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WHERE THE MONEY COMES FROM AND WHERE IT GOES

The general government operating balance is the State's headline budget measure and shows the State's ability to fund the day-to-day provision of health, education, law and order and other government services from the revenue it collects (such as taxation and royalties). The operating balance is forecast to be in deficit in 2015-16, reflecting the difference between forecast revenue of \$26.3 billion and recurrent spending (or expenses) of \$29 billion.

The operating balance is forecast to return to surplus from 2017-18 as the revenue outlook improves, and the Government's saving and reform measures continue to take hold.

GENERAL GOVERNMENT NET OPERATING BALANCE

Table 1

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	Actual	Estimated Actual	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
GENERAL GOVERNMENT SECTOR						
Net Operating Balance (\$m)	719	-1,287	-2,708	-1,148	874	2,209
Revenue (\$m)	27,956	27,045	26,325	28,496	31,075	33,517
Revenue Growth (%)	8.7	-3.3	-2.7	8.2	9.0	7.9
Expenses (\$m)	27,236	28,332	29,033	29,644	30,201	31,308
Expense Growth (%)	6.9	4.0	2.5	2.1	1.9	3.7

Revenue

Reflecting the unprecedented decline in the State's revenue outlook, general government revenue is forecast to contract by 2.7% in 2015-16, following an estimated year on year reduction of 3.3% in 2014-15. The State has not seen a decline in revenue since 1996-97.

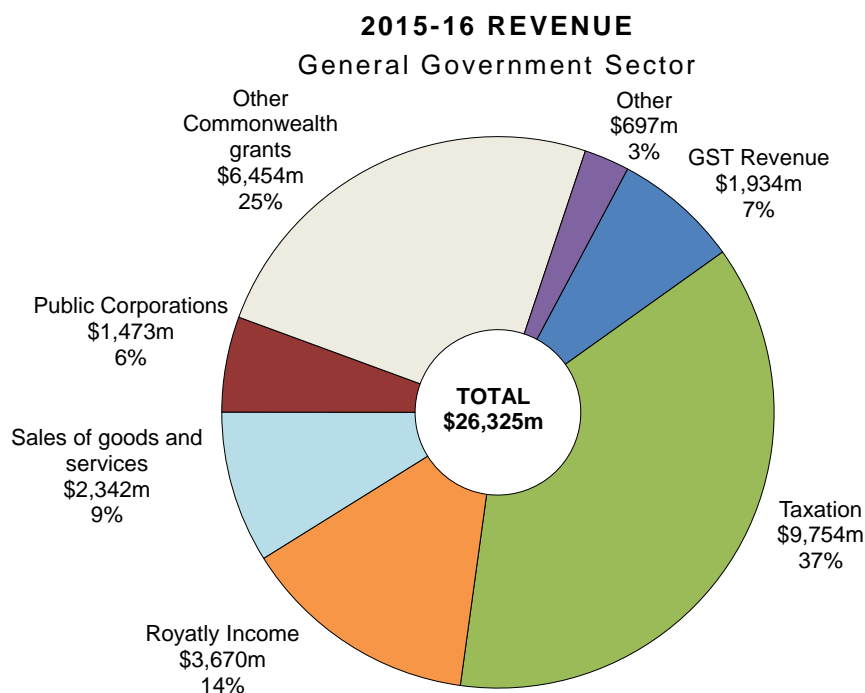
The 2.7% or \$720 million contraction relative to 2014-15 reflects the net impact of the following:

- new revenue measures totalling \$220 million in 2015-16, including:
 - a revised, flatter land tax scale, which includes a flat dollar amount of \$300 for land with an unimproved value between \$300,000 and \$420,000 and increased land tax rates (except the top rate), forecast to raise \$184 million in 2015-16 (and \$826 million over the four years to 2018-19); and
 - alignment of the Loan Guarantee Fee (LGF) for Western Australian universities, local governments and Keystart with the LGF for Government Trading Enterprises, by increasing these entities' LGF to 70 basis points from 1 July 2015;

- a large reduction in royalty income (down \$769 million, or 17.3%), as the impact of a lower iron ore price is expected to outweigh anticipated increases in iron ore production and a further decline in the \$US/\$A exchange rate. Also contributing to this reduction is the removal of a provision for additional revenue from the Mineral Royalty Rate Analysis (announced in the 2012-13 Budget) following the Government's decision not to change royalty rates in the 2015-16 Budget;
- lower GST grant estimates (down \$328 million, or 14.5%), reflecting a further decline in Western Australia's GST 'relativity' from 0.376 in 2014-15 to a new record low of 0.3 in 2015-16;
- a decline in North West Shelf grants (down \$184 million or 20.3%) as a result of lower oil and LNG prices more than offsetting a lower \$US/\$A exchange rate; and
- other changes in taxation revenue (up \$482 million or 5.3%) including higher payroll tax (up \$342 million or 9.4%), insurance duty (up \$48 million or 7.9%) and motor vehicle taxes (up \$74 million or 5.9%) which more than offset lower forecast transfer duty (down \$69 million or 4.1%).

The major sources of revenue for 2015-16 are shown in the following chart.

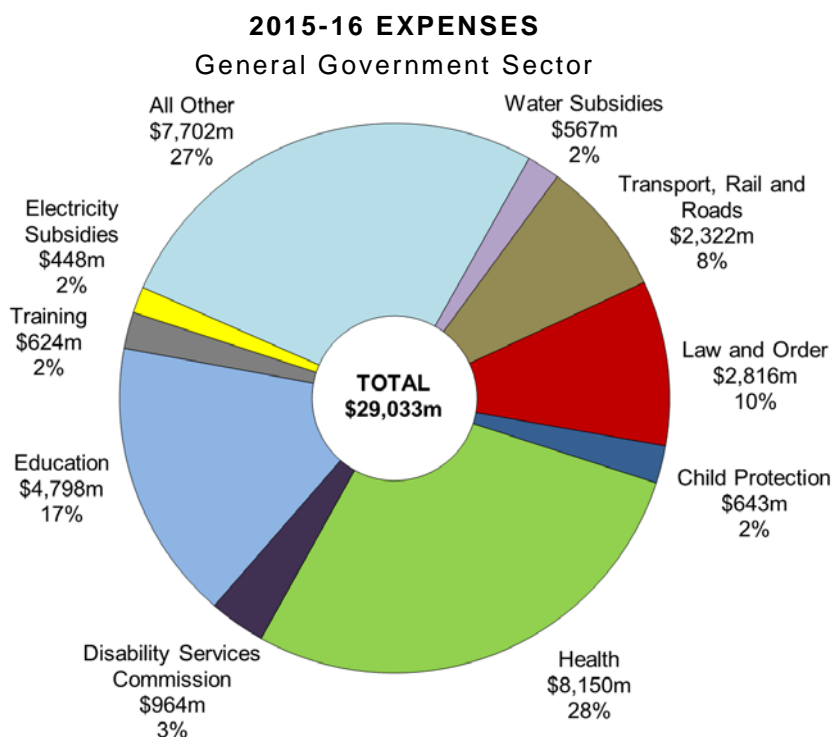
Figure 1



Source: 2015-16 Budget.

Expenses

General government expenses are forecast to total \$29 billion in 2015-16, an increase of \$701 million or 2.5% relative to the estimated outturn for 2014-15. The following chart provides a breakdown of expenses in 2015-16, and shows the key service delivery areas of health, education and law and order comprise over half of all expenses for the sector (54.3%).



Source: 2015-16 Budget.

Expense growth in 2015-16, relative to 2014-15 has been kept to just 2.5%. Notwithstanding this, material increases in key service delivery areas include:

- an increase of \$294 million (or 6.5%) for the Department of Education, largely for student enrolment growth, wage increases and increased maintenance expenditure on schools;
- an increase of \$243 million (or 4.6%) for public hospital services;
- an increase of \$98 million (or 11.3%) for the Disability Services Commission to meet forecast growth in demand for existing services and continue the Western Australian National Disability Insurance Scheme My Way trial sites;
- an increase of \$53 million (or 4.1%) for Western Australia Police to continue to deliver the Government's commitment to 550 additional officers by the end of 2016-17;
- an increase of \$43 million (or 5.4%) for the Mental Health Commission to meet activity growth and implement a new Suicide Prevention Strategy and other new initiatives; and
- an increase of \$24 million (or 3.8%) for the Department of Child Protection and Family Support to meet growth in demand for child protection services.

Expenses are forecast to increase by an average 2.5% per annum over the four years 2015-16 to 2018-19. The Budget expense growth forecasts are contingent upon savings from the Government's fiscal repair strategies, such as the Workforce Renewal Policy, Targeted Voluntary Separation Scheme, CPI wages policy and the new savings measures in this Budget, being fully realised.

