

RESPONSE TO THE 2012-13 STATE BUDGET

A DECADE OF LABOR MISMANAGEMENT COMES HOME TO ROOST

JUNE 2012
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LEADER OF THE OPPOSITION



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1. Budget Overview

Over a decade of Labor mismanagement will see the Weatherill Labor Government deliver the biggest deficit and the biggest debt in South Australia's history.

The AAA credit rating is gone! SA is now rated AA+. According to 'The Financial Review' analysis, a downgrade works out to be over \$22 million in extra interest per year, and that is on a debt of \$9 billion!

This budget has forecast a massive \$13 billion debt by 2015-16 – the biggest debt in South Australia's history.

The budget delivers a \$867 million deficit for 2012-13– the biggest deficit in South Australia's history. This is followed by a \$778 million deficit in 2013-14.

If it wasn't for some creative accounting in relation to Adelaide Oval, the 2012-13 deficit would have been over \$1 billion.

Three years ago, Labor forecast a \$304 million surplus in 2012-13. The Budget now forecasts an \$867 million deficit in 2012-13 – a \$1.2 billion turnaround. Labor has budgeted for 6 budget deficits in 7 years.

Cost of living is skyrocketing in SA with electricity prices about to become the world's highest, water prices the highest of all capital cities, and state taxes the highest in the nation – and taxes will rise by \$1 billion over the next four years.

Yet Labor's carbon tax will make it even tougher for families and Treasury modelling reveals that it will cost the state 1,500 jobs next year.

Since the desalination plant was announced, the average household will pay almost \$3,000 in extra water charges (to 2016).

In the budget, 1,000 public sector jobs are to be axed in addition to the 4,150 reduction over the last two budgets – which are yet to be achieved.

2. Fiscal Position and Outlook

2.1 Deficits

At the 2012-13 Budget, there are budget deficits on all three measures:

1. net lending **deficit** of \$1,901 million in 2012-13
2. cash **deficit** of \$1,952 million in 2012-13
3. net operating **deficit** of \$867 million in 2012-13

Year after year the Auditor General warned Labor that it cannot rely on revenues to continue coming in over budget to rescue its high spending habits:

"Given the forecast expectation that such revenue growth may not be sustained, control of expenses will be important"
~ Auditor-General's Report, 2005-06 Part C page 24

Reason for warning: 2005-06 budget over spent by \$370 million

Response to warning: 2006-07 budget over spent by \$374 million

"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

Reason for warning: 2007-08 budget over spent by \$304 million

Response to warning: 2008-09 budget over spent by \$670 million

And it gets worse...

"the State has received large amounts of unbudgeted revenues that enabled net operating surpluses"
~ Auditor-General's Report, 2008-09 Part C page 12

Reason for warning: 2008-09 budget over spent by \$670 million

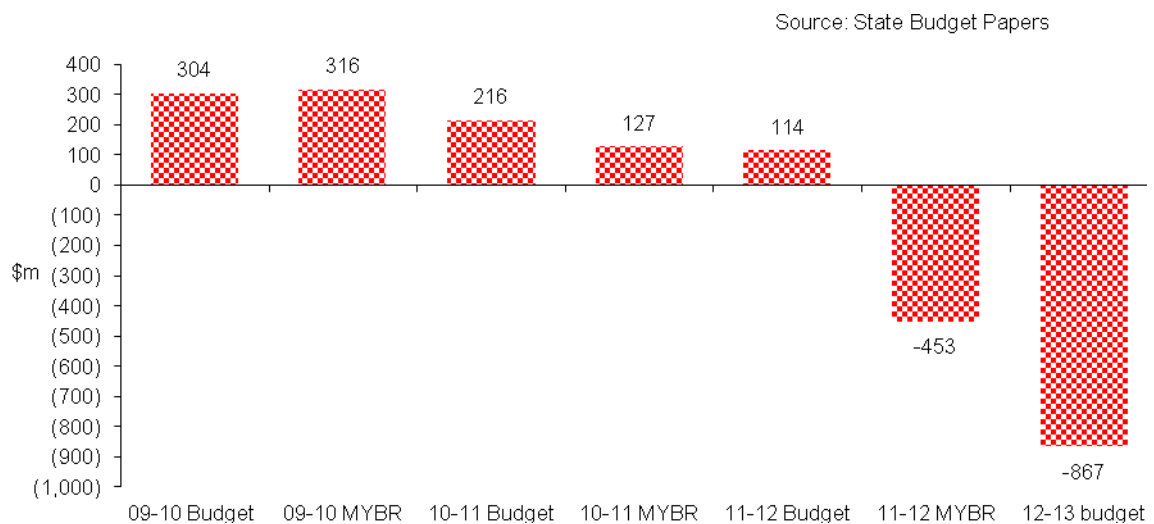
Response to warning: 2009-10 budget over spent by \$599 million

