



2006 | 07

BUDGET OVERVIEW

Delivering results for South Australia

BUDGET PAPER 1



Government
of South Australia

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2006-07 BUDGET AT A GLANCE

The budget incorporates a program of reform designed to create wealth, jobs and opportunity for the people of South Australia, and provides record funding for health.

The budget provides in full for every spending commitment announced during the campaign for the 2006 election.

The budget delivers ongoing operating surpluses, which secure the State's triple-A rating.

The Government has announced significant reforms to the public sector to make it more efficient, effective and responsive to the needs of South Australian families and communities.

Decisions to target new spending have been guided by goals established across six broad areas in South Australia's Strategic Plan.

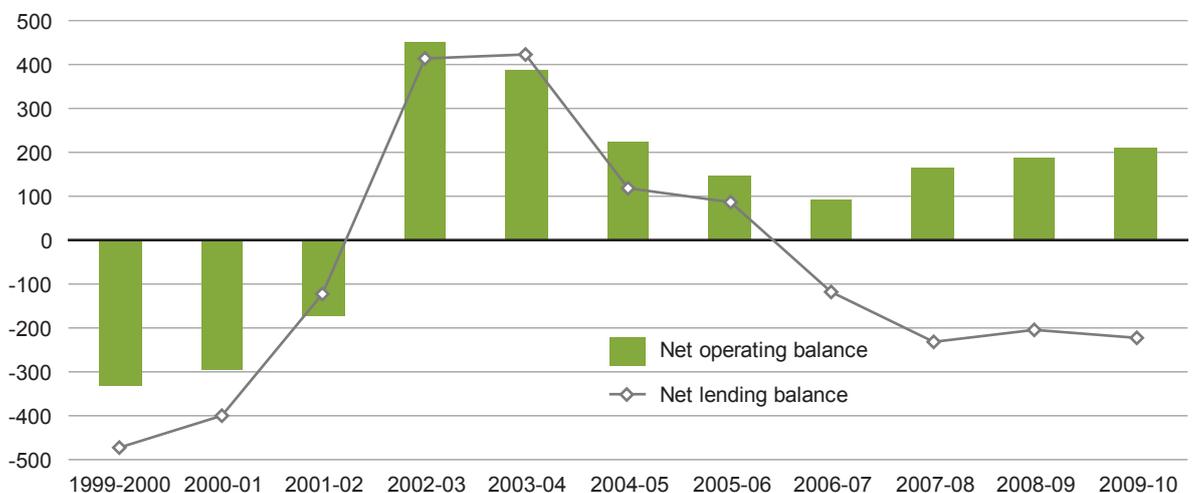
Health spending tops \$3 billion for the first time. This budget provides the single biggest injection into the health system amounting to \$640 million over the next four years.

Historically high levels of infrastructure spending are included.

This investment in infrastructure is partly funded by prudent levels of borrowings however net debt levels remain low, rising to \$689 million by June 2010.

The budget will deliver operating surpluses of \$91 million in 2006-07 rising to \$208 million in 2009-10.

General government sector budget surplus/deficit 1999-2000 to 2009-10 (\$ million)



1999-2000 to 2004-05 reflect actual results; 2005-06 to 2009-10 are estimates.

2006-07 BUDGET AT A GLANCE



The Government is committed to delivering sustainable budget operating surpluses and to prudently managing State finances to maintain a triple-A credit rating.

This budget delivers growing operating surpluses, from \$91 million in 2006-07 to \$208 million in 2009-10. Net borrowing requirements will grow, from \$118 million in 2006-07 to \$223 million in 2009-10.

There has been substantial additional operating expenditure to fund the Government's election commitments. Operating surpluses have improved compared with projections in the 2005-06 Mid-Year Budget Review.

This demonstrates the Government's commitment to responsible financial management.

Higher surpluses and prudent borrowings have enabled increased spending on infrastructure projects.

The key fiscal targets of operating surpluses and reducing net financial liabilities as a percentage of revenue are met in this budget.

Debt levels remain low. Net financial liabilities as a percentage of revenue trends downwards.

The budget contains new operating and investing expenditure initiatives of \$1486.6 million. After savings measures of \$695.1 million, this means agencies have been provided with net additional spending of \$791.5 million over four years for high priority public services.

New agency revenue measures and compliance and anti-avoidance measures will produce \$106.6 million and \$31.8 million respectively over four years.

General government sector net operating balance and net lending (\$ million)

| | 2005-06 Estimated result | 2006-07 Budget | 2007-08 Estimate | 2008-09 Estimate | 2009-10 Estimate |
|-----------------------|--------------------------------|-------------------|---------------------|---------------------|---------------------|
| Net operating balance | 147 | 91 | 162 | 188 | 208 |
| Net lending | 88 | - 118 | -230 | -206 | -223 |

General government sector debt indicators (\$ million)

| | 2006-07 Budget | 2007-08 Estimate | 2008-09 Estimate | 2009-10 Estimate |
|--|-------------------|---------------------|---------------------|---------------------|
| Net debt | 107 | 284 | 471 | 689 |
| Net financial liabilities | 8 247 | 8 497 | 8 722 | 8 964 |
| Net financial liabilities to revenue (%) | 73.2 | 73.0 | 73.0 | 72.6 |

FOCUSSING ON SERVICES AND BUILDING COMMUNITIES

This budget delivers net additional spending of \$791.5 million over the next four years to improve services to communities and meets every election commitment.

This budget provides for significant investment in the health, justice, education and transport portfolios, including:

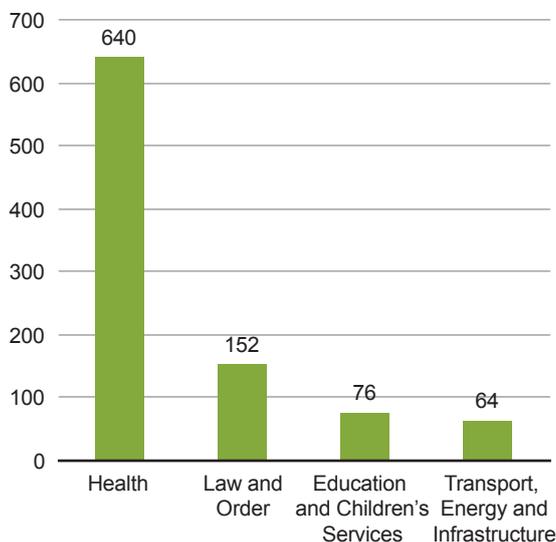
- \$640 million to support the provision of health services across the State;
- \$152 million for law and order, which includes \$109.5 million for *Recruit400*, a program to recruit an additional 400 police officers over four years;
- \$76 million for Education, reflecting in part the introduction of the *Education Works* strategy, and including the delivery of 100 more teachers and implementation of the new South Australian Certificate of Education; and

- \$64 million for Transport Energy and Infrastructure which includes \$50 million to continue the bus fleet replacement program.

