

AUSTRALIAN INSTITUTE FOR SOCIAL RESEARCH

Research report South Australian Economic and Budget Outlook

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1 KEY FINDINGS AT A GLANCE

The economic assumptions driving the State Government's decision to pursue public sector expenditure and employment reductions over the next three years have been subject to considerable revision over the last 12 months. The Australian and South Australian economies have proved resilient in the face of the Global Financial Crisis. This has led to **significant upward revisions** in economic, employment and revenue growth that were not anticipated in framing the 2009-10 State Budget.

Despite global economic instability the South Australian economic and budget outlook is positive, providing a foundation for growth rather than contraction in output, employment and budget revenue over the medium term. The State Government is well positioned globally and nationally to pursue a strategy of prudent fiscal expansion and public sector borrowing targeted at productivity enhancement and social inclusion.

We conclude that:

1. The State Government's most recent estimates (January 2010) show that the net operating balance position for the State Budget is expected to have improved by **\$110 million** in total over the period 2009-10 to 2012-13.
2. The most recent Commonwealth Government projections (July 2010) for GST payments and general revenue assistance to South Australia have been revised upwards by **\$898.5 million** over the period to 2012-13 compared with the estimates published in its *2009-10 Mid-Year Economic and Fiscal Outlook* produced in late 2009. This does not include the amount of Commonwealth payments to the States in the form of Specific Purpose Payments.
3. South Australia is receiving around **\$1.77 billion** in economic stimulus funding from the Australian government which has enabled a much higher level of capital expenditure to be achieved in the State than has been possible in the recent past.
4. The combination of the Mid-Year Budget Review net revenue improvement, the increase in GST and general assistance revenue, and the economic stimulus contribution to South Australia leads to an estimate of **\$2.8 billion** extra net revenue for (or extra payments to) South Australia to 2012-13.
5. The risk of a credit downgrade has been significantly reduced by the improved economic and financial outlook. There is **no realistic prospect of a credit downgrade** given current economic and budgetary conditions.
6. There is a **medium to high risk of a negative impact on public service delivery** of a rapidly accelerating retirement flowing from the combination of public sector workforce ageing and the proposed public sector employment reductions. This could deny elements of the public service the skills and capabilities that are required to sustain existing service levels.

2 CONTEXT

The resilience of the national and South Australian economy in the wake of the Global Financial Crisis is testament to the positive impact of the early introduction of the Economic Stimulus package by the Australian Government and sustained demand for our commodities from China and India. In this context it is important to avoid counter-stimulatory measures. The State Government's proposed 1,600 FTE reduction in public sector employment and associated expenditure reduction of \$750 million over three years risks dampening rather than stimulating economic demand.

The State Government's fiscal case for major public sector expenditure reductions rested on assumptions about a significant decline in economic growth and employment. As events have turned out an improved economic outlook has led to significant upward revision in revenue to the State Budget. This was not anticipated by the State Government when it framed the 2009-10 State Budget and when it commissioned the Sustainable Budget Commission to deliver proposals for expenditure reduction. The South Australian Government established the Commission¹ to "assist the Government to move the State's finances back to a sustainable position following the Global Financial Crisis".² The establishment of the Commission and its terms of reference were based on the global financial crisis and consequent economic downturn which it stated at the time "has helped push South Australia's budget and financial position into a potentially unsustainable position, in the absence of corrective action".³

The Commission was asked to recommend specific actions, that if adopted would achieve the following savings targets set by the State Government:

- \$150 million in 2010-11;
- \$250 million in 2011-12; and
- \$350 million in 2012-13.⁴

This \$750 million reduction in expenditure over 3 years is associated with a reduction of 1,600 FTE equivalent employees in Government departments.^{5 6}

Since the establishment of the Sustainable Budget Commission, the economic and fiscal outlook in Australia and South Australia has improved markedly. This is reflected in economic and financial forecasts that are discussed in greater detail later in the report. Despite this, the State Government has steadfastly refused to alter the budget-saving parameters of \$750 million in savings and 1,600 FTE in job cuts.

Following sections of this report provide an update on Australian and South Australian economic and fiscal conditions. Prior to this we provide an overview of key public sector employment trends that require the consideration of the State Government in shaping budgetary policy. Finally the report provides a summary of the positive net fiscal position that the State Government faces.

¹ See http://www.treasury.sa.gov.au/dtf/financial_management/financial_publications_and_downloads/sbcphase1.jsp for details of the Sustainable Budget Commission

² Government of South Australia (2009), *Sustainable Budgets: Principles and Processes*, First Report by the Sustainable Budget Commission, p.1

³ *ibid*

⁴ *ibid* p.9

⁵ *ibid* p.9

⁶ The State Public Sector is comprised of General Government: "the sector of Government that includes all government agencies that provide services free of charge or at prices significantly below the cost of production or provide regulatory services"; and public non-financial corporations: "Government controlled entities that are mainly engaged in the production of market goods and/or non financial services, which recovers a significant portion of its cost through user charges". See *ibid* p.49

3 PUBLIC SECTOR AGEING, WORKFORCE REDUCTIONS AND THE RETENTION CHALLENGE AHEAD

The proposals for public sector expenditure reduction need to be viewed in the context of ageing of the public sector workforce and the service delivery and workforce development imperatives that flow from this. It is now well understood that the public sector workforce is ageing and that this will lead to the acceleration in the retirement rate which is likely to generate public sector labour shortages unless strategies are put in place to mitigate this. Sustained public sector workforce reduction will make the challenge more difficult as it will fuel exit rather than foster retention. This section of the report examines some of the dimensions of this problem.

