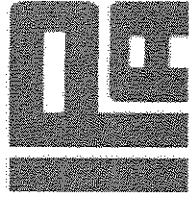


2007 SA State Budget Opportunity Squandered

Dr Mike Nahan

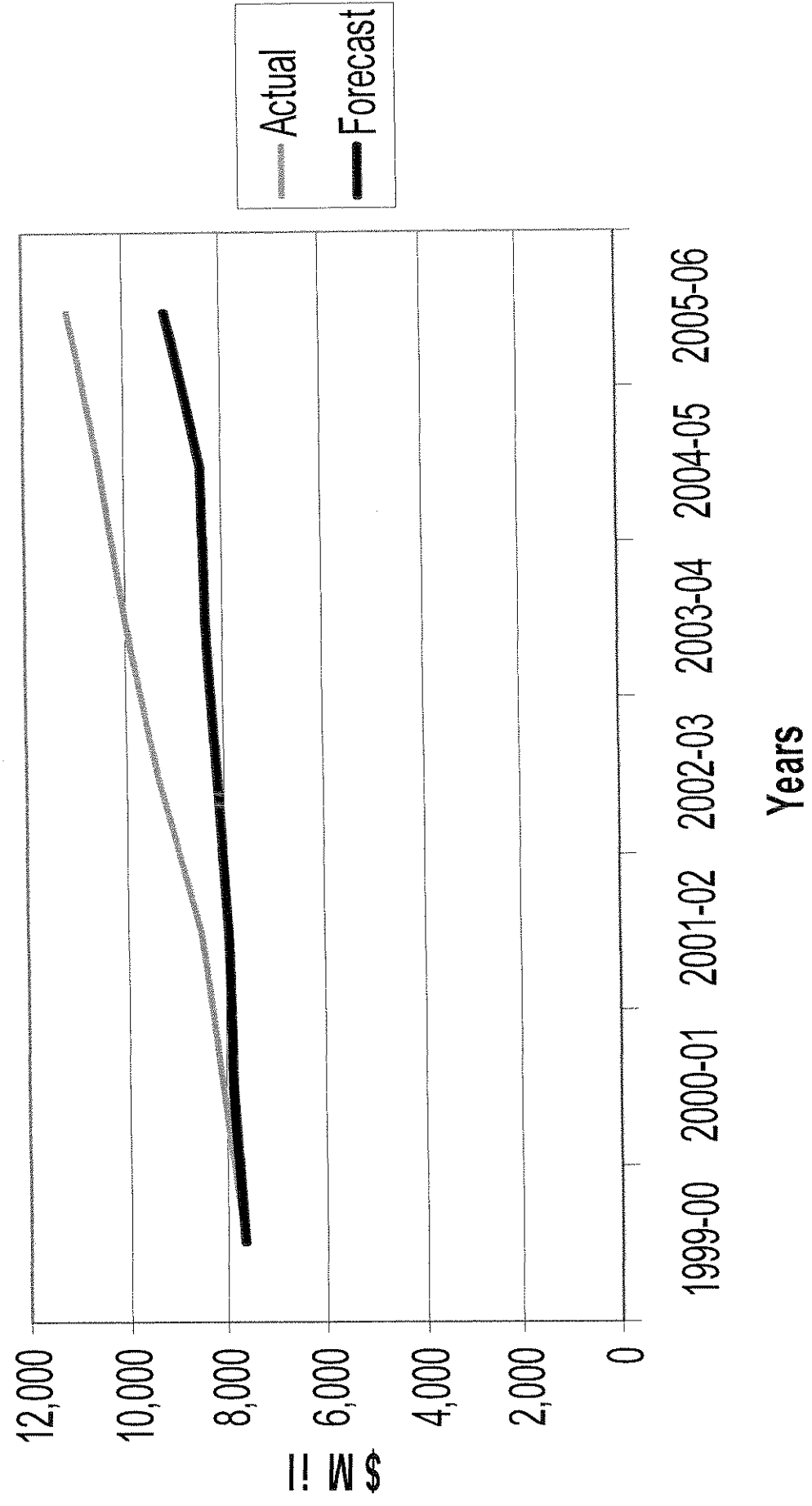
Senior Fellow

Institute of Public Affairs



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Australia's Leading Free Market Think Tank

SA: Revenue Windfall 1999/00 to 2005/06



2007 SA Budget

Revenue Windfall

1999/00 to 2005/06

Source	Amount	Proportion
Total Revenue	\$7.4bil.	15%
State Tax	\$2.7bil.	21%
Property Taxes	\$1.4 bil.	35%
Grants	\$2.4bil.	9%

2007 SA Budget

Growth In Tax Revenue

1999/00 to 2005/06

Tax Type	Annual Growth
Pay-roll	7%
Conveyance	15%
Gambling	3%
Land	20%
Insurance	10%
Total	1.7%

The Task: Use Inheritance Well

- Progressing Reform & Sustain Growth.
- Budget for the long term.
- Meet infrastructure needs
- Refocus on essential services.

