

RESPONSE TO THE 2010-11 MIDYEAR BUDGET REVIEW

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Leader of the Opposition

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**“A GOVERNMENT
IN DISARRAY AS
TAXPAYERS PAY”**



Table of Contents

1. Mid Year Budget Overview	3
2. Budget Disappointments	4
2.1 Broken Promises.....	4
2.2 Credit Rating at Risk.....	5
3. Revenue	6
3.1 State Taxes.....	6
3.2 Commonwealth Grants (inc. GST).....	7
3.3 Desalination Plant & Water Prices	8
4. Expenses	9
4.1 Health Issues.....	9
4.2 Julia Farr Association.....	10
4.3 Shared Services	10
4.4 Public Sector Mismanagement.....	10
4.5 Secret Slush/Contingency Funds	11
5. Balance Sheet.....	11
5.1 Workcover Debt.....	11
5.2 Superannuation Debt.....	12
5.3 State Debt	13

1. Mid Year Budget Overview

Treasurer Kevin Foley's concentration on declining GST revenues in the Mid Year Budget Review (MYBR) is just another example of political spin.

What the Treasurer didn't highlight was that total estimated revenue for 2010-11 has actually increased by \$52 million in just three months since the Budget.

As has been the case for eight years, Mr Foley continues to have a problem preventing over-spending. The MYBR is just further evidence of a budget out of control.

Embarrassingly for the Government, employment stats released by the ABS on the same day as the MYBR reveal that both agriculture and manufacturing jobs in SA are at 26 year lows (the lowest levels since record keeping began).

It is a dire reflection on the Rann Labor Government, that there were more mining jobs in South Australia in 1985 than there are today.

If SA had kept pace with national jobs growth under the Rann Government, there would be 40,000 more jobs in SA.

South Australian exports and our share of the national economy have declined under the Rann Government. SA continues to lose its residents to other states with three times more people migrating to other states than under the previous Liberal Government.

Households and families are under pressure with increased costs of living due mostly to rises in State Government charges like water bills, motor registration, driver's licence fees, bus tickets and Compulsory Third Party premiums.

It is also not surprising that according to the Sensis Business Index, only 6% of small businesses are supportive of State Government policy.

2. Budget Disappointments

At the MYBR there are 2010-11 budget deficits on all three accounting measures:

1. net lending **deficit** of \$1,879 million in 2010-11;
2. cash **deficit** of \$1,640 million in 2010-11;
3. net operating **deficit** of \$493 million in 2010-11.

South Australia's budget deficit is \$104 million worse than it was 12 weeks ago at budget time, reaching \$493 million. Yet Victoria, New South Wales and Western Australia are all running budget surpluses in 2010-11.

Despite the Treasurer's claims, SA's 2010-11 revenues have increased by \$52 million since the 2010-11 Budget. However, spending has also increased by \$156 million during this time.

Despite the financial downturn and the Treasurer's claims of plummeting revenues, SA revenues actually increased by \$2.0 billion from 2008-09 to 2009-10 due mainly to bailouts from the Federal Labor Government.

Through almost nine years in office, this Government has been unable to control its spending, going over budget by a total of \$3.5 billion since 2002-03. Spending blowouts, not falls in revenue are the reason that the Government's budget has now slumped into deficit. The Treasurer has admitted this:

"There is no question that the blowout in expenses is our problem... There is no question that expenditure overruns are the biggest threat to public finances."

~ Kevin Foley, Estimates Committee A, 7 October 2010

2.1 Broken Promises

The Government has a great record of making promises but a terrible record of keeping them. Here are a few examples:

1. The Premier had a written promise before the March State election of no forced public sector redundancies. However the Government is now threatening to break that promise. The Treasurer does not

think promises are worth keeping having said about others *"not having the moral fibre to break their promise"*.

