



2007 | 08

# BUDGET OVERVIEW

BUDGET PAPER 1



Government  
of South Australia



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# 2007-08 BUDGET AT A GLANCE

**This budget provides a major funding boost for health reform and improved social and community services. The budget also delivers record infrastructure spending as well as significant tax cuts for business.**

Responsible financial management has allowed the government to deliver increased expenditure in priority areas with operating surpluses and a fiscal outlook which supports the state's triple-A credit rating.

The 2007-08 Budget contains net additional spending initiatives totalling \$1498 million over the next four years.

This budget provides a \$523 million package over the next four years to reform the health system, combining major infrastructure replacement with system wide operational reforms as the basis for a sustainable health system.

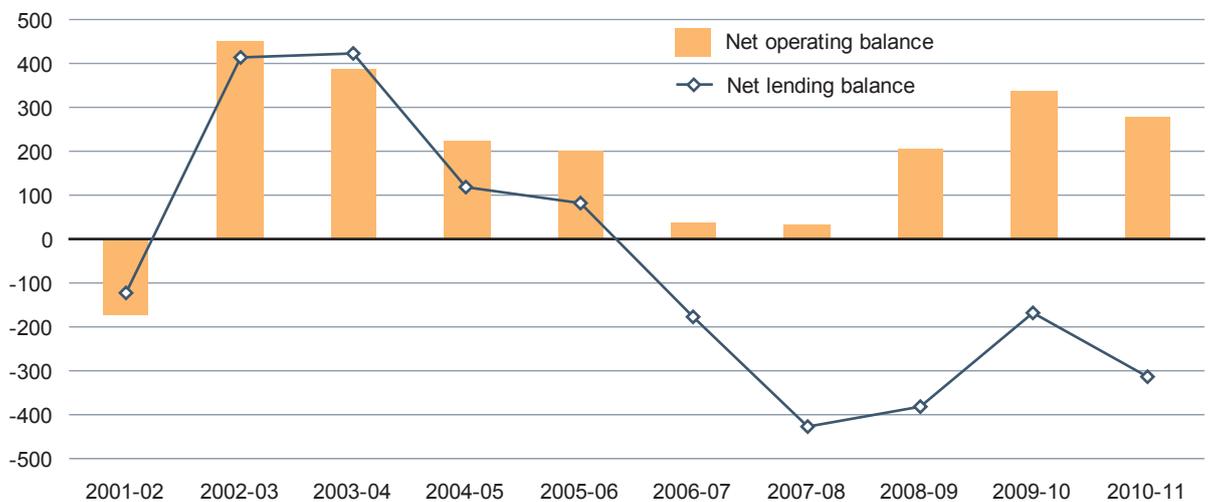
The value of investment in the state's infrastructure has been substantially increased with expenditure on capital projects of over \$1 billion in 2007-08, increasing to over \$1.2 billion by 2010-11.

Significant reductions in payroll tax are delivered in this budget. South Australian businesses will benefit through a \$337 million reduction in payroll tax costs over four years.

Combined with the 2004-05 payroll tax cut, the government will have provided payroll tax relief to South Australian businesses of over \$500 million by 2010-11.

This budget builds on the operating surplus of \$38 million in 2006-07 with ongoing surpluses averaging \$212 million over the next four years.

**General government sector budget surplus/deficit 2001-02 to 2010-11 (\$ million)**



2001-02 to 2005-06 reflect actual results; 2006-07 to 2010-11 are estimates.

# 2007-08 BUDGET AT A GLANCE



## The state's finances remain triple-A rated.

This budget delivers sustainable operating surpluses, increasing from \$30 million in 2007-08 to \$278 million in 2010-11.

Operating surpluses have strengthened since the 2006-07 Mid-Year Budget Review, primarily reflecting forecast increases in GST, taxation and royalty revenue.

To accommodate the significant health reform and infrastructure initiatives, the government has a net borrowing requirement across the forecast period, as set out below.

Net debt is forecast to increase, from \$151 million at June 2007 to \$1.4 billion at June 2011. The strength of the government's balance sheet has allowed this prudent increase in debt to fund long-term strategic capital investment.

Net financial liabilities as a percentage of revenue is expected to increase modestly across the forward estimates.

Historically high levels of infrastructure spending are funded by the government's operating surpluses and increased borrowings. The strong operating surpluses constrain the need for new borrowings and are therefore important in maintaining debt at responsible levels.

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

	2006-07 Estimated result	2007-08 Budget	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Net operating balance	38	30	205	336	278
Net lending	- 176	- 428	-383	-167	-314

### General government sector balance sheet indicators

	2007-08 Budget	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Net debt (\$ million)	618	1 011	1 165	1 443
Net financial liabilities (\$ million)	8 636	9 100	9 351	9 755
Net financial liabilities to revenue (%)	71.1	72.9	72.7	73.7

# FOCUSSING ON THE GOVERNMENT'S SOCIAL AND ECONOMIC OBJECTIVES

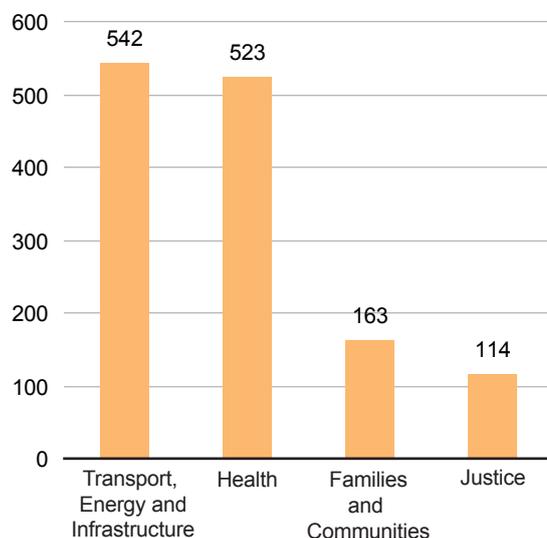
**This budget includes net additional spending of \$1498 million over the next four years to address growing demands for health, community services and public transport.**

The 2007-08 Budget provides for significant net additional spending in the Transport, Energy and Infrastructure, Health, Families and Communities, and Justice portfolios including:

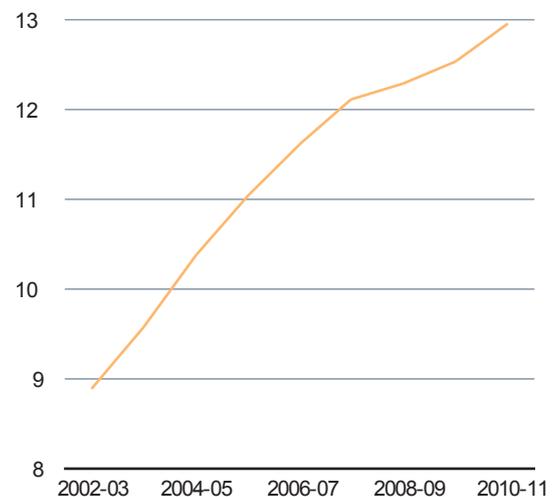
- \$542 million for transport initiatives including revitalisation of the rail network;
- \$523 million to commence the \$1.7 billion Marjorie Jackson-Nelson Hospital, progress mental health reform and provide \$250 million to support the delivery of health services;
- \$163 million for Families and Communities, primarily for disability services and children in need of care; and
- \$114 million of new commitments to law and order and community safety.