IRON ORE ROYALTY REVENUE

- Iron ore royalty revenue is expected to decline from a peak of almost \$5.5 billion in 2013-14 (19.5% of total general government revenue) to \$3.0 billion in 2015-16 (11.5% of total revenue).
- The sharp contraction in iron ore royalties is due to a dramatic fall in the iron ore price, which is expected to average \$US68.80 per tonne in 2014-15 and \$US47.50 per tonne in 2015-16, compared to an average of \$US122.80 per tonne in 2013-14.
- The impact of the sharp fall in the iron ore price on royalty income is only partially offset by higher production volumes and a lower \$US/\$A exchange rate.

Table 1

IRON ORE ROYALTY INCOME

	2013-14 Actual	2014-15 Estimated Actual	2015-16 Budget Estimate	2016-17 Forward Estimate	2017-18 Forward Estimate	2018-19 Forward Estimate
Forecast assumptions						
– Iron ore price (\$US per tonne) ^a	122.8	68.8	47.5	50.7	56.3	61.8
– Production volumes (million tonnes) ^b	632	716	748	772	797	799
– \$US/\$A exchange rate (US cents)	91.8	83.3	75.9	75.0	74.3	73.9
IRON ORE ROYALTY INCOME (\$ MILLION)	5,450	3,853	3,036	3,392	3,936	4,351

(a) The iron ore price benchmark used by Treasury is 'The Steel Index' 62%Fe, delivered to China (including 'cost and freight' or CFR). Projections are derived from iron ore derivatives over the first 12 months, then transition towards a consensus long-term price over the remainder of the forecast period.

(b) Iron ore volumes are informed by a survey of producers undertaken by the Department of Mines and Petroleum and independent (external) analysis.

Source: Reuters Datastream, Consensus Economics, Department of Treasury.

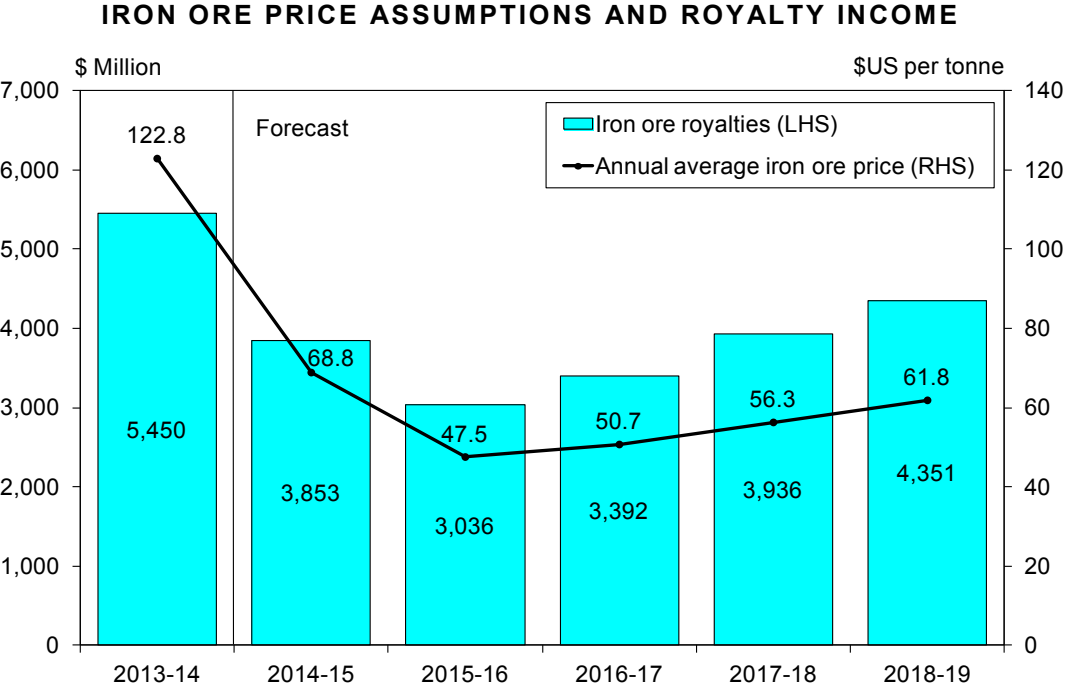
Factors Contributing to Price Fall

The benchmark iron ore price has fallen by more than 60% from around \$US135 per tonne at the beginning of 2014 to a low of \$US46.70 per tonne in early April 2015, its lowest level since 2004. By 21 April 2015 (the 2015-16 Budget cut-off date), the spot price of iron ore had recovered marginally to \$US50.80 per tonne. The substantial fall in price has been due to:

- a significant increase in production by the world's largest iron ore producers (Vale, Rio Tinto, BHP Billiton, Anglo American and FMG), which collectively increased sales by more than 140 million tonnes in 2014. This equates to around 10% of the global seaborne market in 2014;
- expectations of further increases in production as new mines are constructed and production expansions are completed. These include construction of the world's largest iron ore project (Vale's 90 million tonne per annum S11D project); and
- a softening in Chinese demand for iron ore arising from a decline in domestic steel consumption, which in turn is a result of a slowdown in Chinese residential property construction. New residential building construction starts declined by 14.4% in 2014. In 2015, new house prices and residential construction have continued to decline.

The strong growth in new low-cost supply in excess of demand has resulted in significant oversupply in the iron ore market. A significant proportion of global supply has become uneconomic at the lower price and some higher cost production has been displaced, including output from Chinese domestic producers.

Figure 1



Source: Reuters Datastream, Consensus Economic, Department of Treasury.

Changes to the Iron Ore Forecasting Methodology

The Department of Treasury (Treasury) has revised the starting point of its iron ore price forecasting methodology to provide a market-based assessment of the outlook for prices in the near-term. The new starting point comprises 12 months of iron ore derivative contract prices rather than the previous method of an annual average of historical spot and derivative prices.

The resulting profile of price assumptions better represents the large fall in iron ore prices over the past year and reflects the widely held belief that the iron ore market has moved firmly into oversupply and will stay there for some time.

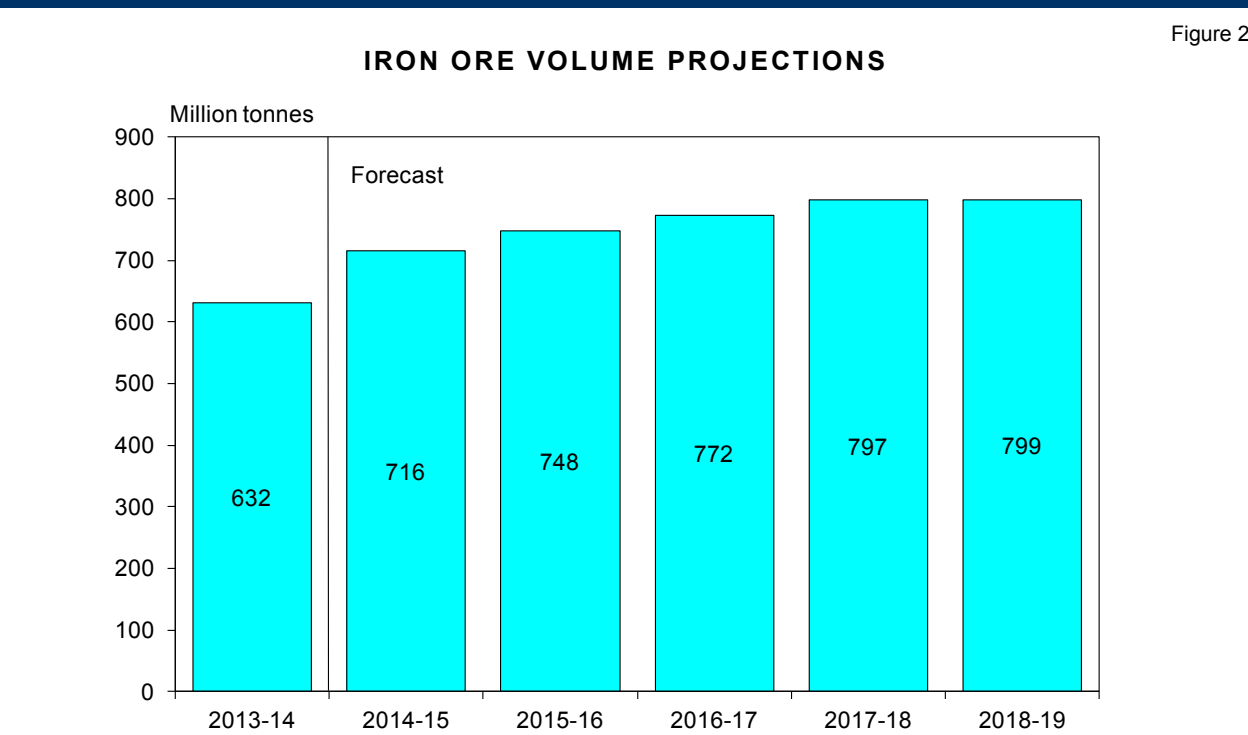
The price assumption of \$US47.50 per tonne in 2015-16 is also consistent with Standard and Poor’s latest iron ore price forecast of \$US45 per tonne for the rest of 2015 and \$US50 per tonne in 2016.