Table 1 reproduces estimates of public sector employment in South Australia, taken from the Commissioner of Public Sector Employment's *Workforce Information Collection*.⁷

Table 1: Number of Full-Time Equivalent Employees in South Australian Public Sector (June of each year)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
FTEs	68,614.7	68,884.2	69,769.6	71,372.8	72,141.0	76,720.3	78,210.8	79,715.2	81,270.4	83,885.1

Source: South Australian Workforce Information, June 2009, Table 2, taken from <http://www.espi.sa.gov.au/page.php?id=57>

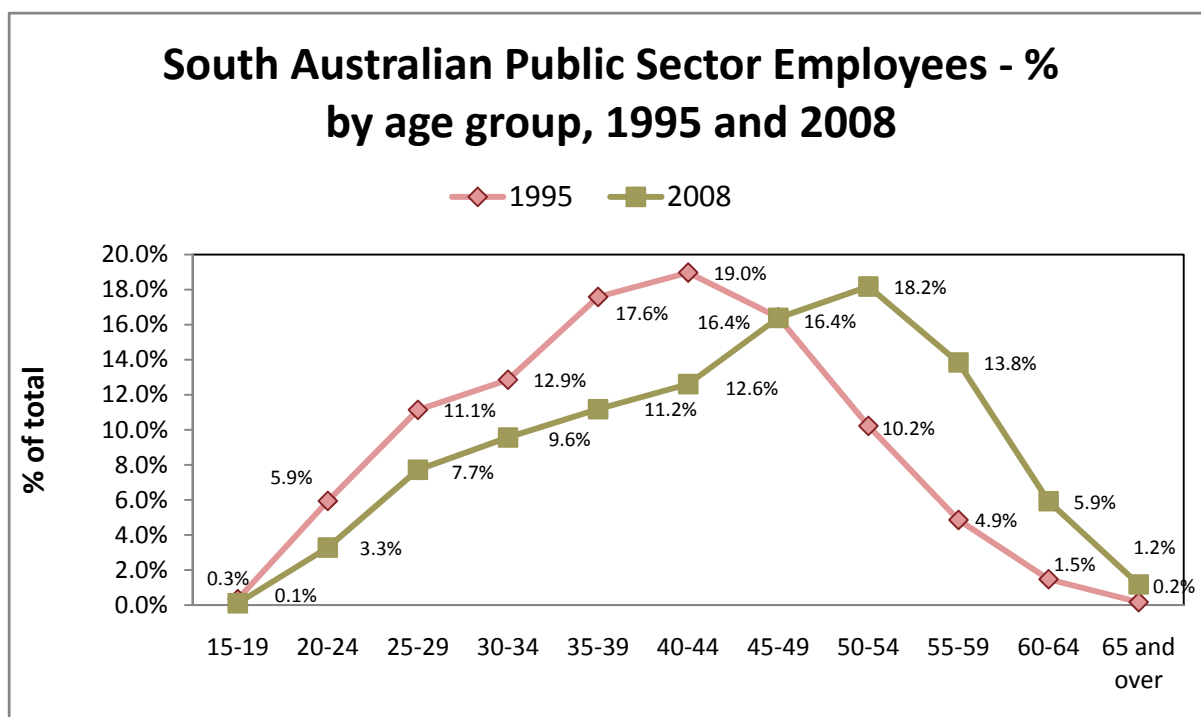
While the size of the State public sector has grown over the past decade, as a percentage of total number of persons employed in South Australia the State public sector has increased only modestly, from 12.3% in 1999-2000 to 12.7% in 2008-09.⁸ A decline in 1,600 FTE by 2012-13 on 2008-09 numbers represents a reduction of around 2% in public sector employment.

The timing of the proposed public sector workforce reductions is problematic as it coincides with a growing imperative to retain corporate memory and skills in the face of an accelerating retirement rate caused by the ageing of the public sector workforce. Figure 1 shows the extent of workforce ageing within ongoing employees in the State's public sector.

⁷ See <http://www.espi.sa.gov.au/page.php?id=57>, accessed 1 July 2010

⁸ *ibid*

Figure 1



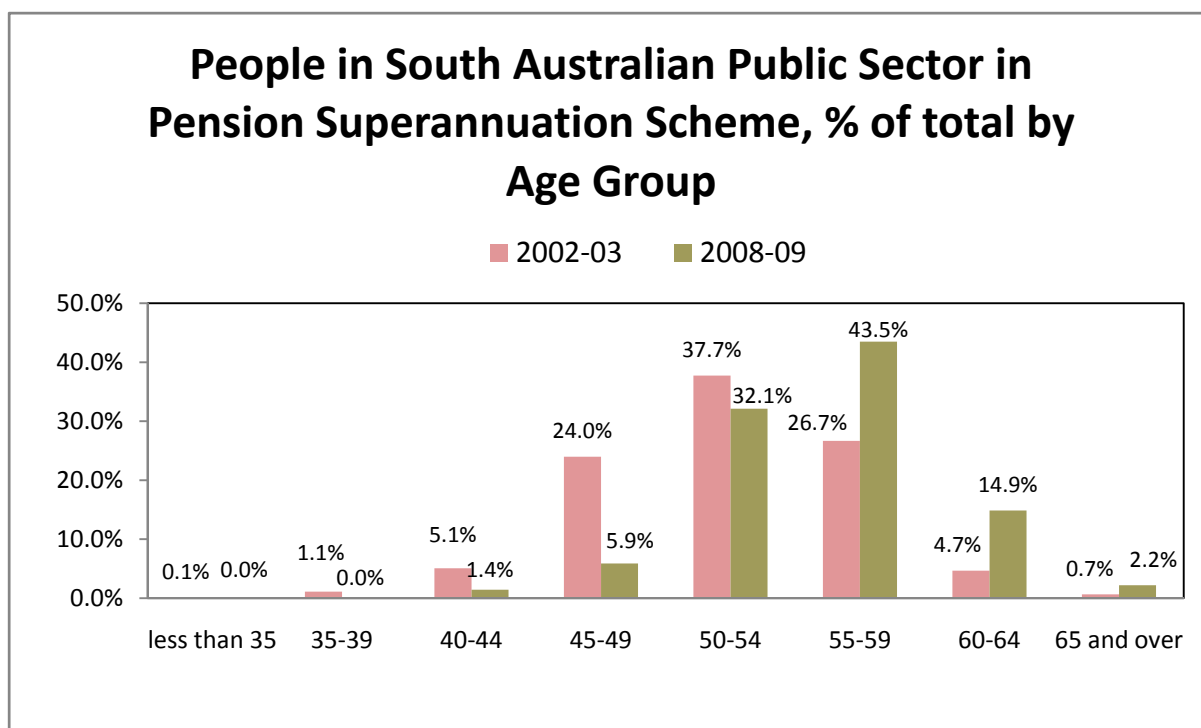
Source: South Australian Workforce Information, June 2008, Table 3, taken from <http://www.espi.sa.gov.au/page.php?id=57>

While total public sector employment (ongoing) over the period 1995-2008 fell by 21.9%, the number of ongoing public sector employees aged 55 and over increased substantially by 151.4%.

