

BUDGET SPEECH 2002-03

DELIVERED ON 11 JULY 2002, ON THE SECOND READING OF THE APPROPRIATION BILL 2002, BY THE HONOURABLE KEVIN FOLEY MP, TREASURER OF SOUTH AUSTRALIA.

Mr Speaker

As a result of the February election, the Labor Party was entrusted with the responsibility of running the State and managing its finances.

This is a responsibility that we take very seriously.

Mr Speaker, Labor has learned from the past.

We promised to deliver balanced budgets, and this we will do. But this budget does more than that — it delivers significant cash surpluses across the forward estimates.

In coming to office the Government undertook to make savings by cutting the extravagant spending and waste of the Liberals. This budget takes the first, measured steps towards that end and presents a plan to deliver further efficiencies.

Together they represent the Government's commitment to sound financial management.

This budget is focused on delivering tangible benefits to the community now. It accepts that only hard work and tough decisions will make South Australia a leader.

This is a budget that delivers for the people of South Australia.

The budget delivers what we understand the community expects from government: it delivers schools not soccer stadiums, roads not rose gardens, productive infrastructure not white elephants.

Soccer stadiums and rose gardens are expensive monuments to the extravagant, poorly focused spending of the past.

This budget is tough but fair. It's a start on delivering the right priorities for all South Australians.

The initiatives presented in this budget have been carefully targeted.

Mr Speaker, this budget will be in surplus. The surplus in cash terms will be \$92 million. This is not a one-off surplus. It is not a phoney \$2 million surplus that we've seen in the past. It is backed up by surpluses totalling \$321 million over the forward estimates period. In every one of the next four years we have locked in a tight fiscal position, that is surpluses of \$92 million, \$98 million, \$48 million and \$83 million.

However, commitment to achieving a cash surplus is not sufficient. We are also committed to working towards a balance on net lending, the more rigorous accrual target adopted in a number of other States.

Mr Speaker, we discovered bad news behind the veil of financial secrecy worn by the Liberals. We were not prepared for the picture of financial mismanagement that has since unfolded on almost a daily basis. Unavoidable cost pressures limiting the delivery of essential public health and education services had been hidden behind this expensive veil, with urgently required funds redirected to a range of questionable initiatives.

The Department of Treasury and Finance advised the new Government on the 12th of March of a number of unavoidable cost pressures that were not reflected in the Liberal Government's Mid-Year Budget Review released during the February State election campaign.

The advice from the Department of Treasury and Finance was (and I quote):

Treasury and Finance believes these cost pressures represent a substantial threat to the Budget.

And:

In our view, the structural position of the South Australian Budget is unacceptable and an issue that needs to be addressed as a matter of urgency.

As a financially responsible Government, we have acted on this advice.

Addressing the structural weakness of the budget is a priority of the Government and must be if we are to deliver the services that South Australians expect, deserve and demand.

Mr Speaker, this Government came to power with a range of targeted election spending promises. These promises were all to be funded through a cautious and disciplined savings approach. Despite the budget deficits we have found, our modest promises remain funded. They will be delivered.

The reckless spending of the past is over. Cabinet has acted to reverse a number of decisions made by the previous Government in its final months. For example, the Riverbank upgrade project has been reviewed and funds have been redirected to provide much needed health services.

Mr Speaker, the commitment to efficient and well-targeted government does not end there. The Government has formed the Expenditure Review and Budget Cabinet Committee to oversee the budget process and a wholesale review of departmental operations. The committee is charged with the responsibility of preparing the budget based on clear and consistent priorities.

The review of agency expenditure will focus the Government on results. More than ever Government must take responsibility for what it delivers. We will continue the process of redirecting resources away from areas of waste and extravagance towards areas of public priority.

We have to assure South Australians that not only has everything possible been done to ensure prudent fiscal management, everything possible has also been done to ensure value for money.

We have to win back the confidence of the public in Government. We will do this with actions, not hollow words.

The choice is clear — Government must move from the short-term focus of the past, to a process that ensures that the billions we spend provide the best services for the public.

Mr Speaker, the deficits left by the previous Government are substantial. The problem cannot be solved with expenditure cuts alone. We have no choice but to pursue carefully considered and targeted revenue measures.

