

STATE BUDGET 2019-20

Budget Speech

BUDGET PAPER 2



STATE BUDGET 2019-20

BUDGET PAPER 1 : BUDGET OVERVIEW

A summary publication capturing all highlights from the 2019-20 Budget.

BUDGET PAPER 2 : BUDGET SPEECH

A copy of the Treasurer's speech, delivered to Parliament.

BUDGET PAPER 3 : BUDGET STATEMENT

A financial report presenting the state government's current and estimated future economic performance, fiscal strategy, budget priorities, expenditure, revenue, assets, liabilities, risks and government business.

BUDGET PAPER 4 :

AGENCY STATEMENTS | VOLUMES 1, 2, 3, 4

Various financial reports presenting the state government's current and estimated revenue, expenses and performance by agency.

BUDGET PAPER 5 :

BUDGET MEASURES STATEMENT

A financial report detailing the state government's expenditure, savings and revenue initiatives.

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Budget Paper 2

2019-20
Budget Speech

Presented by
the Honourable Rob Lucas MLC
Treasurer of South Australia
on the occasion of the Budget for 2019-20

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Budget Speech 2019-20

Delivered on 18 June 2019, on the second reading of the Appropriation Bill 2019, by the Honourable Rob Lucas MLC, Treasurer of South Australia.

Mr Speaker, I am pleased to have accepted your very generous invitation to visit with you to present the second budget of the Marshall Liberal Government.

The 2019-20 Budget is focused on the government's priorities of building a strong economy, growing jobs, lowering costs and providing better services for South Australians.

The national and international economic backdrop to this budget presents a number of challenges with threats of global trade wars and the Reserve Bank Governor warning of a softening national economy.

This budget now has had to meet the challenge of significant write downs in major revenue sources such as Goods and Services Tax (GST) and conveyance duty.

Since the 2018-19 Mid-Year Budget Review (MYBR) there has been a significant reduction in expected GST revenue of \$2.1 billion over four years to 2021-22. The reduction is estimated to be \$171 million in 2018-19, \$517 million in 2019-20 growing to \$760 million by 2021-22.

This reflects both weaker than expected national GST revenue due to weaker national consumption expenditure and dwelling investment but also a deterioration in South Australia's share of GST grants due to a decision by the independent Commonwealth Grants Commission.

The softer than expected housing market has also meant a further write down of expected conveyance duty of \$184 million over four years to 2021-22 since the 2018-19 MYBR. This is in addition to the \$107 million write down included in the 2018-19 MYBR.

Whilst the government has been faced with this considerable reduction in expected revenue it has decided to continue to invest in productive economic infrastructure while putting in place responsible budget measures to ensure the budget remains sustainable.

The government has chosen not to risk the prospects of adversely impacting economic growth and job growth by simply relying on further expenditure reductions to match completely the expected revenue reductions.

The government also has rejected the suggestions from some observers that it should reverse its decision to implement election promises such as cutting ESL bills by \$90 million per year, abolishing payroll tax for all small businesses and cutting land tax.

Instead the government has chosen a responsible balance of further expenditure reductions, targeted revenue increases and an increase in debt levels to help finance a significant economic infrastructure programme.

Mr Speaker as I advised Members last year the government inherited a financial mess which meant that 7 of the last 10 Labor budgets were deficit budgets culminating in a \$313 million deficit in 2017-18.

The Marshall Liberal Government is pleased to advise that its first budget in 2018-19 is estimated to end with a small surplus of \$101 million.

This budget also delivers small surpluses for each year of the forward estimates with a surplus of \$94 million in 2019-20 rising to \$251 million in 2022-23 and ensures a sustainable budget position into the future.

Consistent with the actions taken in other states net debt increases significantly over the forward estimates due to the less buoyant revenue outlook and the commitment to borrow to invest in productive infrastructure. This is considered sustainable given it is being invested in economic infrastructure and the relatively low cost of debt currently available.

For example total non-financial public sector (NFPS) net debt from 2018-19 to 2022-23 increases by 94 per cent in Victoria, 139 per cent in Tasmania and 57 per cent in South Australia.

Some of this increase in net debt in all states is due to the commencement of a new Australian Accounting Standard AASB16 relating to the accounting treatment of leases. This increases total NFPS net debt by around \$1 billion by the end of the forward estimates.

