

BUDGET SPEECH 2000-2001

DELIVERED ON 25 MAY 2000, ON THE SECOND READING OF THE APPROPRIATION BILL 2000, BY THE HONOURABLE ROB LUCAS MLC, TREASURER OF SOUTH AUSTRALIA.

Mr Speaker

Two years ago, on behalf of the Government, I stood in this place and presented Members with a plan, a plan for the future. Today, I am pleased to be able to say that the plan is working.

We are buying back the future. The future of South Australia, which the previous Government did so much to throw away. Our children's future, which was being eaten up by the cost of the actions of the past, is being reclaimed.

Without decisive action we were destined to continue robbing the future to pay for the past.

That 1998 Budget outlined some very tough decisions for our State. That Budget made it clear our State could not hope to grow and prosper as long as it was weighed down by the State Bank debt and its crippling interest costs.

That Budget made it clear if we wanted to pay reasonable wage increases to police and nurses we had to raise the revenue to do so.

That Budget made it clear we could not afford the risks of operating government-owned electricity businesses in the cut throat National Electricity Market.

South Australians were asked to accept the challenge and make sacrifices to help clear up the mess of debt and crippling interest costs.

At the half way mark of this Parliamentary term, South Australians should be rightly proud of their achievements.

This Government has successfully completed the bulk of the lease of the State's electricity assets, and in keeping with the plan has used the proceeds to almost halve the State's net debt. Further lease proceeds will see further reductions in the State's debt.

Mr Speaker, the rewards of this prudent and responsible financial management have already started to flow to the State through reduced interest payments.

This Budget is a budget of cautious optimism for the future. It is a budget where gain comes from the pain and where benefits will start to flow as a result of those sacrifices.

South Australians have a right to expect to reap the rewards of their hard work and this budget is their first down payment with further benefits to be achieved in next year's budget and future budgets.

Mr Speaker, the responsibility of this Government is not limited to repairing the damage done in the past, repaying debts and funding black holes. This Government is proud of its record in balancing the budget against the backdrop of a high standard of service delivery and a record of low taxes.

An essential condition of this balancing act is a recognition that we must live within our means and that we cannot rob the future to pay for the past.

I will now turn to a key feature of the Government's plan for the future, one which begins to buy back our future.

Lease of Electricity Assets

On the 28th of January this year, the Government received \$3.4 billion from the lease of ETSA Power and ETSA Utilities and a further \$331 million will be received in June 2000 from the disposal of Synergen and Optima. In addition, more than \$100 million of our superannuation liabilities have been accepted by the new operators.

Mr Speaker, through its asset sales program, the Government has used the net proceeds of almost \$3.7 billion to reduce net debt, reduced the annual interest burden, and reduced the exposure of the budget to fluctuating interest rates and the risks of the national electricity market.

With four increases in interest rates in the last seven months, the importance of reducing the size of the State's debt should be apparent to everyone. For example, a two per cent increase in interest rates with our previous debt would eventually mean increased interest costs of about \$150 million every year. The question for the opponents of the Government's plan is what taxes would they raise or expenditure would they cut to raise this extra \$150 million every year.

Recent events in the National Electricity Market in New South Wales, Queensland and South Australia have clearly demonstrated the multi-million dollar risks of competition. In South Australia, as a result of the industrial action at Yallourn Power Station, an electricity business lost millions of dollars and possibly more than \$10 million in just two days of trading in February this year.

One of the first benefits of the ETSA lease was felt in December when Standard and Poors upgraded the State's credit rating to AA+ from AA. This was a significant achievement and a further indicator of the support for our plan from financial commentators.

Another major benefit of the ETSA lease was the ongoing net benefit to the budget as a result of the difference between interest savings and the loss of dividends from the electricity businesses. Since 1998, the Government has estimated the net benefit to be

about \$100 million per year, and the Auditor-General in his 1998 report confirmed that the Government's forward estimates for the budget included this estimate.

Members will recall that critics of the Government's plan accused the Government of making false claims and in fact they claimed there would instead be a net loss to the budget.

