



# Annual Economic Outlook Breakfast

July 15<sup>th</sup> 2014

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# Kaurna Acknowledgment

We would like to acknowledge this land that we meet on today is the traditional land of the Kaurna people and that we respect their spiritual relationship with their country. We also acknowledge the Kaurna people as the custodians of the Adelaide region and that their cultural and heritage beliefs are still as important to the living Kaurna people today.



## **Master Of Ceremonies – Erma Ranieri**

IPAA President

Commissioner for Public Sector Employment,  
Department of the Premier and Cabinet

## **Hon Tom Koutsantonis MP**

Treasurer

Minister for Finance

Minister for State Development

Minister for Mineral Resources and Energy

Minister for Small Business

## **Vote of Thanks - Kim Cheater**

Partner, PwC



# Hon Tom Koutsantonis MP

Treasurer

Minister for Finance

Minister for State Development

Minister for Mineral Resources and Energy

Minister for Small Business

# STATE BUDGET 2014-15

Treasurer of South Australia  
The Hon Tom Koutsantonis MP



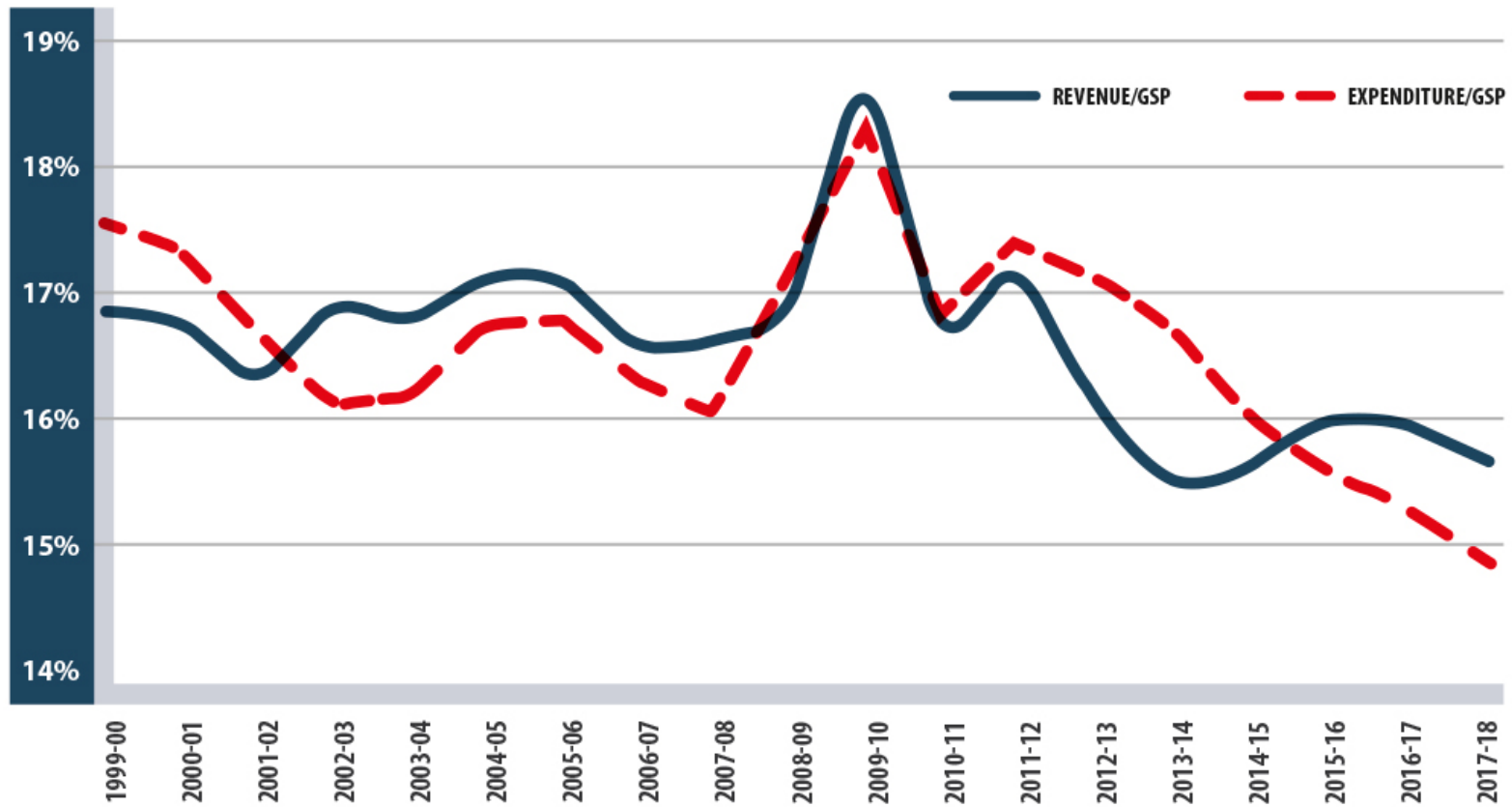
Government of  
South Australia



## Fiscal targets

- *Target 1:* net operating balance by the end of the forward estimates
- *Target 2:* once a surplus is achieved operating expenditure growth will be limited to trend growth in household income
- *Target 3:* achieve a level of general government net debt that remains affordable over the forward estimates – a ratio of net debt to revenue of 50 per cent (to be reduced to 35 per cent in response to SA Water gearing change)

# STATE BUDGET 2014-15





## Final Budget Outlook (compared to pre-election forecasts)

	2013-14 Est. Result	2014-15 Budget	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate
<b>Net operating balance (\$m)</b>	<b>-1 232</b>	<b>-479</b>	<b>406</b>	<b>776</b>	<b>883</b>
Pre-election forecasts	-1 015	-574	193	467	
