

# RESPONSE TO THE DELAYED 2010-11 STATE BUDGET

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Leader of the Opposition

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**After 8 years of Labor, it's  
Slash, Burn & Tax.**



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## 1. Budget Overview

Kevin Foley is once again the last state Treasurer to release a Budget, delaying the Budget to September, and now we know why!

The recently elected British Government handed their \$1,200 billion national budget within 50 days of coming to office. Tasmania went to the polls on the same day as South Australia, yet released their budget on 17 June 2010. Mr Foley delayed the Budget to September to deal with his own budget mismanagement.

Over eight years, Labor's record is one of financial mismanagement, ballooning debt and on-going blowouts.

And who are the victims? South Australians.

Already the highest taxed state in the country, this budget has delivered even more debt, over \$1 billion of increased taxes, public sector job losses, and fewer services – a slash, burn and tax approach hurting the hip pockets of South Australians.

Increases in water prices, stamp duty, driver license fees, vehicle registration, bus tickets and the abolition of the first home buyer grants on existing homes only scratch the surface in what will be remembered as a horror budget. Our state is now even less competitive with the eastern states.

Public debt of \$7.1 billion and a \$389 million deficit in 2010-11 means South Australians will soon pay almost \$2 million a day in interest payments on Government debt.

At a time when South Australia has seen rivers of gold flow through Government coffers with billions of dollars in unbudgeted revenue, the Labor Government has cut deep – deep into the livelihoods of hard working South Australians. Education and hospital services have not been spared.

This budget is about South Australians who have once again been let down by the Rann Labor Government.

Other key budget disappointments include:

- 3750 public servants to be cut.
- Cuts and increased revenue measures of \$2.5 billion.
- Commercial rates for hospital car parks - pay for car parking when you go in for surgery.
- Reduction of public sector long service leave and abolition of leave loading.
- All country petrol prices will go up by 3.3c/litre - impacting consumers, businesses and tourism.
- Mining royalties up - Olympic Dam in jeopardy.
- \$354 million taxpayer over four years towards 3000 voluntary redundancies (TVSPs). Average cost of TVSP \$118,000 each.
- Government promise of no forced redundancies may be broken.
- Arts sector cuts of \$13m via reductions to grants and programs.
- Closures of schools but we don't know which schools – cuts of \$12 million to small school grants.
- Hospital cost at railyards still undisclosed.
- Increased costs in the fishing, wine, hotels and farming sectors.
- Taxes to increase by \$1 billion over the forward estimates – tax revenue increase of 76% since the Rann Government came to office.

## 2. Fiscal Position and Outlook

### 2.1 Deficits

At the 2010-11 Budget, there are budget deficits on three out of the three accounting measures:

1. net lending **deficit** of **\$1,791 million** in 2010-11
2. cash **deficit** of **\$1,773 million** in 2010-11
3. net operating **deficit** of **\$389 million** in 2010-11

The State's 2009-10 revenues increased by \$1.1 billion over budget – unbudgeted revenue windfalls. Spending also increased by \$616 million.

Despite the financial downturn, revenues actually increased by \$1.6 billion from 2008-09 to 2010-11 largely due to bailouts from the Federal Labor Government.

During its eight years in office, this Government has been unable to control spending, going over budget by a total of \$3.5 billion since 2002-03. In eight out of eight budgets so far, actual spending has exceeded budgeted spending. Spending blowouts, not falls in revenue, are the main reason that the Government's budget has slumped into deficit.

At the current rate, the interest bill that the Government pays on its debt is approaching \$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.

### 2.2 Spending Blowouts Cause Job Cuts

Spending blowouts, not falls in revenue, are the main reason that the Government has cut jobs in order to save its budget. Government spending blew out by \$616 million in 2009-10 and \$1.2 billion in 2010-11 respectively above those budgeted in the 2009-10 Budget for those years.

In each of its eight budgets, the Rann Government has relied on revenue above budget to balance spending above budget. Now, despite record revenue growth, spending blow-outs have caused the budget to plunge into deficit. See Table 2.2.

