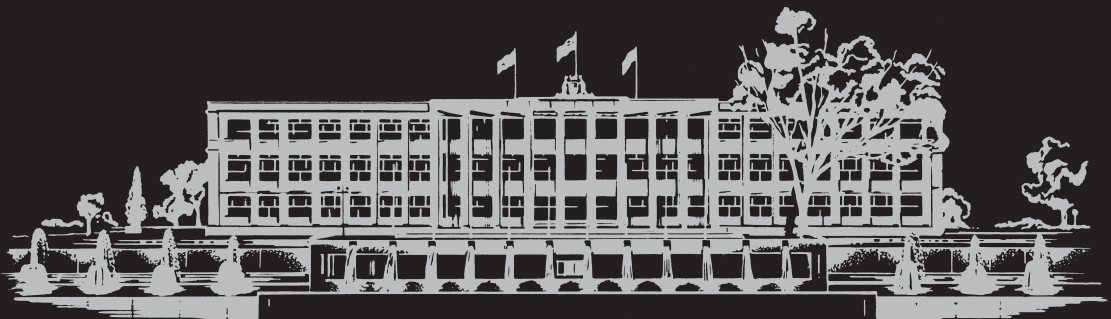




2006-07

GOVERNMENT MID-YEAR FINANCIAL
PROJECTIONS STATEMENT

DECEMBER 2006





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For further information or enquiries related to this report, please contact one of the following officers:

Michael Barnes	Acting Executive Director Finance	(08) 9222 9223
Chris Wright	Acting Director Fiscal Strategy	(08) 9222 9826
Facsimile		(08) 9481 0807

An electronic copy of this report may be obtained at <http://www.dtf.wa.gov.au>

2006-07

**GOVERNMENT MID-YEAR FINANCIAL
PROJECTIONS STATEMENT**

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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 2006-07 State Budget, which was brought down on 11 May 2006. 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 4 December 2006. 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 4 December 2006.

The projections comply with the Australian Bureau of Statistics' government finance statistics (GFS) standards and are compiled using financial projections from State public sector agencies that are consistent with Australian Accounting Standards. The disclosures in this publication meet the mid-year review requirements of the Uniform Presentation Framework, agreed by the Australian Loan Council in March 2000, and the Western Australian *Government Financial Responsibility Act 2000*.

Financial data for 2005-06 included in this publication (for comparative purposes) are consistent with final audited data contained in the 2005-06 *Annual Report on State Finances*, released on 28 September 2006.



Timothy Marney
UNDER TREASURER

December 2006

CHAPTER 1

Financial Projections

Overview

Western Australia's financial outlook has continued to strengthen since the 2006-07 Budget was delivered on 11 May 2006, driven by robust employment and wages growth, a booming resources sector, strong business investment and positive business and consumer confidence.

A general government sector operating surplus of \$1,739 million is now expected for 2006-07, up from the \$1,275 million surplus estimated in the budget. This mainly reflects stronger estimates of payroll tax (up \$207 million), conveyance duty (up \$97 million) and land tax and Metropolitan Region Improvement Tax (up \$63 million in total) as a result of the State's buoyant economy, partly offset by increased expenses (up \$182 million).

In this latter regard, the Government has taken advantage of the improved financial outlook to address a number of issues, with post-budget approvals including:

- a \$51 million package to provide additional caseworkers and support staff for vulnerable children and families at risk;
- a \$38 million expansion of the LPG conversion subsidy scheme;

- \$39 million to significantly increase places for apprentices and trainees, including Indigenous support, expanding the State's response to the nationwide skills shortage;
- an additional \$133 million on expanded project scope and land remediation for the Perth Arena; and
- \$160 million for new railcars on the Perth Urban Rail Network.

Details on these and other policy decisions impacting State finances are shown in Appendix 3: *Post-Budget Policy Decisions Affecting Spending*.

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

- stronger operating surpluses across each of the outyears, which are around \$550 million higher on average than at the time of the budget. This reflects the factors noted above for 2006-07, as well as improved estimates of mining royalties (particularly iron ore);
- continued delivery of record infrastructure spending, with a Capital Works Program of \$19.4 billion accommodated over the forward estimates period (up from the \$18.1 billion program at budget-time); and
- significantly lower net debt levels, reflecting the better than expected outcome for 2005-06 and the stronger surplus outlook over the forward estimates period. By 30 June 2010, total public sector net debt is forecast to reach \$6.0 billion, down \$1.7 billion on the 2006-07 Budget forecast.

Lower net debt projections are also reflected in one of the Government's key financial targets, the net debt to revenue ratio for the total non-financial public sector. This ratio is expected to reach a maximum 31.2% by 2009-10, which is significantly lower than the 39.8% forecast at budget-time, and well below the Government's 47% target limit.

Table 1

KEY BUDGET AGGREGATES
Western Australia

	2005-06 Actual ^(a)	2006-07 Budget Estimate	2006-07 Mid-Year Revision	2007-08 Forward Estimate	2008-09 Forward Estimate	2009-10 Forward Estimate
GENERAL GOVERNMENT						
Revenue (\$m)	16,207	16,510	17,155	17,322	17,497	17,704
Expenses (\$m)	13,942	15,234	15,416	15,883	16,302	16,792
Net Operating Balance (\$m)	2,265	1,275	1,739	1,438	1,195	912
TOTAL NON-FINANCIAL PUBLIC SECTOR						
Net Debt to Revenue Ratio (%)	19.6	30.0	23.8	26.6	30.2	31.2
TOTAL PUBLIC SECTOR						
Net Debt at 30 June (\$m)	3,179	5,413	4,152	4,814	5,719	5,992
Capital Works Program (\$m)	4,527	5,201	5,153	4,776	5,041	4,413

(a) Consistent with final audited data contained in the 2005-06 *Annual Report on State Finances*, released 28 September 2006.

Note: Columns may not add due to rounding.

The mid-year review projections are also consistent with the Government's other financial targets, with the exception of the general government expense growth target in 2006-07. As indicated at the time of the 2006-07 Budget, expense growth in the current year is expected to exceed real per capita levels as a result of cost and demand pressures associated with a booming economy and the Government's desire to share the benefits of buoyant conditions with those in the community in greatest need of support.

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.

Table 2

**SUMMARY OF GENERAL GOVERNMENT REVENUE AND EXPENSE
VARIATIONS SINCE THE 2006-07 BUDGET**

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
2006-07 BUDGET - NET OPERATING BALANCE	1,275	889	571	447
Revenue				
<i>Policy Decisions</i>				
Burswood Park Levy ^(a)	0.9	3.4	4.7	4.8
<i>Total Policy</i>	<i>0.9</i>	<i>3.4</i>	<i>4.7</i>	<i>4.8</i>
<i>Parameter</i>				
Taxation	424.2	438.2	474.3	515.0
<i>comprising:</i>				
- Payroll tax	206.9	214.7	242.1	267.2
- Conveyance duty	96.6	90.6	100.0	110.9
- Land tax / Metropolitan Region Improvement Tax	63.3	69.8	74.8	79.6
- Motor vehicle taxes	41.4	35.6	37.0	34.9
- Gambling taxes	10.7	17.4	20.0	21.9
- All other taxes	5.2	10.1	0.3	0.5
Commonwealth grants:	-10.5	26.8	85.4	-8.9
<i>comprising:</i>				
- North West Shelf petroleum royalties	-53.5	-44.5	-32.0	-28.0
- GST revenue grants	-6.8	11.4	2.1	-49.4
- Road grants	57.4	82.9	145.9	105.8
- All other Commonwealth grants	-7.6	-23.0	-30.7	-37.3
Mining royalties / lease rentals	38.0	253.0	200.0	65.0
Interest income	53.5	65.5	40.2	15.6
Agency sales of goods and services	84.2	90.4	93.3	95.1
Revenue from public corporations	63.6	25.0	17.1	18.6
Other	-8.5	4.9	7.4	5.2
<i>Total Parameter</i>	<i>644.5</i>	<i>903.7</i>	<i>917.7</i>	<i>705.5</i>
TOTAL REVENUE	645.4	907.1	922.4	710.3
Expenses				
<i>Policy Decisions</i> ^(b) – see Appendix 3 for further detail	<i>81.4</i>	<i>80.9</i>	<i>76.0</i>	<i>68.4</i>
<i>Parameter</i>				
Agency spending funded by higher own source revenue	84.2	90.4	93.3	95.1
Variations to Enterprise Bargaining Agreements	6.8	36.8	40.6	44.2
Delays to savings - corporate services reform	19.5	22.0	0.5	-
Carryovers and reschedulings	-22.1	59.6	53.7	10.8
Interest	-15.9	-19.0	-13.0	-8.5
Other	27.6	87.2	46.7	35.1
<i>Total Parameter</i>	<i>100.1</i>	<i>277.0</i>	<i>221.8</i>	<i>176.8</i>
TOTAL EXPENSES	181.5	357.9	297.8	245.2
TOTAL VARIANCE	463.9	549.2	624.5	465.1
2006-07 MID-YEAR REVIEW - NET OPERATING BALANCE	1,739	1,438	1,195	912

(a) Increase in electronic gaming levy from 1.0% to 1.5% on 1 January 2007, and then to 2.0% on 1 January 2008. All additional revenue raised will be spent on projects related to the protection of the ecological and community benefits and amenity of the Swan and Canning Rivers and associated lands.

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

Note: Columns may not add due to rounding.

General Government Sector

Operating Statement

Relative to the 2006-07 Budget, stronger general government operating surpluses are in prospect across the entire forward estimates period. In 2006-07, a \$645 million increase in revenue, partially offset by a \$182 million upward revision to expenses, is expected to result in an operating surplus of \$1,739 million, up from \$1,275 million at budget-time. This upward revision to the 2006-07 operating surplus is expected to be sustained across the forward estimates period, as shown in the following table.

Table 3

GENERAL GOVERNMENT Operating Statement

	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual \$m	Estimate \$m	Forward Estimate \$m	Forward Estimate \$m	Forward Estimate \$m
<i>MID-YEAR REVIEW ^(a)</i>					
Revenue	16,207	17,155	17,322	17,497	17,704
Expenses	13,942	15,416	15,883	16,302	16,795
Net Operating Balance	2,265	1,739	1,438	1,195	912
<i>2006-07 BUDGET</i>					
Revenue	16,123	16,510	16,414	16,575	16,994
Expenses	14,141	15,234	15,526	16,004	16,547
Net Operating Balance	1,981	1,275	889	571	447
<i>VARIANCE</i>					
Revenue	84	645	907	922	710
Expenses	-199	182	358	298	245
Net Operating Balance	284	464	549	625	465

(a) 2005-06 figures are consistent with final audited data contained in the 2005-06 *Annual Report on State Finances*, released 28 September 2006.

Note: Columns may not add due to rounding

Revenue

General government operating revenue is estimated to be almost \$17.2 billion in 2006-07, up \$645 million or 3.9% on the 2006-07 Budget estimate, and 5.9% higher than actual collections in 2005-06.

The major changes to the revenue estimates for 2006-07 relative to budget are highlighted below (further detail is provided in Appendix 2: *General Government Operating Revenue*).

- Taxation revenue has been revised up by \$424 million, incorporating upward revisions to:
 - payroll tax (up \$207 million), reflecting strong growth in employment and wages in industries comprising the largest share of the payroll tax base (mainly mining and related activities);
 - stamp duty on conveyances (up \$97 million), reflecting a combination of stronger than expected activity in the residential property market coming into 2006-07, as well as strong conditions in the commercial property market. Residential property prices through 2006-07 are now projected to be higher than anticipated at the time of the budget due to particularly strong growth in the second half of 2005-06. However, the impact on conveyance duty from higher price levels is expected to be partially offset by a larger decline in turnover than forecast at the time of the budget;
 - land tax and Metropolitan Region Improvement Tax (up \$63 million), reflecting revised land valuations (relative to those used in preparing the 2006-07 Budget estimates) and stronger than expected growth in new landholders;
 - motor vehicle taxes (up \$41 million), due to growth in the number of registered vehicles, reflecting current positive economic conditions and strong population growth; and
 - gambling taxes (up \$11 million), mainly due to the increase in the number of gaming machines at the Burswood casino.

- Grants from the Commonwealth are estimated to be \$11 million lower than budgeted, incorporating:
 - a downward revision to North West Shelf petroleum royalties of \$54 million. This largely reflects the impact of a higher average \$A/\$US exchange rate (US76 cents) over the year to date, and a forecast for the remainder of 2006-07 of US77 cents (compared to the budget estimate of US73 cents), combined with a lower oil price (\$US66.2 per barrel to date in 2006-07 and a forecast for the remainder of the year of \$US62.9 per barrel, compared with the budget assumption of \$US67.9 per barrel);
 - GST revenue grants have been revised down by \$7 million, reflecting a reduction in Commonwealth forecasts of national GST collections in its May 2006 Budget (which was released after the State budget cut-off date); and
 - specific purpose payments have been revised up by \$50 million, mainly due to an increase in capital grants for roads under the AusLink program¹.
- Revenue from agencies' sales of goods and services has been revised up by \$84 million, reflecting the flow-on impact of stronger than expected outcomes for 2005-06, mainly as a result of increased demand for goods and services provided in response to the State's growing economy and population.
- Revenue from public corporations has been revised up by \$64 million, mainly due to higher than expected Tax Equivalent Regime (TER) revenue from the Insurance Commission of Western Australia and the Western Australian Land Authority (reflecting the impact of higher projected investment returns and lower claims expenses, and the impact of stronger land prices respectively). This has been partly offset by a reduction in estimated revenue from Verve Energy, with gas curtailments and plant outages resulting in a need to burn higher cost liquid fuels.
- Interest income has been revised up by \$54 million, mainly due to higher projected cash balances (as a result of stronger surplus expectations) and recent increases in prevailing interest rates.

¹ In its 2006-07 Budget, the Commonwealth announced a \$1.7 billion accelerated upgrade to the national AusLink program. Western Australia's share of this funding was \$323 million. These funds were received before 30 June 2006, but GFS revenue recognition accrues the revenue as it is spent. Based on the associated project spending expectations, the current projections of this revenue across the forward estimates are \$34 million in 2006-07, \$87 million in 2007-08, \$129 million in 2008-09 and \$62 million in 2009-10.

- Mining royalties (other than North West Shelf royalties included under Commonwealth grants above) have been revised up by \$38 million, reflecting higher than expected commodity prices, more than offsetting the impact of a higher average \$A/\$US exchange rate over the year-to-date, and the higher exchange rate assumption over the remainder of the year. Prices of most commodities are higher than assumed in the budget, reflecting continued strong global demand and constrained supply. The royalty estimates are also higher than budgeted as the 19% increase in the iron ore price negotiated for the Japanese fiscal year commencing 1 April 2006 was higher than the increase assumed at the time of the budget (10%).

Across the outyears, the total increases in operating revenue estimates, relative to the 2006-07 Budget projections, are \$907 million (5.5%) in 2007-08, \$922 million (5.6%) in 2008-09 and \$710 million (4.2%) in 2009-10. These revisions incorporate the following factors:

- the flow-through of higher taxation revenue in 2006-07. Notwithstanding the upward revisions above, and similar to the budget, the revised estimates include an expected further easing in property market activity in 2007-08, with (now higher) prices projected to remain unchanged through the year and turnover declining by a further 10%;
- upward revisions to mining royalties. This includes a changed iron ore price profile, with prices now projected to increase by 5% in 2007-08 (compared to a previously assumed fall of 12.5%), before declining by 12.5% in both 2008-09 and 2009-10. Thus, iron ore prices are now expected to fall by a total of 20% over the three years to 2009-10 (in response to an anticipated global increase in supply), compared to a budgeted decrease of 25% over the two years to 2008-09. This changed profile has a significant impact on the iron ore royalty estimates, which are up a total of \$419 million across the forward estimate years;
- lower estimates of North West Shelf petroleum royalties, mainly due to a higher exchange rate assumption relative to budget (US77 cents compared to US73 cents at budget-time);
- higher estimates of Commonwealth tied grants, mainly reflecting higher road funding under the AusLink program;
- higher revenue from the sale of goods and services, reflecting the flow-on impact of the higher base for 2006-07 discussed above;

- higher interest income, primarily reflecting higher cash balances from stronger surpluses and the impact of recent increases in interest rates;
- higher TER revenue from public corporations (due mainly to the Insurance Commission and Land Authority factors noted above); and
- a downward revision to projections of GST revenue grants in 2009-10 (down \$49 million), mainly due to a lagged reduction in Western Australia's estimated share of national GST collections as a result of upward revisions to iron ore royalties and conveyance duty. By 2009-10, the Commonwealth Grants Commission process is expected to result in Western Australia's GST revenue grant share being around \$700 million less than it would be if the State's 2006-07 share was maintained.

Expenses

General government expenses in 2006-07 are projected to be \$15.4 billion, an increase of \$182 million (or 1.2%) on the 2006-07 Budget estimates. Post-budget policy decisions account for \$81 million of this increase (details are contained in Appendix 3: *Post-Budget Policy Decisions Affecting Spending*), with the remaining increase mainly reflecting:

- additional spending on the provision of goods and services by agencies across the general government sector (and fully matched by higher agency own-source revenue), which is driven by cost and demand factors associated with the State's growing economy and population (up \$84 million); and
- delays in achieving savings associated with the corporate services reform being implemented across the public sector, as announced by the Treasurer on 29 November 2006 (\$20 million).

Salaries represent the general government sector's largest expense and are forecast to grow by \$350 million (or 6.1%) in 2006-07. This rate of growth is broadly unchanged from the budget-time estimate, but comes off a higher than expected base for 2005-06. This increase accommodates additional public sector employees required to deliver new service initiatives, and post-budget wage rises under recently finalised Enterprise Bargaining Agreements (EBAs).

Expense growth in 2006-07 is estimated at 10.6%, up from 7.7% at budget-time. Much of this higher than budgeted expense growth simply reflects the underspend in 2005-06 expenses, with agencies spending \$199 million less in 2005-06 than the estimated outturn contained in the 2006-07 Budget. With no other changes to 2006-07 expenses, this factor alone takes expense growth to 9.3% (purely because of the lower base in 2005-06). Post-budget policy decisions, finalisation of EBAs and other parameter changes have further boosted 2006-07 expense growth. This is discussed further in Chapter 2: *Financial Strategy*.

Based on past experience, it is likely that a further underspend will materialise by the end of 2006-07. If so, it is likely that actual expense growth in 2006-07 will not be as high as the currently estimated 10.6%, with some spending currently assumed to occur in 2006-07 being deferred to 2007-08.

Expenses across the outyears have been revised up by around \$250 million to \$350 million per annum, with average expense growth of around 2.9% per annum. This rate of growth is broadly unchanged from the May 2006 budget estimates, and includes:

- forward year impacts of recent policy decisions (see Appendix 3 for further detail);
- the cost impact carried forward of a range of existing initiatives not fully delivered in 2005-06, which are now projected to be addressed across the forward estimates period; and
- upward movements in salaries due to recent EBA outcomes (in particular, finalisation of the teachers' EBA and the Public Service General Agreement (both in July), as well as the Government's current offer to Police officers²).

The forward estimates accommodate average annual growth in salaries expenditure of around 4.5% across the outyears. This rate of growth is consistent with the Government's general wages policy, and also includes expectations of parameter-driven increases in employee numbers.

² Negotiations for the Police EBA remained unresolved at the time of the mid-year review cut-off date.

General government interest expenses have been revised down by an average \$14 million per annum across the outyears since budget. This reflects the impact of lower borrowing projections in the forward estimates, due in part to the stronger surplus outlook, and the Government's decision to again use surplus Consolidated Fund cash to repay long-term taxpayer funded borrowings. In this regard, the remaining portion of Consolidated Fund debt was repaid in September 2006, leaving the Fund debt-free for the first time, while a range of agency-specific borrowings totalling around \$60 million have been scheduled for repayment in 2007-08.

This comes on top of the approximately \$75 million lower annual interest subsidy already included in the estimates, reflecting the impact of the budget-time decision to fully fund the New MetroRail project, which resulted in \$913 million in accelerated debt repayments in September 2006. The estimates also benefit from interest savings from significant accelerated debt repayments following the stronger surplus outcomes in 2003-04 and 2004-05.

All up, the Government's debt retirement program is estimated to reduce interest expenses by around \$150 million per year – money which can now be redirected to priority services like health, education, and law and order.

Balance Sheet

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

Table 4

GENERAL GOVERNMENT Balance Sheet at 30 June

	2006	2007	2008	2009	2010
	Actual	Estimate	Forward	Forward	Forward
	\$m	\$m	Estimate	Estimate	Estimate
			\$m	\$m	\$m
<i>MID-YEAR REVIEW</i> ^(a)					
Assets	68,053	71,545	75,236	78,290	80,296
Liabilities	10,112	10,010	10,182	10,192	10,212
Net Worth	57,941	61,535	65,054	68,098	70,085
Net Debt	-2,737	-1,901	-1,862	-2,018	-2,316
<i>2006-07 BUDGET</i>					
Assets	63,513	66,221	69,102	71,649	73,482
Liabilities	10,168	10,329	10,715	11,003	11,368
Net Worth	53,345	55,892	58,386	60,646	62,115
Net Debt	-1,877	-1,017	-724	-517	-596
<i>VARIANCE</i>					
Assets	4,540	5,324	6,134	6,641	6,814
Liabilities	-56	-319	-534	-811	-1,156
Net Worth	4,596	5,643	6,668	7,452	7,970
Net Debt	-860	-884	-1,138	-1,501	-1,721

(a) 2006 figures are consistent with final audited data contained in the 2005-06 *Annual Report on State Finances*, released 28 September 2006.

Note: Columns may not add due to rounding

Net worth (i.e. assets less liabilities) is projected to increase each year, from \$57.9 billion at 30 June 2006 to \$70.1 billion by 30 June 2010.

Compared with the budget estimates, projected net worth at 30 June 2007 has been revised up by a substantial \$5.6 billion, reflecting:

- a \$3.4 billion increase in the value of general government land and fixed asset holdings, predominantly due to the flow-on impact from the end of year revaluations and new assets acquired in 2005-06 (\$3.2 billion)³; and

³ See 2005-06 *Annual Report on State Finances* for further details.

