

**“\$2 MILLION PER DAY IS
THE INTEREST SOUTH
AUSSIES MUST PAY”**

**Response to the
2009-10 Mid Year
Budget Review**

liberal sa

Isobel Redmond MP

Leader of the Opposition

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1. Mid Year Budget Overview

Kevin Foley is the last state Treasurer in the country to release a mid year budget.

In a time where there has been record revenue growth from GST and high State government taxes, South Australians are wondering where the infrastructure build is.

The reason we have nothing to show for this record increase in revenue is that the Rann/Foley Labor Government has put South Australia in a position where we are paying one million dollars increasing to two million dollars per day in interest payments on Labor's debt - debt that is funding their everyday expenses.

One million dollars per day in interest payments is what South Australians were paying when the previous State Labor Government bankrupted the state - here we go again. Government debt will soon hit \$6.8 billion.

Labor's financial position would be worse if it wasn't for Rudd continuing to bailout Rann, providing \$1.2 billion in extra funding this year above what was provided last year.

Labor will reap an extra \$591 million in state taxation revenue over the next four years including an extra \$156 million in land tax revenue (above what was budgeted seven months ago).

The Health budgets woes continue with blowouts exceeding \$318 million over the forward estimates.

For the Labor Government's unconfirmed Adelaide Oval patch up plan - less than half the proposed cost is budgeted - Labor is \$260 million short of their announced \$450m price-tag. No Commonwealth contribution is even budgeted. This is another attempt to buy a third term in office.

The Government's Sustainable Budget Commission, tasked with fixing the State Budget has, ironically, exceeded their budget significantly and will cost the taxpayer an additional \$2.5 million over the next two years. If the Commission can't stick to their own budget how are they supposed to fix it for the whole State????!!

2. Fiscal Position and Outlook

At the mid year budget review (MYBR) there are 2009-10 budget deficits on all three accounting measures:

1. net lending **deficit** of \$1,551 million in 2009-10
2. cash **deficit** of \$1,654 million in 2009-10
3. net operating **deficit** of \$174 million in 2009-10

The State's 2009-10 revenues have increased by \$606 million since the 2009-10 Budget. Spending has also increased by \$476 million. Despite the financial downturn, revenues increased by \$1.5 billion from 2008-09 to 2009-10 due to bailouts from the Rudd Labor Government.

Spending has also increased by \$1.5 billion in the same period. Through its eight years in office this Government has been unable to control its spending, going over budget by a total of \$2.9 billion since 2002-03. Spending blowouts, not falls in revenue, are the reason that the Government's budget has slumped into deficit.

At the current rate, the interest bill that the Government pays on its debt will soon reach \$2 million per day. This is money that South Australians pay in taxes, that can't be spent on health, education, law and order or transport infrastructure.

2.1 Tracking of Budget Forecasts

For seven budgets, the Rann Government has been running small surpluses as a percentage of revenue. Now, despite record revenue growth, spending blow-outs have caused the budget to plunge into deficit.

The following table shows the difference between the Government's forecasts as given in the 2009-10 budget and the 2009-10 MYBR.

Table 2.2: Fiscal Outlook, 2009-10 Budget and MYBR, \$ million

| | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|---|---------|---------|---------|---------|
| Net Operating Balance | | | | |
| Budget | -304 | 78 | 96 | 304 |
| MYBR | -174 | 13 | 127 | 316 |
| Change since Budget | 130 | -65 | 31 | 12 |
| Net Lending Balance | | | | |
| Budget | -1,541 | -1,324 | -483 | 17 |
| MYBR | -1,551 | -1,439 | -518 | -151 |
| Change since Budget | -10 | -115 | -35 | -168 |
| Cash Balance | | | | |
| Budget | -1,541 | -1,230 | -418 | 93 |
| MYBR | -1,654 | -1,362 | -445 | -70 |
| Change since Budget | -113 | -132 | -27 | -163 |
| Non-Financial Public Sector Net Debt | | | | |
| Budget | 5,230 | 6,327 | 6,656 | 6,571 |
| MYBR | 5,407 | 6,568 | 6,828 | 6,829 |
| Change since Budget | 177 | 241 | 172 | 258 |
| Unfunded Superannuation Liabilities | | | | |
| Budget | 9,790 | 9,815 | 9,819 | 9,802 |
| MYBR | 8,220 | 8,255 | 8,275 | 8,278 |
| Change since Budget | -1,570 | -1,560 | -1,544 | -1,524 |

Current projections have the budget returning to surplus next year. However, Rann Labor states that this return to surplus is contingent on finding \$750 million in budget savings over next four years. Rann Labor will not tell South Australians what jobs and what services will be cut until after the election.

