

LIBERAL OPPOSITION RESPONSE

2007-08 BUDGET AT A GLANCE



DEBT DISAPPOINTMENT AND DELAY

Martin Hamilton-Smith MP JP

Shadow Treasurer

7 June 2007

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1. BUDGET OVERVIEW

DEBT

State Debt is now forecast to top \$3.4 billion by 2011, unfunded superannuation is \$6 billion and the Workcover unfunded liability is almost \$1 billion, and this totals \$10.4 billion worth of debt. This is more than the amount of the State Bank disaster during Mr Rann's first attempt at being in government.

Net government debt is forecast to increase ten-fold from this year to 2011, but the debt delivers little of long-term value to our State. The fact is the Government plans to spend more than it is earning and it needs to borrow. The debt is propping up a big spending budget on recurrent costs as much as infrastructure.

This debt is the result of bad management with blowouts in day to day costs and will be difficult to sustain if economic conditions turn down.

DISAPPOINTMENT

There's nothing in the budget for South Australian families, pensioners or small businesses except higher taxes and charges. Motor vehicle registration, the cost of buying a house and hundreds of state fees and charges will go up.

In these prosperous economic times, the Rann Labor government is putting up fares on public transport by almost 8%, water supply charges by almost 7% and some speeding fines by a staggering 20%. All these increases are well above inflation!

Mike Rann promised there would be no privatisations, but the new \$1.7 billion hospital will be privately funded and owned. So will the super schools and our new prison. This is a broken promise.

DELAY

Long term planning in the 2007 budget shows little genuine commitment. The new hospital isn't going to be ready for nine years, the Mt Bold reservoir is 10 years away if it goes ahead and public transport reform has been abandoned.

The crucial area of Water Security amounts to no more than a review, a study and an investigation.

Public transport reform has now been officially abandoned with this budget committing to no more than maintaining the old diesel rail network and upgrading a few buses. We are left with the oldest diesel train network in Australia.

There are no major new commitments for roads. The Government has not secured Federal Government funding for the already blown-out Northern Expressway which has left the project in limbo. There is no road funding for the Riddock Highway, the Prices Highway or the Dukes Highway and there is token funding of \$3.5 million a year over four years to try and claw back the \$200 million backlog on road maintenance.

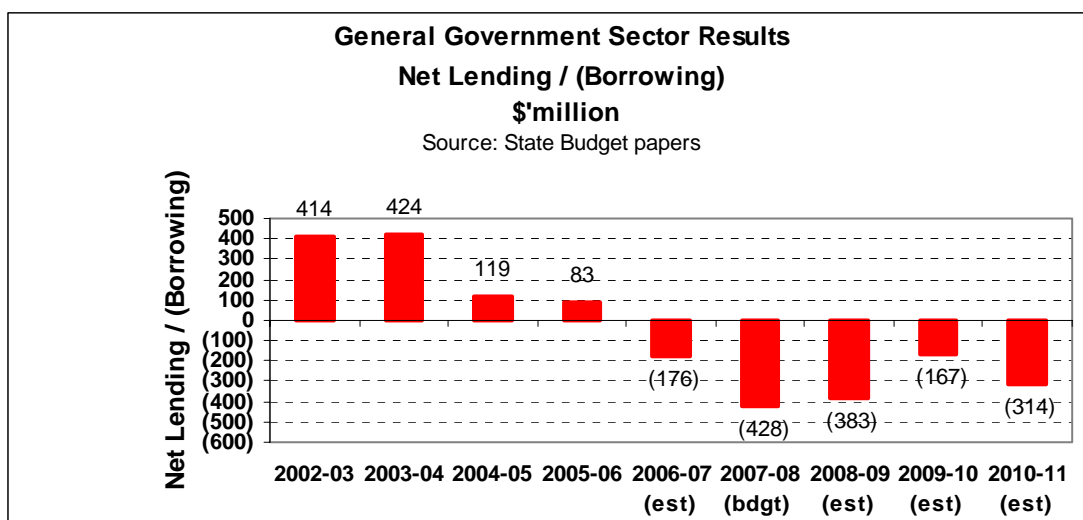
2 BUDGET SURPLUS/DEFICIT?

This is a budget in deficit on two of the three normally accepted accounting measures. There are three different measures of the budget surplus/deficit presented in the budget papers:

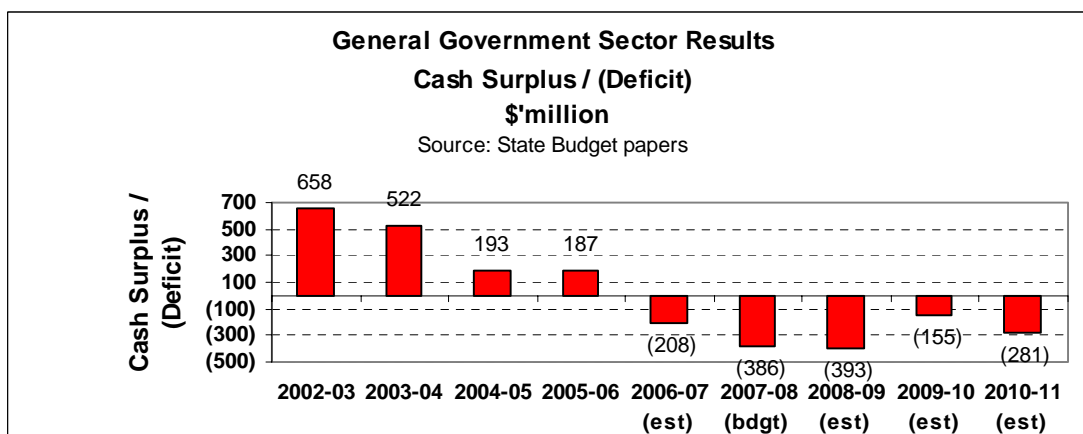
1. cash surplus/deficit
2. net lending/borrowing
3. net operating balance surplus/deficit

After the 2002 election, the Rann Government said they would use the accrual accounting measure – net lending/borrowing – and that they would produce surplus budgets using this measure of the budget result.

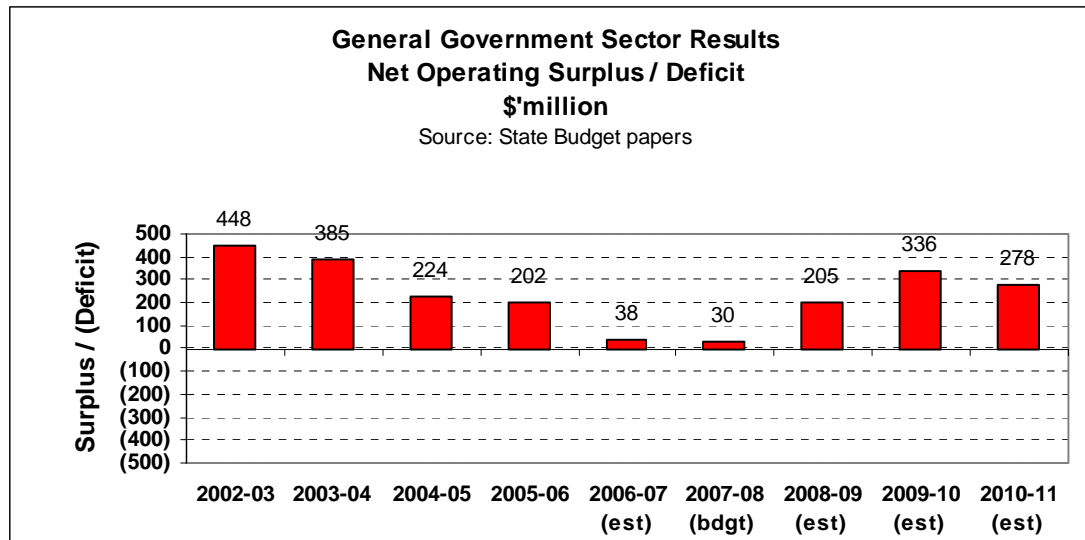
This graph shows that, using the Rann Government's original preferred budget measure i.e. net lending/borrowing, the budget is in deficit. In fact, deficits totalling \$1,468 million from 2006-07 to 2010-11.



