



2010–11 Budget Speech

BUDGET PAPER 2

Presented by the Honourable Kevin Foley MP
Deputy Premier and Treasurer of South Australia
on the Occasion of the Budget for 2010–11



Government
of South Australia

2010–11 Budget Papers

Budget Paper 1	Budget Overview
Budget Paper 2	Budget Speech
Budget Paper 3	Budget Statement
Budget Paper 4	Portfolio Statements — Volumes 1, 2, 3 and 4
Budget Paper 5	Capital Investment Statement
Budget Paper 6	Budget Measures Statement

BUDGET SPEECH 2010-11

*Delivered on 16 September 2010, on the second reading of the Appropriation Bill 2010, by
The Hon. Kevin Foley, MP, Treasurer of South Australia*

Madam Speaker, last June when I delivered my eighth budget to this House we stood in the midst of the sharpest and deepest global recession since the Great Depression.

The global economic outlook, the national economic outlook, and the state economic outlook, were bleak.

The International Monetary Fund had forecast that the world economy would contract by 1.3 per cent over the course of the year.

Both Australia and South Australia's economies were expected to contract by half a per cent, significantly reducing our state's GST and tax revenues, and causing a sizeable deterioration in the state's financial outlook.

In that budget, I outlined to this House the second stage of the Rann Government's response to this growing financial crisis.

Building on the measures we had already set out in the 2008-09 Mid-Year Budget Review, as the domestic economy slowed, we bolstered our savings task, establishing an independent Sustainable Budget Commission to review the state's finances and assist us in identifying savings to get the budget back into surplus.

At the same time, we outlined a massive stimulus to the South Australian economy in partnership with the Commonwealth, injecting billions of dollars of capital investment into rebuilding the state's infrastructure, and we provided increased funding for key services in health and families and communities.

Against this global backdrop of uncertainty and decline, the Rann Government's strategy was to set in place a framework for stimulating our economy and to return our finances to a sustainable position as the economy improved.

Madam Speaker, 15 months on, global markets continue to shudder, but the domestic economy has strengthened.

Australia's economy has far outperformed the rest of the developed world, defying the global trend towards recession.

South Australia has also performed strongly.

In the past year alone, almost 20 000 additional full-time jobs have been created in South Australia.

State Final Demand grew above the national growth rate in the year to the June quarter at 5.9 per cent. Gross State Product is estimated to have grown by around 2 per cent in 2009-10 and is forecast to strengthen to 2¾ per cent in 2010-11.

GST and state tax revenues have significantly recovered.

But for all of this relative success, the global financial crisis continues to have an impact on our state's finances.

Between 2008-09 and 2012-13 it is expected that total taxation, GST and royalty revenue will be almost \$1.4 billion below what was estimated at the time of the 2008-09 Budget.

This has a significant impact on net debt, and the net operating position.

At the same time, cost pressures in the key front-line service areas of health and families and communities have, and will continue to put additional pressures on the budget bottom line.

In the past five years, annual costs in health alone have increased by an average of 9 per cent, reflecting a national trend that is acutely felt in a state like ours with a relatively older population.

These circumstances underline the importance of meeting a significant savings task across the state budget — so that we can return the state's finances to a sustainable position, and provide a buffer to withstand any future global shocks.

- The measures in this budget mark the third stage of the government's response to the global financial crisis.

Madam Speaker, achieving a sustainable net operating position is a key priority of the 2010-11 Budget and that will be achieved by meeting a new series of savings measures.

In detail, the 2010-11 Budget forecasts net operating results delivering a:

- \$167 million surplus estimated for 2009-10;
- \$389 million deficit in 2010-11;
- \$55 million surplus in 2011-12;
- \$216 million surplus in 2012-13; and
- \$370 million surplus in 2013-14.

The deficit in 2010-11 is largely the result of timing variations in expenditure, and the receipt of Commonwealth revenues earlier in 2009-10 rather than anticipated in 2010-11.

Increasingly strong surpluses are forecast to build across the forward estimates as the budget improvement measures I am setting out today take effect.

Furthermore, provisional data indicates that the surplus will strengthen considerably further to \$840 million in 2014-15.

Madam Speaker, this budget is both responsible and decisive in addressing the cost pressures we face.

In framing this budget, the government was determined to honour every one of our 2010 election commitments.

This budget meets that commitment.

We were determined to provide for further expenditure in priority areas of front-line services in health, families and communities and transport.

This budget delivers on those priorities.

We were determined to continue our significant capital investment program to upgrade and improve the state's infrastructure.