Data published by Super SA⁹ provides an indication of the number of public servants that are likely to be in a financial position to consider retirement over the short term. The Pension Scheme (which is now closed) is one of the 3 superannuation schemes historically made available to public servants in South Australia. It is a defined benefit scheme, meaning that the superannuation payout at retirement is based on the retirees' final income. Therefore, unlike people in other super schemes whose timing of retirement decisions are influenced by the vagaries of sharemarket movements, no such impediment exist for those in the Pension Scheme. Figure 2 shows the age profile of public sector employees in South Australia in the Pension Scheme.

⁹ Taken from Super SA Annual Reports various issues, <http://www.supersa.sa.gov.au/documents.php?page=24&cat=179&subcat=N%2FA&q=&x=14&y=6> accessed Jun3 2010.

Figure 2



Source: Super SA Annual Reports, various issues,

<http://www.supersa.sa.gov.au/documents.php?page=24&cat=179&subcat=N%2FA&q=&x=14&y=6>,

Around 60% of public servants on the Pension Scheme are aged 55 or more, and are likely to consider retirement within the next 5 or so years. Of the 4,432 public servants in the Pension Scheme in South Australia, 2,683 are aged 55 or over.

4 ECONOMIC OUTLOOK

The economic assumptions driving the State Government’s decision to pursue public sector expenditure reduction over the next three years are no longer relevant given the relatively benign impact of the GFC on Australia and significant upward revision to the outlook for economic, employment and revenue growth. These improvements were evident in *The State Government’s Mid-Year Budget Review 2009-10*¹⁰ released in early 2010. The Review demonstrated that actual performance would exceed that projected in the 2009-10 Budget. These improvements are shown in Table 2 below.

¹⁰ See http://www.treasury.sa.gov.au/dtf/home_page.jsp, accessed on 1 July 2010

Table 2: Key Economic Indicators - South Australia real growth rates (% per annum)

	2009-10 Budget Forecasts	2009-10 Revised Forecasts	2010-11 Forecast	2011-12 Projection	2012-13 Projection
Gross State Product	-½	2¼	2½	3½	3½
State Final Demand	0	2½	2¼	3½	3½
Employment	-1½	0	1¼	1¾	1¾

Source: http://www.treasury.sa.gov.au/dtf/home_page.jsp, Government of South Australia, *Mid Year Budget Review 2009-10*, p.24

As Table 2 shows, the South Australian *Mid Year Budget Review* significantly revised upwards the 2009-10 forecasts for Gross State Product, State Final Demand and employment, in light of the resilience of the national and state economy at the time of the global financial crisis. Furthermore, the forecasts and projections to 2012-13 are for economic and employment growth to recover to long term trend levels.

National forecasts were first updated in the *Commonwealth Budget*, handed down in May 2010, and then further revisions were made in the *Economic Statement* released in July 2010¹¹ and the *Pre-Election Economic and Fiscal Outlook*¹² released a few weeks later. These revealed strong economic conditions underpinning higher revenue growth than was anticipated by the State Government. Table 3 summarises the most recent key forecast outcomes.

Table 3: Key Economic Indicators - Australia real growth rates (% per annum)

	2009-10 Estimates	2010-11 Forecasts	2011-12 Forecasts	2012-13 Projection	2013-14 Projection
Gross Domestic Product	2¼	3	3¾	3	3
Employment	2¾	2¼	2	1½	1½
Unemployment Rate	5¼	5	4¾	5	5

Source: <http://www.treasury.gov.au/contentitem.asp?e=1&NavId=057&ContentID=1858> Table 2 e 1

The *Commonwealth Budget* and the more recent *Economic Statement* and *Pre-Election Economic and Fiscal Outlook* make the following points with regard to the improved economic outlook.¹³

- The national economy grew by 1.4% during 2009 – a full 4½ percentage points above the average of other advanced economies. Without the fiscal stimulus injected into the economy, it is estimated that the economy would have contracted by 0.7% in 2009.

¹¹ http://www.budget.gov.au/2010-11/content/economic_statement/html/index.htm, accessed 27 July 2010

¹² <http://www.treasury.gov.au/contentitem.asp?e=1&NavId=057&ContentID=1858>, accessed 27 July 2010

¹³ Taken from <http://budget.australia.gov.au/2010-11/content/overview/html/index.htm>, *Statement 2 Economic Outlook* accessed 1 July 2010; and http://www.budget.gov.au/2010-11/content/economic_statement/html/index.htm, <http://www.treasury.gov.au/contentitem.asp?e=1&NavId=057&ContentID=1858>, accessed 27 July 2010.

