

STRUCTURE OF THE WESTERN AUSTRALIAN ECONOMY

February 2002



Department of Treasury and Finance
Government of Western Australia

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STRUCTURE OF THE WESTERN AUSTRALIAN ECONOMY

EXECUTIVE SUMMARY

This paper provides some information on the structure of the Western Australian economy from a production perspective. Rather than the more usual approach of breaking gross State product (GSP) into the component (demand side) parts of: consumption, investment, exports and imports, this paper discusses the contribution of the mining, manufacturing, services, construction and agricultural sectors.

What sets Western Australia apart from the rest of Australia is its very strong reliance on the mineral and energy sector for export income and economic growth. Not only does this sector make a very strong direct contribution to the economy, but also an indirect contribution through the manufacturing sector, which has demonstrated strong growth in recent years due largely to the downstream processing of minerals.

While the State's dependence on agriculture has fallen progressively over the past century, it should be noted that agricultural output remains high, and indeed, the value of wheat production reached a record level in 1999-2000. Agricultural products are also the second largest contributor to Western Australia's export income (behind the minerals and energy sector).

While the mineral and energy sectors dominate the economy, they are capital intensive industries and the services sector is by far the most important from an employment perspective.

In terms of finances, the State's main revenue source is Commonwealth Grants, but the mineral and energy sector is also a strong contributor to the State's finances through payroll tax and royalties.

The size of the State and the importance of large mining projects to the economy provides a substantial challenge for the Government's Capital Works Program and means that investment in infrastructure such as roads and other multiuser facilities is essential.

As such, the State spends a considerable amount each year on developing and maintaining its economic and social infrastructure.

By far the largest recurrent expenditure pressure for the State is education, closely followed by health, and again, the geographical dispersion of the population creates unique challenges and additional costs to the State – a fact recognised by the Grants Commission in its determination of payments from the Commonwealth to the States.

This paper is intended to complement the range of information available on the demand components of GSP, including the quarterly *Western Australian Economic Summary* compiled by the Department of Treasury and Finance.

INTRODUCTION

This paper examines the nature and composition of the Western Australian economy. It departs from the more common approach of discussing the *demand* components, and instead focuses on the industry¹ or *production* structure of the Western Australian economy. Using this framework, the major trends and factors peculiar to the Western Australian economic landscape are analysed.

As might be expected, the paper highlights the dominance of the mining industry as the outstanding feature of the Western Australian economy. Growth in mining and mineral processing has substantially driven economic growth in the State and contributed to higher than average per capita income growth over the past decade or so.

However, the analysis also highlights some, not so obvious, facets of the State's economy, such as the relatively small (and diminishing) contribution of the agricultural industry, as well as the existence of a significant manufacturing base (albeit substantially linked to the mining industry).

Furthermore, despite the mining industry's status as the pre-eminent industry sector, it is anything *but* a major direct contributor to employment in the State. That title belongs to the services sector, which employs more than two thirds of working Western Australians.

The analysis concludes by briefly considering Western Australia's fiscal circumstances, with a specific focus on how the State's economic circumstances affect how much revenue we raise, how we go about raising it, and how it is spent.

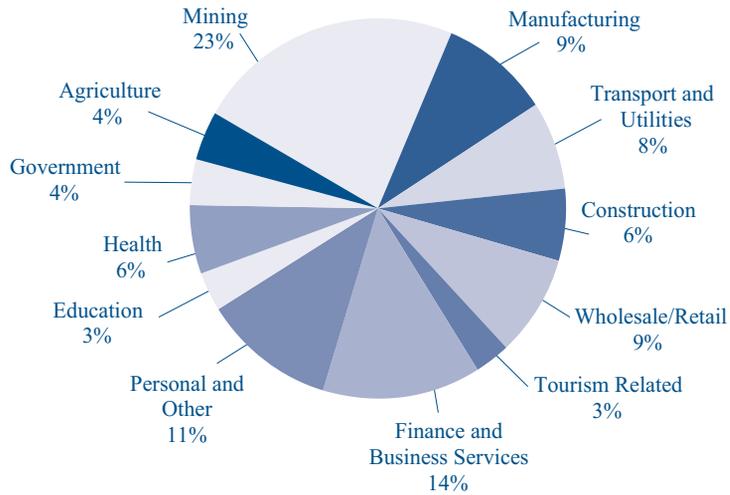
OVERVIEW

As illustrated by the following chart, the Western Australian economy is dominated by the mining industry, which generated nearly a quarter of the State's output in 2000-01. This compares with the mining industry's 2.8% contribution for the rest of Australia.²

¹ This paper uses as its framework the main industry sectors identified by the Australian Bureau of Statistics (ABS) publication cat. 5220024.

² ABS AusStats cat. 5220024.

WESTERN AUSTRALIAN OUTPUT BY INDUSTRY, 2000-01



Source: ABS AusStats cat. 5220024.

Western Australia was home to around 9.9% of the national population in 2000-01³ and provided 10.6% of the nation’s output – a higher per capita ratio than any other State. New South Wales, Victoria and the ACT also have disproportionately high output relative to their population share, as is illustrated in the following chart.

STATE PER CAPITA OUTPUT RELATIVE TO NATIONAL PER CAPITA OUTPUT 2000-01



Source: ABS AusStats cat. 310104, 5220020.

³ ABS AusStats cat. 310104.

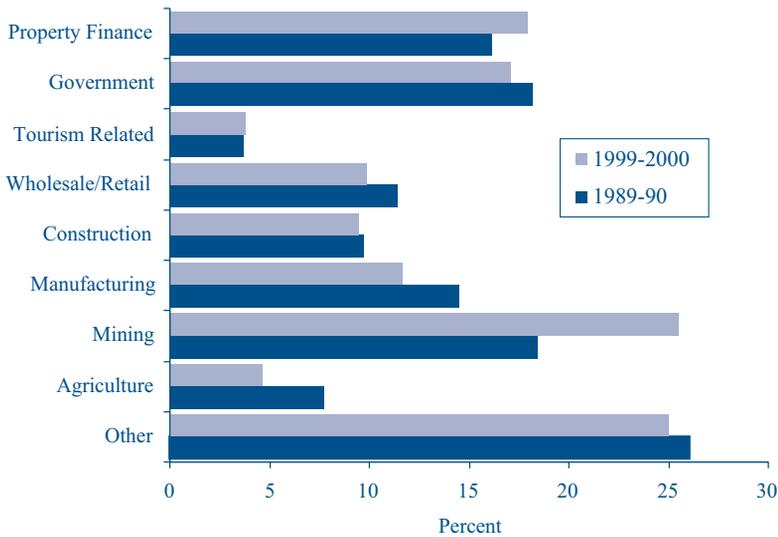
Western Australia’s higher per capita contribution to national output reflects the exceptionally strong growth in the mining industry over the past decade. There has been substantial investment in the extraction of new commodities and also in minerals processing during this time.

