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The Secretary
Senate Standing Finance and Public Administration
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Secretary

Re: Submission to the Select Committee on State Government Financial Management

Thank-you for the invitation to make a submission to the Committee.

I have attached the Liberal Opposition's response to the 2007-08 Budget and 2007-08 Mid Year Budget Review as part of this submission. These documents represent the South Australian Liberal Opposition's commentary on the State Labor Government's fiscal/debt position, superannuation liabilities, tax regime, GST revenues and dividend payments by trading enterprises. However, I will take this opportunity to make some further comments.

Workers Compensation

The total workers compensation unfunded liability for 2007-08 is estimated at \$1.3 billion. This debt includes Workcover (the Corporation that administers the Workers Rehabilitation and Compensation Act 1986 which applies to non-public sector employees), the associated effects of declining equity markets, and the debt of self-insured public sector agencies.

The comparable figure for the State Liberal's last full year in Office, 2000-01, was \$281 million.

Private Public Partnerships (PPPs)

The Government's decision to proceed with the \$2.0 billion Marjorie Jackson-Nelson Hospital as a PPP will defer the impact of the project on net lending until the commencement of repayments (likely to be in 2016-17) and thus shift repayment

responsibilities to future generations. Furthermore, the State Government is already running a concerning net lending deficit.

For social infrastructure PPPs such as hospitals, future repayments are capitalised and credit ratings agencies view them as debt because they are deemed to hamper 'expenditure flexibility'. A social infrastructure PPP of the scale of the proposed hospital could potentially damage South Australia's credit rating.

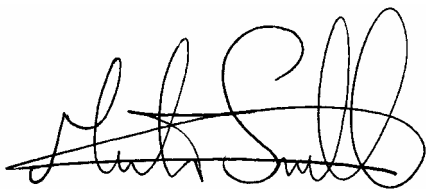
State Taxation

From 2001-02 to 2007-08, South Australian General Government taxes will increase by at least 56%. The Government has received an un-forecast tax windfall of \$1.24 billion from 2001-02 to 2006-07, with further windfalls likely in 2007-08. The majority of this windfall is due to unexpectedly high property tax collections.

The severity of the South Australian tax system in comparison to other states is confirmed by the Commonwealth Grants Commission (CGC). CGC revenue raising ratios indicate that South Australia levied its tax revenue bases more severely than any other state or territory during 2006-07 (the latest period for which data is available). According to the CGC, South Australia was judged to have taxed more severely than the national average by 12.6%. In fact, South Australia taxed more severely than the national average in 7 out of the 10 CGC tax assessment categories. For more information, please see the CGC's 2008 Report on the "Relative Fiscal Capacities of the States".

There needs to be a balance between taxation and ensuring South Australia is a competitive and desirable location in which to live and to do business. Unfortunately, this Government has merely matched increases in tax revenue with increases in recurrent spending obligations. The Government has failed to deliver this balance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Martin Hamilton-Smith', with a stylized, overlapping loop structure.

MARTIN HAMILTON-SMITH MP JP

Leader of the South Australian Opposition