Mr Speaker, these measures are necessary to pay for the extravagance of the past.

Our tax measures of \$208 million contribute to funding the former Government's budget deficits.

And they have been targeted at those who can afford to pay and protect those who cannot.

Mr Speaker, no Treasurer enjoys having to announce increased revenue measures. But my choice is simple — do I condemn the ongoing delivery of essential services to cut backs or do I introduce selective revenue increases?

Mr Speaker, again the choice is clear. We do not back away from our commitment to provide quality health and education services to the people of South Australia.

The \$561 million worth of deficits (over four years) is being funded by direct action, tough decisions — fiscal discipline.

REVENUE

Mr Speaker, the shocking budget position we have inherited warrants urgent action. The time in which expenditure reductions alone can solve the structural problems of the budget has passed.

We cannot shirk our responsibility to redress the budget imbalance. We have had to make some very tough decisions.

Financial pressures and the Government's budget strategy have required the inclusion of a number of tax measures in this budget.

The measures have been carefully targeted to protect those who can least afford to pay. The main changes relate to gaming machine tax, stamp duty on conveyances and stamp duty on commercial equipment hire purchase. In a full year these revenue measures are expected to add \$55.5 million to the budget bottom line.

This money is essential to begin to pay for the Liberals' budget deficits: to fix the problems that those opposite failed to address and simply wished would disappear, the financial problems that wouldn't go away.

Mr Speaker, the gaming machine industry in South Australia is dominated by a relatively small number of venues, which consistently earn profits far in excess of the rest of the

industry. Nearly half of the net gaming revenue in South Australia passes through gaming machines at just 13% of venues.

Evidence on venue costs suggests that venues with net gaming revenues in excess of \$1.5 million per year are earning super profits estimated at around \$90 million per year. Treasury advice to the Government has been independently verified and supported.

In contrast, 15% of venues earn less than \$75 000 per annum in net gaming revenue.

Apart from adjustments to allow for the impact of the GST, tax rates for gaming machines in hotels and clubs have remained unchanged since July 1998.

It is on this basis that this budget introduces a new tax structure for gaming revenue targeted at the super profits of the most successful gaming venues, while giving tax relief to venues with low net gaming revenue.

The Government had two choices, Mr Speaker: do we penalise those who can least afford it, or do we increase the tax on those earning super profits from pokies? Frankly, the decision was easy.

The new tax structure introduces additional tax thresholds and rates above \$945 000. These increases return an amount of around \$39 million: a portion of the super profits earned by the State's richest venues.

As an example, hotels earning in excess of \$2.5 million will now pay a marginal tax rate of 65% on net gaming revenue. Clubs and not for profit entities earning the same levels will pay 55%.

The new tax structure also provides tax relief totalling around \$5 million to small clubs and hotels allowing them to earn \$75 000 net gaming revenue per annum before paying tax.

As a result of the new tax structure:

- all venues earning up to \$945 000 net gaming revenue will receive at least some tax relief
- venues earning between \$945 000 and \$1.5 million will pay virtually the same amount as at present
- venues receiving more than \$1.5 million will pay higher amounts of tax.

In other words, 76 community and sporting clubs are winners. This Government has listened to the concerns of community clubs and acted. 292 small hotels, struggling to compete against the richest venues, will also benefit.

Mr Speaker, this budget introduces selective increases to the stamp duty payable on conveyances. These increases have also been carefully targeted. Increases will apply to the duty payable on conveyances valued in excess of \$200 000.

The median house value in South Australia is \$168 000. The duty payable on the conveyance of these properties will remain unchanged.

As a guide, the stamp duty payable on a \$250 000 property will increase by \$125 and the duty payable on a \$1 million property will increase by \$7500.

Additional revenue from stamp duty on conveyances is expected to total \$14 million in a full year.

Mr Speaker, South Australia is one of only two jurisdictions that does not apply duties to the hire of goods under commercial hire purchase arrangements. Currently, contracts for retail goods hire and commercial equipment hire *are* subject to rental duty, but commercial hire purchase arrangements are not.

This restructure of arrangements will result in an additional \$7.5 million in a full year.