<b>Net lending/borrowing (\$m)</b>	<b>-1 808</b>	<b>-380</b>	<b>-2 587</b>	<b>814</b>	<b>617</b>
Pre-election forecasts	-1 577	-306	-2 626	510	
<b>Net debt (\$m)</b>	<b>6 887</b>	<b>4 511</b>	<b>7 146</b>	<b>5 839</b>	<b>5 269</b>
Pre-election forecasts	6 716	6 980	9 639	9 139	
<b>Net debt/revenue (%)</b>	<b>45.1</b>	<b>28.1</b>	<b>41.4</b>	<b>32.3</b>	<b>28.2</b>
Pre-election forecasts	43.7	43.6	55.7	49.9	





## Key Points

- Election commitments and Regional agreement met in full – offset by modest efficiency savings in agencies
- Improved Budget outlook
- Surpluses from 2015-16



## Budget summary

1. State spend to be offset by savings to maintain budget position before Commonwealth cuts
2. Commonwealth cuts will be fully offset by response measures
3. A change to MAC CTP arrangements gives greater capacity to deal with future challenges



## Wages policy

- Future wage growth limited to 2.5% p.a.
- Any increases above this limit to be funded by productivity improvements or further savings



## Budget outlook after new initiatives and savings measures before Commonwealth budget cuts

	2013-14 Est. Result	2014-15 Budget	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate
Net operating balance (\$m)	-1 219	-479	393	738	858
Net lending/borrowing (\$m)	-1 795	-379	-2 600	777	592
Net debt (\$m)	6 874	7 198	9 846	9 076	8 531
Net debt/revenue (%)	45.0	44.5	56.4	49.5	44.7



## Commonwealth budget cuts

- **\$898 million** funding cuts across the forward estimates
- **\$5.5 billion** loss in health and education funding over the next decade



## Budget outlook after Commonwealth budget cuts

	2013-14 Est. Result	2014-15 Budget	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate
Net operating balance (\$m)	-1 232	-581	227	499	426
Net lending/borrowing (\$m)	-1 808	-482	-2 767	538	160
Net debt (\$m)	6 887	7 314	10 128	9 597	9 484
Net debt/revenue (%)	45.1	45.5	58.6	53.0	50.8



