THE GOVERNMENT OF WESTERN AUSTRALIA

2015-16
Government Mid-year Financial Projections Statement

December 2015

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Under Treasurer's Certification

The *Government Financial Responsibility Act 2000* (GFRA) requires that the Treasurer release a Government Financial Strategy Statement at least once every year (section 11), and a Government Mid-year Financial Projections Statement updating the budget-time forecasts by 31 December each year (section 13). The required content of these statements is detailed in sections 11 and 13 of the Act.

For the purposes of these GFRA requirements:

- the Government Financial Strategy Statement and associated financial targets disclosures are detailed in Chapter 3: *Financial Projections and Fiscal Strategy* in Budget Paper No. 3: *Economic and Fiscal Outlook*, presented to the Legislative Assembly on 14 May 2015;

- the content of this Mid-year Review meets the requirements of section 13 of the GFRA. In particular:

  - Appendix 1 details the projections required by section 13(2)(a) of the GFRA;

  - Chapters 1 and 3 detail the economic and other assumptions underlying the Mid-year Review projections (section 13(2)(b));

  - Chapter 2 details the compliance of the projections with the Government's financial targets (section 13(2)(c)); and

  - the Statement of Risks in Chapter 1 details the sensitivity of the projections to various economic and financial assumptions and other risks (sections 13(2)(d) and (e)); and

- this certification gives effect to the requirements of sections 13(2)(f) and 13(6).

This Mid-year Review is based upon Government decisions that I was aware of or that were made available to me by the Treasurer, together with other relevant information known to Treasury, on or before the Mid-year Review cut-off date of 30 November 2015 and which have a material effect on the State's financial projections.

It has been prepared in accordance with applicable Australian Accounting Standards and Government Finance Statistics principles, and is based on the economic forecasts and assumptions outlined in Chapter 1: *Financial Projections* and Chapter 3: *The Western Australian Economy*. These assumptions were finalised by Treasury, under my direction, on 30 November 2015.

Michael Barnes
UNDER TREASURER

18 December 2015

CHAPTER 1

Financial Projections

HIGHLIGHTS

- The economic and fiscal outlook has deteriorated further since the 2015-16 Budget was finalised in April 2015.
- With slowing world demand resulting in further commodity price declines, a contracting domestic economy as business investment continues to decline from its peak in 2012-13, and lags in the GST distribution system exacerbating volatility in the State's revenue base, the State's finances are facing an unprecedented income shock.
- Relative to the 2015-16 Budget, the general government revenue estimates have been revised down by $6.9 billion (excluding revenue policy measures) over the period 2015-16 to 2018-19. This is on top of the $10.2 billion revenue write-down (over the period 2014-15 to 2017-18) reflected in the 2015-16 Budget.
- General government revenue in 2015-16 is now estimated to decline by $1.8 billion or 6.5% relative to the previous year. This is more than double the 2.7% decline forecast at the time of the 2015-16 Budget.
- In this environment, operating deficits are unavoidable. The general government operating balance is now forecast to be in a $3.1 billion deficit position in 2015-16 (compared to the $2.7 billion deficit forecast at Budget-time), followed by projected deficits of $3 billion in 2016-17 and $820 million in 2017-18, before an expected return to surplus (of $641 million) in 2018-19.
- As a result of these deficit projections, total public sector net debt has been revised up since Budget, to a forecast $39 billion by the end of the forward estimates period – although net debt at 30 June 2016 has been revised down since the 2015-16 Budget to $29.6 billion.

- The Government is continuing to pursue reform of the GST distribution system. In 2015-16, Western Australia will receive just 30% of its population share of national GST collections. To illustrate the magnitude of this impact, if the State received its full population share of the GST:
  - revenue would be $4.4 billion higher in 2015-16;
  - the operating balance would be in a strong surplus position; and
  - net debt would be around $15.7 billion lower than currently projected by 30 June 2019.
- The Government is also continuing to drive wage restraint and other spending efficiencies across the public sector, as well as progressing its asset sales program, to ensure the State's budget settings over the medium to longer term are sound. In this regard, the Government will:
  - implement an immediate public sector recruitment freeze over the period to 30 June 2016; and
  - ensure that all wage offers under upcoming Enterprise Bargaining Agreement negotiations are capped at projected growth in the Consumer Price Index (2% in 2016-17 and 2.5% per annum thereafter), consistent with the existing wages policy.
- The Government is also focused on driving reform and efficiencies in the State's health system, given the imperative to bring the costs of public hospital service delivery in Western Australia much closer to the national average, whilst still delivering safe and quality patient care.

Introduction

Growth in the Western Australian economy continues to slow, with Gross State Product (GSP) forecast to increase by just 1.5% in 2015-16, down from 3.5% in 2014-15. Across the forward estimates period, growth is expected to be underpinned by an expansion in iron ore and LNG exports, offsetting an ongoing contraction in the domestic economy, which is being driven primarily by continuing declines in business investment from its 2012-13 peak.

Employment growth is expected to be 1.25% in 2015-16 (down from 1.75% at Budget) and, despite slowing population growth, the unemployment rate is forecast to rise to 6.5% in 2015-16 (up from 6.25% at Budget). Softening demand for labour is also resulting in record low wages growth across the economy, with the Wage Price Index expected to increase by just 2% in 2015-16 (down from the Budget-time forecast of 2.75%).

The weaker domestic economic outlook is significantly impacting the State's tax collections. In total, the taxation estimates have been revised down by $3.9 billion over the four years to 2018-19. Payroll tax projections alone have been revised down by $2.1 billion, due to the impact of the slowing domestic economy on employment and wages growth. A further $686 million has been removed from the transfer duty forecasts, as a result of weaker than expected property market activity.

Mining revenue projections (including North West Shelf grants) have also been revised down significantly since Budget, by a total of $2 billion over the four years to 2018-19. The key driver is a further reduction in commodity price forecasts (particularly iron ore and LNG), reflecting growth in supply from major producers, slowing Chinese demand and declining production costs.

Excluding new revenue measures announced in this Mid-year Review, the revenue estimates have been written-down by $6.9 billion relative to the 2015-16 Budget.

These lower estimates extend the recent downward revisions for revenue, adding to the $10.2 billion reduction brought to book over the period 2014-15 to 2017-18 between the last two State Budgets.

These revenue revisions are occurring at the same time as the State's population share of the GST has reached a record low of 30% in 2015-16. This is due to the lags in the Commonwealth Grants Commission (CGC) formula to distribute the GST. Rather than the GST distribution system acting as a stabilising influence, these lags are actually exacerbating Western Australia's revenue volatility.

In the face of this income shock, this Mid-year Review includes additional measures to constrain expense growth, including an immediate six month recruitment freeze. Importantly, the Government is committed to reining in cost growth in the health sector, consistent with the existing policy of reducing the gap between the national average cost of public hospital service delivery and the equivalent cost in Western Australia (see feature box later in this chapter).

The following table summarises the key financial aggregates for the 2015-16 Mid-year Review.

Table 1

KEY BUDGET AGGREGATES

Western Australia

	2014-15 Actual	2015-16 Budget Estimate	2015-16 Mid-year Revision	2016-17 Forward Estimate	2017-18 Forward Estimate	2018-19 Forward Estimate
GENERAL GOVERNMENT SECTOR						
Net Operating Balance ($m)	**-431**	**-2,708**	**-3,146**	**-2,961**	**-820**	**641**
Revenue ($m)	27,400	26,325	25,617	26,477	29,002	31,554
Revenue Growth (%)	-2.0	-2.7	-6.5	3.4	9.5	8.8
Expenses ($m)	27,831	29,033	28,764	29,438	29,822	30,913
Expense Growth (%)	2.2	2.5	3.4	2.3	1.3	3.7
TOTAL PUBLIC SECTOR						
Net Debt at 30 June ($m)	23,374	30,996	29,552	34,680	38,288	39,043
Asset Investment Program ($m)	5,777	6,284	5,929	6,056	6,089	5,517
Cash Position ($m)	-2,500	-5,090	-5,653	-4,716	-2,906	-516
Gross Borrowings at 30 June ($m)	44,252	46,930	47,284	52,311	55,591	59,293
KEY FINANCIAL RATIOS (a)						
Cash Operating Surplus as a Share of Receipts (%)	5.1	-0.6	-1.9	-0.2	3.3	6.3
Net Debt to Revenue (%)	61.4	80.5	78.6	87.0	88.9	84.4

(a) These ratios relate to the total non-financial public sector.

While net debt at 30 June 2016 has been revised down since Budget (by $1.4 billion), the weaker operating outlook has driven an increase in the net debt projections across the forward estimates period, with total public sector net debt now forecast to increase to $39 billion by 30 June 2019 (up from the Budget forecast of $35.8 billion).

Key assumptions underlying the Mid-year Review financial projections are shown in the following table (these assumptions were finalised on the 30 November 2015 cut-off date for this Mid-year Review). A detailed discussion of the economic outlook is available in Chapter 3: *The Western Australian Economy*.

Table 2

KEY ECONOMIC FORECASTS, WESTERN AUSTRALIA[(a)]

	2014-15 Actual [(b)]	2015-16 Mid-year Revision	2016-17 Forward Estimate	2017-18 Forward Estimate	2018-19 Forward Estimate
Real Gross State Product growth (%)	3.5 (3.25)	1.5 (2.0)	2.0 (3.5)	2.75	3.0 (2.75)
Real State Final Demand growth (%)	-3.5 (-2.5)	-2.25 (-1.25)	-2.5 (0.0)	-0.5 (1.0)	1.25 (2.0)
Employment growth (%)	1.5 (2.5)	1.25 (1.75)	1.25 (1.75)	1.5 (2.0)	1.5 (2.0)
Unemployment rate (%)	5.4 (5.5)	6.5 (6.25)	6.5 (6.0)	6.25 (5.75)	5.75 (5.25)
Wage Price Index growth (%)	2.2 (2.25)	2.0 (2.75)	2.25 (3.0)	2.5 (3.25)	2.75 (3.5)
Perth Consumer Price Index growth (%)	1.8 (2.0)	1.5 (2.25)	2.0 (2.5)	2.5	2.5
Iron ore price ($US/tonne CFR)[(c)]	71.1 (68.8)	46.0 (47.5)	42.5 (50.7)	46.3 (56.3)	50.2 (61.8)
Iron ore volumes (million dry tonnes)	719 (716)	759 (748)	781 (772)	803 (797)	804 (799)
Crude oil price ($US per barrel)	73.5 (75.1)	46.7 (64.2)	52.1 (68.2)	56.3 (70.4)	58.9 (71.9)
Exchange rate (US cents)	83.6 (83.3)	71.8 (75.9)	70.7 (75.0)	70.0 (74.3)	69.4 (73.9)
Population growth (%)	1.5 (1.9)	1.5 (2.0)	1.6 (2.1)	1.7 (2.2)	1.9 (2.2)
Interest rate assumptions (%):					
– Public Bank Account earnings[(d)]	2.8 (2.6)	2.1 (2.1)	1.8 (2.1)	1.8 (2.1)	1.9 (2.1)
– Consolidated Account borrowings[(d)]	3.9	3.4	3.2	3.3 (3.1)	3.4 (3.1)

(a) 2015-16 Budget assumptions shown in parentheses where the forecasts have changed since May 2015.

(b) Gross State Product and State Final Demand growth data are based on 2014-15 State Accounts data, released on 20 November 2015.

(c) CFR is the benchmark 62% iron content delivered price to China, including cost and freight.

(d) Average over the year.

Note: All data are annual averages.

In response to the financial challenges the State is facing, the Government has implemented a further round of corrective measures as part of this Mid-year Review, which will deliver an estimated net debt benefit of $1.3 billion over the period to 30 June 2019. These measures are outlined in the feature box below.

New Corrective Measures

The deterioration in the revenue outlook since the 2015-16 Budget has necessitated the introduction of a further package of corrective measures in this Mid-year Review.

The new measures primarily target further efficiencies in general government agency spending and infrastructure programs, and are estimated to deliver a net debt benefit of $1.3 billion over the period to 2018-19.

Table 3

FINANCIAL IMPACT OF NEW CORRECTIVE MEASURES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m	Total $m
General Government Operating Impact					
Salaries underspending provision	120	122	125	129	**496**
Recruitment Freeze [(a)]	-	-	-	-	-
Reduced non-salary expense indexation	-	28	61	95	**185**
Agency Expenditure Reviews					
- Culture and the Arts Portfolio	-4	3	1	4	**3**
- Department of Finance	26	25	27	28	**107**
- Tranche Two reviews	3	40	40	40	**123**
Government Regional Officers Housing Reforms	-	6	10	12	**28**
Insurance Commission of Western Australia - 2014-15 special dividend	93	-	-	-	**93**
Western Power infrastructure reduction (dividend impact)	-8	-4	-2	-1	**-16**
Total Operating Impact	**229**	**221**	**263**	**307**	**1,020**
Asset Investment					
Deferral of Asset Investment Program projects	-10	-17	-48	-83	**-157**
Western Power infrastructure reduction	-60	-20	-20	-20	**-120**
5% infrastructure efficiency target	-	-33	-31	-32	**-96**
Agency Expenditure Review - Culture and the Arts	-	-1	-1	-1	**-3**
Total Asset Investment Impact	**-70**	**-70**	**-100**	**-136**	**-376**
Annual Change in Net Debt	**-190**	**-288**	**-359**	**-440**	**-1,276**

(a) The recruitment freeze will assist in achieving the salaries underspend provision.

Salaries Underspending and Recruitment Freeze

Since 2008-09, general government sector salaries expenditure has ended each year below the original Budget[1]. For example, the general government salaries outcome for 2014-15 was $256 million lower than originally forecast in the 2014-15 Budget (and $203 million lower than the expected outturn contained in the 2015-16 Budget). Accordingly, there is scope to adjust salaries expenditure to more accurately reflect this trend in future salaries budgets.

A $120 million provision in 2015-16, indexed by forecast growth in the Consumer Price Index (CPI) over the forward estimates, represents 1% of general government salaries over the period to 2018-19.

In order to achieve targeted growth in salaries expenditure, the Government has endorsed a six month recruitment freeze across the general government sector, to commence immediately.

[1] The salaries underspend of recent years reflects lower than budget outcomes across the more than 100 agencies that make up the general government sector. The individual agencies that produce material underspends vary from year to year, and the drivers for salaries variances can be significantly different between agencies.

Under this arrangement, no new permanent recruitment (including promotions) and no new employees into the sector are permitted until after 30 June 2016. Exemptions from the freeze have been approved for teachers to be recruited for the 2016 school year, police officers to be recruited as part of the election commitment to deliver an extra 550 officers by July 2017, and finite project-based positions that are capitalised against a project. Any other exemptions are subject to approval by the Treasurer on a case-by-case basis.

Reduced Indexation for Non-Salary Expenses

Agencies are to manage non-salary costs to an increase of no more than 1% (for general government agencies and the operating subsidy for the Public Transport Authority) in 2016-17, 2017-18 and 2018-19. This is a reduction from the previous CPI indexation, and is forecast to generate savings of $185 million across the forward estimates period. Implementation of this measure will occur through a reduction in agencies' recurrent appropriations, with any non-salary expense growth beyond 1% per annum to be absorbed within existing budgets.

This measure will not apply to specific indexation agreements (such as the Non-Government Human Services Sector Indexation policy), funding sources other than appropriation, appropriation-funded hospital activity, and Streamlined Budget Process agencies[2].

Agency Expenditure Reviews

The Agency Expenditure Review (AER) process, first announced as part of the 2014-15 Mid-year Review, is a two stage process of rolling agency reviews that enables agencies to identify program-level savings up to predetermined targets. Initially, the Government directed eight agencies to participate in the AER process, and as outlined in the 2015-16 Budget, the process delivered $137 million in net debt savings for six of those agencies.

As part of the 2015-16 Budget, the Government directed the Department of Finance and the portfolio of Culture and the Arts agencies to undertake stage two reviews (which entailed a review of each agency's programs overseen by an Independent Chair). These two reviews will deliver a $113 million improvement in net debt across the current forward estimates period. This includes the impact of increased compliance effort by the Office of State Revenue agreed as part of the AER.

The Government has also determined that the Mental Health Commission, Public Transport Authority, and the Departments of Transport, Mines and Petroleum, Water, and Local Government and Communities will be subject to AERs in 2016. These reviews are forecast to result in a net debt improvement of $123 million over 2015-16 to 2018-19.

[2] The WA Health and Mental Health Commission hospital services budgets, the Land Information Authority, the Department of Environment Regulation and the Department of Education's Student Centred Funding Model (in 2016-17 only), will be exempt from this measure.

Government Regional Officer Housing (GROH) Reforms

To reform the GROH program so that it better reflects the contemporary housing market, the existing discount based on 20% of the Perth median rent will be removed, and the annual cap on rental increases will rise from $10 to $30 per week. The average impact of these changes on GROH tenants is estimated at $21 per week. Even after these changes, GROH rents will remain a low proportion (estimated at 12% on average) of tenants' income.

These changes are estimated to reduce recurrent spending by $28 million over 2016-17 to 2018-19.

Insurance Commission of Western Australia – 2014-15 Dividend

ICWA's Board has resolved to pay a once-off special dividend based on higher than expected profit in 2014-15. Higher than expected investment returns in 2014-15 have allowed the ICWA Board to recommend an additional dividend payment of $93 million without putting ICWA's capital adequacy ratio at risk.

Payment of ICWA's once-off additional dividend will result in an operating benefit of $93 million in 2015-16.

Deferral of Asset Investment Program Projects

Additional Asset Investment Program (AIP) savings will be achieved by deferring and/or reducing the scope of a small number of uncontracted projects (i.e. where a request for proposals or expressions of interest have not yet been issued). This measure will reduce net debt by an estimated $157 million over the forward estimates period.

Table 4

DEFERRED INFRASTRUCTURE PROJECTS

Estimated Financial Impact

Agency	Project	2015-16	2016-17	2017-18	2018-19	Total
		$m	$m	$m	$m	$m
Main Roads	South Western Highway - Donnybrook to Greenbushes	-	-2	-6	-9	**-17**
Health	Osborne Park Hospital - Reconfiguration Stage 1	-	-	-	-26	**-26**
Health	Fremantle Hospital - Reconfiguration Stage 1	-	-	-9	-1	**-10**
Health	Kalamunda Hospital - Redevelopment	-	-	-(a)	-7	**-8**
Department of Planning	Oakajee Narngulu Infrastructure Corridor	-10	-14	-15	-	**-40**
Planning Commission	Acquisition of Land	-	-	-	-40	**-40**
Public Transport Authority	Bus Acquisition Program	-	-	-17	-	**-17**
Annual Impact on Net Debt		**-10**	**-17**	**-48**	**-83**	**-157**

(a) Amount less than $500,000.

Western Power Infrastructure Reduction

To achieve efficiencies in Western Power's $3.7 billion four year investment program, growth-driven projects will be reduced by a total of $120 million over the period 2015-16 to 2018-19.

Partly offsetting this lower spending, lower customer contributions for infrastructure will reduce accounting profit which will impact general government dividend revenue (see earlier table). The net impact of this measure is a forecast reduction in net debt of $77 million by 30 June 2019.

5% Infrastructure Efficiency Target

Reflecting competitive conditions in the construction sector, and cost savings previously achieved by agencies, a further 5% efficiency target will be applied to uncontracted AIP spending. This measure will not apply to spending by the power and water utilities, agencies with AIPs below $1 million in any one year, agencies subject to the Streamlined Budget Process, projects partly or wholly funded by the Commonwealth or Royalties for Regions, or to projects captured by the above savings measure to defer uncontracted AIP projects.

This measure will deliver an estimated net debt benefit of $96 million across the forward estimates period, with the savings to be allocated by affected agencies to specific projects as part of the 2016-17 Budget.

General Government Sector

Operating Statement

An operating deficit of $3.1 billion is expected for the general government sector in 2015-16, an increase of $438 million on the $2.7 billion deficit estimated in the 2015-16 Budget. In addition, the projected deficit for 2016-17 has increased to $3 billion, $1.8 billion higher than expected at Budget-time, with a deficit now also in prospect in 2017-18 (of $820 million). An operating surplus is still forecast in 2018-19, however this has been revised down to $641 million (a reduction of $1.6 billion relative to Budget).

Relative to the 2015-16 Budget forecasts, general government revenue has been revised down by a total of $6.8 billion (or 5.7%) over the four years to 2018-19, while expenses have been revised down by $1.2 billion (or 1%) over the same period.

The table below summarises the changes in general government revenue and expenses since the 2015-16 Budget estimates were finalised on 21 April 2015.

Table 5

SUMMARY OF GENERAL GOVERNMENT REVENUE AND EXPENSE VARIATIONS SINCE THE 2015-16 BUDGET

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m	Total $m
2015-16 BUDGET - NET OPERATING BALANCE	**-2,708**	**-1,148**	**874**	**2,209**	
Revenue					
Impact of revenue measures					
Agency Expenditure Review - Finance/Culture and the Arts portfolio	11	30	33	33	107
Once-off variation to ICWA's 2014-15 final dividend	93	-	-	-	93
Western Power infrastructure reduction (dividend impact)	-8	-4	-2	-1	-16
Total revenue measures	*95*	*26*	*31*	*31*	*184*
Other changes in revenue since the 2015-16 Budget					
Taxation	-653	-912	-1,101	-1,320	-3,985
- Payroll tax	-307	-495	-610	-745	-2,157
- Total duty on transfers	-188	-190	-197	-195	-770
- Land tax	10	-15	-43	-75	-124
- Insurance duty	-73	-92	-116	-142	-424
- Vehicle licence duty	-45	-66	-90	-117	-317
- Mining Rehabilitation Levy	-24	-31	-31	-31	-118
- Loan Guarantee Fees	-28	-17	-11	-9	-65
- Other taxes	3	-5	-2	-5	-9
Commonwealth grants	-365	-588	-398	85	-1,266
- GST grants	-38	-271	-210	146	-373
- North West Shelf/condensate compensation	-122	-205	-160	-133	-620
- National Health Reform	-115	-136	-37	-20	-308
- Students First	-6	-8	95	219	300
- Local government on-passed grants	-143	-2	-2	-3	-150
- Non-government schools	-39	-67	-91	-125	-322
- Universal Access to Early Childhood Education Extension 2016 and 2017	14	47	33	-	94
- Housing grants	54	33	-22	-	65
- Other Commonwealth grants	31	21	-3	-	48
Royalty income	117	-385	-512	-618	-1,398
- Iron ore	163	-329	-467	-587	-1,221
- Other royalties	-46	-55	-46	-31	-178
Revenue from public corporations	289	-41	53	12	314
Lower base growth in goods and services (matched by expense change)	-99	-87	-106	-127	-418
All other	2	-6	-9	5	-7
Total other changes	*-803*	*-2,045*	*-2,103*	*-1,994*	*-6,945*
TOTAL REVENUE	*-707*	*-2,019*	*-2,072*	*-1,963*	*-6,761*

Note: Columns/rows may not add due to rounding.

Table 5 (cont.)

SUMMARY OF GENERAL GOVERNMENT REVENUE AND EXPENSE VARIATIONS SINCE THE 2015-16 BUDGET

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m	Total $m
Expenses					
Impact of expense savings measures					
Salaries underspend provision	-120	-122	-125	-129	-496
Reduction in indexation for non-salary expenses	-	-28	-61	-95	-185
Tranche 2 Agency Expenditure Reviews	-3	-40	-40	-40	-123
Government Regional Officers Housing (GROH) Reforms	-	-6	-10	-12	-28
Agency Expenditure Review - Finance/Culture and the Arts portfolio	-11	2	4	1	-4
Total expense savings measures	*-134*	*-195*	*-232*	*-276*	-837
Other expense changes since the 2015-16 Budget					
Lower base growth in goods and services (matched by revenue change)	-99	-87	-106	-127	-418
GROH lower rent projections	-32	-43	-48	-54	-176
On-passed Commonwealth grants:					
Local government roads funding	-54	-	-	-	-54
Local government general purpose funding	-89	-2	-2	-3	-96
Housing grants	54	33	-22	-	65
Non-government schools	-39	-67	-91	-125	-322
Education:					
Universal Access to Early Childhood Education Extension 2016 and 2017	6	47	33	-	85
Public Private Partnership Schools Project	-	4	10	16	30
2015 Semester 1 Enrolment Audit	-9	-9	-9	-9	-37
State funding for non-government schools	-	23	26	42	91
Interest costs	43	39	93	194	370
All other	84	51	-31	-55	49
Total other changes	*-136*	*-11*	*-146*	*-119*	-413
TOTAL EXPENSES	*-269*	*-206*	*-379*	*-395*	-1,249
TOTAL VARIANCE	*-438*	*-1,813*	*-1,694*	*-1,567*	*-5,512*
2015-16 MID-YEAR REVIEW - NET OPERATING BALANCE	**-3,146**	**-2,961**	**-820**	**641**	

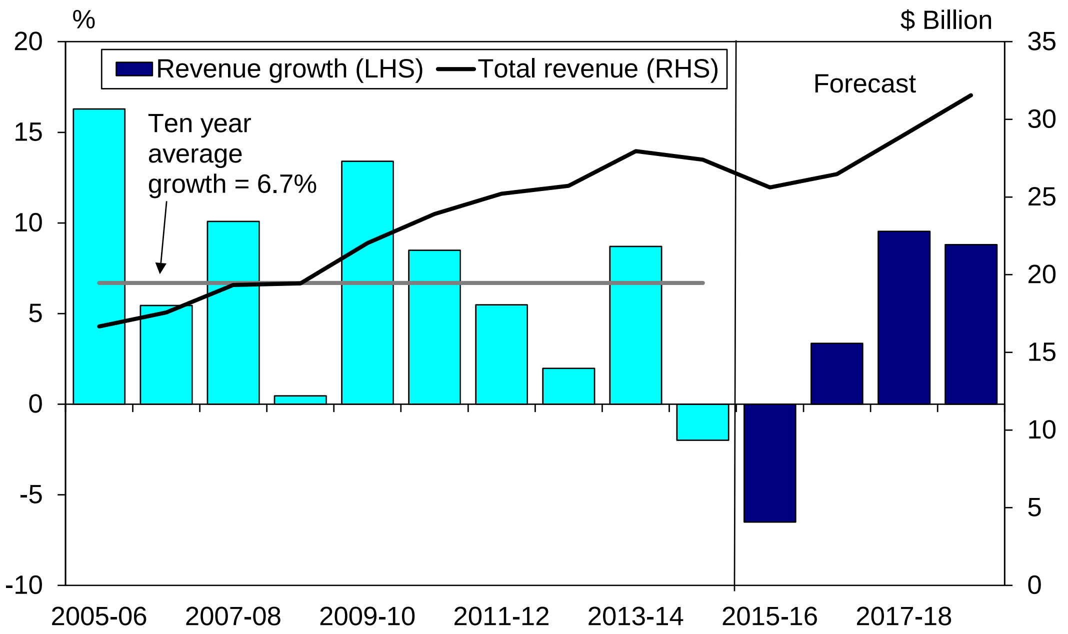
Note: Columns/rows may not add due to rounding.

Revenue

General government revenue in 2015-16 is now expected to decline by $1.8 billion or 6.5% relative to the previous year, more than double the 2.7% decline forecast in the 2015-16 Budget. This comes on top of the $556 million or 2% contraction in revenue in 2014-15 (relative to 2013-14).

Figure 1

GENERAL GOVERNMENT REVENUE GROWTH



Further details on the revenue estimates are outlined below, and detailed general government sector revenue projections are available in Appendix 2: *General Government Operating Revenue*.

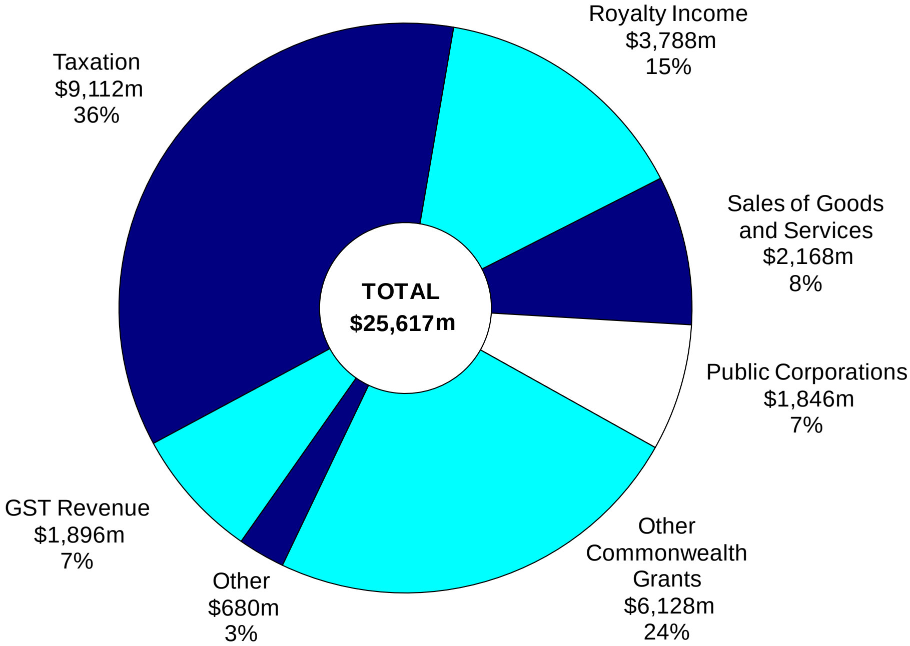
2015-16

Taxation collections and grants from the Commonwealth (including the State's GST grant and Commonwealth tied grants) remain the largest sources of general government revenue for Western Australia, accounting for around 67% of total estimated revenue in 2015-16. Royalty income is expected to represent 14.8% of total general government revenue in 2015-16, a marked reduction from the 21.6% share in 2013-14.

Figure 2

GENERAL GOVERNMENT REVENUE [a]

2015-16



(a) Segments may not add due to rounding.

Total revenue is estimated at $25.6 billion in 2015-16, down from the Budget estimate of $26.3 billion. This mainly reflects the following movements:

- lower taxation revenue (down $642 million, or 6.6%), mainly due to the net impact of:
  - a downward revision to payroll tax collections (down $300 million), reflecting the flow-on impact of lower than expected collections in 2014-15 and a further softening of employment and wages growth;
  - a downward revision to total duty on property transfers (down $185 million), primarily due to lower than anticipated turnover in the residential property market and a declining median house price;
  - a downward revision to insurance duty (down $73 million), reflecting lower than expected collections over the first five months of 2015-16;
  - a downward revision to vehicle licence duty (down $44 million), due to a larger than expected decline in sales of new vehicles;
  - lower revenue from the Loan Guarantee Fee (LGF, down $28 million), mainly reflecting lower than expected borrowings by Keystart, and a phasing in of the 2015-16 Budget decision to increase Keystart's LGF in line with new customer lending activity to which the charge applies;

- reduced revenue from the Mining Rehabilitation Levy (down $24 million), due to lower prescribed levy rates introduced following industry consultations; and
- an upward revision to land tax (up $10 million), as a result of final valuation and ownership data from Landgate for the 2015-16 assessment year;

- lower grants from the Commonwealth (down $365 million or 4.3%), largely due to:
  - reduced local government funding on-passed through the State (down $143 million), due to the Commonwealth's decision to distribute part of the 2015-16 funding prior to 30 June 2015;
  - lower National Health Reform Agreement funding (down $115 million), reflecting the net impact of an overpayment in 2014-15, revisions to mental health activity data, and revised activity and cost growth parameters in the Commonwealth's 2015-16 Budget;
  - lower anticipated North West Shelf grants and condensate compensation (down $122 million), due to a downward revision to oil and gas prices relative to Budget;
  - lower GST revenue (down $38 million), reflecting the impact of reduced population estimates in the Commonwealth's May Budget relative to other States, partly offset by an increased estimate of the national GST pool[3];
  - lower schools assistance grants for non-government schools (down $39 million), in line with the Commonwealth's 2015-16 Budget estimates; and
  - higher on-passed capital-tied funding for the National Partnership Agreement on Remote and Indigenous Housing (up $54 million), mainly reflecting the impact of delayed 2014-15 payments and the retiming of funding to align with expected completion of agreed milestones;
- higher than expected revenue from public corporations (up $374 million or 25.4%), reflecting the combined impact of:
  - higher dividend revenue from the energy utilities (up $235 million), largely reflecting:
    - the payment of interim dividends by electricity corporations in 2015-16 rather than 2014-15 as originally expected, due to the late passage of amendments to the *Electricity Corporations Act 2005* in June 2015; and
    - increased profit for Western Power in 2014-15, leading to a higher dividend in 2015-16, due to higher than expected customer capital contributions, improved efficiencies in operations, a reduced need for corrective maintenance to the Corporation's network, and lower borrowing costs;

[3] This does not include changes to national GST pool or States' population shares contained in the Commonwealth's 2015-16 *Mid-year Economic and Fiscal Outlook*, which was released after the 30 November 2015 cut-off date for this Mid-year Review.

  - an increase in dividends from the Insurance Commission of Western Australia (ICWA, up $97 million), mainly reflecting a once-off additional dividend based on higher than expected profit in 2014-15 (detailed in the feature box above); and

  - higher tax equivalent revenue (up $19 million), mainly reflecting the net impact of:

    - lower tax equivalent payments from the Pilbara Ports Authority (down $32 million), reflecting the pricing relief package introduced for iron ore proponents at Port Hedland's Utah Point Multi User Bulk Handling Facility (announced on 15 May 2015) and the timing of the transfer of the Floating Deck Transhipment System asset from the private sector; and

    - the flow-on impact of 2014-15 financial outcomes and the sale of shopping centre assets in Ellenbrook and Canning Vale on revenue from ICWA (up $54 million);

- higher royalty income (up $117 million or 3.2%), largely reflecting the impact of a lower $US/$A exchange rate, partly offset by the impact of weaker commodity prices (particularly iron ore prices); and

- lower revenue from the sale of goods and services (down $174 million or 7.4%), primarily reflecting the flow-on impact of lower than expected outcomes for 2014-15, resulting from lower than expected demand for goods and services (matched by equivalent lower operating costs).

2016-17 to 2018-19

Across the outyears (2016-17 to 2018-19), general government revenue has been revised down by a total of $6.1 billion since the 2015-16 Budget. This mainly reflects the impact of:

- lower taxation revenue (down $3.2 billion or 9.8%), consistent with lower than expected collections to date in 2015-16 and downward revisions to key drivers of taxation revenue (including population, wages, employment and land values) in the outyears;

  - the largest downward revisions are to payroll tax (down $1.8 billion), total duty on transfers (down $549 million), insurance duty (down $348 million), vehicle licence duty (down $272 million) and land tax (down $128 million);

  - the extent of the decline has been partly mitigated as these revisions include additional taxation revenue of $96 million (part of a total $106 million over four years) from increased compliance and auditing measures recommended by the Agency Expenditure Review of the Department of Finance; and

  - revenue from the Mining Rehabilitation Levy has been revised down by $94 million across the outyears, reflecting the lower levy rates noted earlier;

- lower royalty income (down $1.5 billion or 11.3%), mainly due to weaker forecast iron ore prices over the forward estimates, partly offset by a lower $US/$A exchange rate relative to Budget-time forecasts;

- a reduction in estimated North West Shelf grants and condensate compensation (down $499 million or 19.7%), reflecting a weaker outlook for oil and gas prices;
- lower revenue from the sale of goods and services (down $406 million or 5.4%), primarily due to the outyear impact of the lower than expected outcome for 2014-15;
- lower GST revenue (down $335 million or 3%), mainly reflecting the net impact of reduced population growth and falling relative wage costs (both of which reduce Western Australia's GST share) and reduced tax capacity relative to other States (which increases Western Australia's GST share);
- higher *Students First* funding from the Commonwealth (up $306 million), mainly reflecting the Commonwealth's expected move towards an equal per capita funding methodology from 2017-18;
- lower Commonwealth funding for non-government schools (down $283 million), in line with the Commonwealth's 2015-16 Budget;
- lower Commonwealth public hospital funding (down $193 million) as announced in its 2015-16 Budget, reflecting cost and activity growth parameters under the National Health Reform Agreement in 2016-17, and revised population and CPI growth parameters for 2017-18 and 2018-19 under new indexation funding arrangements that begin from 1 July 2017; and
- an additional $80 million in Commonwealth funding over 2016-17 and 2017-18 to extend the National Partnership Agreement on Universal Access to Early Childhood Education to the 2016 and 2017 school years.

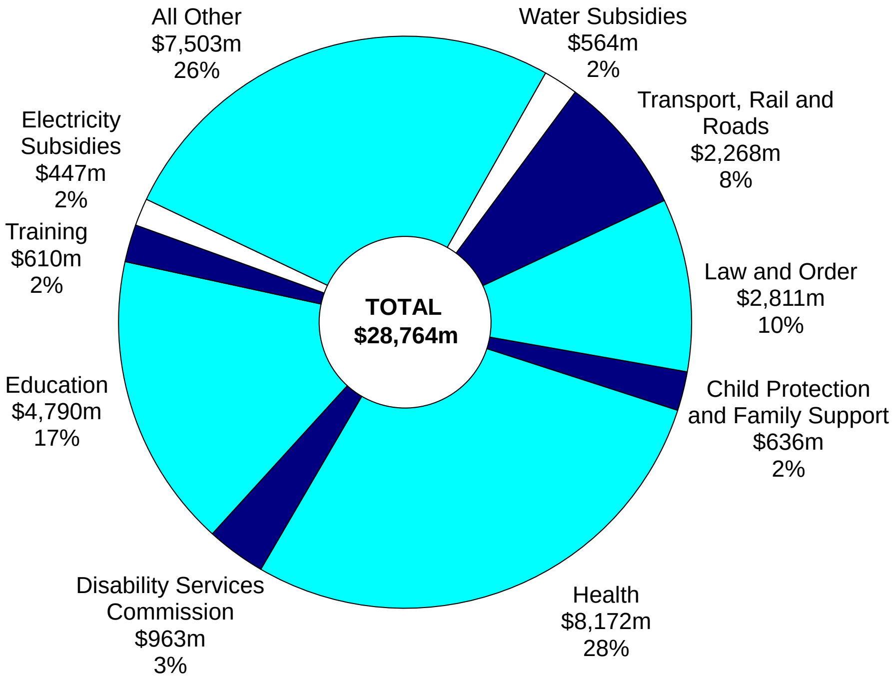
Expenses

General government sector expenses are expected to total $28.8 billion in 2015-16, $269 million (or 0.9%) lower than the Budget estimate. However, despite this decline, expense growth has been revised up to 3.4% in 2015-16, reflecting the 'base' impact of the lower than expected expense outcome in 2014-15. Consistent with previous years, health and education are the two largest areas of spending, with a combined total of $13 billion in 2015-16, or around 45% of total recurrent expenditure.

Figure 3

GENERAL GOVERNMENT EXPENSES[(a)]

2015-16



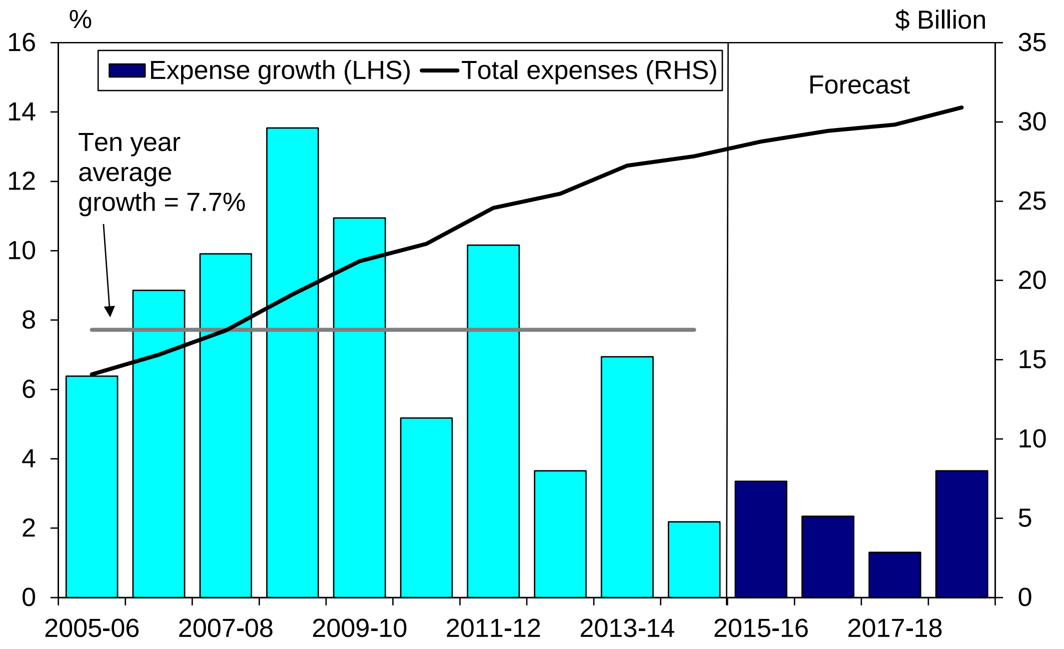
(a) Segments may not add due to rounding.

Across the forward estimates period, recurrent spending projections have been revised down by a total of $1.2 billion, largely reflecting the new savings measures implemented in this Mid-year Review (see feature box earlier in this chapter).

Across 2016-17 to 2018-19, expense growth is expected to average 2.4% per annum, broadly consistent with the Budget-time forecast of 2.5%, as the Government continues to implement expenditure control measures in response to the deteriorating revenue outlook.

Figure 4

GENERAL GOVERNMENT EXPENSES



Salaries costs remain the largest expense across the sector, accounting for around 40% of total spending in 2015-16, at $11.4 billion. General government salaries costs are forecast to increase by $324 million or 2.9% in 2015-16, following growth of 3.8% in 2014-15 (the lowest rate of salaries growth in 16 years). Across the outyears, salaries growth is expected to average just 2.5%, significantly below the average of 7.8% over the previous decade. This low rate of growth is critical to the Government's fiscal strategy, and reflects the (cumulating) impact of measures implemented in recent years, including:

- the revised public sector wages policy which limits increases in pay and conditions to projected growth in the CPI;
- the Workforce Renewal Policy announced in the 2014-15 Mid-year Review; and
- the five rounds of voluntary separation schemes implemented since 2009, which have seen 3,612 public servants exit the sector over the period to 30 June 2015.

2015-16

Significant movements in expenses since the 2015-16 Budget include:

- on-passed grants for local governments (down $143 million), reflecting the impact of the Commonwealth's earlier than expected payment of these grants in 2014-15;
- the flow-on impact of lower demand for general government goods and services in 2014-15 into estimates for 2015-16 and beyond, which reduces both revenue and expenses (down $99 million);

- lower salaries expenses (down $85 million), mainly reflecting the flow-on impact of lower salaries outcomes in 2014-15 (which will be supported by the general government sector recruitment freeze that applies from the release of this Mid-year Review until 30 June 2016), partly offset by the lower than expected savings from the 2014-15 Targeted Voluntary Separation Scheme (down $23 million)[4];

- higher on-passed Commonwealth funding for the National Partnership Agreement on Remote and Indigenous Housing (up $54 million), mainly reflecting the impact of delayed 2014-15 payments and the retiming of that funding to align with expected completion of agreed milestones;

- higher than expected interest costs (up $43 million), mainly due to movements in the timing of new borrowings through the year;

- lower on-passed grants for non-government schools (down $39 million), reflecting changes announced in the Commonwealth's 2015-16 Budget;

- higher transfers to the Town of Cambridge for remaining land in the Perry Lakes development ($28 million), which was delayed from 2014-15 while the shire obtained tax advice on the transfers;

- lower spending on Government Regional Officer Housing rents (down $32 million), reflecting decreases in residential market rents in regional centres and an increase in the number of vacant regional properties;

- up to nearly $19 million to be spent in 2015-16 on voluntary separation payments following the closure of the Swan District Hospital and opening of the new Midland Public Hospital; and

- a reduction in expenses of $17 million for the Department of Finance, reflecting implementation of savings measures deliverable under the Agency Expenditure Review.

2016-17 to 2018-19

Relative to Budget, general government expenses have been revised down by $980 million over the period 2016-17 to 2018-19. This mainly reflects the net impact of:

- new savings measures implemented in this Mid-year Review, including reduced salaries spending, reduced indexation for non-salary expenses, and a second round of Agency Expenditure Reviews, which will reduce expenses by a total of $703 million across the outyears (see feature box earlier in this chapter);

- higher interest costs across the sector (up $327 million), attributable to:

  - movements in the forecast timing of new borrowings;

[4] The original target of 1,500 separations was expected to deliver savings of $120 million per year from 2015-16 (based on assumed average costs per employee of $80,000), and a provision for these savings was included in the 2014-15 Mid-year Review. However, a total of 1,362 separations was achieved, which will deliver savings of $97 million in 2015-16 based on the actual classification of separated employees.

  - an increase in the magnitude of forecast borrowings (due mainly to the impact of the substantial revenue write-down detailed in this Mid-year Review); and

  - an increase in the Western Australian Treasury Corporation's interest rate forecasts for Consolidated Account borrowings in 2017-18 and 2018-19 (reflecting market sentiment for the outlook for rates);

- the expense impact of lower revenue from the sale of goods and services (down $320 million), primarily reflecting the outyear impact of lower demand for goods and services across the sector (outlined above);

- lower spending on Government Regional Officer Housing rents (down $144 million), as noted above;

- an additional $91 million in State-funded per capita grants to non-government schools from 2016-17 to 2018-19;

- key expense movements for the Department of Education, including:

  - an additional $80 million on the extension of the National Partnership Agreement on Universal Access to Early Childhood Education, reflecting a further two years of Commonwealth funding. This will enable the continued provision of 15 hours per week of kindergarten to all age-eligible children in the 2016 and 2017 school years;

  - a $30 million increase in expenses to reflect the change in procurement model for the delivery of eight additional schools (four primary and four secondary) to a design, build, finance and maintain public private partnership model of delivery (see feature box later in this chapter); and

  - a downward revision to student enrolments forecasts following the finalisation of Semester 1, 2015 student enrolments, resulting in a forecast reduction in expenditure of $28 million over three years;

- reduced recurrent road spending (down $61 million), reflecting a change in the expense/capital mix of spending by Main Roads;

- lower outyear savings from the 2014-15 TVSS mentioned earlier ($53 million);

- $33 million in additional spending by the Department of Training and Workforce Development on vocational and educational training, reflecting the Government's decision to cap increases in student contribution rates under the *Future Skills WA* entitlement model to 4% per year;

- lower operating subsidy payments to the Public Transport Authority (down $31 million), following a downward revision to interest cost estimates;

- an additional $26 million for lease costs associated with the relocation of several Western Australia Police business services to Westralia Square in the Perth Central Business District;

- an additional $23 million over three years for the Legal Aid Commission for the new National Partnership Agreement for Legal Assistance Services (primarily for Community Legal Centre services which were not included in the previous Agreement);
- higher superannuation interest costs (up $20 million), reflecting an increase in the bond rate used to value these liabilities[5];
- additional expenditure of $17 million over three years for the Department of Agriculture and Food's Research and Development Fund Project, which will provide research and development grants to Western Australian grower groups and industry partnerships to improve and expand the State's agriculture and food industries; and
- the outyear impact of retimed Commonwealth funding under the National Partnership Agreement on Remote and Indigenous Housing noted earlier (up $11 million).

Further detail on the material changes in spending by general government sector agencies is available in Appendix 3: *Major Spending Changes*.

Health Reforms

WA Health is undertaking a wide ranging program of reform to modernise the health system and realise efficiencies, with the aim of achieving convergence between the cost of delivering public services in the State's health system and the national Projected Average Cost (PAC). Key initiatives are detailed below.

Governance and Legislation Reforms

The Western Australian health system is too large and complex for the existing centralised governance structure. Changes are underway to devolve decision-making responsibilities to enable staff to deliver better care and value to the community.

New legislation is being drafted to support these changes, which include the establishment of Health Service Boards that will be legally responsible and accountable for the oversight of hospital and health service delivery for each Health Service area.

As part of the transition, a Functional Review is being undertaken that will establish the current state (and the desired future state) of non-clinical functions within WA Health. Interim Health Service Boards have also been established with interim Chairs for each Health Service Board, including the recently announced East Metropolitan Health Service, appointed on 25 November 2015.

5 Long-term government bond rates are used by the actuary in year-end valuations of unfunded superannuation liabilities. While bond rates have remained at low levels during the first half of 2015-16, there has been an increase since the release of the 2015-16 Budget (a rate of 3.0% has been used for 2015-16 based on the long-term bond rate at the 30 November 2015 Mid-year Review cut-off date, compared with a Budget assumption of 2.6%). An increase in the bond rate means that unfunded liabilities decrease in value (and vice versa), but superannuation interest costs increase in line with the higher bond rate.

Procurement and Contracting Reforms

The Strategic Procurement Reform (SPR) Program has been designed to improve procurement practice and compliance within WA Health, and Phase One was successfully completed in June 2015.

Key achievements included the implementation of a Procurement Development and Management System to provide a central source of procurement and contract data and monitor compliance, as well as improvements to contract design and clinical procurement processes.

Phase Two of the SPR Program is now underway to enhance procurement capabilities and improve oversight, governance and resourcing of procurement across the system, and is anticipated to be completed by June 2016.

The reform will deliver efficiencies through improved procurement practices and more effective contract management.

Revenue Reforms

Western Australia has traditionally had a low percentage of private patients in public hospitals (approximately 10% of the total), compared to the national average (of approximately 20%). Patients that are able to, but choose not to be, admitted as private patients are a foregone revenue opportunity.

WA Health is undertaking revenue reforms that will encompass five key work streams: governance and accountability; business systems; private practice; legislation and policy; and learning and development.

Work to enhance own-source revenue generation has commenced and will include process improvements, improved reporting and performance indicators at a Health Service level, clear operational guidelines for practitioners, and legislative reform.

These reforms will deliver more revenue from private patients and ensure that WA Health maximises Commonwealth contributions through existing agreements.

Workforce Initiatives

A range of workforce initiatives are being implemented by Health Services to address the significant workforce cost pressures within the Health system. These include:

- the adoption of more efficient rostering practices;
- reductions in overtime;
- reviewing levels of demand for agency and casual staff; and
- the reduction of fixed term contracts.

Voluntary Separation Schemes

A Voluntary Separation Scheme (VSS) for up to 313 full-time employees has been rolled-out following the closure of Swan District Hospital and the opening of the new Midland Public Hospital. This is estimated to achieve savings of approximately $102 million across the period 2015-16 to 2018-19, which will be retained by WA Health to assist its transition to the PAC.