The last budget announced a number of changes to payroll tax arrangements in 2001-02. The changes were spread over two years with a reduction in the payroll tax rate taking effect from 1 July 2002 and an offsetting broadening of the payroll tax base. These changes were supported by Labor in opposition and will be delivered by us in government.

EXPENDITURE

As I have said, this is a budget with the right priorities.

This budget targets government spending to areas where it can deliver the greatest return in delivery of services and sustainable economic development.

This Government shares the values and priorities of the community.

Quite simply, every South Australian needs to feel valued and safe. Those who need an education must be given places to learn, the sick must be treated and the threatened protected. This is our challenge.

Meeting this challenge requires tough but fair redirection of funds from the waste of the past to community priorities — to Labor priorities.

A number of saving initiatives have been adopted to create the budget capacity necessary to fund the improvements in health, education and other essential services promised at election time and delivered in this budget.

These strategies include:

- savings on expenditure targeted at areas of waste and low priority
- a significant reduction in spending on consultancies by government departments compared to last year
- up to 600 voluntary redundancies of public servants.

Targeted savings measures deliver \$196 million to the budget bottom line in 2002-03.

By reducing consultancy expenditure, we take an important step in placing confidence in the expertise within government. Important decisions on future service delivery and infrastructure investment will be made within government. Savings on consultancies by government departments are expected to total \$10.6 million in 2002-03. The Government's commercial businesses have also been advised that the Government expects them to rein in their spending on consultants and deliver on a similar saving.

This budget includes funding of around \$42 million for up to 600 voluntary separation packages. This has required a tough decision and a leaner public service.

Mr Speaker, it is important to note that these strategies pay for our election promises.

No revenue increases have been necessary to support our election spending initiatives.

That is what we promised. That is what we've delivered.

I turn now to specific expenditure initiatives contained in this budget.

The Government places importance on the delivery of an efficient health care system with quality patient care as its priority and strong public hospitals at its core. This budget reflects that importance.

It is the Government's goal to rebuild acute health care services and, at the same time, move the health system towards primary health care, prevention, health promotion, and safety and quality in health care.

Mr Speaker, our long suffering public hospitals will benefit from new initiatives totalling nearly \$108 million over four years.

In particular, this budget funds a staged increase in public hospital capacity totalling 100 extra beds by 1 January 2005 at a cost of \$52 million. Waiting times for elective surgery will also be targeted with hospitals receiving \$9.5 million over four years. More generally the health system will benefit from additional funding support of \$36 million over four years.

In the area of mental health this budget provides \$9 million over four years for programs to address the problems faced by the Aboriginal community, children and youth, as well as adult mental health services and regional inpatient services.

Health care in regional areas will be supported by an extra \$6.6 million over four years to fund the availability of medical officers in country hospitals.

Community based support for the aged and disabled will be assured through an increase of nearly \$52 million over four years in State funding for disability services and for services provided under the Home and Community Care program.

Pensioners and disadvantaged groups will benefit from an \$8 million increase over four years in funding for community dental services.

Mr Speaker, the capital investment program for Human Services will total \$261.7 million in 2002-03.

Our commitment to the rebuilding of our public health system is reinforced by the announcement of a program of significant redevelopment for four of our major metropolitan public hospitals. These projects were promised by the former Government but never fully funded.

New stages in the redevelopment of the Lyell McEwin Health Service, Royal Adelaide Hospital and The Queen Elizabeth Hospital will proceed. These are in addition to the redevelopments currently in progress at each of these hospitals.

The Women's and Children's Hospital will benefit from works to improve the environment and safety within the Boylan Ward at a total cost of \$4.5 million.

Mr Speaker, in addition to funding for these metropolitan hospitals, \$3.5 million has been allocated to ensure that stage 2 of the Murray Bridge Hospital redevelopment can proceed.

Significant items of high cost medical equipment are funded in this budget. At the Royal Adelaide Hospital, over two years at a cost of \$9 million, existing linear accelerators used in treating a range of chronic disease will be replaced. The diagnostic capacities of both the Lyell McEwin Health Service and The Queen Elizabeth Hospital will be significantly enhanced by new MRI capacity at both hospitals at a total cost of \$1.5 million.