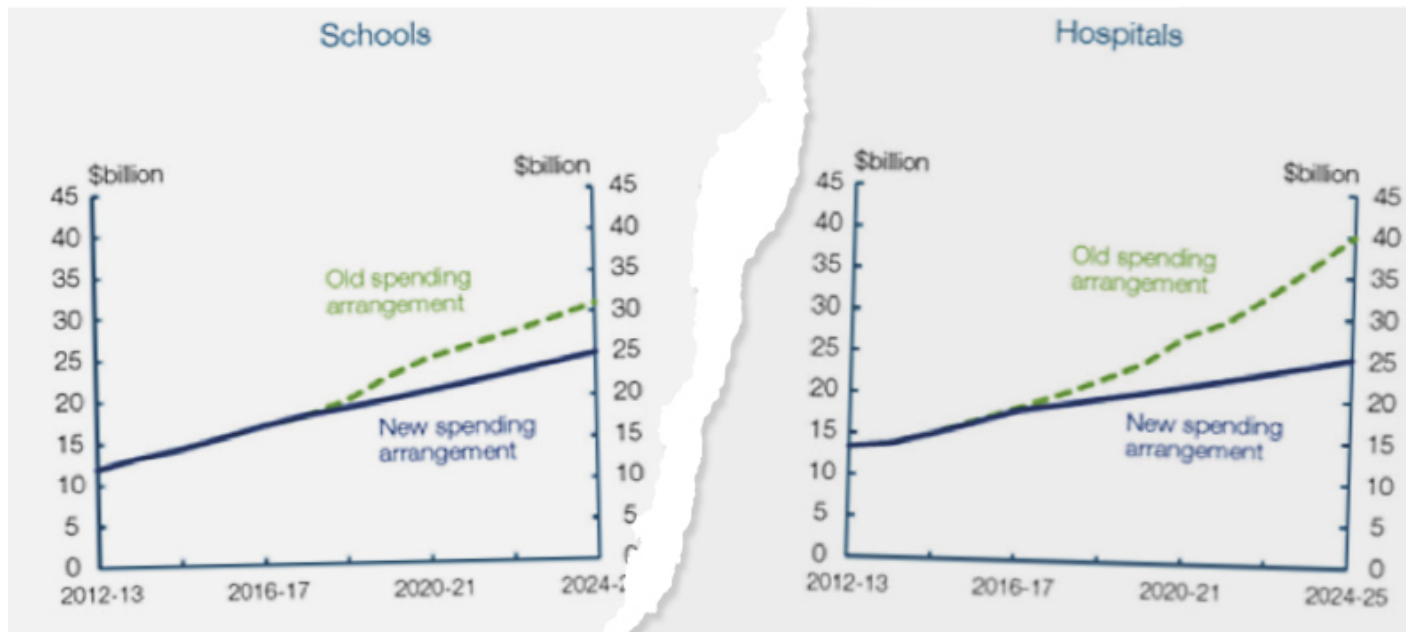
## Commonwealth budget cuts





## Commonwealth budget cuts

- Clear strategy of the Commonwealth Government's budget has been to transfer much of the hard work to the states