In addition, a VSS is being rolled-out for up to 250 full-time employees following the reconfiguration of the South Metropolitan Health Service, that is estimated to achieve savings of approximately $82 million across the period 2015-16 to 2018-19 (which again will be retained by WA Health to assist in its transition to the PAC).

Enterprise Bargaining Agreements

The Government is firmly committed to its wages policy which caps increases in wages and conditions to projected growth in the Consumer Price Index.

This is particularly important given the requirement to reduce the estimated 13% differential between the cost of delivering public hospital services in Western Australia and the PAC. Higher salaries for nurses and doctors in Western Australia compared to other jurisdictions (which, depending on the classification, are up to 5.8% higher for nurses than the national average) have contributed significantly to this result.

The Government will promote adherence to the wages policy and flexibility of the workforce in the upcoming Enterprise Bargaining Agreement negotiations.

Capital Investment

General government sector infrastructure spending is projected to be $2.5 billion in 2015-16. Most of this spending is in the key areas of health ($664 million), education ($320 million) and road projects ($1,108 million). A four year total of $9.8 billion is forecast to be spent over the period to 2018-19.

This Mid-year Review includes $376 million in Asset Investment Program savings measures over the forward estimates period (see feature box earlier in this chapter), of which $201 million is reflected in the general government sector.

2015-16

Relative to the 2015-16 Budget, general government sector infrastructure spending has been revised down by $119 million in 2015-16. Spending changes since Budget-time include:

- a $189 million increase in WA Health investment, largely for the carry over of works from 2014-15 into 2015-16 for major projects including the Perth Children’s Hospital and associated information and communication technology project;

- a $50 million increase for the Western Australian Planning Commission for the purchase of land in Neerabup and Alkimos from the Western Australian Land Authority. An estimated 100 hectares of the Alkimos land will be used for the purpose of conservation and active space for the City of Wanneroo, while an additional 11 hectares will be reserved for regional road and railway purposes, and 355 hectares of land at Neerabup will be reserved for Parks and Recreation (Bush Forever) purposes;

- lower State Fleet spending (down $31 million), mainly due to a reduction in vehicle acquisitions and longer lease terms as agencies seek to minimise fleet costs;

- a $25 million increase in spending by the Department of Education, primarily reflecting delays in the receipt of invoices for a number of projects completed in 2014-15, changes in the accounting treatment of the capital component of the Schools public private partnership (see feature box below), and the capitalisation of some Commonwealth funding for Early Childhood Education to support the provision of kindergarten in schools;

- a $19 million increase in spending on roads, due to upgrades to various bridges in Byford and over the Collie River, jointly funded by the Commonwealth; and

- a deferral of $10 million in spending on the Oakajee Narngulu Infrastructure Corridor, as part of the Government's Asset Investment Program savings.

In line with previous years, this Mid-year Review includes a $515 million provision for yet to be identified underspending across the public sector in 2015-16, with $417 million of this provision held in the general government sector.

Western Australian Schools Public Private Partnership

The State has entered into a public private partnership (PPP) with the EduWest consortium, comprising Macquarie Capital Group Limited, Badge Constructions (WA) Pty Ltd, Perkins (WA) Pty Ltd and Spotless Facility Services Pty Ltd. EduWest will design, build, finance and maintain four new primary schools and four new secondary schools which will be built in stages. Education services at these schools will continue to be delivered by the Department of Education.

The four primary schools, at Landsdale East, Alkimos South West, Baldivis North and Byford South West, will be completed and ready for the 2017 school year. As is current practice, the secondary schools will be built in stages. The secondary schools will be located at Harrisdale, Ellenbrook North, Lakelands and Hammond Park. Stage one of Harrisdale will not be constructed by EduWest but the consortium will take responsibility for facilities management from 2017. The staging of construction of the secondary schools to be open for the relevant school year is as follows: Harrisdale stage two 2020; Ellenbrook North stage one 2018 and stage two 2021; Lakelands stage one 2019 and stage two 2022; and Hammond Park stage one 2020 and stage two 2023.

EduWest will be responsible for the provision of facility management services, including routine maintenance, waste management, utilities management, lifecycle services (planned replacement and preventative maintenance), general management services, helpdesk services, grounds and gardens maintenance, pest control, cleaning and security for the period of the contract, which will end 25 years after the delivery of the final secondary school stage.

Benefits of the Western Australian Schools PPP include the following:

- Principals and school staff will be able to focus on student learning, support and wellbeing as facilities management services and maintenance of the schools will be undertaken by EduWest and the contract for all eight schools managed centrally by the Department of Education;
- the State will only make payments to EduWest once a school or stage is completed and handed over ready for school operations, which provides a strong incentive for EduWest to complete the schools on time and within budget;
- the schools will be maintained and fit for purpose over the full term of the contract as abatements to contract payments apply if the services are not delivered to the standards set out in the PPP contract;
- the contract requires that at the end of the contract period the schools will be handed back to the State in a pre-specified condition and fit for purpose; and
- the State's value for money assessment indicated a $100 million lower whole of life cost of the project compared with the public sector comparator (PSC, which is the estimate of the net present cost to the public sector if it was to deliver the project under a more traditional procurement method).

Budget and Accounting Treatment

The approach to budgeting for PPPs is that until the contract is signed and all conditions met (financial close), projects are accounted for as traditional government financed procurement with the construction cost included in the State's Asset Investment Program. Following financial close, when the project's total costs and financing arrangements are finalised, the budget treatment is changed to reflect the payment provisions of the contract.

Following financial close the approach to accounting for the capital component of social infrastructure PPP projects, including the Western Australian Schools PPP, follows Australian Accounting Standards Board (AASB) standard 117: *Leases*, and is consistent with the practice in other jurisdictions. Under this approach, the total financing and project costs incurred by the private sector party during the construction phase are capitalised into an asset and finance lease liability, and reflected on the State's balance sheet at the time the completed facility enters its operational phase. In the case of the Schools PPP, this will be reported in the Department of Education's annual reports and the State's *Annual Report on State Finances* as each primary school or stage of a secondary school is handed over for school operations. The costs of the facility management services are treated separately as expenses as they are incurred (an estimated $2.1 million net increase in these costs across the three years to 2018-19 is to be managed within the Department of Education's existing expense forecasts).

The estimated impact of these transactions has been incorporated into the financial projections in this Mid-year Review (see following table).

Table 6

SCHOOLS PPP – ACCOUNTING TREATMENT IMPACT

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
Overall AIP Impact	-24	-80	-47	-73
Recognition of Finance Lease Liability (including repayments)	-	80	64	61
Interest Expense on Finance Lease	-	3	8	12
Net Change in Facilities Management Costs[(a)]	-	-[(b)]	1	1
Net Debt				
Agency Impact	-24	-20	6	10
Interest Savings to Consolidated Account	-1	-3	-8	-14
State Net Debt Impact	**-24**	**-23**	**-2**	**-5**

(a) To be managed within the Department's existing expense profile.
(b) Amount less than $50,000.

Reporting of the capitalised asset and finance lease liability is very different to reporting of traditional capital expenditure. Accordingly, the change in the budget treatment from traditional procurement to a PPP will result in impacts on budget parameters due to changes such as the timing of when assets and liabilities are recognised, different costs and financing structures. However, the key overall value for money to the State is demonstrated by the comparison of the cost of the PPP to the public sector delivery of the contract as estimated by the PSC.

2016-17 to 2018-19

General government sector infrastructure investment over the period 2016-17 to 2018-19 is estimated at $7.3 billion, down $172 million (or 2.3%) from the Budget-time projection.

Asset Investment Program reductions through efficiencies, deferrals and scope change, as part of savings measures detailed earlier in this chapter, reduce spending by $191 million across this period.

Other post-Budget changes to general government sector infrastructure spending over 2016-17 to 2018-19 include:

- a reduction of $177 million for Education, primarily reflecting the accounting treatment of the capital component of the Schools PPP, following financial close (see feature box);
- an additional $191 million in road spending for annual rolling programs covering buildings and equipment, capitalised operating costs, rescheduled costs across 50 projects as a result of lower than expected spending carried forward from 2014-15, outyear work on bridges noted above, and construction of the township bypass road on the Bussell Highway at Margaret River;
- a $149 million increase for WA Health projects including Perth Children's Hospital information and communication technology, renal dialysis and support services, and the Harvey Hospital Redevelopment (to align with new project timeframes and to ensure the availability of funds for completion and the defects liability period); and
- a reduction of $98 million on the State vehicle fleet forecasts, for the reasons noted earlier.

Further details on material changes to agency infrastructure programs are outlined in Appendix 3: *Major Spending Changes*.

Balance Sheet

The net worth[6] of the general government sector is forecast to increase from $121.3 billion at 30 June 2015 to $125.5 billion at 30 June 2019. This projection is $2.1 billion lower than the 2015-16 Budget estimate, due to higher than forecast financial liabilities (up $3.8 billion, mainly for higher forecast borrowings), offset by higher projected asset holdings (up $1.7 billion, mainly for the ownership interest in public corporations).

The revised outlook to 30 June 2019 includes the net impact of:

- a $3.9 billion higher net worth outcome for the year ending 30 June 2015 (detailed in the 2014-15 *Annual Report on State Finances*);
- a $4.9 billion increase in liabilities (excluding the impact of the 2014-15 outturn), largely due to higher borrowings (up $4.8 billion, see net debt discussion later in this chapter); and

[6] Net worth is the total value of assets owned by the general government sector (including the sector's ownership interest in the net value of State public corporations) less the total value of the sector's obligations (including borrowings, unfunded superannuation liabilities, accounts payable, etc.).

- a $1.4 billion decrease in financial asset estimates (excluding the impact of the 2014-15 outturn), mainly:
  - lower investments, loans and placements (down $714 million, largely due to the draw down of $499 million in Commonwealth funding for roads received at the end of 2014-15, and a lower balance in the Mining Rehabilitation Fund); and
  - forecast lower receivables (down $571 million, mainly due to movements in royalties receivable on the balance sheet).

Table 7

GENERAL GOVERNMENT

Balance Sheet at 30 June

	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m
2015-16 MID-YEAR REVIEW					
Assets	148,949	152,927	156,778	161,814	167,864
Liabilities	27,649	32,209	36,414	39,651	42,366
Net Worth	*121,299*	*120,718*	*120,364*	*122,163*	*125,498*
Net Debt	**9,306**	**14,927**	**19,758**	**22,884**	**23,327**
2015-16 BUDGET					
Assets	146,095	150,238	155,017	160,402	166,138
Liabilities	28,689	32,729	35,804	37,645	38,521
Net Worth	*117,406*	*117,510*	*119,214*	*122,757*	*127,617*
Net Debt	**10,669**	**15,799**	**18,909**	**20,227**	**19,345**
VARIANCE					
Assets	2,854	2,689	1,760	1,412	1,726
Liabilities	-1,039	-520	610	2,006	3,845
Net Worth	*3,893*	*3,209*	*1,150*	*-593*	*-2,120*
Net Debt	**-1,363**	**-871**	**849**	**2,657**	**3,982**

Note: Columns may not add due to rounding.

Cash Flow Statement

Cash deficits are forecast for the general government sector for the period 2015-16 through to 2017-18, before an expected turnaround to a small surplus in 2018-19. The projected shortfall for 2015-16 has increased by $45 million since Budget, to $4.1 billion, with lower infrastructure spending (down $119 million) largely offsetting the cash impact of the weaker operating outcome noted earlier.

Over the three years from 2016-17 to 2018-19, the general government sector cash deficit has deteriorated by a substantial $4.7 billion since Budget-time. This is mainly due to the cash impact of the significant downturn in revenue noted earlier, offset in part by savings measures announced in this Mid-year Review.

Total Public Sector[7]

Summary

Primarily reflecting the write-downs to general government revenue (discussed earlier), operating deficits of $4 billion and $3.2 billion are forecast for the total public sector in 2015-16 and 2016-17 respectively, with a smaller deficit of $1 billion forecast for 2017-18. In line with the general government outlook, a turnaround to an operating surplus is projected for 2018-19.

Reflecting the weaker revenue outlook and spending on the State's Asset Investment Program, net debt for the total public sector is expected to increase from $23.4 billion at 30 June 2015 to an estimated $39 billion at 30 June 2019 ($3.3 billion higher than forecast in the 2015-16 Budget). This increase will be mitigated in part when asset sales are finalised and subsequently reflected in the estimates.

Table 8

TOTAL PUBLIC SECTOR

Summary Financial Statement

	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Forward Estimate $m	2017-18 Forward Estimate $m	2018-19 Forward Estimate $m
OPERATING STATEMENT						
Revenue	43,292	42,740	42,235	44,648	48,336	52,221
Expenses	43,756	45,822	46,233	47,876	49,379	51,812
Net Operating Balance	**-464**	**-3,082**	**-3,998**	**-3,228**	**-1,043**	**409**
BALANCE SHEET AT 30 JUNE						
Assets	187,989	187,669	190,441	195,557	200,909	208,316
Liabilities	66,690	70,159	69,723	75,194	78,746	82,818
Net Worth	**121,299**	**117,510**	**120,718**	**120,364**	**122,163**	**125,498**
STATEMENT OF CASHFLOWS						
Net Cash Flows from Operating Activities	2,364	-43	-727	201	2,069	3,804
Asset Investment Program	-5,777	-6,284	-5,929	-6,056	-6,089	-5,517
Cash Position	**-2,500**	**-5,090**	**-5,653**	**-4,716**	**-2,906**	**-516**
Memorandum Item: Net Debt at 30 June	23,374	30,996	29,552	34,680	38,288	39,043

Note: Columns may not add due to rounding.

[7] The total public sector consolidates the general government sector (discussed earlier in this chapter), the public non-financial corporations sector (which includes entities operating on a predominantly cost recovery basis like the State's ports, and the electricity and water utilities), and the public financial corporations sector (which includes agencies mainly engaged in financial activities such as the Western Australian Treasury Corporation, the Insurance Commission of Western Australia and Keystart).

Operating Statement[8]

An operating deficit of $4 billion is expected in 2015-16 for the total public sector (up $916 million on the $3.1 billion Budget-time projection). The operating outlook over the remainder of the forward estimates is also expected to be weaker than Budget.

These forecasts are dominated by the change in the general government sector operating outlook (discussed earlier in this chapter), with operating surpluses in prospect for the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors in all years of the forward estimates.

Table 9

TOTAL PUBLIC SECTOR OPERATING BALANCE

By Sector

	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Forward Estimate $m	2017-18 Forward Estimate $m	2018-19 Forward Estimate $m
Net Operating Balance						
General government sector	-431	-2,708	-3,146	-2,961	-820	641
Public non-financial corporations sector	1,049	437	345	706	685	680
Public financial corporations sector	176	203	172	179	292	326
less						
General government dividend revenue	1,187	945	1,299	1,034	1,131	1,170
Public non-financial corporations dividend revenue (a)	72	68	69	117	69	69
Total public sector net operating balance	**-464**	**-3,082**	**-3,998**	**-3,228**	**-1,043**	**409**

(a) Dividends received from Keystart (a PFC) by the Housing Authority (a PNFC).

Note: Columns may not add due to rounding.

Public Non-Financial Corporations

Relative to Budget-time, the operating outlook for the PNFC sector remains largely unchanged in net terms.

Across the four years to 2018-19, both revenue and expenses are forecast to increase by $2.8 billion. This primarily reflects upward revisions to the Gold Corporation's precious metal sales estimates and the associated cost of goods sold (up by approximately $855 million in 2015-16 and by a total of $3.7 billion over the four years to 2018-19), as a result of lower $US/$A exchange rate assumptions, partially offset by lower gold price forecasts.

8 Consolidation of the sub-sectors of the public sector removes transactions between each part of government. In aggregate, the operating balance of the total public sector is equal to the sum of the general government and public corporations sectors' operating balances, less dividend revenue. Under Australian Accounting Standards, the dividend costs of the public corporations sectors are not classified as expenses, although the associated dividend income is recognised as general government revenue.

Excluding movements in Gold Corporation estimates over the forward estimates period, revenue and expenses have been revised down by $897 million and $948 million respectively. Significant changes to the operating outlook for other agencies since the 2015-16 Budget include:

- a $537 million reduction in depreciation expenses, reflecting the flow-on impact to the forward estimates of a revaluation of physical assets[9] for the year ending 30 June 2015. This revision primarily reflects changes in the calculation of fair value assets for Synergy (down $299 million), Water Corporation (down $120 million) and Western Power (down $95 million);

- lower revenue ($309 million) and expenses ($134 million) for the Housing Authority, mainly due to:

  - lower forecast inventory sales from the Affordable Housing Program, primarily due to delays in the practical completion of properties and softening market conditions;

  - lower rental revenue from Government Regional Officer Housing (GROH), as a result of softer housing market activity, and lower agency demand for GROH properties; and

  - lower interest expense for borrowings on behalf of Keystart (a PFC), partially offset by a decrease in Keystart's interest revenue (from home loan customers) paid to the Authority, due to prevailing market rates;

- a $258 million increase in Public Transport Authority (PTA) expenses, primarily reflecting additional depreciation expense ($272 million) due to the revaluation of the freight rail network at 30 June 2015, reduced interest expenses due to lower interest rate forecasts ($61 million), and additional expenses related to the decision to procure additional Transperth railcars and develop an alternate freight rail yard ($40 million);

- a $77 million provision for reductions in the operating subsidy to the PTA, to be matched by equivalent spending reductions to be identified in the Authority's Agency Expenditure Review;

- a $249 million reduction in expenses for Western Power, as a result of lower interest costs for new and refinanced debt executed since Budget-time, coupled with changes to interest rate assumptions and revised timing of new and refinanced borrowings;

- lower revenue (down $205 million) and expenses (down $131 million) for Horizon Power, mainly due to revisions to customer demand and energy requirements, and alignment of the L4 and M2 business tariffs with gazetted rates (tariff gazettal occurs after the annual Budget process following the publication of Western Power's network price list);

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9 AASB 1049: *Whole of Government and General Government Sector Financial Reporting*, on which the public sector consolidated accounts are based, requires the use of fair value asset valuation where practical. The accounts of some agencies present property, plant and equipment on a cost basis, consistent with accounting standards applying to agency financial reporting in their own accounts. Provision is made in the whole-of-government accounts for fair value adjustments to cost data for the property, plant and equipment holdings of agencies based on valuations provided by those agencies.

- lower revenue ($108 million) for the Pilbara Ports Authority in 2015-16, mainly due to:
  - the 2014-15 timing of the transfer of the Floating Deck Transhipment System asset from the private sector (previously expected in 2015-16); and
  - the introduction of the price relief package to iron ore proponents at Utah Point, approved by Cabinet in May 2015;
- lower revenue forecasts for the Mid West Ports Authority (down $98 million), reflecting reduced trade throughput, particularly for junior and mid-tier iron ore producers;
- a $73 million increase in the Water Corporation's revenue, which is mainly attributable to the expected transfer of the Onslow Desalination Plant from Chevron Australia to the Water Corporation, the associated operating subsidy for the plant, and an increase in Royalties for Regions funding for the Denmark Water Recycling Scheme in 2016-17; and
- a $78 million increase in the Metropolitan Redevelopment Authority's expenses, primarily due to revised depreciation costs for assets under construction at Elizabeth Quay following finalisation of the Authority's 2014-15 annual report, changes in the accounting treatment of interest on borrowings that have been capitalised in the past, delays in spending (on behalf of local government) from 2014-15 for the Scarborough beach front project, and expenditure associated with the Lloyd Street underpass in Midland.

Public Financial Corporations

The operating outlook for the PFC sector is largely unchanged from the 2015-16 Budget. This primarily reflects the downward revision of both interest revenue and interest expenses as a result of flow-on impacts from the 2014-15 results detailed in the *Annual Report on State Finances*. This is partially offset by higher tax equivalent expenses from the Insurance Commission of Western Australia (ICWA, up $54 million), arising from the sale of two retail properties[10].

As noted earlier, ICWA will pay a one-off dividend of $93 million in 2015-16 as a result of higher than expected profit in 2014-15.

Asset Investment Program

The State's Asset Investment Program (AIP) is estimated at $5.9 billion in 2015-16 and a total of $23.6 billion over the four years to 2018-19 (down from $24.1 billion at Budget-time). Lower AIP spending since Budget largely reflects capital efficiency measures and deferrals as part of savings measures included in this Mid-year Review.

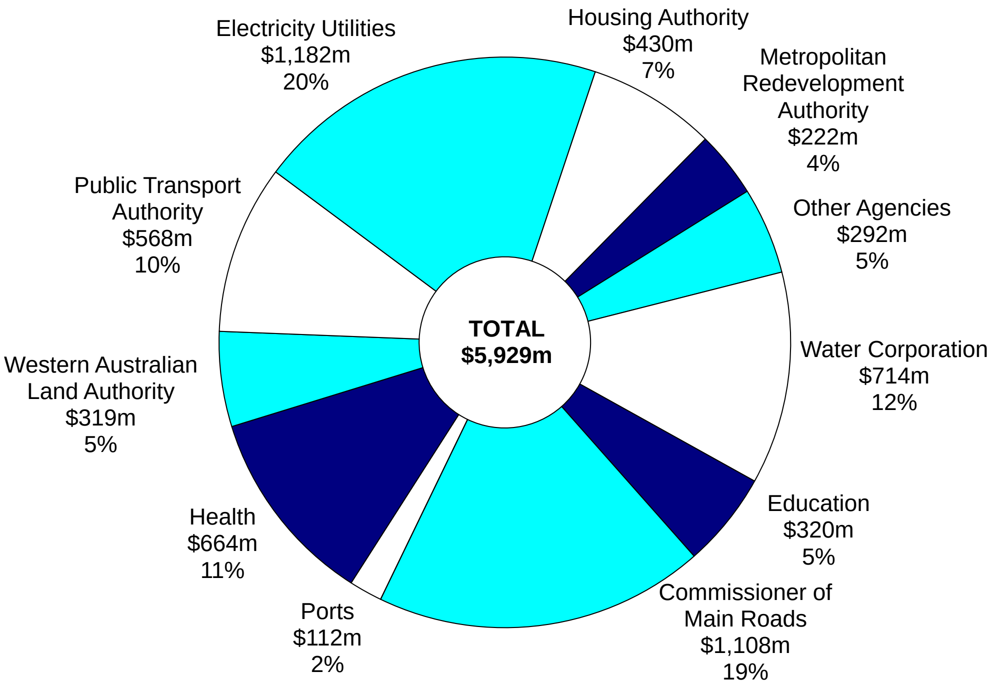
[10] In November 2015, ICWA accepted an offer to purchase its retail property portfolio. The retail property portfolio comprises two major retail suburban shopping centres at Ellenbrook and Livingston Marketplace in Canning Vale owned by the Commission. The agreed purchase price for the assets is $303 million and settlement is expected to take place in January 2016. Of the estimated $303 million asset sale proceeds recognised as part of the transaction, $246 million is expected to be invested in net debt applicable asset classes with the remainder ($57 million) invested in asset classes that do not impact net debt. This is consistent with the investment strategies of ICWA and with Australian Bureau of Statistics Government Finance Statistics Framework interpretations of the impact on net debt of investments in particular asset classes.

The Government's infrastructure investment is focused on important economic and social infrastructure, with capital spending in 2015-16 delivering key infrastructure in the areas of health, electricity, water, roads, public transport and housing.

Figure 5

ASSET INVESTMENT PROGRAM[a]

2015-16

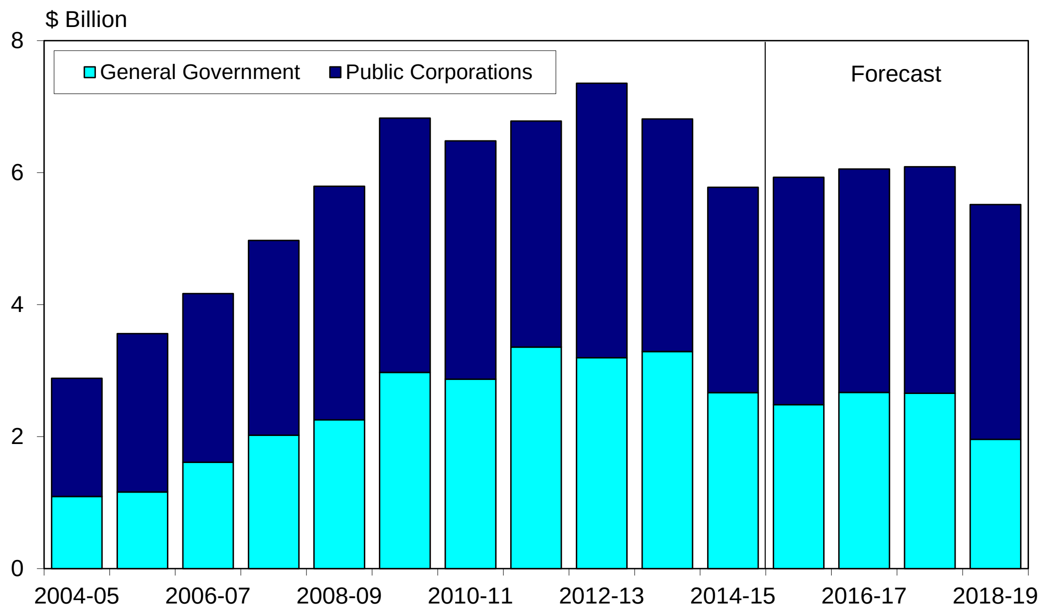


(a) Segments may not add due to rounding.

In addition to investment by general government agencies discussed earlier in this chapter, the public corporations account for around $13.9 billion or 59% of infrastructure delivery over the four years to 2018-19.

Figure 6

ASSET INVESTMENT PROGRAM



Since Budget-time, infrastructure spending by public corporations has been revised down by $133 million over the four years to 2018-19. This reflects the net impact of:

- AIP savings measures as part of this Mid-year Review, including deferring and/or reducing the scope of uncontracted projects and efficiency savings that will reduce AIP spending in public corporations by $175 million (see feature box earlier in this chapter);
- a net increase of $193 million in spending by the Public Transport Authority, largely reflecting the procurement of 10 additional B-Series three-car sets (or 30 railcars in total) and development of a new freight rail yard to replace the existing Brookfield Rail site in Bellevue;
- a reduction of $115 million for the Western Australian Land Authority, largely reflecting the net effect of:
  - the downturn in current market conditions resulting in reduced sales revenue and deferral of planned acquisitions and development expenditure; and
  - an increase of $43 million for the purchase, development and sale of surplus land acquired from the Western Australian Planning Commission which will contribute to achieving both residential infill targets and industrial land outcomes;
- a $52 million increase in spending by the Metropolitan Redevelopment Authority, mainly due to the re-timing of development works originally scheduled for 2014-15 across the Wungong, Midland, Armadale, Riverside and Perth City Link projects;

- a reduction of $39 million for the Housing Authority, which largely reflects a reduction in the Estate Improvement Land Redevelopment Program as a result of softening demand for housing stock in the Pilbara, partially offset by an increase in the reinvestment of funds from high value sales primarily in the Perth metropolitan area;

- a $21 million increase in spending by the Fremantle Port Authority, predominantly reflecting the reinstatement of works on Kwinana Bulk Terminal ($23 million to fulfil existing customer contracts) and the North Quay Land Acquisition ($10 million for civil works) and delays to works originally scheduled for 2014-15 ($8 million). These increases are partially offset by rescheduled works ($20 million) including the Victoria Quay Motor Vehicle Decking and Waterfront Implementation Plan and the Kwinana Bulk Jetty Handling Plant and Equipment; and

- an $18 million increase in spending by the Pilbara Ports Authority, primarily due to a delay in project spending on the Integrated Marine Operations Centre, the Channel Marker Replacement Program and the Port of Ashburton project, with spending on these projects carried over from 2014-15.

Further details of the material changes in spending since Budget are available in Appendix 3: *Major Spending Changes*.

Asset Sales Program

The Government remains committed to an orderly program of asset sales as part of its debt management strategy.

On 28 August 2014, the Government announced its first round of asset sales, including the sale of the Government-owned fresh produce wholesale market in Canning Vale (Market City) and bulk handling port facilities in Kwinana and Port Hedland.

As part of the 2015-16 Budget, the Government announced a significant expansion to the asset sales program, including the divestment, by way of long-term lease, of Fremantle Port.

The sale process for Market City is nearing completion. It is anticipated that the Government’s evaluation of the binding offers submitted as part of the Request for Detailed Proposals stage will be completed in December 2015, with final negotiations and completion of the sale process to occur early in 2016. A focus of the Government’s evaluation process will be assessing respondents’ commitment to the continuity of the market and vision for the future of Market City.

The sale process for the Utah Point Bulk Handling Facility (Utah Point) at Port Hedland is well progressed, with enabling legislation introduced to Parliament in November 2015. The second half of the detailed due diligence process is nearing completion, with a number of key commercial and policy issues to be considered by Government. Key among these considerations is the access and pricing regime that will apply to ongoing and future users of the Utah Point facility.

The due diligence process for the long-term lease of Fremantle Port is also progressing. The Government is working through a range of commercial and policy issues to meet the objectives of the sale and satisfy the interests of taxpayers, port users and the broader State economy. Consultation will also continue to occur with representatives from the Australian Competition and Consumer Commission and Foreign Investment Review Board to ensure broader national considerations are factored into the divestment process.

The Government also continues to develop the analysis of other divestment opportunities, including the softwood plantation assets of the Forrest Products Commission.

The Government has also approved a partial divestment of up to $1.6 billion of Keystart’s loanbook. A lead financial adviser is currently being sought by the Government to support this process, with a view to completing the transaction around mid-2016. The proposed divestment will not change service levels, terms and conditions for existing customers or Keystart’s interest rate setting policy. This represents a first step in enabling Keystart to partner with the private sector to continue to meet its affordable housing objectives and reduce its reliance on State Government borrowings.

In November 2015, the Insurance Commission of Western Australia accepted an offer of $303 million for the purchase of its retail property portfolio which comprises two major retail suburban shopping centres at Ellenbrook and Livingston Marketplace in Canning Vale. Settlement of the transaction is expected to take place in January 2016. The sale is consistent with the investment strategies of the Insurance Commission.

As part of the 2015-16 Mid-year Review, the Government has approved the divestment of $100 million in surplus Government Regional Officer Housing properties by the Housing Authority of Western Australia.

Land Sales

The Government is also pursuing the sale or lease of surplus or under-utilised land assets, under a program coordinated by the Department of Lands. As part of the 2015-16 Budget the Government announced an expanded land sales program (to a total estimated value of $268 million over the forward estimates period to 2018-19). Total sales contracted to date under the program total $54.8 million.

In September 2014, the Government identified 20 key parcels of surplus public sector land, of which:

- three have been contracted for sale for a total value of $25.9 million;
- another three are on the market listed for sale;
- a further three properties are being prepared for sale; and

- the remaining 11 properties are being investigated for disposal, with divestment options being considered.

A further 45 properties additional to these 20 parcels of land are also being prepared for, or progressing through, sale processes. This includes surplus Western Power land in Forrestfield that is contracted for sale at $34.5 million, which is to be developed for housing by the private sector.

Balance Sheet

Net worth of the total public sector is equivalent to that of the general government sector (discussed earlier in this chapter). This is because the net worth of public corporations is reported as an asset in the general government sector balance sheet.

Total public sector net debt is discussed in more detail below.

Cash Flow Statement

A cash deficit of $5.7 billion is forecast for the total public sector in 2015-16, $563 million higher than forecast in the 2015-16 Budget. This reflects a $685 million deterioration in net cash flows from operating activities (i.e. the cash equivalent of the net operating balance), partly offset by a $121 million reduction in net cash spending from investment in non-financial assets (i.e. the Asset Investment Program net of sales of surplus land and other fixed assets).

Across the three years from 2016-17 to 2018-19, the total public sector cash position has deteriorated by an aggregate $4.6 billion since Budget-time. This is mainly due to the cash impact of the substantially weaker general government revenue outlook outlined earlier.

Over the four years to 2018-19, infrastructure spending is expected to total $23.6 billion, down from the $24.1 billion projected at the time of the 2015-16 Budget (see earlier discussion of asset investment). Over the same period, sales of land and other fixed assets are projected to total $4.5 billion, broadly unchanged from Budget projections.

Net Debt[11]

Net debt of the total public sector is forecast to increase from $23.4 billion at 30 June 2015 to $39 billion by 30 June 2019, $3.3 billion higher than forecast in the May Budget. This increase largely reflects the net impact across the forward estimates of:

- the lower than expected net debt outturn at 30 June 2015 (down $2.1 billion), as reported in the 2014-15 *Annual Report on State Finances*;

[11] Net debt is a balance sheet measure based on Government Finance Statistics concepts. It is calculated as the difference between liquid financial assets (including loans made by governments) and financial liabilities that attract a debt servicing cost. Net debt is an important indicator of the strength of the public sector's financial position and the sustainability of the public sector's future call on cash.

- a net $5.7 billion deterioration in the operating cash position of the public sector, including:
  - significant reductions in payroll tax (down $2.1 billion), total duty on transfers (down $734 million), insurance duty (down $421 million), vehicle licence duty (down $316 million) and land tax[12] (down $130 million) due to softer conditions in the economy;
  - a fall in mining-related revenue (down $1.6 billion in cash terms), including $842 million in iron ore royalties and $582 million in petroleum royalties and North West Shelf/condensate compensation grants;
  - lower GST grants (down $373 million), due to the net impact of updated estimates of population growth, tax capacity, mining revenue capacity and wage costs (relative to other States), as well as updated estimates of the GST pool; and
  - the impact of the corrective measures included in this Mid-year Review, such as the provision for salaries underspending and recruitment freeze, reduction in non-salary indexation, Agency Expenditure Reviews, and other measures;
- $376 million in AIP savings due to further efficiencies and deferrals;
- a total $117 million net decrease for all other infrastructure spending changes since Budget, with an additional $185 million for additional passenger rail cars more than offset by reductions for State Fleet spending and the removal of a portion of the Department of Education's infrastructure program which will now be delivered under a PPP arrangement;
- a $421 million increase in the recognition of finance lease obligations, with the first time recognition of $205 million of finance leases for the Schools PPP along with the recognition of $216 million of finance leases related to the Eastern Goldfields Regional Prison (delayed from 2014-15); and
- a decrease of $246 million following the recently announced sale of retail property assets belonging to the Insurance Commission of Western Australia.

The following table summarises changes in total public sector net debt projections since the 2015-16 Budget.

[12] Includes Metropolitan Region Improvement Tax.

Table 10

NET DEBT OF THE TOTAL PUBLIC SECTOR AT 30 JUNE

	2016 $m	2017 $m	2018 $m	2019 $m
2015-16 BUDGET - TOTAL PUBLIC SECTOR NET DEBT	**30,996**	**34,443**	**36,289**	**35,753**
Plus improvement from 2014-15 outturn	-2,081			
Less change in net cashflows from operating activities and dividends paid				
- General government	-173	-1,647	-1,675	-1,559
- Public non-financial corporations	-405	148	-22	-200
- Public financial corporations	-107	-39	8	12
Total public sector	*-685*	*-1,538*	*-1,689*	*-1,747*
Plus purchases of non-financial assets				
Savings Measures				
- Deferral of uncontracted Asset Investment Program projects	-10	-17	-48	-83
- Western Power infrastructure reduction	-60	-20	-20	-20
- 5% infrastructure efficiency target	-	-33	-31	-32
- Agency Expenditure Review - Culture and the Arts	-	-1	-1	-1
Other Changes (a)				
- Public Private Partnership Schools project - remove traditional infrastructure	-24	-80	-47	-73
- Future Urban Railcar Procurement	90	75	20	-
- State Fleet	-31	-32	-32	-34
- All other	-319	201	166	3
Total purchases of non-financial assets	*-354*	*93*	*8*	*-239*
Less proceeds from sale of non-financial assets				
Land Authority	-31	-111	-22	53
Housing Authority	-98	50	-22	95
Metropolitan Redevelopment Authority	-57	45	-28	40
All other	-47	70	9	13
Total sales of non-financial assets	*-233*	*54*	*-63*	*201*
Plus all other financing				
Public Private Partnership Schools project - recognition of finance lease	-	80	64	61
Eastern Goldfields Regional Prison - delayed finance lease recognition from 2014-15	216	-	-	-
ICWA - sale of retail assets	-246	-	-	-
All other (b)	102	24	-62	-78
Cumulative impact on net debt at 30 June	*-1,444*	*237*	*1,999*	*3,290*
2015-16 MID-YEAR REVIEW - TOTAL PUBLIC SECTOR NET DEBT	**29,552**	**34,680**	**38,288**	**39,043**

(a) Material changes in infrastructure spending are outlined earlier in this chapter and Appendix 3.

(b) Includes other movements in net debt attributable to issues such as revaluations of investment assets and debt liabilities, the restatement of agency net debt assets/liabilities for changes in annual reports completed after the 2014-15 *Annual Report on State Finances* was finalised, net acquisitions of financial assets for liquidity purposes, changes in the acquisition of non-financial assets under finance leases and similar arrangements (other than those listed in the table), etc. These transactions have no associated operating or infrastructure cash flows reflected in other items in this table.

Note: Columns may not add due to rounding.

Statement of Risks

Forecasting Uncertainties

The inherent uncertainties associated with producing forecasts for an approximately $276 billion economy and $29 billion general government sector recurrent budget means that there will always be differences between the forecasts of key aggregates and the final audited results. This Statement of Risks provides an overview of the known issues that have the potential to materially affect the financial projections contained in this Mid-year Review.

Revenue Estimates

The revenue estimates in this Mid-year Review are highly sensitive to changes in key economic parameters, including the $US/$A exchange rate, commodity prices (especially iron ore), employment and wages growth, and house prices and transaction volumes. Approximate annual impacts of changes in these variables are outlined in the following table.

Table 11

APPROXIMATE PARAMETER SENSITIVITY OF REVENUE ESTIMATES

2015-16

	Variability ($m)	Detail
Royalty income and North West Shelf grants	±61	For each US1 cent decrease/increase in the $US/$A exchange rate (royalty income is inversely related to the $US/$A exchange rate)
Iron ore royalties	±75	For each $US1 per tonne increase/decrease in the price of iron ore
Petroleum royalties and North West Shelf grants	±11	For each $US1 increase/decrease in the price of a barrel of oil
Payroll tax	±37	For each 1% increase/decrease in taxable wages or employment growth (i.e. the total wages bill)
Underlying transfer duty		
- Prices	±15	For each 1% increase/decrease in average property prices
- Transactions	±11	For each 1% increase/decrease in transaction levels
GST grants		
- Iron ore royalties	±89	For a $100 million increase/decrease in iron ore royalty revenue (due to increased/decreased value of production), all else being equal, Western Australia will lose/gain an estimated $89 million of GST grants in net present value terms (the loss/gain will occur in later years due to the time lags in the Commonwealth Grants Commission process)

Further to the revenue sensitivities above, specific risks to the revenue estimates are discussed below. Risks to the domestic economic outlook are discussed in Chapter 3: *The Western Australian Economy*.

Royalty Income ($3,788 million in 2015-16)

Royalty income is forecast to account for 14.8% of the State's total projected revenue in 2015-16. Royalty income estimates are particularly sensitive to movements in the $US/$A exchange rate and iron ore prices, with iron ore royalty income alone projected to account for 12.5% of total general government revenue in 2015-16.

Exchange Rate

The $US/$A exchange rate represents one of the largest risks to the royalty revenue forecasts. Since the 2015-16 Budget, the exchange rate has varied between a high of US81.1 cents and a low of US69.1 cents. For every one US cent that the exchange rate is higher/lower than the assumed rate of US71.8 cents for 2015-16, royalty revenue will deteriorate/improve by around $61 million.

Factors which affect the value of the US dollar are important in determining the $US/$A exchange rate. For example, currency markets have been particularly sensitive to changing expectations regarding the timing of an increase in the federal funds target rate set by the US Federal Reserve. However, changes in the value of the US dollar are usually largely offset by changes in the US dollar price for commodities. Therefore, the net impact of movements in the value of the US dollar on revenue is usually limited.

The $US/$A exchange rate is also sensitive to Australian domestic economic conditions and the potential for changes to the cash rate by the Reserve Bank of Australia. Changing economic conditions in China have also tended to influence the $US/$A exchange rate given China's importance as the largest market for Australian commodity exports. A decline in the outlook for the Chinese economy and its commodities demand tends to result in downward pressure on the $US/$A exchange rate, offsetting some of the impact of lower commodity prices.

The $US/$A exchange rate has often moved in the same direction as prices for Western Australia's key commodity exports, offering at least a partial natural hedge for the State's revenue. Between the 2015-16 Budget cut-off date (21 April 2015) and the Mid-year Review cut-off date (30 November 2015), the benchmark iron ore price has fallen 15.7%, while the exchange rate has fallen by 6.2%. However, there have also been relatively extended periods in recent years where commodity prices have dropped while the value of the Australian dollar has remained elevated.

Iron Ore Prices

Royalty income from the sale of iron ore has been one of the most volatile sources of revenue for the State over the past ten years. This volatility has primarily been driven by large movements in price as the market has experienced significant structural change, driven by China's emergence as the world's largest consumer and the subsequent expansion of supply from large low cost producers.

Although price movements in dollar terms are not as large as in recent years, in percentage terms volatility remains high. For every $US1 per tonne that the iron ore price is below or above the assumed price of $US46 per tonne over 2015-16, royalty revenue will be around $75 million lower/higher than estimated.

Iron ore price volatility is expected to remain a major risk over the forecast period as the market continues to adjust to significant additional low cost supply. The adjustment is likely to ultimately involve a significant reduction in production from higher cost suppliers, but this may be a protracted process, placing downward pressure on prices in the interim.

Risks also exist with regard to demand for iron ore from Chinese steel producers. Domestic consumption is being adversely impacted by a downturn in property (particularly residential) construction, which is the largest steel consuming sector, and this may also have flow-on impacts to other sectors, such as consumer durables. Risks are also emerging with regard to Chinese exports of steel as producers in some key importing countries lobby governments to take action against cheap imports from China[13].

Iron Ore Volumes

Iron ore production volumes have been revised up slightly since Budget, and are now projected to grow from 759 million tonnes (Mt) in 2015-16 (up from 748 Mt at Budget) to 804 Mt in 2018-19 (up from 799 Mt)[14]. Although an extended period of price weakness may force some of the smaller iron ore producers in Western Australia to cease production, the largest four miners (Rio Tinto, BHP Billiton, Fortescue Metals Group and Roy Hill) account for around 95% of the projected iron ore volumes across the forecast period.

Therefore, most of the iron ore produced in Western Australia comes from large, capital-intensive operations that have relatively low operating costs when compared to producers from other countries. Production from large producers is not likely to be affected by movements in price over the short-term. Previous episodes of sharp price declines during 2012 and the Global Financial Crisis had little impact on the volume of iron ore sales from Western Australia.

State Taxes ($9,112 million in 2015-16)

Transfer Duty

Property transactions are highly susceptible to fluctuations in market sentiment and are therefore inherently volatile and difficult to forecast.

The current transfer duty forecasts seek to balance the risk that market sentiment could further deteriorate and aggravate the expected fall in transaction volumes in the housing market, against a risk of a recovery in prices and volumes in the housing market.

13 Steel exported from China will increase demand for Western Australian iron ore, where it displaces steel produced in countries which do not import significant quantities of seaborne ore, such as the US, or where it displaces steel produced in countries which utilise a higher amount of scrap, for example Japan.

14 These volumes are expressed as dry tonnes.

A change in the number, or size, of high value commercial transactions, such as transfers of mining tenements or commercial property, represents both upside and downside risk to the transfer duty outlook.

Payroll Tax

Despite significant downward revisions to the payroll tax estimates in this Mid-year Review, in the short term the balance of risks probably remains on the downside. In this regard, payroll tax revenue is estimated to grow by 2.6% in 2015-16. Although this is below the expected (combined) growth in wages and employment (of 3.25%) – reflecting compositional changes in the State's labour market – it contrasts with a small contraction in actual annual average growth over the year to November 2015 (which declined by 0.1% over the period).

Commonwealth Grants ($8,024 million in 2015-16)

The Commonwealth Government had not released its *Mid-year Economic and Fiscal Outlook* (MYEFO) at the time of the cut-off for this Mid-year Review. Accordingly, any updates to the outlook for grants in the Commonwealth's MYEFO are not reflected in these Mid-year Review projections. Any such updates will be incorporated in the State's 2016-17 Budget.

GST Grants

Western Australia's GST grants are a function of the Commonwealth's national GST collections, Western Australia's population share, and the Commonwealth Grants Commission's (CGC's) annual recommendations on the distribution of the national GST pool among States and Territories.

Forecasts of the national GST pool are based on the Commonwealth's 2015-16 Budget. There is a risk that GST collections could vary from those currently projected as they are dependent on national economic conditions.

States' and Territories' population shares over time are affected by their relative population growth rates. GST grant estimates in this Mid-year Review are based on the Commonwealth's population growth projections for the States and Territories, published in its 2015-16 Budget, which (for Western Australia) are higher than the population growth projections used elsewhere in this Mid-year Review[15].

Any significant changes to Western Australia's relative population growth could substantially alter the State's GST grants. Given current population trends, this represents a potentially significant downside risk to the GST grant forecasts contained in this Mid-year Review.

[15] The Commonwealth estimates have been used for calculating Western Australia's GST grants because in calculating GST grants what matters is how different Western Australia's population growth is to national population growth, and the Western Australian Treasury does not generate forecasts of the national population, or the populations of the other States and Territories.

The State's share of the national GST grant pool relative to its population share is recommended annually by the CGC. Its recommendations take account of States' costs of providing services and capacity to raise their own revenue. For 2015-16, the GST revenue estimates incorporate the CGC's approved recommendation of Western Australia's GST share (i.e. 30% of Western Australia's population share). For 2016-17 onwards, the Western Australian Treasury's projections of GST relativities take account of projected changes in economic circumstances that are expected to be reflected in the CGC's calculations. This inherently involves a degree of uncertainty.

North West Shelf Grants ($640 million in 2015-16)

North West Shelf grants are derived from sales of LNG, oil, condensate, liquefied petroleum gas and domestic gas, with LNG generating the largest amount of revenue from these commodities.

Most of the LNG from the North West Shelf is sold under contracts that are linked to the price of oil[16]. Therefore, a large unanticipated movement in the oil price represents the most significant risk to North West Shelf grants over the forecast period. The oil price has declined significantly over the past 18 months after several years of being relatively elevated and stable. This has been caused by robust growth in production, in particular from North America, coming at a time of weakening economic activity in emerging markets.

Emerging markets have been the primary source of growth in oil consumption over the past 15 years. Therefore, continued deterioration in the economic conditions of these countries represents a downside risk to price projections.

Conversely, the oil price may exceed expectations if the oil cartel, the Organisation of the Petroleum Exporting Countries (OPEC), responds to low prices by cutting output. However, key members of the organisation have so far shown little inclination to do this.

Expiring National Partnership Agreements

Western Australia is currently party to 44 National Partnership (NP) agreements with the Commonwealth Government relating to the delivery of specific projects, improvements in service delivery or reform. A further 16 NPs are either currently under negotiation or about to be negotiated. These agreements are generally for a limited period and have specific conditions attached to funding.

The majority of NPs create increased service levels, which generates community expectation that such levels will continue despite the time-limited nature of NPs. Other NPs develop capital projects that will require ongoing maintenance. Unless another source of Commonwealth funding is found at the expiry of an NP, the State must either fund the increased service levels or allow service delivery to revert to pre-NP levels.

[16] Contracts typically range in length between two and 25 years and many contracts allow for periodic renegotiation of pricing.

Some NP agreements have been rolled over for short-terms (some more than once), without longer-term commitment. This creates budget uncertainty for the State and significant uncertainty for service providers.

Given the uncertainty about expiring NPs, in most cases this Mid-year Review assumes no continued funding (either Commonwealth or State) past an NP's expiry date, and that the additional or enhanced services generated by the NP will cease[17].

Asset Sales

The Government has announced a structured asset sales program as part of its strategy to reduce the State's debt levels. The proceeds from these asset sales will only be incorporated into the State's financial projections once the associated transactions are finalised, with some proceeds expected to be received in 2015-16. This represents an upside risk to the debt projections contained in this Mid-year Review.

The Government is also pursuing the sale of surplus or under-utilised land assets, under a program coordinated by the Department of Lands. Progress against targets and further details can be found in the Asset Sales feature box earlier in this chapter.

Spending Risks

Interest Rates

The projected Consolidated Account interest costs incorporated in the 2015-16 Mid-year Review are based on projections for Consolidated Account borrowings and the Western Australian Treasury Corporation's (WATC's) outlook for interest rates under what it terms the 'most likely' scenario.

Interest rate forecasts under the 'most likely' scenario are anchored by WATC's expectations for the future path of the Reserve Bank of Australia (RBA) cash rate. In addition to the 'most likely' scenario rate projections, WATC also produces a 'high' scenario to allow sensitivities to be calculated. The general approach to producing the 'high' path is to progressively add an increasing spread to the 'most likely' path for each point across the interest rate maturity curve (i.e. 90 days, 180 days, 3 years, 5 years and 10 years) at each successive quarter until a maximum deviation – an additional 150 basis points – is reached after ten quarters.

The table below provides a comparison of the interest rate outcomes under the 'most likely' and 'high' interest rate paths. As indicated, average (quarterly compounded) interest rates are between 9 and 88 basis points higher, and annual Consolidated Account interest expenses would be around $230 million higher by 2018-19, under the 'high' scenario.

[17] Due to their ongoing nature, it is assumed funding will continue for the Home and Community Care NP, Homelessness NP, Natural Disaster Resilience NP and the Provision of Fire Services NP. Collectively, this represents $615 million of funding expected from yet to be signed agreements over the period 2015-16 to 2018-19, of which around 95% is for the Home and Community Care NP alone.

Table 12

CONSOLIDATED ACCOUNT INTEREST RATE SCENARIOS

	2015-16	2016-17	2017-18	2018-19
'Most Likely' (%)	**3.41**	**3.22**	**3.27**	**3.44**
'High' (%)	3.5	3.54	3.89	4.32
Variance (%)	*0.09*	*0.32*	*0.62*	*0.88*
Variance ($m)	*7*	*60*	*141*	*230*

Health Spending

Converging to the National Average Cost

The key budget strategy for WA Health is to achieve convergence between the cost of delivering public hospital services in the State's health system and the national Projected Average Cost (PAC) within the timeframe for completion of the WA Health Reform Program (i.e. by 2020-21).