**Table 2.2: Unbudgeted Revenues & Expenses (actual above budget), \$m**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Cumulative
Unbudgeted Spending	184	467	487	370	374	304	670	616	3,472
Unbudgeted Revenue	528	794	595	521	493	739	276	1,087	5,033

As a consequence of their financial mismanagement, Rann Labor has announced wholesale job cuts of **3,750 across the public sector**. To achieve this, the Government has allocated \$354 million towards 3,000 targeted voluntary separation packages (TVSPs).

In its previous term Labor announced job cuts of 1,600 public servants in December 2008 and 1,572 public servants as part of the Greg Smith Review in 2006-07, totalling almost 3,200 public sector jobs.

**At the 2006 election, Labor promised no public sector job cuts. This budget takes Labor's total public sector job cuts to almost 7,000.**

Labor has also slashed workers entitlements, after campaigning so hard against Federal changes to entitlements. Public servants will lose their 17.5% extra pay for taking annual leave and some of their long service leave entitlements. The Government has also warned that it may break its 'no forced redundancy' policy and begin sacking public servants.

### 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 to South Australia indicating that our credit rating is hanging by a thread:

*"The ratings could be reassessed 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 in the future.

### 3. Revenue

The Premier and Treasurer continue to underestimate revenue collections every year. From 2002-03 to 2009-10, the Government will have **collected a massive \$5.0 billion more than they expected** as shown in Table 2.2. 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

Over the forward estimates in this budget, the Labor Government will collect over \$1 billion in extra 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)<sup>1</sup> and the Institute of Public Affairs (IPA)<sup>2</sup>.

Tax revenue has increased by 76% since the Rann Government came to Office, as demonstrated by the following table.

Mining royalties will also increase in this budget. When taken alongside the Federal Government’s mining tax and the Federal alliance with Labor and the Greens, this will cast further doubt on the Olympic Dam expansion.

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

<sup>2</sup> 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 (bgt)	% change 01-02 to 10-11
Payroll tax	601	930	55%
Taxes on property	731	1,689	131%
Taxes on gambling	312	411	32%
Taxes on insurance	223	352	58%
Motor vehicle taxes	324	476	47%
Other taxes	3	0	na
<b>Total General Government Taxation</b>	<b>2,193</b>	<b>3,858</b>	<b>76%</b>

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.
- The average SA business land tax liability is 69% above the national average and **a massive 536% above** land tax liabilities in WA.

The severity of the South Australian tax system in comparison to other states is confirmed again by the CGC. According to the CGC:

- South Australia levied its tax revenue bases more severely than any other state or territory during 2008-09.
- SA is again the highest taxing state taxing 16.44% above the national average in 2008-09. The second highest taxing state was Queensland at only 4.34% above the national average.
- SA's tax regime has gotten increasingly worse over the last three years.
- SA has been the most severely taxed state in each year under Rann Labor. 2001-02 was the last year SA was not the most severely taxed state – the last year of the previous State Liberal Government.
- The South Australian Government was judged by the CGC to have levied land tax at 104% above the national average; levied stamp duty at 35% above the national average; levied insurance tax is levied at 50% above the national average.

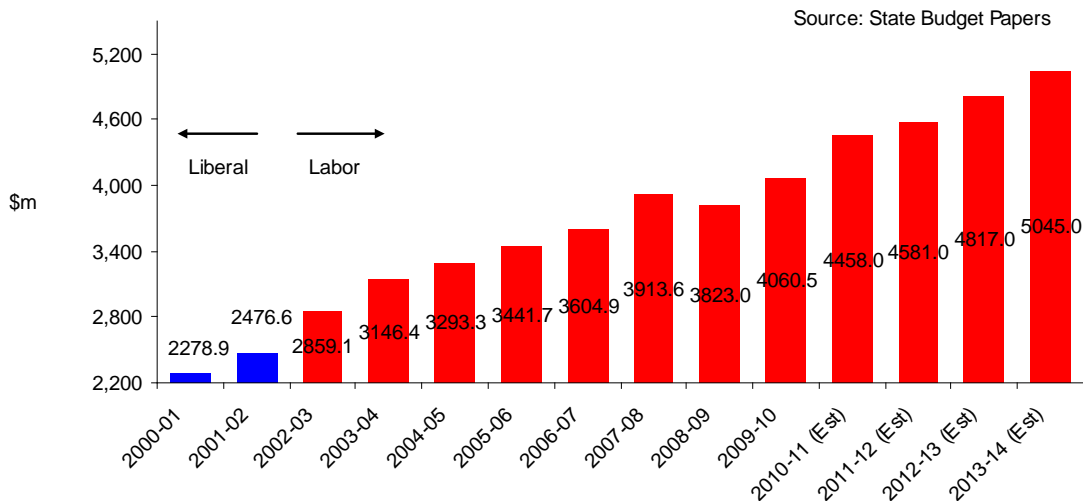
High taxes are the last thing business needs as this severely hampers job preservation and jobs growth.

