# STATE BUDGET 2019

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Business SA
Chamber of Commerce
and Industry South Australia

Celebrating 180 Years

## 2019-20 South Australian Budget Introduction

The 2019-20 South Australian Budget does little to help the state's wider business community, other than boosting infrastructure spending to improve the state's major transport thoroughfares, including regional roads and the North South Corridor.

Business SA is concerned to see net debt rising to record levels by 2023, a negligible reduction in public sector numbers, no additional payroll tax breaks, and no sign of a gas efficiency program.

Fees and charges have been increased to raise revenue in the wake of a GST write-down, to allow the state to focus on major infrastructure spending.

There is very little in this budget to boost business growth and help owners and operators still struggling to pay high energy and water costs. However, if the increased spending leads to more jobs, better economic conditions and improved transport outcomes, the state's thousands of business owners could eventually see an improvement in economic conditions.

Off the back of the Joyce Review, Business SA would have expected to see greater policy and program support to enable export growth for South Australian businesses.

A substantial increase to the solid waste levy, which has more than doubled in recent years, would also be challenging and land tax aggregation changes will add further costs.

With a focus on regional growth, Business SA supports the $5m committed to protect the state's horticulture industry against biosecurity and fruit fly threats, after a fruit fly outbreak threatened to decimate the Riverland this year.

## Economic and Fiscal Overview

The 2019-20 State Budget has been handed down during a period of relative economic strength, albeit with pockets of challenge and impacts from a slowing national economy. The most recent indicator of economic growth for South Australia, the March quarter State Final Demand, showed a slight contraction of 0.03 per cent, however this number does not incorporate net exports and is only a proxy for Gross State Product.

State Final Demand is still up 1.8 per cent in the financial year to date and the budget assumes economic growth will reach 2 per cent for 2018-19, rising to 2.5 per cent for 2019-20 before falling back to 2.25 per cent through to 2022-23.

The 2019-20 economic growth forecast is marginally down from the 2.75 per cent forecast in December's Mid-Year Budget Update, and outer year forecasts at 2.25 per cent are still some way off the State Government's target 3 per cent economic growth rate.

Current macro-economic indicators accord with Business SA's March Quarter survey of Business Expectations which, while taken prior to the federal election, showed business conditions had slipped 13.1 index points from the December quarter to 89.5 index points and remain at a comparable level to the March quarter, 2018.

The slowing national economy is most evident in falling building approvals, particularly in the eastern states, but also at a local level. This is translating to softer retail sales and subsequently, a downgrade in GST revenues. For South Australia, GST forecasts have pared back substantially from the 2018-19 State Budget, handed down last September.

| GST Revenue ($m) | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---|---|---|---|---|---|---|
| 2018-19 State Budget | 6,374 | 6,887 | 7,275 | 7,615 | 7,827 | - |
| 2019-20 State Budget | - | 6,715 | 6,758 | 6,948 | 7,107 | 7,424 |
| Difference ($m) | - | -172 | -517 | -667 | -720 | - |

It is worth highlighting that South Australia's GST revenues still grew by 5.3 per cent between 2017-18 and 2018-19, and while the forecasted growth has substantially deteriorated by $2.1 billion across the forward estimates, there is still growth which reaches 4.5 per cent in 2022-23.

The State Government expects to record a $101 million surplus for 2018/19, and forecasts this to increase to $94m in 2019-20, $105m in 2020-21, $142m in 2021-22 and reach $251m by 2022-23. This is a good result but against a backdrop of rising debt, with General Public Sector net debt now expected to peak at $13.2 billion in 2022-23, up 53 percent from the $8.6b peak forecast in the 2018-19 Budget.

