

RESPONSE TO THE 2011-12 MIDYEAR BUDGET REVIEW

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December 16 2011



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1. Mid Year Budget Review Summary

Here is a summary of the Mid Year Budget Review (MYBR):

- Labor will run budget deficits in five out of six years. This is from a Treasurer that said he wouldn't be running up a large credit card debt.
- Despite a warning from the Auditor-General that "*the State may have developed a culture of expecting growing revenues to continue to support increasing expenses*", Labor has continued to spend more than it earns.
- Next year Labor will run the largest deficit in nearly 20 years after a surplus was predicted in 2012-13 only six months ago.
- State debt will reach \$11 billion once the new hospital is included – around the same figure after the State Bank collapse. This debt factors in the selling of the Lotteries Commission and the forests.
- Total liabilities including debt and unfunded superannuation will soon reach around \$23 billion.
- In a desperate grab for cash, the Government have hiked traffic fine revenue by 34% or \$25 million to try and cover its high spend, high debt policies.
- The Federal Government brought forward almost \$200 million in infrastructure grants to SA. This improved the 2011-12 deficit by almost \$200 million compared to what it might have been. The Treasurer must guarantee that Federal and State Labor did not make a political deal to prop up SA's budget. The public won't be fooled and ratings agencies won't be fooled.

2. Fiscal Position and Outlook

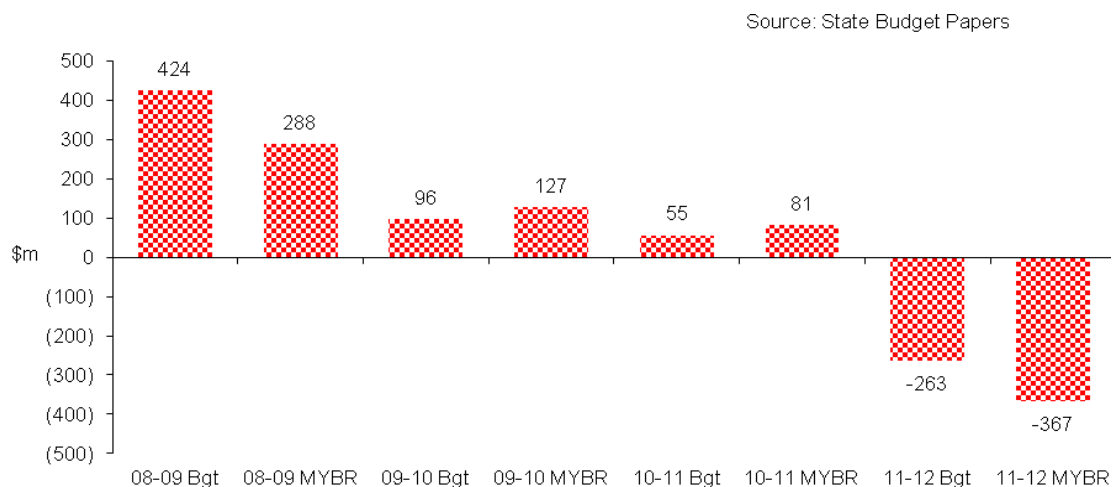
The Auditor General’s report confirms that there are budget deficits on all three measures:

1. Net operating **deficit** of **\$367 million** in 2011-12
2. Cash **deficit** of **\$1,445 million** in 2011-12
3. Net lending **deficit** of **\$1,519 million** in 2011-12

There has been an \$800 million worsening in the 2011-12 budget position over the past four years as shown in the following graph.

In summary, Labor were forecasting a \$424 million surplus for 2011-12 but now this has deteriorated to a \$367 million deficit. This underlines how fast the budget position can deteriorate under Labor. It is clear that not much confidence can be placed in Labor’s forecast \$334 million surplus in 2014-15!