This is simply a presentational change which does not indicate a change in substance of the government's financial performance or its contractual arrangements for leases.

Mr Speaker even with these challenging financial circumstances this budget includes a responsible package of \$2.2 billion of new initiatives over four years as well as a massive \$11.9 billion total government investing programme.

Some of the key features of this budget includes:

- a housing sector stimulus package
- commencing construction of the new Women's and Children's Hospital
- a major road safety package
- projects to be funded as part of the 10 year Adelaide City Deal agreement
- works to protect and save coastal areas such as West Beach
- industry sector support from the Economic and Business Growth Fund
- a racing industry support package
- significantly increased investment in education including a more than \$80 million investment to deliver high-speed internet to every government school student by the middle of 2020
- additional resources for health, child protection and TAFE SA
- commencement of early works for the North-South Corridor Project.

Whilst future economic and job growth in South Australia will be enhanced significantly by investment in the defence, ship building, and cyber security industries the importance of industries like the housing industry sector cannot be under estimated.

In recognition of the softer outlook for housing construction the government has developed a \$104.5 million housing sector stimulus package including \$42.5 million in direct government expenditure and the provision of interest free deposit gap loans from HomeStart.

Details of the package include:

- Creating an interest free deposit gap loan of up to \$10,000 funded via an Affordable Housing Fund of \$2 million to be administered by HomeStart. The programme will commence from 1 September 2019.
- A \$21.4 million housing construction programme in 2019-20 and 2020-21 to be undertaken by the South Australian Housing Authority. This will include building around 90 homes, of which the majority will be sold as affordable housing.
- A \$21.1 million preventative maintenance and upgrade programme in 2019-20 to be undertaken by the South Australian Housing Authority. The preventative maintenance programme will include works to pre-1968 homes as well as upgrading a number of walk-up flats.

It is estimated that the support package will result in around 170 new housing contracts being entered into and around 120 housing outcomes for those struggling to buy an established property.

For many years now there has been consideration about the possible move of the Women's and Children's Hospital away from its North Adelaide location.

The government promised prior to the election to relocate the hospital to the site of the new Royal Adelaide Hospital.

This budget actually includes a substantial provision of \$550 million in the forward estimates to complete the planning and start the construction of the new Women's and Children's Hospital.

The final business case, planning and final cost will be identified during 2019-20. It is likely that the estimated completion date will now be in 2025-26 rather than the original commitment of 2024.

Mr Speaker there has been considerable community concern this year about the recent spike in road deaths. The government's continuing commitment to road safety programmes and projects is demonstrated by a significant investment in this budget in a road safety package.

This \$834 million package over four years includes:

- Funding to improve road safety in both metropolitan and regional areas for new projects including level crossings and intersection upgrades, duplication and targeted works on key regional roads. It will also include shoulder sealing, overtaking lanes and resurfacing of the Sturt Highway, Barrier Highway, Eyre Highway and Princes Highway.
- Protecting and guaranteeing into the future the current MAC funding used for road safety advertising, communications and sponsorship will continue to be spent on road safety.
- Significantly increasing fines for drivers who risk the lives of others by speeding excessively and other dangerous behaviour such as using a mobile phone whilst driving.

The former government's decision to privatise the MAC has led to the decision for new governance arrangements for road safety from 1 July this year. The government acknowledges the significant achievements over many years of the MAC with road safety programmes and its continuing leadership this year whilst the transition arrangements were finalised.

After 1 July this year a new independent chairperson will chair a new road safety committee comprising SAPOL, DPTI and other key stakeholder representatives to ensure there is a continuing, coordinated focus by government of road safety programmes.

This budget also involved a partnership with the Commonwealth Government and the City of Adelaide to deliver the Adelaide City Deal which includes an investment of \$551 million over 10 years. Central to the City Deal is the development of Lot Fourteen as an innovation precinct that will be home to leading businesses, entrepreneurs, major cultural attractions and educational programmes and facilities. The City Deal will also provide funding for important tourism projects in the greater Adelaide region.

As part of this funding \$150 million has been provided for the Aboriginal Art and Cultures Gallery with the Commonwealth contribution of \$85 million. The final cost of the Gallery will also be determined during 2019-20 with the finalisation of the business case.

The final decision on this gallery will be an important one for government as it will be a critical opportunity to create a world class tourist attraction with a unique offering housed in an iconic building. It will be a decision which will require courage from government and the community.

