

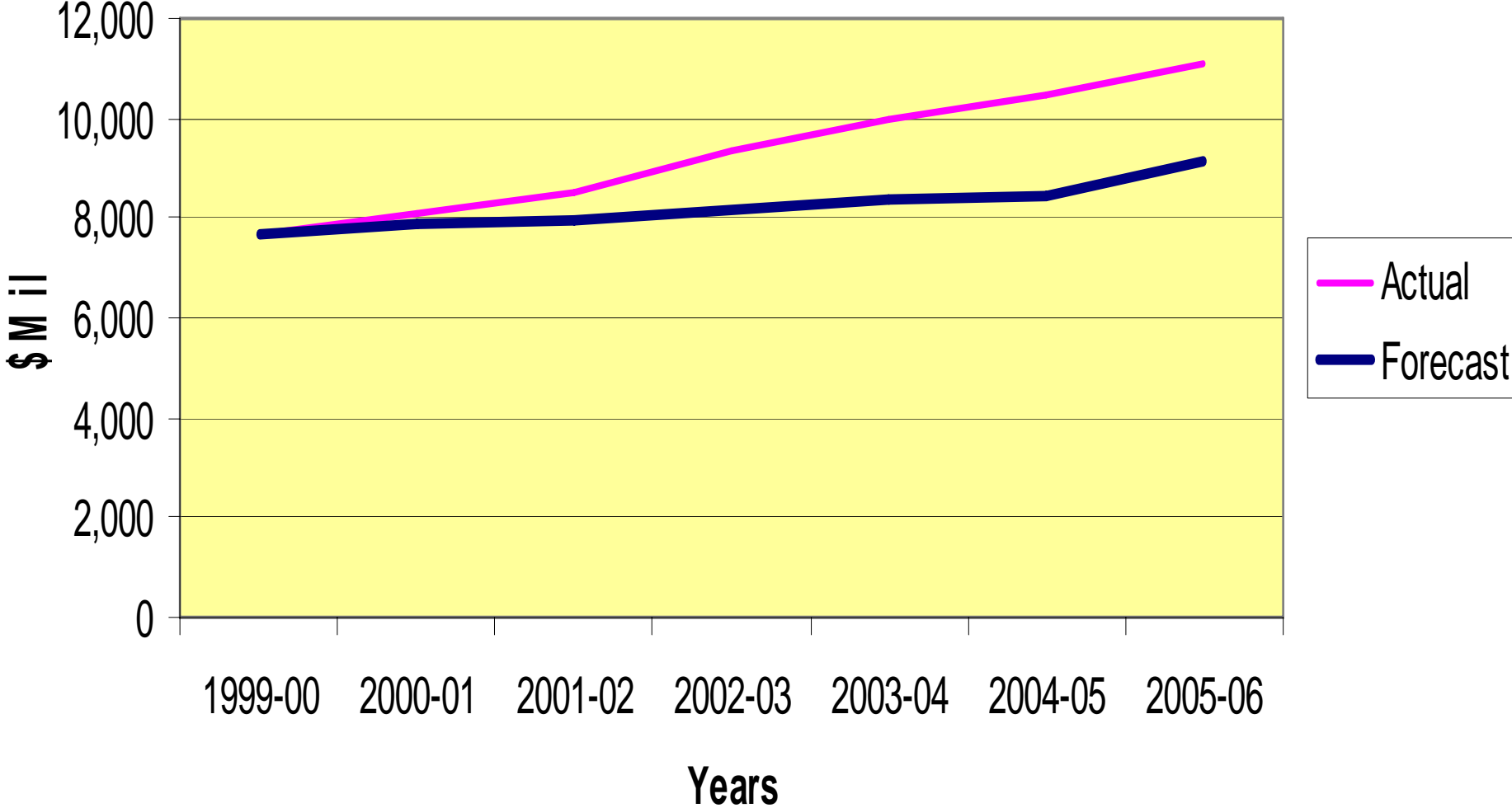
2007 SA State Budget Opportunity Squandered

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Australia's Leading Free Market Think Tank

SA: Revenue Windfall 1999/00 to 2005/06



2007 SA Budget

Revenue Windfall

1999/00 to 2005/06

Source	Amount	Proportion
Total Revenue	\$7.4bil.	15%
State Tax	\$2.7bil.	21%
Property Taxes	\$1.4 bil.	35%
Grants	\$2.4bil.	9%

2007 SA Budget

Growth In Tax Revenue

1999/00 to 2005/06

Tax Type	Annual Growth
Pay-roll	7%
Conveyance	15%
Gambling	3%
Land	20%
Insurance	10%
Total	1.7%

2007 SA Budget

The Task: Use Inheritance Well

- Progressing Reform & Sustain Growth.
- Budget for the long term.
- Meet infrastructure needs
- Refocus on essential services.