On the cash measure which the Federal Government uses, the Rann Government is also in deficit. During the same buoyant economic times enjoyed by the Federal, the Federal Government can maintain cash surpluses, whereas the Rann Government has cash deficits totalling \$1,423 million from 2006-07 to 2010-11.



When the original measure of the budget (net lending/borrowing) result rapidly turned from surplus into deficit, the Rann Government decided to ditch this budget measure and use the only measure left that showed the budget was in surplus – the net operating balance.

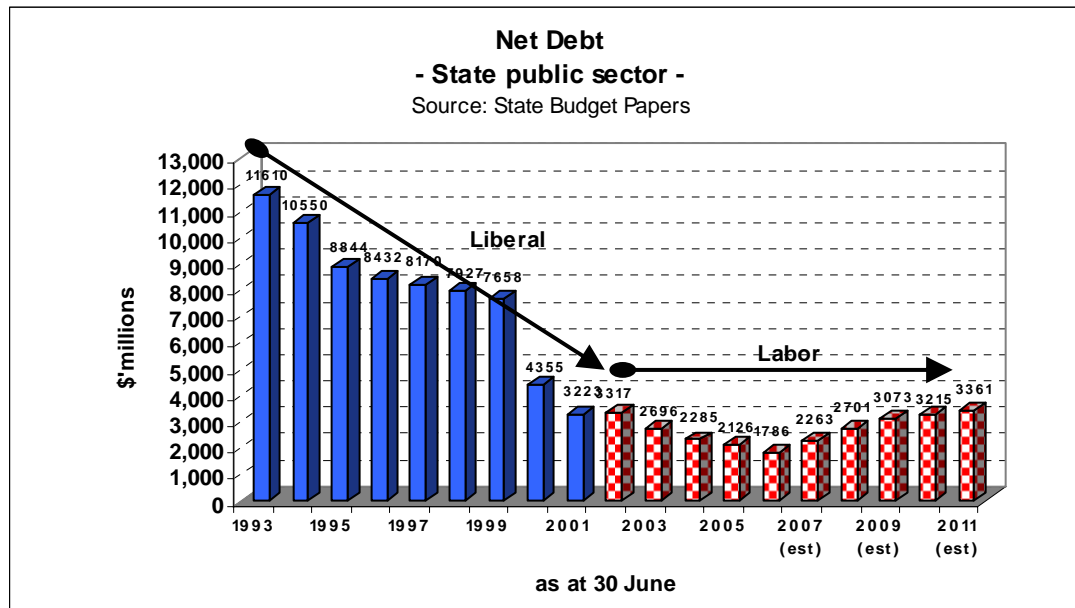


Therefore Labor's budget for this year, last year and the next three years is actually in deficit on two out of the three accepted budget result measures – cash and the net lending/borrowing measure.

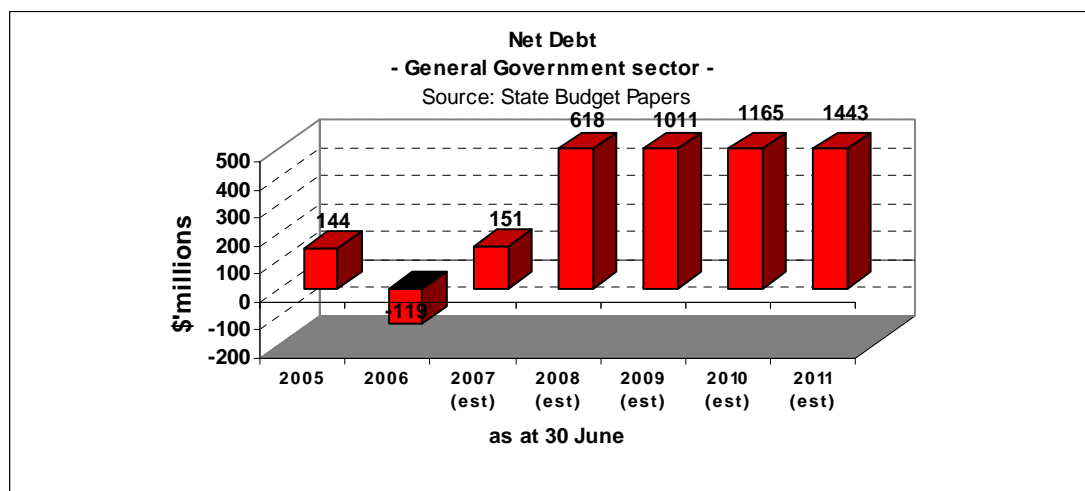
3. NET DEBT

Budget Papers show the former Liberal Government reduced Mr Rann's and Mr Foley's State Bank debt from \$11.6 billion in 1993 to \$3.2 billion in 2001.

The State (non-financial) public sector debt is currently estimated (June 2007) to be \$3.361 billion which includes general government debt of \$1.443 billion. This is equivalent to the \$3.5 billion State Bank debt left by the Bannon Government of which Rann and Foley were part.



Note that general government net debt (a component of State public sector net debt) is currently forecast to multiply 10 times over the next four years.



Federal Treasurer Peter Costello in a recent speech to the Menzies Research Centre on 1 June 2007 advised that the States are:

“not funding investments from their revenues. The States are borrowing – drawing down on savings rather than adding to them – and in this respect adding to pressure on monetary policy”...The windfall from the GST revenue and property taxes has been spent in recurrent expenditures. It has not been allocated to investment...This is why the States have insufficient operating surpluses to fund their planned infrastructure spending and are now engaged in debt financing. Planned state infrastructure spending is also, to some extent, making up for under investment in infrastructure through the early part of the decade... During the longest economic expansion in Australian history, debt will be rising at the state level”.

In an interview with the *Australian* newspaper on 12 August 2006, the then outgoing Reserve Bank Governor, Mr Ian Macfarlane, said that the return of States to deficit spending was an issue that could affect monetary policy in future.

Taxation Overview 2007-08

4. TAX INCREASES SINCE 2001-02

State Budget figures show that the Rann Government is the highest taxing government in the state's history.