### 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.

The State Government continues to understate GST revenue, using a different methodology to the Commonwealth to forecast its revenue. The latest Commonwealth data (15 July 2010) indicates SA will receive an additional \$640 million in GST payments over the next four years above what the 2010-11 Budget outlines. The following graph depicts GST revenues as forecast by the State Government.

**Figure 3.3: Breakdown of GST Revenue Paid to South Australia**



### 3.3 Taxing SA Water & Desalination Deception

When Labor adopted the Liberals' idea of the 50 GL desalination plant, the cost of the interconnection pipe between Adelaide's northern and southern water supply networks (an integral part of the project to enable the water to be reused) was included in the original \$1.4 billion price tag for the 50 GL plant. However, the government then announced the expansion to 100 GL desalination plant at resulting in a \$1.8 billion price tag.

It has been revealed that this \$1.8 billion price does not include the \$403 million interconnection pipe, taking to total cost to \$2.2 billion.

Furthermore, it's unclear whether \$228 million of Federal desalination funding will be paid as the State Government has confirmed there will be no reduction in its reliance on the River Murray:

*"Funding will be provided on the basis that the expanded project delivers... a reduced reliance on the Murray River"*

*~ Federal Water Minister 12 May 2009 (on the additional \$228 million for the desalination plant)*

In 2008, Treasurer Kevin Foley informed South Australians that water prices would be doubled due to the \$1.4 billion desalination project. This doubling of water prices has already occurred. Now it's been revealed that the project will cost \$2.2 billion. Further, the cost to run the desalination plant has blown out by \$25 million per annum. But what impact will these blowouts now have on water prices? See section 7.1.

The Government says that larger water price increases are needed to pay for the desalination plant. But a significant amount of water price revenue also goes into general budget revenue, not towards water infrastructure.

Total dividends and payments to the State Government from SA Water are budgeted to be \$180 million in 2010-11. **Since 2002-03 the total stripped from SA Water customers will be \$2.4 billion.**<sup>3</sup> 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.<sup>4</sup>

Instead it is the State Liberals who are setting the agenda on water. The State Liberals called for a desalination plant - 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.

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<sup>3</sup> Final Budget Outcomes and 2010-11 Budget

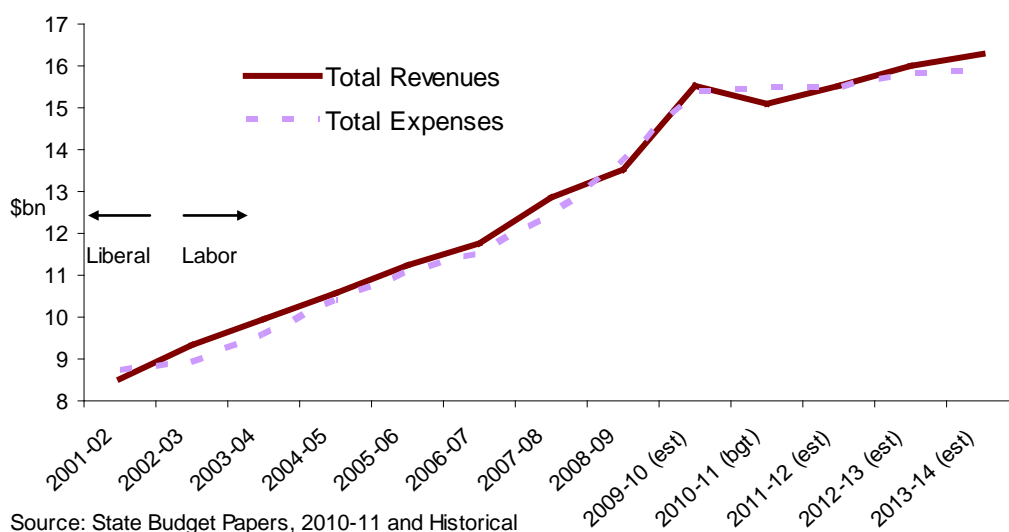
<sup>4</sup> Auditor-General's Report, 2008-09 Part B volume IV page 1356