2007 SA Budget

SA's Future is On-The-Line

- Decline in core sectors
- Old Statist approach no longer works.
- Loss of people particularly youth.
- Loss of competitiveness
 - High Cost Government

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Tax Effort

2004/05

State	Relative
NSW	102.2
Vic	102.3
Qld	85.7
WA	103.3
SA	117.7
Tas	99.0
ACT	100
NT	102

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Above Average Tax Effort

2004/05

Tax	Relativities	Amount
Pay-roll	102.9	\$14.3 mil.
Conveyance	118.2	\$87 mil.
Land	199.3	\$128 mil.
Gambling	126.4	\$83.7 mil.
Insurance	150.5	\$76.2 mil.
Total	116.4	\$383.4 mil.

SA: Above Average Tax Effort

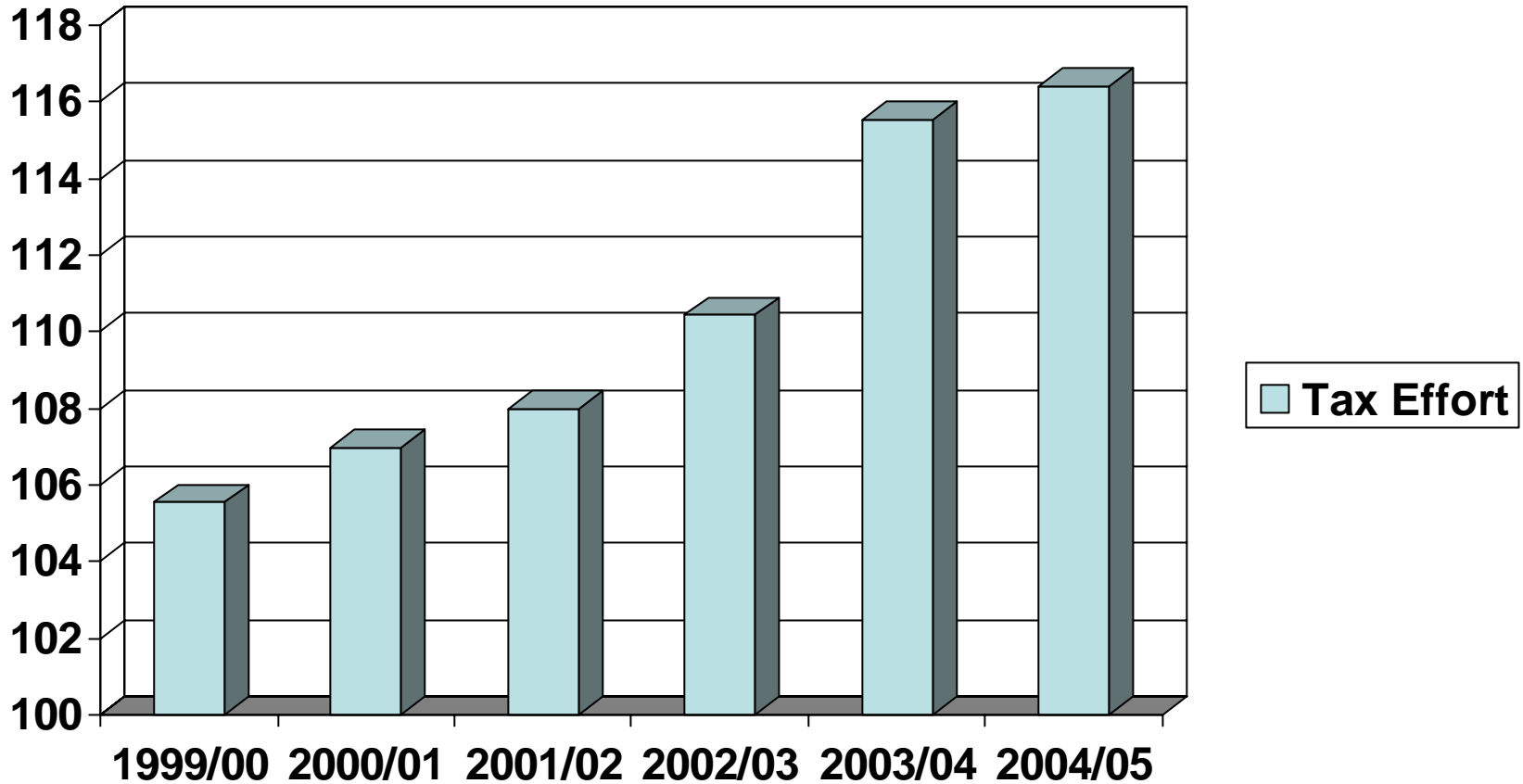


Table 2.22: Commonwealth Grants Commission expenditure assessments, South Australia

	2004-05	
	Difference between actual and CGC assessed expenditure	
	\$m	%
Education	161.9	8.6
Health	308.1	14.5
Welfare ^(a)	38.4	4.7
Law, order and public safety	70.8	9.4
Culture and recreation	40.5	20.6
Economic activities	-250.3	-18.9
General public services	342.8	21.3
Total expenditure	710.1	8.2

(a) Adjusted to remove land tax payments by the South Australian Housing Trust.

Source: CGC Report on State Revenue Sharing Relativities 2006 Update.