Chart 2.1: A Deteriorating 2011-12 Budget Balance

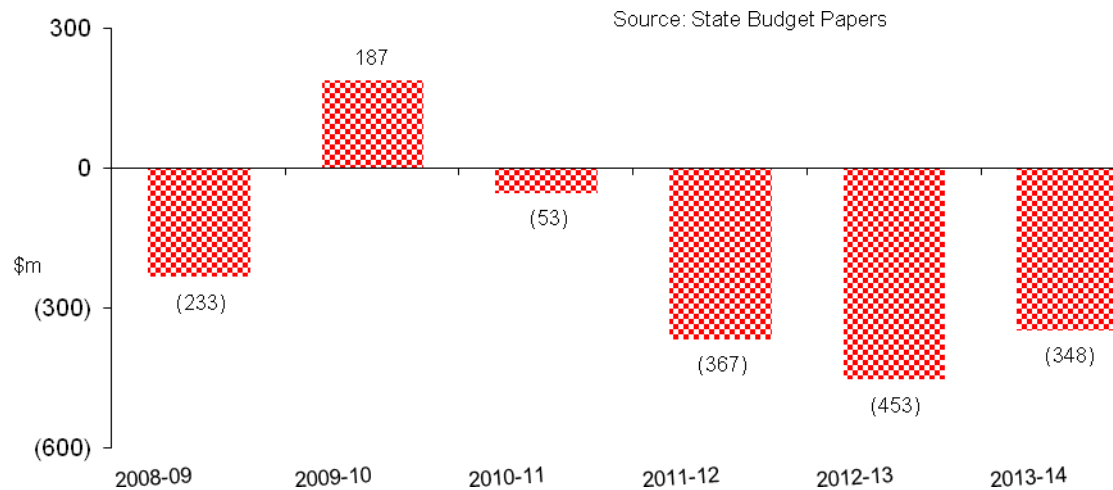


During its ten years in office, this Government has been unable to control spending, going over budget by a total of \$3.3 billion since 2002-03. This over-spending was only covered by the unexpected ‘rivers of gold’ from the GST and property taxes.

However, windfall revenues have recently dried up causing the budget to slump into deficit.

In fact the Government will now run budget deficits in five out of six budgets as shown in Table 2.1 below.

Table 2.3: Five Deficits in Six Years, \$m



2.1 Credit Rating at Risk

After ten years of running the state's finances, Labor has gotten the budget into such a bad position that even though SA is the highest taxed state in the nation, and the budget already includes the revenue from the forward sale of the state's forests and Lotteries Commission, the state is still faced with our credit rating being downgraded.

A downgrading of the state's credit rating to AA+ means:

- Millions of dollars a year in extra interest payments on government debt.
- Government borrowing will be more difficult because the state's bonds (used for debt) will be less attractive to investors.
- Negative investor perceptions of South Australia reducing the attractiveness of SA as a destination for investment with resultant negative effects on economic activity and jobs.
- Higher taxes, more privatisations or cuts to services in order to get the AAA rating back, further reducing SA's prospects as a place to live or invest.

- Kevin Foley said in 2010 that a loss of the AAA rating would "send our state spiralling down into an abyss of debt".

Standard and Poor's has warned that the Government cannot continue its high debt, high spending approach if it wants to keep its AAA rating:

"The negative outlook on South Australia partly reflects our concerns that the South Australian government will not achieve its ambitious savings measures and that its budgetary position will not improve as forecast."

~Standard and Poor's, 16 December 2011

3. Revenue

During its time in office, Labor has banked on revenue coming in above budget to cover unbudgeted expenses as shown in Table 2.1. This has been noted by the Auditor-General:

"the State may have developed a culture of expecting growing revenues to continue to support increasing expenses."

~ Auditor-General's Report, 2007-08 Part C page 6,

However, more recently revenues have come in closer to budget and this has caused to budget to slump into deficit.

Table 3.1: Unbudgeted Spending and Unbudgeted Revenue, \$m

	0203	0304	0405	0506	0607	0708	0809	0910	1011	Cumulative
Unbudgeted Spending	184	467	487	370	374	304	670	599	-406	3,049
Unbudgeted Revenue	528	794	595	521	493	739	276	1,090	-70	4,966

3.1 State Taxes

Over the forward estimates, the Labor Government will collect almost \$800 million in extra taxes above 2011-12 levels.

Under the Labor Government, SA has become the highest taxed state in the nation. This has been confirmed by three independent reports, the

Commonwealth Grants Commission (CGC)¹, the Institute of Public Affairs (IPA)² and Pitcher Partners³.

Tax revenue has increased by 81% since the Labor Government came to Office, as demonstrated by the following table. In particular, land tax revenue has quadrupled under the Labor Government.