The State Government has a significant pipeline of productive infrastructure investments, particularly the completion of the North-South Corridor, although it will still breach the previous Labor Government's net debt to revenue cap of 35 per cent over forward estimates, now peaking at 60 per cent in 2022-23. As at September 2018, this number was only expected to peak at 41 per cent in 2022. Below is a table showing how South Australia compares with other states, noting Victoria's economy has been growing much faster than South Australia's in recent years, and it also has the most aggressive debt-driven growth strategy, which South Australia needs to be careful it does not replicate.

| General Government Sector ($m) | QLD | NSW | VIC | SA | WA | TAS |
|---|---|---|---|---|---|---|
| 2019-20 Revenue Forecast | 60,387 | 84,316 | 71,032 | 20,198 | 31,334 | 6,407 |
| Current Net Debt | 1,661 | -8,800 | 22,799 | 6,289 | 27,705 | 284 |
| Current Net Debt/Revenue | 2.8% | -10.4% | 32.1% | 31.1% | 88.4% | 4.4% |
| Current Gross State Product | 348,969 | 604,414 | 430,504 | 107,389 | 259,426 | 30,830 |
| Current Net Debt/Gross State Product | 0.48% | -1.46% | 5.30% | 5.86% | 10.68% | 0.92% |
| 2022-23 Revenue Forecast | 65,540 | 92,009 | 82,151 | 22,118 | 33,427 | 6,800 |
| 2022-23 Net Debt Forecast | 19,562 | 38,640 | 54,879 | 13,208 | 25,100 | 1,114 |
| Future Net Debt/Revenue | 29.8% | 42.0% | 66.8% | 59.7% | 75.1% | 16.4% |
| 2022-23 Gross State Product Forecast | 389,915 | 665,533 | 479,849 | 117,672 | 293,404 | 33,617 |
| Future Net Debt/Gross State Product | 5.02% | 5.81% | 11.44% | 11.22% | 8.55% | 3.31% |

Business SA is mindful that South Australia must continue to live within its means, but we acknowledge the State Government is forecasting budget surpluses and has demonstrated in its first year an ability to manage the budget in a very tough fiscal predicament with declining expectations of GST revenue.

This approach was recently recognised by Standard & Poor's, which updated South Australia's credit rating from AA to AA+ in September 2018. Restoring South Australia's credit rating to AAA should remain a State Government objective and having an actual measurable target for net debt should form part of that plan. The state should also consider its future ability to borrow, when required, and its opportunity to do so with increased leverage.

### Business Taxes and Levies

*Land Tax*

The State Budget advised the top rate of land tax will be progressively cut from 3.7 per cent in 2019-20 to 2.9 per cent by 1 July 2027, saving tax payers $16.9m over four years. However, the government is also introducing changes to land tax recoveries with three key elements:

- A shift to aggregation based on an owner's interest in every piece of land, rather than only aggregating properties held in the same ownership structure;
- Introducing provisions to allow two or more related companies to be grouped for land tax purposes; and
- Introducing a surcharge on land owned in trusts in cases where the interests in land of trust beneficiaries are not disclosed by taxpayers or cannot be identified. Exceptions will be provided from the surcharge for certain trusts.

These changes are forecast to net the State Government $40m per annum from the 2020-21 financial year.

The State Government has said it will consult on these land tax changes and Business SA has already flagged preliminary concerns about how they may impact the standard approach to taxing company structures, particularly as changes impact various shareholders in different companies related to other shareholder's interests.

Business SA is also concerned that while there may be some interstate precedent for introducing these changes, South Australian businesses should not be exposed unnecessarily to poorly-designed legislation which may have unintended consequences. The changes are likely to be introduced in conjunction with the updated general valuation of land for land tax purposes which may significantly increase values in some areas, particularly the CBD.

Land tax typically gets passed on to business tenants, either directly or indirectly, and Business SA is mindful of the secondary impacts of any adverse changes to land tax recoveries.

*Payroll Tax*

The State Government has flagged a boosted compliance program for payroll tax which is set to recover $10.8m over the next four years. This program will focus on businesses which have failed to register for payroll tax, the use of contractors, the grouping of businesses and other perceived high-risk areas.