2007 SA Budget

We Have Seen The Light

Last 4 years

- Rev Growth 14.1%
- Exp Growth 14.4%
- Capex: \$160m

Next 4 years

- Rev growth 0.2%
- Exp. Growth -0.2%
- Capex \$1424m

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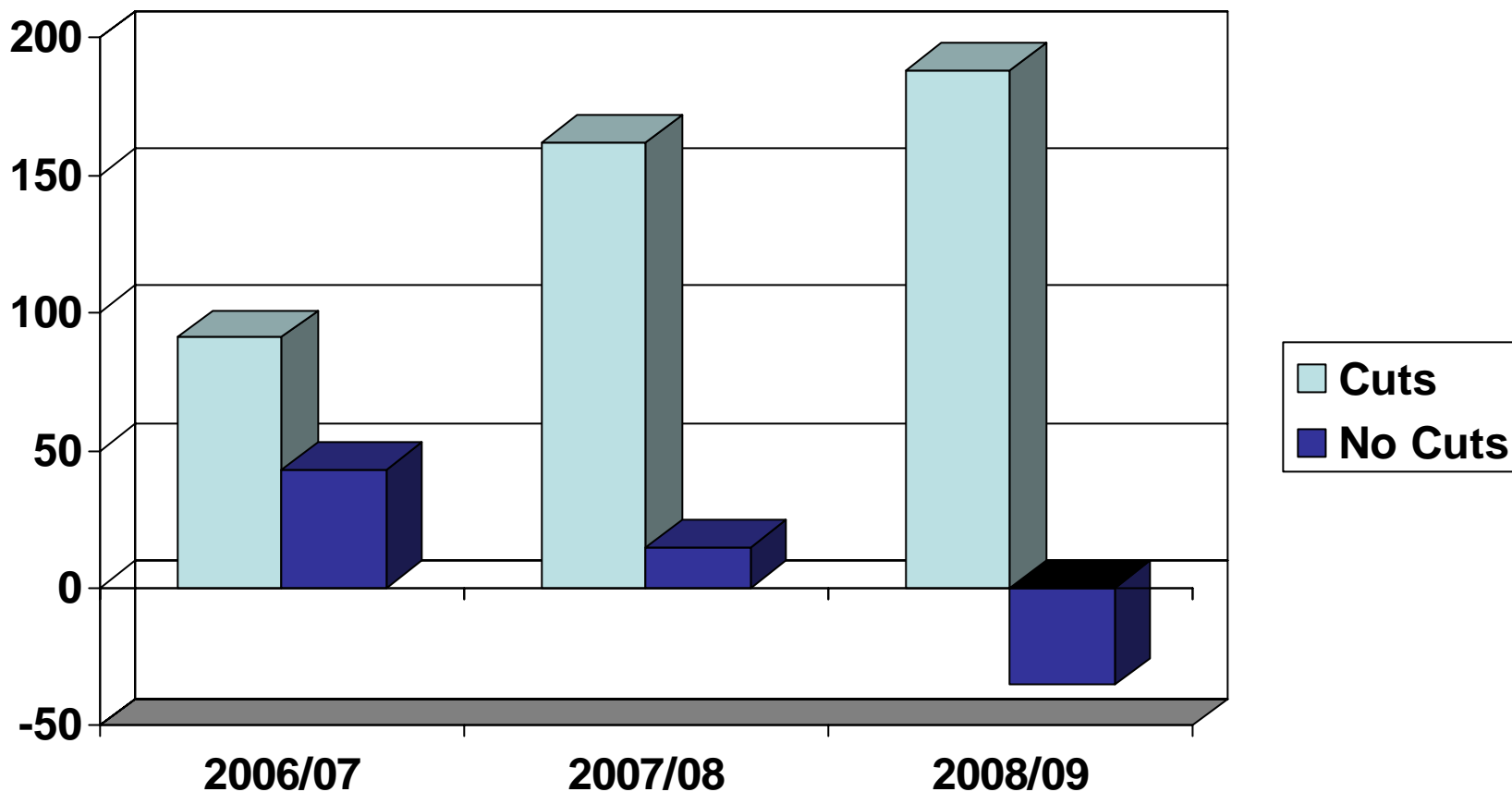
Spending and Saving Initiatives

Over 2006/07 to 2009/10 Period

• Additional Spending	\$1486m
Less	
– Asset Sales	\$ 53m
– Exp. Cuts	\$ 695m
– Revenue	\$ 107m
• Net Change	\$ 631m

