

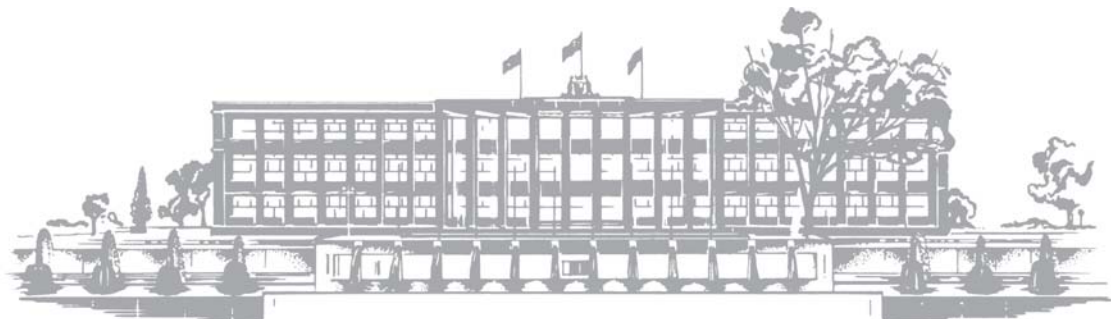


Department of Treasury and Finance
Government of Western Australia

2004 - 05

**PRE-ELECTION FINANCIAL
PROJECTIONS STATEMENT**

FEBRUARY 2005



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2004-05

**PRE-ELECTION FINANCIAL
PROJECTIONS STATEMENT**

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Foreword

This *Pre-election Financial Projections Statement* (PFPS) is a requirement of the *Government Financial Responsibility Act 2000* (GFRA). The GFRA requires a PFPS to be released within ten days after the Legislative Assembly is dissolved or expires, in this case by 2 February 2005.

The GFRA also requires a PFPS to:

- include financial projections for the budget year and three forward estimate years (in this case, the period 2004-05 to 2007-08);
- take account of the economic and other assumptions which have a bearing on public sector finances;
- explain the implications of the financial projections for meeting the Government's financial targets;
- outline any risks that could materially affect the financial projections; and
- reflect all relevant decisions taken by the Government before the Legislative Assembly was dissolved, and any other information available to the Under Treasurer within three days of the dissolution.

This report 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 PFPS cut-off date of 26 January 2005. The projections contained in this report comply with the Australian Bureau of Statistics' government finance statistics (GFS) standards.

This PFPS is presented in a similar manner to the 2004-05 *Government Mid-year Financial Projections Statement* (mid-year review), released on 22 December 2004. In view of the recent release of the mid-year review, this report does not seek to re-cover the analysis of the State's economy and finances included in that review. In this regard, no material changes have been made since the mid-year review to the major economic parameters and assumptions impacting the State's finances¹.



Colin Murphy
ACTING UNDER TREASURER

2 February 2005

¹ These are reproduced in the *Statement of Risks* section in Chapter 1: *Financial Projections*.

CHAPTER 1

Financial Projections

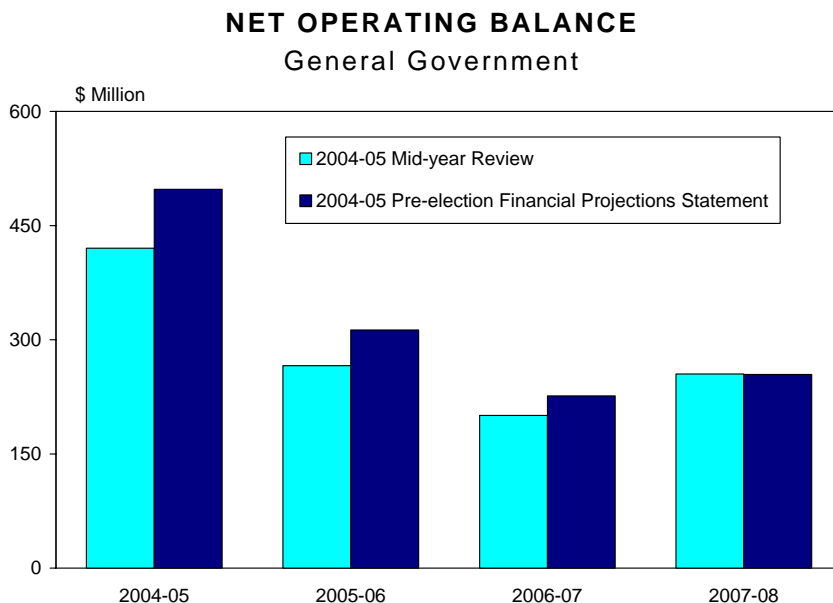
Overview

Since the 6 December 2004 cut-off date for finalisation of the 2004-05 mid-year review estimates, there have been a number of developments impacting the outlook for the State's finances, including:

- release of the Commonwealth Government's 2004-05 *Mid-year Economic and Fiscal Outlook* on 21 December 2004, which contained revised forecasts of national GST revenue, resulting in downward revisions to Western Australia's expected GST grants in each year of the forward estimates period;
- the Commonwealth Treasurer's announcement (also on 21 December 2004) of States' National Competition Policy payments, resulting in a lower payments penalty for Western Australia than had previously been assumed;
- new data confirming continuing strength in property market activity, resulting in an upward revision to forecast conveyance duty and mortgage duty revenue; and
- a number of Cabinet decisions with financial implications (policy decisions taken since the cut-off date for the mid-year review that impact general government expenses are detailed in Appendix 3: *Policy Decisions Affecting Expenses Since the Mid-year Review*).

Overall, these developments have resulted in an upward revision to the estimated general government sector operating surplus (the budget ‘bottom-line’) for 2004-05, from \$420 million in the mid-year review to \$498 million. Across the outyears, operating surpluses in the range of \$226 million to \$313 million are now forecast, up slightly from the mid-year review projections.

Figure 1



These projected surpluses play an important role in providing a ‘buffer’ against unexpected events and in limiting growth in net debt, as they reduce the need for new borrowings to fund the State’s Capital Works Program.

The current outlook for net debt is broadly unchanged since the mid-year review, with the downward impact on net debt from the higher operating surpluses largely offset by new capital spending decisions. The net debt to revenue ratio for the total non-financial public sector – a key ratio for the State’s credit rating – is forecast to peak at 42.0% in 2006-07, compared to a peak of 42.5% in the mid-year review and a target limit of 47%.

Table 1

KEY BUDGET AGGREGATES
Western Australia

	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08
	Actual	Mid-Year Estimate	PFPS Revision	Forward Estimate	Forward Estimate	Forward Estimate
GENERAL GOVERNMENT						
Revenue (\$m)	12,753	13,467	13,565	13,534	13,909	14,470
Expenses (\$m)	11,954	13,047	13,068	13,221	13,683	14,216
Net Operating Balance (\$m)	799	420	498	313	226	254
TOTAL NON-FINANCIAL PUBLIC SECTOR						
Net Debt to Revenue Ratio (%)	28.4	34.2	33.7	39.6	42.0	41.4
TOTAL PUBLIC SECTOR						
Net Debt at 30 June (\$m)	4,194	5,371	5,307	6,324	6,901	7,035

Note: Columns may not add due to rounding.

The major factors affecting the general government sector operating balance since the 2004-05 mid-year review are summarised in the following table and discussed in more detail in the remainder of this chapter. The financial projections contained in this PFPS are examined in the context of the current financial targets in Chapter 2: *Financial Strategy*.

Table 2

**SUMMARY OF GENERAL GOVERNMENT REVENUE AND EXPENSE
VARIATIONS SINCE THE 2004-05 MID-YEAR REVIEW**

	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
2004-05 MID-YEAR REVIEW – NET OPERATING BALANCE	420	266	201	255
Revenue				
<i>Policy Decisions</i> ^(a)	-0.8	-1.9	-1.9	-2.0
<i>Parameter</i>				
Taxation:	90.1	76.8	76.8	76.7
<i>comprising:</i>				
- Conveyance duty	80.3	65.2	65.2	65.2
- Mortgage duty	12.0	9.8	9.8	9.8
- All other taxes	-2.2	1.8	1.8	1.7
Commonwealth grants:	17.2	-11.2	-40.2	-70.1
<i>comprising:</i>				
- North West Shelf royalties	7.1	-	-	-
- GST revenue grants	-11.1	-18.4	-48.0	-76.5
- National Competition Policy grants	18.9	3.9	4.1	4.1
- All other Commonwealth grants	2.3	3.3	3.7	2.2
Mining royalties	-8.5	-	-	-
All other	0.1	-0.8	0.3	2.5
<i>Total Parameter</i>	<i>98.8</i>	<i>64.8</i>	<i>36.9</i>	<i>9.1</i>
TOTAL REVENUE	98.1	62.9	34.9	7.1
Expenses				
<i>Policy Decisions</i> ^(b) – see Appendix 3 for further detail	19.7	20.7	17.8	17.7
<i>Parameter</i>				
Interest expenses	-	-4.3	-6.4	-7.0
All other	1.2	-0.5	-2.1	-3.0
<i>Total Parameter</i>	<i>1.2</i>	<i>-4.8</i>	<i>-8.5</i>	<i>-10.0</i>
TOTAL EXPENSES	20.9	15.9	9.3	7.7
TOTAL VARIANCE	77.2	47.0	25.6	-0.5
2004-05 PRE-ELECTION FINANCIAL PROJECTIONS STATEMENT – NET OPERATING BALANCE	498	313	226	254

(a) Net result of Government decision to adjust motor vehicle recording and registration fees in response to concerns raised by the Auditor-General about the level of cost recovery of the recording fee.

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

Note: Columns may not add due to rounding.

General Government Sector

Operating Statement

Operating surpluses are in prospect in each of the forward estimate years. Apart from 2007-08, the projected surpluses are higher than those forecast in the mid-year review, with the extent of the upward revision declining across the outyears (see following table). This pattern primarily reflects changes to the revenue estimates since the mid-year review, which are discussed below. Expense changes since the mid-year review are relatively modest, and mainly reflect Government policy decisions (also discussed below, and in Appendix 3: *Policy Decisions Affecting Expenses Since the Mid-year Review*).

Table 3

GENERAL GOVERNMENT Operating Statement

	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual \$m	Estimate \$m	Forward Estimate \$m	Forward Estimate \$m	Forward Estimate \$m
<i>PFPS</i>					
Revenue	12,753	13,565	13,534	13,909	14,470
Expenses	11,954	13,068	13,221	13,683	14,216
Net Operating Balance	799	498	313	226	254
<i>MID-YEAR REVIEW</i>					
Revenue	12,753	13,467	13,471	13,874	14,463
Expenses	11,954	13,047	13,205	13,673	14,208
Net Operating Balance	799	420	266	201	255
<i>VARIANCE</i>					
Revenue	-	98	63	35	7
Expenses	-	21	16	9	8
Net Operating Balance	-	77	47	26	-1

Note: Columns may not add due to rounding

Revenue

General government operating revenue is estimated to rise to \$13,565 million in 2004-05, \$98 million (or 0.7%) higher than estimated at the time of the 2004-05 mid-year review.

Taxation revenue in 2004-05 has been revised up by \$89 million since the mid-year review, having regard for the latest trends in collections. Changes to the estimates include:

- an upward revision of \$80 million to stamp duty on conveyances. This reflects the ongoing strength of property market activity, with the anticipated easing of the property market over the remainder of 2004-05 now expected to be milder than at the time of the mid-year review estimates;
- a \$12 million increase in stamp duty on mortgages due to the strength of residential property market activity since the mid-year review; and
- a \$3 million downward revision to ‘other’ stamp duties due to a one-off cost associated with a reduction in the required frequency of lodgement and payment of hire of goods duty by small business.

