

**Response to the
2008-09
Auditor General's
Report**

liberal sa

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13 October 2009

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1. Auditor-General Overview

This is the most damning Auditor General's report since the Rann Labor Government was elected.

As the Auditor-General has mentioned in recent years, it is not a good strategy to assume expense blow-outs will be covered by windfall revenues. In a nutshell: the good times don't roll on forever, so keep your outgoings under a tighter hold.

But that advice has been ignored.

This year, Auditor-General Simon O'Neill indicates that the uncertainty in the global financial markets "*turned into a global financial crisis and years of continuous growth in Government revenues to fund increases in expenses were over*".¹

He goes on to warn that "*a major risk to the Budget and, in particular the forward estimates, is the outcomes from enterprise agreements and control of FTE numbers*".²

The shared services program continues to be bungled with savings shortfalls of \$125 million over the forward estimates and cost blowouts of \$45 million above budget. Moreover, rent paid on unused office accommodation for this program amounts to \$2.2 million to date.

The Auditor warns that across the budget, that past savings targets have either failed or haven't been achieved in desired timeframes.

The Auditor also reveals uncertainty over Workcover's finances, as it continues to be the worst run scheme in the nation.

The Auditor notes that departments are not getting appropriate approval to purchase goods and services, and in some cases ex-employees have unauthorised access to active Government credit cards.

This Auditor-General's report presents some dire warnings, particularly around financial mismanagement.

¹ P1, Part A

² P40, Part C

2. Fiscal Position and Outlook

The Auditor General's report confirms that there are budget deficits on all three accounting measures:

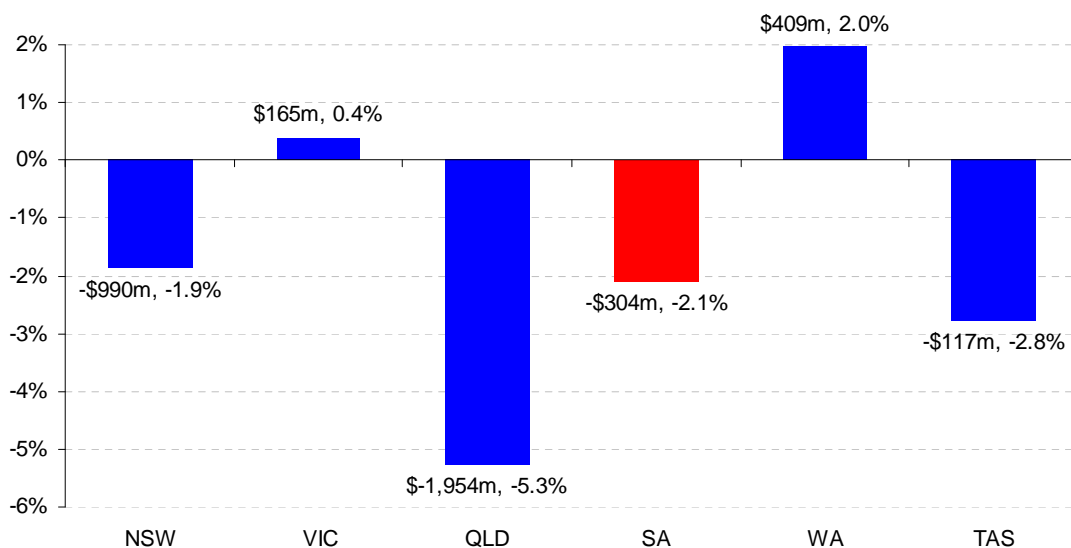
1. net lending **deficit** of \$1,541 million in 2009-10
2. cash **deficit** of \$1,540 million in 2009-10
3. net operating **deficit** of \$304 million in 2009-10

The State's 2008-09 and 2009-10 revenues have actually strengthened by \$130 million and \$722 million respectively since the 2008-09 Budget, due to bailouts from the Federal Labor Government. However, Rann Labor has been telling the public that there are huge budget 'black holes'. Revenues have continued to increase! Spending blowouts, not falls in revenue, are the reason that the Government's budget has slumped into deficit.

2.1 Tracking of Budget Forecasts

For seven budgets, the Rann Government has been running small surpluses as a percentage of revenue. Now, despite record revenue growth, spending blow-outs have caused the budget to plunge into deficit. The following graph demonstrates the financial incompetence of State Labor Governments across Australia.