By far the biggest resource project in the State is the \$12 billion North West Shelf project operated by Woodside Energy Ltd. With construction having begun in 1981, and production commencing in 1984, it is also the nation’s largest natural resource development. An expansion of the North West Shelf project is currently underway and will see output increase significantly from 2004.

There has also been considerable investment in the iron ore industry, laterite nickel mining, mineral sands and diamonds. Western Australia accounts for a significant share of global production of all of these commodities.

As a result of this kind of investment, mining’s share of Western Australia’s output has increased strongly over the decade. This has been accompanied by a decline in the relative shares of agriculture and manufacturing. The shares of government and wholesale/retail have also declined slightly.

**GROSS STATE PRODUCT BY INDUSTRY
Western Australia**



Source: ABS cat. 5220020.

While manufacturing's *share* of State output has remained relatively steady (at around 9%) over the past five years, the rate of *growth* in the manufacturing industry in Western Australia has been stronger than for Australia as a whole (at 7.3% compared to 4.4% nationally), due to substantial investment in the downstream processing of minerals. The rate of growth of individual industries is shown in the following table.

**INDUSTRY STRUCTURE
WESTERN AUSTRALIA AND AUSTRALIA**

	Annual Average Growth 1989-90 to 1994-95		Annual Average Growth 1994-95 to 2000-01	
	Western Australia	Australia	Western Australia	Australia
	%	%	%	%
Agriculture	-0.6	-4.3	3.1	6.8
Mining	11.2	3.9	10.7	7.6
Manufacturing	1.6	3.2	7.3	4.4
Construction	2.8	1.1	3.8	3.8
Wholesale/Retail	6.5	3.6	2.4	4.1
Tourism Related	6.4	6.6	7.9	8.7
Government	4.6	4.7	3.9	4.0
Transport	4.0	4.1	5.1	3.5
Finance/Property	7.0	5.9	7.3	8.8
Education	5.9	5.4	4.1	5.3
Health	6.5	5.8	6.7	5.9
Other	5.3	4.7	6.6	6.1
Total	5.7	5.9	6.6	5.9

Source: ABS cat. 5220020 and 5220024.

SECTOR BY SECTOR

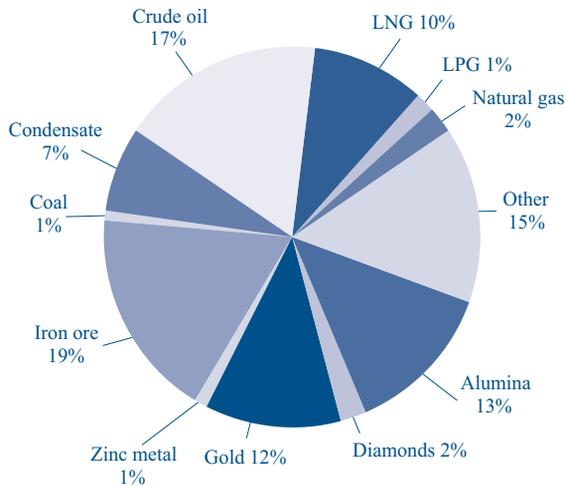
Mining

The mining sector accounted for 23%⁴ of gross State product (GSP) in 2000-01. Expansion of existing capacity and the construction of new resource projects have led the mining industry to experience stronger growth than any other sector of the Western Australian economy over recent years, with average growth of 10.7% per annum (in nominal terms) since 1994-95.

Iron ore remained the major commodity produced in Western Australia in 2000-01, contributing around 19%⁵ of the value of mining production compared with 17% for crude oil. However the latter's contribution represented strong growth over the year due both to increased capacity on the North West Shelf (on the Wanaea, Cossack and Hermes oil fields), and a strong and sustained lift in international oil prices over this period.

Liquefied natural gas (LNG) is also growing in importance, providing 10% of total mining output, compared with 9.5% in 1994-95 (and 7.9% in 1990-91).⁶ Indeed, energy production accounted for almost half of the State's mining production in 2000-01.

**WESTERN AUSTRALIA'S MINERAL PRODUCTION
BY COMMODITY VALUE, 2000-01**



Source: Department of Mineral and Petroleum Resources.

⁴ ABS AusStats cat. 5220020. ⁵ Department of Mineral and Petroleum Resources. ⁶ Ibid.

Western Australia's production of major minerals comprises a significant proportion of the world's total. Western Australia is now a world leader⁷ in the production of industrial grade diamonds, alumina and iron ore, and produces a significant proportion of the world's zinc, gold and LNG, as detailed in the following table.

**WESTERN AUSTRALIA'S
MINERAL AND ENERGY PRODUCTION**

	Mineral Production 2000-01 \$ Million	Growth 1999-2000 to 2000-01 %	Growth 1995-96 to 2000-01 %	Share of World Production 2000-01 %
Iron Ore	4,912.7	32.0	10.9	14
Crude Oil	4,792.1	52.4	25.6	-
Alumina	3,600.7	35.5	13.4	20
Gold	3,239.5	9.8	-1.0	8
LNG	2,740.0	39.0	15.2	8
Nickel	2,467.9	29.1	15.4	14
Condensate	1,984.5	25.3	23.7	-
Other	1,689.6		9.4	-
Diamonds	614.5	-12.7	3.2	38
Natural Gas	630.4	8.9	6.7	-
LPG	409.5	21.6	57.4	-
Zinc	280.2	11.6	30.1	14
Salt	233.1	11.7	8.6	4
Total	27,594.7	29.3	12.4	-

Source: Department of Mineral and Petroleum Resources.

⁷ Ibid.

This is a substantial turnaround from the 1960s, when mining contributed only around 4% to the State's output, and this was mostly due to just two main commodities – iron ore and gold. However, the development of alumina extraction in the 1960s brought about a transformation of Western Australia's economy in the 1970s, culminating in a resources boom in the late 1970s and early 1980s. With development of the North West Shelf in the 1980s, the State's mining sector became further diversified. With access to plentiful minerals and resources, the State now produces over 50 key commodities.

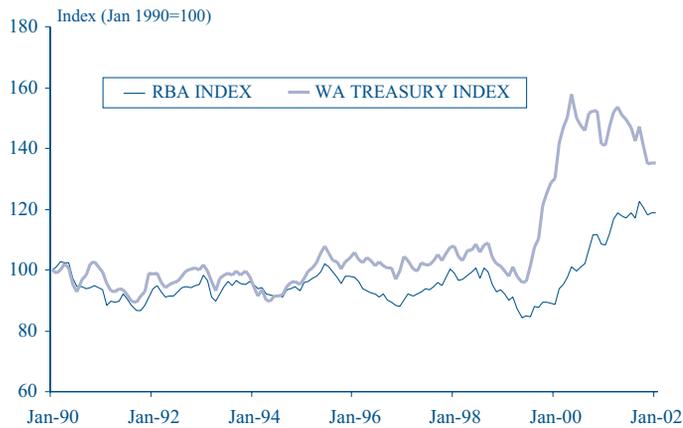
The diversity of commodities produced in Western Australia helps insulate the economy from fluctuations in demand for particular commodities and helps to stabilise economic growth. For example, in early 2001, high oil and gas prices helped to sustain the State's export income, at a time when prices of alumina and nickel had dropped substantially.