Mr Speaker, this Budget includes an estimate by Treasury that the net benefit to the budget next year will, in fact, be \$109 million.

In each future budget, an estimate of the net benefit will be calculated. This will require an annual estimate of interest costs and the extent of dividends that a government owned business in a competitive electricity market might have been expected to earn. It is self evident that the longer the businesses are under private operation the more difficult this estimate will become.

With all the positives that the successful electricity asset lease has provided, those people who spent so much energy standing in its way should now be feeling a little embarrassed.

In case they aren't, I must add that estimates suggest that delays in progressing the lease of ETSA and the fact that it was a lease and not a sale are considered to have cost the State hundreds of millions of dollars. I ask the Members opposite to consider the impact of those delays.

For example, a further 500 million dollar reduction in state debt carries with it approximately \$35 million of savings each year in interest costs. How many more police, hospital beds, teachers or jobs could have been provided using that money?

ECONOMIC CONDITIONS

Mr Speaker, the South Australian economy is continuing to show solid growth, with growth estimated to be 3¾ per cent during 1999-2000 up from the 2.1 per cent for the previous year. In fact, Access Economics has estimated that our growth rate this year was the second highest of all the States.

This solid growth continues to be underpinned by household consumption expenditure, private dwelling expenditure and overseas merchandise exports.

Decreased agricultural production resulting from drought conditions in the northern Eyre Peninsula, and low world prices for traditionally exported commodities have been more than offset by strong export growth in the fish and crustaceans, road vehicles, parts and accessories, metal and metal manufactures and wine industries.

Private business investment in South Australia remains relatively high when the record for the last decade is considered, despite falling moderately in 1999-2000. Major investment projects including the Adelaide-Darwin Rail link, the Adelaide Central Plaza in Rundle Mall, Riverbank precinct redevelopment and continued

development at Mawson Lakes and the Port Adelaide Waterfront are expected to maintain business investment around the levels achieved in previous years.

Employment growth in South Australia increased strongly to 2½ per cent in 1999-2000. The number of people in employment reached a record level, and the number of unemployed has fallen since mid 1998. In addition, the percentage of the population participating in the labour force has risen compared with the same time last year.

In April of this year the youth unemployment to population ratio was 7.2 per cent and this figure compares favourably to peaks of around 11 per cent under the previous Government. However, South Australia continues to have persistently higher youth unemployment than the national average.

Mr Speaker, despite the positive signs in relation to unemployment and employment levels, job creation remains a high priority for this Government.

Whilst we have seen some improvement as a result of our focus in this area, such high rates of youth unemployment remain unacceptable to this Government. This budget includes new measures to tackle youth unemployment.

South Australia continued the modest population growth experienced over recent years, with interstate migration figures again showing that the dramatic losses of five years ago have been slowed. Interstate migration losses for the year to September 1999 totalled 3000, 5000 less than that experienced in 1995 reflecting the benefits of industry attraction and continued economic growth.

The effects of interstate migration continue to be offset by overseas immigration and this budget continues the Government's commitment to the attraction and settlement of skilled migrants through the Immigration SA initiative.

Mr Speaker, the budget assumes reasonably conservative estimates of future growth in GSP and employment, estimates that are below those for the national economy.

Creating the economic environment in which those estimates can be exceeded, as occurred this year, remains the challenge for government.

COMMONWEALTH-STATE RELATIONS

Mr Speaker, the last twelve months have seen the passage of legislation through the Commonwealth Parliament for the introduction of A New Tax System. With these fundamental changes to federal taxation arrangements come significant changes to the way the States will be funded by the Commonwealth in future years.

In last year's budget I outlined proposed arrangements under the "Inter-governmental Agreement on Commonwealth-State Financial Relations." Under the agreement 1999-2000 is the last year for which the States receive financial assistance grants from the Commonwealth. From this Budget the entire proceeds of the GST will go to the States.

Changes to the GST legislation by the minor parties have forced significant amendments to the Inter-governmental Agreement since the last Budget. These changes, particularly in relation to the exemption of certain food items significantly reduced the pool of funds available to the States.

