



2009 | 10

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 2009–10



Government
of South Australia

BUDGET SPEECH 2009-10

DELIVERED ON 4 JUNE 2009, ON THE SECOND READING OF THE APPROPRIATION BILL 2009, BY THE HONOURABLE KEVIN FOLEY MP, TREASURER OF SOUTH AUSTRALIA

Mr Speaker, over the past 12 months the global economy has faced unprecedented challenges.

It has been well documented how international economies including the United States, the United Kingdom and Japan, through to nations such as Ireland and Iceland, are wilting in the wake of the economic crisis.

The crisis has claimed international financial institutions and caused many others to be bailed out by central banks and governments at a cost of trillions of dollars.

Economists have described it as a virus — as having a contagion effect, and, as a result nearly every advanced economy in the world has been dragged into recession.

In my recent trip to New York, I was advised that the immediate outlook for the United States is grim.

Nominal house prices are down 30 per cent from their peak with one commentator believing that the market would not bottom out until the middle of next year.

It is estimated that approximately 50 per cent of houses being sold are foreclosure transactions and one commentator believes the foreclosure rate could grow as high as 40 per cent of all mortgaged homes.

The financial crisis will see not only depressed growth in the United States, but also a major restructure of their banking system with some estimating that over 1000 banks will disappear.

The International Monetary Fund has issued their World Economy Growth Forecast in July last year predicting robust growth of 3.9 per cent this year.

Less than 12 months later the IMF is now forecasting the world economy will contract by 1.3 per cent.

Mr Speaker, while the outlook for Australia is not quite as grim — we are not immune.

Our national economy is suffering a double hit.

The financial crisis means lenders are reluctant to make capital available and that is restricting growth. At the same time, economic difficulties being experienced by many of our trading partners have caused some of our export markets to dry up.

The Rann Labor Government has an enviable record of delivering budget surpluses and as a result South Australia is in a strong position to weather the economic storm.

Just a year ago, the state budget returned a surplus of \$464 million and all budget debt had been eradicated — in fact the budget had accrued over \$250 million in financial assets.

In addition, we have invested record sums in our key services in health, education, transport, police and the criminal justice system and in securing our water supplies.

The Rann Labor Government has also delivered billions of dollars in tax reforms, making South Australia a better place to do business and providing an economic environment in which more than 100 000 new jobs were created — two-thirds of them full-time.

However the economic crisis has had a devastating impact on the state's revenue.

Since the 2008-09 Budget, GST and state revenues have plunged by billions of dollars.

In the 2008-09 Mid-Year Budget Review, I outlined the government's actions to improve the state's fiscal outlook in response to the global financial crisis.

Mr Speaker, the fiscal outlook has continued to deteriorate — pushing the budget back into deficit.

Now the total fall in GST revenue since the 2008-09 Budget is projected to be \$2.9 billion over the forward estimates with state revenues plummeting by \$882 million over the same period.

When I first began to frame this budget we faced the prospect of an operating deficit well in excess of \$500 million and significant deficits in each of the following years.

Mr Speaker, this would not be sustainable, and as a result the government has made some tough decisions which I will detail later in order to place this state on a path to surplus.

Net operating deficits will still be recorded this year and next. But in 2010-11 and beyond, the Rann Labor Government will return South Australia to surplus once more.

In detail the net operating results are:

- a \$265 million deficit in 2008-09;
- a \$304 million deficit in 2009-10;
- a \$78 million surplus in 2010-11;
- a \$96 million surplus in 2011-12; and
- a \$304 million surplus in 2012-13.

General government net debt is expected to grow to \$3.2 billion by 30 June 2012, largely reflecting the government's record infrastructure spending, before beginning to decline by 30 June 2013.

As a percentage of GSP net debt is expected to be 3.4 per cent at 30 June 2013 — a fraction of what it was in the 1990s.