There is currently a significant differential between the cost of delivering public hospital services in Western Australia and the PAC, as determined by the Independent Hospital Pricing Authority, with Western Australia's cost of delivering services estimated to be around 13% higher than the national average per weighted unit of activity in 2014-15.

Higher salaries for nurses and doctors in Western Australia compared to other jurisdictions (which, depending on the classification, are up to 5.8% higher for nurses than the national average) have contributed significantly to this result.

Achieving convergence to the PAC will require substantial and sustained improvements to the efficiency of public hospital service delivery over the forward estimates period. Should these efficiency improvements not be fully realised, public hospital cost growth in Western Australia will outpace national efficient growth settings. See feature box on Health Reform earlier in this chapter.

Managing the Health Workforce

WA Health is currently experiencing workforce cost pressures that are largely the result of excess levels of staff following the reconfiguration of hospital services and commissioning of the Fiona Stanley Hospital.

Due to the scale and complexity of WA Health's reconfiguration activities and commissioning of new infrastructure, financial risks associated with workforce cost pressures were not able to be fully addressed within the stipulated timeframes for the 2014-15 Targeted Voluntary Separation Scheme. Nevertheless, 419 separations of excess WA Health employees were achieved out of a target of 500.

A further $18.6 million has been approved for a Voluntary Separation Scheme (VSS) for WA Health employees following the closure of Swan District Hospital and the opening of the new Midland Public Hospital. A VSS is also being rolled out to address surplus employees following the reconfiguration of the South Metropolitan Health Service, to be funded from existing WA Health budget allocations. Both schemes will only partially mitigate workforce cost pressures, with WA Health also needing to employ other strategies around rostering, overtime and fixed-term contract positions. Successful implementation of these strategies is critical to the achievement of WA Health's budget settings.

Perth Children's Hospital Commissioning

The Perth Children's Hospital (PCH) has encountered delays in the construction and commissioning program, with practical completion and formal handover of the PCH facility to WA Health now estimated for the first half of 2016. Unfettered access is critical for the PCH commissioning as it allows WA Health to perform transition program activities, such as workforce training and clinical commissioning.

The financial impact of the later than expected commissioning remains uncertain at this time. However, the cost impact will continue to be monitored as additional information around the revised timeframes becomes available.

Law and Order Spending

Daily Average Prisoner Population

Based on the current trend of the daily average prisoner population, the number of prisoners within correctional facilities in Western Australia is trending higher than current forecasts over the forward estimates period, and additional expenditure may be required.

The Department of Corrective Services is implementing a series of measures (including its Population Management Strategy), and is progressing a broader reform agenda, to manage the prisoner population growth within its existing infrastructure and current budget settings. Outcomes from these strategies will be considered as part of the 2016-17 Budget.

Transport Infrastructure – Perth Freight Link

The State Government is currently considering the timing for delivery of Section 2 (beyond the Roe Highway/Stock Road interchange) of the Perth Freight Link. The exact timeframe and financial impact of any change are subject to ongoing negotiations with the Commonwealth Government.

Public Transport Operating Subsidy

Metropolitan fare paying public transport boardings have declined by 2.3% over the period July to October 2015, compared to the same period in 2014. In contrast, the 2015-16 Budget assumed annual growth of 1.9%. If annual patronage remains below forecast expectations, the operating subsidy paid to the Public Transport Authority may need to increase to cover a shortfall in fare revenue. This will be considered as part of the 2016-17 Budget.

Social Services

National Disability Insurance Scheme

The Commonwealth and State Governments are participating in a two-year comparative trial of two different models for the National Disability Insurance Scheme (NDIS). The trial is due for completion on 30 June 2016 and will inform any transition to a full NDIS in Western Australia, including the associated financial impact.

Arrangements for the delivery of disability services in Western Australia beyond the trial period, including transition to a full scheme, are subject to discussions and agreement with the Commonwealth. Associated costs will be considered as part of this process and reflected in the financial aggregates when future arrangements are finalised.

Mental Health (10 Year Plan)

The Mental Health Commission released the *Western Australian Mental Health, Alcohol and Other Drug Services Plan 2015-2025* on 7 December 2015. The Plan will inform priorities in mental health, alcohol and other drug services over the next ten years.

Any additional costs that may arise due to this initiative will be subject to the submission of business cases for Government consideration through the annual budgetary process.

Child Protection

Demand for child protection services has grown rapidly, with the number of children in care increasing by 50% from 2007-08 to 2014-15. In order to meet existing budget parameters, the Department for Child Protection and Family Support will need to ensure the sustainable management of both cost and demand through improvements in the efficiency and effectiveness of services and the implementation of demand management strategies. In this regard, the forward estimates include a cumulative 1% per annum demand growth reduction target from 2016-17, totalling $40 million over the period 2016-17 to 2018-19.

Expiring Enterprise Bargaining Agreements

Salaries costs represent around 40% of general government sector recurrent spending. The forward estimates are predicated upon adherence to the Government's Public Sector Wages Policy of limiting wage and conditions increases to the projected growth in the Consumer Price Index (CPI). A large number of Enterprise Bargaining Agreements expire over the next 18 months covering over 70% of employees in the public sector. Agreements to be renegotiated include those for prison officers, registered nurses, health salaried officers, doctors, public servants and police officers. Should outcomes exceed projected CPI, this poses a significant risk to the estimates.

However, the Government remains firmly committed to its Wages Policy. Further, should the Western Australian Industrial Relations Commission arbitrate an above-CPI outcome, the relevant agency (or agencies) will be required to fund the cost of this from within existing budget settings.

Operating Costs for Perth Stadium

Financial modelling of forecast revenue and operating costs for the Perth Stadium from commencement of operations (currently targeted for early 2018) has determined that recurrent costs for Stadium operations should be met from revenue generated by Stadium events, with no requirement for additional recurrent funding to VenuesWest, the agency responsible for the facility. On this basis, no funding provision has been made for Perth Stadium operations to date.

Facilities management costs for Perth Stadium were confirmed in August 2014 following award of the design-build-finance-maintain contract for delivery of the Stadium and surrounding Sports Precinct. However, other operating costs for the Perth Stadium are dependent on the final terms and conditions of the Stadium Operator Contract and User Agreements with the relevant key sports entities. The Stadium Operator procurement process is in progress, with the associated contract expected to be executed by mid-2016. Negotiations with key users are also well advanced and expected to be finalised in early 2016. The finalisation of the terms and conditions of the Stadium Operator Contract and User Agreements is critical to validation of the assumptions in the Perth Stadium financial model, in respect of both revenue and costs.

Significantly, Perth Stadium revenue (and to an extent, operating costs) is ultimately dependent on the number and type of events hosted by the Stadium, attendance at those events, and pricing across the wide range of Stadium revenue streams.

There is a risk that the actual revenue and cost parameters outlined above will give rise to a financial outcome that is less favourable than the modelled outcome, potentially requiring additional funding for ongoing Stadium operations.

Strategic Assessment of Perth and Peel Regions

The Strategic Assessment of Perth and Peel Regions (SAPPR) represents a long term policy commitment that is not currently funded. The Strategic Conservation Plan, due for release in December 2015, outlines a series of proposed commitments to State and National matters of environmental significance that remain subject to negotiation with the Commonwealth.

It is expected that the costs of the proposal will be considered as part of the 2016-17 Budget.

GOvNext-ICT Program

The Government has committed to the GOvNext-ICT Program which aims to consolidate information and communications technology infrastructure and move the Western Australian public sector to a consumption-based model. While the Program is expected to achieve considerable savings for Government, the initial up-front investment is yet to be quantified and will be subject to the outcome of the recent expression of interest for innovative ICT solutions. These unquantified costs and savings are expected to be firmed up as part of the 2016-17 Budget.

Government Trading Enterprises

Corporatised public corporations, also known as Government Trading Enterprises (GTEs), are a significant revenue source for the general government sector through income tax equivalent and dividend payments (representing $1.85 billion, or 7.2%, of general government revenue in 2015-16). Some GTEs also receive operating subsidies from the Consolidated Account ($1.8 billion, or 6.3%, of general government expenses in 2015-16). GTEs undertake a significant proportion of the State's infrastructure investment (around 59% in 2015-16), with any required borrowings contributing to the State's debt levels.

Projections for GTEs are made complex by a number of issues. Some entities are subject to independent regulatory processes (such as the economic regulation of Western Power's network tariff pricing), others are impacted by Government determinations (generally affecting customer tariffs), and all are exposed to changing market conditions (cost and demand fluctuations).

Particular material risks to the operating outlook and infrastructure spending projections for GTEs include:

- regulatory arrangements for Western Power – as part of phase 1 of the Electricity Market Review, responsibility for regulatory arrangements for Western Power will shift from the Economic Regulation Authority to the national regulator, the Australian Energy Regulator. Implementation of this reform could have a financial risk dependent on the regulatory determination of such issues as efficient operational and capital expenditure, the weighted average cost of capital and the corporation's regulated revenue cap (this could be either an upside or downside risk);

- Synergy fuel supply – Synergy's contractual arrangements and changes in market conditions, including reduced demand, have the potential to place pressure on Synergy's costs and revenue over the forward estimates period;

- Synergy's Business Efficiency project – Synergy's forecasts assume a significant reduction in operating costs by 2018-19, as a result of this project. Failure to achieve anticipated savings may have implications for Synergy's profitability and dividend payments to the general government sector;

- demand and revenue forecasts for Horizon Power – the Government is considering options for third party access to electricity infrastructure in the North West Interconnected System, with the objective of increasing competition and ultimately delivering better outcomes for consumers. This may have an adverse impact on State finances through increased competition which could reduce demand (and revenue) for Horizon Power;

- electricity tariffs – as part of the 2015-16 Budget, the Government approved a 4.5% increase in residential electricity tariffs in 2015-16, with assumed increases (for planning purposes) of 7% per annum from 2016-17. By way of illustration, if tariffs were to increase by 4.5% in each year from 2016-17, total public sector net debt would increase by around $188 million over the forward estimates period; and

- port authorities – this Mid-year Review contains a write-down in port authority revenue over the forward estimates. Any further weakening in iron ore prices and/or a downturn in oil and gas production increases the risk that further write-downs may be required in the future, particularly where port throughput is exposed to the more vulnerable higher cost producers.

Bunbury to Albany Gas Pipeline

An allocation has been made for the planning of a gas pipeline between Bunbury and Albany, which is intended to be built through facilitation with the private sector. The planning for the procurement of the pipeline is not yet final and therefore uncertainty remains around the total cost.

Contingent Assets and Liabilities

Contingent assets usually consist of the potential settlement of lawsuits of contractual claims. Typically, contingent liabilities consist of guarantees, indemnities, and sureties, as well as legal and contractual claims. They constitute a potential risk to the financial projections should they eventuate.

Contingent assets and liabilities were reported in the 2014-15 *Annual Report on State Finances* (ARSF). Since the release of the ARSF, the following material changes to these contingencies have arisen:

- the *Bell Group Companies* (*Finalisation of Matters and Distribution of Proceeds) Act 2015* has been enacted by Parliament, coming into operation on 26 November 2015. This may provide for an earlier return of moneys to the Insurance Commission of Western Australia than would have occurred without the legislation. This is considered to be a timing improvement in obtaining a return on invested funds rather than a change in prospects. Downside risk remains in that litigation in one form or another, and the associated costs, may continue for Government and/or the Insurance Commission of Western Australia. Nonetheless, the distribution of anticipated Bell case proceeds is expected to deliver a favourable impact on the State's finances. Once the impact is known, it will be incorporated into the financial projections; and

- the 2015-16 Budget included an actuarial valuation of outstanding Home Indemnity Insurance (HII) claims under a temporary indemnity arrangement[18], estimated at the time to be in the order of $24.5 million. The Department of Commerce did not subsequently report the obligations at 30 June 2015, reflecting a need for an updated actuarial valuation. The Department expects these claims to now be brought to book later this financial year and reflected in the estimated outturn for 2015-16 (to be published in the 2016-17 Budget). The booking of the updated obligations will give rise to a general government expense of broadly the same magnitude which will impact the general government operating balance. Estimates of premiums, ongoing claims and administration costs were reflected in the 2015-16 Budget and are reflected in this Mid-year Review.

There have been no other material updates to the disclosures in the ARSF reported at 30 June 2015.

[18] In 2014, Cabinet approved an extension of the temporary arrangement under which the State would assume liability for Home Indemnity Insurance (HII) claims while a longer term market-based HII solution was developed.

CHAPTER 2

Financial Strategy

HIGHLIGHTS

- The income shock currently confronting the State, which is being exacerbated by the GST distribution system, means that most of the Government's financial targets will not be met in the short-term.
- This is despite the significant measures that have been implemented in recent years to contain growth in salaries expenditure and drive spending efficiencies across the public sector. These measures resulted in the lowest rate of expense growth in 2014-15 (2.2%) in 20 years.
- Expected performance against most of the financial targets improves in the latter part of the forward estimates period, as revenue growth begins to improve and as savings from previous and new measures in this Mid-year Review increase over time.
- However, the net debt to revenue ratio is forecast to remain above the Government's 55% target limit across the entire forward estimates period, predominantly reflecting the unprecedented revenue write-down over the last 18 months.
  - Proceeds from the Government's asset sales program, which will only be reflected in the financial estimates when sales transactions are finalised, will contribute to a reduction in this ratio. Reform of the GST distribution system is also critical.

Introduction

This chapter provides an assessment of the Mid-year Review financial projections against the Government's financial targets, as required by the *Government Financial Responsibility Act 2000.*

The Government's financial targets are to:

- ensure that general government sector expense growth does not exceed revenue growth;
- maintain a cash surplus from operating activities for the general government sector of at least 50% of infrastructure spend per year;
- maintain the total non-financial public sector (TNPS)[1] net debt to revenue ratio at or below 55%;
- maintain a cash operating surplus for the TNPS of at least 5% of operating cash receipts; and
- provide a fair and efficient taxation system that is competitive with other Australian States.

The following table summarises compliance with the financial targets.

Table 1

2015-16 MID-YEAR REVIEW – FINANCIAL TARGET COMPLIANCE

	2014-15 Actual	2015-16 Forecast	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast
Ensure expense growth does not exceed revenue growth					
- Current estimate (revenue growth minus expense growth)	-4.2	-9.9	1.0	8.2	5.1
- 2015-16 Mid-year Review compliance	**No**	**No**	**Yes**	**Yes**	**Yes**
- 2015-16 Budget compliance	No	No	Yes	Yes	Yes
Maintain a cash surplus from operating activities for the general government sector of at least 50% of infrastructure spend					
- Current estimate	39.0	-73.3	-58.0	15.3	96.6
- 2015-16 Mid-year Review compliance	**No**	**No**	**No**	**No**	**Yes**
- 2015-16 Budget compliance	No	No	No	Yes	Yes
Maintain TNPS net debt at or below 55% of revenue					
- Current estimate	61.4	78.6	87.0	88.9	84.4
- 2015-16 Mid-year Review compliance	**No**	**No**	**No**	**No**	**No**
- 2015-16 Budget compliance	No	No	No	No	No
Maintain a TNPS cash operating surplus of at least 5% of receipts					
- Current estimate	5.1	-1.9	-0.2	3.3	6.3
- 2015-16 Mid-year Review compliance	**Yes**	**No**	**No**	**No**	**Yes**
- 2015-16 Budget compliance	No	No	No	Yes	Yes
Maintain the State's tax competitiveness					
- 2015-16 Mid-year Review compliance	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
- 2015-16 Budget compliance	Yes	Yes	Yes	Yes	Yes

Although the Government has implemented further savings measures in response to the protracted downturn in the revenue outlook, the extent of the pressures on the State's finances means that most financial targets will not be met in the short-term.

[1] The TNPS is the consolidation of the general government sector (which includes agencies such as Education and WA Health which are largely funded from central revenue collections such as taxes and royalties) and the public non-financial corporations sector (agencies which offer non-financial goods and services, for which a significant portion of costs are recovered through user charges, such as the ports, the Public Transport Authority and electricity and water utilities). Public financial corporations (such as the Insurance Commission of Western Australia and the Western Australian Treasury Corporation) are excluded from the TNPS because their operations have a distortionary impact on many financial ratios used to measure public sector performance. The credit rating agencies focus on TNPS financial ratios in assessing the State's finances.

Following two consecutive years of declining revenue, an expected return to positive (albeit still weak) revenue growth from 2016-17 will result in an improved performance against most targets over the forward estimates period.

However, the net debt to revenue ratio target is not expected to be met within the foreseeable future. Based on the estimates in this Mid-year Review, total non-financial public sector net debt would need to be reduced by around $15 billion by 30 June 2019 to meet the 55% target in that year.

The Government is currently progressing a program of asset sales that will contribute to the required reduction in net debt, and is continuing to pursue reform of the GST distribution system. As noted in Chapter 1, if Western Australia received its full population share of national GST collections, net debt would be around $15.7 billion lower than currently forecast by the end of the forward estimates period.

The remainder of this chapter outlines projected performance against the targets based on the Mid-year Review projections detailed in Chapter 1: *Financial Projections* and Appendix 1: *Detailed Financial Projections*.

Financial Targets

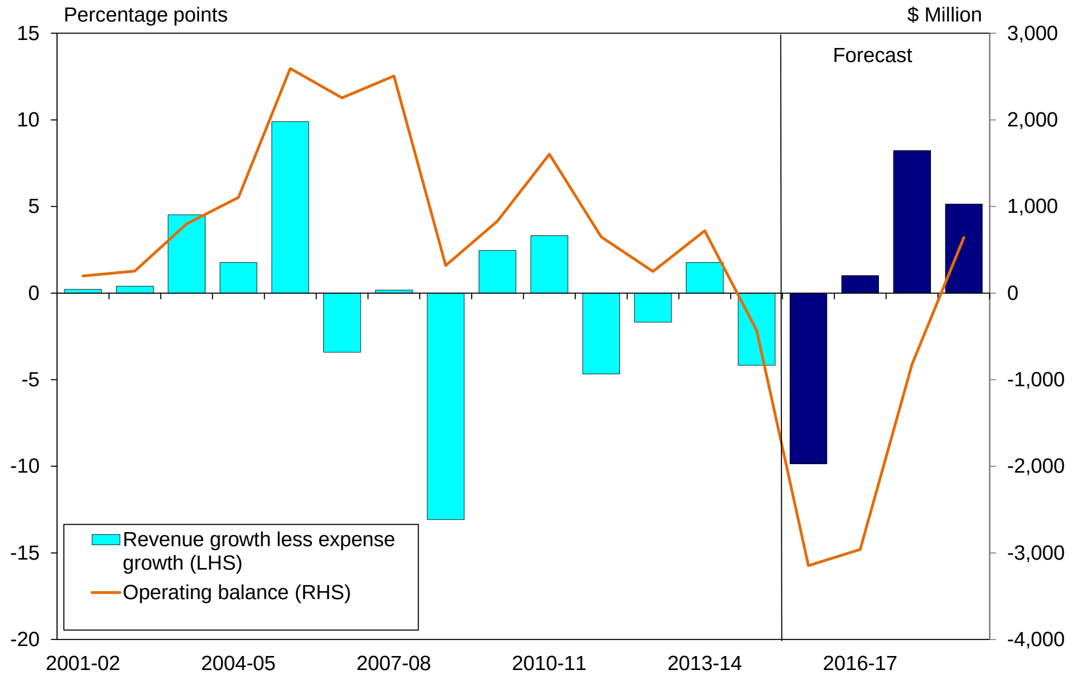
Ensure that general government sector expense growth does not exceed revenue growth

Consistent with expectations at the time of the 2015-16 Budget, this target is not expected to be met in 2015-16. However, notwithstanding the $6.9 billion reduction in the revenue estimates since Budget (excluding the impact of new revenue measures in this Mid-year Review), the target is expected to be met in the three outyears.

Figure 1

REVENUE GROWTH LESS EXPENSE GROWTH[(a)] AND OPERATING BALANCE

General Government Sector



(a) Outcomes greater than zero represent compliance with the target.

The target is not expected to be met in 2015-16 due to an expected revenue contraction of 6.5% (compared to the 2.7% decline in prospect at the time of the 2015-16 Budget), while expenses are expected to increase by 3.4% (up from 2.5% at Budget-time due to the 'base' effect of lower than expected expenses in 2014-15).

Lower revenue estimates for 2015-16 primarily reflect a $642 million reduction to taxation revenue as a result of softer than expected conditions in the State's labour and property markets, and a $365 million reduction in Commonwealth grants (including lower North West Shelf grants and condensate compensation due to lower oil and gas prices).

The target is expected to be met from 2016-17, as revenue returns to positive growth and expenses grow moderately (averaging 2.4% per annum), reflecting the cumulating impact of previously announced savings measures and the new measures included in this Mid-year Review, with the latter expected to reduce general government expenses by $703 million over the period 2016-17 to 2018-19.

More detailed discussion of general government revenue and expenses is available in Chapter 1.

Maintain a cash surplus from operating activities for the general government sector of at least 50% of infrastructure spend per year

Relative to Budget-time, the outlook for this target has worsened, with the target now not expected to be met until 2018-19.

Largely reflecting the cash impact of the large revenue reduction since Budget, general government net cash flows from operating activities have weakened by $5.1 billion across the forward estimates period.

While the $1.6 billion Budget-time projection for the cash deficit from operating activities for 2015-16 is only slightly higher (at $1.8 billion), the cash surplus projection for 2016-17 has significantly worsened since Budget, to become a forecast $1.5 billion deficit. Outyear cash surplus projections for 2017-18 and 2018-19 are also much weaker (down a combined $3.2 billion).

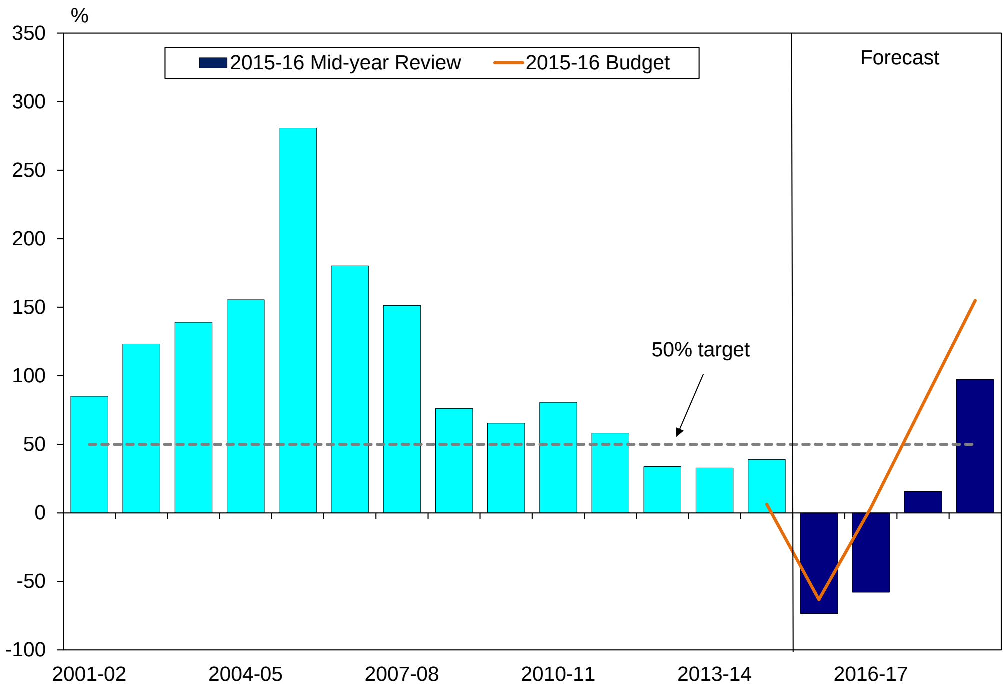
This means that there are less internally generated funds from day-to-day (operating) activities to support the sector's infrastructure spending, and therefore additional borrowings are required.

This target is forecast to be met in 2018-19, with forecast growth in the cash surplus from operations in 2018-19 largely reflecting higher GST grants (due to the lagged impact of GST compensation for the current revenue downturn), and lower infrastructure spending in that year as a range of projects (such as Perth Stadium) are completed.

Figure 2

CASH OPERATING SURPLUS AS A SHARE OF INFRASTRUCTURE SPENDING

General Government Sector



Maintain TNPS net debt to revenue ratio at or below 55%

As was the case at the time of the 2015-16 Budget, this target is not expected to be met over the entire forward estimates period.

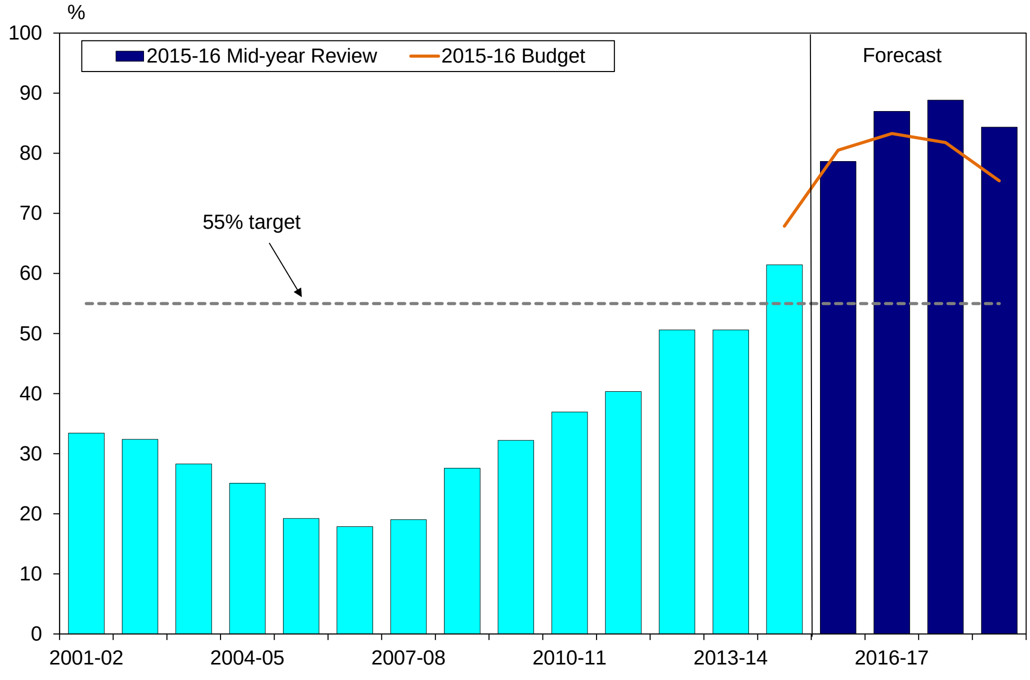
Predominately reflecting the $6.9 billion decline in the general government revenue estimates since Budget (excluding the impact of new revenue measures in this Mid-year Review), net debt for the TNPS sector is now forecast to be $3.7 billion higher at 30 June 2019. The revenue loss is partly mitigated by the impact of the Government's new savings measures (down $1.3 billion) and the lower net debt outcome for 2014-15 (down $1.9 billion), which reflected lower general government recurrent spending, delays in infrastructure spending and a $499 million boost to Commonwealth road funding in view of Western Australia's record low GST share for the current year, as detailed in the 2014-15 *Annual Report on State Finances*.

The lower revenue projections in this Mid-year Review, coming on top of the $10.2 billion revenue write-down included in the 2015-16 Budget, have had a very substantial impact on the net debt to revenue ratio. This is because revenue reductions increase the need for new borrowings in order to fund spending commitments (the numerator of the ratio) and, at the same time, reduce the revenue available to service those borrowings (the denominator of the ratio). As a result, the net debt to revenue ratio is now projected to peak at 88.9% in 2017-18, well above the Government's 55% target.

Figure 3

NET DEBT AS A SHARE OF REVENUE

Total Non-Financial Public Sector



Notwithstanding the unprecedented income shock of the last 18 months, and the resulting impact on debt, the Government is committed to reducing debt levels over the medium term. As well as implementation of previously announced and new savings measures in this Mid-year Review, this strategy involves retiring or avoiding debt from the proceeds of a number of upcoming asset sales, and continuing to pursue reform of the GST distribution system.

Maintain a cash operating surplus for the TNPS of at least 5% of operating cash receipts

This target is not expected to be met until 2018-19.

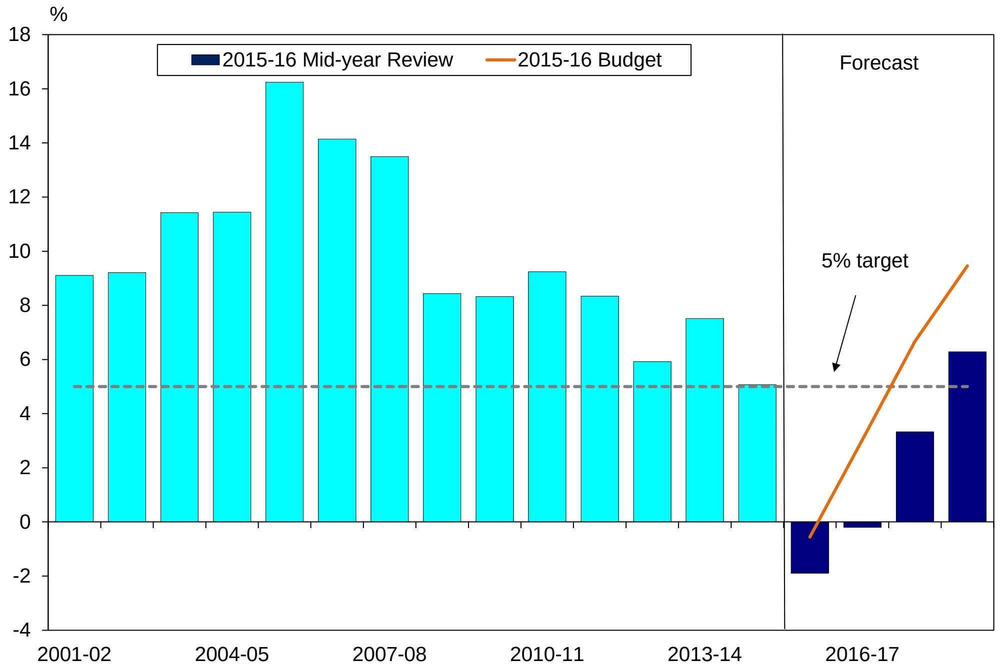
The significant downward revision to the State's revenue outlook (discussed earlier) has severely impeded performance against this target, with cash operating deficits of $820 million and $92 million expected in 2015-16 and 2016-17 respectively. This compares to a smaller $242 million operating cash deficit for 2015-16, and a $1.4 billion operating cash surplus for 2016-17, forecast in the 2015-16 Budget.

The revenue write-down noted earlier has also resulted in much smaller operating cash surpluses in 2017-18 and 2018-19 (down a combined $3.5 billion relative to Budget). Notwithstanding this reduction, this target is still expected to be met in 2018-19, with a strong $3.3 billion cash operating surplus forecast for that year.

Figure 4

CASH OPERATING SURPLUS AS A SHARE OF OPERATING RECEIPTS

Total Non-Financial Public Sector



Provide a fair and efficient tax system that is competitive with other States

Based on a range of metrics, Western Australia's tax system is considered to be competitive relative to other States. Accordingly, this target is expected to be met in 2015-16.

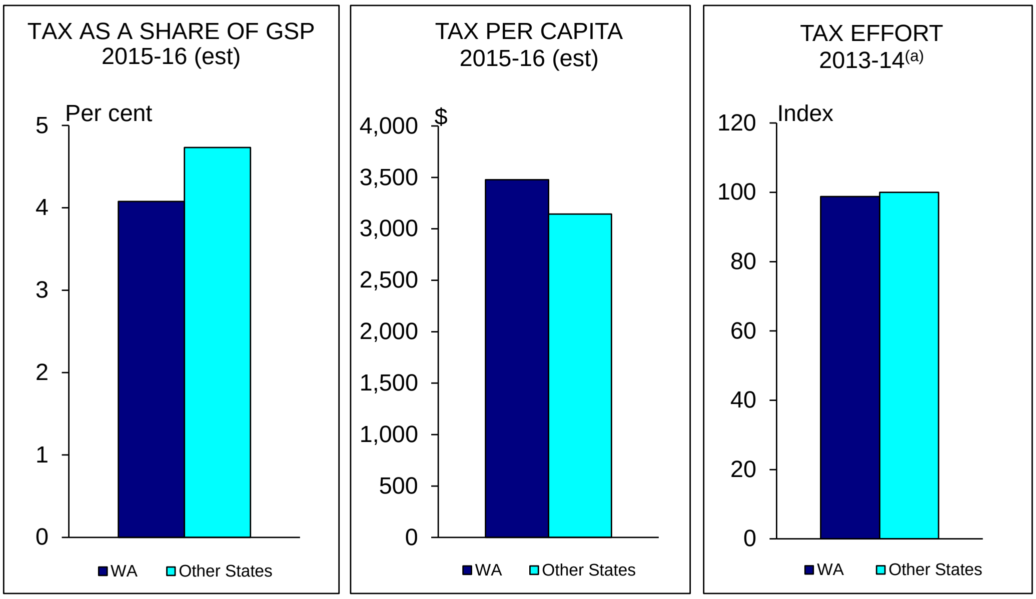
The competitiveness of Western Australia's tax system can be assessed against a variety of measures, including:

- tax revenue as a share of Gross State Product (GSP);
- tax revenue on a per capita basis; and
- tax 'effort' calculated from Commonwealth Grants Commission (CGC) data.

Figure 5

TAX COMPETITIVENESS

Various Measures



(a) Source: CGC. Tax effort refers to the level of tax actually raised in a State, divided by a State's 'standardised' tax revenue (i.e. the level of tax revenue that the CGC estimates the State would have raised had it applied national average State tax rates). 2013-14 is the latest year for which data is available.

Tax as a proportion of the economy (i.e. GSP) is an internationally recognised measure of tax competitiveness, which, unlike tax per capita, accounts for differences in the size and composition of the economic and revenue base in each jurisdiction. According to this measure, the tax burden in Western Australia is expected to be lower than the average of other States in 2015-16 (4.1% compared to an average of 4.7% estimated for other States).

In contrast, per capita tax revenue in Western Australia is expected to exceed the average of other States in 2015-16. This mainly reflects the relative strength of the State's economic base (and hence its revenue raising capacity), rather than higher average tax rates.

In this regard, and based on the latest available data compiled by the CGC, Western Australia's tax 'effort' (i.e. its average tax rate) was 1.2% lower than the national average in 2013-14.

CHAPTER 3

The Western Australian Economy

HIGHLIGHTS

- The Western Australian economy, as measured by Gross State Product (GSP), grew by 3.5% in 2014-15, down from 5.6% growth in 2013-14 but still above national economic growth of 2.3%. Growth was underpinned by a strong lift in the volume of resource exports (particularly iron ore), which more than offset a contraction in domestic economic activity.

- Western Australia's domestic economy, as measured by State Final Demand (SFD), contracted by 3.5% in 2014-15 (the largest fall since 1990-91), due to a 12.3% fall in business investment and the weakest growth in consumer spending in 25 years (excluding the Global Financial Crisis (GFC)).

- Growth in GSP is projected to ease to just 1.5% in 2015-16, due to more moderate growth in exports and a further contraction in SFD, as business investment continues to fall and household spending remains subdued.

- Weaker than expected domestic activity is flowing through to softer labour market conditions, including record low wages growth.

- GSP growth is forecast to lift gradually over the forecast period to 3% by 2018-19 as further declines in business investment begin to moderate, and as LNG exports begin to ramp-up.

- The moderate rate of GSP growth over the forecast period reflects a prolonged period of adjustment in the domestic economy as business investment tapers from an unprecedented share of economic activity in 2012-13 towards more normal levels by the end of the forward estimates period.

Introduction

The Western Australian economy grew by 3.5% in 2014-15 supported by a strong lift in export volumes. While this was down from 5.6% growth in 2013-14, it remained above national economic growth of 2.3%.

Economic activity is forecast to slow further to 1.5% in 2015-16 (down from 2% forecast at Budget) due to a further sharp decline in business investment and weaker than expected household consumption. This is consistent with the impact of lower commodity prices and the associated decline in the terms of trade on corporate incomes (and incentives to invest) and household purchasing power.

Strong increases in export volumes are expected to continue to offset weakness in the domestic economy, supporting a gradual recovery in GSP growth over the forward estimates period to 3% by 2018-19 (although this remains below average growth of 5.5% per annum over the past five years).

The profile of growth in recent years and over the projections period has been largely determined by movements in commodity prices and business investment. Following strong increases in iron ore and crude oil prices in the mid-2000s, business investment rose to a peak of $78.7 billion in 2012-13, which equated to 31% of GSP. Although business investment has been tapering from this peak, it has remained at high levels due to ongoing work on multi-billion dollar resource projects.

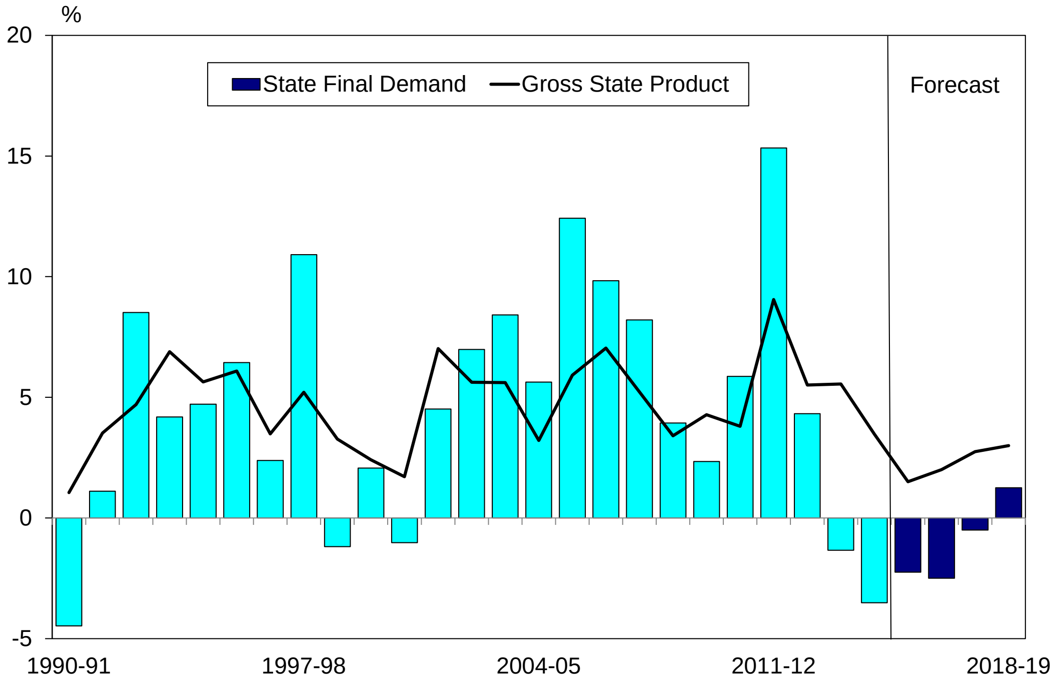
Business investment is expected to return to a more normal share of GSP (around 13%) by the end of the forecast period, as these projects are completed and as sharp declines in commodity prices reduce the likelihood of commitments to new high value projects. This transition of investment back to a longer term average share of GSP is occurring over a number of years, reflecting the phased completion of major projects. As such, the current softness in the Western Australian economy is expected to be sustained over several years.

This is different to previous economic cycles, which have tended to be relatively short and sharp. The combination of low commodity prices and a more prolonged period of subdued domestic growth represents an unprecedented revenue challenge for the State.

Figure 1

ECONOMIC GROWTH

Gross State Product and State Final Demand



Source: ABS Catalogue 5220.0 and Department of Treasury.

Weaker than expected domestic economic activity has flowed through to the State's labour market. Reflecting this (as well as significant downward revisions by the Australian Bureau of Statistics (ABS) to historical employment estimates), employment growth forecasts have been revised down since Budget. The unemployment rate is now expected to peak at 6.5% in 2015-16 and 2016-17 (up from 6.25% and 6% respectively) before gradually moderating across the forward estimates.

Softer labour market conditions are also reflected in a declining pace of wage growth, with annual average growth in Western Australia's Wage Price Index currently at 16 year lows. Wage growth is now projected to be lower across the forward estimates period than forecast at Budget, and to remain well below average growth over the past decade.

Table 1

COMPONENTS OF GROSS STATE PRODUCT

Western Australia

	2014-15 Actual %	2015-16 Budget Estimate %	2015-16 Mid-year Revision %	2016-17 Forward Estimate %	2017-18 Forward Estimate %	2018-19 Forward Estimate %
Demand and Output [(a)]						
– Household consumption	1.1	2.75	1.5	2.0	2.5	3.0
– Dwelling investment	4.1	2.0	2.25	-3.75	-2.0	2.5
– Business investment	-12.3	-12.0	-12.5	-14.5	-9.5	-6.0
– Government consumption	2.7	3.75	4.0	3.5	3.25	3.25
– Government investment	-13.5	2.0	5.25	0.75	0.5	-0.5
State Final Demand (SFD)	-3.5	-1.25	-2.25	-2.5	-0.5	1.25
– Merchandise exports	8.7	4.75	4.25	5.75	5.25	4.25
– Merchandise imports	0.8	-3.75	-5.0	-5.0	-2.25	-0.5
Net exports [(b)]	13.2	8.5	8.75	10.25	8.0	5.75
Gross State Product (GSP) [(c)]	3.5	2.0	1.5	2.0	2.75	3.0
Labour market						
Population [(d)]	1.5	2.0	1.5	1.6	1.7	1.9
Employment	1.5	1.75	1.25	1.25	1.5	1.5
Unemployment rate [(e)]	5.4	6.25	6.5	6.5	6.25	5.75
Participation rate [(e)]	68.5	69.2	69.1	69.0	68.9	68.4
Prices						
Consumer Price Index (CPI)	1.8	2.25	1.5	2.0	2.5	2.5
Wage Price Index (WPI)	2.2	2.75	2.0	2.25	2.5	2.75
SFD deflator	1.8	1.9	1.7	1.8	1.8	1.9
GSP deflator	-10.0	-3.7	-11.4	0.4	4.2	3.1
Median house price	1.8	1.4	-3.5	-0.5	1.3	2.7
Other key parameters						
Exchange rate $US/$A (cents)	83.6	75.9	71.8	70.7	70.0	69.4
Iron ore price ($US/tonne) cost and freight inclusive (CFR)	71.1	47.5	46.0	42.5	46.3	50.2
Crude oil price ($US/barrel)	73.5	64.2	46.7	52.1	56.3	58.9

(a) Based on 2014-15 State Accounts data, released 20 November 2015 (ABS Catalogue 5220.0).

(b) Net exports refer to international trade in both goods and services.

(c) Forecasts for ownership transfer costs, international trade in services, balancing item components, and the statistical discrepancy of the State Accounts are not separately reported.

(d) Estimated actual for 2014-15.

(e) Data expressed in terms of the annual average during the financial year.

Commodity Prices

Commodity prices have continued to decline since Budget due to softer economic conditions in key export markets and a range of factors specific to individual commodities.

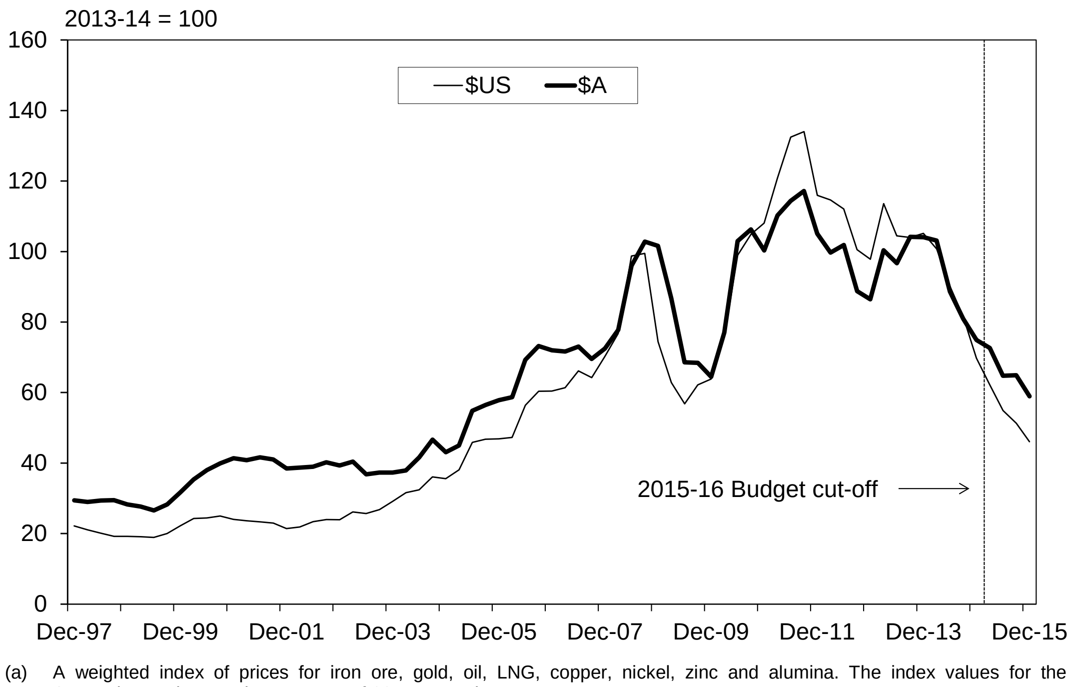
The iron ore price is almost 16% lower than at the time of finalising the 2015-16 Budget estimates in April 2015. This is due to a combination of continued growth in supply from major producers in Australia and Brazil, and weaker demand from China (particularly due to softer residential property construction). The oil price has also fallen by almost 30% over the same period, as a result of deteriorating demand from emerging market economies at a time when supply has expanded from North America, and Organisation of the Petroleum Exporting Countries (OPEC) member nations have maintained output.

Gold prices have declined by around 11% since April 2015. Movements in the gold price have been largely determined by changes in the outlook for US monetary policy and the US economy more generally. A stronger outlook for US economic growth and stable prices has encouraged capital to flow into yield bearing US dollar denominated assets such as US Treasury bonds and stocks rather than gold.

Figure 2

COMMODITY PRICE INDEX[(a)]

Western Australia



(a) A weighted index of prices for iron ore, gold, oil, LNG, copper, nickel, zinc and alumina. The index values for the September and December quarters of 2015 are estimates.

Source: Department of Treasury.

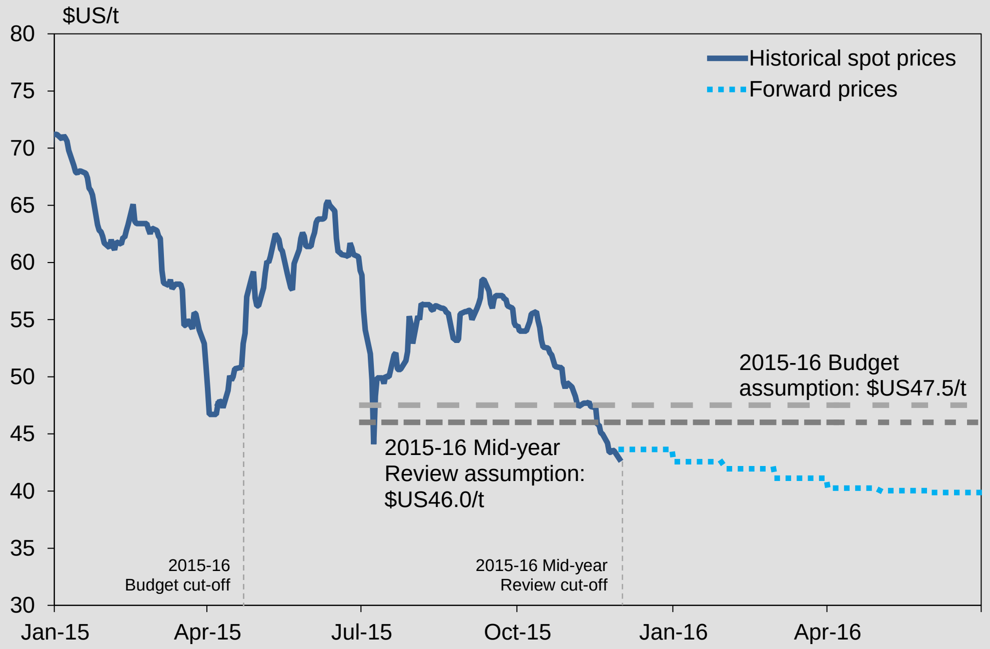
As a result, the Western Australian commodity price index (see figure above) has continued to fall since Budget-time from record levels in the September quarter 2011. Lower commodity export prices have a direct effect on incomes as they represent a decline in the terms of trade (the ratio of export prices to import prices) and the purchasing power of households[1].

Iron Ore Market Update

At the Mid-year Review cut-off date (30 November 2015), the benchmark iron ore price was $US42.8 per tonne (/t), its lowest level since 2004, and 15.7% below the price of $US50.8/t at the 2015-16 Budget cut-off (21 April 2015).

Figure 3

IRON ORE PRICE AND ASSUMPTIONS



Source: Thomson Reuters Datastream and Department of Treasury.

The 2015-16 iron ore price assumption has been revised down from $US47.5/t at Budget to $US46.0/t at the Mid-year Review. Despite the price averaging $US52.4/t for the first five months of 2015-16, lower forward prices for derivative contracts at the Mid-year Review have resulted in a downward revision to the price forecast for the year. The spot price would need to average $US41.4/t between the Mid-year Review cut-off and 30 June 2016 to achieve the revised estimate of $US46.0/t for the 2015-16 year.

[1] When export prices fall relative to import prices, a smaller volume of goods and services (e.g. motor vehicles) can be imported in exchange for a given volume of exports (e.g. iron ore).

The outlook for iron ore and other commodities has weakened relative to Budget due to further softness in demand, mostly from China. Chinese crude steel production declined by 2.2% for the first ten months of 2015 relative to the same period in 2014. This mainly reflects weaker domestic steel consumption as a result of slowing investment growth, particularly property construction, and softer industrial output. Weaker domestic demand has been partly offset by strong growth in Chinese steel exports to the rest of the world. Nonetheless, significant excess capacity and overproduction have resulted in steel prices and mill profitability falling to unsustainably low levels, and there is a risk that Chinese steel production may fall further.