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Forecast Operating Balance



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Net Changes

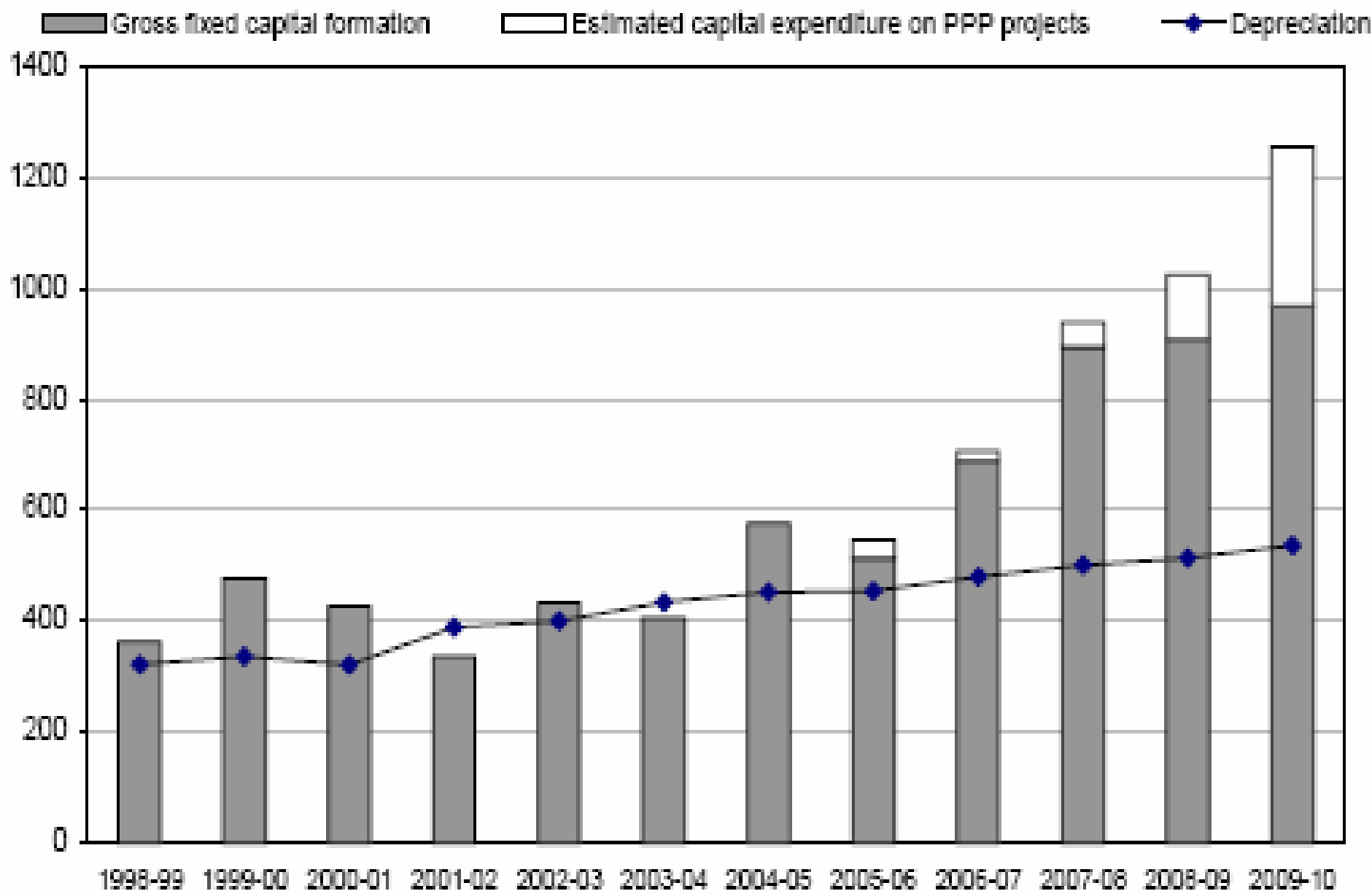
Budget 2005/06 To Budget 2006/07

- Tax Growth 7.5%
- Wages growth 9.1%
- Public Servant No. 1%
- Exp. Growth 4.7%
- Operating Balance -\$56m
- Borrowing +\$209m
- Capex +\$150m

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Spending Priorities

Figure 1.3: General government sector capital acquisition (\$ million)^(a)



(a) 1998-99 to 2004-05 are actual outcomes. 2005-06 to 2009-10 are forecasts.

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No Reform Budget

- Smith Review - Housekeeping, not Reform
 - Useful but not enough
- No Reform (or cuts) of Taxes
- No Reform of Service Delivery
- No Reform of Infrastructure Decision-making

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Budget Fails

- Not Sustainable
 - No Reform
 - Excessive Expenditure Growth
 - Excessive Taxation Growth
 - Efficiencies put off to future
- High Risk
 - Betting on the boom-time to continue
 - Windfall gains used for long term commitments
- An Opportunity Lost

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Public Servants Windfall

2003 - 2005

- Public Servant since
 - Numbers
 - Actual Growth: 13% or 8885
 - Budgeted growth: 1.6% or 1335
 - Wages Bill
 - Actual Annual Growth: 8.7%
 - Budgeted Annual Growth: 4.5%