Mr Speaker, the International Monetary Fund and the Commonwealth Government have sent a clear message.

The best response to the economic crisis is for governments to invest in, and where possible, bring forward investment in key infrastructure.

It is a strategy to stimulate the economy and importantly to support and secure jobs.

This budget does that.

This government will continue its commitment to rebuilding critical infrastructure.

In partnership with the Commonwealth, we will bring forward projects such as the upgrade and electrification of the Gawler line — part of a record public transport infrastructure program worth in excess of \$2 billion.

The Adelaide Desalination Plant will be expanded to a 100 gigalitre capacity — enough to produce about half of South Australia's critical human water needs.

Mr Speaker, in the next financial year alone, our infrastructure program will support nearly 14 000 full-time equivalent jobs — providing a direct stimulus to the South Australian economy when it is needed most.

Over the next four years this government will deliver an infrastructure program totalling \$11.4 billion — continuing to support jobs and the economy.

The government's capital spending will grow from 1.8 per cent of GSP last year, to 3.0 per cent this year, and to 5.0 per cent of GSP next year — a clear demonstration of how this government investment is stimulating the economy during this difficult period.

However, this expenditure program has to be delivered while keeping state debt at manageable levels and the budget in a sustainable position. This is no time for fanciful new infrastructure proposals.

Mr Speaker, the 2009-10 Budget is framed in the face of a significant plunge in revenue.

The significant weakening in property market conditions experienced in 2008-09, and anticipated to continue into 2009-10, will have a major effect on property based revenue.

As a result, revenue from stamp duty on conveyances will decline by more than 20 per cent in 2008-09, costing the state budget more than \$180 million.

Even though there have also been significant reductions in interest rates — continued uncertainty and a modest economic outlook will continue to have a dampening influence on the property market and hence state revenues.

Mr Speaker, as I have already explained, the government's receipt of GST grants has declined markedly.

In 2008-09 GST revenue grants to South Australia are expected to be more than \$350 million lower than the original budget estimate.

Despite the revenue pressure, the 2009-10 Budget contains no new taxes, consolidating the significant tax relief provided in previous budgets.

Payroll tax reductions, announced in the 2008-09 Budget, will take effect from 1 July 2009 as scheduled.

The payroll tax rate will be reduced from 5.0 per cent to 4.95 per cent and the payroll tax threshold will increase from \$552 000 to \$600 000.

This will be of significant assistance to business and will continue to support jobs.

It's estimated that 6700 employers employing about 370 000 South Australians are expected to benefit from these reforms, including an estimated 180 employers who will no longer be liable for payroll tax when the threshold increases to \$600 000.

From 1 July 2009, South Australia will have the second lowest payroll tax rate in Australia, equal to that of Victoria.

The payroll tax reforms delivered by this government will be worth more than a billion dollars by 2012-13.

Mr Speaker, while I acknowledge land tax is for some taxpayers a burden — general reform cannot be afforded at this time.

However, from 1 July 2009, this budget will provide land tax relief for land that is used for residential aged care facilities approved under the Commonwealth *Aged Care Act*.

This measure will ensure that all Commonwealth accredited, residential aged care facilities will not be required to pay land tax, regardless of whether they are run as a not-for-profit or a commercial operation.

The estimated cost of this measure is \$6.2 million over the four years from 2009-10 to 2012-13, including \$1.6 million in 2009-10.

Consistent with the government's revenue reform commitments, remaining mortgage duty and rental duty will be fully abolished from 1 July 2009 and stamp duty on the transfer of non-quoted marketable securities and non-real property transfers will be abolished from 1 July 2012.

This is fully in accordance with the *Intergovernmental Agreement on Federal Financial Relations*.

Mr Speaker, with government comes responsibility for sound economic management and also for difficult decisions.

As a result, today I am announcing that the New Prisons and Secure Facilities Project will be cancelled.