In prior years, Labor's over-spending was 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.

Labor has locked itself into spending it cannot afford and now has six deficits in seven years, including **-\$284m**, **-\$867m** and **-\$778m** over the three years from 2011-12.

There has been a \$1.2 billion in worsening in the 2012-13 budget position over the past three years as shown in the following graph. Labor was forecasting a \$304 million surplus for 2012-13 but now this has deteriorated to an \$867 million deficit in 2012-13. That's the forecast for the same year! 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 \$512 million surplus in 2015-16!

Chart 2.1: A Deteriorating 2012-13 Budget Balance



2.2 AAA Credit Rating Gone!

Less than a year ago Treasurer Snelling made the following commitment:

"We are committed to making sure we retain the AAA credit rating"
Treasurer Snelling ~ Hansard, 28 September 2011

Now South Australia's coveted AAA credit rating is lost because of Labor's mismanagement!

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

The loss of their AAA rating cost Queensland an extra \$200 million a year. For SA, the loss of the AAA rating could mean:

- Around \$22.5 million a year in extra interest payments on General Government debt (Australian Financial Review, , 31 May 2012)
- 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.
- Less discipline on Cabinet and the public service to control spending.

3. Revenue

Labor continues to underestimate revenue collections every year. From 2002-03 to 2011-12, 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. Much of this revenue was from the Commonwealth.

3.1 State Taxes

Over the forward estimates in this budget, the Labor Government will collect over \$1.0 billion in extra taxes. SA's high taxes and charges influence some businesses to establish their operations outside the state.

Under Labor, 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. According to the CGC, Land tax was levied 40% above the national average (worst of all states), stamp duty was levied 27% above the average (worst of all states), and insurance tax was levied 53% above the average (worst of all states).

¹ CGC (2012), Report on Relative Fiscal Capacities of States

² Institute of Public Affairs (2012), Businesses Bearing the Burden

Tax revenue has increased by 85% under Labor, as demonstrated by the following table. In particular, land tax revenue has quadrupled.

Table 3.1: Tax Revenue, 2001-02 & 2012-13 (\$m)

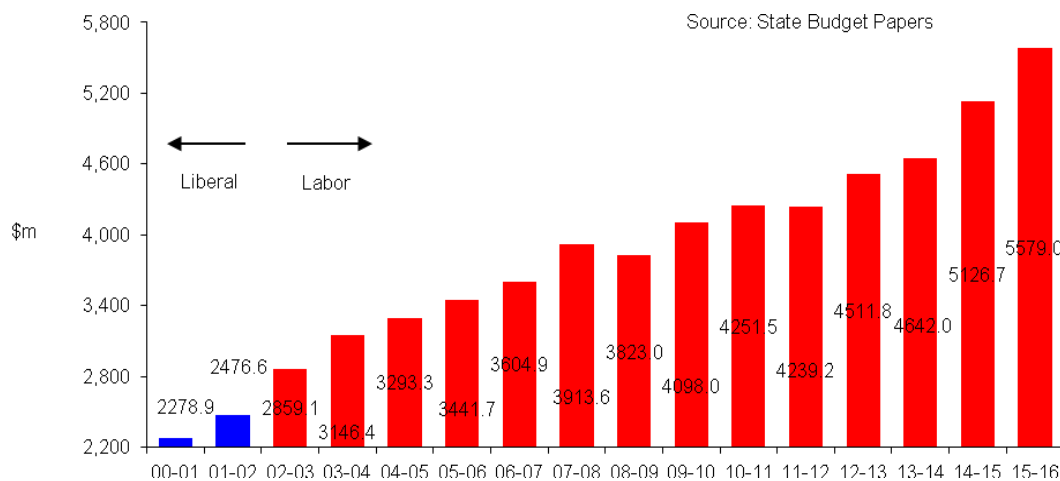
	2001-02	2012-13 (bgt)	% change	% change above CPI
Payroll tax	601	1,113	85%	40%
Conveyance duty	427	708	66%	26%
Land tax	140	582	316%	215%
Other property taxes	164	262	60%	21%
Taxes on gambling	312	457	46%	11%
Taxes on insurance	223	405	82%	38%
Motor vehicle taxes	324	529	63%	24%
Other taxes	3	0	na	na
Total Taxation	2,193	4,057	85%	40%