- a \$1.9 billion increase in financial assets, due mainly to the value of the sector's equity holdings in public corporations (up \$1.1 billion, attributable to higher than expected balance sheet outcomes for 2005-06 and an increase in the value of the Housing Authority's land and housing portfolio) and investments, loans and placements (up \$0.6 billion, reflecting the impact of the higher surplus outcome in 2005-06 and the higher projection for 2006-07).

At \$10.0 billion at 30 June 2007, projected liabilities have been revised down by \$319 million since budget. This decrease is underpinned by both lower borrowings (due to the retirement of all remaining Consolidated Fund debt in September 2006, the impact of stronger surpluses in 2005-06 and 2006-07, and the use of internal funds as a substitute for borrowings), and lower superannuation liabilities (reflecting the lower actuarial valuation of these liabilities at 30 June 2006).

Beyond 2006-07, 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, along with the unwinding of Western Australia's AusLink roads prepayment obligations⁴.

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 \$832 million in 2006-07, marginally lower than the \$862 million cash surplus estimated in the 2006-07 Budget.

While the operating performance of the general government sector is stronger than estimated at budget-time, with net cash flows from operating activities up \$210 million, net cash outflows for capital investment are expected to be \$240 million higher than budget in 2006-07.

⁴ In its 2006-07 Budget, the Commonwealth announced a \$1.7 billion accelerated upgrade to the AusLink program, which invests in highways across the national road network. Western Australia's share of this funding was \$323 million, which was received prior to 30 June 2006. Under GFS standards, the State recognised a pre-payment obligation at 30 June 2006 that will unwind as project milestones are met over the next three to four years, with revenue recognised in line with the timing of works under the associated State-Commonwealth agreement.

The major policy changes to general government capital investment in 2006-07 include site remediation for the Perth Arena, and the purchase of new fire management equipment. Other movements for general government agencies are parameter based (including the impact of spending carried forward from 2005-06). These changes include:

- Education and Training (up \$60.7 million), with spending on a range of primary and secondary schools and the TAFE college network previously scheduled for 2005-06 now to occur in 2006-07;
- Police (up \$31.1 million), including the proposed relocation of the Police Centre and WatchHouse, and spending carried forward from 2005-06 for the IT and Communications Program and counter-terrorism infrastructure;
- roads (up \$22.3 million), mainly reflecting AusLink project work;
- funding upgrades to core IT infrastructure (up \$16.2 million) to continue the rollout of the cross-sector corporate services reform;
- Planning Commission (up \$14.7 million), reflecting increased land acquisitions required for future planning outcomes; and
- Health (up \$13.6 million), for equipment replacement, corporate and shared services costs and South West health infrastructure projects⁵.

Across the outyears, cash surpluses averaging \$356 million per annum are now in prospect, a significant improvement on the \$30 million per annum average forecast in the 2006-07 Budget. This largely reflects the outyear impacts of the stronger operating surplus projections, partially offset by higher capital spending projections.

These stronger projected cash outcomes support the Government's strategy to contain growth in net debt by providing a significant source of non-debt funding for continuing high levels of infrastructure investment over the medium term.

⁵ In relation to the Health Capital Works Program, the Government has approved an increase in the overall cost of the Fiona Stanley Hospital of \$351 million, bringing the total cost to around \$1.1 billion. However, given the timing and size of this project, the impact of this increase will not be reflected in the estimates until 2010-11 and beyond.

Total Public Sector

Summary

The total public sector^{6,7} is projected to remain in surplus in 2006-07 and across the forward estimates period. The State's balance sheet is forecast to continue to reflect strong outcomes, due mainly to the impact of these better than expected surpluses.

Net Operating Balance

Operating surpluses are projected in each of the forward estimate years. Modest downward revisions to the size of operating surpluses projected for the public corporations are expected to be more than offset by the stronger general government surpluses discussed earlier in this chapter.

A total public sector operating surplus of \$1.8 billion is forecast for 2006-07, \$390 million higher than the budget estimate. Reflecting projected operating surpluses across all sectors, surpluses of between \$1.0 billion and \$1.6 billion are forecast over the remainder of the projection period to 2009-10.

The public non-financial corporations sector is expected to record an operating deficit of \$16 million in 2006-07, a \$142 million turnaround from the surplus projection at budget-time. Both revenue and expenses have been revised up since the budget, reflecting:

- higher precious metal prices impacting Gold Corporation forecasts (with a broadly equivalent impact on both revenue and expenses), together with higher projected sales volumes;
- higher sales of lottery products, due largely to increasing turnover, and as a result, higher prize money and grants payments by the Lotteries Commission;

⁶ 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 the State's ports, and the electricity and water utilities), and the public financial corporations sector (which includes agencies such as the Western Australian Treasury Corporation and the Insurance Commission of Western Australia).

⁷ 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).

- higher turnover for the Racing and Wagering Commission, with an increase in associated revenue and expenses, driven mainly by higher dividend payouts, racing industry distributions and the recurrent cost of replacing betting terminals; and
- higher costs for Verve Energy due to temporary gas curtailments and plant outages in 2006-07, resulting in a need to burn more expensive liquid fuels this year.

The operating surplus of the public non-financial corporations sector is forecast to be around \$50 million lower than budget in each year of the forecast period, reflecting higher TER payments for the Western Australian Land Authority and higher depreciation and building maintenance expenses for the Housing Authority.

The public financial corporations are showing a modest improvement on 2006-07 Budget projections, due mainly to stronger returns on investment assets held by the Insurance Commission of Western Australia, and lower claims expenses.

Cash Flow Statement

Relative to budget, a \$115 million improvement in the total public sector cash deficit is in prospect for 2006-07. The cash impact of the operating surplus changes described above is expected to more than offset an increase in capital spending⁸ across the public sector Capital Works Program.

Lower cash deficits are also projected across the outyears, as stronger revenue collections more than offset increases in recurrent and capital spending.

⁸ Changes in infrastructure spending projections are discussed below under Net Debt. Appendix 3: *Post-Budget Policy Decisions Affecting Spending* has further details on changes to infrastructure spending attributable to new policy decisions.

Net Debt

Net debt of the total public sector is forecast to be \$4.2 billion at 30 June 2007. This is \$1.2 billion lower than estimated in the 2006-07 Budget, reflecting the better than expected outcome for 2005-06 (reported in the 2005-06 *Annual Report on State Finances*) and the stronger total public sector surplus discussed above.

Total public sector net debt is projected to stand at \$6.0 billion by 30 June 2010, a significant \$1.7 billion lower than forecast in the budget.

Table 5

NET DEBT OF THE TOTAL PUBLIC SECTOR AT 30 JUNE

	2006 Actual \$m	2007 Budget Estimate \$m	2007 Mid-Year Revision \$m	2008 Forward Estimate \$m	2009 Forward Estimate \$m	2010 Forward Estimate \$m
GENERAL GOVERNMENT						
Gross Debt ^(a)	1,931	1,993	1,718	1,811	1,805	1,764
Cash, Deposits and Lending ^(b)	4,668	3,010	3,619	3,673	3,824	4,080
Net Debt	-2,737	-1,017	-1,901	-1,862	-2,018	-2,316
PUBLIC NON-FINANCIAL CORPORATIONS						
Gross Debt ^(a)	9,572	9,879	9,277	9,722	10,961	11,725
Cash, Deposits and Lending ^(b)	2,594	2,450	2,057	1,811	1,921	2,040
Net Debt	6,978	7,429	7,219	7,912	9,040	9,685
TOTAL NON-FINANCIAL PUBLIC SECTOR ^(c)						
Gross Debt ^(a)	10,783	11,232	10,400	10,959	12,151	12,868
Cash, Deposits and Lending ^(b)	6,543	4,820	5,082	4,909	5,129	5,499
Net Debt	4,240	6,412	5,318	6,050	7,022	7,369
PUBLIC FINANCIAL CORPORATIONS						
Gross Debt ^(a)	13,957	16,333	13,405	13,697	14,275	15,014
Cash, Deposits and Lending ^(b)	15,018	17,332	14,571	14,932	15,578	16,391
Net Debt	-1,061	-999	-1,166	-1,236	-1,303	-1,377
TOTAL PUBLIC SECTOR ^(c)						
Gross Debt ^(a)	13,512	15,772	13,418	14,192	15,235	15,952
Cash, Deposits and Lending ^(b)	10,333	10,359	9,265	9,378	9,516	9,960
Net Debt	3,179	5,413	4,152	4,814	5,719	5,992

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

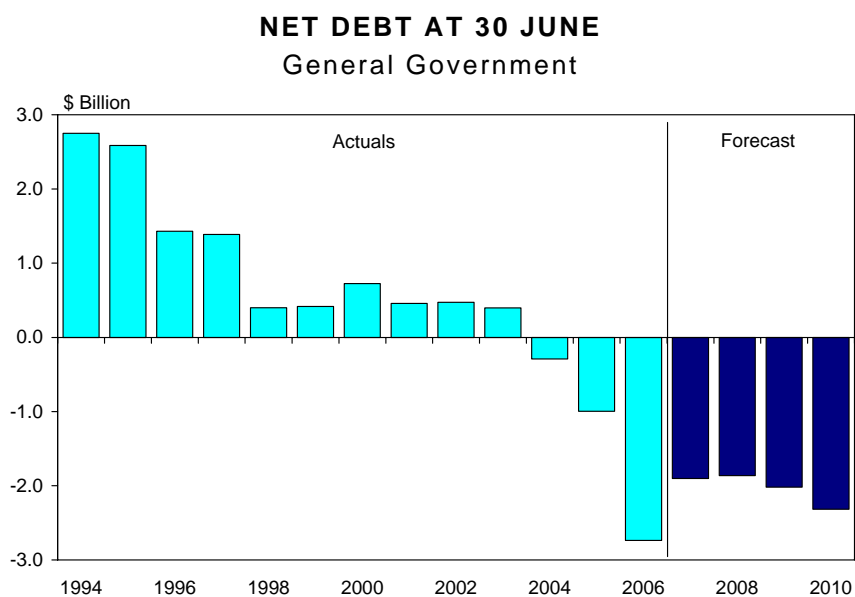
(b) Includes loans and debt securities and derivatives in a net asset position. Excludes accounts receivable, prepayments and equities.

(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.

With financial assets exceeding gross debt liabilities by around \$2.0 billion per annum, the general government sector is forecast to remain net debt-free in 2006-07 and beyond. This reflects the continued strength of the operating outlook for the general government sector, and a net debt outturn for 30 June 2006 that was \$860 million better than expected at the time of the 2006-07 Budget.

Figure 1



Modest variations in the net debt of the public non-financial corporations sector (which holds the majority of the State's debt in support of significant infrastructure assets) are expected in the outyears, being \$210 million lower at 30 June 2007 and \$148 million higher by 30 June 2010. This principally reflects changes to the timing of the sector's infrastructure investments, necessitated by continuing high demand across the State for skilled tradespersons, particularly in the building and construction industries.

For the total non-financial public sector⁹, net debt is projected to be an average \$1.3 billion per annum lower than estimated in the 2006-07 Budget. The net debt to revenue ratio, a key financial target of the Government that is discussed further in Chapter 2: *Financial Strategy*, is expected to reach a maximum 31.2% by 2009-10, well below the Government's target limit of 47%.

Table 6 reconciles the change in total public sector net debt since the 2006-07 Budget. Key movements in the net debt projections since the time of the budget include:

- the better than expected net debt outcome for 30 June 2006;
- stronger general government sector operating surpluses (discussed earlier);
- changes in the timing of spending and project activity schedules for major infrastructure projects; and
- adjustments to the Capital Works Program due to both policy decisions taken by Government (discussed in more detail at Appendix 3: *Post-Budget Policy Decisions Affecting Spending*), and parameter changes, such as movements in prices, etc.

Significant changes to infrastructure spending since the 2006-07 Budget include:

- upgrades under the AusLink road program (\$287 million), including 70km of the Eyre Highway east of Norseman, and approximately 100km of Great Northern and Victoria Highways in the Muechea/Chittering, Pilbara and Kimberley regions, including preliminary planning for the proposed Kununurra Bypass;
- the rescheduling of projects across years (including spending carried forward from 2005-06) as project timetables vary (\$234 million), including the impact of reduced availability and higher cost of skilled building and construction labour resources and materials;
- additional spending on land and dwelling investment by the Housing Authority to cater for higher costs and the impact of the State's property market (\$186 million);

⁹ The total non-financial public sector consolidates the general government and public non-financial corporations sectors.

- the procurement of an additional 15 railcar sets for the Perth Urban Rail Network (\$160 million); and
- finalisation of the Perth Arena complex design, including the provision of a 680 bay multi-storey car park and site remediation works (\$133 million).

Table 6

NET DEBT OF THE TOTAL PUBLIC SECTOR AT 30 JUNE

	2007 \$m	2008 \$m	2009 \$m	2010 \$m
2006-07 BUDGET – NET DEBT AT 30 JUNE	5,413	6,204	7,252	7,730
<i>Plus improvement from 2005-06 outturn</i>	-1,321.5	-	-	-
<i>Less change in net cash flows from operating activities and distributions paid</i>				
General government	209.6	451.3	564.0	340.8
Public non-financial corporations	-27.4	24.8	-16.6	-26.3
Public financial corporations	75.4	-6.5	-10.4	-13.1
<i>Total public sector</i>	<i>257.6</i>	<i>469.5</i>	<i>536.9</i>	<i>301.4</i>
<i>Plus purchases of non-financial assets</i>				
Policy decisions ^(a)	55.8	75.6	150.7	40.7
Parameter movements:				
- Corporate Services reform	18.1	9.0	6.6	-0.1
- AusLink (Accelerated Upgrade)	30.0	69.2	126.4	61.8
- All other (including carryovers from 2005-06 and reschedulings)	128.2	166.3	199.0	177.1
<i>Total purchases of non-financial assets</i>	<i>232.2</i>	<i>320.1</i>	<i>482.6</i>	<i>279.5</i>
<i>Less proceeds from sale of non-financial assets</i>	<i>89.7</i>	<i>164.4</i>	<i>195.4</i>	<i>260.9</i>
<i>Plus all other financing</i>	<i>175.6</i>	<i>184.4</i>	<i>107.1</i>	<i>77.3</i>
<i>Cumulative impact on net debt at 30 June</i>	<i>-1,260.9</i>	<i>-1,390.3</i>	<i>-1,533.0</i>	<i>-1,738.5</i>
2006-07 MID-YEAR REVIEW – NET DEBT AT 30 JUNE	4,152	4,814	5,719	5,992

(a) Detail of policy decisions affecting the purchase of non-financial assets taken since the 2006-07 Budget is provided in Appendix 3: *Post-Budget Policy Decisions Affecting Spending*.

Statement of Risks

As with all budget and forward estimates, the 2006-07 mid-year review projections are based on a number of assumptions and are subject to a variety of risks. Details on these risks, as well as the major economic parameters underlying the projections, are provided below.

Estimating Assumptions

The major economic parameters underlying the 2006-07 mid-year review are detailed in the following table. For more information on these parameters and associated key risks, see Chapter 3: *The Western Australian Economy*.

Table 7

MAJOR ECONOMIC PARAMETERS

	2006-07 Budget Estimate	2006-07 Mid-Year Revision	2007-08 Forward Estimate	2008-09 Forward Estimate ^(e)	2009-10 Forward Estimate ^(e)
Real gross State product ^(a) (%)	5.25	5.75	4.0	4.25	4.25
Real State final demand ^(a) (%)	4.0	5.25	1.0	4.75	4.75
Consumer price index (%)	3.0	4.0	3.0	2.5	2.5
Public consumption deflator ^(b) (%)	3.2	3.25	2.75	3.25	3.25
Wages growth ^(c) (%)	5.25	5.75	4.25	4.0	4.0
Employment growth (%)	2.0	2.0	1.75	2.5	2.5
\$/A/\$US	73.0	77.0 ^(d)	77.0	77.0	77.0
Oil price (\$US per barrel)	67.9	62.9 ^(d)	67.3	68.1	67.3

(a) Growth in Gross State Product and State Final Demand is in real (chain volume) terms.

(b) Forecasts of growth in the public consumption deflator are based on long-run averages.

(c) The table shows Average Weekly Earnings (AWE) growth which is used in forecasting payroll tax revenue.

(d) The 2006-07 mid-year review estimate is the estimated average over the remainder of 2006-07.

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

Other notes: Interest rates are assumed to be constant over the forecast period. These forecasts were finalised following the Reserve Bank of Australia's decision to raise the official interest rate by 25 basis points (from 6.0% to 6.25%) on 7 November 2006.

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, the price of oil and the iron ore price. Approximate impacts of changes in these parameters are provided in the following table.

PARAMETER SENSITIVITY OF REVENUE ESTIMATES		
Revenue Type	Parameter Change	Budget Impact (\$m)^(a)
Payroll tax	For each 1.0 percentage point increase/decrease in wages and/or employment growth.	±17.0
Total mining revenue ^(b)	For each US1.0 cent decrease/increase in the \$A/\$US exchange rate.	±29.0
Petroleum royalties ^{(b),(c)}	For each \$US1 increase/decrease in the price of a barrel of oil.	±7.0
Iron ore royalties	For each 1.0 percentage point increase/decrease in the price of a dry metric tonne of iron ore.	±10.0

(a) First full-year impact (2006-07).
 (b) Includes North West Shelf petroleum royalties.
 (c) The oil price sensitivity varies according to the extent of the flow-through to LNG prices. This flow-through depends on the aggregate effect of contract specific pricing arrangements.

In addition to the above parameter sensitivities, the following specific factors represent a potential risk to the revenue estimates. These factors are not necessarily independent of one another (for example, an abrupt decline in commodity prices could potentially trigger a property market downturn as consumer/investor sentiment, employment, incomes and population migration to Western Australia contract).

Revenue from the Commonwealth

Western Australia's GST revenue grants depend on the Commonwealth's national GST collections, and the Commonwealth Grants Commission's recommended distribution of GST revenue among the States.

The mid-year review GST revenue grant estimates are based on forecasts of national GST collections from the Commonwealth's May 2006 Budget. However, collections may vary significantly depending on the performance of the national economy. The Commonwealth's revised GST collection 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 4 December 2006 cut-off date for items impacting the forecasts in this publication.

The Grants Commission's recommendations incorporate the Commission's estimates of each State's capacity to raise revenue from its own sources and its cost of providing services, compared to other States. The recommendations to apply in 2006-07 were already known at the time of the 2006-07 Budget. Western Australia's share is forecast to decline over the forward estimates period, due to the lagged impact of the recent strong growth in its own-source revenue capacity compared to other States. However, experience shows that the annual change in Western Australia's share beyond the budget year is difficult to predict with accuracy.

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).

The COAG meetings of 10 February 2006 and 14 July 2006 endorsed a new National Reform Agenda (NRA) to continue on from National Competition Policy. The NRA proposes reforms in human capital (health and education), energy, transport, infrastructure regulation and reduction of the regulatory burden.

The costs of implementing such reforms will fall mainly on State and Territory Governments, while the benefits of national reform, accruing at household and business level, filter through mainly to the Commonwealth in the form of increased income and company taxes.

Although a final financing framework to share the benefits of the NRA reforms remains to be determined, COAG agreed on 10 February 2006 that the performance of all governments in pursuing reforms would be subject to measurement and reporting against appropriate progress measures, with payments linked to achieving specific actions or outcomes.

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 difficult to forecast accurately. The mid-year review estimates for conveyance and mortgage stamp duties reflect an expected easing in property market activity over the remainder of 2006-07 and into 2007-08 (albeit from a very high base). However, the impact of recent and possible future interest rate increases is not yet clear. In addition, if the end of the resources boom were to be more abrupt than currently forecast, the outlook for property market activity may change.

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 volatile. For example, since 1 July 2006 the price of West Texas Intermediate crude oil has ranged between \$US56 per barrel and \$US77 per barrel.

The impact of oil price movements on petroleum royalties depends in part on the extent of the flow-through of oil price changes into the price of LNG. While the terms of contracts for the sale of LNG are commercial-in-confidence, recent experience suggests that any flow-through into LNG prices is substantially less than a directly proportional effect.

Contract iron ore prices reflect the outcome of protracted negotiations between the major producers and buyers each year. Traditionally, negotiations are timed so that new prices can take effect from 1 April (the start of the Japanese fiscal year). The mid-year review estimates assume that iron ore prices will increase by around 5% in 2007-08, before declining by a total of 25% (relative to the 2007-08 price) over 2008-09 and 2009-10 as new projects and expansions of existing mines occur.

More so than in recent years, most metals are trading at prices well above their long-run averages and well in excess of credible estimates of marginal production costs. Higher materials, energy and labour costs incurred by miners may justify some increase in long-term prices (particularly where expansions involve lower ore quality or, as in the case of nickel laterite projects, higher cost production methods). Nonetheless, price falls appear likely for most metals over the forward estimates period. While the assumptions underlying the mining royalty estimates reflect this outlook, forecast revenue is sensitive to both the extent and timing of any falls.

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 all necessary government approvals have been received. As a result, there is an upside risk to 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

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

A future risk to revenue from the successor entities is the possible impact of competition on profitability and revenue. Mid-year review forecasts from these utilities are based on estimated projections of the effects of future competition and, except for Horizon Power, the operation of the new electricity market which started on 21 September 2006.

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

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

Expenses

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

Specific Purpose Payments (SPPs) and Matching Requirements

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

Wages

The forward estimates include provision for all Enterprise Bargaining Agreements (EBAs) that have been agreed and finalised, with appropriation-supported agencies required to fund one-third of the cost from annual base allocations (apart from some exceptions related to specialist groups). Where wage outcomes are higher than those provisions, expenses will generally be higher. For example, a 1% increase in general government wages in 2006-07 amounts to an increase in general government salaries and superannuation costs of around \$66 million. At the time of the 4 December 2006 mid-year review cut-off date, EBAs that are due to expire in the next 12 months (or have expired and are subject to negotiation and/or finalisation) include those for police, doctors, nurses and prison officers.