Grants and subsidies revenue from the Commonwealth, excluding North West Shelf petroleum royalties, has been revised up by \$10 million in 2004-05, mainly due to:

- an upward revision to competition payments of \$19 million following the Commonwealth Treasurer’s decision on the recommendations of the National Competition Council report; and
- a downward revision to GST revenue grants of \$11 million, in line with Commonwealth estimates published in its 2004-05 *Mid-year Economic and Fiscal Outlook*.

Mining royalties, including North West Shelf royalties, have been revised down by \$1.5 million in 2004-05. This reflects minor variations in commodity sales since finalisation of the mid-year review estimates.

Across the outyears, general government operating revenue has been revised up relative to the mid-year review estimates by \$63 million in 2005-06, \$35 million in 2006-07 and \$7 million in 2007-08. These increases are primarily a flow-on of higher than expected property market activity and increased competition payments, partly offset by downward revisions to estimated revenue from GST grants (the Commonwealth’s GST estimates were revised down by increasing amounts across the forward estimates period).

Upside and downside risks to the revised revenue estimates are set out in the *Statement of Risks* section at the end of this chapter.

Expenses

General government expenses for 2004-05 are projected to be \$13,068 million, an increase of \$21 million (or 0.2%) relative to the 2004-05 mid-year review estimates. Nearly all of this variation (around \$20 million) is accounted for by policy decisions taken by the Government since the mid-year review cut-off date of 6 December 2004.

Such decisions include the provision of grants to organisations such as the Royal Flying Doctor Service, the Australian Red Cross (in response to the tsunami tragedy) and sporting bodies, as well as extending the Waterwise Rebate Program for a further four months until 30 June 2005 (full details of all decisions are contained in Appendix 3: *Policy Decisions Affecting Expenses Since the Mid-year Review*).

The impact of post-mid-year review policy decisions is similar across the outyears, ranging between \$18 million and \$21 million per annum. However, partly offsetting the increase in expenses from Government policy decisions, annual interest costs have been revised down by between \$4 million and \$7 million, reflecting the reduction in forecast borrowings since the mid-year review as a result of the higher operating surpluses now expected.

Balance Sheet

Consistent with the mid-year review projections, the general government sector's net worth (i.e. assets less liabilities) is expected to rise in each year of the forward estimates to reach an estimated \$49.8 billion by 30 June 2008. As indicated in the following table, estimated net worth is higher (and estimated net debt is lower) in each year relative to the mid-year review, mainly reflecting the improved general government operating surpluses discussed above.

GENERAL GOVERNMENT
Balance Sheet at 30 June

	2004	2005	2006	2007	2008
	Actual \$m	Estimate \$m	Forward Estimate \$m	Forward Estimate \$m	Forward Estimate \$m
<i>PFPS</i>					
Assets	53,871	55,332	57,019	58,458	59,809
Liabilities	10,117	9,564	9,702	9,919	10,008
Net Worth	43,754	45,768	47,318	48,538	49,800
Net Debt	-291	-160	-99	46	97
<i>MID-YEAR REVIEW</i>					
Assets	53,871	55,324	56,996	58,416	59,751
Liabilities	10,117	9,633	9,810	10,039	10,121
Net Worth	43,754	45,691	47,185	48,377	49,630
Net Debt	-291	-89	10	168	212
<i>VARIANCE</i>					
Assets	-	8	24	41	58
Liabilities	-	-69	-109	-120	-113
Net Worth	-	77	132	161	171
Net Debt	-	-71	-109	-121	-115

Note: Columns may not add due to rounding

The increase in projected net worth at 30 June 2005 since the mid-year review (\$77 million) primarily reflects a \$69 million reduction in borrowings due to the improved operating result discussed earlier, as well as an increase in the general government sector's ownership interests in public corporations.

Relative to the mid-year review, these factors are expected to result in forecast increases in net worth of between \$132 million and \$171 million over the forward estimates period to 30 June 2008.

Cash Flow Statement

The improvement in the general government sector's operating performance since the mid-year review is reflected in a similar improvement in the sector's cash position, with a cash deficit of just \$2 million now projected for 2004-05, compared to a \$73 million deficit in the mid-year review.

Recent capital spending decisions partially offset the sustained benefit from the stronger outlook in operating activities, particularly in the outyears. In this regard, the following capital works decisions have been made since the mid-year review cut-off date of 6 December 2004:

- construction of new police stations (\$23 million over the forward estimates period);
- provision of road infrastructure for the Carnarvon Flood Mitigation project (\$5 million across 2005-06 and 2006-07);
- road construction at Connolly Drive (\$3 million in 2004-05);
- upgrades to boat launching facilities (\$2 million across 2005-06 and 2006-07); and
- new facilities for the Quinns fire brigade day-shift (\$1 million in 2004-05).

Total Public Sector

Net Operating Balance

Operating surpluses remain in prospect in all forward estimate years for the total public sector². Relative to the mid-year review, the total public sector operating surplus for 2004-05 has been revised up by \$77 million, reflecting the improved general government operating surplus discussed earlier. The operating outlook for the public corporations sectors has remained largely unchanged since the mid-year review.

² The total public sector is the consolidation of the general government and public corporations sectors. It brings together all centrally funded and commercially operated State agencies into a single sector. For GFS purposes, total public sector net worth (total assets less total liabilities) is identical to general government sector net worth, discussed earlier.

Cash Flow Statement

The impact of stronger operating surpluses is expected to be reflected in smaller total public sector cash deficits in 2004-05 and 2005-06, down \$61 million and \$30 million respectively relative to the 2004-05 mid-year review.

In 2006-07 and 2007-08, the impact of capital spending decisions since the mid-year review is projected to result in a slight deterioration in the estimated cash deficit/surplus, although a small cash surplus is still projected for 2007-08 as capital works spending declines with the completion of major projects such as New MetroRail and the Water Corporation's desalination plant.

A significant portion of infrastructure is provided by the State's public non-financial corporations (PNFC) sector. In addition to the general government sector capital spending decisions described earlier, the forward estimates accommodate the following post-mid-year review capital works decisions in the PNFC sector:

- commitment to the concept of sinking the railway lines separating Perth's city centre and the Northbridge precinct (\$17 million in the current forward estimates period);
- piping of the open irrigation channels of Harvey Water Irrigation, and providing the Water Corporation with the 17 gegalitres of water per annum which is saved from evaporation and channel leakage (\$29 million over the forward estimates);
- expansion of Esperance port facilities, increasing bulk storage and cargo handling capacity (\$22 million);
- commitment to a wind/diesel generator and underground power distribution at Coral Bay (\$7 million); and
- improved rail access to Albany port (\$3 million).

In addition to these capital spending decisions, the Government has approved a loan to the Western Australian Cricket Association to assist the Association with debt servicing payments. This loan, worth \$5 million in total, is factored into the PFPS estimates as a cash financing transaction but is net debt neutral (as it gives rise to a loan asset that fully offsets the associated borrowing).

Net Debt

Total public sector net debt is expected to be \$5.3 billion at 30 June 2005, increasing to \$7.0 billion by 30 June 2008. This is consistent with the increase in net debt projected in the mid-year review, although the current estimates are slightly lower (by between \$62 million and \$95 million per year).

The slightly lower net debt projections reflect the cash impact of the stronger general government sector operating outlook, partially offset by the general government and PNFC capital spending decisions discussed above.

The following table reconciles the mid-year review net debt projections to those contained in this publication.

Table 5

NET DEBT OF THE TOTAL PUBLIC SECTOR AT 30 JUNE

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
<i>Total public sector net debt at 30 June (2004-05 mid-year review)</i>	5,371	6,418	6,987	7,097
<i>Less change in net cash flows from operating activities</i>				
- general government	74.9	47.0	25.8	-
- public non-financial corporations	-	7.9	-0.4	-
<i>Total public sector</i>	74.9	54.9	25.5	-
<i>Plus capital spending decisions</i>				
Albany Port Rail Access	-	2.6	-	-
Carnarvon Flood Mitigation	-	2.3	2.3	-
Connolly Drive	3.0	-	-	-
Coral Bay Power Supply	7.0	-	-	-
Esperance Port Bulk Storage Facility and Shore-Based Crane	-	-	9.6	12.0
Harvey Water Irrigation Project	-	-	14.0	15.0
Northbridge Link	2.5	13.4	1.2	0.2
Quinns Fire Brigade	0.6	-	-	-
Upgrade Boat Launching Facilities	-	1.0	0.5	-
Police Stations	0.4	5.2	11.1	6.5
<i>Total capital spending decisions</i>	13.5	24.5	38.6	33.7
<i>Less proceeds from sale of fixed assets and other financing</i>	2.8	-	4.1	9.9
Cumulative impact on net debt at 30 June	-64.1	-94.6	-85.5	-61.8
Total public sector net debt at 30 June (PFPS estimate)	5,307	6,324	6,901	7,035

These levels of net debt are consistent with an estimated total non-financial public sector net debt to revenue ratio of 33.7% in 2004-05 (down from 34.2% in the mid-year review), growing to a forecast peak of 42.0% in 2006-07 (down from 42.5% in the mid-year review). This key ratio is discussed further in Chapter 2: *Financial Strategy*.

Statement of Risks

An update of the mid-year review *Statement of Risks*³ is provided below. The risk factors outlined in this section have the potential to impact the financial projections contained in this publication should certain events or circumstances transpire.

Estimating Assumptions

The major economic parameters underlying the financial projections contained in this PFPS are outlined in the following table. As noted earlier, there have been no changes to these parameters since the 2004-05 mid-year review.

Table 6

MAJOR ECONOMIC PARAMETERS

	2004-05 Mid-Year Estimate	2004-05 PFPS Revision	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
Real gross State product ^(a) (%)	5.0	5.0	4.75	4.5	4.5
Real State final demand ^(b) (%)	3.25	3.25	2.75	4.0	4.0
Consumer price index (%)	2.5	2.5	2.5	2.5	2.5
Wages growth ^(c) (%)	5.5	5.5	4.75	3.5	3.5
Employment growth (%)	2.5	2.5	2.25	2.0	2.0
\$A/\$US	76.0 ^(d)	76.0 ^(d)	76.0	76.0	76.0
Oil price (\$US per barrel)	45.0 ^(d)	45.0 ^(d)	30.0	27.0	25.0

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

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

(c) This table shows average weekly earnings growth (which is used in forecasting payroll tax revenue) across the entire economy (i.e. both the private and public sectors), rather than the wage cost index (WCI) measure. The WCI is forecast to grow by 4.0% in 2004-05.

(d) Forecast for remainder of 2004-05.

³ See 2004-05 *Government Mid-year Financial Projections Statement*, pp. 19-24.

At present, the main uncertainties in relation to the economic outlook are: international conditions (including developments in the United States and Japanese economies, and the degree to which current efforts to dampen strong growth in China achieve the desired ‘soft-landing’); the strength of the Australian dollar; the extent and timing of investment in major resource projects; and whether oil prices remain high for a sustained period. The potential for higher interest rates also represents a risk to the forecasts.

More details of risks to the economic outlook are contained in the 2004-05 *Government Mid-year Financial Projections Statement* (pp. 43-44).

Revenue Estimates

The revenue estimates are sensitive to changes in key economic parameters such as wages and employment growth, the \$A/\$US exchange rate and the oil price. Approximate annual impacts of these changes are outlined in the following table⁴.

PARAMETER SENSITIVITY OF REVENUE ESTIMATES		
Payroll tax	Variability (\$m) +/-12.0	Detail For each 1.0 pp increase/decrease in wages and/or employment growth
Total mining revenue ^(a)	+/-16.5	For each 1.0 cent decrease/increase in the \$A/\$US exchange rate
Petroleum royalties ^(a)	Up to +/-15.5	For each \$US1 increase/decrease in the price of a barrel of oil

(a) Includes North West Shelf petroleum royalties.

Specific factors that represent a potential risk to the revenue estimates are discussed below.

⁴ These impacts are not mutually exclusive and can vary over time. For example, variations in the value of the \$A will impact on the sensitivity of revenue to variations in the oil price.

