

LIBERAL OPPOSITION RESPONSE 2007-08 MID YEAR BUDGET REVIEW



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Shadow Treasurer
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Notes:

1. The 2007-08 Budget was released on 7 June 2007.
2. MYBR = Mid Year Budget Review.
3. See the relevant page number in brackets that is associated with each point.

Key Points

- MYBR 2007-08 **general government revenues** are above those forecast in the 2007-08 Budget by \$252m. From 2007-08 to 2010-11, total general government revenues have been revised up by a total of \$1,888m since the 2007-08 Budget (that is, the Government now expects to receive \$1,888m more revenue from 2007-08 to 2010-11, than they expected six months ago). The Government will receive revenues totalling \$52,625m from 2007-08 to 2010-11. (p 7)
- MYBR 2007-08 (own) **taxation revenues** are above those forecast in the 2007-08 Budget by \$173m. From 2007-08 to 2010-11, total general government taxation revenues have been revised up by a total of \$638m since the 2007-08 Budget. The Government will receive taxation revenues totalling \$14,199m from 2007-08 to 2010-11. (p 7)
- MYBR 2007-08 **general government expenses** are above those forecast in the 2007-08 Budget by \$199m (over-spending masked by higher revenues). From 2007-08 to 2010-11, total general government expenses have been revised up by a total of \$1,473m since the 2007-08 Budget. The Government will spend a total of \$51,361m from 2007-08 to 2010-11. (p 7)
- MYBR 2007-08 **employee expenses** are above those forecast in the 2007-08 Budget by \$75m. Over the forward estimates period from 2008-09 to 2010-11, employee expenses have been revised up by a total of \$541m since the 2007-08 Budget. The Government will spend a total of \$24,291m on public servants from 2007-08 to 2010-11. (p 7)
- The budget remains in deficit on two of the three normally accepted accounting measures:
 1. cash surplus/deficit
 2. net lending/borrowing
 3. net operating balance surplus/deficit
- After the 2002 State election, the Government said they would use the accounting measure – net lending/borrowing – and would produce surplus budgets using this measure. However this measure remains deep in the red. The MYBR forecasts that the **net lending** deficit will deteriorate by \$226m more than was expected in the 2007-08 Budget by 2010-11. This change reflects “revised accounting treatment for PPPs”.
- The decision to proceed with the **Marj Hospital** as a PPP will defer the impact of the project on net lending until the commencement of repayments, likely in 2016-17. (p 5, 6)
- 2007-08 non-financial public sector **net debt** is \$2,487m, down by \$214m since the 2007-08 Budget due to revenue windfalls. However, by 2010-11, net debt will be \$1,158m more than was expected in the 2007-08 Budget. The Government's net debt now totals \$13,413m from 2007-08 to 2010-11. (p 45)
- MYBR 2007-08 **unfunded superannuation liabilities** are below those forecast in the 2007-08 Budget by \$736m. This fall in liability is expected to continue over the forward estimates. The ratio of net financial liabilities to general government revenue decreased from 71.1% at the 2007-08 Budget to 62.6% in the MYBR, mainly due to a large fall in unfunded super. This strengthens SA's AAA credit rating in the short

term. However the recent drop in unfunded superannuation is primarily due to an increase in the long term Commonwealth Bond rate used to value the liability. The higher discount rate results in a decrease in the present value of future superannuation obligations. This decrease in the liability as a result of a change in the bond rate is independent of the South Australian Government's control. The fall in super liabilities is also partly due to higher than expected investment returns on super assets. (p 6, 18, 19)

Table 1: Fiscal Outlook, 2007-08 Budget and MYBR

	2007-08	2008-09	2009-10	2010-11	Total
Net Operating Balance					
Budget	30	205	336	278	849
MYBR	83	308	517	356	1,264
Change since Budget	53	103	181	78	415
Net Lending					
Budget	-428	-383	-167	-314	-1,292
MYBR	-398	-369	-239	-540	-1,546
Change since Budget	30	14	-72	-226	-254
Cash Surplus					
Budget	-386	-393	-155	-281	-1,215
MYBR	-386	-359	-392	-211	-1,348
Change since Budget	0	34	-237	70	-133
Non-Financial Public Sector Net Debt					
Budget	2,701	3,073	3,215	3,361	12,350
MYBR	2,487	2,893	3,514	4,519	13,413
Change since Budget	-214	-180	299	1,158	1,063
Unfunded Superannuation Liabilities					
Budget	5,791	5,831	5,861	5,881	23,364
MYBR	5,055	5,086	5,108	5,119	20,368
Change since Budget	-736	-745	-753	-762	-2,996

- 2007-08 **property tax revenues** are \$152m higher than those expected at the 2007-08 Budget (primarily stamp duty windfalls). From 2007-08 to 2010-11, property tax revenues have been revised up by a total of \$544m since the 2007-08 Budget. The Government will receive property tax revenues totalling \$5,254m from 2007-08 to 2010-11. (p 35)
- 2007-08 **GST revenues** are \$52m higher than those expected at the 2007-08 Budget. From 2007-08 to 2010-11, GST revenues have been revised up by a total of \$485m since the 2007-08 Budget. The Government will receive GST revenues totalling \$17,170m from 2007-08 to 2010-11. (p 9)
- 2007-08 **payroll tax revenues** are \$18m higher than those expected at the 2007-08 Budget. From 2007-08 to 2010-11, payroll tax revenues have been revised up by a total of \$102m since the 2007-08 Budget. The Government will receive payroll tax revenues totalling \$3,650m from 2007-08 to 2010-11. (p 9)

Table 2: Windfall (Increases) in Selected Revenue Categories since the 2007-08 Budget

	2007-08	2008-09	2009-10	2010-11	Total
GST revenue grants	52	135	151	147	485
Other C'wealth grants	-20	115	215	223	533
Payroll tax	18	24	28	32	102
Property taxes	152	126	129	137	544
Insurance taxes	0	1	1	1	3
Gambling tax	3	1	1	1	6
Motor vehicle taxes	0	0	0	-1	-1
Total (own) tax revenue	173	152	159	170	654

- Operating expenses are \$29.3m higher than previously estimated over four years due to the **reversal of 2006-07 savings measures** for school management of workers compensation (\$24.1m) and SSABSA inefficiencies (\$5.2m). (p 13)
- The increased **school funding** (\$189m over the next 4 years reported on p 7 of the Saturday Advertiser of 22 December 2007) is sourced from Commonwealth grants. See pages 12-13 of the MYBR for other policy measures announced since the 2007-08 Budget (to 26 November 2007).
- Note that **parameter changes** in revenue and spending are those that result from changes in Commonwealth revenue, economic activity, expense carry-overs and timing effects (that is, from changes that are not directly due to State Government policy). **Policy changes** are decisions made directly by State Government to increase or decrease taxation and spending.
- **SA Water contributions** to the Government have been revised up since the 2007-08 Budget (not quantified). The MYBR assumes that water restrictions do not continue into 2008-09. The Government will spend \$28.8 million over three years from 2008-09 to increase water concessions and expand the eligibility criteria in response to the impact of increased water prices. (p 11,12)
- **Mining royalty revenue** has been revised up across the forward estimates period reflecting higher copper and uranium price assumptions (this is not quantified in the MYBR). (p11)
- **Emergency Services Levy** estimates have been revised up reflecting higher capital value growth assumptions (not quantified). (p 10)
- 2007-08 **Gross State Product (GSP) growth** was revised down from 4.0% in the 2007-08 Budget to 3.75% in the MYBR.