*Solid Waste Levy*

The solid waste levy in the metropolitan area will increase to $110 per tonne on 1 July 2019, up to $140 per tonne from 1 January 2020 to support a range of climate change initiatives and works to secure West Beach. Note the solid waste levy has increased from $47 per tonne since 2013-14, tripling in the seven years to 2020. While Business SA recognises the need to improve the end-use outcomes for recycled products, this is quite a substantial and blunt instrument which will again put further pressure on council rates. We are also concerned about the validity of the reasons why the levy is being increased, which may encompass more than just fears that potentially-recyclable products could end up in landfill. If that was the case, the solid waste levy could be viewed as a tax.

*Other Points on Taxes*

Conveyance duty revenue for 2018-19 has been revised down by $42m since the 2018-19 budget, largely due to lower activity levels in the residential property market and softer growth in values. The State Government's future budgeting for stamp duty expects property values to grow at 3 per cent per annum over forward estimates.

Business SA suggested several payroll tax changes ahead of the budget, including lowering the rate and providing apprentice/trainee and STEM PhD graduate concessions. Due to significant budget constraints, unfortunately none of these were adopted.

### Skills, Apprentices and Education

Vocational Education and Training (VET) plays an important part in the South Australian education landscape and the economy. According to the *Training and Skills Commission: Economic Outlook and Industry Demand for Qualifications* (2017), approximately 231,000 qualifications needed to be delivered to meet industry demand over the five years to 2020 to assist the South Australian economy to reach its potential. A key component to the success of the VET system is employers and their willingness to take on apprentices and trainees.

While there is an ongoing investment from the $200m Skilling South Australia Fund to support apprentices and trainees, Business SA had called for new and specific tax incentives to directly help employers. A concerning aspect from the 2019-20 budget is that the only additional money available for skills and training, outside of school-based education, is $26.8m over four years to assist TAFE SA in reforming its operations. This money is additional to the State Government's 2019-20 recurrent TAFE funding of $628.9m.

Business SA had advocated for increased support for private Registered Training Operators (RTOs) to correct the large amount of funding funnelled to TAFE SA in recent years. A flexible and robust VET sector that can deliver South Australia's skills requirements relies on the success of both public and private RTOs.

### Infrastructure

While South Australia will receive $11.9b over four years, this funding is spread across all infrastructure projects. The budget sets out a number of funding initiatives for both metropolitan and regional roads, most of which were announced before the budget.

The government has committed $1.1b over eight years for regional road projects and transport infrastructure upgrades including the Horrocks Highway and Victor Harbor Road duplication ($330m), Princes Highway upgrades ($250m), upgrades to regional roads around Renmark, Cockburn and Port Augusta ($275m) and the duplication of Main South Road from Seaford to Aldinga ($305m). Businesses will benefit from $286m invested over four years to improve congestion in key areas, including through removal of level rail crossings, and $3b towards the completion of the North South Corridor.

Other infrastructure spending includes significant investment in our public hospitals with $550m to facilitate construction of a new Women's and Children's Hospital, $264m for The Queen Elizabeth Hospital and $97m for Modbury Hospital. These will all boost the state's construction industry.

In the pre-election *Charter for a More Prosperous South Australia*, Business SA called for the establishment of Infrastructure SA and are pleased the organisation will receive an additional $3m of funding over four years to assist with developing a 20-year state infrastructure strategy and five-year infrastructure plans. Business SA also called for a new Aboriginal Art and Culture Gallery, with $150m million allocated, including a Federal Government contribution of $85m to facilitate its construction.

### Energy & Water

Business SA has made several detailed submissions on behalf of members to the State Water Price inquiry, which we hope will result in significant reductions to the price of potable water.

While the State Government is yet to receive the final report from the inquiry, which primarily relates to a review of SA Water's regulatory asset base, the budget notes increases to water and sewerage prices will be capped at an average of 1.3 per cent for 2019-20.

There are no new initiatives in the budget to support businesses struggling with high costs, including gas. Ahead of the budget, Business SA had suggested a Gas Options Program be introduced to provide support to SMEs to improve their gas efficiency and to investigate heat alternatives. This was not included in the 2019-20 budget.