The agreement guarantees that no State will be worse off under the new arrangements by providing for supplementary funding over and above the funds received from the GST. The Commonwealth has confirmed that all States will require this additional funding in 2000-01, with South Australia expected to require funding assistance through to 2005-06. This means South Australia will not receive a positive cash benefit until 2006-07.

In addition, the timetable for abolition of a number of State taxes has been changed as a result of this reduction in the pool of funds available for distribution. Financial Institutions Duties and stamp duties on listed marketable securities will be abolished from 1 July 2001 with Debit Taxes being abolished on 1 July 2005. In the case of business stamp duties the abolition has been put on hold with possible abolition to be reviewed in 2005.

The new taxation arrangements include a requirement by the Commonwealth Government that grants to the States are reduced by Commonwealth estimates of likely savings by departments as a result of cost reductions in purchases of goods and services. In 2000-01 these savings amount to \$36 million.

This factor will mean that in most cases, relevant government fees and charges will rise by the full 10 per cent of the GST from 1 July 2000.

The total implementation costs of the GST in the non-commercial sector will be in the range of \$40-50 million. These costs must be borne by the State Government.

The new funding arrangements are predicted to eventually make the States better off, with the revenue benefits flowing from economic growth flowing directly to the States. In addition, the Commonwealth has confirmed its commitment to continuing the use of horizontal fiscal equalisation as the method of distributing the revenue pool to the States.

Whilst all this is potentially good for the State it is important to note that the new arrangements must not be allowed to dilute the significant responsibility that the Commonwealth has in ensuring that the States are adequately funded to provide services.

States will need to continue to be vigilant that the Commonwealth does not, over time, reduce the level of specific purpose payments to the States.

It will also be critical to South Australia's future that there is not a roll-back of the GST by a future Commonwealth Government. If that was to be a possible option, it would be a critical test of political will and leadership in South Australia to ensure there was strong, bipartisan opposition to such a plan which could cost South Australia tens of millions of dollars in future budgets.

BUDGET FEATURES

Whilst significant progress in reducing debt has been achieved, the Government will push forward with already announced asset sales. It will continue to make the hard decisions, like the competitive tendering of public transport routes.

The Government's commitment to funding the unfunded superannuation liability remains. Payments in the next financial year will mean that a total of \$1.25 billion will have been paid from the unfunded superannuation liability since 1994-95. Through responsible financial management we are progressively reducing the burden of superannuation that had been left for future generations.

One of the important features of the Government's budget strategy has been that the forward estimates continue to provide a structured avenue for meeting unexpected cost pressures and new policy initiatives approved by Cabinet. This budget continues that sensible planning parameter.

Mr Speaker, salaries and wages are the largest single outlay for the Government and are expected to be around \$3.1 billion next year.

As outlined in last year's budget, Treasury has estimated that moderate and reasonable wage increases for teachers, police, nurses and public servants will add an extra \$450 million to the total wages bill in 2002-03 when compared to 1998-99.

The Government's current budget strategy continues to allow for modest wage increases without altering the level or quality of services provided, unlike the budget strategy adopted in the Government's first term.

Any significant unbudgeted movement in these costs will have major impacts on service delivery or funding requirements.

The Government's new policy was strongly attacked by some critics over the last two years with claims that it would lead to a wages blow-out.

Mr Speaker, I am pleased to be able to report that all wage settlements so far have been settled within the budgeted allocations and the current strategy.

This responsible and prudent management of wage outcomes in the public sector has resulted in wage outcomes that are on average one percentage point lower than the Australian average over the first two years of this four year plan.

In case the importance of such an achievement is lost on some Members, I stress that the annual impact of such a saving is around \$30 million.

I can also report that over the last two years, public sector wage increases in South Australia have actually been lower than the level of wage increases in the private sector.

The Government's commitment to an efficient public sector requires a willingness to review continually all management controls and processes relating to public expenditure.

The Government acknowledges there are always areas for improvement in terms of reducing the possibility of duplication, over-expenditure or waste.

Taxpayers rightly have high expectations and so too does the Government.