General Government Revenues and Expenditure 2001-02 to 2007-08

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08		% Increase under Labor 01-02 to 07-08
	Actual	Actual	Actual	Actual	Actual	Estimate	Budget		
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million		
Total Tax Revenues	2,194	2,431	2,806	2,941	2,979	3,215	3,243		48%
Total Actual Revenues	8,538	9,346	9,955	10,592	11,242	11,665	12,140		42%
Total Actual Expenses	8,713	8,898	9,570	10,368	11,040	11,242	12,110		39%

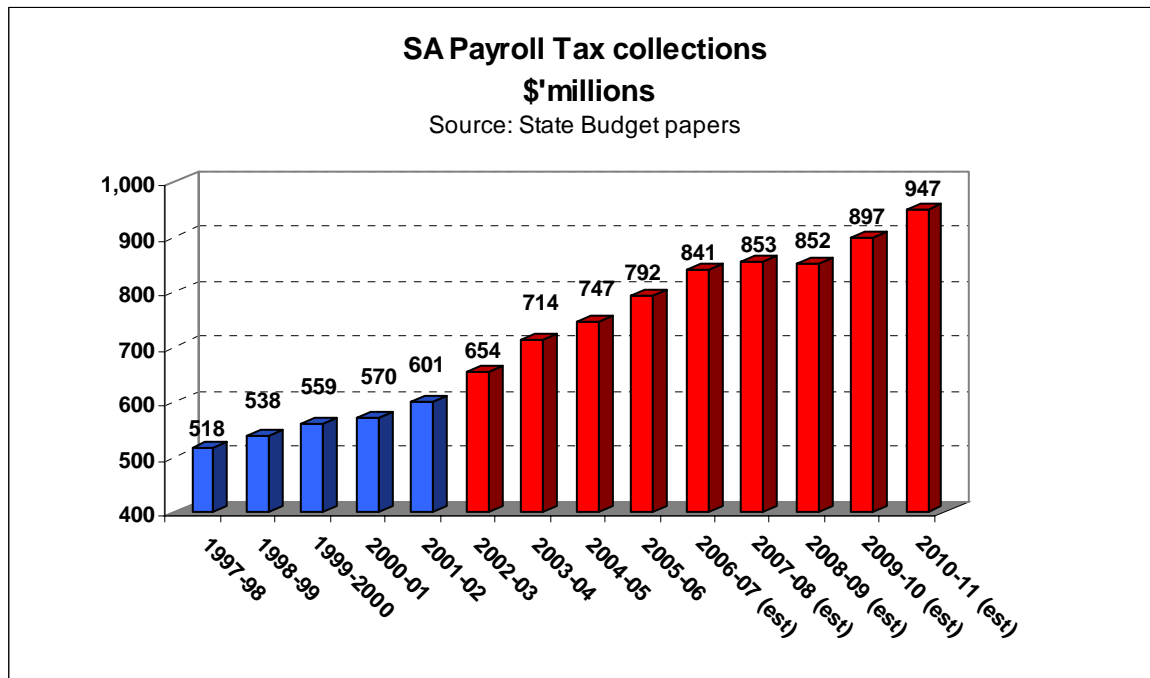
On current estimates, this Government has \$ 3.6 billion more to spend annually than did the former Liberal Government in its last year.

General Government Taxation Revenue 2001-02 to 2007-08

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08		% Increase under Labor 01-02 to 07-08
	Actual	Actual	Actual	Actual	Actual	Estimate	Budget		
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million		
Payroll tax	601	654	714	747	792	841	853		42 %
Taxes on Property	731	838	1,071	1,121	1,119	1,260	1,280		75 %
Taxes on Gambling	312	340	379	401	401	423	406		30 %
Taxes on Insurance	223	254	265	283	284	299	296		33 %
Motor vehicle taxes	324	343	372	384	384	392	409		26 %
Other taxes	3	-	4	5	-	0	0		
Total General Government Taxation	2,194	2,431	2,806	2,941	2,979	3,215	3,243		48 %

Payroll Tax

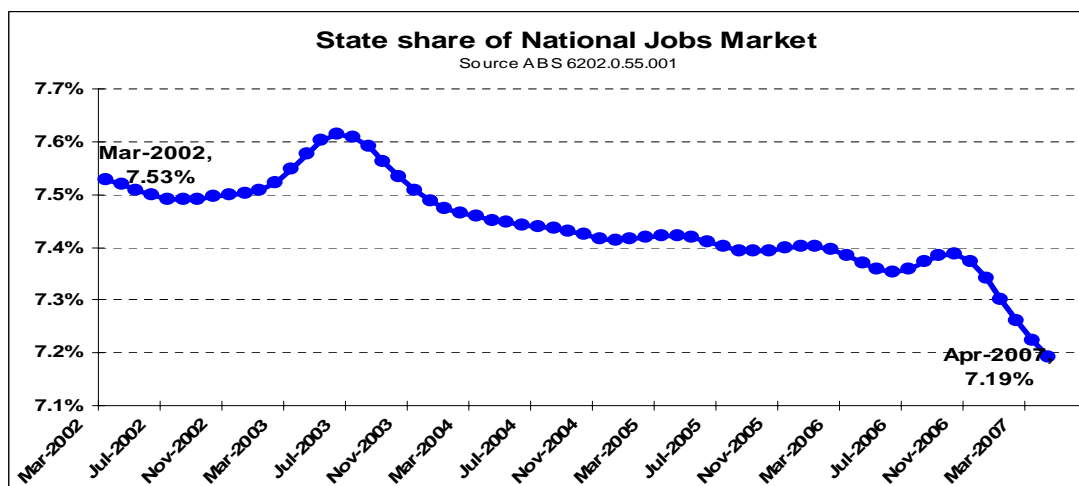
The Rann Government has sucked payroll taxes out of our 80,000 small and medium sized businesses. Refer chart below:



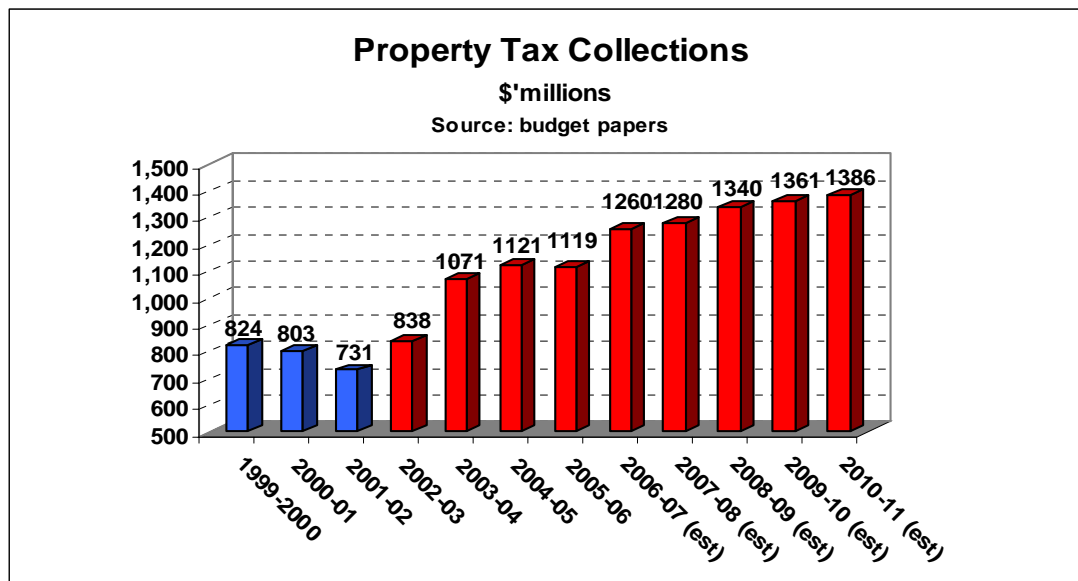
South Australia continues to have the lowest payroll tax threshold in Australia and at a time when there has been a booming national jobs market this is clearly a disincentive to job creation. The Governments adjustments to the rates from the current 5.5 % to 5.25 % from 1 July 2007 and then a further adjustment to 5.0 % from 1 July 2008.