2. The Government has cut public service entitlements – cut 17.5% leave loading, cut long service leave accumulation after 15 years of service from 15 days to 9 days per year. These were kept hidden until after the election.
3. The Government promised a \$1.7 billion hospital, but the Auditor General tells us the cost is at least \$100 million more. Cabinet approved this blowout before the election, but misled the people.
4. The Government promised \$450 million for the Adelaide Oval, not a penny more... how about \$85 million more and they are still up to \$200 million short of a deal.
5. The Government broke its promise to not absorb one off pension increase; having cancelled public housing rent assistance for pensioners will save \$28 million over three years. The Labor Prime Minister has slammed the Labor State Government for this:

"I am not at all happy with this decision by the South Australian Government... now of course we and pensioners who are in public housing are confronted with the news that the South Australian Government has changed its mind and is seeking to put rents up and to eat into this pension increase."

~ Labor Prime Minister Gillard, 5AA, 7 December 2010

6. School closures: there were cuts in small school grants of \$12.1 million in the budget. This will result in many schools being starved of additional funds until governing councils are forced into a position of requesting mergers or closure.
7. Rises to mining royalties weren't mentioned before the election.

2.2 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.

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

"The ratings could be re-assessed if the underlying levels of debt appear to be more severe than forecast."

~Standard and Poor's, 16 September 2010

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

3. Revenue

The Premier and Treasurer continue to underestimate revenue collections every year. From 2002-03 to 2009-10, the Government has **collected a massive \$5.0 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 75% since this Government came to Office, as demonstrated by the following table. In particular, land tax revenue has quadrupled under the Rann 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

Table 3.1: Tax Revenue, 2001-02 & 2010-11 (\$m)

	2001-02	2010-11 (MYBR)	% change 01-02 to 10-11
Payroll tax	601	956	59%
Taxes on property	731	1,649	126%
Taxes on gambling	312	410	31%
Taxes on insurance	223	352	58%
Motor vehicle taxes	324	480	48%
Other taxes	3	0	na
General Government Taxation	2,193	3,846	75%

Mining royalty rates were increased in the 2010-11 Budget. When taken alongside the Federal Government's mining tax and the Federal alliance with Labor and the Greens, this will cast further doubt over the Olympic Dam expansion.

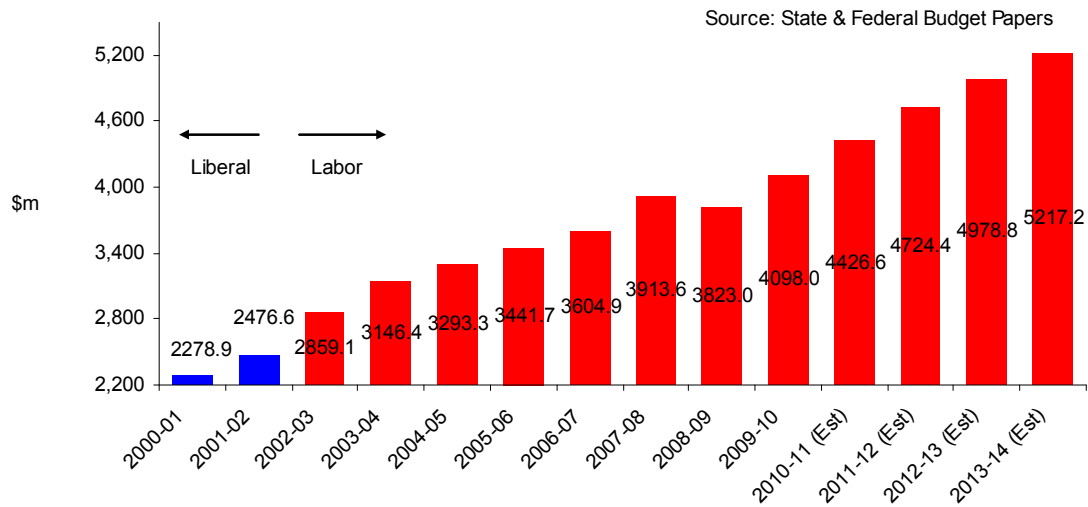
3.2 Commonwealth Grants (inc. GST)

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 received by South Australia has almost doubled since its introduction.