The composition of Western Australia's commodity production differs greatly from the national picture. For example, Western Australia is the only State to produce LNG, nickel and diamonds, as well as accounting for almost all of Australia's production of iron ore and certain mineral sands. By comparison with the rest of Australia, Western Australia produces very little coal.

This divergence in commodity production means that the Commodity Price Index compiled by the Reserve Bank of Australia (RBA), to track the commodity price impact on economic conditions, is of little relevance to Western Australia, and has necessitated the development of an index of commodity prices for the State economy by the Western Australian Department of Treasury and Finance.

As the following chart illustrates, the Western Australian commodity price index has been above the national index for most of the past decade, and the gap widened considerably over 2000. The divergence was primarily a result of the increasing importance of oil and gas to the State, and the high prices received for these energy commodities.

RBA AND WA TREASURY COMMODITY PRICE INDICES, 1990 TO 2002



Also contributing to the divergence between the two commodity price indices has been an increase of nearly 20% in nickel metal production in 2000 which, combined with an increase in nickel prices, effectively doubled the value of production over the year.

However, following a decline in these major commodity prices in late 2001, the indices appear to be converging again.

Finally, it is worth noting that while mining contributes around 23% of GSP, it only provides direct employment for around 3.5% of the total workforce, down from around 4.2% in 1985.⁸ Although employment levels over this time have tended to vary according to the vagaries of commodity demand and business investment, the overall trend is towards a diminishing share of the labour market for the mining industry.

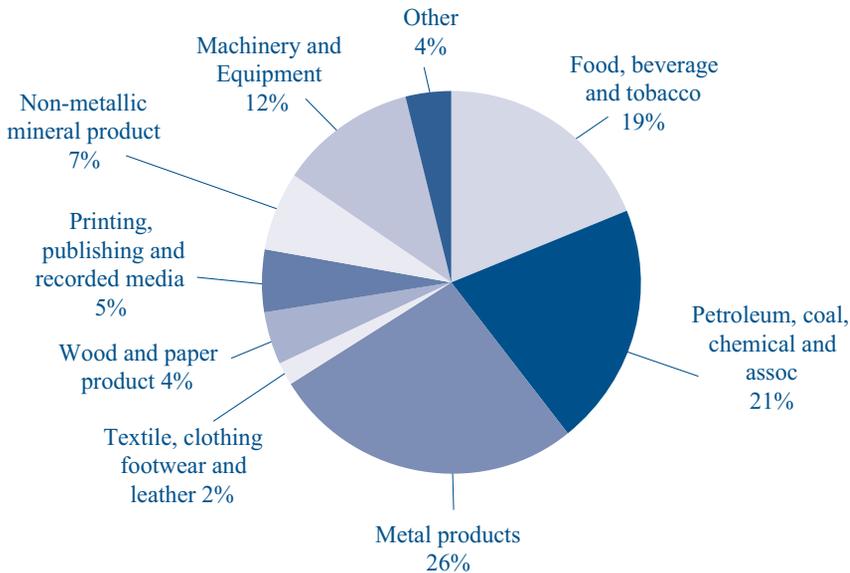
⁸ ABS AusStats cat. LABEJ51.

Manufacturing

Manufacturing accounts for 9.5%⁹ of the State economy and has grown by an average of 7.3% per annum in nominal terms since 1994-95, outpacing growth in manufacturing nationally of around 4.4% per annum. Manufacturing's share of State output, however, has remained relatively steady since 1994-95.

In terms of manufacturing turnover, metal product manufacturing (29%), petroleum, coal and chemical manufacturing (19%) and food, beverage and tobacco manufacturing (18%) account for around two thirds of Western Australia's manufacturing activity.¹⁰

WESTERN AUSTRALIAN MANUFACTURING
INDUSTRY TURNOVER 1999-2000



Source: ABS cat. 8221.5.

⁹ ABS AusStats cat. 5220020.

¹⁰ Chamber of Commerce and Industry WA.

This domination by metals and mineral processing is not typical of manufacturing in general in Australia. In this regard, the expansion in Western Australia's manufacturing industry has been underpinned by growth of simply transformed manufactures (STMs) such as precious and semi-precious stones, and in the downstream processing of minerals, particularly nickel. Western Australia now accounts for around 14%¹¹ of world nickel production compared with 9% in 1994-95. Of particular significance has been the development of new technology, which has enabled producers to exploit Western Australia's significant nickel deposits held in the form of laterite ores that were previously not viable. The Bulong, Murrin Murrin and Cawse projects are all based on this technology.

Elaborately transformed manufactures (ETMs) have also grown strongly, with one of the most visible successes being from the shipbuilding industry. High speed ferries and luxury boats produced by Austal Ships and Oceanfast are now a substantial component of manufacturing output, and an important source of export income for the State.

In 2000-01 Western Australia's manufacturing exports totalled \$3.7 billion.¹² Reflecting the dominance of the minerals and energy sectors in Western Australia, the biggest contributor to manufacturing exports was nickel, which accounted for \$1.2 billion or 32.5%. Pigments and paints (the result of processing mineral sands such as ilmenite and rutile) were also a large export earner for the State, accounting for \$497 million or 13.3% of manufacturing exports by value.

¹¹ Department of Mineral and Petroleum Resources.

¹² ABS (unpublished data).

