

RESPONSE TO THE 2011-12 STATE BUDGET

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Leader of the Opposition

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**THE COST OF LABOR IS
YOUR COST OF LIVING**



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1. Budget Overview

Labor's tenth State Budget has delivered debt, deficit and deceit to South Australian families, which means more pain to SA families through increased cost of living.

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

Rises in taxes, charges and utilities will cost the average household about \$750 per year for no improvement in services.

The budget comes in the wake of a Dun & Bradstreet survey which showed large numbers of businesses relocating from South Australia to other states. Of all the businesses nationally that changed their place of business, 22% departed South Australia.

If SA had kept pace with national jobs growth under the Rann Government, there would be 38,000 more jobs in SA. With the State's economic growth forecast to underperform the national average, jobs growth is also likely to continue to underperform.

This budget turns an \$81 million surplus last December to a \$263 million deficit, and has debt rising from \$4.5 billion to \$8.2 billion within three years.

Other key budget disappointments include:

- The income producing Lotteries Commission will be 'privatised', again breaking Premier Rann's pledge of no privatisations. This follows the privatisation of SA forests.
- Following 3,750 job cuts last year, there are cuts to another 400 public sector jobs, in part to appease demands from unions.
- State financial liabilities up to \$20 billion by 2014.
- The Riverside precinct delayed 2 years to begin in 2015.

- State first home owner payment abolished.
- Taxes up by more than double the rate of inflation in each year of the forward estimates - \$1.1 billion in extra tax revenue.
- Drivers' licence renewals up 32%.
- Speeding fines up 29% (less than 15km/hr over limit).
- Introduction of more fixed speed cameras to raise even more revenue - \$24m more in expiation fees

However the Liberals welcome the Government adopting Liberal policy of concessions for medical cooling and funding to support Netball SA.

2. Fiscal Position and Outlook

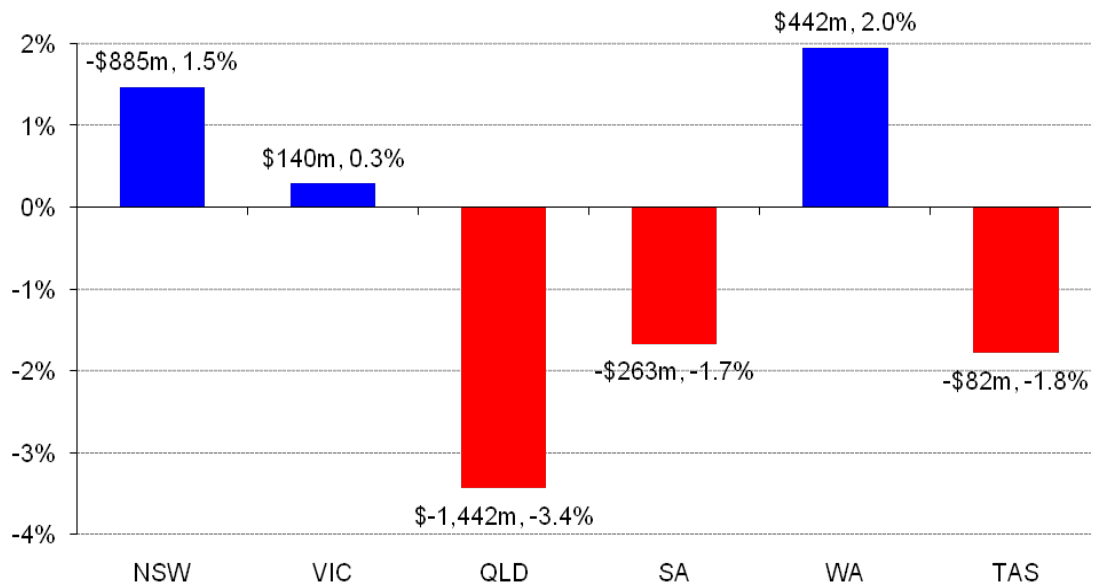
2.1 Deficits

At the 2011-12 Budget, there are budget deficits on all three measures:

1. net lending **deficit** of **\$1,252 million** in 2011-12
2. cash **deficit** of **\$1,182 million** in 2011-12
3. net operating **deficit** of **\$263 million** in 2011-12

In 2011-12 every State Labor Government in the nation has a budget deficit, every State Liberal Government has a budget surplus.