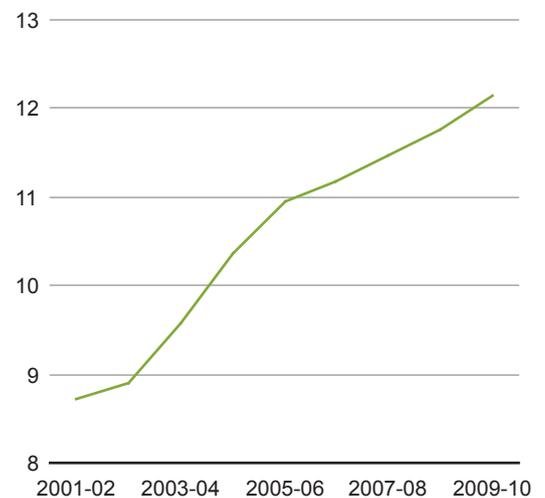
Reflecting the Government's commitment to meet growing demands in areas like health, education, justice and welfare services, operating expenditure has grown significantly over the four years to 2005-06.

Expense growth moderates over the period from 2006-07 to 2009-10 reflecting the impact of savings measures and expenditure restraint associated with the projected slowing in revenue growth.

**Net new spending in key areas^(a)
(\$ million over four years)**

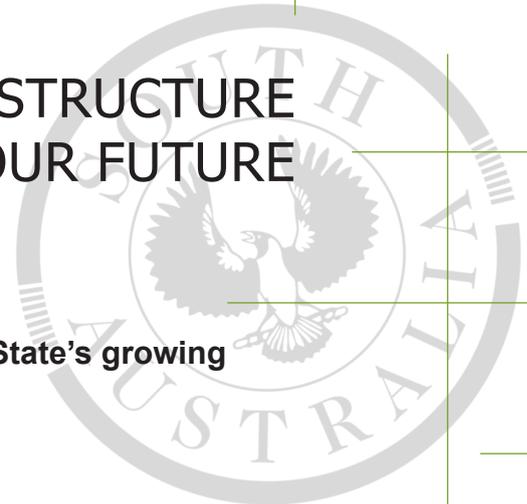


**General government sector operating expenditure
(\$ billion)**



(a) Excludes across government savings and implementation costs.

DELIVERING INFRASTRUCTURE FOR OUR FUTURE



Historically high levels of capital spending provide for the State's growing infrastructure needs.

The importance of investing in the State's infrastructure has been recognised in the 2006-07 Budget with a significant boost to infrastructure spending.

Over the next four years, more than \$3.7 billion will be invested in capital projects, with capital purchases and acquisitions expected to be more than \$1 billion in 2009-10.

By 2009-10 capital acquisitions will be nearly twice the level of annual depreciation resulting in a significant growth in the State's asset stock.

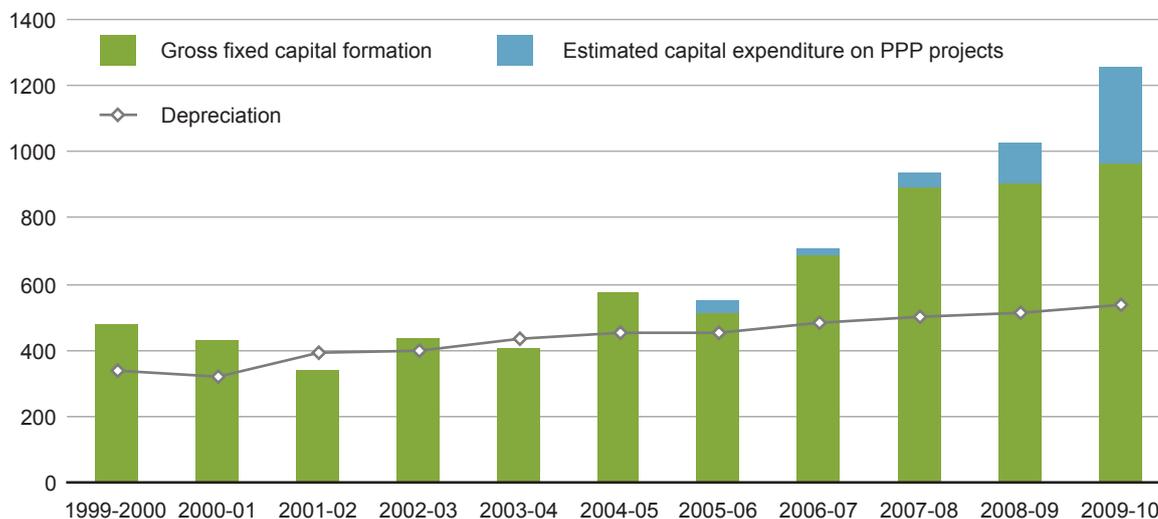
Significant projects included in the capital program are:

- \$243 million for the Port Adelaide Maritime Corporation — Common User Facility;

- \$88 million (total project cost \$145 million) to upgrade and expand Flinders Medical Centre and \$35 million for GP Plus Health Care Centres;
- \$56.2 million (total project cost \$82.4 million) to upgrade school infrastructure as part of the *Education Works* strategy; and
- \$50 million to continue the bus fleet replacement program.

The Government proposes to undertake a number of Public Private Partnership (PPP) projects providing infrastructure of over \$600 million.

General government sector capital acquisitions 1999-2000 to 2009-10 (\$ million)



Note: Gross fixed capital formation is acquisitions of assets less asset sale proceeds. There is a break in the series due to changed arrangements regarding the State's vehicle fleet. Up to 2002-03 the vehicles were leased. In 2003-04 and 2004-05 the Government transitioned from the lease to ownership. 1999-2000 to 2004-05 reflect actual results; 2005-06 to 2009-10 are estimates.