Median Multiple Trend: Australia

LARGEST MARKETS: 1981-2005

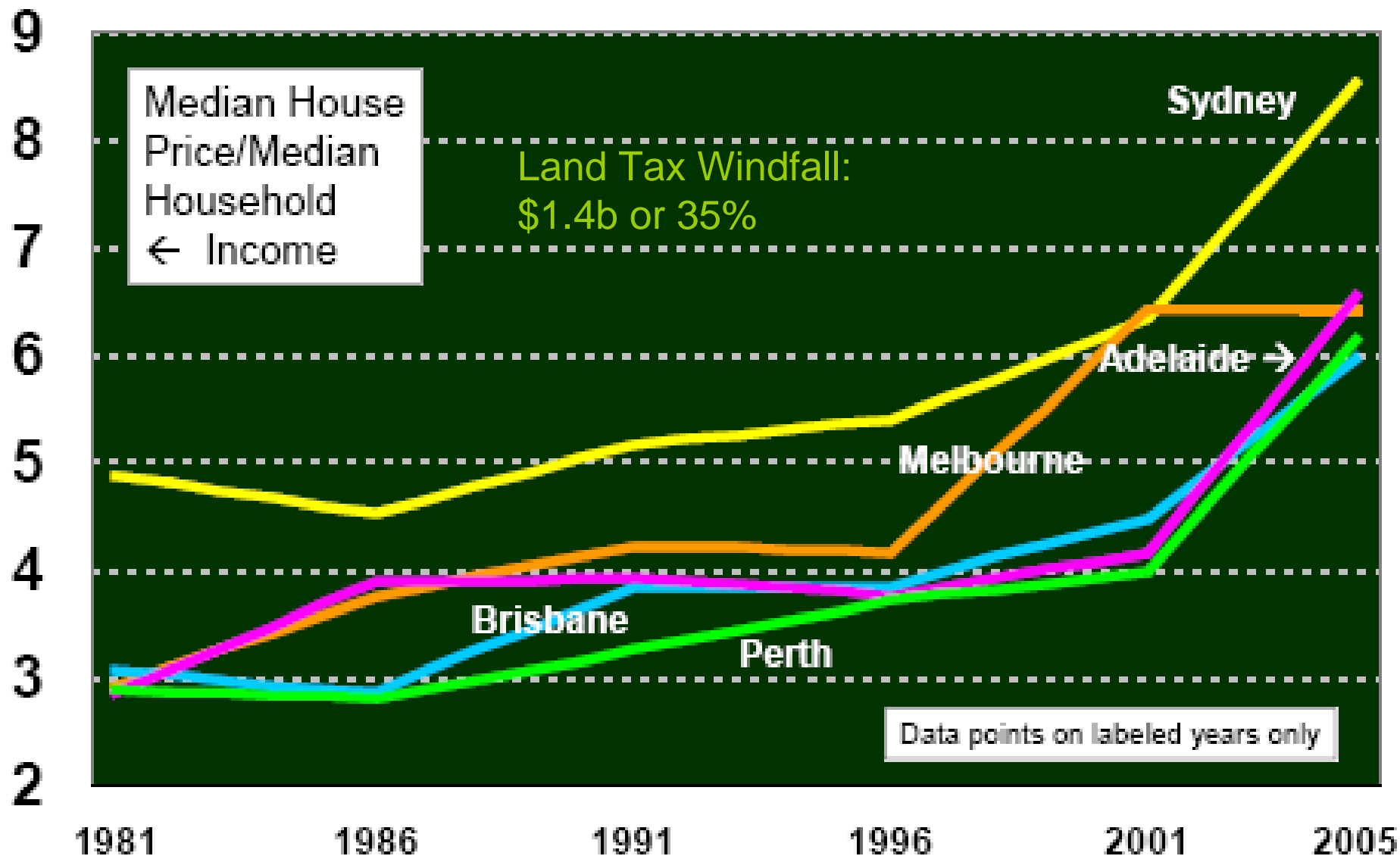
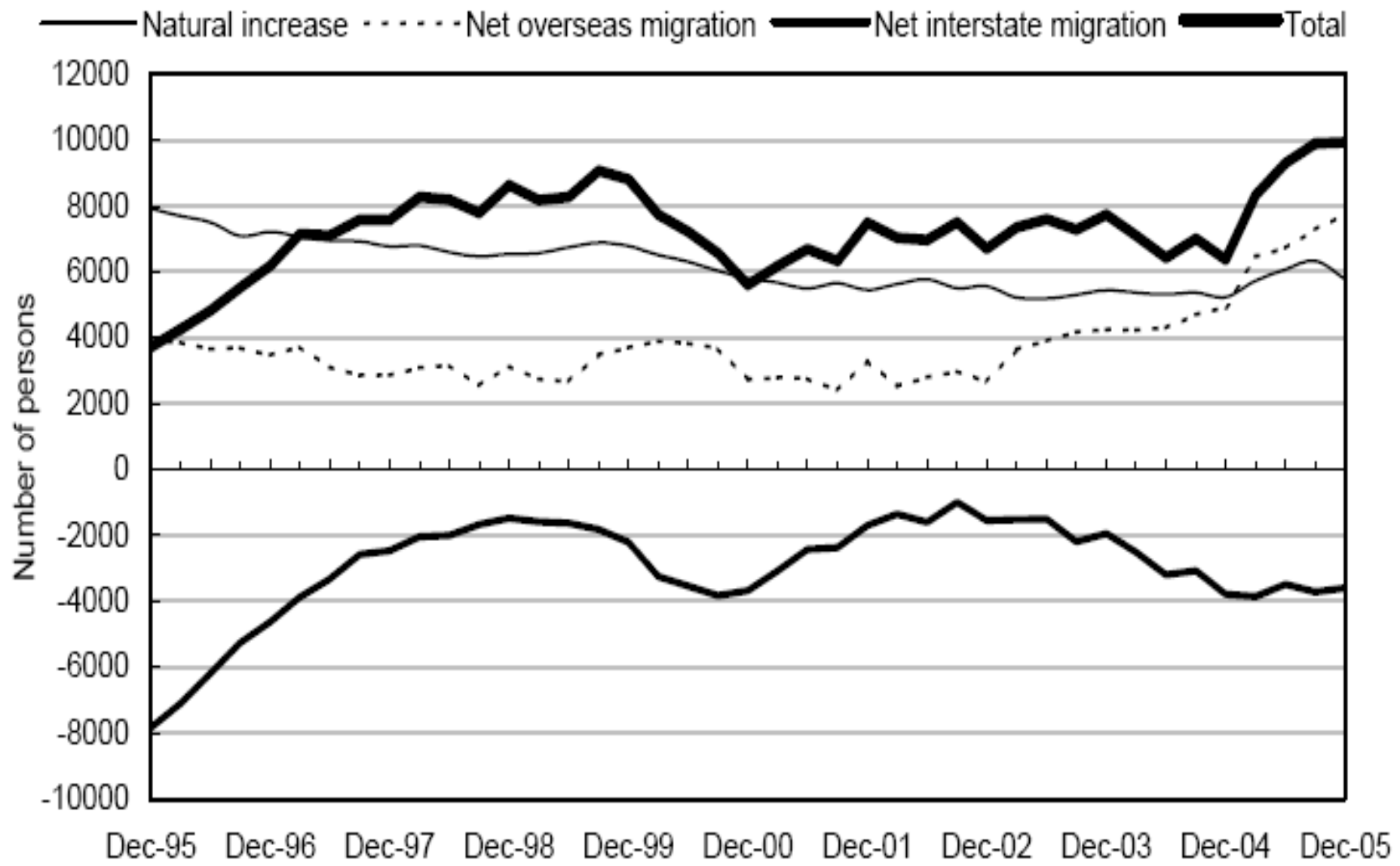