This has been a difficult decision for government, but one that is necessary to ensure that we can continue to deliver our commitment to deliver critical infrastructure and key services.

The decision to cancel this project will reduce our future debt obligations by more than \$500 million.

Mr Speaker, the government carefully examined the case for the full range of our infrastructure, and, on balance I believe it is right to put schools, hospitals and public transport ahead of building new prisons and secure facilities.

There remains provision in the budget for 232 additional prison beds over the next three years.

This is in addition to the 374 new beds provided in 2007-08 and 2008-09.

A total of 606 new beds in our prisons.

In addition, \$50 million has been allocated for essential works in the existing facilities.

Mr Speaker, today I am announcing the government is to establish a Sustainable Budget Commission to be led by the noted economist Geoff Carmody. Mr Carmody was the co-founder of Access Economics and was the executive officer of the Commonwealth Government National Commission of Audit which reported in June 1996. Mr Carmody is familiar with this type of work and will bring a great deal of experience to the role.

Other members of the Commission will be Mr Bruce Carter, Chair of the Economic Development Board; Monsignor David Cappo, Commissioner for Social Inclusion; Professor Jennifer Westacott, Senior Partner at KPMG; Mr Chris Eccles, the Chief Executive of the Department of the Premier and Cabinet; and Mr Jim Wright, the Under Treasurer.

The Commission will be supported by a secretariat from the departments of Treasury and Finance and Premier and Cabinet.

It will be asked to recommend strategies to achieve additional budget improvement measures of \$750 million in the forward estimates period, with \$150 million to be achieved in 2010-11, \$250 million in 2011-12 and \$350 million in 2012-13.

This savings task is challenging, but one that the Rann Government has previously confronted.

Similar savings tasks were conducted in 2002 and 2006.

Cabinet has already tasked the Commission with examining the budget process and putting forward an appropriate date for the 2010-11 Budget taking account of the 2010 election and the Commission's work.

Full terms of reference will be given to the Commission immediately following the March election so that it can begin detailed work.

To achieve a proportion of this savings task, the government will pursue wage outcomes across the public sector of no more than 2.5 per cent per year.

South Australia can't afford a blank cheque for public sector pay deals and it's time they reflected what is a reality for workers in the private sector.

During these difficult economic times, many South Australians working in the private sector have had their take home pay cut as their firms reduce shifts.

Others still have lost their jobs.

Mr Speaker, the Commonwealth has forecast cost of living increases of 2 per cent or below up to 2011-12.

Increases of 2.5 per cent therefore mean that public sector workers will still receive real wage increases and will limit the need to cut further jobs from the public sector.

Given that many public sector workers enjoy security of tenure, it is not unreasonable for them to restrain their wage demands.

Mr Speaker, the Commonwealth announced the Nation Building — Economic Stimulus Plan in February to address the impact of the global financial crisis on Australia.

The Rann Government fully supports the plan.

It will provide an immediate employment boost whilst making long-term investments to strengthen future economic growth.

Accordingly, the Council of Australian Governments developed special arrangements for implementing the plan and all Premiers and First Ministers signed the National Partnership agreement on the Nation Building and Jobs Plan.

The plan will deliver \$1.8 billion in additional funding to South Australia over four years, commencing in 2008-09, in the areas of education, housing and transport.

In addition, on the 12th of May this year, the Commonwealth budget provided a further stimulus package, with South Australia receiving \$1.1 billion for a range of capital projects including:

- \$645.7 million for public transport infrastructure that includes \$291.2 million for the Seaford rail extension, \$293.5 million to bring forward the upgrade and electrification of the Gawler line and \$61 million for an improved link between the O-Bahn and the central business district;
- \$228 million to help facilitate the expansion of the Adelaide Desalination Plant to 100 gigalitres; and
- \$200 million to build a new Health and Medical Research Institute adjacent to the new Royal Adelaide Hospital.

