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"I'm not going to lead a government that goes into deficit"

BARNETT $1.3b IN THE RED

EXCLUSIVE
PETER LAW

THE Barnett Government is facing a budget deficit of more than $1 billion after the plunging iron ore price blew a hole in the state's coffers. It comes five years after the Premier promised he would never lead a government in the red.

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State's $1.3b deficit

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Treasurer Mike Nahan refused to say how much the budget had fallen into the red ahead of tomorrow's mid-year review of the state 's finances.

But sources put the deficit for the financial year at about $1.3 billion, with a $900 million deficit forecast for 2015-16.

The Budget could return to a $300 million surplus in 2016-17.

Dr Nahan described the deficit as "sizeable" and revealed a public sector cost-cutting drive would be announced, but said there would be no increase to household fees or delays to major projects.

It will be WA's first deficit in 15 years, and means Premier Colin Barnett will break his 2009 promise to voters that: "I'm not going to lead a government that goes into deficit."

Dr Nahan blamed the falling iron ore price, a "sharp" drop in tax revenue and a "busted" GST system which fails to compensate WA for a slowdown in the state's economy.

Labor's Ben Wyatt said Mr Barnett's fatal mistake was assuming record high iron prices were here to stay and "spending every last cent".

Treasury figures released to *The Sunday Times* show the iron ore royalty income $1.808 billion short of the budget forecast.

Iron ore recently hit a five-year low of $US68 a tonne – 44 per cent below Treasury's prediction in the May budget of $US122 a tonne.

Dr Nahan defended Treasury's previously optimistic outlook, saying "no one expected this". "We did our best. I'm satisfied," he said.

But the pain could be felt for years if the price doesn't rebound, with royalties over the forward estimates to 2017/18 revised down $7.1 billion.

Despite the slump, WA's GST revenue will only rise $2.7 billion over the four years – leaving a $4.4 billion gap.

A three-year lag used in GST modelling has states like WA penalised for boom times long after the economy has changed. WA receives 37 cents back for every dollar the state pays in GST and that will drop to 28 cents over the next two years, before rising to 32 cents in 2017/18.

If WA received its per capita share of GST, the state would receive an additional $21.3 billion over the four-year period.

"The GST system is busted. During the last 10 years, and the ramp up of the iron ore royalties, yes, iron ore royalty grew very rapidly and GST was cut back, but left us with more income," Dr Nahan said.

"Now that the royalties are plummeting the GST is still going, as a share, backwards. That's ridiculous."

Dr Nahan said measures outlined tomorrow would focus on public sector "efficiencies", stressing there would be no cuts to frontline services "in any way, shape or form".

He said no voluntary redundancies were planned in addition to the 1500 job losses announced in October, but conceded cost-cutting "could lead to less employment".

"Just like the miners, we had to pay and improve our wages and conditions significantly," Dr Nahan said.

"Things have slowed and we can now wind some of that back, just like the miners are doing. It's not easy and we won't go as far as the miners are going, but there's plenty of scope for it and that's what we are going to do."