Whilst it was the former Labor Government that introduced the 15 per cent betting operations tax the government accepts the responsibility for supporting the racing industry.

The former Labor Government did not provide any additional ongoing funding from the betting operations tax for the racing industry in the budget forward estimates.

The government provided an extra \$4.85 million in last year's budget and this budget now allocates an extra \$24 million over five years to assist the racing industry. The \$8 million allocation this year includes \$4 million for infrastructure upgrades and \$4 million for general industry assistance.

Future ongoing funding will be based on 1.5 per cent of net wagering revenue for the betting operations tax which is the same formula received by the Victorian racing industry. This funding will involve conditions including agreement on important governance reforms.

The government was lobbied by corporate bookmakers and others to reduce the tax to 8 per cent or 10 per cent with the claim that the government would actually collect the same or more revenue at the lower tax rate.

Treasury rejected this extraordinary claim and the government commissioned the SA Centre for Economic Studies to undertake an independent analysis of a significant cut to the rate of the tax. The SA Centre for Economic Studies confirmed that such a cut would actually lead to a significant reduction in revenue and that the claims from the corporate bookmakers were 'simply not plausible'. This budget therefore does not include any cut in the rate of the betting operations tax.

Mr Speaker in last year's budget the government established the \$100 million Economic and Business Growth Fund to promote economic growth in South Australia by encouraging growth in industry sectors with less emphasis on picking winners by giving grants to individual businesses.

Some of the initiatives funded through the Economic and Business Growth Fund include:

- \$33 million over five years towards additional marketing of our state to key domestic and international tourism markets
- \$10 million over three years for a program to co-fund greenfield exploration activities to facilitate new major minerals discoveries, driving further mine developments and stimulating growth and innovation in the mineral resources sector
- \$7.5 million over three years for a Red Meat and Wool Growth Program, which focuses on improving systems and technology to increase the quality and volume of production, boosting exports, and increasing employment
- \$6.35 million towards the \$24 million package to deliver the enabling infrastructure to help Thomas Foods rebuild and expand at a new Murray Bridge site
- \$6.0 million as additional Screen Production investment towards the South Australian Film Corporation's Production Investment Fund to finance local and international screen production
- \$4.0 million over four years to establish a Landing Pad to attract international and interstate companies to assist with their establishment in South Australia, to achieve high-growth job creation across priority industries.

Mr Speaker this budget includes significant new commitments in the investing programme but in particular in relation to transport projects.

The government's major funding priority in terms of transport projects is the completion of the North-South Corridor project.

The Commonwealth Government has announced a further \$1.5 billion funding commitment in addition to the previous \$1.2 billion funding commitment bringing promised total Commonwealth funding to \$2.7 billion.

The state government will now commit \$2.7 billion which will mean a total of \$5.4 billion funding committed toward the final cost of what will be the single biggest infrastructure project in our state's history.

The business case for the remaining works is still being completed and once completed this budget allocates \$252 million over four years towards planning and early works for the project.

Other transport projects include:

- The upgrade of seven metropolitan intersections:
 - the Portrush Road and Magill Road intersection
 - the Fullarton Road and Cross Road intersection
 - the Glen Osmond Road and Fullarton Road intersection
 - the Goodwood, Springbank and Daws Roads intersection

- the Grand Junction Road, Hampstead Road and Briens Road intersection
- the Main North Road and Nottage Terrace intersection, and
- the Main North Road, Kings Road and McIntyre Road intersection
- Grade separation works at the Torrens Road, Ovingham level rail crossing, and the Brighton Road, Hove level rail crossing
- Widening of Flagstaff Road with a fourth lane, making it a permanent two way dual carriageway
- Duplication of Victor Harbor Road between Main South Road and McLaren Vale
- Targeted works on key regional roads, including shoulder sealing and additional overtaking lanes on the Horrocks Highway
- Works to upgrade the Sturt Highway from Renmark to Gawler, the Barrier Highway from Cockburn to Burra, and the Eyre Highway from Port Augusta to the Western Australia border. The Princes Highway will also be upgraded including road widening, safety upgrades, new overtaking lanes, duplication along key sections and town bypasses.

After last year's Commonwealth Budget the government negotiated with the Commonwealth Government and successfully negotiated for \$506 million originally beyond the forward estimates to be brought forward into the forward estimates.