Table 3.2: Tax Revenue, 2001-02 & 2011-12 (\$m)

	2001-02	2011-12 (MYBR)	% change
Payroll tax	601	1,039	73%
Conveyance duty	427	727	70%
Land tax	140	623	345%
Other property taxes	164	235	43%
Taxes on gambling	312	419	34%
Taxes on insurance	223	401	80%
Motor vehicle taxes	324	517	60%
Other taxes	3	7	na
Total Taxation	2,193	3,968	81%

3.2 Commonwealth Grants (inc.GST)

The GST revenue received by the state has almost doubled under Labor. Treasurer Snelling has been claiming reduced GST payments to SA, however, one of the reasons for a reduction in GST forecasts is that the State has received other Commonwealth grants in lieu (such as that for the desalination plant), which has seen the Commonwealth lower its GST payments to the State.

For the second time, the State Government has reneged on its promise to abolish all the agreed state taxes in exchange for GST revenue. It will continue to levy taxes on business transfers for an extra year to prop up its coffers. This is a broken promise.

3.3 Water Price Hikes & Desalination Deception

The \$2.2 billion desalination plant has a long list of hidden costs:

¹ CGC (2011), Report on Relative Fiscal Capacities of States

² Institute of Public Affairs (2011), Businesses Bearing the Burden

³ Pitcher Partners (2011), State Tax Survey

- Government documents show water bills will more than treble because of the desalination plant, in just five years.
- Water bills will rise by another 40% from 1 July next year.
- Water and sewerage charges for the average household are now over \$1,100 per year.
- Water users will pay an extra \$135 per year because the Government decided to run the desalination plant on renewable energy. This is on top of the impact that the carbon tax will have on hip pockets.
- The \$228 million Federal grant to double the desalination plant was almost useless as the State lost about \$212 million of GST revenue in exchange for the grant.

The Auditor-General has repeatedly highlighted that the State Budget is profiting from SA Water in an unsustainable manner, taking hundreds of millions of dollars of its revenue each year.

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

4.1 The New Royal Adelaide Hospital

The Government has been exposed on its new Royal Adelaide Hospital to be built at the railyards:

- The hospital will cost \$3.2 billion (net present cost), not the \$1.7 billion promised before the election.
- Taxpayer payments to the hospital consortium will be \$1.1 million per day for 30 years or \$12 billion in total payments.
- These costs exclude doctors, nurses and medical equipment.
- Private investors in the project will receive 12-15% annual profit for investing amounting to a total of \$1.7 billion in profits.

4.2 Shared Services

The Government is attempting to develop a single human resource and administration Government department of 2,300⁴ 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 was supposed to cost \$128 million⁵ (compared to an initial budget of \$60 million) and the Auditor General has identified a savings shortfall of \$93 million over the forward estimates.

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

~ Auditor-General's Report, 2010-11 Part A page 13

4.3 Public Sector Blowouts

From 2001-02 to 2010-11, public sector employment⁶ numbers **increased by 18,624** employees. Only 2,554 of these jobs were budgeted for.

Jack Snelling's first budget stopped publishing all public sector job numbers that had been published in the government's first 9 budgets but the Opposition obtained the numbers for 2010-11 under Freedom of Information laws.

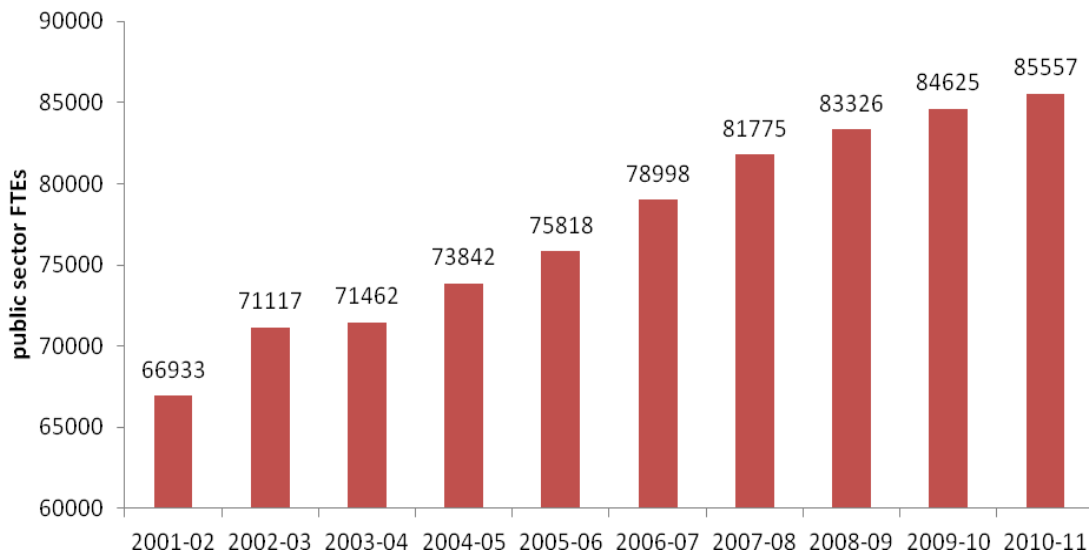
These numbers show that the public sector actually increased by 932 people in 10-11 (Table 4.3) and the government blew the public sector budget by 519 people (final estimate subtract budget estimate) in 10-11. Strangely after exceeding its budget year after year, Labor continues to implement costly redundancy payouts to limit public sector growth.