The standard now appears to be that Labor governments are so arrogant that they make whatever outrageous promises they want without specifying how the savings will be made - they can put it all off for public scrutiny beyond the next election. This is most disingenuous and the public will not fall for this con.

2.2 Rudd Bails Out Rann

From 2008-09 to 2009-10, Commonwealth grants increased by \$1.2 billion; from \$7.25 billion to \$8.45 billion. These Commonwealth bailouts make the Rann Labor Government far better off in net revenue terms.

Extra and unexpected Federal payments ease the need for the State Government to use their own revenue toward these programs, which would otherwise require more State money. This should 'free up' State money to reduce the State budget deficit. The Government must be held

to account for repeatedly referring to budget 'black holes' and 'huge revenue losses' in an attempt to mislead the public.

2.3 Credit Rating at Risk

Standard and Poor's has already downgraded Queensland's AAA rating. In South Australia, the Auditor-General has warned that SA's rating is at risk.

"fiscal targets are not expected to be achieved... namely: net lending outcomes that ensure the ratio of net financial liabilities to revenue continues to decline towards that of other triple-A rated states."

~ Auditor-General's Report, 2008-09 Part C, page 3

Standard and Poor's have given similar warnings, including:

"The ratings could be re-assessed if the higher levels of debt appear in Standard and Poor's opinion to be permanent and/or more severe."

~Standard and Poor's, 4 June 2009

No doubt credit ratings agencies will carefully monitor South Australia's position going forward.

3. Revenue

The Premier and Treasurer continue to inaccurately underestimate revenue collections every year. From 2002-03 to 2008-09, the Government will have **collected a massive \$3.9 billion more than they expected**. These revenue windfalls (actual receipts above budgeted receipts) are masking unbudgeted increases in expenses as noted by the Auditor-General:

"Over the past six years the State has received large amounts of unbudgeted revenues that enabled net operating surpluses"

~ Auditor-General's Report, 2008-09 Part C page 12

3.1 State Taxes

It's now official. Under the Rann Labor Government, SA has become the highest taxed state in the nation. This has been confirmed by two independent reports, the Commonwealth Grants Commission (CGC)¹ and the Institute of Public Affairs (IPA)². Tax revenue has increased by 66% since this Government came to Office, as demonstrated by the following table.

Table 3.1: Tax Revenue, 2001-02 & 2009-10 (\$m)

| | 2001-02 | 2009-10 | % change 01-02 to 09-10 |
|--|--------------|--------------|-------------------------------|
| Payroll tax | 601 | 903 | 50% |
| Taxes on property | 731 | 1,536 | 110% |
| Taxes on gambling | 312 | 401 | 29% |
| Taxes on insurance | 223 | 339 | 52% |
| Motor vehicle taxes | 324 | 450 | 39% |
| Other taxes | 3 | 0 | na |
| Total General Government Taxation | 2,193 | 3,630 | 66% |

Rann Labor has announced a land tax cut in the MYBR. The State Liberals welcome the Rann Government copying its policies – this one only announced in October 2009. In fact, in response to the Liberals' announcement, Kevin Foley said:

"you look at land tax ... it's now the number one tax cut issue in terms of a tax agenda but I also had to have a good look at the state's finances, the fact we are running deficits this year and next and it would not be the financial responsible thing to do."

~ Kevin Foley, 5AA radio, 5 June 2009

We'll, he's still running deficits. But now, on election eve, he's changed his mind. This is a most disingenuous policy back flip in a desperate bid to buy his Government a third term. This Government has made SA the highest taxing state in it's eight years; now he expects South Australians to be conned into re-electing his Government.

¹ CGC (2009), Report on Relative Fiscal Capacities of States – Attachment E p4-8

² Institute of Public Affairs (2009), Businesses Bearing the Burden, December 2009

According to the IPA, South Australia is the most severely taxed state for business, more harshly taxing than the basket case state of NSW. South Australia's businesses pay 4.8% more state business taxes than the national average and 11% above tax liabilities in WA. The average business in SA pays over \$247,000 in state taxes per annum.