The government has already commenced discussions with the re-elected Commonwealth Government about bringing forward funding currently beyond the forward estimates into the forward estimates.

Mr Speaker for too many years governments have ignored the problem of our disappearing metropolitan beaches and there is no clearer example of this than to look at the virtual disappearance of any beach front at West Beach.

This budget allocates \$48.4 million over four years to save our metropolitan beaches especially West Beach and Henley Beach.

This funding will provide for immediate sand carting and critical sand replenishment and also the construction of a pipeline from Semaphore South to West Beach.

There will also be a \$4 million grant programme to assist local councils with a range of regional coastal protection works.

Whilst the government acknowledges the importance of public investment in a strong infrastructure program for maintaining jobs growth the government believes that in the long term jobs growth will only be sustained by ensuring the costs of doing business in South Australia are nationally and internationally competitive.

That is why from 1 January this year the government has abolished payroll tax for small businesses in South Australia and from next year will reduce significantly land tax bills. The government has also reduced ESL bills for business and workers compensation premiums next year will reduce even further to 1.65 per cent from a peak of 2.75 per cent which existed before bipartisan support for workers compensation reform by this Parliament.

The government is implementing its energy reform plans designed to reduce electricity costs in South Australia and at the end of this month I will receive the final report of the former Chair of ESCOSA Mr Lew Owens into whether the former Labor Government drove up water prices in South Australia by inflating the regulated asset base of SA Water.

I am sure all Members will be awaiting that particular report with great interest.

The government believes that the results of this report together with a lower interest rate environment will mean lower water prices to customers and lower returns to the budget from 2020-21. As a result this budget has included a contingency for reduced returns from 2020-21 onwards.

Mr Speaker the government is also determined to lower costs for struggling South Australian households.

This budget continues to provide \$90 million this year in ESL remissions to again reduce significantly the massive increase in ESL bills imposed by the former Labor Government.

For a family with a median valued house value of \$480 000 the saving next year will be \$163.05 compared to the payment that would have been imposed under the policy of the former Labor Government.

For a family with a house value of \$750 000 the saving is even greater at \$254.70.

Mr Speaker one result for struggling South Australian families after 16 years under the former Labor Government was that they were being slugged with excessively high power costs.

The government has renegotiated a better deal with a major energy provider so that another 120 000 low income households are eligible for savings on their current energy bills of up to \$585. This will be an enormous assistance for many struggling South Australian families this year.

The government has also increased the energy concession to \$226.67 from 1 July 2019 for about 180 000 eligible households.

In addition to these savings the costs of running a car for an average household will be reduced significantly. After 1 July this year CTP premiums for running an average car in the metropolitan area will be slashed by up to \$114.48 per car. For the more than 340 000 households with two or more cars the potential savings will in most cases be more than \$200 per household.

This budget also continues a decision made in last year's budget to provide a \$100 sports voucher towards the cost of membership or registration fees for primary school aged children participating in sport and recreation programs. Again for many struggling families with 2 children that policy is worth \$200 to these families.

Mr Speaker whilst this budget has included some increases in fees and charges the massive savings I have just highlighted makes it clear that the overwhelming majority of families will benefit from the lower cost policies of this government.

Mr Speaker last year I said on behalf of the government that we accept that our state's future and economic and job growth prospects are highly dependent on the quality of education and training provided by our schools, training institutions and universities.

This budget is making the largest investment in schools by any state government in the history of the state.

Total annual funding to education in 2022-23 will be \$611 million more than the total spending in 2018-19.

The government's more than \$80 million landmark project to deliver high speed internet to every government school student is on track to be delivered by the middle of 2020.

The government continues to invest heavily in education capital works including \$185 million over seven years to facilitate the transition of Year 7 into high school and to accommodate additional growth in the school system.

The government also continues to increase funding for SA Police with funding in 2022-23 to be \$81 million more than funding estimated to be spent in 2018-19. In particular an extra \$9.5 million over four years will provide an enhanced rapid response capability to resolve high risk incidents including terrorist threats.

This budget includes a range of initiatives designed to help build stronger communities including:

- An extra \$26.9 million over 3 years to meet additional costs for children and young people in out of home care.
- \$75 million over five years in partnership with the Commonwealth Government to address critical housing needs for people in remote communities.
- \$3 million for a trial of an intensive family support programme to assist vulnerable families in northern Adelaide.