Chart 2.1: 2009-10 Operating Surplus to Budget Revenue, States



Source: 2009-10 State Budgets

2.2 Commonwealth Bailouts

From 2008-09 to 2009-10, Commonwealth grants increased by \$858 million; from \$6.3 billion to \$7.2 billion. These Commonwealth bailouts make the Rann Labor Government far better off in net revenue terms (despite downward revisions in GST revenue).

Extra and unexpected Federal payments ease the need for the State Government to use their own revenue toward these programs, which would otherwise require more State money. This should 'free up' State money to reduce the State budget deficit. The Government must be held to account that repeatedly referring to budget 'black holes' and 'huge revenue losses' is an attempt to mislead the public.

2.3 Credit Rating at Risk

Standard and Poor's has already downgraded Queensland's AAA rating. In South Australia, the Auditor-General has warned that SA's rating is at risk.

"fiscal targets are not expected to be achieved... namely: net lending outcomes that ensure the ratio of net financial liabilities to revenue continues to decline towards that of other triple-A rated states."

~ Auditor-General's Report, 2008-09 Part C, page 3

Standard and Poor's have given similar warnings, including:

"The ratings could be re-assessed if the higher levels of debt appear in Standard and Poor's opinion to be permanent and/or more severe."

~ Standard and Poor's, 4 June 2009

No doubt credit ratings agencies will carefully monitor South Australia's position going forward.

3. Revenue

The Premier and Treasurer continue to inaccurately underestimate revenue collections every year. From 2002-03 to 2008-09, the

Government will have **collected a massive \$3.8 billion more than they expected**. These revenue windfalls (actual receipts above budgeted receipts) are masking unbudgeted increases in expenses as noted by the Auditor-General:

"Over the past six years the State has received large amounts of unbudgeted revenues that enabled net operating surpluses"

~ Auditor-General's Report, 2008-09 Part C page 12

3.1 State Taxes

It's now official. Under the Rann Labor Government, SA has become the highest taxed state in the nation. Tax revenue has still increased by 61% since this Government came to Office, as demonstrated by the following table.

Table 3.1: Tax Revenue, 2001-02 & 2009-10 (\$m)

	2001-02	2009-10 (bgt)	% change 01-02 to 09-10
Payroll tax	601	915	52%
Taxes on property	731	1,428	95%
Taxes on gambling	312	400	28%
Taxes on insurance	223	338	52%
Motor vehicle taxes	324	445	37%
Other taxes	3	0	na
Total General Government Taxation	2,193	3,526	61%

The Commonwealth Grants Commission (CGC)³ revealed that South Australia levied its tax revenue bases more severely than any other state or territory during 2007-08. SA was judged by the CGC to have taxed more severely than the national average by 12%. The Institute of Public Affairs confirms that SA imposes the largest state tax burdens on businesses of all states.⁴ High taxes are the last thing business needs in the current economic downturn as this severely hampers job preservation.

The South Australian Government was judged by the CGC to have:

- Levied land tax more severely than the national average by 126%
- Levied stamp duty more severely than the national average by 22%

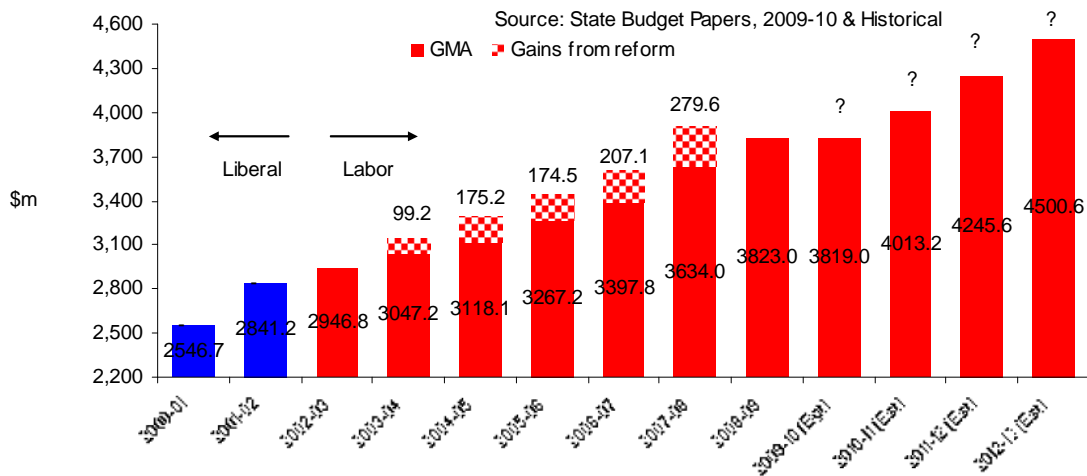
³ CGC (2009), Report on Relative Fiscal Capacities of States – Attachment E p4-8