The Government is therefore intent on a series of major reforms in this important area.

The Government has already commenced implementation of a major new process for managing capital works programs. A number of changes have been approved including more detailed cost estimates of major projects before final approval by Government.

The second major reform involves a program to reduce expenditure on consultants across the public sector.

Over the next two years, the Government has set a target of reducing total public sector expenditure on consultants by at least \$40 million compared to 1999-2000 expenditure.

Non-commercial sector agencies will have a target of a 20 per cent reduction over two years which together with reduced costs for asset sales should see the aggregate target of \$40 million being achieved.

The Government will monitor and report publicly at the end of each financial year on the total cost of consultants and progress towards this objective.

This process will ensure that at the end of the two years, there will be little realistic prospect of further significant savings in consulting costs.

Savings from consulting costs will be used by agencies to help fund any new initiatives in this budget and next year's budget.

Mr Speaker, I would like to encourage Members to reflect on the significant turnaround in budget results over the last six years. When this Government came to power not only was the State languishing under a crippling debt burden, but it was living beyond its means, spending far more than it received in revenues. The result of this being that the debt was growing at an alarming rate. This Government has transformed the budget result from a \$301 million deficit in 1993-94 to ongoing balances from 2000-01.

As announced in June last year, when the Government decided not to proceed with the \$100 million power bill increase, a small deficit is anticipated for 1999-2000, primarily because of the implementation costs of the Goods and Services Tax. The Government is projecting balanced budgets for the next three years.

REVENUE

Mr Speaker, I am pleased to confirm that the lease of the State's electricity assets has immediate rewards for the community through reductions in State charges.

In addition to the promised abolition of the proposed power bill increase, which was to recover an additional \$100 million from South Australian homes and businesses, this budget includes further significant reductions in the emergency services levy.

The contribution required from households and businesses towards the levy has been further reduced by nearly a quarter.

For example the levy payable for a car will drop from \$32 to \$24, and there will be no levy payable on trailers, caravans and recreational boats.

In addition eligibility for concessions will be extended for self funded retirees where both partners are self funded retirees, even if one partner does not meet the 60 year age criterion. Charities will also see a very significant reduction in their charges.

Many of these amendments to the levy reflect changes recommended by the Reference Panel constituted to examine unintended impacts of the levy.

When you take into account the remissions and concessions granted last year, which continue in this budget the total amount of relief provided in this budget is around \$52 million. Relief from the levy has been accommodated without impacting on service levels.

The Government has noted the policy of the Australian Democrats that collections from the community should be set at \$82 million and the policy of the Labor Party that it should be set somewhere between \$60 million and \$80 million.

Given the Government has set the new level at \$76 million and that both the Labor Party and the Australian Democrats supported the original legislation, the Government will watch both parties' responses with interest.

Consistent with the policy used over the last two years, the Government has announced today a 2.8 per cent increase in a range of government fees and charges. The established policy reflects the cost of delivering the services to the community.

I have already identified a number of State taxes that are to be abolished as a result of National Tax Reform. In addition to these, the implementation of the GST will require amendment to gambling tax arrangements and fuel tax subsidies.

From 1 July 2000, the Commonwealth will provide a 100 per cent rebate of excise on most forms of off-road diesel use. The availability of a full excise rebate removes the need for State subsidies for off-road diesel. These subsidies will cease from 1 July 2000. State zonal subsidies for leaded and unleaded petrol and for on-road diesel will continue.

It is important to recognise that of all the States South Australia remains third lowest in relation to state taxation revenue per capita. In fact, South Australia's per capita tax levels are 31 per cent below those for New South Wales.

EXPENDITURE

Mr Speaker, when addressing the expenditure side of the budget, I am reminded of the wonderful joys of being in opposition. I recall after last year's budget when the Government announced a 5.2 per cent real increase in spending the Government was attacked by one part of the Opposition for too large an increase in spending whilst the rest of the Opposition attacked the Government for not spending enough.

Given that this year's budget predicts total real spending staying at approximately the same level, the Government will watch the response with interest.