Figure 8.1: Sources of South Australian population growth (moving annual totals)



Source: ABS, Australian Demographic Statistics, Catalogue No. 3101.0

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Public Servant Numbers

Budget Papers	Budgeted Increase	Actual Increase	Blowout
2002-03	337	4184	3847
2003-04	-281	345	626
2004-05	610	2380	1770
2005-06	469	1976	1507
Total	1135	8885	7750

Table 5: Growth in State Employees: Salaries and Staff Numbers

	Employee entitlements Average annual growth *		Employee Numbers growth **
	%		%
	1999/00- 2004/05	2003/04- 2005/06	Nov 1999- Nov 2005
NSW	7.5	8.9	6.9
Victoria	7.4	10.0	21.5
Queensland	10.1	9.6	9.7
WA	6.9	9.0	15.4
SA	6.8	8.5	17.0
Tasmania	5.8	11.3	19.5
NT	n.a.	6.9	24.1
ACT	8.4	12.6	3.9
State Sector	7.8	9.3	11.7

Source: * State Budget papers,
 ** ABS, Wages & Salary Earners: Public Sector, 6248.0.55.001.

State Public Sector Unfunded Superannuation Liabilities

(\$'million)

Source: State Budget Papers

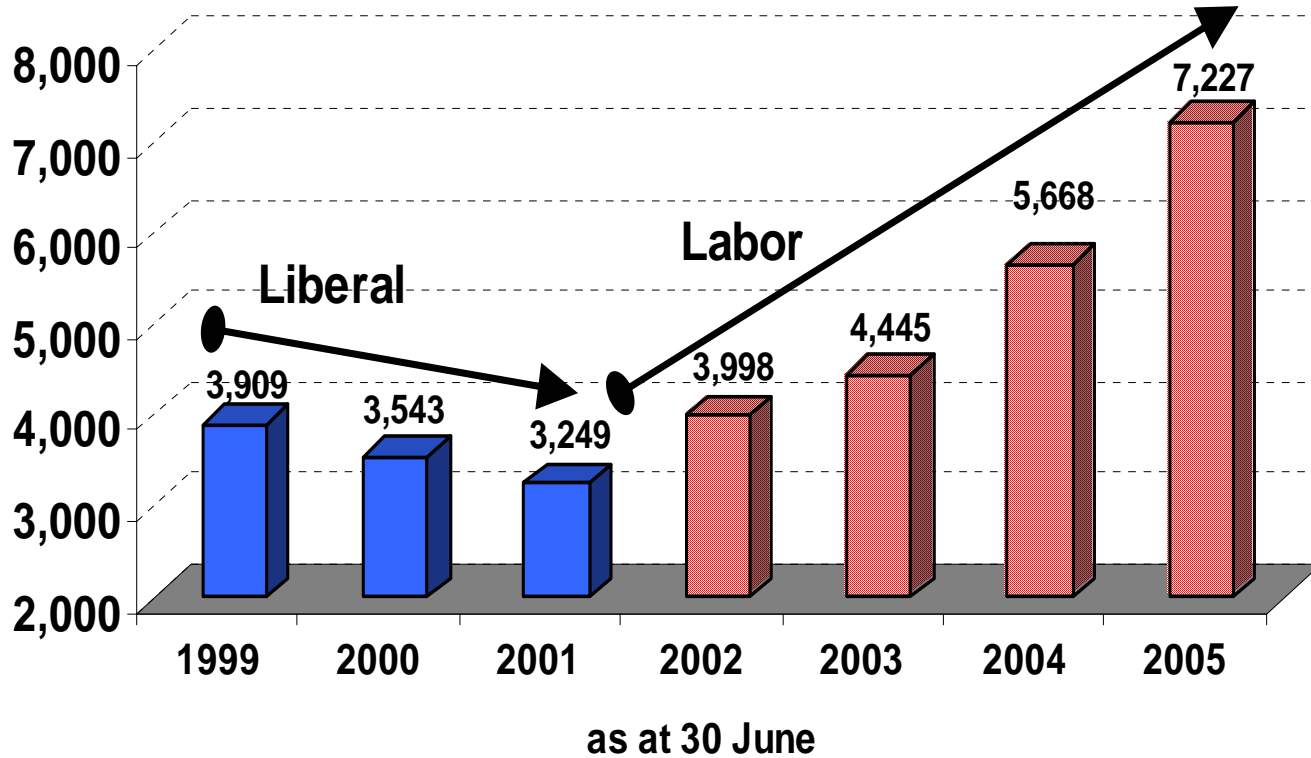
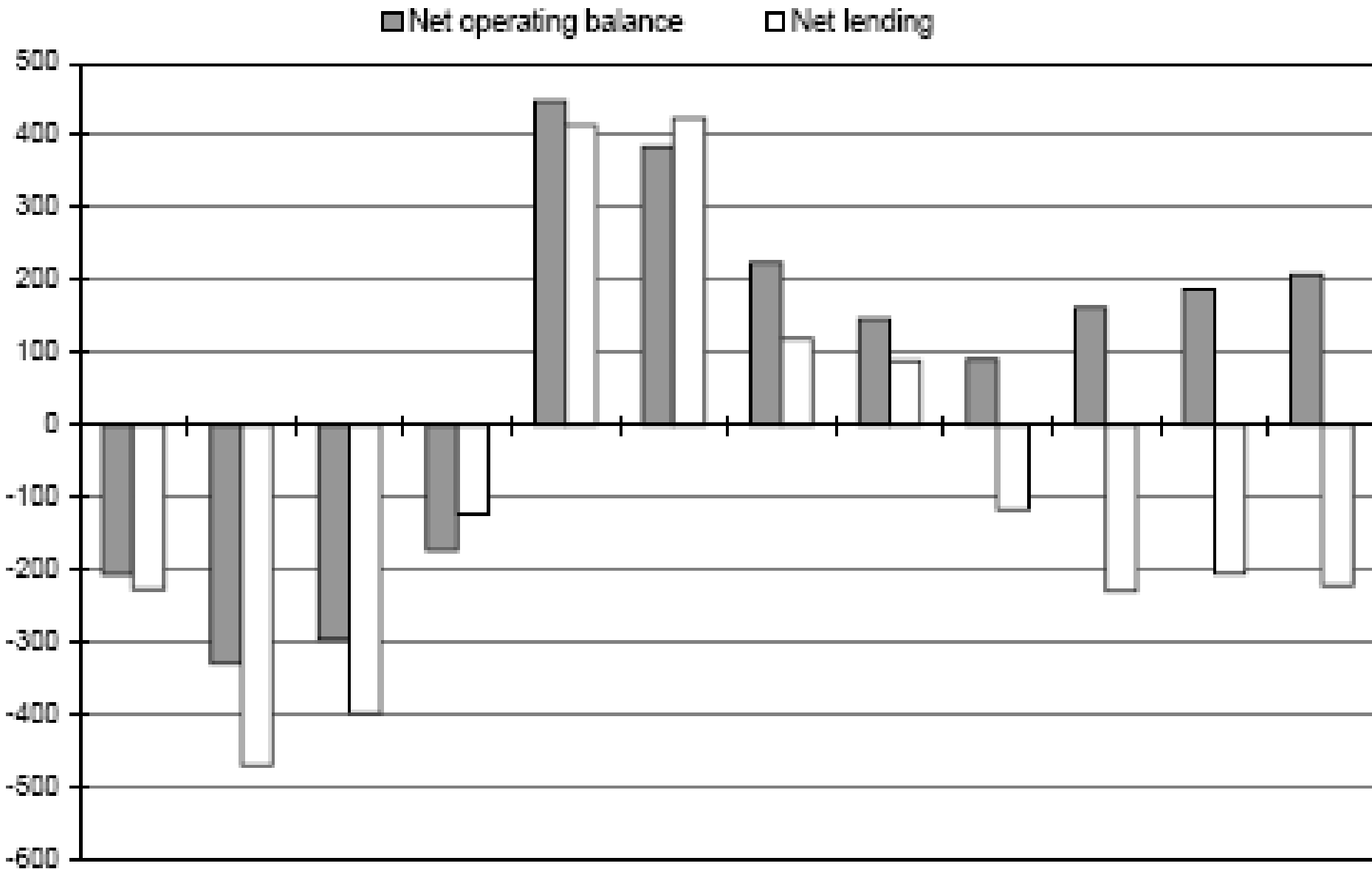