The government's operating expenses have increased in recent years, reflecting its commitment to health, education, justice and welfare services. Real expenditure growth in 2007-08 is forecast to be 1.7 per cent.

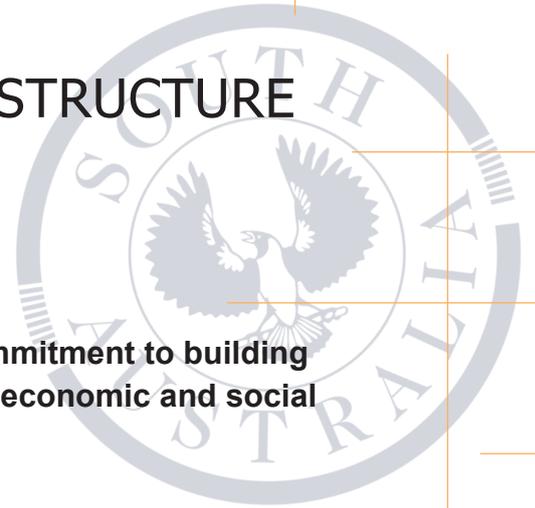
**New net spending in key areas (\$ million over four years)**



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



# REBUILDING THE STATE'S INFRASTRUCTURE



**The government's investment program demonstrates a commitment to building for the future with significant capital spending on strategic economic and social infrastructure.**

Over \$4 billion will be invested in capital projects over the next four years, with net capital investment expenditure expected to be around \$1.2 billion in 2010-11 alone. This compares to expenditure of just \$0.3 billion in 2001-02.

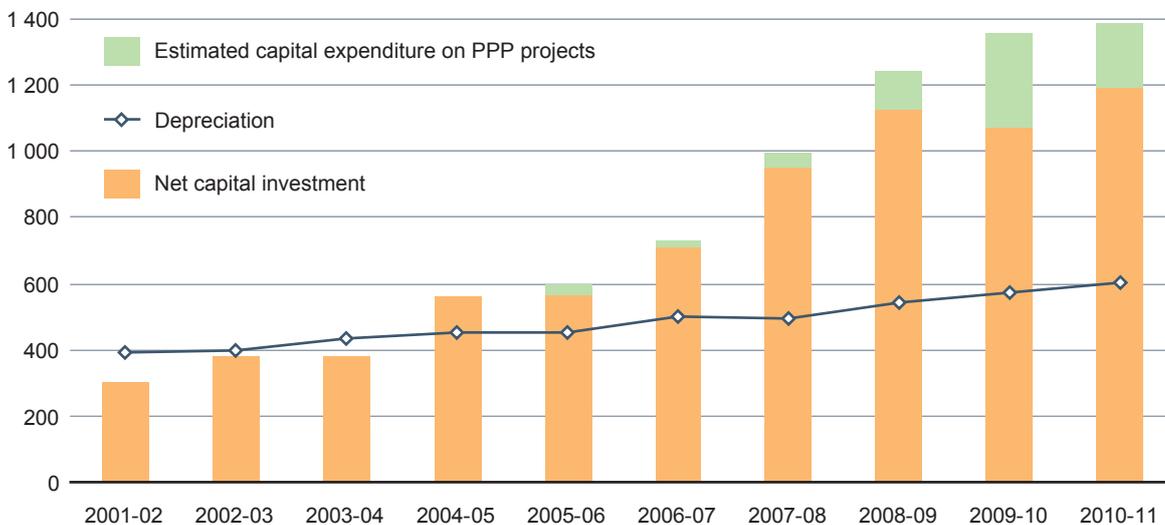
Net capital investment expenditure grows to around twice the level of annual depreciation representing repeated significant annual growth in the state's asset stock.

Significant projects in the capital program are:

- \$213 million over the next four years to commence construction of the \$1.7 billion Marjorie Jackson-Nelson Hospital;
- \$157 million over the next four years for the relocation of the Adelaide rail yards and new signal facilities for the rail network to modernise the rail nerve centre and to prepare the site for the Marjorie Jackson-Nelson Hospital;
- \$115 million over the next four years for concrete resleeper and upgrades to rail infrastructure to improve the standard of services and to provide for added passenger safety and comfort;
- \$106 million over the next four years (total project cost \$202 million) for Stage C of the Lyell McEwin Hospital redevelopment;
- \$31.4 million over the next two years for the construction of the Air Warfare Destroyer Systems Centre; and
- \$28 million over the next two years for the construction of a tram bridge over South Road to further improve the efficiency of the north-south transport corridor.

The government remains committed to providing over \$600 million of new education, prison and youth detention infrastructure, delivered through Public Private Partnership (PPP) arrangements.

**General government sector capital investment 2001-02 to 2010-11 (\$ million)**



2001-02 to 2005-06 reflect actual results; 2006-07 to 2010-11 are estimates.

# HEALTH REFORM

**The budget incorporates funding for major health reform. The centrepiece of this reform will be the construction of a new \$1.7 billion central hospital, to be known as the Marjorie Jackson-Nelson Hospital.**

A key element of the health reform strategy is the construction of the Marjorie Jackson-Nelson Hospital and other infrastructure improvements to ensure the entire health system is well positioned for our current and future needs.

The new central hospital will anchor a north south 'spine' of tertiary level hospitals across metropolitan Adelaide. These will be the Lyell McEwin Hospital, the new central hospital and the Flinders Medical Centre.

Four country hospitals, Mount Gambier, Port Lincoln, the Riverland and the Spencer Gulf, will have expanded clinical profiles to provide a number of services that are currently only available in Adelaide.

The Women's and Children's Hospital will continue to be the tertiary hospital for complex maternal and children's care.

The Queen Elizabeth, Modbury and Noarlunga Hospitals will focus on the needs of their local communities.