We still have the lowest threshold in the country. Business SA was calling for an increase in the threshold to \$800,000. This has been ignored and remains at \$504,000.

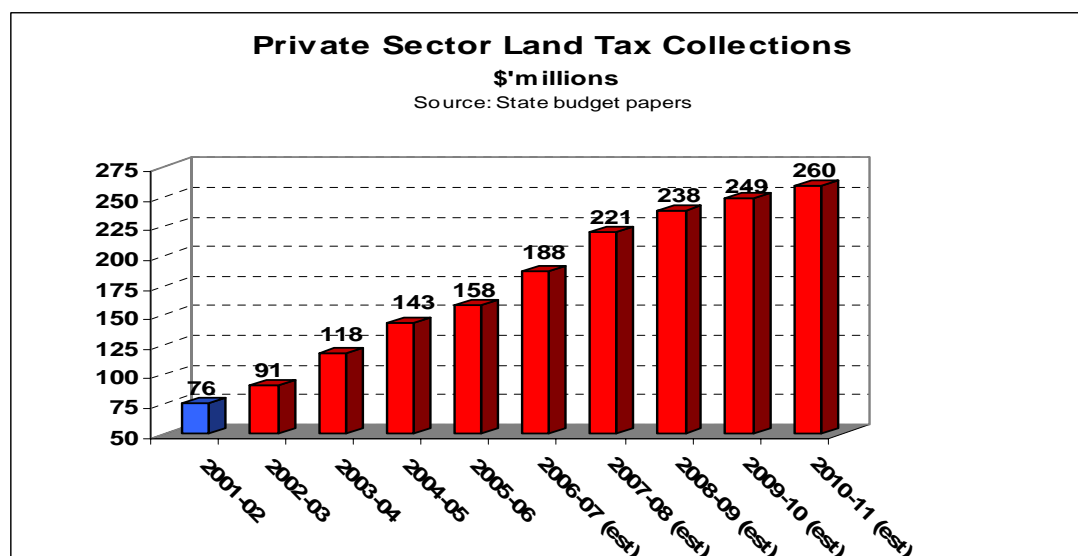
Evidence of this is shown by Australian Bureau of Statistics which indicate that our State share of the national jobs market has fallen significantly.



Property Taxes



Land Tax

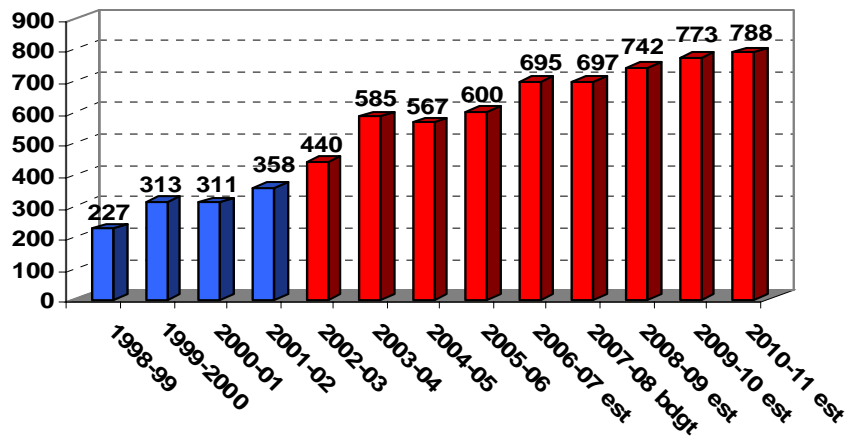


Property Conveyance Stamp Duties

Stamp Duty Collections on the Conveyance of Properties

\$'millions

Source: Treasury & Finance Annual Reports & State Budget Papers



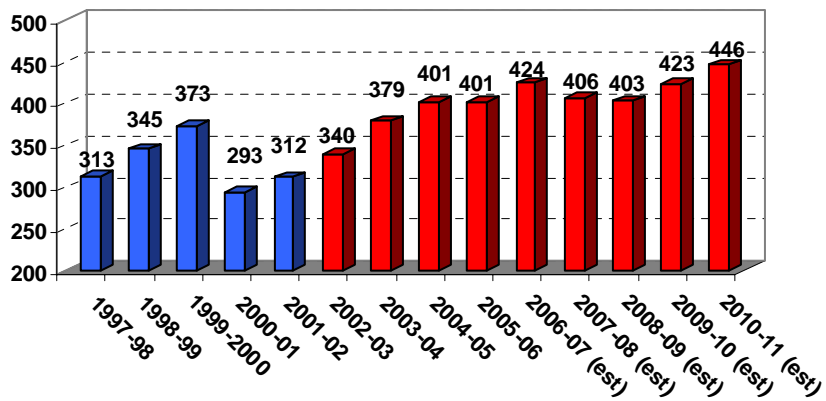
Gambling Taxes

Taxes on Gambling

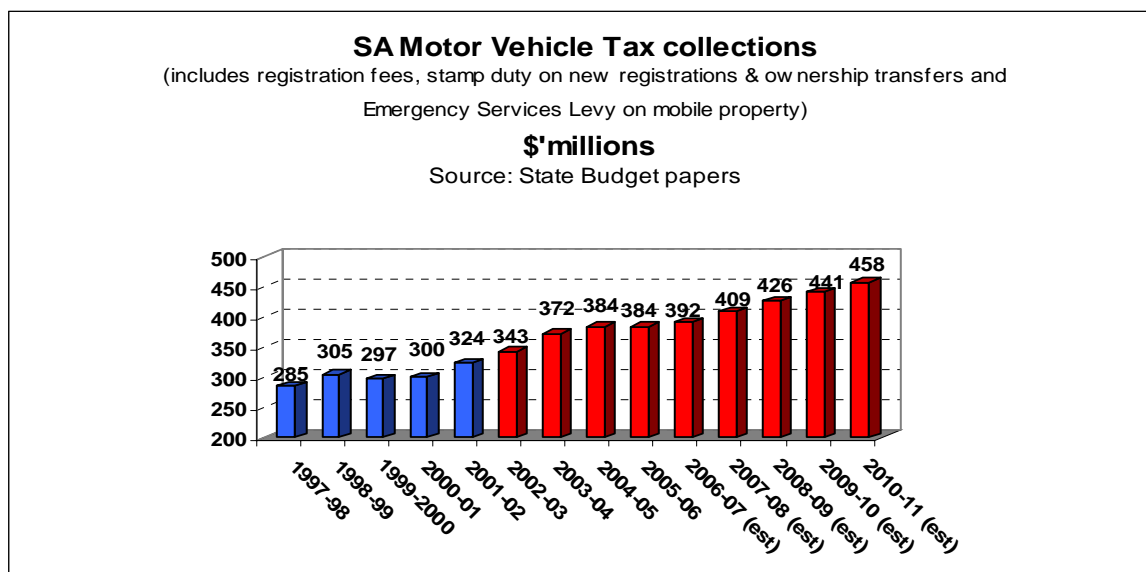
(includes Gaming Machines, Lotteries Commission, TAB, Casino and other)

\$'millions

Source: State Budget papers



Taxes on Motorists



Increases in fees and charges

The Emergency Services Levy for home owners will not change but the government will see a windfall of an extra \$4.5 million in revenue from this charge.