Revenue from the Commonwealth

GST collections may vary significantly depending on the performance of the national economy. Notwithstanding downward revisions in December 2004, the Commonwealth's current estimates of GST collections (on which the State's forecasts are based) assume a continuation of relatively buoyant economic conditions. For 2005-06 onwards, there is also uncertainty in the distribution of GST revenue between the States, which depends on the Commonwealth Grants Commission's annual updates of data used to determine these shares. In particular, there could be reductions in Western Australia's GST share if the State's revenue capacity growth outstrips the national average.

The forward estimates continue to include competition payments beyond 2005-06, consistent with the National Competition Policy Agreement. However, statements by the Commonwealth that competition payments will be redirected to projects under the National Water Initiative means that there is considerable uncertainty regarding the longer-term future of these payments. The Prime Minister wrote to all State and Territory leaders on 27 October 2004 indicating, *inter alia*, that the future of competition payments would be considered by the Council of Australian Governments in the context of a further reform agenda.

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 conditions, the lumpy and volatile nature of business investment and movements in interest rates.

Stamp duties are inherently difficult to forecast due to the volatility of property markets and the impact of large one-off conveyances of commercial property. Every State and Territory, and the Commonwealth have underestimated property market activity in recent years. While the current estimates incorporate a mild easing of residential property market activity over the second half of 2004-05 and extending into 2005-06, considerable uncertainty remains. Takeover activity in Western Australia's buoyant mining sector remains an upside risk to the conveyance duty estimates.

Under the terms of the Intergovernmental Agreement on Reform of Commonwealth-State Financial Relations, the need to retain a number of State taxes is to be reviewed by 1 July 2005. As part of the package of reforms resulting from the Review of State Business Taxes, several of these taxes have already been abolished (stamp duties on leases, unlisted marketable securities and cheques). The other taxes that will be subject to review include stamp duty on conveyances of non-residential property, mortgage duty and rental duty, which are estimated to raise over \$500 million in 2004-05.

Mining Royalties

Commodity prices, particularly for oil and iron ore, and the exchange rate are the most significant sources of risk for the mining royalty estimates. There are mixed views by analysts on the outlook for the exchange rate, which is currently close to the US76.0 cents assumption incorporated in these projections⁵.

Commodity price forecasters, including the Australian Bureau of Agricultural and Resource Economics, have estimated that the oil price currently incorporates a risk premium of around \$US15 per barrel. The risk premium mainly reflects security concerns in the Middle East, political uncertainty in Venezuela, labour market disputes in Nigeria and the financial position of Russia's OAO Yukos petroleum corporation. While the market's assessment of these risks can change quickly, significant volatility in oil prices could be experienced over coming months and the timing of a return to more sustainable oil price levels is uncertain.

Increases in oil prices during 2004 were not fully reflected in observed increases in LNG prices. Accordingly, the annual impact of a \$US1 per barrel price increase on petroleum royalties at oil prices in excess of \$US30 per barrel is assumed to be smaller (\$12 million) than the impact on royalties of a \$US1 per barrel price increase at oil prices below \$US30 (\$15 million). A \$12 million increase in petroleum royalties in 2005-06 would result in an estimated reduction in Western Australia's share of GST grants (all other things being equal) of \$2.3 million in 2007-08 (and in subsequent years, until about 90% of the revenue gain has been offset).

⁵ Each US1.0 cent increase in the exchange rate above this assumption over the course of a full year would reduce annual royalty revenue by around \$16.5 million.

The annual contract negotiations between Australian iron ore producers and major Japanese customers have commenced in recent weeks. The outcome of these negotiations, which will establish a general benchmark for the price of Australian produced iron ore in all markets in 2005-06, is subject to considerable uncertainty at this early stage. While the outcome is not expected to be known before March 2005, the risk to the royalty estimates is on the upside.

These projections incorporate a consolidation of the high level of iron ore prices (in \$US terms) in 2005-06, with further price growth of around 5% building on the significant price growth of 18.6% recorded in 2004-05. Recent press reports have suggested that Australian producers are seeking much larger price increases. As a general rule, a 10% increase in the iron ore price would increase royalties by around \$40 million per annum. As in the case of petroleum royalties, partly offsetting reductions in Western Australia's share of GST grants (all other things being equal) would commence two years later (reflecting the impact of the Grants Commission process).

Revenue from Public Corporations

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

For the Water Corporation, the forward estimates assume that current sprinkler restrictions remain in place through the 2004-05 financial year. Restrictions are to be reviewed at the end of next winter, which could affect forecast revenue from the Water Corporation across the outyears.

Expenses

Health Expense Pressures

The growth in demand for health services represents a constant budget pressure to both the Department of Health and the Government. The expectation is that sufficient funding has been provided to the Department of Health to deal with increases in cost and demand pressures both in the current year and across the forward estimates. As an important step to managing any identified risks in the Department of Health budget, the demand and cost pressures are closely monitored. Should any identified risks fail to be fully mitigated, they will need to be managed as part of the overall management of the State's financial priorities and objectives.

Capital Works

In December 2004, the Government announced a \$65 million strategy to develop a defence shipbuilding hub in Western Australia should the State win the Royal Australian Navy's \$2 billion amphibious vessel contract. In keeping with usual practice, no provision is made in the current forward estimates for this announcement, as the outcome of the State's bid is contingent upon award of the contract.

The recent significant upward trend in building cost escalation will create pressure on the allowances made in major building project budgets to cover rise and fall provisions. This risk is mitigated to the extent that some projects are wholly or partly based on fixed prices (e.g. CBD Courts and a number of contracts in the New MetroRail project).

Contingent Liabilities

Contingent liabilities are costs that the Government of Western Australia will have to meet if a particular event occurs. Typically, contingent liabilities consist of guarantees, indemnities and sureties, as well as legal and contractual claims, and constitute a potential risk to the financial projections.

Details of the quantified contingent liabilities of the Treasurer as at 30 June 2004 are provided in the 2003-04 *Treasurer's Annual Statements*, released on 19 November 2004.

CHAPTER 2

Financial Strategy

Overview

The State's financial strategy is framed around a series of medium-term financial targets. These targets, as outlined in the 2004-05 mid-year review, are to:

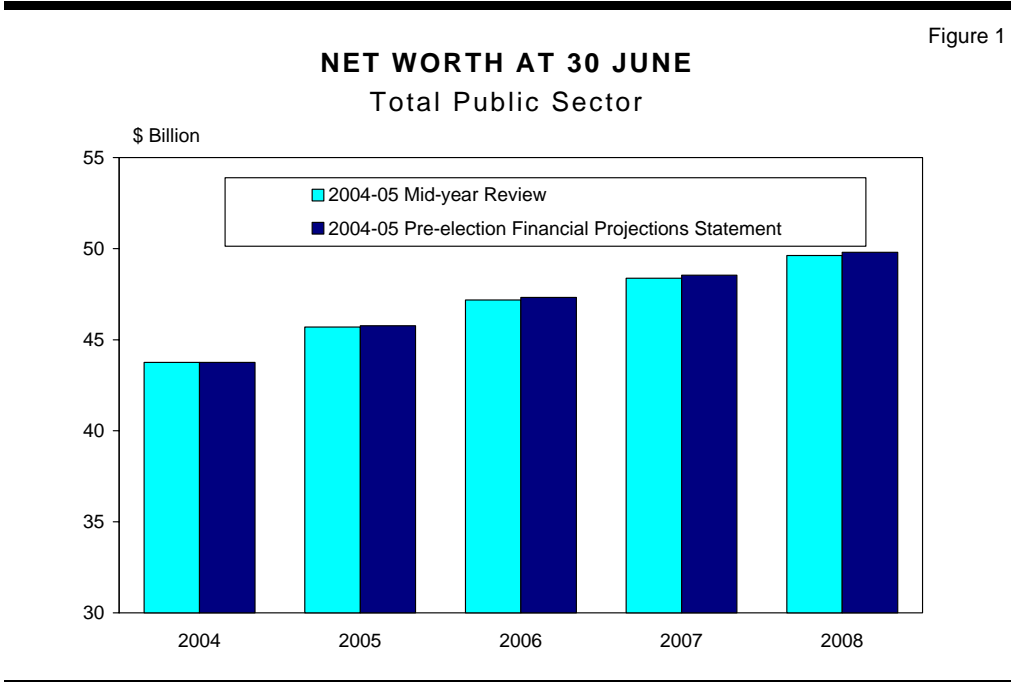
- maintain or increase the net worth of the total public sector;
- achieve an operating surplus for the general government sector;
- retain Western Australia's triple-A credit rating, represented by the following two specific targets:
 - maintain the net debt to revenue ratio for the total non-financial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

This chapter outlines adherence to these targets based on the updated financial projections contained in this PFPS.

Financial Targets

Net Worth of the Total Public Sector be Maintained or Increased

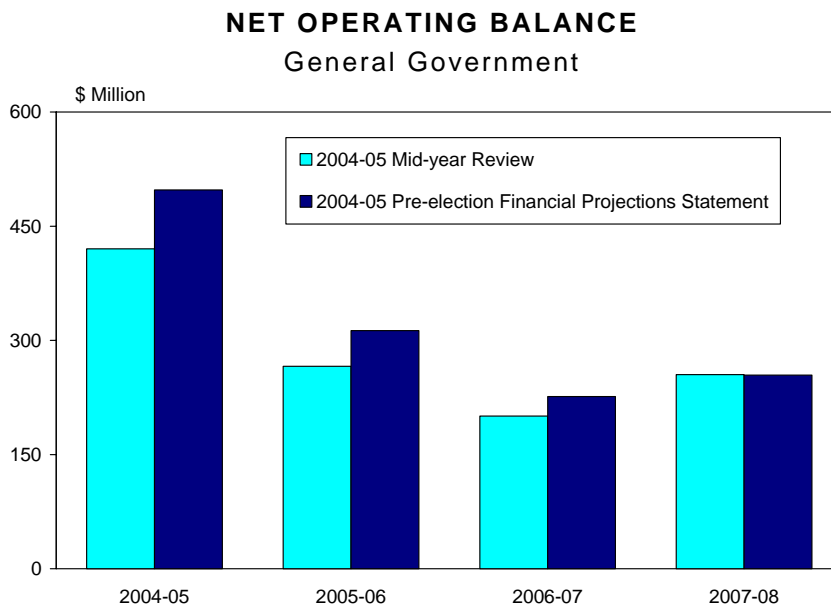
Consistent with the mid-year review, this target is expected to be achieved with total public sector net worth increasing in each year of the forward estimates, from \$43.8 billion at 30 June 2004 to an estimated \$49.8 billion by 30 June 2008.



Achieve a Net Operating Surplus for the General Government Sector

This target is projected to be met in each year of the forward estimates period. Relative to the mid-year review, the operating surplus for 2004-05 has been revised up from \$420 million to \$498 million, primarily reflecting an upward revision to conveyance duty revenue due to sustained strength in the State’s property market. Across the outyears, surpluses in the range of \$226 million to \$313 million are forecast, up slightly from the mid-year review.