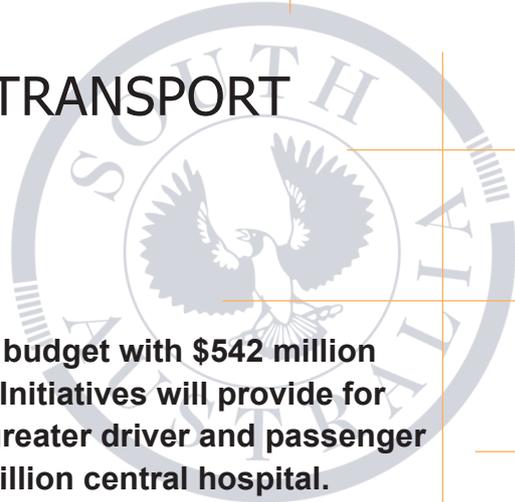
The service changes and the Marjorie Jackson-Nelson Hospital, when fully operational, will position South Australia as a world leader in the provision of comprehensive, population based health care services and will help address potential health sector workforce shortages, meet national best practice for elective surgery and emergency department waiting times, and improve the health care of South Australians.

## **Addressing the issues facing our health system**

Health reform will assist to address the significant issues facing our health system. In particular:

- the increasing demand for hospital services that is placing significant pressure on emergency departments and hospital inpatient facilities;
- an ageing health sector workforce — it is expected that 40 per cent of South Australia's health sector workforce will retire in the next 15 years;
- the ageing infrastructure of the health system which is, in some cases, inappropriately located to address the needs of the current population; and
- the growing cost of medical technology.

# TRANSPORT



**Transport and infrastructure is the major beneficiary in this budget with \$542 million provided, mainly for public transport and the road system. Initiatives will provide for greater passenger comfort, improved transport efficiency, greater driver and passenger safety and will facilitate the establishment of the new \$1.7 billion central hospital.**

The budget provides for major improvements to the public transport system. The rail system will be significantly improved with a program of concrete resleeper and track infrastructure upgrades to improve the standard of services.

Ownership and control of all metropolitan public transport rail assets will be integrated into the Department for Transport, Energy and Infrastructure, to strengthen rail infrastructure planning.

A new train control centre will be established as part of a relocation of the existing rail yards.

Additional funding has been provided for the upgrade of the public transport bus fleet.

A new tram bridge will further improve the flow of traffic on South Road, maximising benefits from the planned new underpasses at Anzac Highway and at Port and Grange Roads.

Additional investment in driver rest areas and road infrastructure, together with initiatives to combat driver fatigue will provide for safer travel on the state's arterial roads.

Additional support is provided for the maintenance of the road network.

The new Northern Expressway will deliver improved road access from the north into Adelaide and Port Adelaide. When completed the expressway will provide dual high-speed carriageways as well as grade separation of access/connecting roads.

Construction of the new road and rail bridges over the Port River will be completed during 2007-08, maximising the traffic flow benefits of the existing Port River Expressway and reducing the impacts of heavy vehicle movements in the centre of Port Adelaide.

## Addressing the needs of our public transport and road transport systems

The government's spending on transport will address significant pressures facing our transport systems. In particular:

- the additional demand for public transport resulting from increases in the price of fuel and improving environmental awareness;
- the increasing pressure on South Road resulting from growth in the north-south transport task;
- the increasing road transport task to the north of the city;
- the ageing of some of the state's road pavement; and
- the need to further improve road safety and reduce the road toll.

# WATER SECURITY

**The government is well advanced in tackling the challenge of securing and improving the quality of South Australia's water supplies. An extensive range of initiatives are being funded and investigated. These initiatives include:**

## **Desalination**

A Working Group, chaired by Ian Kowalick, is reviewing the longer-term viability of establishing a desalination plant to secure Adelaide's water supply. This group will report its findings to Cabinet for consideration in October 2007.

SA Water has committed up to \$3 million for environmental studies to determine the feasibility of a desalination plant for Adelaide.

Separately, the State Government and BHP Billiton have signed a Memorandum of Understanding to investigate the feasibility of a desalination plant as a preferred option for BHP to supply its proposed expansion of Olympic Dam.

The government contribution to this project will supply Eyre Peninsula and Upper Spencer Gulf communities with water, reducing the draw on the River Murray.

## **Mount Bold Reservoir**

South Australia has traditionally relied on the storages in the Murray-Darling Basin system and the Mount Lofty Ranges to supply water to Adelaide.

Preliminary investigations by SA Water into additional water storage sites have shown that a new dam built immediately downstream of the existing Mount Bold dam has the potential to double the total storage capacity in the Mount Lofty Ranges from one to two years.

An initial scoping study has indicated that a new storage is feasible. Detailed engineering and environmental studies are now being undertaken.

Additional storage could provide an increase in water security in extreme drought years equivalent to about twice the annual capacity of the desalination plant recently completed in Perth.

## **Investment in water infrastructure underway:**

- Christies Beach Wastewater Plant Upgrade – a \$151 million project for growth in the area;
- Country Water Quality Improvement Program – \$54 million to deliver nine new water filtration plants to improve the drinking water supply for fifteen communities along the River Murray;
- Myponga Water Treatment Plant – a \$15 million upgrade for improved water quality to customers on the Fleurieu Peninsula;
- major pumping station off-takes – more than \$5 million for the modification of major pumping station off-takes below Lock 1 on the River Murray to enable ongoing access to water at lower levels for Adelaide and country areas; and
- Clayton pipeline – \$5 million is being invested to provide Clayton with a secure water supply.

## **Water Proofing Adelaide**

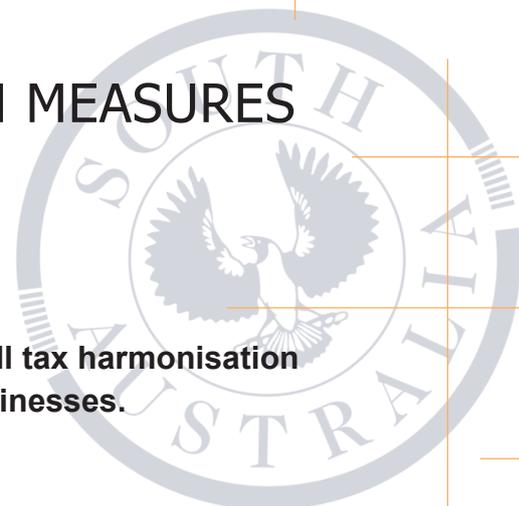
The government has developed the integrated strategy 'Water Proofing Adelaide – a thirst for change: 2005 – 2025', focussing on the management of existing resources, responsible water use, innovation and additional water supplies.

Water Proofing Adelaide's strategies could save up to 37 billion litres per annum through conservation-based initiatives, and provide 33 billion litres per annum of additional water supplies through storm water and recycled effluent for non-potable uses.

Nine strategies have been completed with many others nearing completion or remaining as ongoing activities.

The government has committed to developing a Water Proofing strategy for regional South Australia.

# TAXATION MEASURES



**This budget delivers significant payroll tax relief and payroll tax harmonisation reforms that will benefit thousands of South Australian businesses.**

## Payroll tax

The payroll tax rate will be reduced from 5.5 per cent to 5.25 per cent from 1 July 2007 with a further reduction to 5.0 per cent from 1 July 2008.