The State Government continues to understate GST revenue, using a different methodology to the Commonwealth to forecast its revenue. The latest Commonwealth data (9 November 2010) indicates SA will receive an additional \$615 million in GST payments over the next four years above what the 2010-11 MYBR outlines. Figure 3.2 depicts GST revenues as forecast by the Federal Government.

Treasurer Foley has been claiming reduced GST payments to SA, however, one of the reasons for a reduction in GST forecasts is the State Government has applied for and received other Commonwealth grants, which has seen the Commonwealth lower its GST payments to the State. This is discussed in Section 3.3.

Figure 3.2: Breakdown of GST Revenue Paid to South Australia



3.3 Desalination Plant & Water Prices

The Federal Government promised \$228 million towards the desalination plant if the State agrees to reduce South Australia’s reliance on the River Murray. However, the Opposition revealed that in receiving this grant of \$228 million, the State will lose about \$212 million of GST revenue!

Treasurer Foley has been trying to spin the line that SA is \$228 million better off from the Federal grant when the reality is that SA is only about \$16 million better off – and for that amount South Australia loses water by having to reduce our reliance on the Murray.

Further, over the next 20 years South Australians will pay \$2.6 billion to operate the desalination plant (energy supply and maintenance costs).

Over the next couple of years, the Government plans to increase water prices by a further 32% per kilolitre per year as happened this year. This amounts to hundreds of dollars extra in water bills for families. Under the Rann Government, since 2002-03 the cost of water in SA has already trebled. The \$26 million that SA Water spends on consultants per year, together with massive payraises for its bureaucrats must be recouped through increased water charges for South Australian consumers.

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.³

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, 2009-10 Part C page 40

There is so much Government waste. The Treasurer has confirmed that the Government spends \$70 million each year on Government advertising alone.⁴

4.1 Health Issues

The Government has lost control of the Department of Health's budget. In the four years to 2009-10, the Department has overspent its budget by a total of \$518 million with an overspend of \$210 million most recently in 2009-10.⁵ Sadly, its South Australian tax payers that must pay for this mismanagement.

The Government promised the railyards hospital throughout the election would cost \$1.7 billion, however the Auditor General tells us that Cabinet, in November 2009, approved at least another \$100 million on top of the \$1.7 billion. Cabinet knew this before the election, but misled the public.

The respected industry group Project Finance International claims the cost of the planned railyards Royal Adelaide Hospital project has blown out to \$3 billion, from its initial cost of \$1.7 billion.⁶

³ Auditor-General's Report, 2009-10 Part B volume IV page 1446

⁴ ABC Radio, 8 October 2009

⁵ Budget Finance Committee, 12 October 2009

⁶ Project Finance International, 3 June 2010



4.2 Julia Farr Association

The Auditor General's report has identified \$2.92 million and \$2.15 million in disability equipment funding was paid to the Julia Farr Association in June 2007 and June 2008 respectively. The Julia Farr Association did not and does not provide disability equipment. The Auditor-General has identified that one of the factors for transferring money to the Julia Farr Association was the risk of not retaining the funds through an approved carryover process.

This transfer breached funding approvals granted by Cabinet and in very similar circumstances to those surrounding Kate Lennon and the Justice Department in order to avoid the Treasury 'carryover policy'.

4.3 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.

Shared Services has now cost over \$100 million (compared to an initial budget of \$60 million)⁸ and the Auditor-General has identified a savings shortfall of \$100 million over the forward estimates. Further, \$10.9 million was paid towards shared services programs in 2009-10 from the Government's contingency funding.⁹

Shared Services SA at present has only 692 employees according to the Auditor General, well short of its 2,300 employee target.