WESTERN AUSTRALIA'S MANUFACTURING TURNOVER 1999-2000

	Nominal value \$ million	Annual Average Growth 1994-95 to 1999-2000 %	Share of WA's Total 1999-2000 %
Metal products	4,960.3	3.0	26.6
Petrol, coal, chemical	3,847.3	6.5	20.6
Food, beverage, tobacco	3,508.5	4.3	18.8
Machinery and equip	2,202.1	5.2	11.8
Non-metallic minerals	1,250.9	2.9	6.7
Printing, publishing	958.0	4.6	5.1
Wood, paper products	834.9	2.8	4.5
Other	703.0	1.4	3.8
Textiles, clothing	386.6	1.4	2.1
Total	18,651.6	4.1	100

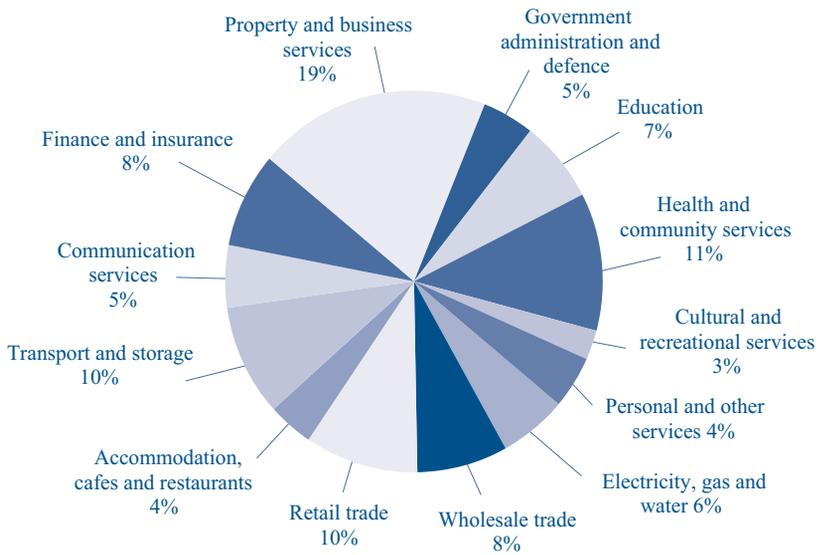
Source: ABS cat. 8221.5.

Starting at around 12.5% in 1985, the manufacturing sector's share of the labour market trended downward over the following decade, possibly due to the significant reductions to tariff protection introduced as part of the process of microeconomic reform during this period, making cost savings essential. Another explanation may be a change in the composition of manufacturing over time as the dominance of less labour-intensive sectors such as metal product manufacturing increased. However, the rate of decline has since slowed, and manufacturing employment now accounts for around 10% of total employment in Western Australia.

Services

The services sector in Western Australia encompasses a very broad range of industries, with property and business services the largest component. This component includes property developers, real estate agents, machinery and equipment hiring, computer services, legal and accounting services, and marketing and business management services, among others.

SERVICES BY INDUSTRY: WESTERN AUSTRALIA, 2000-01



Source: ABS AusStats cat. 5220020.

Tourism is often cited as a growth industry in Western Australia, but its overall value is difficult to quantify as many businesses service local residents as well as tourists. Nevertheless, at a broad level, tourism-related services have grown strongly over the past decade, as shown in the following table.

SERVICES SECTOR				
	Western Australia		Australia	
	Annual Average Growth 1994-95 to 2000-01 %	Share of Services Sector 2000-01 %	Annual Average Growth 1994-95 to 2000-01 %	Share of Services Sector 2000-01 %
Wholesale/Retail				
Wholesale Trade	0.1	7.7	3.2	8.0
Retail Trade	4.5	9.8	5.0	9.0
Tourism Related				
Accommodation	9.7	3.7	9.7	4.4
Cultural & Recreation	5.6	2.6	7.2	3.0
Personal & Other	4.8	4.3	6.3	3.8
Government				
Government Admin.	3.5	4.6	3.9	5.6
Education	4.1	6.9	5.3	7.3
Health & Community	6.7	11.6	5.9	9.9
Electricity, gas, water	7.6	5.9	3.6	4.4
Other				
Transport & Storage	5.1	9.6	3.5	7.7
Communication	6.0	5.3	6.6	5.3
Finance & Insurance	5.9	7.9	8.2	11.2
Property & Business	7.9	19.9	9.1	20.3
Total	6.6	100.0	6.2	100.0

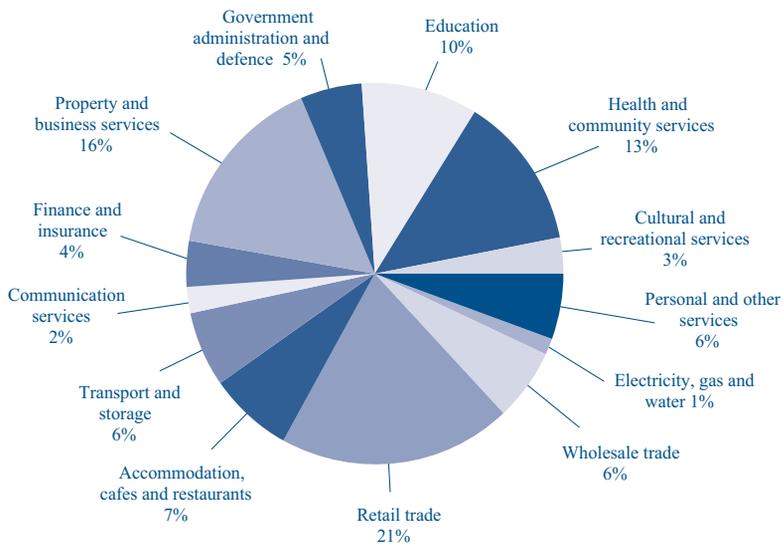
Source: ABS cat. 5220020.

Overall the services sector in Western Australia has grown by an average of 6.6% per annum in nominal terms over the last half of the 1990s, exceeding the national rate of growth.¹³ The services sector¹⁴ in Western Australia now accounts for around 50% of the State's total output.

Accommodation, cafes and restaurants, and finance, property and business services have grown at well above the average growth rate for all services industries for the past decade reflecting relatively strong growth in personal income.

The services sector is by far the pre-eminent employer in the State, engaging over 70% of the workforce. This figure has crept up from around 66% at the beginning of the 1990s, and will probably continue to play an increasingly important role in Western Australian employment as the economy further shifts to the provision of services.

EMPLOYMENT IN THE SERVICES SECTOR, 2000-01



Source: ABS AusStats cat. LABEJ5I.

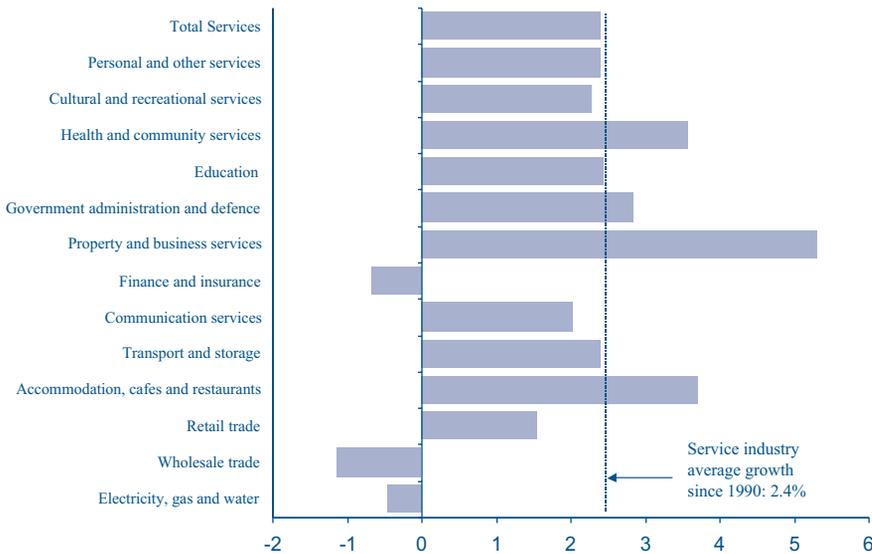
¹³ ABS AusStats cat. 5220020.