And this budget delivers that investment with \$10.7 billion over the next four years — keeping our investment program at record levels and continuing the government's crucial stimulus to our economy.

Not only does this infrastructure investment continue our program of rebuilding our state, it will support 12 000 full-time equivalent jobs in this year alone.

Madam Speaker, in addition to delivering my budget today the government is also publishing and responding to the final report of the Sustainable Budget Commission.

The commission was chaired by noted economist and former executive officer of the Howard Government's National Commission of Audit, Mr Geoff Carmody. Mr Carmody and the commission have undertaken an exhaustive root and branch review of the state's finances, and I thank the commission for the invaluable body of work that they have produced.

The commission has worked with agencies to identify a menu of budget improvement measures to assist the government in its task of returning the state's finances to a sustainable position.

Madam Speaker, the Sustainable Budget Commission has recommended significant savings in the budget to position the state for growth with finances that are sustainable.

The commission acknowledges that there is a trade off for the government — the larger the up front savings, the greater is the budget flexibility available to the government in future years, and conversely.

With this in mind the commission has recommended that the government consider implementing by 2013-14, savings up to \$1.2 billion per year to maximise budget flexibility into the future.

The government has carefully considered the recommendations of the commission and in framing this budget, has balanced the desire to set South Australia on a sustainable course as rapidly as possible with the need to protect and further invest in key areas of service delivery.

Accordingly, this budget contains new budget improvement measures of \$1.5 billion in expenditure savings and \$478 million of revenue measures. Together with existing savings, these measures will improve the bottom line by \$991.8 million in 2013-14, and by a total of \$2.56 billion over the next four years.

Madam Speaker, this is a very substantial savings task that will have a significant impact on the public sector.

It will not be without pain.

We have sought to focus a greater proportion of savings measures from central administrative costs in the public sector in order to reduce the impacts on front-line government services and on the general community.

To this end this budget continues the government's program of public sector reform.

The changes in this budget will reduce the number of public sector workers and bring public sector entitlements more in line with those in the private sector, and with community expectations.

The savings measures in the budget, in addition to previously announced savings are estimated to reduce the number of full-time equivalent public servants by around 3750 over the next four years.

The government will offer a very generous targeted voluntary separation package for those excess employees who wish to leave public sector employment. The proposed scheme is more generous than schemes offered by the Commonwealth or other state jurisdictions.

Non-executive employees declared excess will be eligible to have a separation package calculated as 20 weeks pay, plus an additional three weeks pay for each completed year of service, up to a maximum of 116 weeks pay (equivalent to 32 years of service).

After six months of redeployment, separation packages will be reduced to 10 weeks pay, plus an additional three weeks pay for each completed year of service, up to a maximum of 88 weeks pay (equivalent to 26 years of service).

Separation packages for untenured executives are based on the termination clauses in their employment contracts. For tenured executives, terms will be in accordance with the arrangements detailed above applying to non-executive employees but capped at 52 weeks.

For employees that wish to continue their public sector career the government will offer a comprehensive redeployee management service aimed at placing as many as possible in vacancies that arise.

The cost associated with carrying excess employees is significant. The six month step down in separation terms will provide an incentive for employees declared excess to make an early decision.

Even after the reduction in terms this scheme still remains generous relative to similar schemes in other jurisdictions.

Madam Speaker, the government is fully committed to achieving a sustainable budget outcome through the approved savings measures.

Government employees whose positions are determined to be redundant as a consequence of those saving measures will have the opportunity for training and skills development to find alternative employment positions that arise from natural attrition and higher priority expenditure initiatives in the public sector.

Employees whose positions are determined to be redundant and who are not assigned to other positions will also have available the generous voluntary separation packages I have outlined.

Madam Speaker, following the introduction of separation packages, if the required reduction in employee numbers is not achieved in 12 months through redeployment and voluntary separation packages, the government will reconsider its 'no forced redundancy' policy.

As I said earlier the government is fully committed to achieving a sustainable budget outcome through the approved savings measures.

This budget will cut the number of executives across government departments by 20 per cent, delivering savings of around \$30 million in 2013-14. Of the 20 per cent, half will be achieved as part of the specific measures announced in this budget and the remainder is allocated to agencies to achieve through management structure reforms.

- And we will make significant changes to public sector long service leave and leave loading entitlements.

The current recreation leave loading provision, which generally provides an additional 17.5 per cent loading on salaries for workers while on holiday, will be replaced with two extra days of leave for public sector employees.

Importantly however, this initiative will not apply to shift workers, seven day week workers, and/or to those in particular professions including police, disability services officers, nurses, teachers or doctors.