Potential Under-expenditure

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

Education and Training Expense Pressures

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

Capital Works

The unprecedented level of activity in the contracting and sub-contracting markets in the building and construction industries associated with the economic boom continues to place pressure on the cost and the operational capacity for the provision of infrastructure. A Strategic Review of the Capital Works Program is currently being undertaken by the Government in order to minimise the impact of prevailing economic conditions on costs and ensure the timely delivery of the Government's infrastructure commitments. However, as is also reflected in private sector projects, further unforeseen cost increases could arise in the Capital Works Program.

The Capital Works Program includes assumptions about proceeds of 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 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 State at 30 June 2006 are provided in the 2005-06 *Annual Report on State Finances*, released on 28 September 2006, which showed that guarantees, indemnities and sureties totalled \$1.2 billion at the end of 2005-06.

CHAPTER 2

Financial Strategy

Overview

The Government's financial strategy is expressed through a range of medium-term financial targets. Specifically, the 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.

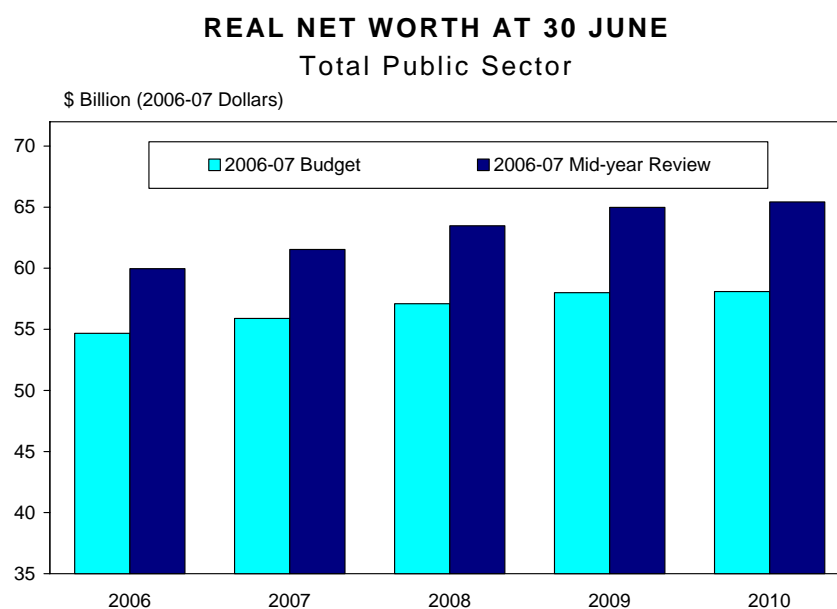
This chapter assesses the mid-year review financial projections against these financial targets.

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. Projected operating surpluses are the principal factor in strengthening the public sector's balance sheet.

Figure 1



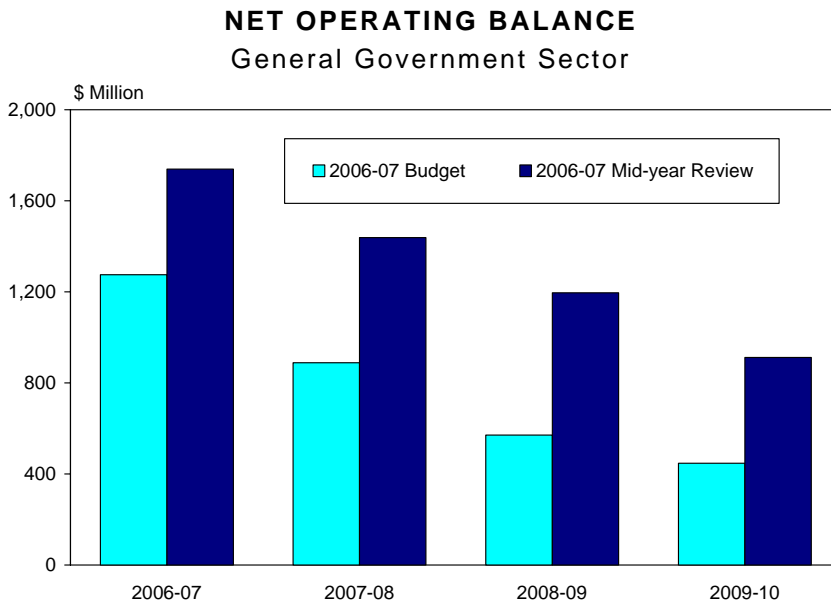
Net worth at 30 June 2006 was \$4.6 billion higher than the estimated outturn published in the 2006-07 Budget. This in turn has provided a higher base against which each year of the forward estimates is projected. The increase on the budget estimate for the 2005-06 outturn essentially reflects a stronger surplus outcome for that year, and revaluation effects (particularly impacting the State's substantial land and other fixed assets holdings, and a lower than expected actuarial valuation for unfunded superannuation liabilities). Further details on the 2005-06 outturn are available in the *2005-06 Annual Report on State Finances*.

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

This target is expected to be achieved in all years of the forward estimates period.

An operating surplus of \$1,739 million is forecast for 2006-07, up from the \$1,275 million surplus forecast at budget-time. Surpluses of between \$912 million and \$1,438 million are in prospect across the outyears, up an average \$550 million per annum relative to the 2006-07 Budget estimates. Major revenue and expense variations since the budget are discussed in Chapter 1: *Financial Projections*.

Figure 2



These surpluses play a critical role in allowing the Government to invest record amounts in the State’s infrastructure while at the same time keeping net debt at sustainable and affordable levels.

The declining size of the general government operating surplus across the forward estimates period primarily reflects:

- an expected easing in levels of property market activity;
- a forecast decline in most commodity prices; and

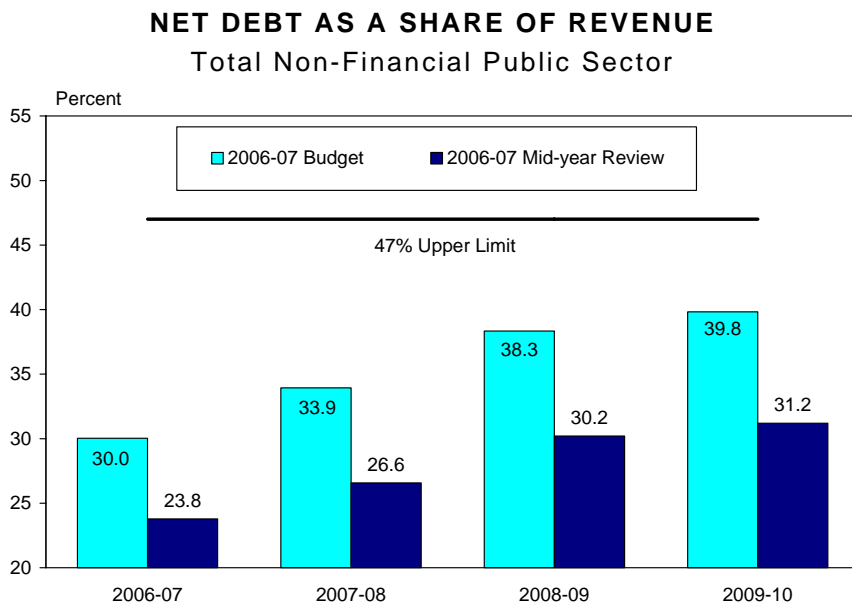
- the lagged impact of the Commonwealth Grants Commission process, which results in a lower share of national GST revenue for Western Australia in the outyears.

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 forward estimates period.

The net debt to revenue ratio is estimated to be just 23.8% in 2006-07 (down from 30.0% at budget-time), and reach a maximum 31.2% by 2009-10 (compared to the 39.8% maximum forecast in the 2006-07 Budget).

Figure 3



The improved projections for the net debt to revenue ratio reflect the better than expected outcome for 2005-06 (19.6%, down 6.6 percentage points relative to the estimated outcome in the 2006-07 Budget) and the impact of stronger operating surpluses, discussed in Chapter 1: *Financial Projections*.

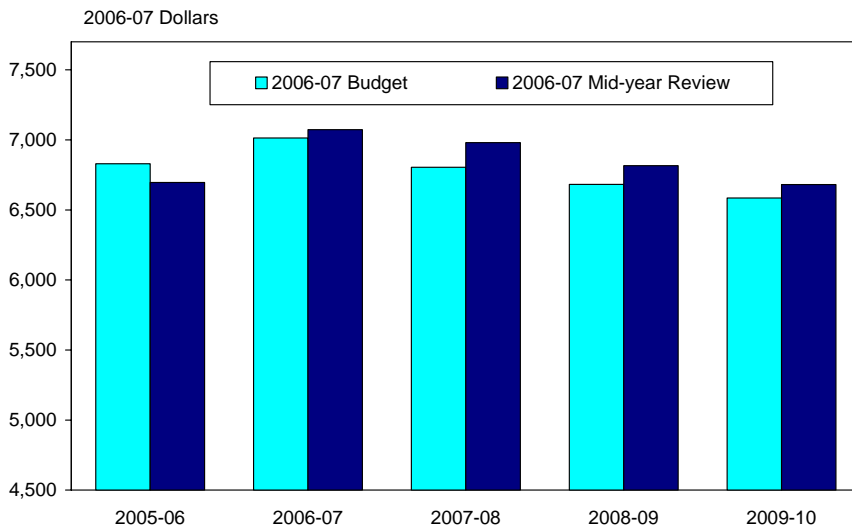
Ensure that real per capita own-purpose expenses for the general government sector do not increase

Consistent with expectations at the time of the budget, this target is not expected to be met in 2006-07. This reflects cost and demand driven spending in support of the State’s growing population and booming economy, as well as post-budget policy decisions (see details in Appendix 3: *Post-Budget Policy Decisions Affecting Spending*).

While expense growth is high in 2006-07, it is accommodated within the capacity of the State’s overall finances and includes the impact of lower spending in 2005-06, as well as a range of significant one-off factors (such as financial assistance associated with the sale of the Dampier to Bunbury Natural Gas Pipeline and increases in the Capital User Charge appropriation to the Public Transport Authority).

Figure 4

REAL PER CAPITA OWN-PURPOSE EXPENSES
General Government Sector



Across the forward estimate years, expense growth is expected to average 2.9% per annum, which is consistent with the expense growth target. This reflects:

- the one-off factors addressed in 2006-07, such as those noted above;

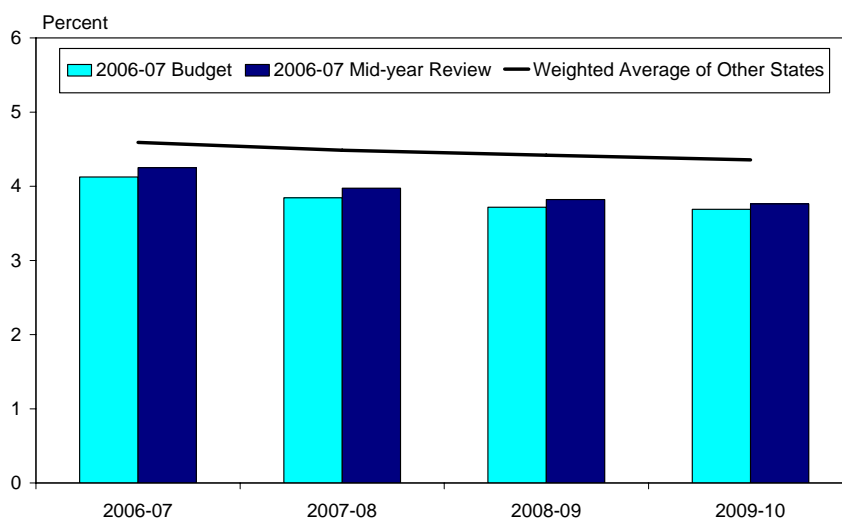
- reduced spending pressures going forward, with the Government having used the strength of the State's finances in recent years to address under-funding in critical areas like children in care and mental health services;
- the expected achievement of full-year savings from the Government's shared corporate services and procurement reforms; and
- lower debt servicing costs following recent accelerated debt repayments and the impact of higher surpluses in the outyears.

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 2006-07 and the forward estimate years, with Western Australia's taxation revenue as a share of gross State product (GSP) expected to remain below the average of the other States.

Figure 5

TAX COMPETITIVENESS
General Government Taxation Revenue as a Share of GSP ^(a)



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

The projected decline in Western Australia's taxation revenue as a share of GSP over the forward estimates period mainly reflects:

- an expected easing in property market activity levels, and the impact of that on conveyance duty revenue (which is forecast to decline by \$180 million or nearly 10% in 2007-08);
- the full effect of the tax relief measures announced in March 2006 (Stage 1 of the State Tax Review) and the 2006-07 Budget, including the full abolition of mortgage duty from 1 July 2008; and
- continued expectations of solid growth in the State's economy, as measured by GSP.

CHAPTER 3

The Western Australian Economy

Overview¹⁰

The short-term outlook for Western Australia's economy is stronger than was expected at the time of the 2006-07 Budget.

Western Australia's real Gross State Product¹¹ (GSP) increased by 4.9% in 2005-06, following growth of 4.7% in 2004-05¹².

Economic growth has been underpinned by high global prices for the State's key resource commodities, which have encouraged strong business investment, notably in a large number of new and expanded resource-related projects. Business investment grew by 37% in 2005-06.

¹⁰ Unless otherwise stated, all data relating to Gross State Product or its components in this chapter are in real (chain volume) and not nominal terms and therefore abstract from any price effects. Non-forecast data are typically sourced from the Australian Bureau of Statistics (ABS), unless otherwise indicated.

¹¹ Gross State Product is the total output of the economy, comprised of expenditure on State Final Demand (SFD), plus net trade (i.e. exports less imports) from interstate and overseas. SFD comprises expenditure on household and government consumption, dwelling investment, business investment, and public sector investment expenditure.

¹² This represents a significant revision from the ABS' previously published figure of 2.7% for GSP growth in 2004-05. It is worth noting that due to a number of methodological concerns the ABS cautions that its GSP estimates are still 'experimental', and that "...users should therefore exercise caution when using these estimates for economic analysis" (for more information see ABS catalogue number 5216.0: *Australian National Accounts: Concepts, Sources and Methods*).

The resources boom has also stimulated other sectors of the economy, with most key economic indicators showing more favourable conditions in Western Australia than nationally. Western Australia's retail sales and wider consumer spending measures are growing at a faster pace than nationally, and its consumer¹³ and business confidence¹⁴ levels are higher. Western Australia's housing market is more buoyant than in most other States and Territories, with strong growth in house prices raising Perth's median house price to rank second of all the capitals, behind Sydney¹⁵.

These robust conditions have produced a very tight labour market. Western Australia has a lower unemployment rate and a higher job vacancy rate than nationally, and its wages growth is faster. Western Australia's annual employment growth is decelerating, however this is due more to supply constraints than easing labour demand.

Strong economic growth is generally of benefit to Western Australia, but it has some negative consequences. Skill and labour shortages are contributing to cost over-runs and delays in investment projects¹⁶ and housing construction. High house prices may be providing an equity boost for people who already own their own home, but they are also ensuring that prospective buyers have to contend with declining house affordability¹⁷.

A tight rental market is both accentuating the problem of declining housing affordability and affecting long-term renters. The rental vacancy rate has declined from 4.2% in December 2003 to 2.1% in the September quarter 2006 while the median weekly rent in Perth has increased 4.3% over the September quarter 2006 to \$250 a week, up 19% compared to the September quarter 2005.

¹³ Westpac-Melbourne Institute of Consumer Sentiment Index, November 2006.

¹⁴ Sensis Business Index - Small and Medium Enterprises, August 2006; National Australia Bank Quarterly Business Survey, September quarter 2006.

¹⁵ Australian Property Monitors, Composition Adjusted House Price Series (September quarter 2006); REIWA Market Update (September quarter 2006); and Residex Newsletter – November 2006.

¹⁶ Access Economics noted in the September quarter 2006 issue of its *Investment Monitor* that most of the increase in the value of current and prospective projects listed for Western Australia in the quarter was due to increases in cost, rather than the volume of work being (or to be) undertaken.

¹⁷ REIA Home Loan Affordability Report (September 2006).

Perth's strong housing market is also largely responsible for the difference between Perth's recent yearly inflation rate of 4.8%¹⁸, and the average inflation rate across the eight capitals of 3.9%¹⁹.

There are some signs that pressure may be easing in some parts of the economy. In the housing market, building approvals are trending downwards and the backlog of residential building work yet to be completed appears to have peaked. The real estate industry reports recent increases in the stock of established houses for sale, and the average time that properties are on the market²⁰.

Perth's inflation is likely to ease in the near future, as lower fuel and fruit prices flow into the Consumer Price Index, while any easing in house price growth would narrow the gap between inflation in Perth and the other capitals.

¹⁸ Latest data to September quarter. The 'house purchase' category of the CPI contributed 1.4 percentage points of Perth's yearly CPI growth, relative to 0.2 percentage points for the eight capital weighted average.

¹⁹ See previous footnote.

²⁰ REIWA Market Update (September quarter 2006).

Table 1

MAJOR ECONOMIC AGGREGATES, WESTERN AUSTRALIA
(2006-07 Budget forecasts shown in brackets)

	2005-06	2006-07	2007-08	2008-09	2009-10
	Actual	Mid-Year Revision	Forward Estimate	Forward Estimate ^(d)	Forward Estimate ^(d)
	%	%	%	%	%
Real Gross State Product Growth ^(a)	4.9	5.75 (5.25)	4.0 (3.75)	4.25 (4.5)	4.25 (4.5)
Real State Final Demand Growth ^(a)	10.9	5.25 (4.0)	1.0 (2.75)	4.75 (4.0)	4.75 (4.0)
Employment Growth	4.4	2.0 (2.0)	1.75 (2.25)	2.5 (2.25)	2.5 (2.25)
Unemployment Rate	4.1	3.75 (4.25)	4.0 (4.75)	4.75 (4.75)	4.75 (4.75)
Wage Price Index Growth ^(b)	4.5	4.5 (4.25)	3.75 (3.5)	3.5 (3.25)	3.0 (3.25)
Average Weekly Earnings Growth ^(b)	4.8	5.75 (5.25)	4.25 (4.0)	4.0 (3.5)	4.0 (3.5)
Consumer Price Index Growth	4.3	4.0 (3.0)	3.0 (2.5)	2.5 (2.5)	2.5 (2.5)
GSP Implicit Price Deflator Growth ^(c)	10.5	2.75 (2.5)	2.25 (2.5)	3.25 (2.0)	3.25 (2.0)

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

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

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

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

Other forecasting notes: Currency exchange rates and interest rates assumed to be constant over the forecast period, and ABS mid series population projections are used as a basis for estimating population growth. These forecasts were finalised following the Reserve Bank of Australia's decision to raise the official interest rate by 25 basis points (from 6.0% to 6.25%) on 7 November 2006.

The short-term outlook for the world economy is fairly robust²¹, but Australia's commodity price index has levelled off in recent months, and global commodity prices are expected to soften over the next few years²². Production of a number of the State's key resource commodities is likely to increase as the strong investment of recent years (both in Western Australia and globally) raises capacity. The IMF²³ and World Bank²⁴ predict that prices will remain above historical averages, however, rather than dropping to pre-boom levels. Falling prices could lead to some easing in mining investment, although this will be modest if demand is still robust and prices stay above historical averages²⁵.

The outlook for the next couple of years is for further robust economic growth. GSP growth is expected to strengthen to 5.75% in 2006-07 (a slight revision upwards from the 2006-07 Budget forecast of 5.25%). This improved outlook mainly reflects stronger domestic demand growth, with household consumption and business investment both forecast to make larger contributions to economic growth than anticipated at budget-time.

GSP growth in Western Australia is then forecast to moderate to 4.0% in 2007-08 (slightly higher than the 3.75% growth rate forecast in the 2006-07 Budget). Net international trade²⁶ is expected to become the main driver of economic growth, as the strong business investment in the State's resources sector over the past few years raises capacity and boosts merchandise export volumes. Growth in domestic demand is expected to soften after five consecutive years of above-trend growth, with business investment declining.

²¹ The International Monetary Fund has noted generally buoyant global economic conditions in its World Economic Outlook (September 2006 edition), with above-trend global economic growth forecast of 5.1% in 2006 and of 4.9% in 2007.

²² Access Economics September quarter 2006 Minerals Monitor (the Monitor provides an outline of the views and consensus forecasts of 11 resource commodities forecasters). Also see next two footnotes below.

²³ *Australia: Selected Issues*. IMF Country Report No. 06/373, October 2006. pp. 26-37.

²⁴ World Bank Group (Oil, Gas, Mining and Chemicals Department). 2006. *Background Paper: The Outlook for Metals Markets; Prepared for G20 Deputies Meeting Sydney 2006*. World Bank. Washington. p.ii.

²⁵ For more information on this and other possible risks to growth, see Risks To The Outlook section at the end of this chapter.

²⁶ Exports less imports.

Table 2

COMPONENTS OF GROSS STATE PRODUCT

Western Australia

	2005-06		2006-07		2007-08	
	Estimated Actual	Actual ^(a)	Budget Estimate	Mid-Year Revision	Budget Forecast	Mid-Year Revision
	%	%	%	%	%	%
Annual Average Growth						
Private						
Household Consumption	5.0	3.9	3.5	4.25	3.75	4.0
Business Investment	15.0	37.0	5.0	10.0	3.0	-5.25
Dwelling Investment	8.5	8.0	5.5	2.0	-2.0	-3.5
Public						
Consumption	3.0	2.0	3.5	3.5	1.5	2.75
Investment	2.25	23.5	5.25	6.25	3.25	3.0
STATE FINAL DEMAND	6.75	10.9	4.0	5.25	2.75	1.0
External Sector ^(b)						
Exports	2.25	-0.7	10.0	10.75	8.0	11.5
Imports	12.5	15.2	8.5	15.0	8.75	4.5
Net Exports	-3.75	-11.7	11.25	7.75	7.5	17.0
Balancing Item ^(c)	4.75	12.5	5.25	5.75	3.75	4.0
GROSS STATE PRODUCT	4.75	4.9	5.25	5.75	3.75	4.0
Contributions to Growth						
Private						
Household Consumption	2.5	1.9	1.8	2.0	1.9	1.8
Business Investment	2.6	6.1	0.9	2.1	0.6	-1.2
Dwelling Investment	0.7	0.6	0.4	0.2	-0.2	-0.3
Public						
Consumption	0.4	0.3	0.5	0.5	0.2	0.4
Investment	0.1	0.9	0.2	0.3	0.1	0.1
STATE FINAL DEMAND	6.3	9.7	3.9	5.0	2.6	0.8
External Sector ^(b)						
Exports	0.9	-0.3	3.7	4.0	3.1	4.5
Imports	-1.7	-2.6	-1.3	-2.3	-1.4	-0.8
Net Exports	-0.9	-3.0	2.4	1.6	1.7	3.7
Balancing Item ^(c)	-0.8	-1.8	-0.9	-0.9	-0.6	-0.6
GROSS STATE PRODUCT	4.75	4.9	5.25	5.75	3.75	4.0

(a) Based on 2005-06 State Accounts data, released in November 2006 (ABS Catalogue Number 5220.0).