Iron Ore Production Volumes

The expansion of the three largest iron ore miners, Rio Tinto, BHP Billiton and FMG, has resulted in a substantial increase in Western Australian iron ore production volumes. This is expected to far outweigh declines in output due to announced and potential closures of smaller higher cost operations. The three largest miners are expected to account for 92.8% of production volumes in 2014-15, and 94.2% of royalty income.

Iron ore volumes are forecast to increase from 632 million tonnes in 2013-14 to 716 million tonnes in 2014-15 and 799 million tonnes by 2018-19.

The increased volumes, together with a projected gradual improvement in the iron ore price and a lower \$US/\$A exchange rate, are expected to increase iron ore royalty revenue to around \$4.4 billion by 2018-19.



Source: Department of Mines and Petroleum, Department of Treasury.

Royalty Rebate Scheme

On 19 December 2014, the State Government announced that it will provide financial assistance for eligible small iron ore (hematite) miners. Under the program:

- assistance will be provided as a rebate of 50% of royalty payments on eligible hematite iron ore projects. This assistance is to occur through ex-gratia payments after the Department of Mines and Petroleum (DMP) receives actual quarterly royalty payments. The royalty will continue to be paid under applicable legislation;
- the rebate will be available for a period commencing with the royalty payment for the December 2014 quarter and concluding with the September 2015 quarter; and
- the rebate must be repaid by 31 December 2017.

As at the 2015-16 Budget cut-off date, one company, BC Iron, had reported that it has secured the rebate to the Australian Stock Exchange.

NEW REVENUE AND SAVINGS MEASURES

In response to the unprecedented \$10.2 billion decline in the general government revenue estimates since the 2014-15 Budget, the Government has approved a new package of revenue and savings measures. The measures build on existing strategies and seek to minimise the impact on households and business. The Government is also reforming social concessions to ensure that assistance is sustainable and is targeted to those most in need. A separate fact sheet outlines the changes to social concessions.

The new revenue and savings measures are worth an estimated \$1.3 billion (in net debt terms) over the next four years.

Table 1

NEW REVENUE AND SAVINGS MEASURES

Financial Impact

	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	Net Debt as at 30 June 2019 \$m
Remove Cellar Door Subsidy	2	3	3	3	-11
Remove First Home Owner Grant for Established Homes	25	28	28	28	-109
Agency Expenditure Reviews	33	35	36	34	-137
Revised Land Tax Scale	184	198	213	230	-826
Increase the Loan Guarantee Fee for Local Governments, Universities and Keystart	36	37	38	38	-24
Total Savings Measures	280	300	318	333	-1,106
Reform of Social Concessions	41	52	53	53	-199
TOTAL OF ABOVE MEASURES	321	353	370	387	-1,305

Remove Cellar Door Subsidy

The cellar door subsidy is a State Government rebate of Federal taxes on cellar door wine sales. Producers can claim the subsidy once they have exhausted the Federal Government's Wine Equalisation Tax (WET) rebate. With the increase in the WET rebate to \$500,000 in 2006, most wine producers no longer require the State subsidy. The cellar door subsidy will be abolished from 1 July 2015, generating estimated savings of \$11 million over the forward estimates.

Remove First Home Owner Grant for Established Homes

The \$3,000 First Home Owner Grant (FHOG) for established homes will be abolished from 2015-16 (immediately following passage of the required legislative amendments). This will align Western Australia with all other States and generate estimated savings of \$109 million over the forward estimates. No changes are proposed to the \$10,000 FHOG for new homes, and first home buyers will continue to benefit from an exemption of transfer duty when purchasing a new

or established home up to a value of \$430,000 (phasing out at \$530,000), and vacant land valued up to \$300,000 (phasing out at \$400,000).

Agency Expenditure Reviews

The objective of the Agency Expenditure Reviews (AERs) is to ensure that, as circumstances change over time, the programs delivered by agencies remain a Government priority, and continue to be delivered in an efficient and effective manner. The Government announced in the 2014-15 Mid-year Review that eight agencies would undertake an AER. The 2015-16 Budget includes program savings identified by six of the agencies (the Departments of the Attorney General, Commerce, Agriculture and Food, Fisheries, Parks and Wildlife, and Training and Workforce Development). These savings result in an estimated \$137 million net debt improvement by 30 June 2019.

The remaining agencies (the Department of Finance and the Culture and the Arts portfolio) will progress to stage two of the AER process, which consists of an internal review of the entirety of the agency's operations overseen by an independent project board. It is expected that stage two savings will be included in the 2015-16 Mid-year Review.

Revised Land Tax Scale

From 2015-16, a flat dollar amount of \$300 will be introduced to taxable land with an unimproved value between \$300,000 and \$420,000, and land tax rates (except the top rate) will be increased, as outlined in Table 2. Despite these changes, Western Australia's land tax remains very competitive with other States, particularly for lower valued properties (see Table 3). The revised land tax scale will result in an estimated net debt improvement of \$826 million by 30 June 2019.

Table 2

LAND TAX SCALE Western Australia

Threshold	Current Land Tax Scale		2015-16 Land Tax Scale		
	\$	%	Threshold	\$	%
300,000	0	0.11	300,001	300	0
1,000,000	770	0.58	420,000	300	0.25
2,200,000	7,730	1.51	1,000,000	1,750	0.90
5,500,000	57,560	1.80	1,800,000	8,950	1.80
11,000,000	156,560	2.67	5,000,000	66,550	2.00
			11,000,000	186,550	2.67

Table 3

INTERSTATE COMPARISON OF LAND TAX PAYABLE^(a)

Unimproved Land Value	WA Current	WA New	NSW	VIC	QLD	SA	TAS	ACT
	\$	\$	\$	\$	\$	\$	\$	\$
100,000	-	-	-	-	-	-	463	1,328
200,000	-	-	-	-	-	-	1,013	1,873
300,001	-	300	-	375	-	-	1,563	2,638
400,000	110	300	-	575	-	420	2,588	3,867
500,000	220	500	1,188	775	-	920	4,088	5,097
1,000,000	770	1,750	9,188	2,975	4,500	9,447	11,588	11,247
3,000,000	19,810	30,550	42,624	24,975	37,500	82,771	41,588	35,847
5,000,000	50,010	66,550	82,624	69,975	62,500	156,771	71,588	60,447
10,000,000	138,560	166,550	182,624	182,475	150,000	341,771	146,588	121,947
15,000,000	263,360	293,350	282,624	294,975	237,500	526,771	221,588	183,447

(a) The Northern Territory does not levy land tax.