- This budget also amends the long service leave provisions of public servants. Currently, public servants accrue 15 days of long service leave per year after 15 years of service is reached. This is more generous than entitlements in the private sector, the Commonwealth Government, and several other state governments. The accrual of long service leave after 15 years of service will be reduced to nine days per year.
- This measure will take effect from 1 July 2011 and existing long service leave entitlements accrued will be maintained.
- These reforms will bring the remuneration of public servants more in line with the private sector.
- We will also reduce ministerial office budgets by 15 per cent.
- And we will make savings of \$14.9 million over three years by reducing the number of cars in the government fleet through the greater use of vehicle pooling arrangements.

A further \$13.3 million will be saved over three years from greater use of four cylinder vehicles for government fleet passenger vehicles.

In total, these public sector reforms, as well as other government-wide savings measures will deliver \$308.5 million over four years.

Madam Speaker, every government department has contributed to this significant savings task.

The Department of Health will deliver savings over four years of \$316 million, or around 2.8 per cent of its total budget in 2013-14.

The most significant saving from within the Health portfolio of \$118.1 million over three years from 2011-12 will be delivered through efficient price reform across metropolitan hospitals — necessary changes to facilitate the transition to the Commonwealth Government funding hospital services on the basis of a national efficient price.

This reform is aimed at increasing efficiency, improving service delivery, improving leave management, reducing overtime and the use of agency staff, better management of operating theatres and improving contract management.

Savings of \$76.1 million will be achieved over the forward estimates by reducing hospital waiting times, through decreasing the number of consultative outpatient services provided in public hospitals. These consultations will instead take place in specialist or GP private practices rather than a hospital clinic, bringing South Australia into line with the practices of other jurisdictions such as New South Wales, Victoria and the Australian Capital Territory.

And \$56.9 million will be achieved over four years by reducing duplication and improving efficiency in health corporate services by standardising systems and processes across the department and health system.

Education and Children's Services will deliver savings of \$145.7 million over four years, including \$59.6 million in 2013-14, or around 2 per cent of its total budget in 2013-14.

More efficient departmental service delivery models will deliver savings of \$22.9 million over four years.

Savings of \$20.3 million over three years from 2012 will be achieved by focussing adult re-entry schools on supporting young adults under 21 who want to complete their SACE or gain SACE credits before going on to TAFE or other training institutions.

Adults over 21 will be able to access their education needs from TAFE or alternative providers.

And small school grants will cease to coincide with the introduction of the student centred funding model, saving \$12.1 million over four years from 2011.

Madam Speaker, in meeting the savings task in this budget the government has targeted its efforts on spending restraint — rather than revenue measures — to help restore the state's finances to sustainable levels.

Under a quarter of the budget improvement measures involve revenue or cost recovery measures, while the overwhelming majority of the task has been met through budget savings.

Most significantly, today I announce that the state government will reform the mineral royalty regime in South Australia to secure a more appropriate dividend for South Australians from our mineral resources.

A new three-tiered system for mineral royalties will be introduced from July next year. A royalty rate of 5 per cent will apply to metallic and energy minerals as ores and concentrates, such as copper concentrate, 'yellowcake' uranium, heavy mineral sands concentrate and iron ore.

This change will bring us into line with Western Australia, where the 5 per cent rate is already applied to these ores and concentrates.

The 3.5 per cent rate will continue for refined metallic product, such as refined copper, gold and silver. The 3.5 per cent rate will also continue for commodities used in industrial and construction industries.

And the existing concessional rate of 1.5 per cent for the first five years of a new mine will be changed to 2 per cent. Existing 'new mine' agreements will be grandfathered.

The 'new mine' rate provides a competitive edge for South Australia and recognises the high risk inherent in the first few years of mining operations.

The government has already consulted with key mining companies and the South Australian Chamber of Mines and Energy on these reforms.

And I would like to place on record that the government appreciates their mature and constructive approach in discussing the design of a new royalty regime, which we are confident will allow the mining sector to grow and prosper in South Australia.

The government recognises that we have a role in helping the industry. This budget also commits funding to extend the Plan for Accelerating Exploration and continues the Regional Development Infrastructure Fund.

The government looks forward to continuing to work closely with the industry to ensure that our record levels of exploration are turned into a record number of mines and associated economic development.

Madam Speaker, in addition the government is making changes to several government subsidy schemes.

The first home bonus grant, currently payable in addition to the \$7000 First Home Owner Grant, will be abolished for first home purchases of existing housing. However, the bonus will be doubled from \$4000 to \$8000 for those who build or purchase a newly constructed home valued at up to \$400 000. The amount of the grant will continue to be phased out for new homes valued between \$400 000 and \$450 000. This will come into effect from tomorrow the 17th of September, and will deliver savings of \$76.9 million over four years.