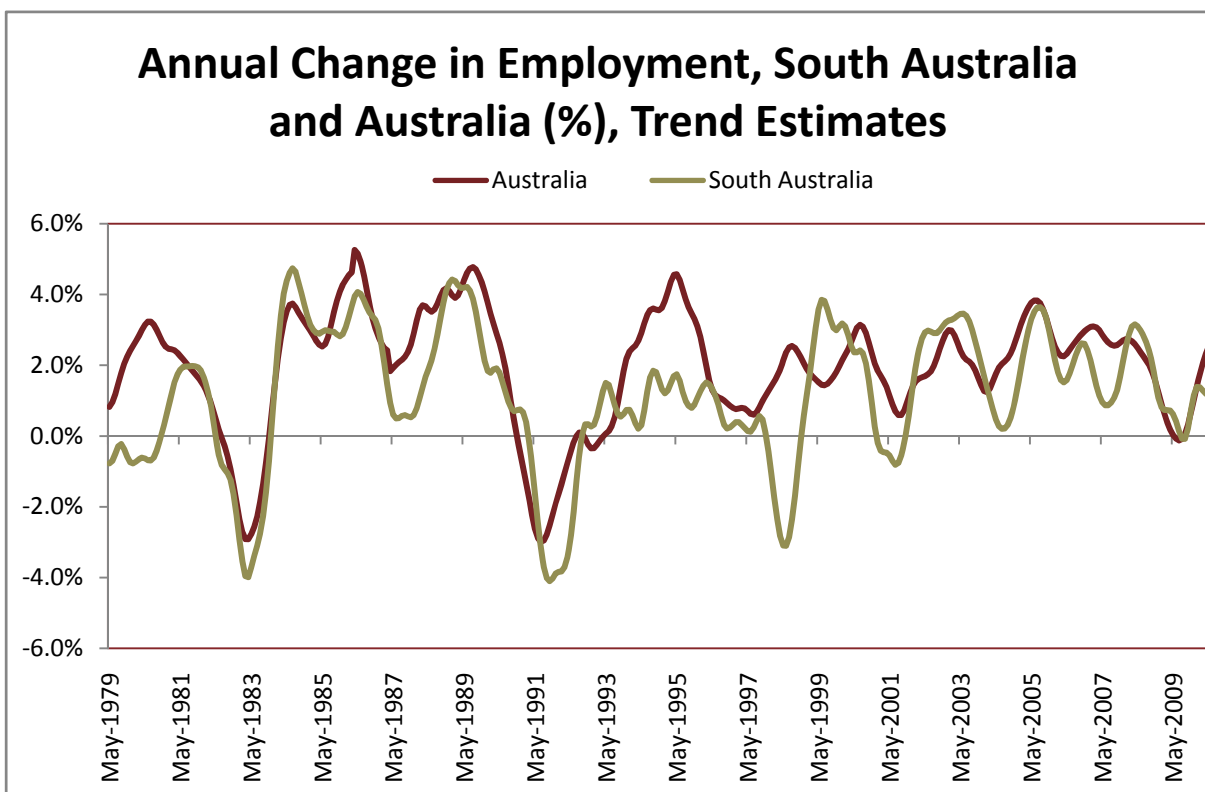
- The outlook for the domestic economy remains positive. There are early signs that economic activity will gather momentum over 2010-11 and 2011-12, driven by a significant boost in the terms of trade and expected strong investment.
- The global economy is recovering, with strong growth in Asia but weak and uneven prospects in advanced economies, although the outlook is clouded by substantial downside risks.

As South Australian economic conditions are heavily influenced by those experienced nationally, higher than expected revenue will be available to the State Budget over the next three years. Estimates of this are provided in Section 5 and an overall summary of the improved position taking account of stimulus package benefits in Section 7.

4.1 LABOUR MARKET PERFORMANCE

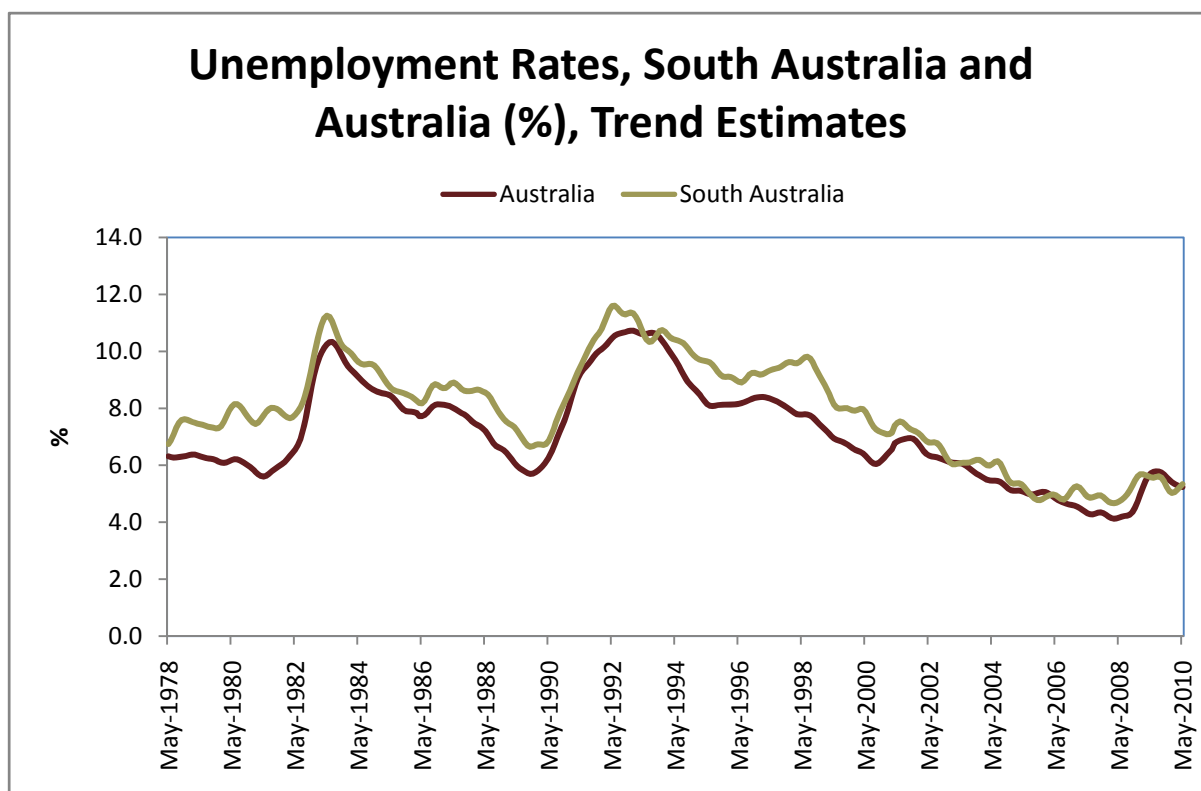
The improved economic outlook driving revised Budget estimates is reflected in national and South Australian labour market performance in the aftermath of the global financial crisis. This is shown in trends in employment growth (Figure 3) and the unemployment rate (Figure 4) on the next two pages.

Figure 3



Source: ABS Cat. No. 6202.0,
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6202.0May%202010?OpenDocument>

Figure 4



Source: ABS Cat. No. 6202.0,

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6202.0May%202010?OpenDocument>

As Figure 3 and Figure 4 show, the fall in employment and subsequent rise in the unemployment rate in South Australia and Australia due to the global financial crisis was relatively mild, compared to previous downturns, and has largely been reversed with the return of more favourable conditions. As a result - and notwithstanding a shift from full-time to part-time employment during the downturn and the persistence of underemployment at rates well above the headline unemployment rate – skill and labour shortages are likely to re-emerge, driven by the combination of solid economic growth and an ageing workforce.