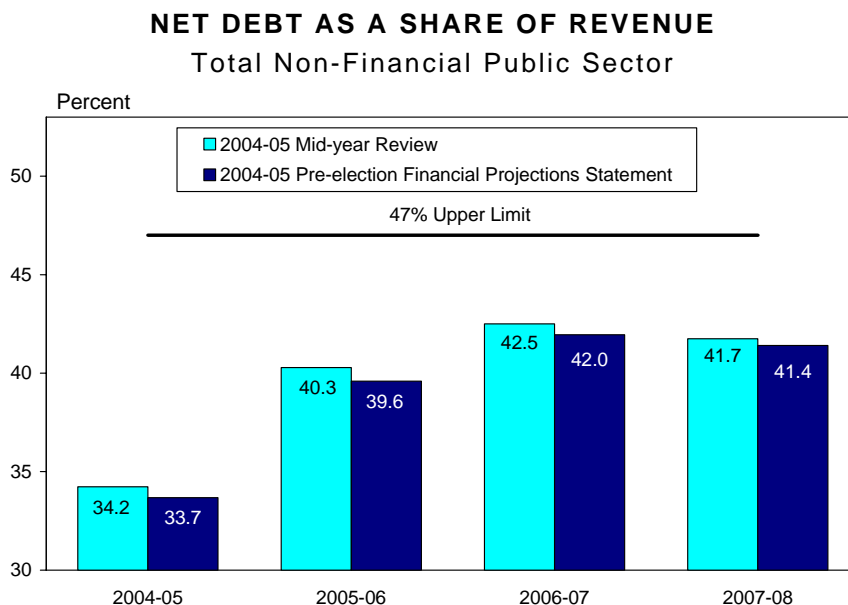
Figure 2



Maintain the Net Debt to Revenue Ratio for the Total Non-financial Public Sector at or Below 47%

As projected in the mid-year review, this target is expected to be met across the entire forward estimates period. In 2004-05, the net debt to revenue ratio is estimated at 33.7% and is projected to peak at 42.0% in 2006-07, remaining below the 47% target limit in each year.

Figure 3



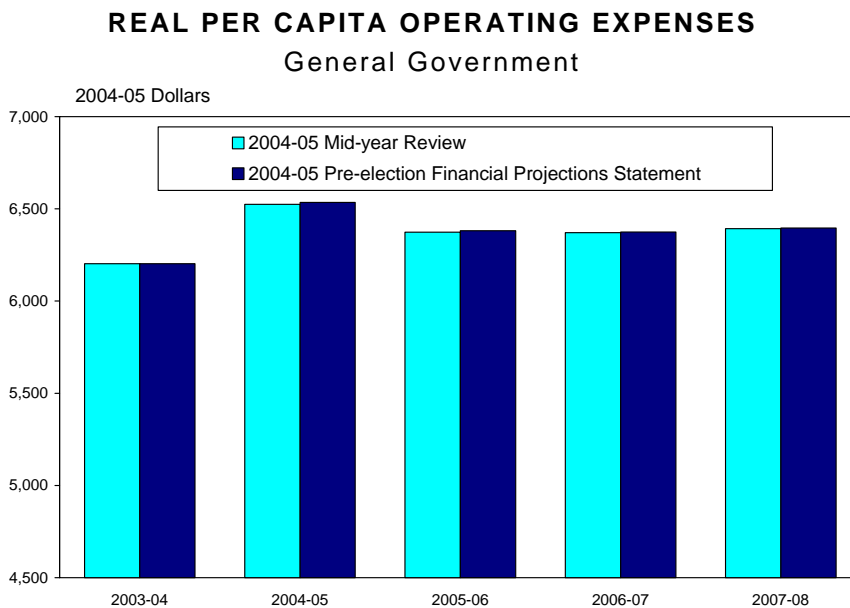
Relative to the mid-year review, the forecast net debt to revenue ratio has improved slightly in all years, reflecting lower projected net debt levels due to the higher general government operating surpluses now forecast.

Real Per Capita Expenses for the General Government Sector to not Increase

The mid-year review indicated that growth in general government expenses was expected to exceed real per capita growth in both 2004-05 and 2007-08, with the expected breach of the target in 2007-08 due to the accounting treatment of financial assistance provided to the purchasers of the Dampier to Bunbury Natural Gas Pipeline⁶.

As the revisions to general government expenses since the mid-year review are relatively modest (ranging from \$8 million to \$21 million per year) and the economic parameters (including inflation and population growth) have remained unchanged, the real per capita expense projections remain consistent with those presented in the mid-year review.

Figure 4

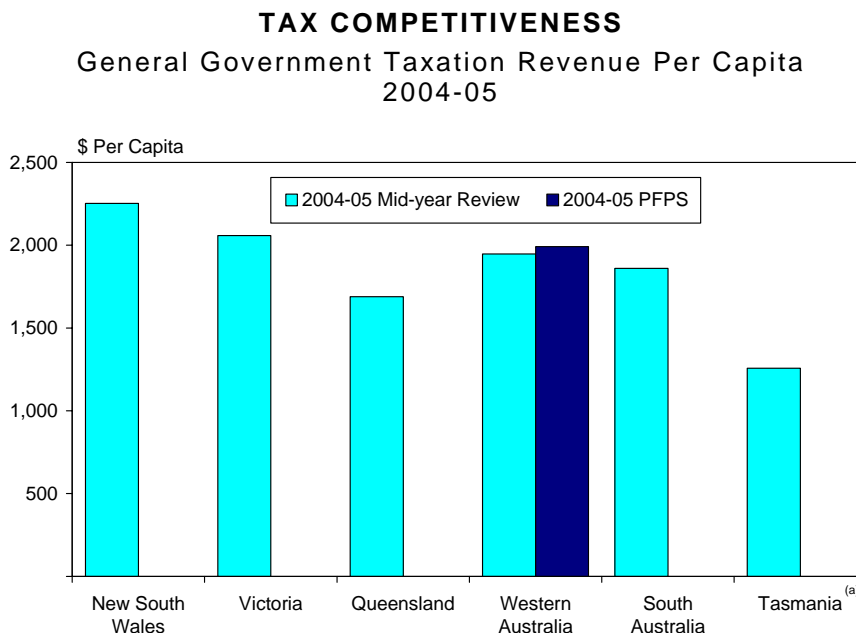


⁶ The assistance was provided in October 2004 in the form of a long-term loan which will convert to a non-repayable grant when certain commitments are satisfied. This conversion to a grant is expected to occur in 2007-08, resulting in the recognition of an \$88 million expense in that year.

Maintain Western Australia’s Tax Competitiveness

Consistent with the mid-year review, Western Australia’s taxation revenue per capita is expected to remain below that of New South Wales and Victoria in 2004-05, thus maintaining Western Australia’s interstate ranking.

Figure 5



(a) Tasmania’s mid-year review is scheduled for release in mid-February. As a result, the 2004-05 Budget estimate has been used to calculate Tasmania’s per capita taxation revenue.

The slight increase in Western Australia’s taxation revenue per capita since the mid-year review primarily reflects the upward revision to conveyance duty revenue due to sustained strength in the State’s property market.

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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GENERAL GOVERNMENT
Operating Statement

	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08
	Actual	Mid-Year	PFPS	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
REVENUE						
Taxation	4,122	3,892	3,982	3,901	4,091	4,323
Current grants and subsidies	5,583	6,312	6,328	6,511	6,622	6,897
Capital grants	295	379	381	341	333	319
Sales of goods and services	941	919	918	934	959	985
Interest income	128	146	146	145	138	145
Revenue from public corporations						
Dividends	448	436	436	425	428	437
Tax equivalent payments	310	259	259	239	257	287
Royalty income	654	789	780	764	776	775
Other	272	336	336	274	305	300
<i>Total</i>	<i>12,753</i>	<i>13,467</i>	<i>13,565</i>	<i>13,534</i>	<i>13,909</i>	<i>14,470</i>
EXPENSES						
Gross operating expenses						
Salaries	4,787	5,074	5,075	5,219	5,352	5,521
Depreciation and amortisation	546	561	561	577	602	625
Superannuation	458	496	496	505	514	526
Other gross operating expenses	2,853	3,188	3,192	3,189	3,310	3,447
Nominal superannuation interest	283	295	295	296	297	296
Other interest	165	180	180	144	148	162
Other property expenses	-	-	-	-	-	-
Current transfers	2,440	2,753	2,769	2,883	3,026	3,160
Capital transfers	421	499	499	407	434	478
<i>Total</i>	<i>11,954</i>	<i>13,047</i>	<i>13,068</i>	<i>13,221</i>	<i>13,683</i>	<i>14,216</i>
NET OPERATING BALANCE	799	420	498	313	226	254
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchase of non-financial assets	992	1,256	1,260	1,122	1,126	1,015
Sales of non-financial assets	-166	-289	-289	-193	-187	-129
<i>less</i> depreciation	546	561	561	577	602	625
<i>plus</i> change in inventories	-4	3	3	1	4	3
<i>plus</i> other movements in non-financial assets	-47	58	58	-	25	12
<i>Total</i>	<i>229</i>	<i>466</i>	<i>470</i>	<i>352</i>	<i>365</i>	<i>276</i>
NET LENDING/BORROWING	570	-46	27	-40	-139	-21
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	799	420	498	313	226	254
<i>less</i> provisions for doubtful debts	-5	1	1	1	1	1
<i>plus</i> net gains on assets (including derivatives)	-149	90	90	24	24	-6
<i>plus</i> capitalised interest	-	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	66	-	-	-	-	-
<i>plus</i> all other adjustments	-	-	-	-	3	-
AAS OPERATING RESULT	588	510	587	337	252	248

Note: Columns may not add due to rounding.

Table 1.2

GENERAL GOVERNMENT
Balance Sheet at 30 June

	2004	2005	2005	2006	2007	2008
	Actual	Mid-Year	PFPS	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	414	400	400	396	389	391
Advances paid	853	942	944	941	928	824
Investments, loans and placements	1,702	870	869	836	828	826
Other non-equity assets	926	921	920	866	839	876
Equity	18,273	18,983	18,986	19,700	20,219	20,720
<i>Total</i>	<i>22,168</i>	<i>22,115</i>	<i>22,119</i>	<i>22,739</i>	<i>23,203</i>	<i>23,638</i>
<i>Non-Financial assets</i>						
Land and fixed assets	31,621	33,143	33,147	34,197	35,156	36,068
Other non-financial assets	83	66	66	83	98	102
<i>Total</i>	<i>31,704</i>	<i>33,209</i>	<i>33,213</i>	<i>34,280</i>	<i>35,254</i>	<i>36,170</i>
TOTAL ASSETS	53,871	55,324	55,332	57,019	58,458	59,809
LIABILITIES						
Deposits held	309	266	266	260	254	254
Advances received	561	556	556	547	534	517
Borrowings	1,807	1,301	1,232	1,266	1,404	1,368
Unfunded superannuation liabilities	5,490	5,478	5,478	5,462	5,425	5,389
Other employee entitlements and provisions	1,344	1,308	1,308	1,380	1,447	1,528
Non-equity liabilities	606	725	725	786	856	953
TOTAL LIABILITIES	10,117	9,633	9,564	9,702	9,919	10,008
NET WORTH	43,754	45,691	45,768	47,318	48,538	49,800
<i>Memorandum Item: Net Debt</i>	<i>-291</i>	<i>-89</i>	<i>-160</i>	<i>-99</i>	<i>46</i>	<i>97</i>
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	43,754	45,691	45,768	47,318	48,538	49,800
<i>less equity (net worth) of PNFC and PFC sectors</i>	<i>17,847</i>	<i>18,430</i>	<i>18,430</i>	<i>19,006</i>	<i>19,385</i>	<i>19,776</i>
<i>less all other adjustments</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
AAS NET ASSETS	25,907	27,261	27,338	28,311	29,153	30,024

Note: Columns may not add due to rounding.