## 4. Expenses

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

There is significant Government waste. The Treasurer has confirmed that the Government spends \$70 million each year on Government advertising alone.<sup>5</sup>

**Figure 4.1 General Government Revenue and Expenses**



### 4.1 The Department of Health<sup>6</sup>

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. Sadly, its South Australian tax payers that must pay for this mismanagement.

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.

*"The decision by the South Australian government to build the new Royal Adelaide Hospital as a PPP project is in for a rough ride, as*

<sup>5</sup> ABC Radio, 8 October 2009

<sup>6</sup> Some information sourced from Budget Finance Committee, 9 August 2010

*the publicly stated capital cost of A\$1.7bn has now blown out to almost A\$3bn. The reason for the extra cost remains unclear and there is a reluctance to publicly acknowledge the new figure, which came to light following the lodging of bids by the two consortia on May 20."*

*~Project Finance International, 3 June 2010*

The Treasurer has refused to deny claims that the cost of this project had blown out by hundreds of millions of dollars. This Budget conveniently fails to mention the cost of the proposed railyards hospital.

#### **4.2 The Adelaide Oval**

When the Liberals first canvassed the idea of a new inner city stadium, it was so popular that Labor was forced to find a circuit breaker. Labor announced a \$450 million patch-up of Adelaide Oval – not a penny more - which included up to \$150 million from the Commonwealth and \$300 million of South Australian taxpayer dollars.

The Treasurer told us prior to the election:

*"The Government has received no advice from the Stadium Management Authority that the cost of the redevelopment has blown out..."*

*~ Treasurer's press release, 8 March 2010*

The Opposition claimed on at least five separate occasions before the election that costs had blown out. As would be later revealed, the Treasurer was informed of cost blowouts prior to the election, but as the Government saw it, the Opposition and the public were forbidden to know about cost blowouts in the Adelaide Oval project prior to the election.

The Treasurer misled the public and the parliament because he knew of the cost blowouts prior to the election.

The Government used its numbers to vote down a motion of no confidence in the Treasurer and the establishment of a privileges committee to investigate his misleading.

Then the Government increased the State taxpayer contribution from \$300 million to \$535 million for the project which included zero Commonwealth assistance - 'not a penny more'.

However, the \$535 million does not include underground or open air car parking, the River Torrens footbridge or pedestrian and bus access works.

The deadline for agreement has gone from 30 June to 31 August to 31 December to no deadline at all!

#### 4.3 Public Sector Blowouts

According to the State Budget Papers, from 2001-02 to 2009-10, public sector employment<sup>7</sup> numbers **increased by 18,105** employees. Only 2,554 of these jobs were budgeted for. The Auditor General reveals the increase in providers of core public services from 2001-02 to 2008-09. These total 5,582 (see below).

<b>FTEs<sup>8</sup></b>	<b>01-02 to 08-09</b>
Nurses	3,220
Teachers (Education Act)	671
Doctors	1,053
Police officers	638
<b>Total</b>	<b>5,582</b>

Thus there have been around **12,000 additional public servants** employed outside core areas 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 discussed in Section 2.2, because of its poor spending restraint the Rann Government has provided for almost 7,000 paid redundancy packages since coming to office.

#### 4.4 Slush/Contingency Funds

These off-budget funds enable the Treasurer to pay for blowouts in capital works projects, unbudgeted public servants, ministerial staff numbers and

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<sup>7</sup> In full time equivalent (FTE) terms

<sup>8</sup> Nurses, doctors and teacher numbers from 2008-09 and historical Auditor-General's reports. Police numbers from 2008-09 and historical SAPOL annual reports.

election promises. The 2010-11 Budget reveals the Treasurer has a contingency fund totalling \$490 million in 2010-11.