The government has been generous to River Murray Licensees by contributing \$2.2 million to offset Natural Resource Management levies. Given that these licensees will be on zero allocation and their business ruined by the drought this is a token gesture from the Government.

Supply charge for water has gone up 6.4 % and usage costs for water up 6.4%

The expected revenue growth from the River Murray levy will grow by 1.4%.

Public transport single trip tickets will go up by 7.9% and multi trip tickets by 7.2%.

Motor Vehicle Registration will go up by 4.5% and Compulsory Third Party insurance will increase 3%.

Speeding fines will go up by 4.1% but over 30km/h the increase is 20%

Most increases for fees and charges are going up well above CPI. The current declared rate for CPI is 1.8%.

In an ABC radio interview on 28 April 2006 when discussing the GST revenue received by the State Government from petrol Kevin Foley said “*a 1c a litre reduction in petrol pricing is \$26 million.*”

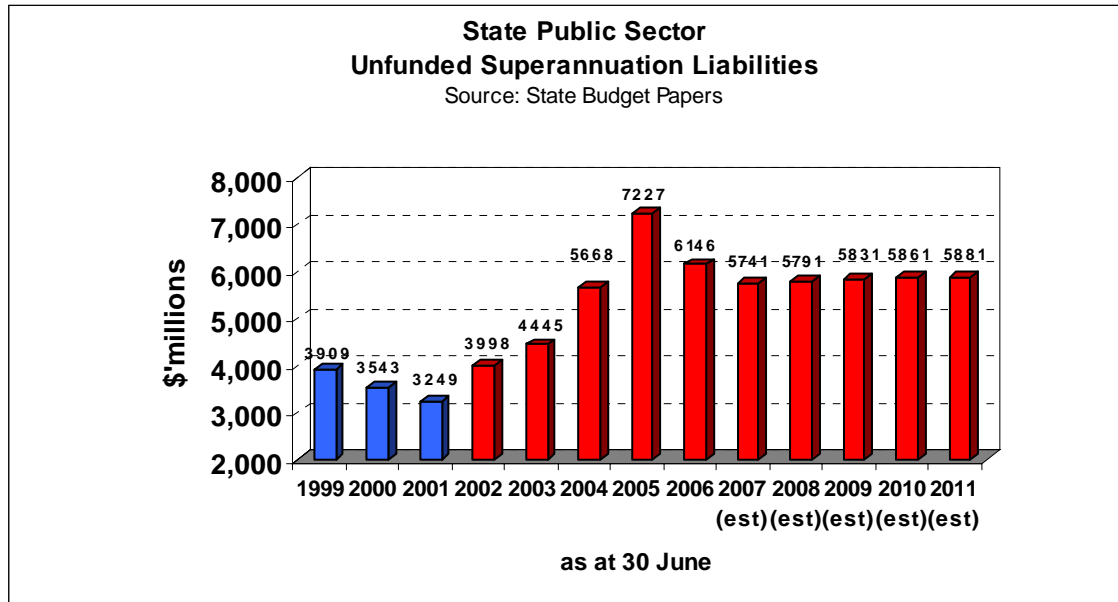
The table below shows interstate comparisons of the current stamp duty on a motor vehicle valued at \$40,000. South Australia is becoming less and less competitive

Stamp Duty on motor vehicles valued at \$40,000 (Private vehicles for passengers)

SA	VIC	NSW	QLD	WA	TAS
\$1540	\$1000	\$1200	\$800	\$2600	\$1600

5. UNFUNDED SUPERANNUATION LIABILITIES

Budget Papers show that at June 2001 the general government unfunded superannuation liability stood at \$3.2 billion. Under Labor, the unfunded superannuation liability has blown out to \$ 5.9 billion by June 2011.



Federal Treasurer Peter Costello has established a Future Fund of currently \$51 Billion to help fund its unfunded superannuation liabilities that are expected to grow to around \$148 billion by 2020.

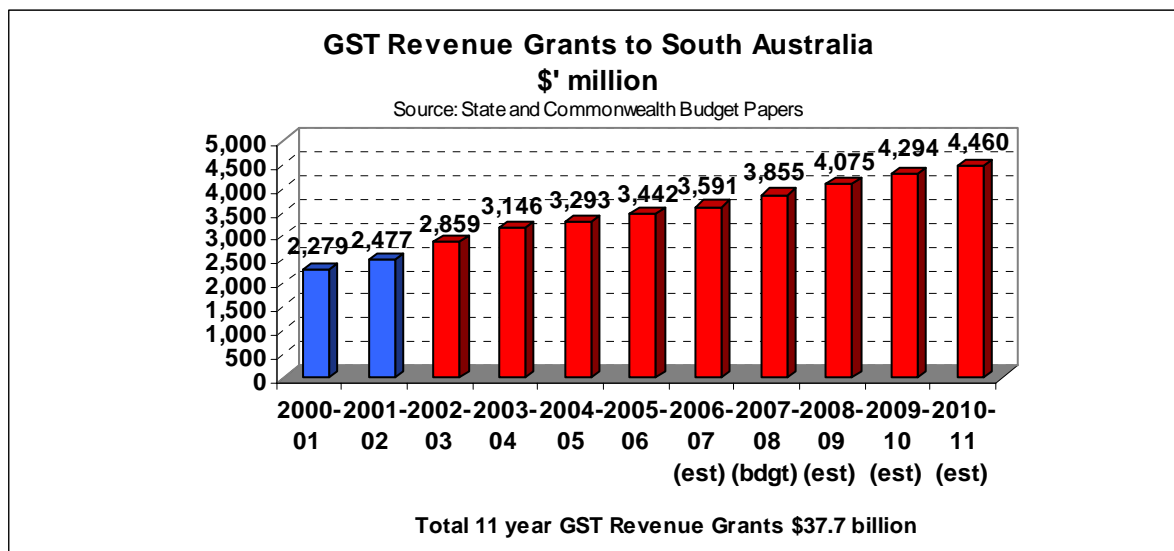
In contrast Treasurer Foley has made no provision of surpluses for this purpose.