Mr Speaker in this year's budget the Marshall Liberal Government is making another massive investment in our health system with an extra \$537 million in new spending. This now means that since last year's election the government will have allocated an extra \$1.8 billion over the forward estimates to our health system.

Last year's budget outlined a revised financial framework for the health portfolio setting a more sustainable objective of delivering services at national average efficiency levels by 2021-22 and outlining a series of sensible reforms in order to pursue system improvements.

The government remains committed to all the reforms outlined in last year's budget and the government has taken significant steps in 2018-19 to begin the improvement of our health system.

Governance reforms for the Health system have been implemented, and boards of management for each hospital network will formally commence from 1 July 2019, providing greater autonomy and responsibility for delivering quality, efficient services at the local level.

The Central Adelaide Local Health Network, supported by administrators KordaMentha, is making progress in the implementation of its organisational and financial recovery plan, including implementing a recently announced organisational re-design, improving rostering practices to significantly reduce the use of expensive agency nurses, and improving budgeting, procurement and human resource practices across the organisation.

For example the use of agency nursing staff has plunged by 90 per cent in March 2019 to just 0.7 per cent of the workforce compared to 7.7 per cent of the workforce in January 2018.

Also a massive backlog of 10 000 un-coded episodes of care have now been cleared which has resulted in millions of dollars of additional revenue.

CAHLN's indicative cost of activity in the 6 months to 31 December 2018 was 21 per cent above the National Efficient Price. This was a significant improvement on the 30 per cent above the NEP figure recorded for the 12 months to 30 June 2018.

PricewaterhouseCooper's independent report into SA Pathology outlined that there are significant opportunities to improve the efficiency and effectiveness of the organisation. SA Pathology will be given the opportunity to implement the recommendations of the PWC review, and make fundamental improvements to its business.

South Australian Medical Imaging has largely met the efficiency targets set by the government for 2018-19. South Australian Medical Imaging will continue to work to increase efficiency in line with government targets and contribute to the delivery of hospital services closer to the National Efficient Price.

Notwithstanding the above, SA Health advised that it would not meet its financial targets in 2018-19, estimating that it would over-spend by \$95 million. However, the government remains committed to achieving national average efficiency for our hospital system by 2021-22.

A significant savings task remains, and SA Health, and the Local Health Networks will need to continue driving efficiencies and service improvements across the sector.

Mr Speaker the government recognises that South Australia's regions are critical for the future of our state. Last year's budget reflected significant new investment in our regions and this budget continues to implement a range of new initiatives to grow economic opportunity and improve community infrastructure.

This budget outlines spending of \$1.1 billion over eight years on regional road projects and transport infrastructure upgrades.

The budget also commits new spending of \$32.7 million over five years for upgrades of a number of regional high schools which will be in addition to the \$100 million being spent on a new high school in Whyalla. The government will also continue with its commitment to spend \$14 million per year over 10 years to address improvements in country health facilities.

Australia's national dog fence is the largest continuous fence in the world, protecting livestock from wild dog and dingo attacks. The government will replace the ageing 1600 kilometre component of South Australia's dog fence with the Commonwealth and state government providing \$10 million each and industry providing \$5 million.

Mr Speaker as I outlined earlier this budget has had to be framed against the backdrop of significant reductions in expected revenues from GST and conveyance duty.

This budget outlines a responsible programme of further operating savings of \$361.6 million over four years.

As outlined last year the government adopted a completely new approach to achieving budget saving targets. Agencies were advised it was no longer acceptable to only adopt the 'salami slicing' approach by maintaining all existing programmes and taking a 'small slice' or efficiency dividend off every programme.

Agencies were directed to return to first principles and adopt a simplified version of zero based budgeting by looking for wasteful or low priority programmes or projects that could be abolished.

Difficult decisions to reprioritise funding have been made again in this year's budget and as examples the government has already announced removal of funding for the Adelaide Fashion Festival, Motor Sports Festival and Brand SA.

Last month the government announced a range of increases in fees, fines and charges which is estimated to generate an extra \$79 million in 2019-20 and \$353.6 million over four years.

The government will also be increasing the solid waste levy in the metropolitan area to \$110 per tonne on 1 July 2019 and then to \$140 per tonne from 1 January 2020. This increase will eventually raise about \$24.8 million per annum once fully implemented.