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. SA's GST will grow by an average of 7.1% p.a. over the next four years, dwarfing the rate of inflation.

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 SA. 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

Labor's unnecessary doubling of the \$2.2 billion desalination plant means that households continue to be sluggish:

- Water bills will have more than trebled since 2002 (up by 249%). Water bills have risen by 176% since the desalination plant was announced.
- This year's 25% hike comes on top of annual increases over the last four years of 16%, 21%, 25%, and 40% respectively.
- From 1 July 2012 the average water bill will increase by 25% from the previous year. After the one-off concession is paid, the annual household water bill will increase by 14%.
- The tricky thing is that the new concession of up to \$75 is a one-off. So from 1 July 2013, consumers will be sluggish again when this concession vanishes, and with next year's water price hike.
- South Australian water users will pay an extra \$135 per year because Labor chose to make the desalination plant carbon neutral.
- The \$328 million Federal grant to double the desalination plant was almost neutralised as the State lost about \$302 million of GST revenue in exchange for the grant.

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

4. Expenses

Expenses control has been dismal for over ten years. No sooner does the money come in, than it is spent.

There is significant Labor waste including:

- \$5.9 million was paid to Newport Quays (to 'cancel' a contract).

- \$5 million was paid to Marathon Resources to declare Arkaroola a no-mining area (even though there was no legal obligation).
- \$10 million was paid to compensate prisons builders after that project was cancelled.
- Over \$200,000 was spent on perks for former Premier Rann including his farewell party.
- \$186 million spent on contracts for media and spin services and the Premier's department is seeking more media services!
- Over \$1 million worth of printer cartridges and other goods purchased by Government departments at inflated prices and in exchange for personal benefits.

4.1 The New Royal Adelaide Hospital

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

- 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 and nurses.
- The hospital will add \$2.8 billion to State debt.

4.2 Public Sector Blowouts

According to the State Budget Papers, from 2001-02 to 2011-12, public sector employment³ numbers **increased by about 20,000**. Only 2,000 of these jobs were budgeted for.

The Auditor General reveals the increase in providers of core public services from 2001-02 to 2010-11. These total 6,535 (see below).

³ In full time equivalent (FTE) terms

Extra FTEs	01-02 to 10-11
Nurses	3,922
Teachers (Education Act)	833
Doctors	1,212
Police officers	568
Total	6,535

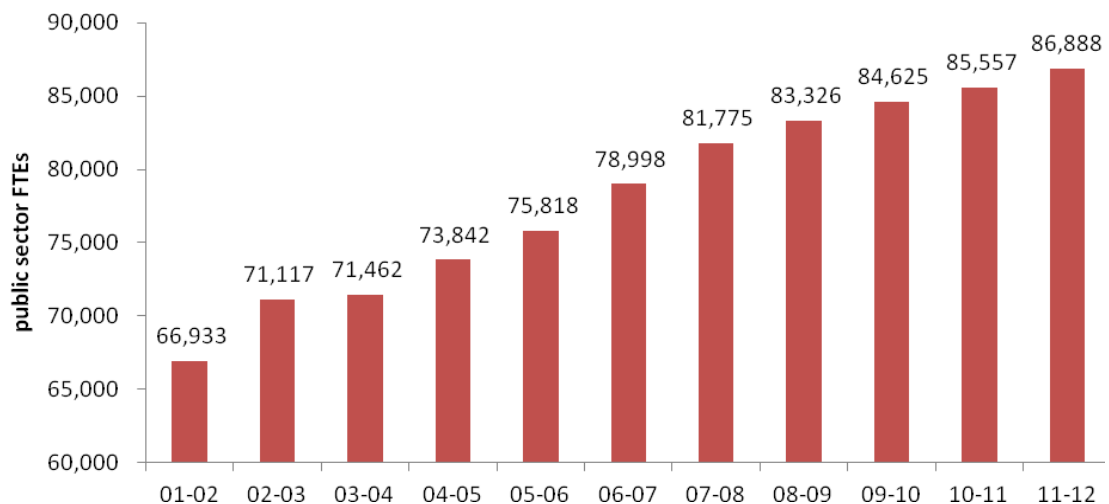
There have been around **13,000 additional public servants** employed outside core areas under the Labor Government. The majority of these were unbudgeted. Ministers have not exercised prudent budget control by letting increases in staff exceed budgeted allowances.