⁴ Department of Treasury and Finance Annual Report, 2007-08

⁵ Budget and Finance Committee, 27 June 2011

⁶ In full time equivalent (FTE) terms

Table 4.1: Public Sector Numbers (FTEs): increase of over 18,000



There have been around **12,000 additional public servants** employed outside core areas under the Labor Government. The majority of these were unbudgeted.

Ministers have not exercised prudent budget control by letting increases in staff exceed budgeted allowances.

"in the four years to 2010-11 employee expenses grew by an average of 6.8% per year"

~ Auditor-General's Report, 2010-11 Part C page 52

4.4 Poor Spending Priorities

This Government has a record of wasting taxpayers' money. Here are some examples of Government waste:

- The Government spends \$70 million each year on Government advertising alone.⁷
- \$32 million has been spent on consultants for the new RAH PPP.
- SA Water spent \$33 million in one year on consultants, which is funded out of our water bills.
- At least \$68,000 was spent on Rann's farewell party.

⁷ ABC Radio, 8 October 2009

- Almost \$1 million worth of printer cartridges purchased by Government departments – possibly at inflated prices and in exchange for personal benefits.

4.5 Labor’s Broken Promises

Below is a summary of some key broken promises over the last 10 years.

Promise	Broken Promise
Major projects	
\$1.7bn New RAH	\$3.2bn New RAH
\$450m for Adelaide Oval... not a penny more	\$535m for Adelaide Oval
\$370m Southern Expressway duplication	\$407m Southern Expressway duplication
\$75m Darlington Interchange	Scrapped
Doubling of Mt. Bold Reservoir	Scrapped
\$160m Fed/State funding for Upper Spencer Gulf desal plant (drinkable water)	Scrapped
\$122m underpass along South Rd beneath Port Rd and Grange Rd	Scrapped
\$520m tramline extension to Western suburbs	Delayed at least 4 years - may never happen
\$600m worth of prison facilities	Scrapped
\$140m South Rd/Sturt Rd underpass	Scrapped
\$8.8m solution to the Britannia Roundabout	Scrapped
Public sector	
No forced public sector redundancies	Scrapped
No public sector job cuts	Scrapped - 7,000 paid redundancies since 2002
Taxes, rates and charges	
No increase in taxes/charges and no new taxes	Scrapped - New River Murray Levy, gambling taxes up, mining royalties up
No increases in water rates	Scrapped - Water bills have almost trebled so far under Labor
Other	
No privatisations	Scrapped - Metro bus contracts, Forests, RAH contract, Super Schools contract, SA Water piping network, Lotteries Commission all privatised
Stop taxpayer funded political advertising	Scrapped - Govt spends \$70 million per year on advertising - some campaigns clearly political
\$28m in public housing rent assistance for pensioners	Scrapped
Rann: I will serve a full term	Scrapped