In addition to these increases in health expenditure, the ongoing availability of vital blood supplies will be protected as a result of additional funding to the Red Cross Blood Transfusion Service totalling \$15 million over four years.

Mr Speaker, like health, education is one of the highest priorities for this Government. We believe that the future economic and social development of our State depends on having an educated and skilled population.

A total of \$220 million has been allocated over four years to improve our public education system.

School retention rates have dropped significantly in recent times. This Government believes that the longer students stay in school the greater their success in the work force and in life. Raising the school leaving age to 16 years is a major step in improving retention rates. \$28.4 million over four years is provided to fund the cost of this initiative.

\$31.8 million over four years has been allocated to reduce class sizes for students in the first three years of primary school. This allows for up to 160 additional teachers.

High quality teachers are integral to the success of the public education system. From this budget year an additional \$10 million over four years will be spent on professional development, country teacher scholarships and IT education for teachers.

Our future economic success requires that we equip our children to face the challenges of the information age. An extra \$8 million over four years is being provided to schools in need of improved information technology equipment through the Computers in Education program.

A total of \$138 million will be spent on education facilities and associated equipment in 2002-03. New works will commence at 13 schools and the Torrens Valley Institute in the coming year at a cost of \$10.8 million.

Mr Speaker, this Government places great importance on employment, education, science and small business. In recognition of this importance and the complexities of managing such a broad group of functions, the Government has created the new Department of Employment, Further Education, Science and Small Business. These functions will be removed from the

Department of Education, Training and Employment, which has been renamed the Department of Education and Children's Services.

Appropriation for 2002-03 has been allocated on the basis of the combined department. On completion of administrative arrangements for this restructure, individual appropriations for each function will be determined and at that time will be disclosed to the Parliament.

Our spending priorities are not confined to education and health.

This Government believes that no form of crime and no level of crime is acceptable. When we were looking for savings, we refused to consider cutting police numbers. The number of police officers on the street protecting our community has been quarantined in this budget.

The budget also includes additional funding of \$3.2 million over four years for DNA testing, analysis and data management. This increasingly important technology will be available to assist our police in the detection and ultimate prosecution of criminals.

In the Justice Portfolio, additional urgently needed medium-security prison capacity will be built costing \$6.6 million.

The emergency services will benefit from a new integrated computer aided dispatch system. This system costing \$15.9 million over four years will replace obsolete and disparate equipment within the police, fire and ambulance services. \$10.5 million has been allocated to replace the existing police facility at Mount Barker.

The livestock industry contributes nearly \$1.2 billion to the South Australian economy annually. It is essential that steps are taken to protect this industry from the threats that we have seen decimate the livestock industry in Britain in recent years. \$7 million will be provided over four years to fund strategies enabling early detection and a rapid and effective response capability to foot and mouth, and to mad cow disease.

Research and development is the key to the future of our agriculture industries. South Australia is investing \$12 million over the next five years in the Australian Centre for Plant Functional Genomics, to be based at Adelaide University's Waite campus. The total cost of this project is \$40 million.

The importance of the aquaculture and mineral industries is being recognised in this budget with funding for the regulation and management of the aquaculture industry of \$2.8 million over four years, and major funding for targeted mineral exploration totalling \$5.7 million over four years.

Under the Commonwealth's Natural Heritage Trust arrangements an additional \$12 million over four years is being provided to reverse the decline of the State's precious natural resources. Crown land reforms, increases in support for the Environment Protection Authority and River Murray initiatives will be funded at a total cost of \$7.3 million over four years.

This Government has created a separate and independent Environment Protection Authority. Its appropriation has been included in the appropriation given to the Department for Environment and Heritage. Once administrative arrangements for the new entity have been finalised the appropriation assigned to the new EPA will be disclosed in Parliament.

Mr Speaker, Adelaide holds a proud place in the Australian cultural community. This position will be enhanced by the introduction of the Adelaide International Film Festival, and by making Womadelaide an annual event. Both festivals are funded in this budget. In addition, eminent world class leaders will be encouraged to live and teach in South Australia as part of the Thinkers in Residence program.

New capital investment projects announced in this budget total \$395.1 million.