Table 1.3

GENERAL GOVERNMENT
Cash Flow Statement

	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08
	Actual	Mid-Year	PFPS	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	4,047	3,899	3,988	3,908	4,098	4,337
Receipts from sales of goods and services	968	950	950	949	969	1,000
Grants and subsidies received	5,829	6,680	6,697	6,859	6,960	7,218
Other receipts	2,224	2,386	2,378	2,378	2,388	2,389
<i>Total</i>	13,068	13,915	14,014	14,093	14,415	14,943
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-8,238	-9,038	-9,042	-9,123	-9,385	-9,695
Grants and subsidies paid	-2,589	-3,041	-3,057	-3,073	-3,214	-3,287
Interest paid	-171	-174	-174	-135	-140	-155
Other payments	-691	-769	-772	-765	-769	-789
<i>Total</i>	-11,688	-13,022	-13,046	-13,097	-13,508	-13,925
Net Cash Flow from Operating Activities	1,380	893	968	996	907	1,018
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-992	-1,256	-1,260	-1,122	-1,126	-1,015
Sales of non-financial assets	166	289	289	193	187	129
<i>Total</i>	-826	-966	-970	-929	-939	-886
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-122	-115	-115	-126	-109	-92
Liquidity purposes	-80	17	15	15	-	-
<i>Total</i>	-202	-97	-99	-111	-109	-92
Net Cash Flow from Investing Activities	-1,028	-1,064	-1,070	-1,040	-1,047	-978
FINANCING ACTIVITIES						
Advances received (net)	-8	-	-	-	-	-
Borrowings (net)	-158	-500	-569	39	141	-31
Deposits received (net)	-2	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	-32	-101	-101	-4	-1	-2
<i>Total</i>	-199	-600	-669	35	140	-33
<i>Opening cash balance</i>	2,538	2,690	2,690	1,918	1,909	1,909
NET INCREASE IN CASH HELD ^(a)	152	-771	-771	-9	-	7
<i>Closing cash balance</i>	2,690	1,919	1,918	1,909	1,909	1,916
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	554	-73	-2	67	-32	132
<i>less finance leases and similar arrangements</i>	-	-	-	-	-	-
Surplus	554	-73	-2	67	-32	132

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

Note: Columns may not add due to rounding.

Table 1.4

PUBLIC NON-FINANCIAL CORPORATIONS

Operating Statement

	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08
	Actual	Mid-Year	PFPS	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
REVENUE						
Current grants and subsidies	810	922	927	975	1,038	1,104
Capital grants	128	153	153	144	145	119
Sales of goods and services	5,201	5,135	5,135	5,238	5,409	5,582
Interest income	118	124	124	120	126	130
Other	310	253	253	178	178	178
<i>Total</i>	6,567	6,587	6,592	6,654	6,896	7,114
EXPENSES						
Gross operating expenses						
Salaries	480	501	501	517	544	564
Depreciation and amortisation	627	639	639	664	701	732
Superannuation	48	49	49	55	57	58
Other gross operating expenses	3,518	3,541	3,541	3,538	3,620	3,734
Nominal superannuation interest	-	-	-	-	-	-
Other interest	418	469	469	532	582	581
Other property expenses	744	690	690	659	680	719
Current transfers	472	550	555	546	569	569
Capital transfers	1	9	9	10	35	22
<i>Total</i>	6,308	6,448	6,453	6,520	6,788	6,980
NET OPERATING BALANCE	259	138	138	134	108	134
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchase of non-financial assets	1,507	2,126	2,136	2,038	1,617	1,211
Sales of non-financial assets	-441	-479	-479	-434	-447	-426
<i>less</i> depreciation	627	639	639	664	701	732
<i>plus</i> change in inventories	391	43	43	-12	5	25
<i>plus</i> other movements in non-financial assets	32	-	-	-	-25	-12
<i>Total</i>	861	1,051	1,061	929	448	65
NET LENDING/BORROWING	-602	-913	-923	-794	-341	68
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	259	138	138	134	108	134
<i>less</i> provisions for doubtful debts	5	8	8	6	6	6
<i>plus</i> net gains on assets (including derivatives)	106	93	93	84	117	119
<i>plus</i> capitalised interest	6	-	-	-	-	-
<i>less</i> revaluation of superannuation liabilities	-	-	-	-	-	-
<i>plus</i> all other adjustments	2	-19	-19	-22	-8	14
AAS OPERATING RESULT	368	203	203	191	210	261

Note: Columns may not add due to rounding.

Table 1.5

PUBLIC NON-FINANCIAL CORPORATIONS
Balance Sheet at 30 June

	2004	2005	2005	2006	2007	2008
	Actual	Mid-Year	PFPS	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	281	221	221	228	244	256
Advances paid	119	78	78	8	7	7
Investments, loans and placements	1,819	1,906	1,906	1,997	2,113	2,247
Other non-equity assets	880	1,052	1,052	1,173	1,245	1,368
Equity	5	5	5	7	7	9
<i>Total</i>	<i>3,104</i>	<i>3,263</i>	<i>3,263</i>	<i>3,413</i>	<i>3,616</i>	<i>3,887</i>
<i>Non-Financial assets</i>						
Land and fixed assets	24,162	25,737	25,746	27,287	28,123	28,644
Other non-financial assets	215	159	159	155	150	151
<i>Total</i>	<i>24,377</i>	<i>25,896</i>	<i>25,905</i>	<i>27,442</i>	<i>28,273</i>	<i>28,795</i>
TOTAL ASSETS	27,481	29,158	29,168	30,855	31,889	32,682
LIABILITIES						
Deposits held	2	1	1	1	1	1
Advances received	561	556	556	547	534	517
Borrowings	6,826	7,849	7,856	8,895	9,523	9,822
Unfunded superannuation liabilities	191	176	176	159	143	127
Other employee entitlements and provisions	316	278	278	268	256	296
Non-equity liabilities	1,618	1,707	1,707	1,694	1,643	1,639
TOTAL LIABILITIES	9,515	10,567	10,574	11,564	12,100	12,402
Shares and other contributed capital	426	553	556	694	834	944
NET WORTH	17,540	18,037	18,037	18,596	18,954	19,336
<i>Memorandum Item: Net Debt</i>	<i>5,170</i>	<i>6,201</i>	<i>6,207</i>	<i>7,210</i>	<i>7,694</i>	<i>7,830</i>
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	17,540	18,037	18,037	18,596	18,954	19,336
<i>plus</i> shares and other contributed capital	426	553	556	694	834	944
<i>less</i> all other adjustments	-	-	-	-	-	-
AAS NET ASSETS	17,966	18,591	18,594	19,290	19,789	20,280

Note: Columns may not add due to rounding.

Table 1.6

PUBLIC NON-FINANCIAL CORPORATIONS

Cash Flow Statement

	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08
	Actual	Mid-Year	PFPS	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	5,238	5,177	5,177	5,196	5,423	5,566
Grants and subsidies received	882	1,005	1,010	1,043	1,092	1,117
Other receipts	596	487	487	463	466	444
<i>Total</i>	<i>6,716</i>	<i>6,669</i>	<i>6,674</i>	<i>6,702</i>	<i>6,981</i>	<i>7,128</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-3,806	-3,998	-3,998	-3,933	-4,067	-4,230
Grants and subsidies paid	-386	-453	-458	-434	-455	-443
Interest paid	-454	-438	-438	-551	-588	-587
Other payments	-734	-646	-646	-637	-649	-636
<i>Total</i>	<i>-5,379</i>	<i>-5,535</i>	<i>-5,540</i>	<i>-5,555</i>	<i>-5,760</i>	<i>-5,896</i>
Net Cash Flow from Operating Activities	1,337	1,134	1,134	1,147	1,221	1,232
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-1,507	-2,126	-2,136	-2,038	-1,617	-1,211
Sales of non-financial assets	441	479	479	434	447	426
<i>Total</i>	<i>-1,066</i>	<i>-1,647</i>	<i>-1,656</i>	<i>-1,604</i>	<i>-1,170</i>	<i>-784</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	22	40	40	-4	-17	-82
<i>Total</i>	<i>22</i>	<i>40</i>	<i>40</i>	<i>-4</i>	<i>-17</i>	<i>-82</i>
Net Cash Flow from Investing Activities	-1,043	-1,607	-1,616	-1,608	-1,187	-867
FINANCING ACTIVITIES						
Advances received (net)	-12	-12	-12	-13	-13	-13
Borrowings (net)	175	885	892	931	521	177
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-677	-699	-699	-687	-710	-677
Other financing	180	213	215	217	188	176
<i>Total</i>	<i>-334</i>	<i>386</i>	<i>396</i>	<i>449</i>	<i>-14</i>	<i>-336</i>
<i>Opening cash balance</i>	<i>495</i>	<i>454</i>	<i>454</i>	<i>368</i>	<i>356</i>	<i>377</i>
NET INCREASE IN CASH HELD ^(a)	-40	-86	-86	-12	21	29
<i>Closing cash balance</i>	<i>454</i>	<i>368</i>	<i>368</i>	<i>356</i>	<i>377</i>	<i>406</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	<i>-406</i>	<i>-1,211</i>	<i>-1,221</i>	<i>-1,144</i>	<i>-659</i>	<i>-229</i>
<i>less finance leases and similar arrangements</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Surplus	-406	-1,211	-1,221	-1,144	-659	-229

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

Note: Columns may not add due to rounding.

Table 1.7

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

	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08
	Actual	Mid-Year	PFPS	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
REVENUE						
Taxation	3,952	3,735	3,824	3,733	3,921	4,149
Current grants and subsidies	5,583	6,312	6,328	6,511	6,622	6,897
Capital grants	295	379	381	341	333	319
Sales of goods and services	5,981	5,887	5,887	6,002	6,195	6,389
Interest income	208	226	226	223	224	237
Royalty income	654	789	780	764	776	775
Other	516	530	530	383	380	380
<i>Total</i>	<i>17,188</i>	<i>17,857</i>	<i>17,955</i>	<i>17,958</i>	<i>18,451</i>	<i>19,147</i>
EXPENSES						
Gross operating expenses						
Salaries	5,267	5,575	5,575	5,736	5,896	6,086
Depreciation and amortisation	1,173	1,200	1,200	1,241	1,304	1,357
Superannuation	506	545	545	561	571	584
Other gross operating expenses	6,099	6,456	6,460	6,446	6,644	6,887
Nominal superannuation interest	283	295	295	296	297	296
Other interest	545	606	606	633	689	705
Other property expenses	-	-	0	0	0	0
Current transfers	2,000	2,266	2,282	2,324	2,416	2,475
Capital transfers	257	356	356	273	299	369
<i>Total</i>	<i>16,129</i>	<i>17,299</i>	<i>17,320</i>	<i>17,510</i>	<i>18,117</i>	<i>18,760</i>
NET OPERATING BALANCE	1,058	559	636	447	334	388
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non financial assets	2,499	3,382	3,396	3,160	2,743	2,226
Sales of non-financial assets	-607	-769	-769	-626	-634	-556
less depreciation	1,173	1,200	1,200	1,241	1,304	1,357
plus change in inventories	387	47	47	-11	9	28
plus other movements in non-financial assets	-16	58	58	-	-	-
<i>Total</i>	<i>1,090</i>	<i>1,518</i>	<i>1,531</i>	<i>1,281</i>	<i>814</i>	<i>341</i>
NET LENDING/BORROWING	-32	-959	-896	-834	-480	47
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	1,058	559	636	447	334	388
less provisions for doubtful debts	1	9	9	6	7	7
plus net gains on assets (including derivatives)	-43	182	182	108	141	113
plus capitalised interest	6	-	-	-	-	-
less revaluation of superannuation liabilities	66	-	-	-	-	-
plus all other adjustments	1	-19	-19	-21	-5	14
AAS OPERATING RESULT	955	713	790	527	463	509

Note: Columns may not add due to rounding.