Table 2.1: 2011-12 Operating Surplus/Deficit to Budget Revenue



Source: Latest State Budgets

During its nine 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 nine out of nine 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 Broken Promises

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

1. The Government promised a \$1.7 billion hospital, but it's now been revealed the railyards hospital will cost \$3.2 billion and then \$1.1 million a day for 30 years.
2. Premier Rann promised no privatisations, but since this promise he has privatised metropolitan bus contracts, State forests, the Royal Adelaide Hospital contract, the Super Schools contract, SA Water's piping network and now the Lotteries Commission.
3. 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.
4. The Government promised \$450 million for the Adelaide Oval, not a penny more... how about \$85 million more as the current taxpayer contribution is \$535 million. The Government cannot say who will pay for the blowout above this amount.
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.
6. Rises to mining royalties weren't mentioned before the election.

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.

Standard and Poor's have given similar warnings to South Australia indicating that our credit rating is hanging by a thread:

"Downward rating pressure could occur if the ratio of tax-supported debt to operating revenues appears to be deteriorating quicker than forecast." ~Standard and Poor's, 9 June 2011

3. Revenue

The Government continues to underestimate revenue collections every year. From 2002-03 to 2010-11, the Government will have **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:

"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 \$1.1 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)¹ and the Institute of Public Affairs (IPA)².

Tax revenue has increased by 88% since the Rann Government came to Office, as demonstrated by the following table. In particular, land tax revenue has quadrupled under the Rann Government.

Table 3.1: Tax Revenue, 2001-02 & 2011-12 (\$m)

	2001-02	2011-12 (Bgt)	% change
Payroll tax	601	1,049	75%
Conveyance duty	427	893	109%
Land tax	140	625	346%
Other property taxes	164	245	49%
Taxes on gambling	312	420	35%
Taxes on insurance	223	387	74%
Motor vehicle taxes	324	509	57%
Other taxes	3	0	na
Total Taxation	2,193	4,129	88%

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

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

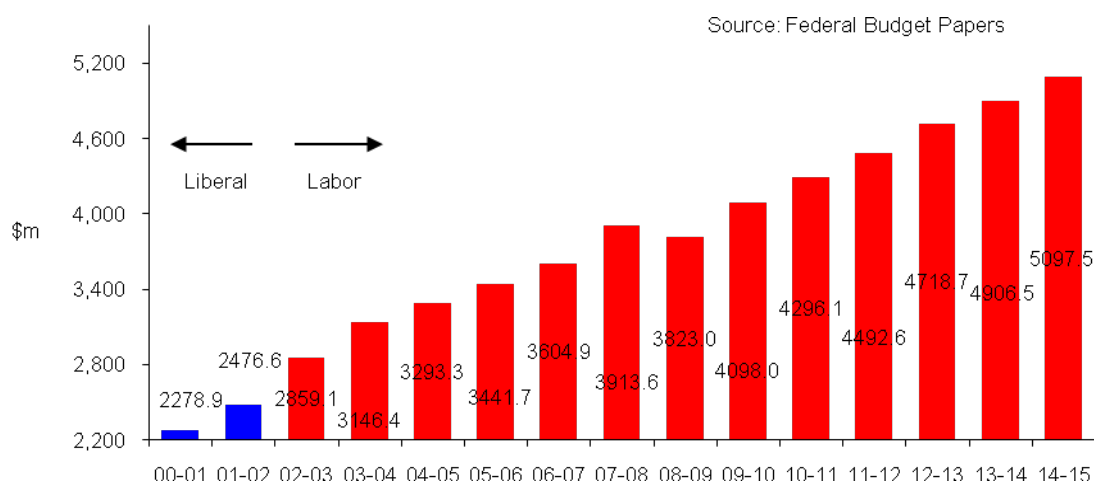
3.2 Commonwealth Grants (inc. GST)

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 has previously understated GST revenue, using a different methodology to the Commonwealth to forecast its revenue. The latest Commonwealth data (10 May 2011) indicates SA's GST will grow by 4.4% p.a. over the next four years, faster than the rate of inflation. Figure 3.2 depicts GST revenues as forecast by the Federal Government.