SA's Future is On-The-Line

- Decline in core sectors
- Old Statist approach no longer works.
- Loss of people particularly youth.
- Loss of competitiveness
 - High Cost Government

2007 SA Budget

Tax Effort

2004/05

State	Relative
NSW	102.2
Vic	102.3
Qld	85.7
WA	103.3
SA	117.7
Tas	99.0
ACT	100
NT	102

2007 SA Budget

Above Average Tax Effort

2004/05

Tax	Relativities	Amount
Pay-roll	102.9	\$14.3 mil.
Conveyance	118.2	\$87 mil.
Land	199.3	\$128 mil.
Gambling	126.4	\$83.7 mil.
Insurance	150.5	\$76.2 mil.
Total	116.4	\$383.4 mil.

Commonwealth Grants Commission

SA: Above Average Tax Effort

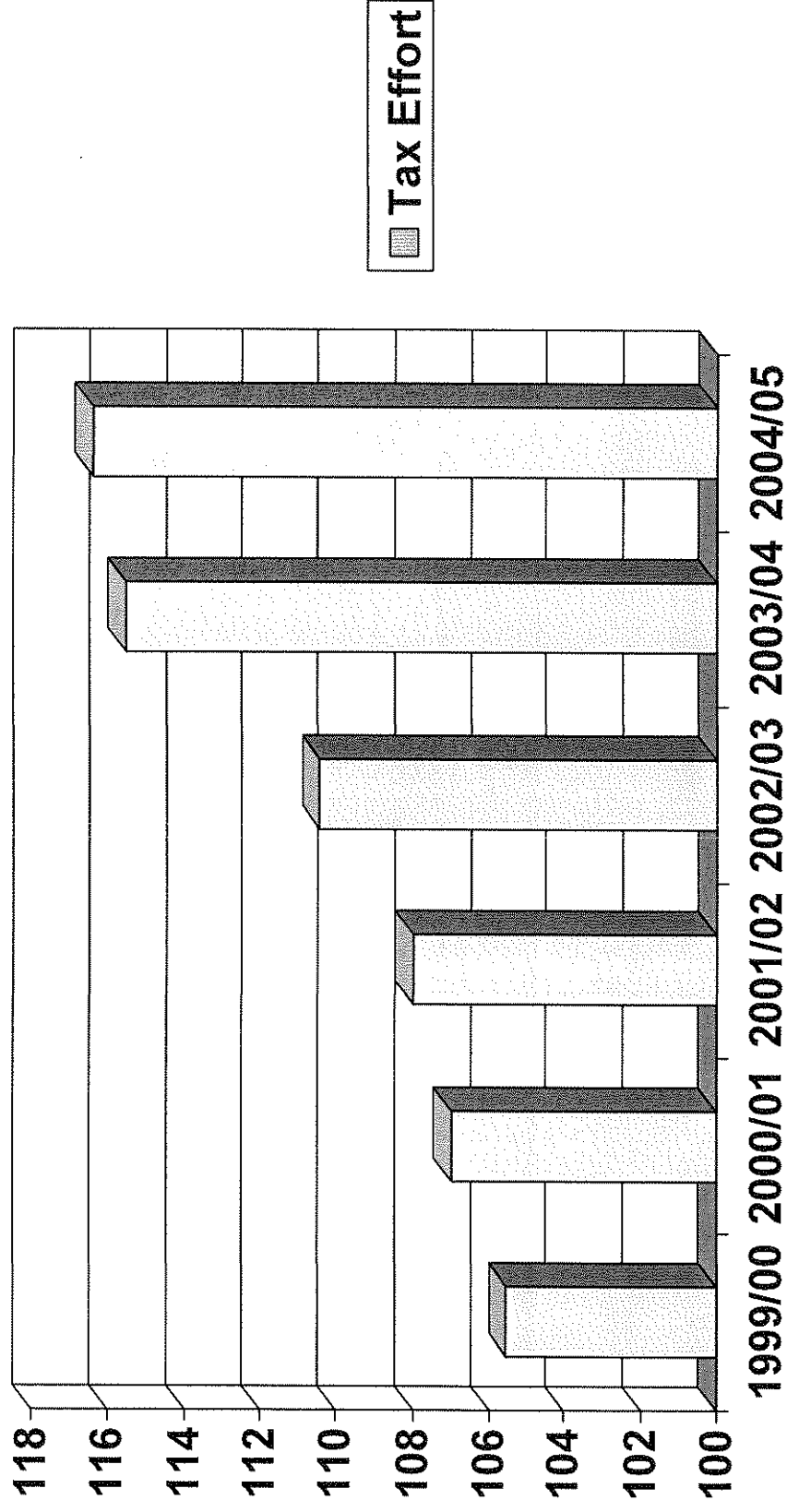


Table 2.22: Commonwealth Grants Commission expenditure assessments, South Australia

	2004-05	
	Difference between actual and CGC assessed expenditure	
	\$m	%
Education	161.0	8.6
Health	308.1	14.5
Welfare ^(a)	38.4	4.7
Law, order and public safety	70.8	8.4
Culture and recreation	40.5	20.6
Economic activities	-250.3	-18.9
General public services	342.8	21.3
Total expenditure	710.1	8.2

(a) Adjusted to remove land tax payments by the South Australian Housing Trust.