¹⁴ Includes wholesale and retail trade; accommodation; cafes and restaurants; transport and storage; communication; finance and insurance; property and business services; education; health and community services; and personal and other services

In Western Australia, the services sector as a whole is the most labour intensive sector, with the wholesale and retail trade industry being the major employer, providing some 20% of the State’s total employment. This is followed by property and business services which employs approximately 12% of the total workforce, and the tourism and recreation industry, which accounts for 11.3% of total employment.¹⁵

The following chart shows the variation in employment growth in the various service sectors in Western Australia over recent years. Employment in the service sector as a whole has grown strongly, increasing by 2.4% per annum since 1989-90. However, the standout performers over this period have been in property and business services, and accommodation, cafes and restaurants, as illustrated in the following chart.

SERVICE INDUSTRY EMPLOYMENT GROWTH SINCE 1990



Source: ABS AusStats cat. LABEJ51.

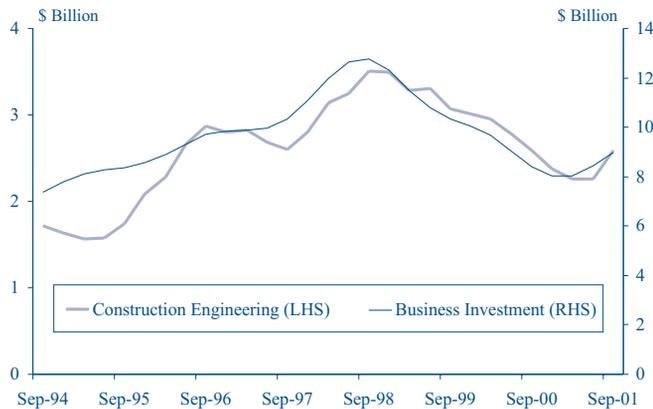
¹⁵ ABS AusStats cat. LABEJ51.

Construction

The construction industry can be subdivided into the residential, non-residential and engineering sectors and makes up around 6.1% of the Western Australian economy, compared with around 5.4% nationally. Average growth in the State’s construction industry of 4.6% over the 1990s compares favourably with growth of around 3.6% nationally.¹⁶

The divergence in share reflects the substantial construction activities related to the State’s large minerals and energy investment projects.

CONSTRUCTION ENGINEERING AND BUSINESS INVESTMENT, 1994 to 2001



Source: ABS cat. 8762.0, AusStats cat 5206091.

The simultaneous surge in construction activity and business investment in 1997-98 was driven by the construction of BHP’s hot briquetted iron (HBI) plant, the construction of three acid-leach nickel plants (Murrin Murrin, Cawse and Bulong), as well as the Yandicoogina iron ore mine. These few projects alone contributed nearly one third of the State’s total business investment in 1997-98.

The construction industry employed around 8.6% of the total workforce in Western Australia in 2000-01. Employment in this industry has grown at an annual average growth rate of 2.7% since 1995-96, compared with 2.3% growth for the total workforce.¹⁷

¹⁶ ABS AusStats cat. 5220020.

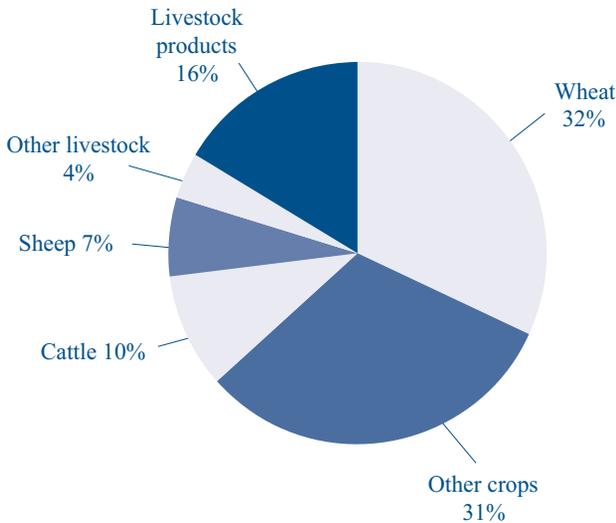
¹⁷ ABS AusStats cat. LABEJ51.

Agriculture

Western Australia is often perceived as being heavily reliant on the agricultural sector for its economic wellbeing. However, this dependence has waned progressively over the last century, and agriculture now only contributes around 4.1% of Western Australia's GSP.¹⁸ This is in stark contrast to the situation of only half a century ago, when the agriculture and pastoral sectors made up nearly 50% of the net value of recorded production.¹⁹

Although its relative importance has declined due to the increasing prominence of other industries, it should be noted that agricultural output remains fairly high, and indeed, the value of wheat production reached a record level in 1999-2000. Following this, the value of wheat production is estimated to have fallen by around 24% in 2000-01, but still remained Western Australia's major rural commodity, representing 32% of the total value of State agricultural output.²⁰

**AGRICULTURAL PRODUCTION VALUE BY SHARE 2000-01,
(ESTIMATED)**



Source: Unpublished data – Agriculture Western Australia

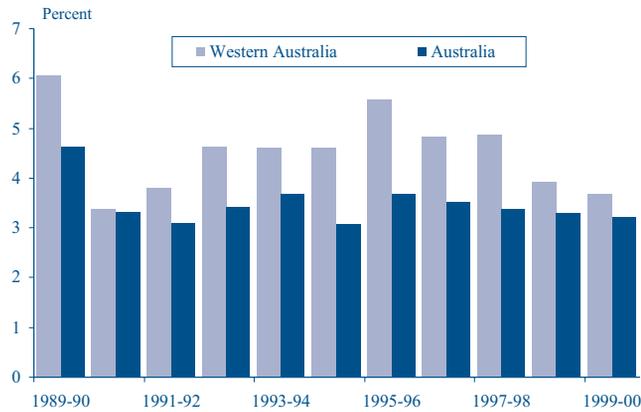
¹⁸ ABS AusStats cat. 5220020.

¹⁹ Colebatch, Hal *A Story of A Hundred Years*, 1929 Perth WA.

²⁰ Agriculture Western Australia.

Notwithstanding the declining significance of agriculture to the Western Australian economy over time, the agricultural sector has made a greater contribution to total State output in Western Australia than the national average over the past decade, as illustrated in the following chart.