Whilst total spending remains the same, the fact that the lease of ETSA has reduced interest costs means that the budget includes a number of new initiatives. In particular, there is a predicted real growth of 9.3 per cent in capital outlays.

This budget allocates initial funding for a process to facilitate the building of a second gas pipeline into South Australia by the private sector. The Government believes this project is potentially one of the most significant projects we have ever seen, for the future development of the State. There is no doubt that a more competitive gas industry with more competitive gas prices is critical for the development of a more competitive electricity industry in South Australia and also for assisting the possibility of major new industries such as SAMAG's proposal to build a magnesium plant at Port Pirie.

The Government is aware of a number of significant companies interested in bidding to build or operate the pipeline.

The Premier will announce details of the process in the near future.

The Riverbank Precinct project is potentially the most exciting development project seen in South Australia for many years.

There must be few cities with a riverfront that turn their backs to that riverfront, as Adelaide does, rather than embracing it and encouraging maximum usage and enjoyment of the precinct.

Adelaide's planning over the years for this area has used trees, embankments, walls, roads and urban design to discourage movement through the precinct and enjoyment of the precinct.

The Master Plan envisages walkways, pathways and landscaping to encourage movement north/south and east/west through the precinct. It will also provide for new cafés, restaurants and commercial spaces to encourage more South Australians and visitors to use the precinct at all times but particularly during lunch times, evenings and on weekends.

This project is designated as our State's Centenary of Federation project and further funding is provided in this year's budget. Whilst the Government has already committed \$85 million to the extensions to the Adelaide Convention Centre and \$19 million to upgrade the Adelaide Festival Centre, a further allocation of \$13 million has been provided to undertake the initial stage of the precinct works. Over the coming months, the Government will consider whether it will be possible over the next two years, to undertake further stages of development of the Master Plan.

This project is an icon development for South Australia and warrants the support of all Members and the community.

This budget provides the funds to allow for work to proceed on a five year \$200 million Hospitals Plan of major redevelopments for the Queen Elizabeth Hospital, Lyell McEwin Health Service and the Royal Adelaide Hospital. After years of neglect under Labor Governments, this Government has taken the decision to fund these critical redevelopments. In addition, funding of \$11 million has been made available in 2000-01 to commence implementation of a new Clinical Information System linking patient records across all metropolitan public hospitals.

In addition, further funds have been allocated to:

- Provide a 12 per cent increase in payments for foster carers;
- Extra \$12 million over two years to provide community accommodation for people with disabilities and new respite programs for families;
- Extra \$4 million over two years under the HACC program to provide services to support older people residing in the community;
- Extra \$7.5 million over three years to support and extend community based services to improve mental health services;
- Additional funding of \$2 million per annum for the Illicit Drugs Strategy;
- Extra \$3 million over three years for a new blood test to assist in screening for Hepatitis C and HIV;
- Extra \$1.5 million over three years for the needle exchange program;
- Extra \$500,000 per annum to provide increased help for people with gambling problems to be allocated from revenue already collected by the State from other gambling providers in South Australia.

Whilst the total budget for the South Australian Health Commission remains tight for next year, with an increase in spending of about 1.7 per cent it is worthwhile noting that there will be a \$143 million or 7.7 per cent increase in spending in health in the two years to 2000-01.

The Government has today announced its intention to build the Australian Science and Maths School for senior secondary students at Flinders University. This \$10.8 million project for 450 students will become a national focal point for teaching and research aimed at fostering innovation in maths and science and encouraging more students to take up careers in science.

The Government has committed \$3.8 million for the Woodend School in response to strong community demand and need for the project.

An extra \$4 million over three years will be spent to improve literacy and numeracy by including trialling assessments for year 7 students.

Funding for vocational education and training for apprentices and trainees will increase by up to \$45 million over three years.

Due to the continuing high level of youth unemployment in South Australia compared to other States, the Government has decided to restructure the payroll tax rebate scheme to target the relief at young trainees.

From the 25th of May this year, to attract the rebate, new trainees must have commenced their traineeship before their 25th birthday. In addition, the rate of the rebate will reduce from 98 per cent to 80 per cent for new trainee employment.