6 GST GRANT REVENUES

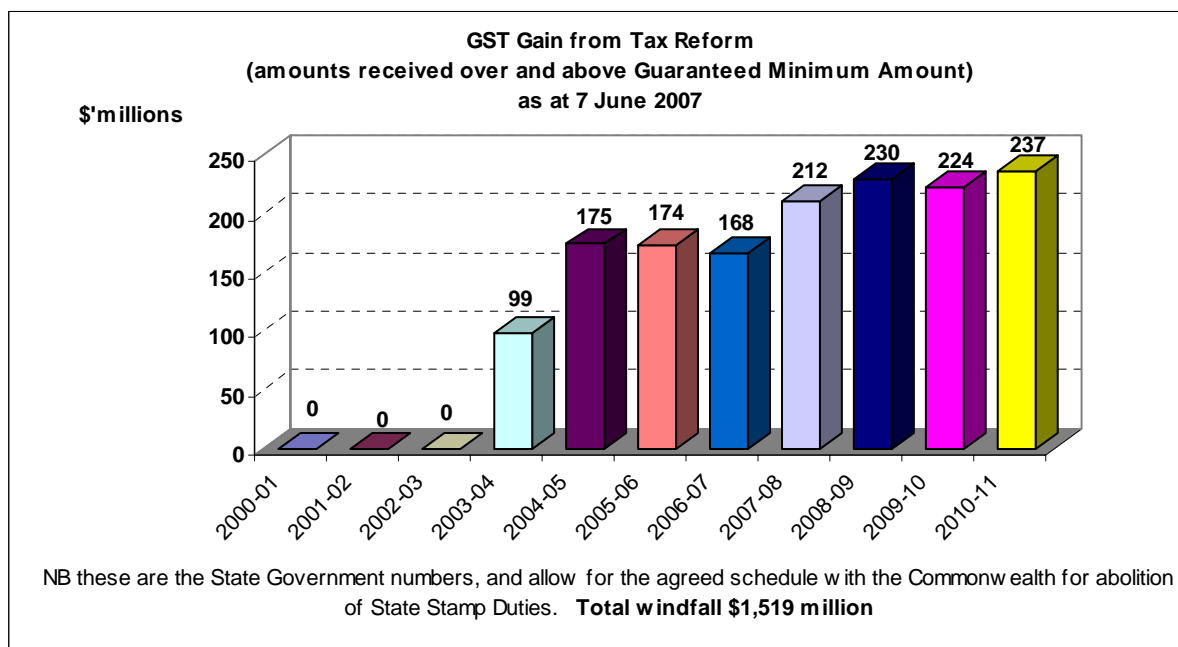
"The GST deal was a total lemon for South Australia"

Mike Rann 5DN, 21 November 2003

Despite their opposition to the GST deal that was negotiated by the former Liberal Government and their cynicism of it, Mike Rann and Kevin Foley continue to benefit from the rivers of gold which total \$ 37.7 billion from 2000-01 to 2010-11



The GST Revenue windfall is \$1.5 billion over the same period.



7. PUBLIC SECTOR CHAOS

“Getting a proper handle on the exact number of government employees is difficult.”

Kevin Foley, Estimates B, 18 October 2006

Public Service numbers & Blowouts

“We do not have full confidence in the numbers that OCPE have produced.... We are not confident in the data collected by the Office of the Commissioner for Public Employment, despite its best endeavours...”

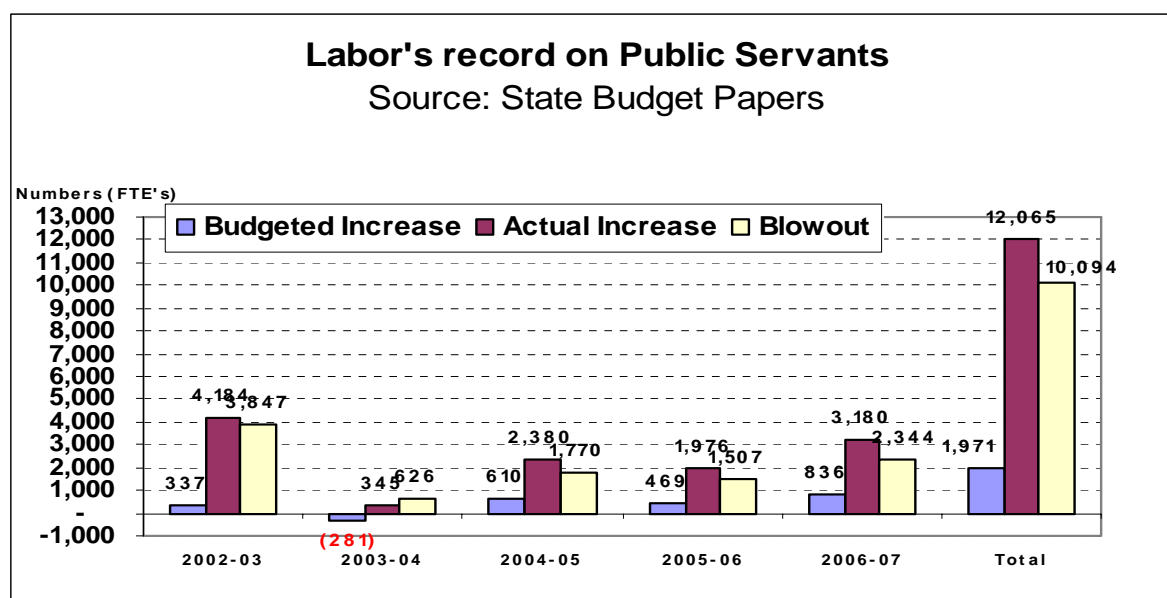
Kevin Foley, Estimates B, 18 October 2006

The official estimates of public service job numbers are provided by the Commissioner for Public Employment in the annual South Australian Public Sector Workforce Information reports produced by his office.

The following table comes from these official reports:

	June 2001	June 2002	June 2003	June 2004	June 2005	June 2006	Increase 2001 – 2006
Total public service numbers (Full Time Equivalents)	68,884	69,770	71,373	72,141	76,720	78,228	9,344

Budget papers for 2002 to 2006 show that in five years, there has been a blowout of 10,094 FTE in the number of public servants.



Another point is that the 30 June 2007 estimate in this years budget is 2,344 FTE higher than the 30 June 2007 in the Budget last year. Part of this increase (723 FTE's) is explained by the return of Modbury Hospital to the public sector.

The numbers of police, doctors, nurses and teachers etc are only a relatively minor percentage of this total increase of 12,065. In fact, an analysis of Auditor-General's Reports, Government press releases and documents obtained under Freedom of Information legislation (FOI) suggest the net increase in teacher, nurse, doctor and police numbers might be just more than 1000 FTE of the total increase of 12,065 FTE.

In a rare example of understatement, Mr Foley told the Parliament:

"... but we do not walk away from the fact that managing the numbers in the public sector has not been as good as it should have been."

Kevin Foley, Hansard, 19 September 2006

Public Servant Cap

Almost nine months after last year's state budget the Rann Government is still unable to indicate publicly the actual number for its cap on public service numbers.

On 19 September 2006 in a pre-budget release, Mr Foley announced in a blaze of glory that Cabinet had agreed to a cap on public servant numbers and that the actual number would be included in the budget papers. However, when the budget was released, the actual cap was not stated.

