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## South Australian Budget 2014–15

June 2014

On 19 June 2014 South Australian Treasurer the Hon Tom Koutsantonis MP delivered the 2014–15 Budget. The main theme of the Budget is investment in public transport and roads, health, education and the resources sector, including a \$10.1 billion major infrastructure program to boost the economy and drive jobs growth.

The Treasurer’s Budget speech is available [here](#).

The 2014–15 South Australian Budget is available in full [here](#).

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### The Budget Outlook

In his speech, Treasurer Koutsantonis announced that the budget was delivered in a context of substantial reductions to Commonwealth funding and downward revisions to key taxation revenue estimates. The 2013–14 net operating balance is estimated to be a deficit of \$1.232 billion, an increase of \$217 million against the position in the 22 January Budget update. A net operating deficit of \$479 million is expected in 2014–15.

As forecast in last year’s budget, the Government expects to return to surplus in 2015–16 with a surplus of \$406 million, strengthening to \$883 million in 2017–18.

**Table 1.1: Budget outlook — final budget position**

	2013–14 Estimated Result	2014–15 Budget	2015–16 Estimate	2016–17 Estimate	2017–18 Estimate
Net operating balance (\$m)	-1 232	- 479	406	776	883
Net lending/borrowing (\$m)	-1 808	- 380	-2 587	814	617
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%

**Economic Context**

The two key economic challenges for South Australia in 2014–15 will be responding to the effects of Commonwealth Government funding cuts, and responding to the ongoing economic challenge arising from domestic and international economic fluctuations.

As a result of the 2014–15 Federal Budget, the Commonwealth Government has reduced funding to South Australia by \$898 million across the forward estimates period to 2017–18, and hospital and school funding by \$5.5 billion across the next decade. Over the forward estimates, these cuts include:

- a \$655 million reduction in health funding;
- a \$123 million reduction in funding for pensioner concessions;
- a \$47 million reduction in skills and vocational education funding; and
- a \$45 million reduction in schools funding under the Gonski funding agreement.

More broadly, the dampening effect of the high Australian dollar on investment opportunities in non-mining sectors of the economy and the announcement by GM Holden Ltd and Toyota Motor Corporation that they will cease manufacturing in Australia in 2017 will also impact South Australia's economy and employment.

**Key Economic Indicators**

The Budget forecasts gross state product to increase by 2.35 per cent in real terms in 2014–15, following expected growth of 1.75 per cent in 2013–14.

Employment growth in South Australia is expected to be 1 per cent in 2014–15, accelerating to 1.25 per cent in 2015–16.

However, in South Australia, the announcement that GM Holden Ltd and Toyota Motor Corporation will cease manufacturing operations in Australia in 2017 is expected to reduce the pace of employment and economic growth in 2016–17 and 2017–18.

The South Australian CPI is anticipated to be 2.5 per cent across the forward estimates.

## **Savings measures**

The South Australian Government introduced the following savings measures in order fund budget initiatives, election commitments and offset the impact of parameter adjustments:

- additional efficiency dividends on agencies;
- a pay freeze in 2014–15 for parliamentarians, public sector executives and ministerial advisors;
- public transport cost recovery for major events;
- an increase to the extractive minerals royalty rate; and
- a 2.5 per cent per annum limit on future public sector wage growth.

In order to offset the impacts of the Commonwealth Government’s budget cuts on the net debt position by 30 June 2018, the South Australian Government will also:

- remove the Emergency Services Levy (ESL) general remissions on fixed and mobile property (saving \$357 million over the forward estimates)
- identify reductions in hospital beds or other health service reductions (saving \$332 million over the forward estimates);
- no longer provide concessions on local government rates from 1 July 2015 (saving \$98 million over the forward estimates);
- reduce funding to schools in 2017–18 to reflect changes to Commonwealth Government funding under the National Education Reform Agreement (saving \$45 million);
- respond to the discontinuation of National Partnerships on Preventative Health, Indigenous Early Childhood Development, Skills Reform, and Training Places for Single and Teenage Parents by reducing associated expenditure.

The 2014–15 Budget also includes measures to change the debt to asset gearing ratio of SA Water from 27 per cent to 45 per cent in order to reduce general government sector net debt.

The South Australian Government has also decided to open the provision of Compulsory Third Party (CTP) insurance to the private sector in South Australia from 1 July 2016, which will enable the Motor Accident Commission to pay \$500 million in 2016–17 from its surplus net assets into the Highways Fund to invest in improving the safety of roads in South Australia.

## **Expenditure**

The 2014–15 State Budget includes new operating and investing initiatives totalling \$1.5 billion over the next four years. This includes \$689 million in funding to deliver on all commitments made in the lead up to the March 2014 election, as well as funding for the the North–South Corridor Darlington upgrade.