"We are actually having to borrow to pay [public sector] wages. Now that is unsustainable in the long term."

~ Minister Michael O'Brien 20 October 2010

It has also been revealed that there are over 360 public servants who are classed as 'excess employees' at an annual taxpayer cost of \$27 million.

Table 4.1: Public Sector Numbers (FTEs): increase of 20,000



4.3 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 2012-13 Budget reveals the Treasurer has a contingency fund totalling \$398 million.

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

4.4 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.

Shared Services has now cost over \$128 million (compared to an initial budget of \$60 million)⁵ and the Auditor-General has identified a savings shortfall of \$93 million over the forward estimates.⁶

Shared Services SA at present has only 638 employees according to the Auditor General, well short of its 2,300 employee target.

The value of bills that the Labor Government failed to pay on time last year has blown out to \$1.5 billion.

4.5 Project Blowouts

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

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

⁵ Budget and Finance Committee, 27 June 2011

⁶ Auditor-General's Report, 2009-10, Part A

Promise	Broken Promise
Major projects	
\$1.7bn New RAH	\$2.8bn added to debt
\$450m for Adelaide Oval... not a penny more	Approaching \$600m 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
\$600m worth of prison facilities	Scrapped
\$140m South Rd/Sturt Rd underpass	Scrapped
\$8.8m solution to the Britannia Roundabout	Scrapped
\$520m for trams to Western Suburbs	Scrapped
Public sector	
No forced public sector redundancies	Scrapped
No public sector job cuts	Scrapped – Up to 8,000 redundancies offered 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 more than trebled 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
Snelling: I'm committed to maintaining the AAA rating	Scrapped

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.

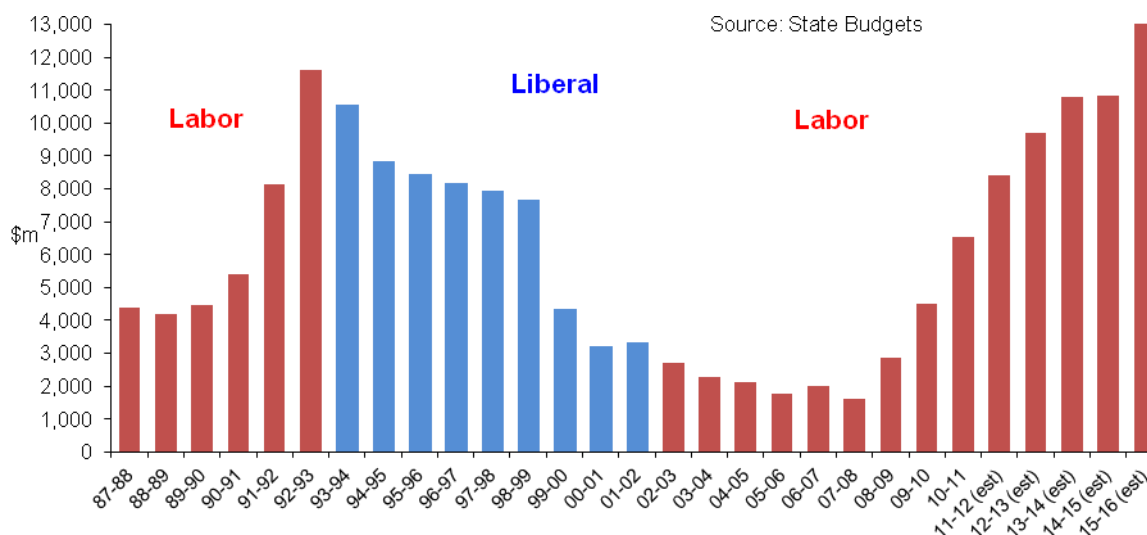
Under Labor's economic mismanagement, debt is forecast to blow out to \$13 billion.

