

2014–15 BUDGET PAPER 2

Budget Speech



Government of
South Australia



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Budget Speech 2014–15

*Delivered on 19 June 2014, on the second reading of the Appropriation Bill 2014,
by the Honourable Tom Koutsantonis MP, Treasurer of South Australia.*

Mr Speaker, May 13 2014 will be remembered as a defining day for Australia.

It will mark the day the Commonwealth Liberal Government walked away from healthcare and education funding.

It will mark the day the Commonwealth Liberal Government decided signed contracts and guarantees aren't worth the piece of paper they are written on.

These reckless decisions will have profound ramifications across the nation and unfortunately South Australia is not immune.

No government around the nation could have predicted this unprecedented move by the Commonwealth Liberal Government.

Nobody could have predicted that in this day and age Tony Abbott and Joe Hockey would walk away from an iron clad guarantee between the states and the Commonwealth.

These cuts are real and the Commonwealth Liberal Government's own budget papers have them in black and white.

There is no way for us to quarantine our citizens from these brutal cuts.

In fact there is no state in the Commonwealth that could absorb these brutal cuts without reparatory measures or asset sales.

Over the next four years South Australia will lose \$898 million because of cuts by Prime Minister Abbott.

Over the next 10 years hospital and school funding cuts equate to \$5.5 billion.

The cuts include a \$655 million reduction across the forward estimates in health spending alone.

The reduction in National Health Reform payments will be more than \$4.6 billion across the next 10 years compared to what was contained in the Commonwealth's 2013–14 Mid-Year Economic and Fiscal Outlook.

Other cuts and broken promises include:

- \$123 million in funding for pensioner concessions over four years
- \$47 million in funding for skills and vocational education by 2017–18, and
- \$45 million in schools funding under the Gonski funding agreement, which will rise to a reduction of more than \$200 million in 2019.

Given the size and magnitude of the cuts, the state cannot afford to replace those funds and if the Commonwealth does not reverse its decision — drastic savings will be necessary.

It is a clear the Commonwealth Liberal Government no longer believes healthcare, education, training and welfare are core areas of government responsibility and they have thrown them onto the scrap heap.

It is a clear strategy of the Commonwealth Government to transfer the heavy lifting to the states. They want their budget issues to be someone else's problem.

These cuts are immoral and are purely based on Liberal Party ideology.

Our Premier and this Labor Government will fight these cuts — the Commonwealth Liberal Government has completely overstepped the mark and their cuts will have long term detrimental impacts on our state.

The Premier will lead this response and we will have more detail about this soon.

However, if these decisions are not reversed — we will be forced to make a suite of budgetary changes.

We will be forced to make these changes to fill the current black hole left by the Commonwealth and to prepare us for the future cuts they have outlined toward the end of the decade and beyond.

These dramatic cuts by the Commonwealth will force us to rethink the way we fund and deliver core services for our citizens.

Passing on the entire \$655 million worth of cuts in health funding cannot be sustained and it would have a devastating impact on services across our healthcare system.

We have taken a more balanced approach in our response to the Commonwealth's attack on hospitals and the sick.

It is an approach that requires savings of \$332 million to our healthcare system over four years and removal of ESL remissions to cover the remainder.

Given the lack of consultation and the short time between the Commonwealth and state budgets, we will not be rushed into how we tackle the health reconfiguration the Commonwealth Government has forced upon us.

We will work with stakeholders in the health sector and other affected groups over the coming months to determine how best to deal with these devastating cuts.

However, it must be stressed that the nature of the Commonwealth's withdrawal means the health system is no longer viable in its current state.

Let me be absolutely clear about the impacts of the Prime Minister's cuts, bed cuts or hospital closures may be necessary but we want to work with the health community to prevent this from happening.

To manage this process major hospital redevelopment works that have not yet commenced will be suspended.

These funds will be retained in the budget and directed into the Health Capital Reconfiguration Fund which will be used to ensure capital funds are invested in the areas of the health system that best deliver the services and complement the outcomes of the health system review.

This restructure has been forced upon us by the Commonwealth Liberal Government and their belief that the health of the nation is not their responsibility.

The Government will be in a position to announce our future plans and allocate the associated capital within the Health Capital Reconfiguration Fund sometime this year.

The forced rationalisation of our healthcare system only reflects 50 per cent of the cuts the Commonwealth has imposed on South Australia.