5 BUDGETARY OUTLOOK

The budgetary outlook for South Australia is favourable given the resilience and relatively strong performance of the Australian economy in the face of the Global Financial Crisis. This is reflected in revised forecasts as the State and National level.

The Commonwealth Government's *2010-11 Budget* released in May highlighted the extent of the improved budgetary situation over the past year. It stated that total revenue for 2010-11 is expected to be \$321.8 billion, an increase of 5.9% on estimated revenue since the *Mid-Year Economic and Fiscal Outlook 2009-10*.^{14 15} Total expenses were also revised upwards, but the increase is 2.8%, less than half the rate of growth in revenue. Between the *2010-11 Budget* released in May and the *Economic Statement* released in July, taxation revenue

¹⁴ Taken from <http://budget.australia.gov.au/2010-11/content/overview/html/index.htm>, *Budget Overview* p.38, accessed 1 July 2010

¹⁵ It is worth highlighting that the revenue estimates in the Commonwealth Government's *Mid Year Economic and Fiscal Outlook* were themselves revised upwards from the *2009-10 Budget*.

estimates were revised upwards nationally by around \$150 million in 2010-11 and by around 7.5 billion over the 4 years to 2013-14¹⁶. Subsequently, since the release of the *Economic Statement*, tax revenue estimates have been revised downwards by around \$300 million in each of the years to 2013-14

5.1 GST TAX REVENUE

A major source of revenue for the States comes from the distribution of GST and General Revenue Assistance from the Australian Government. The *2010-11 Commonwealth Budget* provided more up to date estimates of GST payments to States than the South Australian Government's *Mid Year Budget Review* (released in January 2010). Table 4 below reproduces the GST and general revenue assistance estimates provided in the *Commonwealth Budget*.

Table 4: GST Payments and General Revenue Assistance by State (\$ millions)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
2009-10	13,463	10,104	8,181	4,409	4,107	1,639	936	2,407	45,246
2010-11	14,793	11,212	8,906	4,006	4,517	1,761	919	2,524	48,637
2011-12	16,205	11,982	9,097	4,109	4,831	1,886	971	2,796	51,857
2012-13	17,286	12,993	9,336	4,341	5,092	1,986	1,056	2,940	55,030
2013-14	18,235	13,738	10,018	4,646	5,315	2,049	1,100	3,013	58,114

Source: <http://budget.australia.gov.au/2010-11/content/bp3/html/index.htm>, *Budget Paper No. 3: Australia's Federal Relations 2010-11*, p.111

The more recent *Economic Statement* has revised down these national GST receipts estimates compared with Budget time, as shown in Table 5 on the next page. However, Commonwealth Treasury has not publicly released its revised estimates for GST payments and General Revenue Assistance by States.

¹⁶ See <http://www.treasury.gov.au/contentitem.asp?e=1&NavId=057&ContentID=1858> p.6.

Table 5: National GST Receipts - Comparison between 2010-11 Budget and July Economic Statement (\$m)

	Economic Statement Estimates	Budget Estimates	Difference
2010-11	47,499	48,019	-520
2011-12	50,750	51,310	-560
2012-13	53,809	54,489	-680
2013-14	56,939	57,629	-690

Source: http://www.budget.gov.au/2010-11/content/economic_statement/html/index.htm Table C1 and <http://budget.australia.gov.au/2010-11/content/bp3/html/index.htm>, Budget Paper No. 3: Australia's Federal Relations 2010-11, p.116.

Each of the States has received revised estimates of GST and general revenue assistance, but this information is not publicly available. The South Australian Treasurer – in a media article on 29 July 2010 – stated that GST revenue to South Australia will be around \$185 million less in the period to 2012-13 (and \$249 million less to 2013-14) than predicted in the May Commonwealth Budget.¹⁷

The Budget Papers also stated that:

- In 2010-11 the States will receive a total of \$47.9 billion in GST payments from the Commonwealth, a 7.6% increase from 2009-10;
- In addition, the States will receive \$707 million in other general revenue assistance (down 1.4% from 2009-10);
- The increase in GST payments over the forward estimates period are \$14.7 billion higher than forecast in the Commonwealth's Mid-Year Economic and Fiscal Outlook.¹⁸

As Table 4 shows, over the period 2009-10 to 2013-14, GST payments and general revenue assistance to South Australia were expected at Budget time to increase by \$1.2 billion or 29.4%. Up to 2012-13, the increase was estimated at \$985 million. This estimate to 2012-13 has subsequently been revised down by \$66 million to an increase of \$919 million¹⁹. This is still a relatively strong outcome warranting a major revision to the assumptions underpinning the case for expenditure reduction of \$750m over three years.

5.2 SOUTH AUSTRALIAN MID-YEAR BUDGET REVIEW 2009-10 REVISIONS

The 2009-10 Mid-Year Budget Review (MYBR) confirmed that:

1. There has been a partial recovery of revenue reflecting better than forecast economic conditions, offset by additional expenditure, “largely in demand for services in key priority areas”;
2. Tax revenues have been revised up mainly in respect of conveyance duty and land tax to reflect improvements in the property market;

¹⁷ Source: <http://www.adelaidenow.com.au/news/south-australia/gst-cut-a-threat-to-states-aaa-rating/story-e6frea83-1225898164058>, accessed 29 July 2010.