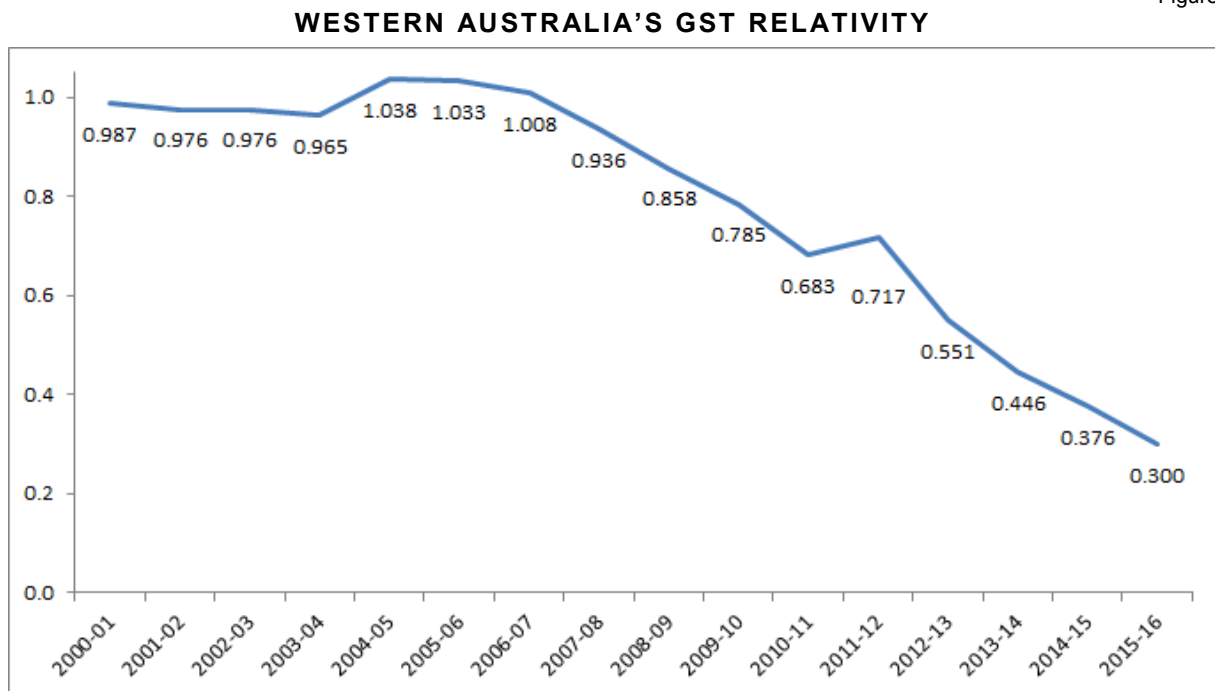
Increased Loan Guarantee Fees

The Western Australian Treasury Corporation charges its clients a Loan Guarantee Fee in exchange for an explicit Government guarantee on liabilities incurred in raising loan funds for agencies, local governments and universities. From 2015-16, local governments, universities and Keystart will be charged the same Loan Guarantee Fee (0.7%) as Government Trading Enterprises like Western Power and the Water Corporation. At present, these entities are either exempt, or charged a marginal Loan Guarantee Fee of 0.1% or 0.2%. This measure will result in an estimated \$149 million general government operating benefit across the forward estimates period, with a net debt benefit of \$24 million (reflecting that Keystart is internal to the State's public sector). There will be no change to Keystart's pricing policy.

WESTERN AUSTRALIA'S GST SHARE

Western Australia's share of the GST (GST relativity) will fall from 37.6% of our population share in 2014-15 to a new historic low of 30% in 2015-16. This will see Western Australia's GST revenue fall to less than \$2 billion in 2015-16, the lowest GST grant received by the State since the introduction of the GST. This is despite the GST pool more than doubling in that time and an increase in Western Australia's population from 9.8% of the national total to 11.2%.

Figure 1



Source: Commonwealth Grants Commission.

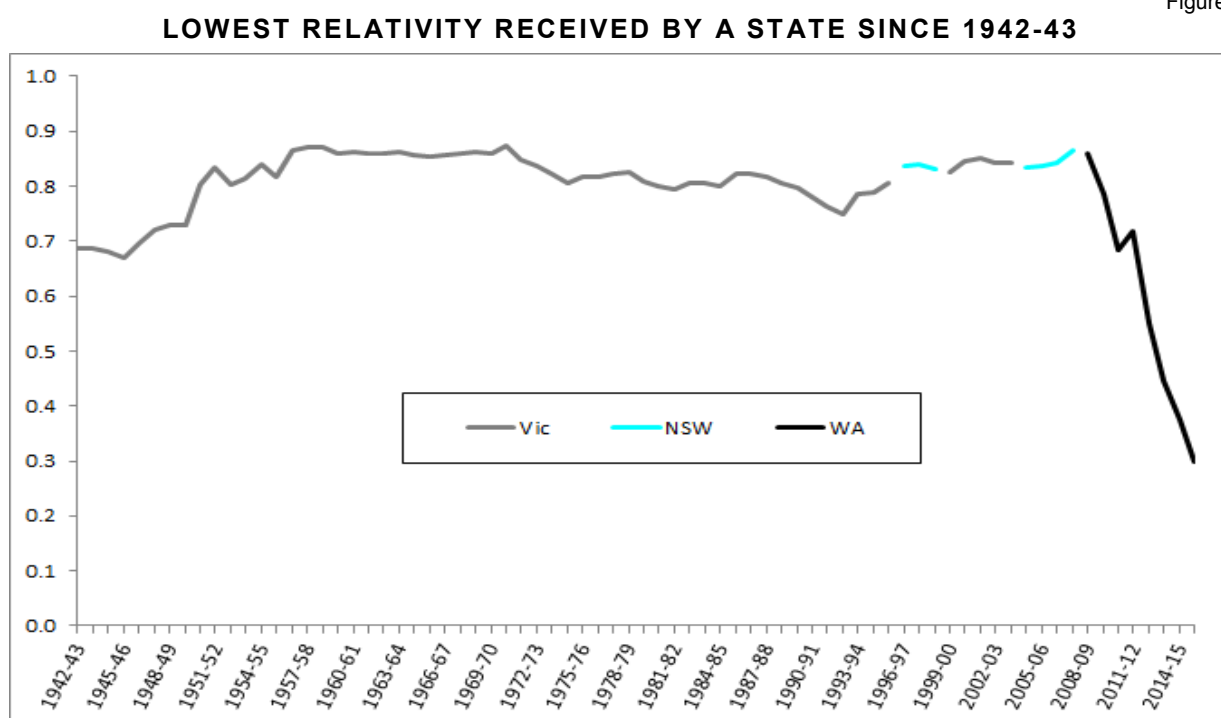
The lowest relativity received by any other State since the inception of the GST is 83.5%, for New South Wales in 2004-05.

No other State's relativity has ever fallen below 67% since tax re-imbursement grants were introduced in 1942. Figure 2 shows the lowest relativity received out of all of the States in each year since 1942-43.¹

Relative to an equal per capita share of GST revenue (i.e. a relativity of 100%), Western Australia's GST subsidy to the rest of the nation is worth \$4.5 billion in 2015-16 alone.

¹ The significance of 1942-43 is that it is the year income tax was taken over by the Commonwealth. Financial assistance grants (initially known as tax reimbursement grants) were introduced as a result.

Figure 2



Source: Western Australian Treasury estimates.

Commonwealth Grants Commission's 2015 Methodology Review

Every five to six years the Commonwealth Grants Commission (CGC) undertakes a major review of the methods it uses to recommend GST relativities for each State.

In February 2015, the CGC provided the Commonwealth Treasurer with the results of its 2015 review of its methods. The 2015 Review methods replace the 2010 Review methods, and determine the GST relativities for 2015-16. The Review also incorporated its normal annual update to reflect the latest available data.

The net impact of the CGC's recommendations for Western Australia is a loss of \$493 million in 2015-16 compared to the State's GST relativity remaining at 37.6%. This loss is a result of:

- changes to the CGC's methodology (-\$53 million); and
- updating data by replacing 2010-11 data with 2013-14 data (-\$441 million) – the CGC uses a rolling three-year average data period, so GST grants in 2014-15 were based on data from 2010-11 to 2012-13 and GST grants in 2015-16 are based on data from 2011-12 to 2013-14.

A new method assesses States' capacity to raise onshore mining revenue separately for each major mineral such as iron ore. This replaces the previous assessment in two groups ('low royalty rate' and 'high royalty rate'), where iron ore 'fines'² were classified as 'low rate'. The new method represents a \$230 million loss for Western Australia in 2015-16³. Other method changes have a net positive impact of \$177 million, for a net loss of \$53 million in 2015-16.

² Iron ore 'fines' is the most commonly traded iron ore product, with a granular size below 6mm. Fines are combined with other materials at high temperatures to create a product that can be used in the steel-making process.

³ Western Australia's submissions argued for a discount of up to 50% of mining revenue to accompany any change to a mineral by mineral methodology.

However, the 2014-15 State Budget (and the Mid-year Review) had forecast that iron ore 'fines' would be progressively reclassified from a 'low royalty rate' mineral to a 'high royalty rate' mineral. Compared to these forecasts, the CGC's new mining revenue method will have only a small (\$17 million) negative impact on the State Budget for 2015-16 and significantly improve Western Australia's GST grant from 2016-17 onwards. Over the four years to 2018-19, the new mining revenue method increases previous State budget estimates of Western Australia's GST grants by \$803 million.

Relative to previous forecasts, the new CGC methods represent a \$160 million gain in 2015-16 (i.e. \$17 million loss from the new mining revenue assessment plus \$177 million gain from other method changes). The gains from 2016-17 onwards are significantly higher, because of the progressive reclassification of iron ore fines that had been assumed in the 2014-15 State Budget (and Mid-year Review).

The treatment of GST shares in the presence of large and volatile revenues

In addition to the 2015 Review, the Commonwealth Treasurer instructed the CGC to provide advice on options to mitigate negative effects of revenue volatility on the GST distribution system and ensure that States' shares of the GST in a given year are appropriate for their fiscal circumstances in that year.

The CGC's report discusses three broad options for addressing volatility. However, it recommended that the current lagged three-year averaging remain.

If the CGC had used current rather than historical data for iron ore royalties, Western Australia's GST grants would be \$4.7 billion higher across the four years to 2018-19 and would more closely reflect the State's fiscal circumstances in the respective years.

The CGC's recommendation to reduce Western Australia's GST relativity to 30% at a time of large falls in iron ore prices is manifestly unfair. The CGC process is complex, lacks accountability and dulls economic incentives. Western Australia's strong view is that there remain substantial problems with the GST distribution system and fundamental reform is required.