The \$7000 First Home Owner Grant will also have a cap introduced, so that first home purchases above \$575 000 will no longer be eligible for the grant. This cap is currently more than double the median value of first home purchases, and will be set in reference to the median house price in Adelaide. It is estimated that around 98 per cent of first home buyers will remain eligible for the grant. This measure will deliver savings of \$7.4 million over four years.

The budget abolishes the petroleum subsidy scheme from 1 January 2011. The scheme currently provides subsidies of 0.82 cents per litre for unleaded petrol and 0.66 cents per litre for leaded petrol between 50 and 100 kilometres from the Adelaide GPO. Unleaded petrol is

subsidised at 3.33 cents per litre at distances of more than 100 kilometres from the GPO, while leaded petrol is subsidised at 3.17 cents per litre.

On-road diesel is subsidised at 1.94 cents per litre in areas more than 100 kilometres from the GPO.

The abolition is consistent with other jurisdictions including New South Wales, Victoria, Queensland and Tasmania, which have recently abolished their petrol subsidy schemes.

The payroll tax exporter's rebate, currently available on the wages attributable to export production, will be halved from 20 per cent to 10 per cent from 1 July 2011, and abolished from 1 July 2013.

The removal of the scheme is anticipated to result in a budget saving of \$9.8 million over four years, and follows substantial payroll tax relief in previous budgets, estimated to provide around \$208 million of relief in 2010-11 alone.

The budget also reduces the cap of the cellar-door subsidy scheme, currently available on the sales at wineries cellar doors. The cap will be reduced from \$521 000 per producer to \$50 000, to better target smaller producers. This measure will save \$7 million over three years.

Madam Speaker, while the abolition of these subsidies may seem harsh to their recipients, the government is no longer in a position to provide these while expenditure pressures continue to mount in areas of key service delivery.

Madam Speaker, the revenue measures and changes to subsidy arrangements in this budget must be seen in the context of the significant tax relief provided by this government since coming to Office.

In total, it is estimated that once fully implemented, the government will have reduced taxes on a cumulative basis, by around \$4.6 billion by 2013-14 and this budget delivers further tax reform, as we honour our election commitment to provide a payroll tax exemption for employers of apprentices and trainees — a move that is expected to encourage more businesses to take on young South Australians.

And in an effort to provide a greater level of transparency, I am today introducing a new initiative in the delivery of this budget.

Today for the first time I will be tabling a new budget paper, the Budget Measures Statement, which outlines each of the new measures contained in this budget so as to provide a greater level of detail and transparency than has previously been available to the parliament.

Madam Speaker, through meeting our savings targets we are able to continue the Rann Government's record investment in rebuilding the state's key infrastructure.

This budget delivers an investment program of \$10.7 billion over the next four years, continuing the crucial stimulus which is helping to rebuild and expand the state's infrastructure for this generation and for the future.

This budget will deliver new projects including:

- \$445.5 million to duplicate the Southern Expressway for improved transport accessibility to the southern suburbs;
- \$309.2 million over four years as part of the \$394 million project to expand and develop the Adelaide Convention Centre and upgrade the Riverbank Precinct including a footbridge over the River Torrens;
- \$149 million over four years for upgrades at the Women's and Children's Hospital, and major redevelopments of the Modbury Hospital and The Queen Elizabeth Hospital;
- \$90.1 million over four years to expand the Adelaide High School, Brighton Secondary School, Glenunga International High School, and Marryatville High School, and to establish six new better behaviour centres and six new special education units for children with a disability, and an additional 10 children's centres; and
- \$125 million to develop a Sustainable Industries Education Centre at the Sustainable Technologies Precinct at Tonsley Park.

And we are continuing our investment across the forward estimates for major projects already underway including:

- \$1.8 billion to help secure South Australia's water supply through the construction of a 100 gegalitre desalination plant and transfer pipeline;
- \$1.4 billion for major rail projects including the upgrade and electrification of the Noarlunga and Gawler lines, electrification of the Outer Harbor line and construction of the Seaford extension from Noarlunga;
- \$893.1 million for projects to upgrade South Road, including \$791.8 million for the South Road Superway from the Port River Expressway to Regency Road;
- and we will provide \$420 million for ongoing public housing construction and redevelopment; and
- the government has also agreed to provide financial assistance capped at \$535 million to fund the major redevelopment of Adelaide Oval to host football and cricket in the city.