(b) External sector forecasts are for international trade in merchandise exports and imports only, and do not include services.

(c) The balancing item includes interstate trade, changes in the level of stocks, and a 'statistical discrepancy'. Given the balancing item's significant size (over the past decade it has fluctuated between 15% and 23% of GSP), the forecasts in the table above include an estimate of the balancing item. As it is not possible to forecast components of the balancing item, the estimate assumes the balancing item maintains a fixed ratio to Gross State Product (where the ratio is based on the balancing item's proportion of the domestic economy and net exports from the previous year).

Note: Columns may not add due to rounding.

State Final Demand

Household Consumption

Household consumption is forecast to grow by 4.25% in 2006-07, up from 3.5% forecast in the 2006-07 Budget. Consumer confidence is high despite the three increases in official interest rates in 2006 that have lifted the official cash rate to 6.25%. However, a slight deceleration in Western Australian retail turnover in recent months, and falls in the Westpac Melbourne Institute of Consumer Sentiment index for Western Australia after the August and November interest rate increases, may reflect some consumer sensitivity to interest rate rises.

The strong rise in Perth residential property prices in recent years underpinned consumer confidence and spending, but the expected moderation in house price increases in 2006-07 could detract from household consumption growth over 2006-07.

A number of factors are likely to support consumer demand, however. Population growth has picked up a little in recent quarters. Western Australia's population rose by 2.0% in the year to September 2006, the strongest annual growth since September 1990. Forecast employment growth of 2.0% and wages growth of 4.5% will also provide support for real consumption growth in 2006-07, as will personal income tax cuts²⁷ and expected lower petrol prices²⁸.

Slightly weaker conditions are forecast for household consumption in 2007-08, with growth of 4.0% forecast (up from the 2006-07 Budget forecast of 3.75%). Increases in employment (1.75%) and wages (3.75%) are expected to raise disposable incomes, but the lagged effects of three interest rate rises, slowing dwelling investment and the prospect of commodity prices moderating should lead to a slight slowing of growth compared to 2006-07.

Dwelling Investment

Growth in dwelling investment is forecast to moderate as demand eases and the backlog of residential building work gets smaller.

²⁷ Commonwealth government tax cuts worth some \$9 billion nationally came into effect on 1 July 2006.

²⁸ Fuel prices in the Perth metropolitan area have fallen from 135.6 cents a litre for unleaded petrol in May 2006, to 116.3 cents in October 2006 (source: www.fuelwatch.wa.gov.au).

Growth of 2.0% is forecast for 2006-07 (this represents a downward revision from the 2006-07 Budget forecast of 5.5%). Building approvals have trended downward since the beginning of 2006, and growth in finance commitments for housing has eased in recent months. Interest rate rises and declining house and land affordability resulting from recent strong price growth are expected to contribute to this moderation in activity.

Real Estate Institute of Western Australia (REIWA) data indicates that the number of dwellings sold in the September quarter 2006 fell by 9.3% to 14,700 (relative to the June quarter 2006), even though the number of dwellings available for sale in Perth increased by 84.2% to 8,829 (also relative to the June quarter 2006). Over the same period, REIWA's sales to listings ratio has fallen by 39.5 percentage points (to 57.5% in the September quarter 2006), while the average number of selling days it took to sell a residential property in Perth also rose slightly (by one day to 32 days).

In the short term, the substantial backlog of residential work yet to be started and the stock of dwellings under construction can be expected to sustain dwelling investment. However, recent Housing Industry Association data indicate a fall in both the amount of residential work yet to be started and the stock of dwellings under construction. A decline in demand for new housing, with building approvals trending downward and the number of housing finance commitments declining since the beginning of 2006, is expected to result in a further decrease in the pipeline of work, and a reduction in construction activity in 2007-08.

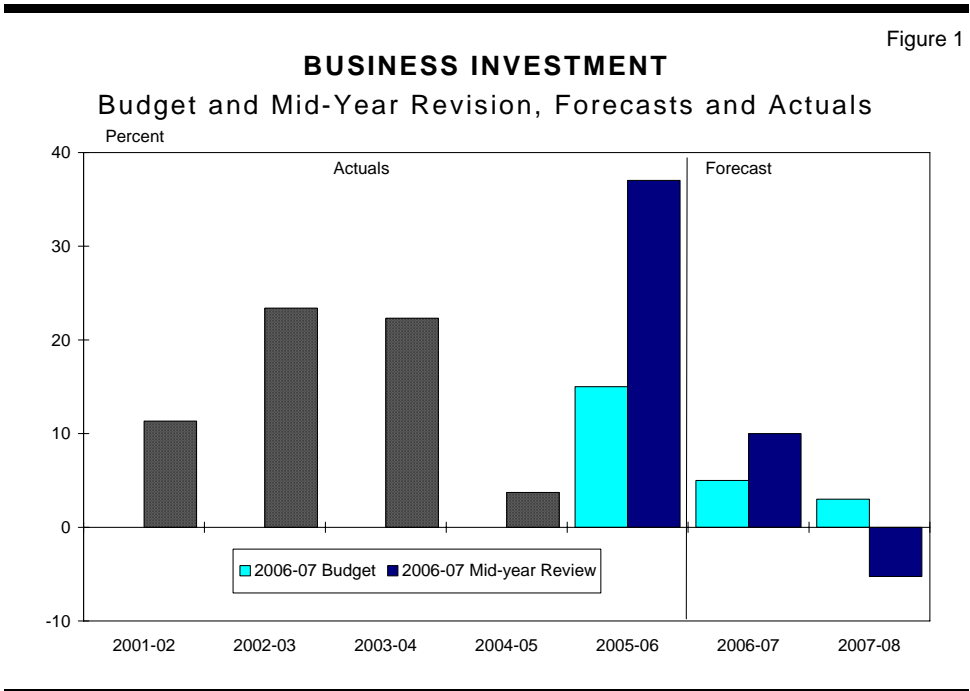
The housing market is expected to slow over 2007-08, due in part to the lagged effect of three interest rate rises in 2006 and ongoing affordability constraints, along with better balanced supply and demand. A decline of 3.5% in dwelling investment is forecast for 2007-08, down from the 2.0% fall forecast in the 2006-07 Budget.

Business Investment

Business investment in Western Australia grew by 37% in 2005-06²⁹, driven largely by new projects and capacity expansions in the resources sector, in response to high global commodity demand and prices. Business investment has increased at an annual average rate of 19.6% over the past five years, accounting for around half of Western Australia's growth in GSP over this time.

²⁹ Source: ABS Catalogue Number 5220.0.

As a result, business investment levels are high, and growth rates are expected to moderate over the short term. This much higher base has been taken into consideration in the revised business investment forecasts. Business investment is forecast to grow by 10.0% in 2006-07, due to the large amount of work still to be carried out on resource developments currently under way (see below), before falling by 5.25% in 2007-08³⁰. These forecasts represent revisions from the 2006-07 Budget forecasts of growth in business investment of 5.0% in 2006-07 and 3.0% in 2007-08 (see following chart).



The upward revision to forecast growth for 2006-07 is mainly due to a number of major projects moving from being ‘committed’ to ‘under construction’³¹. ABS data on engineering work ‘yet to be done’ in the June quarter 2006³² also suggest strong activity continuing over the near term, with the stock of work in the pipeline at a historical high (and over three times its average level of the past five years).

³⁰ Investment streams in Western Australia can be volatile over the short term, and are typically ‘lumpy’. Uncertainty over upcoming major project starting dates (and subsequent completion dates) means that growth rates for business investment in individual financial years can be very hard to predict.

³¹ Source: Access Economics, Investment Monitor (September quarter 2006).

³² Source: ABS catalogue number 8762.0.

Capacity constraints are affecting business investment in the resource and construction sectors, although proponents of major resource-related projects may be able to mitigate some of the constraints³³.

Business investment is now forecast to fall by 5.25% in 2007-08, although the level of activity will remain at a historically high level. Work on projects begun in 2006-07 that continue into 2007-08 will support overall business investment levels. This moderation reflects a slight decline in the number of new major resource projects being committed to, perhaps reflecting an expected easing in commodity prices from 2007-08³⁴.

Public Expenditure

Public consumption³⁵ increased by 2.0% in 2005-06. Public consumption expenditure is forecast to grow by 3.5% in 2006-07, with growth primarily coming from State government agency carry-overs from 2005-06, while growth of 2.75% is expected in 2007-08.

Public investment³⁶ increased by 23.5% in 2005-06, largely reflecting carry-overs of capital expenditure by State government agencies from 2004-05, when government investment grew by 13.8%.

In 2006-07, forecast public investment growth has been revised upwards to 6.25%, largely as a result of further expenditure carry-overs from the previous year. In 2007-08, public investment growth is forecast to slow to 3.0%, as some large projects draw to a close. For example, the Perth Seawater Desalination plant came into production in late November 2006, and the New MetroRail is expected to be completed during 2007.

³³ Such as through greater levels of imports of capital equipment, design modifications, or the like. For example, the North West Shelf Consortium's fifth LNG train is expected to be constructed using an estimated five million person hours (compared to the similarly designed fourth LNG train, which required twelve million hours), with most major components of the LNG train being constructed overseas before being imported and then reassembled on site (source: Woodside LNG Phase V Expansion Update, Newsletter 1, December 2005). To the extent business investment is a result of imported capital equipment, this will effectively be netted off from the State's GSP growth, as imports detract from growth.

³⁴ According to Access Economics' September quarter 2006 Minerals Monitor (which provides an outline of the views and consensus forecasts of 11 resource commodities forecasters), while a number of major commodities are still expected to reach their price peaks over the remainder of 2006 and into 2007, most base metals prices are expected to fall after this period.

³⁵ Public consumption comprises expenditure by Commonwealth, State and local governments, with the sectors typically accounting for 30%, 50% and 20% respectively of total consumption.

³⁶ This comprises expenditure by Commonwealth, State and local governments with the sectors typically accounting for 10%, 70% and 20% respectively of total investment.

Net Exports

Net exports fell by 11.7% in 2005-06, detracting 3.0 percentage points from GSP growth. A combination of an unanticipated (though small) fall in export volumes³⁷ and stronger than expected growth in imports accounted for decrease.

Net exports are expected to grow by 7.75% and contribute 1.6 percentage points to economic growth in 2006-07, due to rising export growth and slight drop in imports growth. The rise in exports is expected because recent strong business investment should result in expanded capacity in the resource sector in 2006-07 and into 2007-08. Net exports are forecast to be the largest component of economic growth in 2007-08, contributing 3.7 percentage points of the 4.0% GSP growth forecast for that year.

Exports

Export volumes³⁸ fell by 0.7% in 2005-06, an unexpected result that partly reflects the effects on mining production in the North-West of a heavy cyclone season early in 2006.

The number of resource investment projects currently under way or recently completed suggests the potential for strong growth in export volumes in the near term. For example, Woodside's Enfield oil development commenced production in mid 2006, while expansions in iron ore production capacity by BHP and Rio Tinto should also add significant capacity to the State's export base.

Exports are forecast to grow by 10.75% in 2006-07, as this export capacity comes on line.

Exports volumes are forecast to increase by 11.5% in 2007-08, also reflecting the expected completion of projects that will then enter their production phases. The Ravensthorpe nickel development is expected to begin production in mid 2007, and further iron ore capacity is also likely to come into production during 2007.

³⁷ It should be noted that in nominal terms, growth in the value of merchandise exports has been strong due to commensurately strong growth in global commodity prices.

³⁸ Only volumes are forecast for these components of 'real' economic growth. This means the forecasts for exports do not reflect the strong growth in export values that have been generated by recent growth in commodity prices.

Imports

Imports increased by 15.2% in 2005-06, buoyed by domestic demand and, in particular, business investment. Imports are forecast to grow by 15% in 2006-07.

The forecast for imports growth in 2007-08 has been revised down from 8.75% to 4.5% in line with the expected fall in business investment and slowing growth in household consumption (see above).

Labour Market

Employment

The tight conditions Western Australian's labour market experienced in 2005-06 are expected to continue over 2006-07 before easing somewhat in 2007-08. Newspaper job advertisements data and business surveys such as Access Economics' Business Outlook and the CCI-Bankwest Survey of Business Expectations indicate that labour demand in Western Australia is strong.

Labour supply is expected to remain tight. As a result, continuing low rates of unemployment are forecast along with high rates of labour force participation. Supply constraints are therefore expected to dampen employment growth in 2006-07, resulting in a fairly modest forecast of employment growth of 2.0% over the year. This forecast is unchanged from the 2006-07 Budget forecast.

Employment growth is then forecast to ease to 1.75% in 2007-08, as a result of continuing tight labour supply and softer domestic demand growth. This represents a downward revision from the 2.25% growth forecast in the 2006-07 Budget, and is below the State's long-term average employment growth rate of 2.5%³⁹.

³⁹ This is the average annual rate of employment growth in Western Australia over the past fifteen years.

Unemployment

The State's unemployment rate is forecast to average 3.75% over 2006-07, lower than the 2006-07 Budget estimate of 4.25%. This downward revision is consistent with the average unemployment rate over recent months and reflects the tight conditions expected in the labour market.

The unemployment rate is expected to rise slightly to 4.0% over 2007-08, again lower than the 2006-07 Budget estimate of 4.75%.

Prices

Consumer Price Index

Rising prices of fruit (in particular bananas⁴⁰) and fuel led to a pick up in inflation in both Western Australia and Australia in 2005-06. Western Australia's housing boom further fuelled Perth's inflation, with house purchase costs⁴¹ the main reason for Perth's inflation being above the national average over the year. Perth's inflation rate was 4.3% over 2005-06, compared to inflation of 3.2% across the eight capital cities.

In year-ended terms⁴², Perth's consumer prices increased by 4.7% and Australian prices increased by 4.0% between the June quarters of 2005 and 2006.

However, in the longer term, the inflation rates are closer - in the 10 years to 2005-06, Perth's average annual inflation rate of 2.7% was close to the national average of 2.6%.

⁴⁰ Prices of Bananas in Perth were 304.4% higher in the September quarter 2006 than the September quarter 2005, while fuel prices were 9.2% higher over the same period. It should be noted that the CPI's construction method means that despite rising banana prices (and to a lesser extent fuel prices), expenditure weights in the basket have remained the same (that is, it is an implicit assumption of the CPI that consumers will keep buying the same quantity of bananas or the same amount of fuel). While this may be the case for some consumers, others may have substituted bananas for cheaper fruit, a behaviour that the CPI would not capture. Similarly, higher fuel prices might have resulted in people driving less. This may mean that the impact of banana and fuel prices on the CPI may have overestimated the cost of living.

⁴¹ See footnote 18 earlier in this chapter.

⁴² 'Year-ended' growth compares the CPI in the June quarter 2006, with its level in June 2005, 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 2006, compared to the four quarters to the June quarter 2005. The CPI forecasts in this chapter are for annual average growth rates. As this measure typically compares the average price level over a whole year with its average level in the previous year, it has the advantage of being less volatile than year-ended growth and less affected by one-off and temporary shifts in prices.

Perth's Consumer Price Index (CPI) is forecast to rise by 4.0% in 2006-07. This deceleration in inflation reflects slower expected growth in house purchase costs⁴³ and the easing of exceptional factors such as the recent high prices of fuel and fruit (particularly bananas).

This forecast has been revised up from the 2006-07 Budget forecast of 3.0%. It mainly reflects the unexpectedly strong increase in the CPI in the June and particularly September quarters, as fruit and fuel prices took longer to fall than had been anticipated.

This inflation pattern also means that in 2006-07 year-ended inflation (between the June quarters of 2006 and 2007) could be significantly below year-average inflation (comparing the average CPI for the whole 2006-07 financial year with its average in 2005-06).

In 2007-08 Perth's CPI growth is forecast to moderate to 3.0%. This forecast is based on the expectation that Western Australia's exceptionally strong growth in house purchase costs will taper out, bringing Perth's inflation rate closer in line with the national average and with historical inflation rates.

Wages

Western Australia's Wage Price Index (WPI) increased by 4.5% over 2005-06, in line with the 2006-07 Budget forecast. Wages growth was underpinned by the tight labour market, with above-average wages growth in the booming mining and construction industries. Overall wages growth has remained quite constrained despite the State's strong economic conditions, running only slightly above the Australian WPI growth of 4.1% over 2005-06.

The tight labour market is again expected to result in strong wages growth in 2006-07. The WPI is forecast to grow by 4.5% over 2006-07, slightly higher than the 2006-07 Budget forecast of 4.25%. Some slight easing in labour market pressures is then expected to relieve wage pressures, reflected in a WPI forecast of 3.75% over 2007-08 (slightly higher than the 2006-07 Budget forecast of 3.5% growth).

⁴³ See footnote 18 earlier in this chapter.

Average weekly earnings are expected to grow by 5.75% in 2006-07, revised upwards from the 5.25% growth forecast in the 2006-07 Budget. Growth is then forecast to slow to 4.25% in 2007-08. The stronger growth in average weekly earnings than the WPI partly reflects compositional effects, with employment and earnings growth above the state-wide average in the relatively high-paying mining and construction sectors. Unexpectedly weak average weekly earnings growth in the March and June quarters of 2006, and a sharp spike in earnings in the September quarter⁴⁴, also make strong annual average earnings growth much more likely for 2006-07, and highlight the volatility of this earnings measure. Partly for this reason, the WPI is a better measure of wages movements⁴⁵.

Implicit Price Deflator

The GSP Implicit Price Deflator⁴⁶ is expected to increase by 2.75% in 2006-07, following an increase of 10.5% in 2005-06. The strong growth in the price deflator for 2005-06 mainly reflected growth in export commodity prices of 26.1%, with the implicit price deflator for State Final Demand growing by 4.5%.

Growth in the GSP deflator is forecast to ease to 2.25% in the outyears, with increases in both domestic prices and commodity prices expected to soften.

Risks to the Outlook

Global Risks

Western Australia has a relatively high degree of exposure to conditions in the global economy, with exports typically accounting for around 40% of the State's GSP (compared to about 20% nationally).

⁴⁴ Western Australia's seasonally adjusted average weekly earnings rose by 6.1% between May and August 2006, the largest quarterly increase since the data series began in 1984 (ABS Cat. 6302.0 Average Weekly Earnings).

⁴⁵ The wage price index is a better measure of underlying wages pressures than average weekly earnings because it is not affected by changes in the composition of the workforce. Changes in average earnings can be driven by variations in the occupational distribution within and across industries; in the distribution of employment between industries; in the proportion of male and female employees and junior employees and in the proportions of full-time, part-time and casual employees. This also makes average weekly earnings more volatile than the WPI.

The Wage Price Index also has shortcomings, however. It excludes non-wage remuneration and tracks the pay associated with a fixed basket of jobs, rather than tracking a group of employees. So, if (for example), employers are using more rapid promotions to retain staff, the Index will not capture this.

⁴⁶ 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.

The outlook for the global economy is fairly robust⁴⁷, but there are nevertheless a number of key risks to this outlook. One notable risk is a possible sharp and abrupt unwinding of global financial imbalances (particularly the large budget and current account deficits in the United States and the corresponding current account surplus in China). Other global risks include a further tightening of monetary policy by central banks (in response to increasing inflationary pressures), rises in the price of oil, and a slowing housing market moderating growth in the United States.

Slower growth in the United States economy could adversely affect its trading partners by slowing growth in demand for their exports. China and other parts of Asia are major exporters to the United States, and also important markets for Western Australia's commodity resource exports.

Unpredictable external shocks, such as geo-political events or the outbreak of disease (e.g. a severe and uncontained avian flu outbreak), present additional risks that could adversely affect the economic growth rates of the State's key trading partners.

Commodity producers in Western Australia and around the world have invested in expanding capacity in response to recent high prices. Key commodity prices are likely to moderate over the next few years, as the resulting increased supply come on stream. Even so, in the case of most of Western Australia's key resource commodities, this is expected to return prices to where they were a couple of years ago, rather than pre-boom levels⁴⁸.

However, there is considerable uncertainty about the timing, magnitude and even direction of commodity prices in the short to medium term.

A significant fall from current levels of commodity demand would probably lead to a slowdown in activity in the State's key mining areas. As other commodity exporters would also be looking for alternative export markets, competition for customers could drive down both prices and volumes.

⁴⁷ The International Monetary Fund has noted generally buoyant global economic conditions in its *World Economic Outlook* (September 2006 edition), with above-trend global economic growth forecast of 5.1% in 2006 and of 4.9% in 2007.

⁴⁸ Access Economics' Minerals Monitor provides an outline of the views and consensus forecasts of 11 resource commodities forecasters. Its September quarter 2006 Monitor predicts that a number of major commodities will reach their price peaks in late 2006 or 2007. Most base metals prices are expected to fall after this period.

Another risk is the Australian dollar⁴⁹. Other things being equal, an appreciating Australian dollar will reduce the competitiveness of Western Australia's traded commodities on world markets, and reduce the return to exports denominated in foreign currencies. This would in turn reduce the profitability of projects under consideration and therefore affect whether or not the project is economically viable, potentially reducing future investment and exports. Conversely, if the Australian dollar were to depreciate, the reverse of these effects could occur.

Domestic Risks

Recent interest rate rises⁵⁰ do not yet appear to have had a major effect on the Western Australian economy. The full effects of rate rises take time to unfold, however, and may become more apparent in 2007. Any further increase in interest rates would have the potential to affect the State's economy. The near term effects of any rise would probably be evident on household consumption (particularly if consumer sentiment eases) and dwelling investment.