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

#### **4.5 Shared Services**

The original plan was for 2,300 employees to be transferred to Shared Services SA<sup>9</sup>. However, at 30 April 2010, Freedom of Information documents reveal there were only 767 people (592 FTEs) working in Shared Services SA. This has increased by only 53 people (37 FTEs) since 30 June 2009.

The Government's shared services plan continues to proceed at a snails pace. With the Government paying at least \$2.2 million in dead rent on office space it is not using for Shared Services employees.

In 2006-07 the Government estimated the Shared Services program will make ongoing savings of \$60 million per annum once fully implemented. But the Auditor General's reports reveal it has now cost \$105 million (compared to an initial budget of \$60 million) and the Auditor-General has identified a savings shortfall of \$125 million over the forward estimates.

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<sup>9</sup> page 34 of the 2007-08 Treasury and Finance Annual report

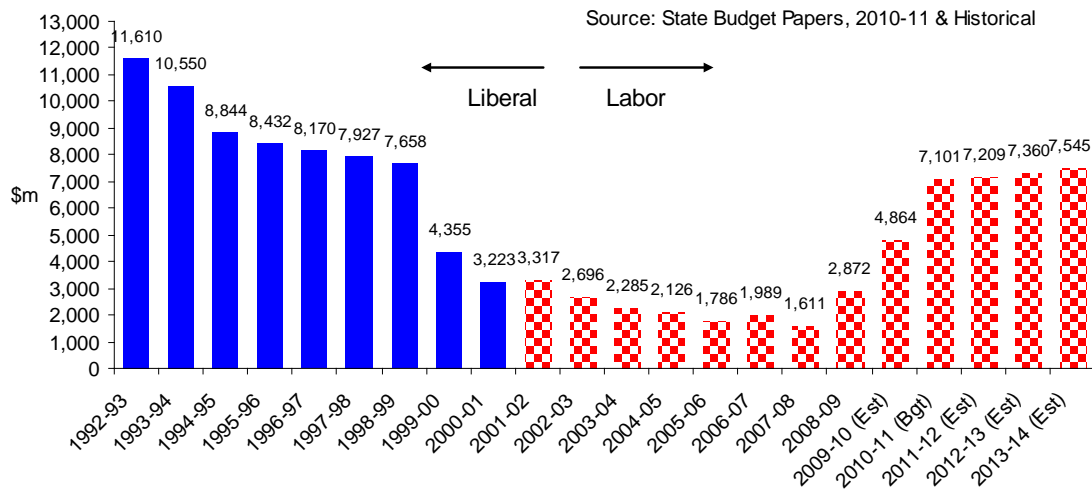
## 5. Balance Sheet

### 5.1 Debt Blowouts

The Government's budget spin is that debt is \$3.3 billion. They don't explain that this is only half the picture! The whole of Government debt includes the 'General Government' and the 'Public Non-Financial Corporations' sector which includes public entities like SA Water, TransAdelaide and the SA Housing Trust. The true debt position will increase from \$4.9 billion at June 2010 to a striking \$7.5 billion in the forward estimates.

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 \$7.5 billion in the forward estimates.

**Chart 5.1: Net Debt – Non-Financial Public Sector**



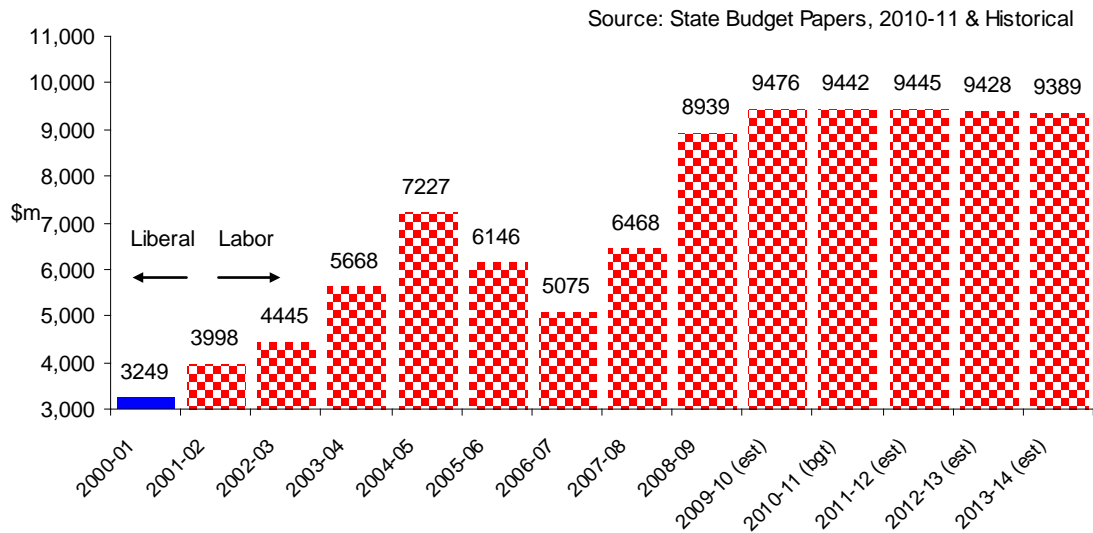
### 5.2 Unfunded Superannuation Liabilities