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. This is discussed further in Section 3.3.

Figure 3.2: Breakdown of GST Revenue Paid to South Australia



3.3 Water Price Hikes & Desalination Deception

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

- The average household's water bill will increase by 40% from 1 July 2011. This will mean households will pay an extra \$190 per year

for their water. In fact, low water users on concessions will be hit with price rises of up to 74% after their concessions are paid.

- Since the desalination plant was announced, annual water bill increases have been 16%, 21%, 25% and 40% in successive years.
- South Australian water users will pay an extra \$135 per year because the Government chose to make the desalination plant carbon neutral.
- 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.
- South Australians will pay up to \$130 million per year to operate the plant on top of the \$2.2 billion construction cost.

Under the Rann Labor Government, water bills for the average household have almost trebled with the water bills of low water users growing even faster.

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

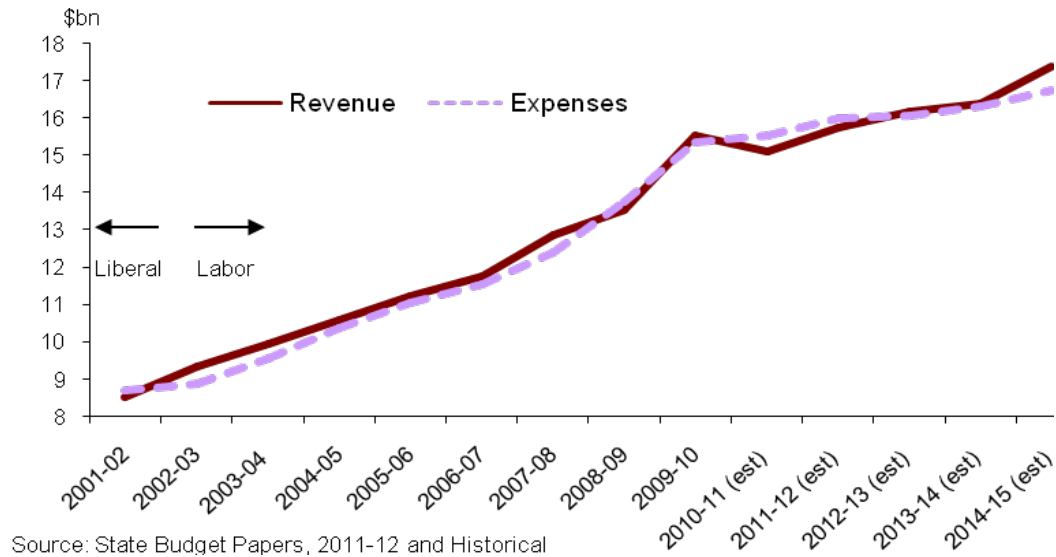
Expenses control has been dismal for seven years. No sooner does the money come in, than it goes out the door.

There is significant Government waste. The Treasurer has confirmed that the Government spends \$70 million each year on Government advertising alone.³

³ ABC Radio, 8 October 2009



Figure 4.1 General Government Revenue and Expenses



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, not the \$1.7 billion promised before the election.
- Taxpayer payments to the hospital consortium will be 1.1 million dollars per day for 30 years or \$12 billion in total payments.
- These costs exclude doctors and nurses.
- 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 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'.

As has been revealed, the then Treasurer was informed of cost blowouts prior to the election, but this was hidden from the Opposition and the

public for the whole of the election campaign. Opposition claims of a blowout were denied.

The Government's contribution to the project is now \$535 million for the - 'not a penny more'.

No one can explain who will pay the shortfall.

4.3 Public Sector Blowouts

According to the State Budget Papers, from 2001-02 to 2010-11, public sector employment⁴ 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 2009-10. These total 6,114 (see below).

FTEs	01-02 to 09-10
Nurses	3,753
Teachers (Education Act)	708
Doctors	1,096
Police officers	557
Total	6,114

The latest budget does not provide the full public sector jobs figures, only the General Government sector.

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.

The Rann Government has provided for over 7,000 paid redundancy packages since coming to office. Another 400 public servants will now lose their jobs in part to fund union demands for maintaining public sector entitlements.

⁴ In full time equivalent (FTE) terms

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 election promises.

The 2011-12 Budget reveals the Treasurer has a contingency fund totalling \$577 million in 2011-12.