Source: CGC Report on State Revenue Sharing Relativities 2006 Update

We Have Seen The Light

Last 4 years

Next 4 years

- | | | | |
|--------------|--------|---------------|---------|
| • Rev Growth | 14.1% | • Rev growth | 0.2% |
| • Exp Growth | 14.4% | • Exp. Growth | -0.2% |
| • Capex: | \$160m | • Capex | \$1424m |

2007 SA Budget

Spending and Saving Initiatives

Over 2006/07 to 2009/10 Period

- Additional Spending \$1486m

Less

- Asset Sales

\$ 53m

- Exp. Cuts

\$ 695m

- Revenue

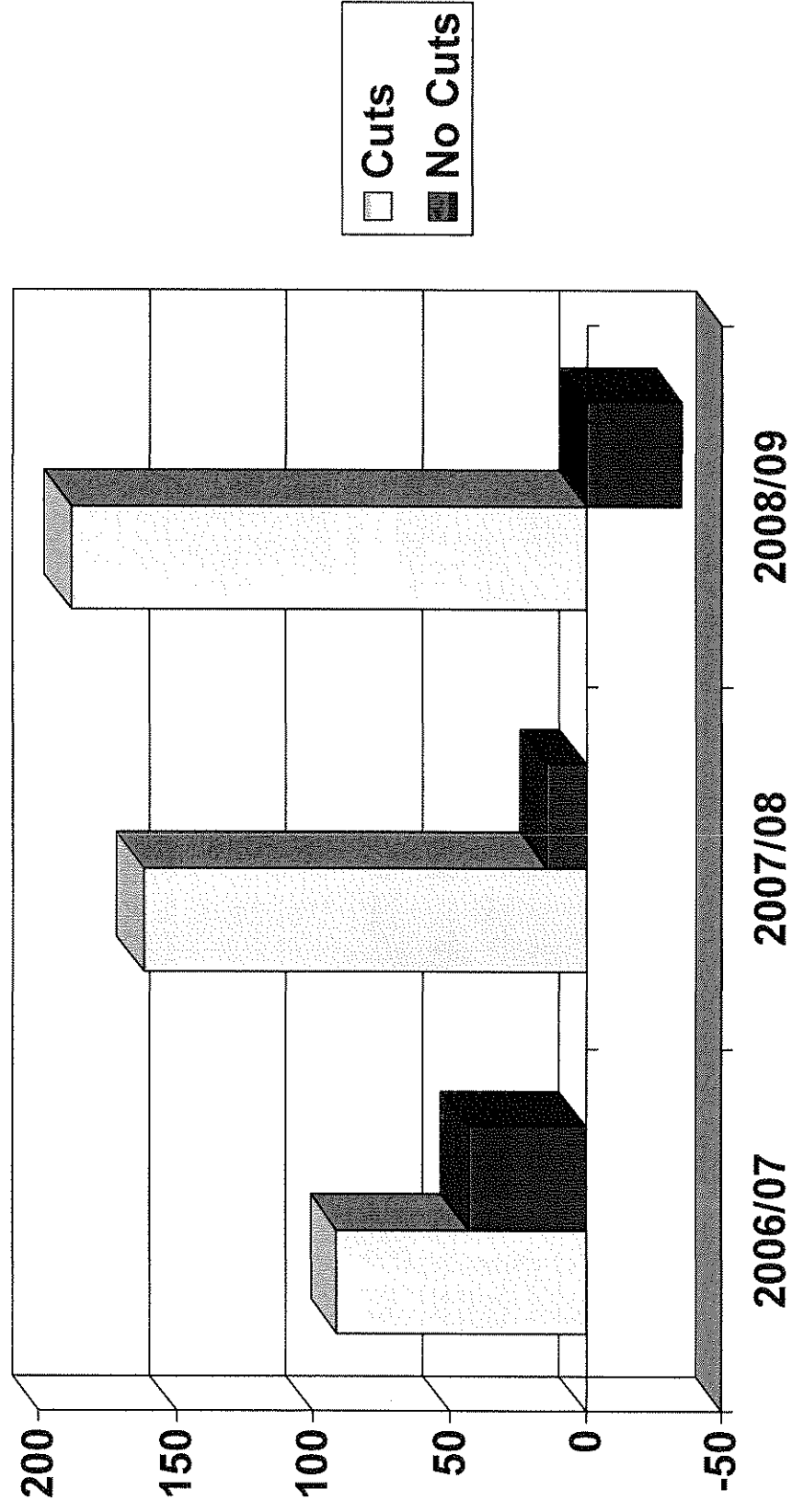
\$ 107m

- Net Change

\$ 631m

2007 SA Budget

Forecast Operating Balance



2007 SA Budget

Net Changes

Budget 2005/06 To Budget 2006/07

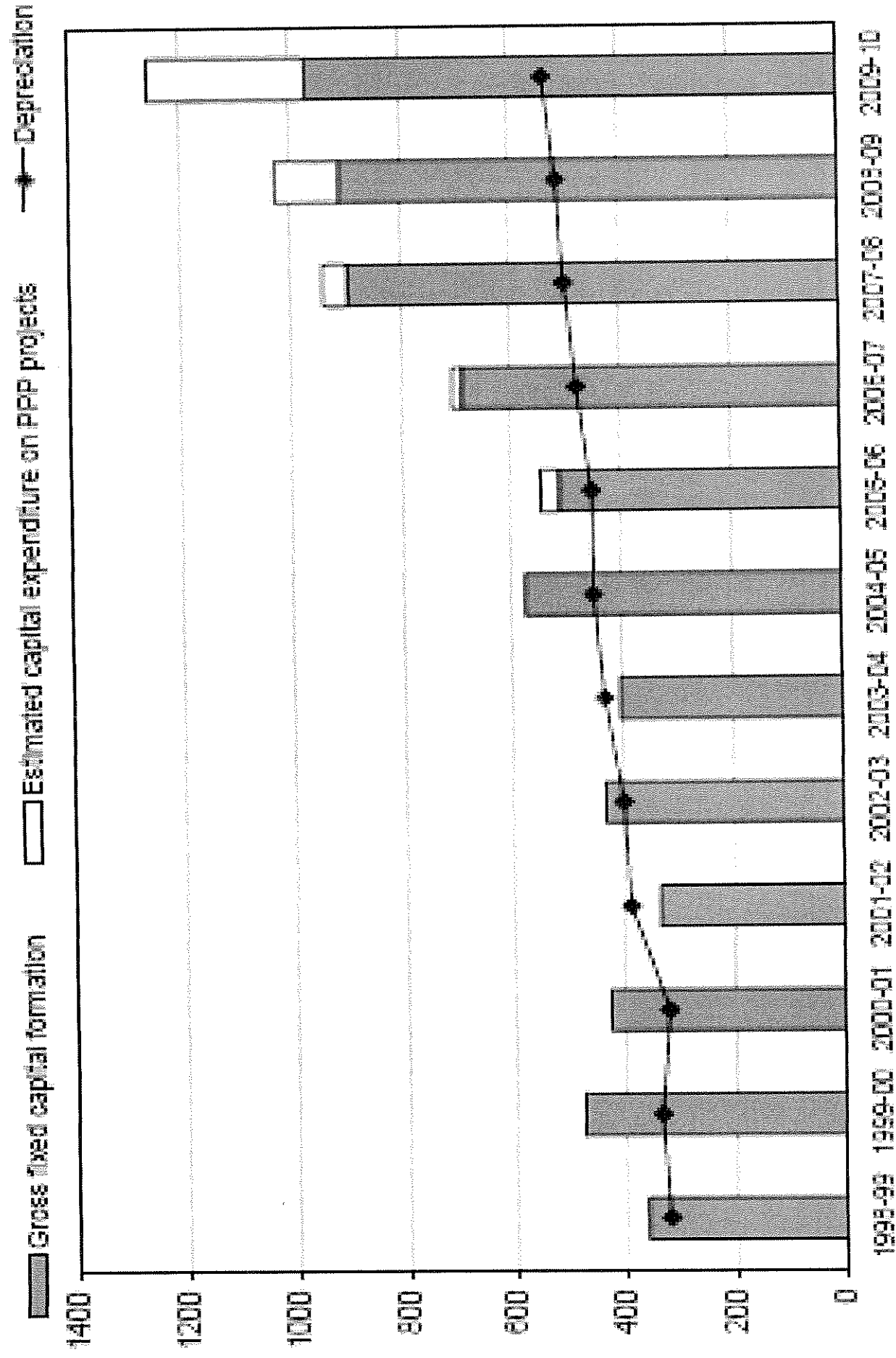
• Tax Growth	7.5%
• Wages growth	9.1%
• Public Servant No.	1%
• Exp. Growth	4.7%
• Operating Balance	-\$56m
• Borrowing	+\$209m
• Capex	+\$150m

2007 SA Budget

Spending Priorities

• Health	\$461m
• Justice	\$ 93m
• Premier's	\$ 21m
• Econ Dev	\$ 10m
• TAFE	\$ 7m
• Tourism	\$ 3m
• Trans, Energy & Infrac	\$ 0m
• Admin	-\$ 26m
• Education	-\$ 19m
• Treasury	-\$ 9m
• Primary Ind	-\$ 7m
• Community Services	-\$ 5m
• Environment	-\$ 2m

Figure 1.3: General government sector capital acquisition (\$ million)^(a)



(a) 1998-99 to 2004-05 are actual outcomes. 2005-06 to 2009-10 are forecasts.

No Reform Budget

- Smith Review - Housekeeping, not Reform
 - Useful but not enough
- No Reform (or cuts) of Taxes
- No Reform of Service Delivery
- No Reform of Infrastructure Decision-making

2007 SA Budget

Budget Fails

- Not Sustainable
 - No Reform
 - Excessive Expenditure Growth
 - Excessive Taxation Growth
 - Efficiencies put off to future
- High Risk
 - Betting on the boom-time to continue
 - Windfall gains used for long term commitments
- An Opportunity Lost

Public Servants Windfall

2003 - 2005

- Public Servant since
 - Numbers
 - Actual Growth: 13% or 8885
 - Budgeted growth: 1.6% or 1335
 - Wages Bill
 - Actual Annual Growth: 8.7%
 - Budgeted Annual Growth: 4.5%