While demand for iron ore has weakened, supply has continued to increase as large-scale, low-cost mines and expansions (incentivised by the high prices over the previous decade) have been completed. New additions to supply are expected to continue until 2019, albeit at a diminishing rate. Additions include the Roy Hill mine (which began exporting in late 2015 and is expected to ramp-up toward its target capacity of 55 million tonnes per annum (Mtpa) within 18 months), and Vale's 90 Mtpa S11D project (which is expected to be the world's largest iron ore mine and is on schedule to begin production in the second half of 2016). In total, if the production guidance of the major producers is maintained, around 220 Mtpa of new supply is expected to enter the market between 2016 and 2019.

Growth of supply in excess of demand has resulted in periods of surplus in the global market for iron ore. This has placed significant downward pressure on price in order to eliminate excess production and rebalance the market. Further displacement of higher cost production appears inevitable as new low-cost supply continues to enter the market. Potential sources of displacement include Chinese domestic iron ore production, non-traditional producers (such as Iran and Malaysia) and smaller producers in Brazil and Australia.

Revenue Impacts

Iron ore royalty revenue has been revised up by $162.8 million in 2015-16, relative to Budget. The marginal downward revision to the iron ore price is expected to be more than offset by the impact of a lower exchange rate and freight deductions. However, over the forecast period, downward revisions to iron ore price assumptions more than outweigh the impact of lower exchange rate and freight forecasts, resulting in a $1.2 billion reduction in estimated iron ore royalty revenue relative to Budget. Iron ore price assumptions have been reduced over the forward estimates as a result of a significant downward revision to the long-run price assumption, which is derived from consensus forecasts.

Table 2

IRON ORE PRICE AND REVENUE ASSUMPTIONS

	2015-16	2016-17	2017-18	2018-19	**Total**
Iron Ore Fines CFR ($US/t)					
2015-16 Budget	47.5	50.7	56.3	61.8	
2015-16 Mid-year Review	46.0	42.5	46.3	50.2	
Variance ($US/t) (a)	-1.5	-8.2	-9.9	-11.6	
Revenue impact ($m)	**-129**	**-650**	**-808**	**-951**	**-2,538**
Exchange Rate (US cents)					
2015-16 Budget	75.9	75.0	74.3	73.9	
2015-16 Mid-year Review	71.8	70.7	70.0	69.4	
Variance (US cents) (a)	-4.1	-4.3	-4.4	-4.5	
Revenue impact ($m)	**180**	**198**	**233**	**262**	**873**
Other impacts ($m) (b)	**112**	**123**	**108**	**102**	**445**
Total change in iron ore royalty revenue ($m)	**163**	**-329**	**-467**	**-587**	**-1,221**

(a) Components may not add due to rounding.
(b) Includes adjustments to forecast freight deductions, and the impact of the restart of operations by Atlas Iron after the 2015-16 Budget cut-off.

International Conditions

Global economic conditions have weakened since Budget-time, primarily due to weaker and more uncertain prospects for emerging and developing countries and a slower than expected recovery in advanced countries. Reflecting this, in its October 2015 *World Economic Outlook*, the International Monetary Fund (IMF) revised down estimates for global growth in 2015 from 3.5% to 3.1%[2]. The IMF's assessment is that global growth remains uneven and that downside risks have increased, particularly for emerging market economies.

Over the past two years the economic outlook for many emerging and developing countries has deteriorated. This is significant for Western Australia as emerging markets consume a higher proportion of commodities per unit of economic growth than developed countries. For example, between 2000 and 2014, 92% of the global increase in the consumption of iron ore has come from China, and all of the growth in oil consumption has come from countries outside the Organisation for Economic Co-operation and Development (OECD)[3]. Consequently, a deteriorating outlook for emerging markets, particularly for China, has contributed to a sharp decline in commodity prices with negative impacts on the State's mining revenue.

2 The downward revision is relative to the most recent forecast available at the 2015-16 Budget cut-off date, 21 April 2015.

3 Data for oil is sourced from the *BP Statistical Review of World Energy* and the data for iron ore is sourced from CRU.

Chinese economic growth has been slowing as it undergoes significant structural change. The IMF is forecasting that the Chinese economy will grow by 6.8% in 2015, down from more than 10% in 2010. Secondary industries, such as manufacturing and construction, are becoming relatively less important to growth when compared to tertiary industries, such as services (see figure below). The rate of migration from rural to urban areas appears to have peaked and the associated need for high levels of growth in physical infrastructure is moderating. Moreover, the scope for expansion of the manufacturing export sector is easing as China makes up an increasingly large share of the global economy.

However, rising household incomes are supporting a lift in domestic household demand, which over time is becoming a more important driver of growth. This transition from growth underpinned by investment in physical infrastructure and exports of manufactures toward growth driven by domestic household consumption will likely continue as the Chinese economy matures.

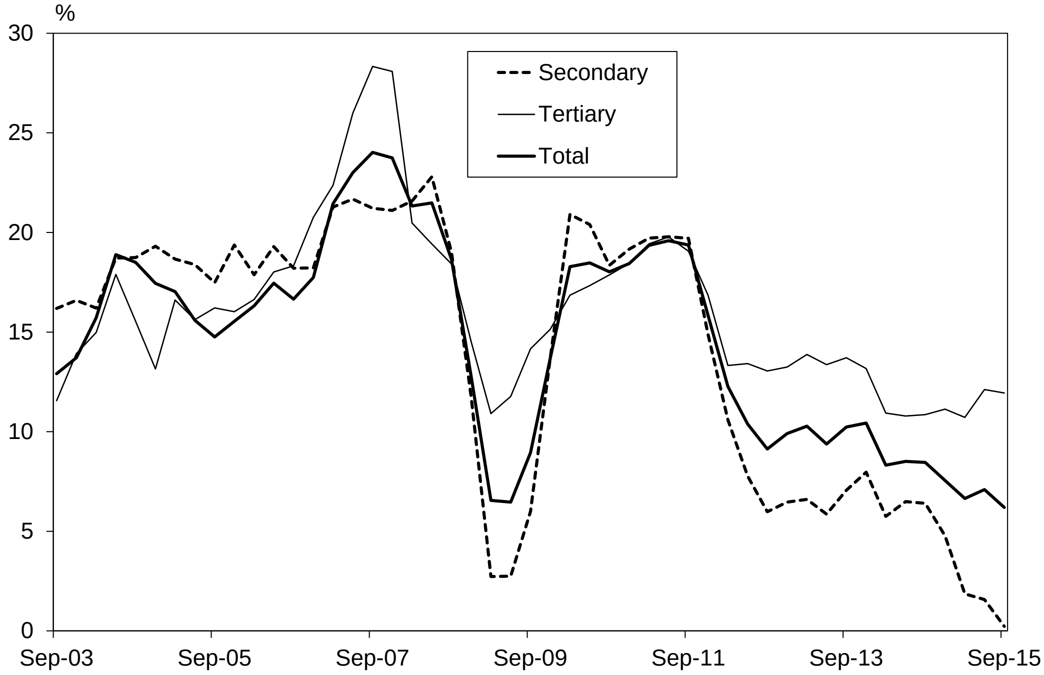
The speed of structural change in China has led to excess capacity in many key sectors, such as construction (in particular residential property) and manufacturing. This has been a major drag on the economy over 2015 and will likely continue into 2016. The IMF is projecting that economic growth in China will drift down further to 6% in 2017, before rebounding to 6.3% in 2019 as the economic drag caused by overcapacity in the heavy industry and property sectors moderates.

Other key emerging markets have generally experienced lower economic growth and a deteriorating outlook in line with the slowdown in China. Many commodity exporters have been particularly hard hit with Brazil, Russia and Venezuela entering severe recessions and Indonesia, South Africa and Nigeria experiencing slower rates of growth.

Figure 4

CHINA NOMINAL GROSS DOMESTIC PRODUCT

By Sector, Annual Change



Source: CEIC.

Conversely the outlook for the Indian economy is relatively bright, with the IMF forecasting that economic growth will remain above 7% per annum from 2015 to 2020. Lower oil prices have given the country a positive income shock and tamed inflation which has enabled the central government to ease monetary policy, which is flowing through to improved conditions in the construction and manufacturing sectors. However, India's comparatively small traded sector may limit the positive spill overs for Western Australia.

The US economy continues to recover, with the IMF forecasting growth of 2.6% in 2015 and 2.8% in 2016. This is positive for global demand. However, the level of activity is still well below the pre-GFC trend[4]. The economic recovery of other advanced economies following the GFC and the European sovereign debt crisis has generally been slow, especially in Japan and the euro area (notwithstanding a significant pick up in Spain).

[4] Real per capita Gross Domestic Product (GDP) in the US has tended to fluctuate around a steady upward trend level over the past 100 years or so. The current deviation from trend is the largest since World War II. The growth rate is also quite subdued compared to historical averages.

A weak recovery in demand from many of the world's advanced economies has likely contributed to the relatively low levels of investment in these countries (as a share of output) following the GFC. Low rates of investment have been identified as a factor which has contributed to the very slow rates of growth in global trade since the GFC[5]. This is because investment is far more trade-intensive (particularly in merchandise trade) than other sectors of the economy such as private and public consumption. Lower rates of trade growth tend to adversely impact demand for manufactures (and thereby commodities) from Western Australia's trading partners in Asia.

Domestic Economic Activity

Household Sector

Private Consumption

In 2014-15, growth in household consumption moderated to 1.1%, below forecast growth of 1.5% at Budget. Excluding the GFC period, this was the lowest rate of growth in 25 years and well below national growth of 2.5%. Discretionary spending[6] has been particularly weak, detracting from consumption growth for the second consecutive year.

The larger than expected moderation in consumer spending in 2014-15, combined with a more moderate outlook both across the broader domestic economy and for population growth, has flowed through to lower forecast growth in household consumption across the forward estimates period.

Household consumption is expected to increase by 1.5% in 2015-16 (down from 2.75% at Budget), before lifting gradually across the forward estimates to reach 3% by 2018-19 (see figure below). This is consistent with a slower anticipated recovery in domestic economic activity and labour market conditions. Consumption per person, having fallen in 2014-15 (the first fall since the GFC), is expected to gradually recover across the forecast period.

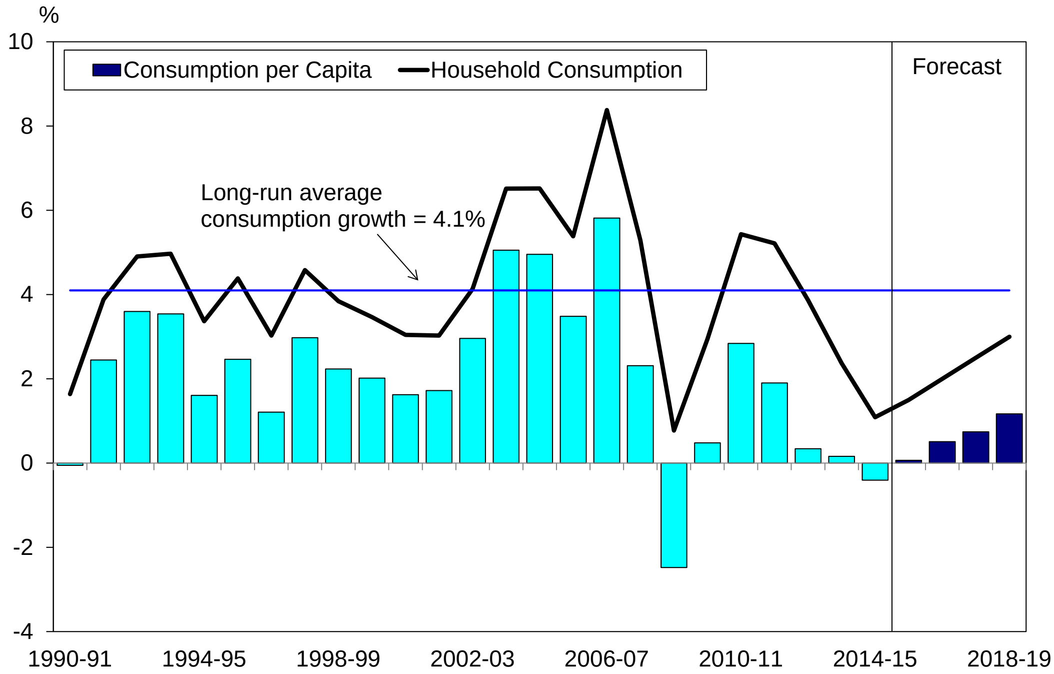
[5] IMF Working Paper, *The Global Trade Slowdown*: *Cyclical or Structural?*, January 2015.

[6] Discretionary items include: cigarettes and tobacco; alcoholic beverages; clothing and footwear; furnishings and household equipment; purchase of vehicles; communications; recreation and culture; and hotels, cafes and restaurants. Non-discretionary items include: food; rent and other dwelling services; electricity, gas and other fuel; health; operation of vehicles; transport services; and education services. 'Other' items include: insurance and other financial services; other goods and services; and net expenditure interstate.

Figure 5

TOTAL AND PER CAPITA HOUSEHOLD CONSUMPTION

Annual Average Growth, Western Australia



Source: ABS Catalogues 3101.0 and 5220.0.

In particular, a higher unemployment rate and weaker wage growth are expected to put downward pressure on consumer spending in the near term. This is likely to be compounded by the forecast contraction in Perth's median house price, which will have a negative impact on household wealth (and consumer spending associated with wealth) at a time when income growth is low.

Subdued spending growth has coincided with a weakening in consumer confidence, with the *Curtin Business School-CCIWA Consumer Confidence Index* remaining negative for the seventh consecutive quarter in September 2015[7]. Leading indicators of consumer spending have also weakened further since Budget, with retail trade increasing by just 1.3% in annual average terms in the September quarter 2015. This is well below the decade average growth rate of 3.7%. Sales of new motor vehicles have also continued to soften in 2015-16, with annual average sales falling by 9.1% in October 2015.

Established Housing Market

Growth in Perth's median house price moderated to 1.8% in 2014-15 (compared to the Budget estimate of 2.5%), after increasing by 6.9% in 2013-14. Since Budget, conditions in Western Australia's housing market have eased further, with the median price now expected to decline for two consecutive years, by 3.5% in 2015-16 and by 0.5% in 2016-17, as housing supply outpaces weaker demand.

7 The index, which is based on a survey of consumers, is considered to be negative when it falls below the neutral value of 100 and means that the number of pessimists outweighs the number of optimists.

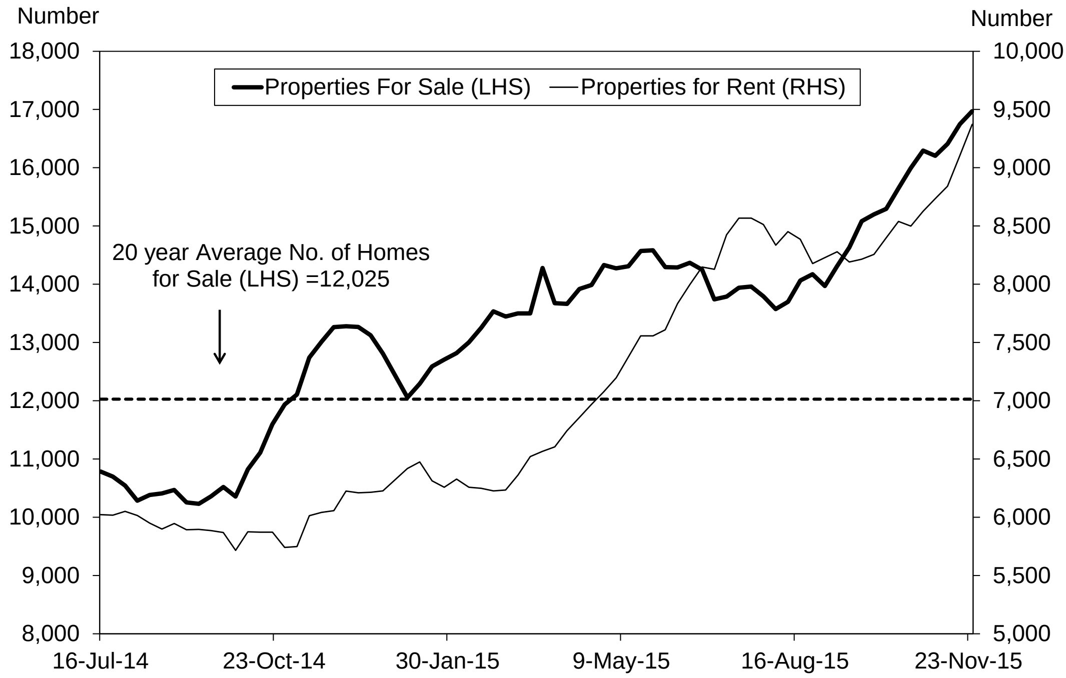
This outlook reflects that strong growth in dwelling investment over the past two years has added substantially to the housing stock. At the same time, drivers of housing demand (including population, employment and wage growth) have weakened further since Budget. Consequently, property listings and rental vacancy rates have steadily increased, with rental vacancies now at the highest level in more than two decades. Residential property sales were 20% lower in the first five months of 2015-16 compared to a year earlier.

In 2017-18, prices are forecast to start to improve slightly (by 1.3%). This is consistent with a modest rise in demand, supported by a pick-up in population and wage growth (albeit at a slower pace than forecast at Budget).

Figure 6

PERTH METROPOLITAN PROPERTY MARKET

Weekly



Source: Real Estate Institute of Western Australia.

Dwelling Investment

Following strong growth of 11.7% in 2013-14, total dwelling investment[8] moderated to 4.1% in 2014-15 (slightly above the Budget forecast of 3.25%). The pace of growth in new dwelling construction slowed over the year and expenditure on ‘alterations and additions’ contracted for the fourth consecutive year.

8 Dwelling investment is the value of work done in a particular period on new residential buildings (around 60% of total dwelling investment) and on alterations and additions to existing residential buildings (40%). It also includes ‘used dwellings’, which is the net transfer of dwellings between the private and public sectors.

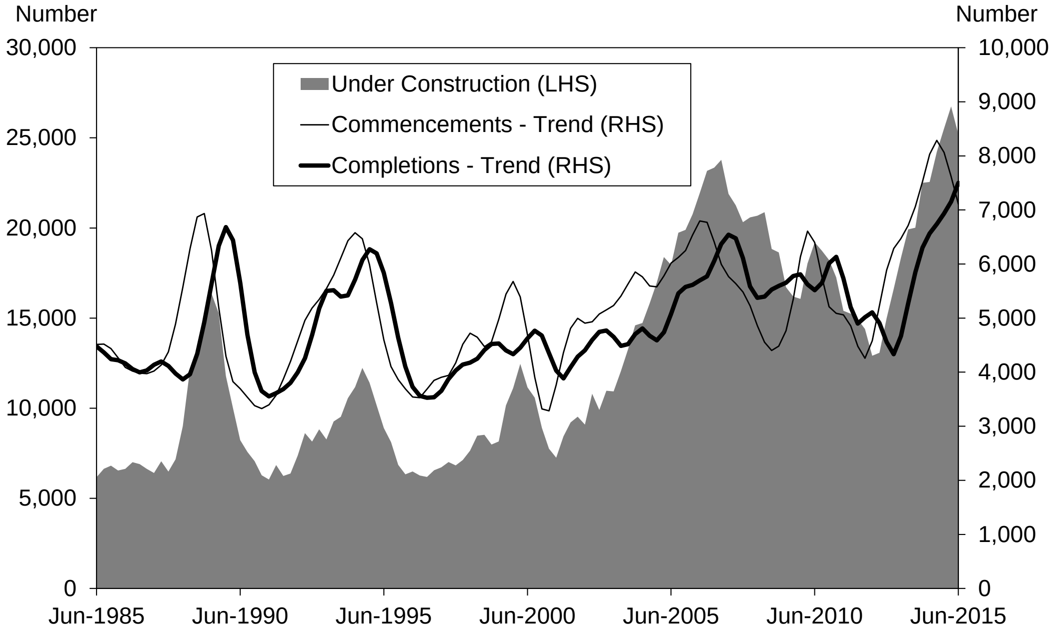
In 2015-16, total dwelling investment is forecast to increase by a modest 2.25% (marginally higher than the 2% forecast at Budget). Although the pace of new dwelling construction is slowing, the level of expenditure required to move the current stock of dwellings under construction (the third highest level on record in the June quarter 2015) to completion is expected to support slightly higher growth in 2015-16 than previously forecast.

In 2016-17 and 2017-18, total dwelling investment is projected to decline more sharply than forecast at Budget. While it is anticipated that a gradual recovery in expenditure on 'alterations and additions' will provide some support for activity, this is expected to be insufficient to offset the stronger than projected declines in new dwelling investment. This reflects a softer outlook for key drivers of new housing demand since Budget, including population, employment and wage growth. This weakening of housing demand has already begun to flow through the building pipeline, with completions outpacing commencements (in the June quarter 2015) for the first time in three years and the number of building approvals declining by 5.8% in the 12 months to October 2015.

Figure 7

DWELLING CONSTRUCTION

Western Australia



Source: ABS Catalogue 8752.0.

Business Sector

Business investment fell by 12.3% in 2014-15. This is a larger decline than the 10.5% fall estimated at Budget. It is also the second consecutive contraction in investment since it peaked at a record level of $78.7 billion in 2012-13.

Business investment is expected to continue to fall at a faster rate across the forecast period, reflecting a more subdued outlook for both resources and non-resources investment since Budget. Investment is projected to decline by 12.5% in 2015-16 before falling by an average of around 10% per annum across the forward estimates, double the average fall of 5% per annum at Budget (see figure below).

The revised profile reflects the absence of major new resource project commitments since Budget. In addition, changes in the expected wind down of the remaining capital expenditure on LNG projects has contributed to a larger fall in 2016-17 than previously expected.

Declines in both commodity prices (particularly iron ore and oil prices) and exploration expenditure have also reduced the likelihood of prospective resource projects emerging over the forecast period.

Weaker domestic economic activity (including softer growth in consumer spending) has weighed on the outlook for non-resources investment across the forecast period. This is consistent with further annual average falls in building activity and approvals since Budget, and a rise in the central business district office vacancy rate (to 19.6% in the September quarter 2015[9]).

The latest *Westpac – CCI Survey of Business Expectations* shows that anticipated investment expenditure remained at record low levels in the September quarter 2015, with 44% of businesses planning to reduce their investment expenditure over the next 12 months.

The revised forecasts imply that the value of investment will fall to around 13% of forecast GSP by 2018-19. While this is down from the long-run average share of around 16% forecast at Budget, it remains above the long-term share for the period up to 2004-05 of around 11%.

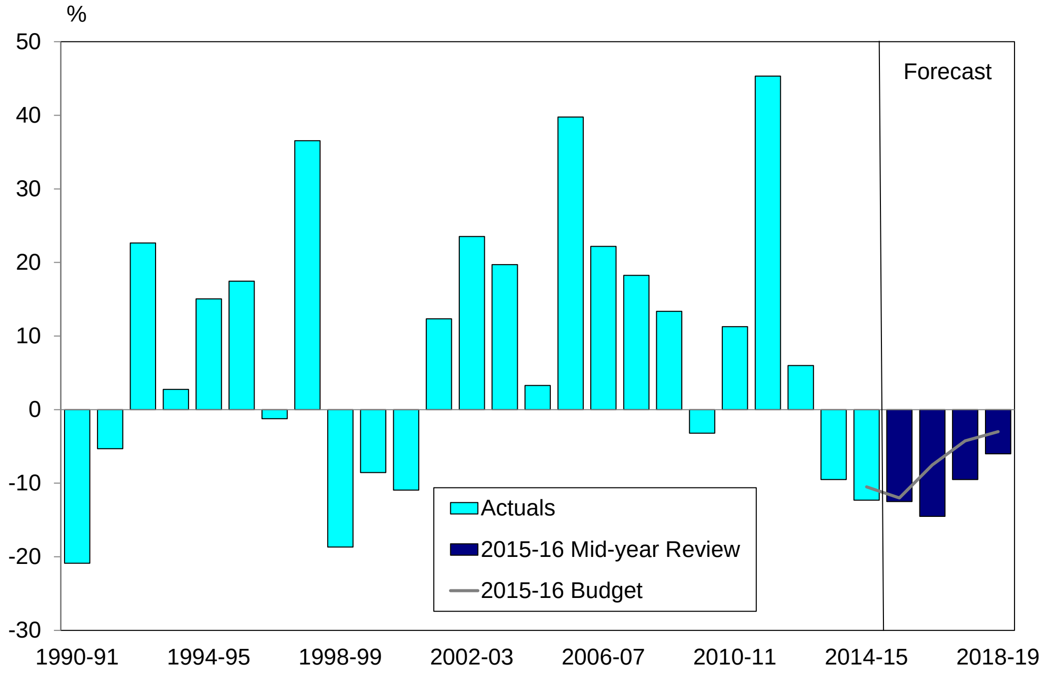
Overall, the level of investment in Western Australia is expected to fall from $62.5 billion in 2014-15 to around $39.8 billion by 2018-19 (its lowest level since 2006-07), a total decline of around $23 billion (or 36%).

9 Source: JLL, News Release, *The office sector shrugs off financial market volatility*, 14 October 2015.

Figure 8

BUSINESS INVESTMENT IN WESTERN AUSTRALIA

Annual Average Growth, Chain Volume Terms



Source: ABS Catalogue 5220.0 and Department of Treasury.

Note: Data adjusted for the 1997-98 sale of the Dampier to Bunbury Natural Gas Pipeline from the public sector to the private sector.

Government Sector

In real terms, public consumption[10] increased by 2.7% in 2014-15, down slightly from 2.9% growth in 2013-14. This was weaker than the 4.25% forecast at Budget, primarily due to a lower than expected increase in State Government expenditure.

Government consumption is forecast to increase by 4% in 2015-16, up marginally from 3.75% at Budget. This is consistent with forecast State Government recurrent spending this year, which (while now lower than Budget in dollar terms) shows a higher than budgeted increase in growth terms due to the lower than expected outturn for 2014-15. The 2014-15 outcome reflected lower than anticipated spending by a range of agencies and included lower than assumed salaries growth (detailed in the 2014-15 *Annual Report on State Finances*). Growth is forecast to moderate across the forward estimates to reach 3.25% by 2018-19. This is consistent with long-run average growth in government consumption of 3.2% per annum.

10 Public consumption and investment includes spending by the Commonwealth, State and local governments.

Public investment fell by 13.5% in 2014-15. This is larger than the 11% decline forecast at Budget and in line with lower than expected spending published in the 2014-15 *Annual Report on State Finances*. Due mainly to timing changes, public investment is expected to rebound modestly in 2015-16 (by 5.25%, compared to 2% at Budget), and remain relatively flat over the forward estimates. This investment profile is informed by projected trends in the State Government's Asset Investment Program provided in Chapter 1: *Financial Projections.*

International Trade

Exports

Western Australia's merchandise exports have continued to grow strongly, increasing by 8.7% in 2014-15 (compared to 10% forecast at Budget). This was supported by stronger than expected growth in iron ore exports, offset by lower than anticipated LNG exports (due to an unplanned shutdown) and gold exports (due to lower than projected re-exports[11]).

Forecast growth in merchandise exports has been revised down in 2015-16 (from 4.75% to 4.25%) and 2016-17 (from 7.25% to 5.75%), largely reflecting delays in the commencement of production at some of the major LNG projects currently under construction. This is partly offset by stronger iron ore and gold exports than previously forecast.

While the immediate outlook is somewhat softer than expected at Budget, forecast growth in merchandise exports has been revised up in both 2017-18 (from 4.25% to 5.25%) and 2018-19 (from 3.25% to 4.25%). This reflects a change in the expected profile for LNG exports as a result of the anticipated delay in production.

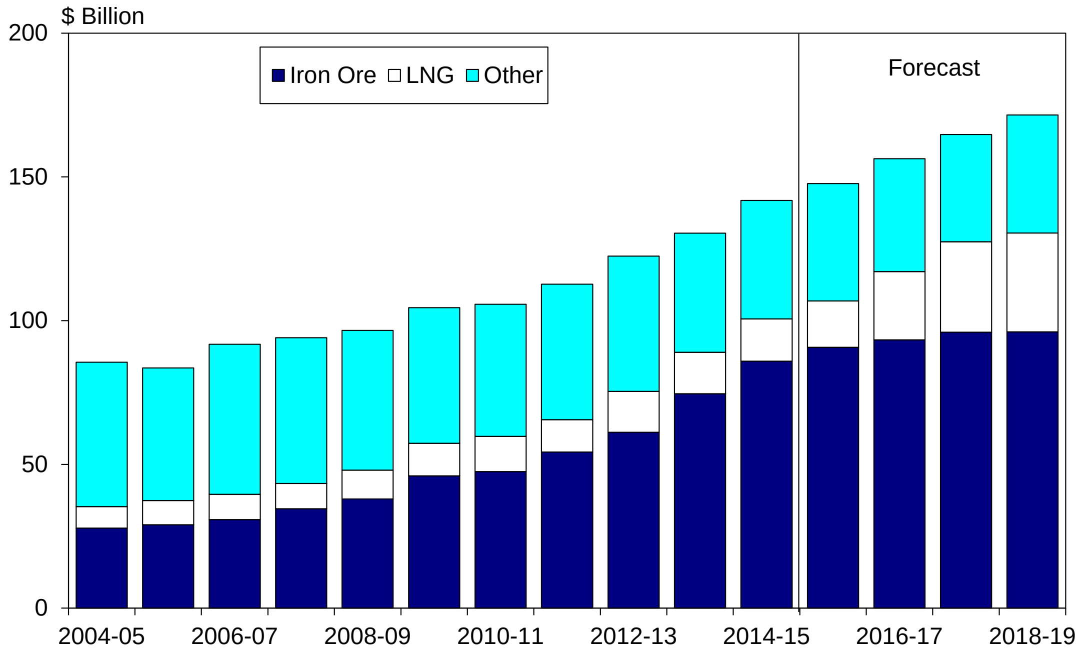
While large increases in iron ore production have underpinned export growth in recent years, LNG is expected to be the largest contributor to growth from 2016-17 onwards. Over the forecast period, LNG production capacity in Western Australia is projected to more than double, from over 20 million tonnes in 2015-16 to nearly 50 million tonnes in 2018-19. As a result, by 2020 Western Australia is expected to have the third largest installed LNG production capacity of any jurisdiction after Qatar and the US.

[11] Gold re-exports refer to gold imported by the Gold Corporation which is processed and then re-exported.

Figure 9

MERCHANDISE EXPORTS

Western Australia, Chain Volume



Source: ABS Catalogue 5368.0 and Department of Treasury.

Imports

Merchandise imports increased by 0.8% in 2014-15, which was significantly stronger than the 3.75% decline forecast at Budget. This likely reflects the import of a large component for one of the LNG projects, which provided a temporary boost to import growth in the June quarter 2015.

Despite this temporary effect, merchandise imports are forecast to decline across the forecast period by more than anticipated at Budget. This is due to a weaker outlook for consumer spending (which reduces growth in consumer imports) and larger forecast falls in business investment (which is expected to result in larger falls in imports of capital goods).

Merchandise imports are forecast to decline only modestly in 2018-19, as consumption growth gradually picks up and the forecast falls in business investment taper.

Labour Market

Employment

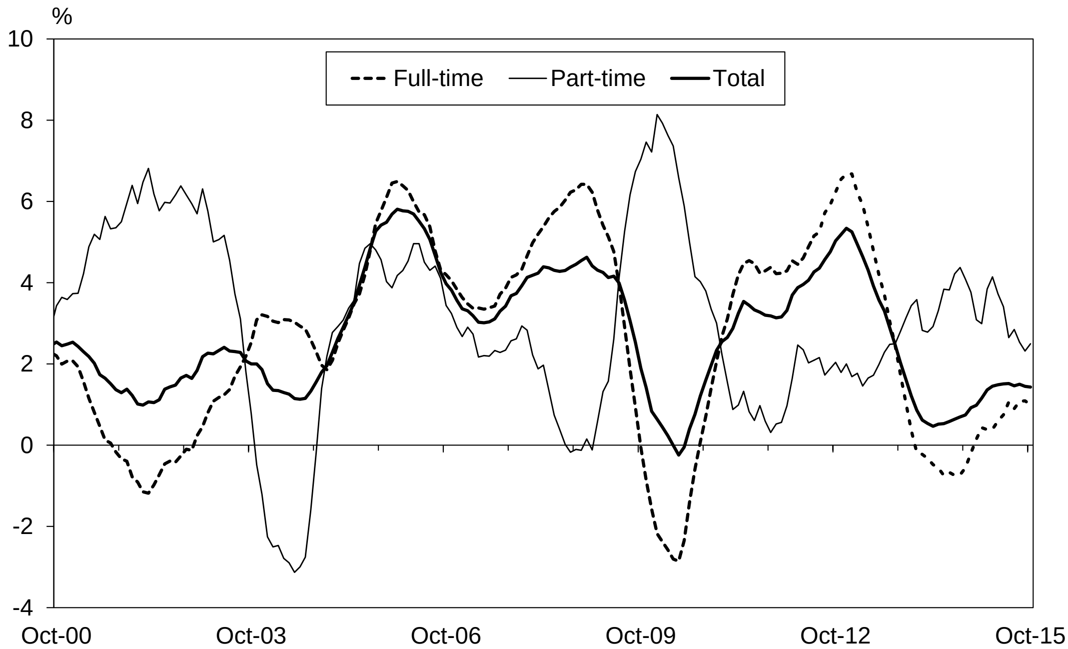
Employment increased by 1.5% in 2014-15, which is significantly lower than implied by initial estimates published by the Australian Bureau of Statistics (2.3%)[12]. Employment growth over the forecast period has been lowered relative to Budget, which is consistent with continued weakness in leading indicators of labour demand and softer domestic economic conditions.

Employment growth is expected to slow to 1.25% in 2015-16 (compared to 1.75% forecast at Budget), underpinned by growth in part-time hiring, which increased by 2.5% in annual average terms to October 2015. Growth in full-time hiring was much weaker at 1% in annual average terms to October 2015, with the number of people in full-time employment broadly unchanged since late 2012. The slow rate of growth to October is consistent with a slowdown in the domestic economy.

Figure 10

EMPLOYMENT GROWTH

Western Australia, Seasonally Adjusted, Annual Average Growth



Source: ABS Catalogue 6202.0.

[12] The downward revision was due to a re-benchmarking to align the civilian population data used in the labour force estimates with the latest official Estimated Resident Population data. This also resulted in a downward revision to growth in 2013-14 (from 1.1% to 0.5%).

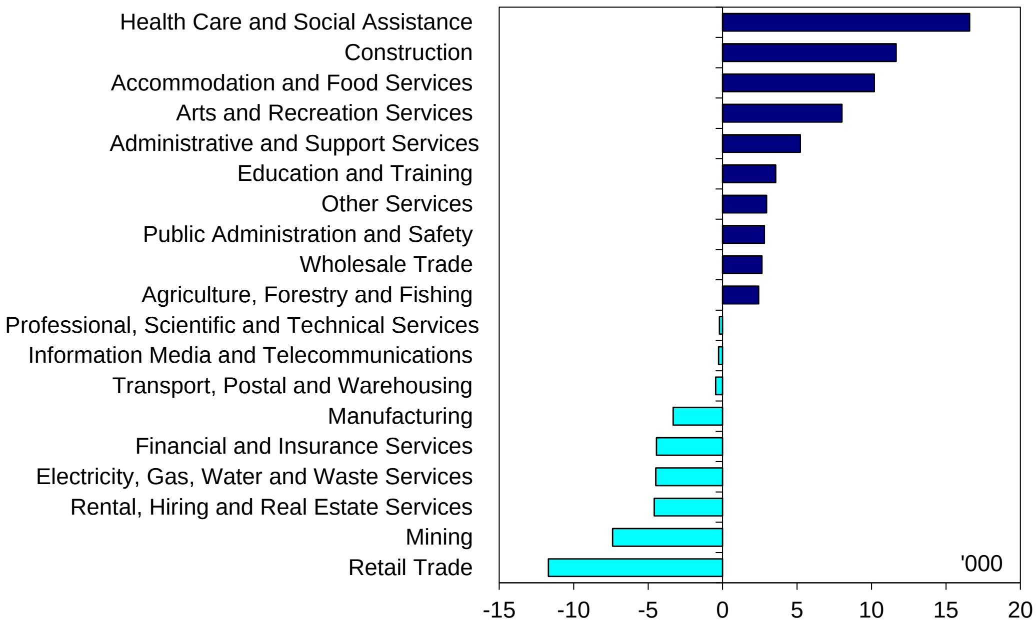
Despite this, employment growth continues to be underpinned by a diverse range of industries, many of which are in the services sector (which accounts for around 47% of total employment). This is offsetting a decline in mining employment, which will likely continue to act as a drag on growth over the near-term (particularly as large LNG projects move into the production phase).

Figure 11

EMPLOYMENT BY INDUSTRY

Western Australia, Original

Annual Average Change in Persons Employed, August 2015



Source: ABS Catalogue 6291.0.55.003.

Overall, leading indicators of labour demand point to continued moderate employment growth. For example, the number of jobs advertised on the internet in October 2015 was 18.6% lower than the previous year.

Employment growth is expected to remain subdued at 1.25% in 2016-17 as the domestic economy contracts further, before lifting slightly to 1.5% per annum out to 2018-19 as the economy improves moderately and population growth picks-up. Nevertheless, growth is projected to remain well below its long-term average.

Unemployment

Western Australia's unemployment rate averaged 6.3% in the four months to October 2015, up from an average of 5.4% over 2014-15, as additional persons entered the labour force and were unable to find work. The unemployment rate is expected to rise further over the remainder of 2015-16 to peak at 6.5% (compared to 6.25% forecast at Budget), in line with downward revisions to employment and SFD growth.

The unemployment rate is expected to remain at 6.5% in 2016-17 (up from 6% at Budget) as economic conditions remain weak, before falling to 5.75% by the end of the forecast period as labour demand moderately improves.

The participation rate forecasts are relatively unchanged from Budget, with a lowering of employment growth broadly offset by more moderate growth in the working age population. The participation rate is expected to average 69.1% in 2015-16 before gradually easing to 68.4% by 2018-19.

Public Sector Wages Policy

As part of the Government's 2013 Fiscal Action Plan, the public sector wages policy was amended to cap wages and conditions at projected growth in the Perth Consumer Price Index (CPI).

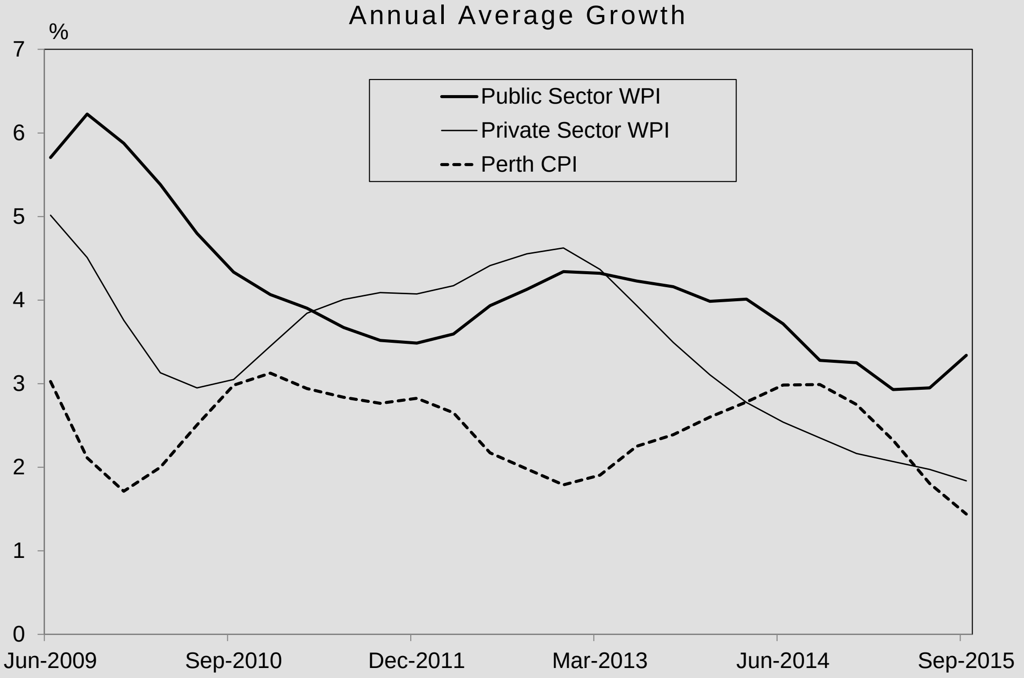
By linking increases to CPI, the policy ensures that over time real wages are maintained. In practice, groups like police, teachers and public servants have received increases above the cost of living, as the actual CPI in 2014-15 of 1.8% was 0.95 percentage points less than the 2.75% projection underlying wage agreements at the time of finalisation (mainly reflecting abolition of the carbon price).

Maintaining real wages in the State's public sector compares with recent declines in real wages in the State's private sector, as shown in the following chart.

Figure 12

WAGES GROWTH AND INFLATION

Annual Average Growth



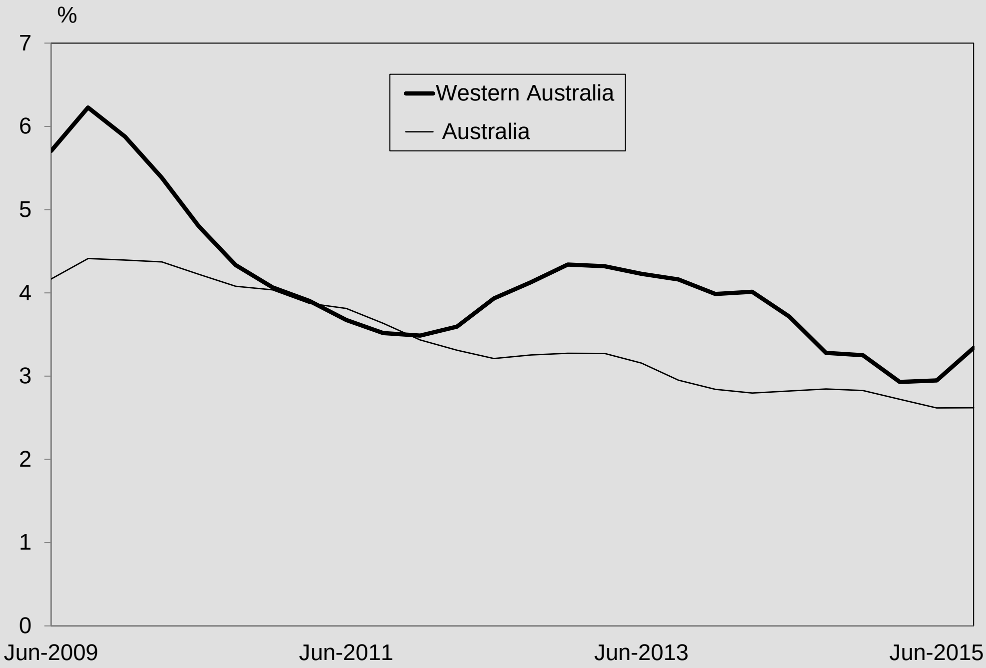
Source: ABS Catalogues 6345.0 and 6401.0.

In addition, the pay of key occupational groups like teachers, nurses, and police is higher than their counterparts in other States, and public sector wage growth in Western Australia continues to outpace the national average.

Figure 13

PUBLIC SECTOR WAGE PRICE INDEX

Annual Average Growth



Source: ABS Catalogue 6345.0.

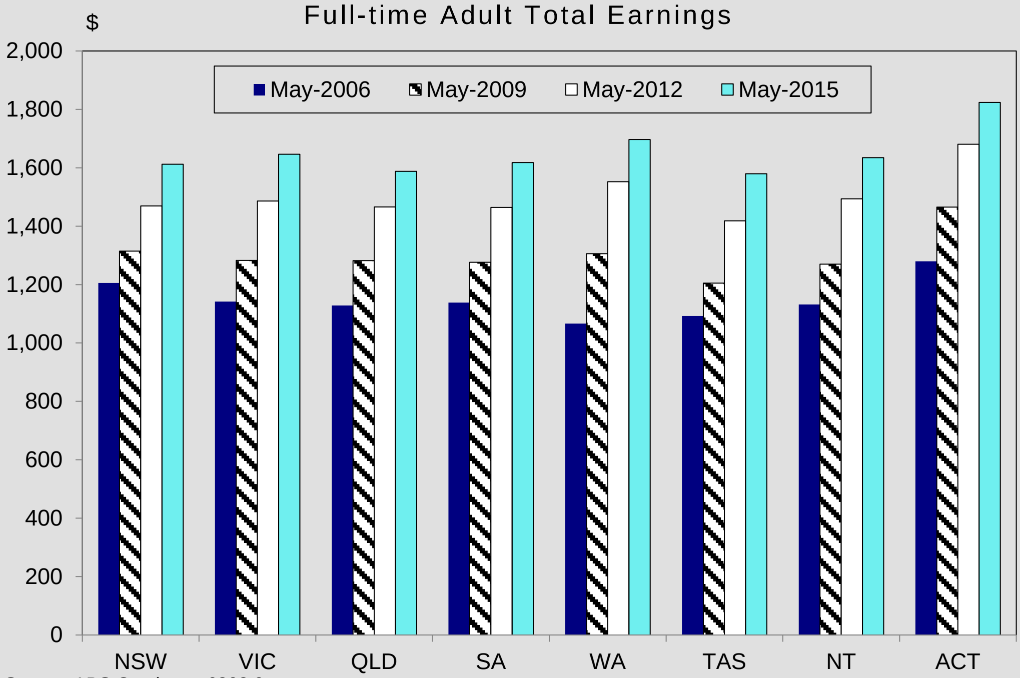
In the current tight fiscal environment, achieving CPI wage increases is critical to containing expense growth, while at the same time maintaining pay levels that are high by national standards. In addition, working conditions in the public sector (e.g. long service, personal and parental leave and flexible work arrangements) remain generous compared to many parts of the private sector.

Wage growth in the Western Australian public sector has been strong compared with other States over the past decade. The following chart shows full-time Average Weekly Earnings data for the public sector for Western Australia relative to other States. Western Australia has moved from having the lowest public sector wages in May 2006 to having the second highest (after the Australian Capital Territory, where data is significantly impacted by Commonwealth public servants).

Figure 14

PUBLIC SECTOR AVERAGE WEEKLY EARNINGS

Full-time Adult Total Earnings



Source: ABS Catalogue 6302.0.

Around 70% of public sector employees are covered by industrial agreements that will expire between early June 2016 and 30 June 2017. Agreements to be renegotiated include registered nurses, health salaried officers, doctors, public servants and police officers.

Achieving public sector wage outcomes consistent with the CPI is critical in achieving sustainable fiscal outcomes, and the Government is determined to continue the successful implementation of its wages policy.

Population

Population growth moderated to 1.6% in annual average terms in the March quarter 2015 (the most recent available data), down from 2.2% in 2013-14 and 3.5% in 2012-13. The significant slowdown in population growth reflects both a faster than expected decline in net overseas migration and a larger than anticipated net outflow of interstate migrants.

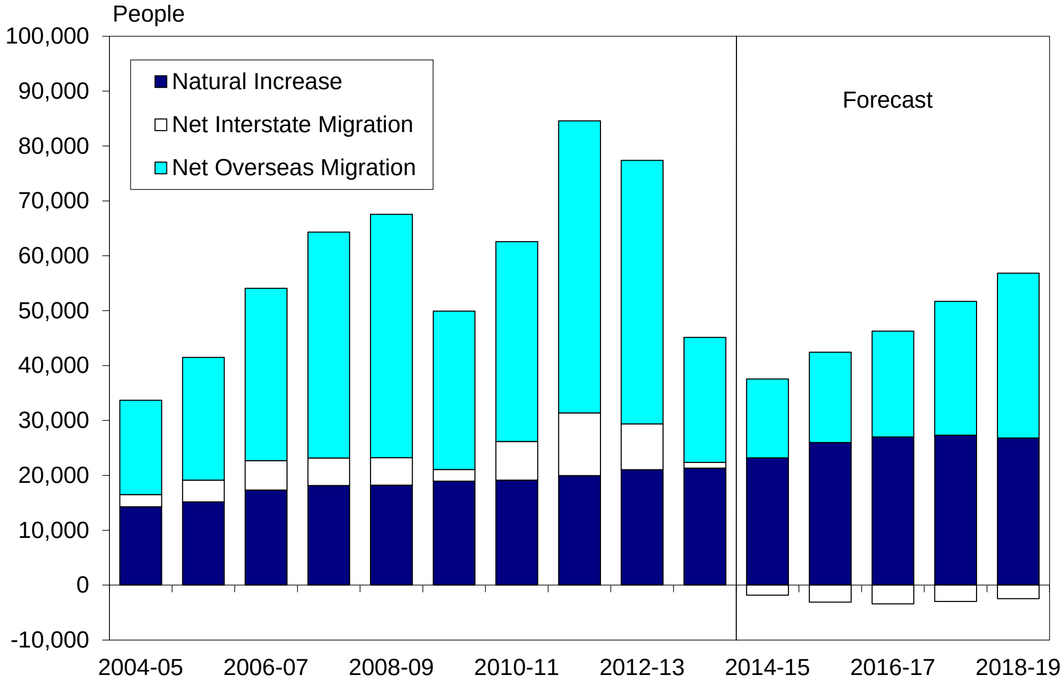
The weaker than previously projected outlook for Western Australia's domestic economy is expected to impact migration trends and flow through to slower population growth across the forecast period. The number of 457 visa approvals is significantly lower than in recent years, which is consistent with softer labour market trends. At the same time, migrants are moving interstate from Western Australia as growth in domestic demand declines relative to other States.

Population growth is estimated to have eased to 1.5% in 2014-15 (down from 1.9% forecast at Budget) and is forecast to remain at this rate in 2015-16, below the Budget forecast of 2%. Beyond 2015-16, population growth is expected to gradually increase to reach 1.9% by 2018-19 as Western Australia's share of national net overseas migration returns to its (usually stable) long-run share.

Figure 15

COMPONENTS OF POPULATION GROWTH

Additions/Subtractions to Growth



Source: ABS Catalogue 3101.0 and Department of Treasury.

Wages

After increasing by just 2.2% in 2014-15, the Wage Price Index (WPI) moderated to a new record low of 2.1% in annual average terms to September 2015. This was led by a marked moderation in private sector wage growth, which fell to just 1.8% in the year to September as firms continued to restrain expense growth. Public sector wage growth remained more robust by comparison, at 3.3% annually to September.

Wage growth is forecast to ease further to 2% in 2015-16 (compared to 2.75% forecast at Budget) as spare capacity in the labour market continues to build. Growth in the WPI is projected to rise to 2.75% by 2018-19, coinciding with a modest improvement in economic conditions and a fall in the unemployment rate. However, this is still significantly lower than historical average growth of 3.8% per annum.