### Business/Industry Funding

While the State Government has significant pared back direct industry support since coming to power in 2018, there were still several measures in the budget, mostly falling under the $100m Economic and Business Growth fund announced in the 2018-19 budget.

These measures announced in the lead up to the budget include a $10m Accelerated Discovery Fund to incentivise mining exploration, a $24m racing stimulus package to arrest concerns from the horse racing industry and a $33m injection into tourism marketing.

Further to this fund, the State Government has announced is a $104.5m housing sector support package, including interest-free deposit gap loans of up to $10,000 through HomeStart. The housing package also includes $42.5m towards preventative maintenance, upgrade and construction program for Housing Trust stock.

### Public Sector

In September 2018, the State Government announced it would cut 4,000 full time equivalents (FTEs) public sector employees over four years, noting 1,700 of these staff were to be transitioned to non-government organisations associated with the National Disability Insurance Scheme.

The 2019-20 State Budget shows General Government Sector FTEs at 85,142, up from 84,951 as at September 2018. This shows there is still some work to go for the State Government to reach its targeted 4,000 staff redundancies noting this is a similar target to that announced in 2010 and 2014-15 by the previous State Government, neither of which was achieved and in fact, the numbers actually went in the opposite direction.

After accounting for FTEs transferred out for disability accommodation services, the State Government now forecasts General Government Sector FTEs to fall from 85,142 to 83,162 by July 2023. Considering employee expenses represent 42 per cent of total General Government Sector expenses, it is crucial that FTE numbers and future pay increases through upcoming enterprise bargaining agreements are kept in check.

Employees in government corporations are expected to remain relatively stable over the forward estimates, dropping slightly from 4,311 at the time of the 2018-19 budget, to 4,122 by July 2023.

The table below shows South Australia’s public sector as a proportion of the broader economy is still relatively high and requires ongoing structural reform:

| | VIC | WA | NSW | QLD | TAS | SA |
|---|---|---|---|---|---|---|
| | 2018 | 2018 | 2018 | 2018 | 2019 | 2019 |
| FTEs State Public Sectors | 251,312 | 110,373 | 329,005 | 225,479 | 28,799 | 89,453 |
| Employed Full-Time (ABS May 2019) | 2,297,100 | 925,000 | 2,858,400 | 1,730,300 | 150,800 | 552,000 |
| % Public Sector FTEs of total Full-time employment | 11% | 12% | 12% | 13% | 19% | 16% |

## International Trade & Migration

Shortly after the change of State Government in March 2018, the Premier commissioned former New Zealand Finance Minister Steven Joyce to review the government's international and interstate engagement strategies, functions and operational structures to lift the value of South Australian's economic growth rate to 3 per cent.

The government has budgeted to grow the real value of South Australia's exports in 2019-20 by 3 per cent although Business SA would like the government to clarify how it is planning to facilitate this growth beyond the roll-out of multiple new trade offices.

In the 2018 Charter, Business SA also called for continued State Government-led trade missions to enable small and medium-sized businesses to access markets where they would have otherwise encountered limited opportunities. Business SA encourages the State Government to develop a forward plan of trade missions to ensure South Australian businesses are continuing to benefit from these opportunities.

Considering the Marshall Government has been in office for more than fifteen months, Business SA expects to see a more aggressive approach to growing the state's exports to meet its economic growth target.

Business SA has welcomed the State Government's budget commitment of $3.4m over four years to provide additional case managers to support a targeted increase of 1,000 business migrant nominations per annum.

## ABOUT OUR POLICY TEAM

Fiercely independent and unashamedly pro-commerce, we are the voice of business in SA.

We exist for our members. As the peak chamber of commerce and industry in South Australia, established in 1839, we campaign on a range of policy and financial platforms to create an environment in which businesses can grow, create jobs and contribute to the state's prosperity.

Our experienced team of policy advisors works with members, government, education facilitators and industry to ensure South Australia is one of the most globally-competitive places in the world to do business.

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