PUBLIC PRIVATE PARTNERSHIP PROJECTS

Using Public Private Partnership (PPP) arrangements over \$600 million of new infrastructure will be built. This includes \$517 million to increase capacity in our detention facilities.

A new Men's Prison, Women's Prison, Pre-Release Centre and Youth Detention Centre will be constructed and commence operations in 2011-12.

New Men's Prison — \$315 million

A new 760 bed Men's Prison will be constructed at Mobilong. The new prison will significantly increase total beds available compared with Yatala Labour Prison which currently has a design capacity of 341 beds.

New Women's Prison — \$96 million

A new 150 bed Women's Prison will be co-located with the Men's Prison at Mobilong. Adelaide Women's Prison is currently at capacity and additional funding is also provided in this budget to bring the existing prison to a design capacity of 92 beds.

Youth Detention Centre — \$79 million

A new 90 bed Youth Detention Centre will be built at the site of the current facility at Cavan. This will bring together the current operations at Cavan and Magill into a single modern facility. The Youth Detention Centre at Magill will be closed and the site vacated.

Pre-Release Centre — \$27 million

A new 80 bed Pre-Release Centre will be built at Cavan. The Pre-Release Centre will have facilities for both men and women and will replace the current Men's Pre-Release Centre at Northfield.

The new prisons and Pre-Release Centre will enable the Northfield site to be vacated for subsequent sale and development.

Future land release

The new prisons and Pre-Release Centre development will enable the Northfield site on Grand Junction Road to be vacated.

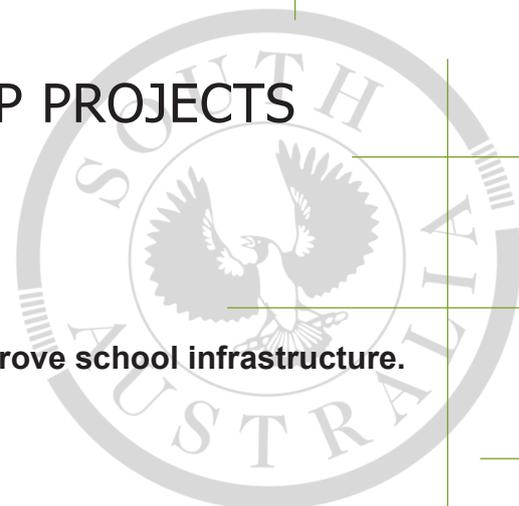
The site contains the Yatala Labour Prison, a Men's Pre-Release Centre and the Adelaide Women's Prison. These facilities will be decommissioned when the new facilities are constructed.

The site, which is comprised of 61 hectares, will be transferred to the Land Management Corporation which will produce a re-development master plan based on residential use.

It is expected that the site will be vacated in its entirety by 2011-12.

The Government intends to release over 300 hectares of land from their existing land release program, as well as the land that will become available from the Northfield site and surrounding areas after the relocation of the prisons. The value of this land totals approximately \$200 million and importantly equates to the possible construction of over 6200 dwellings.

PUBLIC PRIVATE PARTNERSHIP PROJECTS



The *Education Works* strategy provides \$216 million to improve school infrastructure.

The 2006-07 Budget provides support for the new *Education Works* strategy.

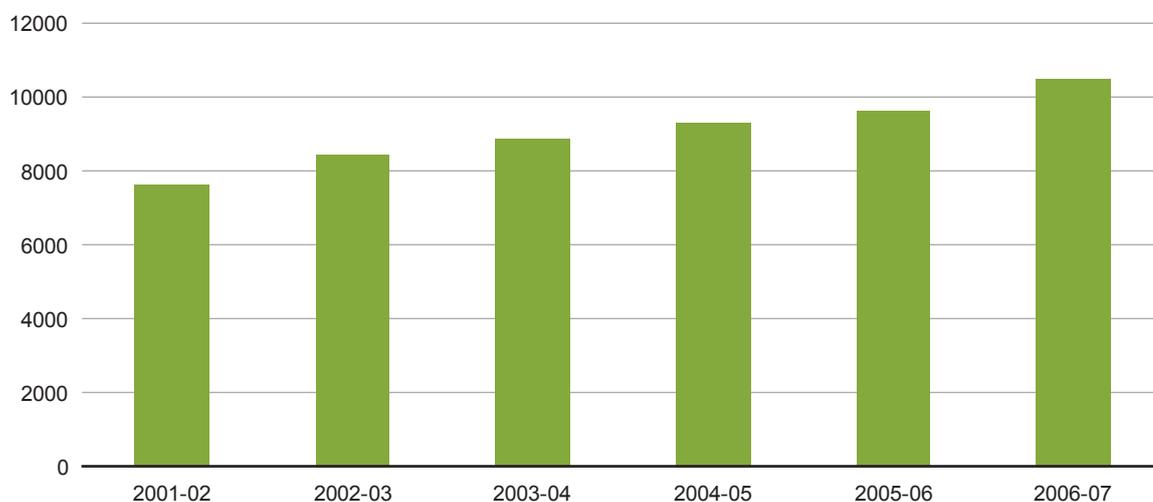
The *Education Works* strategy provides for \$216 million of school investment comprising new public investment of \$82 million and private investment, subject to development of the contractual arrangements, of \$134 million.

The *Education Works* strategy will see the construction of new school sites and targeted rationalisation and consolidation of existing school sites. The focus is on maximising curriculum choice and accessibility.

To facilitate this, the budget provides for the upgrade of existing school infrastructure and funding to support PPP arrangements that will deliver school infrastructure in the Playford North, Inner North and Inner West areas of metropolitan Adelaide.

Support is also provided for consultation and communication with communities and other activities associated with the *Education Works* initiative.

Spending per government school student^(a)



(a) Reflects budgeted expenses divided by enrolment estimates at the time of each budget.

FUNDING OUR INFRASTRUCTURE NEEDS

Borrowing levels are forecast to increase over the next four years to fund the significant infrastructure spending included in this budget. Debt levels will remain low.

Through the delivery of strong operating surpluses the need for new borrowings, and increased debt, has been constrained.