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

4.5 Shared Services

The Government is attempting to develop a single human resource and administration Government department of 2,300⁵ 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)⁶ and the Auditor-General has identified a savings shortfall of \$100 million over the forward estimates.⁷

In this budget, another \$10.5 million is going towards shared services ICT programs.

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

4.6 Project Blowouts

Since 2002, Labor has mismanaged project after project with almost \$3.2 billion in budget blowouts as shown below.

⁵ Department of Treasury and Finance Annual Report, 2007-08

⁶ FOI information obtained by the Opposition

⁷ Auditor-General's Report, 2009-10, Part A

Response to the 2011-12 Budget

Project	Initial Budget (\$m)	Final/Updated Cost (\$m)	Blowout (\$m)
Techport Australia	140	255	115
Light Rail Extension	162	175	13
Port River Expressway	138	175	37
Flinders Medical Centre Redevelopment	145	163	18
The QEH Stage 2 Redevelopment	42	127	85
Desalination Plant	1,100	1,824	724
North South Interconnector Pipeline	304	403	99
State Aquatic Centre	50	125	75
Glenelg Tram Crossing Overpass	28	44	16
Northern Expressway	300	564	264
Bakewell Underpass	30	43	13
New RAH	1,677	3,161	1,484
Tramline Extension	21	31	10
Port River Bridges	136	178	42
Southern Expressway	280	370	90
Lyell McEwin Stage 2 Redevelopment	23	44	21
Adelaide Oval	450	535	85
Total	5,026	8,217	3,191

5. Balance Sheet

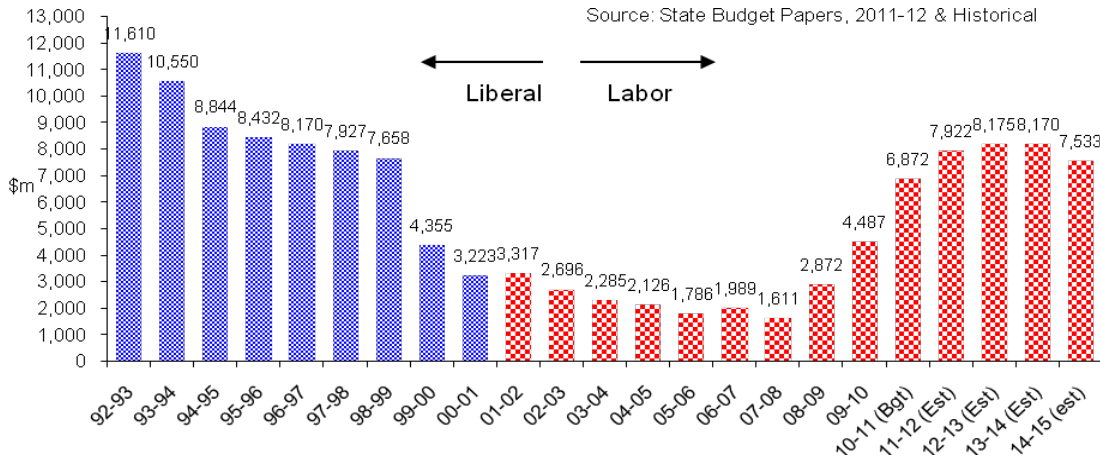
5.1 Debt Blowouts

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 Rann Labor's economic mismanagement, debt is forecast to blow out to \$8.2 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 5.1: State Debt