This reduction will provide relief to 6 500 employers employing an estimated 370 000 South Australians.

From 1 July 2008, South Australia will have a payroll tax rate equal to that of Victoria and equal second lowest in the nation.

These reductions follow on from payroll tax relief introduced from 1 July 2004 when the payroll tax rate was lowered from 5.67 per cent to 5.5 per cent.

By 2010-11, this government will have provided payroll tax relief to South Australian businesses of over \$500 million.

## Payroll tax harmonisation measures

South Australia will implement payroll tax reforms to improve inter-jurisdictional consistency from 1 July 2008 at a cost of nearly \$28 million over a three year period.

## Land tax – anti-avoidance provisions

Anti-avoidance provisions will be introduced to the *Land Tax Act 1936* to counter situations where owners of multiple land holdings avoid paying higher marginal rates of land tax by arranging for another party (or parties) to hold small minority interests in individual land parcels thereby creating different legal ownerships.

## Summary of taxation measures (\$ million)

	2007-08	2008-09	2009-10	2010-11
<b>2007-08 taxation relief measures</b>				
Payroll tax rate relief	-37.6	-83.0	-91.6	-96.7
Payroll tax harmonisation measures	—	-8.3	-9.5	-10.0
<b>Relief from previously approved tax measures</b>				
Natural Resource Management Levy	-2.2	—	—	—
Phased abolition of:				
remaining mortgage duty	-15.7	-36.1	-57.0	-60.8
rental duty	-4.5	-10.6	-17.1	-18.5
stamp duty on non-real property transfers	—	—	-20.5	-43.9
stamp duty on non-quoted marketable securities	—	—	-4.1	-8.9
<b>Cost of taxation relief</b>	<b>-60.0</b>	<b>-138.0</b>	<b>-199.8</b>	<b>-238.8</b>
<b>2007-08 revenue-raising measures</b>				
Land tax – anti-avoidance measure	—	5.0	5.2	5.5
Increased motor vehicle registration compliance	0.4	1.0	2.3	3.3
<b>Revenue gain</b>	<b>0.4</b>	<b>6.0</b>	<b>7.6</b>	<b>8.7</b>
<b>Net cost to the budget of all taxation measures</b>	<b>-59.6</b>	<b>-132.0</b>	<b>-192.2</b>	<b>-230.1</b>

Note: totals may not add due to rounding.

# TAXATION MEASURES

**Future IGA reforms will save businesses \$298 million over the next four years. These measures, together with reforms already implemented, will bring the total of IGA tax relief introduced by this government to \$964 million by 2010-11.**

## IGA taxes scheduled for abolition

Previously announced tax reform decisions arising out of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) will take effect progressively over the next four years.

Remaining mortgage and rental duty will be phased out with rates:

- 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 on transfers of non-quoted marketable securities and business related conveyances (other than land and buildings) will be phased out with rates:

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

## IGA tax reforms already introduced by this government

This government has already abolished the following IGA taxes:

- mortgage duty for first homebuyers, and cheque and lease duty from 1 July 2004;
- debits tax from 1 July 2005;
- mortgage duty on loan refinancing, residential loans for owner occupation and mortgage discharges from 1 July 2005; and
- stamp duty on water licence transfers and various minor stamp duties (eg on deeds) from 1 July 2006.

## IGA tax reforms – rates to apply over the phase-out period

	Current rates	From 1 July 2007	From 1 July 2008	From 1 July 2009	From 1 July 2010
Mortgage duty (transactions over \$6000)	\$10 + 45c/\$100	\$10 + 30c/\$100	\$10 + 15c/\$100	Nil	Nil
Rental duty					
Equipment finance – rate applied to rental income	0.75%	0.50%	0.25%	Nil	Nil
Other rental arrangements – for rental income > \$6000	1.80%	1.20%	0.60%	Nil	Nil
Non-quoted marketable securities	60c/\$100	60c/\$100	60c/\$100	30c/\$100	Nil
Non-real business conveyances	Standard conveyance duty rates	Standard conveyance duty rates	Standard conveyance duty rates	Standard conveyance duty rates halved	Nil

# GROWING PROSPERITY



**The 2007-08 Budget provides large investments throughout the state for economic development...**

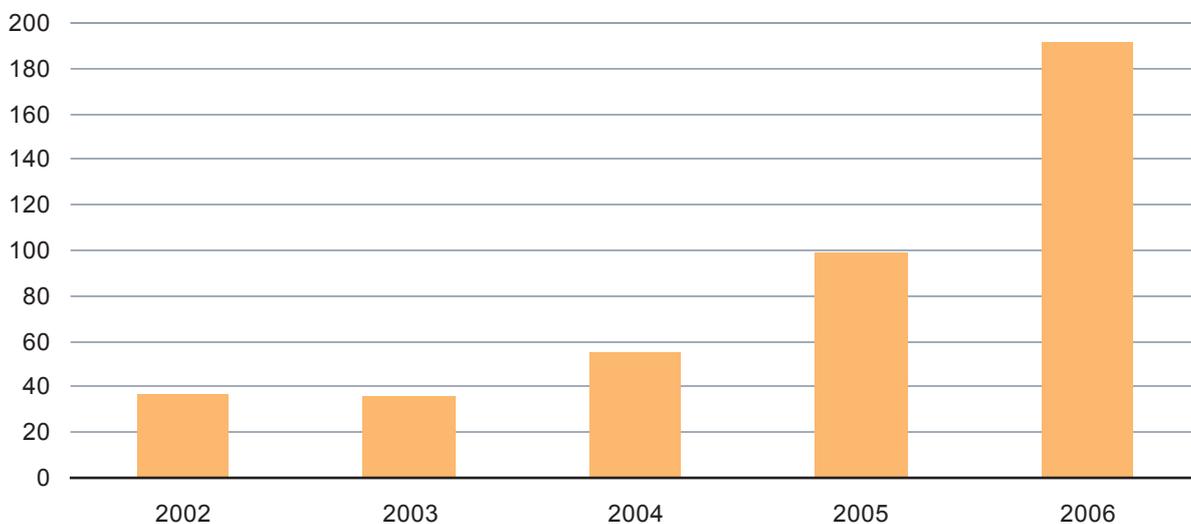
The government further increases its financial commitment to the Air Warfare Destroyer program through expenditure on key projects to facilitate new high technology business opportunities for South Australia. Major new initiatives include:

- \$31.4 million over two years for the construction of an Air Warfare Destroyer Systems Centre;
- \$7.5 million over four years for infrastructure and site preparation works associated with the Techport Australia Suppliers Precinct; and
- \$1.9 million in 2007-08 for the installation of fibre optic cabling between key defence centres.