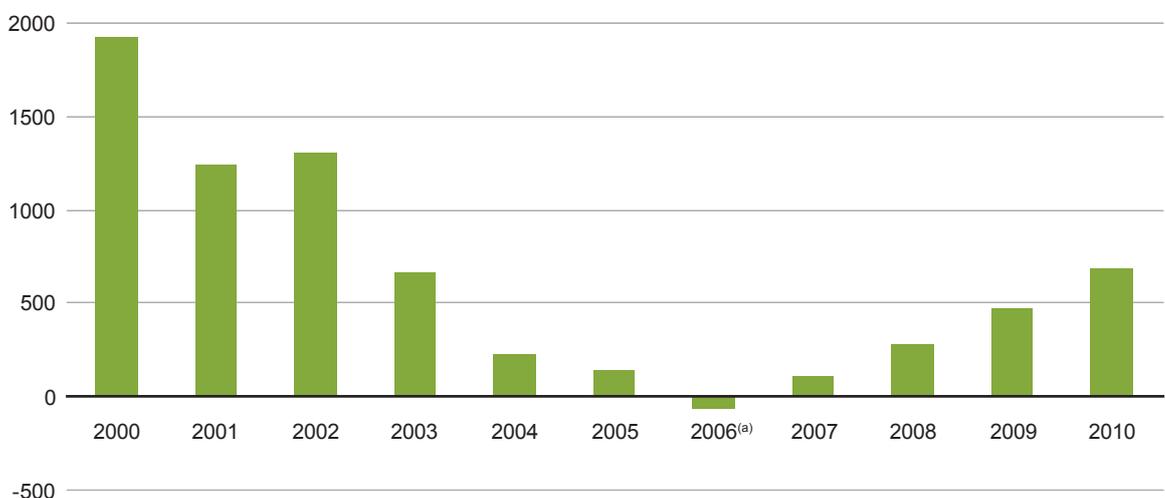
Debt levels, after being at record low levels, are forecast to increase across the forward estimates.

The significant debt reductions since June 2002 resulted from strong financial management which delivered both operating and net lending surpluses from 2002-03 up until 2005-06.

Net debt levels increase across the forward estimates as a result of prudent borrowings being undertaken to fund the Government's record capital investment program.

However, net debt is only forecast to be \$689 million by June 2010.

General government sector net debt 2000 to 2010 (\$ million)



2000 to 2005 reflect actual results; 2006 to 2010 are estimates.

(a) In June 2006, the Government received \$100 million in advance funding from the Commonwealth Government for AusLink roadworks. These funds will be spent on AusLink projects progressively over the next four years. The advance receipt has reduced net debt by \$100 million at 30 June 2006. Removing the impact of this advance from the estimated negative net debt of \$67 million at June 2006 would result in a net debt position of \$33 million, the lowest on record.

SAVINGS MEASURES



This budget incorporates \$695.1 million over four years in a cost saving and reform package, resulting from a comprehensive review of Government spending priorities...

Following the 2006 election the Government engaged Greg Smith to review Government expenditure across all agencies. This was done to achieve a reprioritisation of Government expenditure to frontline services and to create capacity for future expenditure priorities in health, education and law and order.

The 2006-07 Budget includes expenditure savings measures totalling \$277 million in 2009-10. These arise from adopting a number of the recommendations made by Greg Smith in his report and a general efficiency dividend applied to portfolio budgets of ¼ per cent per annum.

Savings include:

- reform of the delivery of business support functions to Government agencies by consolidating them in a shared corporate services environment. This and ICT procurement savings will generate efficiency

savings growing to \$60 million by 2009-10, freeing up resources for the delivery of frontline services to the public; and

- structural realignment in Government is expected to deliver \$12 million per annum in savings. These arise from the proposed abolition of the Department for Administrative and Information Services and the Office of Public Employment.

It is expected that major efficiency gains and savings on corporate services and executive overheads will be realised.

Government Reform Commission

A new Government Reform Commission has been established with a mandate to overhaul and modernise the South Australian Public Sector. The Chair of the new commission is former Queensland Premier Wayne Goss.

The Commission will work over a set 18-month period to advise the Government in the following specific areas of public sector reform:

- reviewing decision making processes to streamline services to the public;
- building a greater service culture;
- lifting standards of public sector performance;
- building new skills and mechanisms for rewarding excellence; and
- promoting greater flexibility and mobility of people and functions across the public sector.

The Commission is taking a strong collaborative approach to working with public sector employees to generate possible reform options for the Government's consideration.

SAVINGS MEASURES

...that will assist in meeting the South Australia's Strategic Plan target of leading the nation in cost effectiveness of Government services.

Specific agency measures include the following savings in 2009-10:

- \$53.9 million in the Education and Children's Services portfolio including from restructuring of state and district offices and a range of other efficiency and administrative savings;
- \$16.5 million in Health which includes significant administrative savings in head office and metropolitan health units;
- \$11.4 million in Families and Communities from reducing state funding to the level required under the Commonwealth State Housing Agreement, housing governance reforms, the rationalisation of corporate services and other administrative savings;
- \$10 million in the Justice agencies from consolidation of policy, planning and strategic functions, consolidation of Native Title resources and a range of other general efficiency and administrative savings;
- \$9.5 million in Transport, Energy and Infrastructure from a range of general efficiency and administrative savings, including procurement and property management; and
- \$51.8 million from the ¼ per cent per annum efficiency dividend.

Agency Revenue Measures

Agency revenue measures amounting to \$37.7 million in 2009-10 include the following:

- \$11.5 million from increases in the Victims of Crime Levy payable on expiation fees, criminal offences, indictable offences and youth offences;
- \$10 million from increases in waste levy charges payable on disposal of solid waste to landfill;
- \$3 million from increases in lodgement fees for civil actions in the Supreme Court, District Court and Magistrates Court; and
- \$4 million from increases in the capped fee for TAFE courses and the User Choice co-payment.

EXPENSES BY FUNCTION AND REVENUE BY SOURCE



Health and education dominate Government expenses.

Health is the most significant expense category, representing \$3.1 billion or 28 per cent of expenditure in 2006-07. More than \$2.5 billion of this is attributable to acute care institutions.