Mr Speaker, the Commonwealth's investment is supported by the state government's own infrastructure investment program creating a partnership for jobs and economic stimulus.

Mr Speaker, the Education and Children's Services operating budget for 2009-10 will exceed \$2.3 billion.

Spending per government school student continues to grow in 2009-10.

Spending per student has risen from \$7598 in 2001-02 to \$12 627 in 2009-10 — an increase of more than \$5000 per student.

In partnership with the Commonwealth, the 2009-10 Budget provides around \$1.5 billion for new education initiatives over the next four years.

It includes around \$1.2 billion over the next two years for government and non-government schools in South Australia for a program of capital works under the Building the Education Revolution initiative as part of the Nation Building — Economic Stimulus Plan.

This program will deliver new gyms, libraries and classrooms to over 520 government schools as well as maintenance and refurbishment programs worth up to \$200 000 each in 589 government schools across the state as part of the Primary Schools for the 21st Century and National School Pride programs.

The 2009-10 Budget also includes:

- \$107.7 million over four years for low socioeconomic status schools in the government sector;
- \$72.5 million over three years for the government school sector to improve the ratio of computers to students in Years 9 to 12 as part of the Commonwealth's Digital Education Revolution;
- \$65.1 million over four years for the government school sector to provide access to an early childhood education program for all children in the year before school by 2013;
- \$51.1 million over four years for maths and science programs in government primary schools;
- \$4.3 million in 2009-10 to improve literacy and numeracy outcomes in government schools; and
- \$4.2 million over three years to improve teacher quality in government schools.

Mr Speaker, in March 2009, the government announced Pinnacle Education as the preferred bidder for the Education Works — New Schools PPP project.

This project involves the development of six new schools for the communities of Playford North, Inner North and Inner West areas of Adelaide for more than 4600 students.

Subject to final negotiations, contractual close is expected in mid 2009 and the first two schools are expected to open in 2010.

Mr Speaker, last year's budget announced the commencement of a major 10-year program to redevelop, electrify and extend the state's public transport infrastructure.

This budget builds on that commitment by announcing a further major expansion of rail infrastructure and services to Seaford, and the earlier implementation of a number of rail projects.

To support these arrangements the Commonwealth will provide \$618.7 million over four years, in addition to \$27 million in 2008-09.

These projects include:

- \$354.2 million over four years to extend the Noarlunga rail line to Seaford — comprising \$291.2 million for track and related infrastructure and \$63 million for the purchase of new electric railcars;
- \$293.5 million for the upgrade and electrification of the Gawler rail line, enabling the completion date of this project to be brought forward by two years. The total investment in the Gawler line over the next four years is \$335.5 million;
- the electrification of the Noarlunga line, with an additional \$77.4 million to be spent over four years. The total investment in the Noarlunga line over the next four years is \$327 million; and
- \$61 million over three years to improve the link between the O-Bahn busway and the central business district, significantly reducing travel times.

Further state support of \$125.9 million over four years will support the infrastructure upgrades, new and existing public transport services, free travel for seniors, as well as measures to provide for more track inspections, more graffiti removal teams and more security officers on our trains.

Mr Speaker, the budget reaffirms the government's commitment to improving road safety, with the provision of an additional \$23 million over four years for rural roads.

This support will be used to address roadside hazards, improve signage and provide junction improvements.

Mr Speaker, next year, the Health budget will exceed \$4 billion for the first time.

The government remains committed to a health reform program including major investments in hospitals and primary healthcare.

Over the next four years works will be undertaken on redevelopment of the Queen Elizabeth, Lyell McEwin, Whyalla and Berri hospitals, Flinders Medical Centre and Glenside Campus, and progressing the new Royal Adelaide Hospital and GP Plus centres at Marion, Elizabeth and Port Pirie.