⁴ Institute of Public Affairs (2008), Businesses Bearing the Burden, December 2008

3.2 GST Revenues

The actual GST windfalls to the states, relative to the pre-GST arrangements, have by far exceeded expectations back when the GST was introduced. It is only the gains from reform that have reduced during the financial downturn as demonstrated by the following chart. The GST payments themselves have still grown.

Figure 3.2: Breakdown of GST Revenue Paid to South Australia⁵



3.3 Taxing SA Water While Under-Investing for the Future

Total dividends and payments to SA Government from SA Water are budgeted to be \$226 million in 2009-10. **Since 2002-03 the total stripped from SA Water customers will be \$2.2 billion.⁶** Little of this has been made available for infrastructure spending.

The Government is yet to confirm the magnitude of further increases in water prices, on top of those previously announced, to recoup the unbudgeted \$228 million the State Government will spend on doubling the output of the desalination plant from 50 gigalitres to 100 gigalitres. The Treasurer previously told 5AA radio on 11 March 2008 that he plans to double water prices within 5 years.

⁵ The Guaranteed Minimum Amount (GMA) is an estimate of the revenue that South Australia would have received under the pre-GST system and if the agreed State taxes had not been abolished as part of the reforms.

⁶ Final Budget Outcomes and 2009-10 Budget

The Auditor-General has repeatedly highlighted that the Rann Government is treating SA Water as a cash cow. Even though during a period of drought and water restrictions, the State Government's own water utility is being starved of money to carry out capital projects:

"Up to 2008 the net cash generated from operating activities was sufficient to cover the net cash used in investing activities, but insufficient to pay the level of dividend and return of capital required by the Department of Treasury and Finance. To meet its payment obligations to government and finance its capital works programs the Corporation's net increase in borrowings has risen significantly since 2007."

~ Auditor-General's Report, 2008-09 Part B volume IV page 1356

Water is the most important reminder of Labor's infrastructure neglect. This is particularly concerning given South Australia's geographic position at the mouth of the Murray River. The Federal Labor Government has been forced to provide bailout funding for SA's desalination plant.

The State Liberals recently announced a \$400 million initiative to capture and use our wasted stormwater⁷ to reduce the State's reliance on the River Murray. Rann Labor should support this initiative. Under the plan, creeks and stormwater run-off will be fed into 13 metropolitan wetlands that will facilitate the storage of about 89 gigalitres of stormwater – over a third of Adelaide's annual water usage.

The State Liberals believe that South Australia should not have permanent water restrictions. The Liberals set the agenda on the desalination plant in January 2007 and the Rann Government has agreed with the Liberal Opposition and has now committed to a desalination plant for South Australia.

4. Expenses

Expenses control has been poor for seven years. No sooner does the money come in, than it goes out the door.

⁷ <http://www.saliberal.org.au/images/policy/stormwater.pdf>

"A major risk to the Budget and, in particular the forward estimates, is the outcomes from enterprise agreements and control of FTE numbers."

~ Auditor-General's Report, 2008-09 Part C page 40

There is a lot of Government waste. The Treasurer has confirmed that the Government spends \$70 million each year on Government advertising alone.⁸

4.1 The Department of Health⁹

The Government has lost control of the Department of Health's operating budget. In the three years to 2008-09, the Department has overspent its budget by \$94 million, \$70 million and \$120 million respectively.

"Heath was over its [employment] cap by 457 FTEs...reporting additional activity and savings measures not being achieved."

~2008-09 Report, Part C, page 51

One reason for the 2008-09 overspend was an accounting error in the Central Northern Adelaide Health Service - \$11 million in budgeted revenue that was never there.

Furthermore, SA Health has decided not to transfer its general accounting activities in Shared Service SA.

"the Department of Health was slow to identify that savings would not be achieved and there was inadequate time to identify and implement alternatives."