As such the state will make necessary changes to remissions to the Emergency Services Levy to help fill the health budget hole left by the Commonwealth Liberal Government.

Proceeds from the Emergency Services Levy go into the Community Emergency Services Fund.

Since 2000 the state government has provided remissions to fixed and mobile property owners, with the total value of those remissions being nearly 50 per cent of the funds required by the Community Emergency Services Fund.

The state government paid for these remissions, making contributions into the Community Emergency Services Fund.

This fund pays for emergency services such as the MFS, CFS, SES and some ambulance and SAPOL activities.

Because of the Commonwealth budget, the state is no longer able to provide these general remissions for the emergency services levy.

This money is now required to be spent on healthcare to ensure we can still deliver high-quality healthcare now and into the future.

Changes to fixed property ESL contributions will take effect on July 1 2014 and mobile property changes will apply from August 1 2014.

Eligible pensioners and concession card holders are exempt from these changes for their principal place of residence, keeping the Premier's pledge to protect pensioners.

Actual increases in fixed property ESL will vary based on the capital value of the property, the regional area the property is located within and the property's land use.

For the median household in metropolitan Adelaide this increase will equate to about \$150 per year.

For cars and large motorcycles this increase will equate to \$8 and for historic vehicles it will be \$2.

Removal of the Emergency Services Levy fixed and mobile property remissions for non-concession recipients will raise \$357 million over the forward estimates.

This was not an easy decision because I know full well the impact this will have on households.

This is an unfortunate result of the Commonwealth cuts and them transferring their budget repair onto the states.

Other response measures to the Commonwealth budget the state has been forced into include removing expenditure under the national partnerships which the Commonwealth Government has cancelled in the areas of health, skills and education.

This will result in a reduction in spending of \$115 million over the forward estimates.

The Abbott Liberal Government has also slashed \$30 million per year from concessions, dishonouring another National Partnership agreement with South Australia.

This is a cut we will not stand for.

This Labor Government respects and understands the contribution that our senior citizens have made growing this state and realise we must support South Australians most in need.

Nothing highlights more the stark contrast between Labor and Liberal, than this.

That is why Labor will be protecting pensioners and low-income earners.

If the Commonwealth Liberal Government does not reverse its decision the state will be forced to remove Local Government Rate concessions from 2015–16.

This is a decision we have not made lightly and our clear message to the Local Government Association and welfare groups is to partner with us in fighting these Liberal cuts.

I want to bring a united front to Canberra calling on Prime Minister Tony Abbott and all of his South Australian Liberals to end their assault on South Australia's pensioners and low-income earners.

In total the full value of the Commonwealth cuts to the state budget over the forward estimates equals \$897.6 million.

Our response measures equate to \$897.5 million over the forward estimates.

Mr Speaker, it gives me no pleasure coming into this chamber today and informing the house about what we are forced to do in response to the devastating impacts of the Commonwealth Liberal cuts.

However, these are the measures we must adopt to ensure our budget remains sustainable and has the capacity to manage the next round of cuts Mr Abbott and Mr Hockey have already flagged.

If the Commonwealth backs down on these horrific cuts I will gladly come back to this place and change our position.

As Treasurer I must formulate a budget based on the decisions and policies of the Commonwealth Government.

A Commonwealth Liberal Government that has publicly ripped up guarantees between the states and has broken promise after promise after promise.

While we can't ignore these cuts we won't follow the same path as the Commonwealth and walk away from commitments we made before the election.

We went to the election with a series of commitments to build a stronger South Australia.

I can inform the house today that all funding commitments have been honoured, as have our commitments to the Member for Frome.

We have honoured these commitments because Labor understands the importance of being true to our word.

Unlike the Prime Minister we are not willing to say one thing before an election and then do the complete opposite after it.

This budget delivers all our election commitments and maintains our prudent fiscal targets.

In particular we return to surplus in 2015–16 with a surplus of \$406 million.

That surplus is projected to grow to \$776 million in 2016–17 and \$883 million in 2017–18.

Furthermore, we will ensure we meet our fiscal targets of a level of general government net debt that remains affordable over the forward estimates.

Previously this target has stood at a ratio of net debt to revenue of 50 per cent.

In both our pre and post Commonwealth budget outlooks we were achieving these targets, with the exception of the financial year 2015–16 when the new Royal Adelaide Hospital comes online.