Median Multiple Trend: Australia

LARGEST MARKETS: 1981-2005

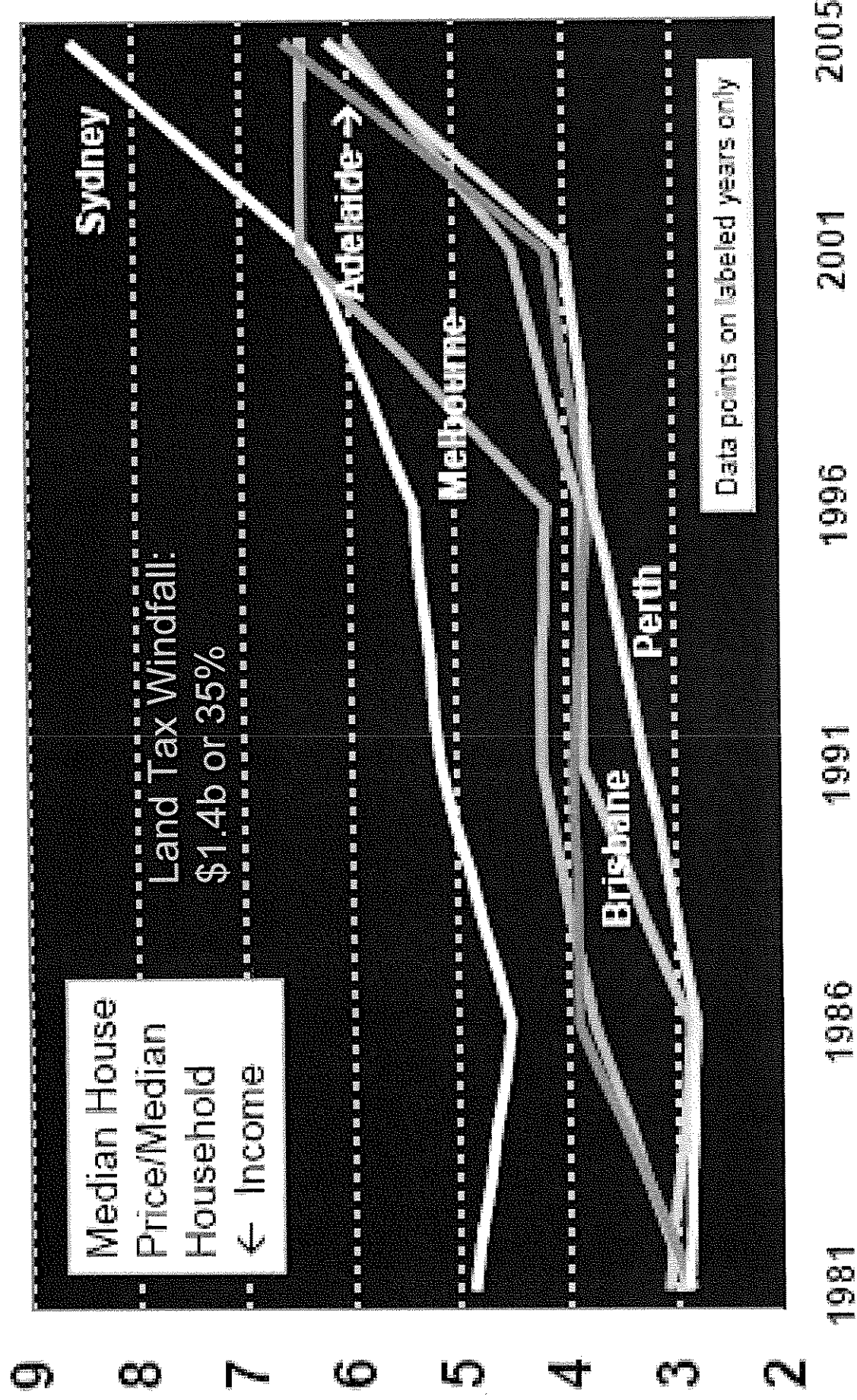
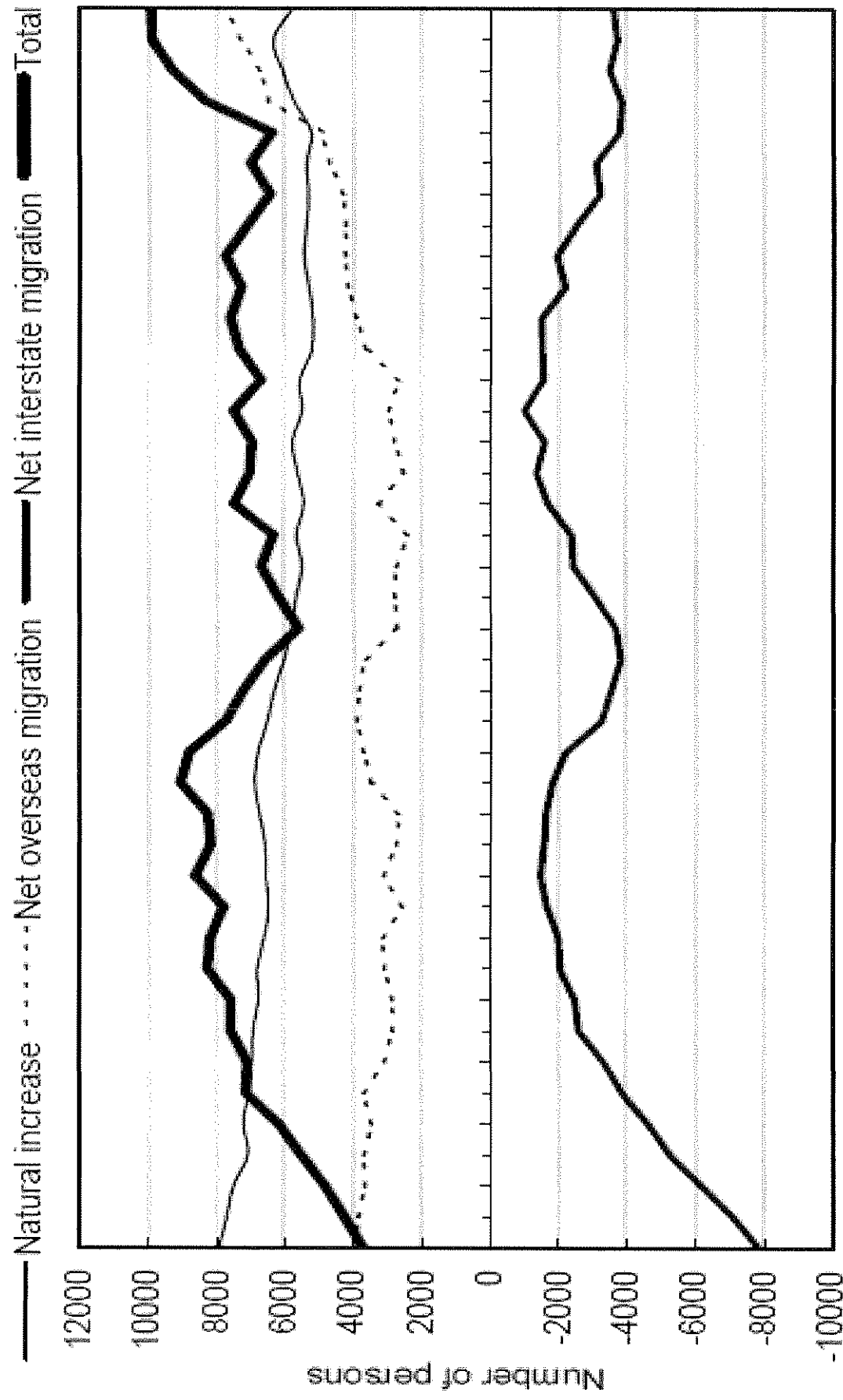