The interest bill that the Government pays on its debt will reach \$2.3 million per day. This is money that South Australians pay that can't be spent on health, education, law and order or transport infrastructure.

"I will not allow this state to run up a credit card debt which will be left to our children to have to pay"

~Treasurer Snelling, 8 February 2011

Chart 5.1: State Debt



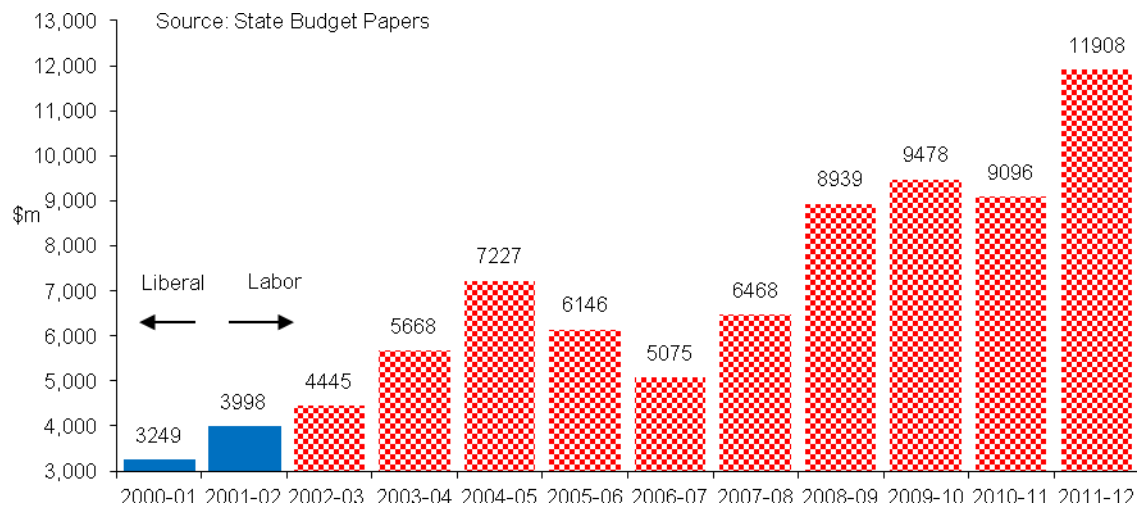
5.2 Unfunded Superannuation Liabilities

Budget Papers show that at June 2001, the unfunded liability stood at **\$3.2 billion**. Under Labor, the unfunded superannuation liability has blown out to **\$11.9 billion**. These blowouts require the Treasurer to now pay \$407 million in 2011-12 in superannuation liability interest.

It was the former State Liberal Government that committed to fully funding the superannuation liability by 2034.⁷