Longer Term Reform

Prior to the CGC's 2015 Review, the GST Distribution Review⁴ final report put forward a long-term reform vision of an equal per capita distribution of GST grants, with the Commonwealth providing top up equalisation payments to the smaller States. A similar joint proposal was made by Western Australia, New South Wales, Victoria and Queensland in 2012.

The GST Distribution Review's reform vision also included a reduction in Australia's vertical fiscal imbalance⁵ which would be achieved by more closely aligning revenue raising and expenditure responsibilities, and for States to become less dependent on the Commonwealth's specific purpose funding.

Such a model would help address many of the problems in Australia's federal financial relations, but requires a national commitment to reform.

4 The review was conducted by the Hon Nick Greiner, the Hon John Brumby and Mr Bruce Carter, with assistance from the Commonwealth Treasury. The final report was released by the Commonwealth Government on 30 November 2012.

5 Vertical fiscal imbalance is the mismatch between the revenue raising powers and expenditure responsibilities between the Commonwealth Government and the States.

KEY AGENCIES' RECURRENT APPROPRIATION AND EXPENSE MOVEMENTS

The following tables outline changes in the recurrent appropriations and expenses of key service delivery agencies for 2015-16. Appropriations represent State Government funding (provided from the central pool of State tax revenue, royalties and 'untied' Commonwealth grants) to assist agencies to provide services to the community. Expenses represent the total cost of providing these services. In addition to appropriations, expenses may also be funded by other sources, such as specific-purpose Commonwealth grants or agency fees and charges.

As expenses comprise all funding sources, they are considered to provide a more comprehensive view of agencies' activities.

Table 1

RECURRENT APPROPRIATION

Western Australia

	2014-15 Estimated Actual \$m	2015-16 Budget Estimate \$m	Change \$m	Change %
WA Health	4,698.3	4,823.1	124.8	2.7
Education	3,664.9	3,936.8	271.9	7.4
Western Australia Police	1,223.9	1,270.6	46.7	3.8
Commissioner of Main Roads	830.6	882.7	52.1	6.3
Corrective Services	816.0	808.2	-7.8	-1.0
Public Transport Authority of Western Australia ^(a)	737.1	787.5	50.4	6.8
Disability Services Commission	682.8	716.8	34.0	5.0
Mental Health Commission	599.5	633.9	34.4	5.7
Child Protection and Family Support	557.2	575.7	18.5	3.3
Training and Workforce Development	438.7	386.7	-52.0	-11.9
Attorney General	345.0	340.8	-4.2	-1.2
Parks and Wildlife	217.2	209.7	-7.5	-3.4
Transport	48.3	38.9	-9.4	-19.5
Fire and Emergency Services ^(b)	34.2	16.3	-17.9	-52.4

(a) Comprises the operating subsidy and the appropriation for salaries and allowances.

(b) In 2015-16, some Fire and Emergency Services activities previously funded by the Consolidated Account appropriations will be funded from the Emergency Services Levy. Total recurrent expenditure on Fire and Emergency Services is budgeted to increase by \$25.2 million or 7.5% in 2015-16 (see Table 2).

RECURRENT EXPENSES
Western Australia

	2014-15 Estimated Actual \$m	2015-16 Budget Estimate \$m	Change \$m	Change %
WA Health ^(a)	8,046.7	8,149.5	102.8	1.3
Education	4,503.6	4,797.9	294.3	6.5
Commissioner of Main Roads	1,504.6	1,642.4	137.8	9.2
Western Australia Police	1,304.7	1,357.6	52.9	4.1
Public Transport Authority of Western Australia	1,265.3	1,330.9	65.6	5.2
Disability Services Commission	866.1	963.7	97.6	11.3
Corrective Services	893.1	905.8	12.7	1.4
Mental Health Commission	794.2	836.8	42.6	5.4
Child Protection and Family Support	619.5	643.2	23.7	3.8
Training and Workforce Development	676.0	623.8	-52.2	-7.7
Attorney General	539.7	552.4	12.7	2.4
Transport	375.1	377.2	2.1	0.6
Fire and Emergency Services	335.1	360.3	25.2	7.5
Parks and Wildlife	299.3	297.3	-2.0	-0.7

(a) The low WA Health expense growth in 2015-16 is impacted by one-off expenditure in 2014-15, including costs for the commissioning of Fiona Stanley Hospital and the reconfiguration of the South Metropolitan Health Services. In 2015-16, expenditure on public hospital services is budgeted to increase by \$242.7 million or 4.6% compared to 2014-15.

Further detail on the budget outlook for agencies is available in Budget Paper No. 2: *Budget Statements* available at www.ourstatebudget.wa.gov.au.

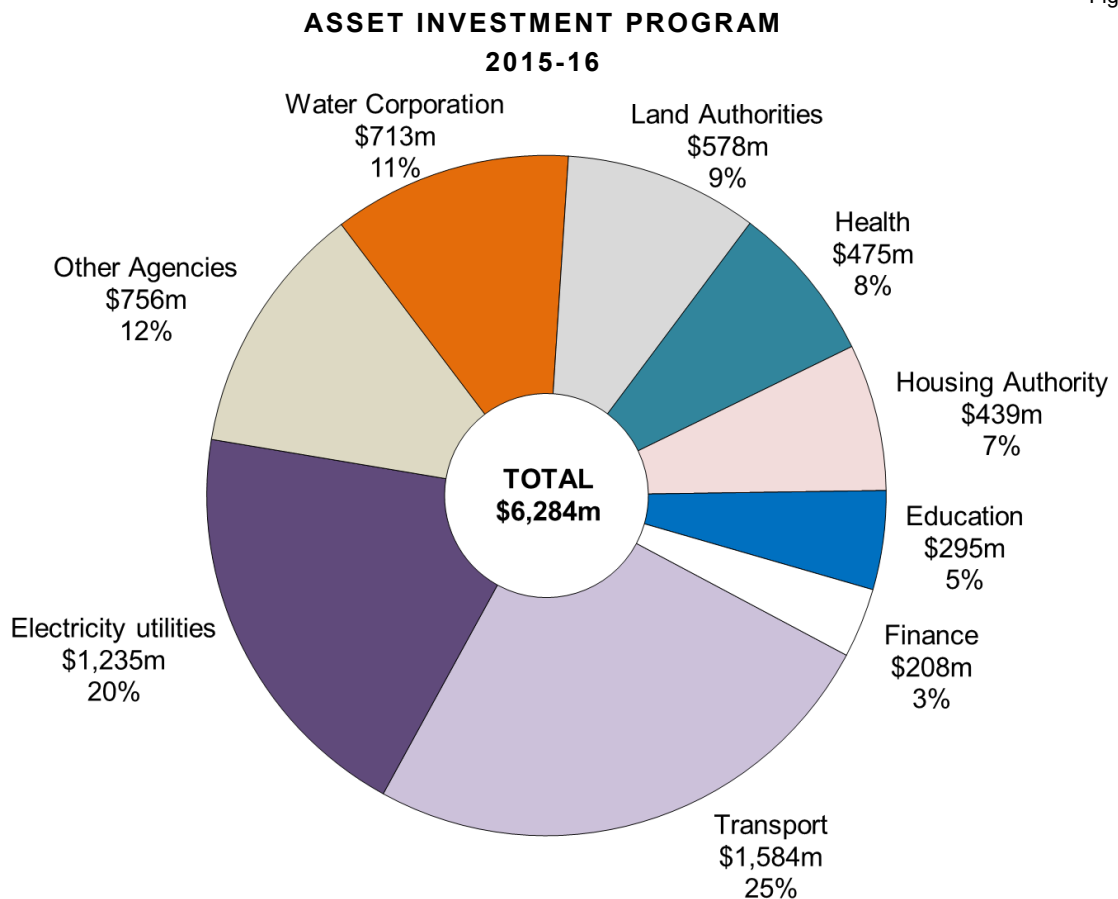
ASSET INVESTMENT PROGRAM

From 2008-09 until the end of the 2014-15 financial year, the Government will have overseen a \$46.6 billion Asset Investment Program (AIP), which has resulted in increased capacity and much needed upgrades to the State's health, education, transport, power and water infrastructure.

The 2015-16 Budget provides for a further \$24.1 billion in infrastructure investment over the period 2015-16 to 2018-19, including \$6.3 billion in 2015-16, bringing total investment by the Government since 2008-09 to nearly \$71 billion.

In 2015-16, the largest contributors to the AIP are transport, electricity, water, land, health, housing and education, accounting for around 85% of all AIP spending.

Figure 1



Source: Department of Treasury estimates.

This represents a consolidation from the record levels of investment in previous years, as the significant upgrade to the State's hospital infrastructure nears completion, and as investment effort focuses on transport infrastructure and the completion of major projects in the Perth metropolitan area.