The 2009-10 Budget continues to support health services by providing \$546.1 million over four years in partnership with the Commonwealth for health initiatives, including:

- \$200 million to build a new Health and Medical Research Institute adjacent to the new Royal Adelaide Hospital;
- \$114.2 million to further improve and increase health services across South Australia;
- \$60.9 million to improve the operations of emergency departments by increasing access to hospital care, establishing acute medical units and improving patient flow;
- \$53.9 million towards improving indigenous health by providing culturally responsive primary healthcare services and improved patient journeys through hospital;
- \$51 million for additional nurses and midwives;
- \$40 million towards increasing sub-acute services, including home rehabilitation and a community pharmacy network;
- \$25.1 million for a dental health program; and
- \$15.1 million for the SA Ambulance Service to provide more out of hospital emergency medical care.

In addition, \$6 million will be provided in 2010-11 to support the purchase of new aircraft by the Royal Flying Doctor Service to provide emergency and primary healthcare to rural and remote communities.

Mr Speaker, in December 2007, the government announced that a new 800 bed state-of-the-art hospital would be delivered as a PPP project.

Project planning and documentation for the new Royal Adelaide Hospital is progressing and expressions of interest will be sought in mid 2009.

The new hospital is expected to be completed in 2016.

Mr Speaker, the Rann Government is delivering water security for South Australians in the face of ongoing drought conditions to ensure water supply to the more than 90 per cent of South Australians who rely on the River Murray.

This Budget provides:

- \$833 million in 2009-10 on the \$1.8 billion 100 gegalitre Adelaide Desalination Plant — with phase one delivering first water by December 2010; and
- \$164.6 million in 2009-10 and \$413.7 million over four years to upgrade and expand wastewater treatment plants and water recycling infrastructure.

The 2009-10 Budget also continues, for a further 12 months, the exceptional circumstances interest rate subsidies for drought affected areas. The Commonwealth will provide up to \$93.6 million in total and South Australia will contribute \$10.4 million.

Over the next four years the government will also invest more than \$52 million in projects to increase storm water reuse.

Mr Speaker, the 2009-10 Budget further supports economic development through significant investment in the state's infrastructure and strengthening of our future workforce capacity.

The budget provides:

- \$155.2 million over four years to address the skills shortage by providing nearly 56 000 training places;
- \$37.3 million over four years to support the development of strategic industrial land precincts that provide access to national road and rail links and international port facilities;
- \$14.6 million in 2009-10 to improve infrastructure in TAFE facilities as part of the Commonwealth's nation building package;
- \$12 million over four years to expand the domestic tourism marketing campaigns to increase South Australia's share of the interstate tourism market;
- \$10 million over five years commencing in 2009-10 to support the establishment of a Materials and Minerals Science Learning and Research Hub at Mawson Lakes and a Photonics and Advanced Sensing Institute at The University of Adelaide;
- \$3.2 million over three years from 2010-11 to extend the role of the Olympic Dam Taskforce as part of the state's commitment to the expansion of the Olympic Dam project; and
- \$800 000 over four years to attract international students to South Australian universities.

Mr Speaker, the Techport Australia Common User Facility will be completed during 2009-10.

The facility is a key component of shipbuilding infrastructure to support the construction and commissioning of the Royal Australian Navy's Air Warfare Destroyers.

Mr Speaker, the government this week also announced a new initiative to promote 'green jobs'.

The Premier announced the provision of \$20 million over two years for the Renewable Energy Fund to support research, development and commercialisation of renewable energy technologies in South Australia.

Mr Speaker, in partnership with the Commonwealth, including through the Nation Building — Economic Stimulus Plan, around \$692 million will be provided over the next four years for the Department for Families and Communities to construct and refurbish social housing, to assist the homeless and provide additional resources for the disability sector.

As a result, under the Nation Building — Economic Stimulus Plan alone, South Australia will build 1500 new homes and refurbish around 400 more, while existing state funded programs will provide more housing support for people on low incomes, people at risk of homelessness and people with a disability.