Inflation

Consumer Price Index

Perth's CPI increased by 1.8% in 2014-15, the weakest rate of growth (in financial year terms) since 1997-98. Inflation softened further in the September quarter 2015, with annual average growth falling to just 1.4%.

Growth in the Perth CPI is expected to remain subdued in coming quarters, resulting in a downward revision in forecast CPI growth to 1.5% in 2015-16 (from 2.25% at Budget). A 12.5% increase in the Commonwealth's tobacco excise in September 2015 and a lagged effect of the depreciation of the Australian dollar against the US dollar since 2013 are expected to be sources of price pressure. The Reserve Bank of Australia (RBA) has estimated that the direct effect of the depreciation of the exchange rate could add 0.5 percentage points each year to underlying inflation in 2015-16 and 2016-17. It is anticipated that these pressures will be moderated by weak growth in household spending limiting retailers' capacity to raise prices, modest wage growth and moderating housing costs (including declining rents and an absence of price pressure from project home costs). Automotive fuel prices have also fallen in the first half of 2015-16, placing downward pressure on price growth.

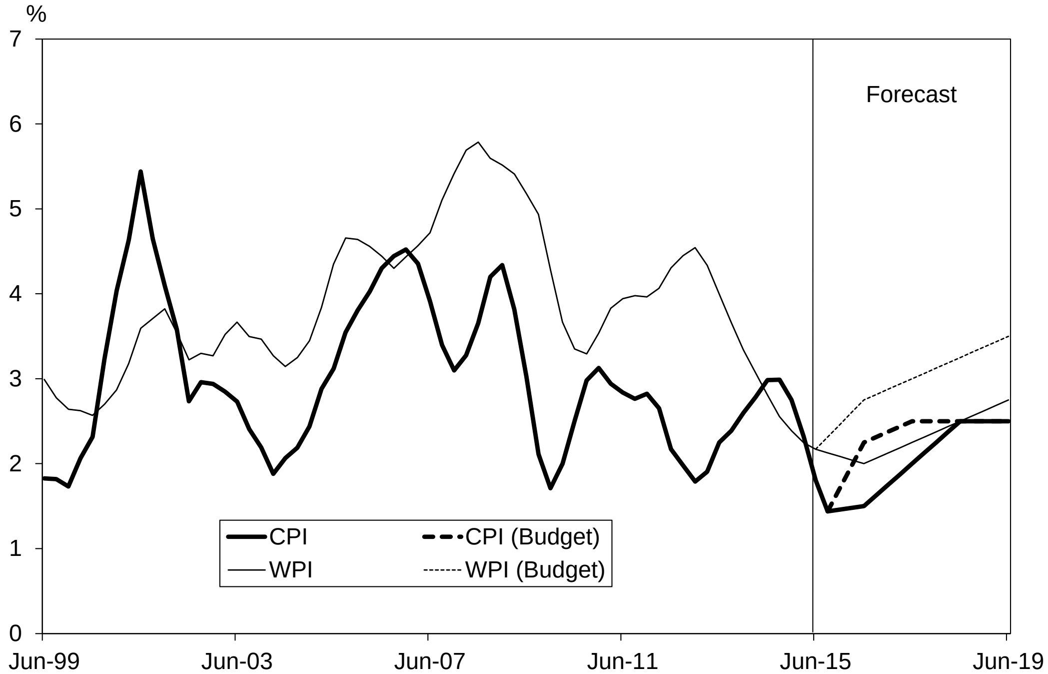
In 2016-17, price pressures are expected to lift slightly, with Perth's CPI forecast to increase by 2%. The tobacco excise is scheduled to increase again in September 2016 and the lower exchange rate is expected to continue having a lagged effect on prices. In addition, higher automotive fuel prices (reflecting the assumed increase in oil prices) are likely to be an additional source of price pressure.

Toward the end of the forecast period, Perth's CPI is expected to return to the centre of the RBA's inflation target of 2% to 3% per annum (i.e. 2.5% per annum), broadly in line with national CPI forecasts.

Figure 16

INFLATION AND WAGES

Annual Average Growth, Western Australia



Source: ABS Catalogues 6345.0, 6401.0 and Department of Treasury.

Risks

Global Risks

In recent years Western Australia's economic growth has been linked to increasing demand for commodities from emerging market economies, in particular China. Therefore, the key risks to the State largely relate to factors affecting these economies, directly or indirectly.

Over-capacity in China's heavy industries, such as construction and manufacturing, pose a significant risk to the economy of Western Australia. This is because these sectors are major consumers of commodities (in particular iron ore) which Western Australia exports. As the Chinese economy rebalances, these sectors are likely to become less important to growth in China. If this process happens faster than anticipated, then demand for commodities may be lower than forecast. Moreover, if it occurs in a disorderly manner, there may be negative spill overs to other sectors of the Chinese economy and to other economies, particularly in East Asia. Chinese authorities may seek to stimulate the heavy industrial sector if economic growth continues to weaken. This will provide a short-term boost to demand for commodities. However, it will increase the risk of a sharp drop at a later date.

In China, private debt[13] has been increasing much faster than nominal GDP since the GFC. Rapid debt accumulation has continued to occur, even as the economy has slowed. If credit growth continues to expand at a much faster rate than nominal GDP, risks to the financial system will likely increase. Moreover, a slowdown in credit growth to more sustainable levels will likely involve a period of transition during which economic growth is relatively subdued.

In recent years the Chinese leadership has acted aggressively to combat corruption within the country. Over the short-term, this campaign may pose risks to the economy as development approvals may be slowed because there may exist some uncertainty regarding acceptable practice for business and government. However, over the long-term, it is likely that this campaign will be a positive for the economy as resources will be better allocated and social cohesion enhanced if rates of corruption are low.

Market expectations are that the US Federal Reserve will progressively increase interest rates in the US as the economy continues to recover. This poses a number of risks to the global economy because the US dollar is the reserve currency, underpinning a significant proportion of global trade and finance.

In particular, higher interest rates in the US increase the cost of servicing US dollar debt through higher interest payments. An increase in interest rates in the US may also increase the value of the US dollar relative to other currencies. This will increase the burden of both principal and interest payments when the borrower earns revenue in another currency[14].

Moreover, higher interest rates in the US could be a catalyst for capital flows out of emerging markets and into US dollar assets. This would reduce the availability of credit in these countries and therefore limit the funds available for investment.

This risk is mitigated to a degree as an increase in interest rates in the US has been anticipated for some time. Moreover, interest rates will likely only rise in the US if domestic economic conditions are improving. This means that risks to emerging markets through exposure to US dollar debts and capital flight will be offset, to varying degrees, by increases in demand from the world's largest economy. However, elevated levels of debt in the global economy have heightened sensitivity to changes to global interest rates.

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13 In particular, corporate debt.

14 Emerging market economies typically have a larger exposure to currency mismatches (for example, debt in US dollars and revenue in domestic currency), as it is often difficult and expensive to borrow in emerging market currencies.

Domestic Risks

The outlook for business investment is potentially the largest domestic risk for the Western Australian economy, reflecting the importance of business investment in this State relative to the national economy (business investment represented 22.6% of GSP in 2014-15 for Western Australia, compared to 14.9% of GDP for the nation), and the lack of large scale new resource projects on the horizon. While the Mid-year Review forecasts a large reduction in business investment to around 13% of GSP by 2018-19 (down from a forecast 16% at Budget), the balance of risks is probably on the downside, given that the forecasts still assume some additional prospective and/or currently unidentified major project investment will be realised across the projection period.

Dwelling investment may decline more strongly than forecast if population growth is weaker than anticipated or if house prices contract more strongly than projected. The forecasts also assume a rebound in ‘alterations and additions’, which may be adversely impacted by the employment conditions of households. In addition, increases in interest rates by major banks on variable rate loans for investor mortgages and, more recently, owner-occupiers, may further dampen demand for housing. The large volume of new dwellings under construction, at a time when the established housing market has substantial spare capacity (with homes for sale and rent well above levels considered as market equilibrium), means that there is a heightened risk of over-supply in the housing market.

Although revisions to household consumption growth reflect softer expectations for wages, a downside risk still exists in this area. In the event that wage growth fails to steady as anticipated and instead remains soft or falls further, the resulting impact upon employee purchasing power means consumption growth may be weaker than currently forecast.

There are a number of potential risks that might impact the State’s labour market outlook. Employment growth may be lower than expected if activity outside of the resource sector fails to compensate for more subdued hiring in the resource sector (which could also translate into a higher unemployment rate). The opposite may arise if non-mining activity strengthens by more than expected.

The forecasts for the WPI assume that growth will bottom-out at 2% in 2015-16 and improve moderately thereafter. However, this turning point may be later in the forward estimates period if labour market conditions are softer than expected. Furthermore, wage growth may bottom at a lower rate than anticipated.

Population growth is forecast to remain below recent high rates of growth, as domestic economic activity moderates and the State’s share of national net overseas migration falls. If domestic economic conditions weaken more than anticipated, migration is likely to fall further, resulting in more moderate population growth. However, if labour market conditions are stronger than expected, population growth may be higher than forecast as more people are attracted to the State. This presents some upside risk to growth in other sectors such as household consumption and housing demand.

APPENDIX 1

Detailed Financial Projections

This appendix contains detailed financial projections for the Western Australian public sector and its sub-sectors. The tables in this section satisfy Uniform Presentation Framework requirements, and are consistent with Australian Accounting Standards and the presentation of whole-of-government financial projections contained in the 2015-16 Budget.

Contents

Table 1.1

GENERAL GOVERNMENT

Operating Statement

	Note	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
Results from Transactions							
REVENUE							
Taxation		8,882	9,754	9,112	9,477	9,944	10,422
Current grants and subsidies		8,051	7,738	7,321	7,881	9,350	11,701
Capital grants		1,263	651	703	966	926	192
Sales of goods and services		2,105	2,342	2,168	2,263	2,368	2,467
Interest income		185	174	171	174	176	190
Revenue from public corporations							
Dividends from other sector entities		1,187	945	1,299	1,034	1,131	1,170
Tax equivalent income		592	527	546	555	613	639
Royalty income		4,603	3,670	3,788	3,632	3,998	4,293
Other		532	523	509	495	497	479
Total	3	*27,400*	*26,325*	*25,617*	*26,477*	*29,002*	*31,554*
EXPENSES							
Salaries		11,089	11,498	11,413	11,768	11,941	12,287
Superannuation							
Concurrent costs		1,107	1,129	1,134	1,165	1,178	1,208
Superannuation interest cost		266	224	225	237	243	244
Other employee costs		430	449	414	402	397	398
Depreciation and amortisation		1,235	1,434	1,425	1,479	1,508	1,548
Services and contracts		2,057	2,341	2,333	2,300	2,285	2,345
Other gross operating expenses		5,131	5,435	5,376	5,500	5,640	5,957
Other interest		543	616	659	731	861	1,021
Current transfers	4	5,465	5,353	5,216	5,410	5,380	5,624
Capital transfers	4	507	555	567	447	387	280
Total	5	*27,831*	*29,033*	*28,764*	*29,438*	*29,822*	*30,913*
NET OPERATING BALANCE	6	**-431**	**-2,708**	**-3,146**	**-2,961**	**-820**	**641**
Other economic flows - included in the operating result							
Net gains on assets/liabilities		-21	32	34	11	14	28
Net actuarial gains - superannuation		98	-48	-241	-93	-84	-135
Provision for doubtful debts		-36	-4	-4	-4	-4	-4
Changes in accounting policy/adjustment of prior periods		-504	-	-	-	-	-
Total other economic flows		*-463*	*-21*	*-211*	*-86*	*-74*	*-111*
OPERATING RESULT		*-894*	*-2,729*	*-3,357*	*-3,047*	*-894*	*530*
All other movements in equity							
Items that will not be reclassified to operating result							
Revaluations		2,229	2,045	2,023	1,709	1,637	1,687
Gains recognised directly in equity		-4	-1	-	-	-	-
Change in net worth of the public corporations sectors		3,140	789	754	984	1,058	1,118
All other		-	-	-	-	-	-
Total all other movements in equity		*5,365*	*2,833*	*2,776*	*2,693*	*2,694*	*2,804*
TOTAL CHANGE IN NET WORTH		*4,472*	*104*	*-581*	*-355*	*1,800*	*3,334*
KEY FISCAL AGGREGATES							
NET OPERATING BALANCE	6	**-431**	**-2,708**	**-3,146**	**-2,961**	**-820**	**641**
Less *Net acquisition of non-financial assets*							
Purchase of non-financial assets	5	2,667	2,603	2,484	2,670	2,657	1,957
Changes in inventories		-9	-	14	-2	-	-
Other movement in non-financial assets		90	-42	159	79	476	61
Less:							
Sales of non-financial assets		134	207	217	228	201	198
Depreciation		1,235	1,434	1,425	1,479	1,508	1,548
Total net acquisition of non-financial assets		1,378	919	1,015	1,040	1,424	273
NET LENDING/-BORROWING	6	*-1,809*	*-3,628*	*-4,161*	*-4,001*	*-2,244*	*368*

Note: Columns may not add due to rounding.

Table 1.2

GENERAL GOVERNMENT

Balance Sheet at 30 June

	Note	2015 Actual $m	2016 Budget Estimate $m	2016 Mid-year Revision $m	2017 Mid-year Revision $m	2018 Mid-year Revision $m	2019 Mid-year Revision $m
ASSETS							
Financial assets							
Cash and deposits		785	579	721	804	901	995
Advances paid		678	708	725	708	707	709
Investments, loans and placements		3,571	2,085	2,969	2,446	2,639	4,912
Receivables		2,660	2,494	2,282	2,192	2,251	2,371
Shares and other equity							
Investments in other public sector entities - equity method		48,846	46,997	49,600	50,584	51,642	52,760
Investments in other public sector entities - direct injections		7,455	8,479	7,984	8,481	8,893	9,269
Investments in other entities		44	43	39	42	50	62
Other financial assets		-	-	-	-	-	-
Total financial assets		*64,038*	*61,386*	*64,320*	*65,257*	*67,083*	*71,079*
Non-financial assets							
Land		38,837	38,745	39,330	39,757	40,216	40,693
Property, plant and equipment		45,003	48,566	47,410	49,743	52,968	54,610
Biological assets		2	1	-	-	-	-
Inventories							
Land inventories		106	68	91	77	75	73
Other inventories		69	77	83	81	81	81
Intangibles		609	635	625	613	576	510
Non-current assets held for sale		27	13	31	31	31	31
Investment property		9	-	-	-	-	-
Other		249	748	1,037	1,218	784	786
Total non-financial assets		*84,911*	*88,853*	*88,607*	*91,521*	*94,731*	*96,785*
TOTAL ASSETS		*148,949*	*150,238*	*152,927*	*156,778*	*161,814*	*167,864*
LIABILITIES							
Deposits held		417	711	475	463	513	383
Advances received		407	392	392	376	360	343
Borrowings		13,603	18,068	18,476	22,876	26,258	29,218
Unfunded superannuation		7,573	8,367	7,523	7,318	7,109	6,967
Other employee benefits		3,292	2,644	2,999	3,064	3,095	3,146
Payables		1,071	1,027	1,080	1,078	1,115	1,162
Other liabilities		1,287	1,520	1,265	1,238	1,201	1,148
TOTAL LIABILITIES		*27,649*	*32,729*	*32,209*	*36,414*	*39,651*	*42,366*
NET ASSETS		**121,299**	**117,510**	**120,718**	**120,364**	**122,163**	**125,498**
Of which:							
Contributed equity		-	-	-	-	-	-
Accumulated surplus		11,012	6,134	11,618	8,599	7,702	8,228
Other reserves		110,287	111,375	109,100	111,764	114,461	117,269
NET WORTH	6	**121,299**	**117,510**	**120,718**	**120,364**	**122,163**	**125,498**
MEMORANDUM ITEMS							
Net financial worth		*36,389*	*28,657*	*32,111*	*28,843*	*27,432*	*28,713*
Net financial liabilities		*19,912*	*26,819*	*25,473*	*30,222*	*33,103*	*33,317*
Net debt							
Gross debt liabilities		14,427	19,171	19,343	23,715	27,131	29,944
Less : liquid financial assets		5,034	3,372	4,415	3,958	4,247	6,617
Less: convergence differences impacting net debt		88	-	-	-	-	-
Net debt		*9,306*	*15,799*	*14,927*	*19,758*	*22,884*	*23,327*

Note: Columns may not add due to rounding.

Table 1.3

GENERAL GOVERNMENT

Cash Flow Statement

	Note	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received							
Taxes received		8,846	9,774	9,131	9,491	9,958	10,435
Grants and subsidies received		9,394	8,355	8,030	8,848	10,266	11,890
Receipts from sales of goods and services		2,129	2,358	2,195	2,308	2,409	2,496
Interest receipts		180	164	163	166	167	181
Dividends and tax equivalents		1,865	1,527	1,937	1,646	1,775	1,767
Other receipts		6,799	5,376	5,698	5,390	5,636	5,928
Total cash received		*29,213*	*27,554*	*27,153*	*27,849*	*30,212*	*32,698*
Cash Paid							
Wages, salaries and supplements, and superannuation		-12,546	-13,385	-13,362	-13,403	-13,627	-13,970
Payments for goods and services		-7,761	-8,102	-8,010	-8,218	-8,356	-8,704
Interest paid		-537	-582	-614	-701	-831	-988
Grants and subsidies paid		-5,767	-5,712	-5,549	-5,707	-5,608	-5,738
Dividends and tax equivalents		-	-	-	-	-	-
Other payments		-1,562	-1,420	-1,438	-1,369	-1,383	-1,407
Total cash paid		*-28,173*	*-29,201*	*-28,973*	*-29,398*	*-29,806*	*-30,807*
NET CASH FLOWS FROM OPERATING ACTIVITIES		*1,040*	*-1,647*	*-1,820*	*-1,549*	*406*	*1,891*
CASH FLOWS FROM INVESTING ACTIVITIES							
Cash flows from investments in non-financial assets							
Purchase of non-financial assets		-2,667	-2,603	-2,484	-2,670	-2,657	-1,957
Sales of non-financial assets		134	207	217	228	201	198
Total cash flows from investments in non-financial assets		*-2,533*	*-2,395*	*-2,267*	*-2,442*	*-2,456*	*-1,759*
Cash flows from investments in financial assets							
Cash received							
For policy purposes		18	-	10	10	10	10
For liquidity purposes		5	20	28	30	11	4
Cash paid							
For policy purposes		-566	-666	-752	-480	-501	-419
For liquidity purposes		-22	-19	-53	-	-	-
Total cash flows from investments in financial assets		*-565*	*-665*	*-767*	*-440*	*-480*	*-405*
NET CASH FLOWS FROM INVESTING ACTIVITIES		*-3,098*	*-3,060*	*-3,034*	*-2,882*	*-2,936*	*-2,165*
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash received							
Advances received		16	16	16	16	16	17
Borrowings		2,065	4,493	5,040	4,486	3,070	3,057
Deposits received		-	-	-	-	-	-
Other financing receipts		448	37	35	37	70	58
Total cash receipts from financing activities		*2,529*	*4,546*	*5,091*	*4,539*	*3,156*	*3,132*
Cash paid							
Advances paid		-16	-16	-16	-16	-16	-17
Borrowings repaid		-79	-86	-90	-88	-87	-88
Deposits paid		-	-	-	-	-	-
Other financing payments		-424	-432	-466	-419	-271	-251
Total payments for financing activities		*-519*	*-534*	*-571*	*-523*	*-375*	*-355*
NET CASH FLOWS FROM FINANCING ACTIVITIES		*2,010*	*4,012*	*4,519*	*4,016*	*2,781*	*2,777*
Net increase in cash and cash equivalents		**-48**	**-695**	**-335**	**-415**	**251**	**2,503**
Cash and cash equivalents at the beginning of the year		4,488	3,135	4,440	4,105	3,690	3,941
Cash and cash equivalents at the end of the year		4,440	2,440	4,105	3,690	3,941	6,444
KEY FISCAL AGGREGATES							
Net cash flows from operating activities		1,040	-1,647	-1,820	-1,549	406	1,891
Net cash flows from investing in non-financial assets		-2,533	-2,395	-2,267	-2,442	-2,456	-1,759
Cash surplus/-deficit	6	**-1,493**	**-4,042**	**-4,087**	**-3,991**	**-2,051**	**131**

Note: Columns may not add due to rounding.

Table 1.4

PUBLIC NON-FINANCIAL CORPORATIONS

Operating Statement

	Note	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
Results from Transactions							
REVENUE							
Current grants and subsidies		2,307	2,279	2,260	2,191	2,052	2,016
Capital grants		113	158	220	159	115	16
Sales of goods and services		16,778	17,220	17,786	18,833	19,893	21,326
Interest income		163	189	153	157	174	210
Other		846	576	502	618	646	513
Total		*20,208*	*20,422*	*20,922*	*21,957*	*22,880*	*24,080*
EXPENSES							
Salaries		1,173	1,215	1,224	1,248	1,263	1,288
Superannuation							
Concurrent costs		118	119	122	124	125	127
Superannuation interest cost		-	-	-	-	-	-
Other employee costs		80	42	45	42	42	42
Depreciation and amortisation		1,979	2,123	2,065	2,119	2,139	2,157
Services and contracts		937	874	862	798	628	540
Other gross operating expenses		12,379	12,980	13,663	14,303	15,257	16,353
Other interest		845	1,009	944	966	1,009	1,100
Tax equivalents		546	497	462	538	572	591
Current transfers		1,054	1,081	1,056	1,113	1,158	1,201
Capital transfers		47	46	134	1	1	1
Total		*19,158*	*19,986*	*20,577*	*21,251*	*22,194*	*23,400*
NET OPERATING BALANCE	6	**1,049**	**437**	**345**	**706**	**685**	**680**
Other economic flows - included in the operating result							
Net gains on assets/liabilities		95	154	96	189	220	367
Net actuarial gains - superannuation		-40	-	-	-	-	-
Provision for doubtful debts		-6	-18	-18	-18	-19	-20
Changes in accounting policy/adjustment of prior periods		-24	-	-	-	-	-
Total other economic flows		*25*	*136*	*78*	*171*	*201*	*347*
OPERATING RESULT		*1,074*	*573*	*423*	*877*	*886*	*1,027*
Other non-owner movements in equity							
Items that will not be reclassified to operating result							
Revaluations		2,583	1,081	1,517	1,177	1,125	1,048
Gains recognised directly in equity		405	-54	-54	-97	-49	-48
All other		-	-	-	-	-	-
Total other non-owner movements in equity		*2,988*	*1,027*	*1,463*	*1,080*	*1,076*	*1,000*
Movements in owner equity							
Dividends		-1,142	-901	-1,158	-985	-1,080	-1,115
Capital injections		721	726	529	497	413	376
Total movements in owner equity		*-421*	*-175*	*-629*	*-488*	*-667*	*-739*
TOTAL CHANGE IN NET WORTH		*3,640*	*1,425*	*1,256*	*1,469*	*1,295*	*1,288*
KEY FISCAL AGGREGATES							
NET OPERATING BALANCE	6	**1,049**	**437**	**345**	**706**	**685**	**680**
Less *Net acquisition of non-financial assets*							
Purchase of non-financial assets		3,125	3,672	3,506	3,378	3,425	3,552
Changes in inventories		183	819	104	306	241	60
Other movement in non-financial assets		328	153	20	196	263	123
Less:							
Sales of non-financial assets		804	1,030	856	910	913	999
Depreciation		1,979	2,123	2,065	2,119	2,139	2,157
Total net acquisition of non-financial assets		*853*	*1,491*	*709*	*851*	*877*	*579*
NET LENDING/-BORROWING	6	*196*	*-1,055*	*-364*	*-145*	*-191*	*101*

Note: Columns may not add due to rounding.

Table 1.5

PUBLIC NON-FINANCIAL CORPORATIONS

Balance Sheet at 30 June

	Note	2015 Actual $m	2016 Budget Estimate $m	2016 Mid-year Revision $m	2017 Mid-year Revision $m	2018 Mid-year Revision $m	2019 Mid-year Revision $m
ASSETS							
Financial assets							
Cash and deposits		1,157	1,112	1,131	1,216	1,230	1,198
Advances paid		-	-	-	-	-	-
Investments, loans and placements		4,713	5,081	5,102	5,192	5,326	5,477
Receivables		1,079	1,098	1,111	1,337	1,442	1,759
Shares and other equity							
Investments in other public sector entities - equity method		-	-	-	-	-	-
Investments in other public sector entities - direct injections		-	-	-	-	-	-
Investments in other entities		33	42	37	71	79	79
Other financial assets		910	849	849	785	720	627
Total financial assets		*7,893*	*8,181*	*8,230*	*8,601*	*8,798*	*9,140*
Non-financial assets							
Land		15,248	15,929	15,781	16,334	16,905	17,497
Property, plant and equipment		53,627	53,275	55,226	56,291	57,548	58,795
Biological assets		314	313	310	307	304	304
Inventories							
Land inventories		2,175	2,254	2,105	2,117	2,106	1,951
Other inventories		3,408	3,518	3,512	3,818	4,059	4,119
Intangibles		512	401	494	471	455	455
Non-current assets held for sale		44	5	36	36	36	36
Investment property		51	25	51	51	51	51
Other		203	166	130	137	122	123
Total non-financial assets		*75,581*	*75,884*	*77,646*	*79,562*	*81,587*	*83,331*
TOTAL ASSETS		*83,474*	*84,066*	*85,876*	*88,163*	*90,384*	*92,471*
LIABILITIES							
Deposits held		-	-	-	-	-	-
Advances received		407	392	392	376	360	343
Borrowings		22,245	23,655	23,476	24,133	25,080	25,864
Unfunded superannuation		129	56	93	54	12	-
Other employee benefits		461	439	443	457	471	486
Payables		4,680	4,532	4,624	4,709	4,872	4,904
Other liabilities		1,260	1,547	1,302	1,417	1,278	1,274
TOTAL LIABILITIES		*29,183*	*30,620*	*30,329*	*31,146*	*32,073*	*32,871*
NET ASSETS		**54,291**	**53,445**	**55,547**	**57,016**	**58,312**	**59,600**
Of which:							
Contributed equity		7,452	8,483	7,981	8,478	8,891	9,266
Accumulated surplus		18,732	16,261	18,597	18,286	17,940	17,702
Other reserves		28,107	28,701	28,970	30,252	31,481	32,632
NET WORTH	6	**54,291**	**53,445**	**55,547**	**57,016**	**58,312**	**59,600**
MEMORANDUM ITEMS							
Net financial worth		*-75,581*	*-75,884*	*-77,646*	*-79,562*	*-81,587*	*-83,331*
Net debt							
Gross debt liabilities		22,652	24,047	23,868	24,509	25,440	26,207
Less : liquid financial assets		5,870	6,193	6,233	6,408	6,557	6,674
Less: convergence differences impacting net debt		-	-	-	-	-	-
Net debt		*16,783*	*17,854*	*17,635*	*18,101*	*18,883*	*19,533*

Note: Columns may not add due to rounding.

Table 1.6

PUBLIC NON-FINANCIAL CORPORATIONS

Cash Flow Statement

	Note	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received							
Grants and subsidies received		2,476	2,451	2,483	2,352	2,170	2,035
Receipts from sales of goods and services		17,457	17,379	17,965	19,155	20,091	21,517
Interest receipts		168	189	153	157	174	209
Dividends and tax equivalents		68	68	69	117	69	69
Other receipts		1,439	882	922	939	1,014	1,050
Total cash received		*21,608*	*20,969*	*21,592*	*22,720*	*23,517*	*24,881*
Cash paid							
Wages, salaries and supplements, and superannuation		-1,316	-1,434	-1,445	-1,427	-1,460	-1,454
Payments for goods and services		-12,648	-11,946	-12,805	-13,429	-14,136	-15,163
Interest paid		-784	-949	-879	-903	-966	-1,069
Grants and subsidies paid		-774	-782	-772	-811	-840	-868
Tax equivalents		-660	-552	-587	-526	-625	-555
Other payments		-3,029	-3,001	-2,956	-3,182	-3,204	-3,253
Total cash paid		*-19,211*	*-18,664*	*-19,445*	*-20,278*	*-21,231*	*-22,363*
NET CASH FLOWS FROM OPERATING ACTIVITIES		*2,397*	*2,305*	*2,147*	*2,442*	*2,287*	*2,518*
CASH FLOWS FROM INVESTING ACTIVITIES							
Cash flows from investments in non-financial assets							
Purchase of non-financial assets		-3,125	-3,672	-3,506	-3,378	-3,425	-3,552
Sales of non-financial assets		804	1,030	856	910	913	999
Total cash flows from investments in non-financial assets		*-2,321*	*-2,643*	*-2,650*	*-2,468*	*-2,512*	*-2,553*
Cash flows from investments in financial assets							
Cash received							
For policy purposes		-	-	-	-	-	-
For liquidity purposes		197	25	81	42	13	12
Cash paid							
For policy purposes		-13	-	-	-	-32	-17
For liquidity purposes		-154	-27	-72	-26	-29	-48
Total cash flows from investments in financial assets		*30*	*-3*	*8*	*16*	*-48*	*-53*
NET CASH FLOWS FROM INVESTING ACTIVITIES		*-2,292*	*-2,645*	*-2,642*	*-2,452*	*-2,560*	*-2,606*
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash received							
Advances received		-	-	-	-	-	-
Borrow ings		17,993	12,608	21,682	29,610	31,376	28,837
Deposits received		-	-	-	-	-	-
Other financing receipts		604	721	798	529	575	525
Total cash received		*18,597*	*13,329*	*22,480*	*30,139*	*31,951*	*29,362*
Cash paid							
Advances paid		-16	-16	-16	-16	-16	-17
Borrow ings repaid		-17,754	-11,774	-20,656	-28,984	-30,507	-28,127
Deposits paid		-	-	-	-	-	-
Other financing payments		-32	-30	-30	-32	-30	-31
Dividends paid		-1,142	-900	-1,147	-985	-1,080	-1,115
Total cash paid		*-18,945*	*-12,721*	*-21,848*	*-30,016*	*-31,634*	*-29,290*
NET CASH FLOWS FROM FINANCING ACTIVITIES		*-348*	*608*	*632*	*123*	*317*	*72*
Net increase in cash and cash equivalents		**-243**	**268**	**137**	**112**	**44**	**-16**
Cash and cash equivalents at the beginning of the year		1,803	1,273	1,560	1,697	1,810	1,853
Cash and cash equivalents at the end of the year		1,560	1,540	1,697	1,810	1,853	1,837
KEY FISCAL AGGREGATES							
Net cash flow s from operating activities		2,397	2,305	2,147	2,442	2,287	2,518
Net cash flow s from investing in non-financial assets		-2,321	-2,643	-2,650	-2,468	-2,512	-2,553
Dividends paid		-1,142	-900	-1,147	-985	-1,080	-1,115
Cash surplus/-deficit	6	**-1,066**	**-1,238**	**-1,650**	**-1,011**	**-1,306**	**-1,150**

Note: Columns may not add due to rounding.

Table 1.7

TOTAL NON-FINANCIAL PUBLIC SECTOR

Operating Statement

	Note	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
Results from Transactions							
REVENUE							
Taxation		8,404	9,240	8,623	8,961	9,403	9,856
Current grants and subsidies		8,051	7,738	7,321	7,881	9,350	11,701
Capital grants		1,263	651	703	966	926	192
Sales of goods and services		18,404	19,015	19,485	20,635	21,794	23,313
Interest income		319	338	296	303	323	373
Royalty income		4,603	3,670	3,788	3,632	3,998	4,293
Dividend and tax equivalents		162	142	294	184	160	172
Other		1,258	998	909	965	1,042	891
Total		*42,463*	*41,791*	*41,418*	*43,527*	*46,996*	*50,791*
EXPENSES							
Salaries		12,262	12,713	12,637	13,016	13,205	13,575
Superannuation							
Concurrent costs		1,225	1,248	1,256	1,289	1,303	1,335
Superannuation interest cost		266	224	225	237	243	244
Other employee costs		296	257	268	258	254	254
Depreciation and amortisation		3,214	3,557	3,490	3,598	3,647	3,705
Services and contracts		2,983	3,217	3,199	3,102	2,917	2,889
Other gross operating expenses		17,059	17,886	18,546	19,303	20,382	21,772
Other interest		1,359	1,599	1,574	1,670	1,843	2,094
Current transfers		3,885	3,819	3,701	4,006	4,143	4,452
Capital transfers		439	443	481	289	274	265
Total		*42,987*	*44,964*	*45,378*	*46,767*	*48,211*	*50,585*
NET OPERATING BALANCE	6	**-524**	**-3,173**	**-3,960**	**-3,240**	**-1,215**	**207**
Other economic flows - included in the operating result							
Net gains on assets/liabilities		74	186	130	201	234	395
Net actuarial gains - superannuation		58	-48	-241	-93	-84	-135
Provision for doubtful debts		-42	-22	-22	-22	-23	-24
Changes in accounting policy/adjustment of prior periods		-534	-	-	-	-	-
Total other economic flows		*-443*	*115*	*-133*	*85*	*127*	*236*
OPERATING RESULT		*-967*	*-3,057*	*-4,093*	*-3,155*	*-1,088*	*443*
All other movements in equity							
Items that will not be reclassified to operating result							
Revaluations		4,812	3,126	3,539	2,886	2,762	2,735
Gains recognised directly in equity		401	-55	-55	-98	-49	-49
Change in net worth of the PFC sector		226	90	27	12	176	205
All other		-	-	-	-	-	-
Total all other movements in equity		*5,439*	*3,161*	*3,512*	*2,801*	*2,888*	*2,892*
TOTAL CHANGE IN NET WORTH		*4,472*	*104*	*-581*	*-355*	*1,800*	*3,334*
KEY FISCAL AGGREGATES							
NET OPERATING BALANCE	6	**-524**	**-3,173**	**-3,960**	**-3,240**	**-1,215**	**207**
Less *Net acquisition of non-financial assets*							
Purchase of non-financial assets		5,767	6,274	5,920	6,049	6,082	5,510
Changes in inventories		173	819	118	304	241	60
Other movement in non-financial assets		418	111	179	275	739	184
Less:							
Sales of non-financial assets		913	1,236	1,003	1,139	1,114	1,197
Depreciation		3,214	3,557	3,490	3,598	3,647	3,705
Total net acquisition of non-financial assets		*2,231*	*2,411*	*1,724*	*1,891*	*2,301*	*852*
NET LENDING/-BORROWING	6	*-2,755*	*-5,583*	*-5,684*	*-5,131*	*-3,516*	*-645*

Note: Columns may not add due to rounding.

Table 1.8

TOTAL NON-FINANCIAL PUBLIC SECTOR

Balance Sheet at 30 June

	Note	2015 Actual $m	2016 Budget Estimate $m	2016 Mid-year Revision $m	2017 Mid-year Revision $m	2018 Mid-year Revision $m	2019 Mid-year Revision $m
ASSETS							
Financial assets							
Cash and deposits		1,579	1,171	1,436	1,616	1,677	1,869
Advances paid		270	316	333	331	347	366
Investments, loans and placements		8,282	7,162	8,069	7,636	7,963	10,387
Receivables		3,645	3,429	3,463	3,586	3,802	4,202
Shares and other equity							
Investments in other public sector entities - equity method		2,010	2,031	2,037	2,049	2,224	2,429
Investments in other public sector entities - direct injections		-	-	-	-	-	-
Investments in other entities		77	85	76	113	129	141
Other financial assets		-	-	-	-	-	-
Total financial assets		*15,863*	*14,194*	*15,414*	*15,331*	*16,143*	*19,395*
Non-financial assets							
Land		54,084	54,675	55,111	56,091	57,121	58,190
Property, plant and equipment		98,630	101,841	102,636	106,033	110,515	113,405
Biological assets		316	314	311	307	304	304
Inventories							
Land inventories		2,281	2,321	2,196	2,194	2,182	2,024
Other inventories		3,477	3,595	3,595	3,899	4,141	4,201
Intangibles		1,121	1,036	1,119	1,085	1,031	965
Non-current assets held for sale		71	17	67	67	67	67
Investment property		59	25	51	51	51	51
Other		452	914	1,167	1,355	906	909
Total non-financial assets		*160,492*	*164,737*	*166,253*	*171,083*	*176,318*	*180,116*
TOTAL ASSETS		*176,355*	*178,931*	*181,667*	*186,414*	*192,460*	*199,511*
LIABILITIES							
Deposits held		53	187	57	57	57	57
Advances received		407	392	392	376	360	343
Borrowings		35,848	41,723	41,951	47,009	51,338	55,082
Unfunded superannuation		7,702	8,423	7,616	7,371	7,121	6,967
Other employee benefits		3,752	3,083	3,442	3,521	3,565	3,632
Payables		5,661	5,398	5,777	5,848	6,100	6,141
Other liabilities		1,633	2,216	1,714	1,867	1,756	1,791
TOTAL LIABILITIES		*55,055*	*61,422*	*60,948*	*66,050*	*70,297*	*74,013*
NET ASSETS		**121,299**	**117,510**	**120,718**	**120,364**	**122,163**	**125,498**
Of which:							
Contributed equity		-	-	-	-	-	-
Accumulated surplus		29,751	22,403	30,222	26,893	25,650	25,937
Other reserves		91,548	95,107	90,496	93,471	96,514	99,561
NET WORTH	6	**121,299**	**117,510**	**120,718**	**120,364**	**122,163**	**125,498**
MEMORANDUM ITEMS							
Net financial worth		*-39,192*	*-47,228*	*-45,535*	*-50,719*	*-54,154*	*-54,618*
Net financial liabilities		*41,279*	*49,343*	*47,647*	*52,881*	*56,507*	*57,189*
Net debt							
Gross debt liabilities		36,308	42,302	42,401	47,442	51,755	55,482
Less : liquid financial assets		10,131	8,649	9,838	9,584	9,987	12,622
Less: convergence differences impacting net debt		88	-	-	-	-	-
Net debt		*26,088*	*33,653*	*32,562*	*37,859*	*41,767*	*42,860*

Note: Columns may not add due to rounding.

Table 1.9

TOTAL NON-FINANCIAL PUBLIC SECTOR

Cash Flow Statement

	Note	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received							
Taxes received		8,366	9,254	8,631	8,965	9,407	9,859
Grants and subsidies received		9,394	8,362	8,030	8,848	10,266	11,890
Receipts from sales of goods and services		19,113	19,195	19,695	21,008	22,037	23,538
Interest receipts		319	327	288	295	314	365
Dividends and tax equivalents		131	143	271	251	138	166
Other receipts		7,927	5,947	6,308	5,979	6,282	6,621
Total cash received		*45,250*	*43,227*	*43,222*	*45,346*	*48,445*	*52,438*
Cash paid							
Wages, salaries and supplements, and superannuation		-13,861	-14,819	-14,807	-14,830	-15,087	-15,424
Payments for goods and services		-19,665	-19,222	-20,067	-20,867	-21,689	-23,061
Interest paid		-1,293	-1,506	-1,465	-1,576	-1,770	-2,031
Grants and subsidies paid		-4,029	-4,023	-3,812	-4,142	-4,255	-4,547
Dividends and tax equivalents		-	-	-	-	-	-
Other payments		-4,108	-3,899	-3,892	-4,022	-4,033	-4,080
Total cash paid		-42,956	-43,469	-44,042	-45,438	-46,834	-49,143
NET CASH FLOWS FROM OPERATING ACTIVITIES		*2,295*	*-242*	*-820*	*-92*	*1,612*	*3,294*
CASH FLOWS FROM INVESTING ACTIVITIES							
Cash flows from investments in non-financial assets							
Purchase of non-financial assets		-5,767	-6,274	-5,920	-6,049	-6,082	-5,510
Sales of non-financial assets		913	1,236	1,003	1,139	1,114	1,197
Total cash flows from investments in non-financial assets		*-4,854*	*-5,038*	*-4,917*	*-4,910*	*-4,968*	*-4,313*
Cash flows from investments in financial assets							
Cash received							
For policy purposes		18	-	10	10	10	10
For liquidity purposes		202	44	108	73	24	15
Cash paid							
For policy purposes		-17	-	-10	-10	-10	-10
For liquidity purposes		-176	-46	-125	-26	-29	-48
Total cash flows from investments in financial assets		*27*	*-2*	*-17*	*46*	*-5*	*-33*
NET CASH FLOWS FROM INVESTING ACTIVITIES		*-4,828*	*-5,040*	*-4,934*	*-4,864*	*-4,973*	*-4,345*
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash received							
Advances received		-	-	-	-	-	-
Borrowings		20,058	17,100	26,722	34,097	34,446	31,895
Deposits received		-	-	-	-	-	-
Other financing receipts		454	37	35	37	59	64
Total cash received		*20,512*	*17,137*	*26,757*	*34,134*	*34,505*	*31,959*
Cash paid							
Advances paid		-16	-16	-16	-16	-16	-17
Borrowings repaid		-17,833	-11,860	-20,745	-29,071	-30,594	-28,215
Deposits paid		-	-	-	-	-	-
Other financing payments		-421	-406	-440	-393	-238	-190
Total cash paid		*-18,270*	*-12,283*	*-21,201*	*-29,480*	*-30,849*	*-28,421*
NET CASH FLOWS FROM FINANCING ACTIVITIES		*2,242*	*4,855*	*5,556*	*4,653*	*3,656*	*3,538*
Net increase in cash and cash equivalents		**-291**	**-428**	**-198**	**-302**	**295**	**2,487**
Cash and cash equivalents at the beginning of the year		6,290	4,407	5,999	5,801	5,499	5,794
Cash and cash equivalents at the end of the year		5,999	3,979	5,801	5,499	5,794	8,281
KEY FISCAL AGGREGATES							
Net cash flows from operating activities		2,295	-242	-820	-92	1,612	3,294
Net cash flows from investing in non-financial assets		-4,854	-5,038	-4,917	-4,910	-4,968	-4,313
Cash surplus/-deficit	6	**-2,560**	**-5,280**	**-5,737**	**-5,002**	**-3,356**	**-1,018**

Note: Columns may not add due to rounding.

Table 1.10

PUBLIC FINANCIAL CORPORATIONS

Operating Statement

	Note	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
Results from Transactions							
REVENUE							
Current grants and subsidies		-	-	-	-	-	-
Capital grants		-	-	-	-	-	-
Sales of goods and services		980	1,111	1,111	1,293	1,506	1,621
Interest income		1,702	2,025	1,960	2,118	2,327	2,625
Other		3	1	1	-	-	-
Total		*2,685*	*3,137*	*3,072*	*3,411*	*3,833*	*4,246*
EXPENSES							
Salaries		52	55	55	56	59	62
Superannuation							
Concurrent costs		5	5	5	6	6	6
Superannuation interest cost		-	-	-	-	-	-
Other employee costs		2	2	2	2	2	2
Depreciation and amortisation		13	14	14	14	15	15
Services and contracts		8	10	10	11	11	11
Other gross operating expenses		858	966	970	1,210	1,290	1,371
Other interest		1,520	1,845	1,754	1,910	2,112	2,398
Tax equivalents		46	30	84	18	41	48
Current transfers		5	4	4	5	5	5
Capital transfers		1	2	1	1	1	1
Total		*2,509*	*2,934*	*2,900*	*3,232*	*3,542*	*3,920*
NET OPERATING BALANCE	6	**176**	**203**	**172**	**179**	**292**	**326**
Other economic flows - included in the operating result							
Net gains on assets/liabilities		253	-	85	-	-	-
Net actuarial gains - superannuation		2	-	-	-	-	-
Provision for doubtful debts		-3	-	-	-	-	-
Changes in accounting policy/adjustment of prior periods		-159	-	-	-	-	-
Total other economic flows		*92*	-	*85*	-	-	-
OPERATING RESULT		*268*	*203*	*257*	*179*	*292*	*326*
Other non-owner movements in equity							
Items that will not be reclassified to operating result							
Revaluations		-88	-	-20	-1	3	3
Gains recognised directly in equity		156	-	-	-	-	-
All other		-	-	-	-	-	-
Total other non-owner movements in equity		*69*	-	*-20*	*-1*	*3*	*3*
Movements in owner equity							
Dividends		-116	-112	-210	-166	-119	-124
Capital injections		3	-	-	-	-	-
Total movements in owner equity		*-114*	*-112*	*-210*	*-166*	*-119*	*-124*
TOTAL CHANGE IN NET WORTH		*223*	*90*	*27*	*12*	*176*	*205*
KEY FISCAL AGGREGATES							
NET OPERATING BALANCE	6	**176**	**203**	**172**	**179**	**292**	**326**
Less *Net acquisition of non-financial assets*							
Purchase of non-financial assets		11	10	9	7	7	7
Changes in inventories		-	-	-	-	-	-
Other movement in non-financial assets		-	-	-	-	-	-
Less:							
Sales of non-financial assets		-	-	-	-	-	-
Depreciation		13	14	14	14	15	15
Total net acquisition of non-financial assets		*-2*	*-4*	*-5*	*-7*	*-7*	*-8*
NET LENDING/-BORROWING	6	*178*	*207*	*177*	*185*	*299*	*334*

Note: Columns may not add due to rounding.

Table 1.11

PUBLIC FINANCIAL CORPORATIONS

Balance Sheet at 30 June

	Note	2015 Actual $m	2016 Budget Estimate $m	2016 Mid-year Revision $m	2017 Mid-year Revision $m	2018 Mid-year Revision $m	2019 Mid-year Revision $m
ASSETS							
Financial assets							
Cash and deposits		52	27	22	28	35	43
Advances paid		4,162	4,393	4,392	4,474	4,605	4,744
Investments, loans and placements		44,788	47,628	48,517	53,913	57,329	61,628
Receivables		555	582	548	544	542	540
Shares and other equity							
Investments in other public sector entities - equity method		-	-	-	-	-	-
Investments in other public sector entities - direct injections		-	-	-	-	-	-
Investments in other entities		1,593	1,660	1,735	1,893	2,110	2,350
Other financial assets		7	17	7	7	7	7
Total financial assets		*51,156*	*54,306*	*55,221*	*60,859*	*64,627*	*69,312*
Non-financial assets							
Land		-	119	38	38	38	38
Property, plant and equipment		5	197	187	187	192	196
Biological assets		-	-	-	-	-	-
Inventories							
Land inventories		-	-	-	-	-	-
Other inventories		-	-	-	-	-	-
Intangibles		8	11	10	11	11	11
Non-current assets held for sale		808	-	-	-	-	-
Investment property		-	641	386	419	460	501
Other		2	47	2	2	2	2
Total non-financial assets		*824*	*1,016*	*623*	*657*	*702*	*748*
TOTAL ASSETS		*51,980*	*55,322*	*55,844*	*61,516*	*65,330*	*70,060*
LIABILITIES							
Deposits held		-	-	-	-	-	-
Advances received		3	2	3	3	3	3
Borrowings		46,285	49,389	49,917	55,233	58,487	62,595
Unfunded superannuation		9	12	10	11	12	14
Other employee benefits		10	10	10	10	10	10
Payables		182	190	230	145	147	153
Other liabilities		3,481	3,689	3,636	4,064	4,446	4,855
TOTAL LIABILITIES		*49,971*	*53,292*	*53,807*	*59,467*	*63,105*	*67,630*
NET ASSETS		**2,010**	**2,031**	**2,037**	**2,049**	**2,224**	**2,429**
Of which:							
Contributed equity		3	-	3	3	3	3
Accumulated surplus		1,879	1,803	1,754	1,760	1,910	2,086
Other reserves		128	228	280	286	311	341
NET WORTH	6	**2,010**	**2,031**	**2,037**	**2,049**	**2,224**	**2,429**
MEMORANDUM ITEMS							
Net financial worth		*-824*	*-1,016*	*-623*	*-657*	*-702*	*-748*
Net debt							
Gross debt liabilities		46,288	49,391	49,920	55,236	58,490	62,598
Less: liquid financial assets		49,002	52,047	52,931	58,415	61,970	66,415
Less: convergence differences impacting net debt		-	-	-	-	-	-
Net debt		*-2,714*	*-2,657*	*-3,010*	*-3,178*	*-3,480*	*-3,817*

Note: Columns may not add due to rounding.

Table 1.12

PUBLIC FINANCIAL CORPORATIONS

Cash Flow Statement

	Note	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received							
Grants and subsidies received		29	5	5	5	5	5
Receipts from sales of goods and services		1,085	1,117	1,122	1,371	1,484	1,613
Interest receipts		1,677	2,025	1,960	2,118	2,327	2,625
Dividends and tax equivalents		-	-	-	-	-	-
Other receipts		143	142	135	159	169	181
Total cash received		*2,933*	*3,289*	*3,222*	*3,654*	*3,986*	*4,425*
Cash paid							
Wages, salaries and supplements, and superannuation		-56	-59	-59	-61	-64	-67
Payments for goods and services		-822	-839	-842	-885	-944	-995
Interest paid		-1,654	-1,845	-1,754	-1,910	-2,112	-2,398
Grants and subsidies paid		-	-	-	-	-1	-
Tax equivalents		-19	-30	-61	-85	-19	-42
Other payments		-201	-204	-203	-253	-270	-289
Total cash paid		*-2,752*	*-2,977*	*-2,919*	*-3,194*	*-3,409*	*-3,791*
NET CASH FLOWS FROM OPERATING ACTIVITIES		*182*	*312*	*303*	*459*	*576*	*634*
CASH FLOWS FROM INVESTING ACTIVITIES							
Cash flows from investments in non-financial assets							
Purchase of non-financial assets		-11	-10	-9	-7	-7	-7
Sales of non-financial assets		-	-	-	-	-	-
Total cash flows from investments in non-financial assets		*-10*	*-9*	*-9*	*-7*	*-7*	*-7*
Cash flows from investments in financial assets							
Cash received							
For policy purposes		-	-	-	-	-	-
For liquidity purposes		6,855	6,852	7,082	7,060	7,120	7,176
Cash paid							
For policy purposes		-	-	-1	-1	-1	-2
For liquidity purposes		-6,556	-7,161	-7,182	-7,361	-7,537	-7,622
Total cash flows from investments in financial assets		*299*	*-309*	*-101*	*-302*	*-418*	*-447*
NET CASH FLOWS FROM INVESTING ACTIVITIES		*288*	*-318*	*-110*	*-310*	*-425*	*-455*
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash received							
Advances received		-	-	-	-	-	-
Borrowings		34,072	45,267	39,835	40,978	41,314	37,962
Deposits received		-	-	-	-	-	-
Other financing receipts		-	-	-	-	-	-
Total cash received		*34,072*	*45,267*	*39,835*	*40,978*	*41,314*	*37,962*
Cash paid							
Advances paid		-	-	-	-	-	-
Borrowings repaid		-33,282	-45,153	-39,620	-40,929	-41,214	-37,859
Deposits paid		-	-	-	-	-	-
Other financing payments		-	-	-	-	-	-
Dividends paid		-112	-112	-210	-166	-119	-124
Total cash paid		*-33,395*	*-45,265*	*-39,830*	*-41,095*	*-41,333*	*-37,983*
NET CASH FLOWS FROM FINANCING ACTIVITIES		*677*	*2*	*6*	*-117*	*-20*	*-21*
Net increase in cash and cash equivalents		**1,148**	**-4**	**199**	**33**	**132**	**158**
Cash and cash equivalents at the beginning of the year		2,094	2,155	3,242	3,441	3,474	3,606
Cash and cash equivalents at the end of the year		3,242	2,151	3,441	3,474	3,606	3,764
KEY FISCAL AGGREGATES							
Net cash flows from operating activities		182	312	303	459	576	634
Net cash flows from investing in non-financial assets		-10	-9	-9	-7	-7	-7
Dividends paid		-112	-112	-210	-166	-119	-124
Cash surplus/-deficit	6	**59**	**190**	**84**	**285**	**450**	**502**

Note: Columns may not add due to rounding.