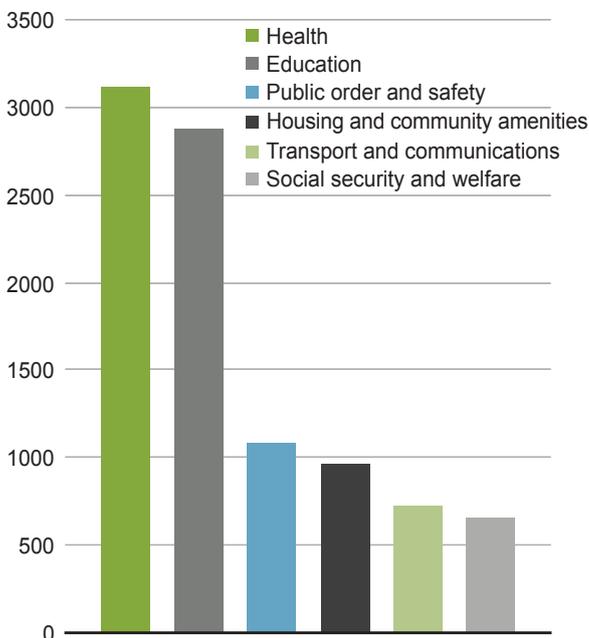
Education expenditure, at \$2.9 billion in 2006-07, represents the second largest expenditure category.

Public order and safety, including police and emergency services, and law courts and legal services, is expected to cost \$1.1 billion in 2006-07.

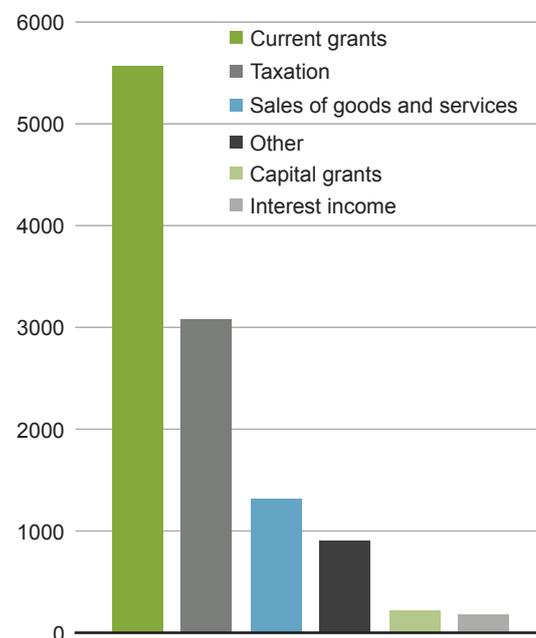
These services are funded from the Government's revenue streams, the most significant of which is grants from the Commonwealth Government, at \$5.7 billion or 51 per cent of revenue.

State taxes, at \$3.1 billion or 27 per cent of revenue, are the Government's second largest revenue source.

2006-07 General government sector expenses by major function (\$ million)



2006-07 General government sector revenue by source (\$ million)



IMPROVING WELLBEING

This budget provides substantial new resources for health, hospitals and the community. Spending on delivering State health services in 2006-07 will top \$3 billion for the first time.

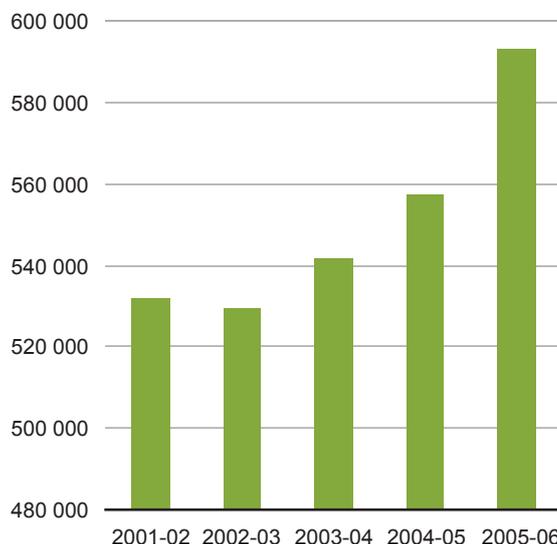
Over the next four years, an additional \$640 million will be spent on health initiatives:

- \$400 million for increased levels of health services;
- \$88 million to upgrade and expand the Flinders Medical Centre (part of a \$145 million program);
- \$38 million for elective surgery to reduce waiting times;
- \$35 million to construct new GP Plus Health Care Centres at Marion and Elizabeth;
- \$25.9 million for additional specialists and trainees, including 17 full-time in emergency departments;
- \$20.8 million for additional medical equipment in public hospitals;
- \$17.5 million for the transfer of Modbury Hospital back to public management;
- \$12.9 million for dental care to reduce waiting times;
- \$10 million to construct and operate a new ambulance station at McLaren Vale and replace existing stations;
- \$9.8 million in additional funding for Stage B of the Lyell McEwin Hospital Redevelopment; and
- \$7.9 million to recruit additional primary health care nurses for GP clinics.

This budget provides additional mental health services with a focus on early intervention. This includes:

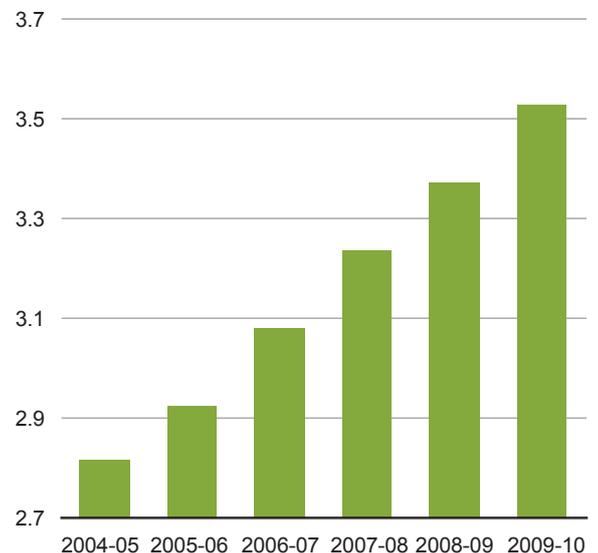
- \$10.2 million to provide services for children and adolescents; and
- \$9.7 million to employ additional mental health workers and nurses to support GPs.

Emergency department activity (metropolitan hospitals) — weighted occasions of services



Source: Department of Health.

Health portfolio operating expenditure 2004-05 to 2009-10 (\$ billion)



IMPROVING WELLBEING



The budget provides significant funding for transport and sport infrastructure and the development of public transport services...

The Government is continuing to support South Australia's transport infrastructure and public transport needs.