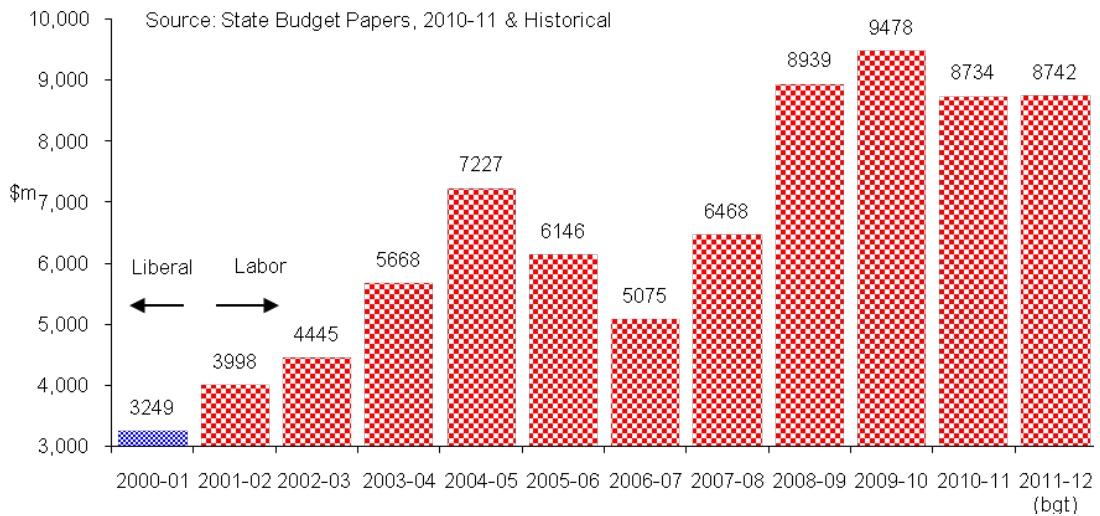


5.2 Unfunded Superannuation Liabilities

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 **\$8.7 billion**. These blowouts require the Treasurer to now pay \$412 million in 2011-12 in superannuation liability interest.

It was the former State Liberal Government that committed to fully funding the superannuation liability by 2034.⁸ With recent blowouts, this target is looking uncertain.

Chart 5.2 Unfunded Superannuation Liabilities



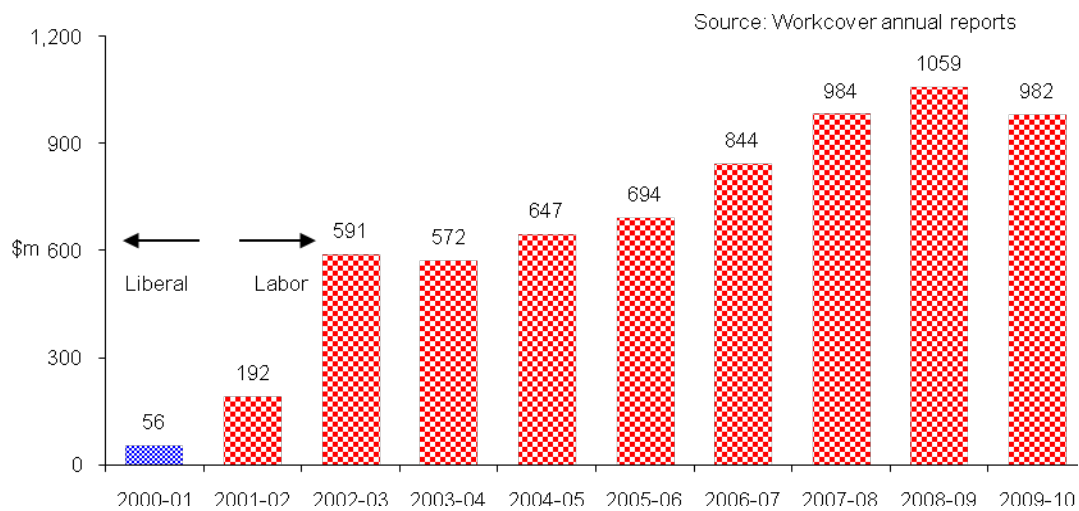
⁸ 1999-00 Budget paper 2, p7.9

5.3 WorkCover

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 \$982 million of WorkCover debt (in 2009-10) and the debt of self-insured public sector agencies (\$375 million⁹).

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



6. Impact on Cost of Living & Small Business

6.1 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 under this budget.

The average household will pay about \$750 extra per year in Government taxes, charges and other utilities, putting further strain on families.