Table 1.13

TOTAL PUBLIC SECTOR

Operating Statement

	Note	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
Results from Transactions							
REVENUE							
Taxation		8,400	9,236	8,619	8,957	9,399	9,852
Current grants and subsidies		8,051	7,738	7,321	7,881	9,350	11,701
Capital grants		1,263	651	703	966	926	192
Sales of goods and services		19,071	19,789	20,258	21,577	22,931	24,545
Interest income		648	658	637	671	691	747
Royalty income		4,603	3,670	3,788	3,632	3,998	4,293
Other		1,256	997	909	964	1,042	891
Total		*43,292*	*42,740*	*42,235*	*44,648*	*48,336*	*52,221*
EXPENSES							
Salaries		12,314	12,768	12,692	13,073	13,264	13,637
Superannuation							
Concurrent costs		1,230	1,254	1,262	1,294	1,309	1,341
Superannuation interest cost		266	224	225	237	243	244
Other employee costs		298	259	270	260	256	256
Depreciation and amortisation		3,226	3,571	3,504	3,612	3,661	3,720
Services and contracts		2,991	3,217	3,199	3,102	2,917	2,889
Other gross operating expenses		17,600	18,526	19,188	20,173	21,314	22,766
Other interest		1,506	1,739	1,709	1,829	1,996	2,241
Current transfers		3,886	3,819	3,702	4,006	4,144	4,452
Capital transfers		440	445	482	290	275	266
Total		*43,756*	*45,822*	*46,233*	*47,876*	*49,379*	*51,812*
NET OPERATING BALANCE	6	**-464**	**-3,082**	**-3,998**	**-3,228**	**-1,043**	**409**
Other economic flows - included in the operating result							
Net gains on assets/liabilities		327	186	215	201	234	395
Net actuarial gains - superannuation		60	-48	-241	-93	-84	-135
Provision for doubtful debts		-45	-22	-22	-22	-23	-24
Changes in accounting policy/adjustment of prior periods		-688	-	-	-	-	-
Total other economic flows		*-345*	*115*	*-48*	*85*	*127*	*236*
OPERATING RESULT		*-810*	*-2,967*	*-4,046*	*-3,143*	*-916*	*645*
All other movements in equity							
Items that will not be reclassified to operating result							
Revaluations		4,724	3,125	3,520	2,886	2,765	2,739
Gains recognised directly in equity		557	-55	-55	-98	-49	-49
All other		-	-	-	-	-	-
Total all other movements in equity		*5,281*	*3,071*	*3,465*	*2,788*	*2,716*	*2,690*
TOTAL CHANGE IN NET WORTH		*4,472*	*104*	*-581*	*-355*	*1,800*	*3,334*
KEY FISCAL AGGREGATES							
NET OPERATING BALANCE	6	**-464**	**-3,082**	**-3,998**	**-3,228**	**-1,043**	**409**
Less *Net acquisition of non-financial assets*							
Purchase of non-financial assets		5,777	6,284	5,929	6,056	6,089	5,517
Changes in inventories		173	819	118	304	241	60
Other movement in non-financial assets		418	111	179	275	739	184
Less:							
Sales of non-financial assets		913	1,236	1,003	1,139	1,114	1,197
Depreciation		3,226	3,571	3,504	3,612	3,661	3,720
Total net acquisition of non-financial assets		*2,229*	*2,406*	*1,719*	*1,885*	*2,294*	*844*
NET LENDING/-BORROWING	6	*-2,693*	*-5,489*	*-5,717*	*-5,112*	*-3,336*	*-436*

Note: Columns may not add due to rounding.

Table 1.14

TOTAL PUBLIC SECTOR

Balance Sheet at 30 June

	Note	2015 Actual $m	2016 Budget Estimate $m	2016 Mid-year Revision $m	2017 Mid-year Revision $m	2018 Mid-year Revision $m	2019 Mid-year Revision $m
ASSETS							
Financial assets							
Cash and deposits		1,631	1,197	1,456	1,643	1,712	1,911
Advances paid		4,429	4,707	4,723	4,803	4,949	5,107
Investments, loans and placements		15,190	10,608	12,001	11,617	11,058	13,631
Receivables		3,747	3,641	3,567	3,742	3,925	4,305
Equity - Investments in other entities		1,670	1,745	1,811	2,006	2,238	2,491
Other financial assets		7	17	7	7	7	7
Total financial assets		*26,674*	*21,916*	*23,565*	*23,818*	*23,889*	*27,452*
Non-financial assets							
Land		54,084	54,794	55,149	56,129	57,159	58,228
Property, plant and equipment		98,636	102,038	102,823	106,220	110,707	113,602
Biological assets		316	314	311	307	304	304
Inventories							
Land inventories		2,281	2,321	2,196	2,194	2,182	2,024
Other inventories		3,477	3,595	3,595	3,899	4,141	4,201
Intangibles		1,129	1,048	1,128	1,095	1,042	976
Non-current assets held for sale		879	17	67	67	67	67
Investment property		59	666	437	470	510	551
Other		454	961	1,170	1,357	908	911
Total non-financial assets		*161,315*	*165,753*	*166,876*	*171,739*	*177,020*	*180,864*
TOTAL ASSETS		*187,989*	*187,669*	*190,441*	*195,557*	*200,909*	*208,316*
LIABILITIES							
Deposits held		52	187	56	56	56	56
Advances received		407	392	392	376	360	343
Borrowings		44,252	46,930	47,284	52,311	55,591	59,293
Unfunded superannuation		7,710	8,435	7,626	7,382	7,133	6,980
Other employee benefits		3,763	3,092	3,452	3,532	3,576	3,642
Payables		5,705	5,500	5,835	5,889	6,121	6,163
Other liabilities		4,800	5,623	5,078	5,648	5,909	6,341
TOTAL LIABILITIES		*66,690*	*70,159*	*69,723*	*75,194*	*78,746*	*82,818*
NET ASSETS		**121,299**	**117,510**	**120,718**	**120,364**	**122,163**	**125,498**
Of which:							
Contributed equity		-	-	-	-	-	-
Accumulated surplus		31,630	24,206	31,976	28,653	27,560	28,023
Other reserves		89,669	93,304	88,742	91,711	94,604	97,475
NET WORTH	6	**121,299**	**117,510**	**120,718**	**120,364**	**122,163**	**125,498**
MEMORANDUM ITEMS							
Net financial worth		*-40,016*	*-48,244*	*-46,158*	*-51,376*	*-54,856*	*-55,366*
Net financial liabilities		*41,686*	*49,989*	*47,969*	*53,382*	*57,095*	*57,857*
Net debt							
Gross debt liabilities		44,712	47,509	47,732	52,743	56,007	59,692
Less : liquid financial assets		21,250	16,512	18,180	18,063	17,719	20,649
Less: convergence differences impacting net debt		88	-	-	-	-	-
Net debt		*23,374*	*30,996*	*29,552*	*34,680*	*38,288*	*39,043*

Note: Columns may not add due to rounding.

Table 1.15

TOTAL PUBLIC SECTOR

Cash Flow Statement

	Note	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received							
Taxes received		8,305	9,186	8,557	8,866	9,302	9,747
Grants and subsidies received		9,394	8,362	8,030	8,848	10,266	11,890
Receipts from sales of goods and services		19,836	19,973	20,476	22,046	23,172	24,763
Interest receipts		748	710	705	722	727	775
Dividends and tax equivalents		-	-	-	-	-	-
Other		8,065	6,083	6,438	6,132	6,446	6,797
Total cash received		*46,347*	*44,313*	*44,205*	*46,615*	*49,913*	*53,971*
Cash paid							
Wages, salaries and supplements, and superannuation		-13,917	-14,878	-14,866	-14,891	-15,151	-15,492
Payments for goods and services		-20,123	-19,722	-20,569	-21,419	-22,284	-23,668
Interest paid		-1,699	-1,708	-1,676	-1,796	-1,966	-2,214
Grants and subsidies paid		-4,001	-4,019	-3,807	-4,137	-4,250	-4,542
Dividends and tax equivalents		-	-	-	-	-	-
Other payments		-4,244	-4,029	-4,016	-4,171	-4,192	-4,252
Total cash paid		*-43,983*	*-44,356*	*-44,933*	*-46,414*	*-47,844*	*-50,167*
NET CASH FLOWS FROM OPERATING ACTIVITIES		*2,364*	*-43*	*-727*	*201*	*2,069*	*3,804*
CASH FLOWS FROM INVESTING ACTIVITIES							
Cash flows from investments in non-financial assets							
Purchase of non-financial assets		-5,777	-6,284	-5,929	-6,056	-6,089	-5,517
Sales of non-financial assets		913	1,236	1,003	1,139	1,114	1,197
Total cash flows from investments in non-financial assets		*-4,864*	*-5,047*	*-4,926*	*-4,917*	*-4,975*	*-4,320*
Cash flows from investments in financial assets							
Cash received							
For policy purposes		18	-	10	10	10	10
For liquidity purposes		7,056	6,896	7,191	7,132	7,144	7,192
Cash paid							
For policy purposes		-17	-	-10	-10	-10	-10
For liquidity purposes		-6,732	-7,207	-7,307	-7,387	-7,566	-7,670
Total cash flows from investments in financial assets		*325*	*-311*	*-116*	*-255*	*-421*	*-479*
NET CASH FLOWS FROM INVESTING ACTIVITIES		*-4,539*	*-5,358*	*-5,042*	*-5,172*	*-5,397*	*-4,799*
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash received							
Advances received		-	-	-	-	-	-
Borrowings		16,256	33,329	19,043	11,702	10,482	9,511
Deposits received		-	-	-	-	-	-
Other financing receipts		454	37	34	36	58	63
Total cash received		*16,711*	*33,366*	*19,077*	*11,738*	*10,540*	*9,574*
Cash paid							
Advances paid		-16	-16	-16	-16	-16	-17
Borrowings repaid		-13,242	-27,974	-12,851	-6,627	-6,530	-5,727
Deposits paid		-	-	-	-	-	-
Other financing payments		-421	-406	-440	-393	-238	-190
Total cash paid		*-13,679*	*-28,397*	*-13,307*	*-7,036*	*-6,785*	*-5,934*
NET CASH FLOWS FROM FINANCING ACTIVITIES		*3,032*	*4,969*	*5,771*	*4,702*	*3,755*	*3,640*
Net increase in cash and cash equivalents		**857**	**-432**	**1**	**-269**	**427**	**2,645**
Cash and cash equivalents at the beginning of the year		8,383	6,560	9,239	9,240	8,971	9,398
Cash and cash equivalents at the end of the year		9,239	6,128	9,240	8,971	9,398	12,044
KEY FISCAL AGGREGATES							
Net cash flows from operating activities		2,364	-43	-727	201	2,069	3,804
Net cash flows from investing in non-financial assets		-4,864	-5,047	-4,926	-4,917	-4,975	-4,320
Cash surplus/-deficit	6	**-2,500**	**-5,090**	**-5,653**	**-4,716**	**-2,906**	**-516**

Note: Columns may not add due to rounding.

NOTE 1: STATEMENT OF COMPLIANCE

The projected public sector financial statements presented in this appendix have been prepared in accordance with Australian Accounting Standards and the Australian Bureau of Statistics' *Government Finance Statistics Concepts, Sources and Methods 2005.*

The presentation in this appendix is consistent with AASB 1049: *Whole of Government and General Government Sector Financial Reporting*, applying to all reporting periods from 1 July 2008.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements constitute general purpose financial reports for the total public sector (also known as the whole-of-government), general government sector, and each of the subsidiary public corporations sectors. Financial projections for the total non-financial public sector (i.e. general government and the public non-financial corporations – such as water and electricity utilities, and the ports) are also presented.

The financial projections are a requirement of the *Government Financial Responsibility Act 2000*.

(a) The reporting entity

The reporting entity is the Government of Western Australia (the public sector) and includes entities under its control.

(b) Basis of preparation

These financial projections do not include all the notes of the type normally included in an annual financial report. The accounting policies adopted in this publication are consistent with those outlined in the 2014-15 *Annual Report on State Finances* (ARSF), which are described in detail in Note 3: *Summary of Significant Accounting Policies* in Appendix 1 of the 2014-15 ARSF.

The projections are presented in Australian dollars and all amounts are rounded to the nearest million dollars ($m).

(c) Unaudited data

These financial projections are not subject to audit.

(d) Comparative figures

Comparative information for 2014-15 is based on the audited actual data presented in the 2014-15 ARSF.

NOTE 3: GENERAL GOVERNMENT OPERATING REVENUE

A detailed dissection of general government revenue is included in Appendix 2: *General Government Operating Revenue.*

NOTE 4: GENERAL GOVERNMENT TRANSFER EXPENSES

Transfer expenses are defined as the provision of something of value for no specific return or consideration and include grants, subsidies, donations, transfers of assets free of charge, etc.

The following table provides detail of current and capital transfer expenses of the general government sector, in line with Uniform Presentation Framework disclosure requirements.

TRANSFER EXPENSES[(a)]

General Government

	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
CURRENT TRANSFERS						
Local government	380	306	307	214	259	461
Local government on-passing	262	176	87	177	187	197
Private and not-for-profit sector	1,435	1,438	1,419	1,621	1,613	1,624
Private and not-for-profit sector on-passing	1,064	1,139	1,119	1,192	1,253	1,311
Other sectors of government	2,325	2,295	2,284	2,206	2,068	2,031
Total Current Transfers	*5,465*	*5,353*	*5,216*	*5,410*	*5,380*	*5,624*
CAPITAL TRANSFERS						
Local government	87	112	113	54	46	32
Local government on-passing	162	108	54	108	112	117
Private and not-for-profit sector	129	142	163	109	96	95
Private and not-for-profit sector on-passing	16	35	16	17	18	19
Other sectors of government	113	158	220	159	115	17
Total Capital Transfers	*507*	*555*	*567*	*447*	*387*	*280*

(a) Includes grants, subsidies and other transfer expenses.

Note: Columns may not add due to rounding.

NOTE 5: GENERAL GOVERNMENT EXPENSES AND SPENDING ON THE PURCHASE OF NON-FINANCIAL ASSETS BY GOVERNMENT PURPOSE CLASSIFICATION[(a)]

	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
Expenses						
General public services	286	470	293	311	318	380
Public order and safety	3,203	3,288	3,293	3,403	3,398	3,412
Education	6,690	7,208	7,116	7,293	7,551	7,801
Health	7,942	8,082	8,102	8,443	8,544	9,010
Social security and w elfare	2,072	2,265	2,264	2,272	2,306	2,374
Housing and community amenities	1,833	1,903	2,001	1,836	1,786	1,857
Recreation and culture	908	809	823	802	788	773
Fuel and energy	609	532	530	440	341	272
Agriculture, forestry, fishing and hunting	343	359	366	358	330	285
Mining and mineral resources other than fuels; manufacturing; and construction	221	219	233	216	203	199
Transport and communications	2,003	2,211	2,103	2,251	2,342	2,502
Other economic affairs	650	670	667	654	623	585
Other purposes	1,071	1,018	973	1,156	1,291	1,463
Total General Government Expenses	**27,831**	**29,033**	**28,764**	**29,438**	**29,822**	**30,913**
Purchases of new non-financial assets						
General public services	109	214	181	126	107	92
Public order and safety	179	161	202	153	78	75
Education	456	321	350	264	278	172
Health	566	467	648	406	301	144
Social security and w elfare	47	28	37	21	19	9
Housing and community amenities	84	71	110	19	40	302
Recreation and culture	124	123	127	210	145	178
Fuel and energy	3	3	3	1	1	1
Agriculture, forestry, fishing and hunting	13	24	30	26	16	9
Mining and mineral resources other than fuels; manufacturing; and construction	2	7	14	8	1	1
Transport and communications	1,028	1,109	1,137	1,391	1,645	951
Other economic affairs	56	76	62	68	29	19
Other purposes	-	-	-417	-24	-3	4
Total Purchases of Non-financial Assets	**2,667**	**2,603**	**2,484**	**2,670**	**2,657**	**1,957**

(a) Data in this table are for consolidated general government aggregates and exclude internal transactions within the sector. In relation to purchases of non-financial assets, the information in this table represents spending by function on fixed assets by general government agencies, which is a component part of the total public sector Asset Investment Program.

Note: Columns may not add due to rounding.

NOTE 6: CONVERGENCE DIFFERENCES

Where possible, AASB 1049 harmonises Government Finance Statistics (GFS) and accounting concepts into a single presentation. Where harmonisation cannot be achieved (e.g. the recognition of a doubtful debts provision is excluded from GFS net worth), a convergence difference arises.

The following tables detail all convergence differences in the forward estimates.

AASB 1049 TO GFS CONVERGENCE DIFFERENCES

Net Operating Balance

	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
General government						
AASB 1049 net operating balance	*-431*	*-2,708*	*-3,146*	*-2,961*	*-820*	*641*
Plus GFS revenue adjustments						
Capital grants - prepaid road grants	-499	-	173	161	166	-
Total GFS revenue adjustments	*-499*	-	*173*	*161*	*166*	-
Less GFS expense adjustments						
Dampier to Bunbury Natural Gas Pipeline - extinguish loan asset	-	88	88	-	-	-
Total GFS expense adjustments	-	*88*	*88*	-	-	-
Total GFS adjustments to AASB 1049 net operating balance	*-499*	*-88*	*85*	*161*	*166*	-
GFS net operating balance	**-930**	**-2,796**	**-3,062**	**-2,800**	**-654**	**641**
Public non-financial corporations						
AASB 1049 net operating balance	*1,049*	*437*	*345*	*706*	*685*	*680*
Less GFS expense adjustments						
Capitalised interest	33	22	21	27	32	34
Dividends	1,142	901	1,158	985	1,080	1,115
Total GFS expense adjustments	*1,175*	*923*	*1,179*	*1,012*	*1,112*	*1,149*
Total GFS adjustments to AASB 1049 net operating balance	*-1,175*	*-923*	*-1,179*	*-1,012*	*-1,112*	*-1,149*
GFS net operating balance	**-125**	**-486**	**-834**	**-306**	**-426**	**-469**
Total non-financial public sector						
AASB 1049 net operating balance	*-524*	*-3,173*	*-3,960*	*-3,240*	*-1,215*	*207*
Plus GFS revenue adjustments						
Capital grants - prepaid road grants	-499	-	173	161	166	-
Total GFS revenue adjustments	*-499*	-	*173*	*161*	*166*	-
Less GFS expense adjustments						
Capitalised interest	33	22	21	27	32	34
Dampier to Bunbury Natural Gas Pipeline - extinguish loan asset	-	88	88	-	-	-
Total GFS expense adjustments	*33*	*110*	*109*	*27*	*32*	*34*
Total GFS adjustments to AASB 1049 net operating balance	*-532*	*-110*	*64*	*134*	*134*	*-34*
GFS net operating balance	**-1,055**	**-3,283**	**-3,896**	**-3,106**	**-1,081**	**172**
Public financial corporations						
AASB 1049 net operating balance	*176*	*203*	*172*	*179*	*292*	*326*
Less GFS expense adjustments						
Dividends	116	112	210	166	119	124
Total GFS expense adjustments	*116*	*112*	*210*	*166*	*119*	*124*
Total GFS adjustments to AASB 1049 net operating balance	*-116*	*-112*	*-210*	*-166*	*-119*	*-124*
GFS net operating balance	**60**	**90**	**-38**	**12**	**172**	**202**
Total public sector						
AASB 1049 net operating balance	*-464*	*-3,082*	*-3,998*	*-3,228*	*-1,043*	*409*
Plus GFS revenue adjustments						
Capital grants - prepaid road grants	*-499*	-	173	*161*	*166*	-
Total GFS revenue adjustments	-499	-	173	161	166	-
Less GFS expense adjustments						
Capitalised interest	33	22	21	27	32	34
Dampier to Bunbury Natural Gas Pipeline - extinguish loan asset	-	88	88	-	-	-
Total GFS expense adjustments	*33*	*110*	*109*	*27*	*32*	*34*
Total GFS adjustments to AASB 1049 net operating balance	*-532*	*-110*	*64*	*134*	*134*	*-34*
GFS net operating balance	**-996**	**-3,192**	**-3,934**	**-3,094**	**-909**	**374**

Note: Columns may not add due to rounding.

AASB 1049 TO GFS CONVERGENCE DIFFERENCES (CONT.)

Net Lending/-Borrowing

	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
General government						
AASB 1049 net lending/-borrowing	*-1,809*	*-3,628*	*-4,161*	*-4,001*	*-2,244*	*368*
Plus Net operating balance convergence difference (noted above)	-499	-88	85	161	166	-
GFS net lending/-borrowing	**-2,308**	**-3,716**	**-4,077**	**-3,841**	**-2,078**	**368**
Public non-financial corporations						
AASB 1049 net lending/-borrowing	*196*	*-1,055*	*-364*	*-145*	*-191*	*101*
Plus Net operating balance convergence difference (noted above)	*-1,175*	*-923*	*-1,179*	*-1,012*	*-1,112*	*-1,149*
GFS net lending/-borrowing	**-979**	**-1,977**	**-1,544**	**-1,157**	**-1,303**	**-1,048**
Total non-financial public sector						
AASB 1049 net lending/-borrowing	*-2,755*	*-5,583*	*-5,684*	*-5,131*	*-3,516*	*-645*
Plus Net operating balance convergence difference (noted above)	-532	-110	64	134	134	-34
GFS net lending/-borrowing	**-3,287**	**-5,693**	**-5,620**	**-4,997**	**-3,382**	**-680**
Public financial corporations						
AASB 1049 net lending/-borrowing	*178*	*207*	*177*	*185*	*299*	*334*
Plus Net operating balance convergence difference (noted above)	*-116*	*-112*	*-210*	*-166*	*-119*	*-124*
GFS net lending/-borrowing	**62**	**95**	**-33**	**19**	**179**	**210**
Total public sector						
AASB 1049 net lending/-borrowing	*-2,693*	*-5,489*	*-5,717*	*-5,112*	*-3,336*	*-436*
Plus Net operating balance convergence difference (noted above)	-532	-110	64	134	134	-34
GFS net lending/-borrowing	**-3,225**	**-5,598**	**-5,653**	**-4,978**	**-3,202**	**-470**

Note: Columns may not add due to rounding.

AASB 1049 TO GFS CONVERGENCE DIFFERENCES (CONT.)

Net Worth at 30 June

	2015 Actual $m	2016 Budget Estimate $m	2016 Mid-year Revision $m	2017 Mid-year Revision $m	2018 Mid-year Revision $m	2019 Mid-year Revision $m
<u>General government</u>						
AASB1049 net worth	*121,299*	*117,510*	*120,718*	*120,364*	*122,163*	*125,498*
Plus						
Dampier to Bunbury Natural Gas Pipeline loan asset	88	-	-	-	-	-
Provision for doubtful debts						
General government sector	236	216	235	235	235	235
Impact on public corporations net worth	25	16	28	28	28	32
Impact of Road grants prepayments	-499	-	-326	-166	-	-
Total GFS net worth adjustments	*-150*	*232*	*-63*	*98*	*264*	*268*
GFS net worth	**121,149**	**117,742**	**120,655**	**120,461**	**122,427**	**125,765**
<u>Public non-financial corporations</u>						
AASB1049 net worth	*54,291*	*53,445*	*55,547*	*57,016*	*58,312*	*59,600*
Plus						
Impact of general government equity injections	-6,891	-7,810	-7,653	-8,123	-8,582	-8,975
Provision for doubtful debts	25	16	27	27	27	31
Total GFS net worth adjustments	*-6,866*	*-7,794*	*-7,626*	*-8,096*	*-8,556*	*-8,944*
GFS net worth	**47,425**	**45,651**	**47,921**	**48,920**	**49,756**	**50,656**
<u>Total non-financial public sector</u>						
AASB1049 net worth	*121,299*	*117,510*	*120,718*	*120,364*	*122,163*	*125,498*
Plus						
Dampier to Bunbury Natural Gas Pipeline loan asset	88	-	-	-	-	-
Provision for doubtful debts						
Total non-financial public sector	261	232	262	262	262	266
Impact on public corporations net worth	-	-	2	2	2	2
Impact of Road grants prepayments	-499	-	-326	-166	-	-
Total GFS net worth adjustments	*-150*	*232*	*-63*	*98*	*264*	*268*
GFS net worth	**121,149**	**117,742**	**120,655**	**120,461**	**122,427**	**125,765**
<u>Public financial corporations</u>						
AASB1049 net worth	*2,010*	*2,031*	*2,037*	*2,049*	*2,224*	*2,429*
Plus						
Provision for doubtful debts	-	-	2	2	2	2
Total GFS net worth adjustments	*-*	*-*	*2*	*2*	*2*	*2*
GFS net worth	**2,010**	**2,031**	**2,038**	**2,050**	**2,226**	**2,431**
<u>Total public sector</u>						
AASB1049 net worth	*121,299*	*117,510*	*120,718*	*120,364*	*122,163*	*125,498*
Plus						
Dampier to Bunbury Natural Gas Pipeline loan asset	88	-	-	-	-	-
Provision for doubtful debts	261	232	263	264	264	268
Impact of Road grants prepayments	-499	-	-326	-166	-	-
Total GFS net worth adjustments	*-150*	*232*	*-63*	*98*	*264*	*268*
GFS net worth	**121,149**	**117,742**	**120,655**	**120,461**	**122,427**	**125,765**

Note: Columns may not add due to rounding.

AASB 1049 TO GFS CONVERGENCE DIFFERENCES (CONT.)

Change in Net Worth

	2015 Actual $m	2016 Budget Estimate $m	2016 Mid-year Revision $m	2017 Mid-year Revision $m	2018 Mid-year Revision $m	2019 Mid-year Revision $m
General government						
AASB1049 change in net worth	*4,472*	*104*	*-581*	*-355*	*1,800*	*3,334*
Plus change in:						
Dampier to Bunbury Natural Gas Pipeline loan asset	-	-88	-88	-	-	-
Provision for doubtful debts						
General government sector	20	-	-	-	-	-
Impact on public corporations net worth	-17	1	3	-	-	4
Impact of Road grants prepayments	-499	-	173	161	166	-
Total GFS change in net worth adjustments	*-497*	*-87*	*87*	*161*	*166*	*4*
GFS change in net worth	**3,975**	**16**	**-494**	**-194**	**1,965**	**3,338**
Public non-financial corporations						
AASB1049 change in net worth	*3,640*	*1,425*	*1,256*	*1,469*	*1,295*	*1,288*
Plus change in:						
Impact of general government equity injections	-518	-686	-761	-470	-459	-392
Provision for doubtful debts	-8	1	2	-	-	4
Total GFS change in net worth adjustments	*-526*	*-685*	*-760*	*-470*	*-459*	*-388*
GFS change in net worth	**3,114**	**740**	**497**	**999**	**836**	**900**
Total non-financial public sector						
AASB1049 change in net worth	*4,472*	*104*	*-581*	*-355*	*1,800*	*3,334*
Plus change in:						
Dampier to Bunbury Natural Gas Pipeline loan asset	-	-88	-88	-	-	-
Provision for doubtful debts						
Total non-financial public sector	11	1	1	-	-	4
Impact on public corporations net worth	-9	-	2	-	-	-
Impact of Road grants prepayments	-499	-	173	161	166	-
Total GFS change in net worth adjustments	*-497*	*-87*	*87*	*161*	*166*	*4*
GFS change in net worth	**3,975**	**16**	**-494**	**-194**	**1,965**	**3,338**
Public financial corporations						
AASB1049 change in net worth	*223*	*90*	*27*	*12*	*176*	*205*
Plus change in:						
Provision for doubtful debts	-9	-	2	-	-	-
Total GFS change in net worth adjustments	*-9*	*-*	*2*	*-*	*-*	*-*
GFS change in net worth	**214**	**90**	**29**	**12**	**176**	**205**
Total public sector						
AASB1049 change in net worth	*4,472*	*104*	*-581*	*-355*	*1,800*	*3,334*
Plus change in:						
Dampier to Bunbury Natural Gas Pipeline loan asset	-	-88	-88	-	-	-
Provision for doubtful debts	2	1	3	-	-	4
Impact of Road grants prepayments	-499	-	173	161	166	-
Total GFS change in net worth adjustments	*-497*	*-87*	*87*	*161*	*166*	*4*
GFS change in net worth	**3,975**	**16**	**-494**	**-194**	**1,965**	**3,338**

Note: Columns may not add due to rounding.

AASB 1049 TO GFS CONVERGENCE DIFFERENCES (CONT.)

Cash Surplus/-Deficit

	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
General government						
AASB 1049 cash surplus/-deficit	*-1,493*	*-4,042*	*-4,087*	*-3,991*	*-2,051*	*131*
Less Acquisitions under finance leases and similar arrangements	80	5	234	79	476	61
GFS cash surplus/-deficit	**-1,573**	**-4,047**	**-4,321**	**-4,070**	**-2,526**	**70**
Public non-financial corporations						
AASB 1049 cash surplus/-deficit	*-1,066*	*-1,238*	*-1,650*	*-1,011*	*-1,306*	*-1,150*
Less Acquisitions under finance leases and similar arrangements	-	-	-	-	-	-
GFS cash surplus/-deficit	**-1,066**	**-1,238**	**-1,650**	**-1,011**	**-1,306**	**-1,150**
Total non-financial public sector						
AASB 1049 cash surplus/-deficit	*-2,560*	*-5,280*	*-5,737*	*-5,002*	*-3,356*	*-1,018*
Less Acquisitions under finance leases and similar arrangements	80	5	234	79	476	62
GFS cash surplus/-deficit	**-2,639**	**-5,285**	**-5,972**	**-5,081**	**-3,832**	**-1,080**
Public financial corporations						
AASB 1049 cash surplus/-deficit	*59*	*190*	*84*	*285*	*450*	*502*
Less Acquisitions under finance leases and similar arrangements	-	-	-	-	-	-
GFS cash surplus/-deficit	**59**	**190**	**84**	**285**	**450**	**502**
Total public sector						
AASB 1049 cash surplus/-deficit	*-2,500*	*-5,090*	*-5,653*	*-4,716*	*-2,906*	*-516*
Less Acquisitions under finance leases and similar arrangements	80	5	234	79	476	62
GFS cash surplus/-deficit	**-2,580**	**-5,095**	**-5,888**	**-4,795**	**-3,382**	**-578**

Note: Columns may not add due to rounding.

NOTE 7: LOAN COUNCIL ALLOCATION

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 cash deficit position[1].

An LCA deficit of $5.6 billion is forecast for 2015-16, $802 million higher than the budget-time projection of $4.8 billion. This revision is driven by:

- a larger than anticipated cash deficit for the consolidated total non-financial public sector (up $457 million), with a larger cash deficit from operating activities (up $578 million) partly offset by lower net cash flows from investments in non-financial assets (down $121 million);
- higher acquisitions under finance leases and similar arrangements (up $229 million), largely reflecting a delay in the completion of the Eastern Goldfields Regional Prison (from 2014-15); and
- a $230 million increase in forecast Keystart borrowings in 2015-16 (compared to the $123 million increase forecast at budget-time), largely reflecting a lower than anticipated borrowings outcome recorded for 2014-15 (down $107 million);

Detailed financial projections are discussed in more detail in Chapter 1 of this report.

An LCA deficit of $4.8 billion is forecast for 2016-17 ($1.1 billion lower than the expected outturn for 2015-16). The lower LCA nomination for 2016-17 primarily reflects:

- a lower cash deficit for the total non-financial public sector (down $735 million), mainly due to a lower deficit for the public non-financial corporations sector (down $639 million), reflecting changes to the outlook discussed in Chapter 1;
- lower memorandum items (down $203 million), due mainly to moderating home lending activity relative to 2015-16;
- lower acquisitions under finance leases and similar arrangements (down $155 million), largely due to the completion of the Eastern Goldfields Regional Prison in 2015-16, partly offset by the Western Australian Schools Public Private Partnership (detailed in Chapter 1).

[1] For the purposes of LCAs, deficits are positive and surpluses are negative.

LOAN COUNCIL ALLOCATION

Western Australia

	2015-16 Budget Estimate	2015-16 Mid-year Revision	2016-17 Nomination
General government cash surplus/deficit	4,042	4,087	3,991
Public non-financial corporations sector cash surplus/deficit	1,238	1,650	1,011
Total non-financial public sector cash surplus/deficit	*5,280*	*5,737*	*5,002*
Acquisitions under finance leases and simlar arrangements	5	234	79
GFS cash surplus/deficit	*5,285*	*5,972*	*5,081*
Less: Non-financial public sector net cash flow s from investments in financial assets for policy purposes	-	-	-
Plus: Memorandum items [(a)]	-494	-378	-581
Loan Council Allocation	**4,791**	**5,594**	**4,500**
Tolerance Limit [(b)]			*907*

(a) 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 sector superannuation schemes).

(b) The tolerance limit is set at 2% of total non-financial public sector operating receipts 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.

APPENDIX 2

General Government Operating Revenue

This appendix contains estimates of general government operating revenue prepared on an accrual basis consistent with Australian Accounting Standards and Government Finance Statistics frameworks.

Table 2.1

OPERATING REVENUE

General Government

	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
TAXATION						
Taxes on employers' payroll and labour force						
Payroll tax	*3,602*	*3,997*	*3,697*	*3,825*	*4,039*	*4,266*
Property taxes						
Land tax	*744*	*939*	*949*	*998*	*1,048*	*1,100*
Transfer duty	1,598	1,614	1,441	1,461	1,511	1,577
Landholder duty	101	118	105	107	108	113
Total duty on transfers	*1,699*	*1,732*	*1,546*	*1,568*	*1,620*	*1,690*
Metropolitan Region Improvement Tax	93	98	101	106	118	124
Perth Parking Levy	48	57	57	58	60	60
Emergency Services Levy	274	306	307	325	341	340
Loan guarantee fees	119	163	135	151	163	174
Total other property taxes	*534*	*624*	*600*	*640*	*682*	*697*
Taxes on provision of goods and services						
Lotteries Commission	152	162	162	170	178	186
Video lottery terminals	-	1	1	1	1	1
Casino tax	110	81	81	84	86	87
Betting tax	42	45	45	46	47	49
Other	-	-	-	-	-	-
Total taxes on gambling	*305*	*289*	*289*	*301*	*312*	*323*
Insurance duty	604	660	587	643	682	722
Other	31	21	21	22	23	23
Total taxes on insurance	*635*	*682*	*609*	*665*	*704*	*745*
Taxes on use of goods and performance of activities						
Vehicle licence duty	363	395	351	358	366	374
Permits - oversize vehicles and loads	7	9	8	8	8	8
Motor vehicle recording fee	58	54	54	58	59	61
Motor vehicle registrations	848	879	879	925	972	1,024
Total motor vehicle taxes	*1,277*	*1,337*	*1,291*	*1,348*	*1,405*	*1,466*
Mining Rehabilitation Levy	*27*	*51*	*27*	*27*	*27*	*27*
Landfill Levy	*59*	*104*	*104*	*105*	*108*	*108*
Total Taxation	**8,882**	**9,754**	**9,112**	**9,477**	**9,944**	**10,422**

Note: Columns may not add due to rounding.

Table 2.1 (cont.)

OPERATING REVENUE

General Government

	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
CURRENT GRANTS AND SUBSIDIES						
General Purpose Grants						
GST grants	2,258	1,934	1,896	2,133	3,291	5,342
North West Shelf grants	865	722	607	600	656	673
Commonw ealth compensation for changed crude oil excise arrangements	48	40	33	33	36	37
Grants Through the State						
Schools assistance – non-government schools	1,064	1,139	1,119	1,192	1,253	1,311
Local government financial assistance grants	262	176	87	177	187	197
Local government roads	162	108	54	108	112	117
National Specific Purpose Payment Agreement Grants						
National Agreement for Skills and Workforce Development	156	164	162	167	172	177
National Disability Services	151	163	161	169	178	187
National Affordable Housing	144	149	148	152	156	161
Students First	503	566	560	604	744	884
National Health Reform	1,750	1,928	1,813	1,955	2,072	2,187
Other Grants/National Partnerships						
Health	402	331	332	307	303	277
Housing	15	20	20	15	-	-
Transport	55	78	81	82	61	61
Other	216	220	247	189	130	89
Total Current Grants and Subsidies	**8,051**	**7,738**	**7,321**	**7,881**	**9,350**	**11,701**
CAPITAL GRANTS						
Grants Through the State						
Schools assistance – non-government schools	16	35	16	17	18	19
Other Grants/National Partnerships						
Housing	173	124	178	131	84	-
Transport	992	454	448	792	821	174
Other	82	38	62	27	3	-
Total Capital Grants	**1,263**	**651**	**703**	**966**	**926**	**192**

Note: Columns may not add due to rounding.

Table 2.1 (cont.)

OPERATING REVENUE

General Government

	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-year Revision $m	2016-17 Mid-year Revision $m	2017-18 Mid-year Revision $m	2018-19 Mid-year Revision $m
SALES OF GOODS AND SERVICES						
WA Health	545	564	564	596	617	634
Department of Transport	173	180	183	179	182	186
Department of Education	167	159	159	161	161	161
State Training Providers	145	173	157	164	166	168
Department of Training and Workforce Development	52	57	52	52	52	52
Western Australian Land Information Authority	128	139	131	153	150	160
Department of Parks and Wildlife	39	40	40	41	41	41
Department of the Attorney General	94	105	105	109	109	109
Department of Commerce	104	122	114	93	90	90
Department of Mines and Petroleum	52	69	74	75	74	74
All Other	607	736	589	642	727	794
Total Sale of Goods and Services	**2,105**	**2,342**	**2,168**	**2,263**	**2,368**	**2,467**
INTEREST INCOME	**185**	**174**	**171**	**174**	**176**	**190**
REVENUE FROM PUBLIC CORPORATIONS						
Dividends	1,187	945	1,299	1,034	1,131	1,170
Tax Equivalent Regime	592	527	546	555	613	639
Total Revenue from Public Corporations	**1,779**	**1,472**	**1,846**	**1,590**	**1,744**	**1,810**
ROYALTY INCOME	**4,603**	**3,670**	**3,788**	**3,632**	**3,998**	**4,293**
OTHER						
Lease rentals	89	88	88	90	90	90
Fines	188	205	205	198	197	197
Revenue not elsewhere counted	255	229	216	206	210	192
Total Other	**532**	**523**	**509**	**495**	**497**	**479**
TOTAL REVENUE	**27,400**	**26,325**	**25,617**	**26,477**	**29,002**	**31,554**

Note: Columns may not add due to rounding.

APPENDIX 3

Major Spending Changes

Spending changes detailed in this appendix include:

- all material decisions made between the 21 April 2015 cut-off date for the 2015-16 Budget and the 30 November 2015 cut-off date for this Mid-year Review; and
- other changes of a material nature affecting agency spending over the forward estimates period[1]. These include the impact of issues such as variations in Commonwealth-funded programs, higher cost and demand for government services, and depreciation.

Changes relating purely to timing are not included in this appendix as they are broadly net debt-neutral across the forward estimates period. Any material timing changes are discussed in Chapter 1.

[1] For general government expenses, materiality is determined in dollar terms - adjustments to forecast recurrent costs for the State's largest department, WA Health, are only included if they exceed $10 million in any one year. For agencies with an expense base of less than $100 million per annum, any change in excess of $1 million is included. For changes in infrastructure spending, a change in annual spending in excess of 1% or $1 million in a year (whichever is larger) is considered material for the purposes of disclosure in this appendix.

Savings Measures

The following sector-wide savings measures have been reflected in this Mid-year Review and are discussed in Chapter 1. Specific agency financial impacts are shown in the agency disclosures later in this appendix.

Reduction in Indexation for Non-Salaries Expenses

The Government has endorsed a reduction in the rate of indexation for non-salary expenses, from the projected increase in the CPI (2% in 2016-17 and 2.5% per annum in 2017-18 and 2018-19), to a flat 1% per year, with savings totalling $185.3 million over the forward estimates period. This measure has been applied to general government sector appropriation-funded agencies with the exception of hospital activity for the Department of Health and the Mental Health Commission, the Department of Education's 2016-17 Student Centred Funding Model, Streamlined Budget Process agencies, and Non-Government Human Services Sector indexation funding. Specific agency impacts are detailed in their respective tables.

General Government Sector Recruitment Freeze

In order to achieve targeted growth in salaries expenditure, the Government has endorsed a six month recruitment freeze across the general government sector, to commence immediately.

Under this arrangement, no new permanent recruitment (including promotions) and no new employees into the sector are permitted until 30 June 2016. Exemptions have been provided for teachers to be recruited for the 2016 school year, police officers to be recruited as part of the election commitment to deliver an extra 550 officers by July 2017, and finite project-based positions that are capitalised against a project.

Specific savings are not being harvested from agencies' budgets as a result of this measure. However, the freeze will assist in achieving the $120 million per annum salaries underspend provision incorporated in the forward estimates.

2014-15 Targeted Voluntary Separation Scheme (TVSS) Savings

In October 2014, the Government announced a TVSS for up to 1,500 public sector employees, with a provision of $134 million allocated in the 2014-15 Mid-year Review. The scheme was finalised and all separations concluded by 30 June 2015, resulting in 1,362 voluntary separations at a one-off salaries cost of $98.5 million in 2014-15 (published in the 2014-15 *Annual Report on State Finances*).

A total of 19 agencies participated in the scheme, including four agencies which took part to assist in addressing surplus staff from the unallocated pool (100 separations). The savings achieved through the scheme total $404.1 million over four years, which is lower than the $480 million target savings provision, due to the lower take up of separations. The 1,362 separations achieved in this scheme bring the total number of staff that have left the public sector over the five rounds of voluntary separations since 2009 to 3,612.

TARGETED VOLUNTARY SEPARATIONS AGENCY SAVINGS
2015-16 and Forward Estimates

Agency	Target Number	Actual Separations Number	Savings 2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m	Total Saving $m
Education	200	271	-20.7	-21.2	-21.8	-22.3	-86.0
State Training Providers	200	200	-20.2	-20.7	-21.2	-21.7	-83.8
Corrective Services	100	96	-10.3	-10.6	-10.9	-11.1	-42.9
WA Health (a)	500	419	-9.6	-9.8	-10.1	-10.3	-39.8
Agriculture and Food	100	100	-9.2	-9.4	-9.7	-9.9	-38.2
Parks and Wildlife	50	50	-4.1	-4.2	-4.3	-4.4	-17.0
Finance	30	36	-3.7	-3.8	-3.9	-4.0	-15.6
Western Australia Police	40	41	-3.5	-3.5	-3.6	-3.7	-14.4
Child Protection and Family Support	40	31	-2.9	-3.0	-3.1	-3.2	-12.2
Transport	30	31	-2.8	-2.9	-3.0	-3.1	-11.8
Attorney General	30	1	-2.7	-2.8	-2.8	-2.9	-11.2
Main Roads WA	20	20	-2.1	-2.2	-2.2	-2.3	-8.7
Commerce	20	22	-2.1	-2.1	-2.2	-2.2	-8.6
Disability Services Commission	30	27	-2.0	-2.0	-2.1	-2.1	-8.2
Culture and the Arts	10	12	-0.9	-0.9	-0.9	-0.9	-3.6
Unallocated	100						
Industrial Relations Commission	-	1	-0.1	-0.2	-0.2	-0.2	-0.6
Pilbara Development Commission	-	1	-0.2	-0.2	-0.2	-0.2	-0.6
Treasury	-	1	-0.2	-0.2	-0.2	-0.2	-0.6
Mental Health Commission (Drug and Alcohol Office)	-	2	- (b)	- (b)	- (b)	- (b)	-0.2
Total	**1,500**	**1,362**	**-97.3**	**-99.7**	**-102.2**	**-104.7**	**-404.1**

(a) Non-hospital services only.

(b) Amount less than $50,000.

Specific agency impacts are also detailed in their respective tables.

Asset Investment Program Efficiencies

To reflect highly competitive conditions in the engineering and construction sectors, flat or declining non-residential building costs and subdued population growth, a further 5% asset investment efficiency target will be applied to selected agencies' asset investment programs over the period 2016-17 to 2018-19.

Exclusions from the efficiency target include:

- projects subject to contract;
- projects partly or wholly funded by the Commonwealth or Royalties for Regions;
- agencies primarily engaged in 'trading stock' such as land development activities;
- agencies with asset investment programs below $1 million in any one year; and
- agencies subject to the Streamlined Budget Process in 2015-16.

The savings from this measure are estimated to be $96.2 million over 2016-17 to 2018-19. Specific agency impacts are detailed in their respective tables.

Some project-specific deferrals have also been approved. It is estimated that these deferrals will lead to savings of $157 million by 2018-19. Specific agency impacts are detailed in their respective tables.

Non-Government Human Services Sector (NGHSS) Indexation Funding

The Government has approved an amendment to the NGHSS indexation policy. From 1 July 2016, indexation for applicable human service contracts with non-government organisations will commence a glide path reduction from the current blended rate (80% WPI/20% CPI) to CPI by 1 July 2018 (stepped down over two years). This change is estimated to avoid around $30.4 million in costs over the forward estimates period.

Major Spending Changes (by Portfolio)

PARLIAMENT

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
LEGISLATIVE ASSEMBLY				
Expenses				
Salaries and Allowances Tribunal Determination	0.6	1.5	0.3	0.4
LEGISLATIVE COUNCIL				
Expenses				
Salaries and Allowances Tribunal Determination	0.4	0.8	0.3	0.3

Legislative Assembly

Expenses

Salaries and Allowances Tribunal Determination

On 23 June 2015, the Salaries and Allowances Tribunal made changes to the payment of allowances to Members of the Legislative Assembly. These changes are mainly attributable to increases in electoral allowances and settlement entitlements in 2016-17 for the State General Election and require an additional $2.8 million to be spent over the forward estimates period.

Legislative Council

Expenses

Salaries and Allowances Tribunal Determination

On 23 June 2015, the Salaries and Allowances Tribunal made changes to the payment of allowances to Members of the Legislative Council. These changes are mainly attributable to increases in electoral allowances and settlement entitlements in 2016-17 for the State General Election and require an additional $1.8 million to be spent over the forward estimates period.

PREMIER; MINISTER FOR STATE DEVELOPMENT; SCIENCE

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
PREMIER AND CABINET				
Expenses				
Royalties for Regions – Science and Agribusiness Connect Program	1.0	1.0	1.0	0.4
GOLD CORPORATION				
Asset Investment				
Asset Investment Efficiency	-	-0.1	-0.1	-0.1
LOTTERIES COMMISSION				
Asset Investment				
Asset Investment Efficiency	-	-0.2	-0.1	-0.1
Office Fit-out Works	-	0.5	-	-
Reversal of Building Maintenance	-1.1	-1.0	-0.5	-0.5
STATE DEVELOPMENT				
Expenses				
Port of Dampier Subsidy Adjustment	-3.4	-	-	-

Premier and Cabinet

Expenses

Royalties for Regions – Science and Agribusiness Connect Program

Royalties for Regions will provide $3.4 million over the forward estimates period on the Science and Agribusiness Connect program. This comprises an Agriculture and Food Fellowship Program, Tertiary Program and Premier's Agriculture and Aquaculture Entrepreneurship Program, which focus on building the capability of the agricultural science sector, improving agricultural practices and developing the State's research excellence in agricultural science.

Lotteries Commission

Asset Investment

Office Fit-out Works

An additional $460,000 has been approved to complete office fit-out works in 2016-17 to ensure new office accommodation meets Lotterywest's requirements. Lotterywest will be moving its headquarters to leased accommodation and the existing owned buildings subsequently sold.

Reversal of Building Maintenance

As part of Lotterywest's new accommodation strategy, $3.1 million relating to building maintenance expenditure is no longer required.

State Development

Expenses

Port of Dampier Subsidy Adjustment

A $3.4 million reduction in subsidy payments to the Pilbara Ports Authority (which are administered by the Department) will occur in 2015-16 to reflect lower than forecast interest payments in respect of the Port of Dampier's bulk liquids berth.

DEPUTY PREMIER; MINISTER FOR HEALTH; TOURISM

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
WA HEALTH				
Expenses				
Targeted Voluntary Separation Scheme Savings – Non-Hospital Services	-9.6	-9.8	-10.1	-10.3
Reduction in Indexation for Non-Salary Expenses – Non-Hospital Services	-	-4.1	-8.0	-12.6
Voluntary Separation Payments – Swan District Hospital	18.6	-	-	-
Staff Transition Payments – Swan District Hospital	6.8	-	-	-
Regional Services Reform Unit	-1.3	-1.3	-1.5	-
Decommissioning Costs – Swan District Hospital	3.6	-	-	-
Asset Investment				
Asset Investment Efficiency	-	-2.9	-2.0	-1.4
Osborne Park Hospital – Reconfiguration Stage 1	-	-	-	-26.0
Fremantle Hospital – Reconfiguration Stage 1	-	-	-9.4	0.7
Kalamunda Hospital Redevelopment	-	-	-0.4	-7.1

WA Health

Expense

Voluntary Separation Payments – Swan District Hospital

Up to an additional $18.6 million will be spent in 2015-16 on voluntary separation payments for up to 313 full-time equivalent staff within WA Health, following the closure of Swan District Hospital and the commissioning of the new Midland Public Hospital.