Other key initiatives include:

- \$50 million over two years towards the construction of the new Northern Expressway;
- \$17.1 million over four years for Land Services business systems to enable improved customer service and reduce processing times;
- \$8.4 million over four years to extend the Plan for Accelerated Exploration program, supporting mineral discoveries and export earnings;
- \$6.2 million over four years to market South Australia as a brilliant holiday destination; and
- \$5 million in 2007-08 for rural freight network improvements.

**Annual mineral exploration expenditure in South Australia (\$ million)**



Source: ABS, *Mineral and Petroleum Exploration, Australia*, Catalogue Number 8412.0

# IMPROVING WELLBEING

**...substantial new resources for physical and mental health services, for clinical reform and medical research...**

The health operating budget is \$3.366 billion in 2007-08, and is budgeted to grow at an average of over 3.7 per cent per annum over the next four years.

\$715 million will be spent on new initiatives in health including:

- \$308 million over four years for infrastructure upgrades including redevelopment of existing hospitals and construction of the \$1.7 billion Marjorie Jackson-Nelson Hospital;
- \$250 million over four years for increased levels of health services;
- \$92.2 million to upgrade and replace information, communication and technology infrastructure;
- \$51 million over four years for a range of mental health initiatives including the provision of community based centres and programs;

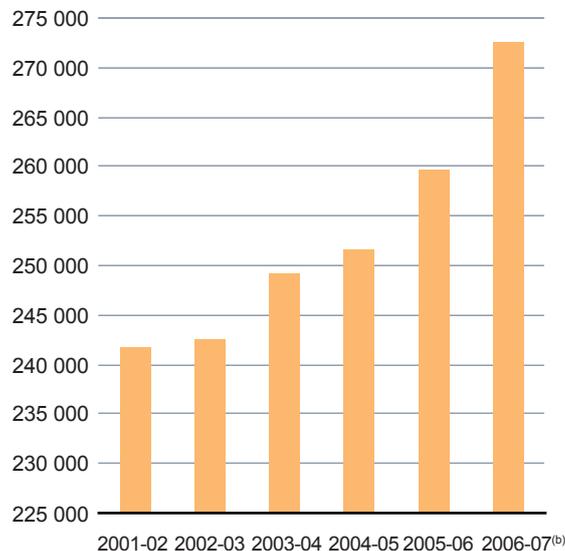
- \$7.9 million over four years for ongoing support for non-government organisations; and
- \$6.5 million over three years for clinical reform.

Part of the increase in health spending is supported by \$193 million in savings over four years generated by consolidating services to improve service delivery and address workforce shortages.

Additional funding in the following areas has also been provided:

- \$59.3 million to support the provision of health services across the sector in 2006-07; and
- \$43 million over four years for mental health reform including the provision of additional 24 hour supported accommodation places and intermediate care facilities.

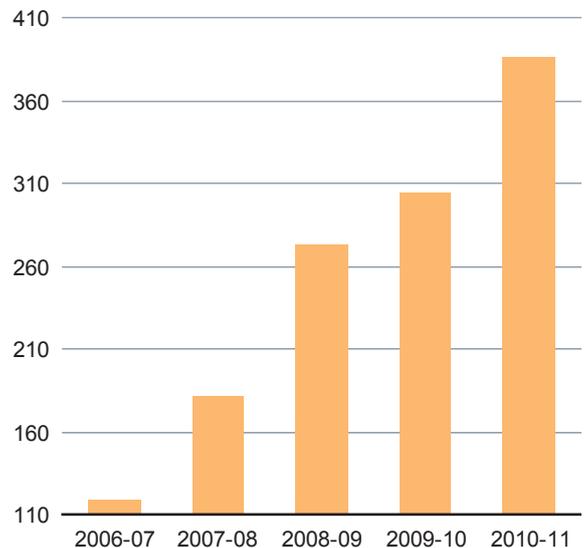
**Metropolitan hospital activity (same day and overnight admissions)<sup>(a)</sup>**



(a) Weighted by resource intensiveness. Source: the Department of Health

(b) Estimate provided by the Department of Health

**Health investing expenditure (\$ million)**



# IMPROVING WELLBEING



...improved transport, law and order services and enhanced sports facilities...

Continuing a commitment to transport infrastructure, this budget provides:

- \$28 million over two years to construct a tram bridge over South Road to maximise the benefits of the South Road underpass;
- \$14.1 million over four years for road maintenance;
- \$10.7 million over four years for driver rest areas on the state's arterial road network;
- \$7.2 million for additional road shoulder sealing and \$4 million for overtaking lanes in 2007-08;
- \$6.1 million over four years for measures to combat driver fatigue; and
- \$5.7 million over four years for rural road safety measures.

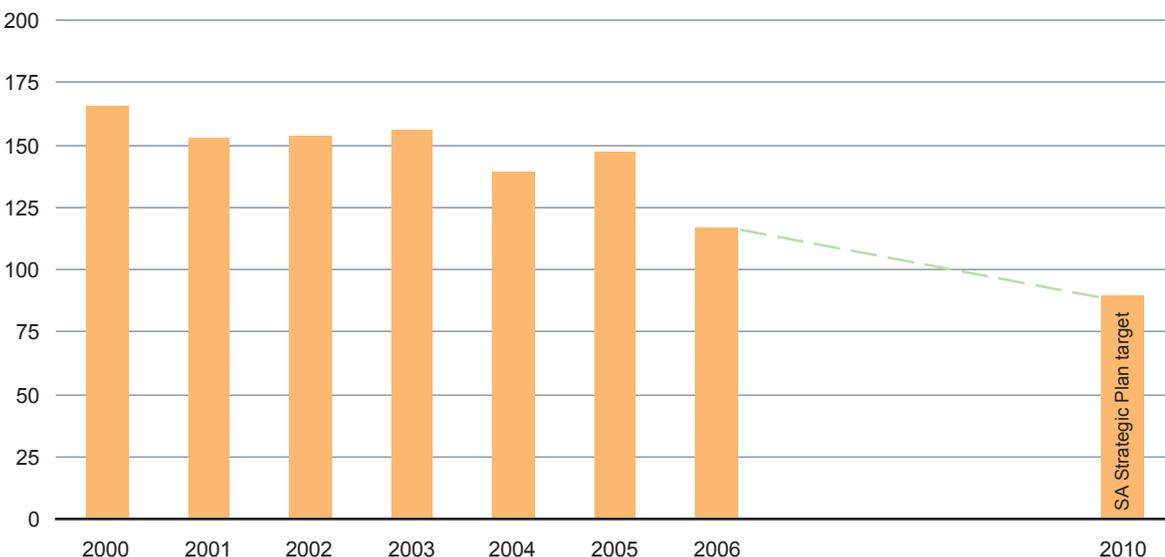
The budget also includes law and order measures (over the next four years) including:

- \$11.1 million for expanding drug driver testing to enable an additional 38 850 tests to be conducted per annum supporting the lower road toll target;
- \$2.1 million to establish a goods registration system for second-hand dealers and pawnbrokers;
- \$2 million for the replacement and upgrade of bail application systems; and
- \$1.4 million for expanding DNA testing services.