Source: 2014-15 Commonwealth Budget Overview



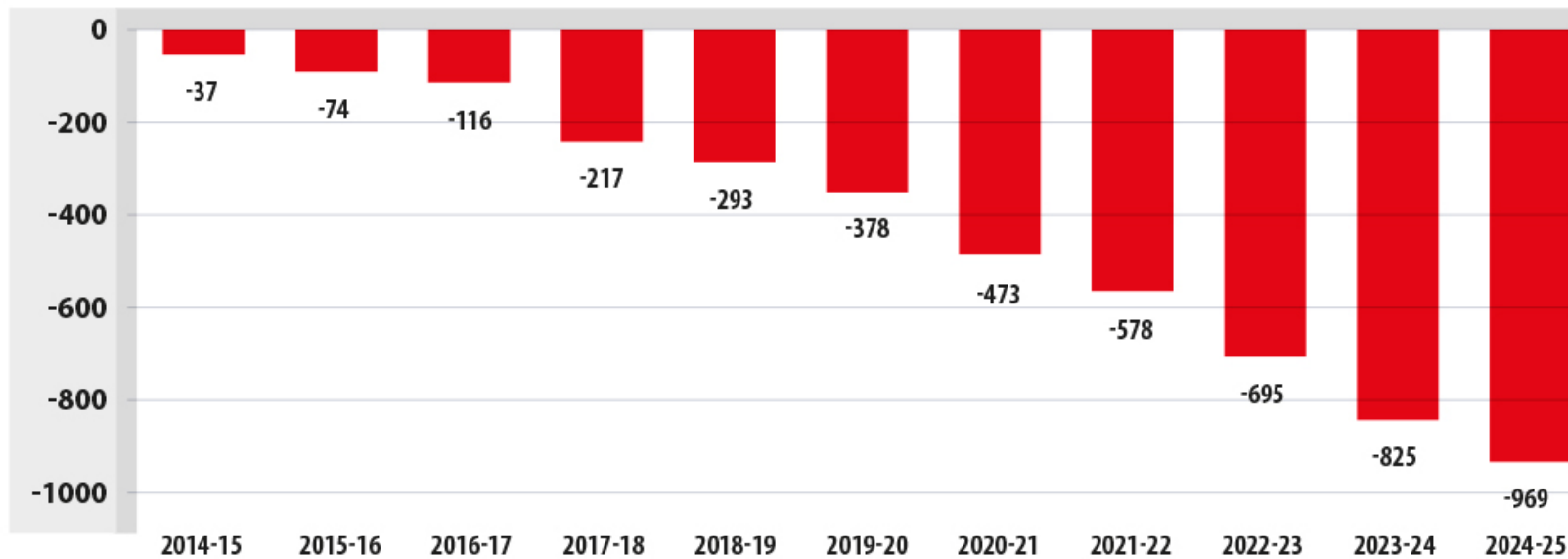


## Commonwealth budget cuts

- \$655m in health funding over the forward estimates:
  - National Health Reform payments (\$444m over 4 years) - totals \$4.6b over the next 10 years
  - Health National Partnerships (\$211m over 4 years)

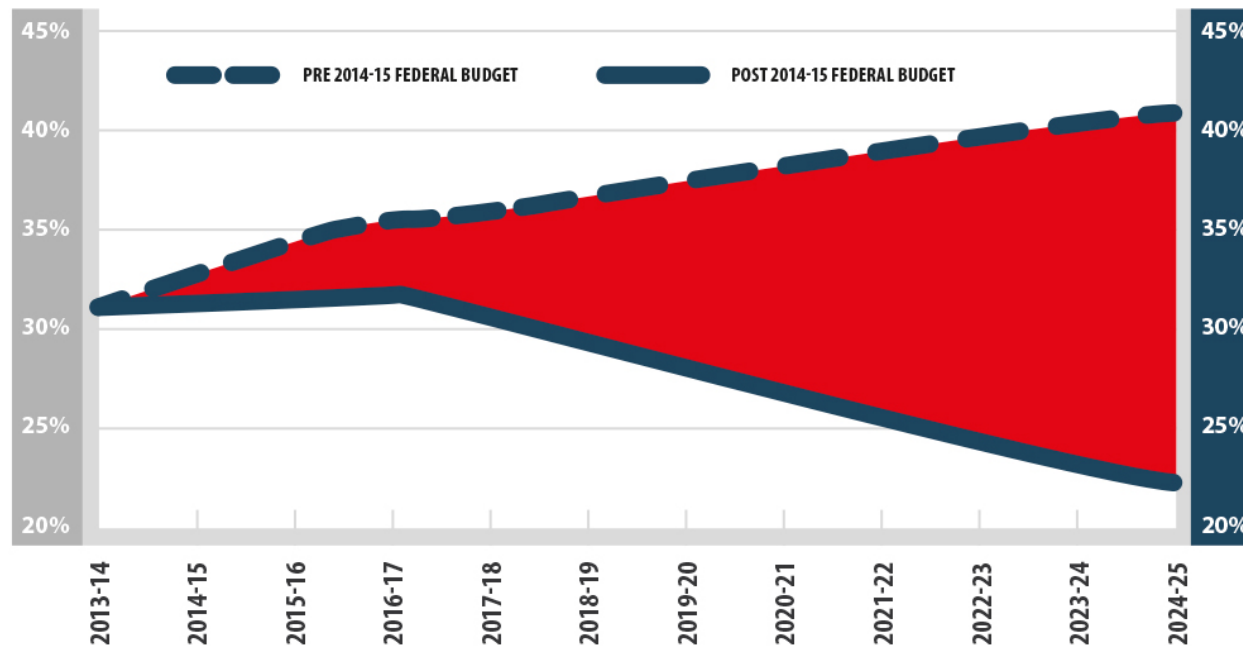


## Loss in National Health reform payments in South Australia (\$m)





# Impact of Commonwealth renegeing on health agreement - Commonwealth funded share of hospital costs





## Commonwealth budget cuts

- \$123m over 4 years in pensioner concession funding from 2014-15
  - Funding was used towards the provision of a range of concessions such as council rates, water, sewerage, motor vehicle registration and public transport
- \$47m in skills funding by 2017-18
  - 12,000 VET students p.a.
- \$45m in education funding in 2017-18 growing to over \$200m p.a. from 2019



Unless the Commonwealth reverses its position, a range of measures must be implemented to offset the impact