The budget provides for:

- \$50 million over two years, commencing in 2008-09, for the purchase of new public transport buses to service metropolitan Adelaide;
- \$10.1 million over four years to increase the capacity of Adelaide's public transport system by more than 5000 passengers a day;
- \$5 million for the commencement of the South Road/Sturt Road underpass in 2008-09 and 2009-10;
- \$4.6 million over four years for an expansion to the existing South Australian Transport Subsidy Scheme (SATSS). This funding will provide for an additional 40 vouchers for SATSS members per annum and for an increase in the maximum fare subsidised from \$30 to \$40; and
- \$1 million over two years for improved cycle paths and construction of safe road crossings.

Funding sports and recreation

The Government has provided significant funding support to sporting bodies including:

- a \$16 million grant to the South Australian Cricket Association to enable a major upgrade of the world-renowned Adelaide Oval;
- a \$5.5 million grant to the SANFL to substantially upgrade the security systems at AAMI Stadium and to install a new super viewing screen; and
- \$1 million to the South Australian Netball Association, to provide opportunities for women and girls to participate in this sport at all levels.

EXPANDING OPPORTUNITY

...significant funding for education and development opportunities for South Australian children...

In addition to the \$216 million of school infrastructure delivered through the *Education Works* strategy the 2006-07 Budget includes the following key initiatives:

- \$54.5 million to implement the new South Australian Certificate of Education;
- \$32.1 million to employ 100 more teachers to reduce year 3 class sizes;
- \$23.3 million for 10 Children's Centres, bringing the total number of these centres to 20;
- \$16 million for students with high needs;
- \$2.5 million in 2007-08 to extend the School Retention Action Plan to the end of 2007; and
- \$1 million in 2006-07 for schools to purchase additional books.

Expanding opportunity for the disabled

Younger people with a disability living in residential aged care will receive additional support through a joint Commonwealth and State funded agreement that provides \$13 million over the next four years. This will reduce the number of young people with a disability who reside in residential aged care facilities and improve care for those remaining in the facilities.

Over the next four years, additional funding is committed to the following improvements in care for people with special needs:

- \$20.7 million will be provided to assist those with disabilities by increasing the number of in-home support packages and group home places; and
- \$4.2 million will be invested in early intervention and therapeutic support programs to assist children with Autism Spectrum Disorder and provide support to their families.

BUILDING COMMUNITIES



...support for communities and the justice system...

The 2006-07 Budget provides for an additional 400 police at a total cost of \$109.5 million over the next four years.

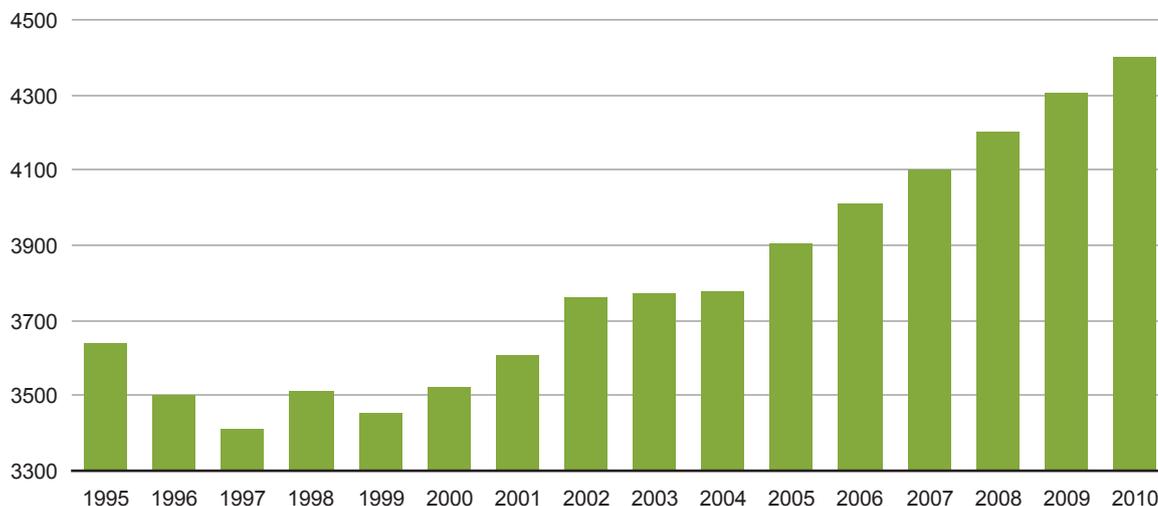
Further additional funding for the justice system includes:

- \$5.8 million as additional operational support for the courts system;
- \$5.4 million over three years to continue the sexual and violent offender treatment program;
- \$4.6 million over four years for enhanced DNA testing services;

- \$2.7 million over four years for the Office of the Director of Public Prosecutions to employ more prosecutors; and
- \$2.3 million over four years in additional ongoing support for the paedophile taskforce.

A Commissioner for Victims' Rights will be established to support victims in court proceedings and monitor the effect of the law on victims and victims' families.

Number of full-time equivalent police officers



Source: South Australia Police (SAPOL).
2007 to 2010 are estimates.

GROWING PROSPERITY

...large investments in skills and training providing South Australians with capacity for greater economic development...

As a part of the skills package, *Skills for South Australia, Building on Strong Foundations*, \$98 million is provided over four years for skills development. This budget provides \$52.1 million of new funding to develop the skills of our workforce in the priority areas of defence, mineral resources, manufacturing and construction.

Key initiatives include:

- \$24.8 million for the provision of 10 new trade schools;
- \$14.5 million to support the training of an additional 2600 apprentices and trainees, meeting a key election commitment. This includes 2000 apprenticeships and traineeships focussed on the needs of high-growth sectors, existing skills

shortages and the needs of regions and 600 extra apprenticeships and traineeships that will be created as a result of the Mineral Resources and Heavy Engineering Skills Centre;

- \$8.3 million to establish a Mineral Resources and Heavy Engineering Skills centre; and
- \$3 million to establish a Software Engineering Institute as part of the Carnegie Mellon University.

The Port Adelaide Maritime Corporation

Winning the \$6 billion Air Warfare Destroyer (AWD) contract made a significant contribution towards the Government's target of making Adelaide the defence industry capital of Australia.

The role of the Port Adelaide Maritime Corporation (PAMC) is to coordinate the delivery of the State's substantial commitment to the Royal Australian Navy's AWD project.

The Government has committed substantial resources to the PAMC including:

- \$243 million for construction of the AWD Common User Facility and harbour dredging associated with the project;
- \$67.7 million to acquire strategic land on the Le Fevre Peninsula;
- \$8.1 million for construction of the Maritime Skills Centre; and
- \$6 million to support operations of the AWD Systems Centre.