This increase assists to reduce the amount of waste going to landfill to reduce methane gas emissions and incentivises resource recovery and recycling. Increases to the levy in the past have resulted in reduction in waste sent to landfill. Staged increases to the levy have resulted in a reduction of waste to landfill by 31 per cent since 2002-03. A 50 per cent reduction on the levy will be provided to charity organisations on unwanted waste they receive as part of the donation system.

Over the forward estimates this extra revenue is being used to save West Beach and other metropolitan beaches, help fund regional coastal works and also fund the Waste and Resource Recovery Modernisation and Council Transition package.

This budget will also raise an additional \$134.4 million over 5 years by increasing the dividend payout ratio for all government business to 100 per cent of profit after tax. Currently the dividend payout ratio varies from 60 per cent to 100 per cent.

This will apply to SA Water, HomeStart Finance, SAFA, MAC and South Australian Government Employee Residential Properties.

Mr Speaker the government is also introducing targeted measures to crack down on individuals and companies who have reduced their land tax bills by setting up complex legal structures to avoid the land tax aggregation provisions of the Act.

This initiative introduces improved land tax aggregation provisions and a surcharge on certain trusts and is estimated to raise an extra \$40 million per year or \$120 million over three years.

In South Australia, land tax ownerships are aggregated together to ensure owners of land pay equivalent land tax rates on the total value of land regardless of the composition of land held. For example, an owner with one land parcel worth \$1 million pays the same tax as an owner of three separate parcels worth a combined value of \$1 million.

However, the current aggregation arrangements create an incentive for land owners to set up complex structures designed to avoid being aggregated and minimise land tax. For example:

- a taxpayer who ultimately controls 10 taxable land parcels across 10 trusts (with each trust having a slightly different composition of beneficiaries) could be subject to land tax on the individual value of each parcel rather than on the aggregated value of all parcels notwithstanding that they are all controlled by the same taxpayer, or

- a taxpayer may set up multiple companies to each own a taxable land parcel. These companies will then be subject to land tax on the value of the land owned by each company independently (a single parcel), rather than the aggregated value of the land owned by all the companies, notwithstanding that they are controlled by the same taxpayer.

While the government is reducing land tax rates to increase the competitiveness of the tax system, it also wants to ensure there is equity between taxpayers.

An improved approach to the aggregation of land for land tax purposes will be introduced in South Australia to look through separate legal structures to determine the true owner of land, levelling the playing field for all taxpayers. The approach will be similar to that used in Victoria and New South Wales and include:

- a shift to aggregating based on an owner's interest in every piece of land, rather than only aggregating properties held in the same ownership structure
- introducing provisions to allow two or more related companies to be grouped for land tax purposes, and
- introducing a surcharge on land owned in trusts in cases where the interests in land of trust beneficiaries are not disclosed or cannot be identified. This is designed to minimise the incentive to own properties in trusts to avoid aggregation by increasing the tax payable. Exceptions will be provided from the surcharge for certain trusts (e.g. special disability trusts, guardianship trusts, complying superannuation funds). The government will set a surcharge with the intention of minimising avoidance practices following consultation on the proposed changes.

These changes apply from 1 July 2020. The final details of the arrangements will be subject to consultation prior to implementation.

Associated with these land tax changes the government will progressively reduce the top land tax rate from 1 July 2020. The top land tax rate for the value of ownerships above \$5 million will be reduced by 0.1 percentage point each year from 3.7 per cent in 2019-20 to 2.9 per cent from 1 July 2027.

The initial cost in 2020-21 will be \$2.7 million rising to \$8.6 million in 2022-23.

The government is estimating an extra \$10.8 million over four years will be collected by an increased Payroll Tax Compliance Programme by Revenue SA focusing on businesses who failed to register, the use of contractors, the grouping of businesses, and other high risk areas.

Mr Speaker in addition to these targeted savings and revenue measures the government has indicated that it has budgeted for reasonable salary and conditions settlement for public sector employees.

However there is clearly not the financial capacity to afford excessive salary and conditions claims as part of any enterprise bargaining negotiations.

Expenditure on salaries and wages is the largest expense for the government representing 42 per cent of general government sector costs in 2019-20.