Figure 8.1: Sources of South Australian population growth (moving annual totals)



Dec-95 Dec-96 Dec-97 Dec-98 Dec-99 Dec-00 Dec-01 Dec-02 Dec-03 Dec-04 Dec-05

Source: ABS, Australian Demographic Statistics, Catalogue No. 3101.0

2007 SA Budget

Public Servant Numbers

Budget Papers	Budgeted Increase	Actual Increase	Blowout
2002-03	337	4184	3847
2003-04	-281	345	626
2004-05	610	2380	1770
2005-06	469	1976	1507
Total	1135	8885	7750

Table 5: Growth in State Employees: Salaries and Staff Numbers

	Employee entitlements Average annual growth *		Employee Numbers growth **	
	%		%	
	1999/00- 2004/05	2003/04- 2005/06	Nov 1999- Nov 2005	
NSW	7.5	8.9	6.9	
Victoria	7.4	10.0	21.5	
Queensland	10.1	9.6	9.7	
WA	6.9	9.0	15.4	
SA	6.8	8.5	17.0	
Tasmania	5.8	11.3	19.5	
NT	n.a.	6.9	24.1	
ACT	8.4	12.6	3.9	
State Sector	7.8	9.3	11.7	

Source:

* State Budget papers,

** ABS, Wages & Salary Earners: Public Sector, 6248.0.55.001.

State Public Sector Unfunded Superannuation Liabilities

(\$'million)