According to the IPA, the average SA business land tax liability is 69% above the national average and **a massive 536% above** land tax liabilities in WA.

The CGC has revealed that South Australia levied its tax revenue bases more severely than any other state or territory during 2007-08. SA was judged by the CGC to have taxed more severely than the national average by 12%. The South Australian Government was judged by the CGC to have:

- Levied land tax more severely than the national average by 126%
- Levied stamp duty more severely than the national average by 22%

High taxes are the last thing business needs as this severely hampers job preservation with the nation recovering from the economic downturn.

3.2 GST Revenues

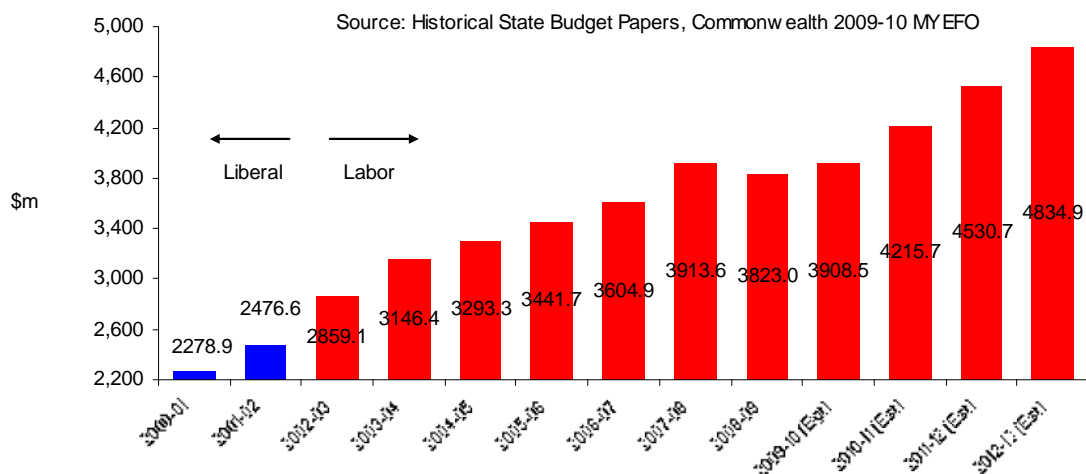
The actual GST windfalls to the states, relative to the pre-GST arrangements, have by far exceeded expectations back when the GST was introduced. GST revenue growth has slowed during the financial downturn as demonstrated by Figure 3.2. However, according to the Commonwealth Mid Year Economic and Fiscal Outlook (MYEFO), SA will now receive an additional \$911 million in GST payments above what was budgeted in the 2009-10 State Budget.

Interestingly, our arrogant Treasurer uses an accounting method different to that used by the Commonwealth. His budget estimates only allow for an extra \$275 million over the forward estimates instead of \$911 million as predicted by the Commonwealth. The MYBR explains this as "a further allowance for anticipated losses from the Commonwealth Grant's Commission's 2010 Methodology Review".

But the Commonwealth itself doesn't even make this allowance, so why does SA!?

This is another attempt at secrecy by a desperate Treasurer trying to hide the money he has coming in to his coffers, in order to pay for his election promises.

Figure 3.2: Breakdown of GST Revenue Paid to South Australia



3.3 Taxing SA Water While Under-Investing for the Future

The Treasurer previously told 5AA radio on 11 March 2008 that he plans to double water prices within 5 years. Then the Government spent more on the doubling of the capacity of the desalination plant, meaning that water prices will likely increase even further under the Rann Government's regime.

The Government has announced that water charges per kilolitre purchased will increase by 32% from 1 July 2010. The average household will pay \$84 more for water next year - a total payment of close to \$500 per annum (before sewerage fees are included). Water bills have increased by 113% under Rann Labor.

There is little transparency in the way water revenue goes into Government coffers and gets siphoned off into general revenue.

The Government says that larger water price increases are needed to pay for the desal plant. But a significant amount of water price revenue also

goes into general budget revenue. The Liberals would like to see more transparency with the way this revenue is collected.

Total dividends and payments to SA Government from SA Water are budgeted to be \$226 million in 2009-10. **Since 2002-03 the total stripped from SA Water customers will be \$2.2 billion.**³ Little of this has been made available for infrastructure spending.