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 **\$9.5 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.<sup>10</sup> With recent blowouts, this target is looking uncertain.

### Chart 5.2 Unfunded Superannuation Liabilities



### 5.3 WorkCover

The WorkCover liability is not discussed in the Budget.

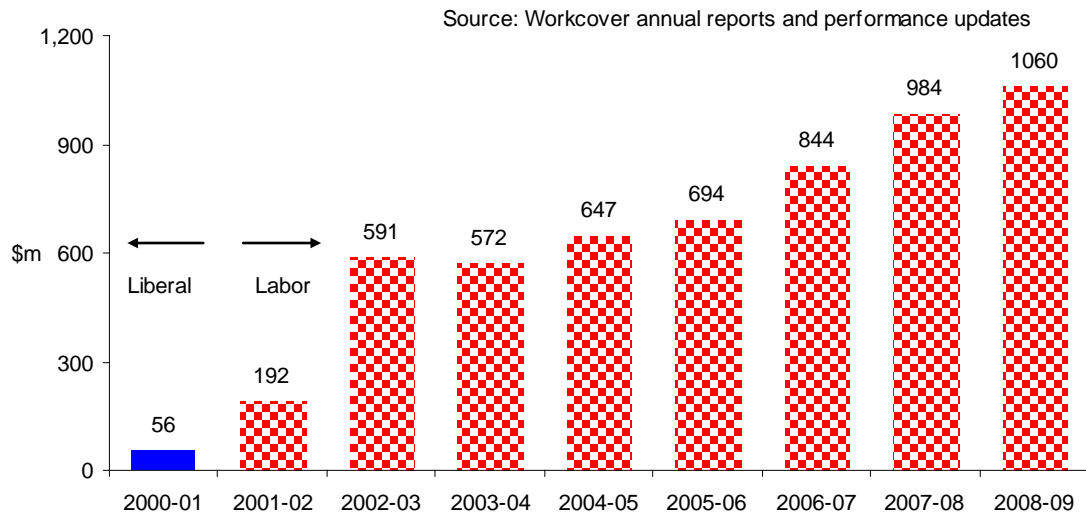
The Government's workers' compensation scheme is the worst performing scheme in the nation. Premier Rann has promised lower industry premiums and better scheme performance, but has failed to deliver. Industry premiums are still the highest in the nation.

The total workers compensation unfunded liability is \$1.4 billion. This debt includes the \$1.1 billion WorkCover debt and the debt of self-insured public sector agencies (\$371 million<sup>11</sup>).

<sup>10</sup> 1999-00 Budget paper 2, p7.9

<sup>11</sup> 2008-09 Department of Premier and Cabinet Annual Report

**Chart 5.3 WorkCover Unfunded Liability (excludes the public sector liability)**



## **6. Infrastructure**

Having done little of substance over eight years, this Budget makes significant promises for infrastructure building over the coming years. The Rann Labor Government has a track record of making significant infrastructure announcements at budget time only to abandon the project by the following budget.