Road transport initiatives in the budget include:

- \$13.4 million in 2002-03 to enable construction to start on the new six kilometre, four-lane expressway link between Eastern Parade and South Road as part of the Port River Expressway
- Stage 1 of the Port River Expressway, estimated to cost \$58 million including State Government funding of \$31.4 million and Commonwealth funding of \$26.7 million; the expressway route will provide a seamless link between the State's export enterprises and industrial areas with transport and distribution facilities at the Port of Adelaide
- \$5 million on reconstruction of Torrens Road: Park Terrace to Churchill Road
- South Australia's own 'Black Spot' road funding program spearheading the Government's new \$20 million 'Safer Roads' investment program.

Mr Speaker, in the future, road safety programs and policing will be explicitly recognised and supported by diverting anti-speeding device revenue from Consolidated Account to a new road and community safety fund. Revenue generated from this source is expected to total \$39.4 million in 2002-03.

Upon coming to government we committed to a number of initiatives as part of the Compact for Good Government. These initiatives have been funded in this budget. They are funded from reallocation and savings — as are all of our promises in this budget.

COMMONWEALTH–STATE RELATIONS

The Inter Governmental Agreement on Commonwealth–State Financial Relations, signed by the former State Government and the Commonwealth, committed the Commonwealth to maintaining the level of special purpose payments to the States following the introduction of the GST.

Maintenance of this agreement is critical to South Australia's ability to continue to provide the quality and level of community services and infrastructure that South Australians deserve.

Unfortunately, Mr Speaker, the Commonwealth has already broken the agreement.

In March of this year, the Commonwealth announced — without consultation — that funding levels to the States would be reduced because of the Federal Government's decision to discontinue indexation of the petroleum products excise.

This change in funding to pay for their opportunistic pre-election spending spree was a breach of the agreement.

The cost of this deception to South Australia is more than \$70 million over four years.

Mr Speaker, we are told that from 2006-07, Commonwealth funding to South Australia under the arrangements for collecting and distributing the GST will pass the break-even point.

We along with all States will be maintaining the pressure on the Commonwealth Government to keep to their promises and deliver on the agreement.

ECONOMIC CONDITIONS

Mr Speaker, the projections contained in the budget are based on a number of key economic parameters. I wish to make two points about the economic environment in which this budget, and the policies of the Labor Government, are framed.

The first point is that in recent times this State has under-performed compared to the rest of the nation, and relative to its potential. Economic growth in South Australia has lagged behind that of the nation as a whole.

One of this Government's major tasks is to create an environment for sustainable economic growth. This is vital to ensure our children are able to find worthwhile and secure jobs and to stop the loss of the State's best and brightest to the eastern States.

Mr Speaker, the second point I want to make about economic conditions in South Australia is that this Government has undertaken the first important steps to helping this State reach its full potential.

By rebuilding the State's finances, this Government is laying the foundation for future growth.

The establishment of the Economic Development Board is another bold initiative taken by the Government. The board, chaired by Robert Champion de Crespigny has a membership comprising community and business leaders from around Australia. It has been asked to provide the Government with an assessment of economic conditions in the State and to develop a five-year strategic development plan for the State.

This new structure is already delivering results. Through the efforts of Mr de Crespigny and others, the Government was able to ensure the survival of Mitsubishi Motors, not only protecting 10 000 jobs in the automotive industry but also laying a platform for further investment in manufacturing and research by Mitsubishi.

THANK YOU

Mr Speaker, I would like to place on the record my gratitude to the Under Treasurer and his staff for their efforts in helping to prepare this budget. My thanks also go to my ministerial colleagues, their Chief Executives and their staff, and to my personal staff for their contribution to the budget process.

SUMMARY

Mr Speaker, this budget delivers on Labor's election promises.

It has the right priorities for South Australia:

- more beds for our hospitals
- more teachers for our schools
- cutting the waste
- fixing the mess
- balancing the books.

It's tough but fair, caring but responsible, and gets the priorities right.

I commend the Budget to the House.

APPROPRIATION BILL 2002

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 2002. 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 the schedule 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 etc., of an 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: Appropriation, etc., in addition to other appropriations, etc.

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.