New infrastructure investment in the 2015-16 Budget includes:

Roads

- An additional \$43.5 million will be spent in 2015-16 on a range of infrastructure initiatives to improve road safety outcomes in Western Australia.
- An amount of \$40.3 million will be invested over 2015-16 to 2017-18 on upgrades to sections of Great Northern Highway.
- Main Roads will spend \$28 million over 2015-16 to 2017-18 to install a number of physical network improvements to alleviate traffic congestion on metropolitan roads.
- \$25 million will be spent over 2015-16 to 2016-17 to enhance accessibility for vehicles, cyclists, pedestrians and public transport to the Aubin Grove Train Station (with the station to be completed in late 2016).

Public Transport

- An additional \$53.4 million will be invested between 2015-16 and 2018-19 (plus \$66.4 million between 2019-20 and 2021-22) to replace the existing analogue radio system used by Transperth train operations with a new digital radio system.
- \$5 million will be spent in 2015-16 on project planning for the procurement of the next generation (C-Series) of Transperth railcars. In total, 50 six-car sets (300 railcars) will be delivered over 10 years from 2019 at an estimated total capital cost of \$1.2 billion, including railcar investment previously recognised in the Forresterfield-Airport Link project.
- \$18.7 million will be spent on the Transperth rail network across 2015-16 and 2016-17 to reduce the likelihood and severity of disruptions to rail services as a result of unforeseen events such as overhead dewirements.
- \$15.5 million across 2015-16 and 2016-17 will be spent to replace the heavily used escalators in the Perth Underground and Esplanade train stations.

Electricity

- An additional \$140.4 million will be spent in 2015-16 in addressing safety and reliability issues in the Western Power network primarily for the treatment of wood poles and conductors, as well as bushfire management and distribution and transmission capacity expansion.
- Up to \$30.1 million will be spent to upgrade Horizon Power's transmission network for the Pilbara Power Project. This will accommodate the greater electricity load of the new power station on the existing network.

Police

- An additional \$16.8 million will be spent from 2015-16 to 2018-19 to continue the program of critical refurbishments and upgrades to existing metropolitan and regional facilities.
- An amount of \$3 million will be invested in 2016-17 to progress the development of closed circuit television network infrastructure across Western Australia (in addition to \$4 million in recurrent spending).

Parks and Wildlife

- \$18 million will be spent over three years from 2015-16 to construct the first stage of the Bunbury Headquarters building for the Department of Parks and Wildlife.

Corrective Services

- Capital expenditure of \$22 million from 2014-15 to 2016-17 has been approved for a new standalone Women's Custodial Centre.

Fire and Emergency Services

- An additional \$17.3 million will be spent from 2015-16 to 2018-19 on the replacement of incident control vehicles, road crash rescue trailers and special purpose vehicles.

Land

- LandCorp, in partnership with the private sector, will spend \$26.8 million over 2015-16 to 2018-19 to revitalise Rockingham through the development of a marina and tourism precinct at Mangles Bay including accommodation for up to 500 boats, tourism facilities and retail, commercial and residential land.

Health

- An additional \$11.5 million will be invested in 2015-16, bringing total investment to \$19 million, to meet key infrastructure needs and support the operation of Royal Perth Hospital following the transition of some services to Fiona Stanley Hospital.
- Up to \$19.5 million will be invested over the forward estimates period for a new primary health care centre and six independent living units to support the delivery of comprehensive primary and aged care at the Laverton Hospital.
- Up to \$10.7 million from 2015-16 to 2017-18 for construction of two community sub-acute mental health facilities in Bunbury (ten beds) and Karratha (six beds).

Housing

- \$308 million in 2015-16 and 2016-17 under the new \$560 million Social Housing Investment Package, that will deliver 1,000 additional social housing dwellings and halve the number of seniors and families with children on the priority waitlist.

Education

- The Education Department will invest an additional \$191 million over the next four years for the commencement and completion of the following projects:
 - \$60.5 million for the construction of South Baldivis Senior High School;
 - \$57.2 million for the construction of Yanchep Senior High School;
 - \$29.8 million for the amalgamation of Hamilton Senior High School and South Fremantle Senior High School into the new Fremantle College;
 - \$17.6 million provided under Royalties for Regions for Stage 2 of the redevelopment of Carnarvon Community College;
 - \$8.5 million for new and refurbished buildings at Armadale Senior High School and Cecil Andrews Senior High School;
 - \$6.8 million for Stage 3 of the redevelopment of Willetton Senior High School; and
 - \$5.5 million for additional permanent accommodation for Highgate Primary School.

Jobs Creation

The AIP is a significant contributor to employment growth. Within the Perth metropolitan area alone, recent and current major projects will directly result in the creation of more than 93,000 jobs – with thousands more indirect jobs created for offsite suppliers and services.

- The Perth Children's Hospital, currently under construction, will directly employ a total of over 5,000 workers, with a peak workforce of more than 1,000.
- Work at Elizabeth Quay is also creating around 1,600 jobs during construction – ranging from engineers, to commercial divers and archaeologists – and providing work for more than 146 small to medium companies.
- More than 2,500 people are expected to be employed during construction of Perth City Link. When complete, the project will attract more than \$4 billion of investment from the private sector, house up to 3,060 new residents in 1,650 new homes, and up to 13,500 workers in 244,000 square metres of new commercial space.
- The new Perth Stadium is on schedule to open for the 2018 AFL season. During the construction phase, over 5,700 jobs are expected to be created.
- Now 60% complete, the Gateway WA Perth Airport and Freight Access Project will employ a total of 7,000 workers, and will significantly improve access to the airport and surrounding industrial areas, meaning businesses can get products to market more quickly and efficiently. To date Gateway WA has awarded contracts worth approximately \$400 million and has engaged suppliers for the provision of goods worth approximately \$24 million. The majority of this work is being delivered by more than 600 Western Australian businesses.
- With a total projected workforce of 2,000 people, the 40-hectare Riverside site is expected to attract more than \$2 billion in private investment and will offer a range of living and recreational opportunities.

HOUSEHOLD FEES AND CHARGES

The 2015-16 Budget includes the following increases in household fees and charges, which take effect from 1 July 2015:

- a 4.5% increase in residential electricity tariffs;
- a 4.5% increase in the Water Corporation's total water tariffs (water, wastewater and drainage);
- a 2.6% increase in public transport standard fares (rounded to the nearest ten cents), with the 60 cent student fare remaining unchanged;
- a 2.7% increase in drivers' licence fees;
- a 2.6% increase in motor vehicle licence fees;
- a 4.1% increase in compulsory third party (CTP) insurance premiums; and
- a 10.6% (or \$25) increase in the Emergency Services Levy.

Total expenditure by the 'representative household' on this basket of Government goods and services in 2015-16 is \$5,412.27. This is an increase of \$198.54 or 3.81% on 2014-15 levels.

Even after the increases outlined above and prior to other States announcing their 2015-16 Budgets, the representative household in Western Australia has amongst the lowest expenditure on State Government goods and services when compared to other States (see Figure 1). For example:

- Western Australia's 2015-16 electricity charges remain lower than the national average, even prior to other States announcing any increases;
- public transport fares are the lowest in the nation and will remain significantly lower than those in Queensland and New South Wales;
- motor vehicle charges will remain amongst the lowest in Australia, particularly with respect to compulsory third party insurance premiums¹; and
- the Government will spend \$1.8 billion in 2015-16 on operating subsidies, rebates and concessions for electricity, water and public transport.

Assistance for Households

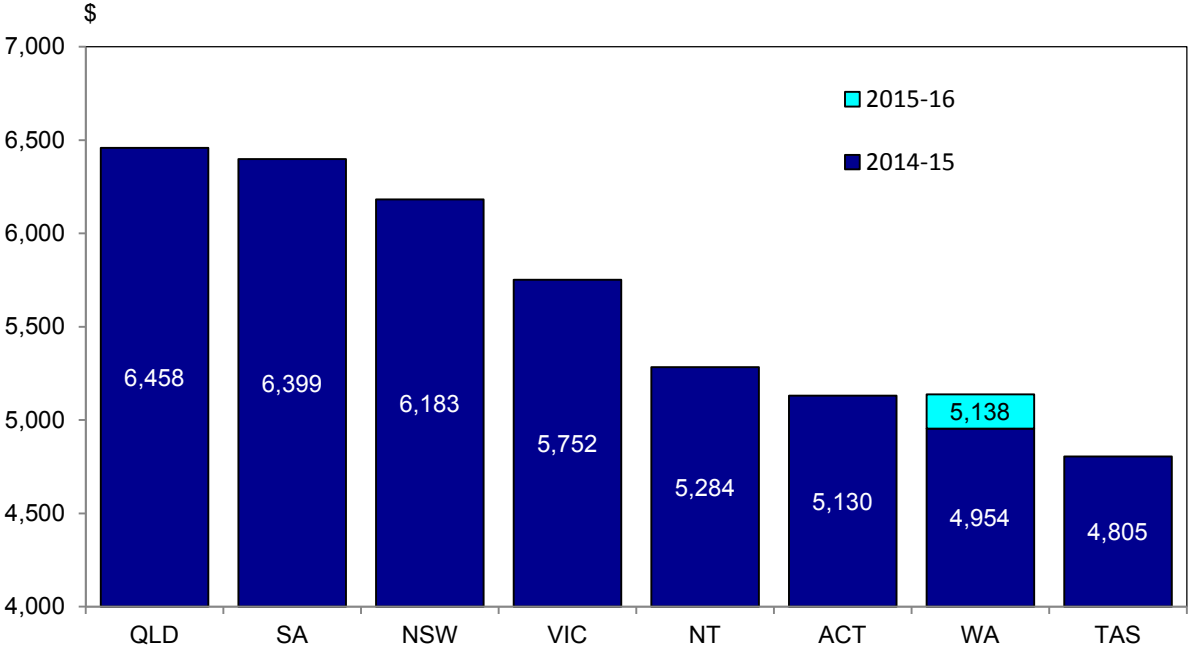
The Government recognises that some individuals and families need assistance to pay utility bills. The Government funds the Hardship Utilities Grants Scheme (HUGS) to help people in financial difficulty to pay water, gas and electricity bills so that supply is not suspended. To apply for HUGS, customers can contact their electricity, gas or water supplier.