~2008-09 Report, Part C, page 15

4.2 Shared Services

The Government is attempting to develop a single human resource and administration Government department of 2,300¹⁰ staff called 'Shared Services SA'. The Government estimated this program will make ongoing savings of \$60 million per annum once fully implemented. But this project

⁸ ABC Radio, 8 October 2009

⁹ Some information sourced from Budget Finance Committee, 12 October 2009

¹⁰ Department of Treasury and Finance Annual Report, 2007-08

has been bungled. It has now cost \$105 million (compared to an initial budget of \$60 million) and the Auditor General has identified a savings shortfall of \$125 million over the forward estimates.

Transition delays, reduced in-scope employees, accommodation 'dead rent' and potential redeployment costs, have all put pressure on achieving announced savings and budgeted implementation costs.

~ Auditor-General's Report, 2008-09 Part A page 8

The Government is not confident about meeting their savings task and have therefore parked a contingency amount off the budget to cover the shortfall and not adversely affect the budget bottom line.

"the Budget includes a contingency to allow for the possibility that savings from shared services are not achieved"

~ Auditor-General's Report, 2008-09 Part A page 11

The Government has wasted money on dead rent and fit out costs for this office space which is no longer needed or won't be occupied by staff for sometime.

"There will be periods where rent is paid on empty accommodation ('dead rent')... at 30 June 2009 total 'dead rent' was \$2.2 million."

~ Auditor-General's Report, 2008-09 Part A page 10

The Opposition will monitor whether the Government continues to fail to deliver savings from Shared Services.

4.3 Public Sector Wage Blowouts

According to the State Budget Papers, from 2001-02 to 2008-09, public sector employment¹¹ numbers **increased by 16,393** employees. As a consequence of their mismanagement, Rann Labor now says it will cut 1,600 public servants "not directly involved in the delivery of frontline services".

The Auditor General reveals the increase in providers of core public services from 2001-02 to 2008-09. These total 5,348 (see below).

¹¹ In full time equivalent (FTE) terms

FTEs	01-02 to 08-09
Nurses	3,220
Teachers (Education Act)	671
Doctors	1,053
Police officers	404 ¹²
Total	5,348

Thus there have been up to **11,045 additional public servants** employed in general administration under the Rann Labor Government. The majority of these were unbudgeted, placing enormous pressure on the Government's budget. Ministers have not exercised prudent budget control by letting increases in staff exceed budgeted allowances.

4.4 Fat Cats

A large reason for the blow outs in public sector wages is the increase in the number of "fat cats" (public servants earning more than \$100,000 per annum). **In June 2009, there were 5,372 fat cats, compared to only 782 when the Liberals were in Office in 2002, an increase of 4,590 or 587%!**

Table 4.1: Fat Cats by Department, 2006-07, 2007-08 & 2008-09

Department	2006-07	2007-08	2008-09
Police	440	938	1315
Education & Children's Services	605	888	1029
Families & Communities	113	171	190
SA Water	130	167	204
Attorney-General	150	186	228
Health	65	93	125
Treasury & Finance	88	110	137
Further Education, Employment, Science and Technology	141	161	194
Environment and Heritage	41	59	68
Water, Land and Biodiversity Conservation	40	47	68
Premier & Cabinet	116	121	141
Trade & Economic Development	30	33	44
Environment Protection Authority	12	22	26
Other	1059	1272	1603
Total	3030	4268	5372

¹² Rann media release, 31 May, "Investing in safer South Australian communities"

The number of public servants earning over \$120K has increased from 1,438 in 2007-08 to 1,872 in 2008-09 (an increase of 30%).

4.5 Public Private Partnerships (PPPs)

The Auditor General recognises that the Government's \$323 million six schools PPP project was more expensive than a traditionally funded build, but the Government chose the option because the schools would be built faster:

Notably, this PPP model was nearly \$9.2 million (3 percent) more expensive than a traditional build."

~ Auditor-General's Report, 2008-09 Part C page 14

The Tasmanian government has abandoned plans for their \$1.5 billion hospital on Hobart's waterfront, instead preferring to renew their existing hospital.

The planned rail yards hospital was announced as an unbudgeted \$1.7 billion PPP – the biggest social infrastructure PPP anywhere in Australia. If it proceeds, repayments to the providing consortia will be made from 2016 to 2046. Our grandchildren will be footing the bill. Furthermore, SA taxpayers may be forced to provision millions more given the increases in the cost of private sector borrowing.