⁹ Department for Premier and Cabinet annual report 2009-10

Table 6.1: Cost of Living Impact on the Average SA Household

	2010-11	%change	\$change	2011-12
Transport				
CTP insurance	\$ 476	2.7%	\$ 13	\$ 489
Motor vehicle registration	\$ 208	4.3%	\$ 9	\$ 217
10 year driver's licence renewal	\$ 280	32.1%	\$ 90	\$ 370
Public transport multi-trips	\$ 1,560	3.0%	\$ 47	\$ 1,607
Speeding fine (<15 k/hr over)	\$ 196	28.6%	\$ 56	\$ 252
Utilities				
Water bills	\$ 470	40%	\$ 189	\$ 659
Sewerage bills	\$ 451	12%	\$ 53	\$ 504
Electricity bills	\$ 1,150	10%	\$ 120	\$ 1,270
Gas bills	\$ 570	4.6%	\$ 26	\$ 596
Other taxes				
Emergency Services levy	\$ 90	2.7%	\$ 2	\$ 92
Council rates	\$ 1,145	12.3%	\$ 141	\$ 1,286
NRM levy	\$ 30	6.0%	\$ 2	\$ 32
Save the River Murray levy	\$ 36	3.6%	\$ 1	\$ 37
Total costs	\$ 6,662	11%	\$ 750	\$ 7,411

The Government increased per kilolitre water charges by 40% from 1 July 2011. The average household will pay \$189 more for water next year – taking the total payment to over \$1,000 per annum (including sewerage fees). **Average water bills have trebled under Rann Labor.**

South Australia's vehicle registration costs are not competitive with other states (these costs have increased by 4.3% in this budget). South Australia is also among the highest taxing states for CTP insurance¹⁰ (premium up by 2.7% in this budget) and for stamp duty payable on other insurance policies.

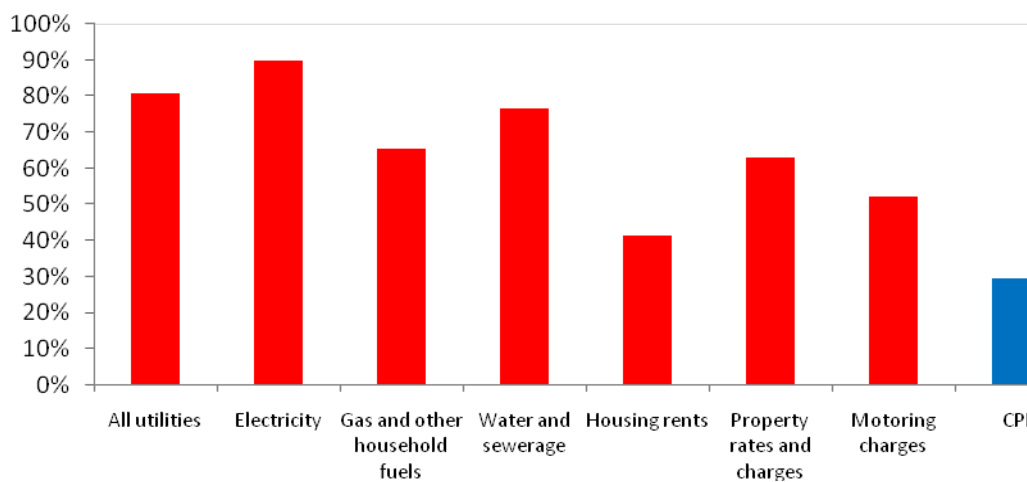
Property tax revenues have more than doubled under Premier Rann, primarily due to increased stamp duty and land tax. Aside from Victoria, South Australia is the least cost-competitive state for stamp duty. This is a huge impost on first home buyers and damages our interstate competitiveness for prospective migrants and businesses.

¹⁰ Insurance Commission of Western Australia, July 2010

Land tax has increased by 346% under Rann Labor. These costs are not only paid directly, but are also passed on to commercial and residential renters and to the goods and services we purchase.

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

Table 6.2: Increase in living costs in Adelaide, March 2002 to March 2011



6.2 Small Business

The State's payroll tax regime is a disincentive to job creation and also impacts upon the interstate competitiveness of South Australian businesses.

However, 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 38,000 more people employed in the State!

WorkCover in South Australia has the highest levy rate for employers, the highest unfunded liability and the lowest funding ratio of any scheme in

Australia.¹¹ 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, it's hurting businesses and it's costing jobs.

The Government's land tax and broader property tax regime also impacts on small business & their customers. 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. Only 4% of small businesses are supportive of State Government policy.¹²

¹¹ Comparison of Workers Compensation Arrangements in Australia and New Zealand, 2011

¹² Sensis (2011) Business Index, February 2002 & February 2011