The government in 2018-19 managed to reverse the explosion in employee expenses and FTE numbers that occurred in the last years of the former Labor Government. The employee expenses increase in 2018-19 was restricted to 2.7 per cent after a 5.1 per cent increase in 2017-18. Employee expenses are estimated to decline in real terms by 5.1 per cent from 2018-19 to 2022-23.

Over the last four years of the former Labor Government FTE numbers in the general government sector exploded by about 3790 FTE or on average about 1000 FTE per year. The government in 2018-19 managed to reduce significantly the rate of increase in FTE numbers to about 191 FTE. The government is estimating that by 2023 there will be an actual increase of 1385 FTE teachers and other education staff driven by enrolment growth in government schools and the massive increase of \$611 million in annual education spending by 2022-23. Offsetting these big increases in FTEs in education the government is estimating equivalent reductions in other parts of the public sector.

The budget papers again note that these estimates are notional and actual changes may vary. As has occurred for many years agencies have the flexibility to deliver the savings in the manner that best suits the needs of the agency.

Mr Speaker as I outlined earlier our state's economic prospects are influenced by what the Governor of the Reserve Bank has described as a softening national economy.

The Reserve Bank has foreshadowed further cuts in interest rates and there is also the need to see the economic stimulus from the Commonwealth Government's significant income tax cut package.

The Reserve Bank has also supported the maintenance of significant infrastructure investment by the Commonwealth and state governments to help generate economic and jobs growth.

This budget estimates economic growth as measured by GSP increasing next year to 2.5 per cent from 2.0 per cent this year. Employment growth in 2018-19 is estimated to be 1.25 per cent and 1 per cent next year.

Mr Speaker the preparation and presentation of this year's budget papers have been made more challenging by the need to comply with new Australian Accounting Standards. These new standards will apply from 2019-20 and will apply to all Australian governments and the private sector as well.

These changes have a material impact on the budget and forward estimates and mean that the figures presented in this budget will not be directly comparable with state budgets from previous years.

For example new Australian Accounting Standard AASB 16 Leases will mean that most government leases such as those for office accommodation and motor vehicles will now mean an upfront increase in liabilities and net debt from the start of the lease.

The end result of this accounting treatment change is an increase in the total NFPS net debt by \$1.3 billion in 2019-20.

New revenue standard AASB 15 and AASB 1058 also have a significant impact on the budget papers. For example Commonwealth Government funding for some infrastructure projects will now be recognised over the life of the project rather than when the payments are received.

This budget also includes changes to achieve full compliance with the recently updated Uniform Presentation Framework (UPF) which guides governments in the presentation of their budget papers. For example, some assets and related liabilities and some revenues and related expenses will no longer be netted off. Examples include how interest expenses, gambling revenue and taxation revenue are reported. These presentational changes do not reflect a change in the financial position of the government.

This budget also includes revised funding arrangements for the new SA Housing Authority and Renewal SA. The SA Housing Authority commenced operating this year as an independent housing authority under the SA Housing Trust Act.

In recognition of this change, and to restructure and recapitalise the authority's financial arrangements, this budget provides for revised funding arrangements involving one off grant payment in 2018-19 and additional equity contributions over the forward estimates.

This funding package will support the Authority's capital works as well as providing funding required to restructure its operation and support its viability.

This new funding arrangement for the SA Housing Authority is consistent with those implemented in last year's budget for Forestry SA.

The use of equity contributions to public non-financial corporations was also used on a number of occasions by the former Labor Government. They were used to fund capital expenditure and to meet short term cash requirements including for Renewal SA and the SA Housing Trust.

Mr Speaker last year's budget set a strong foundation for a sound financial future and without the difficult decisions taken last year we would not have been in a position to meet the new financial challenges which presented this year.

The budget is designed to build a better future for South Australia with major investments in hospitals, schools, roads and other infrastructure projects.

This budget continues to deliver on our election promises to create jobs, lower costs for struggling families and to provide better services for all South Australians.

Mr Speaker I again want to thank all my Ministerial colleagues for their wholehearted and cheerful support in tackling the challenges of this budget process.

I also place on the record my thanks to all the hardworking Treasury staff who have worked long hours in putting together this budget.

Finally I want to thank all the staff in my Ministerial office without whose hard work and commitment to this job we would never have met many of the deadlines required.

Mr Speaker I commend this budget to the house.



STATE BUDGET 2019-20

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