The budget also provides support for sport and recreational facilities, including \$2.4 million over two years for the redevelopment of the AM Ramsay International Rowing Course at West Lakes.

A grant of \$9 million in 2006-07, in addition to the \$16 million provided in 2005-06, has been made to the South Australian Cricket Association for the redevelopment of the world renowned Adelaide Oval.

## South Australian road fatality rates



Source: Department for Transport, Energy and Infrastructure

# EXPANDING OPPORTUNITY

... significant support for people with disabilities and for children who need help...

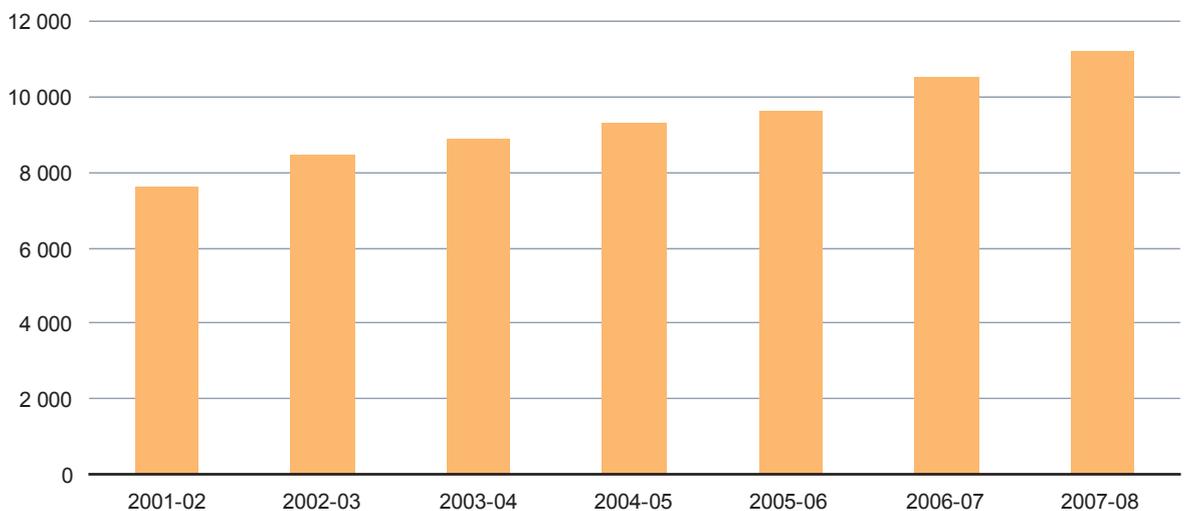
A range of initiatives to expand opportunities for the disability sector and children in forms of assisted care include (over the next four years):

- \$94 million to support an increase in the number of children in alternative care and an increase in the level of support for each child;
- \$46 million to support disability services;
- \$21.1 million to expand Home and Community Care services to assist older people and their carers to live independently and improve their quality of life; and
- \$11.3 million to the Families and Communities portfolio to assist non-government organisations in the community services sector.

The budget also provides funding to expand the range of educational opportunities. Major initiatives include:

- \$5.2 million over four years for further development of Adelaide as a University City including alliances with Carnegie Mellon and Cranfield University;
- \$4.7 million of additional resources have been provided to enhance the Trade Schools for the Future initiative bringing support over the period 2006-07 to 2010-11 to \$29.5 million; and
- \$2.9 million over four years (including \$0.8 million in 2006-07) to support the Council of Australian Government's training reforms.

Department of Education and Children's Services – spending per government school student (\$) <sup>(a)</sup>



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

# ATTAINING SUSTAINABILITY



**...support for the environment with increased funding for public transport improvements, marine parks and renewable energy initiatives...**

The considerable investments in rail, tram and bus infrastructure and rail stock will all contribute to *South Australia's Strategic Plan* target to increase usage of public transport by 2018. It is expected that significant passenger traffic increases will be experienced in 2006-07 and the government is committed to these efficient contributions to sustainability. Initiatives include:

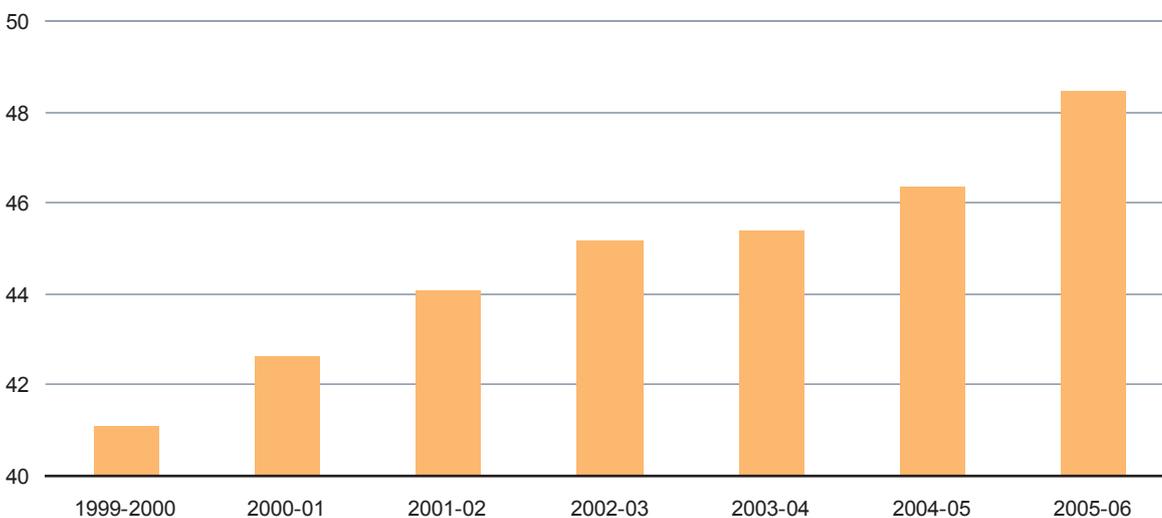
- \$272 million over four years for urban transit improvements including replacing the rail yards and signals nerve centre and for revitalisation of the rail network and equipment upgrades; and
- \$29.7 million to continue the ongoing replacement of the bus fleet.

Creation of a network of marine parks will be facilitated with \$4.2 million provided over four years to develop a basis for zoning and to assist ongoing park management.

Further funding has been provided for renewable energy and water efficiency initiatives including:

- \$2.5 million over three years for the upgrade of the Art Gallery's air conditioning and lighting;
- \$675 000 in 2007-08 for a climate change public awareness campaign;
- \$363 000 in 2007-08 to purchase 20 mini wind turbines for use on government buildings and two at the Adelaide Zoo; and
- \$200 000 in 2007-08 to match community sponsorship for the purchase of solar panels at the Adelaide Zoo.