4.6 Slush/Contingency Funds

These are off-budget funds which help the Treasurer pay for things like blowouts in capital works projects, blowouts in public servants and ministerial staff numbers. Accounting fiddles like this are intended to mask the effect of Labor's financial mismanagement on the budget bottom line.

This Budget reveals the Treasurer has a contingency fund totalling \$467 million in 2009-10. This can be allocated to fund unbudgeted expenses, capital blowouts and election promises. This is an increase of \$104 million since 2008-09, breaking a key promise made less than six months ago in the Mid Year Budget:

"the contingency for possible future projects has been reduced, saving \$150 million by 2011-12".

~ 2008-09 Mid Year Budget, p8

5. Balance Sheet

5.1 Workcover Liabilities

The Government's workers compensation scheme is the worst performing scheme in the nation according to the latest interstate comparison of workers' compensation schemes, conducted by the Federal Government.

The interstate comparison demonstrates that the South Australian scheme has the highest rate of premiums charged to employers, the lowest funding ratio (highest future debt liability) and among the worst rate of serious injury. ¹³

In 2008-09 the Auditor General became the statutory auditor of Workcover. With the unfunded liability still out of control, the Workcover Corporation still has 58 staff earning over \$100,000 per annum, with the CEO earning over \$400,000.

Workcover's monopoly claims agent EML has increased its management fees by \$17 million in 2008-09, despite less injured workers receiving income payments.

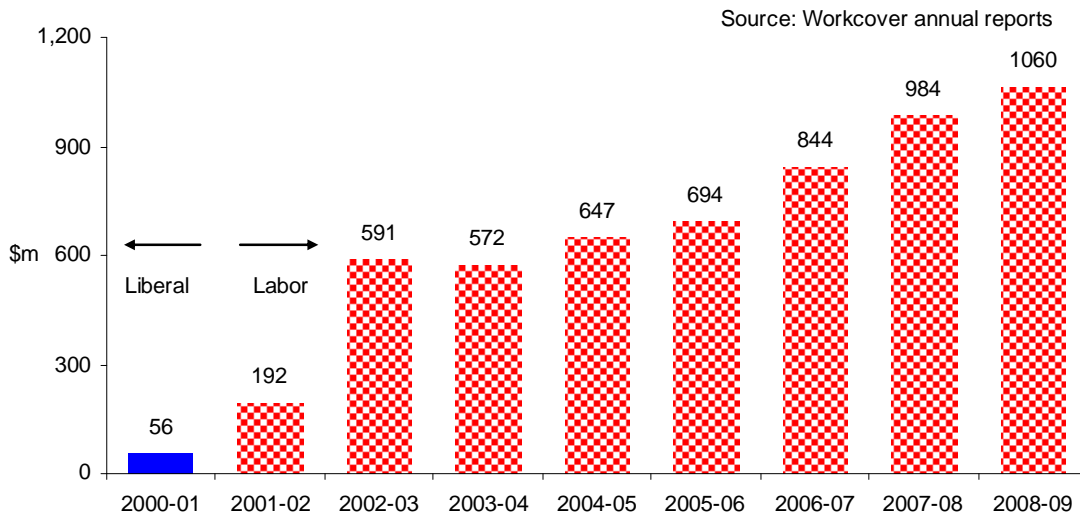
Premier Rann has promised lower industry premiums and better scheme performance, but has failed to deliver.

The total workers compensation unfunded liability is \$1.4 billion. This debt includes the \$1.1 billion WorkCover debt and the debt of self-insured public sector agencies (\$367 million¹⁴).

¹³ WorkCover Queensland Annual Report 2007-08 p15, Australian Safety & Compensation Council, June 2008