Table 1.8

TOTAL NON-FINANCIAL PUBLIC SECTOR
Balance Sheet at 30 June

	2004	2005	2005	2006	2007	2008
	Actual	Mid-Year	PFPS	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	520	502	502	516	537	554
Advances paid	411	465	467	402	402	314
Investments, loans and placements	3,521	2,776	2,775	2,833	2,941	3,074
Other non-equity assets	1,479	1,592	1,591	1,608	1,595	1,605
Equity	312	397	397	417	437	449
<i>Total</i>	<i>6,243</i>	<i>5,731</i>	<i>5,732</i>	<i>5,776</i>	<i>5,911</i>	<i>5,996</i>
<i>Non-Financial assets</i>						
Land and fixed assets	55,783	58,880	58,893	61,484	63,279	64,712
Other non-financial assets	298	225	225	238	248	253
<i>Total</i>	<i>56,081</i>	<i>59,104</i>	<i>59,118</i>	<i>61,722</i>	<i>63,527</i>	<i>64,965</i>
TOTAL ASSETS	62,323	64,835	64,850	67,498	69,438	70,961
LIABILITIES						
Deposits held	136	148	148	153	159	162
Advances received	561	556	556	547	534	517
Borrowings	8,633	9,150	9,088	10,160	10,927	11,189
Unfunded superannuation liabilities	5,681	5,654	5,654	5,622	5,568	5,516
Other employee entitlements and provisions	1,540	1,487	1,487	1,559	1,628	1,708
Non-equity liabilities	2,017	2,150	2,150	2,139	2,085	2,068
TOTAL LIABILITIES	18,569	19,144	19,082	20,180	20,900	21,161
NET WORTH	43,754	45,691	45,768	47,318	48,538	49,800
<i>Memorandum Item: Net Debt</i>	<i>4,879</i>	<i>6,111</i>	<i>6,047</i>	<i>7,110</i>	<i>7,740</i>	<i>7,927</i>
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	43,754	45,691	45,768	47,318	48,538	49,800
<i>less equity (net worth) of the PFC sector</i>	<i>307</i>	<i>392</i>	<i>392</i>	<i>410</i>	<i>431</i>	<i>440</i>
<i>less all other adjustments</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
AAS NET ASSETS	43,447	45,299	45,376	46,907	48,108	49,360

Note: Columns may not add due to rounding.

Table 1.9

TOTAL NON-FINANCIAL PUBLIC SECTOR
Cash Flow Statement

	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08
	Actual	Mid-Year	PFPS	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	3,878	3,740	3,829	3,739	3,926	4,161
Receipts from sales of goods and services	6,052	5,964	5,964	5,977	6,223	6,391
Grants and subsidies received	5,829	6,680	6,697	6,859	6,960	7,218
Other receipts	2,063	2,078	2,071	2,055	2,036	2,040
<i>Total</i>	<i>17,821</i>	<i>18,462</i>	<i>18,561</i>	<i>18,631</i>	<i>19,145</i>	<i>19,810</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-11,885	-12,869	-12,873	-12,885	-13,278	-13,745
Grants and subsidies paid	-2,079	-2,473	-2,490	-2,449	-2,562	-2,595
Interest paid	-585	-579	-579	-657	-701	-715
Other payments	-1,233	-1,213	-1,217	-1,183	-1,187	-1,182
<i>Total</i>	<i>-15,782</i>	<i>-17,134</i>	<i>-17,158</i>	<i>-17,174</i>	<i>-17,727</i>	<i>-18,237</i>
Net Cash Flow from Operating Activities	2,039	1,328	1,403	1,457	1,418	1,573
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-2,499	-3,382	-3,396	-3,160	-2,743	-2,226
Sales of non-financial assets	607	769	769	626	634	556
<i>Total</i>	<i>-1,892</i>	<i>-2,613</i>	<i>-2,627</i>	<i>-2,533</i>	<i>-2,109</i>	<i>-1,670</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	15	-	-	-	-	-
Liquidity purposes	-58	58	56	11	-16	-83
<i>Total</i>	<i>-42</i>	<i>58</i>	<i>56</i>	<i>11</i>	<i>-16</i>	<i>-83</i>
Net Cash Flow from Investing Activities	-1,934	-2,555	-2,571	-2,523	-2,125	-1,753
FINANCING ACTIVITIES						
Advances received (net)	-20	-12	-12	-13	-13	-13
Borrowings (net)	18	385	323	970	662	146
Deposits received (net)	-2	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	10	-3	-	87	78	83
<i>Total</i>	<i>6</i>	<i>370</i>	<i>310</i>	<i>1,044</i>	<i>728</i>	<i>216</i>
<i>Opening cash balance</i>	<i>3,032</i>	<i>3,144</i>	<i>3,144</i>	<i>2,286</i>	<i>2,265</i>	<i>2,286</i>
NET INCREASE IN CASH HELD ^(a)	112	-857	-857	-22	21	36
<i>Closing cash balance</i>	<i>3,144</i>	<i>2,287</i>	<i>2,286</i>	<i>2,265</i>	<i>2,286</i>	<i>2,322</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	<i>148</i>	<i>-1,285</i>	<i>-1,223</i>	<i>-1,077</i>	<i>-691</i>	<i>-97</i>
<i>less finance leases and similar arrangements</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Surplus	148	-1,285	-1,223	-1,077	-691	-97

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

Note: Columns may not add due to rounding.

Table 1.10

PUBLIC FINANCIAL CORPORATIONS
Operating Statement

	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08
	Actual	Mid-Year	PFPS	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
REVENUE						
Current grants and subsidies	-	2	2	1	1	1
Capital grants	-	-	-	-	-	-
Sales of goods and services	634	587	587	610	633	667
Interest income	937	948	948	975	1,008	1,071
Other	30	1	1	-	-	-
<i>Total</i>	<i>1,601</i>	<i>1,537</i>	<i>1,537</i>	<i>1,585</i>	<i>1,641</i>	<i>1,739</i>
EXPENSES						
Gross operating expenses						
Salaries	19	21	21	21	22	23
Depreciation and amortisation	4	4	4	3	4	4
Superannuation	2	2	2	2	2	2
Other gross operating expenses	584	549	549	626	650	699
Nominal superannuation interest	-	-	-	-	0	-
Other interest	856	774	774	801	830	887
Other property expenses	15	5	5	5	5	5
Current transfers	2	3	3	2	2	2
Capital transfers	-	1	1	1	1	1
<i>Total</i>	<i>1,481</i>	<i>1,359</i>	<i>1,359</i>	<i>1,462</i>	<i>1,515</i>	<i>1,624</i>
NET OPERATING BALANCE	120	178	178	124	126	115
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	3	4	4	3	4	4
Sales of non-financial assets	-	-	-	-1	-	-
<i>less</i> depreciation	<i>4</i>	<i>4</i>	<i>4</i>	<i>3</i>	<i>4</i>	<i>4</i>
<i>plus</i> change in inventories	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>plus</i> other movements in non-financial assets	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Total</i>	<i>-2</i>	<i>-</i>	<i>-</i>	<i>-2</i>	<i>-</i>	<i>-</i>
NET LENDING/BORROWING	122	178	178	125	126	115
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	120	178	178	124	126	115
<i>less</i> provisions for doubtful debts	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>plus</i> net gains on assets (including derivatives)	<i>-18</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>plus</i> capitalised interest	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>less</i> revaluation of superannuation liabilities	<i>-4</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>plus</i> all other adjustments	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
AAS OPERATING RESULT	105	178	178	124	126	115

Note: Columns may not add due to rounding.

Table 1.11

PUBLIC FINANCIAL CORPORATIONS
Balance Sheet at 30 June

	2004	2005	2005	2006	2007	2008
	Actual	Mid-Year	PFPS	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	18	28	28	32	39	25
Advances paid	1,366	1,553	1,553	1,666	1,767	1,856
Investments, loans and placements	12,792	13,323	13,326	14,076	14,683	14,943
Other non-equity assets	469	450	450	448	447	448
Equity	899	958	958	1,024	1,105	1,184
<i>Total</i>	<i>15,544</i>	<i>16,312</i>	<i>16,315</i>	<i>17,246</i>	<i>18,041</i>	<i>18,455</i>
<i>Non-Financial assets</i>						
Land and fixed assets	324	343	343	363	391	417
Other non-financial assets	-	17	17	17	16	15
<i>Total</i>	<i>324</i>	<i>359</i>	<i>359</i>	<i>380</i>	<i>407</i>	<i>433</i>
TOTAL ASSETS	15,868	16,672	16,675	17,626	18,447	18,888
LIABILITIES						
Deposits held	-	-	-	-	-	-
Advances received	3	3	3	3	3	3
Borrowings	13,487	14,160	14,163	14,985	15,646	15,928
Unfunded superannuation liabilities	12	11	11	11	10	9
Other employee entitlements and provisions	7	7	7	7	7	7
Non-equity liabilities	2,052	2,098	2,098	2,211	2,351	2,501
TOTAL LIABILITIES	15,561	16,280	16,282	17,216	18,017	18,448
Shares and other contributed capital	-	-	-	-	-	-
NET WORTH	307	392	392	410	431	440
<i>Memorandum Item: Net Debt</i>	<i>-685</i>	<i>-741</i>	<i>-741</i>	<i>-786</i>	<i>-839</i>	<i>-892</i>
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	307	392	392	410	431	440
<i>plus</i> shares and other contributed capital	-	-	-	-	-	-
<i>less</i> all other adjustments	-	-	-	-	-	-
AAS NET ASSETS	307	392	392	410	431	440

Note: Columns may not add due to rounding.

Table 1.12

PUBLIC FINANCIAL CORPORATIONS
Cash Flow Statement

	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08
	Actual	Mid-Year	PFPS	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	572	576	576	590	621	651
Grants and subsidies received	-	2	2	1	1	1
Other receipts	940	904	904	934	968	1,033
<i>Total</i>	<i>1,512</i>	<i>1,482</i>	<i>1,482</i>	<i>1,525</i>	<i>1,590</i>	<i>1,685</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-520	-515	-515	-526	-535	-573
Grants and subsidies paid	-2	-2	-2	-	-	-
Interest paid	-852	-776	-776	-802	-830	-888
Other payments	-126	-85	-85	-94	-98	-101
<i>Total</i>	<i>-1,499</i>	<i>-1,377</i>	<i>-1,377</i>	<i>-1,421</i>	<i>-1,463</i>	<i>-1,562</i>
Net Cash Flow from Operating Activities	12	105	105	103	128	123
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-3	-4	-4	-3	-4	-4
Sales of non-financial assets	-	-	-	1	-	-
<i>Total</i>	<i>-3</i>	<i>-4</i>	<i>-4</i>	<i>-2</i>	<i>-4</i>	<i>-4</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	-	-	-	-	-	-
Liquidity purposes	-54	-266	-266	-203	-212	-195
<i>Total</i>	<i>-54</i>	<i>-266</i>	<i>-266</i>	<i>-203</i>	<i>-212</i>	<i>-195</i>
Net Cash Flow from Investing Activities	-56	-271	-271	-205	-216	-199
FINANCING ACTIVITIES						
Advances received (net)	-	-	-	-	-	-
Borrowings (net)	295	178	178	114	103	70
Deposits received (net)	-	-	-	-	-	-
Distributions paid	-15	-5	-5	-5	-5	-5
Other financing	-	-	-	-	-	-
<i>Total</i>	<i>280</i>	<i>173</i>	<i>173</i>	<i>109</i>	<i>98</i>	<i>65</i>
<i>Opening cash balance</i>	<i>2,547</i>	<i>2,783</i>	<i>2,783</i>	<i>2,790</i>	<i>2,798</i>	<i>2,808</i>
NET INCREASE IN CASH HELD ^(a)	236	8	8	8	10	-11
<i>Closing cash balance</i>	<i>2,783</i>	<i>2,790</i>	<i>2,790</i>	<i>2,798</i>	<i>2,808</i>	<i>2,797</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	<i>-5</i>	<i>96</i>	<i>96</i>	<i>97</i>	<i>119</i>	<i>114</i>
<i>less finance leases and similar arrangements</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Surplus	-5	96	96	97	119	114

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

Note: Columns may not add due to rounding.