In the 2007-08 Budget, SA was promised a Mt. Bold Reservoir expansion. One year later in the 2008-09 Budget, the project was abandoned. SA was promised a desalination plant to provide drinkable water in the Upper Spencer Gulf in the 2007-08 Budget. A year later the 2008-09 Budget omitted the project. We were promised an underpass along South Road beneath Port Road and Grange Road in the 2005-06 Budget. Now the project has vanished. Last year we were promised tramlines to West Lakes, Semaphore and Port Adelaide. But the projects have vanished from this year's Budget. In 2008-09, SA was promised new prisons and secure facilities. The 2009-10 Budget abandoned these projects.

The 2010 SA Infrastructure report card published by Engineers Australia revealed the following:

- Our State's stormwater infrastructure is in the same poor state as five years ago and needs 'critical changes'.
- Local roads received a 'D' grade indicating they are in dire need of investment.
- Across all categories, six get a 'B', meaning minor changes are required, six get 'Cs', meaning major changes and two get 'Ds' (local roads and stormwater infrastructure), requiring critical changes.

## **7. Impact on Households & Small Business**

### **7.1 Households**

If you catch a bus, drive a car, consume water, pay insurance, are looking to buy your first home, or work in the public sector, you are worse off after this budget.

The Government increased per kilolitre water charges by 32% from 1 July 2010. The average household will pay \$84 more for water next year –

taking the total payment to almost \$500 per annum (before sewerage fees are included). **Average water bills have increased by 113% under Rann Labor.**

South Australia's vehicle registration costs are not competitive with other states (these costs have increased from 3.0-3.5% in this budget). South Australia is also among the highest taxing state for CTP insurance<sup>12</sup> (premium up by 7.2% in this budget) and for stamp duty payable on other insurance policies.

Property tax revenues have more than doubled under Premier Rann, primarily due to increased stamp duty and land tax. Aside from Victoria, South Australia is the least cost-competitive state for stamp duty. This is a huge impost on first home buyers and damages our interstate competitiveness for prospective migrants and businesses. Now, State first home buyer subsidies on existing home purchase have been cut – this will only increase the pain.

**Land tax has increased by 309% under Rann Labor.** The number of land tax payers has almost doubled during this time, from 69,000 to 113,000, even despite the Government adopting the Liberals' land tax changes.<sup>13</sup> These costs are not only paid directly, but are also passed on to commercial and residential renters. This hurts self-funded retirees, investors and low to middle income renters.

The Emergency Services Levy, Save the River Murray Levy and Natural Resource Management Levy have all risen to record levels under Rann Labor.

## 7.2 Small Business

Almost 9,500 South Australian businesses were liable to pay payroll tax in 2007-08. Only 7,200 businesses were liable in 2001-02.<sup>14</sup> This is an increase of 31% and the Government has stopped publishing this statistic! The State's regime remains among the most punitive of all states. This is a disincentive to job creation and also impacts upon the interstate competitiveness of South Australian businesses.

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<sup>12</sup> Insurance Commission of Western Australia, July 2010

<sup>13</sup> Department of Treasury and Finance annual reports and Kevin Foley's media release 11 May 2010

<sup>14</sup> Department of Treasury and Finance annual reports

The State Liberals welcome the Government's adoption their policy of payroll tax exemptions on the wages of apprentices and trainees.

Flagging employment growth has caused SA's share of the national jobs market to decline significantly. If growth in South Australian employment had kept pace with national growth since Labor came to Office, there would now be 34,000 more people employed in the State!

WorkCover in South Australia has the highest levy rate for employers, the worst return to work rate for employees, the highest unfunded liability and the lowest funding ratio of any scheme in Australia.<sup>15</sup> Premier Rann has promised lower industry premiums and better scheme performance, but has failed to deliver. For businesses that choose to leave the scheme and self insure, there is a huge impost of exit fees. The Rann Government's poor management of workers compensation is hurting workers, its hurting businesses and its costing jobs.

The Government's land tax and broader property tax regime also impacts on small business & their customers. The State Government has also reneged on its promise to abolish all agreed business taxes in exchange for GST revenue. This is a broken promise.

When the State Liberals left Office in 2002, small businesses in SA were the most supportive of State Government policies of all states. Now SA small businesses are among the least supportive of all states.<sup>16</sup>

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<sup>15</sup> State WorkCover Annual Report 2008-09 , Comparison of Workers Compensation Arrangements in Australia and New Zealand, April 2009

<sup>16</sup> Sensis (2010) Business Index, February 2002 & August 2010