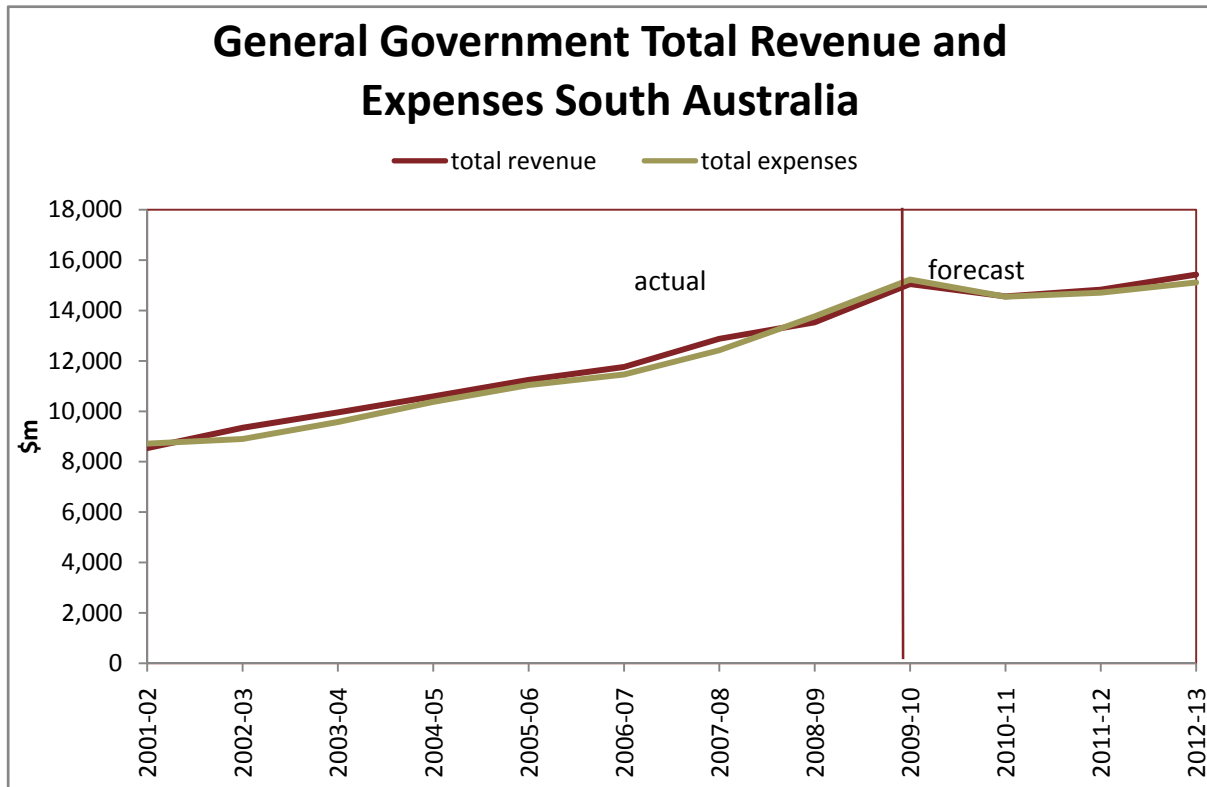
¹⁸ <http://budget.australia.gov.au/2010-11/content/bp3/html/index.htm>, Budget Paper No. 3: Australia's Federal Relations 2010-11, p.111

¹⁹ Using AISR estimates from forecasts State Treasurer's statements in <http://www.adelaidenow.com.au/news/south-australia/gst-cut-a-threat-to-states-aaa-rating/story-e6frea83-1225898164058>, accessed 29 July 2010.

3. There have been upward revisions to GST grants to South Australia;
4. The MYBR includes grants towards the redevelopment of the Adelaide Oval as part of the Government's \$450 million contribution.^{20 21}

The revised estimates for total revenue and expenses in the general government sector in South Australia are placed in a historical context in Figure 5.

Figure 5



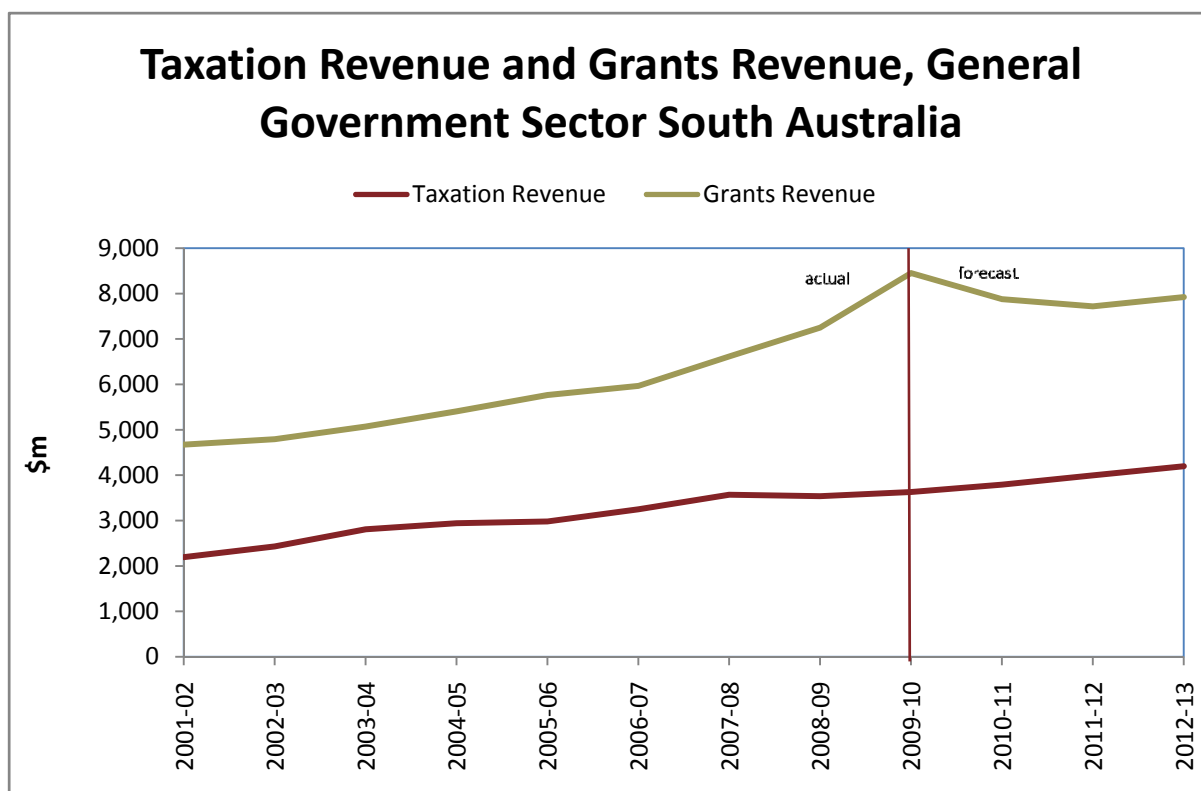
Source: South Australian 2009-10 Budget Review, p. B.4, taken from http://www.treasury.sa.gov.au/df/home_page.jsp

The two major components of State Government revenue are grants from the Commonwealth and taxation. The historical and projected trends in these revenue components are shown in Figure 6 on the next page.