The housing market itself is another key risk for the State's economy. A number of factors could result in a drop in house prices, such as higher interest rates, weaker economic conditions, declining housing demand, or an increase in housing supply. Supply might increase if a large number of investors seek to take capital gains and sell their homes simultaneously, or if the large stock of dwellings currently under construction is completed at a faster pace than expected. Falling prices could leave some recent home-buyers with mortgages in excess of the market value of their properties.

Staff shortages caused by the tight labour market add to costs and may lead to project delays, deferrals, or the inability of businesses to take on additional work. These problems have affected both business investment and dwelling investment.

⁴⁹ A technical forecasting assumption for the forecasts in this publication is that currency exchange rates are assumed to be constant over the forecast period.

⁵⁰ The Reserve Bank of Australia's most recent decision to raise the official target rate was made on 7 November 2006, with the rate increasing by 25 basis points from 6.0% to 6.25%.

To date, skill and labour shortages have not resulted in substantial generalised increases in wages, although wages growth in some industries (particularly in mining and construction) has been relatively strong. Pressure for substantial increases in wages could be expected to affect economic activity by making Western Australia a less attractive destination for business investment, while continued skill shortages would have the potential to place further upwards pressure on wages. A sustained increase in wages could also eventually lead to broader inflationary pressures.

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

	2005-06	2006-07	2006-07	2007-08	2008-09	2009-10
	Actual ^(a)	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
REVENUE						
Taxation	5,195	5,082	5,506	5,474	5,666	6,006
Current grants and subsidies	6,890	7,163	7,125	7,168	7,130	7,209
Capital grants	375	402	430	491	559	400
Sales of goods and services	1,115	1,046	1,131	1,160	1,188	1,218
Interest income	170	151	205	200	172	146
Revenue from public corporations of						
Dividends	534	456	468	461	498	509
Tax equivalent payments	304	294	346	333	345	349
Royalty income	1,184	1,504	1,542	1,556	1,480	1,378
Other	440	410	403	480	459	490
<i>Total</i>	16,207	16,510	17,155	17,322	17,497	17,704
EXPENSES						
Gross operating expenses						
Salaries	5,694	5,904	6,044	6,304	6,592	6,889
Depreciation and amortisation	591	637	649	679	708	728
Superannuation	557	580	589	612	637	664
Services and contracts	1,367	1,753	1,839	1,900	1,984	2,050
Other gross operating expenses	1,876	1,873	1,953	2,023	2,009	2,044
Nominal superannuation interest	242	306	275	276	276	274
Other interest	120	132	116	111	121	119
Other property expenses	-	-	-	-	-	-
Current transfers	3,007	3,466	3,403	3,536	3,511	3,645
Capital transfers	487	583	547	443	462	380
<i>Total</i>	13,942	15,234	15,416	15,883	16,302	16,792
NET OPERATING BALANCE	2,265	1,275	1,739	1,438	1,195	912
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchase of non-financial assets	1,161	1,620	1,848	2,019	1,835	1,392
Sales of non-financial assets	-203	-227	-215	-192	-198	-193
less depreciation	591	637	649	679	708	728
plus change in inventories	-	1	-	-	-	-
plus other movements in non-financial assets	51	4	6	-	-	29
<i>Total</i>	419	760	990	1,148	929	500
NET LENDING/BORROWING	1,846	515	749	290	267	412
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	2,265	1,275	1,739	1,438	1,195	912
less provisions for doubtful debts	18	1	1	-	-	-
plus net gains on assets (including derivatives)	6	106	107	101	-6	14
plus capitalised interest	-	-	-	-	-	-
less revaluation of superannuation liabilities	-335	-	36	35	33	32
plus all other adjustments	329	3	-34	-87	-129	-62
AAS OPERATING RESULT	2,916	1,383	1,775	1,417	1,027	832

(a) Consistent with final audited data contained in the 2005-06 Annual Report on State Finances, released 28 September 2006.

Note: Columns may not add due to rounding.

Table 1.2

GENERAL GOVERNMENT
Balance Sheet at 30 June

	2006 Actual ^(a) \$m	2007 Budget Estimate \$m	2007 Mid-Year Revision \$m	2008 Forward Estimate \$m	2009 Forward Estimate \$m	2010 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	378	306	376	389	390	384
Advances paid	910	739	721	707	693	680
Investments, loans and placements	3,380	1,965	2,522	2,577	2,741	3,017
Other non-equity assets	1,117	913	1,154	1,133	1,115	1,139
Equity	21,870	23,313	24,393	25,810	26,890	27,784
<i>Total</i>	<i>27,655</i>	<i>27,236</i>	<i>29,166</i>	<i>30,616</i>	<i>31,829</i>	<i>33,003</i>
<i>Non-Financial assets</i>						
Land and fixed assets	40,187	38,664	42,102	44,317	46,169	47,005
Other non-financial assets	211	320	278	302	292	287
<i>Total</i>	<i>40,398</i>	<i>38,985</i>	<i>42,379</i>	<i>44,620</i>	<i>46,461</i>	<i>47,293</i>
TOTAL ASSETS	68,053	66,221	71,545	75,236	78,290	80,296
LIABILITIES						
Deposits held	369	281	262	259	317	337
Advances received	536	523	523	510	496	482
Borrowings	1,026	1,189	932	1,043	992	945
Unfunded superannuation liabilities	5,459	5,639	5,456	5,430	5,373	5,303
Other employee entitlements and provisions	1,551	1,554	1,622	1,714	1,789	1,861
Non-equity liabilities	1,171	1,143	1,214	1,227	1,224	1,284
TOTAL LIABILITIES	10,112	10,329	10,010	10,182	10,192	10,212
NET WORTH	57,941	55,892	61,535	65,054	68,098	70,085
<i>Memorandum Item: Net Debt</i>	<i>-2,737</i>	<i>-1,017</i>	<i>-1,901</i>	<i>-1,862</i>	<i>-2,018</i>	<i>-2,316</i>

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

NET WORTH	57,941	55,892	61,535	65,054	68,098	70,085
<i>less equity (net worth) of PNFC and PFC sectors</i>	<i>20,830</i>	<i>20,809</i>	<i>21,808</i>	<i>23,081</i>	<i>24,092</i>	<i>24,921</i>
<i>less provision for doubtful debts</i>	<i>18</i>	<i>1</i>	<i>1</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>less all other adjustments</i>	<i>-235</i>	<i>-</i>	<i>-296</i>	<i>-216</i>	<i>-95</i>	<i>-41</i>
AAS NET ASSETS	37,328	35,082	40,022	42,189	44,101	45,204

(a) Consistent with final audited data contained in the 2005-06 *Annual Report on State Finances*, released 28 September 2006.

Note: Columns may not add due to rounding.

Table 1.3

GENERAL GOVERNMENT
Cash Flow Statement

	2005-06	2006-07	2006-07	2007-08	2008-09	2009-10
	Actual ^(a)	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	5,119	5,097	5,536	5,502	5,692	6,035
Receipts from sales of goods and services	1,194	1,072	1,152	1,190	1,203	1,249
Grants and subsidies received	7,583	7,556	7,517	7,592	7,562	7,569
Other receipts	3,094	3,480	3,462	3,668	3,593	3,446
<i>Total</i>	<i>16,990</i>	<i>17,206</i>	<i>17,667</i>	<i>17,951</i>	<i>18,050</i>	<i>18,299</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-9,538	-10,313	-10,655	-11,050	-11,447	-11,921
Grants and subsidies paid	-3,207	-3,683	-3,619	-3,713	-3,673	-3,735
Interest paid	-122	-123	-113	-107	-101	-98
Other payments	-864	-832	-815	-892	-899	-934
<i>Total</i>	<i>-13,730</i>	<i>-14,951</i>	<i>-15,203</i>	<i>-15,761</i>	<i>-16,120</i>	<i>-16,689</i>
Net Cash Flow from Operating Activities	3,260	2,255	2,465	2,190	1,930	1,610
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-1,161	-1,620	-1,848	-2,019	-1,835	-1,392
Sales of non-financial assets	203	227	215	192	198	193
<i>Total</i>	<i>-958</i>	<i>-1,393</i>	<i>-1,633</i>	<i>-1,827</i>	<i>-1,637</i>	<i>-1,199</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-488	-1,453	-1,410	-151	-83	-50
Liquidity purposes	74	-21	-	-2	-1	-
<i>Total</i>	<i>-415</i>	<i>-1,474</i>	<i>-1,410</i>	<i>-153</i>	<i>-84</i>	<i>-50</i>
Net Cash Flow from Investing Activities	-1,373	-2,867	-3,043	-1,980	-1,721	-1,249
FINANCING ACTIVITIES						
Advances received (net)	-1	-	-	-	-	-
Borrowings (net)	-286	27	-90	-81	-24	-30
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	-12	-23	-81	-26	-44	-44
<i>Total</i>	<i>-300</i>	<i>4</i>	<i>-170</i>	<i>-108</i>	<i>-68</i>	<i>-74</i>
<i>Opening cash balance</i>	<i>2,875</i>	<i>3,468</i>	<i>4,462</i>	<i>3,713</i>	<i>3,816</i>	<i>3,956</i>
NET INCREASE IN CASH HELD	1,587	-608	-748	103	140	287
<i>Closing cash balance</i>	<i>4,462</i>	<i>2,860</i>	<i>3,713</i>	<i>3,816</i>	<i>3,956</i>	<i>4,243</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>2,301</i>	<i>862</i>	<i>832</i>	<i>363</i>	<i>293</i>	<i>411</i>
Surplus	2,301	862	832	363	293	411

(a) Consistent with final audited data contained in the 2005-06 Annual Report on State Finances, released 28 September 2006.

Note: Columns may not add due to rounding.

Table 1.4

PUBLIC NON-FINANCIAL CORPORATIONS
Operating Statement

	2005-06 Actual ^(a) \$m	2006-07 Budget Estimate \$m	2006-07 Mid-Year Revision \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m
REVENUE						
Current grants and subsidies	1,070	1,211	1,199	1,321	1,351	1,396
Capital grants	163	158	159	140	140	86
Sales of goods and services	6,251	5,735	6,115	6,471	6,808	7,066
Interest income	149	136	140	116	118	123
Other	370	290	297	261	280	256
<i>Total</i>	<i>8,003</i>	<i>7,531</i>	<i>7,911</i>	<i>8,310</i>	<i>8,698</i>	<i>8,927</i>
EXPENSES						
Gross operating expenses						
Salaries	551	640	658	688	702	721
Depreciation and amortisation	682	731	725	793	826	868
Superannuation	49	63	64	67	68	69
Services and contracts	495	404	199	209	212	217
Other gross operating expenses	4,177	3,488	4,179	4,323	4,464	4,613
Nominal superannuation interest	-	-	-	-	-	-
Other interest	525	624	605	613	692	765
Other property expenses	836	744	776	772	830	847
Current transfers	621	673	702	774	792	766
Capital transfers	5	40	19	6	8	37
<i>Total</i>	<i>7,941</i>	<i>7,405</i>	<i>7,927</i>	<i>8,245</i>	<i>8,593</i>	<i>8,905</i>
NET OPERATING BALANCE	61	125	-16	65	105	23
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchase of non-financial assets	2,448	2,439	2,464	1,997	2,017	1,965
Sales of non-financial assets	-572	-594	-723	-764	-803	-820
less depreciation	682	731	725	793	826	868
plus change in inventories	374	13	102	5	-2	-2
plus other movements in non-financial assets	-9	-6	-6	-	-	-29
<i>Total</i>	<i>1,559</i>	<i>1,120</i>	<i>1,114</i>	<i>445</i>	<i>386</i>	<i>246</i>
NET LENDING/BORROWING	-1,498	-995	-1,130	-380	-281	-223

Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)

NET OPERATING BALANCE	61	125	-16	65	105	23
less provisions for doubtful debts	1	6	4	4	4	4
plus net gains on assets (including derivatives)	9	135	207	253	312	317
plus capitalised interest	9	-	-	-	-	-
less revaluation of superannuation liabilities	13	-	-	-	-	-
plus all other adjustments	-	-	-	-	-	-
AAS OPERATING RESULT	65	255	187	314	413	335

(a) Consistent with final audited data contained in the 2005-06 Annual Report on State Finances, released 28 September 2006.

Note: Columns may not add due to rounding.

Table 1.5

PUBLIC NON-FINANCIAL CORPORATIONS
Balance Sheet at 30 June

	2006	2007	2007	2008	2009	2010
	Actual ^(a)	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	474	240	472	511	578	652
Advances paid	51	15	6	6	6	6
Investments, loans and placements	2,070	2,195	1,579	1,294	1,337	1,382
Other non-equity assets	1,445	1,355	1,340	1,460	1,574	1,689
Equity	39	5	45	34	38	37
<i>Total</i>	4,078	3,810	3,442	3,305	3,534	3,766
<i>Non-Financial assets</i>						
Land and fixed assets	29,305	30,680	31,889	33,785	35,788	37,129
Other non-financial assets	253	236	481	537	648	683
<i>Total</i>	29,558	30,916	32,371	34,323	36,436	37,812
TOTAL ASSETS	33,636	34,726	35,813	37,628	39,969	41,578
LIABILITIES						
Deposits held	10	1	1	1	1	1
Advances received	536	523	523	510	496	482
Borrowings	9,026	9,355	8,753	9,211	10,463	11,241
Unfunded superannuation liabilities	151	100	147	144	139	136
Other employee entitlements and provisions	524	198	502	464	428	397
Non-equity liabilities	2,546	2,062	2,472	2,501	2,583	2,581
TOTAL LIABILITIES	12,792	12,239	12,398	12,832	14,112	14,838
Shares and other contributed capital	1,040	2,505	2,592	2,745	2,822	2,894
NET WORTH	19,803	19,982	20,823	22,051	23,036	23,845
<i>Memorandum Item: Net Debt</i>	6,978	7,429	7,219	7,912	9,040	9,685
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	19,803	19,982	20,823	22,051	23,036	23,845
<i>plus</i> shares and other contributed capital	1,040	2,505	2,592	2,745	2,822	2,894
<i>less</i> provision for doubtful debts	1	6	4	4	4	4
<i>less</i> all other adjustments	-	-	-	-	-	-
AAS NET ASSETS	20,843	22,481	23,412	24,792	25,854	26,735

(a) Consistent with final audited data contained in the 2005-06 Annual Report on State Finances, released 28 September 2006.

Note: Columns may not add due to rounding.

Table 1.6

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

	2005-06	2006-07	2006-07	2007-08	2008-09	2009-10
	Actual ^(a)	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Receipts from sales of goods and services	6,386	5,769	6,420	6,700	7,016	7,278
Grants and subsidies received	1,151	1,276	1,283	1,374	1,378	1,362
Other receipts	674	505	653	625	634	636
<i>Total</i>	<i>8,211</i>	<i>7,551</i>	<i>8,355</i>	<i>8,699</i>	<i>9,028</i>	<i>9,277</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-5,108	-4,587	-5,203	-5,329	-5,520	-5,686
Grants and subsidies paid	-470	-499	-519	-537	-552	-518
Interest paid	-473	-598	-584	-626	-669	-721
Other payments	-867	-765	-960	-984	-1,010	-1,029
<i>Total</i>	<i>-6,918</i>	<i>-6,449</i>	<i>-7,265</i>	<i>-7,475</i>	<i>-7,751</i>	<i>-7,955</i>
Net Cash Flow from Operating Activities	1,293	1,102	1,090	1,224	1,277	1,322
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-2,448	-2,439	-2,464	-1,997	-2,017	-1,965
Sales of non-financial assets	572	594	723	764	803	820
<i>Total</i>	<i>-1,876</i>	<i>-1,844</i>	<i>-1,742</i>	<i>-1,233</i>	<i>-1,214</i>	<i>-1,145</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	-23	-17	-42	-77	-46	-80
<i>Total</i>	<i>-23</i>	<i>-17</i>	<i>-42</i>	<i>-77</i>	<i>-46</i>	<i>-80</i>
Net Cash Flow from Investing Activities	-1,899	-1,862	-1,784	-1,310	-1,260	-1,224
FINANCING ACTIVITIES						
Advances received (net)	-13	-13	-13	-13	-14	-14
Borrowings (net)	1,080	-114	20	752	839	787
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-855	-768	-783	-769	-812	-829
Other financing	578	1,583	1,448	160	93	60
<i>Total</i>	<i>791</i>	<i>689</i>	<i>672</i>	<i>130</i>	<i>108</i>	<i>5</i>
<i>Opening cash balance</i>	<i>609</i>	<i>426</i>	<i>794</i>	<i>771</i>	<i>816</i>	<i>940</i>
NET INCREASE IN CASH HELD	185	-71	-23	45	124	102
<i>Closing cash balance</i>	<i>794</i>	<i>355</i>	<i>771</i>	<i>816</i>	<i>940</i>	<i>1,042</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	<i>-1,437</i>	<i>-1,510</i>	<i>-1,435</i>	<i>-778</i>	<i>-749</i>	<i>-651</i>
<i>less finance leases and similar arrangements</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Surplus	-1,437	-1,510	-1,435	-778	-749	-651

(a) Consistent with final audited data contained in the 2005-06 Annual Report on State Finances, released 28 September 2006.

Note: Columns may not add due to rounding.

Table 1.7

TOTAL NON-FINANCIAL PUBLIC SECTOR

Operating Statement

	2005-06	2006-07	2006-07	2007-08	2008-09	2009-10
	Actual ^(a)	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
REVENUE						
Taxation	5,003	4,898	5,330	5,300	5,487	5,819
Current grants and subsidies	6,890	7,163	7,125	7,168	7,130	7,209
Capital grants	375	402	430	491	559	400
Sales of goods and services	7,179	6,587	7,045	7,426	7,784	8,061
Interest income	283	245	301	275	251	230
Royalty income	1,184	1,504	1,542	1,556	1,480	1,378
Other	745	545	579	552	547	518
<i>Total</i>	<i>21,660</i>	<i>21,346</i>	<i>22,352</i>	<i>22,767</i>	<i>23,239</i>	<i>23,614</i>
EXPENSES						
Gross operating expenses						
Salaries	6,245	6,544	6,703	6,992	7,294	7,610
Depreciation and amortisation	1,273	1,368	1,374	1,472	1,534	1,596
Superannuation	606	643	653	678	705	733
Services and Contracts	1,863	2,157	2,038	2,109	2,196	2,267
Other gross operating expenses	5,748	5,049	5,810	6,026	6,141	6,310
Nominal superannuation interest	242	306	275	276	276	274
Other interest	609	713	677	683	774	844
Other property expenses	-	-	-	-	-	-
Current transfers	2,419	2,707	2,701	2,719	2,689	2,743
Capital transfers	330	459	400	309	330	302
<i>Total</i>	<i>19,334</i>	<i>19,945</i>	<i>20,630</i>	<i>21,264</i>	<i>21,939</i>	<i>22,680</i>
NET OPERATING BALANCE	2,326	1,400	1,723	1,503	1,300	935
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non financial assets	3,557	4,054	4,286	3,978	3,840	3,350
Sales of non-financial assets	-723	-822	-911	-918	-989	-1,006
<i>less</i> depreciation	1,273	1,368	1,374	1,472	1,534	1,596
<i>plus</i> change in inventories	374	13	102	5	-2	-2
<i>plus</i> other movements in non-financial assets	42	-2	-	-	-	-
<i>Total</i>	<i>1,978</i>	<i>1,876</i>	<i>2,104</i>	<i>1,593</i>	<i>1,315</i>	<i>746</i>
NET LENDING/BORROWING	348	-475	-381	-90	-15	188
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	2,326	1,400	1,723	1,503	1,300	935
<i>less</i> provisions for doubtful debts	19	7	5	4	5	5
<i>plus</i> net gains on assets (including derivatives)	14	241	315	354	307	330
<i>plus</i> capitalised interest	9	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	-322	-	36	35	33	32
<i>plus</i> all other adjustments	329	3	-34	-87	-129	-62
AAS OPERATING RESULT	2,980	1,638	1,962	1,731	1,440	1,167

(a) Consistent with final audited data contained in the 2005-06 Annual Report on State Finances, released 28 September 2006.

Note: Columns may not add due to rounding.

Table 1.8

TOTAL NON-FINANCIAL PUBLIC SECTOR
Balance Sheet at 30 June

	2006 Actual ^(a) \$m	2007 Budget Estimate \$m	2007 Mid-Year Revision \$m	2008 Forward Estimate \$m	2009 Forward Estimate \$m	2010 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	679	429	787	846	859	908
Advances paid	425	231	203	203	203	203
Investments, loans and placements	5,439	4,160	4,091	3,860	4,067	4,388
Other non-equity assets	2,234	1,898	2,082	2,063	2,030	2,034
Equity	1,065	831	1,022	1,049	1,071	1,082
Total	9,843	7,549	8,186	8,021	8,230	8,615
<i>Non-Financial assets</i>						
Land and fixed assets	69,492	69,344	73,991	78,103	81,958	84,134
Other non-financial assets	465	557	759	840	940	970
Total	69,956	69,901	74,750	78,943	82,897	85,105
TOTAL ASSETS	79,799	77,449	82,936	86,964	91,127	93,720
LIABILITIES						
Deposits held	196	165	192	195	199	199
Advances received	536	523	523	510	496	482
Borrowings	10,052	10,544	9,685	10,254	11,456	12,186
Unfunded superannuation liabilities	5,610	5,739	5,603	5,573	5,513	5,438
Other employee entitlements and provisions	2,075	1,745	2,124	2,178	2,217	2,258
Non-equity liabilities	3,390	2,841	3,274	3,199	3,148	3,071
TOTAL LIABILITIES	21,858	21,558	21,401	21,910	23,029	23,635
NET WORTH	57,941	55,892	61,535	65,054	68,098	70,085
<i>Memorandum Item: Net Debt</i>	4,240	6,412	5,318	6,050	7,022	7,369

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

NET WORTH	57,941	55,892	61,535	65,054	68,098	70,085
<i>less equity (net worth) of the PFC sector</i>	1,026	826	985	1,030	1,056	1,076
<i>less provision for doubtful debts</i>	19	7	5	4	5	5
<i>less all other adjustments</i>	-235	-	-296	-216	-95	-41
AAS NET ASSETS	57,130	55,059	60,841	64,236	67,133	69,045

(a) Consistent with final audited data contained in the 2005-06 *Annual Report on State Finances*, released 28 September 2006.