Madam Speaker, I have mentioned the challenge of meeting the costs of the state's growing health expenditure.

The Rann Government will this year invest a record \$4.5 billion in health, an increase of 111 per cent or \$2.4 billion since we came to Office, and includes new initiatives of \$883.5 million over the next four years.

Major initiatives include:

- \$502.2 million over four years for additional resources for health services; and
- \$219.1 million over four years for the Every Patient Every Service initiative, which will deliver:
 - an additional 260 000 elective surgery procedures across metropolitan and country hospitals;

- a four hour emergency department target for 95 per cent of cases, where clinically appropriate;
- 50 medical officer training positions; and
- 50 of the 100 new additional nurse practitioner positions and 80 two-year scholarships.

Madam Speaker, in previous budgets we have provided for \$2.6 billion to reform our public transport system including upgrading, electrifying and extending the states metropolitan rail network.

This budget continues the Rann Government’s program of transformation of the state’s transport infrastructure with \$518.8 million over the next four years, including:

- \$445.5 million for the construction of the Southern Expressway duplication;
- \$36.1 million over four years for additional buses and services in outer metropolitan areas;
- \$12.4 million over four years to expand the Rural Road Safety and Black Spots programs;
- \$12 million over four years for ‘greenways’ and cycle paths; and
- \$5.2 million over four years for the upgrade and replacement of bus shelters.

Madam Speaker, the Rann Government is committed to providing services to people most in need.

Since coming to government in 2002, we have reformed the child protection sector through the Layton Review and Mullighan Inquiry and we have almost doubled disability funding.

We fully understand the need to continue this momentum, and this budget provides new initiatives worth \$306.8 million over the next four years including:

- \$137.7 million over four years for increased resources for children in care;
- \$70.9 million over four years for additional support services in Disability SA;
- \$70.6 million over four years for an increase to energy, water, sewerage and emergency service levy fixed property concessions. We have also extended the eligibility for these concessions to lower income earners for energy and emergency service levy fixed property concessions from 1 July 2010;
- \$13.8 million over four years for disability equipment funding; and
- \$6.6 million over four years for the Active Ageing initiative including the personal alert systems rebate scheme and Seniors Wise SA home visits.

Madam Speaker, the 2010-11 State Budget provides \$156 million in new education initiatives over four years to provide more teachers and school staff, an extensive capital works program and more support for students with disabilities.

The 2010-11 Budget will provide:

- \$26.5 million to expand the network of children’s centres with the establishment of an additional 10 centres;
- \$16 million for non-government schools to support the development of skills and knowledge in science and mathematics, to address behaviour management, and support students with English as a second language;
- \$15.1 million to establish six new better behaviour centres and employ an additional 12 truancy officers;
- \$9 million to establish six new special education units for children with a disability that will cater for an extra 120 students; and
- \$8.7 million to provide schools with more teachers who have specialist qualifications in maths and science.

Madam Speaker, the budget also provides around \$1.5 billion per annum to Justice and emergency services agencies to maintain the government’s focus on law and order, including \$186.1 million over four years in new spending.

This spending will deliver:

- \$106.3 million over four years to recruit an additional 300 police and equip them with the latest crime fighting technology including hand held computers, a portable fingerprint scanning system, and more automated number plate recognition mobile cameras, and includes a trial of the Star Chase pursuit management system;
- \$15.5 million over four years to target street crime, including establishing the Southern Community Justice Court, the state’s first community court;
- \$7.8 million over four years to implement changes to domestic violence legislation, including the development of an IT system and administrative support for the management of intervention orders;
- \$6.8 million over four years to increase security on public transport by providing additional police officers on trains and trams; and
- \$5.4 million over four years to increase resourcing for the state’s volunteer-based emergency services, including new technology, infrastructure upgrades, equipment and volunteer support.

Madam Speaker, in framing this budget the government was presented with the most difficult and challenging savings proposals ever presented to a South Australian state government.

No choice has been easy. Every decision has been difficult.

But I and this government have not wavered from tackling the challenge that confronts us head on.

Because by getting it right, by making the tough choices now, we will set ourselves up for this generation and beyond.

That is the responsible thing to do, and that is the right thing to do.

I would like to thank the outstanding work of my ministerial colleagues who, under great pressure to deliver a savings agenda, were resolute in their determination to do so, to their chief executives and their staff assisting in the preparation of this budget.

I would also like to thank the Under Treasurer, Jim Wright who retires on the 29th of September, for his outstanding work in this budget and the many before it, the Department of Treasury and Finance and my personal staff for their efforts.

I commend this budget to the House.