This ratio of net debt to revenue of 50 per cent will be reduced to 35 per cent in response to a SA Water gearing change.

Our current gearing ratios within SA Water are out of line with its statutory water corporation counterparts.

Furthermore this discrepancy has also led to our general government sector debt figures being inconsistent with our interstate counterparts on a like for like basis.

To rectify this and ensure South Australia is more comparable with other states, the government will increase the debt to asset gearing ratio of SA Water from 27 per cent to 45 per cent.

This move will see \$2.7 billion worth of debt shifted from the General Government Sector to the Public Non-Financial Corporation Sector.

I am advised this adjustment will have no impact on the pricing to water consumers, as the level of actual debt held by SA Water plays no part in water pricing determinations by ESCOSA.

To ensure we still maintain fiscal discipline the new target of net debt to revenue of 35 per cent will be enforced.

To meet our fiscal targets the government will constrain expenditure growth in a responsible and achievable manner.

Expenditure as a share of the economy will reduce to below 15 per cent, for the first time in recent memory.

This expenditure constraint is important in the context of fluctuating revenues.

Since the pre-election update January 22, there has been a reduction of \$312 million in key state taxes such as payroll, property and gambling taxes over the forward estimates, before policy measures announced in this budget.

This has been offset by an increase of \$355 million in GST receipts over the forward estimates.

That is why we have made a point of ensuring all election commitments were appropriately balanced by responsible and proportionate savings measures.

This methodology has been extended to other expenditure since the election including expenditure associated with the agreement with the Member for Frome.

Savings include:

- further efficiency dividends on government agencies to the tune of 1 per cent in 2015–16 and a further 1 per cent in 2017–18
- pay freezes for Executives and Ministerial advisors in 2014–15
- merging DMITRE and DFEEST to create the new Department of State Development
- reducing expenditure on non-service consultants and contractors, and
- procurement efficiencies.

Furthermore, wages growth within the public sector will be contained to 2.5 per cent.

If this is not met corresponding savings will be required.

It should be noted these measures would have been in place regardless of the Commonwealth budget.

These measures ensure we meet our own fiscal metrics.

These measures are prudent and they appropriately balance where we need to cut our own cloth to ensure our election commitments are delivered sensibly.

Our election commitments are based on building a Stronger South Australia.

Labor fundamentally believes that by investing in our community we enjoy dividends both economically and socially.

Our election commitments have been targeted across of wide range of sectors in the state.

In the area of education.

We are committing \$85 million for a new city high school, \$64.1 million of which will be spent over the next four years.

A second city high school will be built on the existing Royal Adelaide Hospital site with the capacity for 1000 students and will become operational in 2019.

The second city high school will be the centrepiece of a \$166.3 million spend on education infrastructure over the next four years.

Other education investments include:

- \$77 million over four years to fund our share of the Gonski commitments
- \$13.7 million over four years for additional Family Services Coordinators and Allied Health Officers to provide for expanded services in children's centres
- \$7.7 million for 'Be Active' vouchers for primary school children to receive an annual voucher for \$50 toward their sports club fees
- \$6 million for preschool outdoor learning areas
- \$2.3 million to establish a specialist advanced manufacturing school at Seaview High School
- \$18 million over four years in additional resources to maintain levels of service for employment and volunteer screening applications to ensure full and thorough assessments under the Children's Protection Act, and
- \$15 million for discretionary payments to some teachers whose long service leave entitlements will be brought into line with other public sector employees following amendments to the Education Act 1972.

Despite the Commonwealth's view on healthcare, Labor is still committed to delivering world-class services.

The new Royal Adelaide Hospital is on track to deliver a quantum leap in health care from 2016.

Furthermore the budget provides:

- \$17.5 million to be spent over the next three years to redevelop and expand the neonatal unit at the Flinders Medical Centre, consolidating all of the hospital's neonatal intensive care, special care and isolation requirements to be provided in one location
- \$15 million per annum from 2017–18 for the operating costs of the consolidated neonatal unit at the Flinders Medical Centre
- new ambulance stations will be built at Northfield and Seaford
- \$8.4 million over four years to establish an independent Mental Health Commission in South Australia
- \$7.4 million over the next two years to establish a City Disability Respite facility
- \$5.8 million over four years for the Health@Home initiative which establishes a pilot program for community paramedics working in our community to prevent hospital admissions, and
- \$10.5 million over four years to establish regional dialysis services at Gawler.