AGRICULTURAL OUTPUT AS SHARE OF TOTAL



Source: ABS AusStats cat. 5220020.

In addition, the agricultural sector continues to play a major role in the State's export trade, regularly contributing around 15% of the total value of Western Australia's exports over the past five years. While the share of agricultural exports was slightly down in 2000-01, at 12%, this was mostly due to a weather affected wheat crop, with the volume of wheat exports down 31% over the year.

THE ECONOMY AND STATE FINANCES

The foregoing discussion served to highlight some of the circumstances peculiar to the Western Australian economy from the standpoint of its productive sectors. The State's thriving mining sector is easily the most notable feature of the analysis, providing much of the driving force behind Western Australia's recent strong economic performance and high per capita income.

However, in the early days of Federation, the Western Australian economy bore little resemblance to its present prosperous form. Isolated by geography and unable to exploit the free trade between States that resulted from the newly formed Constitution, it became necessary in 1925 for the Commonwealth to establish a Royal Commission into Western Australia's financial disabilities. As a result, in 1933 the Commonwealth Grants Commission was formed to oversee a more equitable distribution of Commonwealth finances, which resulted in Western Australia being given the status of "claimant State", and being in receipt of special grants from the Commonwealth for the next 30 years or so.²¹

However, the 1960s saw the lifting of the embargo on iron ore exports as well as the discovery of commercial quantities of oil and natural gas in the State's north west. These discoveries encouraged the flow of foreign investment, and by 1965 Western Australia was a major world supplier of minerals. It is no coincidence that the State was able to finally shrug off its "claimant" tag during this period.²²

The following discussion focuses on the State's finances at present – that is, how the State derives its revenue, and the ways in which it is spent. Once again it becomes clear that the factor identified as being the major driver of the State's economic performance, the minerals and energy sector, also exerts a strong influence over the State's finances.

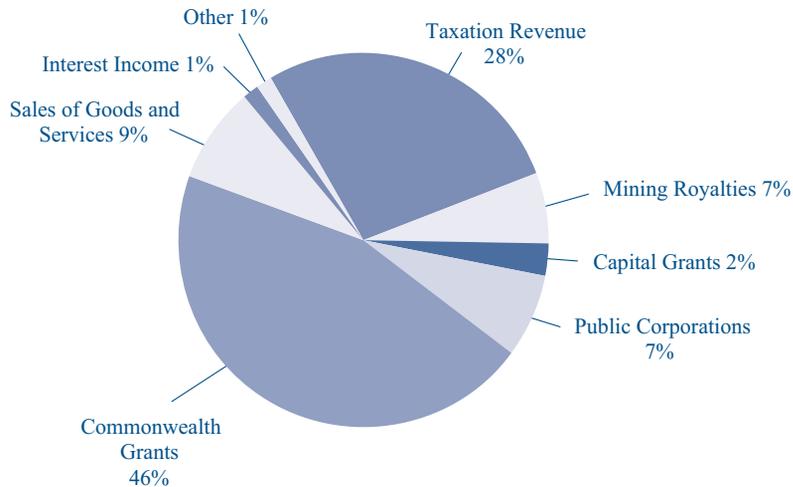
²¹ ABS *Western Australia Year Book No. 26 – 1989*, Western Australia.

²² *Ibid.*

Operating Revenue

The following chart illustrates the sources of Western Australia’s operating revenue in 2000-01. (A breakdown of all revenues is given in Attachment A.)

SOURCES OF OPERATING REVENUE, 2000-01
(\$10.5 billion)



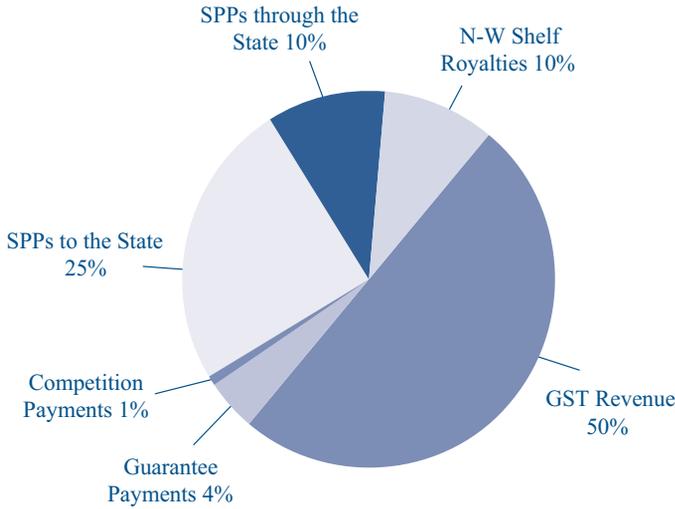
Commonwealth Grants

Similar to other States, the Western Australian Government’s main revenue source is Commonwealth grants. These are by far the single largest source of the State’s revenue, contributing around \$4.8 billion (around 46% of total State revenue) in 2000-01.

Western Australia receives two main types of grants from the Commonwealth – General Purpose Grants and Specific Purpose Payments.

General Purpose Grants are distributed according to Commonwealth Grants Commission recommendations, with adjustments made according to the State’s revenue raising capabilities and accounting for some special expenditure needs (eg. remoteness, large indigenous population). From 2000-01, these grants have been funded by the Goods and Services Tax (GST), which is collected by the Commonwealth on behalf of the States. Specific Purpose Payments (SPPs) comprise: payments made directly to the State for specified activities; payments made to the State to be passed on to specified recipients; and North West Shelf petroleum royalties.

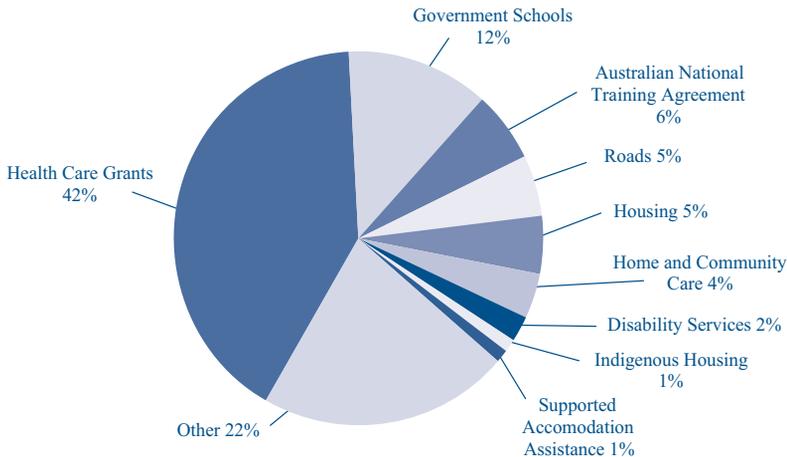
COMMONWEALTH GRANTS BY SHARE, 2000-01
(\$4.76 billion)



Since the beginning of the 1980s, SPPs to the States have increased as a proportion of total Commonwealth funding from 31% to around 40%, and have stabilised at this level over recent years.