The timeframe for the whole-of-government 2014-15 Targeted Voluntary Separation Scheme did not align to the timing of closure of the Swan District Hospital in 2015-16, necessitating the provision of a new separation scheme in the current financial year.

Staff Transition Payments – Swan District Hospital

Up to an additional $6.8 million will be spent in 2015-16 on transition payments for Swan District Hospital employees being redeployed to the new Midland Public Hospital. The Public Sector Management (Redeployment and Redundancy) Regulations 2014 provide for transition payments to be made to employees redeployed to positions outside the public sector.

Regional Services Reform Unit

Expenditure of $4.1 million from 2015-16 to 2017-18 will be reprioritised towards meeting the costs of establishing the Regional Services Reform Unit (RSRU). The reduction in expenditure by WA Health will be offset by an increase in expenditure by the Department of Regional Development. The RSRU will aim to improve economic and social outcomes for regional and remote communities.

Decommissioning Costs – Swan District Hospital

An additional $3.6 million will be spent in 2015-16 on decommissioning and relocation activities associated with the closure of the Swan District Hospital, and opening of the new Midland Public Hospital on 25 November 2015. This includes costs associated with the shutdown and transportation of equipment and plants, security staff and other closing of business costs.

Asset Investment

Osborne Park Hospital – Reconfiguration Stage 1

Expenditure totalling $26 million for the Osborne Park Hospital Reconfiguration has been deferred from 2018-19 to beyond the forward estimates period. WA Health is in the process of reviewing its master plans that underpin the reconfiguration of the hospital.

Fremantle Hospital – Reconfiguration Stage 1

Expenditure totalling $10.2 million for the Fremantle Hospital Reconfiguration has been deferred from 2017-18 and 2018-19 to beyond the forward estimates period. The reconfiguration is linked to the movement of functions to Fiona Stanley Hospital and WA Health is in the process of reviewing its master plans.

Kalamunda Hospital Redevelopment

Expenditure totalling $7.6 million for the Kalamunda Hospital Redevelopment has been deferred from 2017-18 and 2018-19 to beyond the forward estimates period. WA Health is currently preparing a business case for the project.

MINISTER FOR REGIONAL DEVELOPMENT; LANDS; MINISTER ASSISTING THE MINISTER FOR STATE DEVELOPMENT

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
REGIONAL DEVELOPMENT				
Expenses				
Regional Services Reform Unit	6.7	6.9	7.9	-
Royalties for Regions – Various Projects	-24.2	-33.7	-11.1	-4.5
Royalties for Regions – Ageing in the Bush	20.2	-	-	-
Royalties for Regions – Golden Mile Loopline Railway	3.7	-	-	-
Royalties for Regions – Seabird Beach Erosion	2.0	-	-	-
Royalties for Regions – Ray Finlayson Sporting Complex	6.0	-	-	-
Asset Investment				
Royalties for Regions – Asset Investment Expenditure	-0.4	-8.2	-50.5	-
GOLDFIELDS-ESPERANCE DEVELOPMENT COMMISSION				
Expenses				
Royalties for Regions – Goldfields Esperance Revitalisation Unit	0.4	0.8	0.8	0.8
GREAT SOUTHERN DEVELOPMENT COMMISSION				
Expenses				
Royalties for Regions – Production of Breath	1.5	-	-	-
PILBARA DEVELOPMENT COMMISSION				
Expenses				
Targeted Voluntary Separation Scheme Savings	-0.2	-0.2	-0.2	-0.2
LANDS				
Expenses				
Finalising the Closure of Wittenoom	-	3.4	1.4	-
Pastoral Lease Renewal Program Compensation	-	8.5	0.8	-
Royalties for Regions – Modernising the Framework of Western Australia's Crown Land	1.0	1.0	-	-
WESTERN AUSTRALIAN LAND AUTHORITY				
Asset Investment				
Revised Financial Forecasts	-58.9	-36.8	-41.3	-28.3
Royalties for Regions – Acquisition of Land – Lot 601 Marine Terrace Geraldton	5.6	-	-	-
Bassendean Activity Centre Redevelopment	0.2	0.5	1.9	15.3
Strategic Utilisation of the Metropolitan Region Improvement Fund	16.5	10.3	9.0	7.5
WESTERN AUSTRALIAN LAND INFORMATION AUTHORITY				
Expenses				
Subdued Property Market	-5.4	-	-	-
Asset Investment				
Asset Investment Efficiency	-	-0.9	-0.9	-0.8
ROYALTIES FOR REGIONS – REGIONAL AND STATE-WIDE INITIATIVES				
Expenses				
Royalties for Regions – Regional and State-wide Initiatives	-1.8	-2.0	-2.5	-2.4
Asset Investment				
Royalties for Regions – Regional and State-wide Initiatives	-10.8	-13.0	-17.5	-

Regional Development

Expenses

Regional Services Reform Unit

The Government has approved spending of $21.5 million from 2015-16 to 2017-18 on the establishment of a Regional Services Reform Unit to support the development and implementation of the Regional and Remote Human Services and Infrastructure Strategy. Royalties for Regions will fund half of the establishment costs of the Reform Unit. The other half of the Unit is funded through a reallocation of appropriation from the following human service delivery agencies: Aboriginal Affairs, Child Protection and Family Support, Corrective Services, Education, Health, Housing Authority, Local Government and Communities, Training and Workforce Development, and Western Australia Police.

Royalties for Regions – Various Projects

Expenditure of $73.5 million, over four years, relating to a range of projects (such as the Kalbarri Skywalk and National Park infrastructure and the Department of Agriculture and Food's Research and Development Fund) has been transferred to other State government agencies from the Department of Regional Development since the 2015-16 Budget. There is no impact on the State's financial position as provision for this expenditure was included in the 2015-16 Royalties for Regions program.

Royalties for Regions – Ageing in the Bush

An amount of $20.2 million will be spent in 2015-16 to support seven aged accommodation projects in the South West that will support the retention and attraction of older people and their families in the region. Aged care facilities will be constructed to cater for over 100 additional people, who require independent living units, suffer from dementia or require high care. It will also contribute to the purchase of 54 lots for future aged care facilities.

Royalties for Regions – Golden Mile Loopline Railway

An amount of $3.7 million has been provided to the Golden Mile Loopline Railway Society Inc to support the construction of a tourism railway track and associated infrastructure to connect the Superpit lookout and the WA Museum in Kalgoorlie.

Royalties for Regions – Seabird Beach Erosion

The Government has provided $2 million to the Shire of Gingin to undertake coastal engineering works to stabilise a section of the beachfront at Seabird and save properties at risk.

Royalties for Regions – Ray Finlayson Sporting Complex

An amount of $6 million has been provided to the City of Kalgoorlie-Boulder to assist with the construction of a multi-purpose sport and recreation pavilion to cater for a range of sports at the Ray Finlayson Sporting Complex.

Asset Investment

Royalties for Regions – Asset Investment Expenditure

Expenditure of $59.1 million, over three years, relating to various projects has been transferred to other State government agencies from the Department of Regional Development since the 2015-16 Budget. There is no impact on the State's financial position as provision for this expenditure was included in the 2015-16 Royalties for Regions program.

Goldfields-Esperance Development Commission

Expenses

Royalties for Regions – Goldfields Esperance Revitalisation Unit

An amount of $2.7 million, over four years, will be spent to assist the Goldfields Esperance Revitalisation Unit. The funding will be allocated towards business case development, independent due diligence assessment of business cases, project development and management, and project concept development.

Great Southern Development Commission

Expenses

Royalties for Regions – Production of Breath

An amount of $1.5 million will be spent in 2015-16 to meet part of the costs associated with the production of the film *Breath* in the Great Southern region.

Lands

Expenses

Finalising the Closure of Wittenoom

Increased expenditure of $4.8 million over 2016-17 and 2017-18 is required for compensation payments relating to the acquisition of all remaining freehold lots in the former townsite of Wittenoom, and for the safe demolition and removal of all remaining buildings and infrastructure in the area.

Pastoral Lease Renewal Program Compensation

Following completion of the 2015 pastoral renewal program, an additional $9.3 million will be spent on compensation to eligible pastoral lessees under the *Land Administration Act 1997*, and to remove hazardous structures on non-renewed pastoral lands.

Royalties for Regions – Modernising the Framework of Western Australia's Crown Land

The Government has approved additional spending of $2.1 million over 2015-16 to 2016-17 for updating and amending the *Land Administration Act 1997* to create efficiencies in land administration, and boost regional and industry development.

Western Australian Land Authority (LandCorp)

Asset Investment

Revised Financial Forecasts

LandCorp has made significant revisions to its financial estimates involving changes to land sales, acquisitions and development expenditure. This includes a reduction of $165.3 million over four years to its asset investment program. Softening property market conditions across the metropolitan, regional and industry sectors have led to LandCorp implementing a range of initiatives. These include deferring development expenditure and acquisitions on a number of projects, progressing sales as part of its overall divestment strategy and undertaking a comprehensive review of its business operations in order to minimise the impact on State finances.

Royalties for Regions – Acquisition of Land – Lot 601 Marine Terrace Geraldton

A total of $5.6 million will be spent in 2015-16 to fund the acquisition of land, to be later developed to allow for an integrated city centre revitalisation project incorporating this land into the overall Batavia Coast Marina Precinct plans.

Bassendean Activity Centre Redevelopment

LandCorp will spend $17.9 million to 2018-19 on the redevelopment of the Bassendean Town Centre and oval site in line with the State Government's Activity Centre Policy. This investment will enhance and revitalise the town centre through a mix of new residential dwellings and improved community facilities.

Strategic Utilisation of the Metropolitan Region Improvement Fund

LandCorp will spend $16.5 million in 2015-16 to purchase various parcels of land from the Western Australian Planning Commission and invest a further $26.8 million to 2018-19 on associated land development. This includes high density residential and light industrial development.

Western Australian Land Information Authority (Landgate)

Expenses

Subdued Property Market

Landgate has reduced its forecast expenditure by $5.4 million to help mitigate the impact of reduced revenue from the subdued demand for land title management services. Areas of expenditure reduction include reprioritising contracts towards business reform projects, decreased premises costs (reflecting lower market rental rates), and reduced expenditure on new projects.

Royalties for Regions – Regional and State-wide Initiatives

Expenses

Royalties for Regions – Regional and State-wide Initiatives

Expenditure of $8.7 million, over four years, relating to various projects has been transferred to other State government agencies (such as the Department of Parks and Wildlife and the Department of Lands) from the Regional and State-wide Initiatives allocation since the 2015-16 Budget. There is no impact on the State's financial position as provision for this expenditure was included in the 2015-16 Royalties for Regions program.

Asset Investment

Royalties for Regions – Regional and State-wide Initiatives

Expenditure of $41.3 million, over three years, relating to various projects has been transferred to other State government agencies (such as the Department of Housing and the Water Corporation) from the Regional and State-wide Initiatives allocation since the 2015-16 Budget. There is no impact on the State's financial position as provision for this expenditure was included in the 2015-16 Royalties for Regions program.

MINISTER FOR EDUCATION; ABORIGINAL AFFAIRS; ELECTORAL AFFAIRS

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
EDUCATION				
Expenses				
Targeted Voluntary Separation Scheme Savings	-20.7	-21.2	-21.8	-22.3
Reduction in Indexation for Non-Salary Expenses	-	-6.0	-17.0	-28.6
Extension to the National Partnership Agreement on Universal Access to Early Childhood Education	5.6	46.6	33.2	-
Public Private Partnership Schools Project	-	4.0	10.4	15.9
2015 Semester 1 Enrolment Audit	-9.3	-9.3	-9.3	-9.3
Revitalisation of Public Secondary Schools in Geraldton	-	-	0.2	0.7
Asset Investment				
Asset Investment Efficiency	-	-5.5	-7.8	-4.8
Public Private Partnership Schools Project	-23.7	-80.2	-46.6	-72.5
Revitalisation of Public Secondary Schools in Geraldton	0.5	1.9	14.4	8.2
Extension to the National Partnership Agreement on Universal Access to Early Childhood Education – Facilities	8.3	-	-	-
EDUCATION SERVICES				
Expenses				
Low Interest Loan Scheme	-6.5	-7.0	-5.4	-4.2
Per Capita Grants to Non-Government Schools	-	22.9	26.1	42.2

Education

Expenses

Extension to the National Partnership Agreement on Universal Access to Early Childhood Education

An additional $85.4 million will be spent on continuing the provision of 15 hours per week of kindergarten to all age-eligible children in the 2016 and 2017 school years. The State Government currently funds 11 hours per week of kindergarten to Western Australian children. The additional expenditure reflects a two year extension of Commonwealth funding for four additional hours per week of kindergarten.

Public Private Partnership Schools Project

As previously announced, eight additional schools are being developed as a Public Private Partnership (PPP) with a design, build, finance and maintain model of delivery. This comprises four primary and four secondary schools, and the provision of facilities management services for 25 years from the delivery of the final school.

As the PPP has now achieved contractual and financial close, the previous published estimates, which reflected the delivery of the schools under the traditional procurement methodology, have been updated to reflect the appropriate accounting treatment of the PPP contract (see feature box in Chapter 1). The costs of the facility management services under the PPP are treated as expenses as they are incurred.

2015 Semester 1 Enrolment Audit

Expenditure will be reduced by $37.2 million across 2015-16 to 2018-19 to reflect a downward revision to student enrolments arising from the Semester 1, 2015 student enrolment audit. Funding per student under the Student Centred Funding Model remains unchanged.

Revitalisation of Public Secondary Schools in Geraldton

In addition to new asset investment expenditure of $25 million (see below), the Department will incur additional expenses of $0.9 million for the refurbishment and expansion of existing secondary school facilities in the Geraldton area.

Asset Investment

Public Private Partnership Schools Project

As noted above, eight additional schools are being developed as a PPP. As the PPP has now achieved contractual and financial close, the previous published estimates, which reflected the delivery of the schools under the traditional procurement methodology, have been updated to reflect the appropriate accounting treatment of the PPP contract. This results in a reduction of previously assumed asset investment expenditure, which will be offset by a finance lease liability on the State’s balance sheet (see feature box in Chapter 1).

Revitalisation of Public Secondary Schools in Geraldton

The Government has approved additional asset investment expenditure of $25 million from 2015-16 for the refurbishment and expansion of existing secondary school facilities in the Geraldton area. Spending will be allocated across John Willcock College and Geraldton Senior College.

Extension to the National Partnership Agreement on Universal Access to Early Childhood Education – Facilities

An additional $8.3 million in Commonwealth funding will be spent in 2015-16 on additional early childhood education facilities, including new and refurbished rooms. This investment will take place across approximately 90 school sites and will allow for more kindergarten students to be accommodated at their local public school.

Education Services

Expenses

Low Interest Loan Scheme

Interest expenses associated with the Low Interest Loan Scheme have been revised down by $23.1 million over the forward estimates period, reflecting a downward revision to interest rates applying to the Department’s borrowings from the Western Australian Treasury Corporation.

Per Capita Grants to Non-Government Schools

The Government has allocated an additional $91.2 million in per capita grants to non-government schools from 2016-17 to 2018-19. This will maintain the current level of recurrent grants for non-government schools at 26.08% of the forecast Average Government School Recurrent Cost (AGSRC) for the 2016 school year, and at 25% of the forecast AGSRC from 2017-18 onwards.

MINISTER FOR PLANNING; CULTURE AND THE ARTS

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
PLANNING				
Asset Investment				
Oakajee Narngulu Infrastructure Corridor	-10.3	-14.2	-15.0	-
METROPOLITAN REDEVELOPMENT AUTHORITY				
Expenses [(a)]				
Curtin Medical School	2.0	1.4	9.8	9.8
Asset Investment				
Revised Financial Forecasts	1.8	49.1	13.2	-11.9
WESTERN AUSTRALIAN PLANNING COMMISSION				
Expenses				
Injurious Affection Compensation Case	6.9	-	-	-
Asset Investment				
Acquisition of Land	-	-	-	-40.0
Strategic Utilisation of the Metropolitan Region Improvement Fund	50.0	-	-	-
CULTURE AND THE ARTS				
Expenses				
Targeted Voluntary Separation Scheme Savings	-0.9	-0.9	-0.9	-0.9
Reduction in Indexation for Non-Salary Expenses	-	-0.5	-1.1	-1.5
Agency Expenditure Review	4.5	-2.9	-1.0	-3.7
Asset Investment				
Asset Investment Efficiency	-	-0.1	-0.1	-
Agency Expenditure Review – Capital	-	-0.8	-1.0	-1.1

(a) Represented in general government expenses as grants and subsidies, sourced from the Consolidated Account and paid through the Department of Treasury.

Planning

Asset Investment

Oakajee Narngulu Infrastructure Corridor

This project has been deferred to beyond the forward estimates period, reflecting delays in the Oakajee port and rail project.

Metropolitan Redevelopment Authority

Expenses

Curtin Medical School

Funding of $22 million will be provided to Curtin University towards construction of a new medical school at Midland. A further $1 million will be spent by the Authority to fund project costs, including land assembly.

Asset Investment

Revised Financial Forecasts

The Authority has revised its financial forecasts for all its key projects, including Elizabeth Quay, Perth City Link, Riverside, Subi Centro, Midland, Scarborough, Armadale and Wungong. These revisions reflect more accurate expenditure timelines for development works resulting in increased asset investment program expenditure of $52.2 million, and lower revenue projections (based on current market conditions).

Western Australian Planning Commission

Expenses

Injurious Affection Compensation Case

On 26 August 2015, a commercial arbitration award of $6.9 million was made against the Western Australian Planning Commission to a private organisation for injurious affection suffered for the refusal of a planning approval. These costs cannot be budgeted for, as interest and other expense components cannot be estimated prior to settlement.

Asset Investment

Acquisition of Land

The acquisition of strategic land in 2018-19 has been reduced to be more in line with recent expenditure profiles. In 2018-19, the Acquisition of Land investment program has been reduced to $36.7 million (excluding the additional $50 million specified in the next item). This compares to the approved allocations for the program of $44.2 million in 2015-16, $40 million in 2016-17, and $37.7 million in 2017-18.

Strategic Utilisation of the Metropolitan Region Improvement Fund

The Government has approved a $50 million purchase of LandCorp land in Neerabup and Alkimos by the Western Australian Planning Commission. A total of 100 hectares of the Alkimos land will be used for the purpose of conservation and active space for the City of Wanneroo, while an additional 11 hectares will be reserved for regional road and railway purposes. A total of 355 hectares of land at Neerabup will be reserved for Parks and Recreation (Bush Forever) purposes.

Culture and the Arts

Expenses

Agency Expenditure Review

The Government has approved a $3 million reduction in expenses across the Culture and the Arts portfolio from 2015-16 to 2018-19 to implement the savings measures agreed following the Agency Expenditure Review (AER). The approved expense savings are net of costs associated with implementing the AER outcomes (including voluntary separation costs) and to resolve the portfolio's underlying structural deficit.

Asset Investment

Agency Expenditure Review – Capital

Reflects a reduction in program expenditure in respect of public library materials.

MINISTER FOR POLICE; ROAD SAFETY; TRAINING AND WORKFORCE DEVELOPMENT; WOMEN'S INTERESTS

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
WESTERN AUSTRALIA POLICE				
Expenses				
Targeted Voluntary Separation Scheme Savings	-3.5	-3.5	-3.6	-3.7
Reduction in Indexation for Non-Salary Expenses	-	-3.4	-6.8	-10.3
Westralia Square Accommodation	-	7.6	9.1	9.6
Road Trauma Trust Account – Enhanced Automated Traffic Enforcement Strategy	2.6	-	-	-
Asset Investment				
Asset Investment Efficiency	-	-1.6	-1.9	-2.0
Westralia Square Accommodation	0.5	6.2	-	-
Armadale Courthouse and Police Complex (a)	-	-	-	-
Road Trauma Trust Account – Enhanced Automated Traffic Enforcement Strategy	2.2	-	-	-
TRAINING AND WORKFORCE DEVELOPMENT				
Expenses				
Reduction in Indexation for Non-Salary Expenses (b)	-	-1.5	-3.1	-4.7
Future Skills WA – Student Fee Contribution	2.0	8.2	11.9	13.1
Royalties for Regions – Muresk Institute Agricultural Degree and Skills Development Pathways Programs	5.7	2.1	1.4	-
Asset Investment				
Asset Investment Efficiency	-	-1.8	-0.3	-
Royalties for Regions – Muresk Institute Agricultural Degree and Skills Development Pathways Programs	0.4	0.2	0.2	-
STATE TRAINING PROVIDERS				
Expenses				
Targeted Voluntary Separation Scheme Savings (c)	-20.2	-20.7	-21.2	-21.7
Asset Investment				
Asset Investment Efficiency	-	-0.2	-0.2	-0.2
Update of Financial Projections	2.7	1.9	2.0	2.1
BUILDING AND CONSTRUCTION INDUSTRY TRAINING BOARD				
Expenses				
Alignment to 2015-16 Operational Plan	-3.3	-2.9	-3.4	-3.4
Asset Investment				
Career Information Centre	6.1	2.6	-	-

(a) Commercial in confidence.

(b) Includes an allocation to State Training Providers.

(c) Targeted Voluntary Separation Scheme savings have been applied to grants paid by the Department of Training and Workforce Development for the purchase of vocational education and training from State Training Providers.

Western Australia Police

Expenses

Westralia Square Accommodation

As a result of the Department of the Attorney General relocating to the Old Treasury Building and ongoing lease commitments for Westralia Square to 2020, an additional $26.3 million will be spent from 2016-17 to 2018-19 for lease costs associated with the relocation of several Western Australia Police business services to Westralia Square.

Road Trauma Trust Account – Enhanced Automated Traffic Enforcement Strategy

An additional $2.6 million in recurrent spending (and a further $2.2 million in asset investment expenditure – see below) will be incurred in 2015-16 to commence the implementation of the Enhanced Automated Traffic Enforcement Strategy (EATES). This forms part of additional expenditure totalling $8.6 million from the Road Trauma Trust Account (RTTA) in 2015-16 and 2016-17.

Asset Investment

Westralia Square Accommodation

An additional $6.7 million will be spent from 2015-16 to 2016-17 on fit-out costs associated with the relocation of several Police business services to Westralia Square.

Armadale Courthouse and Police Complex

The Government has agreed to fund the acquisition of land for the future Armadale Courthouse and Police Complex. The land purchase amount is commercial-in-confidence at the time of finalising this Mid-year Review as negotiations still need to be progressed.

RTTA - Enhanced Automated Traffic Enforcement Strategy

Additional asset investment expenditure of $2.2 million will be incurred in 2015-16 for the purchase of one point-to-point camera system and five red light and three fixed site speed cameras under the EATES. This forms part of additional expenditure totalling $8.6 million from the RTTA in 2015-16 and 2016-17.

Department of Training and Workforce Development

Expenses

Future Skills WA – Student Fee Contribution

The Department of Training and Workforce Development will spend an additional $35.2 million over the forward estimates period on the purchase of vocational and educational training, reflecting a change to student contribution rates being charged under the training entitlement model (Future Skills WA).

From 1 January 2016, annual course fee increases will be capped at 4% per year, reflecting the Government's decision to more gradually increase student contribution levels towards the targeted levels of cost recovery (of 20% for State priority training by 2019, and 25% for general industry training by 2022).

Royalties for Regions – Muresk Institute Agricultural Degree and Skills Development Pathways Programs

An additional $9.2 million will be spent from 2015-16 to 2017-18 on the delivery of an Agricultural Business Management Degree, and a complementary Agricultural Skills Development Pathways program. These courses will be delivered at the Muresk Institute in Northam.

Asset Investment

Royalties for Regions – Muresk Institute Agricultural Degree and Skills Development Pathways Programs

An additional $850,000 will be invested from 2015-16 to 2017-18 to procure training equipment as part of the delivery of the Agricultural Skills Development Pathways program at the Muresk Institute.

State Training Providers

Asset Investment

Update of Financial Projections

The Government has approved additional asset investment expenditure of $8.7 million by a number of State Training Providers over the forward estimates period, to upgrade and replace ageing infrastructure, plant and equipment for the delivery of training.

Building and Construction Industry Training Board

Expenses

Alignment to the 2015-16 Operational Plan

Total expenditure has been revised down by $13.1 million between 2015-16 and 2018-19 to more accurately reflect the Building and Construction Industry Training Board's 2015-16 operational plan.

Asset Investment

Career Information Centre

Additional asset investment expenditure of $8.7 million over 2015-16 and 2016-17 will be incurred for the purchase of land and construction of a Career Information Centre. The Centre will function as a one-stop shop for information and demonstrations, to support the promotion of careers in the building and construction industry to students and other stakeholders.

MINISTER FOR MENTAL HEALTH; DISABILITY SERVICES; CHILD PROTECTION

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
MENTAL HEALTH COMMISSION				
Expenses				
Targeted Voluntary Separation Scheme Savings	- [(a)]	- [(a)]	- [(a)]	- [(a)]
Reduction in Indexation for Non-Salary Expenses	-	-0.2	-0.4	-
DISABILITY SERVICES COMMISSION				
Expenses				
Targeted Voluntary Separation Scheme Savings	-2.0	-2.0	-2.1	-2.1
Reduction in Indexation for Non-Salary Expenses	-	-0.5	-0.9	-1.3
CHILD PROTECTION AND FAMILY SUPPORT				
Expenses				
Targeted Voluntary Separation Scheme Savings	-2.9	-3.0	-3.1	-3.2
Reduction in Indexation for Non-Salary Expenses	-	-2.5	-5.2	-8.0
Kimberley Family Violence Regional Plan	1.0	1.1	1.1	-
Asset Investment				
Asset Investment Efficiency	-	-0.1	-0.1	-0.1

(a) Amount less than $50,000.

Department of Child Protection and Family Support

Expenses

Kimberley Family Violence Regional Plan

An additional $3.2 million will be spent between 2015-16 and 2017-18 to strengthen existing services and develop new strategies to address the high rate of family violence and child abuse in the Kimberley region.

ATTORNEY GENERAL; MINISTER FOR COMMERCE

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
ATTORNEY GENERAL				
Expenses				
Targeted Voluntary Separation Scheme Savings	-2.7	-2.8	-2.8	-2.9
Reduction in Indexation for Non-Salary Expenses	-	-1.2	-2.3	-3.5
Asset Investment				
Asset Investment Efficiency	-	-0.5	-0.3	-0.3
LEGAL AID COMMISSION				
Expenses				
Reduction in Indexation for Non-Salary Expenses	-	-0.3	-0.5	-0.8
National Partnership Agreement on Legal Assistance Services	8.1	8.6	7.2	7.6
Asset Investment				
Asset Investment Efficiency	-	-0.1	-0.1	-0.1
COMMERCE				
Expenses				
Targeted Voluntary Separation Scheme Savings	-2.1	-2.1	-2.2	-2.2
Reduction in Indexation for Non-Salary Expenses	-	-0.4	-0.8	-1.1
Agency Expenditure Review – Stage 1 Implementation Costs	3.7	0.9	-	-
Building Commission Division	-2.4	-2.4	-2.4	-2.4
Implementation of Biodiscovery Bill	0.1	0.2	0.2	-
WorkSafe Division	-3.3	-3.3	-3.3	-3.3
Asset Investment				
Asset Investment Efficiency	-	-0.3	-0.2	-0.1
WA INDUSTRIAL RELATIONS COMMISSION				
Expenses				
Targeted Voluntary Separation Scheme Savings	-0.1	-0.2	-0.2	-0.2

Legal Aid Commission

Expenses

National Partnership Agreement on Legal Assistance Services

Additional expenditure of $31.5 million will be incurred over the next four years to reflect a new National Partnership Agreement (NPA) for Legal Assistance Services. The increase primarily relates to funding for Community Legal Centre services that was not included in the previous NPA.

Commerce

Expenses

Agency Expenditure Review – Stage 1 Implementation Costs

Additional expenditure of $4.6 million over the two years to 2016-17 has been approved for implementation costs associated with the delivery of reform measures identified as part of the Department's Agency Expenditure Review. The introduction of these reform measures will achieve ongoing operating efficiencies, including expenditure savings of $23.3 million over the four years to 2018-19, as reflected in the 2015-16 Budget.

Building Commission Division

An expenditure reduction of $9.6 million over the four years to 2018-19 has been approved to reflect the Building Commission's revised revenue and expenditure forecasts. The reduction in expenditure will have no impact on the level of non-discretionary regulatory services provided to Western Australia's building and construction industries.

Implementation of Biodiscovery Bill

Additional expenditure of $500,000 over the three years to 2017-18 has been approved to support the implementation of the Biodiscovery Bill, and ensure that bioprospecting activities in Western Australia are undertaken lawfully.

WorkSafe Division

Reduced expenditure of $13.2 million over the four years to 2018-19 reflects the WorkSafe Division's revised revenue and expenditure forecasts. The reduction in expenditure will have no impact on the Department's ability and capacity to undertake occupational safety and health activities across the State.

MINISTER FOR FINANCE; MINES AND PETROLEUM

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
FINANCE				
Expenses				
Targeted Voluntary Separation Scheme Savings	-3.7	-3.8	-3.9	-4.0
Reduction in Indexation for Non-Salary Expenses	-	-0.2	-0.5	-0.7
Agency Expenditure Review – Stage 2				
– Savings Measures	-17.0	2.7	2.3	1.4
– Compliance and Assessment Initiatives	0.8	1.7	1.9	2.0
Westralia Square Office Accommodation	-	2.1	-	-
First Home Owner Grant	10.0	-5.4	-6.3	-7.1
Asset Investment				
Asset Investment Efficiency	-	-0.2	-0.1	-0.1
State Fleet	-31.3	-32.4	-31.9	-33.7
MINES AND PETROLEUM				
Expenses				
Reduction in Indexation for Non-Salary Expenses	-	-0.4	-0.8	-1.1
Termination of the South West Hub Agreement with the Commonwealth – Administered Item	-6.7	-	-	-
Asset Investment				
Asset Investment Efficiency	-	-0.3	-0.1	- [(a)]

(a) Amount less than $50,000.

Finance

Expenses

Agency Expenditure Review – Stage 2

Savings Measures

As part of the Agency Expenditure Review process, the Department of Finance identified $84.9 million in savings over four years relative to actual 2014-15 expenditure. This includes $47.9 million of measures to achieve a budgeted reduction in revenue and expenses associated with Finance’s Building Management and Works business unit across the period 2015-16 to 2018-19.

The review identified a further $37 million in savings measures, of which $11 million has been used to fund the implementation costs of delivering the savings, and $15.4 million to meet savings associated with the 2014-15 Targeted Voluntary Separation Scheme.

The remaining $10.7 million in savings has been allocated to the Agency Expenditure Review process. Relative to the Department’s 2015-16 Budget expenditure levels, the upfront allocation of these savings reduces expenses by $17 million in 2015-16 (reflecting abolition of vacant positions and non-renewal of short-term contracts), and increases expenditure by $6.4 million over 2016-17 to 2018-19 (over which period the majority of the implementation costs are incurred).

Compliance and Assessment Initiatives

A total of $6.4 million will be spent from 2015-16 to 2018-19 to address workload issues in the Office of State Revenue. It is expected that the timely processing of transactions will result in additional revenue of $106.3 million being collected from 2015-16 to 2018-19.

First Home Owner Grant

First Home Owner Grant expenditure administered by the Department will be $10 million higher in 2015-16 relative to Budget, primarily due to a delay in the passage of legislation to abolish the $3,000 grant for the purchase of an established home. From 2016-17 to 2018-19, expenditure on grants is expected to be $18.7 million lower than estimated at Budget, mainly reflecting a downward revision to population growth forecasts.

Westralia Square Office Accommodation

An additional $2.1 million will be spent in 2016-17 to meet rent and make-good costs associated with the relocation of parts of the Western Australia Police to Westralia Square.

Asset Investment

State Fleet

Expenditure on vehicle acquisitions will reduce by $129.3 million from 2015-16 to 2018-19, reflecting a lower level of activity across the Government's motor vehicle fleet, and longer lease terms, as agencies across the public sector seek to minimise their vehicle fleet costs.

Mines and Petroleum

Expenses

Termination of the South West Hub Agreement with the Commonwealth – Administered Item

An amount of $6.7 million will be returned to the Commonwealth in 2015-16 following an independent review of the project in 2014-15 after which the State and Commonwealth agreed on the early termination of the agreement.

MINISTER FOR AGRICULTURE AND FOOD; FISHERIES

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
AGRICULTURE AND FOOD				
Expenses				
Targeted Voluntary Separation Scheme Savings	-9.2	-9.4	-9.7	-9.9
Reduction in Indexation for Non-Salary Expenses	-	-0.6	-1.2	-1.6
Natural Resource Management	3.9	1.4	-	-
Royalties for Regions – Asian Market Success Program	2.0	3.6	0.4	-
Royalties for Regions – Doppler Radar Project	0.2	0.2	0.1	-
Royalties for Regions – Food Industry Innovation Project	0.7	1.7	2.1	-
Royalties for Regions – Research and Development Fund	4.6	8.7	5.5	3.3
Asset Investment				
Asset Investment Efficiency	-	-0.2	-0.1	-0.1
PERTH MARKET AUTHORITY				
Asset Investment				
Asset Investment Efficiency	-	-0.1	-0.1	-0.1

Agriculture and Food

Expenses

Natural Resource Management

Additional expenditure of $5.3 million over the two years to 2016-17 will allow the Department to progress a number of regionally focused projects in line with the State's Natural Resource Management program. This spending is funded through revenue received from the Commonwealth.

Royalties for Regions – Asian Market Success Program

Additional expenditure of $6 million over the three years to 2017-18 has been approved for the Asian Market Success Program, which will improve the State's international competitiveness in the agriculture and food export markets through targeted marketing and product investment.

Royalties for Regions – Doppler Radar Project

Additional expenditure of $23.1 million over the four years to 2017-18, including $22.6 million in 2014-15, has been approved to progress the Doppler Radar Project, which will provide enhanced weather radar coverage to rural communities and farm businesses throughout the State's Wheatbelt region.

Royalties for Regions – Food Industry Innovation Project

Additional expenditure of $4.5 million over the three years to 2017-18 will support the construction of a Premium Food Centre (Manjimup) and a Specialised Food Centre (Albany) to facilitate regional businesses working together to better market products, reduce costs and coordinate production.

Royalties for Regions – Research and Development Fund

The Government has approved additional expenditure of $22.1 million over the four years to 2018-19 for the Research and Development Fund Project, which will provide research and development grants to Western Australian grower groups and industry partnerships to identify opportunities and strategies to improve and expand the State's agriculture and food industries.

TREASURER; MINISTER FOR ENERGY; CITIZENSHIP AND MULTICULTURAL INTERESTS

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
HORIZON POWER				
Asset Investment				
Asset Investment Efficiency	-	-2.4	-2.1	-2.0
SYNERGY				
Asset Investment				
Asset Investment Efficiency	-	-3.1	-2.4	-3.4
WESTERN POWER				
Asset Investment				
Reduction in Growth-driven Investment	-60.0	-20.0	-20.0	-20.0
TREASURY				
Expenses				
Targeted Voluntary Separation Scheme Savings	-0.2	-0.2	-0.2	-0.2
Sale of Perth Market Authority (Market City)	1.2	-	-	-
Sale of Port Assets	6.8	-	-	-

Western Power

Asset Investment

Reduction in Growth-driven Investment

Western Power's growth-driven asset investment expenditure will be reduced by $120 million over the 2015-16 to 2018-19.

Treasury

Expenses

Sale of Perth Market Authority (Market City)

An additional $1.2 million will be spent in 2015-16 for the Perth Market Authority (Market City) asset sale project to proceed to the transaction execution phase.

Sale of Port Assets

Reflecting the expansion of the Government's asset sales program announced in the 2015-16 Budget speech, an additional $6.8 million in 2015-16 has been approved to continue detailed due diligence on the proposed divestment of Fremantle Port.

MINISTER FOR LOCAL GOVERNMENT; COMMUNITY SERVICES; SENIORS AND VOLUNTEERING; YOUTH

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
LOCAL GOVERNMENT AND COMMUNITIES				
Expenses				
Reduction in Indexation for Non-Salary Expenses	-	-0.6	-1.3	-2.0
Financial Counselling Services [(a)]	4.4	6.0	6.3	-
METROPOLITAN CEMETERIES BOARD				
Asset Investment				
Asset Investment Efficiency	-	-0.2	-0.4	-0.3

(a) This includes $4.3 million of existing spending to be reprioritised from the Departments of Commerce and Local Government and Communities, the Gaming and Wagering Commission of Western Australia, the Housing Authority and the Water Corporation.

Local Government and Communities

Expenses

Financial Counselling Services

A total of $16.7 million will be spent over the next three years on both regional and metropolitan financial counselling services in Western Australia. This includes the reprioritisation of $4.3 million from a number of agencies for metropolitan financial counselling services from 2015-16 to 2017-18. Along with existing funding, this brings State expenditure for metropolitan financial counselling services to approximately $2.1 million per annum.

MINISTER FOR ENVIRONMENT; HERITAGE

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
PARKS AND WILDLIFE				
Expenses				
Targeted Voluntary Separation Scheme Savings	-4.1	-4.2	-4.3	-4.4
Reduction in Indexation for Non-Salary Expenses	-	-0.9	-1.9	-2.8
Royalties for Regions – Kalbarri Skywalk and National Park Tourist Infrastructure	4.1	15.9	-	-
Royalties for Regions – Public Recreation and Joint Management Arrangements for the Ningaloo Coast	0.3	0.7	2.4	2.4
Asset Investment				
Asset Investment Efficiency	-	-0.7	-0.7	-0.8
BOTANIC GARDENS AND PARKS AUTHORITY				
Expenses				
Stage 2 Rio Tinto Naturescape	0.2	1.0	1.8	-

Parks and Wildlife

Expenses

Royalties for Regions – Kalbarri Skywalk and National Park Tourist Infrastructure

To encourage tourism and visitation, an additional $20 million will be spent between 2015-16 and 2016-17 on major improvements to visitor infrastructure at the Kalbarri National Park, including two cantilevered viewing platforms (Skywalks), a commercial kiosk, interpretation displays, walk trails and parking areas. The expenditure also includes sealing of roads to improve access.

Royalties for Regions – Public Recreation and Joint Management Arrangements for the Ningaloo Coast

To facilitate tourism and improve management of the Ningaloo Coast environment, $5.9 million will be spent from 2015-16 to 2018-19 to create a terrestrial conservation and recreation reserve adjacent to Ningaloo Marine Park, extend the Cape Range National Park, and provide joint management with traditional owners. Under the initiative, an Aboriginal Ranger program will be established and visitor facilities constructed.

Botanic Gardens and Parks Authority

Expenses

Stage 2 Rio Tinto Naturescape

An additional $3 million will be spent from 2015-16 to 2017-18 for works related to Stage 2 of the Rio Tinto Naturescape at Kings Park, which is funded by Rio Tinto Australia.

MINISTER FOR EMERGENCY SERVICES; CORRECTIVE SERVICES; SMALL BUSINESS; VETERANS

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
FIRE AND EMERGENCY SERVICES				
Expenses				
Reduction in Indexation for Non-Salary Expenses	-	-0.1	-0.1	-0.2
Asset Investment				
Asset Investment Efficiency	-	-1.0	-0.8	-0.8
STATE EMERGENCY MANAGEMENT COMMITTEE SECRETARIAT				
Expenses				
Natural Disaster Resilience State Risk Project	2.2	0.3	-	-
CORRECTIVE SERVICES				
Expenses				
Targeted Voluntary Separation Scheme Savings	-10.3	-10.6	-10.9	-11.1
Reduction in Indexation for Non-Salary Expenses	-	-4.6	-9.1	-13.8
Asset Investment				
Asset Investment Efficiency	-	-0.6	-0.6	-0.6

State Emergency Management Committee Secretariat

Expenses

Natural Disaster Resilience State Risk Project

An additional $2.5 million will be spent over 2015-16 and 2016-17 to expand the Natural Disaster Resilience State Risk Project from the State level to the district level, and to undertake State level assessments for prescribed hazards including those from natural causes, man-made origin or a combination.

MINISTER FOR WATER; SPORT AND RECREATION; FORESTRY

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
WATER CORPORATION				
Asset Investment				
Royalties for Regions – Denmark Water Recycling Scheme	0.5	2.0	12.5	-
BUNBURY WATER CORPORATION				
Asset Investment				
Asset Investment Efficiency	-	-0.1	-0.1	-0.2
BUSSELTON WATER CORPORATION				
Asset Investment				
Asset Investment Efficiency	-	-0.1	-0.1	-0.1
DEPARTMENT OF WATER				
Asset Investment				
Asset Investment Efficiency	-	-0.5	-0.5	-0.6
SPORT AND RECREATION				
Expenses				
Centennial Park Albany	3.0	-	-	-
WESTERN AUSTRALIAN SPORT CENTRE TRUST				
Expenses				
Depreciation Adjustment	1.4	1.4	1.4	1.5
WA Basketball Centre Naming Rights	0.1	0.1	0.1	0.1
Asset Investment				
Asset Investment Efficiency	-	-0.5	-0.5	-0.5

Water Corporation

Asset Investment

Royalties for Regions – Denmark Water Recycling Scheme

An amount of $15 million from the Royalties for Regions Regional Infrastructure and Headworks Fund will be spent to establish the Denmark Water Recycling Scheme to provide a local climate resilient water source.

Sport and Recreation

Expenses

Centennial Park Albany

A further $3 million will be provided in 2015-16 towards the redevelopment of Centennial Park Albany for the upgrade of the central and western precincts, which includes new playing fields, floodlighting and clubrooms. This brings the State Government's total funding contribution to this project to $11 million.

Western Australian Sport Centre Trust

Expenses

Depreciation Adjustment

Additional depreciation of $5.7 million will be incurred over the four years to 2018-19, due to an increase in the agency's asset base.

WA Basketball Centre Naming Rights

An amount of $400,000 will be spent over the four years to 2018-19 to meet the costs associated with the naming rights agreement with Mr Jack Bendat, including maintenance costs of the venue, website and administration costs. These costs are off-set by additional revenues received as part of the naming rights agreement.

MINISTER FOR TRANSPORT

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
TRANSPORT				
Expenses				
Targeted Voluntary Separation Scheme Savings	-2.8	-2.9	-3.0	-3.1
Reduction in Indexation for Non-Salary Expenses	-	-0.3	-0.5	-0.7
Busselton-Margaret River Regional Airport	-	10.0	-	-
Rail Safety Regulation	4.0	0.1	0.1	0.1
Asset Investment				
Asset Investment Efficiency	-	-0.8	-0.7	-1.0
COMMISSIONER OF MAIN ROADS				
Expenses				
Targeted Voluntary Separation Scheme Savings	-1.5	-1.6	-1.6	-1.7
Services and Contracts Expense – Professional Services Update	-	-	-29.9	-30.8
Asset Investment				
Capitalised Targeted Voluntary Separation Scheme Savings	-0.6	-0.6	-0.6	-0.6
Asset Investment Efficiency	-	-2.3	-2.1	-2.2
Bussell Highway - Margaret River Perimeter Road	-	8.0	50.3	-
Buildings and Equipment Program Update	-	-	6.7	6.9
Capitalised Operational Costs Update	-	-	23.2	23.9
Commonwealth Bridges Renewal Program	13.4	6.6	-	-
South Western Highway – Donnybrook to Greenbushes	-	-	-0.6	-16.4
Road Trauma Trust Account – Improvements to Toodyay Road	1.0	2.8	-	-
PUBLIC TRANSPORT AUTHORITY				
Expenses [(a)]				
Revised Interest Expenses	-9.6	-17.4	-4.8	-29.3
Future Urban Railcar Procurement – Interest Expenses	3.5	6.3	7.0	7.0
Asset Investment				
Asset Investment Efficiency	-	-4.9	-5.5	-8.8
Bus Layover Northbridge – Land Acquisition	2.0	-	-	-
Bus Replacement Program	-	-	-16.7	-
Future Urban Railcar Procurement	90.0	75.0	20.0	-
FREMANTLE PORT AUTHORITY				
Asset Investment				
Revised Financial Forecasts	-43.0	-23.2	42.4	36.3

(a) Represented in general government expenses as grants and subsidies, sourced from the Consolidated Account and paid through the Department of Treasury.

Transport

Expenses

Busselton-Margaret River Regional Airport

Additional Consolidated Account funding of $10 million has been approved for the Regional Airports Development Scheme in 2016-17. This grant will go towards the $59.7 million redevelopment of the Busselton-Margaret River Regional Airport being undertaken by the City of Busselton. The Royalties for Regions program contributed $45.9 million in 2014-15.

Rail Safety Regulation

The Department of Transport's (DoT) expense limit has been increased by $4 million in 2015-16 to accommodate the delayed passage of legislation transferring responsibility for rail safety regulation from the DoT to the Office of the National Rail Safety Regulator (ONRSR). The $4 million includes $1.8 million to continue the State's Office of Rail Safety operations and $2.2 million in industry revenue to be transferred to the ONRSR later in the financial year.

Over the forward estimates, the ONRSR will provide $0.1 million in annual funding to the DoT for ongoing support to the ONRSR's Western Australian operations.

Commissioner of Main Roads

Expenses

Services and Contracts Expense – Professional Services Update

In order to fully offset approved increases to its rolling asset investment program for Buildings and Equipment and Capitalised Operational Expenses as detailed below, Main Roads has reduced its operational expenditure by $60.7 million across 2017-18 and 2018-19. This includes a review of some project expenditure resulting in reclassification from recurrent to capital.

Asset Investment

Bussell Highway – Margaret River Perimeter Road

Expenditure totalling $58.3 million over two years has been approved to construct stage two of the Margaret River Perimeter Road on Bussell Highway. Funding will be provided from Royalties for Regions. Works include construction of a 5.4km single carriageway perimeter road, a traffic and pedestrian bridge over the Margaret River and intersections and tie-ins to connect John Archibald Drive and other local roads to the perimeter road.

Buildings and Equipment Program Update

Additional investment of $13.6 million from 2017-18 to 2018-19 has been approved to enable Main Roads to maintain an appropriate level of refurbishment and maintenance of its property holdings located throughout the State, including regional offices, works depots, materials laboratories and residential accommodation.

Capitalised Operational Costs Update

Main Roads has increased its provision for recurrent expenditure that is subsequently capitalised, by $47.1 million from 2017-18 to 2018-19. The increase will allow the annual estimate for capitalised recurrent expenditure to be maintained at an appropriate annual level. This is commensurate with Main Roads' average $1.2 billion annual asset investment program across the forward estimates.

Commonwealth Bridges Renewal Program

An additional $20 million over 2015-16 and 2016-17 will be spent on bridge renewal projects recently approved under the Commonwealth Bridges Renewal Program. With matching funding being provided by the Commonwealth and the State, the projects include upgrades to two bridges across the Collie River and two bridges near Byford.

South Western Highway – Donnybrook to Greenbushes

Following an assessment of asset investment projects across government, capital expenditure of $17 million for the South Western Highway – Donnybrook to Greenbushes project has been deferred beyond the forward estimates period.

Road Trauma Trust Account – Improvements to Toodyay Road

An additional $3.8 million will be spent over 2015-16 and 2016-17 for preliminary design and technical assessment work towards improvements to Toodyay Road. This forms part of additional expenditure totalling $8.6 million from the Road Trauma Trust Account in 2015-16 and 2016-17.

Public Transport Authority

Expenses

Revised Interest Expenses

The operating subsidy paid to the Authority will be reduced by $61.1 million from 2015-16 to 2018-19, reflecting the impact of lower interest rates on the Authority's debt servicing costs.

Future Urban Railcar Procurement – Interest Expenses

Additional operating subsidy of $23.9 million between 2015-16 and 2018-19 will be paid to the Authority to fund interest expenses on borrowings for Future Urban Railcar Procurement (see Asset Investment section below for further detail).

Asset Investment

Bus Layover Northbridge – Land Acquisition

An additional $2 million will be spent in 2015-16 to purchase land in Northbridge for the future development of a bus layover facility in close proximity to the new underground Perth Busport. In total, the Authority will spend an estimated $5.5 million to acquire land, of which $3.5 million will be met by reallocating expenditure from within its approved asset investment program.

Bus Replacement Program

Following an assessment of asset investment projects across government, the Authority will reduce capital expenditure under the Bus Replacement Program by $16.7 million in 2017-18. The change in the replacement program follows previous reductions in the rollout of bus service kilometres, which requires fewer buses.

Future Urban Railcar Procurement

The Authority will spend an additional $120 million from 2015-16 to 2017-18 to procure additional Transperth railcars prior to opening the Forrestfield Airport Link. In total, 10 additional B-Series three-car sets (30 railcars) will be procured. The C-Series railcar procurement process (announced in the 2015-16 Budget) will be deferred until after 2017.

The Authority will also undertake additional investment of $65 million across 2015-16 and 2016-17 to purchase and develop an alternate freight yard for use by Brookfield Rail under the State's Rail Freight Lease. The Authority's long term Route Utilisation Strategy has identified the Bellevue site, currently used by Brookfield Rail as a freight yard, as the preferred site for a depot to accommodate future growth in the Transperth railcar fleet.

Fremantle Port Authority

Asset Investment

Revised Financial Forecasts

The Fremantle Port Authority has revised its financial forecasts assuming a business as usual approach, which results in an increase of $12.5 million over four years to its asset investment spending. This predominantly reflects the reinstatement of Kwinana Bulk Terminal projects and the North Quay Land Acquisition, which is offset by deferrals across a number of projects. The increased spend is required to maintain existing asset service levels, customer contract commitments and to recognise appropriate commercial opportunities.

MINISTER FOR HOUSING; RACING AND GAMING

MAJOR SPENDING CHANGES

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
HOUSING AUTHORITY				
Asset Investment				
Royalties for Regions – Broome Aboriginal Short Stay Accommodation Facility	5.1	11.0	5.0	-
Other Infrastructure Movements	-8.9	45.3	-114.6	38.9
RACING AND WAGERING WESTERN AUSTRALIA				
Asset Investment				
Asset Investment Efficiency	-	-0.3	-0.2	-0.7
GAMING AND WAGERING COMMISSION OF WA				
Expenses				
Racing Bets Levy	6.8	6.8	6.8	6.9
BURSWOOD PARK BOARD				
Expenses				
Victoria Park Drive Intersection	5.0	-	-	-

Housing Authority

Asset Investment

Royalties for Regions – Broome Aboriginal Short Stay Accommodation Facility

An additional $21.1 million will be spent from 2015-16 to 2017-18 for the delivery of the Broome Aboriginal Short Stay Accommodation Facility. The facility will provide Aboriginal people visiting the town of Broome with access to safe and secure living arrangements and improved access to social and other support services in Broome.