Despite questioning during Estimates Committees in October 2006, in the House in March 2007 and again during the Supply Bill 2007 debate in the Legislative Council on 31 May 2007, the Rann Government refused to answer the question.

This years budget advises that monthly FTE Cap profiles have been incorporated for all agencies.

It is clear that by refusing to answer the question on what is the aggregate cap and what are the caps for each individual agency, Mr Foley is trying to avoid accountability as to whether or not public service numbers have been kept at or below the cap imposed by Cabinet.

Job Losses

Last years State Budget announced 1571 job losses in the Public Sector of which approximately 600 were through Shared Services reforms.

Nine months later and the Rann Government still has not detailed in which Portfolios and Departments the job losses will hit and the composition and timing and this years budget is completely silent on the issue.

8. INFRASTRUCTURE SPENDING

Below is a chart of Government Capital Works Spending based on data tabled in Parliament and recent State Budget numbers.

	General Government \$'million	Public Non- Financial Corporations \$'million	Total \$'million	% of State Budget Total revenue
Liberal Government				
1997-98	522	285	807	11.5 %
1998-99	382	370	751	10.3 %
1999-00	511	334	838	11.0 %
2000-01	432	284	716	8.8 %
2001-02	470	272	741	8.7 %
			Average 771	10.1 %
Labor Government				
2002-03	421	282	703	7.5 %
2003-04	506	345	849	8.5 %
2004-05 est	677	300	975	9.2 %
2005-06 est	650	312	914	8.1 %
2006-07 est	777	397	1169	10.0 %
2007-08 est	1018	469	1482	12.2 %
			Average 1015	9.3 %
			Increase of 31.8%	

The table shows that the average spend during the Labor term over and above the last 5 years of the former Liberal term has increased by 32 percent.

Clearly not enough to keep up with inflation and the infrastructure spending of the other States.

Interstate 2007-08 Capital works Spend

	2007-08	4 Years total
Australian Capital Territory	\$.078 billion	\$.289 billion
New South Wales		\$49.6 billion
Northern Territory	\$.645 billion	
Queensland	\$ 14 billion	
Tasmania	\$ 0.92 billion	
Western Australia	\$ 5.8 billion	\$ 21.6 billion
Victoria	\$ 3.3 billion	\$ 13.2 billion
South Australia	\$ 1.5 billion	\$ 4 billion

Major Projects

Apart from the \$1.7 billion for the new hospital, which will not be completed for 10 years, major projects in this budget are a disappointment.

For water the Government is:

- Undertaking a **review** for a desalination plant for Adelaide is a renouncement from Feb 2007;
- Providing \$3 million to SA Water for an environmental **study** into desalination;
- Undertaking an **investigation** with BHP into the feasibility of a desalination plant; and
- Producing a Water proofing **strategy** for Regional South Australia based on the Water Proofing Adelaide Strategy which water expert Mike Young has already labelled as out of date.

The Treasurer has not made a commitment to secure Adelaide's water future for this financial year or in the near future. The Government is failing South Australians in not ensuring a secure water supply exists **now**.

The already **bungled** South Road underpass has to be fixed with a \$28 million bridge for the tram over South Road.

The total costing for the Port Road Grange Road project **has not been revealed**. So much for a North/South corridor.

The Government **talks** but never builds. The Techport Australia –Common User Facility was costed at \$226.5 million in 06/07 and has **blow out** to \$243 million. This is another \$16.5 million that the South Australian taxpayer has to find.

Privatisation

It is expected that the new hospital will be funded through a Public Private Partnership, building on from the commitment in the 06/07 budget for the super schools and the prison to be funded in the same manner. Banks in Melbourne, Sydney and New York will own our infrastructure.

This is after Mike Rann during the lead up to the 2002 election stated that "Privatisations in South Australia will end from day one of a Labor Government. Not one public hospital will be privatised or closed under Labor in the country or city. There will be no sale of our TAFEs, our Lotteries Commission, our Housing Trust, our prisons, our forests."

Our failing prison system will not see relief until 2011/12 with the building of the new prison at Murray Bridge.

Our rail system, the only diesel rail fleet in the country, will not be upgraded. The Government has committed funding for maintenance of track to replace aging sleepers with concrete sleepers on the Belair and Noarlunga lines.

The Liberal Party has called for the electrification of the rail system over the past three years. As users of Adelaide public transport know, the trains aren't running on time, there are problems with track running speeds, breakdowns and signalling systems. The whole network requires a massive upgrade

9. GOVERNMENT COST BLOWOUTS / WRONG PRIORITIES

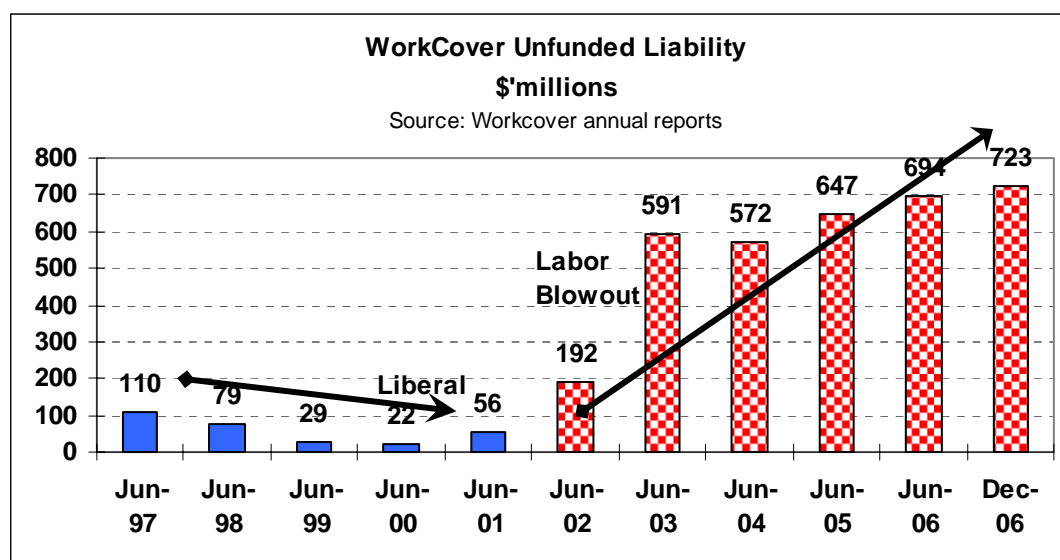
Item	Extra Cost over 4 years \$' millions
Port River Bridges – cost of opening bridges an extra \$100 million over the life of the project.	100
Tramline extension	31
Thinkers in Residence \$1.4 million allocated for three-year extension of programme	1.4
Public servants – blowout of 10,094 extra (full-time equivalent or FTE) over five years. Labor budgeted for 1,971 and the actual increase was 12,065 – we obviously support extra police, teachers, nurses etc but the total of these might be just more than 1000 FTE. Cost of the blowout is more than \$650 million per year, or more than \$2.6 billion over four years.	2,600
Ministerial staff – increased spin doctor numbers of 84 amounting to more than \$6.3 million per annum or \$25 million over four years.	25
Independent Ministers' Offices – \$2.5 million per year i.e. \$10 million over four years.	10
The Queen Elizabeth Hospital redevelopment (stages 2 and 3) – cost blowout from \$60 million to \$317 million and project completion now delayed to July 2011	257
Northern Expressway project – cost blowout from \$300 million to \$550 million.	250
South Road projects: - Port Road – Grange Road Tunnel from \$ 122 million to \$ 245 million (estimate). NB Budget Advises cost cannot be disclosed due to final stages of contract negotiation -Anzac Highway Underpass from \$ 65 million to \$118 million)	123 53
Bakewell Bridge Underpass from \$ 30 million to \$41 million	11
Techport Australia Common User Facility from \$226.5 million to \$243 million.	16.5
TOTAL	3478.5