²⁰ See http://www.treasury.sa.gov.au/df/home_page.jsp, Government of South Australia, Mid Year Budget Review 2009-10, (2010), p.1

²¹ Since that time, the Government has further revised upwards its contribution to the Adelaide Oval redevelopment.

Figure 6



Source: South Australian 2009-10 Budget Review, p. B.4, taken from http://www.treasury.sa.gov.au/dtf/home_page.jsp

The following analysis unpacks the major changes to the revenue and expenses estimates detailed in the MYBR.

Table 6 shows the revisions to revenue and expenditure estimates contained in the *Mid-Year Budget Outlook*.

Table 6: Fiscal Outlook, South Australia (\$m)

	2009-10	2009-10	2010-11	2011-12	2012-13	Difference 2009-10 Budget/ MYBR
	Budget	MYBR	Estimate	Estimate	Estimate	
revenue	14,444	15,050	14,558	14,830	15,424	606
expenses	-14,748	-15,224	-14,545	-14,702	-15,108	- 476
net operating balance	-304	-174	13	128	316	130

Source: South Australian 2009-10 Mid Year Budget Review, p. 3, taken from http://www.treasury.sa.gov.au/dtf/home_page.jsp

Since the time of the 2009-10 State Budget, there has been a \$606 million dollar revision upwards in revenue estimates for 2009-10, partially offset by a revised increased in expenses of \$476 million, leading to an improved net operating balance of \$130 million (see Table 6).

The major revenue variations since last year's Budget are documented in Table 7 on the next page.

Table 7: Major Revenue Variations since 2009-10 Budget (\$ millions)

	2009-10	2010-11	2011-12	2012-13
Revenue - taxation				
payroll tax	-12	5	11	3
conveyances	86	80	68	70
land tax	11	115	101	93
other property taxes	11	30	31	31
gambling tax	1	1	1	1
insurance tax	1	-9	4	6
motor vehicle tax	5	2	3	4
total tax revenue	104	225	218	208
Revenue - other				
GST Revenue	89	85	45	56
current Commonwealth grants	258	68	85	103
capital grants	12	-46	-20	78
other Commonwealth grants	53			
other contributions	-58	20	13	13
dividends	14	-113	-20	-18
finances and penalties	-2	-2	-2	-2
royalties	5	10	2	
sales of goods and services	67	-35	-38	-38
interest income	-6	-20	-27	-27
other revenue	28	18	32	18
total other revenue	463	-15	70	184

Note: totals may not add due to rounding

Source: South Australian 2009-10 Mid Year Budget Review, p. 6, taken from http://www.treasury.sa.gov.au/dtf/home_page.jsp;

As Table 7 shows, the largest contributors to the improved revenue outlook from a taxation perspective are conveyance duty and land tax. In term of other revenue streams, the largest contributors to the improved outlook are from GST revenues and current Commonwealth specific payments and national partnership grants.

The MYBO also states that the significant expenditure measures impacted on operating expenses over the forward estimates period are:

1. The Adelaide Oval Redevelopment
2. Education Works Stage 2
3. Health service expenses and
4. The Targeted Voluntary Separation Program²² for public servants.

6 ECONOMIC STIMULUS PACKAGE

The strength of the Australian and South Australian economy in the midst of the global financial crisis can be largely attributed to the economic stimulus package - the Australian Government's \$42 billion *Nation Building and Job Plan*²³ (the Plan). As mentioned previously, the Commonwealth Budget Papers estimate that without the Plan, Australia's economy would have contracted by 0.7% in 2009. Instead, the economy grew by 1.4% in 2009. Furthermore, unemployment is now expected by the Australian Government to peak around 1½ percentage points less than in the absence of the stimulus; and the Government stimulus will support around 200,000 jobs Australia-wide.²⁴ The Plan, and its success in keeping Australia shielded from the worst of the global financial crisis, provides a number of lessons, namely:

- Unlike the response at the time of previous recessions, the Government's quick and multi-faceted response at the time of the global financial crisis was instrumental in stabilising economic conditions. In previous recessions, the Government's actions were best characterised as too being little too late, leading to a more protracted and deeper downturn. As a result, since the collapse of Lehman Brothers in September 2008, while all the major advanced economies have recorded job losses, Australia has managed to create over 107,000 jobs;²⁵
- A major emphasis of the Plan has been on infrastructure spending – spending that would not have occurred in the absence of the Plan and which provides long term benefit.

The most recent *Progress Report*²⁶ for the Plan states that at the end of 2009 nationally:

- 71% of the infrastructure stimulus projects are now under construction;
- 49,179 projects have been approved, 34,853 have commenced and more than 8,339 are complete;
- \$25.8 billion has been paid on targeted bonus payments, tax breaks and medium term infrastructure²⁷.

The components of the Plan are as follows:

- One-off cash payments (\$12.2 billion);
- Temporary business investment tax break for businesses buying eligible assets (\$2.7 billion);
- Constructing or upgrading buildings in Australian schools, universities and TAFEs (\$19.3 billion)
- 20,000 new homes for social and defence housing (\$5.9 billion)
- Significantly increased funding for local community infrastructure and local road and rail projects (\$3.3 billion) and

²² See http://www.treasury.sa.gov.au/dtf/home_page.jsp, *Government of South Australia, Mid Year Budget Review 2009-10*, p.11 for more details.

²³ For details of the Plan see <http://www.economicstimulusplan.gov.au/pages/theplan.aspx>. For details of project in South Australia resulting from the Plan see http://www.dtei.sa.gov.au/coordinator_general.

²⁴ Commonwealth Coordinator-General's *Progress Report to 31 December 2009* (2010), Australian Government National Building Economic Stimulus Plan, p.iii.

²⁵ *ibid* p.6

²⁶ *ibid*

²⁷ *ibid* p.iv.

- Increasing the energy efficiency of homes (\$3 billion)²⁸.

