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.

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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.

**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%).
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.