Over the past 12 years this Labor Government's commitment to law and order has been unparalleled. This budget builds on that approach with:

- \$5.3 million over three years for a new Henley Beach Police station
- \$9.7 million over three years to provide increased payments from the Victims of Crime Fund. This will help ensure victims have better access to compensation payments
- \$8.9 million over four years for GPS based electronic monitoring bracelets for the intensive monitoring of serious violent offenders and child sex offenders

- \$2 million over four years to reinvigorate the role of the Neighbourhood Watch program
- \$2 million over four years for grants to local councils to install CCTV systems, security lighting and other technologies to improve safety, and
- \$1.5 million over four years for facial recognition technology.

Before the election we made commitments to our senior citizens. Unlike the Commonwealth we will not back away from them and as such we will honour our commitments by funding:

- \$41.7 million over four years to provide for a \$50 increase in the annual energy and medical heating and cooling concessions paid to eligible recipients from 1 July 2014
- \$32 million to protect pensioners from the Commonwealth Liberal Government cuts in 2014–15, and
- \$14 million over two years to introduce an \$8500 grant for people over 60 years of age to purchase a new age-appropriate home to live in.

This government understands the importance the regions play in growing the prosperity of our state.

Regional South Australia accounts for 29 per cent of the state's population and produces nearly half of our merchandise exports and contributes around 25 per cent of Gross State Product.

We are committed to growing the economic output of our regions and Labor is proud to partner with the Member for Frome to deliver an expansive regional package.

This includes:

- \$70 million over four years to establish a Jobs Accelerator Fund to support job creation in regional areas and increase the funding available to the Regional Development Fund and Regional Development Associations to \$15 million per annum and \$3 million per annum respectively
- \$35.5 million to be spent over the next four years for the continuation of rural road safety measures including improved signage and delineation, minor junction improvements and removal, and modification and shielding of roadside hazards and median centreline treatments
- a \$7.5 million grant in 2014–15 towards the Motorsport Park at Tailem Bend
- \$6 million over four years for the Agribusiness Accelerator Program
- \$4 million grant in 2014-15 to upgrade the Innamincka airstrip for both the community and mining and exploration industries, and
- \$6 million over four years for the Remote Areas Energy Supplies Scheme.

This state government is the definition of an infrastructure government.

When you look across the state it is hard to find a piece of infrastructure this government has not invested in and improves productivity for the state.

From the new Adelaide Oval, to the new Royal Adelaide Hospital and the duplicated Southern Expressway there are projects that have already helped transform Adelaide or will do so when they come online in the near future.

Labor has a proud infrastructure record but we don't want to rest on our laurels.

That is why the government continues to maintain a strong commitment to infrastructure investment with \$10.1 billion being spent across the forward estimates. Our infrastructure spend will support 4700 jobs per annum on average.

New infrastructure projects coming online include the partnership between the state and the Commonwealth to work on both ends of the North–South Corridor.

This budget includes provision for the \$620 million upgrade of 2.3 kilometres section of road between the Southern Expressway and Ayliffes Road at Darlington and upgrades to intersections at Marion and Sturt Roads, South and Daws Roads.

This project will be undertaken concurrently with the \$896 million Torrens Road to River Torrens upgrade announced in last year's budget.

The state government welcomes the Commonwealth Government's commitment to complete the entire North–South Corridor within the next decade.

Other major infrastructure projects include:

- \$160 million will be spent over the next three years to extend the O-Bahn guided busway including a tunnel below Hackney Road from near Plane Tree Drive to connect with the cross-city bus lane
- \$152.5 million, including \$60.0 million to be spent within the forward estimates, to electrify the Gawler line from the city to Salisbury
- \$27 million over two years for the Mount Barker interchange which is jointly funded by the state, Commonwealth and local government, and
- \$7.5 million over three years from 2015–16 to build more Park'n'Ride facilities to provide additional commuter car parking and passenger facilities.

This government is committed to transport infrastructure because we know the important role it plays in decongesting our city.

We went to the election with the commitment to bring in a Transport Development Levy and we will honour that approach.

We know congestion is an issue and the TDL will help alleviate that problem with appropriate and productive infrastructure.

We invest in infrastructure because we know the role it plays in supporting and growing our economy.