SPPs “to” the State include payments for health care, schools, roads, housing and disability services, amongst others. In 2000-01, SPPs “to” the State totalled \$1.43 billion, and were distributed as detailed in the following chart.

BREAKDOWN OF SPPs “TO” THE STATE, 2000-01
(\$1.43 billion)



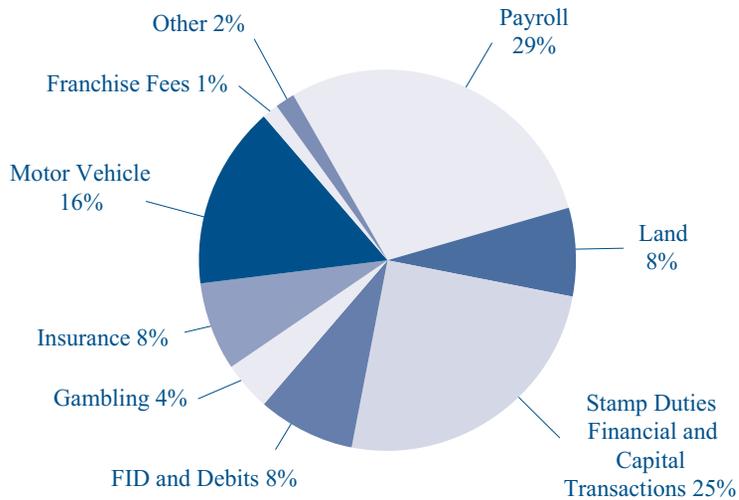
A notable feature of SPPs to Western Australia is the significant royalties derived from the oil and gas industry activity on the State’s North West Shelf, which are above and beyond the usual mining royalties collected by the State. The Commonwealth collects these royalties on behalf of the State because it has jurisdiction over off-shore areas, and they are returned as SPPs. However, unlike the other SPPs, the Commonwealth places no conditions on their use.

State Taxes

State taxation is a very important component of own source revenues as collections are large, and the State has direct influence over them. The State’s own taxation (which includes payroll tax, land tax and various stamp duties) amounted to around \$2.9 billion or 27% of total State revenue in 2000-01.

Payroll tax is the largest source of State taxation revenue (accounting for 28%), followed by stamp duty on financial and capital transactions (25%) and motor vehicle fees (16%).

GENERAL GOVERNMENT TAXES, 2000-01
(\$2.89 billion)



States are constrained from directly taxing goods (but not services) under the Australian Constitution. While the States do not currently collect their own income taxes, this reflects historical/political factors rather than any legal constraints.

Mining Royalties

Mining royalties represent the price paid to the community by mining companies for the right to extract resources that are owned by the community. Total royalties of \$654.0 million were collected in 2000-01 (excluding North West Shelf petroleum royalties which, as noted above, come back to the State as a Commonwealth Grant). This is an increase of around 40% over 1999-2000 and is primarily because of solid growth in the production and export of iron ore, and the influence of the lower Australian dollar on the value of mineral commodities in general. As illustrated below, on a per capita basis, Western Australia collects substantially more mining royalties than any other State.²³

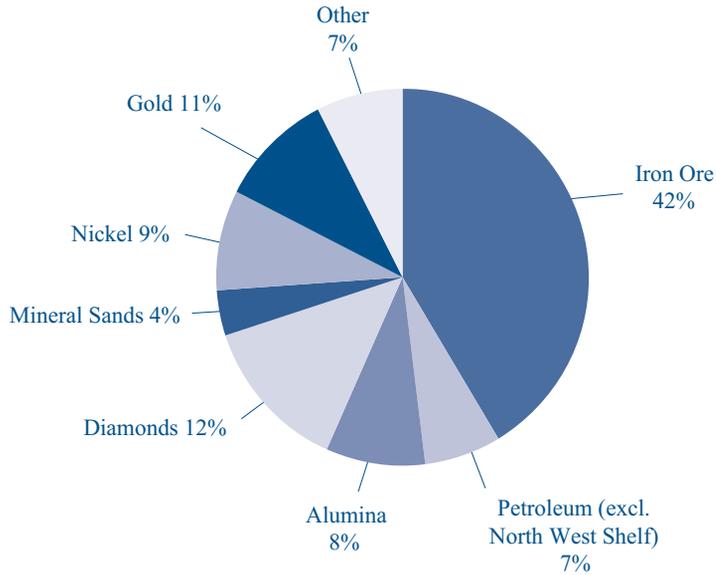
PER CAPITA MINING ROYALTIES, 2000-01



The largest contribution to mining royalties is made by iron ore producers (\$270 million), followed by diamond producers (\$88 million). Petroleum royalties (\$466.3 million) from the North West Shelf are currently higher than iron ore royalties, but, as mentioned earlier, these payments are included in SPPs.

²³ Does not include North West Shelf petroleum royalties.

ROYALTY PAYMENTS BY COMMODITY, 2000-01
(\$654.0 million)



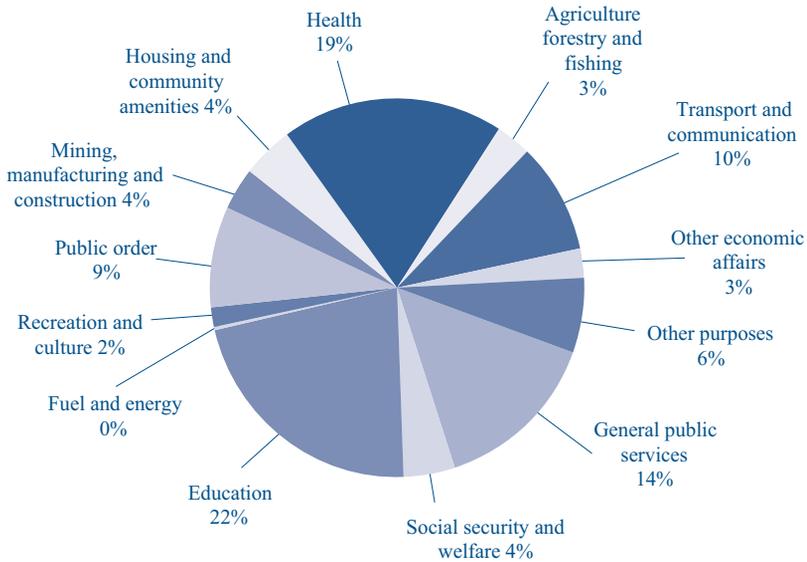
Including North West Shelf petroleum royalties, mining royalties provided more than \$1 billion (or around 10%) of Western Australia’s total operating revenue in 2000-01.