Source: State Budget Papers

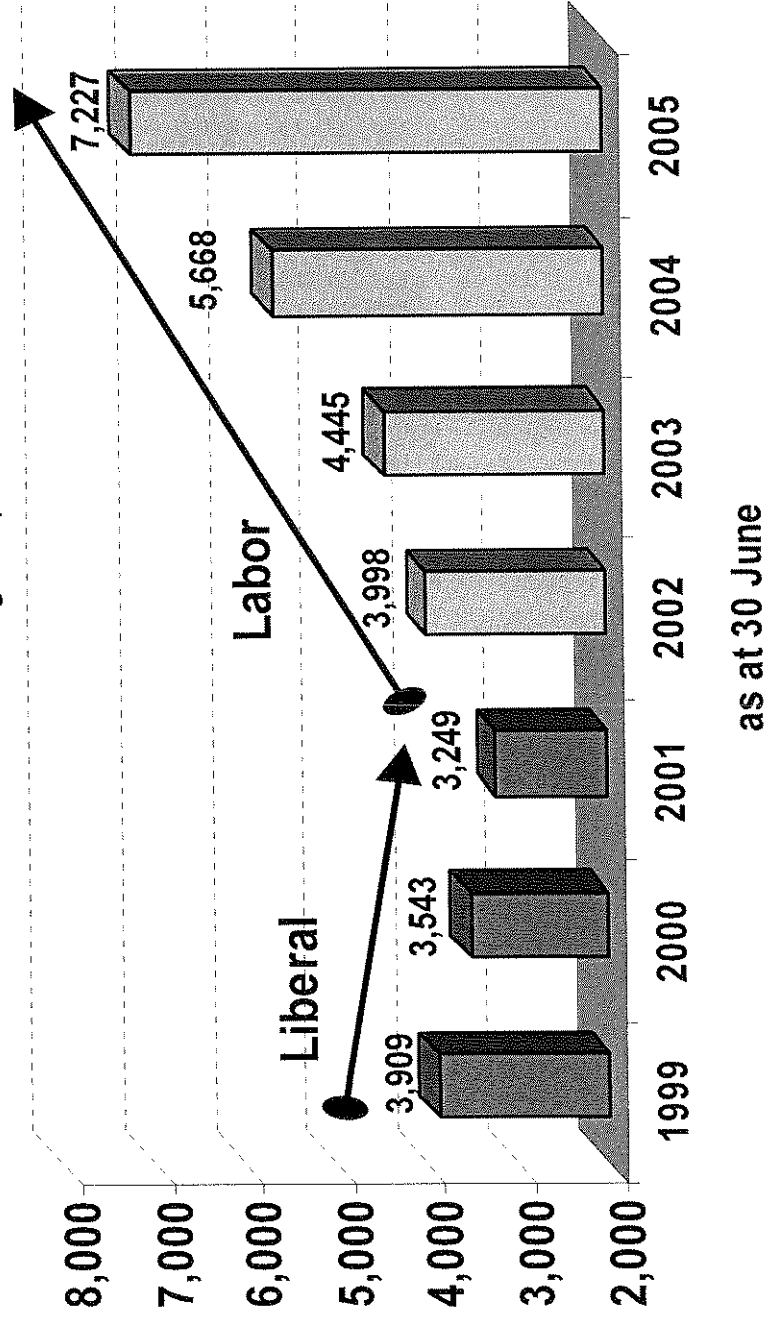
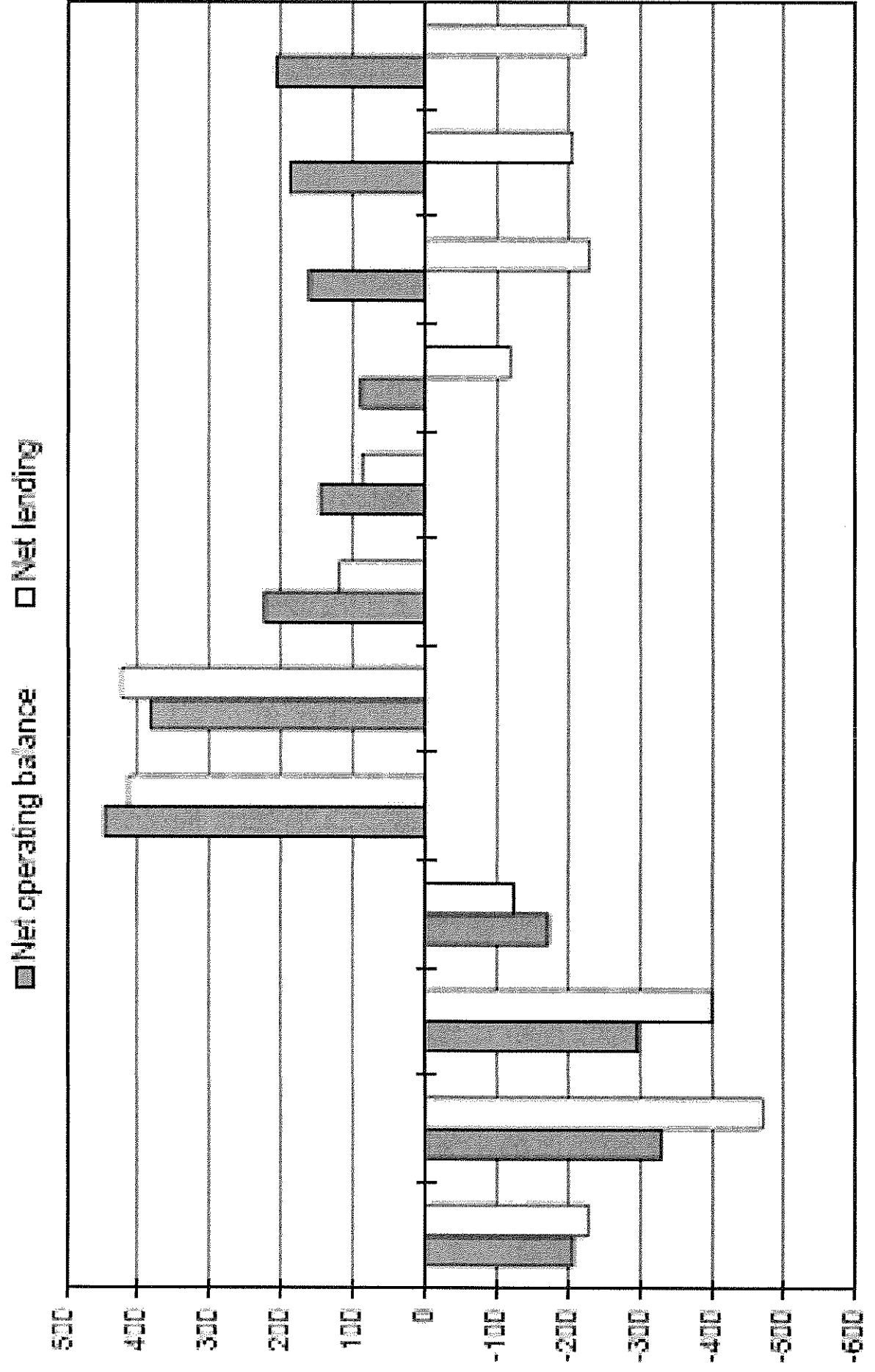