**Public transport patronage trends – initial boardings (million)**



Source: Department for Transport, Energy and Infrastructure

# FOSTERING CREATIVITY

## ... initiatives that will develop a vital and innovative arts and research sector...

The budget provides \$9.3 million over four years for the Adelaide Festival Centre Trust to enable a major expansion of arts programming to reposition the Festival Centre as the state's premier venue for live artistic performance.

Over the next four years, the budget provides for a number of major arts initiatives including:

- \$7.1 million for building upgrades to cultural institutions ensuring public safety and protection of state collections;
- \$3.8 million to support domestic and international screen production and post production work undertaken in South Australia;

- \$2.4 million for the Indigenous Arts Leadership and Development Package; and
- \$0.4 million extra funding to secure the long-term future of the WOMADelaide event as a premier international music, arts and dance festival in South Australia.

Additional funding of \$24 million was provided prior to the budget to support medical research.

### Science and technology

The budget provides for a range of initiatives to expand activity within the science and technology sectors of the South Australian economy. Major initiatives include:

- \$6.3 million over four years to extend support for the Australian Centre for Plant Functional Genomics at the Waite Agricultural Research Precinct;
- an additional \$4 million over four years for research and development through the Premier's Science and Research Fund. This will bring support to the Premier's Science and Research Fund up to \$4 million per annum;
- \$2.4 million over four years to establish a Seafood Cooperative Research Centre (CRC) headquartered in South Australia and to support the activity of four other interstate based CRCs in South Australia; and
- \$750 000 in 2007-08 for Constellation SA to promote innovation in technology and industry sectors of strategic significance.

# BUILDING COMMUNITIES



**...additional funds for police, emergency services and helping regions and the outback cope with floods.**

The 2007-08 Budget provides the police and emergency services sector with significant support including the following key initiatives:

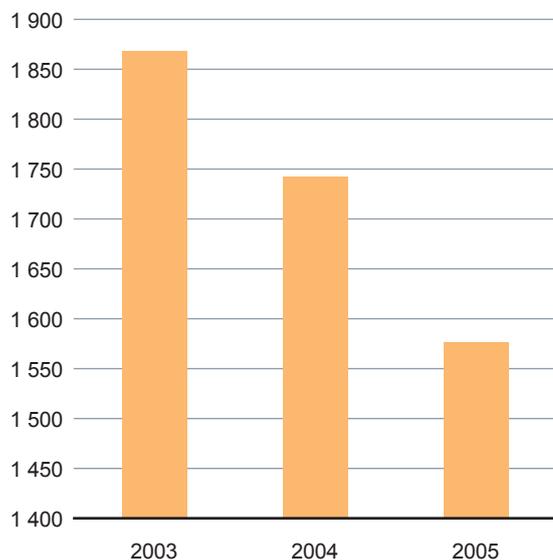
- \$13.5 million over four years for the replacement of radio communication handsets for the police and emergency services;
- \$9.6 million over four years for the establishment and staffing of a new fire station in the southern suburbs;
- \$4 million over four years to enable increased capacity for aerial fire fighting;
- \$2.9 million to commence construction of a replacement police station in Murray Bridge from 2009-10 (total project cost \$9.5 million);
- \$2.5 million over four years for firefighter training in the Country Fire Service;

- \$2.1 million over four years to continue the enhanced community awareness campaign for bushfire safety; and
- \$2 million over four years for a replacement police vessel and \$0.4 million in 2007-08 for a SES rescue vessel.

Flood damaged roads throughout the state will be repaired with:

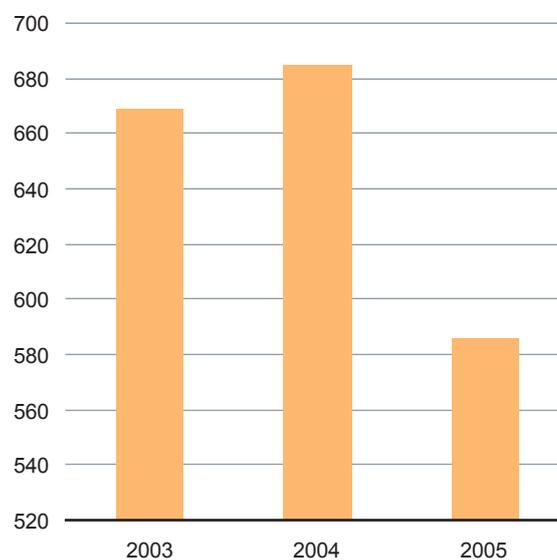
- \$29.5 million over two years (\$6 million in 2006-07) provided for the repair of outback roads under the control of the state; and
- \$5 million in 2007-08 provided from the Local Government Disaster Fund to assist councils to rebuild their flood damaged infrastructure.

**Victims of unlawful entry with intent (per 100 000 persons)**



Source: Productivity Commission, *Report on Government Services 2007*.

**Victims of motor vehicle theft (per 100 000 persons)**



Source: Productivity Commission, *Report on Government Services 2007*.

# REGIONS

**The budget provides regional communities with additional infrastructure and support.**

Key bodies, policies and programs work together to focus government attention on regional issues, through the regional development framework.

The drought has had a significant impact on regional South Australia. Significant resources have been provided to assist regional and rural communities including:

- \$23 million over two years for a range of targeted assistance programs including \$5 million in 2006-07 and \$2.2 million of Natural Resource Management Levy relief; and
- a substantial increase in state support (estimated at \$16.9 million over four years) as part of an estimated \$169 million expansion of the joint Commonwealth/State Exceptional Circumstances support program.

Other regional budget initiatives include:

- \$14.2 million over four years for the upgrade and replacement of marine infrastructure improving the safety, security and accessibility of facilities;
- \$13.6 million over three years for new education projects in regional areas;
- \$12.4 million over four years for the expansion of the Roxby Downs police station;
- \$9 million over two years for the upgrade and replacement of government employee housing including \$6 million for construction in Roxby Downs;
- \$8.4 million over four years to extend the Plan for Accelerated Exploration program, supporting mineral discoveries and export earnings;
- \$1.5 million to upgrade the infrastructure of the Naracoorte Health Service; and
- \$1.5 million to replace the hot water services at multiple country health units.

## **Rural road network**

Regional communities will benefit from a significant investment in the state's road network.

Major initiatives include:

- \$34.5 million over two years including \$6 million in 2006-07 to repair flood damaged roads in the Mid North;
- \$10.7 million over four years for the improvement of heavy vehicle rest areas on the state's rural arterial roads;
- \$5.7 million over four years to support rural road safety improvements;
- \$5 million in 2007-08 towards the Freight Network Improvement program to improve the efficiency of the freight network, primarily on rural roads;
- \$4 million in 2007-08 for construction of additional overtaking lanes; and
- \$3 million in 2007-08 for additional road sealing in rural areas.