ATTAINING SUSTAINABILITY



...support for the environment with increased funding for national parks, the River Murray and reducing greenhouse emissions...

Major initiatives include:

- \$8.4 million additional contribution to the Murray-Darling Basin Commission to improve environmental flows in the River Murray;
- \$7.2 million over four years for an additional 20 park rangers;
- \$5.7 million to establish a River Murray forest commencing with the planting of more than 2.5 million trees between Morgan and Renmark; and
- \$2 million to provide a rebate scheme for rainwater tanks to be plumbed into houses.

Zero Waste SA will spend an additional \$3 million per annum from 2007-08 working with the local government sector to expand programs targeted at reducing the amount of waste sent to landfill.

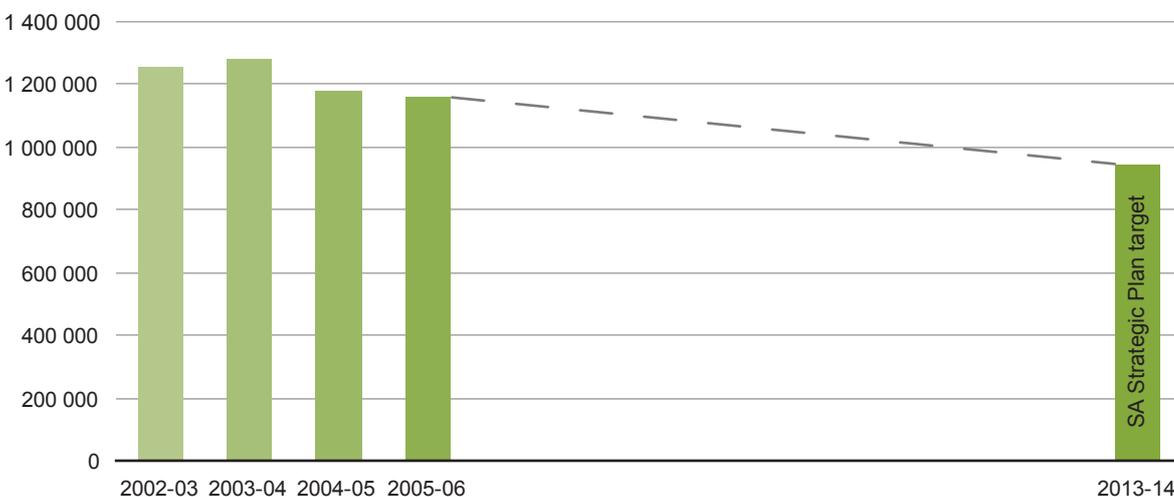
Further funding has been provided for initiatives targeted at addressing climate change including:

- \$1 million over four years for the position of Chair of Climate Change at the University of Adelaide; and
- \$200 000 per annum for a new Climate Change Council.

The budget also provides \$10.8 million over four years to increase the number of State Government vehicles that are able to run on more environmentally friendly fuels (principally LPG) to 50 per cent by 2010. This will provide environmental benefits and save the Government \$8.5 million in fuel costs over the same period.

The Government car fleet will include a greater proportion of more fuel efficient four cylinder vehicles.

Waste to landfill (tonnes)



Source: Environment Protection Authority.

FOSTERING CREATIVITY

...support for arts infrastructure and for the development of a vital and creative arts sector in South Australia.

\$9.8 million has been provided over four years for the upgrade of the Adelaide Festival Centre and the Lion Arts Centre, to ensure that these facilities remain premier arts venues.

Over the next four years, this budget also provides:

- \$2 million for the Centre for Innovation to assist commercialisation of innovative technologies;
- \$2 million to make the Adelaide Festival Fringe an annual event;
- \$1.8 million to support the establishment of the new SA Regional Arts Centre for Culture Program, which will increase access to the arts in regional centres;
- \$1.4 million over three years for an extension to the successful Thinkers in Residence Program;
- \$1.2 million over three years for the Bragg Initiative, a collaboration between the Royal Institution of Great Britain and the South Australian Government, sharing and advancing scientific and historical research and public education; and
- \$875 000 over two years for the hosting in Adelaide of the International Association of Young People Theatre Congress in 2008.

Festival State

South Australia enjoys a considerable reputation and competitive advantage as a presenter of high quality arts and cultural festivals. These festivals enjoy extraordinary levels of local community participation, and generate significant tourism. The budget provides:

- \$2 million for a new Adelaide International Guitar Festival;
- for our flagship biennial Adelaide Festival of Arts to receive additional funding of \$500 000 to ensure that it maintains a strong free public program;
- additional funding of \$200 000 for the biennial Adelaide Festival of Ideas; and
- \$200 000 for the Adelaide Festival Centre's winter event program.

REGIONS



The Government recognises that, for regional communities, achievement of South Australia's Strategic Plan objectives is challenged by distance and population density.

The budget provides \$79.8 million in additional funding over the next four years to regional areas.

A number of key bodies, policies and programs work together to focus government attention on regional issues, through the regional development framework.

The Regional Development Infrastructure Fund is a key part of the Government's regional development framework.

\$9.6 million has been provided to extend the Regional Development Infrastructure Fund for a further four years to establish strategic infrastructure in regional areas.

The State's rural road network will benefit from an additional \$7.6 million in road funding over three years commencing in 2006-07.

Other regional budget initiatives include:

- \$1.5 million over three years will be allocated to The Olympic Dam Taskforce to support its operations in facilitating and maximising the flow-on benefits of the proposed \$5 billion mining expansion; and
- the Port Augusta Renal Dialysis Unit will be redeveloped at a cost of \$1.5 million over two years.

REVENUE MEASURES

Future IGA taxation reforms will save businesses \$296 million over the next five years. This takes the total tax relief provided by the Rann Government from 2004-05 to 2010-11 to \$1.57 billion.

IGA reforms will assist business

Rental and mortgage duty rates will be:

- cut by one-third from 1 July 2007;
- cut by a further one-third from 1 July 2008; and
- abolished from 1 July 2009.

Stamp duty rates on non-realty property transfers and non-quoted marketable securities will be:

- halved from 1 July 2009; and
- abolished from 1 July 2010.

2006-07 Budget measures

There will be additional compliance funding for RevenueSA.

