SA Budget a solid blueprint, but concerns about debt

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The self-proclaimed aims of Rob Lucas' fifth Budget – and the Marshall Government's first – are to 'clean up the mess left' by the former Labor Government, to keep 'all the Government's election promises', and to 'build a foundation for the future'.

The Budget certainly delivers on all of the Government's election commitments. It provides for new recurrent and capital expenditure initiatives totalling $3.3 billion over the next four years – of which the largest are in health, skills and energy. And it also funds tax cuts worth more than $600 million over the next four years – of which the largest is the re-instatement of the remissions of the Emergency Services Levy, but also include a large increase in the tax-free threshold for payroll tax, and an increase in the tax-free threshold and reduction in the top rate of land tax.

These commitments are funded largely by savings totalling more than $1 billion over the four years to 2021-22; additional revenue from the GST amounting to around $1¼ billion (thanks to an increase in the size of the national GST revenue pie, and an increase in South Australia's slice of it); and an increase of more than $1 billion in net debt, over and above what had been envisaged by the previous government.

The Government seems to have been fairly sensible in the way it has gone about procuring savings. It has abandoned unrealistic health savings targets established by the previous government, but nonetheless expects the newly-established Local Health Network Boards to move towards national average cost levels over the next four years. It has recognized that discontinuing low-priority programs can be a more sustainable way of achieving savings targets than applying small 'efficiency dividends' to all existing expenditures.

Employee numbers will decline by 2.7% (or just under 2,300) over the next four years, abstracting from the transfer of disability services staff to the NDIS.

The Budget's payroll tax reforms mean that South Australia will have the highest tax-free threshold of any State (as well as the third-lowest rate). Small businesses will undoubtedly welcome this, although it remains to be seen how much additional employment it will create, by comparison with more targeted approaches. The land tax reforms will bring South Australia's top rate of land tax, up until now the highest in Australia, more into line with those applying in other states.

These and other measures will help reduce the cost of doing business in South Australia, while the refocusing of industry assistance programs on sectors and initiatives which provide a strategic economic development benefit to South Australia, which seek to solve 'real world' business problems or which commercialize new products and services represents a sensible approach to the State Government's role in promoting economic growth.

Establishing a South Australian Productivity Commission to provide independent advice on economic reforms should also be of great value – provided the Government doesn't 'pick and choose' from the Commission's advice based on political convenience.

Perhaps the biggest risk in the Marshall Government's first Budget is the increased level of debt it plans to incur in order to fund its ambitious infrastructure investment program. The Budget abandons the previous government's cap on the ratio of net debt to revenue, asserting that 'triple A rated interstate jurisdictions are forecasting net debt to revenue ratios that range up to 41.8 per cent by 2021–22'. In fact it is only Victoria which is forecasting that. The equivalent figure for the other AAA-rated jurisdiction, NSW, is 32% (which is below the 35% cap set by the Weatherall Government).

Moreover, South Australia has relatively more GBE debt than either NSW or Victoria. Factor that in, and South Australia's total non-financial public sector net debt will (on the Budget's forecasts) exceed 75% of total revenue by 2021-22, the highest figure since 1998-99 (during Mr Lucas' previous stint as Treasurer), higher than any other jurisdiction except for WA and the Northern Territory, which are a long way from being 'triple A rated'.

So while the Government can be proud of having met all of its election commitments, and can validly claim to have laid some solid foundations for South Australia's future economic growth, it's probably too soon to claim that it has resolved all of the questions over the sustainability of the state's public finances.