Table 1.13

TOTAL PUBLIC SECTOR
Operating Statement

	2003-04 Actual	2004-05 Mid-Year Estimate	2004-05 PFPS Revision	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
REVENUE						
Taxation	3,950	3,734	3,823	3,732	3,919	4,148
Current grants and subsidies	5,583	6,312	6,328	6,511	6,622	6,897
Capital grants	295	379	381	341	333	319
Sales of goods and services	6,488	6,341	6,340	6,461	6,666	6,881
Interest income	580	556	556	555	524	581
Royalty income	654	789	780	764	776	775
Other	518	524	524	378	375	374
<i>Total</i>	<i>18,069</i>	<i>18,634</i>	<i>18,732</i>	<i>18,743</i>	<i>19,215</i>	<i>19,977</i>
EXPENSES						
Gross operating expenses						
Salaries	5,286	5,595	5,596	5,757	5,918	6,109
Depreciation and amortisation	1,177	1,204	1,204	1,245	1,307	1,361
Superannuation	508	547	547	562	573	586
Other gross operating expenses	6,556	6,873	6,876	6,922	7,132	7,412
Nominal superannuation interest	283	295	295	296	297	296
Other interest	836	762	762	792	811	865
Other property expenses	-	-	-	-	-	-
Current transfers	1,988	2,265	2,281	2,324	2,416	2,475
Capital transfers	257	357	357	274	300	370
<i>Total</i>	<i>16,890</i>	<i>17,897</i>	<i>17,918</i>	<i>18,172</i>	<i>18,754</i>	<i>19,473</i>
NET OPERATING BALANCE	1,178	737	814	571	460	503
NET ACQUISITION OF NON-FINANCIAL ASSETS						
Purchases of non-financial assets	2,502	3,386	3,400	3,163	2,747	2,229
Sales of non-financial assets	-607	-769	-769	-628	-634	-556
less depreciation	1,177	1,204	1,204	1,245	1,307	1,361
plus change in inventories	387	47	47	-11	9	28
plus other movements in non-financial assets	-16	58	58	-	-	-
<i>Total</i>	<i>1,088</i>	<i>1,518</i>	<i>1,532</i>	<i>1,280</i>	<i>814</i>	<i>341</i>
NET LENDING/BORROWING	90	-781	-718	-708	-354	162
Reconciliation of GFS net operating balance to operating result obtained in accordance with Australian Accounting Standards (AAS)						
NET OPERATING BALANCE	1,178	737	814	571	460	503
less provisions for doubtful debts	1	9	9	7	7	7
plus net gains on assets (including derivatives)	-61	182	182	108	141	113
plus capitalised interest	6	-	-	-	-	-
less revaluation of superannuation liabilities	63	-	-	-	-	-
plus all other adjustments	38	-19	-19	-21	-5	14
AAS OPERATING RESULT	1,098	891	968	651	589	624

Note: Columns may not add due to rounding.

Table 1.14

TOTAL PUBLIC SECTOR
Balance Sheet at 30 June

	2004	2005	2005	2006	2007	2008
	Actual	Mid-Year	PFPS	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
ASSETS						
<i>Financial assets</i>						
Cash and deposits	538	530	530	548	575	578
Advances paid	1,773	2,014	2,016	2,065	2,165	2,167
Investments, loans and placements	6,421	5,484	5,540	5,045	4,827	4,809
Other non-equity assets	1,737	1,863	1,863	1,884	1,876	1,893
Equity	904	963	963	1,030	1,111	1,193
<i>Total</i>	<i>11,373</i>	<i>10,854</i>	<i>10,911</i>	<i>10,574</i>	<i>10,554</i>	<i>10,641</i>
<i>Non-Financial assets</i>						
Land and fixed assets	56,107	59,222	59,236	61,847	63,670	65,130
Other non-financial assets	298	241	241	255	264	268
<i>Total</i>	<i>56,405</i>	<i>59,464</i>	<i>59,477</i>	<i>62,102</i>	<i>63,934</i>	<i>65,398</i>
TOTAL ASSETS	67,777	70,317	70,389	72,675	74,488	76,039
LIABILITIES						
Deposits held	136	148	148	153	158	162
Advances received	561	556	556	547	534	517
Borrowings	12,229	12,695	12,689	13,282	13,775	13,911
Unfunded superannuation liabilities	5,694	5,665	5,665	5,632	5,578	5,524
Other employee entitlements and provisions	1,545	1,492	1,492	1,564	1,634	1,714
Non-equity liabilities	3,858	4,070	4,070	4,179	4,270	4,411
TOTAL LIABILITIES	24,023	24,627	24,621	25,358	25,949	26,238
NET WORTH	43,754	45,691	45,768	47,318	48,538	49,800
<i>Memorandum Item: Net Debt</i>	<i>4,194</i>	<i>5,371</i>	<i>5,307</i>	<i>6,324</i>	<i>6,901</i>	<i>7,035</i>
Reconciliation of GFS net worth to net assets result obtained in accordance with Australian Accounting Standards (AAS)						
NET WORTH	43,754	45,691	45,768	47,318	48,538	49,800
<i>less all other adjustments</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
AAS NET ASSETS	43,754	45,691	45,768	47,318	48,538	49,800

Note: Columns may not add due to rounding.

TOTAL PUBLIC SECTOR
Cash Flow Statement

	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08
	Actual	Mid-Year	PFPS	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
RECEIPTS FROM OPERATING ACTIVITIES						
Taxes received	3,840	3,704	3,793	3,703	3,889	4,123
Receipts from sales of goods and services	6,492	6,422	6,422	6,429	6,686	6,869
Grants and subsidies received	5,829	6,680	6,697	6,859	6,960	7,218
Other receipts	2,368	2,364	2,356	2,295	2,259	2,313
<i>Total</i>	<i>18,529</i>	<i>19,170</i>	<i>19,269</i>	<i>19,285</i>	<i>19,794</i>	<i>20,523</i>
PAYMENTS FOR OPERATING ACTIVITIES						
Payments for goods and services	-12,273	-13,264	-13,268	-13,272	-13,654	-14,145
Grants and subsidies paid	-2,080	-2,473	-2,490	-2,448	-2,561	-2,595
Interest paid	-828	-752	-752	-777	-797	-850
Other payments	-1,311	-1,252	-1,255	-1,233	-1,241	-1,242
<i>Total</i>	<i>-16,492</i>	<i>-17,741</i>	<i>-17,765</i>	<i>-17,730</i>	<i>-18,254</i>	<i>-18,832</i>
Net Cash Flow from Operating Activities	2,037	1,428	1,503	1,555	1,540	1,691
INVESTMENT IN NON-FINANCIAL ASSETS						
Purchase of non-financial assets	-2,502	-3,386	-3,400	-3,163	-2,747	-2,229
Sales of non-financial assets	607	769	769	628	634	556
<i>Total</i>	<i>-1,894</i>	<i>-2,617</i>	<i>-2,631</i>	<i>-2,535</i>	<i>-2,113</i>	<i>-1,674</i>
INVESTMENT IN FINANCIAL ASSETS						
Policy purposes	15	-	-	-	-	-
Liquidity purposes	-111	-209	-211	-192	-228	-278
<i>Total</i>	<i>-96</i>	<i>-208</i>	<i>-210</i>	<i>-192</i>	<i>-228</i>	<i>-278</i>
Net Cash Flow from Investing Activities	-1,991	-2,826	-2,841	-2,727	-2,341	-1,952
FINANCING ACTIVITIES						
Advances received (net)	-20	-12	-12	-13	-13	-13
Borrowings (net)	313	564	501	1,083	766	216
Deposits received (net)	-2	-	-	-	-	-
Distributions paid	-	-	-	-	-	-
Other financing	10	-3	-	87	78	83
<i>Total</i>	<i>301</i>	<i>548</i>	<i>489</i>	<i>1,158</i>	<i>831</i>	<i>286</i>
<i>Opening cash balance</i>	<i>5,579</i>	<i>5,927</i>	<i>5,927</i>	<i>5,077</i>	<i>5,063</i>	<i>5,093</i>
NET INCREASE IN CASH HELD ^(a)	348	-849	-850	-14	30	25
<i>Closing cash balance</i>	<i>5,927</i>	<i>5,077</i>	<i>5,077</i>	<i>5,063</i>	<i>5,093</i>	<i>5,118</i>
<i>Net cash from operating activities, investments in non-financial assets and distributions paid</i>	<i>143</i>	<i>-1,189</i>	<i>-1,128</i>	<i>-980</i>	<i>-572</i>	<i>17</i>
<i>less finance leases and similar arrangements</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Surplus	143	-1,189	-1,128	-980	-572	17

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

Note: Columns may not add due to rounding.

Table 1.16

SPENDING BY GOVERNMENT PURPOSE CLASSIFICATION**General Government**

	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08
	Actual	Mid-Year	PFPS	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
EXPENSES						
General Public Services	390	305	302	346	336	326
Public Order and Safety	1,296	1,425	1,426	1,465	1,521	1,568
Education	3,250	3,485	3,485	3,563	3,703	3,833
Health	2,953	3,179	3,182	3,301	3,472	3,653
Social Security and Welfare	538	586	586	608	632	658
Housing and Community Amenities	862	954	956	955	938	925
Recreation and Culture	353	420	423	382	412	401
Fuel and Energy	82	108	108	105	102	102
Agriculture, Forestry, Fishing and Hunting	291	324	333	331	350	345
Mining and Mineral Resources (other than Fuels), Manufacturing and Construction	157	137	137	140	129	120
Transport and Communications	1,089	1,343	1,343	1,301	1,363	1,544
Other Economic Affairs	244	307	308	282	282	281
Other Purposes	448	476	479	440	445	458
TOTAL EXPENSES	11,954	13,047	13,068	13,221	13,683	14,216
PURCHASES OF NON-FINANCIAL ASSETS						
General Public Services	181	167	167	182	221	178
Public Order and Safety	65	174	175	177	190	136
Education	180	160	160	191	193	166
Health	118	216	216	170	143	150
Social Security and Welfare	6	15	15	16	13	8
Housing and Community Amenities	111	93	93	72	63	49
Recreation and Culture	49	69	69	47	42	70
Fuel and Energy	1	2	2	2	1	1
Agriculture, Forestry, Fishing and Hunting	16	28	28	22	31	10
Mining and Mineral Resources (other than Fuels), Manufacturing and Construction	3	17	17	6	3	2
Transport and Communications	250	290	293	216	207	236
Other Economic Affairs	12	24	24	22	21	9
Other Purposes	-	-	-	-	-	-
TOTAL PURCHASES OF NON-FINANCIAL ASSETS	992	1,256	1,260	1,122	1,126	1,015

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

	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08
	Actual	Mid-Year	PFPS	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
TAXATION						
Taxes on employers' payroll and labour force						
<i>Payroll tax</i>	1,139	1,183	1,183	1,224	1,283	1,365
Property taxes						
<i>Land tax</i>	280	310	310	313	334	357
Conveyances and transfers	1,207	967	1,047	966	1,023	1,085
Mortgages	115	109	121	116	123	131
Other stamp duties	53	34	31	31	33	35
<i>Total stamp duties on financial and capital transactions</i>	1,375	1,110	1,200	1,113	1,179	1,251
Debits Tax	97	96	96	8	-	-
<i>Total financial institutions taxes</i>	97	96	96	8	-	-
Metropolitan Region Improvement Tax	44	48	48	51	55	58
Emergency Services Levy	75	118	118	124	129	133
Loan guarantee fees	10	11	11	12	12	13
<i>Total other property taxes</i>	129	177	177	187	196	204
Taxes on provision of goods and services						
Lotteries Commission	95	96	96	98	100	101
less rebates	-20	-20	-20	-21	-21	-22
Video lottery terminals	-	1	1	1	1	1
Casino Tax	47	45	45	46	47	48
less rebates	-24	-25	-25	-25	-25	-26
TAB betting tax	56	53	53	56	58	61
less rebates	-22	-24	-24	-25	-26	-27
<i>Total taxes on gambling</i>	132	126	126	130	133	136
Contribution to fire brigades	31	-	-	-	-	-
Stamp duty on insurance policies	279	256	256	266	279	293
Other	19	21	21	22	21	22
<i>Total taxes on insurance</i>	328	276	276	287	300	315
Taxes on use of goods and performance of activities						
Stamp duty on vehicle licences	273	259	259	269	282	296
Permits – oversize vehicles and loads	3	2	2	2	2	2
Motor vehicle recording fee	45	45	37	30	31	32
Motor vehicle registrations	320	309	317	338	351	366
<i>Total motor vehicle taxes</i>	641	615	614	639	666	695
Total Taxation	4,122	3,892	3,982	3,901	4,091	4,323

Note: Columns may not add due to rounding.