The Government hopes that this targetting will lead to more young people being offered jobs as trainees or apprentices.

The Government will also provide \$4.4 million over four years for the Premier's Youth Challenge which will target the development of leadership skills for young people across the State.

As a result of a Task Force established in 1999 by the Premier, needs of the Police in order to provide better service, particularly at local level, have been addressed. Among other initiatives, extra funding for Police will see an additional 113 officers trained and working by June 2001.

Provision has also been made for an additional 27 support staff within SAPOL to assist in the administration of policing activities maximising the time available for community policing. In addition, the Government has allocated \$35 million to relocate all functions occupying the Adelaide Police Station.

The Government will also spend \$44 million to finalise the Southern Expressway by the middle of next year.

In this budget, the Government commences a \$36 million program to improve country water quality and there will be further funding for the Upper South East Dryland Salinity and Flood Management Plan. In addition, there will be continued work on the \$40 million Loxton Irrigation District Rehabilitation Scheme.

Mr Speaker, in all other portfolio areas there are a range of new initiatives with the following funding levels for three year programs:

- \$15 million to assist local industry restructure;
- \$3.6 million to boost the local film industry;
- \$2.1 million to increase overseas visitor numbers;
- \$6 million to tackle locust and grasshopper plagues;
- extra \$3 million for Regional Infrastructure Development Fund giving a total of \$16.5 million;
- \$3 million to improve maintenance in national parks;
- \$2.7 million for legal aid;
- \$17 million for a series of IT initiatives to bring the benefits of the Internet revolution to all South Australians;
- \$1.6 million to deliver essential services such as water and power to Aboriginal communities;
- \$6 million for sport and recreation programs including Active Club Grant Scheme;
- \$6.6 million to stimulate the minerals and energy industries;
- \$24 million to seal rural arterial roads;
- \$1.5 million to construct further overtaking lanes in regional areas.

REGIONAL SOUTH AUSTRALIA

Mr Speaker, today this Government has released its first regional statement. This statement outlines the Government's commitment to regional development by identifying its spending on regional services – a commitment which exceeds \$1 billion per annum.

The statement includes specific initiatives totalling \$40 million in the coming year. The value of these initiatives is not measured in their cost alone, but in the contribution they make to the economic prosperity of regions and the quality of life of their communities.

SUMMARY

Mr Speaker, this section of the budget speech this year has been longer than in previous years due to the number of new initiatives being implemented by Ministers.

In part, this is due to the increased flexibility in the budget brought about by the decision to lease ETSA and slash debt. Members need to remember that without that decision some of these new initiatives would not have occurred.

Two years ago the Government mapped out a bold vision for the financial and economic recovery of the State.

Tough decisions had to be taken - and they were.

South Australians were asked to make a sacrifice – and they did.

South Australian families now want to reap the rewards for their sacrifice – and they will.

This Budget is another important step in delivering the vision for the financial and economic recovery of the State.

I commend the Budget to the House.

Clause 1 is formal.

Clause 2 provides for the Bill to operate retrospectively to 1 July 2000. Until the Bill is passed, expenditure is financed from appropriation authority provided by the *Supply Act*.

Clause 3 provides relevant definitions.

Clause 4 provides for the issue and application of the sums shown in the schedule to the Bill. Subsection (2) makes it clear that this Bill supersedes the appropriation authority provided by the Supply Act.

Clause 5 is designed to ensure that where Parliament has appropriated funds to an agency to enable it to carry out particular functions or duties and those functions or duties become the responsibility of another agency, the funds may be used by the responsible agency in accordance with parliament's original intentions without further appropriation.

Clause 6 provides authority for the Treasurer to issue and apply money from the Hospitals Fund for the provision of facilities in public hospitals.

Clause 7 makes it clear that appropriation authority provided by this Bill is additional to authority provided in other Acts of Parliament, except, of course, in the *Supply Act*.

Clause 8 sets a limit of \$50 million on the amount which the Government may borrow by way of overdraft.