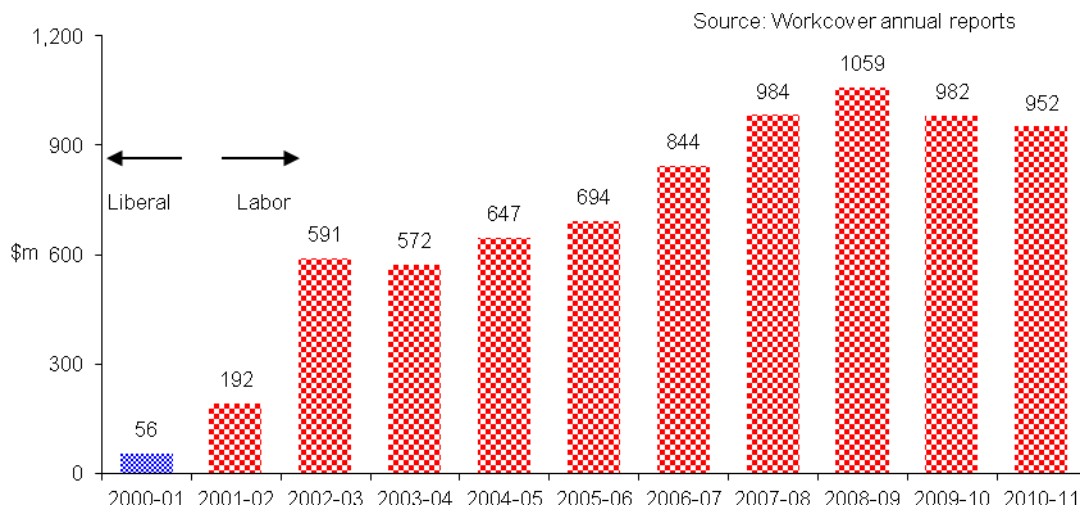
5. Balance Sheet

5.1 Workcover Liabilities

The Government's workers' compensation scheme is the worst performing scheme in the nation. The Labor Government 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 \$1.3 billion. This total includes liabilities of \$952 million for WorkCover and \$375 million for self-insured public sector agencies⁸.

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



5.2 Debt

Budget Papers reveal that through prudent fiscal management, the former Liberal Government reduced Labor's State Bank debt from \$11.6 billion in 1993 to \$2.7 billion in 2002-03.

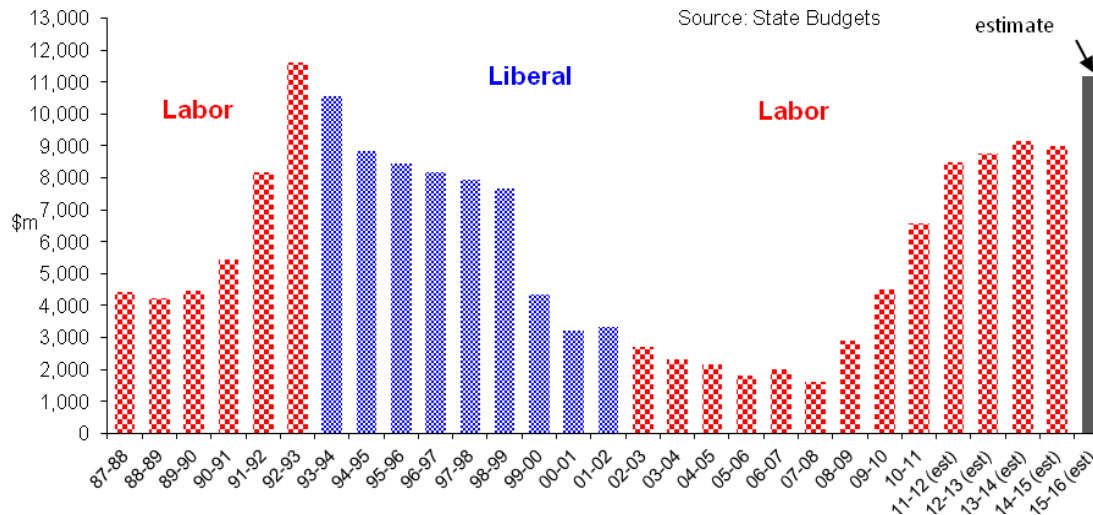
Under Labor's economic mismanagement, debt is forecast to blow out to over \$11 billion in 2015-16 once the new hospital is included.

⁸ Department for Premier and Cabinet annual report 2009-10

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.

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 **\$10.6 billion**. See Chart 5.3.

These blowouts require the Treasurer to now pay \$407 million in 2011-12 in interest on the superannuation liability.

It was the former State Liberal Government that committed to fully funding the superannuation liability by 2034.⁹ With recent blowouts, this target is looking uncertain.

⁹ 1999-00 Budget paper 2, p7.9

Chart 5.3 Unfunded Superannuation Liabilities