The Auditor-General has repeatedly highlighted that the Rann Government is taking money out of SA Water in an unsustainable manner. This is preventing SA Water from carrying out essential capital projects to guarantee our water security.⁴

Water is the most important reminder of Labor's infrastructure neglect. This is particularly concerning given South Australia's geographic position at the mouth of the Murray River.

Instead it is the State Liberals who are setting the agenda on water.

The State Liberals called for a desalination plant for Adelaide, State Labor finally agreed. The State Liberals announced a stormwater initiative whereby over a third of Adelaide's annual water supply could be captured and used.

The State Liberals have demanded that all the River Murray basin states hand over their constitutional powers to the Commonwealth so that one single body can run the River for the benefit of the nation as a whole. Premier Rann's recent plan to constitutionally challenge the upstream states over their water rights is evidence that the recently signed "historic agreement" is not worth the paper it's written on.

The State Liberals believe that South Australia should not have permanent water restrictions.

At the next State election, water will be the major policy difference between the State Liberals and Rann Labor.

³ Final Budget Outcomes and 2009-10 Budget

⁴ Auditor-General's Report, 2008-09 Part B volume IV page 1356

4. Expenses

Expenses control has been poor for seven years. No sooner does the money come in, than it goes out the door.

"A major risk to the Budget and, in particular the forward estimates, is the outcomes from enterprise agreements and control of FTE numbers."

~ Auditor-General's Report, 2008-09 Part C page 40

There so much Government waste. The Treasurer has confirmed that the Government spends \$70 million each year on Government advertising alone.⁵

4.1 The Department of Health⁶

The Government has lost control of the Department of Health's operating budget. In the three years to 2008-09, the Department has overspent its budget by \$94 million, \$70 million and \$144 million respectively. The MYBR notes that SA Health is on target for a \$76 million budget overspend in 2009-10 and \$318 million over the next four years. Unfortunately, its South Australian tax payers that must pay for this.

One reason for the 2008-09 overspend was an accounting error in the Central Northern Adelaide Health Service - \$11 million in budgeted revenue that was never there!

Furthermore, SA Health has decided not to transfer its general accounting activities to the beleaguered Shared Service unit. This has resulting in an additional unbudgeted cost:

"the Department of Health was slow to identify that savings would not be achieved and there was inadequate time to identify and implement alternatives."

~ Auditor-General's Report, 2008-09, Part C, page 15

There have been over 60 Government job advertisements in the Department of Health in recent weeks – most in ICT. The Government is

⁵ ABC Radio, 8 October 2009

⁶ Some information sourced from Budget Finance Committee, 12 October 2009

not putting numbers into doctors and nurses. Rather, the Health department is building its own ICT empire!

4.2 Shared Services

The Government is attempting to develop a single human resource and administration Government department of 2,300⁷ staff called 'Shared Services SA'. The Government estimated this program will make ongoing savings of \$60 million per annum once fully implemented. But this project has been bungled. It has now cost \$105 million (compared to an initial budget of \$60 million)⁸ and the Auditor-General has identified a savings shortfall of \$125 million over the forward estimates.

Transition delays, reduced in-scope employees, accommodation 'dead rent' and potential redeployment costs, have all put pressure on achieving announced savings and budgeted implementation costs.

~ Auditor-General's Report, 2008-09 Part A page 8

The Government is not confident about meeting their savings task and have therefore parked a contingency amount off the budget to cover the shortfall and not adversely affect the budget bottom line.

"the Budget includes a contingency to allow for the possibility that savings from shared services are not achieved"

~ Auditor-General's Report, 2008-09 Part A page 11

The Government has wasted money on dead rent and fit out costs for this office space which is no longer needed or won't be occupied by staff for sometime.

"There will be periods where rent is paid on empty accommodation ('dead rent')... at 30 June 2009 total 'dead rent' was \$2.2 million."

~ Auditor-General's Report, 2008-09 Part A page 10

The Opposition will monitor whether the Government continues to fail to deliver savings from Shared Services.