⁷ 1999-00 Budget paper 2, p7.9

Chart 5.2 Unfunded Superannuation Liabilities

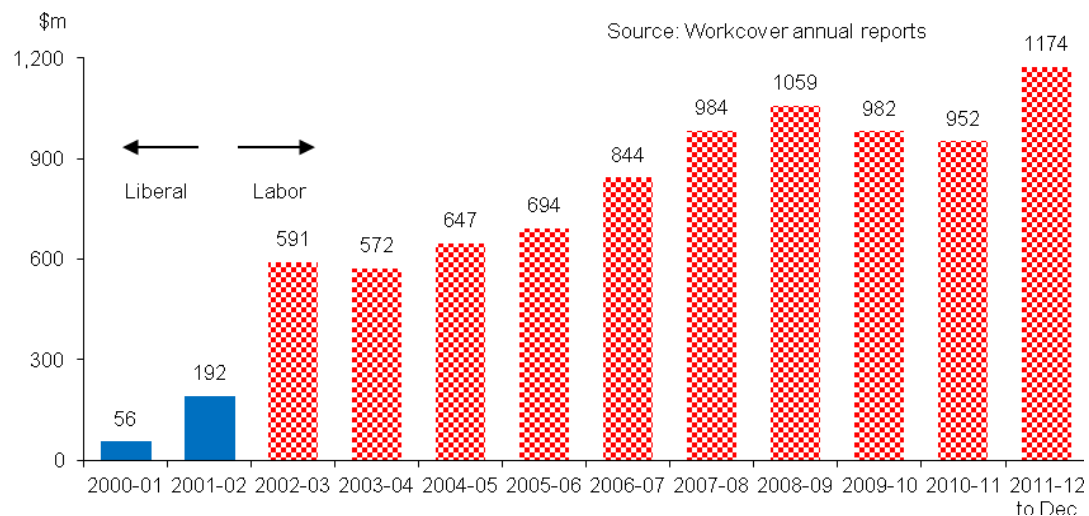


5.3 WorkCover

The Government's workers' compensation scheme is the worst performing scheme in the nation. Labor 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 over \$1.5 billion. This includes the \$1,174 million for WorkCover and the liability of self-insured public sector agencies (\$377 million⁸).

Chart 5.3 WorkCover Unfunded Liability (excludes public sector)



⁸ Department for Premier and Cabinet annual report 2010-11

6. Impact on Cost of Living

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.

Next year, an average household will pay about \$1,055 extra in Government taxes, charges and utilities, putting more strain on families.

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

	2011-12	% change	\$ change	2012-13
Transport				
CTP insurance	\$ 489	4.7%	\$ 23	\$ 512
Motor vehicle registration	\$ 217	3.2%	\$ 7	\$ 224
10yr driver's licence renewal	\$ 370	2.7%	\$ 10	\$ 380
Public transport multi-trips	\$ 1,607	3.2%	\$ 52	\$ 1,659
Speeding fine (<15k/hr over)	\$ 252	3.2%	\$ 8	\$ 260
Utilities				
Water bills	\$ 659	14%	\$ 91	\$ 750
Sewerage bills	\$ 479	3.3%	\$ 16	\$ 495
Electricity bills	\$ 1,679	20%	\$ 341	\$ 2,020
Gas bills	\$ 693	20%	\$ 136	\$ 829
Other taxes				
Carbon tax (excl. utilities)	\$ -	na	\$ 265	\$ 65
Emergency Services levy	\$ 93	-2.1%	-\$ 2	\$ 91
Council rates	\$ 1,286	5.5%	\$ 71	\$ 1,356
NRM levy	\$ 32	13%	\$ 37	\$ 4
Save the River Murray levy	\$ 37	1.8%	\$ 1	\$ 38
Total costs	\$ 7,892	13%	\$ 1,055	\$ 8,883

South Australia's vehicle registration costs are not competitive with other states (these costs have increased by 3.2% in this budget). South Australia is also among the highest taxing states for CTP insurance⁹ (premium up by 4.7% in this budget) and for stamp duty payable on other insurance policies.