10. WORKCOVER LIABILITIES

The Budget does not address the increasing WorkCover unfunded liability which is steadily increasing to a projected \$1 billion in the next 12 months. It does however provide for \$800,000 for another WorkCover Review which will not be completed until after the 2007 Federal election. The State Government already knows that it has no option but to cut workers entitlements to ensure that the Scheme's funding position improves. This is \$800,000 of South Australian taxpayers money wasted when the WorkCover Board has already told the Government what needs to occur.

WorkCover's unfunded liability is a disaster for injured workers and South Australian employers, who are now forced to pay the highest rate of workplace injury insurance in Australia.

The blowout in the unfunded liabilities of the WorkCover Corporation is a disgrace. One person is responsible for this. Minister Wright. He has been the sole WorkCover Minister for the entire 5 years of the Labor term.



However the latest Actuarial report for the scheme that has been signed off by the Board that Minister Wright appointed, suggests that the potential unfunded liability to employers could be as high as \$1 billion. Minister Wright continues to be in denial of this figure.

Under Labor WorkCover now has the worst return to work rate in Australia, leaving injured workers in a twilight zone and burdening SA business with WorkCover premiums that harm our competitiveness nationally and internationally.

	Average Premium Rates
South Australia's	3 per cent
New South Wales	2 per cent
Victoria	1.6 per cent
Queensland	1.3 per cent

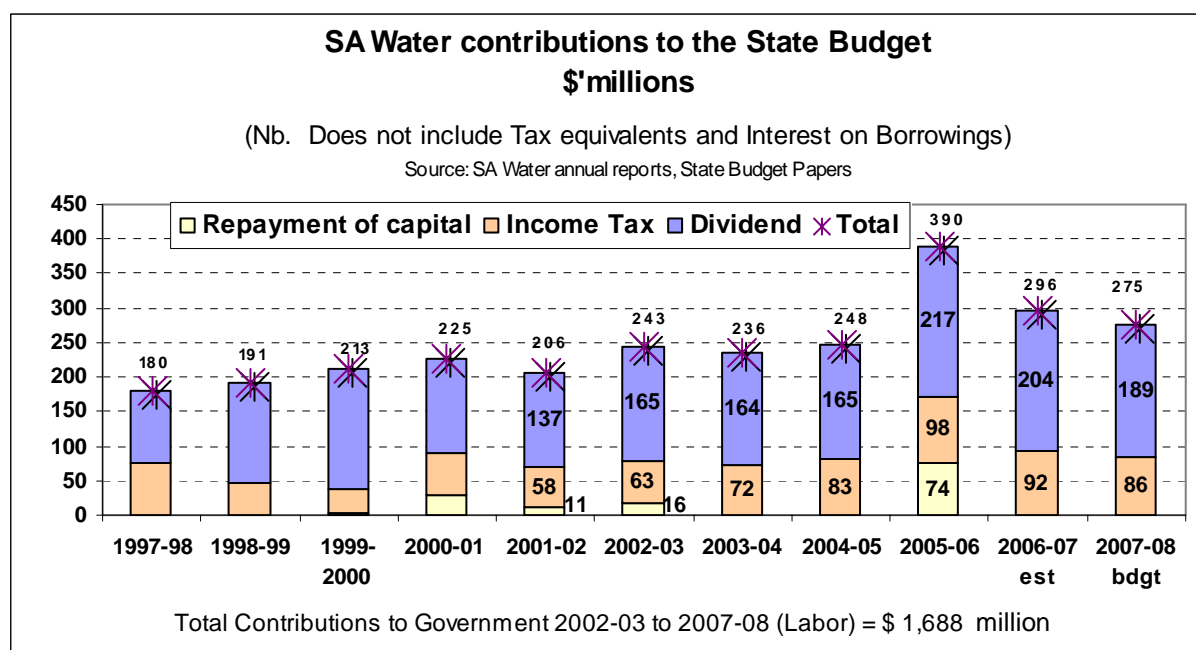
11. SA WATER - CONTRIBUTIONS TO GOVERNMENT AND CAPITAL WORKS

The Budget reveals an updated figure for dividends and payments to Government from SA Water of \$275 million in 2007-08. Since 2002-03 the total stripped from SA Water customers and not made available for infrastructure spending is \$1,688 million.

Last year's Auditor-General's Report to Parliament highlighted that the Rann Government is treating SA Water as a cash cow. Even though during a period of drought and water restrictions the State Government's own water utility is being starved of money to carry out capital projects.

"...for the Corporation to maintain or increase the level of capital expenditure it will have to increase its level of borrowings. Put simply the Corporation's ability to generate cash from its operations is not sufficient to fund its payment commitments to the Government and maintain its current level of capital works."

(Auditor-General's Report to Parliament report for the year ended 30 June 2006 Part B volume IV page 1232 October 2006)



The figures speak for themselves.

The Rann Government has milked SA Water, increasing its take from the Corporation from \$206 million in 2001-02 to \$ 386 million in 2005-06 and then to \$ 275 million in 2007-08. A 34 percent increase over the last Liberal budget.

The Capital works for SA Water's capital works spending on repairing pipes and building new infrastructure has changed from \$174 million in 2003-04 to an estimated \$ 235 million in 2007-08.

However of this only \$12.1 million is for new works for the Clayton water supply pipeline, the Morgan/Whyalla pipeline and the Virginia Angle Vale Reuse extension.

12. SHARED SERVICES REFORMS

Last years budget papers advised of savings measures of \$130 million to 2009-10 and implementation costs of \$60 million to 2009-10 arising from the Governments policy initiative to move down the path of Shared Services Centres for the provision of back-office support services to Government.

Nine months after advising of the Government's intention, the Rann Government still cannot, and in some cases is refusing to advise:-

- Of the timing of the implementation of the proposal
- The model of the Shared Services Centres proposal i.e. if there will be one, two or three shared services centres.
- Is \$5 million as budgeted for in 2006-07, been expended by the Government.
- Has the Government taken options on new accommodation for the Shared Services Centre or Centres?
- What is the time line for the government in terms of resolving a basic question as to whether there will be one, two or three shared services centres here in the state?

The Government in the 2007-08 Budget Papers advises that the savings targets for 2007-08 of \$25 million is on target to be achieved through the Future ICT savings.

The lack of detail on these many key questions can only mean that the proposed savings targets will not be met and that a key fiscal reform from last years budget is in jeopardy and this will lead to funding pressures on other critical areas of the budget.