4.4 Public Sector Mismanagement

According to the State Budget Papers, from 2001-02 to 2009-10, public sector employees **increased by 18,105**. Only 2,554 of these jobs were budgeted for. The Auditor General reveals the increase in providers of

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

⁸ FOI information obtained by the Opposition

⁹ Auditor-General's Report, 2008-09, Part A

core public services from 2001-02 to 2009-10. These total 6,114 (see below).

FTEs	2001-02 to 2009-10
Nurses	3,753
Teachers (Education Act)	708
Doctors	1,096
Police officers	557
Total	6,114

However, there have been around **12,000 additional public servants** employed outside core areas under the Rann Labor Government. The majority of these were unbudgeted. The Government has been unable to control departments employing additional staff, so it has been forced to pay for them to depart.

The Rann Government has provided almost 7,000 paid redundancy packages since coming to office. The latest round of 3,000 redundancy packages announced in the 2010-11 Budget were worth a massive \$354 million of taxpayers' money.

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 2010-11 Budget reveals the Treasurer has a contingency fund totalling \$492 million.

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

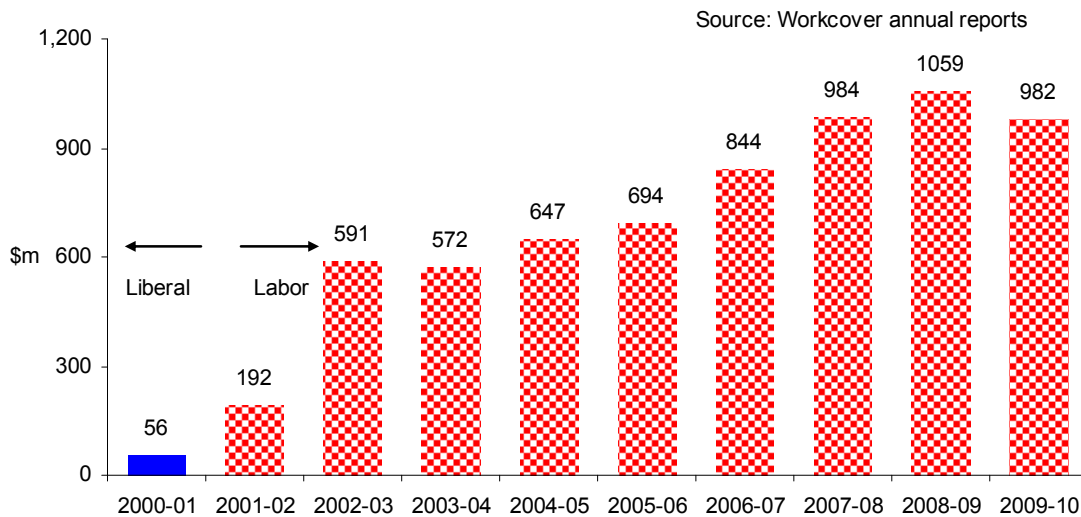
5. Balance Sheet

5.1 WorkCover Debt

The Government's workers' compensation scheme is the worst performing scheme in the nation. 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 \$1.36 billion. This debt includes the \$982 million WorkCover debt and the debt of self-insured public sector agencies (\$375 million¹⁰).

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



5.2 Superannuation Debt

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 \$9.1 billion.