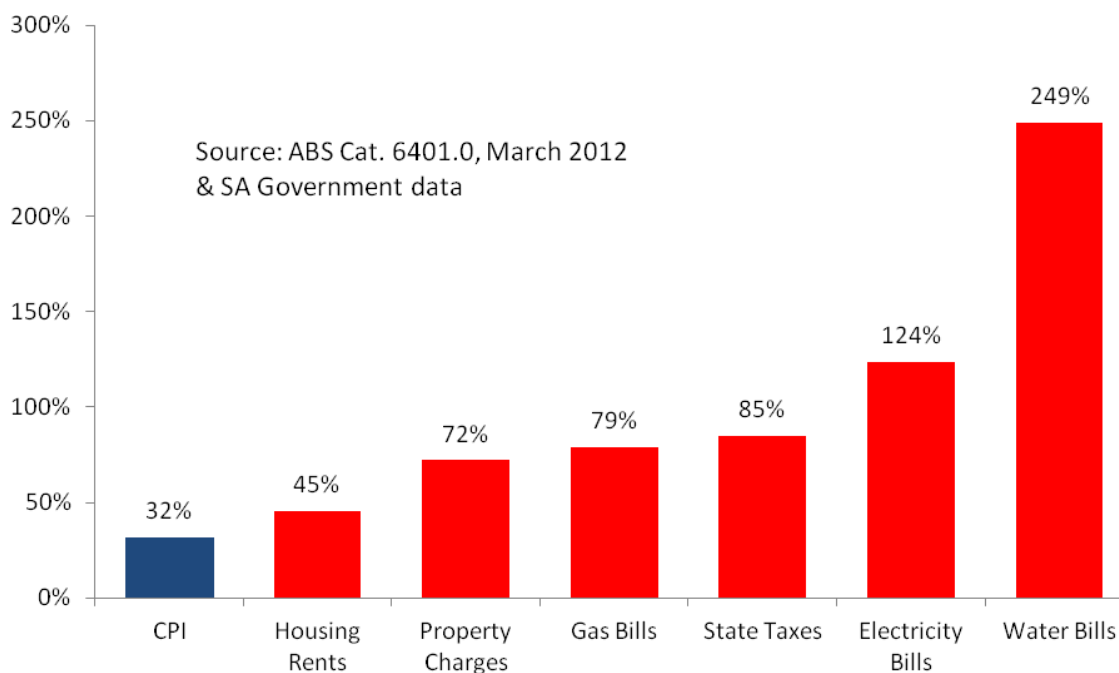
Property tax revenues have more than doubled under Labor, primarily due to increased stamp duty and land tax. Aside from Victoria, South Australia is the least cost-competitive state for stamp duty. This is a huge

⁹ Insurance Commission of Western Australia, July 2011

impost on first home buyers and damages our interstate competitiveness for prospective migrants and businesses.

Land tax has increased by 316% under 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.

Table 6.2: Increase in living costs in Adelaide since 2002



6.1 The Carbon Tax

Labor's carbon tax, supported by Premier Weatherill, will begin from 1 July 2012 and it will have severe ramifications for households and businesses including:

- State Treasury modelling shows that SA will have 1,500 less jobs and \$155 million less economic output next year because of the carbon tax.
- The carbon tax will contribute \$150 to the \$340 rise in average power bills next year.
- Victoria has forecast a budget operating balance deterioration of up to \$660 million and NSW up to \$396 million because of the carbon tax.
- SA Treasury modelling shows that a quarter of all consumer price increases next year will be because of the carbon tax.

It's a triple whammy for taxpayers who pay the carbon tax as consumers also pay it via increases in Federal and State budget costs.

7. The State Economy

After 10 years of Labor, SA now has:

- the nation's highest taxes;
- the nation's highest capital city water charges;
- the nation's worst business confidence;
- the nation's worst retail sales figures (last 12 months);
- the nation's worst export performance (last 12 months);
- the nation's worst performing workers compensation system;
- the nation's slowest growth in wages, but the fastest growth in consumer prices;
- the world's highest electricity prices (from 1 July);
- the worst property sales figures in 27 years;
- the lowest quarterly dwelling commencements in 10 years.

SA's share of the national economy has declined from 6.8% to 6.0% under Labor.

If SA had kept pace with national jobs growth under Labor, we'd have 41,000 more jobs in SA than we do at present. In each of the manufacturing and farming and fishing sectors, SA had more jobs 27 years ago than it does now. In the SA manufacturing sector there are 10,000 less jobs compared to when Labor was re-elected in 2010.

In the SA mining sector, there are 10,900 jobs, growth of only 1,400 jobs in the last 26 years. This compares to 64,000 Qld mining jobs and 104,000 WA mining jobs.

Access Economics forecasts that SA jobs growth, economic growth, exports and population will all continue to underperform national jobs growth over the next five years.

SA had 7.0% of national business investment when Labor came to office (12 months to March 2002), now we have only 5.5% of national business investment (2010-11).

SA continues to lose its residents to other states with more than twice as many people migrating to other states compared to under the previous Liberal Government. SA's share of the national population has declined under Labor.

According to the Sensis Business Index, only 6% of small businesses are supportive of State Government policy, the lowest of all states.