⁷ Department of Treasury and Finance Annual Report, 2007-08

⁸ Auditor-General's Report, 2008-09, Part A

4.3 Public Sector Mismanagement

According to the State Budget Papers, from 2001-02 to 2008-09, public sector employment⁹ numbers **increased by 16,393** employees. The Auditor General reveals the increase in providers of core public services from 2001-02 to 2008-09. These total 5,582 (see below).

| FTEs¹⁰ | 01-02 to 08-09 |
|--------------------------|-----------------------|
| Nurses | 3,220 |
| Teachers (Education Act) | 671 |
| Doctors | 1,053 |
| Police officers | 638 |
| Total | 5,582 |

Thus there have been up to **10,811 additional public servants** employed in general administration under the Rann Labor Government. The majority of these were unbudgeted. Ministers have not exercised prudent budget control by letting increases in staff exceed budgeted allowances.

As a consequence of their financial mismanagement and unbudgeted spending, Rann Labor has announced job cuts of 1,600 public servants. This is in addition to the 1,571¹¹ public servant cuts announced as part of the Greg Smith Review in 2006-07. Therefore throughout its term, Rann Labor has cut over 3,000 public sector jobs.

In a stunning move to avoid public scrutiny, Labor has also announced \$750 million in cuts to be disclosed if Labor get re-elected. This will likely result in further public sector job cuts.

4.4 Public Private Partnerships (PPPs)

The Auditor General recognises that the Government's \$323 million six schools PPP project was more expensive than a traditionally funded build, but the Government chose the option because the schools would be built faster:

⁹ In full time equivalent (FTE) terms

¹⁰ Nurses, doctors and teacher numbers from 2008-09 and historical Auditor-General's reports. Police numbers from 2008-09 and historical SAPOL annual reports.

¹¹ Treasury and Finance Budget Estimates Committee, 18 October 2006

Notably, this PPP model was nearly \$9.2 million (3 percent) more expensive than a traditional build."

~ Auditor-General's Report, 2008-09 Part C page 14

The Tasmanian government has abandoned plans for their \$1.5 billion hospital on Hobart's waterfront, instead preferring to renew their existing hospital.

The planned rail yards hospital was announced as an unbudgeted \$1.7 billion PPP – the biggest social infrastructure PPP anywhere in Australia. If it proceeds, repayments to the providing consortia will be made from 2016 to 2046. Our grandchildren will be footing the bill. Furthermore, SA taxpayers may be forced to provision millions more given the increases in the cost of private sector borrowing.

4.5 Secret Slush/Contingency Funds

These are off-budget funds which help the Treasurer to pay for blowouts in capital works projects, unbudgeted public servants, ministerial staff numbers and election promises. The 2009-10 Budget reveals the Treasurer has a contingency fund totalling \$467 million. The 2009-10 MYBR provides no details on this fund. There is also little detail on the Health department's overspend (\$318 million over the forward estimates).

Accounting fiddles like this are intended to mask the effect of Labor's financial mismanagement on the budget bottom line.

5. Balance Sheet

5.1 Workcover Liabilities

The Government's workers' compensation scheme is the worst performing scheme in the nation according to the latest interstate comparison of workers' compensation schemes, conducted by the Federal Government.

The interstate comparison demonstrates that the South Australian scheme has the highest rate of premiums charged to employers, the lowest

funding ratio (highest future debt liability) and among the worst rate of serious injury.¹²

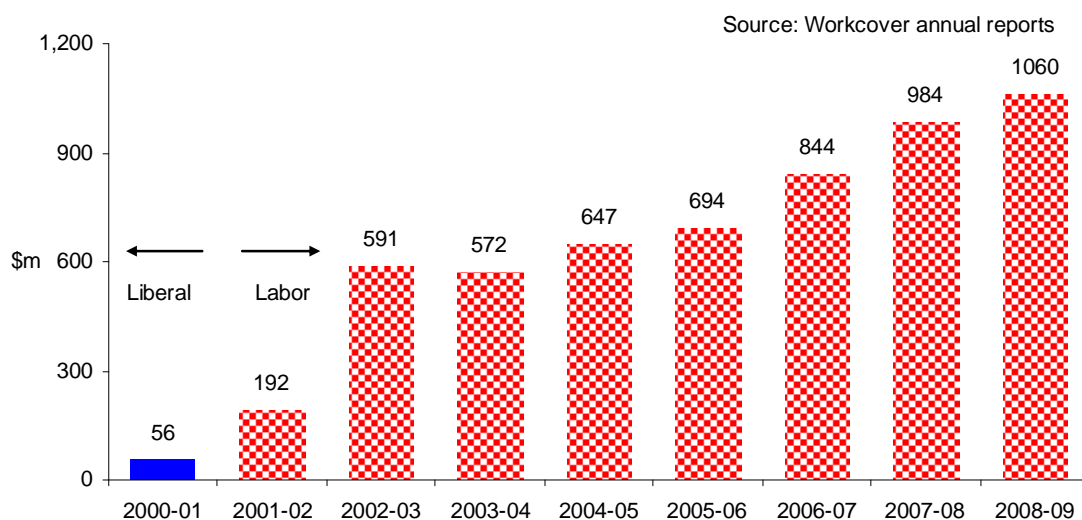
In 2008-09, the Auditor General became the statutory auditor of WorkCover. With the unfunded liability still out of control, the WorkCover Corporation still has 58 staff earning over \$100,000 per annum, with the CEO earning over \$400,000.