The Remote Indigenous Housing Agreement will provide \$124.1 million over the next four years to address the serious issue of overcrowding and homelessness in our indigenous communities.

Mr Speaker, the 2009-10 Budget provides the essential resources to maintain the government's focus on law and order.

The Rann Government believes in supporting its police service as it continues to enforce the range of law and order policies we have introduced over the past seven years.

Most recently our police have begun enforcing the suite of new laws available for it to take up the fight against the criminal bikie gangs with government support also provided to the Crime Gang Taskforce.

In 2009-10 the operational budget for South Australia Police will be around \$661 million.

That's an increase of 5.1 per cent compared to the 2008-09 Budget and 79 per cent more than was spent in the last budget of the last Liberal Government in 2001-02.

In this year's budget there is also support for the \$59 million Police Academy Redevelopment project, with \$5.4 million to be spent in 2009-10.

When completed it will provide a modern, technically advanced, training facility for South Australia's police recruits.

The Budget will also provide \$3.3 million in 2010-11 for a new police station at Yalata.

Under this government, South Australia Police has never been better funded or staffed.

Mr Speaker, more than \$100 million will be invested over four years to upgrade to a new digital Government Radio Network to provide our emergency services with the very latest technology.

The South Australian Government Radio Network is one of the largest public safety radio communications networks in the world, with more than 30 000 registered agency and volunteer users covering more than 220 000 square kilometres of the state, and more than 96 per cent of its population.

It is part of the critical infrastructure that is essential to the state's police, ambulance and emergency services when they are required to respond to emergencies and calls for assistance.

Mr Speaker, other measures included in the 2009-10 Budget to support the government's commitment to law and order, include:

- \$2.4 million over four years for expanding DNA testing services;
- \$2.4 million over four years for video conferencing facilities in prisons;
- \$1.1 million over four years to establish a community corrections centre at Gawler; and
- \$471 000 in 2009-10 to facilitate an earlier opening of the Sturt Street Courts.

Mr Speaker, this has been a difficult budget to frame in challenging economic times.

This budget strikes a balance between delivering record investment in key infrastructure, supporting South Australian jobs, making responsible decisions to bring the budget back into surplus and preparing our economy for the opportunities that will emerge as the global financial crisis recedes.

In conclusion, I would like to thank the outstanding work of my Ministerial colleagues, their Chief Executives and their staff in assisting in the preparation of this budget.

I would also like to thank the Under Treasurer, the Department of Treasury and Finance and my personal staff for their efforts.

I commend this budget to the House.

APPROPRIATION BILL 2009

Explanation of Clauses

Clause 1: Short title

This clause is formal.

Clause 2: Commencement

This clause provides for the Bill to operate retrospectively to 1 July 2009. Until the Bill is passed, expenditure is financed from appropriation authority provided by the *Supply Act*.

Clause 3: Interpretation

This clause provides relevant definitions.

Clause 4: Issue and application of money

This clause provides for the issue and application of the sums shown in Schedule 1 to the Bill. Subsection (2) makes it clear that the appropriation authority provided by the *Supply Act* is superseded by this Bill.

Clause 5: Application of money if functions or duties of agency are transferred

This clause is designed to ensure that where Parliament has appropriated funds to an agency to enable it to carry out particular functions or duties and those functions or duties become the responsibility of another agency, the funds may be used by the responsible agency in accordance with Parliament's original intentions without further appropriation.

Clause 6: Expenditure from Hospitals Fund

This clause provides authority for the Treasurer to issue and apply money from the Hospitals Fund for the provision of facilities in public hospitals.

Clause 7: Additional appropriation under other Acts

This clause makes it clear that appropriation authority provided by this Bill is additional to authority provided in other Acts of Parliament, except, of course, in the *Supply Act*.

Clause 8: Overdraft limit

This sets a limit of \$50 million on the amount which the government may borrow by way of overdraft.



**Government
of South Australia**