## Jobs and skills

A centrepiece of the 2014-15 Budget is funding to help South Australia transition its manufacturing base to more resilient and diverse industries. This includes:

- \$60.1 million over five years for *Our Jobs Plan*, the SA Government's response to the decision by Holden, Toyota and Ford to close vehicle manufacturing operations in Australia by 2017;
- \$63 million over three years for the *Skills for All* initiative, which is expected to fund an extra 20 000 VET students;
- \$852 000 for four years to expand the Skills for Jobs in Regions program; and
- an additional \$600 000 over four years to *DOME* (Don't Overlook Mature Expertise), a community-based employment and training organisation.

The Hawker Britton Occasional Paper on *Our Jobs Plan*, the South Australian Government's response to the closure of vehicle manufacturing operations in Australia by 2017, click [here](#).

## Regional Development

The 2014–15 State Budget also delivers on the regional agreement with the Member for Frome the Hon Geoff Brock to better support regional communities. Initiatives to be delivered include:

- an increase to the Regional Development Fund from \$1.6 million a year to \$15 million a year, totalling \$60 million over the forward estimates;
- \$10 million for the Jobs Accelerator Fund;
- \$3 million in additional funding for Regional Development Australia Boards for new projects each year for four years;
- \$6 million in funding for the Agribusiness Accelerator Program over four years;
- \$4 million grant in 2014–15 to upgrade the Innamincka airstrip for both the community and mining and exploration industries; and
- \$6 million over four years for the Remote Areas Energy Supplies Scheme to further reduce electricity costs for households and businesses in remote areas of the State, including Coober Pedy.

The Hawker Britton Occasional Paper on the agreement between the South Australian Labor Government and the Hon Geoff Brock MP is available [here](#).

## Transport and Infrastructure

The South Australian Government continues to maintain a strong commitment to infrastructure, with \$10.1 billion of investment across the forward estimates. This infrastructure funding is predicted to support 4 700 jobs per annum on average.

Funding for key projects includes:

- \$160 million over three years to extend the O-Bahn guided busway via a tunnel from Hackney Road into the CBD;
- \$124 million over five years towards the \$620 million Darlington upgrade;
- \$448 million towards the \$896 million Torrens to Torrens project;
- \$8 million towards the \$27 million upgrade of the Bald Hills Road interchange, near Mount Barker; and
- \$152.5 million from 2017–18, to electrify the Gawler rail line from the city to Salisbury.

## Education

In the 2014–15 Budget, the South Australian Government provides funding to deliver its share of the Gonski school funding agreement for all South Australian schools. This includes an extra \$72.3 million in funding over the forward estimates, which increases to an extra \$229.9 million in funding over the full six years.

The South Australian Government will also build on its *High Quality Education Policy* and has committed to the following education initiatives in the 2014–15 Budget:

- \$85.0 million to construct a second high school in the city on the existing Royal Adelaide Hospital site with the capacity for 1 000 students, to become operational in January 2019;
- \$13.7 million over four years to expand services at South Australia’s Children’s Centres, providing additional Family Service Coordinators and Allied Health Officers; and
- \$14.2 million over four years to ensure school counsellors will be available to every public school student in the State by 2015–16.

More information about the South Australian Government’s High Quality Education Policy is available [here](#).

## Health

In response to the \$655 million in Commonwealth funding cuts to health, the South Australian Government has suspended three projects:

- the Queen Elizabeth Hospital stage 3A;
- Modbury Hospital; and
- Noarlunga Health Service stage 2A redevelopments.

The funding previously allocated to these projects plus funding to redevelop the Flinders Medical Centre announced in the 2014 State Election have been redirected into a Health Capital Reconfiguration Fund.

Health initiatives included in the budget include:

- \$17.5 million over three years in investing payments to redevelop and expand the neonatal unit at Flinders Medical Centre;
- \$14.1 million over four years to build and operate new ambulance stations at Northfield and Seaford and rebuild the Noarlunga Ambulance Station; and
- \$9 million over four years for the establishment and ongoing funding for a Mental Health Commission in South Australia.

### **Resources**

The 2014–15 Budget also includes substantial investment in resources, one of South Australia’s fastest growing sectors. This includes:

- \$32.2 million over three years for a new State Drill Core library;
- an additional \$4 million over four years for the Mining and Petroleum Services Centre of Excellence at Tonsley;
- \$4 million in 2014–15 for the construction of an air strip at Innamincka in conjunction with industry to better service oil and gas exploration in our State’s Far North; and
- deferring royalty payments for unconventional gas to accelerate investment and job creation.

### **Small Business**

The South Australian Government has also recommitted to providing the payroll tax concessions announced in the 2013–14 Budget to assist small business employment.

The Hawker Britton Occasional Paper on the 2013–14 South Australian Budget is available [here](#).

The South Australian Government will also be undertaking the most significant reform of workers’ compensation in more than 25 years, which is predicted to save registered businesses in South Australia around \$180 million per year.

### **Further information**

The South Australian Treasurer’s 2014–15 Budget speech is available [here](#).

The 2014–15 South Australian Budget is available in full [here](#).