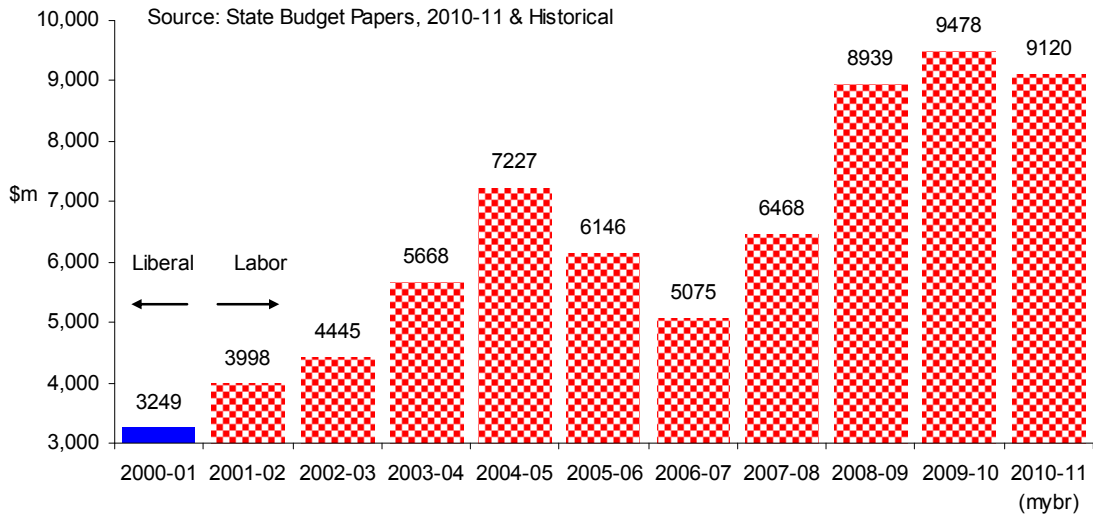
These blowouts require the Treasurer to now pay \$427 million in 2010-11 in superannuation liability interest.

It was the former State Liberal Government that committed to fully funding the superannuation liability by 2034.¹¹ With recent blowouts, this target is looking uncertain.

¹⁰ Department for Premier and Cabinet annual report 2009-10

¹¹ 1999-00 Budget paper 2, p7.9

Chart 5.2 Unfunded Superannuation Liabilities

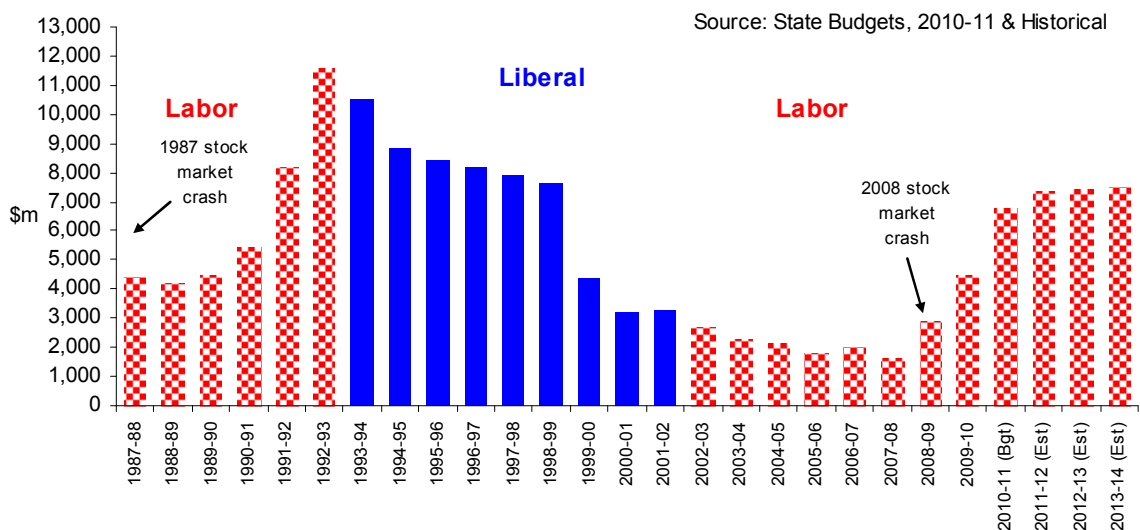


5.3 State Debt

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 to \$7.5 billion.

At the current rate, the interest bill that the Government pays on its debt will reach almost \$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.

Chart 5.3: Net Debt – Non-Financial Public Sector



This debt excludes superannuation and Workcover debt. When these are added together, total state debt and liabilities are around **\$20 billion** which is about **\$11,000** for every South Australian.