Note: Columns may not add due to rounding.

Table 1.9

TOTAL NON-FINANCIAL PUBLIC SECTOR
Cash Flow Statement

	2005-06	2006-07	2006-07	2007-08	2008-09	2009-10
	Actual ^(a)	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	4,927	4,915	5,362	5,331	5,518	5,852
Receipts from sales of goods and services	7,407	6,643	7,368	7,689	8,011	8,310
Grants and subsidies received	7,583	7,556	7,517	7,592	7,562	7,569
Other receipts	2,813	3,031	3,135	3,271	3,170	3,004
<i>Total</i>	<i>22,730</i>	<i>22,146</i>	<i>23,382</i>	<i>23,883</i>	<i>24,260</i>	<i>24,735</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-14,469	-14,696	-15,655	-16,177	-16,760	-17,390
Grants and subsidies paid	-2,527	-2,883	-2,835	-2,849	-2,831	-2,876
Interest paid	-560	-689	-655	-693	-731	-780
Other payments	-1,477	-1,288	-1,466	-1,519	-1,543	-1,585
<i>Total</i>	<i>-19,032</i>	<i>-19,556</i>	<i>-20,611</i>	<i>-21,238</i>	<i>-21,866</i>	<i>-22,631</i>
Net Cash Flow from Operating Activities	3,698	2,589	2,771	2,645	2,395	2,104
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-3,557	-4,054	-4,286	-3,978	-3,840	-3,350
Sales of non-financial assets	723	822	911	918	989	1,006
<i>Total</i>	<i>-2,834</i>	<i>-3,233</i>	<i>-3,375</i>	<i>-3,060</i>	<i>-2,851</i>	<i>-2,344</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	51	-43	-42	-79	-48	-80
<i>Total</i>	<i>50</i>	<i>-43</i>	<i>-42</i>	<i>-79</i>	<i>-48</i>	<i>-79</i>
Net Cash Flow from Investing Activities	-2,784	-3,276	-3,417	-3,138	-2,899	-2,424
FINANCING ACTIVITIES						
Advances received (net)	-14	-13	-13	-13	-14	-14
Borrowings (net)	794	-87	-69	671	815	757
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	78	107	-43	-17	-34	-34
<i>Total</i>	<i>858</i>	<i>8</i>	<i>-126</i>	<i>641</i>	<i>768</i>	<i>710</i>
<i>Opening cash balance</i>	<i>3,483</i>	<i>3,895</i>	<i>5,255</i>	<i>4,484</i>	<i>4,631</i>	<i>4,896</i>
NET INCREASE IN CASH HELD	1,772	-679	-771	147	264	390
<i>Closing cash balance</i>	<i>5,255</i>	<i>3,215</i>	<i>4,484</i>	<i>4,631</i>	<i>4,896</i>	<i>5,285</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	<i>864</i>	<i>-644</i>	<i>-603</i>	<i>-415</i>	<i>-456</i>	<i>-240</i>
<i>less finance leases and similar arrangements</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Surplus	864	-644	-603	-415	-456	-240

(a) Consistent with final audited data contained in the 2005-06 Annual Report on State Finances, released 28 September 2006.

Note: Columns may not add due to rounding.

Table 1.10

PUBLIC FINANCIAL CORPORATIONS
Operating Statement

	2005-06 Actual ^(a) \$m	2006-07 Budget Estimate \$m	2006-07 Mid-Year Revision \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m
REVENUE						
Current grants and subsidies	-	1	-	-	-	-
Capital grants	-	-	-	-	-	-
Sales of goods and services	840	626	678	659	692	734
Interest income	871	933	969	964	976	1,039
Other	-	-	4	-	-	-
<i>Total</i>	<i>1,711</i>	<i>1,560</i>	<i>1,652</i>	<i>1,624</i>	<i>1,668</i>	<i>1,773</i>
EXPENSES						
Gross operating expenses						
Salaries	20	22	28	29	31	32
Depreciation and amortisation	7	8	9	9	9	8
Superannuation	1	2	3	3	3	3
Services and Contracts	9	12	7	6	4	2
Other gross operating expenses	564	619	581	622	681	732
Nominal superannuation interest	-	-	-	-	-	-
Other interest	810	850	878	880	890	951
Other property expenses	12	6	38	22	13	11
Current transfers	2	2	2	2	2	2
Capital transfers	-	-	1	1	1	1
<i>Total</i>	<i>1,426</i>	<i>1,521</i>	<i>1,545</i>	<i>1,572</i>	<i>1,633</i>	<i>1,742</i>
NET OPERATING BALANCE	284	39	107	52	35	31
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	5	4	5	4	4	3
Sales of non-financial assets	-	-	-	-	-	-
<i>less</i> depreciation	7	8	9	9	9	8
<i>plus</i> change in inventories	-	-	-	-	-	-
<i>plus</i> other movements in non-financial assets	-	-	-	-	-	-
<i>Total</i>	<i>-3</i>	<i>-4</i>	<i>-4</i>	<i>-5</i>	<i>-5</i>	<i>-6</i>
NET LENDING/BORROWING	287	43	110	57	40	36
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	284	39	107	52	35	31
<i>less</i> provisions for doubtful debts	-	-	-	-	-	-
<i>plus</i> net gains on assets (including derivatives)	-1	-	-	-	-	-
<i>plus</i> capitalised interest	-	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	-	-	-	-	-	-
<i>plus</i> all other adjustments	-	-	-	-	-	-
AAS OPERATING RESULT	283	39	107	52	35	30

(a) Consistent with final audited data contained in the 2005-06 *Annual Report on State Finances*, released 28 September 2006.

Note: Columns may not add due to rounding.

Table 1.11

PUBLIC FINANCIAL CORPORATIONS
Balance Sheet at 30 June

	2006	2007	2007	2008	2009	2010
	Actual ^(a)	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	24	22	37	48	59	73
Advances paid	1,604	1,956	1,196	925	930	935
Investments, loans and placements	13,391	15,354	13,339	13,959	14,589	15,383
Other non-equity assets	481	500	459	457	455	452
Equity	1,085	1,099	1,184	1,265	1,345	1,430
<i>Total</i>	16,584	18,931	16,214	16,655	17,378	18,272
<i>Non-Financial assets</i>						
Land and fixed assets	421	397	452	469	487	504
Other non-financial assets	14	8	-152	-162	-167	-174
<i>Total</i>	435	405	300	308	319	331
TOTAL ASSETS	17,019	19,336	16,514	16,962	17,697	18,603
LIABILITIES						
Deposits held	-	-	-	-	-	-
Advances received	3	3	3	3	3	3
Borrowings	13,954	16,330	13,402	13,693	14,272	15,011
Unfunded superannuation liabilities	12	6	12	13	13	13
Other employee entitlements and provisions	5	5	5	5	5	5
Non-equity liabilities	2,018	2,166	2,106	2,218	2,348	2,495
TOTAL LIABILITIES	15,993	18,510	15,529	15,932	16,641	17,527
Shares and other contributed capital	-	-	-	-	-	-
NET WORTH	1,026	826	985	1,030	1,056	1,076
<i>Memorandum Item: Net Debt</i>	-1,061	-999	-1,166	-1,236	-1,303	-1,377
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	1,026	826	985	1,030	1,056	1,076
<i>plus</i> shares and other contributed capital	-	-	-	-	-	-
<i>less</i> all other adjustments	-	-	-	-	-	-
AAS NET ASSETS	1,026	826	985	1,030	1,056	1,076

(a) Consistent with final audited data contained in the 2005-06 *Annual Report on State Finances*, released 28 September 2006.

Note: Columns may not add due to rounding.

Table 1.12

PUBLIC FINANCIAL CORPORATIONS
Cash Flow Statement

	2005-06	2006-07	2006-07	2007-08	2008-09	2009-10
	Actual ^(a)	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Receipts from sales of goods and services	643	612	628	620	649	688
Grants and subsidies received	-	1	-	-	-	-
Other receipts	998	982	1,023	1,022	1,036	1,102
<i>Total</i>	<i>1,642</i>	<i>1,594</i>	<i>1,651</i>	<i>1,642</i>	<i>1,685</i>	<i>1,790</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-566	-563	-522	-541	-594	-633
Grants and subsidies paid	-1	-	-	-	-	-
Interest paid	-735	-850	-880	-883	-890	-950
Other payments	-123	-93	-83	-88	-91	-97
<i>Total</i>	<i>-1,425</i>	<i>-1,506</i>	<i>-1,485</i>	<i>-1,513</i>	<i>-1,575</i>	<i>-1,681</i>
Net Cash Flow from Operating Activities	217	88	166	129	109	109
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-5	-4	-5	-4	-4	-3
Sales of non-financial assets	-	-	-	-	-	-
<i>Total</i>	<i>-4</i>	<i>-4</i>	<i>-5</i>	<i>-4</i>	<i>-4</i>	<i>-3</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	112	-234	278	192	-80	-87
<i>Total</i>	<i>112</i>	<i>-234</i>	<i>278</i>	<i>192</i>	<i>-80</i>	<i>-87</i>
Net Cash Flow from Investing Activities	108	-239	273	188	-83	-89
FINANCING ACTIVITIES						
Advances received (net)	-	-	-	-	-	-
Borrowings (net)	-1,350	137	-407	-278	9	11
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-12	-6	-8	-35	-21	-13
Other financing	-	-	-	-	-	-
<i>Total</i>	<i>-1,362</i>	<i>131</i>	<i>-415</i>	<i>-313</i>	<i>-12</i>	<i>-2</i>
<i>Opening cash balance</i>	<i>1,967</i>	<i>2,964</i>	<i>930</i>	<i>953</i>	<i>957</i>	<i>971</i>
NET INCREASE IN CASH HELD	-1,037	-19	23	4	14	17
<i>Closing cash balance</i>	<i>930</i>	<i>2,945</i>	<i>953</i>	<i>957</i>	<i>971</i>	<i>988</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	<i>200</i>	<i>78</i>	<i>153</i>	<i>90</i>	<i>84</i>	<i>93</i>
Surplus	200	78	153	90	84	93

(a) Consistent with final audited data contained in the 2005-06 Annual Report on State Finances, released 28 September 2006.

Note: Columns may not add due to rounding.

TOTAL PUBLIC SECTOR
Operating Statement

Table 1.13

	2005-06 Actual ^(a) \$m	2006-07 Budget Estimate \$m	2006-07 Mid-Year Revision \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m
REVENUE						
Taxation	5,001	4,897	5,329	5,298	5,485	5,818
Current grants and subsidies	6,890	7,163	7,125	7,168	7,130	7,209
Capital grants	375	402	430	491	559	400
Sales of goods and services	7,864	7,047	7,565	7,930	8,310	8,620
Interest income	527	522	622	621	563	554
Royalty income	1,184	1,504	1,542	1,556	1,480	1,378
Other	732	539	541	530	534	507
<i>Total</i>	<i>22,575</i>	<i>22,075</i>	<i>23,155</i>	<i>23,593</i>	<i>24,062</i>	<i>24,485</i>
EXPENSES						
Gross operating expenses						
Salaries	6,265	6,566	6,730	7,021	7,324	7,642
Depreciation and amortisation	1,280	1,376	1,382	1,481	1,542	1,605
Superannuation	608	645	656	681	708	736
Services and contracts	1,872	2,169	2,045	2,115	2,200	2,269
Other gross operating expenses	6,157	5,502	6,233	6,492	6,656	6,866
Nominal superannuation interest	242	306	275	276	276	274
Other interest	792	906	907	944	1,000	1,081
Other property expenses	-	-	-	-	-	-
Current transfers	2,419	2,707	2,697	2,719	2,689	2,743
Capital transfers	330	459	400	309	331	303
<i>Total</i>	<i>19,965</i>	<i>20,636</i>	<i>21,326</i>	<i>22,038</i>	<i>22,726</i>	<i>23,519</i>
NET OPERATING BALANCE	2,610	1,439	1,829	1,555	1,335	965
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	3,562	4,059	4,291	3,982	3,843	3,353
Sales of non-financial assets	-724	-822	-911	-918	-989	-1,006
<i>less</i> depreciation	1,280	1,376	1,382	1,481	1,542	1,605
<i>plus</i> change in inventories	374	13	102	5	-2	-2
<i>plus</i> other movements in non-financial assets	42	-2	-	-	-	-
<i>Total</i>	<i>1,975</i>	<i>1,872</i>	<i>2,100</i>	<i>1,589</i>	<i>1,310</i>	<i>740</i>
NET LENDING/BORROWING	636	-433	-271	-33	25	225
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	2,610	1,439	1,829	1,555	1,335	965
<i>less</i> provisions for doubtful debts	19	7	5	5	5	5
<i>plus</i> net gains on assets (including derivatives)	14	241	315	354	307	330
<i>plus</i> capitalised interest	9	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	-322	-	36	35	33	32
<i>plus</i> all other adjustments	329	3	-34	-87	-129	-62
AAS OPERATING RESULT	3,264	1,677	2,069	1,782	1,475	1,197

(a) Consistent with final audited data contained in the 2005-06 *Annual Report on State Finances*, released 28 September 2006.

Note: Columns may not add due to rounding.

Table 1.14

TOTAL PUBLIC SECTOR
Balance Sheet at 30 June

	2006 Actual ^(a) \$m	2007 Budget Estimate \$m	2007 Mid-Year Revision \$m	2008 Forward Estimate \$m	2009 Forward Estimate \$m	2010 Forward Estimate \$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	702	451	823	893	917	980
Advances paid	2,025	2,183	1,396	1,125	1,130	1,134
Investments, loans and placements	7,606	7,725	7,046	7,360	7,469	7,845
Other non-equity assets	2,495	2,167	2,319	2,320	2,291	2,290
Equity	1,124	1,104	1,228	1,299	1,383	1,467
<i>Total</i>	<i>13,952</i>	<i>13,631</i>	<i>12,813</i>	<i>12,998</i>	<i>13,189</i>	<i>13,717</i>
<i>Non-Financial assets</i>						
Land and fixed assets	69,913	69,740	74,443	78,572	82,444	84,639
Other non-financial assets	478	565	607	678	772	797
<i>Total</i>	<i>70,392</i>	<i>70,305</i>	<i>75,050</i>	<i>79,250</i>	<i>83,216</i>	<i>85,435</i>
TOTAL ASSETS	84,344	83,936	87,863	92,248	96,406	99,152
LIABILITIES						
Deposits held	195	164	191	195	199	199
Advances received	536	523	523	510	496	482
Borrowings	12,782	15,085	12,703	13,488	14,540	15,271
Unfunded superannuation liabilities	5,622	5,745	5,615	5,586	5,526	5,452
Other employee entitlements and provisions	2,080	1,751	2,129	2,184	2,222	2,263
Non-equity liabilities	5,189	4,776	5,158	5,217	5,301	5,370
TOTAL LIABILITIES	26,403	28,044	26,320	27,178	28,284	29,036
NET WORTH	57,941	55,892	61,543	65,070	68,122	70,116
<i>Memorandum Item: Net Debt</i>	<i>3,179</i>	<i>5,413</i>	<i>4,152</i>	<i>4,814</i>	<i>5,719</i>	<i>5,992</i>
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	57,941	55,892	61,543	65,070	68,122	70,116
<i>less</i> provision for doubtful debts	<i>19</i>	<i>7</i>	<i>5</i>	<i>5</i>	<i>5</i>	<i>5</i>
<i>less</i> all other adjustments	<i>-235</i>	<i>-</i>	<i>-288</i>	<i>-201</i>	<i>-71</i>	<i>-10</i>
AAS NET ASSETS	58,156	55,885	61,826	65,266	68,189	70,121

(a) Consistent with final audited data contained in the 2005-06 *Annual Report on State Finances*, released 28 September 2006.

Note: Columns may not add due to rounding.

Table 1.15

TOTAL PUBLIC SECTOR
Cash Flow Statement

	2005-06	2006-07	2006-07	2007-08	2008-09	2009-10
	Actual ^(a)	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	4,890	4,877	5,327	5,296	5,481	5,813
Receipts from sales of goods and services	7,916	7,088	7,860	8,152	8,492	8,820
Grants and subsidies received	7,583	7,556	7,517	7,592	7,562	7,569
Other receipts	3,191	3,314	3,498	3,597	3,488	3,346
<i>Total</i>	23,580	22,835	24,203	24,637	25,022	25,548
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-14,900	-15,092	-16,041	-16,562	-17,186	-17,846
Grants and subsidies paid	-2,527	-2,883	-2,835	-2,849	-2,831	-2,876
Interest paid	-698	-853	-888	-922	-931	-990
Other payments	-1,552	-1,336	-1,509	-1,565	-1,592	-1,636
<i>Total</i>	-19,677	-20,164	-21,273	-21,898	-22,540	-23,348
Net Cash Flow from Operating Activities	3,903	2,671	2,929	2,739	2,483	2,200
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-3,562	-4,059	-4,291	-3,982	-3,843	-3,353
Sales of non-financial assets	724	822	911	918	989	1,006
<i>Total</i>	-2,838	-3,237	-3,380	-3,064	-2,855	-2,347
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	163	-278	236	113	-127	-166
<i>Total</i>	163	-278	236	113	-127	-166
Net Cash Flow from Investing Activities	-2,676	-3,515	-3,144	-2,951	-2,982	-2,513
FINANCING ACTIVITIES						
Advances received (net)	-14	-13	-13	-13	-14	-14
Borrowings (net)	-556	50	-476	393	824	768
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	77	107	-43	-17	-34	-34
<i>Total</i>	-492	145	-532	363	777	721
<i>Opening cash balance</i>	5,450	6,859	6,185	5,438	5,588	5,866
NET INCREASE IN CASH HELD	735	-699	-747	151	278	407
<i>Closing cash balance</i>	6,185	6,160	5,438	5,588	5,866	6,273
<i>Net cash from operating activities, investments in non-financial assets and distributions paid less finance leases and similar arrangements</i>	1,064	-566	-451	-325	-372	-147
<i>Surplus</i>	1,064	-566	-451	-325	-372	-147

(a) Consistent with final audited data contained in the 2005-06 *Annual Report on State Finances*, released 28 September 2006.

Note: Columns may not add due to rounding.

Table 1.16

SPENDING BY GOVERNMENT PURPOSE CLASSIFICATION
General Government

	2005-06 Actual ^(a) \$m	2006-07 Budget Estimate \$m	2006-07 Mid-Year Revision \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m
EXPENSES						
General Public Services	319	645	634	711	738	834
Public Order and Safety	1,598	1,666	1,723	1,764	1,845	1,878
Education	3,777	3,898	3,973	4,190	4,347	4,486
Health	3,527	3,716	3,733	3,902	4,087	4,303
Social Security	634	668	685	714	750	786
Housing and Community Amenities	1,067	1,166	1,208	1,185	1,180	1,149
Recreation and Culture	397	459	435	432	445	425
Fuel and Energy	107	119	114	123	125	127
Agriculture, Forestry, Fishing and Hunting	388	382	420	390	280	265
Mining and mineral resources (other than fuels), manufacturing and construction	145	186	172	183	153	139
Transport and Communications	1,298	1,559	1,582	1,576	1,634	1,686
Other Economic Affairs	318	323	338	324	318	316
Other Purposes	366	447	401	390	401	396
TOTAL EXPENSES	13,942	15,234	15,416	15,883	16,302	16,792
PURCHASES OF NON-FINANCIAL ASSETS						
General Public Services	207	156	178	160	158	145
Public Order and Safety	153	221	288	157	85	64
Education	182	295	354	239	155	171
Health	154	278	292	436	513	450
Social Security	15	20	23	22	8	9
Housing and Community Amenities	66	96	112	212	212	104
Recreation and Culture	49	59	73	105	43	36
Fuel and Energy	5	3	6	4	1	6
Agriculture, Forestry, Fishing and Hunting	16	21	30	55	67	11
Mining and mineral resources (other than fuels), manufacturing and construction	3	13	11	15	2	2
Transport and Communications	299	427	443	585	538	383
Other Economic Affairs	12	30	36	28	53	13
Other Purposes	-	-	-	-	-	-
TOTAL PURCHASES OF NON-FINANCIAL ASSETS	1,161	1,620	1,848	2,019	1,835	1,392

(a) Consistent with final audited data contained in the 2005-06 *Annual Report on State Finances*, released 28 September 2006.

Note: Columns may not add due to rounding.

Table 1.17

LOAN COUNCIL ALLOCATIONS
Western Australia

	2005-06 Actual ^(a) \$m	2006-07 Estimated \$m	2007-08 Projected \$m
General Government deficit	-2,301	-832	-363
Public Non-financial Corporations' net financing requirement	1,437	1,435	778
Net Capital Advances	-	-	-
Total Non-financial Public Sector Deficit	-864	603	415
<i>Memorandum Items</i> ^(b)	-222	-645	-564
Loan Council Allocation	-1,086	-42	-149
Tolerance Limit ^(c)	373	400	455

(a) Consistent with the LCA final outcome disclosure in the 2005-06 *Annual Report on State Finances*, released 28 September 2006.

(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 position⁵¹.

An LCA surplus of \$42 million is expected for 2006-07, and this is projected to increase to a forecast \$149 million surplus in 2007-08. The \$42 million 2006-07 LCA surplus is a turnaround of \$597 million relative to the 2006-07 Budget projection. This largely reflects lower home lending expectations for Keystart, which impacts the LCA memorandum items.

The continued strength of the State's finances, discussed in Chapter 1: *Financial Projections*, and completion of some significant infrastructure projects (notably the New MetroRail project in early 2007-08, and the Perth Sea Water Desalination plant earlier this year) is reflected in the 2007-08 LCA surplus nomination.