Stamp duty provisions relating to transfers of majority interests in land rich companies will be strengthened by:

- lowering the land to total asset test from 80 per cent to 60 per cent (except for primary production companies where the 80 per cent test continues); and
- amending the ownership test to apply duty to transfers of 50 per cent interests in addition to interests greater than 50 per cent (current test).

Summary of revenue measures (\$ million)

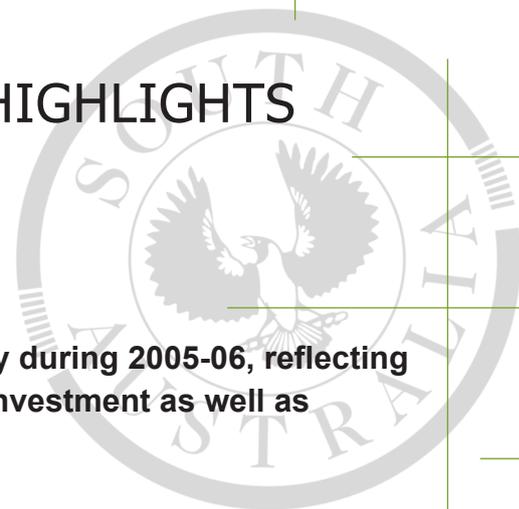
| Cost of previously announced IGA tax reforms (yet to be implemented) | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|--|------------|-------------|-------------|-------------|--------------|
| Abolition of: | | | | | |
| remaining mortgage duty ^(a) | — | 16.1 | 36.0 | 58.4 | 64.0 |
| rental duty | — | 5.3 | 11.7 | 18.8 | 20.4 |
| stamp duty on non-realty property transfers ^(b) | — | — | — | 17.7 | 37.9 |
| stamp duty on non-quoted marketable securities | — | — | — | 3.0 | 6.6 |
| Total cost to the Budget | — | 21.4 | 47.7 | 97.9 | 128.9 |
| 2006-07 Budget measures | | | | | |
| Additional RevenueSA compliance activity resulting in increased taxation collections | 3.0 | 6.0 | 6.0 | 6.0 | 6.0 |
| Land rich companies — strengthening of stamp duty provisions | — | 2.9 | 3.9 | 4.0 | 4.0 |
| Total benefit to the Budget | 3.0 | 8.9 | 9.9 | 10.0 | 10.0 |

(a) Note that mortgage duty has already been abolished on residential loans for owner occupation, loan refinancing and mortgage discharges.

(b) Costing excludes water licence transfers which have already been exempted from stamp duty, effective from 1 July 2006.

Totals may not add due to rounding.

ECONOMIC HIGHLIGHTS



The South Australian economy continued to perform solidly during 2005-06, reflecting strong growth in housing construction and new business investment as well as significantly higher crop production.

The labour market has continued to improve in the early months of 2006-07 with the trend unemployment rate falling to a record low 4.8 per cent in August 2006, and total employment reaching 752 500 — a net increase of 60 500 since March 2002.

South Australian population growth during 2005 was the highest experienced since the early 1990s.

The overall rate of State economic growth (as measured by Gross State Product (GSP)) is estimated to be 3.0 per cent in 2005-06, up from 2.6 per cent growth recorded in 2004-05.

In 2006-07 economic growth is forecast to be 2.5 per cent. GSP growth will be affected by predicted lower crop output resulting from poor winter rainfall. A slowing in housing construction is also anticipated.

South Australian employment growth is forecast to be 1.5 per cent for 2006-07.

In the years 2007-08 to 2009-10 economic growth is projected to be maintained at 2.75 per cent per annum.

Key assumptions underlying the budget and forward estimates - South Australia

| | 2005-06 ^(a) Actuals | 2006-07 Forecast | 2007-08 Projection | 2008-09 Projection | 2009-10 Projection |
|---------------------------------------|-----------------------------------|---------------------|-----------------------|-----------------------|-----------------------|
| Gross State Product – real growth (%) | 3.00 | 2.50 | 2.75 | 2.75 | 2.75 |
| State Final Demand – real growth (%) | 2.60 | 2.50 | 2.75 | 2.75 | 2.75 |
| Employment – growth (%) | 1.70 | 1.50 | 1.00 | 1.00 | 1.00 |
| CPI (%) | 3.20 | 3.25 | 2.50 | 2.50 | 2.50 |

(a) 2005-06 Gross State Product is based on SA Treasury estimates. Other 2005-06 data is sourced from the ABS. Data from 2006-07 onwards is based on SA Treasury estimates.

RISKS TO FISCAL OUTLOOK

South Australia faces some considerable fiscal challenges over the next four years.

The budget estimates include allowances to help manage potential financial risks; for example, allowances for wage and salary outcomes and capital expenditure contingency provisions.

- General government employment expenses account for 47 per cent of total expenses. The outcome of future wage negotiations will be crucial in determining whether forward estimates can be achieved.
- By 2009-10, if future enterprise bargaining outcomes were 1 per cent above provisions, the budget impact would be \$169 million per annum.
- State tax revenues are exposed to changes in both the volume and the value of economic activity. Taxes such as payroll tax are influenced by general economic trends. A 1 per cent drop in taxation and royalty revenue overall would result in around \$32 million less income per year.
- GST revenue from the Commonwealth Government is exposed to variations in national economic activity.

GUIDE TO THE 2006-07 BUDGET PAPERS

1 **Budget Overview 2006-07**

The Budget Overview provides a summary of the 2006-07 Budget. This document highlights the key features of the budget and provides an overview of budget initiatives.

2 **Budget Speech**

The Treasurer's budget speech, as delivered by the Hon Kevin Foley MP in Parliament on 21 September 2006.

3 **Budget Statement**

The Budget Statement presents budget and financial information for the South Australian Government. It includes an analysis of the Government's fiscal strategy, budget expenditure and revenue initiatives, budget priorities, intergovernmental finances, the management of the Government's assets and liabilities and matters associated with the State's economy. The Budget Statement also includes the budget and forward estimates presented in accordance with the *Uniform Presentation Framework*.

4 **Portfolio Statements**

Portfolio Statements present detailed information on each of the Government's portfolios. They include information on capital investment by portfolio, with details of planned and current investment projects.

5 **Capital Investment Statement**

The Capital Investment Statement summarises the Government's total capital investment program. It includes information on capital investment by portfolio, with details of planned and current investment projects.

6 **Regional Statement**

The Regional Statement provides an overview of new programs and services that will impact specifically on regional areas.