WorkCover's monopoly claims agent EML has increased its management fees by \$17 million in 2008-09, despite less injured workers receiving income payments.

Premier Rann has promised lower industry premiums and better scheme performance, but has failed to deliver. Industry premiums are still the highest in the nation.

The total workers compensation unfunded liability is \$1.4 billion. This debt includes the \$1.1 billion WorkCover debt and the debt of self-insured public sector agencies (\$371 million¹³).

Chart 5.1 WorkCover Unfunded Liability (excludes the public sector liability)



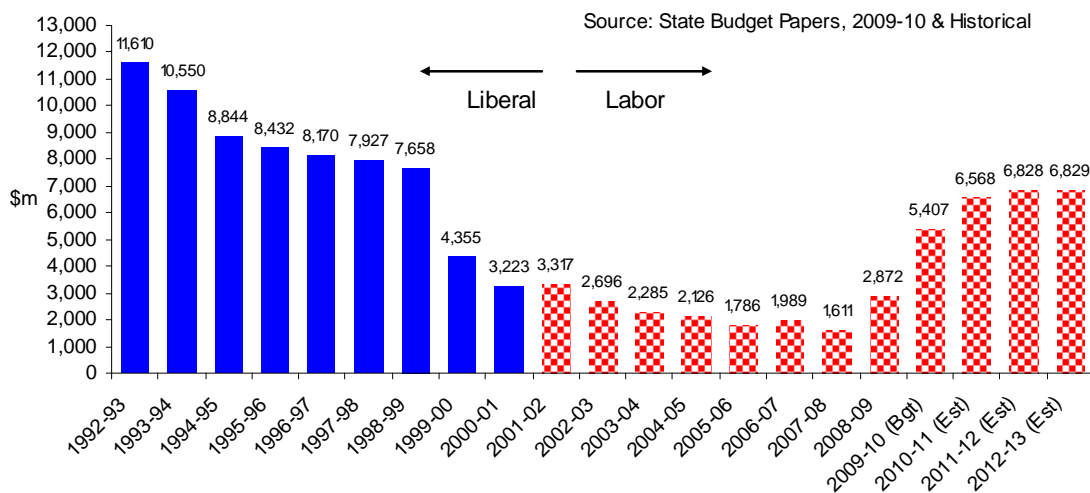
¹² WorkCover Queensland Annual Report 2007-08 p15, Australian Safety & Compensation Council, June 2008

¹³ 2008-09 Department of Premier and Cabinet Annual Report

5.2 Debt

Budget Papers reveal that through prudent fiscal management, the former Liberal Government reduced Mr Rann and Mr Foley’s State Bank debt from \$11.6 billion in 1993 to \$2.7 billion in 2002-03. Under Rann Labor’s economic mismanagement, debt is forecast to blow out yet again, to \$6.8 billion by 2011-12.

Chart 5.2: Net Debt – Non-Financial Public Sector



5.3 Unfunded Superannuation Liabilities

Budget Papers show that at June 2001, the General Government unfunded liability stood at **\$3.2 billion**. Under Labor, the unfunded superannuation liability has blown out to **\$8.9 billion**.

These blowouts require the Treasurer to now pay \$455 million in 2009-10 in superannuation liability interest.

It was the former State Liberal Government that committed to fully funding the superannuation liability by 2034.¹⁴ With recent blowouts, this target is looking uncertain.

¹⁴ 1999-00 Budget paper 2, p7.9

Chart 5.3 Unfunded Superannuation Liabilities