Figure 1.1: General government sector net operating balance and net lending (\$ million)



SA: Below Average Spending 2004/05

Area	Relative	Savings
Roads	-37.7%	\$140 mil
Urban Transit	-32.4%	\$95 mil.
Primary Ind.	-25.8%	\$55 mil.
Non-urban Trans.	-77%	\$54 mil.
Elec.& Gas	-73.3%	\$25 mil.

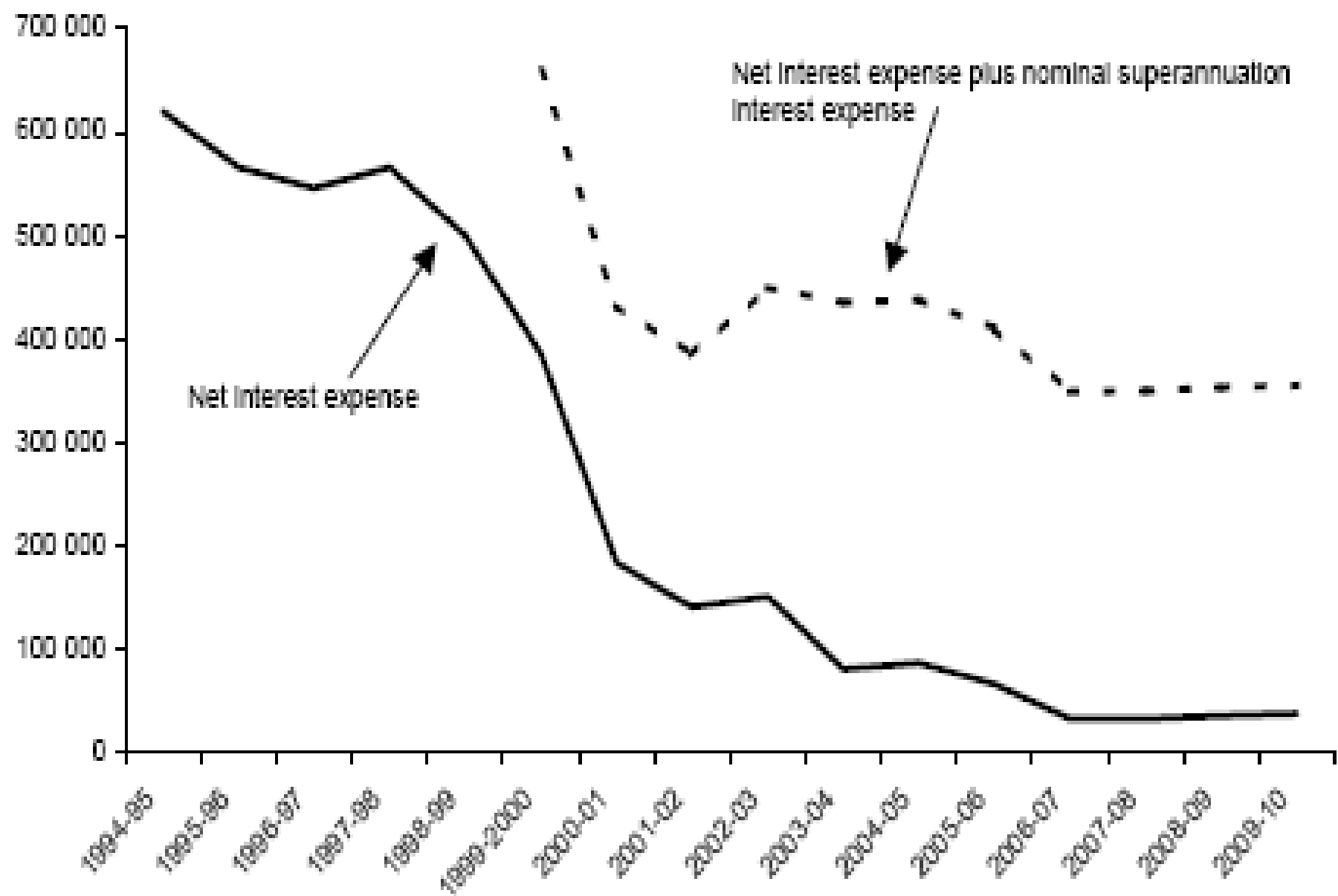


Opportunity Squandered

How the States have wasted their
reform bonus

Mike Nahan

Figure 2.1: General government sector net interest expenses: 1994-95 to 2009-10 (\$'000)





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