¹ From 1 July 2016 people catastrophically injured in motor vehicle accidents in Western Australia will be covered by a no-fault catastrophic injury CTP insurance scheme. The scheme will cost motor vehicle owners a maximum of \$99 per annum per motor vehicle registration (inclusive of GST and insurance duty) in addition to the existing CTP insurance scheme's premium. Even with the addition of the \$99 premium from 1 July 2016, the cost of CTP insurance in Western Australia will remain amongst the lowest in Australia.

In addition, the Government funds a range of concessions to help low income Western Australian families pay utilities bills, including the Energy Assistance Payment (formerly the Cost of Living Assistance payment). The EAP is worth \$227.14 in 2015-16 for eligible households, with eligibility being better targeted from 1 July 2015 to holders of a means-tested Commonwealth Concession Card².

Figure 1

INTERJURISDICTIONAL HOUSEHOLD FEES AND CHARGES



The interjurisdictional comparison of the household model contains various assumptions, including:

- certain Western Australian consumption levels that may not be appropriate in other jurisdictions;
- certain Western Australian fees and charges have no comparable equivalent in other jurisdictions; and
- not all tariffs, fees and charges levied in Western Australia are also levied in other jurisdictions.

Furthermore, given that many interjurisdictional fees and charges are released at differing times, the data in respect of other jurisdictions is captured retrospectively.

² Eligible cards include the Pensioner Concession Card, Health Care Card, Veterans' Affairs Gold Card and Commonwealth Seniors Health Card.

SOCIAL CONCESSIONS REFORM

The State Government provides social concessions in the form of rebates, discounts, subsidies and direct payments to improve the affordability of services and help reduce the cost of living for individuals and families. The estimated total State expenditure on social concessions in 2015-16 is \$2.6 billion.

The Government is introducing a number of reforms to social concessions to better target assistance to those most in need. This more closely aligns Western Australia with other States in the provision of means-tested concessions, and ensures sustainability of these concessions over the longer term. These reforms are estimated to save \$199 million over the next four years.

Table 1

REFORM OF SOCIAL CONCESSIONS SAVINGS

Estimated Financial Impact

	Net Operating Balance				Net Debt
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	At 30 June 2019 \$m
Seniors Cost of Living Rebate	23	25	23	22	-92
Energy Assistance Payment	18	19	21	22	-80
Local Government Rates and Water Service Charges Rebates	-	8	9	9	-26
Total	41	52	53	53	-199

Western Australia provides a generous seniors concession scheme with 80% of State seniors' concessions available to holders of a Western Australian Seniors' Card (WASC), with no other eligibility requirements such as means-testing.

Seniors Cost of Living Rebate (CoLR)

The seniors CoLR will remain at existing levels of \$84 for singles and \$126 for couples (with annual indexation by the Consumer Price Index), following withdrawal of Commonwealth funding for pensioner and seniors concessions in its 2014-15 Budget.

Energy Assistance Payment

From 1 July 2015, the Energy Assistance Payment (EAP), will replace the Cost of Living Assistance (CoLA) payment and will be means-tested by limiting the EAP to people holding a means-tested Commonwealth concession card. There will be no change to the amount of the payment, which is \$227.14 per eligible household in 2015-16.

Capping the means-tested Local Government Rates and Water Service Charge Rebates

Western Australia is the only State not to provide a dollar cap on the existing means-tested component of Local Government Rates and Water Service Charge rebates (i.e. the 50% rebate). From 2016-17, the Government will apply caps of \$550 to the 50% Local Government Rates rebate and \$600 to the 50% Water Service Charge rebate for pensioners.

Western Australian Seniors' Card (WASC)

The Government will increase the eligibility age (from 60 to 65 years) for the WASC, reaching 65 years in 2023-24. From 1 July 2015, there will be a one year increase in the WASC eligibility age every two years.

WASC holders will still be able to access a range of government payments, including the seniors CoLR, the Local Government Rates and Water Service Charges rebates, and free public transport; and will also continue to receive discounts of between 10% and 50% off the price of goods and services from over 500 businesses.

Western Australian Photo Card

The Government will introduce a new concession for the Western Australian Photo Card from 2016-17. The purpose of the concession is to extend the existing discounts available for driver's licenses to the Western Australian Photo Card which is used for identification purposes. This new concession will provide a 50% discount for holders of a WASC and a free card for holders of a means-tested Commonwealth concession card.

EMERGENCY SERVICES LEVY

The Emergency Services Levy (ESL) is a State Government charge that is levied on rates notices issued by local governments. With the exception of vacant land owned by a Council, the ESL applies to all property.

The ESL was introduced in 2003 to fund fire and emergency services. This includes career fire stations, volunteer fire brigades, State Emergency Service (SES) units, the multi-purpose volunteer emergency service units and operational and corporate support services.

The ESL revenue can only be used for the purposes set out in the *Fire and Emergency Services Act 1998*.

Funding and Cost of Services

- The ESL is forecast to generate revenue of \$321 million in 2015-16, up from \$289 million in 2014-15 (refer Table 1).
- The average metropolitan residential charge (ESL category 1) is forecast to increase to \$261 in 2015-16, an increase of \$25 or 10.6% from 2014-15.
- The ESL funding supports approximately 828 dedicated emergency service groups comprising more than 1,400 career firefighters and support staff, and over 29,000 volunteers.
- There are five ESL rate categories that apply, depending on the type and level of fire and emergency services available to a property. Properties with more services available to them will contribute more. Detailed information regarding ESL categories, rates and boundaries is available from the [DFES website](#).

Table 1

EMERGENCY SERVICES LEVY Actual and Estimated

	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
Emergency services levy revenue	273.1	289.2	320.5	339.0	354.4	353.8
DFES total cost of services (TCOS)	347.4	335.1	360.3	379.7	389.4	387.9
ESL revenue percentage of TCOS	78.6%	86.3%	89.0%	89.3%	91.0%	91.2%



EDUCATION REFORM

In 2015-16, recurrent spending on education services will increase by \$294 million or 6.5% (relative to 2014-15). In addition, the 2015 school year is seeing the Department of Education implement a number of significant reforms in the public school system. These include:

Student Centred Funding Model (SCFM)

Funding to schools is now allocated on the basis of the characteristics and needs of each individual student enrolled at each school.

The SCFM provides a set per-student rate of funding with additional loadings provided for indigenous students, those with special needs or disabilities, those from small or regional schools and students with English as a second language. It is much simpler and fairer than the previous funding model, and provides much greater funding certainty to schools.

Independent Public Schools

An additional 178 public schools became Independent Public Schools (IPS) at the beginning of the 2015 school year, bringing the total to 441 IPS across Western Australia (55% of all public schools). IPS schools enjoy more flexibility with a greater degree of decision-making devolved to local schools and communities.

Changes to the Western Australian Certificate of Education (WACE)

In 2016, students seeking their WACE will require either an Australian Tertiary Admittance Rank and/or a minimum Certificate II in vocational education and training, to ensure that students graduate from school with a minimum level of literacy and numeracy.

Year 7s in the Secondary setting

The 2015 school year sees the transition of Year 7 students from primary to secondary school settings in the State's public schools. This follows capital investment of \$223 million in a number of metropolitan and regional secondary schools to accommodate the additional students.

The transition brings the State's public secondary schools into line with the non-government school sector and government schools in most other States.

Public Private Partnership (PPP)

The Government will enter into a partnership with the private sector to construct four new primary schools (to open in 2017) and four new senior high schools (to open between 2018 and 2020) at an estimated cost of \$370 million. The PPP package is proposed to incorporate both the construction of the schools as well as the provision of facilities management services.