It is not just on the infrastructure front where this state government looks to support our business community.

The Premier has called on all Ministers to reconnect with business to ensure South Australia's business environment is as competitive and attractive as possible.

We want to support businesses because we know the crucial role they will play in helping grow our economy and deliver prosperity into the future.

The latest Pitcher Partners report finds that South Australia is either the lowest or the second lowest taxing state of the five states surveyed — depending on the size of the reference business that is used for comparison.

That is a reputation we want to keep on developing into the future.

In the last state budget, we announced payroll tax concessions for small businesses, which effectively halved the payroll tax rate for businesses with a taxable payroll of less than \$1 million.

I can confirm that despite Commonwealth cuts these tax cuts remain in place in 2014–15.

Since 2004, Labor has progressively cut the payroll tax rate from 5.67 per cent to 4.95 per cent and increased the tax-free threshold from \$504 000 to \$600 000.

We are also undertaking the most significant reform of workers' compensation in more than 25 years and will save registered businesses in South Australia about \$180 million per year.

This government understands that every dollar we save in business costs not only acts as an incentive to overseas and interstate investment but it also allows local business to grow.

This government will also continue to invest in the economy to ensure we transition our manufacturing base to more resilient and diverse industries.

In South Australia jobs were built on traditional manufacturing but with the Commonwealth decision to withdraw support for the car industry we need a stronger focus on transitioning our economy.

We need to support our component manufacturers so they can re-tool and find new markets when Holden closes down.

As such Labor commits \$60 million towards the 'Our Jobs Plan' will revitalise and rebuild the state's economy in light of these changes.

Furthermore we are investing in sectors that will grow and create future employment and prosperity.

Over the next 16 years we know our resources sector will create 35 000 jobs.

We want to ensure that happens and in the quickest timeframe possible and that is why we are committing \$44 million over four years.

Investments will see the construction of a new State Drill Core Reference Library and a Mining and Petroleum Services centre of excellence at Tonsley, expand our world renowned PACE scheme and defer royalties for those who develop unconventional gas wells.

Furthermore we will invest \$52 million over two years in addition to \$11 million in 2013–14 towards the Skills for All initiative, to ensure industry training needs are met.

This will fund an extra 20 000 VET students.

Other initiatives we are funding to help grow and transition our economy include:

- \$9 million over three years to establish Green Industries SA to work with the business, government and the environmental sector to realise the full potential of the green economy, and
- \$3 million toward Health Industries SA a body that will seek to leverage investment from the health sector on the back of our \$2 billion health precinct anchored by the new Royal Adelaide Hospital and the SAHMRI.

Separate to the Commonwealth Budget and separate to our own savings initiatives the state government has made the decision to no longer have the Motor Accident Commission (MAC) to write new CTP insurance policies and commence running off its claims against policies issued up to and including 30 June 2016.

We are doing this in the interest of reducing debt but also preparing ourselves for a future economic response depending on what happens in future Commonwealth budgets.

Writing third party insurance policies is not an essential service that should be delivered by government.

I am advised, this approach follows a previous recommendation made by the Motor Accident Commission.

Money from investments that reside within the MAC will be returned to government and placed into the Highways Fund to allow for future road improvements.

This initiative is anticipated to allow MAC to pay \$500 million in surplus net assets to the government by the end of 2016–17.

Mr Speaker, the 2014–15 Budget has been framed around difficult challenges for South Australia.

South Australia's economy grows Mr Speaker.

The South Australian economy has experienced increases in housing construction activity and at \$12.3 billion, our exports are at record highs.

That is why the aim of this budget is one to help foster prosperity instead of delivering austerity.

Now is not the time to follow the Commonwealth and introduce measures that destroy confidence within the economy.

Furthermore in relation to the cuts required because of the Commonwealth budget let me make this point very clear.

We are not an island state. Commonwealth decisions have a big impact on South Australia and its people.

The decision to cut Commonwealth support for the car industry from Holden will cost 13 000 jobs.

The \$5.5 billion cuts to hospitals and schools can not be absorbed.

If this Commonwealth budget passes the Senate, it will seriously affect South Australian families and households.

Now is the time to fight these cuts.

I am calling on all sectors of our community to work with us as we fight these cuts and work out how to deliver services into the future in light of the drastic Commonwealth measures.

I commend this budget to the House.

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