Details about individual projects in South Australia across all the components of the Stimulus Plan can be found at http://www.dtei.sa.gov.au/coordinator_general. In aggregate, the *2009-10 South Australian Budget Papers* stated that of the total injection from the Commonwealth's Economic Stimulus Plan was expected to be, "...\$1.8 billion that includes funding for education (\$1.3 billion), housing (\$477 million) and transport (\$29.0 million)".²⁹

In 2009-10 alone, it is estimated that the economic stimulus spending in South Australia will generate around 11,000 jobs and will contribute \$1.06 billion to South Australia's Gross State Product.³⁰

It is clear from the analysis above that economic stimulus measures have significant spill-over and multiplier effects. By implication, budget cuts like those proposed by the State Government have the potential to suppress economic activity across a number of sectors.

7 SUMMARY OF REVENUE AND EXPENDITURE VARIATIONS FOR SA

The previous sections of this report demonstrated that economic budgetary and budgetary conditions have improved significantly over the past year in South Australia. Manifestations of this improved outlook include:

1. Upward revisions to State revenue detailed in the Mid-Year Budget Outlook, partially offset by expenditure increases;
2. Upward revisions to Commonwealth GST and general revenue assistance revenues distributed to the States
3. Increased grants to South Australia in the form of payments for economic stimulus measures.

The net effect of these changes over the period to 2011-13 is detailed in Table 8 on the next page.

²⁸ *ibid* p.5

²⁹ Government of South Australia (2009), Budget Overview, Budget Paper 1, quoted in Burgan B, Molloy S, & Spoehr J (2009), *Stimulating South Australia: Public Housing in South Australia and the Wider Impact of the Australian Government's Stimulus Package*, AISR, p.20

³⁰ *ibid*

Table 8: Estimates of Total Revenue and Expenditure Variations. South Australia (\$m)

	2009-10	2010-11	2011-12	2012-13	Total 2009-10 to 2012-13
From South Australia Government Mid Year Budget review 2009-10					
revenue variations					
- taxation revenue	104	225	218	208	755
- other revenue	463	-15	70	184	702
operating expenses	-341	-114	-128	-144	-727
net effect of policy measures	-132	-212	-149	-256	-749
use of provisions set aside for 2009-10 Budget	37	52	20	20	129
Net change	136	136	278	217	110
From Commonwealth Government Budget Papers					
Estimates of GST Payments and General Revenue Assistance, South Australia					
- Commonwealth Budget 2010-11 and July 2010 Economic Statement	4,107	4,458.6	4,769.7	5,026.2	
- Mid Year Economic and Fiscal Outlook 2009-10	3,881	4,216	4,531	4,835	
net difference	226	242.6	238.7	191.2	898.5
Australian Government Economic Stimulus Received and Spent in South Australia	121.1	1,035.2	591	23.3	1,770.6
total net improvement	478.1	1,213.8	860.7	226.5	2,779.1

Sources: South Australian 2009-10 Mid Year Budget Review, p. 6, http://www.treasury.sa.gov.au/dtf/home_page.jsp; Budget Paper No. 3: Australia's Federal Relations 2010-11, p.111 <http://budget.australia.gov.au/2010-11/content/bp3/html/index.htm>; Australian Government 2009-10 Mid Year Economic and Fiscal Outlook <http://www.budget.gov.au/2009-10/content/myefo/html/index.htm>, Attachment D, p.71, Government of South Australia (2009), Budget Overview, Budget Paper 1, quoted in Burgan B, Molloy S, & Spoehr J (2009), *Stimulating South Australia: Public Housing in South Australia and the Wider Impact of the Australian Government's Stimulus Package*, AISR, p.20; AISR estimates based on Australian Government, *Economic Statement July 2010*, http://www.budget.gov.au/2010-11/content/economic_statement/html/index.htm Table C1; AISR estimates

Table 8 can be summarised as follows:

1. The State Government's most recent estimates (January 2010) show that the net operating balance position is expected to have improved by **\$110 million** in total over the period 2009-10 to 2012-13;
2. The most recent Commonwealth projections (July 2010) for GST payments and general revenue assistance to South Australia have been revised upwards by **\$898.5 million**³¹ over the period to 2012-13 compared with the estimates published in its *2009-10 Mid-Year Economic and Fiscal Outlook* produced in late 2009. This does not include the amount of Commonwealth payments to the States in the form of Specific Purpose Payments.
3. South Australia is also receiving from the Commonwealth **\$1.77 billion** in economic stimulus funding which is then spent in South Australia.
4. The combination of the Mid-Year Budget Review net revenue improvement, the increase in GST and general assistance revenue, and the economic stimulus contribution to South Australia leads to an estimate of **\$2.8 billion** extra net revenue for (or extra payments to) South Australia to 2012-13.

³¹ AISR estimates based on updated Australian Government projections.

8 CREDIT RATINGS

One of the justifications that the State Government has used for the \$750 million cuts relates to the threat of a downgrading of South Australia's AAA Credit Ratings by Standard and Poor's and Moody's³².

The Sustainable Budget Commission argues that *"a lower credit rating for South Australia would directly increase Government borrowing costs, borne by taxpayers. Other indirect costs of a ratings downgrade potentially would be more important. A triple-A credit rating tells investors the Government is managing the State's finances and economy in a responsible manner. It's an indicator of a stable investment environment"*.³³

Regardless of the merits of reducing debt to achieve an arbitrary net financial liabilities to revenue ratio set by credit ratings agencies, the reality is that South Australia is in a much improved financial position than was predicted when the savings targets were announced. Furthermore, Standard and Poor's have acknowledged in their most recent assessment of South Australia that: *"Like most states, South Australia has a history of capital expenditure under-spending and is therefore less likely to achieve its forecast debt levels."*³⁴

The risk of a credit downgrade has been significantly reduced by the improved economic and financial outlook. There is no realistic prospect of a credit downgrade given current economic and budgetary conditions.

Of greater concern is the potentially negative impact on public service delivery of a rapidly accelerating retirement rate flowing from the combination of public sector workforce ageing and the proposed public sector employment reductions. This could deny elements of the public service the skills and capabilities that are required to sustain existing service levels.

³² See Government of South Australia (2009), *Sustainable Budgets: Principles and Processes*, First Report by the Sustainable Budget Commission,

³³ *Ibid*, p.15

³⁴ Standard & Poor's press release, "BULLETIN South Australia's AAA/A-1+ Ratings Unaffected by State Budget", June 4 2009