⁵¹ 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

	2005-06 Actual ^(a) \$m	2006-07 Budget Estimate \$m	2006-07 Mid-Year Revision \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m
TAXATION						
Taxes on employers' payroll and labour force						
<i>Payroll tax</i>	1,355	1,428	1,635	1,745	1,863	1,985
Property taxes						
<i>Land tax</i>	313	342	391	420	450	482
Conveyances and transfers	1,906	1,741	1,838	1,658	1,719	1,840
Mortgages	173	101	108	94	8	-
Other stamp duties	33	24	22	1	1	1
<i>Total stamp duties on financial and capital transactions</i>	2,113	1,866	1,967	1,753	1,728	1,841
Debits Tax	8	-	-	-	-	-
<i>Total financial institutions taxes</i>	8	-	-	-	-	-
Metropolitan Region Improvement Tax	53	58	71	76	82	87
Emergency Services Levy	130	138	139	144	145	152
Loan guarantee fees	13	14	14	14	14	15
<i>Total other property taxes</i>	197	209	224	234	241	254
Taxes on provision of goods and services						
Lotteries Commission	102	103	106	111	114	117
less rebates	-22	-23	-23	-24	-26	-26
Video lottery terminals	-	1	1	1	1	1
Casino Tax	59	58	65	70	73	75
less rebates	-30	-33	-34	-36	-38	-39
TAB betting tax	64	64	66	51	53	55
less rebates	-27	-28	-28	-24	-24	-24
<i>Total taxes on gambling</i>	146	141	152	148	153	159
Stamp duty on insurance policies	296	315	317	326	343	361
Other	30	24	23	23	23	23
<i>Total taxes on insurance</i>	326	339	340	349	366	384
Taxes on use of goods and performance of activities						
Stamp duty on vehicle licences	342	369	369	378	398	419
Permits – oversize vehicles and loads	3	3	3	3	3	3
Motor vehicle recording fee	30	31	32	33	35	37
Motor vehicle registrations	361	354	394	409	427	443
<i>Total motor vehicle taxes</i>	736	757	798	824	864	901
Total Taxation	5,195	5,082	5,506	5,474	5,666	6,006

(a) Consistent with final audited data contained in the 2005-06 *Annual Report on State Finances*, released 28 September 2006.

Note: Columns may not add due to rounding.

Table 2.1 (cont)

OPERATING REVENUE
General Government

	2005-06 Actual ^(a) \$m	2006-07 Budget Estimate \$m	2006-07 Mid-Year Revision \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m
CURRENT GRANTS AND SUBSIDIES						
<i>General Purpose Grants</i>						
GST revenue grants	3,816	3,929	3,922	3,936	3,896	3,923
Competition reform	67	-	-	-	-	-
<i>Specific Purpose Grants to the State</i>						
Australian Health Care Agreement	817	870	866	915	968	1,024
Other health	282	265	270	282	274	287
Schools assistance – government schools	281	267	277	271	272	284
Vocational training	96	99	97	100	104	106
Roads	27	40	48	11	33	30
Other	180	220	223	198	137	130
<i>Specific Purpose Grants through the State</i>						
Schools assistance – non-government schools	526	526	531	570	612	658
Local government grants	111	116	115	119	124	128
Local government roads	76	79	79	82	85	88
Other	-	33	28	34	35	36
<i>Other Grants</i>						
North West Shelf royalties	610	721	667	650	591	518
Total Current Grants and Subsidies	6,890	7,163	7,125	7,168	7,130	7,209
CAPITAL GRANTS						
<i>Specific Purpose Grants to the State</i>						
Roads	83	92	142	205	267	161
Schools assistance – government schools	30	29	29	29	29	29
Vocational training	16	18	18	14	20	17
Other	229	244	223	222	224	172
<i>Specific Purpose Grants through the State</i>						
Schools assistance – non-government schools	18	20	20	20	20	21
Total Capital Grants	375	402	430	491	559	400

(a) Consistent with final audited data contained in the 2005-06 *Annual Report on State Finances*, released 28 September 2006.

Note: Columns may not add due to rounding.

Table 2.1 (cont)

OPERATING REVENUE						
General Government						
	2005-06	2006-07	2006-07	2007-08	2008-09	2009-10
	Actual ^(a)	Budget	Mid-Year	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
SALES OF GOODS AND SERVICES						
Department for Planning and Infrastructure	107	131	108	111	115	119
Department of Health	243	227	227	230	235	240
Department of Education and Training	127	127	141	139	140	142
TAFE Colleges	78	83	83	86	88	94
Department of Land Information	82	73	79	78	79	82
Departments of the Attorney General/Corrective Services	67	50	62	63	64	66
Department of Environment and Conservation	54	38	38	38	39	39
Department of Consumer and Employment Protection	30	31	32	34	39	38
Department of Fisheries	24	24	24	24	25	25
Department of Culture and the Arts	21	17	17	17	18	18
Police Service	20	18	24	20	20	20
All Others	262	229	297	320	327	334
Total Sales of Goods and Services	1,115	1,046	1,131	1,160	1,188	1,218
INTEREST INCOME	170	151	205	200	172	146
REVENUE FROM PUBLIC CORPORATIONS						
Dividends	534	456	468	461	498	509
Tax Equivalent Regime	304	294	346	333	345	349
Total Revenue from Public Corporations	838	750	813	793	843	858
ROYALTY INCOME						
Revenue from Territorial less petroleum and other refunds	1,205	1,527	1,560	1,600	1,495	1,390
	-20	-23	-18	-44	-14	-12
Total Royalty Income	1,184	1,504	1,542	1,556	1,480	1,378
OTHER						
Lease rentals	63	43	43	43	43	43
Fines	114	106	95	122	120	120
Revenue not elsewhere counted	263	262	265	316	296	327
Total Other	440	410	403	480	459	490
GRAND TOTAL	16,207	16,510	17,155	17,322	17,497	17,704

(a) Consistent with final audited data contained in the 2005-06 *Annual Report on State Finances*, released 28 September 2006.

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 spending⁵² due to policy decisions since the 2006-07 Budget cut-off date (18 April 2006).

**SUMMARY OF SPENDING DECISIONS
SINCE THE 2006-07 BUDGET**

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
GENERAL GOVERNMENT SECTOR EXPENSES				
Agriculture and Food	9.6	-	8.5	-
Attorney General	0.2	-	-	-
Community Development	6.9	12.8	13.4	13.8
Consumer and Employment Protection	0.1	0.5	0.5	0.5
Corrective Services	4.8	5.6	6.5	7.4
Culture and the Arts	0.8	0.5	-	-
Education and Training	6.8	14.5	10.8	6.5
Environment and Conservation	1.9	3.4	3.5	1.3
Equal Opportunity Commission	0.2	0.2	0.3	0.3
Fisheries	2.5	5.6	-	-
Health	2.2	-	-	-
Heritage Council of Western Australia	2.1	-	-	-
Housing and Works	3.1	-	-	-
Indigenous Affairs	1.2	0.3	0.1	-
Industry and Resources	4.9	9.1	4.0	0.6
Local Government and Regional Development	0.4	-(a)	-	-
Peel Development Commission	0.8	1.4	0.9	-
Pilbara Development Commission	0.5	-	-	-
Planning and Infrastructure	14.2	11.1	10.8	12.1
Premier and Cabinet	7.4	3.1	2.2	2.3
Racing, Gaming and Liquor	1.7	0.9	0.9	0.9
Rural Business Development Corporation	2.6	0.8	-	-
Small Business Development Corporation	1.2	-	-	-
South West Development Commission	2.5	-	-	-
Sport and Recreation	0.2	0.2	-	-
The Burswood Park Board	1.1	3.4	4.7	4.8
Treasury and Finance ^(b)	1.2	5.0	8.6	15.1
Water and Rivers Commission	-	2.0	-	-
Western Australian Electoral Commission	0.2	0.2	0.1	2.9
Western Australian Tourism Commission	0.3	0.3	0.2	-
TOTAL EXPENSES	81.4	80.9	76.0	68.4

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

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

⁵² Measured in terms of the purchase of non-financial assets.

**SUMMARY OF SPENDING DECISIONS
SINCE THE 2006-07 BUDGET**

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
TOTAL PUBLIC SECTOR PURCHASE OF NON-FINANCIAL ASSETS				
Community Development	1.8	2.4	-	-
Corrective Services	0.5	0.7	-	-
Culture and the Arts	0.8	-	-	-
Environment and Conservation	5.6	0.3	-	-
Great Southern Development Commission	0.2	1.2	7.6	0.6
Horizon Power	2.9	-	-	-
Housing and Works	7.5	41.5	63.5	20.0
Public Transport Authority	31.9	28.4	79.6	20.1
Water Corporation	3.7	-	-	-
Zoological Parks Authority	0.9	1.0	-	-
TOTAL PURCHASE OF NON-FINANCIAL ASSETS	55.8	75.6	150.7	40.7

Note: Columns may not add due to rounding.

Details of individual decisions by agency are provided below.

Agriculture and Food

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Locust outbreak	7.4	-	-	-
European Starling outbreak	2.2	-	-	-
Assistance for regional saleyards	-	-	8.5	-
Total expenses	9.6	-	8.5	-

Expenses

- A total amount of \$7.4 million will be spent on staffing and operational costs associated with the control of a severe outbreak of Australian Plague Locusts in the South West Land Division. This includes the engagement of contractual staff and the purchase of insecticide applications and chemicals supporting the locust eradication program that commenced in September 2006.
- \$2.2 million will be spent to establish effective control programs to prevent the permanent establishment of European Starlings in Western Australia.
- The Government has made an in-principle decision to apply any surplus funding available from the sale of land at the Midland saleyards (currently estimated at \$8.5 million) towards the provision of assistance to regional saleyards.

Attorney General

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Interim ex-gratia payment	0.2	-	-	-
Total expenses	0.2	-	-	-

Expenses

- An amount of \$200,000 in 2006-07 has been provided to Mr Andrew Mallard as an interim ex-gratia payment pending the outcome of the Corruption and Crime Commission investigation into the handling of Mr Mallard's case.

Community Development

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Additional staff	6.9	12.8	13.4	13.8
Total expenses	6.9	12.8	13.4	13.8
Purchase of non-financial assets				
Accommodation for additional staff	1.8	2.4	-	-
Total purchase of non-financial assets	1.8	2.4	-	-

Expenses

- On 11 September 2006, the Government announced a \$51.1 million funding package to employ an additional 133 staff, including 121 caseworkers and support staff, to meet the increasing needs of vulnerable children and families at risk.

Purchase of Non-Financial Assets

- Investment in accommodation to support the above initiative.

Consumer and Employment Protection

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Employment Law Centre	0.1	-	-	-
Incorporated Associations legislation	-	0.5	0.5	0.5
Total expenses	0.1	0.5	0.5	0.5

Expenses

- A grant of \$125,000 will be made to the Employment Law Centre of Western Australia to enable continued operations following the Federal Government's decision to cease funding for this purpose.
- Commencing from 2007-08, \$530,000 per annum will be spent to meet the additional statutory and administrative responsibilities arising from the Associations Incorporations legislation.

Corrective Services

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Management of Acacia Prison	4.8	5.6	6.5	7.4
Total expenses	4.8	5.6	6.5	7.4
Purchase of non-financial assets				
Management of Acacia Prison	0.5	0.7	-	-
Total purchase of non-financial assets	0.5	0.7	-	-

Expenses

- An amount of \$24.2 million will be spent over four years for the ongoing management of Acacia Prison. This reflects a new management contract with Serco Pty Ltd from May 2006.

Purchase of Non-Financial Assets

- A capital investment component of \$1.2 million has also been approved for expanded infrastructure at Acacia Prison to enable the implementation of additional prisoner employment and training programs, which is a condition of the management contract requirements.

Culture and the Arts

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
ScreenWest Production Attraction Fund	0.8	0.5	-	-
Total expenses	0.8	0.5	-	-
Purchase of non-financial assets				
Stage 3 of the Migrant Welcome Walls	0.8	-	-	-
Total purchase of non-financial assets	0.8	-	-	-

Expenses

- An amount of \$1.3 million will be spent over two years to secure partial production of two feature films in Western Australia. These films offer benefits to the State, both in economic and industry development terms, and by displaying Western Australian locations to the world.

Purchase of Non-Financial Assets

- \$800,000 has been approved for Stage 3 of the Welcome Wall at the Maritime Museum in Fremantle, and a new Welcome Wall at Albany. These monuments recognise the significant contribution that migrants arriving through Fremantle and Albany have made to Western Australia.

Education and Training

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Additional places for apprentices and trainees	5.5	10.6	6.3	6.5
Support for Indigenous apprenticeships and traineeships	1.3	3.9	4.5	-
Total expenses	6.8	14.5	10.8	6.5

Expenses

- An amount of \$28.9 million will be spent across the forward estimates to support an increase in apprenticeships and trainees places to 32,600 in 2006-07 and 34,600 from 2007-08 onwards, to help address skills shortages in the State.
- Expenditure of up to \$9.7 million over three years from 2006-07 will be provided for a range of initiatives that support Indigenous apprenticeships and traineeships.

Environment and Conservation

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Implementation of marine policy commitments	1.0	1.4	1.4	0.8
Residential Land Shortages	0.9	1.1	1.1	-
Proposed Gorgon gas development environmental mitigation and offset measures	-	0.8	0.9	0.4
Optical telescope loaned from Lowell Observatory	-	0.1	0.1	0.1
Total expenses	1.9	3.4	3.5	1.3
Purchase of non-financial assets				
Fire management equipment	5.5	-	-	-
Optical telescope loaned from Lowell Observatory	0.1	0.3	-	-
Total purchase of non-financial assets	5.6	0.3	-	-

Expenses

- A total of \$5.4 million will be spent between 2006-07 and 2010-11, addressing implementation of the Government's 2005 Environment Policy marine commitments for the management of existing marine parks, the creation of new marine parks and overall regional marine planning.
- \$3.1 million will be spent to meet the Government's land supply target of 20,000 new lots with final subdivision approval in the Perth metropolitan area and Peel region. This spending will also address subdivision assessment and the clearance and management of acid sulphate soils.
- \$2.1 million will be spent on planning, consultation and associated costs applicable to the expansion of the terrestrial and marine parks and reserves system in the Pilbara and lower west Kimberley, implementation and management of the Montebello/Barrow Islands marine conservation reserves and the development of the Barrow Island Nature Reserve management plan.
- A total of \$0.1 million per annum has been committed from 2006-07 for maintenance and operating costs associated with the permanent loan of an optical telescope to the Perth Observatory from the Lowell Observatory in the United States.

Purchase of Non-Financial Assets

- A total of \$5.5 million will be spent in 2006-07 to acquire equipment for fire management and wildfire suppression.
- Capital spending of \$0.4 million has been approved to construct a suitable building at the Perth Observatory that will house a one metre optical telescope on permanent loan from the Lowell Observatory.

Equal Opportunity Commission

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Establishment of a Housing Rights Project Team	0.2	0.2	0.3	0.3
Total Expenses	0.2	0.2	0.3	0.3

Expenses

- \$1.0 million has been provided for the establishment of a Housing Rights Project Team to monitor the implementation of the recommendations of the *Report into Public Housing for Aboriginal People in Western Australia*. This reallocates part of the additional funding provided in the 2006-07 Budget (and originally quarantined within the Department of Indigenous Affairs' budget) for priority Indigenous initiatives.

Fisheries

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Wetline review	2.3	5.3	-	-
Ship Inspection Unit	0.2	0.2	-	-
Marine parks	-	0.1	-	-
Total expenses	2.5	5.6	-	-

Expenses

- Spending of \$7.6 million has been approved for the implementation of the Wetline Review and associated initiatives, specifically to close commercial finfish fishing in the metropolitan zone.
- An amount of \$375,000 will be spent to establish of a unit for the purpose of preventing marine pest incursions in Western Australia.
- Additional spending of \$107,000 will be incurred in 2007-08 to continue the management of the Montebello Island/Barrow Island Marine Conservation Reserves and the Rowley Shoals Marine Park.

Great Southern Development Commission

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Purchase of non-financial assets				
Albany Entertainment Centre	0.2	1.2	7.6	0.6
Total purchase of Non-financial assets	0.2	1.2	7.6	0.6

Purchase of Non-Financial Assets

- Additional spending of \$9.5 million has been approved to facilitate scope changes to the Albany Entertainment Centre.

Health

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Alzheimers Australia (WA)	2.2	-	-	-
Total expenses	2.2	-	-	-

Expenses

- Financial assistance will be extended to Alzheimer's Australia (WA) for the purpose of developing a Centre of Excellence for Dementia Care in partnership with Curtin University.

Heritage Council of Western Australia

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
St Mary's Cathedral	2.0	-	-	-
Maley's Bridge - Greenough	0.1	-	-	-
Total expenses	2.1	-	-	-

Expenses

- An amount of \$2.0 million has been approved for conservation and construction work on St Mary's Cathedral.
- \$105,000 has been approved for restoration and flood protection work on Maley's Bridge, Greenough.

Horizon Power

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Purchase of non-financial assets				
Coral Bay power system	2.9	-	-	-
Total Purchase of non-financial assets	2.9	-	-	-

Purchase of Non-Financial Assets

- Additional capital investment has been approved, allowing deployment of new electrical systems that will meet the immediate and future requirements of the Coral Bay community. Since the original design and cost estimates were undertaken in 2004, demand has increased leading to several new development proposals. As a result, the design of the generation and distribution systems needs to be modified and upgraded to meet these new demands.

Housing and Works

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Pyrtton site demolition costs	2.5	-	-	-
Building WA	0.6	-	-	-
Total expenses	3.1	-	-	-
Purchase of non-financial assets				
Perth Arena site remediation	7.5	-	-	-
Perth Arena increased scope	-	41.5	63.5	20.0
Total purchase of non-financial assets	7.5	41.5	63.5	20.0

Expenses

- \$2.5 million will be spent in 2006-07 for the demolition of buildings on the Pyrtton site on the basis of the substantial ongoing safety risk to members of the public.
- Additional expenditure of \$633,000 will occur in 2006-07 for the Building WA Campaign, which will inform the community of the Government's Capital Works Program.

Purchase of Non-Financial Assets

- \$7.5 million will be spent in 2006-07 for site remediation (asbestos contamination) for the Perth Arena.
- The capital cost of the Perth Arena project has increased by \$125 million, including the construction of a stand-alone, multi-storey car parking facility. This brings the total cost of the project to \$320 million.

Indigenous Affairs

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Regional Partnership Agreement Fund	0.3	-	-	-
Gordon Inquiry evaluation	0.2	0.2	-	-
Aboriginal Town Based Communities	0.7	0.1	0.1	-
Total expenses	1.2	0.3	0.1	-

Expenses

- \$13.4 million in additional funding was set aside in the 2006-07 Budget for priority Indigenous initiatives. Subsequent spending approvals provide the following initiatives:
 - \$450,000 in 2006-07 has been allocated to the Regional Partnership Agreement Fund (of which \$200,000 has been granted to the Department of Industry and Resources), aimed at facilitating innovative solutions and priority projects to help overcome barriers to Indigenous employment outcomes in the East Kimberley and Port Hedland;
 - \$350,000 over two years has been allocated to evaluate the impact of the Government's response to the Gordon Inquiry; and
 - \$664,000 in 2006-07, \$136,000 in 2007-08 and \$56,000 in 2008-09 has been allocated to the Housing Authority's Aboriginal Town Based Communities program for increased delivery of housing management services to selected communities and employment of a Kimberley Special Projects Officer to manage town and community future planning.

The Departments of Industry and Resources, Sport and Recreation and Premier and Cabinet and the Equal Opportunity Commission are also to increase spending on related activities (see relevant sections for further details).

Industry and Resources

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Mirambeena Timber Processing Precinct – common user infrastructure	-	4.2	1.1	-
Boddington Gold Mine expansion – social infrastructure package	2.5	4.3	2.3	-
Indigenous Economic Development Strategy	1.4	-	-	-
Regional Partnership Agreement Fund	0.2	-	-	-
Access 31	0.3	-	-	-
Dampier Archipelago Council	0.5	0.6	0.6	0.6
Total expenses	4.9	9.1	4.0	0.6

Expenses

- Additional expenditure of \$5.3 million has been approved for the establishment of facilities for the Mirambeena Timber Processing Precinct which will facilitate value-adding to the region's blue gum timber resource. The common user package will allow Lignor Pty Ltd to establish within the precinct, encourage synergies between users of the precinct, and promote timber value-adding opportunities. A further \$4.4 million is expected to be spent by the public corporations sector between 2006-07 to 2008-09 for common user infrastructure.
- \$9.0 million will be spent over three years in response to the Boddington Gold Mine expansion. Infrastructure grants and community services will be provided to those areas most affected by the expansion. Included in this amount is an allocation of \$500,000 to the Peel Development Commission for planning and managing the effects of the project. An additional \$550,000 will allow the Boddington Shire to assist in managing the gold mine expansion in 2006-07.
- As part of the additional funding provided in the 2006-07 Budget (and originally quarantined within the Department of Indigenous Affairs' budget for priority Indigenous initiatives), \$1.6 million will be spent in 2006-07 to fund the implementation of the Indigenous Economic Development Strategy (\$1.4 million) and as a result of the Regional Partnership Agreement Fund (\$0.2 million).

- \$300,000 has been approved for Access 31 to allow ongoing operations until independent audit advice on Access 31's current and ongoing financial viability has been received, as well as the outcome of Access 31's funding applications to Lotterywest and the Federal Government for a digital transmitter.
- Expenditure of \$2.3 million over four years has been approved for the establishment of the Dampier Archipelago Council.

Local Government and Regional Development

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Wittenoom Relocation Fund	0.4	-(a)	-	-
Total expenses	0.4	-(a)	-	-

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

Expenses

- Additional expenditure of \$436,000 in 2006-07 and \$36,000 in 2007-08 has been approved to support the Wittenoom Interdepartmental Committee and assist in the relocation of the local residents.

Peel Development Commission

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Pinjarra Brunswick Sustainability Strategy	0.7	1.2	0.7	-
Boddington Gold Mine expansion – social infrastructure package	0.1	0.2	0.2	-
Total expenses	0.8	1.4	0.9	-

Expenses

- Spending of \$2.6 million will be incurred over three years to implement the Pinjarra Brunswick Sustainability Strategy. The strategy aims to provide an integrated response to issues of urban renewal, economic growth and promotion of the region.
- \$500,000 will be spent over three years in planning and managing the effects of the Boddington Gold Mine Expansion including consultations with the gold mine owners, local governments and the community and inter-agency coordination.