Figure 1.1: General government sector net operating balance and net lending (\$ million)

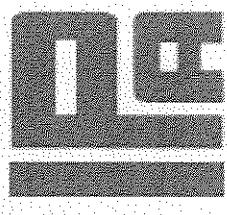


SA: Below Average Spending

2004/05

Area	Relative	Savings
Roads	-37.7%	\$140 mil
Urban Transit	-32.4%	\$95 mil.
Primary Ind.	-25.8%	\$55 mil.
Non-urban Trans.	-77%	\$54 mil.
Elec.& Gas	-73.3%	\$25 mil.

Commonwealth Grants Commission

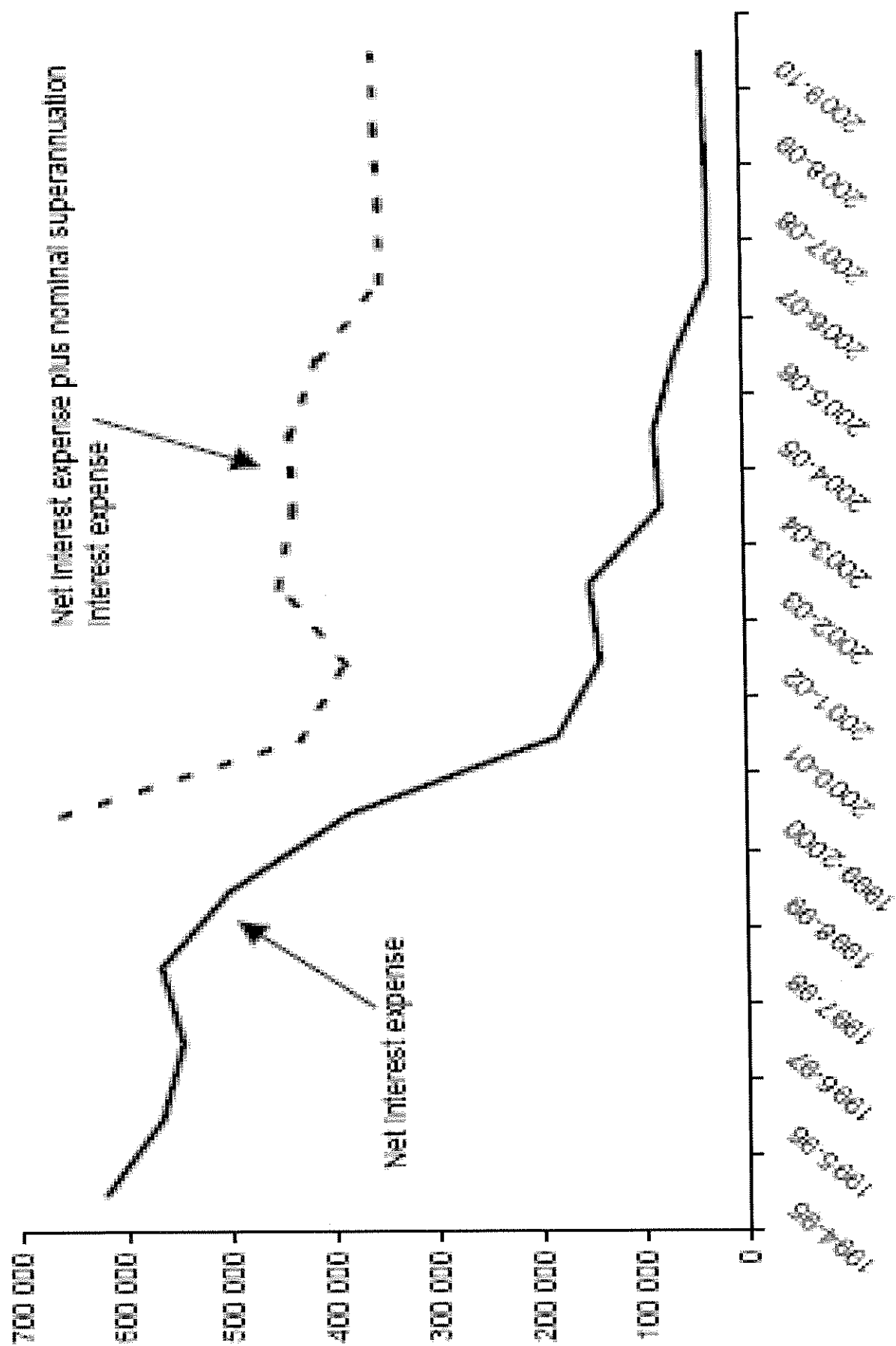


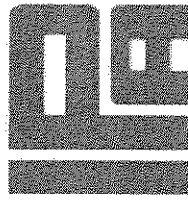
Opportunity Squandered

How the States have wasted their
reform bonus

Mike Nahan

Figure 2.1: General government sector net interest expenses: 1994-95 to 2009-10 (\$'000)





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