Table 2.1 (cont)

OPERATING REVENUE
General Government

	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08
	Actual	Mid-Year	PFPS	Forward	Forward	Forward
	\$m	Estimate	Revision	Estimate	Estimate	Estimate
		\$m	\$m	\$m	\$m	\$m
CURRENT GRANTS AND SUBSIDIES						
<i>General Purpose Grants</i>						
GST revenue grants	3,158	3,639	3,628	3,756	3,847	4,051
Competition reform	34	35	54	39	41	42
<i>Specific Purpose Grants to the State</i>						
Australian Health Care Agreement	730	791	791	816	861	911
Other health	251	259	259	257	266	270
Schools assistance – government schools	207	215	215	226	237	249
Vocational training	92	94	94	94	96	98
Roads	30	32	32	36	36	36
Other	111	120	121	177	142	135
<i>Specific Purpose Grants through the State</i>						
Schools assistance – non-government schools	432	454	454	490	527	565
Local government grants	103	104	104	109	113	117
Local government roads	71	72	72	75	78	81
<i>Other Grants</i>						
North West Shelf royalties	363	496	503	436	379	343
Total Current Grants and Subsidies	5,583	6,312	6,328	6,511	6,622	6,897
CAPITAL GRANTS						
<i>Specific Purpose Grants to the State</i>						
Roads	47	101	101	64	61	71
Schools assistance – government schools	25	25	25	26	26	23
Vocational training	15	23	23	15	16	19
Other	198	219	221	225	219	195
<i>Specific Purpose Grants through the State</i>						
Schools assistance – non-government schools	10	10	10	10	10	11
Total Capital Grants	295	379	381	341	333	319

Note: Columns may not add due to rounding.

Table 2.1 (cont)

OPERATING REVENUE
General Government

	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08
	Actual	Mid-Year	PFPS	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	93	115	115	113	116	119
Department of Health	159	168	168	164	165	167
Department of Education and Training	116	131	131	137	139	140
TAFE Colleges	84	79	79	81	81	82
Department of Land Information	66	66	66	62	65	70
Department of Justice	55	51	51	51	52	52
Department of Conservation and Land Management	36	30	30	29	29	28
Department of Consumer and Employment Protection	23	24	24	27	29	30
Department of Fisheries	22	23	23	23	24	24
Department of Culture and the Arts	20	18	18	18	18	18
Police Service	18	16	16	13	14	14
All Others	249	198	198	215	226	240
Total Sales of Goods and Services	941	919	918	934	959	985
INTEREST INCOME	128	146	146	145	138	145
REVENUE FROM PUBLIC CORPORATIONS						
Dividends	448	436	436	425	428	437
Tax Equivalent Regime	310	259	259	239	257	287
Total Revenue from Public Corporations	758	695	695	664	685	724
ROYALTY INCOME						
Revenue from Territorial less petroleum and other refunds	676	809	800	773	783	781
	-22	-20	-20	-9	-7	-6
Total Royalty Income	654	789	780	764	776	775
OTHER						
Lease rentals	40	40	40	43	43	43
Fines	79	76	77	79	79	79
Revenue not elsewhere counted	153	219	219	152	183	178
Total Other	272	336	336	274	305	300
GRAND TOTAL	12,753	13,467	13,565	13,534	13,909	14,470

Note: Columns may not add due to rounding.

APPENDIX 3

Policy Decisions Affecting Expenses Since the Mid-year Review

This appendix provides a breakdown of the variations in general government expenses due to policy decisions made since the 6 December 2004 cut-off date for the 2004-05 *Government Mid-year Financial Projections Statement*.

SUMMARY OF EXPENSE DECISIONS SINCE THE 2004-05 MID-YEAR REVIEW

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Conservation and Land Management	0.3	-	-	-
Education and Training	-	4.7	6.5	8.2
Education Services	0.3	-	-	-
Health	3.0	-	-	-
Industry and Resources	-	1.0	0.7	0.7
Legal Aid Commission	1.1	-	-	-
Office of Energy	0.2	-	-	-
Planning and Infrastructure	-	0.6	0.6	0.6
Premier and Cabinet	4.3	-	-	-
Public Transport Authority	-	0.8	3.1	3.2
Sport and Recreation	3.2	3.7	0.2	-0.3
Tourism	1.0	3.9	3.9	4.4
Treasury and Finance ^(a)	5.3	4.0	0.9	1.0
Water and Rivers Commission	1.0	2.0	2.0	-
TOTAL	19.7	20.7	17.8	17.7

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

Note: Columns may not add due to rounding.

Details of individual decisions by agency are provided below.

Conservation and Land Management

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Recovery costs for Noisy Scrub-bird species	0.3	-	-	-
Total	0.3	-	-	-

Note: Totals may not add due to rounding.

- \$0.3 million has been allocated in 2004-05 to assist the recovery of the Noisy Scrub-bird species, the habitat of which was adversely affected by the wildfire at the Mt Manypeaks Nature Reserve on 31 December 2004.

Education and Training

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Training initiatives	-	2.7	4.5	6.2
Literacy and numeracy initiatives	-	2.0	2.0	2.0
Total	-	4.7	6.5	8.2

Note: Totals may not add due to rounding.

- \$13.4 million has been allocated over the forward estimates period for training initiatives.
- Funding of \$2.0 million per annum from 2005-06 onwards has been provided for literacy and numeracy initiatives.

Education Services

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Geraldton Universities Centre	0.3	-	-	-
Total	0.3	-	-	-

Note: Totals may not add due to rounding.

- A grant of \$325,000 is to be provided to the University of Western Australia for the Geraldton Universities Centre.

Health

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Royal Flying Doctor Service Western Operations (RFDS)	3.0	-	-	-
Total	3.0	-	-	-

Note: Totals may not add due to rounding.

- \$3.0 million has been provided to the RFDS in 2004-05 to meet increasing demand (including from strong growth in the mining and tourism industries, particularly in the north of the State) and rising fuel costs.

Industry and Resources

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
International Trade Office	-	0.8	0.5	0.5
Promotion at international trade exhibitions	-	0.2	0.2	0.2
Total	-	1.0	0.7	0.7

Note: Totals may not add due to rounding.

- \$1.8 million over the forward estimates period has been allocated to establish a Trade Office in the United States of America.
- \$0.2 million per annum from 2005-06 has been allocated for the purpose of promoting Western Australia at international trade exhibitions.

Legal Aid Commission

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Expensive cases	1.1	-	-	-
Total	1.1	-	-	-

Note: Totals may not add due to rounding.

- \$1.1 million has been provided in 2004-05 to ensure legal representation for pending expensive criminal cases, which are funded on an emerging basis.

Office of Energy

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Specialist commercial risk advice	0.2	-	-	-
Total	0.2	-	-	-

Note: Totals may not add due to rounding.

- Supplementary funding of \$0.2 million has been provided for specialist commercial risk advice relating to the October 2004 sale of the Dampier to Bunbury Natural Gas Pipeline.

Planning and Infrastructure

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Concessions for probationary drivers	-	0.6	0.6	0.6
Total	-	0.6	0.6	0.6

Note: Totals may not add due to rounding.

- Motor vehicle related concessions will be provided to probationary drivers at a cost of \$635,000 per annum from 2005-06.

Premier and Cabinet

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Tsunami relief	4.0	-	-	-
Community awareness and information	0.3	-	-	-
Total	4.3	-	-	-

Note: Totals may not add due to rounding.

- The State Government donated \$2.0 million in 2004-05 to the Australian Red Cross on behalf of the people of Western Australia, to help with the massive recovery effort in the wake of the tsunami that has devastated the Indian Ocean region.
- In addition, the State Government has committed to match the proceeds raised by the Sting concert at Leeuwin Estate on 10 February 2005 for the tsunami relief effort, for which a provision of \$2.0 million has been included in the estimates.
- \$275,000 has been allocated in 2004-05 for a community awareness and information program.

Public Transport Authority

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Initiatives to improve bus services	-	0.8	3.1	3.2
Total	-	0.8	3.1	3.2

Note: Totals may not add due to rounding.

- Additional spending of \$7.0 million over the forward estimates period has been approved for initiatives to improve bus services.

Sport and Recreation

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Public swimming pool for Mindarie area	-	2.0	0.5	-
Western Australian Netball Association (Inc)	-	2.0	-	-
Perth Hockey Stadium (Inc)	3.1	-0.3	-0.3	-0.3
Implementation of the sports assistance package	0.1	-	-	-
Total	3.2	3.7	0.2	-0.3

Note: Totals may not add due to rounding.

- A public swimming pool is to be constructed in the Mindarie/Clarkson/Quinns Rocks area.
- \$2.0 million has been allocated in 2005-06 to progress the WA Netball Association's plan for a State Training Centre. This is in addition to \$3.0 million already allocated in 2006-07 from the Sporting Facilities Infrastructure Fund, which is administered by the Department of Sport and Recreation. It is envisaged that the State Training Centre will include up to seven courts while providing a permanent training venue for the Perth Orioles and a permanent playing venue for the State Netball League.
- \$3.1 million has been allocated in 2004-05 to extinguish the Government's remaining commitments (approximately \$0.3 million per annum for the next 16 years) on the Perth Hockey Stadium loan. This early retirement of debt will free up cash flows to enable the Perth Hockey Stadium (Inc) to establish a sinking fund for the regular replacement of pitch surfaces.
- \$0.1 million has been allocated in 2004-05 to help manage the implementation of the various sports assistance packages recently announced by the Government.

Tourism

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Tourism initiatives	1.0	3.9	3.9	4.4
Total	1.0	3.9	3.9	4.4

Note: Totals may not add due to rounding.

- Additional funding of \$13.1 million over the forward estimates period has been provided for tourism initiatives.

Treasury and Finance

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Controlled Operations				
Life Support Equipment Electricity Supply	0.3	-	-	-
Native Title – Ord Enhancement Scheme	-	4.0	-	-
Water Corporation				
Waterwise Rebate Program	5.0	-	-	-
Western Power Corporation				
Coral Bay Electricity Supply	-	-	0.9	1.0
Total	5.3	4.0	0.9	1.0

Note: Totals may not add due to rounding.

- Controlled Operations – The commencement of the Life Support Equipment Electricity Subsidy Scheme has been brought forward from 1 July 2005 to 1 January 2005.
- External grant – An additional \$4.0 million has been provided in 2005-06 for the settlement proposal endorsed by Cabinet on 5 October 2004 in order to secure in-principle agreement between the State and the Miriuwung Gajerrong people for the resolution of native title regarding the Ord Stage 2 development.

- Water Corporation – The Waterwise Rebate Program has been extended until 30 June 2005, following the previous extension of the program until February 2005 as part of the 2004-05 *Government Mid-year Financial Projections Statement*. The program commenced in February 2003 and provides rebates for a variety of water-saving products, including AAAA rated washing machines, showerheads, tap timers, soil wetting agents and garden bores.
- Western Power – The Government is providing an ongoing Community Service Obligation payment to Western Power in relation to the provision of electricity supply in Coral Bay under the uniform tariff. Western Power will assume responsibility for the generation, distribution and retail of electricity in Coral Bay, using wind/diesel technology.

Water and Rivers Commission

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Carnarvon flood mitigation works	1.0	2.0	2.0	-
Total	1.0	2.0	2.0	-

Note: Totals may not add due to rounding.

- \$5.0 million has been allocated over the forward estimates period for flood mitigation measures for Carnarvon to address regular flooding of the Gascoyne River. Funding of \$3.0 million is being sought from the Commonwealth to assist in meeting the cost of this proposal.