It should be noted, however, that to a large extent, Western Australia’s royalties are effectively lost through reductions in Western Australia’s general purpose grants by the Commonwealth Grants Commission. This is because Western Australia’s capacity to raise royalties is much higher than the average of all States, and this excess capacity is offset by a reduction in Western Australia’s grants. In 2000-01, it is estimated that Western Australia’s general purpose grants were \$550 million less than they otherwise would have been, due to the State’s above average capacity to raise royalties.²⁴

²⁴ Due to time lags in the Grants Commission process, the reduction in general purpose grants for 2000-01 is based on average royalty raising capacity in the years 1994-95 to 1998-99. Western Australia’s royalties have grown rapidly since 1994-95.

OPERATING EXPENSES

OPERATING EXPENSES BY PURPOSE, 2000-01



Total expenses of the general government sector were \$10.4 billion in 2000-01. A breakdown of these expenses is provided in the following table.

OPERATING EXPENSES BY GOVERNMENT PURPOSE, 2000-01 (ESTIMATED)

	Value \$ million	Share of Total Spending %
Education	2,308.5	22.1
Health	1,995.2	19.1
General public services	1,504.9	14.4
Transport and communication	994.5	9.5
Public order and safety	898.6	8.6
Other purposes	661.5	6.3
Housing and community amenities	465.2	4.5
Mining, manufacturing and construction	380.4	3.6
Social security and welfare	460.2	4.4
Agriculture forestry and fishing	302.0	2.9
Other economic affairs	268.5	2.6
Recreation and culture	186.8	1.8
Fuel and energy	11.7	0.1
Defence	0.0	0.0
Total	10,437.9	100.0

Primarily reflecting community expectations for an improved level of service provision in these areas, the Western Australian Government has experienced strong pressures on its health and education budgets. These two sectors comprise the major components of State Government spending.

In 2000-01, spending in the education and health sectors amounted to \$2.3 billion and \$2.0 billion respectively, or nearly a half of total Government expenditure. Included in this was funding for new schools, hospitals or extensions in outlying areas such as the Goldfields, the Wheatbelt and the Kimberley region.

CAPITAL AND INFRASTRUCTURE

In 2000-01, the State spent around \$3.1 billion on its Capital Works Program, or about 30% of total Government spending. This investment is essential to ensuring the ongoing availability of services and facilities to the community, maintaining the State's asset base and promoting economic development.

In terms of promoting economic development, the importance of business investment and the considerable size of the State mean that there is an ongoing, and substantial need for economic infrastructure such as roads and other multiuser facilities. Recent such infrastructure projects funded by the State Government include:

- the development of the Burrup Peninsula infrastructure to support the growing chemicals industry in the area;
- the development of a world class engineering and fabrication complex at Jervoise Bay, which will offer services in oil, gas and mining related fabrication and maintenance, as well as augment the State's substantial ship and boat manufacturing sector;
- the construction of the Karratha-Tom Price Road which will service existing and potential new mining developments, as well as offer improved tourist access to national parks;
- the construction of the Broome Cape Leveque Road which will allow access for Aboriginal community services, and provide opportunities for the economic development of the Dampier Peninsula;
- the commencement of construction of the Goldfields Highway to connect the gold-mining centres of Kalgoorlie and Meekatharra, and
- the completion of the Mt Magnet-Sandstone-Agnew Road, which will encourage the development of known mineral resources east of Mt Magnet.

There are, of course, many other examples.

CONCLUSION

The preceding analysis has attempted to provide an insight into some of the characteristics peculiar to the Western Australian economy and the State's finances.

If there is a single aspect of the Western Australian economy that stands out, it is the importance of the resources sector. The exploitation of the State's natural resources over the last 40 years or so has seen the State surge forward from economic laggard to leader of the Commonwealth in per capita terms. The downstream processing of mineral products is also underpinning a significant and growing manufacturing base in the State.

The financial boon presented by these resources, however, is partially offset by the pressure to provide services and infrastructure for a rapidly growing and widely dispersed population.

It is probably these factors – a wealth of natural resource assets, coupled with the practical difficulties of servicing a community that covers millions of square kilometres – that are the defining features of the Western Australian economy.

**ATTACHMENT A: GENERAL GOVERNMENT
OPERATING REVENUE WESTERN AUSTRALIA**

	2000-01 Actual \$ million	2001-02 Budget Estimate \$ million	2001-02 Mid Year Revision \$ million	2002-03 Forward Estimate \$ million
GENERAL PURPOSE GRANTS				
Financial assistance grants				
– GST revenue	2,374.6	2,641.8	2,566.3	2,785.9
– guarantee payment	213.0	181.4	316.6	114.2
Competition payments	45.5	70.6	71.1	72.4
Total General Purpose Grants	2,633.1	2,893.8	2,893.8	2,970.9
SPECIFIC PURPOSE PAYMENTS				
SPPs “to” the State	1,178.0	1,357.0	1,395.1	1,286.1
SPPs “through” the State	478.9	491.3	491.3	523.3
North West Shelf Royalties	466.3	415.0	339.9	306.7
Total SPPs	2,123.2	2,263.3	2,263.3	2,116.1
Capital Grants	276.0	287.0	287.0	280.2
TAXES				
Payroll taxes	833.0	910.4	909.8	1,037.5
Land taxes ^(a)	220.7	238.6	226.5	281.8
Stamp duties on financial and capital transactions	720.8	656.4	693.4	698.9
Financial institutions transaction taxes	237.8	112.0	109.9	97.2
Taxes on gambling	121.7	114.1	114.1	115.5
Taxes on insurance	216.4	222.4	270.8	279.4
Motor vehicle taxes	451.9	474.3	475.9	498.4
Franchise fees	42.3			
Other	44.6	47.4	48.7	51.2
Total taxes	2,889.3	2,775.5	2,849.1	3,059.7
ROYALTIES				
Iron Ore	270.0	305.3	296.3	319.8
Petroleum (excl. North West Shelf)	44.5	33.1	29.5	25.9
Alumina	55.5	63.0	62.5	62.5
Diamonds	88.0	54.5	48.5	57.5
Mineral Sands	24.5	22.0	21.5	22.0
Nickel	57.0	55.5	40.5	54.0
Gold	65.5	69.0	79.5	80.0
Other	49.0	41.5	45.5	38.0
Total royalties	654.0	643.9	623.8	659.7
Public Corporations	767.0	654.7	626.3	630.3
Sales of goods and services	890.1	851.7	888.1	882.0
Interest income	139.6	136.0	120.5	119.0
Other	153.7	207.7	232.0	173.9
TOTAL REVENUE	10,540.3	10,713.5	10,807.1	10,893.4

(a) Estimates now exclude the Premium Property Tax