Pilbara Development Commission

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Paraburdoo swimming pool	0.5	-	-	-
Total expenses	0.5	-	-	-

Expenses

- A contribution of \$500,000 in 2006-07 will be made towards the repair and upgrade of the Paraburdoo Swimming Pool.

Planning and Infrastructure

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Contribution to the Code Management Company	0.1	0.1	-	-
LPG Subsidy Scheme	6.4	9.4	10.6	11.9
Oakajee Port and industrial estate essential studies	1.3	1.2	-	-
<i>Owner-Drivers (Contracts and Disputes) Bill 2006</i>	0.3	0.3	0.2	0.2
Planning Services	6.2	-	-	-
Total expenses	14.2	11.1	10.8	12.1

Expenses

- Increased expenditure of \$112,000 per annum over two years for Western Australia's contribution to the development of national codes of practice for rail operators.
- In August 2006, subsidies under the LPG Subsidy Scheme (introduced in October 2000 to encourage consumers to buy either new dedicated-LPG private passenger vehicles or convert existing private passenger vehicles from petrol) were increased from \$500 to \$1,000 per vehicle. Additional spending totalling \$38.3 million over four years also includes allowance for an expected increase in demand for owners of family registered vehicles.
- \$2.5 million over two years has been approved as the Government's contribution towards the costs of essential planning and environmental studies, reviewing design verification and developing approval processes, associated with the proposed Oakajee Port and Industrial Estate.
- The Government has introduced the *Owner-Drivers (Contracts and Disputes) Bill 2006*, which will promote a safe and sustainable road freight industry. Additional spending of \$1.0 million will meet the cost of administering the new legislation.
- Additional expenditure of \$6.2 million will be incurred in 2006-07 for the engagement of additional, suitably qualified, town planners and two Land Release Co-ordinators for the Metropolitan and South West regions, to address the residential land shortage and improve the delivery of planning services including processing land development applications.

Premier and Cabinet

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Building WA Campaign	0.2	0.1	0.1	0.1
Blind Association	0.2	-	-	-
Department of Industry and Resources Functional Review	0.1	-	-	-
Department of Community Development Functional Review	0.1	-	-	-
Functional Review – direct costs	0.4	-	-	-
Perth Hindu Temple	0.6	-	-	-
Anzac Day Small Grants Program	0.5	0.5	-	-
Strategies to Enhance Aboriginal Peoples' Participation in the Economic and Cultural Growth of Western Australia	0.4	0.7	0.1	-
Ministerial Air Charter Service	4.9	1.9	2.0	2.2
Total expenses	7.4	3.1	2.2	2.3

Expenses

- \$500,000 over four years will be spent on the Building WA Campaign, which will inform the community and industry of the Western Australian Government's Capital Works Program.
- A grant of \$200,000 in 2006-07 to the Association for the Blind, will be provided as a contribution towards the escalation in the cost of construction of the Blind Association redevelopment in Victoria Park.
- Additional expenditure of \$90,000 has been provided for a functional review of the Department of Industry and Resources to be undertaken in 2006-07.
- Expenditure of \$90,000 has been provided for a functional review of the Department of Community Development to be undertaken in 2006-07.
- As part of the ongoing program of functional reviews, \$377,000 has been allocated to the department for direct costs associated with conducting the reviews.
- Expenditure of \$595,000 has been approved for the completion of the Perth Hindu Temple in 2006-07.

- Grants of \$500,000 in 2006-07 and 2007-08 have been provided for the continuation of the Anzac Day Small Grants Program. The purpose of the grants is to ensure that the observance of ANZAC Day continues and is enhanced in the lead up to the 100th anniversary of the Gallipoli landings in 2015, and to promote a better understanding of the ‘Spirit of ANZACs’ to future generations.
- \$1.2 million over three years will be spent to engage Lieutenant General John Sanderson AC as the Special Adviser to Government on effective strategies and models to secure Aboriginal participation. This forms part of the additional funding provided in the 2006-07 Budget for priority Indigenous initiatives (and originally quarantined within the Department of Indigenous Affairs’ budget).
- \$13.5 million over five years will be provided to meet the additional leasing and procurement costs associated with the provision of the Ministerial Air Charter service.

Public Transport Authority

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Purchase of non-financial assets				
Railcars	31.9	28.4	79.6	20.1
Total purchase of non-financial assets	31.9	28.4	79.6	20.1

Purchase of Non-Financial Assets

- \$160 million has been committed over four years for the acquisition of 15 additional railcars to meet existing and growing demand on the Perth Urban Rail Network.

Racing, Gaming and Liquor

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Implementation of liquor licensing reforms	1.7	0.9	0.9	0.9
Total expenses	1.7	0.9	0.9	0.9

Expenses

- Implementation of liquor licensing reforms will result in additional spending of \$1.7 million in 2006-07 and \$850,000 per annum thereafter, on education campaigns, establishment of a Liquor Commission and associated staff.

Rural Business Development Corporation

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
2006 Dry Seasons – Assistance Scheme	2.6	0.8	-	-
Total expenses	2.6	0.8	-	-

Expenses

- \$3.4 million has been approved to support farmers experiencing hardship as a result of drought conditions. A further \$750,000, to be spent in 2007-08 will enable the State to canvass the Commonwealth on Exceptional Circumstances issues.

Small Business Development Corporation

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Interstate Skills Attraction Campaign	1.2	-	-	-
Total expenses	1.2	-	-	-

Expenses

- Additional expenditure totalling \$1.2 million to address skills shortages in the Western Australian workforce through an online advertising campaign to promote employment opportunities in Western Australia.

South West Development Commission

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Bunbury Cathedral	2.5	-	-	-
Total expenses	2.5	-	-	-

Expenses

- A grant of \$2.5 million has been approved for the Catholic Diocese of Bunbury to assist with the reconstruction of St Patrick's Cathedral. The reconstruction is required as a result of the severe damage by a tornado in May 2005.

Sport and Recreation

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Adventure Tourism Standards	0.1	0.1	-	-
Indigenous Sport and Recreation Services and Infrastructure Plan	0.1	0.1	-	-
Total expenses	0.2	0.2	-	-

Expenses

- Implementation of the recommendations from the *Review of Adventure Tourism Visitor Safety in Western Australia (Ministerial Taskforce)* will result in additional spending for the development of Adventure Activities Standards for Western Australia. Additional funds will also be spent by the Western Australian Tourism Commission to implement the recommendations of the Review. This initiative is expected to improve safety for visitors undertaking adventure tourism activities in the State.

- Additional expenditure of \$90,000 in 2006-07 and \$130,000 in 2007-08 has been approved to develop strategic management plans for sporting infrastructure, (including swimming pools), in select Indigenous communities. This forms part of additional funding provided in the 2006-07 Budget for priority Indigenous initiatives (and originally quarantined within the Department of Indigenous Affairs' budget).

The Burswood Park Board

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Swan and Canning River Projects	1.1	3.4	4.7	4.8
Total expenses	1.1	3.4	4.7	4.8

Expenses

- Additional spending has been approved for the benefit of Burswood Park and the protection of the ecological values, community benefits and amenity of the Swan and Canning Rivers, using revenue generated by increasing the levy on electronic gaming activity conducted at the Burswood Casino.

Treasury and Finance

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Horizon Power – Community Service Obligation payments				
Coral Bay power system	-0.5	1.4	2.0	2.5
Public Transport Authority – output appropriation				
Acquisition of railcars – operating subsidy	1.0	2.9	5.9	11.8
Eastern Goldfields Transport Board – operating subsidy	0.4	0.4	0.4	0.4
Water Corporation – Community Service Obligation payments				
Wiluna waste water	0.2	0.4	0.4	0.4
Total expenses	1.2	5.0	8.6	15.1

Expenses

- Horizon Power – Community Service Obligation payments. The additional expense will allow Horizon Power to deploy new electrical systems that will meet the immediate and future requirements of the Coral Bay community.
- Public Transport Authority – A higher output appropriation for the Public Transport Authority (\$21.6 million) has been approved for operational costs associated with the acquisition of additional railcars.
- Public Transport Authority - Approximately \$400,000 per annum has been approved to meet increased expenditure incurred by the Eastern Goldfields Transport Board (EGTB), ensuring that the EGTB is adequately funded once its operations are absorbed into the Public Transport Authority.
- Water Corporation – Community Service Obligation payments. Costs associated with the upgrade and construction of a new treatment plant to replace the current substandard facilities at Wiluna.

Water and Rivers Commission

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Farm Water Grants Scheme	-	2.0	-	-
Total expenses	-	2.0	-	-

Expenses

- Additional expenditure of \$2.0 million has been approved for the Farm Water Grants Scheme as part of the 2006 Dry Season Assistance Scheme to assist farm businesses significantly affected by the extreme weather conditions.

Water Corporation

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Purchase of non-financial assets				
Wiluna waste water	3.7	-	-	-
Total Purchase of non-financial assets	3.7	-	-	-

Purchase of Non-Financial Assets

- Additional capital expenditure has been approved to enable the upgrading and construction of new treatment facilities at Wiluna due to current substandard operation and close proximity of treatment ponds to local residents and the town's primary school.

Western Australian Electoral Commission

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Funding of candidates contesting Western Australian elections	0.2	0.2	0.1	2.9
Total expenses	0.2	0.2	0.1	2.9

Expenses

- Additional expenditure of \$3.4 million over four years has been approved to fund candidates contesting Western Australian elections.

Western Australian Tourism Commission

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Expenses				
Adventure Tourism Standards	0.1	0.1	0.1	-
National Tourism Accreditation Program	0.2	0.2	0.1	
Total expenses	0.3	0.3	0.2	-

Expenses

- The implementation of the recommendations from the *Review of Adventure Tourism Visitor Safety in Western Australia (Ministerial Taskforce)* will result in additional spending by the Commission. Additional funds will also be spent by the Department of Sport and Recreation to implement recommendations of the Review. This initiative is expected to improve safety for visitors undertaking adventure tourism activities in the State.
- Additional funding of \$500,000 over three years has been provided to the Tourism Council of Western Australia (a non-government peak industry body) to strengthen the foundation of the National Tourism Accreditation Program, improve industry standards and accelerate the take up of accreditation of tourism businesses.

Zoological Parks Authority

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Purchase of non-financial assets				
Perimeter fence	0.9	1.0	-	-
Total purchase of non-financial assets	0.9	1.0	-	-

Purchase of Non-Financial Assets

An amount of \$1.9 million over two years will be spent to replace the 35 year old perimeter fence at the Perth Zoo. The new fence will provide an added layer of safety for animals within the Zoo, particularly from fox attacks and improve the security and safety of visitors both within the grounds and in public areas around the perimeter of the Zoo.

APPENDIX 4

The Treasurer's Advance

The Treasurer's Advance allows for short-term repayable advances to agencies for working capital purposes (known as 'net unrecouped balances') and the provision of supplementary funding of annual appropriations for unforeseen and/or extraordinary events during the year (known as 'excesses and new items').

The *Treasurer's Advance Authorisation Act 2006* authorised a limit of \$365 million on the Treasurer's Advance for 2006-07. This follows an amended limit of \$500 million applying in 2005-06⁵³.

Table 4.1 shows the projected position of the Treasurer's Advance for 2006-07. These projections are consistent with the agency data underlying the mid-year review projections outlined elsewhere in this publication.

TREASURER'S ADVANCE AT 30 JUNE		Table 4.1
	2005-06 Actual \$m	2006-07 Projection \$m
AUTHORISED LIMIT	500.0	365.0
<i>Total Drawn Against Treasurer's Advance Authorisation Act</i>	<i>348.4</i>	<i>217.6</i>
Comprising:		
Net unrecouped balances as at 30 June	16.3	10.0
Excesses and New Items		
- recurrent	247.1	171.8
- capital	85.0	35.8

Note: Columns may not add due to rounding.

⁵³ The 2005-06 limit for the Treasurer's Advance was originally set at \$300 million. Excesses and new items required extension of the limit to \$500 million, of which \$348.4 million was drawn by 30 June 2006.

Transfers, Excesses and New Items

Table 4.2 outlines excesses and/or new items that are projected to materialise during 2006-07 and which will impact the Treasurer's Advance under the authority of section 5(1)(a) of the *Treasurer's Advance Authorisation Act* and section 28 of the *Financial Administration and Audit Act 1985* (FAAA).

It should be noted that the projections shown in Table 4.2 are subject to movements in agencies' appropriations through the remainder of 2006-07. Funding in excess of budget for appropriation items shown in the table will only occur if management responses do not achieve compensating shortfalls in other spending supported by these items prior to 30 June 2007.

Around \$26.9 million in appropriations originally allocated in the 2006-07 Budget have been transferred where responsibility for appropriation-funded services has been allocated to another agency. Such transfers are allowed under section 25 of the FAAA and have no impact on the Treasurer's Advance. These include the transfer of:

- \$0.6 million between the Departments of Premier and Cabinet and Industry and Resources for the transfer of the Projects Approvals Coordination Unit;
- \$1.6 million between the Departments of Treasury and Finance (DTF) and Health for procurement staff relocated to the Office of Government Procurement; and
- \$24.7 million between DTF and the Department of Health following finalised business cases for Health Reform capital projects provisioned in DTF appropriations.

Table 4.2

TRANSFERS, EXCESSES AND NEW ITEMS

Item	Appropriation	Treasurer's Advance			Draw on Treasurer's Advance to date ^(b) \$m
		Transfers ^(a) \$m	New Items \$m	Excesses \$m	
<i>Recurrent Appropriations</i>					
<i>Parliament</i>					
1	Output - Legislative Council	-	-	_(c)	-
2	Output - Legislative Assembly	-	-	0.1	-
3	Output - Parliamentary Services	-	-	0.1	-
<i>The Parliamentary Commissioner for Administrative Investigations</i>					
4	Output	-	-	_(c)	-
<i>Department of the Premier and Cabinet</i>					
5	Output	0.6	-	0.1	-
<i>Department of Industry and Resources</i>					
6	Output	-0.6	-	-	-
<i>Office of Shared Services</i>					
8	Output	-	-	2.8	-
<i>Governor's Establishment</i>					
9	Output	-	-	_(c)	-
<i>Office of the Public Sector Standards Commissioner</i>					
10	Output	-	-	0.1	-
<i>Department of Treasury and Finance</i>					
12	Output	1.6	-	-	-
Community Service Obligations payments					
16	- Water Corporation	-	-	0.2	-
Community Service Obligations payments					
17	- Western Australian Land Authority	-	-	6.5	-
28	Office of Health Review	-	-	_(c)	-
29	On-road diesel subsidies	-	-	0.5	-
Refund of past years revenue collections					
34	- all other	-	-	16.3	-
36	Stamp duty rebate scheme	-	-	4.7	1.0
All other administered grants, subsidies and					
43	transfer payments	-	-	1.7	-
<i>Office of the Auditor General</i>					
45	Output	-	-	0.1	-
<i>Economic Regulation Authority</i>					
46	Output	-	-	0.1	-
<i>State Supply Commission</i>					
47	Output	-	-	_(c)	-

(a) Authorised under section 25 of the FAAA.

(b) Mid-year review cut-off date, 4 December 2006.

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

Note: Columns may not add due to rounding.

Table 4.2 (Cont.)

TRANSFERS, EXCESSES AND NEW ITEMS

Item	Appropriation	Treasurer's Advance			Draw on Treasurer's Advance to date ^(b)
		Transfers ^(a) \$m	New Items \$m	Excesses \$m	
<i>Recurrent Appropriations (continued)</i>					
<i>Department of Agriculture and Food</i>					
48	Output	-	-	16.2	-
<i>Rural Business Development Corporation</i>					
50	Output	-	-	2.6	-
<i>Mid-West Development Commission</i>					
51	Output	-	-	.(c)	-
<i>Wheatbelt Development Commission</i>					
52	Output	-	-	.(c)	-
<i>Department of Education and Training</i>					
53	Output	-	-	24.8	-
<i>Curriculum Council</i>					
55	Output	-	-	0.2	-
<i>Department of Education Services</i>					
56	Output	-	-	.(c)	-
57	Administered grants and transfer payments	-	-	1.2	-
<i>Water and Rivers Commission</i>					
58	Output	-	-	0.1	-
<i>Western Australian Sports Centre Trust</i>					
62	Output	-	-	0.6	-
<i>Department of the Attorney General</i>					
63	Output	-	-	7.4	-
<i>Equal Opportunity Commission</i>					
64	Output	-	-	.(c)	-
<i>Corruption and Crime Commission</i>					
65	Output	-	-	0.3	-
<i>Law Reform Commission of Western Australia</i>					
67	Output	-	-	.(c)	-
<i>Office of the Director of Public Prosecutions</i>					
68	Output	-	-	0.6	-
<i>Office of the Information Commissioner</i>					
69	Output	-	-	.(c)	-

(a) Authorised under section 25 of the FAAA.

(b) Mid-year review cut-off date, 4 December 2006.

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

Note: Columns may not add due to rounding.

Table 4.2 (Cont.)

TRANSFERS, EXCESSES AND NEW ITEMS

Item	Appropriation	Treasurer's Advance			Draw on Treasurer's Advance to date ^(b) \$m
		Transfers ^(a) \$m	New Items \$m	Excesses \$m	
<i>Recurrent Appropriations (continued)</i>					
<i>Department of Health</i>					
70	Output	-1.6	-	-	-
71	Contribution to Hospital Fund	-	-	7.9	-
<i>Western Australian Electoral Commission</i>					
72	Output	-	-	0.3	-
<i>Department of Housing and Works</i>					
73	Output	-	-	1.8	-
<i>Heritage Council of Western Australia</i>					
78	Output	-	-	2.1	-
<i>National Trust of Australia (W.A.)</i>					
79	Output	-	-	-(c)	-
<i>Department of Land Information</i>					
80	Output	-	-	1.3	-
<i>Department for Planning and Infrastructure</i>					
81	Output	-	-	21.0	-
<i>Department of Indigenous Affairs</i>					
86	Output	-	-	0.5	-
<i>Western Australian Tourism Commission</i>					
87	Output	-	-	2.4	-
<i>Department of Culture and the Arts</i>					
88	Output	-	-	2.3	-
<i>Department of the Environment and Conservation</i>					
95	Output	-	-	1.7	-
<i>Swan River Trust</i>					
97	Output	-	-	1.1	-
<i>Zoological Parks Authority</i>					
98	Output	-	-	0.1	-
<i>Department of Racing, Gaming and Liquor</i>					
99	Output	-	-	1.8	-
100	Administered grants and transfer payments	-	-	2.5	-
<i>Office of Energy</i>					
101	Output	-	-	0.1	-

(a) Authorised under section 25 of the FAAA.

(b) Mid-year review cut-off date, 4 December 2006.

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

Note: Columns may not add due to rounding.

Table 4.2 (Cont.)

TRANSFERS, EXCESSES AND NEW ITEMS

Item	Appropriation	Treasurer's Advance			Draw on Treasurer's Advance to date ^(b)
		Transfers ^(a) \$m	New Items \$m	Excesses \$m	
<i>Recurrent Appropriations (continued)</i>					
<i>Department of Consumer and Employment Protection</i>					
102	Output	-	-	2.5	-
<i>Registrar, Western Australian Industrial Relations Commission</i>					
103	Output	-	-	0.1	-
<i>Goldfields-Esperance Development Commission</i>					
104	Output	-	-	.(c)	-
<i>Police Service</i>					
106	Output	-	-	14.0	-
<i>Fire and Emergency Services Authority of Western Australia</i>					
107	Output	-	-	0.1	-
<i>Department of Corrective Services</i>					
109	Output	-	-	5.9	-
<i>Office of the Inspector of Custodial Services</i>					
110	Output	-	-	0.1	-
<i>Department of Fisheries</i>					
113	Output	-	-	3.3	-
<i>Kimberley Development Commission</i>					
114	Output	-	-	.(c)	-
<i>Pilbara Development Commission</i>					
115	Output	-	-	0.5	-
<i>Gascoyne Development Commission</i>					
116	Output	-	-	.(c)	-
<i>Disability Services Commission</i>					
117	Output	-	-	1.7	-
<i>Department for Community Development</i>					
118	Output	-	-	6.1	-
<i>Peel Development Commission</i>					
121	Output	-	-	0.8	-
<i>South West Development Commission</i>					
122	Output	-	-	2.5	-
Total Recurrent		-	-	171.8	1.0

(a) Authorised under section 25 of the FAAA.

(b) Mid-year review cut-off date, 4 December 2006.

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

Note: Columns may not add due to rounding.

Table 4.2 (Cont.)

TRANSFERS, EXCESSES AND NEW ITEMS

Item	Appropriation	Transfers ^(a) \$m	Treasurer's Advance		Draw on Treasurer's Advance to date ^(b) \$m
			New Items \$m	Excesses \$m	
<i>Capital Appropriations</i>					
<i>Department of Industry and Resources</i>					
126	Capital contribution	-	-	1.1	-
<i>Office of Shared Services</i>					
127	Capital contribution	-	-	18.8	-
<i>Department of Treasury and Finance</i>					
131	Equity injection – Department of Health	-24.7	-	-	-
134	Equity injection – Fremantle Port Authority	-	-	_(c)	-
136	Equity injection – Regional Power Corporation (Horizon Power)	-	-	2.6	-
<i>Department of Agriculture and Food</i>					
143	Capital contribution	-	-	0.9	-
<i>Department of Health</i>					
153	Capital contribution	24.7	-	1.2	-
<i>Commissioner of Main Roads</i>					
158	Capital contribution	-	-	1.4	-
<i>Department of Culture and the Arts</i>					
162	Capital contribution	-	-	0.8	-
<i>Department of the Environment and Conservation</i>					
167	Capital contribution	-	-	4.8	-
<i>Zoological Parks Authority</i>					
171	Capital contribution	-	-	0.9	-
<i>Great Southern Development Commission</i>					
173	Capital contribution	-	-	0.2	-
<i>Department of Corrective Services</i>					
176	Capital contribution	-	-	0.5	-
<i>Department for Community Development</i>					
181	Capital contribution	-	-	2.6	-
<i>Total Capital</i>		-	-	35.8	-
TOTAL		-	-	207.6	1.0

(a) Authorised under section 25 of the FAAA.

(b) Mid-year review cut-off date, 4 December 2006.

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

Note: Columns may not add due to rounding.