# ECONOMIC HIGHLIGHTS



**The underlying performance of the South Australian economy has remained solid despite the impact of the widespread drought. Business investment remains at high levels, particularly in mining, and the housing construction sector has been buoyant.**

Overall economic growth in 2006-07 is estimated to be 1 per cent, reflecting the significant fall in farm crop output resulting from the widespread drought.

However, the underlying performance of the non-farm sectors of the economy has remained solid. Housing construction has been strong with new dwelling commencements reaching their highest level since 1994.

Business investment remained at a high level in 2006, with particularly strong growth in the mining industry.

South Australia's annual population growth rate is currently at its highest level since the early 1990s. Net migration inflows have accounted for more than half of the population gain.

Employment is anticipated to grow by around 1.5 per cent in 2006-07, representing a continuation of the employment growth momentum experienced in recent years.

Growth in South Australian Gross State Product is expected to rebound to 4 per cent in 2007-08 assuming a return to more normal rainfall patterns. The outlook for housing construction activity remains positive and business investment is likely to remain at high levels.

Forward indicators of labour demand suggest ongoing job growth through the next 12 to 18 months. Employment is forecast to grow by 1 per cent in 2007-08.

Economic growth over the next two to three years is anticipated to be reinforced by the impact of new developments such as the Air Warfare Destroyer program and the Prominent Hill mine as well as state government infrastructure projects.

## Key assumptions underlying the budget and forward estimates - South Australia

	2006-07 Estimate	2007-08 Forecast	2008-09 Projection	2009-10 Projection	2010-11 Projection
Gross State Product – real growth (%)	1.00	4.00	3.00	3.00	2.75
State Final Demand – real growth (%)	2.75	3.00	3.00	3.00	2.75
Employment – growth (%)	1.50	1.00	1.25	1.25	1.00
CPI (%)	2.50	2.50	2.50	2.50	2.50

# EXPENSES BY FUNCTION AND REVENUE BY SOURCE

## Health and education continue to dominate government expenses.

Health is the most significant expense category, representing \$3.5 billion or 29 per cent of operating expenses in 2007-08. More than \$2.8 billion of this is attributable to acute care institutions.

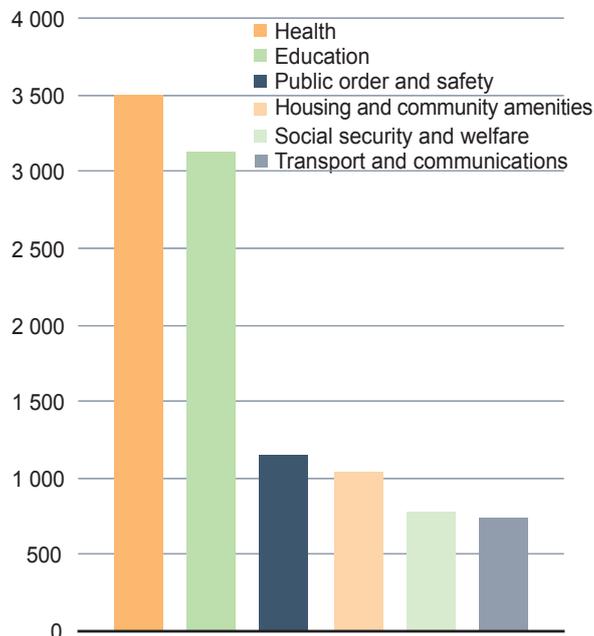
Education expenses, at \$3.1 billion in 2007-08, represents the second largest expense category.

Public order and safety, including police and emergency services, and law courts and legal services, is expected to cost \$1.1 billion in 2007-08.

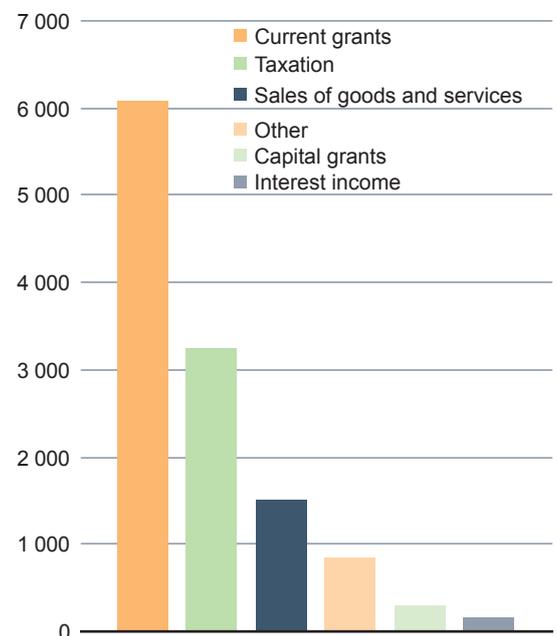
These services are funded from the government's revenue streams, the most significant of which is grants from the Commonwealth Government, at \$6.3 billion or 52 per cent of revenue.

State taxes, at \$3.2 billion or 27 per cent of revenue, are the government's second largest revenue source.

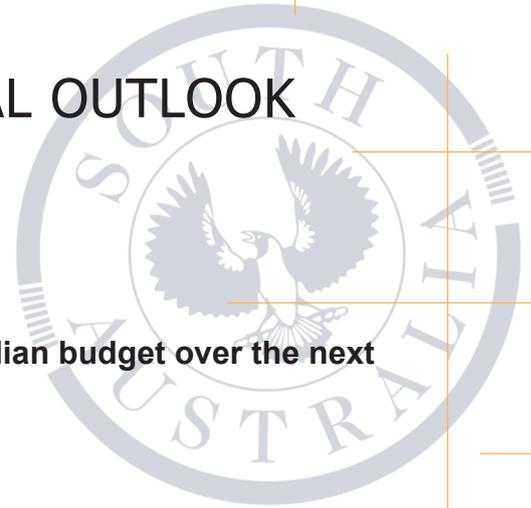
**2007-08 General government sector budgeted expenses by major function (\$ million)**



**2007-08 General government sector budgeted revenue by source (\$ million)**



# RISKS TO FISCAL OUTLOOK



**There are significant fiscal challenges for the South Australian budget 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 sector 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.
- If public sector wage outcomes are 1 per cent per annum above allowances in the forward estimates for forthcoming enterprise agreements, the budget impact will be approximately \$190 million in 2010-11.

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 \$34 million less income per year.

GST revenue from the Commonwealth Government is exposed to variations in national economic activity.

# GUIDE TO THE 2007-08 BUDGET PAPERS

## 1 **Budget Overview 2007-08**

The Budget Overview provides a summary of the 2007-08 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 7 June 2007.

## 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



**Government  
of South Australia**