## Response to Commonwealth budget cuts - tax and revenue measures

- Remove ESL fixed property remissions for most property owners
  - \$80 million per annum
  - \$150 increase for median Adelaide property value in 2014-15
- Pensioners\* and self-funded retirees that hold a Commonwealth Seniors Health Card are exempt from these changes for their principal place of residence
- Remove ESL mobile property remission for cars, larger motorcycles and historic vehicles
  - Remissions to remain for primary production vehicles, trailers and recreational boats
  - \$9 million per annum
  - \$8 increase for standard vehicle registration

\* includes those eligible for a Pensioner Concession Card, Commonwealth Seniors Health Card or other eligible Centrelink benefit



## Response to Commonwealth budget cuts - health measures

- Reductions in the health system to save \$332 million over the forward estimates if we cannot get the Commonwealth Government to reverse its cuts



## Creation of Health Capital Reconfiguration Fund

- Funding has been redirected to a Health Capital Reconfiguration Fund (\$234.1m over the next 4 years), for the following
  - the Queen Elizabeth Hospital stage 3A
  - Modbury Hospital
  - Noarlunga Health Service Redevelopment stage 2A and
  - Flinders Medical Centre redevelopment





**Response to Commonwealth budget cuts  
- Other**

- Remove Commonwealth Gonski funding 2017-18 and associated spend (but retain State additional funding)
- Remove Local Government council rate concessions from 2015-16



## Budget outlook after state response to Commonwealth budget cuts

	2013-14 Est. Result	2014-15 Budget	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate
Net operating balance (\$m)	-1 232	-482	403	748	852
Net lending/borrowing (\$m)	-1 808	-382	-2 590	787	586
Net debt (\$m)	6 887	7 214	9 851	9 071	8 533
Net debt/revenue (%)	45.1	44.6	56.7	49.8	45.5



## Compulsory third party insurance

- Allow a competitive private sector market for CTP insurance from 1 July 2016 or sooner
- MAC to cease writing new CTP insurance policies and commence a run off of existing claims
- MAC's surplus net assets, anticipated to be in excess of \$1 billion, could then be progressively returned to the Highways Fund:
  - Estimated \$500 million to be returned in 2016-17



## SA Water balance sheet

- SA Water's capital structure is out of step with interstate government-owned water utilities
- Adjust SA Water gearing from 27% to 45%
  - Increase SA Water debt by \$2.7 billion
  - Decrease general government debt by \$2.7 billion
- Rebalancing debt levels between General Government and Public Non Financial Corporations does not impact on total government debt
- No impact on water prices for consumers
- General government net debt to revenue ratio target to be reduced to 35% to reflect this change and maintain fiscal restraint



## Impact of SA Water gearing adjustment

	2013-14 Est. Result	2014-15 Budget	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate
<b>Prior to SA Water gearing adjustment post MAC adjustment:</b>					
Net debt (\$m)	6 887	7 216	9 856	8 554	7 989
Net debt/revenue (%)	45.1	44.6	56.7	47.0	42.6
<b>Adjustment to general government net debt (\$m)</b>	–	-2 705	-2 710	-2 715	-2 720
<b>After SA Water gearing and MAC adjustment:</b>					
Net debt (\$m)	6 887	4 511	7 146	5 839	5 269
Net debt/revenue (%)	45.1	28.1	41.4	32.3	28.2



## Final Budget Outlook (compared to pre-election forecasts)

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## South Australian economy

- Housing construction activity has improved in 2013
- Value of overseas goods exports has reached record highs
- Retail spending has shown signs of improvement
- Economy continues to have spare employment capacity
- High Australian dollar dampening investment
- GM Holden, Ford and Toyota plans will impact South Australia's economy and employment



## South Australian economy

	2012–13 Actual	2013–14 Estimate	2014–15 Forecast	2015–16 Projection	2016–17 Projection	2017–18 Projection
<b>Australia<sup>(a)</sup></b>						
Gross Domestic Product (GDP)	2.6	2¾	2½	3	3½	3½
<b>South Australia</b>						
Gross State Product (GSP)	1.3	1¾	2¼	2½	2¼	2¼
State Final Demand (SFD)	-0.2	1	2	2½	2¼	2¼
Employment <sup>(b)</sup>	0.1	-1¼	1	1¼	1	1
Adelaide Consumer Price Index (CPI)	2.0	2¾	2½	2½	2½	2½





## 2014-15 State Budget

- Commonwealth cuts cast shadow over this and future Budgets
- Surplus from 2015-16
- Election commitments and Regional agreement honoured
- Delivering on State share of Gonski
- Protects pensioners and vulnerable

# STATE BUDGET 2014-15



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# Vote of Thanks Kim Cheater Partner, PwC





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