¹⁴ 2007-08 Department of Premier and Cabinet Annual Report

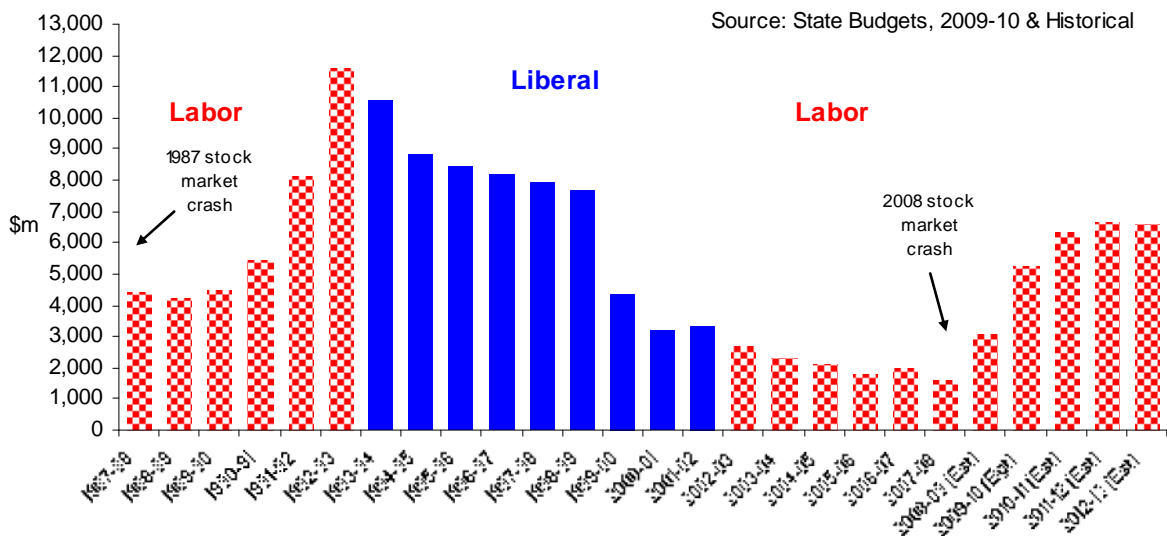
Chart 5.1 WorkCover Unfunded Liability (excludes the public sector liability)



5.2 Debt

Budget Papers reveal that through prudent fiscal management, the former Liberal Government reduced Mr Rann and Mr Foley's State Bank debt from \$11.6 billion in 1993 to \$2.7 billion in 2002-03. Under Rann Labor's economic mismanagement, debt is forecast to blow out yet again, to \$6.7 billion by 2011-12.

Chart 5.2: Net Debt – Non-Financial Public Sector



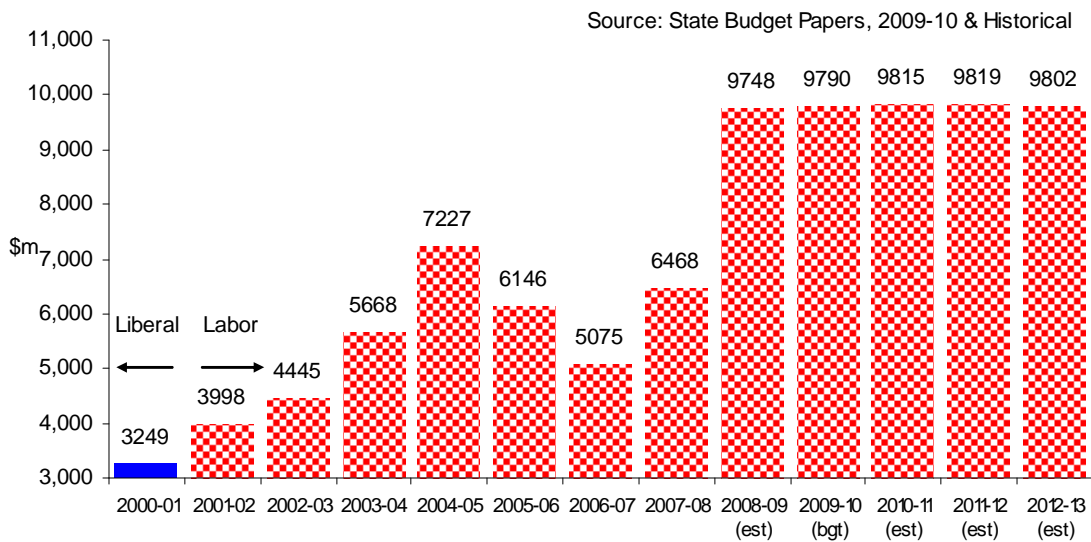
5.3 Unfunded Superannuation Liabilities

Budget Papers show that at June 2001, the General Government unfunded liability stood at **\$3.2 billion**. Under Labor, the unfunded superannuation liability has blown out to **\$9.8 billion**.

These blowouts require the Treasurer to now pay \$444 million in 2009-10 in superannuation liability interest.

It was the former State Liberal Government that committed to fully funding the superannuation liability by 2034.¹⁵ With recent blowouts, this target is looking uncertain.

Chart 5.3 Unfunded Superannuation Liabilities



¹⁵ 1999-00 Budget paper 2, p7.9