Other Infrastructure Movements

The overall decrease in the Housing Authority's asset investment spending of $39.3 million over four years from 2015-16 to 2018-19 largely reflects a reduction in expenditure on projects that are funded by revenue derived from the sell-down of properties in the Pilbara (where the value has declined due to softening market conditions). The reduction in expenditure in 2017-18 is also due to a decrease in the Estate Improvement Land Redevelopment Program as a result of softening demand for housing stock in the Pilbara.

Gaming and Wagering Commission of Western Australia

Expenses

Racing Bets Levy

An additional $27.3 million in payments will be made to Racing and Wagering Western Australia from 2015-16 to 2018-19. The increase in payments flows from a corresponding increase in revenue collections over the same period.

Burswood Park Board

Expenses

Victoria Park Drive Intersection

A contribution of $5 million will be provided in 2015-16 for improvements at the Great Eastern Highway and Victoria Park Drive intersection.

Provisions

MAJOR SPENDING CHANGES

PROVISIONS	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
Expenses				
Salaries Underspending Provision	-120.0	-122.4	-125.5	-128.6
Government Regional Officers Housing – Lower Rent Projections	-31.7	-42.7	-48	-53.6
Government Regional Officers Housing – Reform of Tenant Rent Setting Framework	-	-6.0	-10.0	-12.0
Agency Expenditure Reviews – Tranche Two	-2.9	-39.9	-39.5	-40.4
Asset Investment				
Provision for Underspending	-513.0	-81.9	-22.0	-

Expenses

Salaries Underspending Provision

A $496 million provision for lower than budgeted salaries outcomes has been included in the Mid-year Review over the four years to 2018-19. The provision reflects an expectation that general government salaries expenditure will come in lower than is currently forecast in agency budgets. This has been the experience in recent years, including a $203 million lower than expected salaries outcome detailed in the 2014-15 *Annual Report on State Finances*. To assist in achieving these savings, the Government will implement a six month recruitment freeze across the general government sector, to commence immediately.

Under this arrangement, no new permanent recruitment (including promotions) and no new employees to the sector are permitted until 30 June 2016. Exemptions from the recruitment freeze have been approved for teachers to be recruited for the 2016 school year, police officers to be recruited as part of the election commitment to deliver an extra 550 officers by July 2017, and finite project-based positions that are capitalised against a project.

Government Regional Officers Housing – Lower Rent Projections

Spending by agencies on Government Regional Officer Housing (GROH) rents is anticipated to be around $176 million lower than forecast in the 2015-16 Budget. This reflects the impact of declining rents in regional centres and a higher number of vacant properties, and is matched by a write-down in rental revenue received by the Housing Authority. This provision will be allocated to agencies in the 2016-17 Budget.

Government Regional Officers Housing – Reform of Tenant Rent Setting Framework

Reforms to GROH rental charges are anticipated to reduce agency spending by around $28 million over the period 2016-17 to 2018-19. The reforms seek to better reflect the contemporary housing market, with a 20% discount that is currently applied to GROH rents (based on the Perth median rent) to be removed, and the annual cap on rental increases will rise from $10 per week to $30 per week. The average impact on GROH tenants is estimated at $21 per week. Even after this increase, GROH tenants will pay only a small portion of their income in rent (estimated at an average of 12%).

Agency Expenditure Reviews – Tranche Two

Six agencies have been identified for participation in Tranche Two of the ongoing Agency Expenditure Review (AER) process, with provisional agency-level savings outlined below. Tranche Two is estimated to lead to a net debt improvement of $162 million over 2015-16 to 2019-20, with updated savings based on the AERs to be written into agency budgets as part of the 2016-17 Budget, following consideration of proposed savings measures by Cabinet.

AGENCY EXPENDITURE REVIEW – TRANCHE TWO

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
Mental Health Commission	-	-7.2	-7.1	-7.3
Mines and Petroleum	-2.9	-2.8	-2.3	-2.3
Transport	-	-1.1	-0.9	-0.9
Water	-	-0.9	-0.9	-0.9
Public Transport Authority	-	-25.4	-25.7	-26.2
Local Government and Communities	-	-2.6	-2.6	-2.7
TOTAL	**-2.9**	**-39.9**	**-39.5**	**-40.4**

As with the first (now completed) round of AERs, the above savings targets are based on a 3.5% reduction in cash appropriation (or operating subsidy in the case of the Public Transport Authority). The exception is the Department of Water, which has a 1.5% savings target in recognition of an ongoing structural deficit.

Asset Investment

Provision for Underspending

Consistent with previous years, this Mid-year Review includes a provision for yet to be identified slippage in agency infrastructure spending that is expected to emerge over the remainder of the year. A total $617 million underspending provision has been incorporated in the forecasts, including $513 million in 2015-16. This provision offsets capital spending carried over by agencies from 2014-15.

APPENDIX 4

The Treasurer's Advance

The Treasurer's Advance is provided for under the *Financial Management Act 2006* (FMA). It authorises the Treasurer to make short-term recoverable advances to agencies for the temporary financing of works and services (referred to as 'net recoverable advances') and to provide new or supplementary funding during the year for extraordinary or unforeseen matters (known as 'excesses and new items').

The total amount drawn against recoverable advances, excesses and new items for 2015-16 must remain within the $645.2 million limit authorised by the FMA, unless adjusted by Parliament through the passage of a *Treasurer's Advance Authorisation Act*.

Table 4.1 shows the estimated position of the Treasurer's Advance for 2015-16, consistent with agency financial projections presented in this Mid-year Review. Based on the Mid-year Review estimates, the expected outturn for the 2015-16 Treasurer's Advance is $326.4 million.

Table 4.1

TREASURER'S ADVANCE

	2014-15 Actual $m	2015-16 Projection [(a)] $m
AUTHORISED LIMIT	638.4	645.2
Total projected to be drawn against Treasurer's Advance authorisation	*328.7*	*326.4*
Comprising:		
Net recoverable advances as at 30 June	8.0	20.0
Overdrawn Special Purpose Account[(b)]	4.3	-
Approved Excesses and New Items		
– recurrent	264.8	173.6
– capital	51.7	132.7

(a) Detailed disclosure of the final audited outcome for 2015-16 will be available in the 2015-16 *Annual Report on State Finances*, to be released by 28 September 2016.

(b) The Treasurer gave approval to the Department of Mines and Petroleum and the Commissioner of Equal Opportunity to overdraw a Special Purpose Account. Any overdrawn SPA is taken to be an advance to be charged in the relevant financial year to the Treasurer's Advance Account.

Note: Columns may not add due to rounding.

Transfers, Excesses and New Items

Table 4.2 details excesses and/or new items that are projected to occur during 2015-16 and the expected impact of these on the Treasurer's Advance under the authority of section 27 of the FMA.

The projections shown in Table 4.2 are subject to movements in agencies' appropriations through the remainder of 2015-16. 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 2016.

Section 25 of the FMA allows appropriations originally allocated in the 2015-16 Budget to be transferred to other agencies for the provision of an appropriation-funded service that is now to be delivered by the other agency. These transfers have no impact on the Treasurer's Advance.

Appropriation transfers approved since the presentation of the 2015-16 Budget include:

- $2.7 million of recurrent appropriation has been transferred from the Department of Finance to the Office of the Government Chief Information Officer reflecting annual operational costs following the establishment of the Office from 1 July 2015. The transfer was required due to delays in establishing the Office as a standalone agency in the Budget papers, and is in addition to a new $0.7 million appropriation item to establish the Office; and

- $3.3 million of recurrent appropriation has been transferred from the Department of Child Protection and Family Support to the Department of Local Government and Communities for contract management of financial counselling services.

Table 4.2

TRANSFERS, EXCESSES AND NEW ITEMS

Item	Budget $m	Transfers [(a)] $m	Treasurer's Advance New Items $m	Treasurer's Advance Approved Excesses $m	Revised Appropriation Limit $m	Drawn against Treasurer's Advance to date [(b)] $m
Recurrent Appropriations						
Chemistry Centre (WA)						
Item 12: Delivery of Services	7.3	-	-	0.3	7.6	-
WA Health						
Item 13: Delivery of Services	4,692.8	-	-	99.3	4,792.1	-
Regional Development						
Item 15: Delivery of Services	3.5	-	-	3.3	6.8	-
Lands						
Item 25: Delivery of Services	38.9	-	-	8.5	47.4	-
Western Australian Planning Commission						
Item 35: Delivery of Services	7.8	-	-	6.9	14.7	-
Culture and the Arts						
Item 37: Art Gallery of Western Australia	8.8	-	-	0.8	9.6	-
Item 38: Library Board of Western Australia	29.0	-	-	0.2	29.1	-
Item 39: Perth Theatre Trust	11.6	-	-	0.2	11.8	
Item 40: Western Australian Museum	22.3	-	-	2.7	25.0	-
Mental Health Commission						
Item 43: Delivery of Services	633.1	-	-	19.9	653.0	-
Child Protection and Family Support						
Item 48: Delivery of Services	575.2	-3.3	-	-	571.9	-
Commissioner for Equal Opportunity						
Item 51: Delivery of Services	3.1	-	-	1.0	4.1	-
Finance						
Item 58: Delivery of Services	210.0	-2.7	-	-	207.3	-
Mines and Petroleum						
Item 61: Administered Grants, Subsidies and Other Transfer Payments	31.3	-	-	18.5	49.7	-
Treasury						
Item 66: Delivery of Services	61.0	-	-	7.8	68.8	-
Operating Subsidy Payments						
Item 67: Bunbury Water Corporation	0.5	-	-	0.3	0.8	-
Item 70: Mid West Ports Authority	0.2	-	-	0.2	0.4	-
Local Government and Communities						
Item 91: Delivery of Services	92.7	3.3	-	-	96.0	-
Fire and Emergency Services						
Item 101: Delivery of Services	15.3	-	-	0.2	15.4	-
Sport and Recreation						
Item 107: Delivery of Services	44.0	-	-	3.0	47.0	-
Office of the Government Chief Information Officer						
New Item: Delivery of Services	-	2.7	0.7	-	3.4	0.7
Total Recurrent		***-***	***0.7***	***173.0***		***0.7***

Note: Columns/rows may not add due to rounding.

Table 4.2 (cont.)

TRANSFERS, EXCESSES AND NEW ITEMS

Item	Budget $m	Transfers (a) $m	Treasurer's Advance: New Items $m	Treasurer's Advance: Excesses $m	Revised Appropriation Limit $m	Drawn against Treasurer's Advance to date (b) $m
Capital Appropriations						
WA Police						
Item 128: Capital Appropriation	44.6	-	-	1.4	46.0	-
Treasury						
Government Equity Contributions						
Item 138: Electricity Networks Corporation (Western Power)	81.5	-	-	91.4	172.9	-
Item 143: Regional Power Corporation (Horizon Power)	8.5	-	-	1.4	9.9	-
Other						
Item 149: The New Perth Stadium Account	240.0	-	-	25.0	265.0	-
Corrective Services						
Item 159: Capital Appropriation	18.7	-	-	9.0	27.7	-
Transport						
Item 163: Capital Appropriation	9.8	-	-	0.6	10.4	-
Public Transport Authority of Western Australia						
Item 165: Capital Appropriation	139.7	-	-	2.6	142.3	-
Chemistry Centre (WA)						
New Item: Equity Contribution	-	-	1.3	-	1.3	-
Total Capital		***-***	***1.3***	***131.4***		***-***
TOTAL			**2.0**	**304.4**		**0.7**

(a) Authorised under section 25 of the FMA.

(b) Mid-year Review cut-off date, 30 November 2015.

Note: Columns/rows may not add due to rounding.

APPENDIX 5

Special Purpose Accounts

Special Purpose Accounts (SPAs) are established under various sections of the *Financial Management Act 2006* (FMA) or by specific legislation (e.g. the Fiona Stanley Hospital Construction Account and the Royalties for Regions Fund). Accounts established by legislation are governed by the relevant provisions of the statute while accounts that are established administratively are governed by a special purpose statement (operating accounts) or a trust statement (trust accounts) that outlines the purpose of the account.

This appendix contains information on key SPAs. It is not an exhaustive list of all SPAs, but covers the major/material SPAs in existence in 2015-16 (or expected to be established this year as a consequence of forecasts included in this Mid-year Review). The forecast SPA balances (and transactions in and out of these accounts) form part of the overall consolidated projections for 2015-16 outlined elsewhere in this Mid-year Review.

The SPA balances detailed in this appendix provide a funding source for particular initiatives. However, it is important to note that each dollar that is spent from these SPA balances will increase net debt (and reduce the net operating balance if the spending is for recurrent purposes) by the same amount. In this way, these SPA balances are no different from other funding sources, including new borrowings.

Changes to forecast receipts and payments in 2015-16 reflect movements in the financial projections discussed in Chapter 1 (and detailed in Appendix 1) of this Mid-year Review. Variations in account balances for the 2014-15 outturn (relative to the expected outturn outlined in the 2015-16 Budget) were disclosed in the 2014-15 *Annual Report on State Finances* released on 24 September 2015.

Essential and Municipal Services Account

The 2015-16 Budget included expectations that $90 million in funding received from the Commonwealth, as a final contribution to the cost of providing essential municipal services in remote Aboriginal communities, would be placed in a new SPA by 30 June 2015, with $30 million of these funds to the Housing Authority and Horizon Power during 2015-16, in line with Government spending approvals at that time.

The Commonwealth's contribution in 2014-15 was paid into the Consolidated Account. In line with the 2015-16 Budget, the Commonwealth's $90 million contribution will be deposited in this SPA during the 2015-16 financial year. Of this amount, a total of $30 million is to be spent in 2015-16, including $25.6 million for the delivery of essential and municipal services by the Housing Authority at a range of remote communities, and $4.6 million for Stage 1 of the Aboriginal Remote Communities Power Supply Project (being delivered by Horizon Power).

Release of the $60 million residual balance of the Commonwealth's funding is subject to Government spending approvals as part of future budgets.

Table 5.1

ESSENTIAL AND MUNICIPAL SERVICES ACCOUNT

	2014-15 $m	2015-16 $m
Balance at 1 July	-	-
Receipts	-	90
Payments	-	30
Closing balance at 30 June	**-**	**60**

Note: Columns may not add due to rounding.

Fiona Stanley Hospital Construction Account

This SPA was established in October 2007 to set aside funds to be used for the construction of the Fiona Stanley Hospital.

Funds from the account have almost been fully drawn down to pay for construction work, with the new facility achieving practical completion in December 2013 and commencing phased operation in October 2014. The residual $20 million held in the account at 1 July 2015 will cover the project closeout activities that may arise during the project defect liability period. Following closure of the project, any remaining funds will be returned to the Consolidated Account at the end of 2015-16.

Table 5.2

FIONA STANLEY HOSPITAL CONSTRUCTION ACCOUNT

	2014-15 $m	2015-16 $m
Balance at 1 July	*9*	*20*
Receipts	10	- [(a)]
Payments	-	20
Closing balance at 30 June	**20**	**-**

Note: Columns may not add due to rounding.

(a) Amount less than $0.5 million.

Metropolitan Region Improvement Fund

This account was established in December 1959 under the *Metropolitan Region Improvement Tax Act 1959* to provide funds for the management of the Metropolitan Region Scheme. Receipts are sourced from Metropolitan Region Improvement Tax collections. Funds from the account are used on parks and recreation areas, the purchase of land for future roads, railways and other public purpose reservations, and to compensate owners of compulsory land acquisitions.

Receipts for the Fund in 2015-16 mainly reflect Metropolitan Region Improvement Tax ($101 million), proceeds from the sale of land and buildings ($10 million), and rental and interest revenue ($11 million). This Mid-year Review includes the use of $50 million from the Fund to purchase land at Neerabup and Alkimos from the Western Australian Land Authority (discussed in Appendix 3). Other payments from the Fund are mainly for the acquisition of other land and buildings ($35 million), associated service delivery costs ($30 million), a range of smaller infrastructure and works in progress ($1 million) and grants to the Department of Parks and Wildlife for park management ($1 million).

Table 5.3

METROPOLITAN REGION IMPROVEMENT FUND

	2014-15 $m	2015-16 $m
Balance at 1 July	*199*	*262*
Receipts	125	142
Payments	62	119
Closing balance at 30 June	**262**	**285**

Note: Columns may not add due to rounding.

Mining Rehabilitation Fund

The Mining Rehabilitation Fund was established in July 2013 to hold associated levy collections under the *Mining Rehabilitation Fund Act 2012*.

Receipts for 2015-16 reflect payments to the Fund by mining operators. Funds can be used to undertake rehabilitation activities where a tenement operator fails to meet rehabilitation obligations, and all other options available to recover funds from the operator have been exhausted. Interest earnings are used to fund administration of the Fund and for rehabilitation works (up to an approved limit of $5 million per year) on abandoned mine sites.

Table 5.4

MINING REHABILITATION FUND

	2014-15 $m	2015-16 $m
Balance at 1 July	*10*	*35*
Receipts	26	27
Payments	1	2
Closing balance at 30 June	**35**	**60**

Note: Columns may not add due to rounding.

Perth Children's Hospital Account

This SPA was established in October 2010 to hold money for the construction and start-up of the Perth Children's Hospital.

A total of $645 million (around 55%) of the construction costs for the hospital was funded from one-off royalty revenue and Consolidated Account surplus outcomes recorded over the period from 2009-10 to 2011-12. The remaining 45% of the hospital's funding, including receipts of $44 million as part of the 2015-16 Budget, represents Consolidated Account capital contributions to meet the scheduled construction work. Funds are drawn from the SPA and paid to WA Health as payments for construction work fall due. A small cash balance is expected to remain at the end of 2015-16 to provide for project close-out activities.

Table 5.5

PERTH CHILDREN'S HOSPITAL ACCOUNT

	2014-15 $m	2015-16 $m
Balance at 1 July	*94*	*187*
Receipts	350	44
Payments	256	210
Closing balance at 30 June	**187**	**21**

Note: Columns may not add due to rounding.

Perth Parking Licensing Account

This SPA was established in July 1999 to set aside funds to be used to encourage a balanced transport system for gaining access to the Perth city area.

Receipts consist of licence fees, penalties and money appropriated by Parliament. Funds drawn from the account are spent on the Central Area Transit system, improving public transport access, enhancing the pedestrian environment, supporting bicycle access and for administration of the *Perth Parking Management Act 1999.*

Higher receipts are forecast for 2015-16 relative to 2014-15 as a result of an increase in licence fees for all fee-liable Perth Parking Management Area parking bays (announced in the 2014-15 Budget). The additional revenue earned from this measure will be used to facilitate better public and active transport services and infrastructure in the city centre.

Table 5.6

PERTH PARKING LICENSING ACCOUNT

	2014-15 $m	2015-16 $m
Balance at 1 July	*55*	*13*
Receipts	48	57
Payments	91	61
Closing balance at 30 June	**13**	**9**

Note: Columns may not add due to rounding.

Perth Stadium Account

This SPA was established in October 2011 to set aside funds to be used for the construction of the new Perth Stadium and its surrounding Sport Precinct, and associated transport infrastructure. All infrastructure is expected to be completed by the end of 2017 for the stadium to be ready for operations by the start of the 2018 AFL season. All available funds in the SPA will be utilised as part of the funding to support construction.

Funds are drawn from the SPA as payments for the stadium and related transport infrastructure construction work fall due. Forecast payments of $382 million in 2015-16 reflect payments totalling $259 million for stadium works (being conducted under a Design Build Finance Maintain Public Private Partnership model) and a further $123 million for related transport infrastructure. Relative to the 2015-16 Budget, additional spending of $22 million in 2015-16 reflects accelerated stadium works.

Table 5.7

PERTH STADIUM ACCOUNT

	2014-15 $m	2015-16 $m
Balance at 1 July	*47*	*121*
Receipts	145	265
Payments	71	382
Closing balance at 30 June	**121**	**4**

Note: Columns may not add due to rounding.

Road Trauma Trust Account

This account was established to provide for road safety initiatives. Receipts reflect prescribed penalties paid during the year, other funds collected under the *Road Traffic (Administration) Act 2008*, and interest revenue earned on the account balance.

Key initiatives to be funded from the account in 2015-16 include:

- improvements to metropolitan intersections to reduce the incidence and severity of vehicle crashes;
- strategic traffic enforcement and increased breath and drug testing by Western Australia Police;
- replacement and expansion of speed cameras;
- preliminary design and technical assessment work towards improvements to Toodyay Road;
- continuation of the electronic school zone sign project;
- safety improvements to sections of Albany Highway;
- community and school education programs; and
- continued support for ‘Roadwise’ (the Local Government and Community Road Safety Program).

Table 5.8

ROAD TRAUMA TRUST ACCOUNT

	2014-15 $m	2015-16 $m
Balance at 1 July	*72*	*94*
Receipts	103	115
Payments	82	137
Closing balance at 30 June	**94**	**72**

Note: Columns may not add due to rounding.

Royalties for Regions Fund

The Royalties for Regions Fund was established in December 2008 to set aside a share of the State's annual royalty income to fund investment in regional Western Australia. The balance held in the Fund at any time cannot exceed $1 billion.

Receipts reflect interest on Fund balances and the statutory funding for the program based on 25% of royalty forecasts at the time of the 2015-16 Budget, adjusted for the $1 billion cap on the Fund balance.

Payments include transfers to agencies that deliver parts of the program, and transfers to the Western Australian Future Fund, the Southern Inland Health Initiative and to the Regional Reform Fund, each disclosed separately in this appendix.

Details of the Royalties for Regions program are available in Appendix 6 of this Mid-year Review.

Table 5.9

ROYALTIES FOR REGIONS FUND

	2014-15 $m	2015-16 $m
Balance at 1 July	*940*	*1,000*
Receipts	1,210	938
Payments	1,150	1,011
Closing balance at 30 June	**1,000**	**927**

Note: Columns may not add due to rounding.

Royalties for Regions Regional Reform Fund

The Regional Reform Fund SPA was approved as part of the 2015-16 Budget. The Fund is to receive $50 million per year from Royalties for Regions over the period 2014-15 to 2016-17. The Fund will support strategic reform initiatives in regional Western Australia designed to support the Government's objectives. The first focus area will centre on regional Aboriginal reform initiatives. Funds will be allocated to specific projects once the most effective and efficient mode of delivery has been determined.

Table 5.10

ROYALTIES FOR REGIONS REGIONAL REFORM FUND

	2014-15 $m	2015-16 $m
Balance at 1 July	-	*50*
Receipts	50	50
Payments	-	-
Closing balance at 30 June	**50**	**100**

Note: Columns may not add due to rounding.

Royalties for Regions Southern Inland Health Initiative

This SPA was established in June 2012 to hold funds for expenditure on the Southern Inland Health Initiative, pursuant to section 9(1) of the *Royalties for Regions Act 2009*.

Funds paid into this account are sourced from the Royalties for Regions Fund (see earlier disclosure) and are drawn from the SPA to support improved access to core health services through the provision of additional resources, improvements to local hospitals and health facilities, and telehealth services in the Great Southern, Mid West, Goldfields, South West and Wheatbelt regions.

Table 5.11

ROYALTIES FOR REGIONS SOUTHERN INLAND HEALTH INITIATIVE

	2014-15 $m	2015-16 $m
Balance at 1 July	*273*	*219*
Receipts	4	16
Payments	59	91
Closing balance at 30 June	**219**	**144**

Note: Columns may not add due to rounding.

Waste Avoidance and Resource Recovery Account

The Waste Avoidance and Resource Recovery Account was established in 2008 under section 79 of the *Waste Avoidance and Resource Recovery Act 2007* to hold revenue allocated from the landfill levy. The purpose of the account is to fund programs and other initiatives related to the management, reduction, reuse, recycling, monitoring or measurement of waste.

Forecast receipts in 2015-16 are higher relative to 2014-15, reflecting an increase in landfill levy rates announced in the 2014-15 Budget, which took effect on 1 January 2015.

Table 5.12

WASTE AVOIDANCE AND RESOURCE RECOVERY ACCOUNT

	2014-15 $m	2015-16 $m
Balance at 1 July	*16*	*21*
Receipts	16	27
Payments	12	30
Closing balance at 30 June	**21**	**18**

Note: Columns may not add due to rounding.

Western Australian Future Fund

The Western Australian Future Fund was established following the passage of the *Western Australian Future Fund Act 2012* in November 2012. The Act provides for an accruing balance over 20 years to 2032, after which the annual interest earnings can be drawn down to fund economic or social infrastructure across Western Australia.

Announced as part of the 2012-13 Budget, the Future Fund has received $933 million in 'seed capital' from the Royalties for Regions Fund over the period 2012-13 to 2015-16. From 2016-17 onwards, 1% of the State's annual royalty revenue will be paid into the Fund. Receipts for 2015-16 include the Royalties for Regions 'seed capital' contribution ($126 million) and forecast interest receipts ($29 million).

The Future Fund is projected to accumulate $1.3 billion in funds by 30 June 2019 and, on current projections, a total of $3.5 billion by 30 June 2032.

Table 5.13

WESTERN AUSTRALIAN FUTURE FUND

	2014-15 $m	2015-16 $m
Balance at 1 July	*596*	*879*
Receipts	283	154
Payments	-	-
Closing balance at 30 June	**879**	**1,033**

Note: Columns may not add due to rounding.

APPENDIX 6

Royalties for Regions

Forecast spending by Royalties for Regions in 2015-16 is estimated to be $950 million, unchanged from the 2015-16 Budget estimate. This is a $58 million (or 6.5%) increase on the $892 million spent in 2014-15.

An update of the projections for individual initiatives that make up the Royalties for Regions program is shown below. Notable changes to the program since the 2015-16 Budget include:

- the carryover of $132.7 million in expenditure from 2014-15 into 2015-16 and the forward estimate years, caused by delays in the progress of projects; and
- the expenditure program in 2015-16 and the forward estimate years being rescheduled to reflect updated timing of expenditure of individual projects.

The following table summarises projected balances in the Royalties for Regions Fund over the forward estimates period. Payments from the Fund also include transfers to the Western Australian Future Fund and Regional Reform Fund, transfers to agencies that deliver some parts of the program, and transfers to the Southern Inland Health Initiative Special Purpose Account. Accordingly, aggregate payments from the Royalties for Regions Fund can exceed the spending program established as part of the 2015-16 Budget.

Table 6.1

ROYALTIES FOR REGIONS FUND

	2014-15 $m	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
Balance at 1 July	*940*	*1,000*	*927*	*929*	*1,000*
Receipts	1,210	938	926	1,002	996
Payments	1,150	1,011	925	931	996
Balance at 30 June	1,000	927	929	1,000	1,000

Note: Columns may not add due to rounding.

Royalty forecasts have been revised down over the forward estimates period since the 2015-16 Budget (see Chapter 1). Receipts into the Royalties for Regions Fund are forecast to remain constant at 25% of royalty income in 2016-17, while receipts are projected to increase to 24.6% in 2017-18 (up from 20%) and 22.7% in 2018-19 (up from 19%) reflecting the decline in estimated royalty income over the outyears. The proportion of receipts paid into the Fund in these years is less than the 25% funding formula due to the statutory $1 billion cap on Fund balances for the year.

The percentage of mining royalties received into the Fund in 2015-16 is now estimated to be 24.2% based on the 2015-16 Mid-year Review. While this is less than 25% of the forecast royalty income for the year, the appropriation for the current budget year (authorised by section 6(1) of the *Royalties for Regions Act 2009*) is set at Budget-time, and is not changed during the financial year.

Table 6.2

ROYALTIES FOR REGIONS EXPENDITURE

INITIATIVE	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-Year Revision $m	2016-17 Mid-Year Revision $m	2017-18 Mid-Year Revision $m	2018-19 Mid-Year Revision $m	**Total Four Years $m**
COUNTRY LOCAL GOVERNMENT FUND							
Administration of CLGF	0.5	1.0	1.0	-	-	-	**1.0**
Regional Centres Development Plan	0.1	6.7	6.0	1.4	4.5	4.0	**15.9**
Regional Groupings and Individuals	49.9	-	-	-	-	-	**-**
Local Government Facilitation	1.0	-	-	-	-	-	**-**
Capacity Building - Regional Governance Services and Asset Management Tools	1.5	4.9	4.8	5.1	-	-	**9.9**
TOTAL - COUNTRY LOCAL GOVERNMENT FUND	**52.9**	**12.6**	**11.8**	**6.5**	**4.5**	**4.0**	**26.8**
REGIONAL COMMUNITY SERVICES FUND							
Regional Community Programs and Schemes							
Country Age Pension Fuel Card	25.6	30.4	30.4	34.0	34.6	35.3	**134.3**
Volunteer Fuel Card	-	1.8	1.9	1.8	1.8	1.8	**7.3**
Regional Police Incentives	1.5	2.8	2.8	2.8	1.2	-	**6.7**
Regional Workers Incentives	37.8	25.9	26.0	26.7	27.2	28.1	**108.0**
Fire Crew Protection	1.1	5.1	4.1	3.5	2.6	-	**10.2**
Modernising the Framework for WA's Crown Land	-	1.3	1.0	1.0	-	-	**2.1**
Boarding Away From Home	-	1.7	1.7	1.8	2.0	2.0	**7.5**
Community Resource Centres	11.9	13.0	13.0	14.0	14.0	14.0	**55.0**
Wild Dogs Management Plan	0.7	0.5	0.8	-	-	-	**0.8**
Performing Arts Regional Tours Boost	0.4	0.3	0.4	0.3	-	-	**0.6**
Creative Regions Program	2.5	6.8	6.8	7.3	7.3	-	**21.5**
Black Diggers Perth International Arts Festival	-	-	-	-	-	-	**-**
Breath Film Production	-	-	1.5	-	-	-	**1.5**
Regional Screen Production Fund	-	-	3.0	5.0	7.0	5.0	**20.0**
Regional Western Australian Museums	2.1	-	-	-	-	-	**-**
Regional Art Galleries of Western Australia	0.6	-	-	-	-	-	**-**
Albany Entertainment Centre	-	0.5	0.6	0.6	0.6	0.6	**2.3**
Regional Tourism Marketing Campaign	-	4.3	4.3	6.7	-	-	**11.0**
Community Pool Revitalisation	3.3	3.3	3.3	3.3	3.3	-	**9.9**
Regional Visitor Centres	0.3	1.3	1.3	1.3	1.3	-	**3.9**
Caravan and Camping	10.9	11.2	15.6	11.0	2.8	-	**29.4**
WA Regional Small Business Awards	0.2	0.2	0.2	0.2	0.2	-	**0.6**
Community Sporting and Recreation Facilities Fund	4.1	-	-	-	-	-	**-**
Supporting Community Sport	0.5	0.8	0.9	0.7	0.5	-	**2.1**
Foodbank	0.2	0.2	0.2	0.2	0.2	-	**0.7**
Better Beginnings - Early Literacy	0.6	0.8	0.9	0.9	0.8	-	**2.7**
Regional Young People Program	-	-	0.4	5.7	7.7	8.0	**21.7**
Responsible Parenting Support Services	9.3	10.6	10.6	-	-	-	**10.6**
Rangelands Reform Program	0.2	0.4	0.4	-	-	-	**0.4**
Public Recreation and Joint Management Arrangements for the Ningaloo Coast	-	-	0.3	0.7	2.4	2.4	**5.9**
New Kimberley National Parks	0.6	1.2	0.8	2.1	-	-	**2.9**
Great Kimberley Marine Park	1.1	2.5	2.8	8.0	-	-	**10.8**
Royal Agricultural Society Show Concessions - Free entry for Children	0.9	0.8	-	-	-	-	**-**
Dirk Hartog 400th Anniversary Commemorations	-	0.6	0.6	0.2	-	-	**0.8**
Enhanced Prescribed Burning Program	-	3.5	3.5	5.5	5.5	5.5	**20.0**
South West Emergency Rescue Helicopter Service	0.1	12.5	9.1	13.3	7.5	-	**29.9**
Public Sector Regional Leadership	0.6	0.6	0.1	-	-	-	**0.1**
Regional Buy Local Initiatives	0.9	2.7	2.2	3.0	4.0	-	**9.2**
Regional Events Program	11.3	11.6	11.6	10.0	10.0	10.0	**41.6**
Kimberley Science and Conservation Strategy	1.9	-	0.4	0.8	-	-	**1.2**
Marine Parks Management	1.8	2.1	2.3	1.1	1.0	5.7	**10.0**
Support for Racecourse Infrastructure Grants Program	1.0	1.0	1.0	1.0	1.0	1.0	**4.0**
Regional Community Programs and Schemes Subtotal	**133.7**	**162.4**	**166.8**	**174.6**	**146.7**	**119.3**	**607.5**

Source: Department of Regional Development.

Table 6.2 (cont.)

ROYALTIES FOR REGIONS EXPENDITURE

INITIATIVE	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-Year Revision $m	2016-17 Mid-Year Revision $m	2017-18 Mid-Year Revision $m	2018-19 Mid-Year Revision $m	**Total Four Years $m**
Regional Health Programs							
Better Health for Fitzroy Kids	0.3	0.1	0.1	0.1	-	-	**0.2**
Goldfields Emergency Telehealth	0.8	2.1	2.8	2.2	2.3	-	**7.2**
Wheatbelt Renal Dialysis	-	0.1	0.1	0.9	1.0	1.5	**3.5**
Rural Palliative Care Program	1.0	1.3	1.3	1.3	0.5	-	**3.0**
Patient Assisted Travel Scheme	10.1	10.3	10.5	10.7	11.0	11.3	**43.5**
Royal Flying Doctor Service	4.0	4.0	4.0	-	-	-	**4.0**
Rural Generalist (Practice) Pathways	2.6	-	-	-	-	-	**-**
Forward to Fellowship	-	-	0.3	0.2	-	-	**0.5**
St John Ambulance Services in Country WA	8.2	8.1	8.2	-	-	-	**8.2**
Pilbara Cardiovascular Screen Program	0.3	-	-	-	-	-	**-**
Ear, Eye and Oral Health	1.4	1.5	1.6	1.5	1.5	-	**4.6**
Subacute Mental Health Services in Karratha	-	5.3	5.3	2.7	3.4	3.5	**14.9**
Subacute Mental Health Services in Bunbury	-	4.6	4.6	2.1	3.1	3.2	**13.0**
Regional Patient Accommodation Facility	2.5	-	-	-	-	-	**-**
Regional Men's Health	0.6	0.8	1.0	0.8	0.8	-	**2.6**
Regional Health Programs Subtotal	**31.7**	**38.2**	**39.7**	**22.4**	**23.5**	**19.5**	**105.1**
Aboriginal Initiatives							
Regional Youth Justice Strategy Kimberley and Pilbara Expansion	13.5	15.0	15.1	15.0	15.0	-	**45.1**
Clontarf Colleges	1.4	1.4	1.4	1.5	-	-	**2.9**
Aboriginal Tourism Development Program	-	1.2	1.2	1.2	1.2	1.2	**4.6**
Aboriginal Justice Program - Enhanced Driver Training and Education for Regional and Remote Communities	1.1	1.6	1.2	2.1	1.5	-	**4.8**
Aboriginal Justice Program - Enhanced Services for Victims of Crime Within Regional and Remote Communities	0.5	1.3	1.3	1.7	1.1	-	**4.1**
Aboriginal Community Critical Response Fund	0.9	2.5	2.6	3.0	1.7	-	**7.2**
NorthWest Drug and Alcohol Support Program	6.8	5.6	5.7	5.6	-	-	**11.3**
Improving Water Quality in Remote Aboriginal Communities	2.4	-	0.5	-	-	-	**0.5**
Governance and Leadership Development Program	-	1.3	1.6	0.7	-	-	**2.3**
Indigenous Visitor Hostels	2.0	1.8	2.0	1.8	1.6	1.3	**6.7**
Jigalong Essential Services Pilot	6.4	0.6	2.9	-	-	-	**2.9**
Remote Indigenous Health Clinics	0.5	5.5	10.9	-	-	-	**10.9**
Aboriginal Initiatives Subtotal	**35.6**	**37.7**	**46.3**	**32.6**	**21.9**	**2.5**	**103.3**
Regional Strategic Projects							
Regional Strategic Projects	32.3	21.3	17.1	14.2	14.0	12.5	**57.8**
Regional Strategic Projects Subtotal	**32.3**	**21.3**	**17.1**	**14.2**	**14.0**	**12.5**	**57.8**
Seizing the Opportunity Agriculture							
Seizing the Opportunity Agriculture	-	16.9	8.9	18.7	21.3	11.9	**60.7**
Infrastructure Audit and Infrastructure Investment Fund	-	21.5	2.0	21.5	34.0	19.5	**77.0**
Food Industry Innovation	-	3.0	1.4	2.3	2.1	-	**5.8**
Northern Beef Industry Strategy	1.7	5.7	4.4	3.7	2.8	2.4	**13.3**
Sheep Industry Business Innovation	1.1	3.0	2.8	3.3	2.8	-	**8.9**
Boosting Biosecurity Defences	2.9	6.5	6.9	7.5	2.7	-	**17.1**
Help Grain Growers to Better Manage Risk	0.5	3.5	3.5	3.6	2.3	-	**9.5**
Agricultural Sciences Research and Development	-	6.3	5.6	9.7	6.5	3.8	**25.5**
Boost Grains Research and Development Support	0.9	6.8	4.2	7.4	7.5	-	**19.2**
Asia Market Development	-	2.2	2.0	3.6	0.4	-	**6.0**
Water for Food	5.9	15.6	17.9	9.9	6.1	-	**33.9**
Muresk Institute Agricultural Degree	2.1	2.6	4.0	2.3	1.6	-	**7.9**
Seizing the Opportunity Agriculture	**15.1**	**93.5**	**63.6**	**93.5**	**90.1**	**37.6**	**284.7**
TOTAL - REGIONAL COMMUNITY SERVICES FUND	**248.4**	**353.1**	**333.5**	**337.2**	**296.3**	**191.4**	**1,158.4**
REGIONAL INFRASTRUCTURE AND HEADWORKS FUND							
Regional Capital Works Initiative							
Regional Capital Works Initiative	13.5	2.6	4.4	3.1	12.5	-	**20.0**
Regional Capital Works Initiative Subtotal	**13.5**	**2.6**	**4.4**	**3.1**	**12.5**	**-**	**20.0**

Source: Department of Regional Development.

Table 6.2 (cont.)

ROYALTIES FOR REGIONS EXPENDITURE

INITIATIVE	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-Year Revision $m	2016-17 Mid-Year Revision $m	2017-18 Mid-Year Revision $m	2018-19 Mid-Year Revision $m	Total Four Years $m
Pilbara Cities Initiative							
Karratha Health Campus	4.4	15.0	20.2	72.5	90.8	16.5	**199.9**
Pilbara Health Partnership	8.0	1.8	2.7	-	-	-	**2.7**
Northern Towns Development Fund	4.3	5.3	6.6	0.3	-	-	**6.9**
Pilbara Cities Strategic Infrastructure	105.8	158.4	154.8	94.3	122.0	87.5	**458.6**
Pilbara Cities Community Projects	4.5	19.7	14.6	7.4	12.0	34.2	**68.1**
Pilbara Fabrication and Services Common Use Facility	0.0	1.9	2.3	-	-	-	**2.3**
The Quarter	0.1	5.3	5.7	0.3	-	-	**5.9**
Pilbara Cities Initiative Subtotal	**127.1**	**207.4**	**206.8**	**174.7**	**224.8**	**138.1**	**744.4**
Regional Housing							
Affordable Housing for Workers	-4.4	51.5	20.7	32.4	20.7	3.8	**77.7**
Social Housing Project	-	-	18.3	19.6	25.4	22.0	**85.3**
Government Regional Officer Housing Boost	27.2	-	5.2	-	-	-	**5.2**
Broome Aboriginal Short Stay Accommodation Facility	-	-	5.1	11.0	5.0	-	**21.1**
Regional Housing Subtotal	**22.8**	**51.5**	**49.3**	**63.1**	**51.1**	**25.8**	**189.2**
East Kimberley Revitalisation							
Kununurra Courthouse	2.7	4.8	4.2	6.0	-	-	**10.2**
East Kimberley Revitalisation Subtotal	**2.7**	**4.8**	**4.2**	**6.0**	**-**	**-**	**10.2**
West Kimberley Revitalisation							
China Town Redevelopment	-	10.0	10.0	-	-	-	**10.0**
West Kimberley Transitional Housing Program	18.5	13.5	8.5	5.9	-	-	**14.4**
Fitzroy Crossing Courthouse	2.6	2.9	2.3	-	-	-	**2.3**
Broome Wharf Extension of Life	2.1	-	-	-	-	-	**-**
Broome Road Industrial Area	6.4	10.0	8.5	-	-	-	**8.5**
West Kimberley Revitalisation Subtotal	**29.5**	**36.4**	**29.4**	**5.9**	**-**	**-**	**35.3**
Goldfields Esperance Revitalisation							
Goldfields Esperance Revitalisation	-	20.0	12.6	9.8	19.2	26.6	**68.2**
Goldfields Esperance Revitalisation Unit	-	-	0.4	0.8	0.8	0.8	**2.7**
Kalgoorlie-Boulder Community High School	4.6	20.0	24.3	14.0	0.2	1.9	**40.4**
Ray Finlayson Sporting Complex	-	-	6.0	-	-	-	**6.0**
Boulder City Station Rail Development	-	-	3.7	-	-	-	**3.7**
Great Eastern Highway Passing Lanes	-	2.0	-	14.0	22.0	-	**36.0**
Goldfields Arts Centre	4.3	1.5	1.6	0.3	-	-	**1.9**
Goldfields Esperance Revitalisation Subtotal	**9.0**	**43.5**	**48.6**	**38.9**	**42.2**	**29.2**	**158.8**
Southern Investment Initiative - Growing Our South							
Southern Investment Initiative - Growing Our South	78.6	39.9	39.9	31.5	121.4	220.1	**412.9**
Southern Investment Initiative - Growing Our South Subtotal	**78.6**	**39.9**	**39.9**	**31.5**	**121.4**	**220.1**	**412.9**
Statewide Regional Blueprint Initiatives							
Statewide Regional Blueprint Initiatives	-	13.0	13.0	15.0	53.2	252.9	**334.1**
Statewide Regional Blueprint Initiatives Subtotal	**-**	**13.0**	**13.0**	**15.0**	**53.2**	**252.9**	**334.1**
Gascoyne Revitalisation							
Gascoyne Development Plan	29.8	6.8	7.2	-	-	-	**7.2**
Denham Timber Jetty Replacement	0.6	1.4	1.6	-	-	-	**1.6**
Exmouth Health Clinic	6.1	1.7	0.8	-	-	-	**0.8**
Carnarvon Health Campus	10.7	3.2	7.8	-	-	-	**7.8**
Coral Bay Seasonal Staff Accommodation	0.1	0.6	0.6	0.1	0.1	0.1	**0.9**
Exmouth Boat Harbour	1.0	4.6	6.1	11.2	-	-	**17.3**
Gascoyne Revitalisation Subtotal	**48.3**	**18.2**	**24.1**	**11.3**	**0.1**	**0.1**	**35.6**
Mid West Revitalisation							
Midwest Investment Plan	12.5	42.4	39.8	25.2	26.8	20.5	**112.4**
Midwest Unit	0.6	0.8	0.8	0.5	-	-	**1.3**
Mid West Revitalisation Subtotal	**13.1**	**43.2**	**40.6**	**25.7**	**26.8**	**20.5**	**113.7**

Source: Department of Regional Development.

Table 6.2 (cont.)

ROYALTIES FOR REGIONS EXPENDITURE

INITIATIVE	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-Year Revision $m	2016-17 Mid-Year Revision $m	2017-18 Mid-Year Revision $m	2018-19 Mid-Year Revision $m	**Total Four Years $m**
Regional Health Infrastructure							
Esperance Health Campus	7.6	3.8	8.8	-	-	-	**8.8**
North West Health Initiative	-	5.7	5.7	28.0	61.6	54.8	**150.1**
Laverton Health Centre	-	0.5	-	0.5	4.0	12.0	**16.5**
Busselton ICT	6.9	-	3.5	-	-	-	**3.5**
Regional Health Infrastructure Subtotal	**14.5**	**10.1**	**18.0**	**28.5**	**65.6**	**66.8**	**178.8**
Southern Inland Health Initiative							
District Medical Workforce Investment Program	26.8	34.6	37.8	34.6	7.1	-	**79.5**
District Hospital Investment Program (Operating)	8.7	17.8	19.4	76.5	51.3	10.8	**158.0**
Primary Health Centres Demonstration Program	0.9	5.1	4.6	10.1	14.8	7.8	**37.3**
Small Hospital and Nursing Post Refurbishment Program	4.4	26.2	16.1	57.1	5.1	9.9	**88.2**
Telehealth Investment Program (Operating)	3.8	7.3	7.3	7.6	11.0	-	**26.0**
Residential Aged and Dementia Care Investment Program	0.1	9.9	5.3	10.0	4.5	-	**19.8**
Renal Dialysis Service Expansion	0.3	2.4	0.7	2.4	3.3	-	**6.5**
Southern Inland Health Initiative Subtotal	**45.1**	**103.4**	**91.4**	**198.3**	**97.1**	**28.5**	**415.3**
Regional Skills and Training							
Regional Skills and Training Initiative	31.0	7.1	11.5	0.5	0.5	0.3	**12.8**
Regional Skills and Training Subtotal	**31.0**	**7.1**	**11.5**	**0.5**	**0.5**	**0.3**	**12.8**
Regional Schools							
Carnarvon Community College	-	2.0	0.5	8.0	9.1	-	**17.6**
Cunderdin Agriculture College	1.7	-	-	-	-	-	**-**
Regional Schools Plan	5.7	-	0.7	-	-	-	**0.7**
Relocation of Year 7 Students	8.7	-	3.0	-	-	-	**3.0**
Regional Residential College Upgrades	5.7	16.2	14.2	-	-	8.7	**22.9**
Regional Schools Subtotal	**21.7**	**18.2**	**18.4**	**8.0**	**9.1**	**8.7**	**44.2**
Portlink Inland Freight Corridor							
Portlink Inland Freight Corridor Planning	1.4	1.2	1.0	-	-	-	**1.0**
Portlink Inland Freight Corridor Subtotal	**1.4**	**1.2**	**1.0**	**-**	**-**	**-**	**1.0**
Regional Development - Water and NRM Initiatives							
Regional Development Water and NRM Initiatives	17.4	12.3	16.4	0.4	-	-	**16.8**
Managing Western Australia's Natural Resources: Supporting Community Involvement	-	6.4	6.3	6.2	6.2	0.5	**19.2**
Regional Natural Resource Management - State Barrier Fence	1.1	3.2	3.5	2.5	-	-	**6.1**
Regional Development - Water and NRM Initiatives Subtotal	**18.6**	**21.8**	**26.3**	**9.1**	**6.2**	**0.5**	**42.1**
Regional Centres Development Plan (SuperTowns)							
SuperTowns Development Planning Fund	-	-	-	-	-	-	**-**
Regional Centres Development Plan (SuperTowns) Subtotal	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Regional Infrastructure Projects							
Regional Mobile Communications Project	6.7	-	-	-	-	-	**-**
Regional Telecommunications Project - Stage 2	3.3	10.0	11.7	10.0	20.0	-	**41.7**
Community Safety Network (Operating)	9.6	21.7	21.8	19.7	9.5	6.4	**57.4**
Recreational Boating Facilities Scheme (Operating)	2.3	4.5	4.7	3.1	-	-	**7.9**
Regional Airports Development Scheme	4.7	4.0	4.0	-	-	-	**4.0**
Doppler Radar Project	22.6	-	0.2	0.2	0.1	-	**0.5**
Ravensthorpe Heavy Haulage Route	5.5	-	-	-	-	-	**-**
Middleton Beach Hotel Site	3.3	1.5	1.4	0.2	-	-	**1.5**
Parks and Wildlife Headquarters	-	1.3	1.3	12.8	3.9	-	**18.0**
Conservation Parks Infrastructure and Roads	1.4	-	1.8	-	-	-	**1.8**
Avonlink Enhancement Project	2.0	2.2	2.2	2.2	-	-	**4.4**
Bunbury Marine Facilities	1.0	-	-	-	-	-	**-**
Bunbury to Albany Gas Pipeline	-	7.0	7.0	-	-	12.5	**19.5**
Living Lakes	0.4	1.0	1.1	2.0	2.0	2.0	**7.1**
Collie Water Plan (Operating)	-	-	-	-	-	-	**-**
Road Coach Capital Replacement Program	0.0	9.7	9.5	5.6	-	-	**15.1**
Regional Bus Acquisition	3.4	-	-	-	-	-	**-**
Regional Infrastructure Projects Subtotal	**66.2**	**62.9**	**66.6**	**55.8**	**35.5**	**20.9**	**178.9**
TOTAL - REGIONAL INFRASTRUCTURE AND HEADWORKS FUND	**543.1**	**685.1**	**693.5**	**675.4**	**746.1**	**812.4**	**2,927.4**

Source: Department of Regional Development.

Table 6.2 (cont.)

ROYALTIES FOR REGIONS EXPENDITURE

INITIATIVE	2014-15 Actual $m	2015-16 Budget Estimate $m	2015-16 Mid-Year Revision $m	2016-17 Mid-Year Revision $m	2017-18 Mid-Year Revision $m	2018-19 Mid-Year Revision $m	Total Four Years $m
NEW REGIONAL AND STATEWIDE INITIATIVES							
New Regional and Statewide Initiatives	-	20.7	35.4	53.1	74.1	113.4	**275.9**
Administration	47.5	55.0	52.3	54.3	55.5	55.3	**217.4**
TOTAL - NEW REGIONAL AND STATEWIDE INITIATIVES	**47.5**	**75.7**	**87.7**	**107.4**	**129.6**	**168.7**	**493.4**
Over-Programming Provision	-	**-176.5**	**-176.5**	**-176.5**	**-176.5**	**-176.5**	**-705.9**
TOTAL - ROYALTIES FOR REGIONS FUND [(a)]	**891.9**	**950.0**	**950.0**	**950.0**	**1,000.0**	**1,000.0**	**3,900.0**
TRANSFER TO:							
FUTURE FUND CONTRIBUTION [(b)]	**262.5**	**125.6**	**125.6**	-	-	-	**125.6**
REGIONAL REFORM FUND CONTRIBUTION	**50.0**	**50.0**	**50.0**	**50.0**	-	-	**150.0**

(a) Columns and rows may not add due to rounding.

(b) Total Royalties for Regions Future Fund contributions are $932.6 million over the four years to 2015-16.

Source: Department of Regional Development.