Three consortia have been shortlisted for the Request for Proposal process for the PPP package. The final announcement of the successful bidder is expected to be made in August 2015.

GOVERNMENT TRADING ENTERPRISES REFORM

Since the 2014-15 Budget, a number of reform measures have been implemented by Government Trading Enterprises to reduce operational and capital expenditure, and deliver savings to Government.

GTE REFORM – WATER AND ELECTRICITY Asset Investment Program and Operating Subsidy Savings

Table 1

	2014-15 Budget 4 year total \$m	2015-16 Budget 4 year total \$m	Total Savings \$m
Asset Investment Program (AIP)			
Water Corporation	3,500.5	3,097.3	-403.2
Synergy	293.6	232.1	-61.5
Horizon Power	209.3	304.2	94.9
TOTAL AIP	4,003.3	3,633.6	-369.8
Operating Subsidy			
Water Corporation	2,447.6	2,309.0	-138.6
Synergy	1,801.3	830.7	-970.6
Horizon Power	122.9	82.9	-40.0
TOTAL OPERATING SUBSIDY	4,371.8	3,222.6	-1,149.2

(a) Comparison reflects total movements between the 2014-15 Budget forward estimates (2014-15 to 2017-18) and the 2015-16 Budget forward estimates (2015-16 to 2018-19).

(b) The operating subsidy amounts shown for Synergy and Horizon Power do not include changes to electricity concessions and rebates.

Water Corporation

The Water Corporation has reviewed its capital investment planning assumptions and identified capital and operating expenditure savings that can be delivered by streamlining its business. There will be a shift in focus from building new infrastructure to operating and maintaining existing assets. Compared to the 2014-15 Budget, the Water Corporation's:

- Asset Investment Program is reduced by \$403 million across the forward estimates; and
- operating subsidy requirement is reduced by \$139 million across the forward estimates.

Horizon Power

Horizon Power achieved operational savings of \$175 million as part of the 2014-15 Budget, following the commencement of its Strategic Review Program to simplify its operating structure and reduce the cost of providing electricity in the State's North West. In this Budget, Horizon Power has committed to deliver additional operational expenditure savings through the continuation of its internal process improvements, including the simplification of its asset management processes, streamlining its risk framework and enhancing its capacity planning.

Synergy

Synergy has initiated a Business Efficiency Program to review and identify opportunities for the newly merged business to be more effective and efficient in its operations. As part of this project, Synergy has forecast that it will achieve operational savings of \$450 million over the forward estimates period, which will reduce operating subsidies by \$233.7 million since the 2014-15 Mid-year Review. These savings are in addition to the \$137 million of operating subsidy savings achieved as part of the merger with the former Verve Energy and a \$457 million reduction in its operating subsidy, following a review into the methodology and cost assumptions underpinning the operating subsidy.

Compared to the 2014-15 Budget, Synergy's:

- Asset Investment Program is reduced by \$62 million across the forward estimates; and
- operating subsidy requirement is reduced by \$971 million across the forward estimates.

Other reforms

Electricity Market Review

The State Government is also pursuing reform of the energy sector with the commencement of Phase 2 of the Electricity Market Review (EMR). The objectives of the EMR are to reduce the cost of production and supply of electricity without compromising safety and reliability, reduce the Government's exposure to energy market risks, and attract private sector participants that are able to facilitate long-term stability and investment.

Ports Governance Review

The current reform of the State's ports continues. This is expected to enhance the governance framework and build capacity at the regional ports to deal with the increasingly complex issues facing the Port Authorities.

- Legislation enabling the amalgamation of the former seven regional port authorities into the four new port authorities was passed by Parliament on 8 May 2014.
- The Pilbara Ports Authority, Kimberley Ports Authority and the Mid-West Ports Authority came into operation on 1 July 2014 and the Southern Ports Authority came into operation on 1 October 2014.

Work is underway on legislation for the second tranche of the ports governance reform project that will result in the transfer of 13 existing ports from the Department of Transport to the regional Port Authorities.



SOCIAL HOUSING INVESTMENT PACKAGE

The 2015-16 Budget includes a new \$560 million Social Housing Investment Package (SHIP).

The package will deliver 1,000 new social homes which will be built, purchased or leased over 2015-16 and 2016-17, and will halve the number of seniors and families with children on the priority waitlist by 30 June 2017.

The \$560 million SHIP will deliver an estimated:

- 600 newly built social housing homes;
- 200 spot purchases of existing homes and pre-purchases of homes to be constructed; and
- 200 leases from the private sector.

The SHIP is funded from a mix of sources including \$85 million in the Royalties for Regions funding for social housing requirements in regional Western Australia.

Background

Clients in the most critical housing circumstances are assigned to a priority waitlist. The list is based on defined factors beyond adverse economic circumstances namely, medical needs that are exacerbated by their housing situation, domestic violence and/or homelessness.

As at March 2015, there were 2,688 applicants on the priority waitlist (approximately 6,000 persons including children), comprising 14% of the total waitlist and representing some of the most vulnerable low-income members of the Western Australian community. Approximately 80% are metropolitan Perth households and 20% regional households.

The SHIP will directly target these people and halve the number of seniors and families with children on the priority waitlist for social housing by 30 June 2017.

The SHIP will also provide a boost to the residential construction sector over the next two years, supporting jobs at a time when dwelling investment is forecast to moderate from current high levels.

NO-FAULT CATASTROPHIC INJURY COMPULSORY THIRD PARTY INSURANCE SCHEME

People catastrophically injured in motor vehicle accidents in Western Australia from 1 July 2016 will be covered by a no-fault catastrophic injury compulsory third party (CTP) insurance scheme (the Scheme).

The Scheme will provide long-term care and support to people catastrophically injured in motor vehicle accidents in Western Australia without the need to prove fault. Catastrophic injuries are defined as spinal cord injuries, traumatic brain injuries, multiple amputations, severe burns and permanent traumatic blindness, in line with national benchmarks.

Cost

- Motor vehicle owners in Western Australia currently pay significantly lower CTP insurance premiums than elsewhere in Australia. The absence of no-fault catastrophic insurance cover in Western Australia is a key reason for this price difference.
- The introduction of the Scheme will cost motor vehicle owners a maximum of \$99 per annum for the first year (inclusive of GST and insurance duty) for each vehicle. The charge will be in addition to the existing CTP scheme premium, which for the representative household is \$302.87 in 2015-16 (inclusive of GST and insurance duty).
- Despite the addition of the \$99 premium, the cost of CTP insurance in Western Australia will remain amongst the lowest in Australia. Based on 2014-15 interjurisdictional rates of CTP insurance, Western Australia's total CTP premium will remain below the interjurisdictional average of \$481.79 (see Table 1).

COMPULSORY THIRD PARTY INSURANCE SCHEMES

Table 1

CTP Premiums, 2014-15

	NT	NSW	VIC	QLD	SA	TAS	ACT	Average 2014-15	WA 2015-16	WA 2016-17
Estimated cost of CTP	\$531.40	\$612.61	\$487.30	\$323.60	\$476.00	\$338.00	\$603.60	\$481.79	\$302.87	\$415.20

- The following additional premium rates will be charged after vehicle registrations fall due from 1 July 2016:
 - \$99 for family cars and motorcycles above 75cc;
 - \$30 for farm fire-fighting vehicles, mopeds and vintage cars;
 - \$25 for most tractors; and
 - no additional premium will apply to caravans and trailers.
- The premiums applied to the various vehicle classes reflect the different risk profiles in the existing CTP scheme.

- No vehicle class will pay more than \$99 in the first year of the Scheme.
- The premium rate will be reviewed as part of each year's Budget process following an independent actuarial assessment of the Scheme.

Benefits

- It is estimated that each year in Western Australia 92 people suffer a catastrophic injury in a motor vehicle accident, 48 of whom are able to claim compensation under the existing Scheme. The remaining 44 people rely on support available through Government funded services, personal accident, superannuation or income protection insurance, and/or the support of family and friends. The introduction of the Scheme will ensure all people catastrophically injured in motor vehicle accidents will be eligible for ongoing care and support over their lifetime.
- People catastrophically injured will be entitled to the following services: rehabilitation; attendant and nursing care; domestic assistance; respite care; dental treatment; ambulance transportation; aids and appliances; home and transport modifications; prosthetics; medical treatment; and educational and vocational training.
- People who are catastrophically injured in a motor vehicle accident and can prove fault of another party will retain the right to settle their long-term care and support claim by lump-sum payment following injury stabilisation or can choose to continue to receive their entitlements paid on an 'as you go' basis. This ensures that accident victims who suffer a catastrophic injury maintain their existing common-law right to access lump-sum compensation if their injuries are caused by the actions of another party.